IHAG PRIVATBANK

# Monthly CIO Letter

24 June 2022

The central banks continue to dominate events on the financial markets. They are currently tending to act swiftly and decisively in their efforts to clamp down on inflation. The markets are overreacting in expectation of a slowdown in growth. We are increasing the equity allocation.

Christoph Boner
Chief Investment Officer

## Highlights

- Against a backdrop of continuously rising prices, a number of central banks have hiked their key interest rates – in some cases sharply – to combat this development.
- At present the market is overestimating the risk of a hard landing for the economy and a subsequent recession.
- We are therefore increasing our equity exposure in the expectation of a countermovement.

## Asset Allocation

| Asset Classes | Change | – – | – | = | + | + + |
|---|---|---|---|---|---|---|
| **Liquidity** | ↑ | | | | ● | |
| **Bonds** | → | ● | | | | |
| Reference Currency | → | ● | | | | |
| World | → | ● | | | | |
| Emerging Markets | → | | | | | ● |
| Convertible Bonds | ↓ | | | | ● | |
| **Equity** | ↑ | | | | ● | |
| Switzerland | ↑ | | | | ● | |
| Europe | ↑ | | | | ● | |
| USA | → | | | | ● | |
| Pacific | → | | | ● | | |
| Emerging Markets | → | | ● | | | |
| **Alternative Assets** | | | | | | |
| Gold | → | | | | ● | |
| Crypto Assets | → | | | | ● | |
| **Currencies** | | | | | | |
| CHF | → | | | ● | | |
| EUR | → | | | ● | | |
| USD | → | | | ● | | |

**Change**: compared to previous month, **Positioning**: -- strongly underweighted | - underweighted | = neutral | + overweighted | ++ strongly overweighted

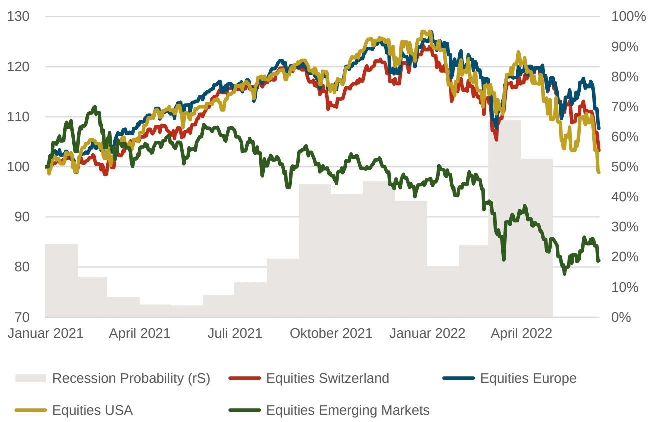
**Asset Allocation**

So far, it looks as though June may end up being the worst month for investors in this half of the year, even though performance in the first five months was already respectably negative.

Bonds are falling on a broad front as interest rates continue to rise and credit spreads widen further. Equities are also declining significantly overall, while the evident slowdown in growth is now widely being seen as heralding the risk of a sustained recessionary trend.

We are exploiting the current exaggerated fears of a long-term recession, with the accompanying pressure on equity prices, by increasing the equity allocation, giving preference to European stocks. This decision is based on the positive picture still being presented by companies. The equity allocation for a balanced investor profile now stands at 52%.

Development of equity markets (indexed) and the probability of recession




We are keeping the bond allocation towards the lower end of the possible allocation range. A balanced strategy has a bond allocation of 30%, in which we are also deliberately including hard currency bonds from emerging countries, since their interest rates are higher. As regards duration, we are deliberately keeping below the market's average interest rate sensitivity, too.

In addition we are reducing our exposure to convertible bonds, since we expect credit risk premiums to remain higher, with the result that the default risk in this market segment cannot be regarded as negligible. Furthermore, the recovery potential of a direct investment in equities is considerably more attractive.

Given the generally higher level of market volatility, we regard diversified asset classes as key elements in the portfolio allocation. We continue to hold some gold for stabilisation purposes. Our position in cryptocurrencies is also being retained, since the heavy losses seen in recent days were provoked largely by idiosyncratic events and are therefore not likely to be sustained.

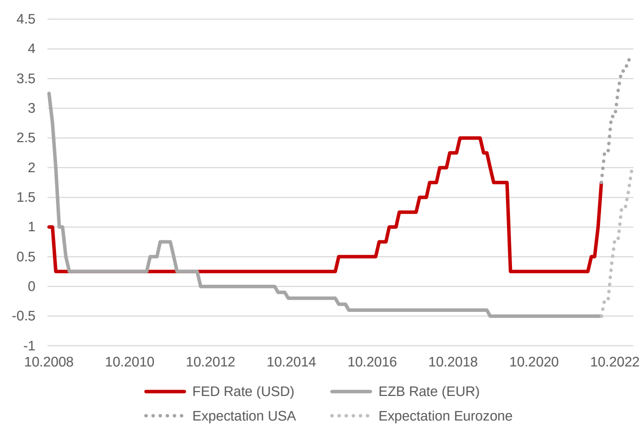
**Bonds**

The upheavals on the bond market are persisting. Not only is the US central bank continuing with its policy of systematically hiking interest rates, but the Swiss National Bank has also reacted surprisingly strongly to comparatively moderate inflation in Switzerland this month.

A key element in the central banks' thinking and motivation is to ensure that inflation expectations are firmly anchored: as long as market participants believe that the central banks can continue to keep a grip on inflation, any additional upward pressure from second-round effects – such as a wage-price spiral – will be lessened. The current rate hikes are therefore comparatively neutral in terms of their effects on economic expectations.

This one-sided way of looking at the consequences of raising key interest rates is, however, only temporary. If a further slowdown in growth with recessionary tendencies sets in, the central banks will accept higher inflation rates in exchange for stabilising the economy. This is not just standard procedure for individual banks such as the US Fed; in recent years, the guidelines for inflation targets have been watered down – sometimes markedly. It is also important to note that inflation is currently being driven by the supply side to a significant extent – effects that can be alleviated over the longer term by adapting production processes.

Key interest rates: Trend and market-implied expectations



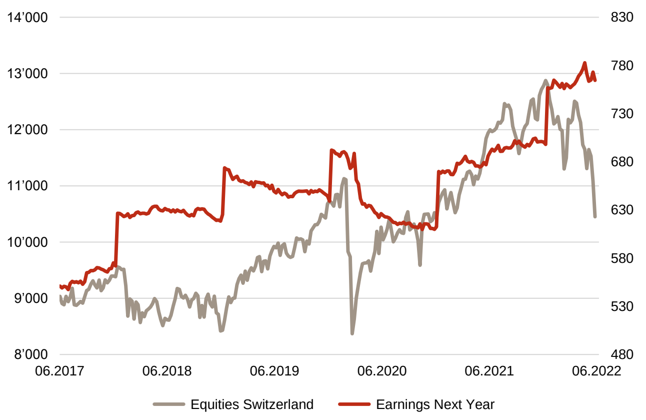

Real interest rates will remain negative for the foreseeable future, so cautious positioning in bonds will continue to be obligatory, even if developments over the past few months have created attractive opportunities as regards bonds and credit.

## Equities

Equities have also incurred heavy losses so far in June. As well as interest rate hikes and increased risk aversion resulting mainly from external effects such as the warlike escalation of the Ukraine-Russia conflict, worries about the way the economy is developing have also been weighing on share prices recently.

Whereas three months ago the risk of the global economy slipping into recession was regarded as a distant possibility, the current prices on the equity market indicate that a long-lasting recession is now more likely. Developments at company level are in stark contrast to this assessment: not only are earnings expectations continuing to rise, but the outlook for companies is – with some qualifications – still positive and even expansionary.

EPS versus price trend




Here, too, it is impossible to rule out further negative news in individual cases over the coming weeks; however, we believe this discrepancy points to an over-pessimistic evaluation of the general climate on the markets. The equity market should start recovering once investor risk aversion subsides: the Ukraine-Russia conflict has an important role to play in this respect.

Against a backdrop of persistently positive corporate earnings expectations, valuations starting to normalise and the current exaggerated expectations regarding the risk of a sustained hard landing, we are increasing the equity allocation for balanced risk profiles to 52%.

## Alternative investments

Alternative investments are used for diversifying the portfolio further. With this in mind, we have for some time now held gold as well as investments in cryptocurrencies. Despite their volatility, these investments act as a stabilising element because of their attractive correlation properties.

The market for cryptocurrencies has been hard hit in recent days and weeks by a loss of confidence caused by one-off events. We are continuing to hold our positions and expect to see them stabilise, even though volatility is likely to remain high.

## Currencies

In view of the rapid rise in USD key interest rates, we continue to expect the USD to strengthen slightly and are therefore refraining from hedging the dollar. The CHF immediately appreciated against the EUR following the SNB's interest rate decision. We are refraining from hedging the EUR, given that the ECB has come under significantly more pressure to raise interest rates in recent weeks.

**Investment Center Editorial Department**
Christoph Boner, CIO (BOC), +41 44 205 12 16, bonerchristoph@pbihag.ch
Patrick Frei, CFA (FRP), +41 44 205 13 32, freipatrick@pbihag.ch

IHAG PRIVATBANK

# Appendix

## Economy and Markets

**GDP (E: Consensus)**

| | 2021 | 2022E |
|---|---|---|
| USA | 5.7% | 2.6% |
| EU | 5.4% | 3.0% |
| Switzerland | 3.8% | 2.5% |

**Inflation (E: Consensus)**

| | 2021 | 2022E |
|---|---|---|
| USA | 4.7% | 7.5% |
| EU | 2.6% | 7.1% |
| Switzerland | 0.6% | 2.3% |

**Central Bank Rates**

| | 21.06.2022 | Outlook |
|---|---|---|
| USA | 1.75% | 2.50% |
| EU | -0.50% | 0.00% |
| Switzerland | -0.25% | -0.25% |

**Capital Market Rates (10 Years)**

| | 21.06.2022 | Outlook |
|---|---|---|
| USA | 3.27% | 3.25% - 3.5% |
| EU | 1.77% | 1.6% - 1.9% |
| Switzerland | 1.45% | 1.3% - 1.6% |

**Foreign Exchanges**

| | 21.06.2022 | Outlook |
|---|---|---|
| EUR/CHF | 1.018 | 1.01 - 1.03 |
| USD/CHF | 0.966 | 0.95 - 0.98 |
| EUR/USD | 1.053 | 1.03 - 1.07 |

**Raw Materials and Alternatives**

| | 21.06.2022 | Outlook |
|---|---|---|
| Gold (USD/Ounce) | 1833.0 | 1800 - 1900 |
| Oil (USD/Brent) | 114.7 | 100 - 125 |
| Bitcoin USD | 20’838 | 20'000-30'000 |

**Equity Markets**

| | P/E ø 5J. | P/E 2023 | Div. Yield | Outlook |
|---|---|---|---|---|
| Welt | 18.3x | 13.9x | 2.2% | sligthly upwarrds |
| USA | 19.9x | 15.1x | 1.7% | sligthly upwarrds |
| Europa | 16.2x | 11.2x | 3.6% | sligthly upwarrds |
| Switzerland | 18.8x | 14.4x | 3.0% | sligthly upwarrds |
| Emerging Markets | 13.6x | 10.4x | 2.9% | sideways |

## Markets in Local Currencies

**Equity Markets**

| | QTD | YTD |
|---|---|---|
| World | -16.2% | -20.4% |
| USA | -16.6% | -20.4% |
| Europe | -8.8% | -14.2% |
| Switzerland | -13.1% | -17.8% |
| Emerging Markets | -10.3% | -16.5% |

**Capital Market Rates (10 Years)**

| | 21.06.2022 | 31.12.2021 |
|---|---|---|
| USA | 3.27% | 1.51% |
| EU | 1.77% | -0.18% |
| Switzerland | 1.45% | -0.14% |

**Raw Materials and Alternatives**

| | QTD | YTD |
|---|---|---|
| Gold (USD/Ounce) | -5.4% | 0.2% |
| Oil (USD/Brent) | 20.3% | 90.5% |
| Bitcoin USD | -54.5% | -55.0% |

**Foreign Exchanges**

| | QTD | YTD |
|---|---|---|
| EUR/CHF | -0.4% | -1.9% |
| USD/CHF | 4.7% | 5.8% |
| EUR/USD | -4.8% | -7.4% |

Data as of 21 June 2022, QTD: Performance since Beginning of Quarter, YTD: Performance since Beginning of Year