# Monthly CIO Letter

19 August 2022

Against a backdrop of easing inflationary pressure and growing expectations that any recession will not be too severe, markets have experienced a significant counter-movement in recent weeks. We are taking profits on our overweight equity quota and keeping the proceeds in liquidity for the time being.

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Chief Investment Officer

## Highlights

– The current peaks in inflationary data are viewed by some observers as an indicator of less aggressive central bank policy going forward.

– For some time now, expectations of a recession have been weighing on markets. Hopes that this recession may prove to be only mild have led to a counter-movement in recent weeks.

– Nonetheless, various risk scenarios remain and the fundamental picture continues to be overcast.

– We are taking the profits on our equity overweighting built up in the second half of June, and are adopting a wait-and-see stance.

## Asset Allocation

| Asset Classes | Change | – – | – | = | + | + + |
|---|---|---|---|---|---|---|
| **Liquidity** | ↑ | | | | ● | |
| **Bonds** | → | ● | | | | |
| Reference Currency | → | ● | | | | |
| World | → | ● | | | | |
| Emerging Markets | → | | | | | ● |
| Convertible Bonds | → | | | | ● | |
| **Equities** | ↓ | | | ● | | |
| Switzerland | → | | | | ● | |
| Europe | ↓ | | | ● | | |
| US | → | | | | ● | |
| 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

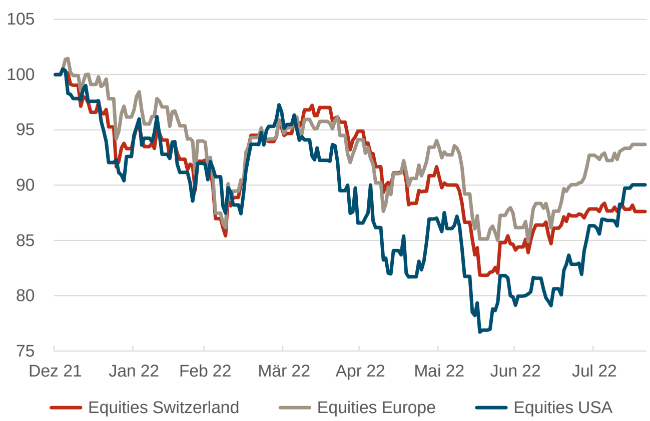
## Asset Allocation

In a development that is both welcome and unfamiliar, a counter-movement is bringing relief: After global equity markets touched new annual lows in a downward spiral at the end of the first half of the year, prices have continuously risen in July and the first three weeks of August.

In the second quarter, the market was gripped by widespread fears that a recession would be inevitable due to a combination of supply-side problems and rising interest rates. The waning of inflationary pressure – inflationary figures having failed to climb to new highs for the first time in a while – has resulted in this expectation being scaled back, which has accordingly brought relief to markets and seen equity prices stage a broad-based recovery. For example, the US stock market is now a good 17% higher than its nadir recorded on 16 June.

We are taking profits on the equity overweighting built up in mid-June, as at least some of the negative exaggeration has now corrected itself. As we pointed out in July, various risk scenarios remain in place and the fundamental picture remains overcast. We are keeping the realised profits in the form of liquidity for the time being. The equity allocation for a balanced investor profile now amounts to 50%.

Equity market development in 2022




We are keeping the bond allocation towards the lower end of the potential bandwidth. A balanced strategy has a bond allocation of 35%, whereby we are deliberately also including a proportion of hard currency bonds from emerging markets due to the high yields they offer. These instruments have also recorded a strong upward movement in recent weeks against a backdrop of lower USD interest rates and narrowing credit spreads.

We view asset class diversification as a fundamental principle of portfolio allocation. To this end, we are holding gold in particular in the portfolios. We have also added certain crypto investments, in which we expect to see a further recovery following the sharp falls of recent months.

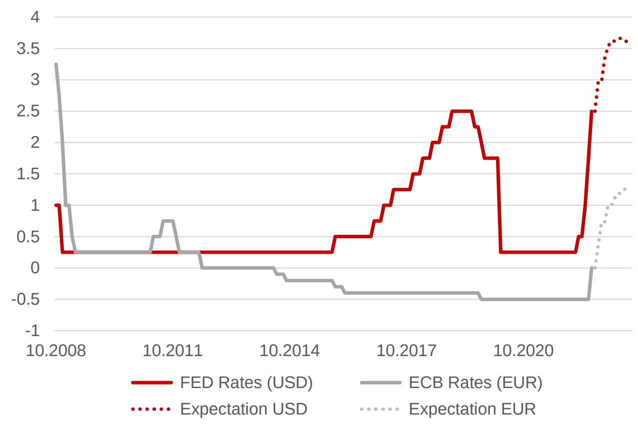
## Bonds

With interest rates having stabilised since June, there has also been a clear decline in risk premiums in recent weeks. This in turn has resulted in a similarly strong counter-movement in the riskier markets of high-yield and emerging market bonds.

On the one hand, the apparent easing of inflationary pressure has fuelled expectations of less hawkish monetary policy – inflation figures may remain well above officially targeted levels, but they have at least not risen further. On the other, milder-than-expected inflation and the corresponding likelihood of a less severe slump in growth will keep persistently high and rising debt burdens manageable. In keeping with the easing of interest rate pressures, credit spreads have also narrowed.

Even if – as explained in our CIO Letter of July – central banks will accept slightly higher inflation in the medium term in order to avoid an excessive drag on the overall economy, and supply-side effects are clearly a factor in the development of inflationary pressure, further interest rate rises are only to be expected. This is all the more true since the market is expecting the current interest rate cycle for the US to peak at around 3.6% as early as February 2023 – a figure that according to various models would appear to be at the lower end of a sensible bandwidth from an inflationary perspective.

Key interest rates: development and market-implied expectations




We are leaving the bond allocation at the lower end of the bandwidths. We continue to view emerging markets hard currency bonds as attractive, with current yields remaining in the region of 7% even after the narrowing of credit spreads in recent weeks. Furthermore, in contrast to investments in emerging market equities, the diversification is much greater here, with the weighting of China in particular being much less pronounced. With countries from the Arab-speaking world as well as South America represented, a significant proportion of this market segment is accounted for by securities of commodity-rich countries that have been able to shore up their balance sheets in recent months thanks to commodity price developments.

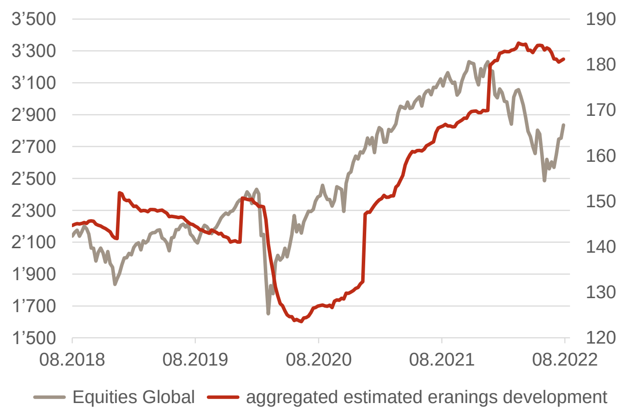
**Equities**
As it now looks quite possible that the looming recession will turn out to be relatively mild, equities have staged a broad-based recovery in recent weeks. In addition, markets have been supported by expectations of less aggressive monetary policy interventions, evidence that the labour market remains robust, and data showing that the real economy is continuing to grow.

Similarly, the extremely gloomy macroeconomic views expressed in some quarters contrast with the cluster of microeconomic data coming from companies. Expectations in company guidances are being recalibrated as the slowdown in global economic growth is reflected too.

Taking into account these lower growth expectations, current equity valuations range from fair (US) to slightly below the historical average (Europe, emerging markets).

Given the persistent risk scenarios and the emergence of new uncertainties – with the keywords being Taiwan, cooler temperatures, energy, and Covid clampdowns – we are reducing the equity allocation to neutral and holding liquidity.

Earnings development and equity market performance




**Alternative Assets**
Alternative assets serve to further diversify the portfolio. We also continue to hold investments in gold due to risk considerations. We are likewise maintaining our positions in cryptocurrencies, where we are expecting a market recovery – as general confidence returns – following the upheavals seen in recent weeks.

**Currencies**
In view of the more rapid rise in US key interest rates, we are still expecting the USD to strengthen slightly, and are therefore refraining from hedging this currency. In respect of EUR too, hedging does not appear attractive right now, as the pressure on the ECB to raise rates further remains in place.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# Appendix

## Economy and Markets

**GDP (E: Consensus)**

| | 2021 | 2022E |
|---|---|---|
| USA | 5.7% | 1.7% |
| EU | 5.3% | 2.9% |
| Switzerland | 3.8% | 2.4% |

**Inflation (E: Consensus)**

| | 2021 | 2022E |
|---|---|---|
| USA | 4.7% | 8.0% |
| EU | 2.6% | 7.9% |
| Switzerland | 0.6% | 2.8% |

**Central Bank Rates**

| | 16.08.2022 | Outlook |
|---|---|---|
| USA | 2.50% | 3.00% |
| EU | 0.00% | 0.25% |
| Switzerland | -0.25% | 0.00% |

**Capital Market Rates (10 Years)**

| | 16.08.2022 | Outlook |
|---|---|---|
| USA | 2.80% | 2.70% - 3.25% |
| Germany | 0.97% | 0.8% - 1.2% |
| Switzerland | 0.48% | 0.40% - 0.65% |

**Foreign Exchanges**

| | 16.08.2022 | Outlook |
|---|---|---|
| EUR/CHF | 0.966 | 0.95 - 0.99 |
| USD/CHF | 0.950 | 0.94 - 0.98 |
| EUR/USD | 1.017 | 1.00 - 1.04 |

**Raw Materials and Alternatives**

| | 16.08.2022 | Outlook |
|---|---|---|
| Gold (USD/Ounce) | 1775.7 | 1750 - 1850 |
| Oil (USD/Brent) | 92.3 | 88 - 105 |
| Bitcoin USD | 23'984 | 20'000-30'000 |

**Equity Markets**

| | P/E ø 5J. | P/E 2023 | Div. Yield | Outlook |
|---|---|---|---|---|
| Welt | 18.3x | 15.7x | 2.0% | sideways |
| USA | 19.9x | 17.6x | 1.5% | sideways |
| Europa | 16.0x | 12.0x | 3.3% | sideways |
| Switzerland | 18.8x | 16.2x | 2.8% | sideways |
| Emerging Markets | 13.5x | 10.7x | 3.2% | sideways |

## Markets in Local Currencies

**Equity Markets**

| | QTD | YTD |
|---|---|---|
| World | 11.9% | -10.8% |
| USA | 13.9% | -8.8% |
| Europe | 9.1% | -6.6% |
| Switzerland | 4.1% | -12.4% |
| Emerging Markets | 2.2% | -15.7% |

**Capital Market Rates (10 Years)**

| | 16.08.2022 | 31.12.2021 |
|---|---|---|
| USA | 2.80% | 1.51% |
| Germany | 0.97% | -0.18% |
| Switzerland | 0.48% | -0.14% |

**Raw Materials and Alternatives**

| | QTD | YTD |
|---|---|---|
| Gold (USD/Ounce) | -1.7% | -2.9% |
| Oil (USD/Brent) | -10.3% | 91.0% |
| Bitcoin USD | 28.0% | -48.2% |

**Foreign Exchanges**

| | QTD | YTD |
|---|---|---|
| EUR/CHF | -3.5% | -6.9% |
| USD/CHF | -0.6% | 4.0% |
| EUR/USD | -3.0% | -10.5% |

Data as of 16 August 2022, QTD: Performance since Beginning of Quarter, YTD: Performance since Beginning of Year