LimmatWealth

# Investment Strategy – November 2021

## Data & Forecasts

| Developed Markets | Growth (%) | | Inflation (%) | | Equities | | | Bonds (10 Years) | | | Currencies (vs CHF) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GDP 20 | GDP 21 | CPI 20 | CPI 21 | Actual | 3 Mths | 12 Mths | Actual | 3 Mths | 12 Mths | Actual | 3 Mths | 12 Mths |
| Switzerland | -3.3 | 3.4 | -0.7 | 0.5 | 15'746 | → | ↗ | -0.06 | -0.10 | 0.10 | - | - | - |
| Germany | -5.3 | 2.8 | 0.4 | 3.0 | 15'844 | → | ↗ | -0.13 | -0.20 | 0.00 | - | - | - |
| Eurozone | -6.8 | 5.0 | 0.3 | 2.3 | 4'280 | → | ↗ | - | - | - | 1.06 | 1.09 | 1.12 |
| United Kingdom | -10.1 | 7.0 | 0.9 | 2.3 | 7'256 | → | ↗ | 1.03 | 1.10 | 1.30 | 1.24 | 1.27 | 1.32 |
| United States | -3.5 | 5.7 | 1.3 | 4.4 | 4'614 | → | ↗ | 1.55 | 1.70 | 2.00 | 0.91 | 0.93 | 0.96 |
| Japan | -5.1 | 2.4 | 0.0 | -0.2 | 29'521 | → | ↗ | 0.08 | 0.10 | 0.10 | 125 | 119 | 119 |

| Emerging Markets | Growth (%) | | Inflation (%) | | Equities | | | Bonds (10 Years) | | | Currencies (vs USD) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GDP 20 | GDP 21 | CPI 20 | CPI 21 | Actual | 3 Mths | 12 Mths | Actual | 3 Mths | 12 Mths | Actual | 3 Mths | 12 Mths |
| Asia ex Japan | 1.0 | 7.1 | 2.0 | 1.4 | 811 | → | ↑ | - | - | - | - | - | - |
| China | 2.3 | 8.1 | 2.5 | 1.0 | 3'506 | → | ↑ | 2.92 | 2.90 | 3.00 | 6.40 | 6.50 | 6.40 |

## Review – September correction quickly recovered

After a weak September, global equity markets were able to generate mostly positive returns in October. Only the Japanese equity market overturned the very positive development from September, which resulted from an exaggerated euphoria surrounding the new Prime Minister Fumio Kishida. At the sector level, financial and energy stocks outperformed. Financial stocks are benefiting from rising interest rates, while energy stocks are being driven by the positive trend in commodity prices. Accordingly, oil prices posted a double-digit return in October, while industrial metals posted a mid-single-digit return. Interestingly, technology stocks also outperformed in this environment, which was not to be expected based on empirical experience. Rising interest rates should be a burden for highly valued technology stocks, however, investors may be preparing for higher inflation rates in the longer term and are adding large technology stocks with a corresponding pricing power as a kind of hedge against inflation in their portfolio.

The countermovement in global equity markets in October is based largely on technical and seasonal drivers and less on fundamental factors. The month of September was characterized by an unusual accumulation of negative news, which led to an exaggerated perception of risk in the markets. September was marked by significant inflation and growth concerns as well as "tapering" fears, which were overshadowed by ample negative news from China: the Evergrande crisis, increasing problems in the real estate sector, weak macro data and the "regulatory crackdown". This negative exaggeration was noticeably corrected upwards in October when the flood of negative news stopped and investor sentiment improved as a result. This upward movement was reinforced by the favorable seasonality. The month of October posts positive returns on average, as market participants begin to position themselves for the year-end rally in this month. Real fundamental reasons for the counter-movement, however, played a subordinate role. The reporting season is mixed - with positive and negative surprises being balanced - and therefore cannot be the main factor behind market advances.



Limmat Wealth AG Tödistrasse 48 Postfach 1882 CH-8027 Zürich

T +41 44 208 24 50 F +41 44 208 24 51 info@limmatwealth.com www.limmatwealth.com

Most equity markets around the world ended October with positive returns. Markets in the United States (+6.9%), Europe (+5.0%), and Switzerland (+3.8%) performed best, while those in China (-0.6%) and Japan (-1.9%) printed slightly negative numbers.

The interest rates on ten-year government bonds increased further last month. They increased most in Switzerland (+0.13% to -0.03%), China (+0.09% to 2.97%), and Germany (+0.09% to -0.11%).

Currency markets moved within a normal range in October. The Swiss Franc strengthened against the US Dollar (+1.8% to CHF 0.92), as well as the Euro (+1.9% to CHF 1.06) and the British Pound (+0.2% to CHF 1.25). The US Dollar strengthened slightly against the Euro (+0.1% to USD 1.16).

Alternative investments also finished last month with positive returns. The gold price appreciated slightly (+1.5% to USD 1,783 per troy ounce), the oil price spiked (WTI, +11.4% to USD 83.57 per barrel), and hedge funds gained as well (+0.9%).

## Outlook – Contradicting market drivers

The longer-term fundamental outlook is becoming increasingly complex and contradictory. The overarching investment environment is dominated by normalization effects typical of the mid-market-cycle. These result from a slowdown in monetary and fiscal impulses (normalization). In particular, the incipient throttling of liquidity by global central banks - especially with a view to 2022 - is likely to put a strain on the financial markets and trigger periodical "withdrawal symptoms". At the same time, inflationary pressure will generally continue in the medium term. This inflationary pressure results primarily from ongoing global supply bottlenecks and supply-side tensions in raw materials. In 2022, it is also to be expected that employees will take this inflationary pressure into account in their wage demands and that part of the inflationary pressure will therefore be permanently "cemented". On the other hand, the global economy is expected to grow beyond potential in 2022, despite a loss of momentum, and corporate profits will continue to rise as a result. However, the aforementioned inflationary factors and wage demands will put profit margins under pressure, which is likely to lead to increased profit disappointments in 2022. After all, China will remain an important market driver in 2022. Chinese macro data has clouded over so much that experts are increasingly expecting stimulating policies from Beijing. The positive effects of a change of course in China would be felt in the course of 2022.

In the short term, we continue to assume that equity markets will tend to move sideways before they pick up again. We continue to favor Switzerland, the United States and China over Europe and focus on good quality companies with strong balance sheets. After the setbacks in the summer, China is offering an interesting entry point and/or topping-up opportunity, especially since - as mentioned above - experts are expecting support measures from the government.

Market participants are currently expecting two rate hikes by the US Federal Reserve (Fed) in the coming year, the first at the end of summer and the second at the end of the year. The situation is similar in Europe, where one to two interest rate hikes are expected by the European Central Bank (ECB) in the fourth quarter of 2022. The Swiss National Bank is likely to follow suit with a slight delay as soon as the Fed and the ECB raise interest rates.

Trade disputes and geopolitical developments can lead to strong movements in currency markets. The Swiss franc serves as a safe haven in such cases.

Hedge funds continue to benefit from a normalization of correlations, volatilities, and dispersion. Hedge funds typically thrive when the dispersion is high and correlations are low because then they can take full advantage of their trading techniques and skillset.

November 3, 2021
Limmat Wealth Ltd.