LimmatWealth

Investment Strategy – April 2022

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 21	GDP 22	CPI 21	CPI 22	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	3.6	2.7	0.6	1.8	1'936	→	↗	0.59	0.40	0.50	-	-	-
Germany	2.8	2.5	3.2	5.8	14'481	→	↗	0.57	0.40	0.50	-	-	-
Eurozone	5.2	3.1	2.6	6.0	3'929	→	↗	-	-	-	1.01	1.04	1.07
United Kingdom	7.2	4.0	2.6	6.6	7'555	→	↗	1.63	1.50	1.70	1.22	1.25	1.26
United States	5.7	3.4	4.7	6.2	4'583	→	↗	2.47	2.20	2.40	0.93	0.94	0.93
Japan	1.7	2.3	-0.2	1.3	27'788	→	↗	0.22	0.20	0.20	133	124	127

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 21	GDP 22	CPI 21	CPI 22	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	7.0	5.3	1.2	2.7	737	→	↑	-	-	-	-	-	-
China	8.1	5.0	0.9	2.2	76	→	↑	2.78	2.75	2.85	6.36	6.37	6.45

Review – Positive equity returns despite war in Ukraine

Despite initial weakness and high volatility, global equity markets were able to close the month of March with positive returns, with US equities showing relative strength. The first half of March was dominated by the war in Ukraine, while the second half was largely determined by global central banks and the beginning of the interest rate turnaround by the US Federal Reserve. In the first half of the month, all commodities were under strong upward pressure as the Ukraine and Russia are major global suppliers of commodities. At the same time, equity markets were down. Due to the strong economic and banking ties between Europe, the Ukraine and Russia, European equity markets fell disproportionately. The rising commodity prices in turn led to an increase in inflation expectations, which put global central banks under additional pressure to act. As a result, the Ukraine war not only affects the economic outlook, but also has negative monetary policy spillover effects via the commodity channel.

In the second half of the month, after the Fed meeting, global equity markets began to recover. There are essentially two reasons for this development: First, market participants adjusted their expectations so hawkishly in the run-up to the meetings of the major central banks that neither the European Central Bank ECB nor the Fed were able to really shock the markets, despite clear tightening tendencies. Second, markets are increasingly realizing that Russia's war of aggression in Ukraine remains local and unlikely to spill over to other regions. At the sector level, so-called commodity proxies, such as energy, basic materials and mining stocks, were able to show a strong performance in March due to the strength of commodities and precious metals. Bonds, on the other hand, lost significantly in March. The high inflationary pressure and the global tightening of monetary policy have exerted strong upward pressure on market interest rates and consequently weighed on bond indices noticeably.

Equity markets around the world performed differently in March. The markets in Japan (+4.9%), the United States (+3.6%), and Switzerland (+2.4%) ended the month with positive returns, while those in China (-6.1%), Asia (-2.9%), and Europe (-0.6%) posted negative returns.

Global 10-year government bond yields continued to rise over the past month. They increased the most in the United States (+0.51% to 2.34%), Germany (+0.41% to 0.55%), and Switzerland (+0.35% to 0.60%). Interest rates in Switzerland are now at the highest level since mid-2014.

The currency markets moved little in March despite the high volatility in the equity and bond markets. The Swiss Franc remained unchanged against the US Dollar (CHF 0.92), but strengthened against both the Euro (+0.8% CHF 1.02) and the British Pound (+1.5% to CHF 1.21). The US dollar strengthened slightly against the Euro (+1.4% to USD 1.11).

Alternative investments ended the past month with positive results. Gold (+1.5% to USD 1,937 per troy ounce) and oil (WTI, +4.8% to USD 100.28 per barrel) prices, as well as hedge funds, have risen (+0.6%) over the past month.

Outlook – Markets remain volatile

The fundamental outlook for 2022 is becoming increasingly complex and difficult. The current Ukraine war will visibly weigh on fundamentals over time and keep interest rate pressures intact. Due to economic interdependence and energy dependency, Europe is more affected than the relatively self-sufficient United States. On the plus side, the Omicron burden will ease in many places starting in the second quarter. Nevertheless, a significant post-Corona boom is not to be expected. This is mainly due to overriding normalization effects that stem from a slowdown in fiscal stimulus and tighter monetary policy. In particular, the swift throttling of liquidity by the global central banks and the resulting exit from the strongest monetary expansion phase of modern times should cause withdrawal symptoms in financial markets. At the same time, inflationary pressures will persist and will likely lead to even more unfriendly monetary policy. It is therefore not surprising that market participants expect several double rate hikes by the Fed this year. 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. The aforementioned inflationary factors and rising wage spending will put increasing pressure on corporate profit margins. Hence, earnings disappointments are likely to increase in 2022 and ensure regular bouts of fragility. After all, China will remain an important market driver in 2022. The slowdown in China is already so severe that the Chinese government is gradually turning towards stimulus. However, the fundamental structural problems in China are so pronounced that the monetary policy stimulus is hardly reflected in the macro data. China is therefore likely to step up the pace of stimulus again over the course of the year.

Based on the above statements, we expect equity markets to trend sideways in the short term before they pick up again. We continue to expect positive global economic and earnings growth, but lower than expected at the start of the year due to rising interest rates and geopolitical events. This is likely to lead to more volatile markets as the year progresses. The corrections in certain markets last year and at the beginning of this year offer entry opportunities in selected areas/sectors. We continue to favor Switzerland and the United States over Europe, while continuing to focus on good quality companies that are spared the long-term effects of the pandemic and benefit from long-term trends. We remain positive on Asia and China in particular: there is significant catch-up potential and – as mentioned above – stimulus from the Chinese central bank can be expected.

Market participants expect the US Federal Reserve to raise interest rates nine times in the next 12 months. Things are different in Europe, where the ECB is only expected to raise interest rates six times. The Swiss

National Bank SNB is likely to follow suit with a slight delay as soon as interest rates are raised by the FED and the ECB.

Trade policy disputes and geopolitical developments will continue to lead to strong movements from time to time in the currency markets. The Swiss Franc will serve as a safe haven during these periods.

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

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Limmat Wealth Ltd.