LimmatWealth

Investment Strategy – December 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	3.5	-0.7	0.5	15'634	→	↗	-0.29	-0.10	0.05	-	-	-
Germany	-5.3	2.8	0.4	3.1	15'288	→	↗	-0.38	-0.20	0.10	-	-	-
Eurozone	-6.8	5.1	0.3	2.5	4'101	→	↗	-	-	-	1.04	1.05	1.07
United Kingdom	-10.1	6.9	0.9	2.4	7'175	→	↗	0.77	1.10	1.30	1.22	1.28	1.32
United States	-3.5	5.5	1.3	4.6	4'538	→	↗	1.39	1.65	2.00	0.92	0.93	0.93
Japan	-5.1	2.0	0.0	-0.2	27'927	→	↗	0.05	0.10	0.10	123	121	121

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	7.0	2.0	1.3	787	→	↑	-	-	-	-	-	-
China	2.3	8.0	2.5	1.0	3'589	→	↑	2.86	2.90	2.85	6.37	6.40	6.40

Review – Omicron brings back volatility

November started with stable and friendly equity markets for a long time. However, market corrections towards the end of the month pushed the return for the month as a whole down significantly. Positive earnings reports and the passing of the US infrastructure package boosted markets, particularly cyclicals, in the first half of November. Towards the end of the month, the markets were slowed down by at least two heavily weighting negative factors and the usually calm year-end mode came to an end, at least for the time being. It all started with the discovery of a new coronavirus variant which has been designated by the World Health Organization (WHO) as a "variant of concern". According to the first findings, this new coronavirus mutant (called Omicron) is highly contagious and could even be more contagious than the currently prevailing Delta variant. Thus, Omicron would basically have the potential to permanently overturn the friendly fundamental picture in 2022. Against this background, the severe market corrections, especially among the "reopening" winners, are understandable. Unfortunately, it will take weeks before reliable data on the infectivity and lethality of the Omicron variant are available. The uncertainty in this regard is therefore likely to accompany the markets throughout December. Another blow to the markets was the speech by US central bank Federal Reserve (FED) President Jerome Powell. He has expressed concern about increasing inflationary pressures, which has sparked fears of a faster monetary policy tightening.

In summary, cyclical regions (e.g. EMU, UK) and sectors showed relative weakness in November, while US markets performed better. At the same time, global bonds have seen many positive performances. This is mainly due to the significant strength of the US Dollar. The FED is clearly ahead of the European Central Bank (ECB) in the tightening cycle, which the markets are pricing in via the strength of the US Dollar. The new corona fears have also left their mark on raw materials. For example, oil prices declined in double digits in November due to concerns about far-reaching restrictions on air traffic.

Equity markets around the world ended November with negative returns. China (+0.5%) was the only one of the main markets to finish November with a positive result. The markets in Europe (-4.4%), Asia

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(-3.9%) and Germany (-3.8%) performed the worst. In relative terms, the Swiss market held up very well and recorded only a small minus in November (-0.5%).

Interest rates on ten-year government bonds decreased worldwide over the past month. They fell the most in Germany (-0.24% to -0.35%), the UK (-0.23% to 0.81%), and Switzerland (-0.20% to -0.23%).

Currency markets moved within a normal range again in November. The Swiss Franc strengthened against the Euro (+1.6% to CHF 1.04) and the British Pound (+2.6% to CHF 1.22), and remained unchanged against the US Dollar (CHF 0.92). The US Dollar strengthened against the Euro (+2.0% to USD 1.13).

Alternative investments also ended the month with negative returns. The gold price fell slightly (-0.5% to USD 1,775 per troy ounce), oil plummeted (WTI, -20.8% to USD 66.18 per barrel), and hedge funds also gave back some of their profits (-1.3%).

Outlook – Growth above potential despite loss of momentum

The fundamental outlook for 2022 is becoming increasingly complex. The overarching investment environment is dominated by normalization effects typical of the mid-cycle, which result from a slowdown in monetary and fiscal impulses. In particular, the beginning of liquidity throttling on the part of global central banks - especially with a view to 2022 - is likely to put a strain on the financial markets and trigger regular "withdrawal symptoms". At the same time, inflationary pressure will persist and, in an emergency, result in an even more unfriendly monetary policy. In 2022, it is also to be expected that employees will take this inflationary pressure into account in their wage claims and that part of the inflationary pressure will therefore be permanently cemented. On the other hand, the global economy is expected to grow above potential in 2022, despite the loss of momentum, and thus also contribute to growth in corporate profits. 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 deteriorated so much that financial market players are starting to expect stimulating policies from Beijing. The positive effects of a change of course in China would be felt in the course of 2022. The Omicron variant represents the main risk for the fundamental outlook. Should this virus variant be significantly more contagious and at the same time more lethal than the predominant Delta variant, a fundamental reassessment of the fundamental scenario would be inevitable.

In the short term, we continue to assume that equity markets will tend to trend 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 offers an interesting entry point and/or top-up opportunity, especially since - as mentioned above - experts are expecting support measures from the government.

Market participants expect two to three rate hikes by the FED in the coming year, the first in the middle of the year and the second and potential third towards the end of the year. In Europe only one rate hike is expected from the ECB in the fourth quarter of 2022 and the Swiss National Bank SNB is likely to follow suit with a slight delay as soon as rates are increased by the FED and the ECB.

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.

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Limmat Wealth Ltd.