LimmatWealth

Investment Strategy – November 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	2.2	0.6	2.9	1'629	→	↗	1.17	1.50	1.50	-	-	-
Germany	2.8	1.5	3.2	8.5	13'578	→	↗	2.28	2.15	2.10	-	-	-
Eurozone	5.2	3.1	2.6	8.3	3'712	→	↗	-	-	-	0.99	0.95	1.00
United Kingdom	7.2	4.2	2.6	9.0	7'324	→	↗	3.55	4.10	3.90	1.13	1.07	1.08
United States	5.7	1.7	4.7	8.1	3'771	→	↗	4.13	3.90	3.60	0.99	0.98	0.97
Japan	1.7	1.6	-0.2	2.3	27'528	→	↗	0.26	0.20	0.25	148	146	142

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	3.5	1.2	2.7	550	→	↑	-	-	-	-	-	-
China	8.1	3.3	0.9	2.2	54	→	↑	2.71	2.70	2.70	7.23	7.10	7.00

Review – Expected countermovement in equity markets

After the weakness in September, equity markets showed a noticeable countermovement in October, and almost all major equity markets showed a positive return in the past month. Many markets were oversold after the September sell-off, in addition, many tactical sentiment indicators showed excessive pessimism. In this mixed situation, just a few bits of positive news were enough to trigger a countermovement in the markets. In this context, investors speculated on a slight pivot of the US Federal Reserve and suspect that the Fed will not (significantly) raise the expected key interest rate peak in the coming months. Market participants are also hoping that the rate of tightening will at least slow down from December. Emerging markets, on the other hand, have not benefited from this speculation. They were weighed down by significant weakness in Asia and China. In October, the Communist Party Congress was held in China, where Xi Jinping has continued to expand his power and is now the undisputed leader of the country for years or even decades to come. China will therefore be governed even more autocratically in the future, with the focus on public prosperity at the expense of private enterprises. Furthermore, Xi's speech signaled that China could act more confrontationally in the future to achieve geopolitical goals (e.g. Taiwan issue). This negative outlook spooked investors in October and led to a real flight of capital from Chinese assets. Finally, in October it is noticeable that bond markets do not share the beginning euphoria about a possible adjustment of the Fed's strategy. Although the strong pressure to increase interest rates has stopped for the time being, in many cases there have been no significant falls in interest rates. In view of the persistently high US core inflation and the robustness of the US labor market, significant falls in interest rates are not plausible for the time being. That should keep future stock advances in check. Only the British bond market was able to show a good performance from the group of important markets. After the capers at the end of September, the British bond market has stabilized significantly in recent weeks. During this time, Liz Truss has rescinded her irresponsible fiscal plans and announced her resignation. Her successor was Rishi Sunak, who is a proven financial expert and is likely to pursue a much more conservative fiscal financial plan.

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

Equity markets in developed countries around the world ended October with positive returns, while those in emerging countries once again posted negative results. The markets in Germany (+9.4%), Europe (+9.0%), and the United States (+8.0%) performed best, while the markets in Asia (-6.0%) and China (-4.3%) fell significantly. The Swiss stock market also ended the past month with a positive return (+4.8%).

Ten-year government bond yields have varied around the world over the past month. Interest rates have risen in the United States (+0.22% to 4.05%) and Germany (+0.03% to 2.14%), while they have fallen in the United Kingdom (-0.58% to 3.52%), China (-0.10% to 2.65%), and in Switzerland (-0.07% to 1.16%).

Currency markets moved normally in October. The Swiss Franc weakened against the Euro (-2.3% to CHF 0.99), the British Pound (-4.0% to CHF 1.15), and the US Dollar (-1.4% to CHF 1.00). The US Dollar weakened slightly against the Euro (-0.8% to USD 0.99).

Alternative investments have had mixed returns over the past month. While the gold price was lower at the end of the month (-1.6% to USD 1,634 per troy ounce), the oil price rose significantly (WTI, +8.9% to USD 86.53 per barrel). Hedge funds closed last month unchanged.

Outlook – Sideways trending markets expected

The short-term market outlook is neutral. The clearing of the excessive pessimism has been completed, so the markets need new clear positive impulses to continue to rise. The favorable seasonality coupled with possibly friendly inflation data could allow the equity markets to rise further. However, these advances would only be sustainable if the bond markets played their part. The fundamental outlook, on the other hand, is difficult and continues to show clear stagflationary tendencies. Despite the currently high inflation rates, the inflationary pressure is likely to ease over the course of the year (peak inflation). However, a real normalization of the inflation rate in 2022/23 is unlikely. We can already see that workers are taking inflationary pressures into account in their wage demands, and as a result some inflation is becoming persistent (particularly in the United States). Global market interest rates correctly anticipated this development and implemented a strategic regime shift. As a result, global interest rate levels are likely to correct their recent exaggerations but are unlikely to return to the old lows. Since inflation rates remain high, global monetary policy will continue to be a significant burden for the markets in the medium term. In the real economy, the full effect of the tight monetary policy will arrive in 2023 and weigh on it. While the end of the Fed's tightening cycle is increasingly in sight (expected in mid-2023), the tightening cycle of the European Central Bank (ECB) is still in its infancy. The strong US Dollar, rising labor costs, and high energy prices create the perfect breeding ground for declining profit margins. Corporate profit margins have already started to decline. Earnings disappointments are likely to increase in 2022/23. Finally, China remains an important market driver. Beijing is increasingly focusing on stimulating countermeasures, both at the level of monetary and fiscal policy. However, the fundamental structural problems and macro burdens in China are so pronounced that the stimulus hardly makes it into the macro data. China is therefore likely to keep the stimulus intensity high in 2022/23 in order to at least ensure economic stabilization. New devastating corona waves in winter, in combination with the Zero-Covid policy and the weak real estate market, pose significant risks for the Chinese economy.

Based on the above statements, we continue to expect positive global economic and earnings growth in 2022. The probability of a recession in Europe and the United States is very high in the coming year, but Switzerland should be able to avoid it. The corrections continue to offer entry opportunities in selected areas/sectors. We continue to favor Switzerland and the United States over Europe, with a focus on high-quality companies that benefit from long-term trends. We remain positive on Asia and China in particular, but we are adjusting our focus on China slightly due to the changing approach following the party congress.

We expect a countermovement in the coming months and will adjust our positioning in China thereafter. In the future, we would like to focus on strategically important sectors - in accordance with the new direction of the government.

Market participants expect the Fed to raise interest rates five more times until mid-2023. The situation is similar in Europe, where six interest rate hikes by the ECB are currently priced in. The Swiss National Bank SNB is also likely to raise interest rates further.

Trade policy disputes and geopolitical developments can continue to lead to strong movements on the currency markets. The Swiss Franc always serves as a safe haven during such periods.

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

November 14, 2022
Limmat Wealth Ltd.