



# LimmatWealth

## Investment Strategy – August 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	2.5	0.6	2.6	1'743	→	↗	0.48	1.20	1.30	-	-	-
Germany	2.8	1.5	3.2	7.7	13'675	→	↗	0.88	1.60	1.60	-	-	-
Eurozone	5.2	2.7	2.6	7.5	3'748	→	↗	-	-	-	0.98	1.01	1.03
United Kingdom	7.2	3.4	2.6	8.6	7'427	→	↗	1.92	2.40	2.20	1.17	1.17	1.20
United States	5.7	2.0	4.7	8.0	4'155	→	↗	2.74	3.20	3.30	0.96	0.96	0.94
Japan	1.7	1.6	-0.2	2.0	27'932	→	↗	0.18	0.25	0.25	140	139	133

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	4.0	1.2	2.7	637	→	↑	-	-	-	-	-	-
China	8.1	4.0	0.9	2.3	66	→	↑	2.73	2.80	2.80	6.76	6.75	6.65

### Review – Easing upward pressure on interest rates

After significant weakness in the financial markets in June, counter movements and recovery tendencies dominated in July. Both equity and bond markets were able to gain ground, while commodities came under pressure. The main factor behind this development was the significant easing of interest rate pressure and thus also an easing of financing conditions. Inflation fears peaked in June and abated rapidly in July as the likelihood of a recession increased and commodity prices fell. Along with this, markets have also clearly defused the monetary tightening path previously priced in. For example, it is expected that the US Federal Reserve could signal interest rate cuts as early as spring 2023. As a result of this chain reaction, global market interest rates have come back from the June highs at a rapid pace. As a result, bond indices have risen sharply, while equity markets have benefited from easing pressure on valuations. This is why high-rated (interest rate-sensitive) sectors in particular performed well in July. Another factor behind the strong performance of equity markets is stable corporate earnings. At the macro level, we have been seeing clear signs of a macroeconomic slowdown for months now, with the United States actually in a technical recession. However, these factors have not yet had an impact on corporate profits. Overall, the current reporting season is characterized by not outstanding but nonetheless stable profits and prospects. In many cases, the pessimistic expectations were even exceeded. So far, companies as a whole have been able to maintain their margins and pass on a large part of the increased costs to consumers. However, it is doubtful that companies will be able to completely isolate themselves from the negative consequences of inflationary pressure in the future.

Most of the major equity markets around the world ended July with positive returns. The markets in the United States (+9.1%), Europe (+7.3%), and Germany (+5.5%) performed best, while those in Asia (-1.7%) and China (-4.3%) fell. The Swiss equity market also performed well in July (+4.4%).

Ten-year government bond yields fell sharply around the world last month. They fell the most in Switzerland (-0.63% to 0.44%), Germany (-0.52% to 0.82%), and Great Britain (-0.37% to 2.65%).

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Currency markets moved within expectations in July. The Swiss Franc strengthened against the Euro (+2.9% to CHF 0.97) and the US Dollar (+0.3% to CHF 0.95) but remained unchanged against the British Pound (CHF 1.16). The US dollar strengthened significantly against the Euro (+2.6% to USD 1.02).

Alternative investments ended the past month with mixed returns. Both gold (-2.3% to USD 1,766 per troy ounce) and oil (WTI, -6.8% to USD 98.62 per barrel) ended the month with negative returns, while hedge funds were able to generate slightly positive returns (+0.5%).

### Outlook – Stagflationary tendencies

The fundamental outlook remains difficult and shows clear stagflationary tendencies. Even if the inflationary momentum should slow down over the course of the year, it is unlikely that the inflation rate will actually normalize in 2022 and the following years. It is already apparent that employees are taking inflationary pressure into account when making wage demands, and that part of the inflation is therefore being permanently cemented. As a result, interest rates should not fall to the old, very low levels, and a structural regime shift in interest rates is more likely. Similar considerations also apply to global monetary policy. The peak of hawkishness has been passed, but the general level of tightening remains restrictive for the time being. The monetary environment therefore remains fundamentally unfriendly for the real economy and financial markets. Corporate profit margins are near all-time highs and should normalize over the longer term. This circumstance could increase profit disappointments over the further course of the year and in 2023. 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 over the course of the year in order to at least ensure economic stabilization. New devastating corona waves in autumn/winter pose a significant risk for the Chinese economy against the background of the Zero-Covid Policy being pursued.

Based on the above statements, we expect the equity markets to continue trending sideways in the short term before they pick up again. Although we continue to expect positive global economic and earnings growth, this will be lower than expected at the beginning of the year due to rising interest rates and geopolitical events. This is likely to lead to more volatility in the markets as the year progresses. The corrections in certain markets last year and earlier this year offer entry opportunities in selected areas/sectors (e.g. China and biotech). We continue to favor Switzerland and the United States over Europe, while maintaining our focus on good quality companies that benefit from long-term trends. We remain positive about Asia and China in particular: there is significant catch-up potential and – as mentioned above – stimuli from the Chinese central bank can be expected.

Market participants expect the US Federal Reserve to raise interest rates four more times over the course of the year. The situation looks similar in Europe now, where markets are pricing in four rate hikes by the ECB until the end of the year. The Swiss National Bank SNB is also likely to raise interest rates further and end the period of negative interest rates after more than seven years during the second half of the year.

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.