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Portfolio Update

January 2022

Monthly Review

The final month of 2021 began with investors fretting about whether they would be waving goodbye to some of their impressive year-to-date gains, as news of the Omicron variant stoked fears of a repeat of the sell-off scenario seen in 2018. However, most regions ended the year with favourable returns. Compared to previous months of the year, Europe caught up slightly and narrowed the performance gap versus the US in particular. In terms of US equity indices, the year's top performer – the Nasdaq – was less buoyant in December. This was hardly surprising given the disappointing performance of cyclical sectors relative to their defensive counterparts in the last month of the year. The energy and real estate sectors were consistently on the winning side throughout the year, while utilities and consumer staples were the laggards.

One of the key drivers of this sector rotation was the US Federal Reserve meeting in mid-December, which led to rate hike expectations being brought forward by two months to April 2022. Inflation expectations and data were partly responsible for these adjustments. While inflation expectations in most regions edged closer to normal levels, forecasts for key rate movements triggered a renewed rise in the effective rates on short-term sovereign bonds. Overall, bonds from highly-rated issuers delivered meagre returns in 2021. Market players primarily sought risk, with funds flowing into equities and high-yield bonds.

Financial markets 2021 total return

Equities	December	2021
S&P 500 (US)	4.5%	28.7%
Dow Jones Industrial Average (US)	5.5%	20.9%
EURO STOXX 600 (EU)	5.4%	24.9%
DAX (DE)	5.2%	15.8%
SMI (CH)	5.9%	23.7%
MSCI Emerging Markets (EM) in USD	1.8%	-2.5%
Fixed Income	**December**	**2021**
US Corporate Bonds Inv. Grade	-0.1%	-1.0%
US Corporate Bonds High Yield	1.9%	5.3%
Pan-European Corporate Bonds Inv. Grade	-0.1%	-0.2%
Pan-European Corporate Bonds High Yield	1.0%	4.2%
Alternative Investments	**December**	**2021**
Gold	3.1%	-3.4%
Oil (brent)	11.1%	51.4%

Sources: swisspartners, Bloomberg

As previously mentioned, the energy sector was one of the top performers last year. The main driver was crude oil, which stabilised after the sell-off in November. However, it was a different story for gas prices in Europe, whose exponential rise sparked large-scale diversions of LNG tankers, purely for profit-making reasons.

Mandate Returns gross

	Euro			Swiss Franc			US Dollar			British Pound		
	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn
2012	6.6%	7.4%	10.5%	4.3%	6.5%	10.9%	5.9%	8.4%	11.8%			
2013	1.5%	6.5%	13.5%	1.9%	8.3%	16.7%	2.9%	9.4%	18.5%			
2014	6.1%	8.0%	10.2%	4.9%	6.5%	9.2%	1.6%	2.2%	3.1%			
2015	2.7%	6.3%	9.9%	-0.8%	0.0%	1.8%	-0.3%	0.0%	1.0%			
2016	2.3%	5.3%	7.1%	1.3%	3.9%	5.7%	2.8%	6.2%	7.2%	4.6%	9.5%	12.1%
2017	3.5%	7.3%	10.8%	4.3%	8.9%	15.0%	7.1%	12.7%	18.1%	4.7%	8.7%	14.2%
2018	-4.3%	-9.0%	-10.5%	-5.6%	-10.1%	-12.1%	-2.5%	-7.9%	-9.8%	-3.3%	-8.6%	-10.4%
2019	9.2%	15.7%	21.6%	8.3%	14.8%	19.6%	11.5%	17.5%	22.0%	9.4%	15.3%	19.8%
2020	3.2%	5.3%	8.6%	2.6%	5.5%	9.0%	6.7%	9.7%	13.6%	4.6%	6.5%	10.3%
Jan 21	0.2%	0.3%	0.8%	0.2%	0.2%	0.8%	0.0%	0.1%	0.5%	0.0%	0.0%	0.3%
Feb 21	0.3%	1.3%	2.1%	0.7%	1.8%	2.6%	0.3%	1.3%	2.1%	-0.1%	0.6%	1.4%
Mar 21	0.9%	2.1%	2.8%	1.1%	2.4%	3.1%	0.2%	1.1%	1.6%	0.4%	1.5%	2.2%
Apr 21	1.4%	2.2%	3.0%	1.2%	2.0%	2.7%	2.0%	3.1%	4.0%	1.9%	2.9%	3.9%
May 21	0.5%	0.6%	0.6%	0.5%	0.6%	0.6%	0.9%	1.2%	1.2%	0.3%	0.3%	0.2%
Jun 21	0.8%	1.4%	2.1%	0.7%	1.3%	2.0%	0.1%	0.4%	0.9%	0.7%	1.3%	2.0%
Jul 21	0.3%	0.0%	0.2%	-0.2%	-0.7%	-0.6%	0.4%	0.0%	0.2%	0.2%	-0.2%	0.0%
Aug 21	0.6%	1.4%	1.8%	0.8%	1.5%	2.0%	0.6%	1.2%	1.7%	0.8%	1.6%	2.0%
Sep 21	-1.3%	-2.0%	-2.6%	-1.3%	-1.9%	-2.7%	-1.6%	-2.5%	-3.2%	-1.2%	-1.9%	-2.5%
Oct 21	1.1%	2.7%	4.0%	0.6%	1.9%	3.0%	1.1%	2.6%	4.0%	0.7%	2.1%	3.3%
Nov 21	-0.3%	-1.2%	-1.6%	-0.7%	-1.7%	-2.2%	-1.0%	-2.0%	-2.6%	-0.2%	-0.9%	-1.3%
Dec 21	0.9%	1.6%	2.6%	0.8%	1.4%	2.4%	1.1%	2.0%	3.1%	0.6%	1.3%	2.2%
2021	5.5%	10.7%	16.7%	4.3%	8.9%	14.4%	4.2%	8.6%	14.0%	4.2%	8.7%	14.4%

Actual portfolio returns may differ from the values shown above owing to the level of implementation, costs and restrictions on implementation.

TRANSACTIONS IN DECEMBER

For a detailed overview of the transactions for each strategy, please do not hesitate to contact us.

POSITIONIERUNG

Allocation	Commentary
Liquidity (neutral) Conservative 6.5% Balanced 5.5% Dynamic 4.5%	Outside of the US dollar investment universe, there are few opportunities to avoid the negative interest rates applied by the central banks. If necessary, we are parking excess liquidity in cash and accepting a negative return, which is partially passed on to customers, especially as there are no other risk-free alternatives. Short-dated bond and trustee investments offer opportunities in US dollars.
Bonds (underweight) Conservative 45.5% Balanced 25.0% Dynamic 6.0%	In light of increasing debt levels in the public and private sectors, we favour bond issuers with solid balance sheets, a healthy business model and correspondingly good credit ratings. At the same time, however, the only way of achieving a positive yield to maturity is to take positions outside of the AAA/AA rating segment. Within the asset class, we utilise various bond types and market segments to maintain a cautious approach, including in the lower rating categories. The current level now offers potential leeway to generate better returns on the fixed income front. We have taken advantage of the higher level to slightly reduce the underweight in duration. The prospect of an increase in interest rates should primarily affect the short end of the yield curve – and the impact is already visible. For this reason, we are specifically focusing on duration baskets and have adjusted our positioning to minimise the effects of any potential volatility on bonds. As the economic backdrop remains healthy, we have taken advantage of the protection against climbing yields that is also offered by high-yield bonds.
Equities (overweight) Conservative 27.5% Balanced 51.0% Dynamic 75.5%	The Covid-19 pandemic maintains a firm grip on the global economy and the stock markets. The markets remain on tenterhooks due to Omicron, the recently discovered Covid variant. European nations had adopted more restrictive measures even before the new strain emerged. Omicron means that a return to normality has been pushed back again, at least for now. If the zero tolerance policy in Asian countries is maintained, this could spark renewed problems in supply chains and also have an impact on corporate earnings over the medium term. The latest available reports suggest that although the variant is more contagious than its Delta counterpart, the resulting illness is milder. At the same time, the pace of vaccination is accelerating and it is hoped that we are moving closer towards an endemic situation. However, the information currently available remains subject to too much uncertainty, which means that a departure from current positioning would not be justified. As previously, reasons for maintaining an overweight position in equities include ultra-loose monetary policy, the vast fiscal policy support programmes implemented by governments, the dearth of alternative investment options on the financial markets and better-than-forecast company results so far. If these supports are removed, the situation will have to be reassessed.
Alt. investments (overweight) Conservative 20.5% Balanced 18.5% Dynamic 14.0%	A broad selection of gold, cat bond funds, market-neutral equity and credit strategies, global macro and commodities. Unlike traditional asset classes, these strategies exhibit a lower correlation with traditional markets and generally offer a certain degree of protection against pronounced market corrections. The aim is to achieve a positive market return in a normal market environment, with lower volatility. A high level of liquidity is viewed as a basic requirement, and this therefore determines which UCITS strategies are considered for investment. The directionality of the alternative allocation can be adjusted as required to ensure better hedging against lengthier corrections or to slightly increase participation in a longer-lasting uptrend. We have invested the proceeds from the sale of the IAM True Partner Volatility UCITS into a global macro fund, making the alternative allocation more dynamic again.

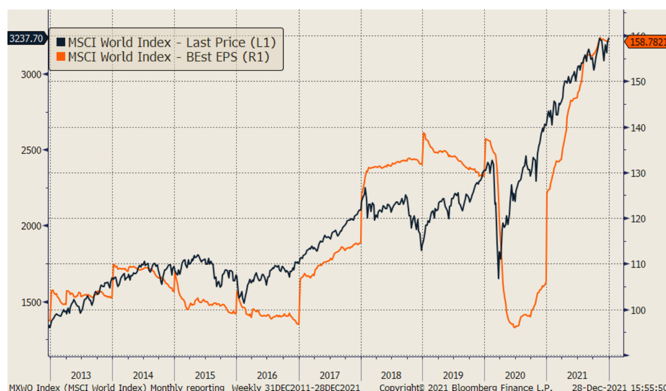
MARKET ASSESSMENT

It's that time again – forecast for the year ahead

Around this time every year, analysts face the herculean task of issuing a forecast for the coming 12 months. Those who find this a tall order even in normal times are likely to find it especially challenging this year. Not only have we found out the hard way that all forecasts involving Covid-19 are pretty much worthless, at the same time we have to accept that short-term market fluctuations will be largely driven by the arbitrary nature of the pandemic. In any case, this task entails more than just predicting the transition from pandemic to epidemic, encompassing accurate forecasting of the geopolitical crisis in eastern Europe, elections in the US, Italy and France, energy prices, consumer behaviour, price levels and the – closely related – policy of numerous countries' central banks. As we said, this is a herculean undertaking.

In light of where we stand at present, it is important not to lose sight of the big picture. With some market watchers wondering whether the financial markets are already too expensive, a simple chart provides a clear answer: *comparison of global equity market (MSCI World) and estimated earnings per share (EPS).*

MSCI World & estimated earnings per share



Sources: swisspartners, Bloomberg

Earnings can keep pace with share prices!

It should be remembered that this is an index comparison. What we mean by this is that the data points comprise a weighted average of hundreds of share prices. As a result, they should not be used as a basis for making judgements about individual equities. Nevertheless, equity markets valuations are on solid foundations, and there are promising signs that as earnings grow stock prices could hit fresh highs. Against the backdrop of the uncertainties outlined above, businesses have consistently demonstrated that they can grow revenues, margins and earnings in spite of major challenges. This has also been the case during Covid, which has partly contributed to the "buy the dip" mentality. So rather than seeking an answer to multiple questions, the focus should be on what really matters.

Share prices of profitable companies, especially those with price-setting power, may also move higher in an environment of rising interest rates amidst high inflation. In contrast, we are less confident about highly indebted, under-pressure firms and sectors or those that are generating weak earnings, as they are likely to face further hurdles as funding costs increase. It comes as little surprise that the fourth quarter of 2021 saw considerably less demand for these shares, as demonstrated in an analysis by Goldman Sachs. The weak performance for the year of Cathie Wood's Ark Innovation fund, which was down by 30%, offers a prime example of this trend.

In our view, this means that in 2022 we will be increasingly focusing on active stockpicking and fund manager selection, paying close attention to the underlying factor weighting. A passive, ETF-based strategy could run the risk of overweighting firms that are either already richly valued and/or are unprofitable. As a result, 2022 looks set to be a year in which portfolio managers can demonstrate their abilities.

Editorial deadline: 3pm CET, 30 December 2021

This publication was prepared by:

Investment Management & Solutions (CH)

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