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Portfolio Update

May 2022

Monthly Review

The annual performance sank deeper into negative territory due to another weak month for equities. To some extent, technical analysts seem to be issuing ever more negative outlooks and forecasts. As far as the news headlines are concerned, coronavirus is clearly no longer taking centre stage. While the main news topics have generally not changed, the focus is almost constantly shifting between positive and negative reports, with investors' reactions fluctuating accordingly.

Besides the overriding issues, the equity markets were also driven by the quarterly reporting season. Overall, it is encouraging to note that companies have moderately exceeded expectations, albeit to a slightly lesser extent than in the last five years. The sectors with the strongest earnings growth thus far are energy and raw materials, although this is hardly surprising. Investors predominantly favoured equities in defensive sectors such as consumer staples and utilities, while technology and consumer discretionary names attracted less demand and performed relatively poorly as a result.

Once again, the accelerating sell-off in the equity market was partially attributable to interest rates and the central banks. The US Federal Reserve became even more hawkish, signalling a rate hike of 0.5% next month. As a result, the yields demanded on the markets swiftly headed upwards. However, as inflation expectations did not rise any further, the real interest rate climbed further towards zero, thus strengthening the US dollar, but undermining the value of gold. The tremendous appreciation of the greenback also affected the USD-CHF currency pair, sending the dollar within touching distance of parity with the Swiss franc.

Financial markets 2022 total return

Equities	April	2022
S&P 500 (US)	-8.7%	-12.9%
Dow Jones Industrial Average (US)	-4.8%	-8.7%
EURO STOXX 600 (EU)	-0.7%	-6.7%
DAX (DE)	-2.2%	-11.2%
SMI (CH)	0.9%	-3.5%
MSCI Emerging Markets (EM) in USD	-5.6%	-12.1%
Fixed Income	**April**	**2022**
US Corporate Bonds Inv. Grade	-5.5%	-12.7%
US Corporate Bonds High Yield	-3.6%	-8.2%
Pan- European Corporate Bonds Inv. Grade	-2.7%	-7.9%
Pan- European Corporate Bonds High Yield	-2.7%	-6.7%
Alternative Investments	**April**	**2022**
Gold	-2.4%	3.7%
Oil (brent)	0.0%	37.6%

Sources: swisspartners, Bloomberg

Commodities, which have been boosted by the conflict between Russia and Ukraine, did not show any clear trends last month. Movements in the prices of oil, gas, palladium, platinum, wheat and corn varied. Platinum shed the most, while gas posted strong gains in some local supplier countries such as the Netherlands. The key question investors are continuing to mull in their risk assessments is which gas supplies are likely to be shut off next after Russia's Gazprom halted deliveries to Poland and Romania. Meanwhile, companies also have mixed views on whether they can and should accept Putin's conditions of paying for supplies in roubles. That said, some customers have already opened corresponding accounts in roubles.

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%**
2021	**5.3%**	**10.5%**	**16.5%**	**4.3%**	**8.9%**	**14.2%**	**4.2%**	**8.4%**	**13.9%**	**4.2%**	**8.7%**	**14.4%**
Jan 22	-2.5%	-3.3%	-5.2%	-2.4%	-3.0%	-4.9%	-2.7%	-3.6%	-5.6%	-2.6%	-3.3%	-5.3%
Feb 22	-1.0%	-1.6%	-2.2%	-1.3%	-1.9%	-2.6%	-0.9%	-1.5%	-2.0%	-0.9%	-1.4%	-2.0%
Mar 22	-0.1%	0.6%	1.1%	-0.2%	0.4%	0.9%	-0.2%	0.4%	0.8%	0.1%	0.9%	1.6%
Apr 22	-1.8%	-2.6%	-3.4%	-1.9%	-2.6%	-3.4%	-2.8%	-3.9%	-4.8%	-2.2%	-2.9%	-3.7%
2022	**-5.3%**	**-6.7%**	**-9.4%**	**-5.7%**	**-7.0%**	**-9.6%**	**-6.6%**	**-8.4%**	**-11.2%**	**-5.4%**	**-6.6%**	**-9.1%**

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

TRANSACTIONS IN APRIL

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

POSITIONING

Liquidity (neutral)

Conservative	4.5%
Balanced	7.0%
Dynamic	6.0%

Outside the U.S. dollar and British pound investment universe, there are hardly any opportunities to circumvent the negative interest rates imposed by the central banks. Where necessary, we place the excess liquidity in the account and in some cases accept the negative yield passed on to customers - especially as no risk-free substitute is available. In U.S. dollars and British pounds, there is the option of short-term bond and fiduciary investments.

Bonds (underweight)

Conservative	47.5%
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 an attractive 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. Yields have returned to more attractive levels thanks to recent commentary from the central banks and inflation expectations. Inflation concerns and a return to uninterrupted economic growth are factored into this higher yield level. The rise in yields has disproportionately pushed up the short end of the yield curve. For this reason, we are specifically focusing on duration baskets and have adjusted our positioning to minimise the effects of any potential volatility in bonds. We are continuing to underweight duration to reflect the prevailing uncertainty and potential for surprises from the central banks. As the economic backdrop remains healthy, we have taken advantage of the protection against climbing interest rates that is also offered by high-yield bonds.

Equities (overweight)

Conservative	27.5%
Balanced	49.5%
Dynamic	74.0%

Unusually, the global economy and the stock markets are not firmly in the grip of the Covid-19 pandemic but are now at the mercy of the crisis in Ukraine and the actions of the global central banks, which have commenced the battle against rising inflation. The economic progress thanks to the easing of coronavirus restrictions in the West and also most Asian countries was brought to an abrupt halt by the latest outbreak in China. The continued zero-tolerance policy is creating fresh challenges for global supply chains that will probably take months to ease. The sanctions imposed on Russia by Western nations will not materially weaken global economic – and therefore also earnings – growth. While sanctions or penalties targeting the Russian commodity sector are part of the current discussions, this is subject to the proviso that they do not harm the domestic economy. Over the medium term, the biggest uncertainty for the markets remains the future path of central bank policy rather than the conflict in Ukraine, as historically war has only had a short-term impact on the financial markets. The reasons for maintaining an overweight position in equities still include monetary policy that is not excessively restrictive, the vast fiscal policy support programmes implemented by governments, the dearth of alternative options for investors on the financial markets and corporate results that have so far beaten expectations. The situation will have to be reassessed if these supports disappear.

Alternative investments (overweight)

Conservative	20.5%
Balanced	18.5%
Dynamic	14.0%

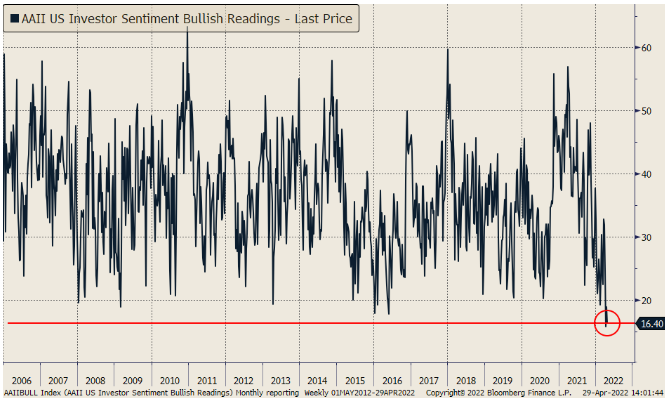
A broad selection of gold, cat bond funds, market-neutral equity and credit strategies, global macro and commodities. Unlike traditional asset classes, these strategies exhibit a lower correlation with traditional markets and generally offer a certain degree of protection against pronounced market corrections. 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

Investor sentiment at a record low

You do not have to look far these days to find plentiful arguments in support of lowering risk in investors' portfolios. Geopolitical and economic horror scenarios are not only omnipresent, they are generally underpinned by solid arguments. It comes as little surprise that the fear of incurring further losses is prompting investors to seek out the sanctuary of safe havens. This elevated risk aversion is most apparent among US private investors, who are exhibiting a low in sentiment (as measured by the AAII Investor Sentiment Survey) that outstrips those recorded even during the US real estate crisis or around the outbreak of the coronavirus pandemic (see chart). Just 16.4% of all the US investors surveyed are bullish, expecting share prices to rise over the next six months – a level that has been seen exceptionally rarely. At the same time, some 60% are bearish and expect stock prices to keep falling.

AAII sentiment indicator among private investors in the US



Sources: AAII, Bloomberg, swisspartners

Historically, however, investor sentiment readings that have been as poor as this have often heralded a reversal of the equity market weakness. Accordingly, the AAII sentiment indicator is frequently used as a counter-indicator by professional investors.

Nonetheless, at present it does not take long for investors to be swayed by the negative underlying sentiment, prompting them to seek ways in which they can minimise risk in their portfolios. Yet the capacity of equities to offer value preservation in an inflationary environment is frequently overlooked at times like these. In any case, it is difficult to keep a cool head amidst the deluge of bad news. We would like to take this opportunity to flag up a number of promising developments that have persuaded us to stick with our portfolio positioning.

- US used car prices, one of the strongest drivers of inflation rates across the Atlantic during the Covid pandemic, may gradually be dropping back from their highs, in which case they would stop exerting upward pressure on prices.
- Thanks to the removal of coronavirus restrictions and the return of travel freedoms, consumers are increasingly focusing on services, which means that the demand for goods should fall. However, this shift in demand should not be interpreted negatively. Instead, this is a consequence of what was highly elevated demand for goods during the pandemic. In this regard too, normalisation should have a positive impact on what are overheated price pressures.
- The easing of energy prices following the initial spike when the armed conflict between Russia and Ukraine broke out will also help to alleviate inflationary pressure. Stagnating inflation rates, which are already visible in some cases, make welcome news for investors. Easing price levels will subsequently increase the likelihood of central banks making a success of walking the tightrope between normalising monetary policy and not taking measures that stifle economic growth to an excessive degree.
- Admittedly, the situation in Europe is considerably more complex and also harbours additional risks. That said, the extreme discounts on the valuations of European assets compared with their US counterparts are creating selective investment opportunities on this side of the Atlantic.
- The reporting season that is now under way is demonstrating that businesses can post solid growth in both sales and earnings, even in the current environment.

Editorial deadline: 3pm CET, 29 April 2022

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