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Portfolio Update

June 2022

Monthly Review

The past month will certainly have been a nervy one for some investors. While we have not seen any extreme, high-volume sell-offs in stock indices as a whole, beneath the surface there have been some surprising movements. Nevertheless, the overall market recovered somewhat towards the end of the month.

The surprises were largely driven by quarterly results. On the whole, it has been a long time since we have seen such a negative reaction to corporate numbers. Upside surprises saw share prices heading down by 0.5% on average, while downside surprises sent stocks tumbling by as much as 5.4%. Both figures are well below their 5-year average. These moves were predominantly triggered by the guidance issued by corporations, which made frequent reference to inflation, supply difficulties and Ukraine, all of which are exerting downward pressure on earnings growth expectations.

This trend was also evident at the sector level. Consumer staples stocks were unable to keep pace with the broader market on account of higher costs, despite their relative popularity in what is a more challenging market environment. Together with consumer cyclicals, this sector brought up the rear this month. Energy and utilities names remained among the winners.

In light of statements from the US Federal Reserve, a mooted rate hike of 0.75% in June is now off the table. The ECB's communication took a more hawkish turn, suggesting that interest rates will be raised sooner and more sharply. This caused yields in Europe to rise on the whole, while yields of USD bonds generally fell somewhat.

Financial markets 2022 total return

Equities	May	2022
S&P 500 (US)	0.2%	-12.8%
Dow Jones Industrial Average (US)	0.3%	-8.4%
EURO STOXX 600 (EU)	-0.9%	-7.6%
DAX (DE)	2.1%	-9.4%
SMI (CH)	-4.1%	-7.4%
MSCI Emerging Markets (EM) in USD	0.5%	-11.7%
Fixed Income	**May**	**2022**
US Corporate Bonds Inv. Grade	0.9%	-11.9%
US Corporate Bonds High Yield	0.2%	-8.0%
Pan-European Corporate Bonds Inv. Grade	-1.4%	-9.2%
Pan-European Corporate Bonds High Yield	-1.4%	-8.1%
Alternative Investments	**May**	**2022**
Gold	-2.7%	0.9%
Oil (brent)	12.5%	54.7%

Sources: swisspartners, Bloomberg

In the heterogeneous commodities segment, last month's drivers have largely continued to hold sway. Firstly, the armed conflict in Ukraine is continuing to drive prices of oil, palladium, wheat and corn higher. Secondly, the US dollar has played its own part as the primary valuation currency. The greenback maintained its upward trend from the beginning of the month, hitting parity with the Swiss franc at one point before dropping back. As the central banks are planning rate hikes of historic proportions, it is worth keeping an eye on currencies as they will probably continue to reflect these moves.

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%
May 22	-0.9%	-0.4%	-0.9%	-0.9%	-0.2%	-0.8%	-0.5%	0.2%	-0.3%	-0.6%	0.1%	-0.4%
2022	**-6.2%**	**-7.1%**	**-10.2%**	**-6.5%**	**-7.2%**	**-10.3%**	**-7.0%**	**-8.2%**	**-11.5%**	**-6.0%**	**-6.6%**	**-9.5%**

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

TRANSACTIONS IN MAY

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

POSITIONIERUNG

Liquidity (neutral)

Conservative	4.5%
Balanced	5.5%
Dynamic	4.5%

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 regarding inflation 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	51.0%
Dynamic	75.5%

The impact of the Ukraine crisis and the central banks' fight against rising inflation keep a tight grip on the global economy and stock markets. Declining COVICD-19 cases in major Chinese cities give hope that the lockdowns are gradually coming to an end and the local economy is recovering. China's ongoing zero-tolerance policy continues to put pressure on global supply chains, and any easing from the Shanghai port situation is likely to take months. 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 state of the world economy, 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.

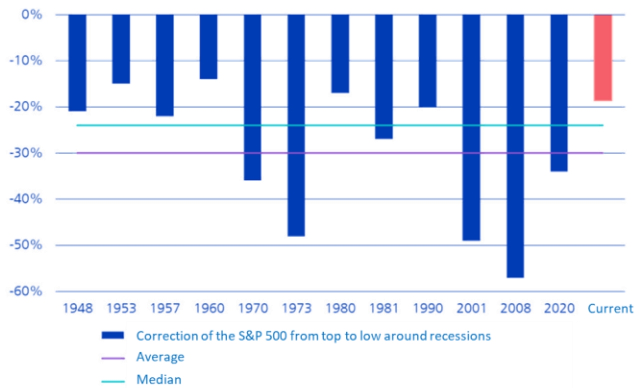
MARKET ASSESSMENT

Renewed recovery attempt

Sentiment on the financial markets remains in the doldrums. Even though investors had some cause for cheer thanks to a brief recovery rally at the end of the month, widespread scepticism remains as to whether this marks the longed-for, enduring market bounceback. With stock price losses of 30% on the Nasdaq, the technology index has technically been in bear market territory for some time now, which is why any nascent pick-ups are repeatedly described as a bear market rally. This term refers to a pronounced – but merely temporary – countermovement to a downtrend.

However, it is interesting to note that based on daily closing prices, neither the S&P 500 nor the Dow Jones indicate that we are currently in a bear market. Similarly, there is scant evidence of the important market indices on this side of the Atlantic breaking through the 20% threshold, which is the prerequisite for a bear market. But as we all know, market clichés ultimately do little to change the situation and participants simply have to prepare for the risk of further losses. Although history rarely repeats itself, we can use historical comparisons to run through various scenarios. An analysis from Refinitiv, for example, shows that the US benchmark S&P 500 has lost an average of 24% in recessionary market periods (see chart).

Historical share price corrections on the US equity market



Sources: ZKB, Refinitiv

This would imply an additional share price correction of 13% based on the current market levels. In other words, the months ahead also look set to be difficult, especially as various leading indicators – particularly in the manufacturing sector – are pointing to a significant economic slowdown. Above all, stubbornly high inflation rates will keep investors on tenterhooks for some time yet. While the situation is likely to ease given that China has lifted coronavirus restrictions this week after a two-month lockdown, it will probably take time for the effects to become palpable. As shipping times from Shanghai to Rotterdam currently amount to at least 40 days, we will initially continue to feel the impact of the lockdowns until the situation eventually improves.

But in any case, our focus is currently on the consumption of services, especially as we interpret the present softening of demand in the manufacturing sector as a logical consequence of excessive consumer spending during the earlier stages of the pandemic in the last two years. The summer months will reveal whether consumer appetite amongst the general public has actually waned, or whether demand has simply shifted in favour of services.

However, in terms of the portfolio, given the current risks we will continue to opt for companies with good fundamentals and the capacity to sustain their business activities in a recessionary market environment. While these companies are also suffering from falling share prices in the current environment, we believe that they can weather the present challenges despite the inflationary tendencies and supply chain problems. In the bond universe, the recent increase in interest rates offers renewed opportunities for investing in bonds and we are focusing on paper in the US. Meanwhile, we expect another upward shift in rates in Europe and Switzerland amid central bank plans to unwind their negative interest rate policies.

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This publication was prepared by:

Investment Management & Solutions