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Portfolio Update

September 2022

Monthly Review

August began on a positive note, with investors continuing to look upwards to the next resistance levels. Some key resistances were actually reached, triggering selling pressure which was further amplified by the US central bank. As a result, the month ended less favourably for the equity markets.

In regional terms, Europe performed somewhat weaker than the US due to the ongoing uncertainty surrounding energy supply and energy policy. However, all regions are affected by this problem to some degree. In the US sectors, for example, this was reflected by the renewed buoyancy of energy and utility names, which were among the top performers at the end of the month. Growth-oriented and rate-sensitive segments such as technology were among the laggards once again.

The central banks' rhetoric and market expectations regarding their policy meetings this month led to a further surge in bond yields in August. The uptrend was particularly noticeable at the short end of the yield curve. However, thanks to confidence in the central banks' measures, conditions on the credit market eased somewhat, with the spreads of corporate bonds trending lower.

US investors with a low foreign currency allocation fared well. In Europe, the euro and sterling continued to deliver a weak performance. The only breakthrough for both currencies was a slight recovery versus the Swiss franc towards the end of the month.

Financial markets 2022 total return

Equities	August	2022
S&P 500 (US)	-4.1%	-16.2%
Dow Jones Industrial Average (US)	-3.7%	-12.0%
EURO STOXX 600 (EU)	-5.1%	-13.0%
DAX (DE)	-4.8%	-19.2%
SMI (CH)	-2.6%	-13.4%
MSCI Emerging Markets (EM) in USD	0.4%	-17.3%
Fixed Income	**August**	**2022**
US Corporate Bonds Inv. Grade	-2.9%	-14.2%
US Corporate Bonds High Yield	-2.3%	-11.2%
Pan-European Corporate Bonds Inv. Grade	-5.1%	-12.8%
Pan-European Corporate Bonds High Yield	-1.5%	-11.3%
Alternative Investments	**August**	**2022**
Gold	-2.8%	-6.2%
Oil (brent)	-11.4%	23.6%

Sources: swisspartners, Bloomberg

The commodity markets remained a hot topic. The oil price moved in a favourable direction for consumers, causing a slight drop in prices at the pumps. Meanwhile, gas and electricity prices continued to spiral, especially in Europe, forcing the governments to devise emergency plans. As a result of these combined factors, there were no safe havens to be found for investors. Precious metals also lost value due to the rate hikes, leading to a repeat of the perfect storm we saw in the first half of the year.

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%
Jun 22	-2.5%	-4.9%	-6.6%	-3.1%	-5.7%	-7.4%	-2.8%	-5.2%	-6.8%	-2.5%	-4.7%	-6.3%
Jul 22	2.9%	4.1%	6.1%	2.2%	3.1%	4.9%	2.3%	3.3%	5.0%	2.5%	3.5%	5.4%
Aug 22	-1.3%	-1.6%	-2.2%	-1.2%	-1.3%	-1.9%	-1.3%	-1.5%	-2.0%	-0.9%	-0.9%	-1.5%
2022	-7.2%	-9.5%	-13.0%	-8.6%	-11.0%	-14.6%	-8.8%	-11.5%	-15.1%	-6.9%	-8.7%	-12.0%

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

TRANSACTIONS IN AUGUST

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

POSITIONIERUNG

Liquidity (neutral)

Conservative	10.5%
Balanced	10.0%
Dynamic	9.0%

The interest rate environment, which has been raised to combat inflation, once again makes it possible to circumvent negative interest rates on cash holdings. Only in Swiss francs is there still the possibility of banks penalizing their customers on excessive cash holdings. In the meantime, particularly in US dollars and British pounds, there are opportunities for short-term bond and fiduciary investments at attractive interest rates. In the current difficult market environment, a higher cash allocation provides us with opportunities to temporarily park surplus liquidity in order to subsequently participate in investment opportunities.

Bonds (underweight)

Conservative	46.0%
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. The ongoing zero-tolerance policy in China continues to put pressure on global supply chains. The easing of the situation in the port of Shanghai will shift the backlog to the West in the medium term. Accordingly, effective supply chain relief will continue to take months. The biggest uncertainty for markets in the medium term remains the future path of central banks, rather than the conflict in Ukraine. Persistently high inflation and the increased cost of capital will have a negative impact on earnings growth in the coming quarters. Accordingly, investors are increasingly focusing on the outlook for the following quarters and less on the business performance in the past quarter. The reasons for the overweight in equities continue to be the not too restrictive monetary policy, massive fiscal policy measures by governments, the relative valuation of the equity markets, the still lacking alternatives to investments in the financial markets and the still better than expected corporate figures. If these pillars collapse, the situation will have to be reassessed.

Alternative investments (overweight)

Conservative	16.0%
Balanced	14.0%
Dynamic	9.5%

A broad diversification of market neutral equity and credit strategies, cat bond funds, gold 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 liquid strategies are considered for investment. If necessary, the directionality of the Alternative Quote will be adjusted to slightly increase the participation in a longer uptrend or to better hedge against longer corrections. The current orientation is neutral, which protects us from an unfavorable positioning in the currently very volatile environment.

MARKET ASSESSMENT

Variations in underlying conditions

As outlined above, the recovery rally was short-lived. The benchmark US index, the S&P 500, did not break above the widely regarded 200-day moving average in August and instead changed course, heading back towards its June lows. The reversal was also accelerated by comments from various central bank officials, who are currently taking every opportunity to make investors fully aware that the interest rate level is set to remain heightened for some time. This, in theory, suggests that equity valuations will fall. The fact that investors are already expecting the first rate cuts in 2023 has probably been a thorn in the side of the monetary watchdogs for several weeks. But in view of the Fed's rather modest ability to anticipate the path of the economy correctly over the long term, market watchers are right to ask why they should believe the latest set of interest rate forecasts this time. As a result, we should not pay too much attention to the latest bout of nervousness sparked by the Jackson Hole Economic Symposium. Instead, we should focus on those factors that are ultimately likely to be crucial to setting interest rates in the immediate term.

Against this backdrop, it is worth paying attention to energy prices, especially prices at the petrol pumps, freight costs, delays to deliveries, aircraft passenger capacities and other indicators. On the whole, these are already pointing to easing price pressures in the US. The possibility that the forthcoming US inflation numbers in September will come in lower than currently feared therefore cannot be ruled out. That said, and partly as a result of the central bankers' media rhetoric on this subject, the financial markets are pricing in a further six interest rate moves (of 25 basis points each) to take US key rates to a level of 4%. In our view, this is an indication that the new monetary policy direction is already reflected in market prices.

We are less confident about the situation in Europe amidst fears that it will be some time before consumers react to the rise in energy prices, especially as actual heating costs are still unclear in many countries and will not be known until end customers receive their bills around the end of the year. In light of this, the European Central Bank would be ill advised to counter what are high inflation rates with rate hikes on the same scale as in the US. European consumers will already be facing straitened circumstances as they head into the new year, and there is a risk that if the ECB hikes rates by too much, the ailing European economy will take a further hit. Moreover, some European nations have substantially higher sovereign debt in the wake of the Covid-19 pandemic, which means that any rise in interest rates will make debt servicing increasingly difficult. So while the US is a long way through the interest rate cycle, for better or worse Europe is in it for the long haul.

In this market environment it is exceptionally difficult to make robust forecasts. We would therefore stress, once again, that in our view the key to success lies in the quality and dependability of our investments rather than seeking to time the markets' highs and lows via large-scale portfolio reallocations. Accordingly, we lowered risk further at the individual security level in August (see transactions), while in terms of the asset mix we are holding to our current equity positioning. At present levels we would not rule out further asset price losses. Nevertheless, we believe that we have already seen the lion's share of the correction in valuations.

As at: 3pm CET, 31 August 2022

This publication was prepared by:

Investment Management & Solutions