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Portfolio Update

November 2022

Monthly Review

Last month's long-awaited turnaround now seems to be behind us and some market participants are already looking for new highs.

The pronounced reversal to the upside was triggered by a combination of technical levels and the publication of inflation figures from the US which, although in line with expectations, were followed by rhetoric that was less downbeat than in the recent past. This bolstered the financial and industrial sectors last month. Growth-oriented sectors such as technology also benefited from this trend – at least until the release of the earnings data. While the figures were healthy overall, the accompanying guidance was deeply disappointing, leading growth-oriented sectors to linger in the lower range of the performance table at the end of the month.

Meanwhile, it was not such a rosy month for the bond markets. Interest rate levels continued to climb and even the marginal narrowing in corporate bond spreads failed to rein in the losses. However, one redeeming aspect is that the pace of the uptrend in yields slowed down. That said, not all regions followed the dictates of the US. The yields demanded by investors calmed down somewhat in Switzerland, especially at the short end of the curve, while their counterparts in the EU stabilised at least.

The trend on the fixed income markets was partially reflected by the US dollar and the Swiss franc. However, a countermovement emerged in the form of an oversold euro and highly oversold sterling, with the latter attributable to the Bank of England's interventions.

The commodity markets initially showed an unspectacular performance last month, while gold was also unpopular in general. But at the end of the month, news of Russia's withdrawal from the Ukraine grain deal prompted a sharp surge in the prices of the relevant commodities, such as maize and wheat. This will potentially remain a hot topic over the coming month.

Financial markets 2022 total return

Equities	October	2022
S&P 500 (US)	8.1%	-17.7%
Dow Jones Industrial Average (US)	14.1%	-8.4%
EURO STOXX 600 (EU)	6.3%	-13.5%
DAX (DE)	9.4%	-16.6%
SMI (CH)	5.5%	-13.5%
MSCI Emerging Markets (EM) in USD	-3.1%	-29.2%
Fixed Income	**October**	**2022**
US Corporate Bonds Inv. Grade	-1.0%	-19.6%
US Corporate Bonds High Yield	2.6%	-12.5%
Pan-European Corporate Bonds Inv. Grade	1.0%	-15.7%
Pan-European Corporate Bonds High Yield	2.0%	-13.4%
Alternative Investments	**October**	**2022**
Gold	-1.5%	-10.6%
Oil (brent)	8.3%	20.4%

Sources: swisspartners, Bloomberg

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%
Sep 22	-2.7%	-3.9%	-5.1%	-3.1%	-4.3%	-5.4%	-2.8%	-4.0%	-5.0%	-3.0%	-3.9%	-4.9%
Oct 22	0.7%	3.0%	4.8%	1.2%	3.7%	5.5%	1.1%	3.4%	5.1%	1.2%	3.0%	4.4%
2022	-9.1%	-10.4%	-13.5%	-10.3%	-11.7%	-14.8%	-10.3%	-12.1%	-15.2%	-8.7%	-9.6%	-12.6%

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

TRANSACTIONS IN OCTOBER

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

POSITIONING

Liquidity (neutral)

Conservative	10.5%
Balanced	10.0%
Dynamic	9.0%

Interest rate environment raised to fight inflation allows return on cash holdings again. 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 as the backlog continues to affect more than 10% of all shipped goods. 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. Within the equity allocation, we continue to favour Europe over the USA. Due to the defensive orientation of the Swiss equity market, it is still considered attractive. The cooling of the global economy makes investments in emerging markets less interesting; accordingly, developed markets are preferred to emerging markets. Within the individual sectors, we continue to consider basic materials, energy and industrial stocks attractive. Due to valuation and the rapid turnaround in interest rates, our outlook for the real estate, utilities and information technology sectors remains negative.

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 and gold. 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

Recession at bay for now

While there are various reasons for the market weakness we have seen in the last four weeks, one of the main culprits is likely to be the third-quarter reporting season. Although the revenue and earnings figures reported to date have fallen considerably short of the levels in Q3 2021, given the significant downward revisions to expectations they are at an acceptable level and do not (yet) point to a dramatically worsening economy.

Q3 2022 reporting season

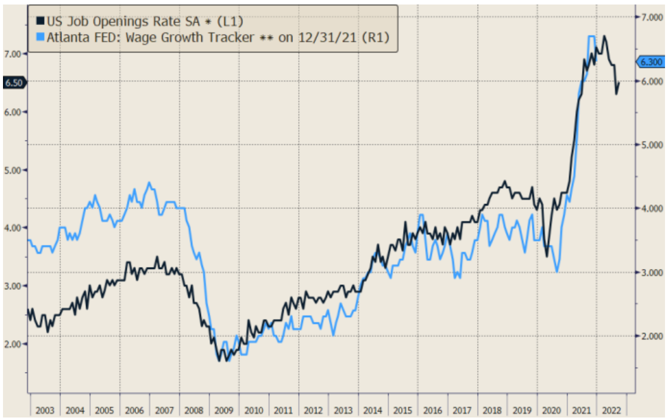
	Revenue growth		Earnings growth	
	% YoY	Δ Forecast	% YoY	Δ Forecast
US	9.3%	1.7%	2.2%	2.2%
Europe	28.5%	0.0%	30.5%	5.7%

Source: Factset, bloomberg

With an imminent recession widely expected at present, the results published so far have probably sparked relief on the markets. In welcome news for investors, most companies succeeded in maintaining their margins in spite of higher purchase prices, pronounced foreign exchange fluctuations and other challenges. All these factors go a long way towards explaining the ongoing pressure on share prices. One way of interpreting these nominally solid results is to say that they do not suggest any need for a further correction in equity market valuations, as would be expected in a recessionary environment. Accordingly, numerous investment experts issued more optimistic assessments and stated that they see further scope for a recovery on the financial markets, at least on the assumption that a recession in corporate earnings in tandem with a more severe economic slowdown are avoided.

Analysis from BCA Research shows that such a bleak scenario is by no means inevitable and that bringing down inflation does not necessarily require a significant rise in unemployment. According to this interpretation, last year's higher wage growth (and therefore the high level of consumer purchasing power) was a result of the imbalance between the number of job vacancies and the available workforce. To put this another way, in the US there were only 0.4 unemployed people for every vacant position at times (source: U.S. Bureau of Labor Statistics). In a situation in which there is close to full employment, this means that each newly created post does not immediately result in a higher employment ratio, especially since nearly everyone who would like to work already has a job. Instead, this simply fuels wage growth in order to attract workers to businesses seeking staff (see chart).

Job vacancies versus wage growth in the US



* Total private, advanced by 9 months. Source: Bureau of Labor Statistics (Bloomberg)
** Median percentage change in the hourly wage of individuals observed 12 months apart (Bloomberg)

Conversely, the same principles could apply if there were a decline in the demand for labour. Businesses would in the first instance impose a ban on recruitment before actually making staff redundant. We have heard numerous announcements of this nature in the current reporting season, and it is an approach that makes sense in a cooling economic environment. However, this would only have a modest effect on employment numbers in the short term, instead merely impacting the number of job vacancies. Ideally, this scenario would ease pressure on inflation stoked by the wage/price spiral without sparking a significant deterioration in the employment rate.

As at: 3pm CET, 31 October 2022

This publication was prepared by:

Investment Management & Solutions