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PORTFOLIO UPDATE

JANUARY 2023

ANNUAL REVIEW

2022 was an action-packed year, with a partial return to normality after Covid-19, the outbreak of war in Ukraine, the global tightening of monetary policy led by the US Federal Reserve and the unpredictability of a tech billionaire with a thirst for acquisitions, to name just some of the factors at play.

For equity investors, the year as a whole felt something like a crash landing in a Hollywood film. Despite recurrent bouts of panic, it was not a particularly disastrous ending after all – except for technology indices. Meanwhile, it was a different story in the fixed-income space. Bonds issued by highly indebted companies and solid sovereigns alike were heading in only one direction, which was downwards. Thus, compared to equities, 2022 was one of the worst years for bonds in a long time. In real terms, government bonds performed almost as poorly as in the early 1980s. It is therefore no great surprise that the risk carried by a 60/40 portfolio was barely lower than that of less conservative strategies.

It is often said that the stock market is not a one-way street. The same was true in 2022, as equity investors with a focus on value fared relatively well. The energy sector, followed by basic materials, provided a significant boost to such portfolios. Conversely, sectors that are sensitive to interest rate movements and are consumer-oriented were on the losing side.

Financial markets 2022 total return

Equities	December	2022
S&P 500 (US)	-5.8%	-18.1%
Dow Jones Industrial Average (US)	-4.1%	-6.9%
EURO STOXX 600 (EU)	-3.4%	-10.6%
DAX (DE)	-3.3%	-12.3%
SMI (CH)	-3.6%	-14.3%
MSCI Emerging Markets (EM) in USD	-1.5%	-19.9%

Fixed Income	December	2022
US Corporate Bonds Inv. Grade	-0.4%	-15.8%
US Corporate Bonds High Yield	-0.6%	-11.2%
Pan-European Corporate Bonds Inv. Grade	-2.1%	-15.1%
Pan-European Corporate Bonds High Yield	-0.9%	-11.1%

Alternative Investments	December	2022
Gold	4.1%	-0.3%
Oil (brent)	-1.8%	9.7%

Sources: swisspartners, Bloomberg

On the forex markets, the US dollar proved to be a safe haven thanks to the Fed's pioneering role in the interest rate cycle, alongside the Swiss franc. However, most currency trends were broken towards the end of the year, leading to a modest recovery for precious metals as well.

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%
Nov 22	1.3%	2.1%	3.2%	1.1%	1.8%	2.7%	2.3%	3.3%	4.5%	1.7%	2.5%	3.6%
Dec 22	-1.8%	-3.6%	-4.4%	-1.5%	-3.4%	-4.4%	-0.6%	-1.9%	-2.6%	-1.2%	-2.4%	-3.0%
2022	-9.6%	-11.7%	-14.7%	-10.7%	-13.2%	-16.4%	-8.8%	-10.8%	-13.6%	-8.3%	-9.5%	-12.2%

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.

POSITIONING

Asset class / Strategy	Allocation	Comment
Liquidity (neutral)		Interest rate environment raised to fight inflation allows positive return on cash holdings again. Across currencies, short-term bond and fiduciary investments offer the opportunity to achieve an attractive nominal return. 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.
Conservative	4.5%	
Balanced	5.0%	
Dynamic	6.0%	
Bonds (underweight)		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, one must position oneself outside the AAA/AA rating segment in order to achieve an attractive yield to maturity in real terms. Within the asset class, we use different bond types and market segments to also act cautiously in the lower rating segments. Driven by central bank communication and inflation expectations, interest rates have returned to more attractive levels. Durations remain slightly underweighted. However, improved inflation expectations, as well as a less aggressive FED, make medium duration bonds look very attractive again after a historically bad phase. 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.
Conservative	50.0%	
Balanced	30.0%	
Dynamic	9.0%	
Equities (overweight)		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 backlog of shipped goods and also prices for ocean freight are slowly but surely moving back towards the long-term average. The faster-than-expected departure from the zero-tolerance policy in China will cause increased volatility in the short term, also with regard to supply chains. In the longer term, this will further relax supply chains and boost domestic consumption again, which should be seen as positive for the global economy. 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.
Conservative	29.5%	
Balanced	51.0%	
Dynamic	75.5%	
Alternative investments (overweight)		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.
Conservative	16.0%	
Balanced	14.0%	
Dynamic	9.5%	

MARKET ASSESSMENT

The topic of inflation has certainly kept us on tenterhooks for much longer than we initially assumed. Even now, there seems to be no consensus on how long the surge in prices will continue this year. While goods prices are showing sustained signs of returning to normal, upward pressure still persists in the service sector. In particular, the extremely robust labour market is keeping wage growth at a high level in the US.

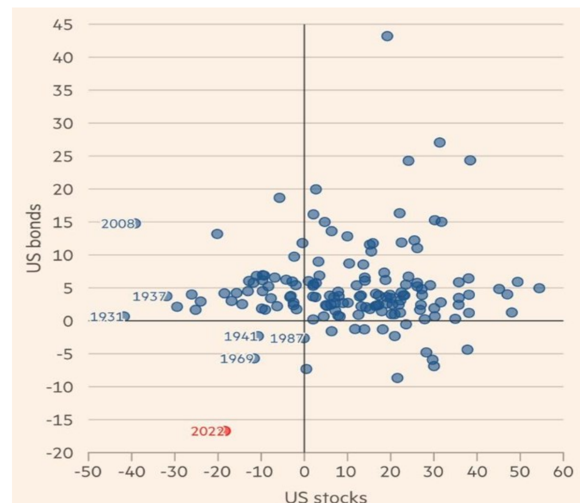
Despite this uncertainty, the focus of investor attention seems to be shifting from inflation to fears of a recession. The crucial question at present concerns economic growth and how far the reduction of money supply – in the form of key rate hikes, among other measures – will take its toll in 2023. For guidance purposes and with a view to planning the portfolio structuring process more effectively, it is not unusual for financial market participants to draw up various scenarios in this context. It is striking that in the view of market participants the most likely scenario is a mild recession or only a short-lived economic slowdown. Investors' current, cautious positioning, in which the equity allocation is close to neutral in balanced mandates and there is a high proportion of fixed-income assets, paints a similar picture. To take a different perspective, another possible conclusion is that the fear of being wrongly positioned at the start of the year is dominating portfolio allocations. As a result, investors are deliberately choosing not to make any excessively large bets.

We too are finding the process of identifying the optimum asset allocation challenging. All things considered, however, a consensus was reached that largely determined the last shifts we made to our portfolio allocations in 2022. Above all, we believe there is now considerably less need for a high allocation to liquid alternative assets. We now feel that safe sovereign and corporate bonds have a better risk/reward profile. In particular, if the economic downswing proves to be more pronounced than expected, the associated measures that would likely be taken by central banks in the form of cuts to policy rates would have a positive impact on asset prices and provide some protection. Although the capital returns from high-yield bonds would be considerably higher still, in view of the sharp rise in corporates' cost of capital we prefer not to take the attendant default risks.

Turning to equities, based on the consensus view there is a risk that companies' valuations may still be too high in light of the looming downturn in the economy. Accordingly, numerous financial market players are flagging up the possibility of further sharp falls in stock prices. For our part, we only share this view to a limited extent. On the one hand, we believe it is fairly unlikely there will be a severe economic slump given the strength of consumer spending. On the other hand, it has not been appropriate to make sweeping statements about equity market valuations for some time now. We therefore remain invested in the equity market, with a focus on stock picking.

If we rule out the possibility that interest rates will climb again significantly from their current levels, it seems reasonable to expect a balanced mandate investing in both bonds and equities to generate a positive diversification effect. The following chart provides clear evidence that 2022 really was an exceptional year in this regard.

Returns on US bonds and equities since 1871



Source: Robert J Shiller; TS Lombard; FT calculations

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