swisspartners

The art of finance.

PORTFOLIO UPDATE

MARCH 2023

MONTHLY REVIEW

Following the extremely buoyant start to the year despite the fact that one of the highest consensus forecasts of all time was pointing to the threat of a recession, the trend in prices on the equity markets is hardly surprising. Anecdotal evidence suggests that significant amounts of cash are waiting on the sidelines.

The overall market was down slightly in net terms, but showed little sign of any panic or sell-off tendencies. The only palpable indication of ambivalence was to be found in option prices. The sense that everything is continuing as normal was further underpinned by the dearth of surprises from the US Federal Reserve, as well as inflation and labour market data that were in line with expectations. This was also reflected by the sector performance: while the winners and losers varied from region to region, the sectors that are predominantly cyclical and immune to inflation generally outperformed.

Meanwhile, the fixed-income markets were slightly more eventful. Although inflation forecasts were in line with the actual trend, implicit expectations pointed to a more rapid descent in inflation rates. As a result, expectations were revised up again from relatively low levels, prompting an adjustment to projections of the central banks' possible actions. Yield requirements on the bond markets therefore rose a little more sharply than some market participants had envisaged. The three-month CHF SARON is now expected to reach some 2% at the end of the year. The two-year US Treasury yield also climbed to new highs and is within touching distance of the 5% mark. Ultimately, the historically high yield curve inversion reflects the current rate hike cycle. In this environment, the obvious question is what the implications are for the real estate market.

The US is still setting the tone in terms of rate moves and the greenback has risen again due to the market adjustments outlined above. As real interest rates continued to rise, precious metals came under immense pressure. Commodities, which were already having a difficult time in this setting, were additionally hit by weather effects. Rain in dry agricultural regions of the US fuelled harvest expectations, pushing down the prices of corn, wheat and soy beans.

Financial markets 2023 total return

Equities	February	2023
S&P 500 (US)	-2.4%	3.7%
Dow Jones Industrial Average (US)	-3.9%	-1.1%
EURO STOXX 600 (EU)	1.9%	8.7%
DAX (DE)	1.6%	10.4%
SMI (CH)	-1.7%	3.4%
MSCI Emerging Markets (EM) in USD	-6.5%	0.9%
Fixed Income	**February**	**2023**
US Corporate Bonds Inv. Grade	-3.2%	0.7%
US Corporate Bonds High Yield	-1.3%	2.5%
Pan-European Corporate Bonds Inv. Grade	-1.5%	1.0%
Pan-European Corporate Bonds High Yield	0.1%	3.3%
Alternative Investments	**February**	**2023**
Gold	-5.2%	0.3%
Oil (brent)	-3.4%	-3.0%

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%
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%
Jan 23	2.9%	4.1%	4.8%	3.1%	4.2%	4.9%	3.4%	4.8%	5.4%	3.0%	4.1%	4.9%
Feb 23	-0.8%	-0.8%	-0.5%	-0.9%	-0.9%	-0.7%	-1.1%	-1.3%	-1.0%	-0.8%	-0.9%	-0.6%
2023	2.0%	3.2%	4.2%	2.1%	3.2%	4.2%	2.3%	3.4%	4.3%	2.1%	3.2%	4.2%

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

TRANSACTIONS IN FEBRUARY

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

POSITIONING

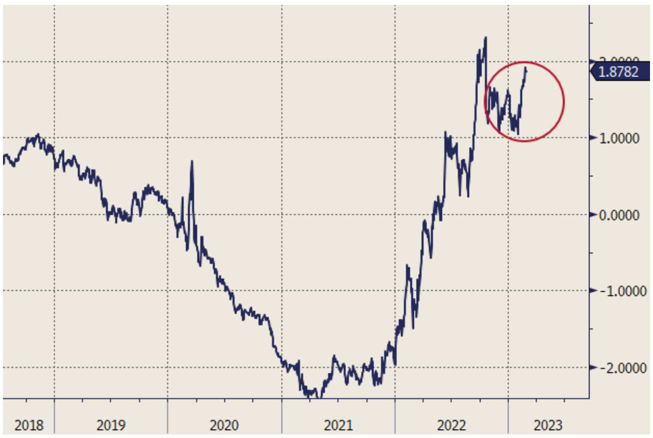
Liquidity (neutral)		Interest rate environment raised to fight inflation allows positive return on cash holdings again. Across currencies, short-term bond and fiduciary investments offer the opportunity to achieve an attractive nominal return. In the current difficult market environment, a higher cash allocation provides us with opportunities to temporarily park surplus liquidity in order to subsequently participate in investment opportunities.
Conservative	15.0%	
Balanced	13.0%	
Dynamic	8.0%	
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	46.0%	
Balanced	26.0%	
Dynamic	9.0%	
Equities (overweight)		The effects of the Ukraine crisis and the central banks' fight against rising inflation are keeping a tight grip on the global economy and the stock markets. The biggest uncertainty for the markets in the medium term remains the future path of central banks. Persistently high inflation and the increased cost of capital, as well as changes in consumer spending, will have a negative impact on earnings growth. Within the equity allocation, we continue to favor Europe over the US. 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, industrials, and consumer cyclicals as 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	29.0%	
Balanced	51.0%	
Dynamic	75.5%	
Alternative investments (overweight)		A fund selection of market neutral credit strategies, cat bonds and multi-strategies. These strategies, unlike traditional asset classes, have a lower correlation to traditional markets and generally provide some protection from pronounced market corrections. The objective is to achieve positive market returns with low volatility in a normal market environment. A high level of liquidity is considered a fundamental requirement and thus determines which liquid strategies are eligible. If necessary, the directionality of the Alternative Quote is adjusted to slightly increase participation in a longer uptrend or to better hedge against longer corrections. The current directionality of the Alternative Quote is neutral, which protects us from adverse positioning. The goal is to position more aggressively in the event of a favorable entry.
Conservative	10.0%	
Balanced	10.0%	
Dynamic	7.5%	

MARKET ASSESSMENT

Investors seemed to be content with the scene that had been set for 2023, with declining inflation rates and a robust economy remaining the baseline scenario in January. However, for the second time at this early stage of the year, economists are already having to revise their market forecasts as the US economic data published in February still reflect highly robust momentum that is showing no signs of fatigue. What were already optimistic estimates were exceeded not only in terms of the number of new jobs created, but also in the context of purchasing managers' surveys in the services sector, as well as retail sales. All of these provide clear indications that the average US citizen is not feeling cowed by rising prices and the higher interest rate environment, and is unwilling to cut back on consumer spending.

This is reflected not least in rising inflation expectations (see chart) and initial calls for a further hike in the level of US interest rates by half of one percent at the next meeting of the Federal Open Market Committee in March. Even though as things stand the financial markets are still expecting a smaller rate move at the customary level of 25 basis points, this means that hopes of a reversal in US monetary policy (a Fed pivot) as soon as this year are gradually evaporating. Ultimately, we still seem to be a long way from the point at which price momentum can be squeezed to the levels targeted by the Fed.

US inflation expectations in one year's time for 12 months



Source: Bloomberg

Outside of the US too, it is evident that inflation rates will not be returning to normal levels as soon as originally expected. The recently published inflation numbers from Spain, Germany and the UK suggest that a level of price momentum can be expected for an extended period – also elsewhere in Europe – that will pose major challenges for the central banks.

This provides support for our decision to maintain our current portfolio allocation with a focus on less interest rate-sensitive investments that will be only marginally impacted by interest rates either staying at elevated levels or even rising. As a result, we are sticking with our overweight in value stocks, as reflected in the regional focus on European equities, for example. On the bond side, where we remain underweight compared to the peer group, there is now an opportunity to benefit from rising yields. In our view, short-dated corporate bonds offer the best opportunity to profit from dislocations in the yield curve, with short-maturity bonds offering higher yields than their longer-dated counterparts, while generating attractive coupon income for the portfolio. To this end, in recent weeks we have taken the opportunity to build up liquidity by disposing of alternative investments. At the same time, we have prematurely redeemed an illiquid position within our bond allocation.

Last updated: 3pm CET, 28 February 2023

This publication was prepared by:

Investment Management & Solution