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Portfolio Update

May 2023

Monthly Review

Is the summer lull starting as early as April this year? Looking at the markets, there no longer seems to be a huge amount of interest from any direction, and investors currently consider asset prices to be fair. However, it is possible that market participants were merely being cautious ahead of the reporting season.

The impression that not much has happened at the aggregate index level is also confirmed by the volatility indices, which last month fell to their lowest level for a year. Nevertheless, the reporting season, which is already under way, could provide some fresh impetus. For example, Amazon's numbers stoked significant momentum across all markets. That said, not all companies have surprised to the upside. Of the some 20% of corporates in the S&P 500 that have announced their results to date, more than two-thirds have managed to deliver an upside surprise. In contrast, businesses in the basic materials sector have struggled the most. Defensive sectors were the clear winners last month up to the start of the reporting season. However, the last week of the month saw the picture shift again, with the generally resource-intensive sectors of manufacturing, basic materials and energy bringing up the rear. Alongside defensive consumer goods and healthcare, banks and the communications sector led the field.

Compared to the prior month, the absence of central bank meetings is likely to be one of the reasons for the lack of movement, not only on the equity markets but also in fixed income. Only the US labour market report and the inflation figures prompted slight changes in yields. In a welcome development, the most important yield curves flattened somewhat despite higher expectations regarding US policy rates. Alongside yields, the readings mentioned also pushed down inflation expectations further, albeit only for the near term.

Turning to the main commodities, it is evident that the volatility in this space was fairly misleading. OPEC+'s surprise move to cut production, which in turn prompted an increase in oil prices – for the sole purpose of driving speculators from the market – sparked some turmoil. However, oil prices fell back towards the end of the month. While the price of gold in USD followed a similar trajectory, it failed once again to outstrip its all-time highs without really testing these levels. This was most probably due to the ongoing weakness of the US dollar, while the Swiss franc generally appreciated in value.

Financial markets 2023 total return

Equities	April	2023
S&P 500 (US)	1.6%	9.2%
Dow Jones Industrial Average (US)	2.6%	3.5%
EURO STOXX 600 (EU)	2.4%	11.0%
DAX (DE)	1.9%	14.4%
SMI (CH)	4.1%	9.4%
MSCI Emerging Markets (EM) in USD	-1.1%	2.8%
Fixed Income	**April**	**2023**
US Corporate Bonds Inv. Grade	0.8%	4.3%
US Corporate Bonds High Yield	1.0%	4.6%
Pan- European Corporate Bonds Inv. Grade	0.7%	2.6%
Pan- European Corporate Bonds High Yield	0.5%	3.4%
Alternative Investments	**April**	**2023**
Gold	1.1%	9.1%
Oil (brent)	2.0%	-4.3%

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%
Mar 23	0.8%	0.0%	-0.1%	0.6%	-0.2%	-0.2%	1.5%	0.7%	0.8%	0.9%	0.1%	0.2%
Apr 23	0.4%	0.5%	0.8%	0.2%	0.1%	0.4%	0.9%	1.0%	1.3%	0.3%	0.4%	0.9%
2023	3.3%	3.6%	5.0%	2.9%	3.1%	4.4%	4.8%	5.2%	6.5%	3.3%	3.6%	5.2%

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

TRANSACTIONS IN APRIL

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

POSITIONING

Liquidity (neutral)

Conservative	11.0%
Balanced	8.5%
Dynamic	8.0%

- Excess liquidity is invested in money market funds or fiduciary investments where possible.
- In the current difficult market environment, an increased cash allocation offers the possibility of temporarily parking surplus liquidity in order to participate in investment opportunities at a later date.

Bonds (underweight)

Conservative	50.0%
Balanced	30.0%
Dynamic	9.0%

- Against the backdrop of rising debt in the public and private sectors, we prefer 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.
- Especially in lower ratings, we rely on broadly diversified investments in order to act as cautiously as possible.
- Driven by central bank communication and inflation expectations, interest rates have returned to more attractive levels.
- Duration remains slightly underweighted. The inflation issue has moved into the background and the FED is coming off its aggressive course, making medium duration bonds look very attractive again after a historically bad phase.
- In an economic environment that remains good, high-yield bonds should also offer some protection against interest rate rises, which we are also taking advantage of.

Equities (overweight)

Conservative	29.0%
Balanced	51.0%
Dynamic	75.5%

- The central banks' fight against rising inflation is keeping a tight grip on the global economy and the stock markets.
- The persistently high inflation and the partly massive increase in the cost of capital as well as the change in consumer spending 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, as well as cyclical consumer goods as attractive; accordingly, these sectors are overweighted in the portfolios.
- Due to valuation and the rapid turnaround in interest rates, our outlook for the real estate, utilities and information technology sectors remains negative, which is why these sectors are underweighted.
- Financials, non-cyclical consumer goods and healthcare are neutrally weighted.

Alternative investments (overweight)

Conservative	10.0%
Balanced	10.0%
Dynamic	7.5%

- High liquidity is the basic prerequisite and determines which strategies come into question.
- The goal is to achieve a positive market return with low volatility in a normal market environment.
- We protect ourselves from pronounced market corrections with market-neutral bond strategies, cat bonds and multi-strategies.
- More offensive positioning is envisaged in the event of higher market visibility.

MARKET ASSESSMENT

In last month's market assessment we addressed the interim outperformance by growth stocks versus their value counterparts (see chart, 1) and established that we expected this trend to be only temporary and to reverse in the near future (2). This was based on our view that expectations of near-term rate cuts, which would generally be more beneficial to growth stocks, were exaggerated and that market opinion would change.

Ratio of MSCI World value/growth stocks

Source: Bloomberg

Based on the inflation forecasts published recently, the battle against inflation looks set to persist for some time yet. While inflation pressure in terms of the overall basket of goods has continued to normalise in the US, inflation excluding energy and food prices has remained at the prior-month level. Progress towards quelling inflation has been even more limited in the euro area, where the peripheral nations in particular have been hit by rising prices. This has slightly dampened equity investors' expectations of rate cuts in the near future.

The first-quarter company results published to date offer greater scope for interpretation as they paint a mixed picture. Revenues are clearly robust and have largely surpassed analysts' expectations, which had been revised down substantially prior to the reporting season. At the same time, however, investors seem increasingly concerned about the health of the economy given the absence of upward revisions to company guidance for the remainder of the year and the tendency towards shrinking profit margins. Initial signs of waning confidence are also evident amongst bond managers who, in contrast to equity investors, are sticking with their forecasts of an interest rate reversal in the US and are already pricing in the need for four rate cuts in 2023. In their view, fears of an ailing economy combined with continuously climbing prices – in other words, stagflation – should ultimately set the tone.

This scenario is supported by the relatively modest economic growth of 1.1% in the US in the first quarter of 2023, which was appreciably lower than the previous-quarter reading of 2.6%. However, the main culprit was a marked fall in inventory growth, whereas private consumption remained robust. Although the economy looks poised to contract further in the second half of the year, especially following the aggressive key rate hikes, we still believe that investors' positioning and sentiment is overly pessimistic at present, while consumer spending appetite remains underestimated.

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This publication was prepared by:

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