MIRABAUD
ASSET MANAGEMENT

MY SWITZERLAND

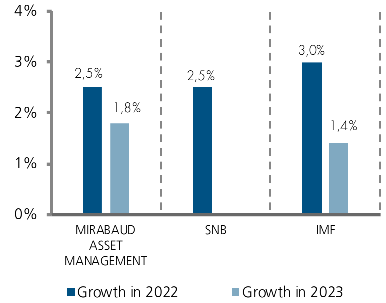
APRIL 2022

ECONOMIC CONTEXT

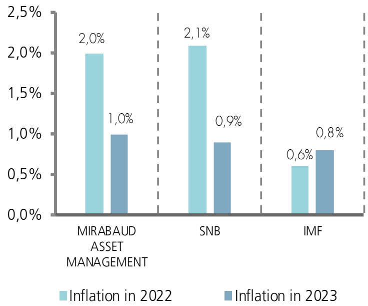
GLOBAL ECONOMY

The global economy will continue to grow in 2022, but at a slower pace than first expected. With the continuing war in Ukraine, combined with the new wave of Covid infections in China, the world economy is faced with rising commodity prices and increasing supply-chain difficulties. These factors will affect global trade, along with the confidence of economic agents and, finally, demand. There is still a great deal of uncertainty. Growth in global demand will depend on measures taken by governments to subsidise energy costs, and on Europe's longer-term decisions to address the potential of Russia turning off the tap.

OUR FORECASTS FOR SWITZERLAND*



Sources: IMF, SNB, Mirabaud Asset Management
*Future data are not guaranteed.
Growth forecast for 2023 not released by the SNB.



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IN SWITZERLAND

Switzerland remains less exposed to the current crisis than other European countries because it is less dependent on Russian energy. However, slower growth in global trade will be a drag on the Swiss economy. Accordingly, the KOF economic barometer fell below its long-run average in March as manufacturers anticipated a future slowdown in new orders. The most recent PMI confidence indicator shows that businesses are concerned about rising commodity prices, which could potentially lead to production stoppages. Inflation rose again to 2.4% in March, driven by higher energy prices, while core inflation remained limited.

FINANCIAL MARKETS

MARKET REVIEW

In the end, equity markets proved resilient to the geopolitical crisis in March. Switzerland's SMI index rallied from the middle of the month and ended March only 6% off its late 2021 high. The continuation of the war in Ukraine meant that inflationary pressure increased in March, and inflation expectations resumed their upward trend. In the circumstances, and with monetary policy being tightened in a number of developed countries, sovereign bonds did not play their safe-haven role in March, despite major geopolitical risks. Switzerland's 10-year government bond yield rose 35 basis points to end the month at 0.60%, its highest level since 2014. In the forex market, the Swiss National Bank (SNB) seems determined to stop the franc rising above parity with the euro. It responded to the increase in commercial banks' sight deposits on its balance sheet by apparently carrying out CHF11 billion of intervention in March. This caused the Swiss franc to ease after it briefly rose above parity in early March, and it ended the month around CHF1.02 to the euro. The SNB's intervention has been limited so far because the Swiss franc has remained relatively stable against the currencies of Switzerland's main trading partners, and particularly against the dollar.

OUR CONVICTIONS

We are maintaining an underweight position on equities overall. De-escalating the conflict could take time, despite the resumption of talks between Russia and Ukraine. Rising commodity prices mean that companies could see their margins and earnings fall. Sentiment regarding profits also fell significantly in March, and most revisions to earnings forecasts were downward. At the end of the month, we reduced our positions on European and Swiss equities to neutral following their rally during March. More hawkish central-bank rhetoric will continue to drag down bond prices. We therefore remain cautious, maintaining an underweight position on bonds. Finally, we are still positive on the US dollar and Swiss franc against the euro, although their upside is limited following the change of tone at the ECB and the SNB's intervention in the forex market.

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