



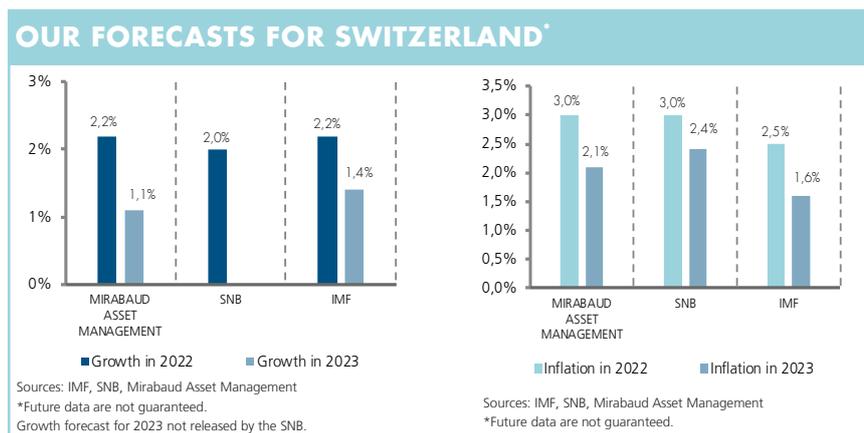
**MY SWITZERLAND**

OCTOBER 2022

# ECONOMIC CONTEXT /

## GLOBAL ECONOMY

Widespread monetary tightening continues as the global economy enters a slowdown. Core inflation is struggling to decelerate, and central bankers are willing to tolerate a further deterioration in economic activity for inflation to gradually return to its target level. The Bank of England has reintroduced an emergency purchase programme as it tries to avoid a bond crash, but it is unlikely to escape the need to hike its policy rate to ensure that short and medium-term rates rise, thereby allowing currency and inflation expectations to stabilise. In contrast, the latest comments from US Federal Reserve (Fed) members and the European Central Bank (ECB) remain unmistakably clear regarding the need for further monetary tightening.



## IN SWITZERLAND

The Swiss National Bank (SNB) finally delivered a rate hike that was smaller than expected by investors. This should result in an increase in the interest rate differential between the euro area and Switzerland. However, as observed with other central banks, the SNB could decide to gradually reduce its balance sheet by selling foreign currencies, which should continue to support the franc, and would hence help curb imported inflation. Although activity data remained strong in Switzerland in September, it is likely to slow down as winter sets in. The potential recession in the euro area and, on a wider scale, the slowdown in global demand awaiting at the end of the year are likely to have an impact on both the export sector and business confidence.



# FINANCIAL MARKETS /

## MARKET REVIEW

Equity markets continued to fall in September as interest rates rose and inflationary pressures continued. The SMI fell by more than 5%<sup>1</sup> in September, while the US equity market lost more than 9%<sup>2</sup>. In comparison to other equity markets, the SMI was bolstered by the outperformance of defensive stocks over the month, coupled with the low index weighting of the information technology and media sectors, both of which were particularly negatively affected by the rise in yields. With inflation showing no signs of easing, the terminal level of benchmark rates expected for next year in the developed countries continued to be revised upwards by investors. Against this background, sovereign rates have continued to rise, with the 10-year Swiss government yield up 40 basis points to 1.19%<sup>3</sup>. The Swiss franc continued to appreciate against the euro in September, amid uncertainty over European energy supply and expected economic difficulties in the euro area.

## OUR CONVICTIONS

Equity markets in developed countries are likely to trend downwards over the medium term, as the likelihood of a US recession continues to rise, and energy issues put European activity at risk. This will persist for as long as financial conditions continue to tighten, and earnings sentiment continues to weaken. Our strong underweight in equities protects portfolios in this environment. Furthermore, defensive stocks continue to outperform within the equity portfolio, and we maintain our defensive bias. US real interest rates are well above their twenty-year median, and close to their levels registered before the Global Financial Crisis. We keep our target of gradually increasing the duration of portfolios by buying long-term US Treasuries to protect against recessionary risks. We remain overweight on the dollar against most currencies, and also on the Swiss franc, both of which continue to benefit from their safe haven status. However, following its strong upward swing, we are reducing our overweight on the dollar in the Swiss franc accounts.

<sup>1</sup> Source: SIX Swiss Exchange

<sup>2</sup> Source: S&P Global

<sup>3</sup> Source: SNB

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