MIRABAUD
ASSET MANAGEMENT

MY SWITZERLAND

NOVEMBER 2022

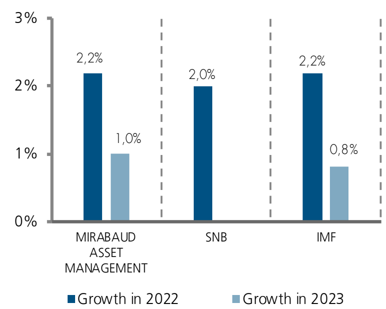
November 2022

ECONOMIC CONTEXT

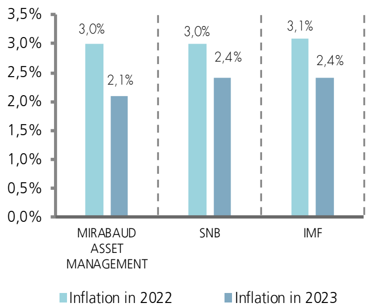
GLOBAL ECONOMY

The idea that central banks are starting to move away from aggressive rate hikes is at the very heart of market expectations, although a pivot towards expansionary policies is some way off. The US Federal Reserve (Fed) left the door open to slow down the pace of interest rate hikes and the Bank of England (BoE) has indicated that policy rates are unlikely to reach the levels expected by investors. The European Central Bank (ECB) has also adopted a more cautious rhetoric regarding future rate hikes. On an economic level, the latest surveys reveal that activity in the euro area is now beginning to contract. In the US, the number of initial jobless claims remains low, but core inflation is showing the first signs of a slowdown.

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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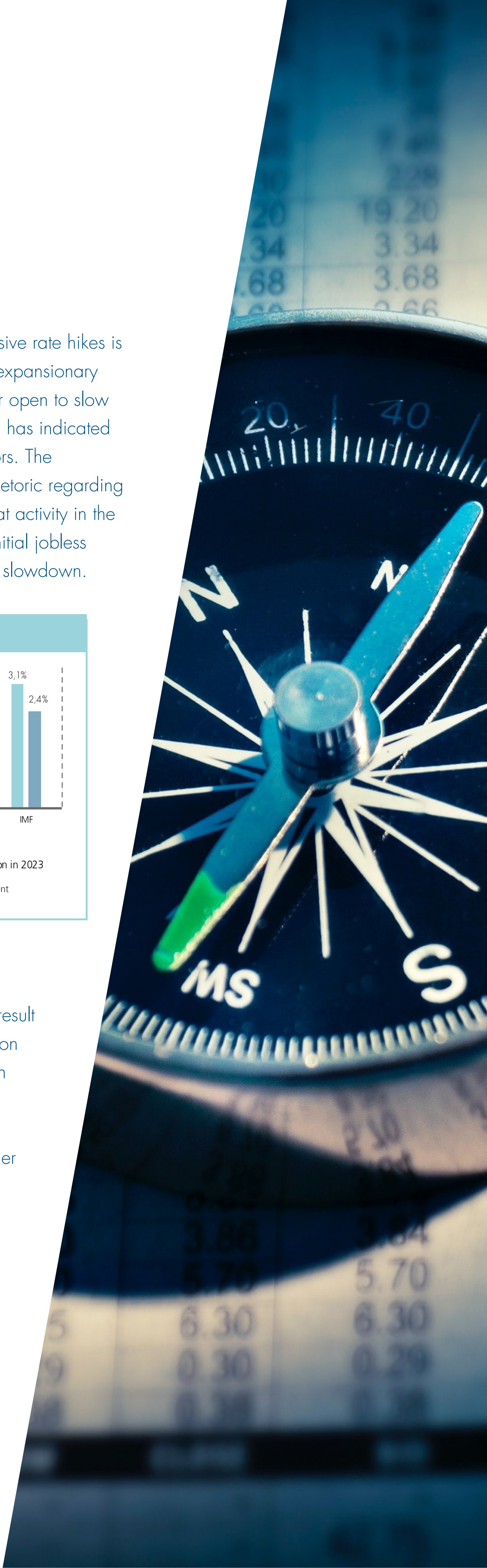
IN SWITZERLAND

Inflation in Switzerland has also most likely reached its peak. As a result of the moderation of domestic inflationary pressures, the core inflation rate slowed to 1.8%[1] in October. The easing of global supply chain issues, coupled with the demand slowdown as financial conditions tighten, is seemingly having a visible impact on prices. Business activity in Switzerland is likely to slide in the fourth quarter. Consumer confidence has fallen again and both the PMI and the KOF economic barometer show a decline in corporate expectations in light of a reduction in electricity consumption and a moderation in global growth.



[1] Source: SNB

FINANCIAL MARKETS

MARKET REVIEW

Equity markets rebounded in October despite the relatively cautious positioning of investors. The combination of expectations of a central bank pivot and oversold signals acted as a short-term buying opportunity. As a result, the Swiss Market Index (SMI) rose by more than 5%[2] in October, and this upward trend continued at the beginning of November in the wake of the more reassuring inflation data released in Switzerland and the United States. Sovereign bonds remained volatile in October. After once again reaching nearly 1.5%, the Swiss 10-year government bond yield finally closed out the month at around 1.10%[3]. It continued to fall during early November as domestic inflationary pressures eased and the expected peak in SNB's policy rate during this cycle was modestly revised downward by investors.

OUR CONVICTIONS

We reduced our underweight positioning in equities at the beginning of November, as US inflation appears to have reached its peak and the high point in yields of this cycle is most likely imminent. We could continue to gradually increase equity exposure considering a long-term investment perspective. We continue to favour defensive sectors and remain cautious on growth stocks in this opening phase of the market recovery until the impact of a US recession on cyclical companies' earnings are more accurately priced in. Furthermore, we have purchased investment grade corporate bonds, which have regained a favourable risk/return profile. Credit spreads have increased significantly since the beginning of the year and are now above their long-term average. And lastly, we have taken profits on the US dollar positions in the Swiss franc accounts, bringing these positions to neutral. Indeed, it is likely that the interest rate differential will no longer be supportive due to the potential slowdown in the pace of rate hikes from the Fed.

[2] Source: SIX Swiss Exchange
[3] Source: SNB

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