MIRABAUD
ASSET MANAGEMENT

MY SWITZERLAND

MAY 2022

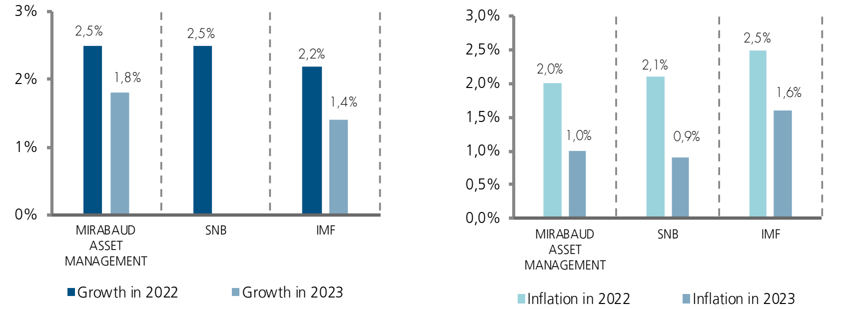
May 2022

ECONOMIC CONTEXT

GLOBAL ECONOMY

Inflationary shocks have been building up for the last two years. The Chinese zero-COVID policy and containment measures are once again putting pressure on growth and global supply chains. Inflation in the US may have peaked in March due to strong base effects in the second quarter, but it will remain high given the current global situation and domestic price pressures. Investors are questioning the US Federal Reserve's ability to tighten monetary policy in order to contain inflation while averting a recession. This is a balancing act that the central bank has not always been able to pull off. Inflationary or recessionary risks concerning the 2023 horizon are increasing accordingly in the US.

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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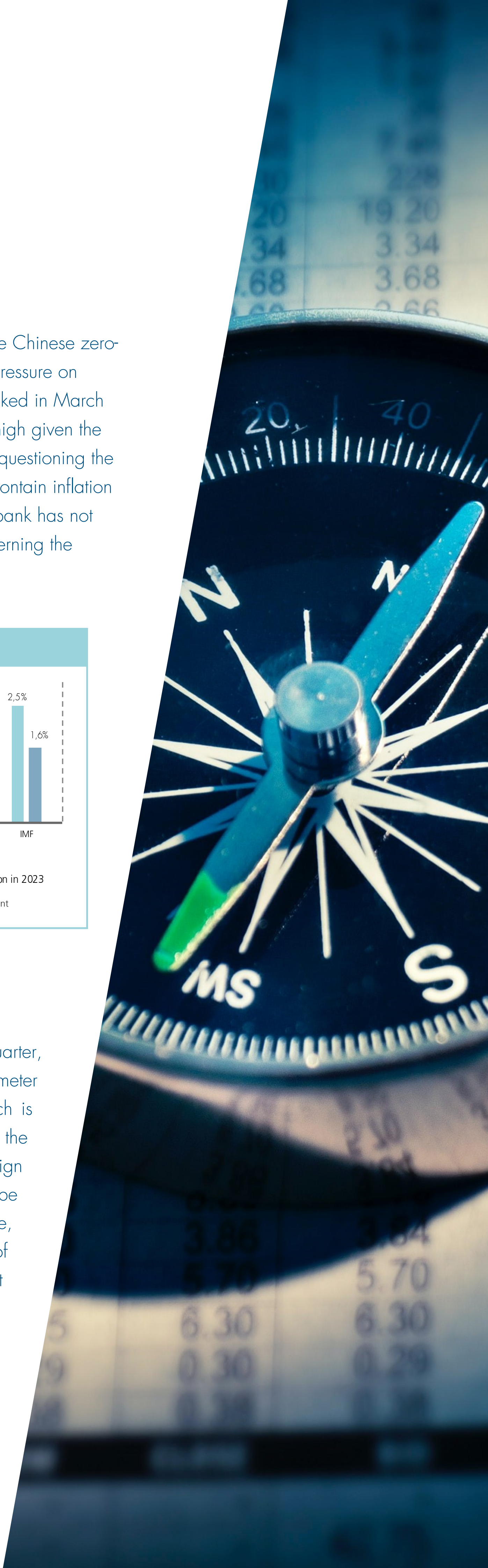
IN SWITZERLAND

In Switzerland, activity remained favourable in the second quarter, despite a less buoyant international environment. The KOF barometer recovered in April, driven by the hospitality services sector, which is benefiting from the lifting of restrictions. However, confidence in the manufacturing and construction sector is moderating as foreign demand weakens due to supply issues. Businesses continue to be faced with price increases, and Swiss inflation continues to rise, reaching 2.5% in April. It remains under control, as the strength of the franc limits imported inflation. However, it is still possible that the Swiss central bank will start to normalise its key rates at the end of the year, in the wake of the monetary tightening undertaken by the central banks of the developed countries and the ECB in particular.



FINANCIAL MARKETS

MARKET REVIEW

Financial conditions tightened during April as real interest rates and credit spreads rose and the US dollar strengthened. As a result, most developed equity markets declined over the month, but the Swiss SMI market outperformed with a net total return of almost 1% in April. Indeed, with the further slowdown in global economic growth, cyclical sectors have significantly underperformed the defensive sectors, an advantage for the more defensive Swiss market. Aggressive rhetoric from the Federal Reserve and a rebound in long-term inflation expectations pushed US interest rates higher during April, taking most developed country sovereign rates with them. The 10-year federal government rate rose by almost 30 basis points to reach a level of over 0.80%. In the current state of uncertainty, the Swiss franc has remained strong against the euro. However, it significantly weakened against the dollar over the month as a result of US monetary tightening.

OUR CONVICTIONS

Overall, we continue to hold an underweight position in the equity markets. It will take time for the conflict in Ukraine to de-escalate. As raw material costs rise, profit growth and corporate margins could be squeezed. Furthermore, earnings sentiment has fallen sharply, with the majority of earnings revisions being on the downside. We increased our defensive sector bias during the month due to investor concerns that the Federal Reserve will not be able to contain inflation without creating a recession. We remain cautious on bonds, due to the impact of the tightening of the central banks. Nevertheless, the potential increase in real interest rates over the coming months will go hand in hand with a moderation of long-term inflation expectations. Therefore, we have started to gradually increase the duration of our sovereign bond portfolio (by moving into US long bonds) to bring the duration in line with our benchmark. We remain positive on the US dollar and the Swiss franc against the euro, although their upside potential is limited given the ECB's change in tone and the SNB's interventions in the foreign exchange market.

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