MIRABAUD
ASSET MANAGEMENT

MY SWITZERLAND

JULY 2022

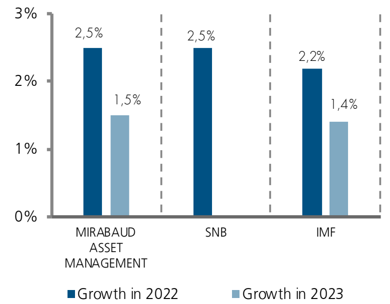
July 2022

ECONOMIC CONTEXT

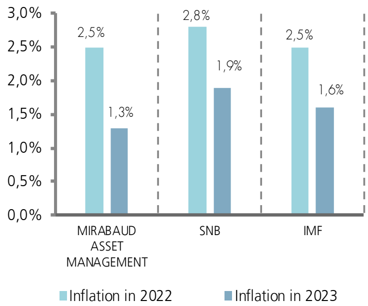
GLOBAL ECONOMY

Recession risks have risen sharply in the US and Europe. Inflation reached new highs despite the decline in core inflation driven by higher energy and food prices. Although central bankers are usually more concerned about core inflation, the long-term costs of de-anchoring inflation expectations far outweigh the short-term costs of controlling it. J. Powell also recalled that the US Federal Reserve's commitment to controlling inflation was "unconditional" and that a recession was possible. Such a resolution is crucial for investors as this monetary tightening could lead to a dramatic slowdown in activity and a period of stagflation.

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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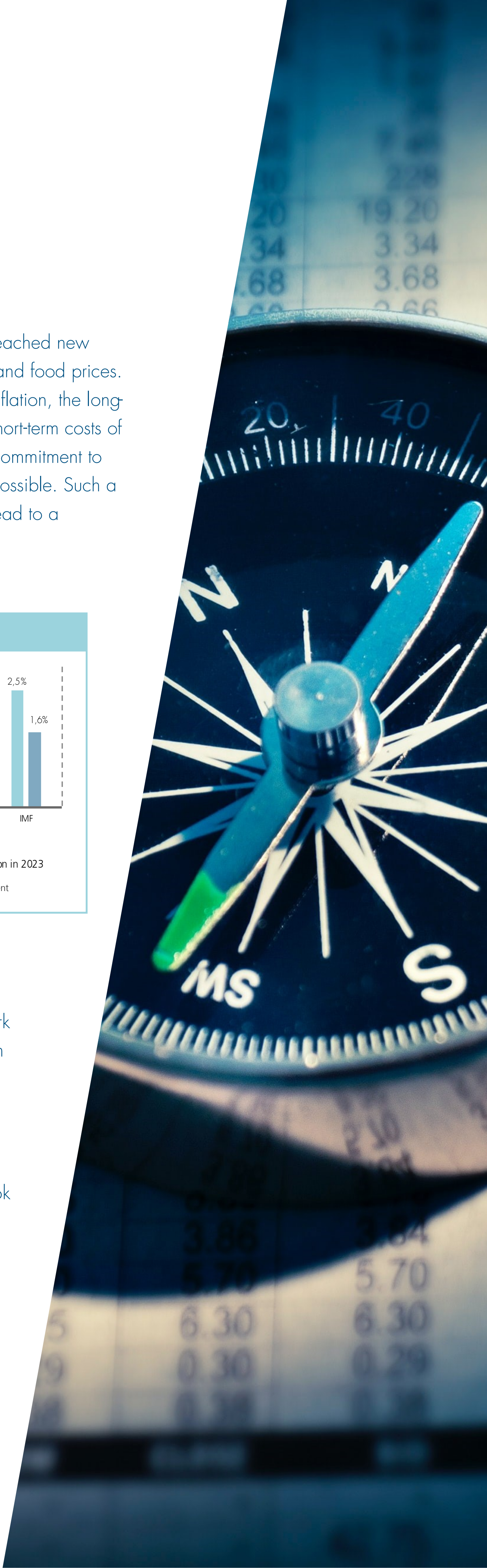
IN SWITZERLAND

The central bank surprised everyone in June by raising its benchmark interest rate by 50 basis points, after significantly raising its inflation expectations. Further rate hikes are expected, the next one from September onwards. Inflation continues to climb and reached its highest level in almost thirty years at 3.4% in June. This is partly explained by bottlenecks in global supply chains and rising energy prices. Although Swiss activity is currently well positioned, its outlook will be negatively affected by the expected European and global slowdown at the end of the year.



FINANCIAL MARKETS

MARKET REVIEW

Risky assets remain under pressure, with the US equity market recording its worst first-half performance in 60 years, posting a 20% decline. In Switzerland, the SMI outperformed the US equity market due to its lower exposure to growth stocks but fell by more than 14% over the period. The reason for this being the revaluation of equity markets as a result of the rise in yields. The 10-year Swiss government bond yield continued to rise until the end of June against the background of monetary tightening in Switzerland. However, with global risks and fears of recession increasing significantly since the end of the first semester, Swiss sovereign yields fell in early July, thereby fulfilling their role as a safe haven. For the same reasons, the Swiss franc appreciated significantly against the euro, and the euro exchange rate against the Swiss franc has now fallen below parity.

OUR CONVICTIONS

Although equity valuations have become more appealing, current levels do not price in a recession scenario either in terms of valuations or corporate earnings over the next 12 to 24 months. We are therefore maintaining our overall underweight on equities. We have bolstered this position by reducing our positions in the eurozone equity markets. We remain neutral on the Swiss equity market and continue to shift our focus from cyclical to defensive sectors. We remain underweight on bonds but continue to progressively increase the duration in our portfolios by buying 10-year US sovereign bonds in anticipation of recession risks. Given the ongoing geopolitical uncertainty and the risk of recession, we remain positive on the Swiss franc.

IMPORTANT INFORMATION

ACCOUNTABLE FOR GENERATIONS