MIRABAUD
ASSET MANAGEMENT

MY SWITZERLAND

AUGUST 2022

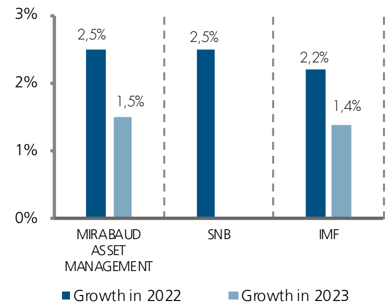
August 2022

ECONOMIC CONTEXT

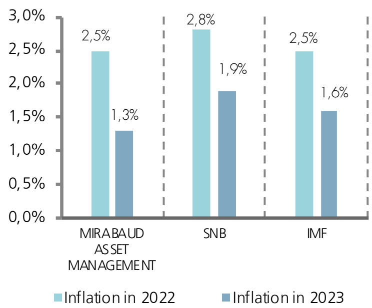
GLOBAL ECONOMY

The United States did not escape from technical recession in the first half of the year. Europe is also heading for recession given the deterioration in confidence indicators published in July. The European geopolitical situation is making energy supply very uncertain for this winter and new domestic political challenges, notably in Italy, will weigh on confidence indicators in the coming months. Contrary to 2020, the resolve of central banks to fight inflation is forcing them to continue tightening monetary policies, leaving fewer fiscal options. The European Central Bank raised their benchmark interest rates by 50 basis points in July, putting an end to its negative interest rate policy.

OUR FORECASTS FOR SWITZERLAND*



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



Sources: IMF, SNB, Mirabaud Asset Management
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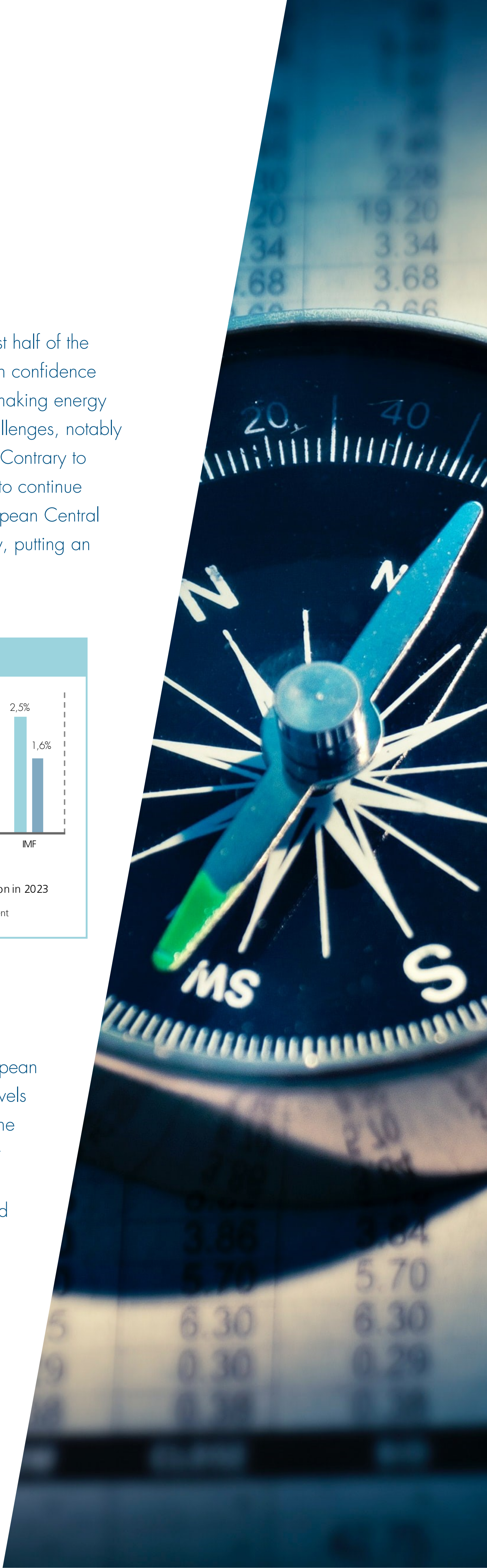
IN SWITZERLAND

Economic activity in Switzerland is likely to be affected by the European recession. In the third quarter, consumer confidence has fallen to levels lower than those recorded at the height of the pandemic. Despite the improving labour market, households are worried, especially about the rising cost of living and their deteriorating financial situation. Swiss inflation remained high at 3.4% in July and prices for gas and housing rose once again. In this context, the Swiss National Bank (SNB) is expected to continue its monetary tightening by announcing a new rate hike in September and thus exit the negative rate policy, as was the case with the ECB.



FINANCIAL MARKETS

MARKET REVIEW

Sovereign rates in developed countries fell significantly in July, as concerns about recession risks in Europe and the US increased. The US 10-year sovereign rate fell well below 3%, while the Swiss sovereign rate fell by more than 60 basis points to 0.40% at the end of July. The slide in sovereign interest rates has encouraged a rebound in equity markets, particularly in growth stocks. In this context, the S&P 500 outperformed most developed country markets. The SMI, on the other hand, rebounded by a more modest 4%. The Swiss franc continues to appreciate, given the poor economic outlook for the end of the year. The Euro's exchange rate against the franc has thus fallen well below parity, with the SNB no longer intervening to counter the franc's appreciation since June. This appreciation of the Swiss currency helps to limit imported inflation.

OUR CONVICTIONS

Equity valuations have returned to levels close to the long-term average in the US and Switzerland and are attractive in Europe. However, the earnings expectations remain excessively optimistic, given the expected economic environment at the end of the year, even excluding the energy sector which is benefiting from the rebound in commodity prices. It is therefore too early to see a sustainable trend reversal in the equity markets. Against this background, we strengthened our equity underexposure over the month by reducing our positions in eurozone equities. We have continued to reinforce our defensive bias at the expense of cyclical stocks. We have also bought US Treasuries to continue to reduce our duration gap with our benchmark. We maintain our negative view on the euro against the dollar and the Swiss franc, the latter two currencies benefiting from their safe-haven status. Thus, in the current climate, we maintain our positive view on the Swiss franc, which will remain a strong currency.

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