MIRABAUD
ASSET MANAGEMENT

MY SWITZERLAND

SEPTEMBER 2022

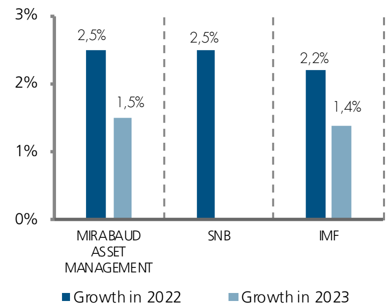
September 2022

ECONOMIC CONTEXT

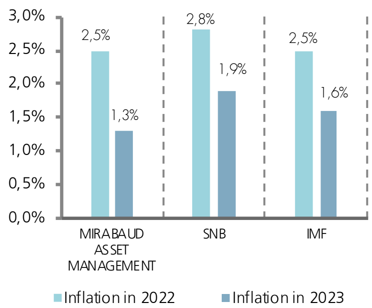
GLOBAL ECONOMY

The US Federal Reserve is not intending to cut interest rates next year: Jerome Powell and many members of the FOMC confirmed their resolve to rapidly bring inflation back to around 2% during their speeches at the central bankers' symposium in Jackson Hole. Policy rates will likely remain above their equilibrium level for a prolonged period, which should negatively affect employment and GDP growth. On the other side of the Atlantic, the European Central Bank and the Bank of England are still behind the curve. Consequently, policy rates are expected to rise by between 200 and 250 basis points in these two regions between the start of September and March next year, compared to only 150 basis points in the US, based on current expectations.

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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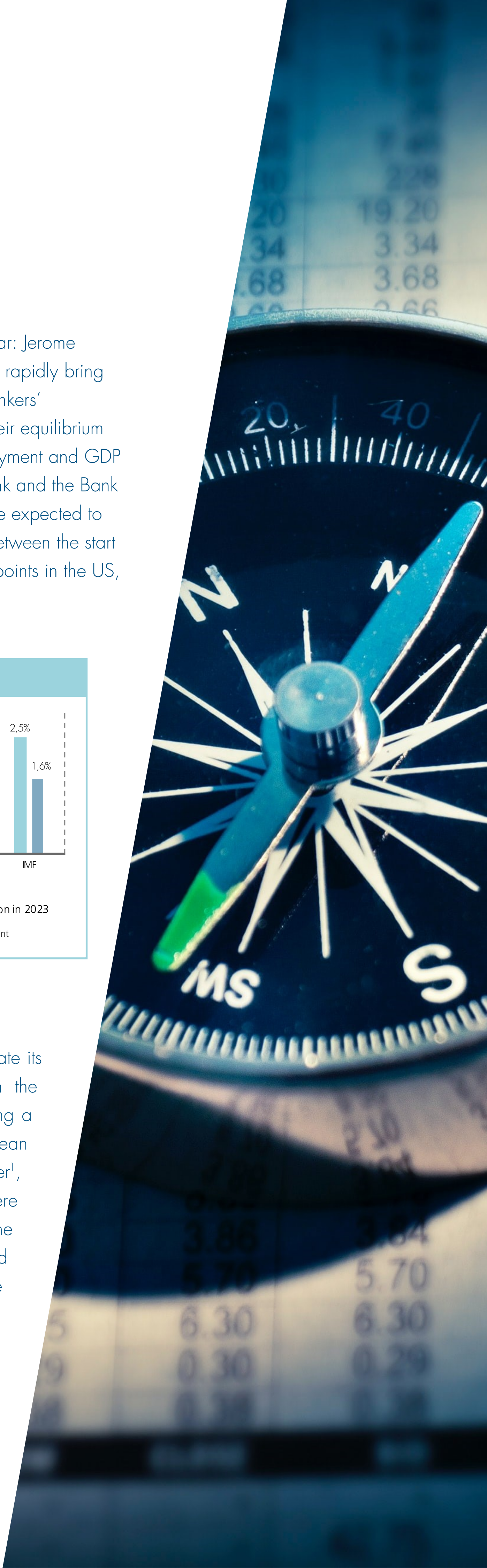
IN SWITZERLAND

In Switzerland, the central bank (SNB) is also expected to accelerate its monetary tightening. Investors expect a cumulative increase in the policy rate of almost 200 basis points by next March, representing a move of the same magnitude as that expected for the European Central Bank. Swiss activity grew by 0.3% in the second quarter[1], buoyed by the recovery of the services sector as restrictions were lifted. However, the economy is expected to slow down with the onset of winter and the threat of energy rationing in Europe and recession in the Eurozone. The Purchasing Managers' Confidence Indicator (PMI), although still in the expansion zone, continued to moderate in August.



[1] Source: SECO

FINANCIAL MARKETS

MARKET REVIEW

After a rebound in most developed markets between mid-June and mid-August, the Swiss equity market SMI finally lost almost 3%[2] in August, as investors' expectations about central bank monetary policy were readjusted. Since the market lows of early summer, economic indicators have further deteriorated and central bankers in developed countries have significantly heightened their restrictive rhetoric. Against this background, sovereign rates have resumed their upward trajectory. Consequently, the Swiss sovereign rate rose by almost 40 basis points to a level of almost 0.80% at the end of August[3]. On the currency front, the Swiss franc stood at 95 cents per euro during August but remained relatively stable over the month. The Swiss National Bank does not seem to have intervened significantly to curb the appreciation of the franc, and even seems ready to shrink its balance sheet by selling currencies on the market. In fact, the rise of the Swiss franc is helping to contain imported inflation.

OUR CONVICTIONS

It is too early to see a sustained trend reversal in equity markets, although valuations have returned to levels close to the long-term average in the US and Switzerland, and are attractive in Europe. Earnings expectations remains 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 energy prices. As a result, we remain underweight in our equity allocation with a bias towards defensive sectors and the energy sector. We also took advantage of the rebound in equities during August to rebalance the market effect and realign the portfolios to our tactical exposure. We do not anticipate a sharp rise in the long end of the US yield curve at these levels and will consider adding duration if rates climb further. Given the very high uncertainties in Europe and the positive effect of the strong franc on imported inflation, we maintain an overweight in the Swiss franc against the euro.

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

IMPORTANT INFORMATION