The explosive development in inflation over recent months has caused what was widely expected – a marked rise in base interest rates – to occur. In combination with the economic and political consequences of the war in Ukraine, Europe's insecure gas supplies, the sanctions against Russia, China's "zero COVID" policy and pent-up demand from consumers, an inflationary whirlwind has arisen, one that needs first and foremost to be brought under control. Alongside the massive rise in production costs for industry, price pressure has now begun to be felt by way of clear cost rises for consumer goods.

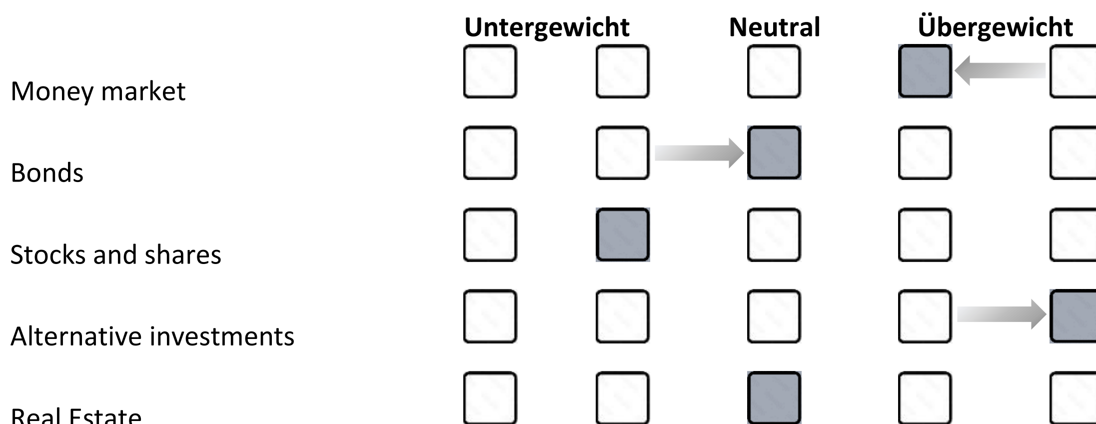
As already described in the investment policy document for the 3rd quarter, we assume the price pressure to normalise over the next 6-12 months. Until then, inflation, further rate rises and their expected effects on the global economic environment and business growth will be central to market developments.

Over the last quarter, stock markets have been through a clear correctional phase, meaning value retention has gained in prominence as a topic. The "structural shift" in established investment trends feared by risk managers (e.g. technology – "FANG" stocks), where profits suddenly gave way to losses, took place, and a new approach aiming at absolute returns had to be effected. Developments in the bond markets can with no doubt be described as dramatic, if we consider the changes in interest rates over various maturity segments. Even government bonds have failed in their traditional role as a "safe haven", with the losses for low quality ("high yield") bonds often comparable at least with that of stocks. Only in the field of energy stocks and a few raw materials markets has positive performance been recorded. The reality that the financial markets are also facing a "new era", as the German Chancellor put it, has expressed itself in the form of a bear market and a looming economic recession.

For this reason, we retain our largely cautious estimation of the market environment, waiting until further inflation and interest prospects become known during the second half of the year and allow for more exact assessment. Because of the rising interest rates (on final maturity), government bonds are once again slightly more attractiveness. Even if they cannot by a long shot make up for the erosion of capital value caused by the high inflation rates, they offer a certain diversification of investment risk. Because of the uncertainties, we currently prefer a "barbell strategy", a combination of a large number of short-term and a few long-term maturity periods, focusing on creditworthiness in the debtor. Although technical indicators support increasing stocks, from a fundamental point of view, there are currently too many uncertainties. Regionally, we favour the USA as a region, particularly when directly compared to Europe.

However, the challenges of the current market environment do offer a few opportunities; for this reason, we are raising our positive assessment of select alternative investments. Particularly derivatives and structured products functioning on the basis of "short puts" are profiting from the high volatility at present, allowing the achievement of attractive premiums at a defined risk. In addition, niche areas are performing attractively, such as European electricity trading and solar farms in Japan.

Investment Views



Based on an investment horizon of 6-12 months.

Best wishes,

Philipp Röh
Chief Investment Officer Switzerland

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