Global Investment Strategy

Third Quarter 2022

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Overview

Global economy

- High energy prices, rising inflation and supply chain bottlenecks weigh on the world economy, while China's recovery from the lockdowns will deliver a boost.
- Given opposing factors, there is considerable uncertainty for the growth forecast in the second half of the year, also for central banks, with falling consumer confidence to gradually become a burden.
- Rising interest rates will weigh on the economy, primarily next year.

Monetary environment

- Central banks focused on lowering inflation.
- Yields on medium to longer duration bonds to rise far less than central bank rates.

Equity markets

- The economic forecasts of leading central banks imply a positive medium-term outlook.
- Risks have diminished somewhat after the setbacks. An all-clear would require a lasting easing of inflationary pressure, which is unlikely in the near term.

Chapter 1: Performance review

The main trends in the capital markets since the beginning of the year have been rising bond yields (and thus lower bond prices), a strong US dollar and weak stock markets. Especially in June, bond prices and stock markets have experienced strong selling pressure.

In the first phase of the equity market sell-off, the decline was largely concentrated in highly valued growth stocks (e.g. MSCI Growth Nasdaq). In recent weeks, rising inflation and fears over an economic slowdown have caused also previously resilient value stocks to drop.

Commodity prices, especially oil and agricultural products, have risen strongly since the beginning of the year. Gold has risen moderately.

Global financial markets

	EUR-Performance			CHF-Performance			USD-Performance		
	Jun-22*	2Q22*	2022*	Jun-22*	2Q22*	2022*	Jun-22*	2Q22*	2022*
Equity markets									
MSCI World	**-5.5%**	**-10.9%**	**-13.5%**	**-7.7%**	**-12.3%**	**-16.2%**	**-7.4%**	**-15.4%**	**-20.0%**
MSCI Value	-5.7%	-6.2%	-4.8%	-7.9%	-7.6%	-7.8%	-7.6%	-10.8%	-12.0%
MSCI Growth	-5.3%	-16.1%	-22.2%	-7.5%	-17.4%	-24.7%	-7.2%	-20.3%	-28.1%
MSCI Small Cap	-5.9%	-11.1%	-14.9%	-8.2%	-12.4%	-17.6%	-7.8%	-15.5%	-21.3%
Stoxx Europe 600	-6.9%	-9.5%	-15.4%	-9.1%	-10.8%	-18.1%	-8.8%	-14.0%	-21.8%
DAX (price return)	-9.4%	-12.0%	-20.4%	-11.5%	-13.4%	-22.9%	-11.2%	-16.4%	-26.4%
Swiss Market Index	-5.0%	-10.1%	-13.6%	-7.2%	-11.4%	-16.3%	-6.9%	-14.5%	-20.1%
USA (S&P 500)	-5.6%	-11.2%	-13.3%	-7.8%	-12.6%	-16.0%	-7.5%	-15.6%	-19.8%
Nasdaq	-5.5%	-17.2%	-22.7%	-7.8%	-18.5%	-25.1%	-7.4%	-21.4%	-28.5%
Japan (Topix)	-4.5%	-8.5%	-13.1%	-6.7%	-9.8%	-15.8%	-6.4%	-13.0%	-19.6%
MSCI Emerging Markets	**-2.4%**	**-5.1%**	**-9.6%**	**-4.7%**	**-6.5%**	**-12.4%**	**-4.4%**	**-9.8%**	**-16.4%**
Emerging Asia	-0.6%	-2.5%	-8.8%	-3.0%	-4.0%	-11.6%	-2.6%	-7.4%	-15.6%
Bond markets									
Germany (5-7 y.)	-2.8%	-5.3%	-9.6%	-5.1%	-6.8%	-12.5%	-4.8%	-10.0%	-16.4%
Switzerland (5-7 y.)	0.1%	-1.6%	-3.2%	-2.3%	-3.1%	-6.3%	-1.9%	-6.6%	-10.5%
Europe, investment grade	-4.1%	-7.9%	-12.5%	-6.4%	-9.3%	-15.2%	-6.1%	-12.5%	-19.1%
Europe, high yield	-5.5%	-9.3%	-13.1%	-7.7%	-10.7%	-15.9%	-7.4%	-13.9%	-19.7%
USA (5-7 y.)	0.0%	1.1%	-1.9%	-2.3%	-0.4%	-5.0%	-2.0%	-3.9%	-9.3%
USA, high yield	-3.7%	-4.0%	-6.1%	-6.0%	-5.5%	-9.1%	-5.7%	-8.8%	-13.2%
Emerg. mark. (hard curr.)	-3.9%	-6.6%	-13.3%	-6.2%	-8.0%	-16.0%	-5.9%	-11.3%	-19.8%
Commodities									
Crude oil (Brent)	1.5%	17.7%	66.4%	-0.9%	15.9%	61.2%	-0.6%	11.8%	53.9%
Industrial metals	-10.4%	-18.9%	-1.0%	-12.5%	-20.1%	-4.2%	-12.2%	-22.9%	-8.5%
Gold ($/ounce)	0.9%	-1.3%	7.4%	-1.5%	-2.8%	4.0%	-1.1%	-6.3%	-0.7%
Agric. commodities	-7.3%	-0.3%	25.0%	-9.5%	-1.8%	21.0%	-9.2%	-5.3%	15.5%
Hedge Funds									
Hedge fund of funds	-	2.9%	2.9%	-	1.4%	-0.4%	-	-2.2%	-4.9%

*Data as per 29-Jun-22. Hedge Funds as per latest available month-end. Source: Index provider

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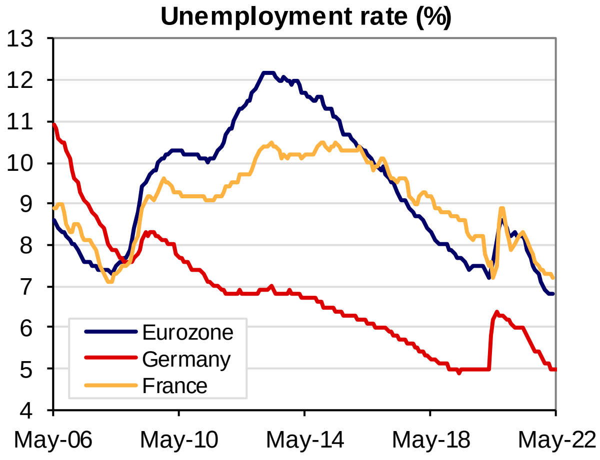
Europe: Slower economy

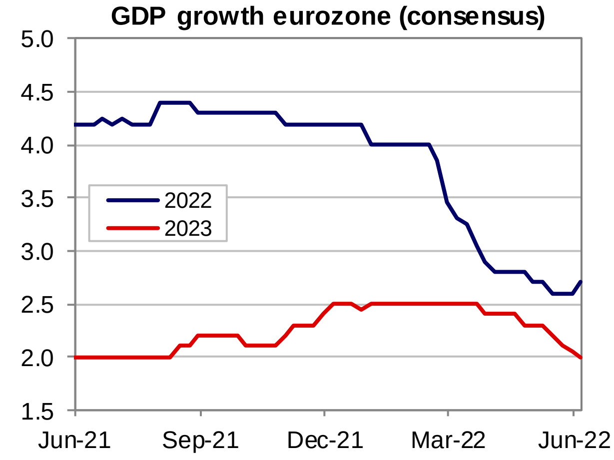
In the euro area, record low unemployment rates suggest an overall positive backdrop.

In the wake of economic normalisation, the industrial purchasing managers index (PMI) has been falling in recent months, with a lack of components an additional burden (ongoing pandemic-related bottlenecks, exacerbated by the Ukraine war and lockdowns in China). The June services PMI fell surprisingly strongly but remained above 50.

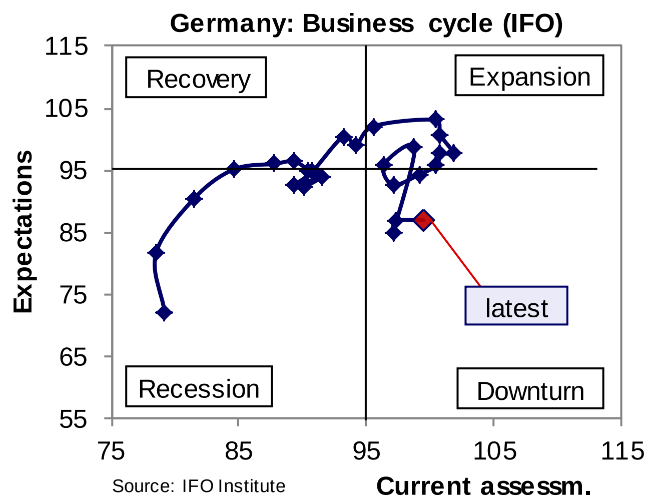
High energy and commodity prices and rising interest rates are weighing on growth expectations, for both this year and next year.



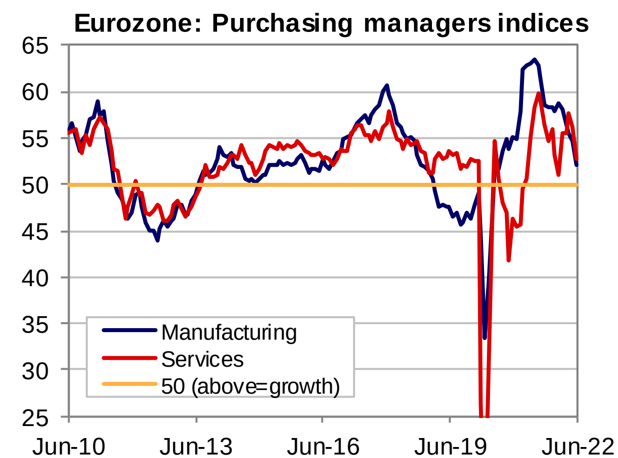
Source: Eurostat, Deutsche Bundesbank



Source: Bloomberg indices



Source: IFO Institute



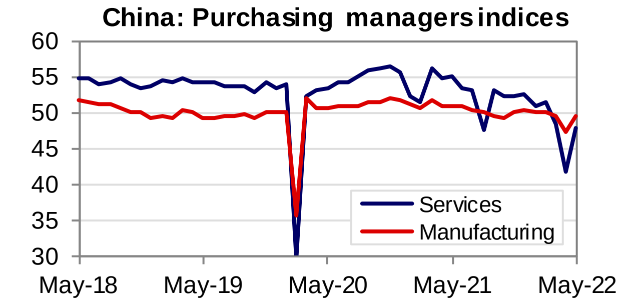
Source: S&P Global

China: Recovering from lockdowns

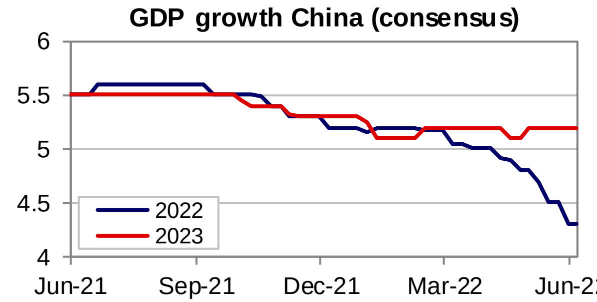
China's zero tolerance to Covid-19 remains a burden. A way out would be possible (e.g. through a vaccination campaign with common mRNA vaccines), but a change in strategy currently is not apparent. Covid-19 is primarily countered with regular area-wide tests and local lockdowns.

Nevertheless, the economy is expected to recover strongly in the third quarter after a large part of the restrictions imposed in the spring (especially those in the economic hub of Shanghai) have been lifted. Monetary policy has also been eased and government support initiatives are underway.

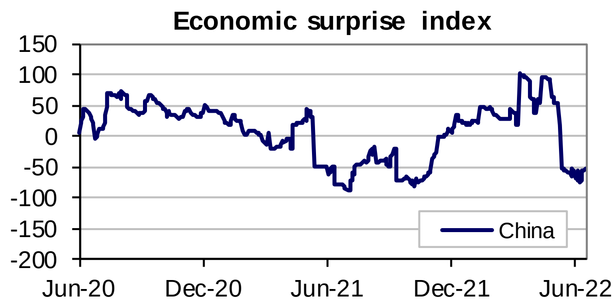
In the longer term, we continue to see a gradual slowdown in economic growth in China, with 3-4% real economic growth at the end of the decade likely (which compares to around 6% in the years before the pandemic).



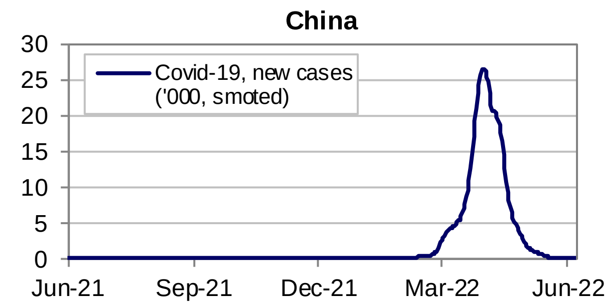
Source: S&P Global



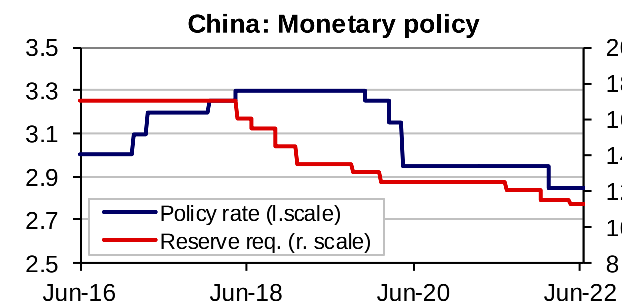
Source: Bloomberg indices



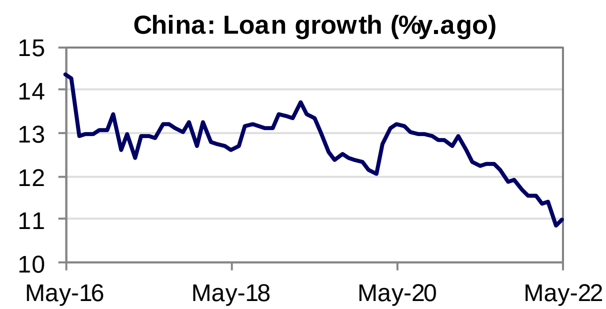
Source: Citigroup



Source: Our World in Data



Source: PBoC



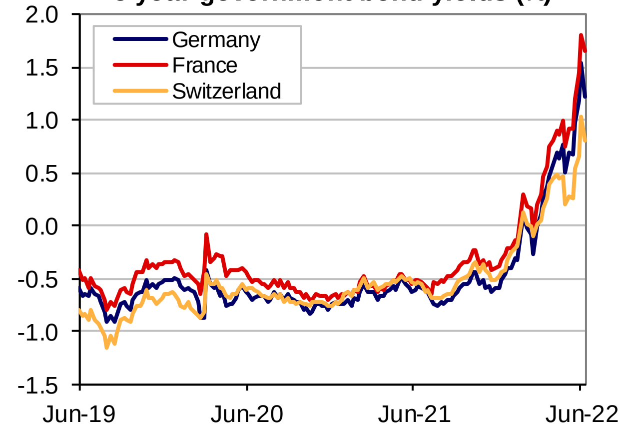
Source: The People's Bank of China

Chapter 4: Bond markets – Increasingly attractive yields

Yields on government bonds with medium maturities (chart: five years) are in positive territory in important European markets for the first time in years. At current yield levels, we increasingly see investment opportunities.

Rating trends have been positive (i.e. credit ratings have been rising on average). However, due to the uncertain economic outlook and positive yields for government bonds even in Europe's best markets in terms of creditworthiness (Germany and Switzerland), we no longer see a need to overweight corporate bonds.

5-year government bond yields (%)



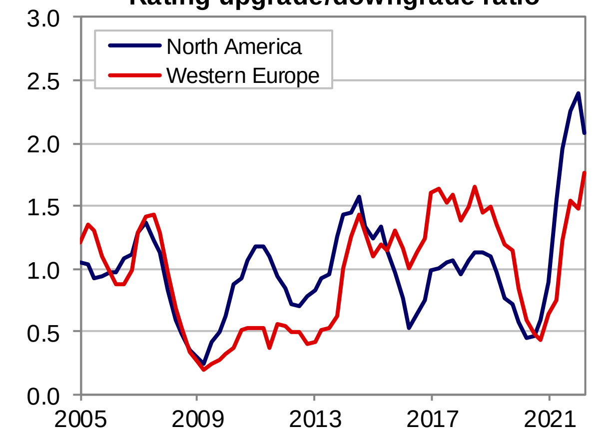
Source: Index provider

Government bond yields (1-10 years)

	1 y.	3 y.	5 y.	10 y.
Germany	0.54	1.00	1.22	1.48
France	0.57	1.22	1.66	2.02
Italy	0.65	1.86	2.60	3.41
Spain	0.61	1.57	1.91	2.56
Average (euro)	0.59	1.39	1.84	2.34
UK	2.04	2.02	2.05	2.39
Switzerland	-0.09	0.55	0.81	1.27
USA	2.71	3.15	3.18	3.12

*Data as per 23-Jun-22. Source: Index provider

Rating upgrade/downgrade ratio



Source: Moody's, Standard & Poor's

Chapter 6: Hedge funds and real estate

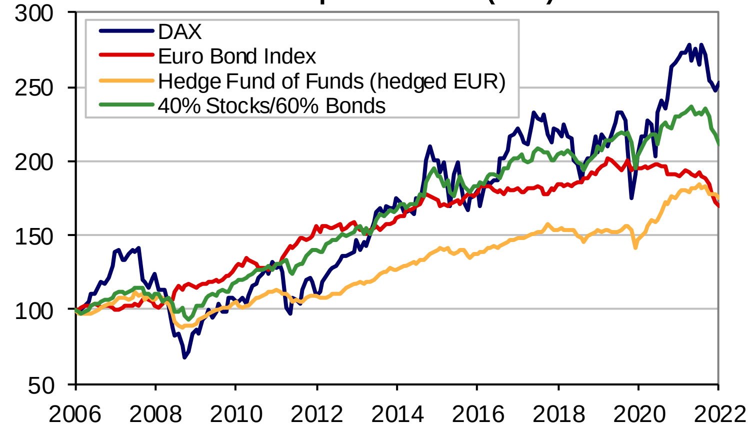
Hedge funds have delivered fairly weak returns in recent years, most often shy of a classic balanced portfolio (50% stocks/50% bonds), which we consider to be a natural benchmark.

Hedge Funds

	CCY		Year*	2021
Hedge fund index	**USD**	**Hedge Fund of Funds**	**-4.9%**	**6.2%**
Currency hedged	EUR	Hedge Fund of Funds	-5.2%	6.2%
	CHF	Hedge Fund of Funds	-5.6%	5.2%
Classic portfolio	**USD**	**50% US-Stocks/50% US Bonds**	**-11.6%**	**11.9%**
Equity type	USD	Equity Market Neutral	0.2%	6.2%
	USD	Long-Short Equity	-5.6%	8.3%
	USD	Emerging Markets	-7.9%	5.2%
	USD	Convertible Arbitrage	-4.3%	6.3%
Event/fixed income	USD	Distressed	-1.4%	12.5%
	USD	Event Driven	-4.3%	12.9%
	USD	Event Driven-Multi Strategy	-5.0%	13.9%
	USD	Fixed Income Arbitrage	-1.2%	5.2%
Macro/CTA, other	USD	Global Macro	21.6%	9.6%
	USD	Managed Futures	17.3%	8.2%
	USD	Multi-Strategy	0.4%	7.0%
	USD	Risk Arbitrage	-4.9%	5.3%

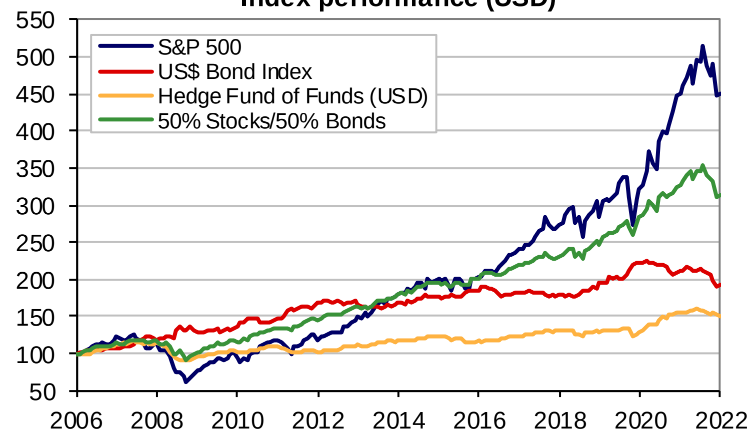
*Note: Data available as per 31-May-22. Source: Bloomberg

Index performance (EUR)



Source: Index provider, own calculations

Index performance (USD)



Source: Index provider, own calculations

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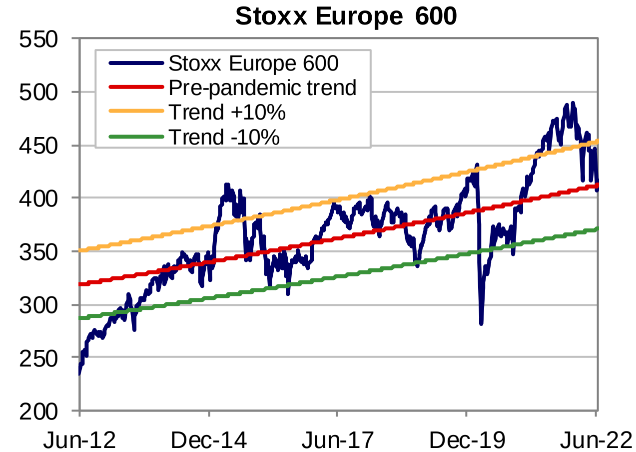
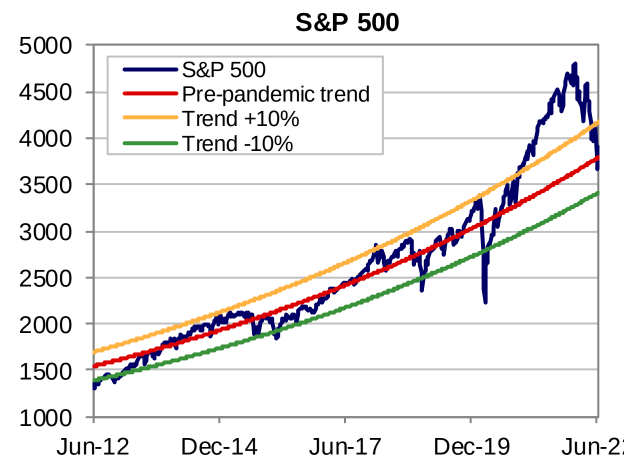
Chapter 7: Equity markets – Risks somewhat better priced in

In the run-up to and the initial phase of interest rate hikes, stock markets usually are not as weak as in recent months (not even in the 1970s, a period characterised by high inflation). In key aspects, however, the current market phase is not typical. The central banks are reacting late to inflationary pressures (partly due to the pandemic), the Ukraine war has created additional uncertainties, and the capital markets and the global economy are normalising after the pandemic. During the pandemic, many high-quality stable-growth companies (e.g. from the technology sector) performed extremely well. In the wake of strongly rising bond yields since the beginning of the year, many of these stocks, which remain attractive in the medium term due to their growth profile, have corrected quickly and strongly. At the same time, cheaply valued shares (e.g. energy, financials and telecommunications providers), most of which offer sub-par growth in the longer term, have performed comparatively well. In addition, Inflation (indirectly aggravated by the Ukraine war, as it has contributed to the rise in energy prices) has increasingly weighed on equity markets in recent months. Inflation is a well-documented risk factor. Nevertheless, the current environment cannot be compared to the 1970s as central banks now have well-defined inflation targets and the tools to achieve them.

After the setbacks in recent weeks, the risks are now better priced in. As long as inflation continues to rise, it appears to be too early for the all-clear, however. Nevertheless, the probability of a recovery rally has risen.



Source: Index provider, own calculcations



Source: Index provider, own calculcations

Annex: Ukraine war and the global economy

While Russia and Ukraine are not very important for the world economy (around 2% of economic output and world trade), the countries key suppliers of a large number commodities (agricultural raw materials, incl. fertiliser components, energy and metals).

Energy has become more expensive (and even-higher prices can by no means be ruled out) but has overall remained available. This also applies to natural gas in Western Europe. The situation is more critical for grain, especially since exports from Ukraine will remain constrained, and the agricultural land in Ukraine will not be planted as usual. Especially for low-income countries, the sharp rise in energy and food prices has been an enormous burden.

With the pandemic and the war in Ukraine, global supply chains have moved in the limelight as an essential economic factor. Against this backdrop, security considerations in procurement are increasingly at the forefront for many companies, as produciton moves from "just-in-time" to "just-in-case“. At the same time, a majority of well-managed companies have proven time and again in recent years that they have diversified supply chains (with news on functioning – quite different from problematic – supply chains hardly ever reaching the public). Supply chain strategies include "dual sourcing", "near- and onshoring" and "friendshoring". There is an opportunity for reshaped supply chains to become more efficient (especially in terms of transport and the use of resources). Global competition will ensure, however, that costs remain at least as important as safety considerations. The focus is thus on optimised procurement rather than risk considerations alone.

Europe's banks are most affected by Russia's isolation from the global financial system, but the risks are manageable. Almost 30 percent of Ukrainians have fled the war so far. For Europe, this means the largest flow of refugees since the Second World War. How many of these people will eventually work in Western Europe (and thus at least temporarily increase the economy's potential growth somewhat) remains to be seen. As a result of the war, defence spending will increase, especially in Western Europe (15 NATO countries have already decided to increase military spending, and a number of European members will exceed NATO's 2% spending target in the future).

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