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SWITZERLAND TOP50 INDEPENDENT ASSET MANAGERS 2022

Quarterly Pulse – Monday, 2nd October 2023

Economic Outlook

The third quarter was quite tough, starting with the US government's long-term debt downgrade and finishing with the government shutdown risk. The interest rates hiking cycle has probably peaked and soft-landing remains possible but the combination of the Chinese real estate crisis, higher oil prices, the lagging effect of the rate hikes, the strong labor market and tighter credit conditions are not really leading to this scenario, therefore the next prints should be closely monitored.

Tactical Asset Allocation

Liquidity	Neutral
Rates	Overweight
Credit	Neutral
Equities	Neutral
Alternative Investments	Neutral

Macroeconomics

The US treasury yield climbed in the third quarter to the level last seen in 2007 and for equities, it was the first losing quarter in a year. In the meantime, the dollar strengthened, and oil prices jumped, contributing to a headline CPI. However, the FED is unlikely to respond at a time when core inflation and inflation expectations are falling and kept its monetary policy unchanged but remained hawkish. The next key economic data is ISM indices, If the ISM manufacturing and services prints fall back the yields should decline in response to worsening growth prospects. Nevertheless, the US economy is holding relatively better than others with potential increasing productivity sparked by artificial intelligence that might help the economy to outperform.

The UK inflation is cooling, but activity is expected to soften with climbing unemployment which can signal growing recession risks. The Bank of England kept interest rates on hold at the last meeting. The Euro area remains at stagnating growth and a resilient labor market, even though inflation is slowing.

Chinese economy keeps struggling with property stocks leading the losses over Evergrande liquidation risks rising. Due to China's slowdown Asia's growth outlook was worsened by the World Bank.

Fixed Income

Rates markets had a difficult quarter with 10-year US Treasury yields rising in Q3 to levels last seen 16 years ago. After the first pause in June, the FED continued to hike in July. "Although inflation has moved down from its peak, it remains too high" was Powell's message in his Jackson Hole speech.

Later in the quarter, economic data showed that the economy is simply stronger than expected and inflation remains sticky. Despite the FED leaving its policy rate unchanged in September, yields continued to climb higher. Hawkish comments and a revision to the dot plots, where FOMC participants foresee rates staying higher for longer, were the main reasons for the sell-off. The FED's latest economic projections give the impression that officials are less worried about a recession, and therefore will keep rates high.

In addition, the announcement of jacking up the size of its debt auctions to rebuild reserves and finance its growing budget deficit did not help either.

We keep our overweight in rates as current levels are even more attractive. But for the moment the momentum for higher rates is too strong, therefore we are waiting for the market to bottom out to double up the position, 4.75% is the next technical level and our soft target is at the long end (10yr). Upcoming economic data will be closely watched and are key for a year-end rebound.

Credit markets experienced a period of stability. Total returns remain positive year to date. We continue to prefer investment-grade credits and avoid HY names as companies are heading into a more challenging fundamental landscape.

Equities

Since the end of July, global financial markets have been in correction mode. Yields have risen again in response to the central banks' announcement that interest rates will remain elevated for longer. Higher yields and the gloomier economic outlook are having a negative impact on global equities. Some conclusions can be drawn from past interest rate pauses. In most cases, the last interest rate hike was followed sooner or later by a recession with interest rate cuts. Unlike today, the long interest rate pauses in the US from 2006 to 2007 was initiated during an economic upswing phase with moderate inflation dynamics. In view of declining leading indicators, the interest rate pause is likely to be less long this time.

The equity correction that began in August continued in September. The reasons for this were, on the one hand, worsening economic data and the associated poor sentiment, which was reflected in falling PMIs indices. On the other hand, the US FED sent out a clear message at its meeting: Interest rates will remain high for an extended period. The restrictive monetary policy environment could act as a breaking factor for the stock market for the foreseeable future. Together with the ongoing crisis in the Chinese real estate market, this led to a difficult environment for equities with corresponding price declines. The difficult environment for equities also impacted the style universe: Cyclical stocks corrected more strongly, while defensive stocks were able to limit losses. Similarly, the more cyclically sensitive small caps came under greater pressure than the market as a whole. Compared to the beginning of the year, however, most stock markets are still well up and seasonality is behind us which should bring global stocks a leg higher in Q4.

Equity Indicators

Valuation	Neutral
Momentum	Negative
Seasonality	Negative
Macro-Economics	Neutral

The economic situation in the eurozone is particularly difficult. The PMIs' indices in the eurozone have been trending downward for almost six months and are currently at a clearly recessionary level. According to analysts' economic forecasts, the eurozone has already been in a mild recession since the summer, which will last into next year. However, the equity markets in the eurozone have not yet sufficiently priced in this recession. For example, the MSCI EMU has been moving sideways for six months. And the options markets show no signs of increased nervousness either. The VSTOXX index, which shows the implied volatility of Eurostoxx options traded on the stock exchange, can be interpreted as a fear barometer. Currently, it is close to its lows since the corona pandemic. And in the US, a similar market structure is evident.

This suggests that the markets are not yet very nervous in view of the uncertain economic outlook. We interpret this as the calm before an eventual storm and expect that the recession in the eurozone that analysts' forecast will be accompanied by increased volatility and further price declines in European equities in the medium term. In order to cushion potential price declines in eurozone equities, it may be worthwhile to invest in the low-volatility style. This involves overweighting equities that fluctuate less during the economic cycle. As a result, defensive sectors such as consumer staples and energy utilities are given a high weighting. In down markets, these can stabilize a portfolio and limit losses.

All in all, we remain neutral in Equities and favour the U.S. over European stocks as we believe the upside potential will show some surprises in the coming months.

Alternative Investments

Over the past few months, demand for crude oil and products made from it has developed better than expected. This is partly due to a continuing robust US economy and demand from China, where much of the crude oil is processed in refineries. However, the increase in the price of Brent crude oil, which rose to over USD 95 per barrel in September, is largely due to tighter supply. Saudi Arabia and Russia have significantly reduced their exports. At the beginning of September, the Saudi Energy Ministry extended the production cut until the end of the year. In addition, Russia introduced an export ban on gasoline and diesel for the time being. A continuing deficit therefore remains likely and a temporary rise in the Brent price close to USD 100 cannot be ruled out.

Overall, however, the economic environment for the commodities is unfavourable. The asset class exhibits a strongly procyclical character: When the global manufacturing PMIS Index was trading below the 50-point growth threshold, the broad commodity index recorded a positive performance in only 38% of the months over the past 25 years. The PMI has now remained below the growth threshold for a year, with no sign of a rapid return to expansionary territory for the time being. Supply uncertainty is thus countered by downside risks on the demand side.

Despite higher oil prices, inflation is likely to fall further over the next few months, giving central banks scope to ease monetary policy. At the FED, analysts expect the first rate cut in the spring of 2024. This should favour a growth recovery in the course of Q1 2024. In this environment, higher prices can be expected again for many commodities and longer-term trends are likely to come back into focus. On a multi-year horizon, we see opportunities in particular for price increases in industrial metals, which benefit from the decarbonization of the economy. However, oil investors are nevertheless urged to be cautious. The black gold anticipates a possible recession relatively quickly, which could lead to drastically falling prices sometime next year.

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Market Overview as of Monday, 2nd October 2023

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	5.06	0.00	0.25	0.74
USD 1y Swap	5.43	0.04	0.05	0.52
USD 3y Swap	4.62	0.19	0.28	0.53
USD 5y Swap	4.35	0.26	0.45	0.57
USD 10y Swap	4.23	0.35	0.66	0.67
EUR Overnight	-0.51	-0.02	-0.01	-0.01
EUR 1y Swap	4.15	0.16	0.03	0.87
EUR 3y Swap	3.60	0.16	-0.08	0.29
EUR 5y Swap	3.43	0.21	0.11	0.19
EUR 10y Swap	3.43	0.28	0.38	0.23
CDX Xover 5y	4.85%	0.63%	0.51%	0.01%
iTraxx Xover 5y	4.35%	0.44%	0.34%	-0.39%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD Aggregate 1-3y	0.0%	0.7%	0.4%	1.9%
USD Aggregate 3-5y	-0.8%	-0.6%	-1.6%	0.6%
USD Aggregate 5-7y	-1.7%	-2.3%	-3.3%	-0.6%
USD Aggregate 7-10y	-2.8%	-4.3%	-5.0%	-2.3%
EUR Overnight	0.3%	1.0%	1.8%	2.4%
EUR Aggregate 1-3y	-0.1%	0.8%	0.7%	1.5%
EUR Aggregate 3-5y	-0.7%	0.3%	0.1%	1.5%
EUR Aggregate 5-7y	-1.3%	-0.7%	-0.6%	1.5%
EUR Aggregate 7-10y	-2.1%	-2.1%	-1.8%	1.1%
US Corp. HY	-1.2%	0.5%	2.2%	5.9%
EUR HY	0.2%	1.7%	3.3%	6.3%

Equity

	Price	P/E	D. Yield	FCF yield
MSCI World	8'873	17.4	2.2%	4.2%
S&P 500	4'288	19.6	1.7%	3.8%
NASDAQ	14'715	26.5	0.9%	2.9%
Euro Stoxx 50	4'165	11.8	3.6%	6.8%
SMI	10'886	17.1	3.3%	4.6%
FTSE 100	7'574	10.7	4.2%	7.2%
DAX	15'357	11.1	3.6%	7.9%
MSCI Asia Pacific	157	14.8	2.7%	4.4%
FTSE China A50	12'398	11.2	3.0%	6.6%
MSCI Emerging Market	953	13.4	3.0%	6.2%
PH Semiconductor	3'434	28.2	1.4%	1.6%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	-4.4%	-3.5%	3.1%	11.1%
S&P 500	-5.0%	-3.6%	4.3%	11.7%
NASDAQ	-5.0%	-3.1%	11.6%	34.5%
Euro Stoxx 50	-2.7%	-5.3%	-3.5%	9.8%
SMI	-1.7%	-3.5%	-2.0%	1.5%
FTSE 100	1.5%	0.6%	-0.8%	1.6%
DAX	-3.1%	-4.9%	-1.7%	10.3%
MSCI Asia Pacific	-3.2%	-3.6%	-2.9%	1.0%
FTSE China A50	-2.4%	-0.4%	-5.3%	-4.7%
MSCI Emerging Market	-3.3%	-3.7%	-3.8%	-0.4%
PH Semiconductor	-6.7%	-6.5%	6.3%	35.6%

Commodity

	Price	FCST 24	FCST 25	Δ Future
Gold	1'832	1947.5	1900	0.2%
Silver	21.79	24	23.75	0.7%
Platinum	906	1092	1200	1.0%
Palladium	1'217	1'473	1473	2.3%
Crude Oil	91.04	82	82	0.8%
Brent Oil	92.70	84	84	-1.1%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	-6.0%	-5.1%	-7.0%	0.3%
Silver	-11.3%	-6.7%	-12.3%	-12.4%
Platinum	-7.1%	-1.6%	-10.6%	-17.4%
Palladium	-0.8%	-1.4%	-18.5%	-33.5%
Crude Oil	7.4%	29.0%	23.0%	17.0%
Brent Oil	5.6%	23.7%	19.0%	13.5%

Foreign Exchange

	Price	FCST Q4	FCST 25	Δ Spot
EUR/USD	1.0527	1.08	1.14	8.0%
GBP/USD	1.2149	1.25	1.3	6.8%
USD/CHF	0.9164	0.9	0.9	-1.8%
USD/JPY	149.81	142.5	130	-14.2%
EUR/CHF	0.9647	0.97	1	3.6%
USD/RUB	118.69	99.5	101.1	-16.0%
EUR/RUB	104.12	107.91	117.16	11.8%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	-2.5%	-3.5%	-3.4%	-1.7%
GBP/USD	-3.8%	-4.3%	-2.1%	0.5%
USD/CHF	-3.5%	-2.2%	-0.4%	0.9%
USD/JPY	-2.2%	-3.4%	-11.6%	-12.5%
EUR/CHF	-1.0%	1.4%	3.2%	2.6%

Source: Clarus Capital Group, Bloomberg

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