PostFinance Investment navigator 2022

PostFinance

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Interview

Anyone simply looking to turn a quick profit should watch out

Daniel Mewes is Chief Investment Officer at PostFinance. In the interview, he looks at the challenging environment facing the financial markets in 2022 and beyond, why investment is still worthwhile, the promise of sustainability when investing, and finally coronavirus.

Mr Mewes, how much does a kilo of flour cost?
About 2 francs?

And how expensive will it be a year from now?
Unfortunately, even I can't answer that (he smiles).

In last year's *investment navigator,* you said that higher inflation was more likely over the medium term owing to the extraordinary measures being taken by governments and central banks. Inflation rates in the USA already stand at well over 6 percent. Are you surprised?
Although I was aware of the significant potential for inflation, I didn't expect it to rise so rapidly. The economy recovered remarkably quickly from the coronavirus slump. Demand for goods was exceptionally high, causing bottlenecks in the supply of raw materials, transport and production. And, as the labour market in the USA soon became stretched, wages rose there more sharply than expected, which means inflation is unlikely to return to normal in 2022.

Should I prepare myself for higher inflation in Switzerland too? Or, to put it another way, can I ask my line manager for a raise in 2022?
I'll leave the salary negotiations to you (he smiles). Prices have risen to a much lesser extent in Switzerland. First of all, Switzerland's starting point is lower, with inflation rates actually negative. Secondly, energy prices are playing a less significant role in Switzerland than in the USA. Thirdly, the labour market doesn't appear to have dried up to the same extent. And fourthly, far more money was distributed during the coronavirus crisis in the USA, which is now in circulation. So inflation rates in Switzerland won't necessarily rise as steeply.

Huge fiscal packages actually supported the US economy last year. So wasn't the economic upturn just a flash in the pan?
We're also asking ourselves how long demand can remain so high. We can expect to see some normalization here. But there are still lots of savings left over as households haven't spend all the money they've received yet. And what's concerning about the high US inflation at the moment is that it could take on a momentum of its own – in other words, remain high even though the economy isn't overheating any more.

Daniel Mewes
Chief Investment Officer

How could that happen?
If employees – justifiably – proactively demand higher wages to offset inflation, companies will also put up the prices of products and services to maintain their margins and profit. That creates a vicious circle for higher inflation.

Last year, the financial markets were still benefiting from strong earnings, while margins were high. Will that change in 2022?
2021 was actually a very good year for many companies and the financial markets. But the environment will become more challenging – both due to a normalization of demand and the fact that central banks are more likely to scale back than provide further support owing to high inflation. Generally speaking, investors can be thankful for the impressive returns generated in 2021 – but shouldn't get used to them.

What do you mean by that?
The financial markets have performed very well, not just last year but since the 2008/2009 financial crisis. Equity and real estate prices have risen and there have been hardly any losses on bonds – but it won't be quite so simple in future. On the contrary, anyone simply looking to turn a quick profit should watch out. Valuations are already very high – thanks to still low interest rates as well as a very optimistic growth scenario having been factored in.

But is it still worth investing or would putting money away for safekeeping be a better option?

There are pitfalls and costs involved in hoarding money – you have to consider issues such as the security, size and location of the safe. But more importantly, it's worth benefiting from the opportunity to generate returns on the financial markets, especially at a time of high inflation as corporate revenue rises with inflation, whereas money held for safekeeping doesn't. It's also important to remember that investing wisely requires long-term commitment. All investors need to understand that long challenging periods can arise. If you're aware of that and only assume as much risk as you can bear, then you won't panic and sell at an unfavourable time.

What's concerning about the high US inflation at the moment is that it could take on a momentum of its own.

But what's the best approach? Is it only worth investing in tangible assets, given the inflation risks?

It's not quite as simple as that. Persistent high inflation creates a challenging environment for shares, for example. It took equity markets years to recover after the last such phase during the 1970s. Successful long-term investment can require an investment horizon of over 10 or 15 years. But we can clearly see the advantages of diversification in this kind of environment: bond values decline during inflation, but the losses are limited and they can benefit more quickly from rising interest rates. You can prepare for currency turbulence triggered by high inflation rates by adding gold to the portfolio.

The e-asset management portfolios also contain real estate funds. At the same time, the Swiss National Bank is warning of risks on the Swiss real estate market. Will this diversification pay off?

Living space is an essential commodity. That's why real estate investments are a stabilizing factor during bumpier periods. But the real estate market can obviously also slump and valuations can head in the opposite direction to that of the past 20 years. Demand is still very strong in Switzerland at the moment.

That's partly due to the portfolios you manage: PostFinance's e-asset management will soon have 1 billion in assets. Aren't there any limits here?

We're very satisfied with the increase, but there's clearly more potential. A consistent digitization strategy combined with personal advice when needed means we've captured the current mood in the best possible way. E-asset management is easy to use and meets investor requirements, as our market research feedback has shown us. And we obviously continue to put faith in a high level of professional expertise on the investment committee and in the selection of ETFs and funds.

In terms of the selection of funds, there's also very strong demand for strategies with a sustainability focus. Can that sustainability pledge really be met?

We're as meticulous as possible – and completely independent of the providers of funds in which we invest the money entrusted to us. We're pleased to see such strong momentum on the market and the continual emergence of new solutions. We're always on the lookout for good opportunities. This matters to me personally as I've also specifically chosen to invest in the sustainability focus in e-asset management.

I'd like to finish off with exactly the same question as last year – we can't skirt around the issue: how long will coronavirus remain a cause for concern? Can we expect a return to normality soon?

Soon after the outbreak, experts warned that coronavirus is endemic and we'll never get rid of it. But we won't find out exactly what that means until this winter. It'll probably take a few winters before we're used to meeting the health, social and economic challenges. But we'll get there.

Your question

The Swiss franc is the world's strongest currency. It is even worth investing abroad?

Our answer

It's wise for Swiss investors to focus a significant share of their assets on Switzerland.

The Swiss franc has proven strong historically, particularly during times of crisis. Investments abroad fall in value when the Swiss franc appreciates.

But they can still be worthwhile. Local returns abroad are often much higher than in Switzerland. The key thing is for investors to have a well diversified portfolio as it's difficult to predict exactly where high returns will be generated in future.

A look back at 2021

Making up for lost time

Coronavirus remained the major issue in 2021. The wider availability of effective vaccines eased the coronavirus situation temporarily. The year was marked by a robust economic recovery, a strong sense of optimism on financial markets and growing inflation risks. Beat Wittmann, Head of Investment Office, outlines the key moments of the past twelve months and how PostFinance manoeuvred customer portfolios through the year.

Thursday, 28 January 2021: Trading in meme stocks suspended

On 28 January, the online brokerage platform Robinhood temporarily suspended trading in heavily traded shares, including console retailer GameStop and cinema group AMC Entertainment. What lay behind this was a new phenomenon, where a large number of small investors had banded together online to drive up the share price of companies under pressure, such as GameStop and AMC Entertainment.

Their aim was to punish investors that focus on falling prices, typically hedge funds, who are known as short sellers. The efforts of these small investors initially proved successful. By the end of January, GameStop's value had risen by over 1,625 percent. This saw some hedge funds suffer huge losses.

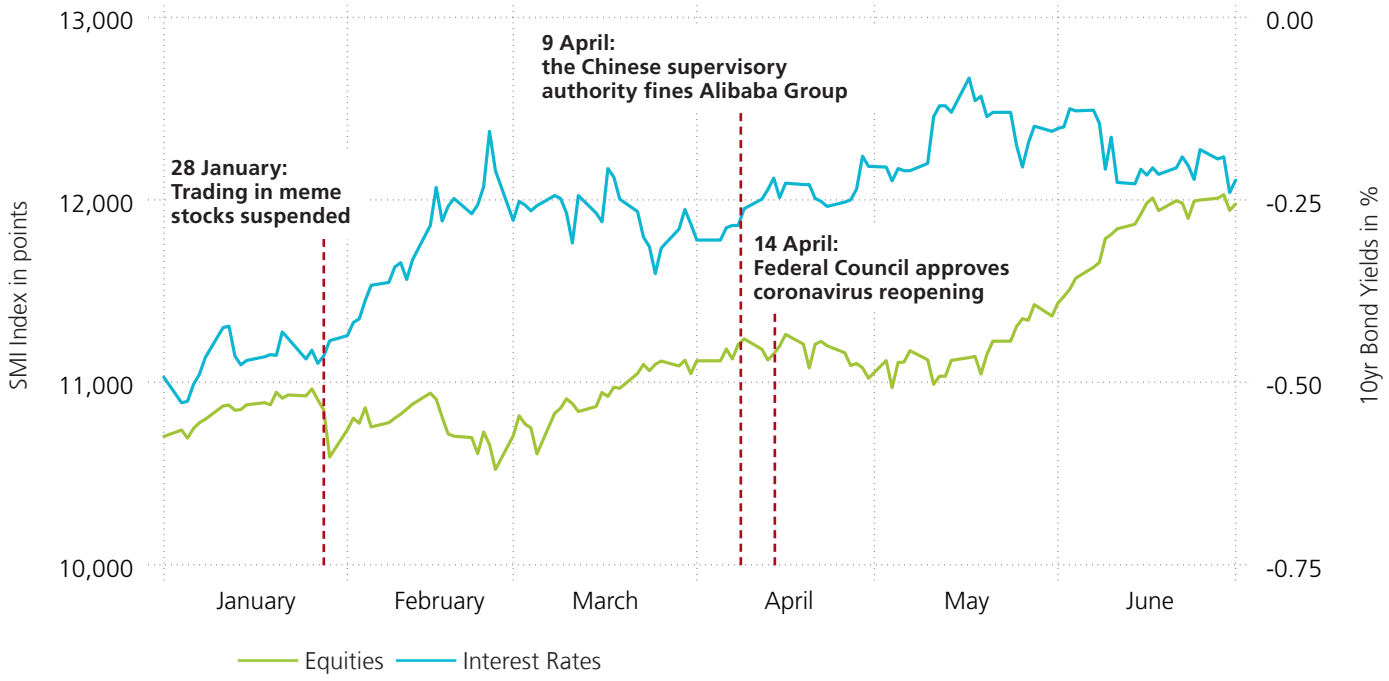
But when prices skyrocket for purely speculative reasons, the risk of an even greater setback also increases.

Beat Wittmann
Head of Investment Office

GameStop's share price went on a rollercoaster ride, which tested the patience and nerves of investors.

This episode illustrated how the equity markets attracted small investors on a far wider scale in 2021. A degree of nonchalance set in after a virtually uninterrupted rise

Review of 2021 – 1st Semester



in prices, which began shortly after the start of the pandemic. The prices paid for shares were of secondary concern. Valuations looked to be historically high, which has led us to adopt a degree of caution in the positioning of the portfolios managed by us.

Friday, 9 April 2021: the Chinese supervisory authority fines Alibaba Group
On 9 April, China's market regulator imposed a record fine equivalent to 2.8 billion US dollars on Alibaba Group. This turned out to be just the start of a series of regulatory measures designed to gain greater control over key sectors of the Chinese economy. These measures initially focused on the tech sector. After Alibaba, the regulators then targeted Didi, the transport services company, which had only just been listed on the US stock exchange.

"Consumers no longer held back, supported by a generous monetary and fiscal policy."

Over the summer, regulatory controls were widened to include other strategically important sectors, such as education and healthcare. The five-year plan on the rule of law published in August then provided an official framework for these regulatory measures. The Chinese government is determined to restructure the economy in line with its principles.

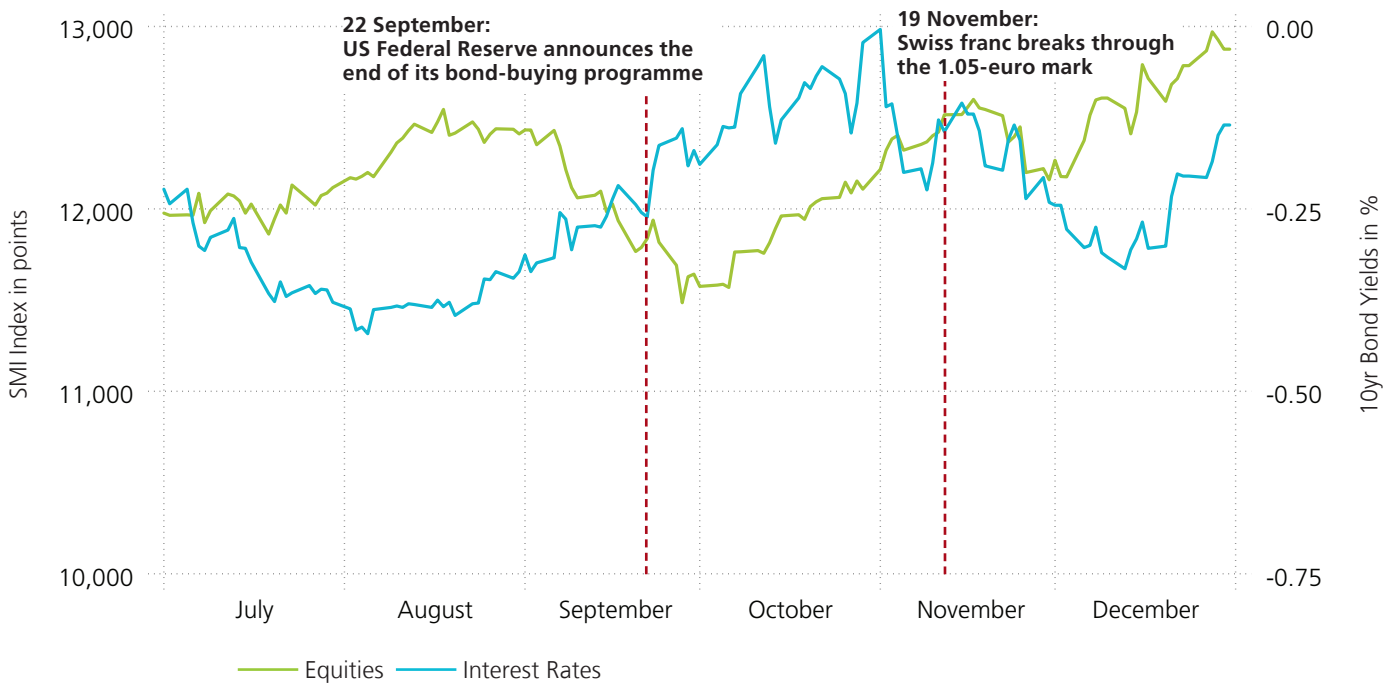
China's equity market responded negatively to this wave of regulatory measures. While it started the New Year strongly with a rally, measured by the MSCI China Index, the deteriorating economic outlook was already causing anxiety by the spring. The regulatory steps triggered further setbacks. The value of the share index fell by over 30 percent between mid-February and July, and has been on a slight downward trend since then. We were already sceptical after the year-opening rally, and quickly closed our overweighted position in Chinese equities.

Even though the regulatory measures are causing greater uncertainty in the short term, China's long-term economic prospects remain intact. Equities from emerging markets, and from China in particular, continue to play a major role in our portfolios.

Wednesday, 14 April 2021: Federal Council approves coronavirus reopening
On 14 April 2021, the Federal Council decided, after the long winter months, that restaurants and bars could at least reopen their terraces. This meant Switzerland entered the spring full of hope. Other countries relaxed their measures too. Italy opened its borders to tourists on 15 May 2021 and the UK celebrated its "Freedom Day" on 19 July 2021.

The reopening triggered a strong economic recovery. After China's economy had achieved the fastest recovery in 2020, there was also an upturn in the USA and eventually in Europe too. Consumers no longer held back, supported by a generous monetary and fiscal policy.

Review of 2021 – 2nd Semester



Global production, transport and labour markets – particularly in the USA – were pushed to their limits due to strong demand. This didn't just cause bottlenecks, but also led to sharp price rises. We saw this as early as May, with much higher US inflation rates.

"We were already sceptical after the year-opening rally and quickly closed our overweighted position in Chinese equities."

The recovery was also evident on the financial markets. Equity markets made significant gains by the end of summer, hitting new historic highs. Apple shares were a prime example, breaking through the market-capitalization mark of 2 trillion US dollars in August 2021. In light of the stronger recovery in the USA, we advised our customers to buy US stocks at the expense of European equities in the spring. With the recovery gaining momentum, we also recommended an overweighted position in the UK equity market, with its bias towards commodities. This market saw particular gains following the rise in energy prices of over 40 percent between January and the end of August 2021.

Wednesday, 22 September 2021: US Federal Reserve announces the end of its bond-buying programme

On 22 September 2021, the US Federal Reserve announced the imminent tapering of its bond-buying scheme in light of the very strong economic situation. In December, it announced that tapering would be accelerated due to inflation risks, which means the bond-buying programme will end in March. This move didn't catch market participants off guard as it was communicated by the Federal Reserve in good time. Interest rates barely moved.

Following the growing economic recovery in the spring, we decided to adopt an underweighted position in global bonds. We extended this underweighted position again in May, given increasing signs of the economy overheating and greater inflationary pressure. In our view, the higher inflation rates may not in fact be temporary as the central banks would like.

Sustained higher inflation may force the central banks to consider raising interest rates soon. The members of the US Federal Reserve's decision-making committee expect three interest rate hikes, each of 0.25 percentage points, by the end of 2022, while the Bank of England carried out an initial interest rate hike in December, raising rates by 0.15 percentage points. In our view, further measures will be required to tackle the consequences of the expansive monetary policy.

Global economic data 2021

	Real GDP-Growth		Potential growth[2]	Inflation		Unemployment		Prime rate	Public debth (in % of GDP)	
	2021[1]	Ø 10Y	2021	2020[1]	Ø 10Y	2020	2021	Dec 2021	2020	2021[1]
Switzerland	3.50%	1.85%	1.47%	0.50%	0.05%	3.14%	3.02%	–0.75%	42%	43%
USA	5.60%	2.45%	1.66%	4.60%	1.89%	8.10%	5.50%	0.09%	134%	133%
Eurozone	5.10%	1.51%	0.83%	2.50%	1.20%	7.90%	7.80%	0.00%	98%	99%
UK	7.00%	2.19%	1.58%	2.50%	1.77%	5.10%	4.64%	0.10%	104%	108%
Japan	1.80%	1.02%	0.95%	–0.20%	0.57%	2.79%	2.82%	–0.10%	254%	257%
China	8.50%	6.50%	4.45%	1.30%	2.14%	4.20%	5.12%	3.80%	66%	69%
India	10.80%	6.36%	5.02%	5.50%	5.92%	9.40%	7.91%	4.00%	90%	91%
Brazil	5.10%	0.82%	0.89%	7.90%	5.72%	13.20%	13.82%	2.00%	99%	91%

[1] Forecast
[2] Potential growth: Long-term change in gross domestic product with sustainable capacity utilization.

Performance of asset classes

		Performance 2021 In Local currency	Performance 2021 in CHF	Performance 5Y[1] in CHF	Performance 10Y[1] in CHF
Currencies	EUR	–	–4.0%	–0.7%	–1.6%
	USD	–	3.1%	–2.2%	–0.3%
	JPY	–	–7.5%	–1.9%	–4.2%
Equities	Switzerland	23.4%	23.4%	12.9%	11.9%
	World	21.9%	25.7%	12.5%	12.4%
	USA	26.5%	30.4%	15.5%	15.6%
	Eurozone	22.2%	17.2%	7.6%	8.4%
	United Kingdom	19.6%	21.9%	3.8%	4.7%
	Japan	13.4%	4.9%	6.2%	8.0%
	Emerging Markets	–2.5%	0.5%	7.5%	5.2%
Fixed income	Switzerland	–1.8%	–1.8%	0.5%	1.5%
	World	–4.7%	–1.7%	1.1%	1.5%
	Emerding Markets	–2.1%	1.0%	2.4%	5.0%
Alternative Investments	Swiss real estate	7.3%	7.3%	7.7%	6.7%
	Gold	–4.3%	–1.3%	7.1%	1.4%

[1] Average yearly performance

Data as 31.12.2021

Friday, 19 November 2021: Swiss franc breaks through the 1.05-euro mark

On 19 November 2021, the Swiss franc/euro exchange rate dipped below 1.05 for the first time since 2015. The franc's upward trend began in late summer. Although the Swiss franc had appreciated in nominal terms, its valuation is not necessarily high measured by purchasing power. This is because inflation is currently much lower in Switzerland than abroad. Higher inflation rates abroad mean that the purchasing power of these currencies falls compared with the Swiss franc.

We recognized the fair valuation of the Swiss franc in September and, as a result, reduced our overweighted position in foreign currencies in our portfolios. If the Swiss franc's valuation is fair, the Japanese yen no longer provides a good hedging option either. Our assessment proved to be correct: the Japanese yen fell by over 3 percent against the Swiss franc in October and November.

In summary

Last year we generated very respectable returns in our portfolios despite having to exercise a degree of caution owing to the high valuations on the financial markets and inflation risks. Investors can't expect such high returns every year. The new year 2022 promises to be challenging. The pandemic still isn't over and will remain a constant factor in our lives as well as for the economy and financial markets. The challenges we can expect due to the consequences of expansionary monetary policy and inflation risks seem even more daunting.

Review of 2021 in figures

62’000

Aircraft movements Zurich Airport

134’529 2019

52’598 2020

Source: KOF – High Frequency Economic Monitoring

15’370

Company bankruptcies in Switzerland

15’808 2019

14’770 2020

Source: BFS, Moneyhouse

24.6 tn

Balance sheets of the major central banks in Swiss francs (Fed, ECB, BoJ, BoE, SNB)

14.5 tn 2019

21.4 tn 2020

Source: Factset

22.1 bn

Swiss watch exports in Swiss francs

21.8 bn 2019

17.0 bn 2020

Source: Eidg. Zollverwaltung

144.1 m

Hours billed via short-time work

1.4 m 2019

312.6 m 2020

Source: SECO

6.5 tn

US retail sales in US dollars

5.4 tn 2019

5.6 tn 2020

Source: U.S. Census Bureau

Your question

Stock prices have made huge gains recently. What if I missed the opportunity to invest?

Our answer

Predicting the right time to invest is impossible.

Making staggered monthly payments diversifies the risk of investing at the wrong time. Deciding when to start investing is less important for long-term investors. The financial markets reflect economic performance over the long term. As long as the global economy grows, the financial markets will make money.

E-asset management

Our portfolios in 2021

Last year our portfolios benefited from the strong performance of the equity markets whereas more defensive investments, such as gold and bonds, did not contribute to their overall success – which is what we would expect in a positive environment. The "Sustainability" investment focus performed well thanks to excess returns from ESG equities.

Performance in CHF, Risk strategy "Balanced"
1.1.2021 = 100

The balanced portfolios (strategic target value 50% equities) of all three focuses generated an attractive return of between 8.5 and just over 10 percent last year. This primarily reflects the continued dynamism on the equity markets. The "Global" focus benefited in particular from the strong US stock market, whose highs were attributable to excellent performance by tech stocks. Being more defensive, the Swiss equity market struggled initially. But it made up ground by early summer which meant the "Swiss" and "Sustainability" focuses kept pace with the global strategies. In the "Sustainability" focus, the selection of individual equities was also impressive: the ESG approach (environmental, social, governance) on the equity market helped this focus generate a return 1 percent higher than the similarly positioned Swiss portfolio.

By contrast, gold proved less lucrative in 2021 than in the previous year in terms of returns. The price of gold fell sharply in the spring and has trended sideways since June. Even rising inflation worldwide has had no impact on this trend. Acting as a portfolio stabilizer vis-à-vis equities, gold is likely to continue to make a valuable contribution. It is a similar story with bonds. In 2020, interest rates fell significantly due to the expansive monetary policy pursued by the central banks, which led to gains on bond holdings. However, interest rates did recover slightly during 2021. This meant bonds made a moderately negative contribution to the portfolio returns of all three focuses, although this is what we would expect in a positive financial market environment.

Our positions in Swiss real estate funds also contributed to the good year-end result in all portfolio focuses. While the funds initially underwent a correction at the start of the year, they reached historic record highs in the summer.

PostFinance has the right investment solutions for you

We'll help you to build up your assets with our investment solutions. You have the choice of delegating the management of your assets to us, obtaining advice or conducting your investment transactions independently.

Delegation
E-asset management

Would you prefer to invest according to your chosen strategy without having to worry about it?

With e-asset management, we invest your money according to your individual investment strategy. We monitor your portfolio on an ongoing basis and make any adjustments if required – you don't have to worry about anything.

postfinance.ch/assetmanagement

Independent
Fund self-service

Are you an investment expert who wishes to invest in funds independently without any advice?

With fund self-service, you choose independently from our straightforward range of PostFinance Fonds and third-party funds, all tailored to your needs. The third-party funds provide a choice of various countries, sectors and themes, such as food or sustainability. You also have the option of investing regularly in a funds saving plan.

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Independent
E-trading

Would you like to trade securities yourself online on major stock exchanges?

Via e-trading, PostFinance's intuitive trading platform, you can carry out your stock exchange transactions online, anytime and anywhere.

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Consulting
Fund consulting basic

Want to take care of everything yourself, but still benefit from advice?

Fund consulting basic offers a straightforward range of PostFinance Fonds and third-party funds that are tailored to your needs. You can receive investment proposals either directly online or in a personal consultation. You can then make changes based on your own personal preferences. You also have the option of investing regularly in a funds saving plan.

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Independently or with advice
Retirement funds

Want to build up assets while focusing on returns to maintain your standard of living during retirement?

PostFinance offers retirement funds in which you can invest retirement capital from your retirement savings account 3a or vested benefits account. The funds have different allocations of shares and bonds.

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Consulting
Investment consulting plus

Do you want to be kept in the loop about your investments at all times and to benefit from personalized, ongoing and comprehensive advice?

With investment consulting plus, you receive advice and support from your personal investment advisor. You're kept informed about relevant market developments and notified of any deviations to your investment strategy. You're also given the option each month of aligning your portfolio with our e-asset management strategy – where personally selected instruments can be left untouched.
This enables you to continually optimize your investments.

postfinance.ch/investmentconsulting

Award
Best asset manager

Every year, Bilanz honours the best asset managers in Switzerland. PostFinance instantly succeeded in reaching the top 5 out of 21.

PostFinance is all about investment expertise – and has been for 20 years. Monitoring economic developments on the financial markets and the global economy is one of the PostFinance investment committee's core tasks. We are happy to share our expertise with you in our periodic publications and videos.
Find out more: postfinance.ch/houseview

Prospects 2022

Coronavirus concerns give way to inflation fears

Coronavirus will be a key issue for us again this year – and China currently faces its greatest challenges in 30 years. Yet, the global economy is moving into the new year with plenty of momentum. High inflation may pose the greatest threat over the coming year.

The global economy is entering the New Year with a bright outlook. Various sentiment indicators in the USA and Europe have hit all-time highs. The start of the year has been marked by high coronavirus case numbers and COVID-19 will undoubtedly remain an issue over the next 12 months. But the experience of the past two years indicates that the pandemic is having less of an impact on the economy and financial markets. During the lockdowns of the past two years, households have saved money that they can still draw on, which should support consumer spending in future.

There will actually be further upside potential for industry and tourism in the new year. Many industrial companies had to contend with supply bottlenecks in 2021. In Germany, this led to an 18 percent fall in automotive production despite strong demand. The upside is that industry can increase production this year once the supply bottlenecks have been overcome as order books are currently very healthy. We can also expect a further upturn in the tourism sector this year. The East Asian market, in particular, has scope to recover as tourists from these countries barely travelled last year. But it's probably too soon for a return to pre-coronavirus normality this year owing to the extensive travel restrictions that remain in place.

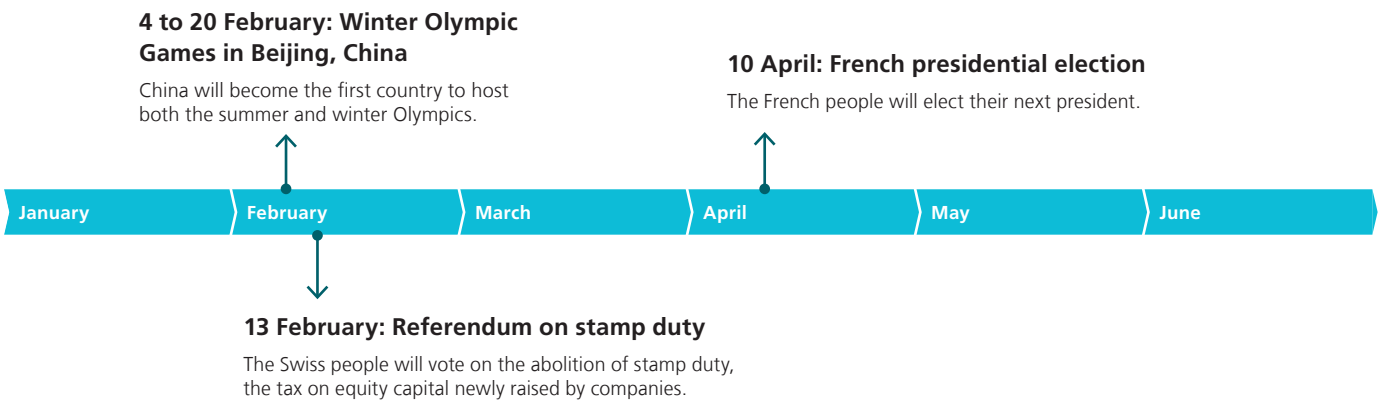
China facing huge challenges

While the global economy is booming at the moment, China faces a tough year. Unlike western countries, rising coronavirus cases in China are continuing to cause major economic setbacks as the government takes decisive action where there are local outbreaks of the virus. This has prevented China from returning to its high pre-coronavirus growth rates so far. For the time being, China is not expected to depart from its current coronavirus strategy in 2022 as it has been sold politically as a huge success.

> "Inflation rates look unlikely to make a quick return to the level we've become used to over the past 20 years."

But the Chinese government has performed a major U-turn elsewhere. Growth over recent years has been supported significantly by high levels of investment in real estate and infrastructure projects. Various dubious construction projects have been carried out in spite of no real demand. The government wants to clamp down on this unhealthy development, so it tightened up the equity capital requirements for real

Events coming up in 2022 – January to June



estate developers last year. The turbulence on the real estate market was a factor in China having the poorest performing equity market in 2021 with a return of around –15 percent. With the real estate boom set to end, the times of buoyant economic growth are certainly over. But China is clearly adopting a more sustainable growth model, which is why we're still optimistic about the Chinese equity market's long-term prospects.

Inflation: the crucial question

Coronavirus is becoming less daunting and China's problems have failed to dampen the upbeat mood in the developed economies to date. Yet, the outlook for the new year isn't entirely rosy. The biggest risk is currently inflation, which recently hit around 7 percent in the USA and over 5 percent in the eurozone.

Will inflation remain so high for a prolonged period? The fact that oil and gas prices are unlikely to rise as sharply again as last year suggests that it may fall. The current supply bottlenecks will ease as production capacities are ramped up. The extremely high demand for goods is also likely to return to normal, as further reopening means more money can be spent on services again.

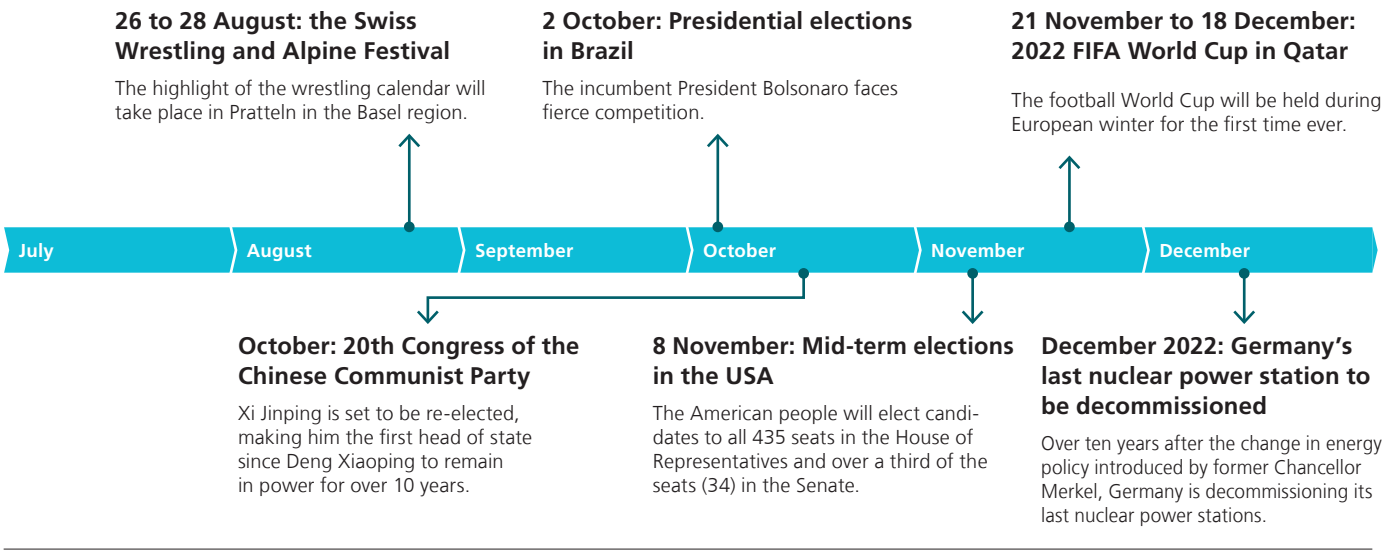
However, inflation rates look unlikely to make a quick return to the level we've become used to over the past 20 years. This applies to the USA in particular. Wages are currently rising due to an extremely tight labour market, which, in turn, is increasing the cost of services. A spiral could emerge where companies expect high inflation so raise their prices, which causes inflation rates to actually remain high.

Whether we see such a spiral depends on how successful central banks are in convincingly showing that they can keep inflation under control. Moderate interest rate hikes should ensure inflation rates fall by themselves over the coming months. This would represent the ideal scenario for the financial markets as it would ensure the economic outlook remains bright.

But if inflation persistently remains above the 2 percent target, central banks would have to counter rising prices by raising rates far more steeply. Such a scenario would impact on the equity and bond markets, while gold could benefit. As Switzerland faces significantly lower inflation risks, we could expect the Swiss franc to appreciate further.

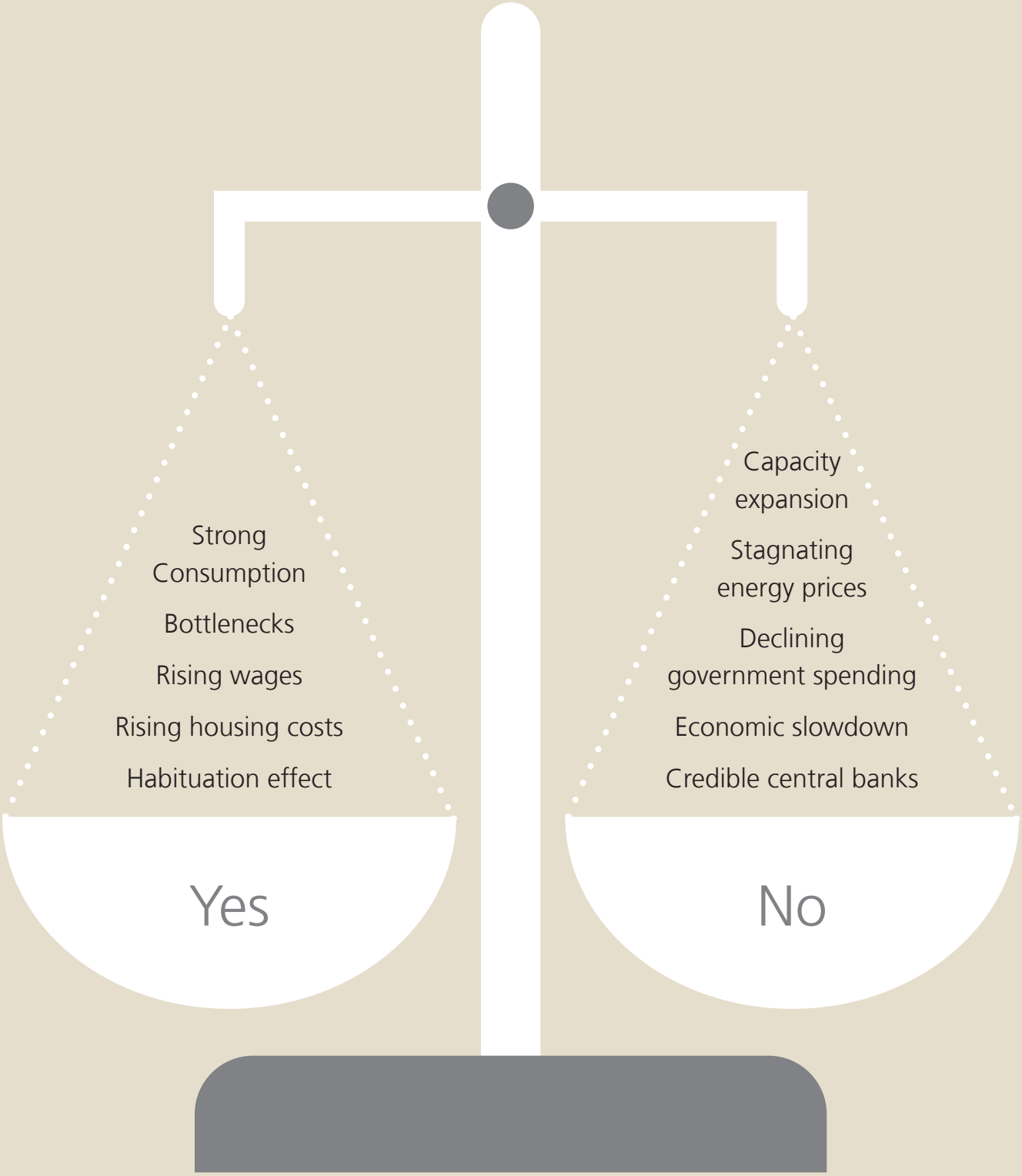
The year-opening economic outlook may prove too much of a good thing if it exacerbates global inflation risks. Inflation risks do not currently call for defensive positioning. However, we think it's unlikely that the financial markets will repeat last year's strong performance in 2022.

Events coming up in 2022 – July to December



Prospects 2022

Do we need to worry about inflation?



Opportunities and risks

What if...?

The coronavirus crisis has shaken the world to its core and is still making the headlines almost two years after the pandemic began. It's important not to lose sight of the long-term challenges. There are certainly plenty of them. Three are particularly prominent: currencies under pressure, the negative impact of climate change and rising social tensions.

Over the following pages, we explore what the future might hold in these areas. But first we'll turn our attention to the current currency system, which has been in place since the 1970s. The US dollar, pound sterling, Swiss franc and – since 1999 – the euro are freely traded but fluctuations (usually) remain within certain limits. People have faith in currencies, and their use is part and parcel of everyday life. But the currency system is now coming under pressure from various sides: on one hand, high debt and an extreme fiscal and monetary policy are increasingly casting doubt over the credibility of traditional currencies, while, on the other, numerous private, digital alternative currencies, such as Bitcoin, are emerging.

"There are certainly plenty of challenges."

What if the central banks had to reinvent their currencies in response to these developments? Practicality, simplicity and security are what matter most to consumers. Digital central bank currencies could close this gap. Only the future can tell whether their introduction is just a matter of time and what impact this will have. If consumers were able to withdraw money digitally directly from central banks, it is not just the role of traditional banks that would be jeopardized.

Secondly, there's the issue of sustainability. It's no longer just in April that the weather is unpredictable. Flooding, record temperatures and hurricanes are becoming commonplace. The wider population is acutely aware of the need for climate protection and is calling on politicians to put measures in place. Regulating environmentally harmful impacts through prices is all well and good in theory, but takes a long time in practice.

What next? What if more extensive measures were taken? A logical move may be restricting volumes instead of regulating prices. Quotas – in other words, restrictions on mobility and consumption – would actually be a more effective option, but would entail additional costs. Then, there's the question of how companies can be persuaded to adopt a more long-term approach. But, here too, we can see the complexity of passing laws for sustainability.

Thirdly, western societies seem divided. Coronavirus has accelerated this development. There are growing social tensions despite economic conditions remaining favourable overall. Increasing disparity in terms of income and wealth in many countries (although not in Switzerland) doesn't help either. Housing is a key aspect – including in Switzerland. Property prices are soaring, but this only benefits home owners. In popular locations, even the middle classes are struggling to afford rents. Residents are being pushed into peripheral areas.

There's a clear trend: calls are mounting for the state to act in light of these developments. So what if the state were to intervene more extensively in the real estate market? While this is not currently the case, real-estate investors need to be aware of such political risks.

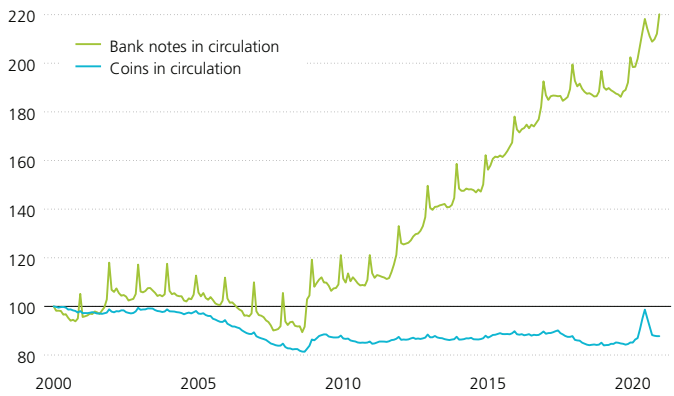
Currencies 2.0

Traditional currencies are increasingly being called into question. The development of digital central bank currencies means alternatives are already in the pipeline. Many central banks are holding back – but that could all change.

Cash is playing a less significant role in everyday life – even in Switzerland. As a result of the coronavirus crisis, the cash-loving Swiss are now also using cashless payment methods much more for shopping. Cashless payment is proving to be a hygienic, practical and straightforward option.

However, there has been strong demand for banknotes even during the pandemic (see fig.). Why is that? They provide security as they are issued directly by the central bank. There's no bank that could face bankruptcy and no app that could fail to function operating in between.

Demand for cash in Switzerland since 2000
Indexed development, adjusted for nominal GDP growth



Source: SNB

What if...
What if these benefits were combined? How about combining the practicality of cashless payment with the security guaranteed by the central banks?

Digital central bank currencies may represent a solution. Just like central bank money is available today in the form of banknotes from ATMs, digital central bank money could be loaded directly onto smartphones in future.

That's no longer utopian. China, in particular, is forging ahead. An e-renminbi is expected to be issued as soon as the Winter Olympic Games in February. Other central banks are more reticent as various issues remain unresolved, such as financial stability – what role would be left for banks to play and how risky would it be for them if people withdraw money from their bank accounts to buy digital currency? But there are also question marks over monetary policy – how would the setting of interest rates and lending work if banks themselves could not create any more money? And there's an issue of particular relevance from a Swiss perspective: if there were an e-franc – wouldn't there be strong global demand for it as it'd be seen as a safe haven?

"How about combining the practicality of cashless payment with the security guaranteed by the central banks? Digital central bank currencies would be the solution."

International solutions would be needed
Restrictions on the supply of central bank currency are being discussed as a solution to these problems. Central bank money could be used, for example, to pay small amounts, but not for holding assets. But this would also mean losing many benefits of new digital central bank currencies – the new currencies would, at best, supplement existing ones.

Establishing an international solution may also be a possibility, supported by the International Monetary Fund for example. With this solution, currencies would no longer need to be exchanged, minimizing currency risks. An advantage from a central bank standpoint would be the emergence of serious competition to private, global alternatives, such as Bitcoin. However, the problems of currency unions can already be seen in the eurozone. Fixed currency rates require monetary and fiscal policy to be jointly decided. How could this be done worldwide? That really would take us into a new world.

Restricted mobility

Environmental goals are rightly ambitious. But strict implementation means a huge impact on consumption is inevitable.

At the COP26 climate summit in Glasgow, 197 nations supported the goal of cutting greenhouse gas emissions. The use of coal and other fossil fuels as a source of energy is to be gradually phased out. The aim is to achieve CO2 neutrality by the second half of the century, which would slow down global warming.

"Radical measures could undoubtedly win support."

Part of the plan is the transition to "clean energy" from renewable sources, such as solar and wind power. It's a highly ambitious target as only just under 30 percent of the power consumed worldwide is generated from renewable energies at the moment. A further 500 million people will also get access to the power grid for the first time.

Achieving this goal will not only require huge financial investment, but also a dramatic change in our behaviour. Politicians are currently trying to link emissions to higher costs by imposing CO_2 taxes to make mobility less attractive. But that isn't easy to implement. Costs will need to be raised significantly to really make an impact. Doing this would mean overcoming fierce public resistance. The wealthier classes will always find it easier to afford higher prices than the less well-off.

What if...

What if CO_2 emissions were regulated differently? What if, for example, everyone had a fixed CO_2 quota with just limited scope for certificate trading? What if limits were imposed on the number of flights or kilometres travelled by road or even on the amount of meat, avocados or exotic fruit that people could buy each month?

That may sound utopian, but radical measures could well win support if alternative solutions don't go far enough or natural catastrophes continue to change the public mood.

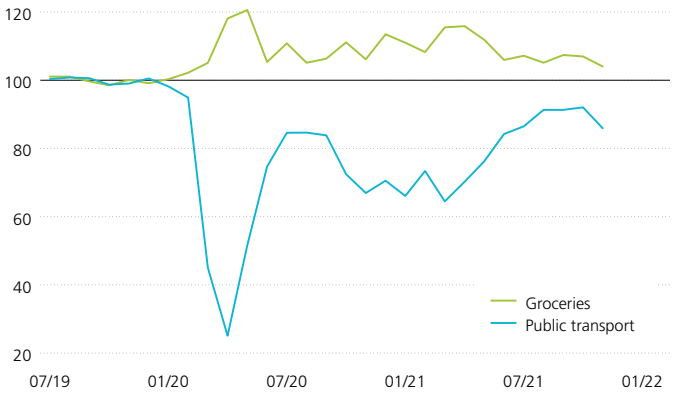
Not without economic consequences

CO_2 emissions could be limited by imposing such strict measures. Such drastic restrictions would clearly have an impact on the economy. Capacity would simply be capped once the CO_2 quota had been used up. Less mobility would mean, for example, a fall in income for anyone operating in that sector.

As we've seen during the pandemic, people spend their money differently when they can't use it on mobility – for example, by buying more food (see fig.). Sales of other goods also went up, which, in turn, saw high energy consumption in production and transport. The consumption of these goods would also have to be systematically regulated. This would further increase the regulatory spiral and see the state intervene in everyone's consumption decisions in a very direct way, which is something nobody wants to see happen. It's difficult to "have your cake and eat it".

PostFinance consumption data: public transport vs. food

Consumption of the Swiss population, indexed development (Ø 2019 = 100)



Source: PostFinance

One important point from an investor's perspective is that social changes always provide an opportunity for innovation. In cleaner energy, there's still some way to go, which presents countless opportunities.

Banning the sale of shares

How can you persuade companies to think long term – for everyone's benefit? Introducing sustainability through regulation isn't easy. Cultural change is required.

Exchange-listed companies almost inevitably focus on the short term: they have to publish their figures every quarter. If expectations aren't met, they're punished and prices fall. Who can hold it against the management for adopting an approach which primarily focuses on short-term benefits – even at the expense of the environment?

However, the future of the planet depends on taking a long-term perspective. A long-term horizon is vital for energy supply and eco-friendly resource management solutions.

"Many exchange-listed companies are only successful for a remarkably short period of time."

But regardless of these external effects: many listed companies are only successful for a remarkably short period. An analysis of US stocks revealed that just 4 percent of companies created greater added value in the long term than US government bonds [1]. The average period of time US companies remain in the S&P 500, the general US share index, currently stands at around 20 years compared with over 60 years half a century ago.

What if...

What if exchange-listed companies adopted a more long-term approach again? If the management receive part of their remuneration in the form of shares, they often have to hold them for a certain period. What if share ownership was only available subject to a holding period for all investors, where equities have to be held for a certain number of years after being purchased? What if the obligation to issue quarterly financial statements was scrapped? What if long-term ESG criteria featured more prominently in reporting? Companies would have time to create long-term value.

A lack of transparency would be clearly evident

But it's not quite as simple as that. Would the management actually use the time for the right purposes? Less transparency also means less control. Market discipline has major benefits. It forces company employees to show full commitment and make the right decisions without the owners having to constantly oversee activities. ESG criteria are by definition not comparable like financial criteria. That leaves more room for "creative" accounting.

One thing's clear: introducing sustainability through regulation isn't easy. It would be better to establish a culture that fosters sustainability and encourages management and customers to act in the right way without control mechanisms.

[1] Hendrik Bessembinder, 2018, Do stocks outperform Treasury bills?, Journal of Financial Economics, 129 (3)

Housing as a human right

With growing calls for regulation, housing is increasingly becoming a matter for the state. Real estate investors need to be aware of the political risks.

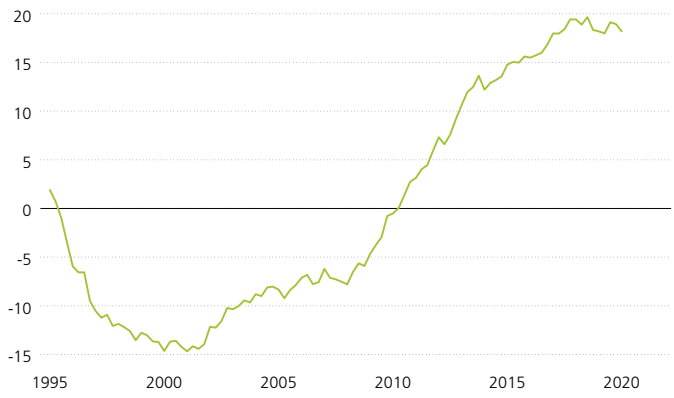
Living space is in short supply. At least, it is in the world's major cities. The world's biggest metropolitan region is Tokyo in Japan, which has over 37 million inhabitants. New York City seems positively small by comparison with a population of "just" 20 million. On average, over 20,000 people live in each square kilometre in Paris and Barcelona. But in rural Switzerland too, the level of urbanization – in other words, the proportion of people who live in towns and cities – stands at over 80 percent.

The United Nations forecasts population growth of a further 500 million people over the coming decade. But it isn't just population growth that's leading to a lack of space. Despite the pandemic, people worldwide continue to move from rural to urban areas in search of work.

Strong demand for living space is driving prices up. The more central the location, the higher the price. Living space in popular locations is becoming a scarcely affordable commodity. Even the middle classes are struggling to meet the expense. A square metre now costs around 30,000 Swiss francs in Hong Kong, 18,000 francs in New York City and 14,000 francs in Geneva. As the figure shows, house prices in Switzerland have risen much more sharply than wages.

House prices in relation to wage development

Deviation from long-term average in % (Data until the end of 2020)



Source: SNB, BfS

One of the factors explaining these high prices for living space is migration to urban agglomerations. But there are growing calls for regulation despite housing markets already being heavily regulated in many countries. Restrictions on rental prices and limits on the termination of rental agreements are popular instruments. A referendum held in Berlin last year supported putting the housing stock of large property companies into public ownership to combat the steep rise in rental prices.

> "Strong demand for living space is driving prices up. The more central the location, the higher the price."

What if...

What if the right to housing was taken so far that the state would increasingly intervene in the acquisition of real estate? This would make housing a responsibility of the state. This has long been the case in the city state of Singapore. Berlin is also pursuing this path to some extent. But there's also a clear trend in Swiss cities with a shift away from private ownership and market economy solutions towards subsidies, relief and allocation, or even expropriation, despite this being difficult to implement under constitutional law.

Real estate investments entail political risks

State intervention in the housing market can help achieve goals like restricting rental price increases. But there are also significant additional costs. Without private investment, only the bare essentials will be repaired and the quality of housing will deteriorate. If prices don't control housing allocation, other factors will, heightening the risk of political patronage or even corruption.

From an investor's perspective, there are many benefits to real estate investments, but the political risks are extremely likely to increase.

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