PostFinance
Investment navigator 2023

When will there be an upturn?

PostFinance

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Interview

Strategy is called for during downturns, and courage during upturns

Philipp Merkt is PostFinance's Chief Investment Officer. In the interview, he looks ahead to 2023 and explains why investment requires a long-term plan, discipline and a bit of courage sometimes too.

Philipp, you[1] took over responsibility for PostFinance's investment business in 2022. Did you hope for a better investment year at the start?

It's true – 2022 was an awful year for investment that nobody would have wished for. But our investment solutions performed very well compared with other providers. My team and I took great satisfaction in that. I'm hardly new to the business: I've worked in the investment sector for over 20 years, and have therefore had some bad years, but far more good years for investments. I also previously led the project group on developing PostFinance's investment business and already sat on the investment committee over the past few years. I'd say our solutions passed the 2022 "stress test".

Philipp Merkt
Chief Investment Officer

What are the key things you've learned from the "stress test"?

Getting through a period of turbulent markets and major market corrections takes a good strategy and lots of discipline. Money is an incredibly emotional matter. But relying too heavily on emotions and failing to accept how little we actually know about the short-term development of the financial markets can soon lead to big mistakes. You can't suddenly abandon a strategy aimed at long-term success. Portfolios need to be adjusted systematically and with sound judgement. Investment decisions mustn't be driven by fear or greed.

Some observers think the worst is now over. Will 2023 be a golden year for investment after the disastrous 2022?

No one can predict that with any certainty. Most of the so-called experts, who are particularly vociferous, were completely wide of the mark last year. That said, even though we can't really predict the future, we do expect an upturn on the markets over the course of the year. Because we don't know when that will happen, we need a strategy to protect us in tough times, while allowing us to assume more risk again in good times and, in turn, to generate attractive returns.

What would you say about 2023, leaving aside things we simply can't know?

In the global economy, we expect genuine economic weakness in the first quarter. China experienced economic trouble last year. Consumers in the western world were very pessimistic in autumn and winter due to high inflation and the loss of purchasing power. And businesses are concerned about high energy costs, which will persist for some time to come. Meanwhile, we see an inverted yield curve in EUR, USD and GBP. All of these factors do not point to a rapid economic recovery.

Will weak growth at least bring about lower inflation?

We do expect that to happen. But we can't judge at this point how far inflation will fall with any certainty. Historically, sharp rises in inflation have led to periods of excessively high prices for several years. Inflation may well remain higher than we'd like for a while.

[1] The PostFinance culture fosters straightforward working relationships on an equal footing. We cooperate efficiently within a flat hierarchical structure and use familiar forms of address across all levels and departments, from our apprentices to our CEO.

What does that mean from an investment perspective?

That we're still some way off normal conditions. The central banks can't relax while (core) inflation still lies above interest rates. Over the long term, interest rates need to be higher than inflation if we're to achieve sustainable growth. Unless those conditions are met, the financial markets are likely to remain anxious.

But can governments afford higher interest rates in view of their huge debt burden?

That's a good question in many different ways. Firstly, the positive part of the answer. People forget all too easily that higher inflation also means an increase in state revenue. We also overlook the fact that much of government debt is long-term. That means the impact of the rise in interest rates on budgets comes with a considerable delay and the existing government debt will be repaid with devalued money to some extent.

"Sustainability is a key issue for PostFinance that heavily influences our actions as well as our investments."

And what's the downside?

At the moment, it doesn't look as though governments will use the time remaining to prepare public budgets for the higher interest payments that will inevitably come. Instead, more and more money is being distributed and deficits are widening rather than shrinking. So a unique opportunity to break the vicious circle of debt has been missed.

And what does all that mean for the markets?

The financial markets will have to get used to higher interest rates when it comes to bonds. Investors are increasingly cautious about government bonds. That's driving interest rates up overall. And higher interest rates also affect the valuation of real estate and equities. However, returns are rising with inflation. This means there's a preference for investments that create genuine value – whether through their products and services, or due to the living space provided.

But these investments are higher risk than bonds. How should investors deal with this greater risk?

By continuing to invest in a well-diversified portfolio. We provide appropriate investment solutions in line with the relevant level of risk appetite and risk capacity. A proper analysis of the risks and opportunities needs to be made within the strategic framework set. When opportunities outweigh risks – and that's usually during a recession – it take courage to increase the risk level within the parameters set.

When investing in equities and real estate, real problems can arise. What about the burning question over the sustainability of companies and real estate in your investments?

Sustainability is a key issue for PostFinance that heavily influences our actions as well as our investments. We try to make the right investment decisions based on sound judgement. That's why we also provide sustainable customer solutions. The selection of investment instruments plays a key role here. Certain investments, such as precious metals or raw materials, can be entirely excluded when adopting a sustainable approach.

Sustainability incorporates various aspects, and means something different to every one of us. How do you deal with that?

We're aware that people's definition of sustainability is very individual. When investing in sustainability strategies, we follow proven industry standards. We select those companies who demonstrate a strong commitment to the environment (E), but also perform well in terms of social responsibility and corporate governance (S and G) relative to their industry competitors. By doing so, we believe that we can meet the requirements of most investors.

Your question

Stock markets suffered major downturns last year. Is now the right time to invest?

Our answer

2022 was a difficult year for financial investments. The rise in inflation and, in turn, interest rates hit equity valuations hard. That was of great concern to many investors.

We do expect this market correction to come to an end soon. But no-one knows exactly when that might happen. In light of this uncertainty, it may be worth making gradual rather than one-off investments

A look back at 2022

A turbulent year lies behind us

The past year was challenging for all asset classes. Inflation, war and fears of recession are just some of the issues that explain why most asset classes have fallen in value. Using key events, Beat Wittmann, Head of Investment Office, explains how PostFinance has dealt with these challenges facing its customer portfolios.

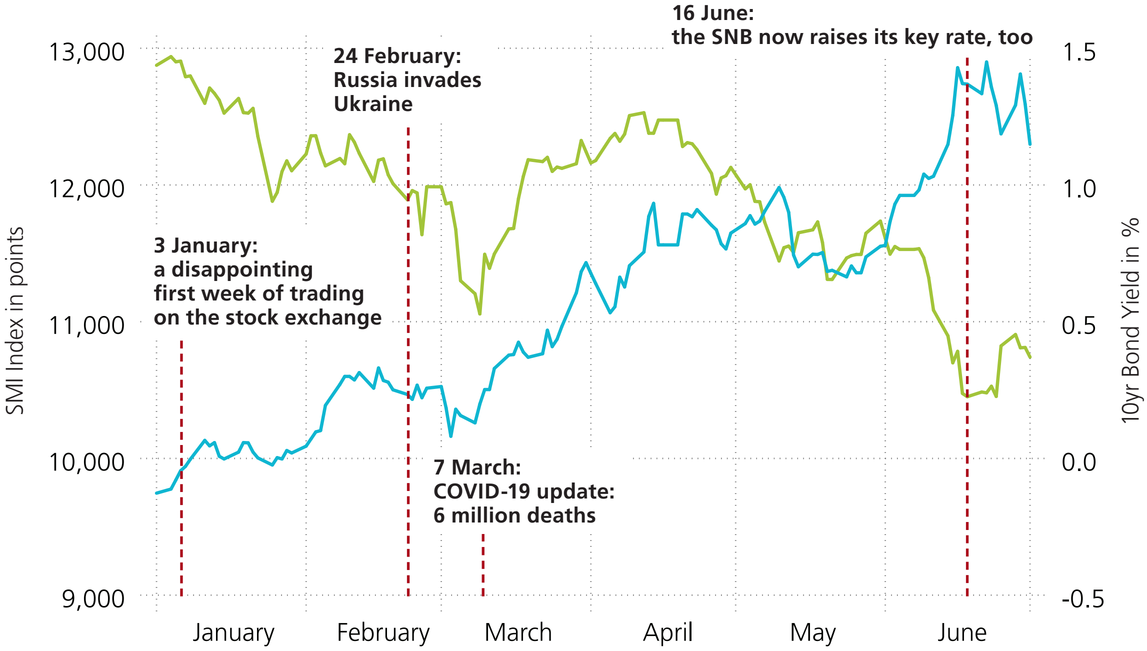
Monday, 3 January 2022: a disappointing first week of trading on the stock exchange
The New Year often sees a rally on the stock markets, but not in 2022. The first week of trading was marked by rising interest rates and falling equity prices. We were helped by these developments when it came to bonds as we had held a heavily underweighted position in this asset class in our customer portfolios for some time due to higher inflation risks.

Many observers today may have forgotten that inflation stood at 7 percent in the USA and at 5 percent in the eurozone at the start of the year. This means our inflation problem is clearly more the result of the very expansive fiscal and monetary policy during and after the pandemic, and not just due to the conflict in Ukraine. Interest rate hikes also seemed just a matter of time at the start of the year. We therefore adopted a cautious approach towards equities at the start of the year, limiting our exposure to the strategic allocation.

Beat Wittmann
Head of Investment Office

Thursday, 24 February 2022: Russia invades Ukraine
The last weekend in February will go down in history. After weeks of NATO warnings about Russian military activity, the inconceivable in post-war Europe happened: the biggest country on the continent launched a war of aggression on the second biggest nation in terms of area.

Review of 2022 – 1st Semester



Source: Factset

The negative trend on the financial markets at the start of the year continued due to growing concerns over the conflict. Immediately after the outbreak of war, the oil price soared to a high for the year of 120 US dollars per barrel. Gold also reached its highest level for the year at over 2,000 US dollars per ounce. The stock market dropped briefly before staging a temporary recovery. We took advantage of market uncertainty in March to reduce equity holdings in the customer portfolios. This paid off as the downturn continued from April.

Interest rates continued to rise sharply. Higher energy prices and rising inflation began exerting considerable pressure on central banks. It seemed that substantial key interest rate hikes were needed, but the central banks continued to play for time. It was not until 17 March that the US Federal Reserve provided relief for the markets with an initial, tentative interest rate hike of 0.25 percent.

Monday, 7 March 2022: COVID-19 update: 6 million deaths

We were still concerned about how COVID-19 might develop at this point. Global mortality figures were alarming and the cold weather was not over in the northern hemisphere. A number of countries then introduced drastic relaxation measures, which proved the right policy in hindsight.

But there was no sign of optimism, due to the Russia-Ukraine conflict. Although we saw a significant upturn in the consumption of services, restaurant visits and tourism, people lacked the confidence to quickly return to pre-pandemic spending levels.

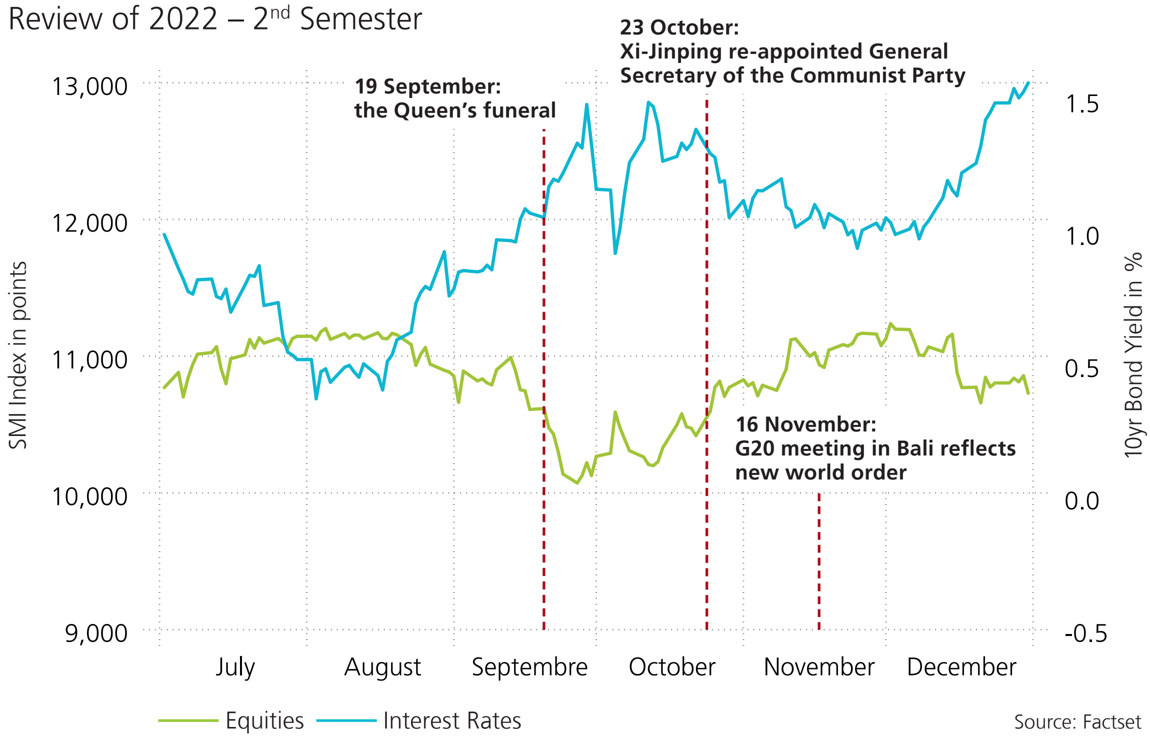
> "The financial markets will be seeking a new equilibrium in the New Year."

Stringent coronavirus measures remained in place in some countries. China's zero-COVID-19 strategy in particular proved extremely challenging over the course of the year. The restrictions on freedom and human rights in China, which would be inconceivable for western states, meant the Chinese economy was the first to run into trouble. The Chinese stock market also experienced a sharp downturn over the course of the year.

Thursday, 16 June 2022: the SNB now raises its key rate, too

More than three months after the US Federal Reserve, the Swiss National Bank (SNB) raised interest rates for the first time. It was bold enough to hike rates by 0.5 percent. Yet, money market interest rates still lay in negative territory. Yields on 10-year Swiss federal government bonds had reached 1.5 percent by this time. Negative interest rates only disappeared on 22 September.

Review of 2022 – 2nd Semester



Source: Factset

In June, we were convinced that further interest rate hikes would be necessary. Money market interest rates usually stand at or above the rate of inflation. This had climbed to over 3 percent by the end of the first six months. Negative or zero interest rates then seemed absurd. As a result, we reduced the equity allocation in the customer portfolios again in June.

"In June, we were convinced that further interest rate hikes would be necessary."

The SNB's interim financial statements caused additional uncertainty. The SNB posted a loss of almost 100 billion francs over the first six months of the year. That's more than the Swiss Confederation's total spending in a year, and a clear sign that the SNB had taken excessive risks with its monetary policy geared towards the exchange rate. Due to these losses running to billions, it abandoned its currency purchasing programme, which caused the Swiss franc to strengthen considerably over the remainder of the year.

Monday, 19 September 2022: the Queen's funeral
The year's biggest TV event was undoubtedly the funeral of the UK's Queen Elisabeth II. At the age of 96 and after 70 years on the throne, the UK and Commonwealth bade farewell to their highly esteemed monarch.

An unparalleled period of decline for the UK entered a new era. Whereas the UK economy was larger than that of China, India, Japan, France and Germany at the start of Elisabeth's reign, it has now slipped from 2nd to 5th place among the industrialized nations. The fact that Brexit has, up to now, failed to deliver the economic benefits that the UK had hoped for has been another contributory factor. Since leaving the EU, the UK has achieved only half the per-capita growth of the remaining EU members.

Sunday, 23 October 2022: Xi-Jinping re-appointed General Secretary of the Communist Party
There was a great deal of anticipation ahead of this year's Congress of the Chinese Communist Party (CCP). After two terms in office, it was actually time for the CCP's General Secretary and Chinese President to make way for a successor. But this handover of power failed to happen, as expected. Xi was reelected in office, and appointed figures from his close circle to the Central Committee. It means China is gradually moving further away from democratic ideals and values of freedom.

In turn, there are fears that the Chinese government may actually implement its continually reaffirmed official political goal of reunification with Taiwan in the foreseeable future. At the party congress, not only was it reiterated that this objective would never be relinquished, but Xi also emphasized that military force could also be deployed if needed. That was an alarming development, and not just for the financial markets.

Global economic data 2022

	Real GDP-Growth		Potential growth [2]	Inflation		Unemployment		Prime rate	Public debth (in % of GDP)	
	2022 [1]	Ø 10Y	2022	2022 [1]	Ø 10Y	2021	2022	Dec 2022	2021	2022 [1]
Switzerland	2.20%	1.74%	1.47%	2.80%	0.24%	3.02%	2.00%	1.00%	42%	43%
USA	1.00%	2.15%	1.66%	7.00%	2.43%	5.50%	3.70%	4.50%	128%	133%
Eurozone	2.00%	1.28%	0.83%	9.20%	1.73%	7.80%	6.50%	2.50%	95%	99%
UK	2.50%	1.72%	1.58%	9.80%	2.35%	4.64%	3.60%	3.50%	95%	108%
Japan	1.50%	0.46%	0.95%	3.80%	0.76%	2.82%	2.60%	–0.10%	263%	257%
China	3.50%	6.40%	4.45%	1.60%	2.00%	5.12%	4.00%	3.65%	72%	69%
India	6.00%	5.69%	5.02%	5.90%	5.71%	7.91%	11.00%	6.25%	84%	91%
Brazil	0.00%	0.60%	0.89%	5.90%	6.20%	13.82%	8.30%	13.75%	93%	91%

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

Source: Factset

Performance of asset classes

		Performance 2022 In Local currency	Performance 2022 in CHF	Performance 5Y [1] in CHF	Performance 10Y [1] in CHF
Currencies	EUR	–	–4.6%	–3.3%	–2.0%
	USD	–	1.3%	–1.0%	0.1%
	JPY	–	–11.0%	–4.0%	–3.9%
Fixed income	Switzerland	–12.1%	–12.1%	–2.1%	–0.2%
	World	–16.2%	–15.2%	–2.7%	–0.3%
	Emerding Markets	–18.4%	–17.3%	–2.4%	1.5%
Equities	Switzerland	–16.5%	–16.5%	5.0%	8.1%
	World	–17.9%	–16.9%	4.0%	9.1%
	USA	–19.8%	–18.8%	7.6%	11.9%
	Eurozone	–12.5%	–16.5%	–0.4%	4.7%
	United Kingdom	7.1%	–2.8%	0.0%	3.2%
	Japan	–4.5%	–15.0%	–0.7%	5.8%
	Emerging Markets	–20.1%	–19.1%	–2.4%	1.5%
Alternative Investments	Swiss real estate	–15.2%	–15.2%	2.9%	4.3%
	Gold	–0.3%	1.0%	5.8%	1.0%

[1] Average yearly performance

Data as 31.12.2022
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Sunday, 16 November 2022: G20 meeting in Bali reflects new world order
On a brighter note, this year's meeting of the world's 20 largest economic nations did give us cause for optimism. Excluding Russia, the states agreed on a closing declaration that strongly condemned Russian aggression in Ukraine. The Indian Prime Minister Modi lobbied for this step beforehand, securing the support of the non-western states and China.

Even better news was the US government's move to improve relations with the Chinese government. After intensive bilateral talks between the world's two remaining superpowers, the summit was able to focus on the common ground shared by the assembled states. It seemed as though the US would resign themselves to the inevitability of the situation and begin to accept a bipolar world. A peaceful transition away from US hegemony through collaborative joint leadership with China could support global peace over the coming years.

In summary
2022 packed a punch in every respect. Inflation is a real issue again and concerns of a recession are not without foundation. Leaders of the world's economies face major challenges. Monetary policy had to focus on reining in inflation for the first time in many years. Fiscal policy is seeking to tackle the energy crisis, but cannot simply rack up new debt. Let's not forget that our inflation problem is primarily the result of overly generous fiscal redistribution during the pandemic.

The financial markets will be seeking a new equilibrium in the New Year. A major factor is how high new interest rate levels will be in a world of renewed inflation. Once we find solid ground, then we can look to the future positively again. We're optimistic that we'll be able to report on that in the review of 2023.

Review of 2022 in figures

99,273 bn
Value of exchange-listed equities worldwide in US dollars

103,230 bn
2020

121,523 bn
2021

Source: Factset

0.98
Swiss Franc against euro

1.08
2020

1.04
2021

Source: Factset

4.50%
US key rates

0.25%
2020

0.25%
2021

Source: Factset

36%
Growth in restaurant visits in Switzerland

–58%
2020

141%
2021

Source: PostFinance consumption indicator

16,599
Bitcoin value in US dollars

28,996
2020

46,333
2021

Source: Factset

164,737
Job seekers in Switzerland

150,705
2020

208,994
2021

Source: KOF

Your question

The prices of almost all financial investments fell in 2022. Is diversification actually still worthwhile?

Our answer

Diversification is definitely the best approach. Even in 2022, some financial assets, such as commodities, gained in value.

Diversified investment means not putting all your money into a single company, sector or asset class, such as equities, but instead into many different companies, sectors and asset classes. If we knew exactly what was going to happen, we wouldn't need diversification. But unfortunately we don't. That's why it's best to spread your chances of success over several areas. This may rule out huge gains, but it minimizes the chance of considerable losses too. Diversification remains the foundation for successful long-term investment.

E-asset management

Our portfolios in 2022

Our portfolios were hit by an extraordinary slump in all asset classes last year. Defensive financial investments, such as bonds, suffered losses that were just as high as those on equities and listed real estate investments. This combination is unprecedented.

Performance in CHF, Risk strategy "Balanced"
05.2020 = 100 (since the launch of the investment solution)

Source: PostFinance, Bloomberg

2022 goes down in history
2022 was a challenging and extraordinary year that had a huge impact on our portfolios.

The fact that hardly any asset class managed to achieve a positive return last year was particularly difficult. All investments were caught up in the downturn caused by high inflation and interest rate hikes. Only energy stocks, which are part of our portfolios, and commodities enjoyed a positive year. Gold investments and cash held their value, stabilizing the portfolios to some extent. While equities suffered the greatest losses, bonds, in particular, performed disappointingly in 2022. They suffered their biggest slump in over 50 years.

Accordingly, our balanced portfolios, with a target equity allocation of 50 percent, lost around 14 percent in value, partly giving back profits generated over the past two years.

The sharp appreciation in the Swiss franc meant the portfolio with the "Swiss" focus lost slightly less ground last year, thanks to its large allocation of Swiss financial investments, than the "Global" portfolio, which is geared towards international markets. By contrast, the decision not to include gold investments in our sustainable strategies led to slightly higher losses in the portfolio with the "Sustainability" focus.

Long investment horizon pays off
The painful losses provide another reminder of the volatility of the financial markets. On average, a downturn on the scale of 2022 is expected every 10 to 15 years. The last major slump in 2008 was 14 years ago. This goes to show that a long time horizon pays off in financial investment. Despite the 2022 slump and the sharp, but brief downswing in 2020, investors with our portfolios have achieved a profit of around 4 percent since the launch of our e-asset management solution in May 2020. If our portfolio solutions had existed 10 years ago, 100 francs of capital invested 10 years ago would now be worth around 135 francs.

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.

postfinance.ch/funds

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.

postfinance.ch/e-trading

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.

postfinance.ch/fundconsulting

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.

postfinance.ch/retirementfunds

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/market-view

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.

postfinance.ch/investmentconsulting

Consulting
Investing sustainably

It is possible to do good by investing sustainably without having to curb your prospects of making a return.

Whether it's equities, funds or bonds, PostFinance has the right solution if you're looking to invest sustainably or to plan for retirement.

Award
Best Wealth Managers

Every year, Bilanz honours the best asset managers in Switzerland. PostFinance made the top 5 directly in the "moderately dynamic" strategy over 24 months.

Prospects 2023

Attention shifts to the weak economy

2023 will be marked by two contrasting halves. Inflation, rising interest rates, in turn, and an economic slowdown look set to remain the big issues during the first half-year, leading to challenging financial market conditions. But there are hopes the rest of the year may see an upturn. Emerging market investments are likely to benefit most in 2023 if the recent dollar weakness continues.

Reining in inflation remains top priority
Consumer prices in the industrial nations are rising at their fastest pace for 40 years, even if inflation rates in the USA and now also in Europe have peaked. A further slowdown in overall inflation rates is expected over the next few months. The key factor here is the fall in crude oil prices during the second half of 2022. But core inflation, which excludes energy and fresh food prices and is a better indication of the underlying price trend, remains uncomfortably high. Due to the delayed adjustment of state-controlled prices, such as electricity, gas and, to some extent, rent, the inflation trend may even surge again in Switzerland over the short term.

The first half of 2023 still looks set to be overshadowed by inflation and the central banks' battle to control it. The most aggressive rise in interest rates controlled by the central banks since the 1980s will enter its second phase. In Europe, where the European Central Bank has long held back from tackling rising inflation, interest rate hikes of a further 1.5 percentage points are expected. The Swiss National Bank (SNB) may also raise its key rate again, albeit more moderately.

Economy as collateral damage
Besides inflation, attention will also increasingly shift to economic performance. High inflation and rising interest rates are a toxic combination for the economy. Most recessions are triggered by monetary policy tightening. 2023 won't be any different. We already saw an economic slowdown last year. Falling real wages and lower asset values, due to the collapse in prices on the stock markets are having an almost unprecedented adverse impact on consumer confidence. Companies also appear increasingly pessimistic about future business prospects in the regularly conducted surveys.

Events coming up in 2023 – January to June

1 January: Croatia introduces the euro

In the first expansion of the eurozone since 2015, Croatia introduces the euro and becomes a member of the Schengen Area.

6 May: Charles III to be crowned King

The coronation of the new monarch traditionally takes place several months after accession to the throne – and so too with Charles.

January | February | March | April | May | June

22 January: Start of the Chinese year of the rabbit

The start of the Chinese New Year will be overshadowed by coronavirus once again.

18 June: Presidential elections in Turkey

President Erdogan has indicated he will be standing for election for the last time.

1 January: Lula da Silva takes office as President of Brazil

After an extremely narrow election victory, Lula wants to bring the divided nation together.

Conditions set to improve over the course of the year

Conditions will initially remain tough for the financial markets, with rising interest rates and a looming recession. This mix presents a huge challenge, especially for the equity markets. Low interest rates and record-high profits have smoothed the way for the stock markets since the end of the 2007–2009 financial crisis. 2022 marked the end of the heyday of cheap money, with losses in almost all asset classes and the crash of tech stocks and cryptocurrencies.

However, we're confident that conditions will improve for the financial markets over the course of the year. Firstly, we expect the rising interest rate trend to ease off in the second half of the year. But the central banks may well make more aggressive hikes before then. If companies aren't able to increase their prices much, or even at all, due to a drop in consumer demand, inflation rates may fall again. As in the past, an economic slowdown may resolve the inflation issue.

Secondly, last year's price correction also offers investors profit opportunities. Investors can expect higher long-term returns than a year ago. The market boom in the 2010s actually led to a constant decline in future returns. This is shown by the example of Swiss bonds. A year ago, the yield on a 10-year federal government bond stood at –0.5 percent. This mean investors were paying to lend the state money. Today, the yield to maturity stands at 1.2 percent. The sharp price slump last year, especially for bonds, means the yield potential for financial investments has improved again.

A race in Asia

While COVID-19 faded into the background here last year, it will remain a huge issue for China in 2023. The as-yet unchecked spread of the virus looks set to hit people and the economy hard again short-term in the Middle Kingdom. That said, the situation is also expected to improve in China in 2023. As we saw here and in other parts of the world, the end of lockdown measures will see consumer demand shift from goods to services. For us in the West, this may result in the return of Chinese tourists.

> "High inflation and rising interest rates are a toxic combination for the economy."

An unusual kind of race will also play out between India and China this year. OECD estimates indicate India will overtake China as the world's most populous nation in 2023. With 1.41 billion people each, China and India today make up almost a third of the global population. While India's population will continue growing strongly, a dramatic decline in China's is predicted over the new few decades. The demographic trend is already presenting the Chinese economy with major challenges.

Events coming up in 2023 – July to December

9 to 10 September: G20 summit in New Delhi, India

India wants to use its presidency of the G20 to reshape globalization.

20 July to 20 August: 2023 FIFA Women's World Cup

After the first winter World Cup in Qatar, the women's World Cup will be held in Australia and New Zealand during the winter.

22 October: National Council and Council of States elections

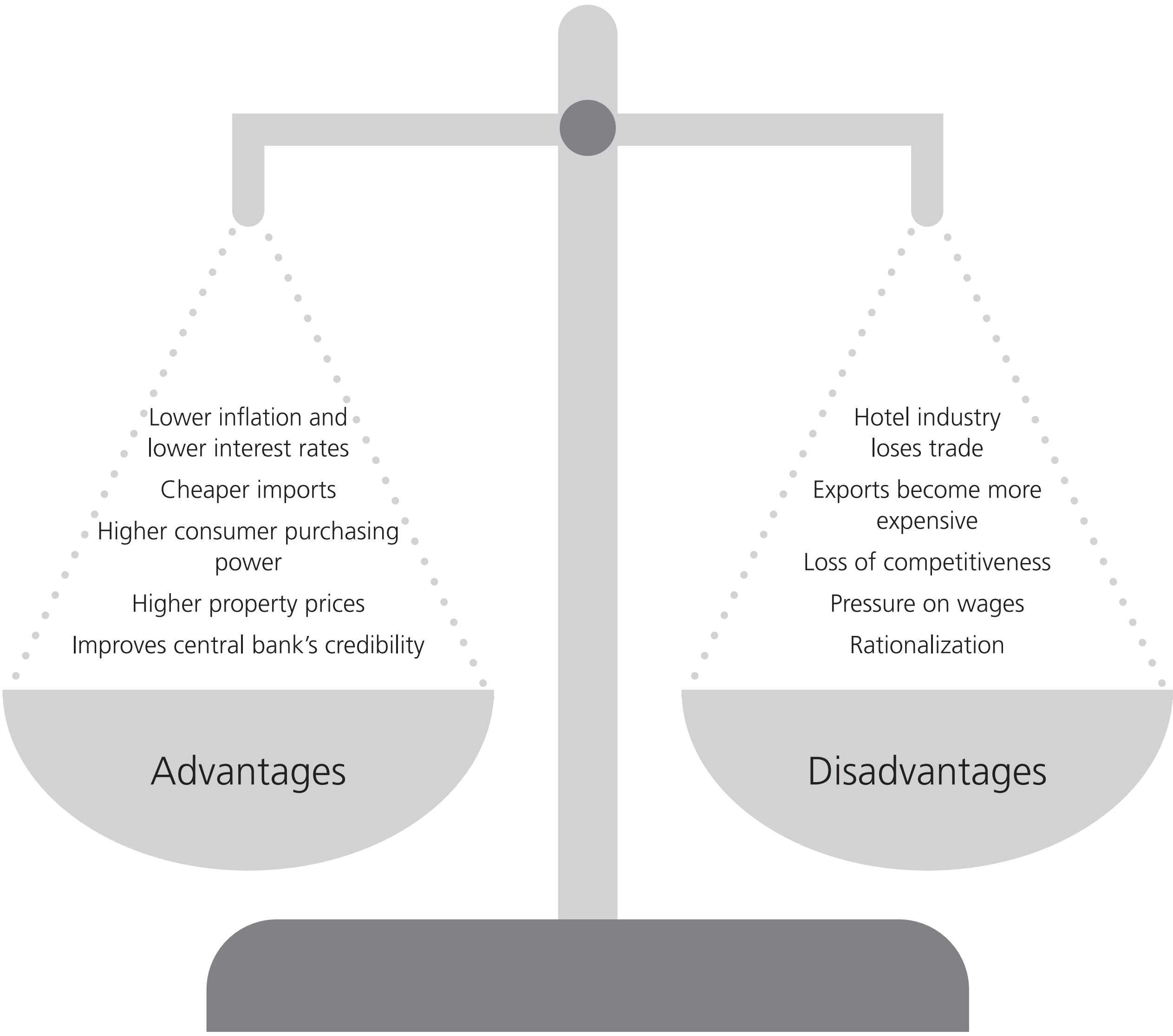
Polls indicate Switzerland will shift slightly to the right.

What will happen to the US dollar in 2023?
The performance of the US dollar in 2023 will be a key factor for many emerging and developing markets. Many countries are still financed by capital raised in US dollars. If the US currency strengthens, this will result in higher lending costs, making repayment harder. The strength of the US currency has troubled many countries since 2014, contributing to states like Zambia and Sri Lanka defaulting on payment. The dollar's strength has also caused turmoil in emerging market equities in the past.

A trend reversal emerged in the final quarter of 2022, which saw the dollar lose around 7 percent of its value against the major currencies. But the US dollar is still heavily overvalued – not least due to the sharp rise in inflation over the past two years. This means the likelihood of a decline in the US currency remains high. However, if the trend reversal is sustained, we can finally hope to see better performance in 2023 and an end to the lost decade for emerging market investments.

Prospects 2023

What are the pros and cons of a strong Swiss franc?



Opportunities and risks

The big issues for 2023

A turbulent year lies behind us. Inflation, the Ukraine war and the energy crisis have dominated the headlines. But it's important not to lose sight of the long-term trends and opportunities. Over the next four pages, we take an in-depth look at four key themes that will be important in 2023 and beyond.

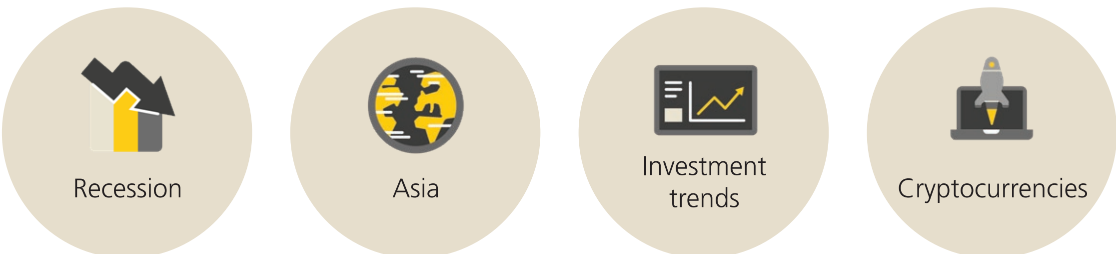
Last year was not exactly plain sailing. The economy in particular faced major challenges – from historically high inflation to a sharp rise in geopolitical risks. That's why gloomy sentiment among consumers as well as in industry and the services sector is hardly surprising. The question everyone's asking is will there be a recession in 2023?

Closely linked to this question is the observation that the global economy is undergoing a tectonic shift. Although the western industrial nations have been at the centre of global economic events over recent decades, China has been making up ground and is now the second largest country in terms of economic output. We shouldn't forget the other Asian nations either – our economic future is increasingly pivoting towards Asia.

These major changes make investment issues more relevant than ever – and that goes for everyone, whether they have assets of 5,000 or 5 million francs. Not investing comes at a heavy price. Lots of people aren't aware of that. Our investment study in collaboration with the Lucerne University of Applied Sciences and Arts provides this and many other fascinating insights.

> "Not investing comes at a heavy price."

Meanwhile, plenty of investors are taking a growing interest in cryptocurrencies, still a relatively new asset class. Only recently, we all saw how the asset class's phenomenal rise suffered a major setback. We've got three pieces of advice for you when it comes to investing in cryptocurrencies.



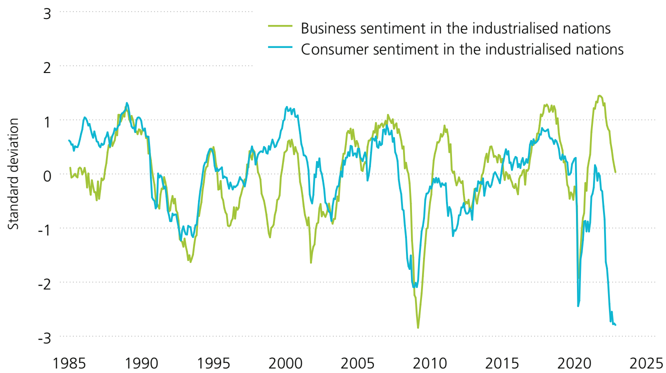
Will there be a recession in 2023?

Everyone's been talking about a looming global recession for months. We think this is highly likely, too. But economic forecasts are never completely certain.

Ever since consumer confidence plummeted in the autumn in the USA and then in Europe too, the warning signals have been flashing bright red for economic experts. Such low consumer confidence figures are unprecedented in the West – despite the fact that some of the surveys date back to the 1950s.

Consumer and business sentiment in industrialised countries

Survey data, standardised



Source: Factset

Business sentiment remained optimistic for a long time

Yet business confidence remained very strong for some time last year – unlike the downbeat mood among consumers. That was particularly true of goods producers, whose order books were still full following the huge spike in demand for their products after the pandemic. Corporate earnings rose equally rapidly during this period after the COVID-19-related slump, with annual growth rates hitting almost 40 percent.

But these order levels now seem to be gradually easing off. Earnings are also increasingly on a flat to slightly downward trend. This means companies are currently more cautious about their future prospects.

Rising interest rates hit construction industry

The economic slowdown is already having a considerable impact on the construction industry, in particular. At the start of the year, the sector was sluggish, with levels of activity varying from country to country. Construction output has actually been falling in Switzerland since the 4th quarter of 2021. Rising interest rates have left their mark in other countries over the course of the year. The US real estate market slowed significantly during the year due to a doubling in long-term mortgage interest rates.

Few reasons for optimism

The fact that interest rates are still negative when adjusted for inflation provides a glimmer of hope that companies might step up investment again. But there is no sign of that happening so far. It means we're concerned companies may lose their appetite for investment unless consumption levels rise substantially soon.

"Yet business confidence remained very strong for some time last year – unlike the downbeat mood among consumers."

If we consider that China – one of the world's two major economies – is experiencing economic difficulties too, it seems just a matter of time before Europe and the USA follow suit. This time around, governments and central banks have far less room for manoeuvre than in previous recessions. Given persistently high inflation, central banks are hardly likely to be able to support the economy with a similarly expansive monetary policy as they are currently still rigorously pursuing a restrictive course. And governments, too, have already had to spend large sums recently to finance support measures. This means the fiscal economic measures available to them are limited, so there is relatively little chance of a soft landing.

Where does the future lie? In China or India?

The focal point of the global economy is shifting towards Asia. While the West's economy was just as strong as that of Asia's emerging markets 10 years ago, Asia's economy will be twice as big as the West's in 20 years' time.

Even though the official statistics on the Chinese economy are continually sugarcoated, academic researchers agree that China has achieved very strong growth over the past 40 years. If economic output is converted at market exchange rates, independent estimates indicate that China now has the world's second largest economy.

"But few people are aware that India is only just behind China."

With China set to achieve faster growth than the West in the foreseeable future, it will play an even more significant role. China will have the world's largest economy by some margin and replace the USA as the focal point of the global economy.

India catches up

But few people are aware that India is only just behind China. India's economic output has grown even more rapidly than China's over the past 10 years, and there is every indication that it will remain the case. Population growth in these two countries is reinforcing this trend. While China is currently the most populous nation in the world with 1.41 billion people, India is close behind with just 10 million fewer people, and has significantly higher growth momentum. This means we can expect India to overtake China as the world's most populous nation next year. UN forecasts indicate that India's population may grow by a further 400 million by 2050.

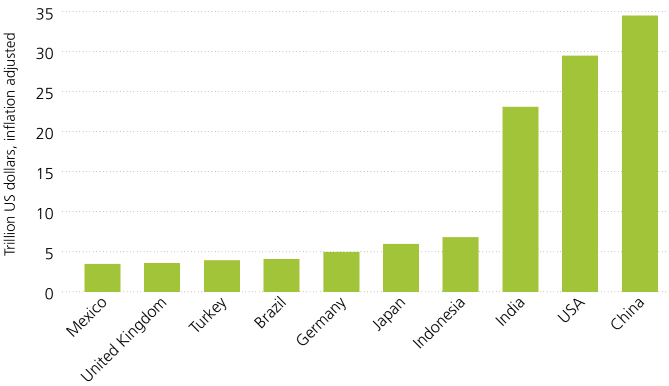
Population increases and economic growth are often closely interlinked. The main reason is that a growing and younger population has greater need for goods and services. So India's economy has considerable potential to catch up. The International Monetary Fund (IMF) is forecasting that India's economy will post an average annual growth rate of 6.7 percent from 2023 to 2027. Not only will the gap between China and India gradually narrow, but India will also continually make up ground on the USA.That said, based on current evidence, it may take some time.

Uneven growth

However, we can assume that India's increase in GDP over the next 20 years will be greater than that of the USA in absolute terms. At such a rate of growth, India will replace the EU as the third largest economic power by the mid-2030s.

Size of the economy in 2040

Projected national income in trillions of US dollars



Source: Penn World Tables, PostFinance

But that's not all. Other nations in the region are likely to grow strongly, too. Indonesia is expected to achieve higher growth in absolute terms over the next 20 years than all of Europe combined. The key question in the debate isn't whether the future of the economy lies in "China or India" but rather in "Asia or the West". The answer is unequivocally Asia.

Who's investing, who isn't – and if not, why not?

The main reasons why Swiss people are reluctant to make investments are a perceived lack of assets and not enough knowledge, coupled with concerns about making mistakes. What people forget is that there's a heavy price for not investing too.

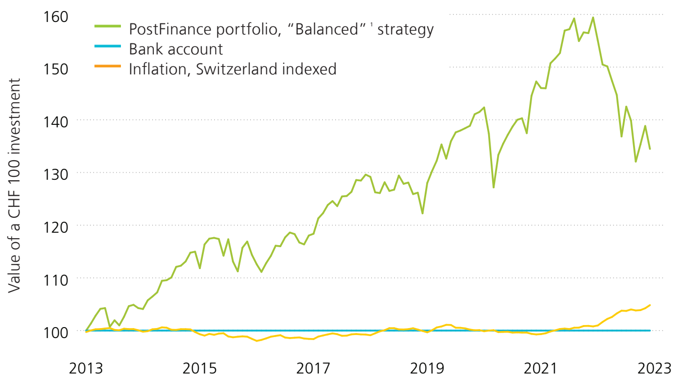
If you're reading this text, it's highly likely that you belong in the first category – that of investors – or at the very least you're very interested in investment opportunities on the financial markets. This applies to only around half of all households in Switzerland. The days when people had to rely on expensive banking advisors for financial investments are long gone. Many banks offer their customers the opportunity to invest independently 24/7 today via desktop and mobile apps. But many people still feel daunted by financial investing.

Investing pays off

Investing pays off – for everyone. Contrary to the general perception, you don't need a minimum amount in your account to invest on the financial markets. In a recently published study on the investment behaviour of Swiss people, which PostFinance conducted together with the Lucerne University of Applied Sciences and Arts, one in five participants with an account balance of over 100,000 Swiss francs – a large amount – thought they didn't have sufficient assets to invest. Yet, as the graphic below highlights, investing in assets from just 5,000 francs is worthwhile.

Investing in securities pays off in the long term

Performance of a securities portfolio compared to a bank account and inflation



Source: PostFinance, Factset

What's more, not investing isn't free, but comes at a heavy price. Particularly during times of inflation, you shouldn't underestimate these opportunity costs. A simple comparison between the performance of the PostFinance capital gain portfolio over a three-year period and "leaving funds in an account" clearly shows that not investing is actually expensive.

Significant differences

The differences in investment behaviour across the generations as well as between genders are striking. The level of investment generally increases with age, income and disposable assets. The exception to this trend is generation Z (born between 1997 and 2004), who invest just as frequently as generation Y (born between 1981 and 1996). When it comes to advice and expertise, younger investors mainly place their trust in friends and parents as well as social media and online platforms, whereas the older generations prefer to talk to an investment advisor.

"What's more, not investing isn't free, but comes at a heavy price."

Women invest less often in securities than men (40 percent vs. 60 percent). Female investors place less trust in investment than their male counterparts, despite performing almost as well in the objective assessment of financial knowledge carried out as part of the study. The more critical self-perception of female investors and their lower interest in financial matters are possible explanations for this gender investment gap. Just 19 percent of female investors said they were "very" or "quite" interested in the financial markets.

Trust is important

Trust – based on knowledge and transparency – is the key factor in investment across all investor groups. This includes easy access to information, cost transparency and being able to make your own investment decisions. This is particularly evident in relation to sustainability, which many investors consider an important issue. However, very few are aware of the variety of sustainable investment products available and the stringent selection criteria that are applied to them.

[1] Indicative performance, including total 1% mandate and instrument costs, focus "Switzerland".

Crypto blues

Crypto investors have had a tough year. Cryptocurrencies fell sharply and large-scale mismanagement led to the collapse of one of the major crypto exchanges. We have three pieces of advice for investors to stop the crypto blues from turning into a nightmare.

Be well informed

Of course, we all hope to turn a quick profit when investing. But if a quick profit is your only motivation when investing, then disappointments are inevitable. What applies to all financial investing is particularly true of crypto investments, a relatively new asset class. So do some thorough research, identify the risks and opportunities of crypto investments for yourself and weigh up your investment decisions carefully. Investing in cryptocurrencies requires a certain affinity for new technologies. There are now well over 20,000 cryptocurrencies that sometimes have very different characteristics. Researching your selection well takes time. Without any real affinity or strong interest, you'll find it difficult to endure the highs and lows of this type of investment. But one thing is for sure – cryptocurrencies as a technology have always worked, the mistakes so far have been made by the companies and players involved. By way of analogy, you could say that you wouldn't call share trading into question if a stock exchange goes bust. The main difference with cryptocurrencies is retail customers do not have direct access to stock exchanges, but only the banks. The regulation of cryptocurrencies will set things straight over the coming years and provide investors with better protection in future.

Difficult year for crypto investments

Performance of Bitcoin against CHF

Source: Factset

"Then, you can sit back and enjoy the music – with both the high and low notes."

Know your limits

Only invest as much as you're prepared to lose. Behinds the buzzwords of cryptos, digital currencies, security and non-fungible tokens (NFTs) etc. lie lots of assumptions and hopes, including the shift towards decentralized financial systems, the benefits of blockchain technology and the promise of absolute security through encryption and decentralized distribution. These assumptions have yet to materialize though. In terms of its development, the asset class is roughly at the stage where tech stocks were in the late 1990s. The question is whether the business models still in their infancy can develop and thrive (and secondly which protocols will establish themselves). Nobody knows the answers today. The potential for profit and loss is equally uncertain. However, this relatively new and, in turn, very dynamic asset class has shown high volatility. The price of the most famous cryptocurrency Bitcoin made impressive gains of 65 percent in 2021, only to fall in equally spectacular fashion the following year. You also need to bear in mind the possibility of a total loss. Quite a few cryptocurrencies have disappeared from the market as quickly as they emerged. Carefully choosing the right ones is crucial. First and foremost, crypto investments should always be an addition to a portfolio, not a core investment. Traditional, proven assets in a well diversified portfolio are still the best option for long-term investment.

Trust

As we saw with the collapse of the US crypto exchange FTX, it's essential to work with suitable, trustworthy partners. Make sure you work with a partner monitored and regulated by a credible financial market supervisory authority and that your assets are not lent to third parties without your knowledge. Ensure your partner provides comprehensive custody guarantees so that your custody account is protected against hacker attacks. And make certain the connection to the traditional financial system works perfectly. Then, you can sit back and enjoy the music – with both the high and low notes.

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