PostFinance investment compass April 2022

PostFinance

Editorial

When something new emerges

People seek progress. Investors can benefit from this – in the long term, at least.

Daniel Mewes
Chief Investment Officer

Twenty-two years ago, in the spring of 2000, just at the time the dot-com bubble was bursting, I was working as a trainee for a global investment company in the US. I realized right at the beginning of my career that when something new emerges, things start moving. But there are also disruptions – old things are replaced, and this is often unsettling. And the risks involved are considerable, because new things tend to be overstated and can result in setbacks.

In the aftermath of the dot-com bubble, there were many voices claiming that the Internet had no future. In 2001, a well-known German futurologist was quoted as saying that "the Internet will not become a mass medium" – it was too complicated a concept.

The pessimists proved to be wrong. When something new emerges, it can be the beginning of big things. Nowadays, tech companies are among the largest of all firms, and this reflects the impact of new technologies on society and the economy.

"We are now managing 1 billion Swiss francs in assets for our customers."

New business models are emerging

What will the world look like in 20 years' time? What will be shaping society? And which companies will be the largest then? Nobody knows. But one thing is sure: when human beings enjoy freedom, they strive for progress, keep on developing and seek new solutions. This gives rise to new business models and new growth opportunities.

It is important to remember this fact, especially in turbulent times like these. In the short term, risks relating to geopolitics, inflation and – a little further down the line – the economy are legitimate concerns. We remain tactically defensive in our investment committee. However, it is still important for investors to adopt a long-term perspective and not become too pessimistic.

Change at PostFinance

For e-asset management, we have deliberately chosen an approach that puts the focus on the long term rather than on quick profits. In the short term, the risks can be high, but over time, investors will benefit from the fact that people do not want to stand still.

We are delighted with how popular our approach has proved. We launched e-asset management in May 2020 and are already managing 1 billion Swiss francs in assets for our customers.

New things have emerged, and great things are yet to come. I am pleased to be able to hand over the reins to Philipp Merkt, who will succeed me in the role of Chief Investment Officer after Easter, and who will most certainly bring a wealth of new ideas to the table. Philipp Merkt has been a member of the investment committee right from the start and has helped shape our policy. As such, we are sure to see a change – but without any turbulence.

Positioning

Calm before the storm?

The sharp rise in interest rates caused small tremors on the bond market. The stock markets, meanwhile, still showed their robust side for the time being. As long as the central banks appear credible in fighting inflation, the markets should stay calm. However, defensive positioning remains advisable.

Russia's invasion of Ukraine has further increased inflationary pressures due to rising energy prices worldwide. However, rising wages and rent are also causing the prices of many goods and services to climb. Central banks are thus faced with a clearer dilemma for action than they have seen for decades. Continuing to support the economy in an environment plagued by inflation allows price pressures to continue rising and even spiral out of control. Fighting inflation with sharply rising interest rates, on the other hand, could slow down economic recovery early on. Recently, even the otherwise liberal Vice-Chair of the US Federal Reserve reacted unusually strongly to the situation, saying that inflation must be fought immediately. This was a sharp turnaround within six months. Due to those clear words and quick change of mind, it is not surprising that interest rates reacted to these developments with an increase on a scale seldom seen before, and that includes in Switzerland. Ten-year Swiss government bonds are at 0.7 percent, a level last reached in 2014. Long-term government bonds in the US and Europe have also risen similarly steeply, causing small tremors. Japanese bonds are an exception. The Japanese central bank is actively maintaining its policy of regulating the yield curve, successfully defending it last month. However, as inflationary pressures continue, so will interest rate pressures around the world. In light of this, we are maintaining our underweighted position in global bonds.

"However, the stock market seems to have largely withstood the anti-inflation announcements and absorbed the shock of the Russian invasion."

Performance of asset classes

Asset class		1M in CHF	YTD [1] in CHF	1M in LCY [2]	YTD [1] in LCY [2]
Currencies	EUR	1.4%	–2.0%	1.4%	–2.0%
	USD	1.8%	2.2%	1.8%	2.2%
	JPY	–5.6%	–4.9%	–5.6%	–4.9%
Equities	Switzerland	9.6%	–4.7%	9.6%	–4.7%
	World	6.1%	–4.3%	4.2%	–6.4%
	USA	5.5%	–4.3%	3.6%	–6.4%
	Eurozone	9.4%	–12.6%	7.8%	–10.8%
	United Kingdom	10.3%	4.9%	9.7%	6.0%
	Japan	–0.1%	–7.6%	5.8%	–2.9%
	Emerging markets	1.9%	–4.8%	0.1%	–6.9%
Fixed Income	Switzerland	–3.6%	–6.5%	–3.6%	–6.5%
	World	–2.8%	–5.7%	–4.5%	–7.8%
	Emerging markets	1.7%	–9.2%	–0.1%	–11.2%
Alternative Investments	Swiss real estate	1.8%	–2.2%	1.8%	–2.2%
	Gold	1.0%	9.3%	–0.8%	6.9%

[1] Year-to-date: Since year start
[2] Local currency

Data as of 06.04.2022
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Recovering stock market

However, the stock market seems to have largely withstood the anti-inflation announcements by central banks and absorbed the shock of the Russian invasion. Despite rising interest rates, global stock markets staged a broad-based recovery. The stock markets are thus still surprisingly robust in the face of higher interest rates and high inflation, with the US stock market leading the way. As a result, prices are only slightly below those we saw at the beginning of the year. The US Federal Reserve looks credible in its fight against inflation. This means that the US stock market still has potential to hold its own. We are easing our underweighting in US equities at the expense of Japanese equities. Although the Japanese stock market also recently showed its strong side, the pronounced weakness of the Japanese yen completely ruined the yield in a portfolio of Swiss francs, and a recovery is not in sight for the time being. However, we are maintaining our underweighting in European equities. The likely tightening of sanctions against Russia and the continued high downturn risks justify our defensive portfolio positioning.

China stumbling

One notable exception to the strong stock market month, however, is the Chinese stock market. China's zero-COVID policy is coming under increasing pressure due to the more contagious Omicron variant. Shanghai, an important economic center, recently had to extend its lockdown. It also seems likely that more cities will be affected. These developments are affecting global supply chains and increasingly weakening the Chinese economy itself. On the other hand, the latest progress in the trade dispute regarding the threatened removal of Chinese companies from US stock exchanges should be viewed positively.

Gold continues to diversify

Gold was steady last month. Although interest rates rose, and with it opportunity costs, the ounce of gold held steady above the mark of 1,920 US dollars. Gold remains interesting in particular due to its ability for diversification. When stock markets fall, the price of gold typically rises. And this is a particularly attractive characteristic for a defensively oriented portfolio. For this reason, we are continuing to maintain our overweighting in gold.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3] ––	–	neutral[3]	+	overweighted[3] ++
Liquidity	**Total**	**9.0%**	**9.0%**					
	CHF	9.0%	9.0%					
Equities	**Total**	**48.0%**	**48.0%**					
	Switzerland	23.0%	23.0%					
	USA	8.0%	10.0%					
	Eurozone	3.0%	3.0%					
	United Kingdom	2.0%	2.0%					
	Japan	4.0%	2.0%					
	Emerging markets	8.0%	8.0%					
Fixed Income	**Total**	**29.0%**	**29.0%**					
	Switzerland	17.0%	17.0%					
	World[2]	6.0%	6.0%					
	Emerging markets[2]	6.0%	6.0%					
Alternative Investments	**Total**	**14.0%**	**14.0%**					
	Swiss real estate	7.0%	7.0%					
	Gold[2]	7.0%	7.0%					

[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation

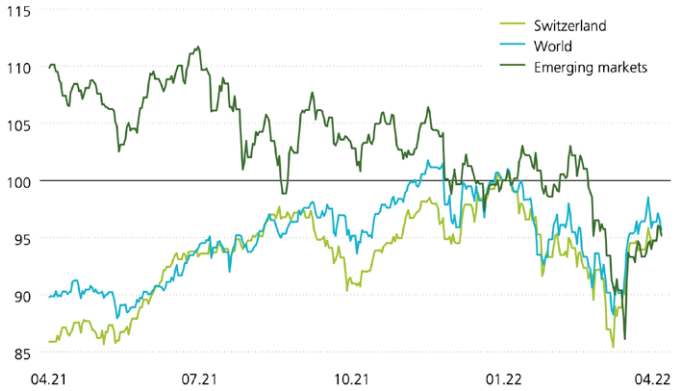
— Adjustment compared to last month

Market overview

Equities

The conflict-related fall in equity prices has now been recouped. However, the equity market faces future headwind from rising interest rates.

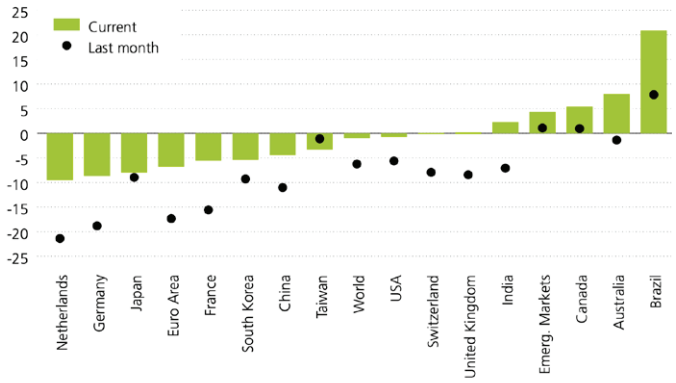
Indexed stock market performance in Swiss francs
100 = 01.01.2022



Following rapid price losses at the start of the war in Ukraine, there was an equally quick upturn after the first week of March. As a result, the losses incurred since the outbreak of war have been recouped. However, equities remain around 5 percent down on year-opening. The shock of the Ukraine war appears to have been absorbed to a large extent. However, interest rate hikes planned and already enacted by the central banks may create economic headwind that could result in a deterioration of the outlook for the future.

Source: SIX, MSCI

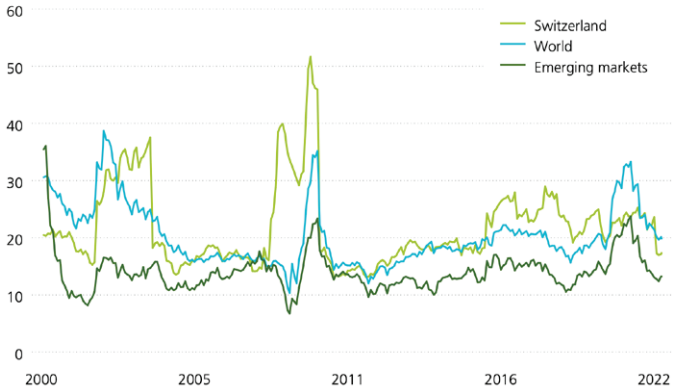
Momentum of individual markets
In percent



Equity markets with a high weighting in the commodities sector have avoided the downward trend since the start of the year. These include Canada, Australia and, to a lesser extent, the UK. Brazil also benefited from rising commodity prices. In addition, the Brazilian central bank has succeeded in boosting investor confidence through aggressive interest rate hikes. The Brazilian real is up by around 20 percent against the Swiss franc since year-opening.

Source: MSCI

Price/earnings ratio
P/E ratio



Companies worldwide achieved high profit growth last year. This meant that the ratio of equity price to profit also declined. As companies are raising their selling prices sharply this year and wage growth will be less strong, company profits may climb again this year. But this depends on avoiding a recession, which would cause company revenue to tumble.

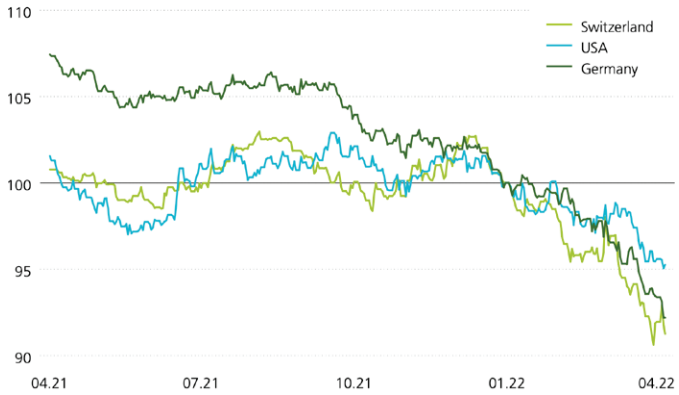
Source: SIX, MSCI

Market overview

Fixed income

Due to the rapid hike in interest rates, government bonds in industrial countries lost 5 to 10 percent of their value.

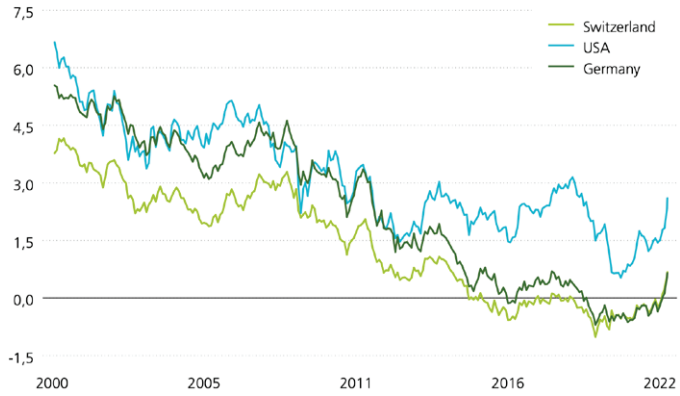
Indexed performance of government bonds in Swiss francs
100 = 01.01.2022



Swiss government bonds – which are in fact deemed secure – lost around 8 percent of their value in the first quarter. This is the greatest quarterly loss since the data series began in 1970. However, it's worth bearing in mind that an average bond portfolio has a higher duration now than in the past, which increases sensitivity to interest rate rises. The chances of recouping these losses quickly are slim, as high inflation means that interest rates are not expected to fall any time soon. German government bonds recorded similarly high losses, while US government bonds were less hard hit.

Source: SIX, Bloomberg Barclays

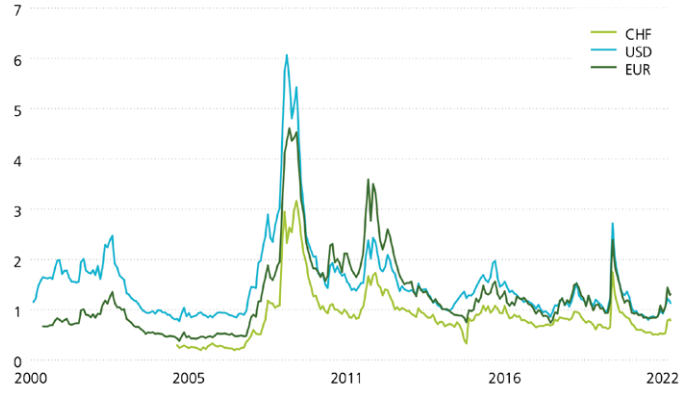
Trend in 10-year yields to maturity
In percent



The yields to maturity on 10-year Swiss federal bonds have risen by around 0.6 percentage points since March. There have been few periods when interest rates have risen so sharply in Switzerland within such a short space of time. Following the latest hike, interest rates are at their highest level since 2014. The only industrial nation currently refraining from raising interest rates is Japan, where the central bank's bond-buying scheme is ensuring that 10-year interest rates do not exceed 0.25 percent. Maintaining this limit will become increasingly expensive for the central bank, however.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



The credit spreads on corporate bonds widened considerably due to the outbreak of war in Ukraine, although they have since normalized once again. In Switzerland, the increase is mainly due to the fact that Gazprom is the biggest bond issuer on the Swiss market. The Russian company has borrowed credit of 1.75 billion francs in recent years. The Russian state railway company is also a significant player, having raised credit of around 1.4 billion francs. At one point, the value of the railway company's bonds plummeted by almost 80 percent. It remains to be seen whether Russian debtors can continue paying their interest. As a result, the situation regarding Russian bonds remains very volatile.

Source: Bloomberg Barclays

Market overview

Swiss real estate investments

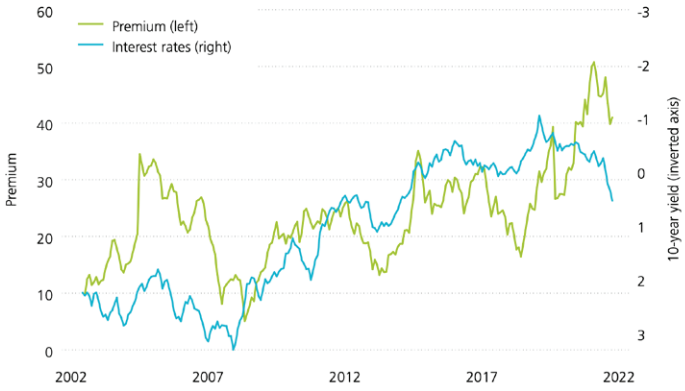
Real estate investments have so far suffered only moderate losses. But even they will not be able to completely escape the price pressure caused by rising interest rates.

Indexed performance of Swiss real estate funds
100 = 01.01.2022

The prices of exchange-listed Swiss real estate funds have fluctuated dramatically since the beginning of the year. Funds suffered price losses of 6 percent for the second time since year-opening. Secure government bonds have become an attractive asset class for pension funds and other institutional investors since generating positive interest once again. This may result in a decline in willingness to buy real estate funds in future.

Source: SIX

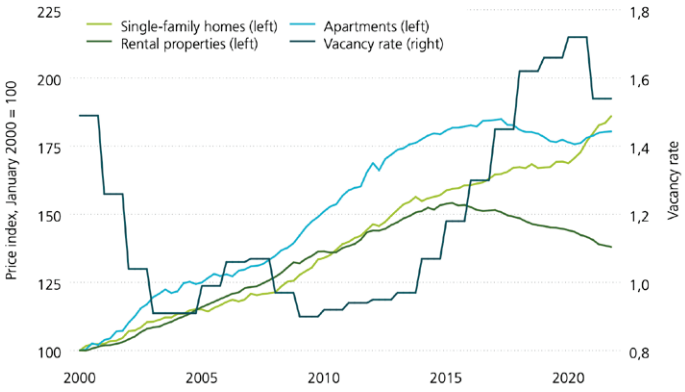
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



Low interest rates mean that investors are willing to pay a premium on the estimated value of a property for real estate funds. These premiums have decreased by 10 percentage points to 40 percent since last summer. Historically, the current interest rate level after the latest hike would justify a premium of only around 25 percent. From this perspective, the valuation of real estate funds remains expensive.

Source: SIX

Vacancy rate and real estate prices
100 = January 2000 (left) and in percent (right)



The prices of single-family homes and apartments rose again in the fourth quarter. Over the longer term, however, higher interest rates are expected to curb the strong momentum on the Swiss real estate market, as the average interest rates for a 10-year fixed-rate mortgage have climbed from just over 1 percent to 2 percent since the start of the year. This means that the cost of a long-term mortgage has doubled within a short space of time.

Source: SNB, SFSO

Market overview

Currencies

Demand for the Swiss franc was weak last month. The Russian rouble, meanwhile, has already recouped its losses since the outbreak of the war.

The Russian rouble lost almost half of its value against the Swiss franc when the war broke out, but has now already recouped the lost ground. This has been helped by the decisive response from the Russian central bank, which immediately raised the key rate to 20 percent, and President Putin's announcement that oil and gas supplies must be paid for in roubles in future. The currencies of commodity-exporting countries, such as Canada, Australia and Norway, also made gains last month. Meanwhile, the Swiss franc performed poorly, to which the SNB may also have contributed. The bank recently carried out the biggest currency intervention for almost two years.

Currency pair	Price	PPP [1]	Neutral area [2]	Valuation
EUR/CHF	1.02	0.91	0.84–0.97	Euro overvalued
USD/CHF	0.93	0.80	0.70–0.89	USD overvalued
GBP/CHF	1.22	1.33	1.14–1.51	Pound neutral
JPY/CHF	0.75	0.99	0.83–1.14	Yen undervalued
SEK/CHF	9.84	10.29	9.30–11.28	Krona neutral
NOK/CHF	10.62	11.34	10.13–12.55	Krona neutral
EUR/USD	1.09	1.14	0.99–1.29	Euro neutral
USD/JPY	123.80	80.54	65.57–95.51	Yen undervalued
USD/CNY	6.36	5.92	5.69–6.16	Renminbi undervalued

[1] Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
[2] Range of historically normal fluctuations.

Source: Web Financial Group

Gold

Despite geopolitical uncertainty and high inflation, the gold price barely moved last month.

Indexed performance of gold in Swiss francs
100 = 01.01.2022

The gold price briefly reached 2,050 US dollars per troy ounce at the start of the Ukraine conflict. It has since been trading at the mark of around 1,950 US dollars. The greater concerns over inflation may have offset the headwind caused by rising interest rates. In light of the geopolitical uncertainty and persisting price trend, gold still possesses upturn potential.

Source: Web Financial Group

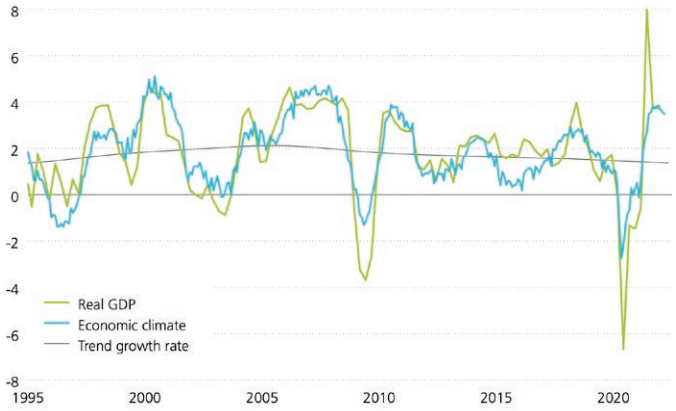
Economy

Central banks lose control of inflation

The central banks have ignored the high inflation for some time. They now need to introduce even tougher measures to bring inflation back under control.

Switzerland

Growth, sentiment and trend
In percent

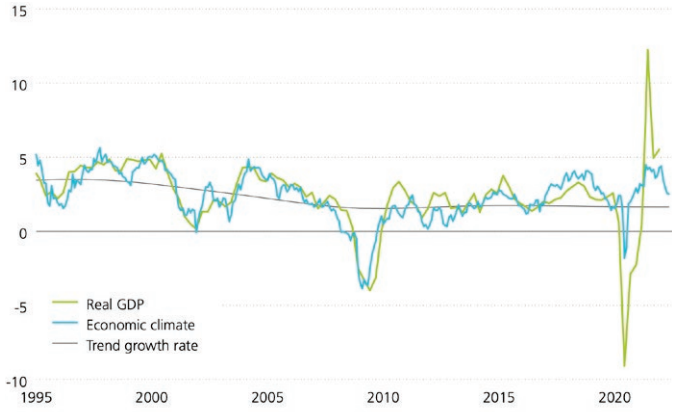


Source: Bloomberg

The export boom for pharmaceutical products is continuing this year. Pharmaceutical exports rose by 27 percent again in February, giving Switzerland the greatest trade surplus in its history by some margin. The services sector also provided positive impetus. Real retail sector revenue rose by 0.3 percent again in February and remains around 5 percent above the pre-coronavirus level. On the downside, inflation is now also rising in Switzerland. 91 percent of industrial companies and 77 percent of service providers indicate that they now have to pay higher purchase prices. As companies pass on a share of these price increases to customers, inflation – currently standing at 2.4 percent – is expected to rise further.

USA

Growth, sentiment and trend
In percent

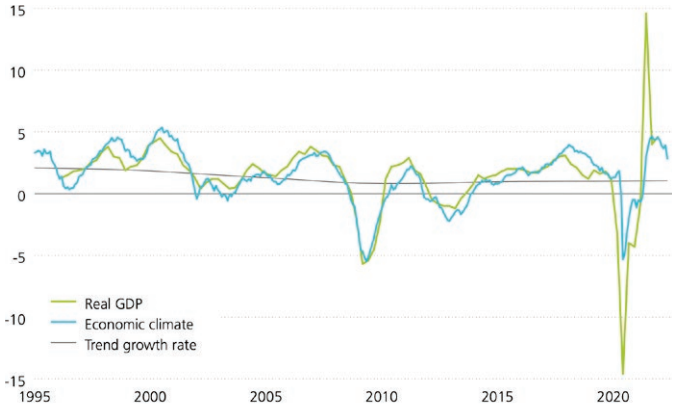


Source: Bloomberg

Optimism amongst US companies remains higher than usual in surveys, despite the conflict in Ukraine. Consumer confidence fell significantly in March, however. The uncertainty doesn't come from the labour market, as US companies are currently looking desperately for staff. Rather, consumers are concerned about high inflation eroding their purchasing power. If US consumer confidence remains at such a low level over the coming months, this will be a warning signal, as it has historically proven a reliable indicator of recession. The US Federal Reserve is also creating headwind at the moment, as it plans several interest rate hikes this year and intends to start reducing its balance sheet from May.

Eurozone

Growth, sentiment and trend
In percent

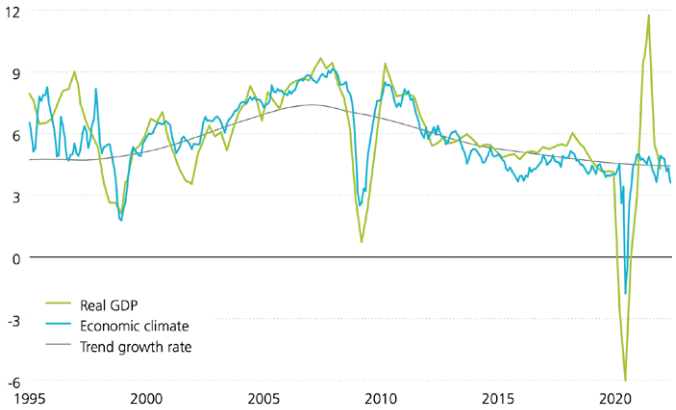


Source: Bloomberg

The eurozone recorded inflation of 7.5 percent in March, the highest level since its foundation. The fact that price rises accelerated again recently is alarming: prices rose by 2.5 percent compared to February alone. The European Central Bank has so far indicated that it will not consider raising interest rates until the autumn. It may well be forced into hiking rates sooner in light of the strong inflation momentum. In response to high inflation and conflict in a neighbouring region, consumer confidence in the eurozone fell even more sharply than in the US. Despite high inflation, the economy may continue to perform well in the short term, as there has been a mood of optimism in the services sector due to the end of the pandemic.

Emerging markets

Growth, sentiment and trend
In percent



Source: Bloomberg

The Chinese government has set itself a goal of achieving economic growth of 5.5 percent in 2022. That's not particularly ambitious by Chinese standards, but the country now faces the prospect of failing to hit even this target. This is due to the high coronavirus case numbers and severe measures being taken by the government to curb them. After Shenzhen, Shanghai – another economic hub – is now also in lockdown. More stimulus measures can be expected from the government this year. President Xi Jinping is seeking re-election for a third term in office this autumn and will try to stabilize growth by then. In other emerging markets, meanwhile, rapid increases in commodity and food prices are causing uncertainty. Pakistan has descended into political chaos due to rising prices, and mass protests are currently being held in Peru.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y [1] 2021Q3	3.8%	4.9%	4.0%	6.9%	1.2%	8.5%	4.0%	4.9%
GDP Y/Y [1] 2021Q4	3.7%	5.5%	4.6%	6.6%	0.7%	5.4%	1.6%	4.0%
Economic climate [2]	→	↘	↘	↘	↗	↗	↘	↗
Trend growth [3]	1.4%	1.6%	0.8%	1.7%	1.1%	5.1%	1.2%	4.1%
Inflation	2.4%	7.9%	7.5%	6.2%	0.9%	6.1%	11.3%	0.9%
Key rates	–0.75%	0.33%	0.00%	0.75%	–0.10%	4.00%	11.75%	4.35%

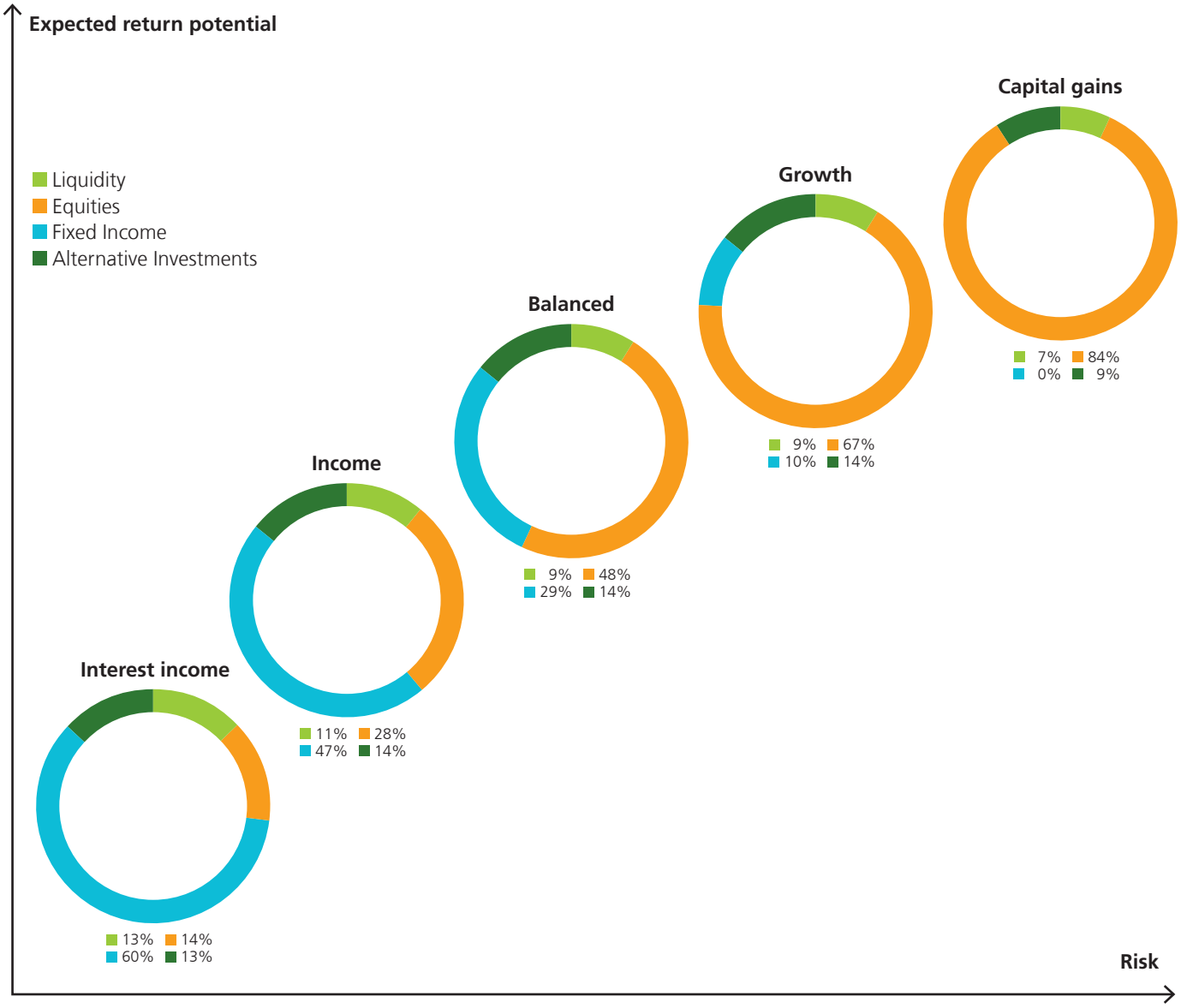
[1] Growth compared to year-ago quarter
[2] Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Plus indicates an increasing economic growth, minus a slowing.
[3] Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.

Source: Bloomberg

Model portfolios Swiss focus

Defensive and diversified

The Russian invasion of the Ukraine has further increased inflationary pressure worldwide due to rising energy prices. As a result, central banks are faced with a dilemma more clearly than they have been for decades: fight inflation or support the economy? The bond market reacted to the US central bank's comments and decisions aimed at fighting inflation with a massive rise in interest rates. In view of the continuing inflationary pressure and thus the further upward potential for interest rates, an underweight in global bonds remains advisable. The equity markets, on the other hand, continued to show their robust side for the time being. The downside risks on the equity markets have not been banished yet either – on the contrary: possible tighter sanctions against Russia justify our defensive portfolio positioning. We are somewhat more optimistic about the US equity market in the short term due to the active approach of the US Federal Reserve. We are therefore reducing our underweight in US equities at the expense of Japanese equities. For reasons of increased diversification of our portfolio, we continue to maintain our overweight in gold.



Source: PostFinance Ltd

Legal information

This document and the information and statements it contains are for information purposes only and do not constitute either an invitation to tender, a solicitation, an offer or a recommendation to purchase a service, buy or sell any securities or other financial instruments or to perform other transactions or to conclude any kind of legal transaction.

This document and the information it contains is intended solely for persons domiciled in Switzerland.

The investment analyses from Investment Research are produced and published by PostFinance. PostFinance selects the information and opinions published in this document carefully and includes sources deemed reliable and credible. However, PostFinance cannot guarantee that this information is accurate, reliable, current or complete and, to the extent permitted by law, does not assume any liability for it. In particular, PostFinance rejects any liability for losses resulting from investment performance based on information contained in this document. The content of this document is based on various assumptions. Differing assumptions can result in significantly different outcomes. The opinions expressed in this document may differ from or contradict the views of other PostFinance business units, as they are based on the use of different assumptions and/or criteria. The content of this document is specific to a particular date. This means that it is only current at the time of creation and may change at any time. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when purchasing units or of the service fee. The price, value and return of investments may fluctuate. Investment in financial instruments is subject to certain risks and does not guarantee the retention of the capital invested or an increase in value. The analyst or group of analysts who produced this report may interact with employees from marketing and sales or other groups for the purposes of collecting, compiling and interpreting market information. PostFinance has no obligation to update information or opinions, to specify that information is no longer up to date, or to remove such information.

No advice (investment, legal or tax advice, etc.) is provided through this document. This information does not take into consideration the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. This means the information and opinions are not a suitable basis for investment decisions. We recommend that you consult your financial or tax advisor before every investment. Downloading, copying or printing this information is permitted for private use only, provided that the copyright notice or other legally protected names or symbols are not removed. Complete or partial reproduction, communication (electronic or otherwise), modification, linking or use of the newsletter for public or commercial purposes and non-commercial distribution to third parties is prohibited without prior written consent from PostFinance. PostFinance accepts no liability for claims or legal action by third parties based on the use of this information. Further information is available on request.

Important information on sustainable investment strategies
PostFinance may include sustainable investments when selecting instruments for the model portfolio. This means that environmental, social and governance (ESG) criteria are taken into account in investment decisions. If ESG criteria are implemented, certain investment opportunities may not be pursued which would otherwise be compatible with the investment goal and other general investment strategies. Taking account of sustainability criteria can result in the exclusion of certain investments. As a result, investors may not pursue the same opportunities or market trends as investors who do not apply such criteria.

Source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations wieht respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

Source: J.P.Morgan. Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 202[0], JPMorgan Chase & Co. All rights reserved.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express of implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Copyright © Web Financial Group and its Data Providers and Data Owners. All rights reserved. Further distribution and use by third parties is prohibited. Web Financial Group and its Data Providers and Data Owners make no warranty and accept no liability. This content and disclaimer may be amended at any time without notice.

Copyright © SIX Financial Information and its data suppliers. All rights reserved. Passing on and usage of any information or date by third parties are prohibited. SIX Financial Information and its data suppliers assume no guarantee and no liability. This content and the disclaimer may be changed at any time without prior notice.

Data as of 7 April 2022
Editorial deadline: 11 April 2022

PostFinance Ltd
Mingerstrasse 20
3030 Berne

Phone +41 848 888 900

www.postfinance.ch

PostFinance

461.40 en (pf.ch/dok.pf) 04.2022 | Advertising from PostFinance Ltd