

Tactical Perspective: Macro ▶ Bonds ▶ Equities ▶ Other Asset Classes ▶

Executive Summary

- Most central banks are still raising interest rates while liquidity and the money supply are being cut back. At times, the stresses caused by monetary policy tightening is forcing some central banks to relax their policies temporarily. But the importance of such short-term countermeasures should not be overestimated.
- Overall, tighter monetary policies are having an increasing impact on the consumer and the economy.
- The fall in inflation rates is taking the pressure off from monetary authorities. The peak in the interest rate hike cycle is likely to be reached in the second half of the year.
- Yields in the major government bond markets have been rather stable as of late. Volatility has fallen significantly.
- Trends in stock markets are increasingly reminiscent of the Tech bubble of 1999/2000. We remain cautious in our positioning and neutrally weighted in the equity quota.
- Currency markets have been broadly stable. The Swiss franc continues to be in demand.
- Having risen earlier in the year, the gold price is now consolidating.

Our macroeconomic assessment

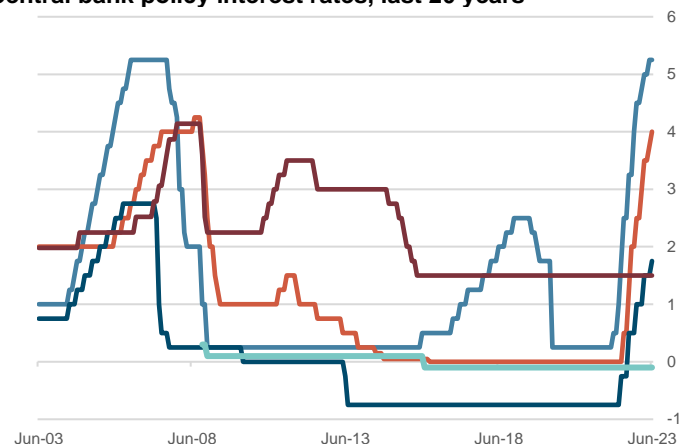
Business cycle

- The upcoming data for the 2nd quarter GDP shows a consensus estimate of 1.9% annualized growth for the US and a marginal growth rate above zero for the Eurozone.
- The Fed notes signs of economic weakening but is still struggling to bring inflation down to the target level. The planned increase in capital requirements for US banks faces criticism for potentially burdening banks and borrowers, limiting economic growth. The labor market remains tight, but US consumer data and FedEx's disappointing figures indicate a slowdown.
- Economic surprise indices are falling globally, suggesting a possible recession.
- Europe is already in a "mild" technical recession with negative economic expectations.
- China's economy is still struggling despite reopening, with low inflation and interest rates allowing loose monetary policy.

Monetary policy

- Bank of Canada and the Reserve Bank of Australia surprised markets as they raised their key interest rates by 25 basis points each, while the Bank of Japan and the US Federal Reserve left rates unchanged. The European Central Bank (ECB) increased all three key rates by 0.25%.
- Fed Chair Jerome Powell reiterated the need for further rate hikes to combat inflation, despite its recent decline.
- The ECB signaled that its rate hikes were not over, with expectations of two more increases.

Central bank policy interest rates, last 20 years



Source: Bloomberg Finance L.P.

- Falling commodity prices initially eased inflationary pressures, but a recent rebound in cyclical commodities raises concerns about prolonged inflation.
- The People's Bank of China cut borrowing costs to bolster post-Covid recovery, but weak domestic demand may require additional government support.
- The Swiss National Bank raised rates to counter inflation, revising forecasts due to second-round effects and falling gas and crude oil prices.
- Norway and the UK also raised rates to tackle high inflation.
- The interest rate hiking cycle might approach its end.

Our investment policy conclusions

Bonds

- Yields in major government bond markets are stable, with reduced volatility after resolving the debt ceiling dispute.
- Currently, US 10-year bonds yield around 3.8%, German bonds yield about 2.5%, and Swiss bonds yield approximately 1.0%.
- Yield curves still show inversion, but it has slightly decreased in European markets.
- The US yield curve remains significantly inverted, with 2-year bonds offering around 1% higher yield than 10-year bonds.
- Corporate bond spreads have tightened, creating favorable conditions for high-quality issuances.
- Short to medium-term maturities are attractive for new investments due to higher yields.
- The market atmosphere is calm, encouraging cautious investment strategies and presenting selective opportunities for yield-seeking investors.

Equities

- Stock market trends increasingly resemble the 1999/2000 technology bubble, with the Nasdaq 100 price-to-earnings ratio surpassing 30x. Cyclical indices have reached new highs in the past year due to market rallies.
- Institutional investors have been forced to exit their short positions and reverse their strategies. Retail investors' active participation, particularly in "0-DTE options," one-day calls on individual stocks and indices, has further narrowed an already weak market.
- Over 80% of the S&P 500's performance this year is attributed to five major tech stocks, indicating a potentially fragile recovery and flag-like chart patterns.
- Analysts from Wall Street are increasingly bullish in their recommendations. Despite concerning factors such as restrictive outlooks from FOMC members, potential growth setbacks, and geopolitical risks, stock markets continue to display nonchalance. The decreasing implied volatility in stock markets reflects highly positive expectations.
- Caution and a neutral equity weighting remain prudent approaches.

Forex

- The US dollar has recently firmed again, with the dollar index (DXY) gaining around 2%. Some analysts see this as a reaction to somewhat higher US yields following an FOMC meeting which surprised with its statements on the future more restrictive interest rate path.
- Surprisingly, discussions about the status of the USD as the global reserve currency have also died down again. And this despite a massive expansion of the US debt ceiling.
- The Swiss franc remains in demand against all currencies. The EUR/CHF now stands around 0.98. On balance, we assume that the franc will appreciate steadily due to its structural advantages over the euro, and we therefore continue to hedge EUR positions.

Disclaimer

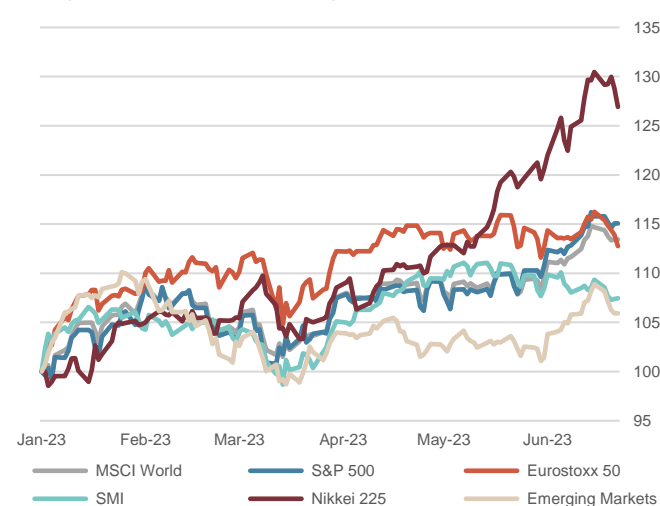
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10 year government bond yields in %, last 5 years



Source: Bloomberg Finance L.P.

Equity markets, performance year to date, indexed



Source: Bloomberg Finance L.P.

Dollar vs Swiss franc, last 12 months



Source: Bloomberg Finance L.P.



Investment Strategy 3rd Quarter 2023

sensusPLUS

Meeting of the
investment advisory committee

27.06.2023

Additional parameters

Reference currency CHF

Currency allocation

CHF	min.	50 %
EUR	max.	20 %
USD	max.	20 %
GBP	max.	15 %
Other	max.	20 %
(max 10 % per currency)		

Variations +/- 5 % are possible for the various investment categories.

		Anlagestrategie							
Asset class		Income	+/-	Balanced	+/-	Growth	+/-	Capital gain	+/-
Defensive	Liquidity	8%	-5%	7%	-3%	7%	0%	7%	0%
	Fixed Income incl. Bond Funds	60%	5%	35%	3%	15%	0%	0%	0%
Offensive	Stocks incl. Stock Funds and ETF	25%	0%	50%	0%	65%	0%	80%	0%
	Others Real Estates, Commodities, Gold, Structured Products, Alternatives	7%	0%	8%	0%	13%	0%	13%	0%
		100%		100%		100%		100%	

In the second quarter of 2023, global market barometers moved sideways, whereas we recorded a positive stock market performance for the entire first half of the year. This is very surprising, as there is no end to the bad economic news. Both sides of the Atlantic are marked by negative money-supply growth and sharp interest-rate increases. Experts are still counting on a recession, in part, as early as this year or by 2024 at the latest. However, in general, we are anticipating a soft landing. Falling commodity prices and supply chains that are working again suggest that the worst of the price pressure is over. It looks like Switzerland will be able to skirt an economic downturn. The next few weeks will show in which direction we are headed. We are expecting one further interest-rate hike from the SNB. Thereafter, the situation should return to normal.

Since the signals are still pointing in the direction of caution, we have not made any changes to our investment strategy. The traffic lights for new investments in equities are flashing amber, rather than green. However, we are hopeful that the good performance of the portfolios will continue until the end of the year.

We wish you a pleasant and relaxing summer.