

Tactical Perspective: Macro ► Bonds ► Equities ▲ Other Asset Classes ►

Executive Summary

- The troubled US regional banks and the emergency takeover of Credit Suisse by UBS are unsettling market participants. The write-down of AT1 securities by CS led to a significant decline in the asset class.
- Only the loss of trust led to the difficulties of fundamentally soundly financed companies. States and central banks are striving to restore confidence.
- Negative effects on the still robust economy cannot be ruled out. Companies and consumers may become more cautious.
- Monetary policy of central banks comes even more into focus.
- Due to uncertainties related to the US banking sector, investors sought safe havens. These included government bonds of the major economic regions as well as gold, which traded at over \$2,000 per ounce for a time.
- The stock markets are resilient, but we remain cautious in our assessment and maintain a neutral position in the equity allocation.
- Despite stress in the financial system, movements in the foreign exchange markets are relatively small.

Our macroeconomic assessment

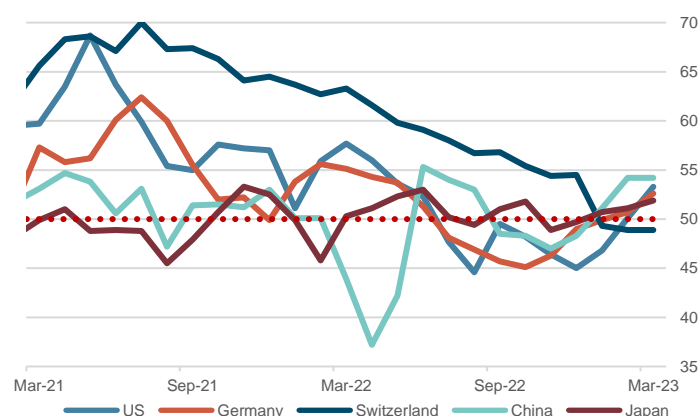
Business cycle

- The troubles in America's regional banking sector are unsettling markets and damaging confidence in the banking sector.
- Central banks are intervening massively to support sentiment and boost confidence.
- Labor availability remains tight in the US and economic growth strong, but rising uncertainties could alter this quickly.
- The survey values for March in the manufacturing industry mostly fall below the growth threshold of 50 points, but the composite index of industry and services remains in the growth zone.
- Existing home sales in the US are recovering strongly, and in China, the real estate market remains a major source of uncertainty.
- In Japan, foreign trade data for February fell short of expectations, but February consumption data for Tokyo showed a strong gain.

Monetary policy

- In March, central banks in the Eurozone and Switzerland raised their key interest rates by 50 basis points to combat inflation, while the Fed raised its policy rate by only 0.25 percentage points due to the influence of troubled banks.
- Despite this, the Fed remains focused on its 2% inflation target and may raise interest rates further due to the strong economy and labor market.

Purchasing managers' indices composite, last 2 years



Source: Bloomberg Finance L.P.

- However, market participants are not pricing in further interest rate hikes and even expect interest rate cuts by January 2024.
- The Administration and the Fed have taken drastic measures to cope with uncertainties in the American banking sector, including throwing a lifeline to customer deposits and increasing liquidity available to the financial system.
- The Fed may have to maintain its contradictory policy stance of rising interest rates and renewed quantitative easing for some time.

Our investment policy conclusions

Bonds

- In recent weeks, government bond yields in major currency areas have fallen significantly due to a renewed global banking crisis and liquidity crunch, leading to a flight into safe US government bonds.
- Short-term US yields have fallen, and bond market volatility is high.
- The Fed fund futures market is now pricing in a reduction in US interest rates during the second half of 2023 due to fears of a renewed financial crisis.
- Credit spreads on corporate bonds have widened in both investment grade and high yield issues, creating uncertainty regarding subordinated bonds of financial institutions, following the Credit Suisse AT1 bond wipeout.
- The focus on fighting inflation has been overshadowed by the fear of a new financial crisis.

Equities

- Stock markets are showing resilience despite the many uncertainties. This is possibly a reflection of the still very unclear outlook for the global economy. However, some differences in equity market performance stand out: within the US, the cyclical, technology-heavy Nasdaq index is now leading, while in Europe the defensive Swiss market is lagging.
- Looking at performance in terms of "investment styles", it seems that, despite the ongoing uncertainty, the more defensive "value" stocks are less sought after currently. Balance sheet quality remains a valuable selection criterion. This is reflected in the recent recovery of US large cap technology companies.
- The reporting season for the first quarter of 2023 will soon begin, representing another litmus test for the markets. Forecasts for the earnings to be reported have come down slightly, but some commentators think they are still too high.
- Resilient stock markets seem blind to the increasingly concerning situation. Both the stress in the financial system and the broader, geopolitical situation are worrying. We remain cautious in our assessment for equities and neutral in our equity exposure.

Forex

- Stress in the global financial system has also led to increased volatility in forex markets and a significantly increased demand for liquidity. The Fed has addressed this by activating USD swap lines on a daily basis with all major central banks.
- Systemic financial stress usually leads to an appreciation of the US dollar, but this is not currently happening. Rather, it is the Swiss franc and the Japanese yen (which are also known as "safe haven" currencies) that have appreciated, albeit modestly. All in all, however, currency movements have not been dramatic.
- The euro is again slightly below parity with the Swiss franc; the Swiss National Bank had used the brief period of euro appreciation to reduce its balance sheet somewhat. The "rescue" of Credit Suisse with all its questionable side effects has tended to weaken the status of the Swiss franc globally. Market and media comment certainly point in this direction.

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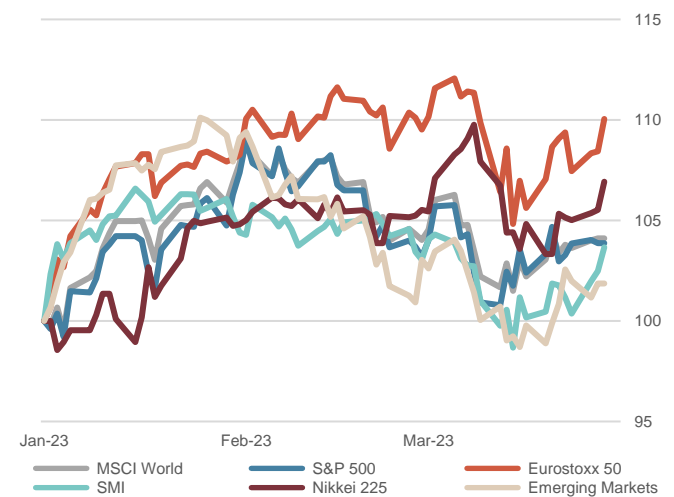
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10 year government bond yields in %, last 5 years



Equity markets, performance year to date, indexed



Dollar vs Swiss franc, last 10 years





Investment Strategy 2nd Quarter 2023

sensusPLUS

Meeting of the investment advisory committee:

27.03.2023

		Asset Allocation					
Asset class		Income	+/-	Balanced	+/-	Growth	+/-
Defensive	Liquidity	8%	0%	7	0%	7%	0%
	Fixed income incl. Bond Funds	60%	0%	35	0%	15%	0%
Offensive	Stocks incl. Stock Funds and ETF	25%	0%	50%	0%	65%	0%
	Others Real Estates, Commodities, Gold, Structured Products, Al- ternatives	7%	0%	8%	0%	13%	0%
		100%		100%		100%	

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.

Trust is a very volatile commodity, be it in the financial world or in life in general. The first quarter has once again shown how quickly it can disappear, and which forces this unleashes.

The new year actually started out in a quite positive manner, despite the central banks having announced that they would fight rising inflation with a resolute interest-rate policy. An end to the rise in interest rates is therefore not expected anytime soon. A rapid control of inflation remains the best prerequisite for a dynamic and stable economic development in the longer term.

In Switzerland, the discussions and events surrounding the take-over of CS are likely to continue for a long time, and to keep politicians busy. After all, elections are coming up again in the fall, and there are candidates who still need to polish up their personal performance records.

Until the end of February, the Swiss stock market moved consistently above the level reached at the end of 2022. At the beginning of March, the liquidity problems of a few banks (including CS) led to investors becoming unsettled and partially liquidating their positions. Financial stocks, in particular, fell sharply. However, the other sectors were not able to escape the maelstrom, either. Towards the end of the first quarter of 2023, stock prices recovered nicely and were up 3.4% as compared to the end of December.

We expect the markets to remain uncertain and volatile in the second quarter. However, we believe that further interest-rate hikes are already factored into the stock prices, and thus should not come as a surprise. For the central banks, the balancing act between fighting inflation and providing financial stability is becoming increasingly difficult. The suspense is not over yet.