

Quarterly Update

Q4 2022

Investing without the safety net of central bank

For almost a decade, investors could count on central banks turning on their money taps in the event of an “whatever” crises or deflationary threats to stimulate the economy through more and more credit supply which ultimately led to higher asset prices.

As inflation has truly become a problem in recent months, central banks no longer offer a safety net. In contrast to the past they even threaten the economy with much tighter credit conditions which creates uncertainty among market participants and lead asset prices falling sharply this year.

While a balanced investment approach historically offered great diversification benefits we now observe a very high correlation among all asset classes which leaves passive global investment portfolios with losses of around 20% regardless of their different allocations to equity or bond markets.

Economic growth and corporate earnings were benefitting from pent-up demand in recent quarters. So far this year, the economy has proven to be less vulnerable to rising interest rates which is (or was) certainly the good news. However, the combination of higher energy prices and fiscal stimulus will increase the risk that inflation will remain stubbornly high, ultimately forcing central banks to tighten even further.

In the coming months, we expect far less pent-up demand, while the delayed impact of monetary tightening on economic growth will increase considerably. As a result, we expect increasing recession fears and more downward pressure on earnings growth. As a result, the current risk-off phase will most likely continue over the next months. Concerns about the negative impact of quantitative tightening and the strong dollar on liquidity will also play a role, as will the pressure on investors to scale back leveraged investments.

However, equity markets are trading at lower valuations and around over-sold levels and investor sentiment has not been as low in the past 30 years, a combination that may easily lead to a relief rally during the coming months.

Recently we sold most of our allocation to gold (for USD mandates) and reduced our allocation to certain longer duration bond instruments. The proceeds were allocated to short-term US-Treasury Bills that offer a decent yield of currently 4% without outsized credit and duration risks.

What has helped to cushion the relative downside is certainly our higher cash and money market allocation as well as the allocation to alternatives that generated positive returns with a currently rare negative correlation.

For the time being we leave the allocation to equities, bonds, commodities and cash unchanged after having positioned our portfolios more conservatively recently.

With certain market segments and particularly single stocks being under massive pressure we analyze potential opportunities to shift cash back to

Market Data

in US Dollars as per Sept 30, 2022

Equities	YTD%
World	-23.5
USA 500	-22.1
Europe 50	-29.3
Swiss 30	-24.8
Asia 50	-37.0
Japan	-28.0

Bonds	YTD%
Global Aggregate	-21.6
U.S. Aggregate	-16.8
Pan Euro Aggregate	-19.2
Global High Yield	-19.1

Interest Rates	in %
U.S. 3 months	3.25
U.S. 10 years	3.83
Euroland 3 months	0.70
Euroland 10 years	2.11

Passive Global Portfolios	YTD%
25% Eq. / 75% Bonds	-22.1
50% Eq. / 50% Bonds	-22.5
75% Eq. / 25% Bonds	-23.0

Commodities	YTD%
BB Commodity Index	11.2
Gold oz	-7.4
WTI Crude Oil	29.7
Copper	-24.0

Currencies		YTD%
EUR in USD	0.9802	-13.8
CHF in USD	1.0131	-7.6
GBP in USD	1.1170	-17.5

Economies

GDP Growth Estimate	2022
USA	1.60
Euroland	2.90
Global	2.90

Inflation	12M
USA	8.2
Euroland	9.9
Switzerland	3.3

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equity markets. However, a renewed risk-off phase might lead to even better opportunities.

Currency Markets

The strong USD is still the major topic in FX markets. It has strengthened 40% versus the European common currency "Euro" since 2008. We think a counter-move becomes more and more likely. We might test the lows of 2000 where the Euro was as low as 0.85 USD before rallying back to 1.60 in 2008. This might happen given the upcoming winter in combination with still very high energy prices and the war in the Ukraine.

What might be easier to understand is the fact that European corporates are currently suffering from higher USD based input costs such as energy prices. However, the weakening EUR helps to be more competitive versus American corporates, offsetting some of the inflation.

Company Update

Andres Gilgen joined in August as new Chief Investment Officer (CIO) and member of the executive management of Ameliora Wealth Management Ltd.

Ameliora acquired the business of former UBP IAS in Switzerland as per September 30, 2022. With this acquisition we have 3 former UBP team members joining our organization. We welcome the new joiners Angelika Stückler (Head Equities), Christian Helbling (Senior Wealth Management Consultant) and Patrik Zanetti (Senior Wealth Management Consultant) to the team. A particular warm welcome to all former UBP IAS clients to our organization.

Ameliora Wealth Management AG

Andreas Gilgen

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