Quarterly Update

Q1 2023

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Looking back to a challenging year 2022

Mixed Global Portfolios have produced the worst returns in over five decades. Diversification was of little or no use as returns of passive global portfolios show (see table on the right side). What certainly helped was a higher cash level, an overweight in quality / dividend-paying equities and holding bonds with either very short maturity or floating rate structure. The equity performance was disappointing, the bond markets were abysmal. In fact, there has never been a year in which bonds performed as poorly as they did in 2022. The US-Dollar proved to be a very hard currency against the Euro or the Yen until mid-September, then started correcting as well. Commodities were mainly driven by the energy sector while other segments weakened over the year after a short war-driven rally in spring.

Bull market delayed?

Investors currently assume that inflation will considerably decline over the coming months, meaning that central banks will slow or stop tightening monetary policy and will even be able to ease it by the end of next year. In recent weeks, this has fueled hopes that a soft landing is achievable, resulting in rising asset prices. 2023 will be a year of inflections as investors try to identify turning points for inflation, interest rates, economic growth, and financial markets against a complex geopolitical backdrop.

Many after-effects of the corona crisis will have a far smaller impact on the economic data in 2023 than they had in 2022. A large number of supply side problems have improved significantly, and US households are eating into the savings they accumulated during the corona period. The negative impact of recent rate hikes will adversely impact households and the economy over the next quarters. As a result, a hard landing of the economy (recession) and considerable downward pressure on earnings are still in the cards.

A relaxation of the corona measures in China are expected to support the global economic growth in the course of 2023, assuming that the number of COVID cases remains under control. At the same time, however, pent-up demand from China could slow down the much-wanted decline in inflation.

Many early indicators are already pointing to a decline in inflation. Examples include lower commodity prices, freight rates, reduced lead times and production backlogs. As far as headline inflation is concerned, the speed of the decline in inflation will largely depend on whether and how rapidly commodity prices decline. This will depend on how successful China is in reopening its economy, how harsh the winter will be and how the Ukraine war will develop. Core inflation will likely decline less rapidly. This is due to tight labor markets, which will cause strong upward pressure on wages for quite some time to come.

Recent earnings and earnings growth of European and US companies have held up surprisingly well considering geopolitical developments, rising interest rates, high inflation and weakening growth. For the current year, we expect more downward pressure on earnings and earnings are likely to decline. First of all, the combination of weakening economic growth, declining real wages and less pent-up demand will cause demand to decline and make

Market Data
in US Dollars as per Dec 31, 2022

Equities		**YTD%**
World		-17.9
USA 500		-18.8
Europe 50		-11.8
Swiss 30		-13.8
Asia 50		-18.8
Japan		-19.2
Bonds		**YTD%**
Global Aggregate		-16.0
U.S. Aggregate		-12.3
Pan Euro Aggregate		-17.8
Global High Yield		-12.1
Interest Rates		**in %**
U.S. 3 months		4.34
U.S. 10 years		3.87
Euroland 3 months		1.77
Euroland 10 years		2.57
Passive Global Portfolios		**YTD%**
25% Eq. / 75% Bonds		-16.5
50% Eq. / 50% Bonds		-17.0
75% Eq. / 25% Bonds		-17.5
Commodities		**YTD%**
BB Commodity Index		8.5
Gold oz		-5.8
WTI Crude Oil		19.1
Copper		-13.5
Currencies		**YTD%**
EUR in USD	1.0705	-5.8
CHF in USD	1.0817	-1.3
GBP in USD	1.2083	-10.7

Economies

GDP Growth Estimate	**2023**
USA	1.90
Euroland	3.20
Global	3.00
Inflation	**12M**
USA	7.1
Euroland	9.2
Switzerland	2.8

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consumers far more reluctant to spend their accumulated savings. In this case, it will be far more difficult for companies to raise prices without this having a negative impact on sales. Secondly, inflation will likely decline while wages will continue to rise for the time being, which will increase the downward pressure on margins.

Until investors gain visibility regarding the economic recovery and the final level-off in interest rates we will likely experience additional phases of volatility in the coming months. However, it is widely anticipated by policy makers and investment houses that the recession/slowdown will be muted in the historical context, therefore the chances for a solid rebound in the course of 2023 are high.

Given this outlook we will stay balanced with a defensive tilt in our portfolios and will only cautiously add risk assets in Q1 this year. We are attentive to the path of macroeconomic expectations to invest opportunistically in well-priced equities, corporate bonds and other attractive investment topics when we see a sustainable rebound with receding volatility occurring.

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