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Investment policy Q3/2021

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Investment Policy

The pandemic crisis is moving toward resolution, thanks to the ongoing vaccination campaigns, despite geographic differences and fears raised by virus variants. Positive developments on the health front are supporting the resumption of economic activities, interrupted supply chains and mobility. The investment landscape, which is still positive, is however characterized by greater caution due to economic, financial and geopolitical factors. On the economic level, inflationary outbreaks caused by the sharp rise in raw materials are weighing heavily, which for some would represent a temporary element, for others a structural trend capable of influencing the picture more incisively. Linked to this is the question of whether the economic recovery can be maintained and developed even if the extraordinary monetary and fiscal support currently in place is no longer available. The financial aspect is in fact linked to a certain inertia on the part of the central banks, which should instead, according to many, operate more promptly on the interest rate front and the purchase of securities from the market. On the geopolitical front, the Biden Administration has maintained a tense tone towards China, indicated as a threat from an economic, technological and strategic point of view, a sort of "necessary enemy" in the wake of the previous Cold War. Similar positions, albeit more nuanced, are expressed towards Russia, while the agreements with Iran on nuclear power are becoming more difficult and the scenario of the Middle East and the Persian Gulf (Houthi attacks from Yemen to Saudi Arabia) does not show signs of calming down.
Having said this, what allows indices to maintain high levels is the abundant liquidity that sustains the markets, with those of equities at the top, that however are in a momentum of greater caution and greater volatility given the high levels reached. The course will be maintained as long as the central banks do not decide to remove oxygen, although we believe they will do so with due care.

Outlook

Therefore, we can expect a phase with above-average volatility in recent years and periods of market laterality, faced with growing uncertainties and sometimes inconsistent data, regardless of the basic questions set out above.
The lighthouse remains the decisions (together with communications and comments) of the top management of the Federal Reserve in Washington which, at its meeting in June, maintained reference rates at 0-0.5%, however, indicating two possible increases in 2023 and the start of discussion on tapering, i.e. the reduction of purchases of public and private securities.
For its part, the European Central Bank, even if it finds itself managing a scenario that is very different from the American one, in terms of the delay in the economic cycle, heterogeneity among partners, functional and institutional difficulties along the North-South and West-East axis of the continent, will not be able to disregard what is happening on the other side of the Atlantic and the inflationary outbreaks that are now manifesting themselves on a global level.
Obviously, a risk is represented, for fragile and unstable countries, by the stagflationary ghost, with inflation weighing on a fabric marked by low growth, high unemployment and social tension, with all the consequences of the case and greater recourse to welfare policies that do not help the recovery but further burden public finances.

Macro

The recovery is appearing relatively strong in the United States, albeit with some contradictory data, for example regarding consumption. A strong contribution is expected from the infrastructure plan decided by the White House and the welfare and social support policy, as well as the restoration of those "supply chains" that the pandemic had interrupted or limited. The question of financing these programs remains open, partly entrusted to higher taxation for high segments of private and institutional taxpayers and partly, inevitably, destined to weigh on the deficit and public debt.
In Europe too, expectations of economic recovery are high, although probably destined to manifest themselves in different ways, and are such as to oblige the European Central Bank to maintain, if not intensify, its support interventions, in parallel with those drawn up by the European Union. The trend is moving towards a de facto monetization of national debts and a (dangerous) standardization between the financially more solid members and the more fragile ones of the European Union, with a strong distortion of the price-quality ratio.
The Chinese economy continued to perform positively, after a slowdown caused by Covid, as did the other Asian areas, although Japan lagged behind. Even the United Kingdom, for which many observers had predicted very negative developments due to Brexit, is showing more than satisfactory macroeconomic data.
Resistance to the critical phase and solid growth foundations also appear for the Swiss scenario, thanks to its economic diversification and the presence of many components less correlated to the evolution of global demand.

Fixed Income

Also in the bond segment the dominant theme is inflation (in May above 5% in the USA), whether temporary or permanent. After the flare-up of the 10-year Treasury towards the 2% threshold, a return below 1.5% can be an opportunity to reduce longer positions. In the corporate area, the continued purchases by the Federal Reserve contribute to the narrowing of spreads, supporting the market but also causing distortions that could soon be exhausted.

There is little interest in European government issues, with Greece also facing negative government bond yields for the first time in history. For corporate, some secondary quality issuers, e.g. in the financial sector, may still have room to advance.

Low interest rates and the stability of the US dollar favor emerging market issues and a special role in portfolio diversification can come from Chinese or frontier bonds.

Equities

All things considered, equity investment remains attractive, if only because valuations are not yet excessive and there is plenty of liquidity in search of placement. Inflation, return rates and uncertainties on the part of central banks do not seem to worry market patecipants for the moment. However, greater selectivity is required and the sectors to be preferred in Europe appear to be industrial, telecom, luxury and retail, while it may be advisable to take profits on financials. In the United States, financials continue to grow, along with sectors linked to the real economy, high-tech and communications, but the strong rally now suggests a more neutral approach.

The Swiss market remains interesting thanks to the industrial, insurance and luxury sectors that the stable franc makes competitive. The pharmaceutical sector is losing interest even if convenient for its valuations.

Our opinion on Chinese and Asian markets remains positive. The strong correction suffered by Chinese domestic indices, linked to the government's will to cool down credit bubbles, margin transactions and their influence on valuations, should now leave room for further appreciation. We highlight also themes such as alternative energy, starting with mobility linked to hydrogen energy and demographic trends with all the products and services linked to them.

Alternative Investments

Since the abundant liquidity favors mergers and acquisitions, Merger Arbitrage strategies are favored.

Gold maintains its positions in the lower range within a rather limited trading range, waiting for the evolution of central bank strategies and interest rate indications.

Oil continues its rally, driven by increased demand, OPEC's desire to control supply, the uncertainties surrounding the possible Washington-Tehran agreement on nuclear power and the disincentives placed by the White House and ecological circles against American shale oil. The target for the second half of the year may rise to around 80 dollars a barrel, even if we do not share the view of some operators, who in light of the absence of investments in the oil sector, would see the price rise to much higher levels.

Metal prices are rising, starting with copper, used in both traditional and high-tech fields, platinum, lithium and cobalt. A separate issue is that of the so-called "rare earths", minerals of strategic technological civil and military use, of which China has a near monopoly, both in terms of production and processing, so as to represent a strong concern for Washington.

In parallel with the increase in commodities, with the resumption of supplies that were previously interrupted, demand for maritime freight has grown considerably, especially in the container and bulk sectors. Suffice it to say that the Baltic Dry Index, a global indicator for freight rates, shows an increase of well over 100% in one year.

Currencies

For the time being, the US dollar does not have a clearly defined direction and is confined to a fluctuation range between 1.17 and 1.24 against the euro. In the longer term its value will be conditioned by a possible increase in interest rates and, in negative terms, by a further worsening of the state of American public finances and the abnormal mass of liquidity created over the years.

In Switzerland, the National Bank is increasingly expanding its balance sheet in order to avoid an excessive appreciation of the franc, which has led to increasing criticism of its strategy.

Interest in the Japanese yen has diminished and in the search for more interesting and diversified returns we are looking at the Norwegian krone (NOK) (recent news from Oslo is the intention to maintain and develop the country's oil activity), the Australian dollar (AUD) and the Chinese yuan (CNY).

Disclaimer

Axion SWISS Bank SA
Viale S. Franscini 22
CH 6901 Lugano
Switzerland

Tel: +41(0)91 910 95 10
Fax: +41(0)91 910 95 14
Web: www.axionbank.ch
Email: mail@axionbank.ch