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Investment policy Q4/2021

English Version

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HERE IS INFLATION, FIRST EXPECTED, NOW FEARED

Investment Policy

The pandemic crisis is (perhaps) on its way to being resolved, even if there are still fears linked to the variants of the virus and the different health conditions at a geographical level. But new fears are appearing, from the economic slowdown of the "global locomotive" China, to the increase in raw materials, with energy materials in the lead, the logistics crisis that has generated the interruption of supply chains, and macroeconomic data often uneven. The rally in raw materials, skyrocketing freight and containers costs, the scarcity of supply in the face of revitalized demand, and logistics crises have all contributed to fueling an inflationary environment that is currently the subject of debate between supporters of its "temporary" nature and those who believe it is now a structural trend that will characterize the economic and financial scenario in an incisive manner for a long time.

To all this must be added the geopolitical developments, with the progressive rapprochement between Moscow and Beijing, the accentuation of frictions within the European Union and the growing American concerns towards China also on the Taiwan matter.

In such conditions, the investment strategy aims to take advantage of favorable market conditions, but in a cautious and flexible manner.

Outlook

At this point, the various factors of uncertainty - economic, monetary and health - may point to a phase of above-average volatility and even prolonged periods of market moving sideways in the coming months.

The moves (and declarations) of the Washington Federal Reserve leaders remain under observation, oscillating between caution and announcements of a withdrawal to the policy of purchasing securities on the market, as well as possible restrictive intervention on rates perhaps as early as the end of 2022. Also, under the lens are the authorities in Beijing, after the moves aimed at reducing the risks of indebtedness, the bubbles in the technology and real estate sectors, they could return to calm global investors, restoring confidence in their markets.

Macro

The recovery is relatively strong in the United States, but the data remain contradictory, starting with the labor market, while there are growing fears about the permanent increase in the prices of raw materials and semi-finished products, in addition to the lack of deliveries and other logistical difficulties. The infrastructure plan defined by the White House is proceeding slowly and the increase in energy costs is weighing on political consensus; the fiscal plan is encountering increasing difficulties and political splits are becoming more pronounced, making the Federal Reserve's task even more difficult.

Creeping inflation (but not too much) also worries the European Central Bank, whose policy of purchasing securities and negative interest rates inevitably comes into collision with a market potentially in demand of higher risk premiums both on the financial side (inflation) and the political side (structural fractures within the Union), putting the weakest issuers under particular pressure.

At the moment, however, barring the sudden emergence of "black swans" of a geopolitical or financial nature, it can be affirmed that the conditions do not exist either for an increase of the pace of market growth, or for an abrupt and marked correction.

Fixed Income

In the bond segment, the dominant theme is now inflation, whether temporary or more likely to be consolidated. The central banks are oriented, at least in their declarations, towards a gradual withdrawal of the unconventional and extraordinary ultra-expansionary measures implemented after the 2007-2008 crisis and repeated after the pandemic. On the part of the US Federal Reserve, this withdrawal, in the form of tapering, should begin as early as November, macroeconomic data permitting, whilst a rate increase is expected to take place over a longer period, perhaps accelerated by the increase in energy and raw material prices in general. Similar statements were made by the European Central Bank, meaning that the so-called peripheral countries also gradually lost interest and spreads widened, although remaining within relatively low ranges. The spreads on high yield securities remained stable,

with prices largely returning to pre-Covid levels.
Emerging market issues continued to benefit from the still low interest rates, although they were negatively affected by the strength of the US dollar. Chinese bonds, which would be intrinsically attractive, are however suffering from the pressure generated by the Evergrande "affair" and its aftermath.

Equities

Equities remain interesting, however within a more neutral position, especially with reference to how inflationary signals, whether temporary or structural, will guide the next monetary policy decisions and therefore the trend of interest rates. The US financial sector shows good results and remains interesting, while abundant liquidity continues to support the technology sector.
The Swiss market has performed well year to date with double digit returns, and can still benefit from its defensive nature, as well as exposure to the financial and insurance sectors, whose prices and dividend levels are attractive.
Our outlook on Japan remains positive, also in light of the resignation of Prime Minister Yoshihide Suga, as successor Fumio Kishide seems keen on introducing massive fiscal stimulus to support the economic recovery.
The Chinese markets have undergone sharp corrections and created turmoil for many investors, but both Hong Kong and the mainland markets of Shenzhen and Shanghai remain all the more interesting given their attractive valuations and growth potential. However, the "Taiwan matter" must be considered and will depend on how the Beijing government intends to deal with it. The pressure is not over, but it may still be worthwhile accumulating positions in view of a cool-down.
Among the preferred sectors, in general terms, remains the sustainable mobility, with the new hydrogen technology in the foreground, as well as products and services linked to biotech.

Alternative Investments

The abundant liquidity still favors merger and acquisition processes, and the related Merger Arbitrage strategies implemented by alternative funds.
Gold maintains its positions within a rather limited trading range due to the relative strength of the dollar, while waiting for the evolution of central bank strategies in relation to inflationary signals and geopolitical developments.
Oil continues its rally, driven by higher than expected demand and OPEC's cautious policy regarding production increases. The sharp rise in the price of coal and natural gas have contributed substantially to fueling the rally in crude oil as well as other energy sources. The various scenarios include the risk of an energy collapse, especially for Europe, which is increasingly dependent on Russian supplies, while the US mirage of energy independence from Gulf oil is also receding.
Metal prices are rising, starting with copper, while other strategic products, such as the so-called "rare earths" are at the center of international disputes.
In parallel with the overwhelming rise in the prices of most raw materials, maritime freight rates and transport costs in general also rose sharply, causing the Baltic DRY index to return to levels not seen since 2008.

Currencies

The US dollar remains relatively strong after breaking through the level of 1.17 against the euro, while developments in geopolitical risks contributed to a parallel strengthening of the Swiss franc, which returned to levels of 1.07, again against the European single currency.
Interest in the Japanese yen has progressively diminished; investors looking to diversify towards currencies with higher yields are still interested in the Norwegian krone, the Australian dollar and the Chinese yuan, which has also behaved well in the face of recent crises.
Bitcoin has reached new highs thanks to the recent listing of ETFs that have the cryptocurrency as underlying value, but the different regulatory situations and the characteristics of its market make this investment class subject to high volatility and high risk.

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