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Investment policy Q1/2022

English Version

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LOOKING FOR ALTERNATIVES

Investment Policy

A 2021 characterized by a fairly generalized economic recovery, sustained by supportive actions by central banks and governments, as well as by anti-Covid vaccination campaigns, introduces a new scenario marked by positive elements as well as uncertainty factors. The return of inflation, mainly due to the sharp rise in the price of many raw materials and logistical distortions with the resulting bottlenecks in supply chains, introduces an element of 'normality'. There has been a heated debate on whether it should play a transitory or structural role, given the labor market pressures in some areas and the further spirals this could generate. On the other hand, inflation is also a panacea for public and private debtors, while it generally penalizes savers and investors, pushing them further into riskier investments in order to achieve a return on their savings.

2022 will therefore open with high equity valuations, despite the recent corrections, but attractive, if only given the marginal and, in some cases, still negative bond yields. The current economic recovery, given the pandemic variants, the different structural conditions and the different impacts of the inflationary factor, is set to be even more uneven. The major issue of energy transition is also complex, in terms of objective technical difficulties, costs and impacts on the labor market, social and geopolitical balances.

Other risk and uncertainty factors remain, including China's sights on Taiwan, Russian pressures, the difficult negotiations on Iran's nuclear program, and a number of electoral appointments concerning Europe's presidential elections (in France and Italy) and the US mid-term elections.

In this scenario, the role of central banks remains crucial, albeit from a different perspective: not so much for their role in supporting financial markets (especially bonds) and growth, as for the implementation of strategies aimed at keeping inflation under control, avoiding dangerous spirals with uncontrollable effects.

Preference is therefore given to the equity segment, albeit faced with reduced growth and greater volatility, or to alternative investments, where it is possible to invest in uncorrelated instruments.

Outlook

The fairly global, albeit heterogeneous, recovery seen in 2021 is confirmed for the new year, conditioned negatively by endemic variants but, in positive terms, also by the progress of vaccinations and the entry of new drugs onto the market. The effects, favored by monetary and fiscal policy interventions, could be extremely positive both on the real economy, with continued solid profits, and on the psychology of consumers and investors. This should have a positive effect on equity markets despite the fact that growth rates may slow and, as mentioned, show greater volatility.

Macro

In Europe, although affected by structural problems and political appointments, the EU support plan will be implemented in 2022. In the US, macroeconomic data look set to remain positive. A contribution comes from the infrastructure plan and other fiscal measures, albeit countered, and from a labour market that even indicates wage tensions in some sectors. Still to be assessed is the political weakness in the current democratic administration and the fiscal redistribution measures, as well as those aimed at the financial sector.

In Japan, the new government is launching major support plans to boost both exports and, above all, domestic consumption.

China is expected to return to sustained growth during the course of the year after the measures implemented by the Government, which have penalized the stock market, but could herald a strong expansion in domestic consumption and a normalization of the financial framework in terms favorable to global investors. The People's Bank of China's recent rate cut is a step in this direction. The Taiwan issue remains on the table, as does the creeping rivalry between Washington and Beijing, which is widening from the purely commercial aspects to the more critical aspects of supremacy in the scientific, technological and strategic fields.

As the new year draws to a close, Russia's role has also increased, not only because of its newfound financial stability, but above all because of its possession of essential raw materials, starting with gas that is precious to Europe, as well as those held in the Arctic, which is now open to maritime routes due to climate change.

Fixed Income

The more restrictive approach planned or implemented by central banks (in Europe only by the BOE in England and the Riksbank in Sweden) in order to tackle inflation is bound to influence the fixed income market depending on the extent and speed with which the measures are implemented. While in the USA the reappointment of Jerome Powell as head of the FED represented a factor of continuity of monetary policy, and such as to justify more accelerated restrictive measures (3 interest rate hikes in 2022 and early tapering), in

Europe economic divergences are combined with institutional ones with major elections looming in France and Italy. On both sides of the Atlantic, spreads remain limited and do not offer many interesting opportunities for investors at the moment. More attractive are the issues of some emerging markets, including China, thanks to low rates and the increase in raw material prices. However, it is advisable to remain with limited maturities, given the presumable evolution of the scenario and the possibility of seeing 10-year rates return to above 2% during 2022.

Equities

The outlook for the US stock market remains attractive in view of the good economic situation, the support plans decided upon by the White House and the abundant liquidity which continues to support the technology sector, despite its high valuations. The profitability level of many sectors is good and the "new course" of the Federal Reserve (FED) may also provide additional benefits to the financial sector. Concerns remain on the side of pandemic variants, but the situation appears to be under control for the time being.

Europe has benefited from a stock market rally in the wake of Wall Street and due to signs of recovery and now, faced with the reappearance of inflation, it will be interesting to see how it will condition the monetary policy of the European Central Bank (ECB) in terms of interest rates and bond purchases. We therefore maintain a neutral position.

The quality and characteristics of the stock market, including the good level of dividends, still favor Switzerland, and in particular its pharmaceutical, food, insurance and financial sectors.

The Japanese market is also interesting: the new government is committed to a broad fiscal stimulus program to support the economy and valuations are attractive in absolute and relative terms.

China disappointed in 2021 with its strong correction: government interventions aimed at combating over-indebtedness, improving transparency and avoiding concentrations caused drastic price corrections. The recent decision by the central bank in Beijing to cut interest rates signals a willingness to further stimulate the economic recovery in order to keep it at levels above 6% and in the course of 2022 both the broader and the more domestically oriented equity markets should also get back on track.

While the dominant investment themes are still sustainable mobility, with technology in the forefront, products and services linked to the aging of the population and the ecological transition, there is also particular interest in the "frontier" markets, smaller but less correlated to the main ones, and full of opportunities, as well as Russia, the Asian countries and in general the producers of raw materials.

Alternative Investments

The hedge fund industry continues to benefit from abundant liquidity, widespread M&A activity and rising volatility, which is benefiting long-short strategies with low net exposure. We believe that these asset classes may be increasingly attractive as sources of short-lived performance compared to traditional and unattractive assets such as bonds.

In commodities, oil is currently subject to a number of forces: demand, temporarily subject to the constraints caused by the pandemic, can grow in the face of a supply limited by the OPEC+ policy and the lack of investment in recent years.

Equally positive, and volatile, are the prospects for industrial metals and "special" metals used in new advanced technologies, such as batteries and alternative energies.

Gold maintains its support levels, caught between the relative strength of the US dollar and inflationary pressures, and will proceed depending on the evolution of rates.

Currencies

In the short term, the US dollar may be adversely affected by the ECB's cautious change of pace and the growth in US debt and deficits, despite the Fed's new, more restrictive policy.

However, the medium to long term outlook remains in favor of the greenback.

The Swiss franc, favored by the evolution of the pandemic and the many factors of uncertainty, including political and geopolitical ones, appears to be on the way to parity against the euro. On the other hand, the Swiss National Bank (SNB) seems less willing to intervene to calm its appreciation so as not to import inflation.

Interest in the Japanese yen has momentarily waned and could reappear in critical market situations, given its role as a safe haven currency. Investors looking for higher yield opportunities diversify into the Norwegian krone, the Australian dollar and the Chinese yuan, which performed well during the difficult crisis in the real estate sector.

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