SSA SWISS ADVISORS

# MARKET OUTLOOK

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## Key points:

- **Global growth forecast revised down**
- **Equity exposure at underweight due to various concerns**
- **The U.S. Fed (Federal Reserve) started to hike rates – more to come**
- **Keep bond duration very short**
- **Gold continues its uptrend**


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## Market Outlook

Just as we thought that with the upcoming end of the global pandemic this young decade will finally take a turn for the better, a major war started in Europe.
While we do not see ourselves in a position where we can predict any outcome of the war, what we can see clearly is that the war will further add fuel to the flames of developments which had been in place already since the beginning of the pandemic; mainly lower growth, higher inflation and more local production (meaning less dependence from global supply chains).
Even so, the war will also speed up the energy transition in Europe once Europe has gotten over the shock of being highly dependent on Russian energy (according to Ned Davis Research: 47% of EU natural gas imports and 25% of EU petroleum imports came from Russia in the first half of 2021).
Already in January, the International Monetary Fund (IMF) lowered its forecast for the global economy to grow in 2022 to 4.4% from 4.9%. Therefore, the economy was already slowing down before the outbreak of the war in Ukraine, due to rising inflation and tighter monetary policies. **We expect now that the IMF and others will further lower their estimates for growth going forward.** At least for the EU it seems to be clear that the current estimates are too optimistic.
Having said that, even though current economic conditions are worsening, we are currently confident that a global recession scenario is unlikely.

Europe is highly dependent on Russia for energy (EU imports first semester 2021)

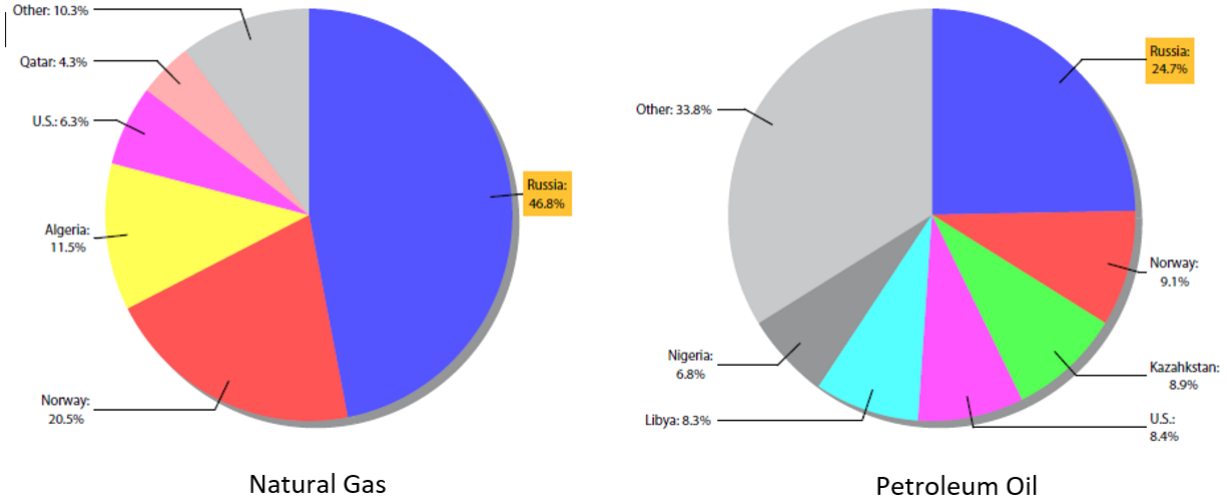



Chart: EU extra energy imports first semester 2021 / source: Ned Davis

## Equities

The S&P 500 lost 5.26% in January and therefore had one of the worst starts to the year since 1929.
This "healthy" correction was due to weaker economic growth, higher inflation figures which lead to lower bond prices and a sector rotation out of expensive growth stocks and into more defensive sectors.
When this repricing was about to end, tensions in Ukraine started to increase and the equity markets started to go lower again leading to a sell-off when the war started. Top to bottom, the S&P500 was down about 13% on the

worst day of the 1st quarter. Since then, the market recovered again pricing in that the war will stay regional and that Central Banks will remain more accommodative than forecasted.
In "normal" times – not expecting a recession – this could have been it. Meaning, a 10% correction is normally enough to clean the market during an economic slowdown.
Nevertheless, we are not convinced that we have seen the lows in the market yet due to the following factors:
1. We did not see absolute fear in the market. The CBOE volatility index[1)] never touched 40 this year, whereas when the Covid-19 crisis started we have seen levels above 80.
2. The technical picture remains fragile as the S&P500 50-day moving average stays below the 200-day moving average (see chart below).
3. The world is moving away from globalization which is lowering future economic growth potential while being inflationary.
4. The U.S. bond market is close to giving a warning signal in the form of an inverted yield curve.
5. Oil price spikes have historically led to slower economic growth if not even a recession.
6. The risk remains that the war in Ukraine is getting out of control.
**Considering all those factors, we do not feel comfortable to move back into the equity markets and thus maintain our equity exposure at underweight.**

Chart: S&P500 (March-2021 to March-2022) with 50- & 200-day moving averages / source: FactSet

## Fixed Income

Inflation is raging across the globe and has reached record levels in the US and Europe.
This surge in inflation has primarily been a result of COVID. Insatiable global demand paired with supply that was negatively impacted by the pandemic has created a perfect storm of higher prices.
At the same time, low interest rate policies by major central banks have kept nominal interest rates low, while headline and core inflation kept rising. This brought real interest rates first below zero and then deeply into negative territory, to levels unseen since the 1970s.
This is why we have seen bond yields rising further (and bond prices falling) during the 1st quarter of 2022, as investors ask for more compensation. **The Fed (Federal Reserve) has reacted as well this March** and has delivered its

first rate increase since 2018, lifting the Fed funds rate by a quarter percentage point. Having said that, **expectations are currently rising that the Fed will do much more than anticipated** in order to reduce the highest inflation in 40 years. The European Central Bank could also be pressured to stop its negative interest rate policy and end its asset purchase program sooner.
Therefore, pressure on bond prices will continue, while the market is repricing inflation risk.
In this environment, **we prefer to keep our bond duration very short**.

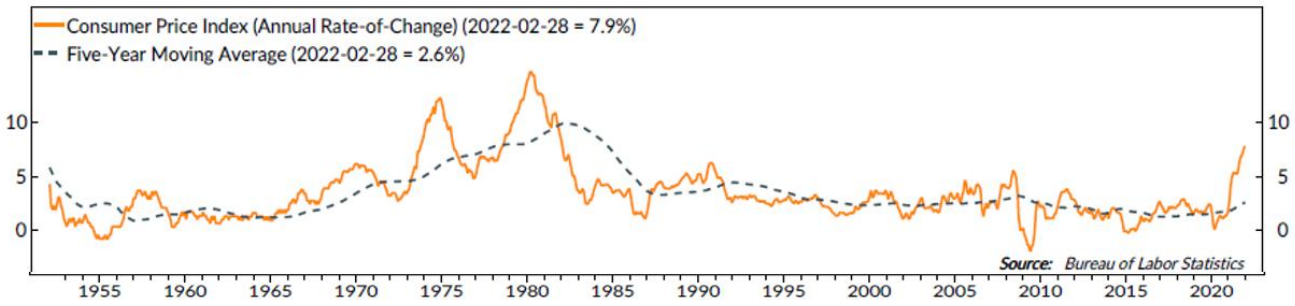



Chart: U.S. Consumer Price Index (CPI) 1952 - 2022 / source: Ned Davis

## Forex/Gold

Fortunately, major currencies continue to experience low volatility. This is mainly due to the fact that most Central Banks are still applying the same ultra-loose monetary policy.
Nevertheless, this could be about to change, as the pressure is increasing to act in order to prevent inflation from getting out of control. As one of the first movers, the U.S. Fed has already started to increase rates this March.
Therefore, the USD is currently supported by two trends. First and foremost, the US is ahead of other major central Banks in increasing interest rates. This makes the USD relatively more attractive. Second, historically, the USD tends to become stronger during global slowdowns (likely indicating a flight to safety during this risk-off period). We see no need to change anything within our currency exposures.
Gold broke out of its sideways trading channel in January as inflation expectations continued to trend higher. **The uptrend remains in place** and was accelerated by the war between Russia and Ukraine. We believe that the trend stays intact as long as the Fed does not become too aggressive in its rate hiking process and as long as real interest rates remain negative. We continue to hold Gold as an insurance and inflation hedge.

Please do not hesitate to contact us if you have further questions.
Best Regards
Ivo

1) The Chicago Board Options Exchange (CBOE) VIX index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX℠) call and put options. On a global basis, it is one of the most recognized measures of volatility - widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

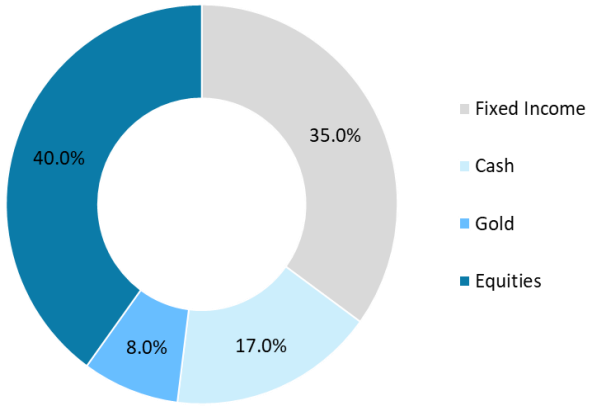
Source: Ned Davis Research, Financial Times, Amundi

## Asset Allocation

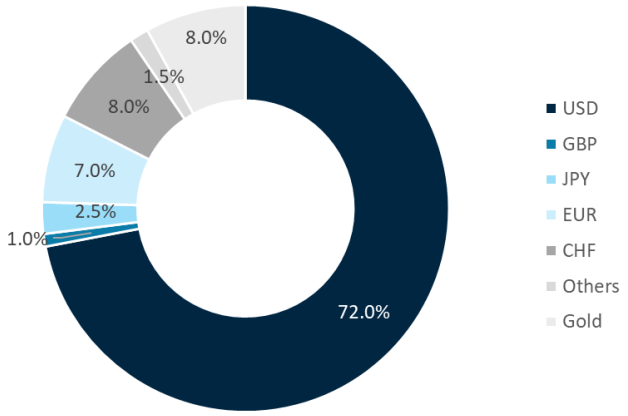
Given the factors described, we keep our equity allocation at underweight. (USD and CHF Balanced details below).

### Current Allocation USD Balanced

#### Asset Allocation

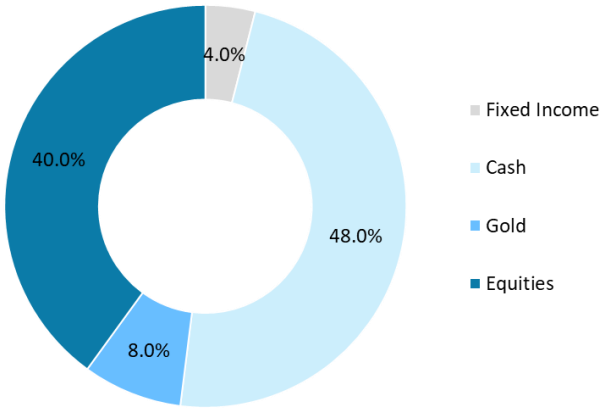



#### Currency Allocation




### Current Allocation CHF Balanced

#### Asset Allocation




#### Currency Allocation