Review & Outlook
August 2023

Review and Outlook

-Last Quarter Review
-Fixed Income
-Equity
-Alternative Assets

Mission Statement

Contact

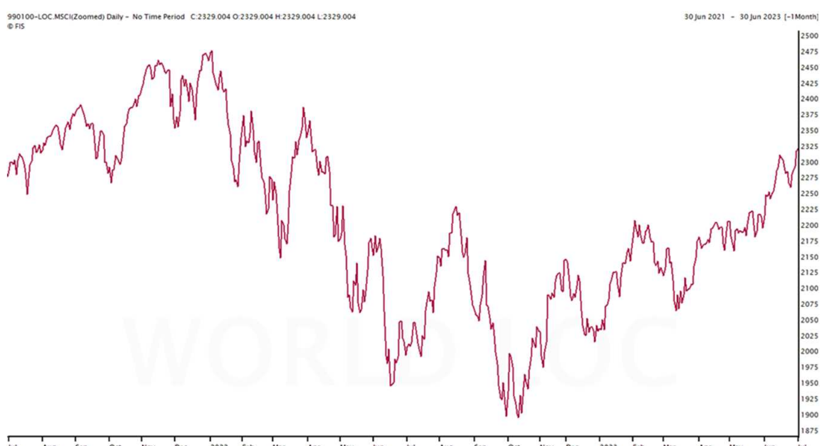
Disclaimer

Hyposwiss Advisors SA

www.HyposwissAdvisors.ch

Q2 2023 Review

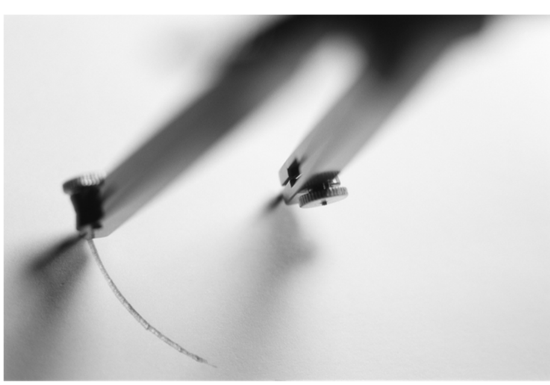
The performance of major asset classes during the first half of 2023 stands in sharp contrast with expectations at the beginning of the year. At that time, many traditional leading indicators were pointing towards a recession, and the consensus among forecasters was that one would be seen in 2023. Yet, past the half of the year, the much-heralded recession is showing no signs of occurring. Developed economies are cruising at a low but steady growth rate despite interest rate levels unseen for a long while. It is true that the goods-producing part of the economy has decelerated sharply, but this has been largely made up by a strong service sector and a buoyant labor market.



MSCI World Local Currency, 01.07.2021 - 30.06.2023
Source: FIS Market Map

This environment has led to the following returns for major asset classes:

- In equities markets, the MSCI World Index finished the first half with a gain of 15.1%. The US index (S&P 500) rose by 16.9%, driven by an outsized rally in large-cap tech stocks. A much better than feared energy supply picture drove the MSCI Europe Index to a gain of 11.1% Accommodative monetary policy sent the Nikkei 225 Index to levels not seen since 1990, up 28.7% year-to-date. The China heavy Emerging Markets index lagged by returning 4.9% over the period.
- On a sectoral basis, we note the sharp underperformance of Financials, Health Care, Utilities and Energy, which all exhibited negative returns over the period (US indices).
- Returns from sovereign bonds barely kept up with cash (US Treasuries returned 1.6% and Investment Grade Corporates 3.2%)
- High yield Credit performed well (5.4%) as this asset class benefitted from 0.80 points of spread compression.
- On the currencies side, the USD was overall broadly stable (DXY declined by 0.6% over the first half). This performance masks large regional differences, as the JPY declined by 11%, the GBP rose by 5.3% from depressed levels and Latin American currencies appreciated sharply (BRL up 13.1% and MXN up 17.6%).

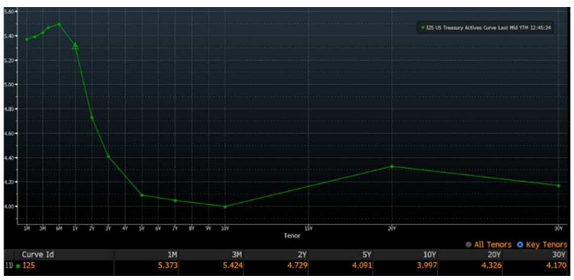


In central banks land, the key developments are summarized below:

- The US Federal Reserve raised its target for Fed funds rates by 0.25 points at each of its February, March, and May meetings, culminating in a target range of 5.00 to 5.25%. Each of these moves were justified by the need to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. The Fed declined to raise rates again in June, stating that "holding the target meeting range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy". Despite this "hold", the messaging was hawkish on the need for further tightening. Indeed, at its July 26 meeting the US central bank proceeded with an additional 0.25 hike, bringing the target range now at 5.25-5.50%.
- The European Central Bank had started its tightening campaign later than the Fed and faced stubbornly high inflation during the period. According to its own staff (as of June) the forecast was for headline inflation to average 5.4% in 2023, 3.0% in 2024 and 2.2% in 2023. This led to 4 rate increases in the first half (0.50 points in February and March and 0.25 points in May and June). In reducing the pace of rate hikes the ECB referred to the transmission to the economy of past increases. These moves were completed by an additional rate hike on July 27, leaving the ECB rates at 3.75%.
- The Bank of Japan maintained for the whole period its unconventional "yield curve control «policy, despite inflation levels oscillating between 3.5 and 4%, to the dismay of many foreign observers. On July 28 finally delivered the tweak to its policy by making it more flexible, effectively moving the ceiling for 10-year bonds moving up from 0.5% to 1% over

time. This saw JGB yields rise and stabilized the JPY.

- The Swiss National Bank has explicitly stated its preference for tightening through the foreign exchange channel and increased base rates only modestly. These reached 1.75% at the end of June. This relatively low level was made possible through the joint effect of a better relative inflation performance in Switzerland and the CHF appreciation.



US Treasury yield curve as of 08.08.2023, source: Bloomberg

On the economic side:

- Overall activity in developed economies surprised to the upside, with a large divide between the good producing sector (weak) and the service economy (strong). Chinese activity disappointed, as the overhang from the housing market proved structural and couldn't be countered durably by the post covid reopening boost.

- Inflation has been stagnant at high levels for most of the first half in developed economies. Fortunately, the US June Consumer Price Index (released in early July) finally indicated that the process of disinflation started. Both the headline and the core US Consumer price indices rose **less than 0.2%** in June. For the core, this was the **smallest monthly increase since February 2021.** This monthly trend is sustainable as rent, used car prices, pipeline pressures from production prices and labor costs are all softening. It is likely that this favorable trend will, in due course, also permeate to other developed economies in varying degrees.

From an investment management standpoint:

- The portfolios under our supervision have benefitted from these favorable financial market's trends. The main contributors to capital gains were developed markets equities and high yield bonds. The positions in investment grade bonds earned their carry and the hedging of non-USD financial markets exposure provided a welcome currency protection.

- In term of geographical allocation, our portfolios have benefitted from their overweight position in developed markets and sharply underweight position in China related assets. In terms of sectors, allocation to the healthcare and energy sectors modestly detracted from performance, and all the allocation to technology related assets contributed very positively.

Looking forward, in adopting a 6–18-month investment horizon, we can make the following statements:

- The risk of a recession in the US has receded. This is because the disinflationary process under way will allow the Federal Reserve to halt its rate hike campaign at or close to current Fed funds levels.
- Economic activity in the developed world will remain below potential, except for a few areas of structural growth such as investments related to artificial intelligence and to the energy transition.
- Corporate profits in the US are likely to bottom in Q2 or Q3 2023 and can grow modestly thereafter.
- Central banks are likely to acknowledge the disinflationary trend that will appear in the data by initially holding rates steady. Only when this trend is confirmed (Q2 2024 is our best guess now) will they consider easing. They will frame this easing by arguing that policy had become too restrictive as inflation declines and will not wait for inflation to return to target to implement some easing moves.

The above environment, coupled with current valuations and a normalized investment regime in which bonds and equities are negatively correlated lead us to observe the following guidelines in investment policy.

Fixed Income

The fixed income portion will be at neutral weight, geared towards achieving a positive carry versus cash yield levels with a reasonable risk. We see little value in the longer end of the curve if economic growth is positive and concentrate holdings in the 3-7 years segment. We also will be attentive to the credit quality of the portfolio and concentrate holdings in the investment grade and BB segments of the market. We still see value in deeply subordinated capital securities issued by financial institutions, as well as in corporate hybrids, but will continue to be mindful of the volatility associated with these segments in sizing the allocations.

Equity

For equities, the environment of disinflation and steadily growing profits will be broadly supportive. However, we must be mindful that valuations in some segments are becoming rich and need to maintain well diversified portfolios. In the absence of fundamental governance and geopolitical changes, we expect to hold no allocation to Chinese assets, but will actively consider other emerging markets.

Alternative Assets

In alternative assets, we intend to hold our infrastructure allocation. Real estate assets will be monitored but we expect it will be a long adjustment before they find their way back into our portfolios. The position in gold is maintained as it should benefit over time form a weaker USD and lower nominal rates.

As always, we will be attentive to developments that could impact our main scenario of stable disinflationary growth. At the moment, these risk scenarios would be on the one hand the return of an inflationary impulse after the current bout of disinflation, or on the other hand the development of a recession induced by the lagged effects of past tightening.

Daniel Jakobovits
Head of Investments

Mission Statement

- Hyposwiss Advisors' mission is to offer **personalized asset management services and financial advice** to high-net-worth individuals and families based in the **USA** and **Canada** with the overriding objective of **capital preservation** and **asset growth** performance oriented.

- Investments in compliant global assets are used to construct a **diversified balanced portfolio** tailored to the investor's requirements and deposited with **international banks** acting as qualified custodians.

Contact

Hyposwiss Advisors SA

www.HyposwissAdvisors.ch
info@advisors.hyposwiss.ch

Head Office
Office address: Rue Bovy-Lysberg 10
Mailing address: Bd du Théâtre 10
1204 Geneva - Switzerland

Tel.: +41 22 310 76 40

Disclaimer

All the contents of publications of Hyposwiss Advisors SA or its affiliates are for information purpose only. Information contained herein does not constitute a solicitation or offer or recommendation to buy or sell any investment instruments, to effect transactions or to conclude any legal transaction of any kind whatsoever.

The information contained and the opinions expressed herein by Hyposwiss Advisors SA are subject to change without notice. No guarantee or undertaking is offered regarding completeness, reliability or accuracy of the information given. Financial instruments and securities or any other investments mentioned in this document may involve significant risks including the possible loss of principal. No assurance is given that the investment objective of any product will be achieved. Past performance should not be taken as an indicator or guarantee of future performance. Hyposwiss Advisors SA or any of its affiliates may or may not at any time hold a position in or with respect to the investments which could be mentioned herein.

This document may not be reproduced, distributed or published without the prior written consent from Hyposwiss Advisors SA.

Access to the information may be restricted by laws or regulations to which the individual user is subject. As a consequence, this document is not directed at, or intended for distribution to or access by any person or entity who is a citizen or a resident of any jurisdiction where the information in question would be prohibited by law or regulations.

Hyposwiss Advisors SA does not render tax, legal or accounting advice. Clients are encouraged to seek their own competent independent professional legal, tax and accounting advice.

Registrations with the US Securities and Exchange Commission and the Canadian Securities Administrators do not imply a certain level of competence, education, skill or training. The protections of the US and Canadian rules and regulations are only available to residents of the respective country, province or territory.

■ ■ ■ ■ ■