MONTHLY REVIEW

MACRO

CENTRAL BANKS

As we announced at the end of November, the equity bear market rally was interrupted by hawkish speeches from central banks at their mid-December meetings. The Federal Reserve and the ECB unveiled their last decisions of the year and their vision for 2023.

Not surprisingly, Jerome Powell raised the Fed's key interest rates by 50 basis points, after four consecutives 75 point hikes. In its statement, the institution warned that further tightening would be necessary in the coming months, with a view to probably reaching a terminal rate of 5.25% in 2023, whereas a plateau rate of 4.75% had been implied last September for next year. The Fed has raised its key rates this year from 1% in March to 4.5% in December. Never in monetary history has a rate hike been so rapid.

After the Fed's message, the ECB joined the movement by making it clear to the markets that they should expect more aggressive rate hikes. Indeed, there was no ambiguity about the ECB's message, as they 1) indicated that further rate hikes were on the way, 2) outlined their plans for quantitative tightening, and 3) revised their inflation forecasts upward. ECB hawks are asking for even more. Klaas Knot, the governor of the Dutch CB, envisions the European Central Bank continuing its tightening until next summer. And ECB Executive Board member Isabel Schnabel warns that rates could rise, if necessary, beyond the level expected by the markets.

2022 PERFORMANCES

STRATEGIES

Vision Asset Management CHF performance strategy:	-5.50% to -8.50%
Average market CHF performance strategies:	-16% to -23%

EQUITY MARKETS:

SMI	-16.67%
Stoxx600	-12.90%
Cac40	-9.50%
S&P500:	-19.44%
Nasdaq :	-32.97%
CSI300 China :	-21.63%
MSCI World	-22.37%

OTHERS :

Oil :	10.45%
Gold :	-0.22%
Real estate:	-27.50%
Bitcoin :	-65%

OUTLOOK

- Inflation is already history for the financial markets. However, a classical easing process should normally take 15 months to get back to 2% level. At this rate we should have a return to 4% by spring 2023 and 3% by year end 2023.
- The labor market is good. Wages are quite dynamic in Europe and the US. Contrary to the past, they are increasing faster than before 2019, which is a concern for central banks in the fight against inflation.
- Markets are ignoring the risk of downward revision of earnings growth.
- The consensus is for earnings growth of +5% for next year! In times of recession and economic slowdown, earnings generally decline between 10% and 15%.
- Macroeconomic indicators point to a recession in the US and a slowdown in Europe in a more scattered manner.
- Continued Quantitative Tightening (QT) will further impact the markets. The ECB will have to be very careful, as some points of weakness, such as Italy, are likely to see their bond yields tighten.
- The debate in 2023 will be about the Fed's pivot. But for equity markets, what does a pivot look like? Will a pause be enough? Or will it take rate cuts?
- What impact will China's reopening have on inflation?

We are waiting to see what impact the recession will have on companies (earnings) and economies (GDP growth) but more importantly how central banks will react to employ cash in the markets.

For the time being we remain defensive in our asset allocation. Lower asset valuations create opportunities to add risk, but a change in central bank rhetoric which will indicate a change in monetary policy or a capitulation by investors will be needed for a real buy signal.

EQUITY MARKETS

UPWARD MOVEMENT INTERRUPTED

The 3rd bear market rally was interrupted on the stock market. Following announcements by the major central bankers, the Fed on December 14 followed by the European Central Bank the day after. The S&P500 has lost nearly 5% since December 14, the Euro Stoxx 600 some 3.2%. These declines occurred after the markets had recovered since October 15th. However, this recovery turned out to be short-lived. The call to order by Jerome Powell and Christine Lagarde, who both confirmed a monetary tightening with a 0.5% rate hike, has hampered short-term horizons. The lack of medium-term easing prospects has not helped. Furthermore, we are seeing a period of consolidation in the Chinese market after a 25% rally.

Stoxx600 2Y

Nasdaq 100 2Y

FOREIGN EXCHANGE MARKET

This year, the US dollar has gained as much as 18% against the euro, 30% against the yen and 26% against the British pound. This was the first time since 2005 that the dollar gained more than 10% against each of the other three major currencies. Rising geopolitical tensions (war in Ukraine, future of Taiwan...) and the return of inflation have brought back its status as a safe haven, leading many investors to buy assets denominated in dollars In addition to this powerful engine, the simultaneous failure of its major rivals has added to its strength. The consequences of the return of war to the heart of Europe acted as a repellent for the euro.

After dropping below parity with the dollar for the first time in 20 years, the euro rebounded to $1.06 at the end of the year. The markets see the world's second currency recovering in 2023 thanks to the ECB rate hike and the hope of a ceasefire in Ukraine in 2023. However, the Eurozone is still facing strong headwinds from energy shortages, and many smaller economies are more sensitive to changes in the ECB's policy rate which should be kept in mind.

EUR USD YTD

The euro is deeply undervalued by most standards against the Swiss franc, but we have good reason to be skeptical of these valuation estimates at this time. Our analysis predicts that Europe will continue to face gas shortages and high prices to replenish storage levels next year. On the other hand, the Swiss economy is doing better and facing lower inflation. This context strengthens the Swiss franc against the euro, which could remain below 0.99 during 2023.

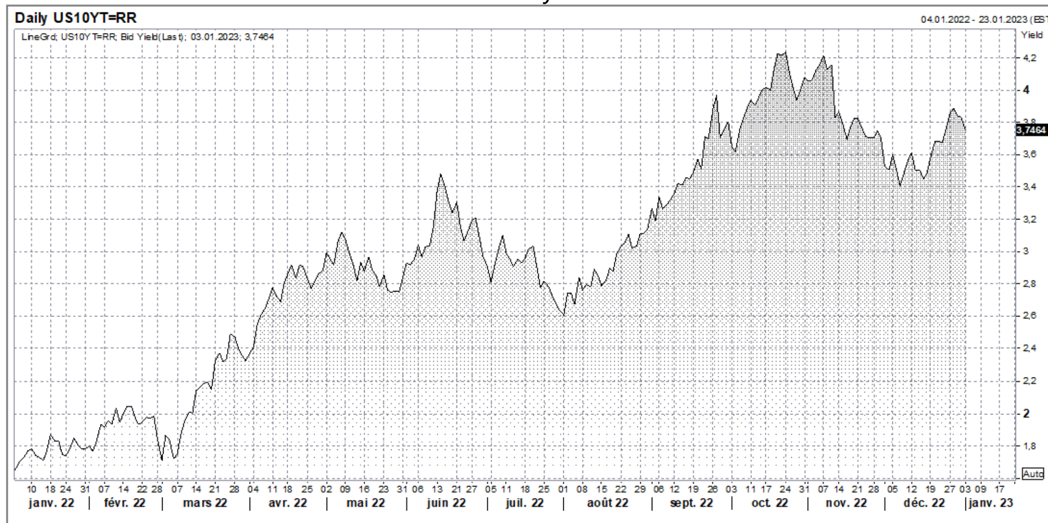
EUR CHF YTD

BOND MARKET

2022 will be remembered as the year of the inflationary bear. Inflation ended up being less "transitory" than hoped for, forcing the Fed to do "whatever it took to control inflation". Regime shifts never happen in a straight line but only in fits and spurts. Only a year ago, markets were thinking the Fed would hike rates to a meagre 0.6% by the end of 2022. Fed funds rates currently stand at 4%. Consequently, bonds have endured their worst drawdown in history, as investors frantically price a new world, one with structurally higher inflation.

At the end of 2022, the US 10-year has rebounded and is restarting a bullish formation now approaching 3.85%, the last bastion before the previous highs at 4.30%. For its part, the German 10-year is ahead as it is only a few steps away from its October peak at 2.55%, without showing much sign of losing steam for the moment. European rates are back to their highs following the ECB's very hawkish speech.

US 10y 1Y



DE 10y 1Y

COMMODITIES

Gold has been volatile in 2022. It rallied in Q1 when growth and inflation concerns emerged and it remained unclear how central banks would respond. When it became clear that central banks had decided to prioritise inflation fighting over growth support, gold fell in line with the rally in the USD and increase in US real rates.

Looking towards 2023, we believe gold offers an asymmetric payoff. It would likely continue to be under pressure in the event of further hawkish Fed surprises or a US soft landing but the scope of this downside would be limited because of already depressed investor positioning. But in the event that a US recession leads to the Fed cutting rates, we believe gold could rally.

Gold 2Y

The oil is back after reaching $76 in early December. Several positive indicators are pushing the price back to $85 by the end of 2022.

Our view remains the same as the previous month. The structural bullish oil supply pattern - due to lack of investment, low spare capacity and inventories - has only strengthened, in our view, inevitably requiring higher prices. However, in the coming months, we expect demand to rise due to peak heating demand in winter.

As a result, from the current level of stocks and depressed prices, we have a bullish view and expect Brent oil prices to reach $100/bbl in 2023. Under the updated assumptions, it would take a hard landing in the US economy to justify a continuous price decline.

Brent