TARENO
INTERNATIONAL
ASSET MANAGERS

TARENO VIEW Q1 2022

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MARKET COMMENTARY

Review

The fourth quarter marks the end of a year which was characterised by many challenges. Can we be happy about the results of the stock markets, which were hardly expected to such an extent, or will the frustration that we are firmly in the grip of the pandemic prevail in the end? In these days, we can objectively conclude that Corona is likely to become our constant companion, placing a continuing burden on the economy and especially on the civil society. The effects of supporting the economy with massive fiscal and monetary stimulus were clearly evident in the fourth quarter.

Disrupted supply chains, increased personnel costs and higher expenditure on logistics were reflected in inflation rates that were well above expectations. The rise of the Omicron variant briefly put pressure on the markets in November, but this did not result in a price slide like in March 2020.

By mid-December, the markdowns were mostly made up and new highs were within reach.

Bonds

Interest rates rose, especially in the US, in the very first weeks of the quarter. As expected, the US Federal Reserve decided that bond purchases should be discontinued in the coming months („Tapering“). Currently, the markets expect 3 interest rate hikes by the Fed in 2022. While the Bank of England took a first interest rate step, the ECB continues to exercise restraint. Uncertainties about the further course of the pandemic led to a slight decline in interest rates and a moderate widening of risk premiums for bonds with lower credit ratings in recent weeks.

Equities

All in all, the stock markets had yet another good quarter. The correction in November was not long-lasting and was once again perceived as a buying opportunity. Although a shift into partly more defensive segments could be observed, the old patterns largely dominated: growth stocks, especially from the technology sector, as well as the US stock market were in the lead. However, volatility in the markets increased significantly.

Alternative Investments

The current inflation data offered gold a substantial tailwind in the fourth quarter. Starting from a price around USD 1,743 at the end of September, the gold price rose to USD 1,865 by mid-November before falling to USD 1,800 in the final weeks of the year.

Bitcoin developed much more volatile. The value of bitcoin rose from around USD 43,000 to around USD 67,000 by mid-November.

However, the momentum subsequently weakened and there were some significant price drops in the double-digit percentage range. In recent weeks, prices have stabilised in the region of USD 45,000 to USD 48,000.

ECONOMY

Consumer prices in the US rose by more than 6% in the fourth quarter. This means that the inflation rate is as high as it was the last time at the beginning of the 1980s. At the moment, US consumers are not very impressed by the considerable price increases. Other indicators such as the labour market situation and purchasing managers' indices are also positive. In Europe, the picture is less homogeneous.
Due to the recent wave of the pandemic, restrictive measures were tightened again in several countries. Both this and the recent rise in inflation to 4.9% are having a negative impact on consumers. However, we are receiving positive data from China, whose exports continue to rise.

OUTLOOK

The last trading days of 2021 allow us to be confident as we enter the New Year. The spread of the Omicron variant will keep us busy for quite a while, but the impact should be less severe than in 2020 thanks to the vaccines. The perception that the recent sharp rise in inflation rates will not be of short-term nature has settled in.
However, investors seem to have confidence in the central banks' sense of judgement when it comes to implementing the appropriate measures to withdraw the excess liquidity from the market. So far, announcements by the US Federal Reserve in this regard have been followed by rising share prices. The coming year is likely to be a monetary challenge for central banks in particular.

A significant proportion of investors are not used to dealing with inflation and rising interest rates, which makes adequate communication by central banks imperative. While inflationary forces have been at work recently, deflationary forces have by no means disappeared. E.g. demographics or the digitalisation fuelled by the pandemic.

We also expect increasing volatility from the geo-political environment, which has recently received less attention. To us, this means focusing even more on the selection of suitable investments.

In addition to financial criteria, sustainability is an indispensable element in our selection process. The recent COP26 climate conference in Glasgow confirmed the climate targets of the Paris Agreement, and although we are approaching the goals slower than we had hoped, we are nevertheless moving in the right direction. We use sustainability criteria in our selection process both to identify opportunities and to control risk.

In 2022, the key to success will be the right selection of assets.

INVESTMENT POLICY

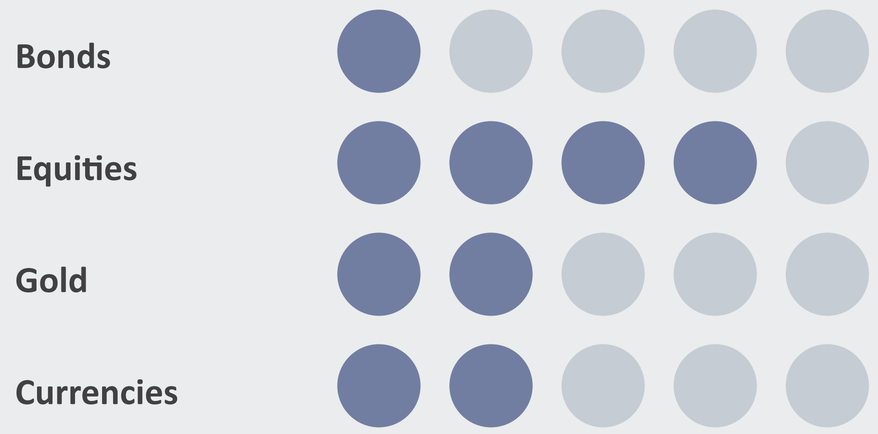
In general

Inflation recently rose by more than central banks had expected. The inflation rate will very likely remain an omnipresent topic this year. Its further course will determine the scope of action of central banks and thus influence the valuations of all asset classes.

Bond investors, however, are already confronted with the dilemma that the core inflation rate clearly exceeds the yield of bonds with an investment grade rating. With regard to credit and interest rate risks, active bond management is crucial, especially in relation to prevailing inflationary pressures. In addition to the interest rate risk, this is a significant determinant of credit risks, based on the central banks' imposed cycle of interest rate increases.

On the equity side, the high premiums have been corrected in recent months by the long-term low interest rate environment that has been priced in, putting growth stocks in particular under strong pressure. Again, the decisive question will be whether the interest rate hikes, especially in the US, will be implemented as currently forecasted. Given the more complex situation in Europe, the ECB cannot be expected to raise interest rates in the imminent future. This makes the interest rate rise forecasts in the US less likely, as the logical consequence would be a too pronounced interest rate difference between these two currency areas. Accordingly, we do not expect a „planned“ interest rate turnaround towards an interest rate environment as we knew it from the pre-pandemic era. Consequently, interest rate-sensitive equities will recover.

Positioning



The chart shows the Tareno PM's current assessment of its relative attractiveness compared to other asset classes. The more blue dots, the more attractive.

Bonds

With the announced end of the Fed's bond-buying programme and the subsequent interest rate hikes, we expect volatility to decline in the first quarter. Ten-year interest rates should remain stable, while short-term rates will slightly increase. Inflation will be nominally high in the first half of the year, while the first increase in US interest rates should follow in March. In the second half of the year, we expect inflationary pressures to ease. For the entire year, we expect inflation to hover around 4.0% in the US and 2.5% in the euro area.

We continue to favour corporate bonds over government bonds in 2022, as we expect stable credit spreads in the investment grade range.
When selecting credits, it should be borne in mind that many rating segments, especially BBB and lower, are very expensive and the risk is only marginally compensated. In general: the lower the rating, the lower the duration.

Equities

Equities remain the favoured asset class in any scenario we consider realistic. We would call them „the cleanest dirty shirt". Only if inflation were to overshoot and remain above an estimated 5-6% the equity markets would also experience noticeable problems, although we consider this very unlikely.

Nevertheless, it is crucial to select companies with a robust business model and a certain pricing power, as this will enable them to pass on higher prices to their customers in the future.

The inflationary impact of the interest rate increase from the Fed has put pressure on those stocks that are forecasting high future growth.

We consider this to be a good entry opportunity at the current levels and have recently increased our position in Logitech. Our preferred sectors remain technology, consumer goods, healthcare and commodities.

Alternative investments

Among alternative investments, we remain invested in gold and bitcoin and have recently increased the weighting in gold.
The gold price is supported when real interest rates and the US dollar fall. In recent weeks, the US dollar has risen due to the anticipated interest rate hikes in the US. As a result real interest rates have also risen again. However, we do not see the expected margin of manoeuvre for the US on the interest rate side, without the ECB being likely to follow its example. The ECB recently confirmed that it does not intend to raise interest rates in 2022. We therefore expect a partial reversal of recent developments and remain positive for gold as an asset class in the long run.
We continue to hold our bitcoin position. On the one hand, because of its potentially disruptive character and, on the other hand, as an insurance policy in case -- contrary to our assumption -- there should be excessive inflation and the central banking system is questioned. We take the higher volatility of this investment into account with a low weighting of approximately 1%.

Currencies

We maintain an active currency management, in which we keep the weightings in foreign currencies very moderate. The performance volatility which may be triggered by foreign currencies should not be disregarded.

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