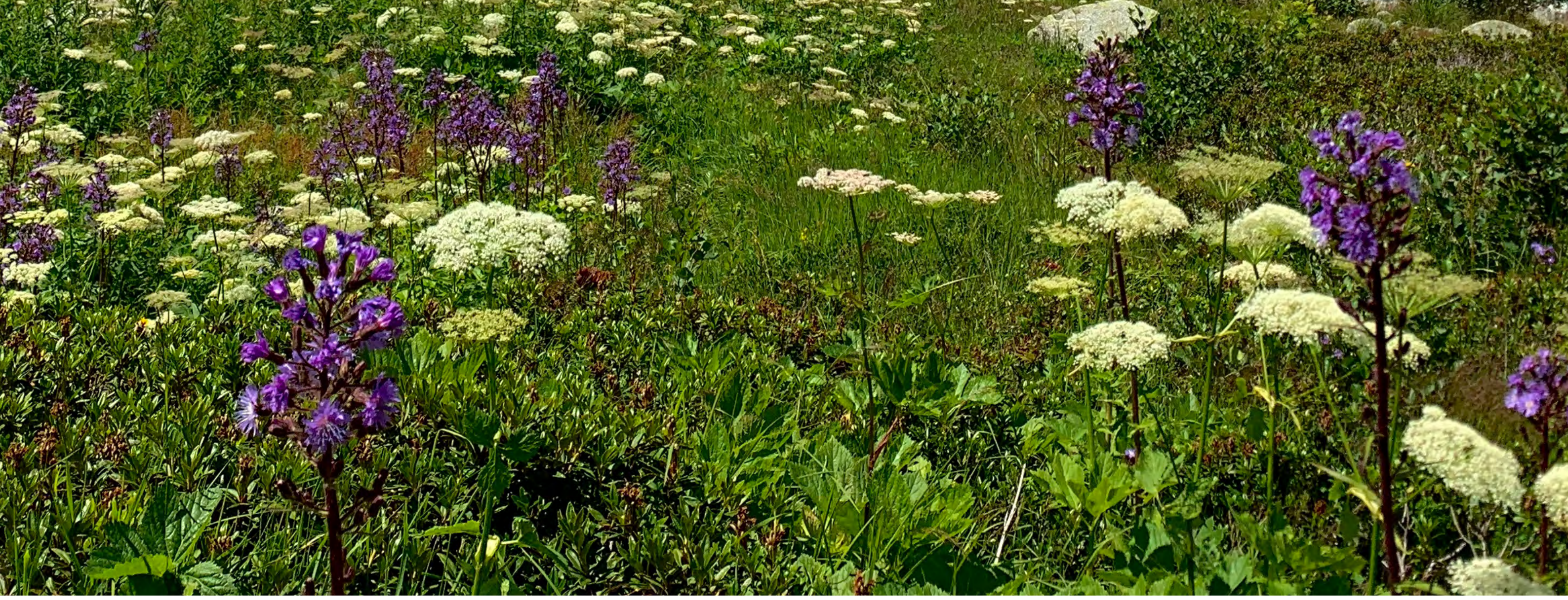
Tareno View Q2 2023

Published: 14. April 2023



Market Commentary

Bonds

Volatility on the bond markets reached unusual levels during the first quarter. Although overall inflation rates no longer rose as sharply as in the second half of 2022, the central banks in the US and Europe maintained their restrictive stance. In the United States, the Fed raised key interest rates by 0.25%, while the ECB continued its course with a 0.5% step. The commitment to contain inflation disappointed the expectations of some experts. The banking crisis that flared up in March gave them hope for a pause in the hiking cycle. Lending standards were tightened in both Europe and the US. This had a negative impact on risk premiums, especially in the high-yield market.

Equities

Technology stocks as well as companies in communications and cyclical consumer goods had the best start into the New Year with double-digit gains. On the other hand, bank stocks in particular fell sharply due to the renewed bank quake that originated from regional US banks. Along with energy shares, banks were among the big losers in the first quarter. The danger of possible consequences, such as a global liquidity crisis in the banking sector, is worrying investors. The selling pressure hit individual banks such as Deutsche Bank and First Republic Bank particularly hard, so that politicians have been forced to address the public with reassuring words.

Alternative investments

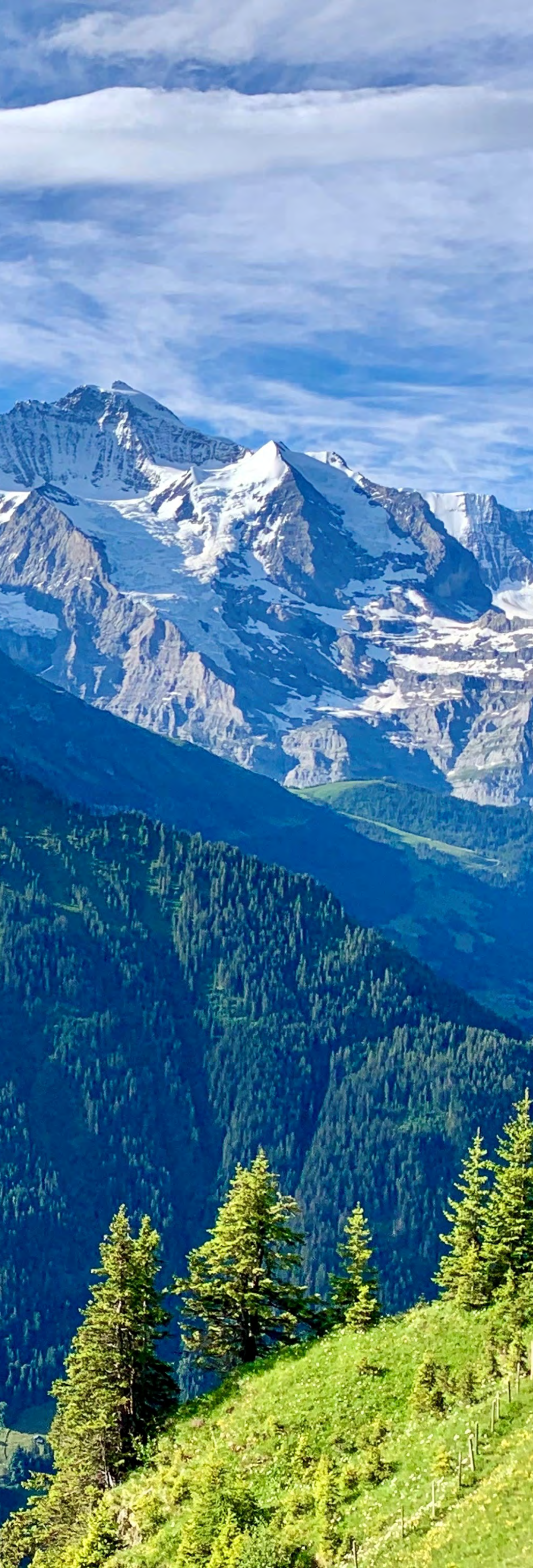
In the first quarter of the current year, the gold price rose to a twelve-month high and even temporarily broke the USD 2,000 per ounce mark. This positive price development was due to concerns regarding the return of a global banking and financial crisis. A slightly weaker US dollar gave the price upswing additional tailwind. As expected, gold once again proved to be a safe haven for investors during a volatile market phase and made a positive contribution to stabilisation in the portfolio context.
The Bitcoin price also made strong gains of +70%. This was primarily due to the local US banking crisis and the accompanying uncertainty triggered by the collapse of Silicon Valley Bank (SVB) and Credit Suisse.

Economy

Further interest rate hikes by the major central banks in the West make it unmistakably clear that the importance of the monetary fight against inflation is of particular significance. The Fed, the Bank of England and the Swiss National Bank all raised their refinancing rates by 25 basis points, while the European Central Bank announced a further increase of 50 basis points. This brings the refinancing rate in the euro area to 3.5% after six consecutive increases, in the US to between 4.5% - 4.75% and in Switzerland to 1.5%. Switzerland in particular stands out with low interest rates, which is also due to the significantly lower inflation rate of 3.5%, whereas the annual rate of price increases in February was 6.0% in the US and 8.5% in the EU.

The labour market continues to be robust in many places, with countless wage negotiations and strikes taking place at the same time, at least in Europe. As food prices continue to rise sharply, trade unions are demanding significant, in some cases double-digit wage increases to compensate for a renewed loss of real wages.

Besides the insolvency of the start-up financing SVB, the loss of confidence also drove the domestic Credit Suisse down the drain. For years, the trust of shareholders and investors has been eroding due to numerous costly management mistakes. Within a few days, the purchase of Credit Suisse by rival UBS, flanked by extensive liquidity aid from the Swiss National Bank, was completed. With a total balance sheet more than twice the size of the entire Swiss GDP, the nation‘s largest bank is now clearly „too big to fail“ and (even more so than before) systemically relevant.



Outlook

Despite the ongoing tight situation in the capital markets, central banks still have their eyes on fighting inflation. As mentioned in the last Tareno View, experiences in the 1970s/80s showed how moving too quickly to cut interest rates only makes inflation rise even more during the next upswing, and the costs of fighting inflation end up being higher. Accordingly, we may hope that inflation will continue to be fought successfully and that a further decline in inflation can be realised.

Our cautious optimism has paid off. The first quarter of this year impressively shows that positive investment returns can be achieved despite supposedly poor prospects and that it can even pay off in the short term to stick to one‘s chosen investment strategy.

In the second quarter, we are preparing for a financial market which, on the one hand, will continue to struggle with uncertainties and thus remain volatile, but which, on the other hand, will also be characterised by considerable performance divergences in terms of regions, sectors and companies. Asset allocation and specific stock selection will once again be of great importance.

Investment Policy

Asset allocation

History teaches us that for well-diversified investors, the greatest risk to wealth is not from being invested in periods of short-term volatility, but from being underinvested over the long term. It is important to keep this in mind.

Nevertheless, the prevailing uncertainty about the markets and overall economy is likely to continue for a while. In addition, tighter credit conditions will have a negative impact on economic and earnings growth. Due to this, we are maintaining our cautious assessment for another quarter and are placing our focus on conservative values, regardless of the asset class.

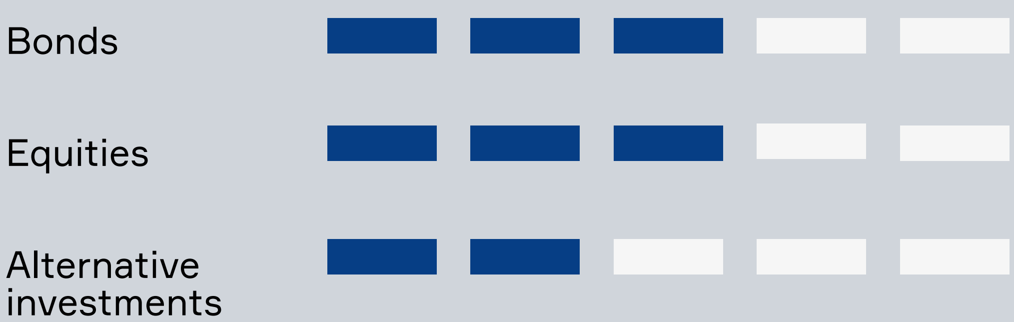
We are not maintaining the liquidity ratio, unlike in previous years, because we cannot find an investment opportunity on the fixed-income side, but because we are not fully exploiting the maximum equity ratio. Due to the attractive returns, we are much more active on the fixed-income side and supplement the portfolios with quality bonds where possible.

Due to the mentioned yields and the inverse price curves, we manage the liquidity part with time deposits and fiduciary investments where possible. After years of inactivity, these investment options can be used again in a meaningful way.

For the time being, we are keeping our equity exposure slightly below the permitted maximum, but are increasingly defensive in terms of the distribution within the equity universe.

Alternative investments improve the overall risk profile of our portfolio strategies. We therefore value constructive portfolio diversification and limit ourselves to the liquid sub-categories. For now, we maintain our overweight in gold.

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

As mentioned in the last Tareno View, there is still a risk that central banks will keep raising interest rates for longer than the market expects.

For this reason, on the fixed-income side, we favour prime and investment-grade bonds over high-yield bonds. Due to their reasonable yields and the potential for capital appreciation in the event of an economic downturn, we see prime bonds as a good option for diversification. In terms of maturities, we are increasingly focusing on the short end for new investments and follow the principle: the poorer the credit rating, the shorter the maturity. We continue to invest according to the popular laddered strategy, i.e. a staggered bond portfolio that ensures a continuous cash flow and reduces the interest rate risk.

Equities

The uncertainty in the markets suggests a defensive orientation within equity investments. Nevertheless, potential turning points can quickly appear on the horizon and, as a result, cyclical companies can emerge as strong performers. For this reason, we focus on a good mix. Our portfolios contain value stocks and high-quality income stocks that offer protection against valuation risks and economic uncertainty. As an add-on, in satellite investments we focus on cyclical companies with experienced management, dominant market positions and solid balance sheets, which offer attractive long-term price entry opportunities due to the general uncertainty.

We have recently reduced our US exposure in favour of Europe and Switzerland and will continue to do so. We are particularly cautious on the US market due to tighter financing conditions, declining corporate earnings and relatively high valuations.

Alternative investments

Our focus is on liquid alternative investments, preferably gold and some bitcoin. The only exception to this is private equity exposure. The private equity market faces many challenges: Inflation, the risk of recession, a weak IPO market and rising borrowing costs. We are maintaining our position for the time being, but are in close contact with the fund management due to the market environment.

For diversification reasons, we like to keep gold in the portfolios and see the expected USD weakness as another strong positive driver in addition to the ongoing inflation theme. However, it is possible that we will reduce part of the overweight in the coming months.

The strong price rally of the Bitcoin came as a surprise to us as well. However, it is understandable that in a market environment characterised by tensions in the banking system, the decentralised concept of cryptocurrency is gaining newly ignited recognition. We continue to see the disruptive potential as given and are happy to continue to include the diversification character into the portfolio within this market environment.

Currencies

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

We are currently very convinced by the Swiss Franc. It has always been considered a safe haven. The Swiss economy is once again proving to be extremely robust in the current market environment and in comparison to other industrialised countries. We therefore consider a further appreciation against the EUR, USD and GBP to be likely and keep the weighting in the portfolios comparatively high.

Imprint

Tareno AG
St. Jakobs-Strasse 18
CH-4052 Basel
+41 (0)61 282 28 00

Tareno AG
Claridenstrasse 34
CH-8002 Zurich
+41 (0)44 283 28 00

info@tareno.ch
www.tareno.ch

Responsible

Sybille Wyss
Chief Executive Officer
s.wyss@tareno.ch

Stefan Schütz
Head Equity Research
s.schuetz@tareno.ch

Annina Aeschi
Head of Marketing
a.aeschi@tareno.ch

More authors:
Frank Pfeiffer

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