Investment Outlook 2022

Dear reader

After the corona shock of 2020, the economy slowly normalized in 2021, or rather, adapted to the “new normal”. The thousands of billions in government subsidies (our future taxes) and newly created money from the central banks (the coming inflation) have resulted in stock markets doing very well in 2021. Well, appearances are deceptive. The government is not the "generous helper in need", we as a society have to pay the bill in the end. There are also very large differences in the development of the stock market. While gold and bonds benefited from the uncertainty in 2020, both asset classes were negative in 2021. On the equity markets, the “developed markets” such as Europe, Switzerland and the USA were clearly ahead of the “emerging markets”. It seems that this year too, the USA crossed the finish line as the winner with the S&P 500 Index (approx. + 27%). On the other hand, the MSCI Emerging Market Index lost around 5%.

Should you continue to bet on the previous year's winners in the coming year? We took a look below the waterline. 50% of the rise in the S&P 500 Index since April 2020 has come from just five stocks: Microsoft, Google, Apple, Nvidia and Tesla. The USA now accounts for 70% of the global MSCI World Index. The five stocks mentioned earlier have a weight of 14%. Diversification definitely looks different.

The upward trend is getting thinner and the stock market will face headwinds in the form of interest rate hikes (which relatively are very modest and at a very low absolute level) in 2022. The expansion of the money supply is also reduced. The combination of persistent supply chain problems leading to higher prices and lower profit margins for companies will also make consumers more cautious. The market seems to be underestimating the risk of an earnings recession.

For this reason, we are rather cautious about the development of the stock market in 2022. There will be big differences again. For the first time in a long time, we see the light at the end of the tunnel in China. In contrast to almost all other countries, which have now tightened their monetary and fiscal policy, China is becoming more expansionary. China is also underweighted or not included in most investors' portfolios. This even though China achieves around 18% of the world's gross domestic product (GDP). We are also relatively positive about the rest of the emerging markets.

We could face some changes of direction in the coming year. The nervousness of the manic-depressive stock market, which is dependent on cheap money, could rise again. So a «normalization» towards fundamentally based fluctuations and away from the artificially controlled world.

As asset managers, we are aware of these fluctuations in mood on the stock exchanges and therefore attach great importance to thinking outside the box. Only in this way can we remain flexible in our way of thinking and can offer our clients tailor-made solutions. You can find out what we expect from the coming year on the next page.

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Economy and regions:

What is important for economic success? Entrepreneurship, little bureaucracy and capable politicians. Well, the latter is arguably the hardest to find. Money rules the world and where it is most "produced", music also plays. For the first time in a long time, **the western countries have to take off the accelerator pedal to print money** due to rapidly rising inflation and a gradual "normalization" of the economy. Because of this, we are on the cautious side of the US and European markets. Thanks to its more defensive character, the Swiss stock market should be spared major losses, provided the Swiss franc does not appreciate too much. On the other hand, **China and emerging markets are attractive** from a valuation and positioning perspective.

Interest rates and bonds:

Inflation is likely to remain an issue in 2022. Because of the base effect, the increase will be tolerable. The absolute level is still noticeably higher than a few years ago. If inflation gets out of control or if the citizens see through the manipulative inflation illusion of the government, then interest rates should rise faster and sooner. This would be poison for bond investors in the short term. But because the debt is gigantic, there is only very limited room for improvement from a nominal point of view. Otherwise the debt card house will collapse. For these reasons, we prefer hybrid interest rate instruments such as **convertible bonds or fix-to-float bonds with first-class borrowers**.

Commodities and Gold:

If we were rightly optimistic about raw materials last year, we are more cautious in 2022. It seems that the "green wave", which requires a lot of raw materials, is moving more slowly. But being more cautious does not mean that we are in a negative mood. In order to protect against inflation and diversification, raw materials and / or precious metals always belong in a portfolio. Speaking of diversification and protection, when does gold actually wake up? **Gold will awaken when the "cryptocurrency emperor" loses his clothes**. Cryptocurrencies are considered the new "gold". The problem now is that cryptocurrencies do not reduce the risk in a portfolio, but increase it, as a study recently showed. The day the stock markets and cryptocurrencies correct in a big way will be the day when gold starts a major surge. Seen in this light, we are sticking to our gold quota for reasons of hedging.

Currencies:

The Swiss franc should remain strong. This means for Swiss investors to hedge foreign currencies. If the SNB had to stop or reduce its extensive foreign exchange market interventions for political reasons, the Swiss franc would appreciate even more.

Stocks:

The big beneficiaries of the pandemic were the tech giants Apple (performance in 2021 of + 34%), Microsoft (+ 53%), Google (+ 66%) and Nvidia (+ 125%). When the senseless lockdown exercises and the home office arrangements end, the vulnerability of these high flyers is likely to be great. As a result, we are now cautious about the pandemic-benefiting sectors. On the other hand, sectors with longer relative underperformance such as **pharmaceuticals, food & beverage or energy should benefit**. The topic of **sustainability** and **innovation** will remain with us. Large investments will continue to be shifted here, which will lead to rising prices for the corresponding stocks. We expect major differences in performance development in 2022. Active investing is also likely to become more important than passive index strategies. In summary, the advice for 2022 is: **be more careful**, balance your portfolio with different asset classes **and don't be afraid of realizing profits**.

Schaffhausen, December 2021