January 2022

TOP TEN THEMES FOR 2022:

1. **Higher rates are the elephant in the room:** To fight expected inflation, the U.S. Fed, and a little later the ECB and the BOJ, will start raising rates this year and potentially faster than previously anticipated. This will negatively impact fixed income – and most asset classes if inflation gets out of control.

2. If inflation falls to more moderate levels, **equities remain our favorite asset despite higher volatility:** A gradually improving Covid situation sets the stage for a global recovery fueled by pent-up demand for discretionary consumption and technology. We expect robust economic activity globally. Even though tapering by the U.S. Fed is likely, well-financed equities of companies with pricing power remain the most effective store of value.

3. **Asia, Japan, the U.S.:** We continue to like India, Vietnam and Japan as well as the U.S. which continues to play a critical role in global innovation and entrepreneurship. Japan's valuation looks enticing and momentum in India and Vietnam remains attractive. China could have peaked as an engine of growth for the global economy, but could benefit from monetary stimulus and low valuations.

4. **Inflation is back – finally:** For more than a decade central bankers had to do "whatever it takes" to fight or prevent deflation. Interest rates were lowered to below zero, central banks bought bonds (first only government bonds but later also corporate bonds) and some even bought equities in order to flood financial markets with liquidity and prevent a recession. Now inflation is back, partly induced by supply-side constraints, labor shortages and higher costs to comply with ESG standards.

5. **Fixed income remains our least favorite asset class:** In a rising interest rate environment fixed income is not attractive. While higher yielding securities can benefit from margin compression, government bonds benefit from their perceived safety. However, with less central bank buying, demand for long maturity government bonds with zero yield could fall off a cliff. We recommend to stick with TIPS and short maturities.

6. **Reduce exposure to ETFs and shift into actively managed equity funds:** In an environment with high liquidity as in recent years, the strong tide lifted all boats. We expect rising volatility in 2022, which allows for more differentiation and opportunities for alpha generation. We favor fundamental stock pickers who can exploit dislocations both on the long and on the short side.

7. **We favor the Swiss Franc:** Recent inaction by the Swiss National Bank (SNB) is evidence that the Swiss economy can handle the current exchange rate. Both the USD and the EUR will be weakened by expansionary fiscal policies. In the US, there is rising inflation and funding for costly infrastructure programs. In the EU, social programs and "good-debt" financing may weaken its currency.

8. **Gold remains an important asset:** We are generally constructive on gold as a general diversifier and a geopolitical hedge despite fears of tapering and rising real rates. Catalysts for gold equities include low valuations, rising dividend payments, outperforming earnings expectations and rising M&A activity.

9. **Look for digital currencies:** Even though we believe cryptos and blockchain plays are overvalued, we are convinced that this asset class is here to stay. The current irreversible move into a cashless society (ask your teenage kids!) will continue to drive investments into the development of digital currencies and blockchain technologies. Look for a diversified approach, since we are still early-stage.

10. **Risks to our base case:** Reduced vaccine effectiveness due to widespread vaccination break-downs, further virus mutations and resistance against scientific break-throughs; faster-than-expected rising inflation and central banks behind the curve; waning investor confidence in a sustained recovery and a negative wealth effect; worsening diplomatic tensions between the U.S. and China resulting in an accelerating trade war between the two; geopolitical tensions getting out of hand, e.g. a war between Russia and Ukraine, China attacking Taiwan, an armed conflict in the Middle East.

Konrad Zehnder Wealth Partners AG | Gartenstrasse 33 | CH-8002 Zurich | +41 44 222 18 18 | Info@konradzehnder.com