KONRAD ZEHNDER
WEALTH PARTNERS

INVESTMENT COMMENT March/April 2022

- **War economy**

  Let us start by expressing our deep felt sympathy and compassion for the people of Ukraine who are defending their country against totally unjustified aggression from their neighbor. We take part in the Ukrainian people's sorrow, loss and despair.

  The war's impact on inflation and commodity prices will be fundamental, broad and lasting. The actual magnitude will depend on the length of the invasion, the number of countries involved, the final outcome and who will be sitting at the peace negotiating table. Given the uncertainty, we advise to position our financial assets for maximum resilience regardless of political outcomes.

- **Flight to quality**

  In uncertain times like these, it is even more important to reduce risk and improve credit quality. We continue with our significant underweight in fixed income and even prefer holding more cash despite negative interest rates in Switzerland and the EU. Swiss franc assets traditionally do well in risk-off environments. We continue to recommend holding inflation-linked treasuries.

- **Selective equities remain the asset class of choice**

  In an increasingly bi-polar world, Western democracies led by the U.S. will gradually reduce their exposure to economies with autocratic leaderships. They will increase spending on home-grown technology both in hardware and software including cyber security, networks and micro chips. Reducing dependency on fossil fuels from Russia and OPEC will lead to increased spending in R&D on clean energy sources (solar, wind, hydro), but also on safer fracking technology, nuclear as well as energy storage and infrastructure.

  The war-induced de-globalization will provoke a shift in investor focus. Defense spending will increase. The protection of democratic societies and free market principles will cost the West more than it did during the preceding three decades since the end of the cold war and may lead to rethinking certain principles established under ESG.

- **Commodity prices will remain volatile**

  Commodity prices remain in backwardation due to continued supply disruption. This will keep prices high with the risk of braking out on the upside. Given the market volatility, we recommend to leave trading to long / short experts with a relative value approach.

- **Asset Allocation**

  It is difficult to assess the duration of the Ukraine crisis, which makes it a challenge to predict market movements. But the recent correction is offering opportunities to reallocate equity exposure towards de-globalization stocks. We remain neutrally weighted in equities and continue to shift our exposure somewhat from growth to value.

  We keep our underweight in fixed income and re-iterate diversifying our gold exposure marginally into other commodities. Hedge funds have proven to add stability and protection.