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WEALTH PARTNERS

INVESTMENT COMMENT

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- **Don’t Fight the Fed**

Inflation in the U.S. looks to be peaking around the current 8% and unemployment stands at 3.6% with twice as many job openings as job seekers. The Fed started with a 25bps interest rate increase this March – the first since December 2018 – followed by another 50bp rate hike in May. The markets are expecting another 150 to 200bp in increases in 2022 bringing interest rates to 3% by year-end. The Fed has also started with quantitative tightening (“QT”) in June which removes additional liquidity from financial markets.

However, this time supply bottlenecks in manufacturing, labor, energy and increasingly in agriculture are part of the problem. While higher interest rates have proven to reduce demand, it is not as clear how effective they are in alleviating the supply constraints.

- **Too Early for a Pivot?**

Aside from supply issues, companies are in fairly good shape. They are not over-leveraged as during the global financial crisis in 2007/2008, nor are stock valuations as excessive as during the dot-com bubble in 2000. Once we see a reduction in inflationary pressures, a re-opening in China and a reduction in commodity prices (from slowing demand), we expect the Fed to take a pause and the markets to recover. The stage could be clearing now for a temporary bear market rally.

However, this would take time. It is too early to re-enter the markets and buy on the dips. Investors who wish to take advantage of short-term market movements should rather sell on the intermittent peaks and reduce equity exposure into bear market rallies.

- **How about China?**

China is not the most popular investment destination at this juncture. Yet it is difficult to deny the country has its competitive advantages: abundant capital at its disposal, a large supply of well-trained engineers, a highly efficient manufacturing supply chain supported by a modern and efficient infrastructure, and the world’s largest middle-class consumer base. Over time, there is a high chance that certain Chinese champions will replace today’s global leaders as providers of choice.

Nevertheless, there will be growing pains. Geopolitics has a large influence on the country’s development trajectory. Domestic priorities shifting to higher quality but slower growth would also have an impact. The lockdown tactics applied to the ongoing Covid-19 pandemic has raised alarm bells. But we continue to believe in the long-term story of China’s development and would not pay too much attention to short-term noise.

- **Asset Allocation**

There is no change to our asset allocation. We continue to shy away from fixed income, are slightly underweight in equities, hold a little more cash than usual und feel comfortable with 6% exposure to gold. We continue to recommend alternative investments into long/short equity and credit managers, as well as into global macro and multi strategy managers.