

INVESTMENT COMMENT

August 2022

• **The Fed Continues Fight Against Inflation**

With cumulative rate hikes of 2.25% so far in 2022 and likely a further 75 basis points next month, the Fed communicated that fighting inflation is a top priority. We do not see a pause until inflation is in check. While the U.S. economy is technically in a recession, i.e. two consecutive quarters of negative growth, it does not feel like one. A very strong employment market (albeit with a below-average participation rate), persistent competition for talent and skilled labor and fairly stable consumption levels tell a different story. Since the end of World War II, a recession always came with a loss of employment. This could imply that we are only in a mild “growth recession”.

• **Bear Market Rally or Trend Reversal?**

The U.S., Europe and many Asian markets have staged a nice rebound since their lows in June. Share buy-back (11 of the 20 Swiss SMI companies have announced to spend almost a combined CHF 50 Billion on share buy backs) and record insider buying, which implies that executives believe their companies’ stock is attractively valued (see chart below) could be seen as an indication that the market has bottomed. However, the market’s recent advances could just be a bear market rally. Firstly, the yield curve between 2-year and 10-year US treasuries is still inverted. Secondly, the on-going invasion in Ukraine continues to negatively impact the price and availability of global energy, food and rare earths (the same is true for potential implications of the Taiwan-crisis on the global chip supply). Thirdly, we should not underestimate that many market participants prefer not to think the unthinkable, i.e. that things actually could get worse despite some silver linings on the horizon. We have not seen real capitulation yet.

• **Asset Allocation**

We remain slightly underweight equities and continue to shy away from fixed income. We hold more cash than usual and keep a 6% allocation to gold. We continue to recommend alternative investments into CTA, global macro and multi strategy managers.

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