INVESTMENT COMMENT October 2022

- **Peak Fear?**

Fears of a nuclear war, fear of climate change, re-emerging fears of Covid-19, fear of a strong US dollar, fear of evaporating market liquidity, fear of a global recession…There is bearishness everywhere – maybe it is overdone.

- **On the bright side**

The labor markets appear rather resilient, both in the U.S. and in Europe. Without massive unemployment there will not be a major recession.

The sharp sell-off in government bonds is evidence that a lot of negative news and significant rates hikes are priced in. Any improvement in inflation expectations could lead to a stabilization of bond yields (albeit at high levels) and a recovery in risk assets such as equities and high-grade credit.

Finally, politicians and central bankers around the world learned from the U.K.'s ill-fated large and unfunded fiscal stimulus program that there is no tolerance for fiscal-driven inflation. This is giving central bankers intellectual ammunition to work towards keeping longer-term inflation expectations in-check.

- **Central banks should re-consider the 2% inflation target**

The world may fall into a recession on its way to reaching 2% inflation. A 3% or 4% target seems more reasonable at this juncture. It could lay the foundation for a new growth cycle with private and public spending in healthcare, defense, clean energy sources and infrastructure.

- **Germany needs to wake up**

Since the fall of the Berlin Wall, Germany has relied on Russia for cheap energy, China for exports and the U.S. for security. Yet German politicians seem to not have realized the extent to which things have changed. Military support for Ukraine is still half-hearted, extending the life of its nuclear power plants is not enough to render energy independence, and more could be done to improve its economic competitiveness. Without an economically strong Germany and one that is willing to assume regional leadership, Europe is in dire straits.

- **Asset Allocation**

We remain slightly underweight equities and continue to shy away from fixed income. We are holding more cash than usual and are keeping a 7% allocation to gold.

The bear market in bonds is not yet over, we recommend to stay short in duration and high in credit quality.

Holding equities is currently painful but experience has taught us that every sell-off is followed by strong recoveries that eclipsed previous highs. The current environment offers increasingly attractive opportunities for long-term investors. We favor U.S. equities over European and remain selective with emerging markets given the strong U.S. dollar.

We continue to recommend alternative investments including CTA, global macro and multi-strategy managers.

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