



Investment letter

***Monthly review of global
financial markets***



SWISS
CAPITAL^{IB}

MARCH 2022

MACROECONOMICS

Financial markets continued on their volatile trend in 2022. The key risk factor moved from tighter monetary policy to geopolitics. The start of the month was dominated by the inflation narrative. Price gained a record 7.5% in January in the US, with all components showing strong prints again: energy, food, housing and goods. Concerns were fuelled by further evidence of wage pressures in a context of tight labour markets. Inflation expectations also started to rise above the central bank's target of 2% over the medium term.

In Europe, a similar but softer dynamics took hold. Inflation printed above 5% for the first time since the 1980s. Despite the weakening of Covid cases and the relaxation of constraints on activity, the zero Covid policy in China continued to put upward pressure on supply chains, freight and goods inflation.

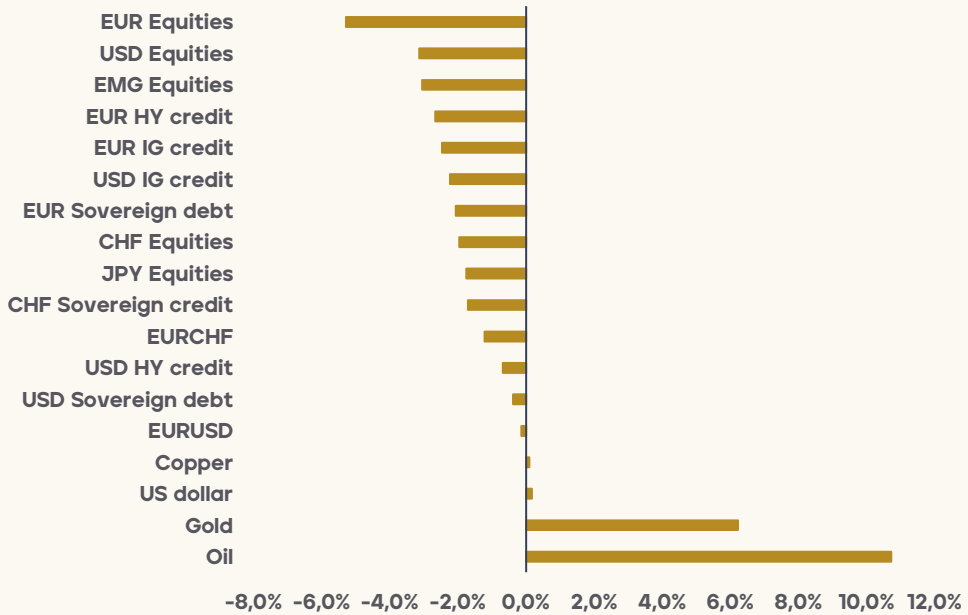
"From monetary policy to geopolitics"

The implication has logically been higher expectations of monetary policy tightening. In the US, markets went as far as pricing 165bps of tightening this year. This was fuelled by comments from hawkish members of the FOMC. In Europe, C. Lagarde also refused to rule out hiking interest rates in 2022, leading markets to expect no less than 50bps of hikes and a de facto end to the negative interest rate policy.

This scenario was completely pushed off course by the escalation of tensions in Ukraine. Despite multiple diplomatic efforts from the Europeans, Russia initiated a full-blown invasion of Ukraine in late February. Sanctions from the West escalated quickly, including the freeze of external assets, the exclusion from the SWIFT messaging system and from global financial markets for Russian financial institutions. More importantly, Western countries froze assets held by the Russian central bank abroad, accounting for about 40% of the \$630bn of international reserves.

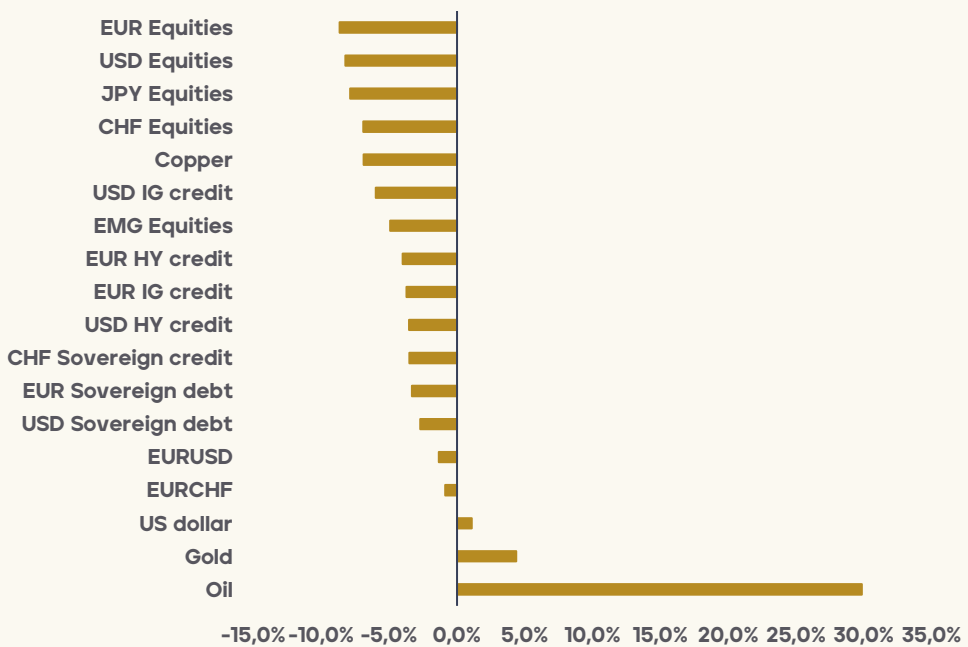
OVERVIEW

MAIN ASSET CLASSES MONTHLY PERFORMANCE



Source: Bloomberg, 28/02/2022

MAIN ASSET CLASSES PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 28/02/2022

MACROECONOMICS (continued)

This surprise sanction triggered a collapse of the Russian rouble and the rise of default risk premia on major Russian companies, banks and the sovereign itself. Meanwhile, the EU decided to support Ukraine militarily for the first time since its creation.

China maintained a neutral stance in the conflict but refrained from lending support to Russia in circumventing international sanctions. This put further pressure on Russia to achieve a swift military victory in Ukraine and open negotiations in a stronger position.



War in Ukraine

EQUITY MARKETS



Double whammy

Equity markets had a marked drop again in February, hit by rising interest rates first and by geopolitical risk second.

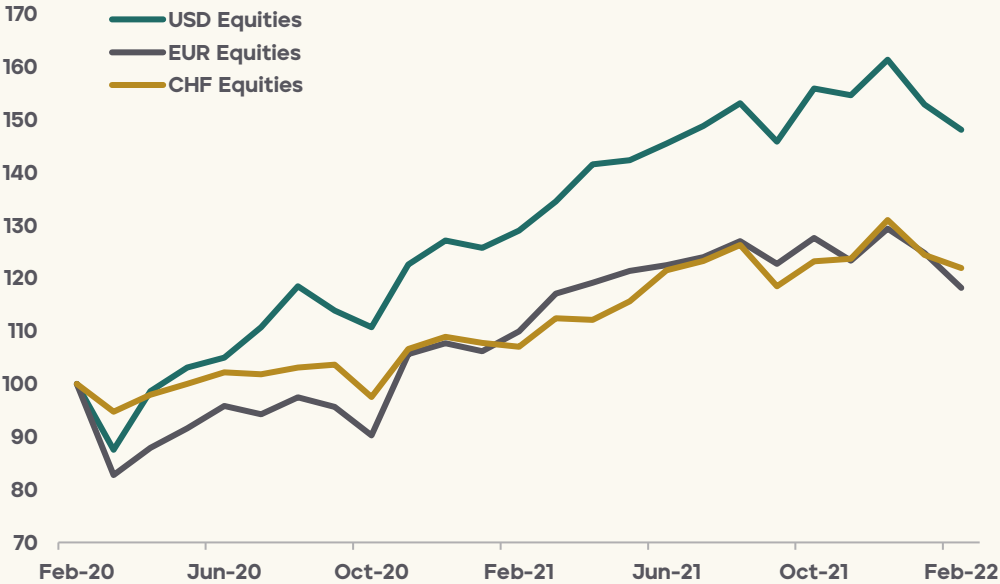
Russia experienced a complete collapse, falling nearly 50% in USD terms in February. Contagion was surprisingly limited in emerging markets though, except for Eastern Europe. Other markets had decent performance, especially Brazil (+11%) and South Africa (+8%).

In developed markets, Europe underperformed (-5%), followed by the US (-3%), Switzerland and Japan (-2%). The UK outperformed (0%), helped by the large weight of energy and materials in the index.

At sector level, energy was the biggest beneficiary of higher oil and gas prices. At the other end, US tech and European financials fared the worst, hit by the two key risks.

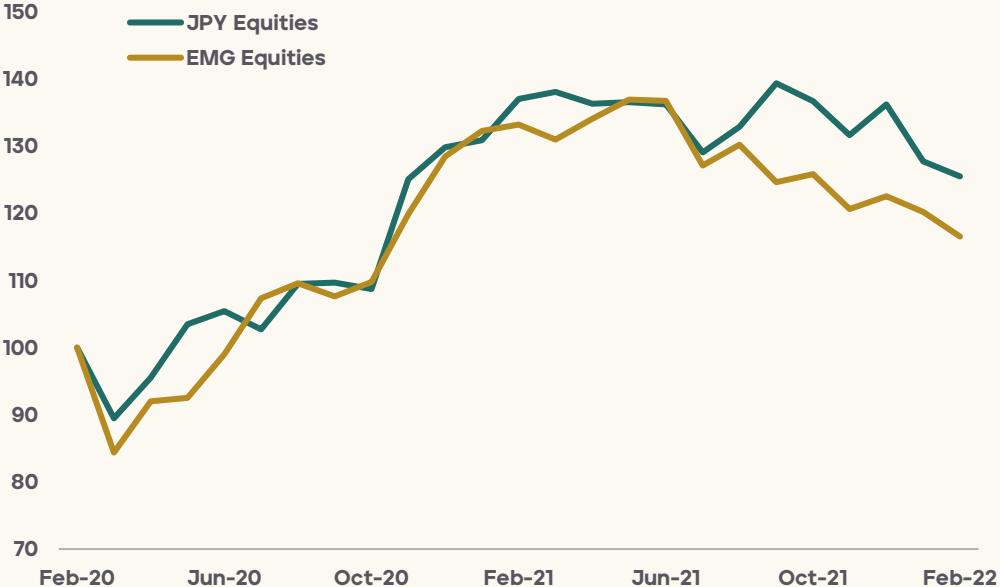
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 28/02/2022

EQUITY MARKETS JAPAN - EMERGING MARKETS PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 28/02/2022

BOND MARKETS

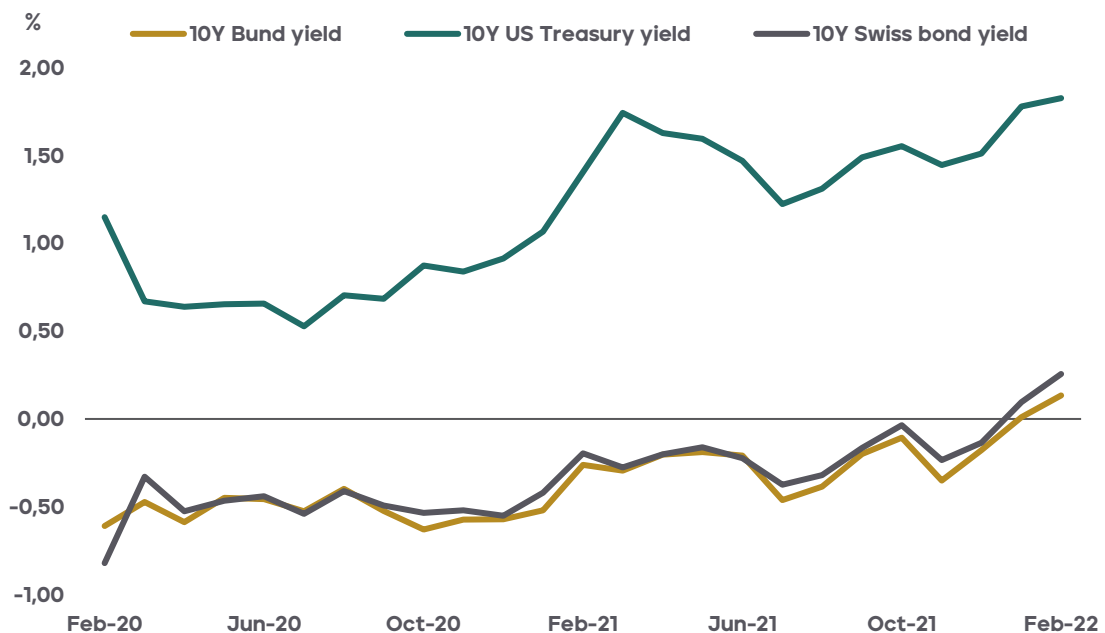
Diversification failed again in February, as lower equities combined with higher bond yields and wider credit spreads. Again, Europe underperformed in credit, with High Yield shedding nearly 3% on the month and Investment Grade 2.5%. Losses were less steep in the US, especially in High Yield (-0.7%).

In rates, real rates and inflation break-evens moved in opposite ways over the month. Real rates started the month higher on policy expectations, before turning around with risk aversion. Break-evens reacted to oil price developments after the war started.

Financial credit also suffered a sharp correction and opened opportunities. We remain tactical in managing duration and add exposure gradually to credit, especially in reopening sectors.

“European underperformance”

10Y SOVEREIGN BOND YIELDS EVOLUTION OVER 2 YEARS



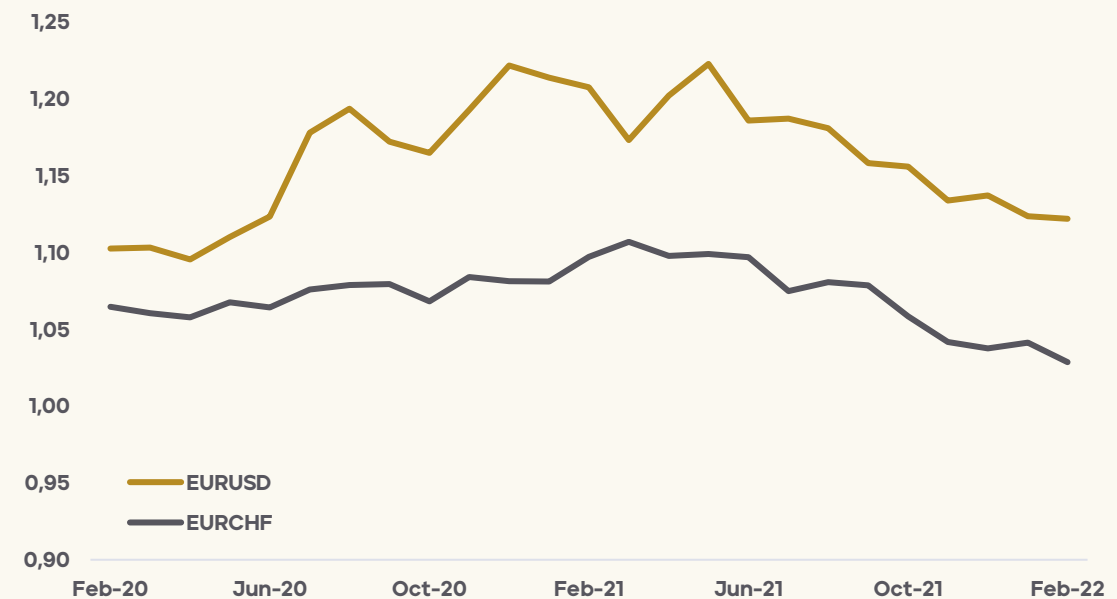
Source: Bloomberg, 28/02/2022

CURRENCIES

The main dynamics in G10 currencies was the decline of the euro towards the end of the month. The common currency fell back to 1.11 to the US dollar, but also reached fresh lows against the Swiss franc (1.02). Meanwhile, commodity-exposed currencies benefited from the massive rise in agricultural and energy commodities: the Australian dollar, New Zealand dollar and Norwegian krone were the best performers.

In emerging markets, the price action was dominated by the massive drop in the Russian ruble (-30%). The Hungarian forint and Czech krona also suffered as a result. Asian and Latin American currencies were completely unaffected though.

USD & CHF EVOLUTION OVER 2 YEARS AGAINST THE EUR



Source: Bloomberg, 28/02/2022

COMMODITIES

OIL

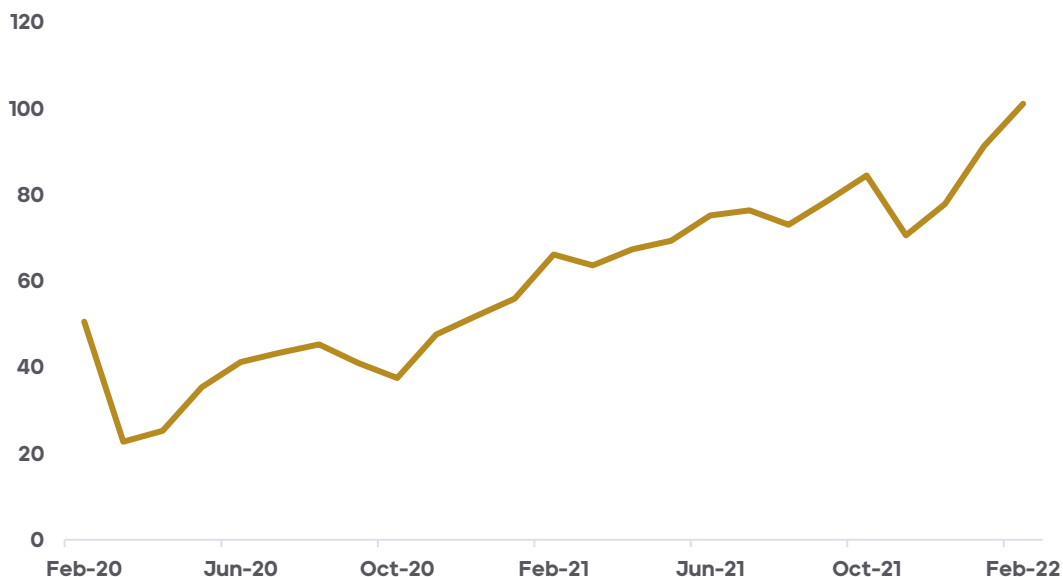
Oil prices were once again the best performing asset in allocations last month. Oil prices reached 110\$ per barrel, their highest level since 2014. Prices benefited from large speculative inflows looking for protection against rising geopolitical tensions.

The position of Russia in OPEC+ also makes difficult the increase of production in the near term. Gas prices also followed on the way up, reflecting anticipations of export bans from Russia.



Oil on the boil

OIL EVOLUTION OF BRENT PRICES OVER 2 YEARS



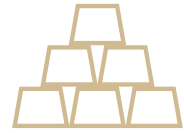
Source: Bloomberg, 28/02/2022

COMMODITIES

GOLD

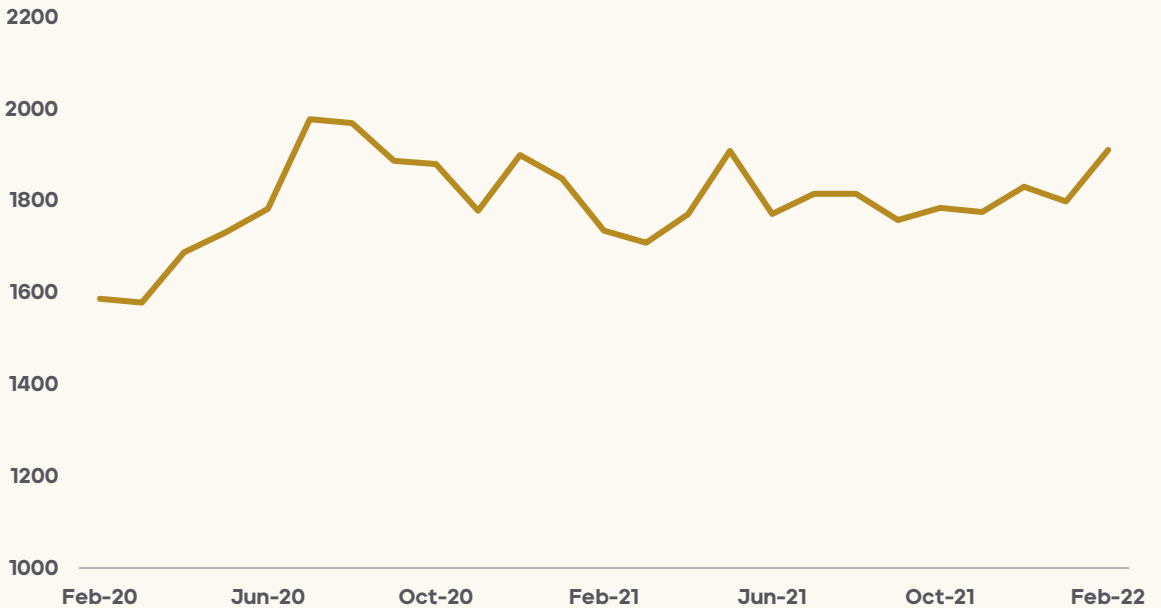
Gold seems to be finally breaking out from its recent range. The decline in real rates and the rise in risk aversion have pushed it above \$1,900 per ounce.

We think it is time to add exposure to gold in a context of volatility and risk aversion. With less pressure from monetary policy, its diversification power should also improve going forward.



Breaking out

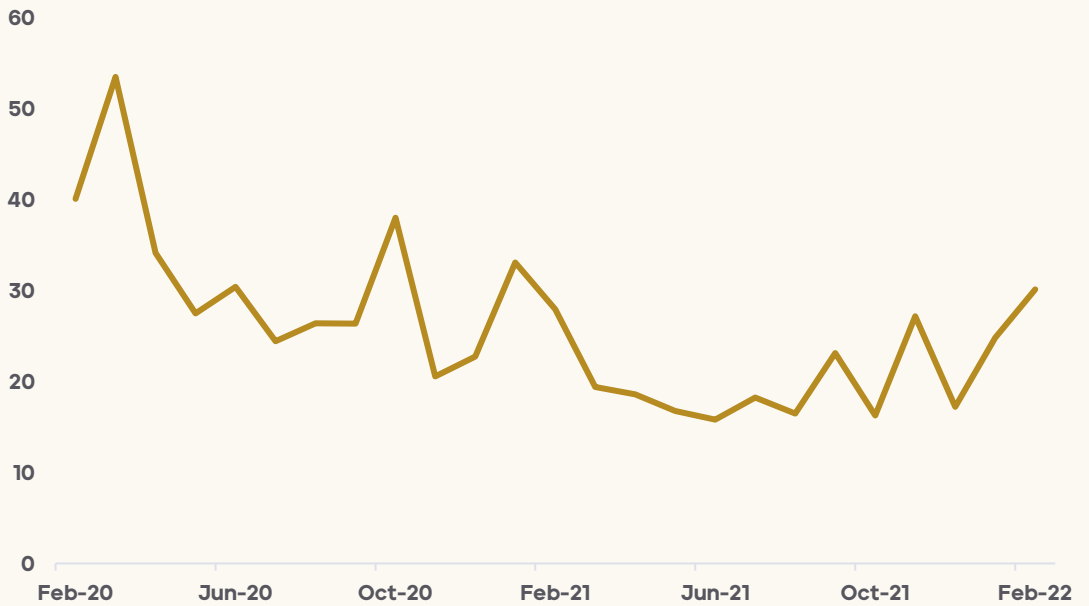
GOLD EVOLUTION OVER 2 YEARS



Source: Bloomberg, 28/02/2022

VOLATILITY

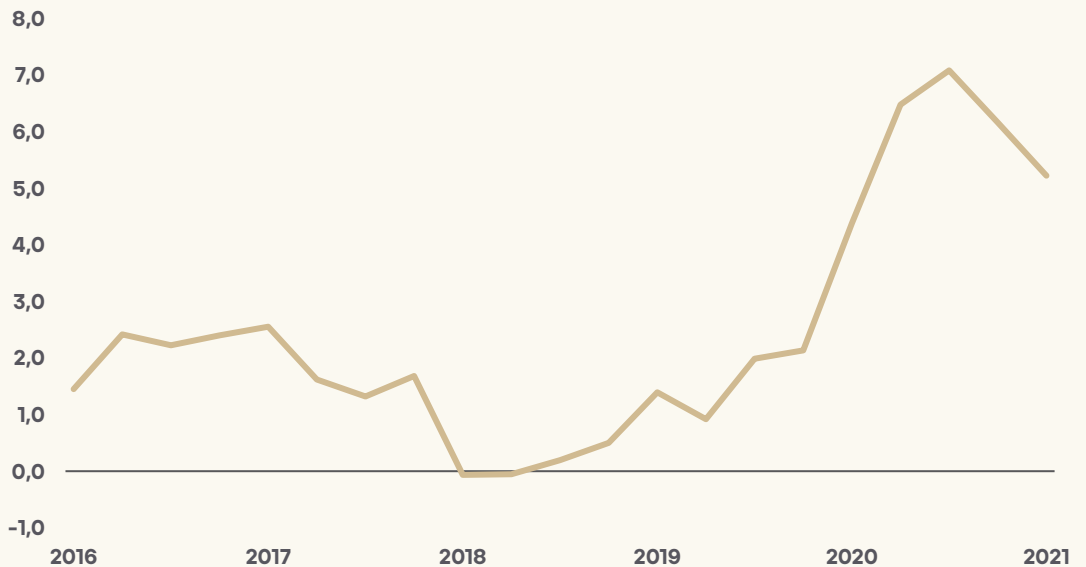
VOLATILITY - VIX INDEX EVOLUTION OVER 2 YEARS



Source: Bloomberg, 28/02/2022

REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE ANNUAL PRICE CHANGE



Source: Bloomberg, 28/02/2022

CALENDAR

Date	Country	Economic Data	Period	Previous
01 March	US	Manufacturing PMI	Feb-22	58,8
	China	Caixin Manufacturing PMI	Feb-22	49,1
	Eurozone	Markit Manufacturing PMI	Feb-22	58,7
	UK	Markit Manufacturing PMI	Feb-22	57,3
	Japan	Nikkei Manufacturing PMI	Feb-22	55,4
	Switzerland	Manufacturing PMI	Feb-22	63,8
02 March	Eurozone	Inflation (YoY)	Feb-22	5,1
03 March	US	ISM Non-Manufacturing Index	Feb-22	59,9
	Eurozone	Markit Services PMI	Feb-22	55,8
	Eurozone	Unemployment Rate (%)	Jan-22	7,0
	UK	Markit Services PMI	Feb-22	60,8
	Switzerland	Inflation (YoY)	Feb-22	1,6
04 March	US	Employment (000s)	Feb-22	467,0
	US	Unemployment Rate (%)	Feb-22	4,0
	Italy	Real GDP (QoQ)	Dec-21	0,6
07 March	Switzerland	Unemployment Rate (%)	Feb-22	2,3
08 March	Eurozone	Employment (QoQ)	Dec-21	0,5
	Eurozone	Real GDP (QoQ)	Dec-21	0,3
	Germany	Industrial Production (MoM)	Jan-22	-0,3
09 March	China	Inflation (YoY)	Feb-22	0,9
	Japan	Real GDP (QoQ)	Dec-21	5,4
10 March	US	Inflation (YoY)	Feb-22	7,5
	Eurozone	ECB Interest Rate (%)	Mar-22	-0,5
	US	Consumer Confidence	Mar-22	62,8
14 March	Eurozone	Industrial Production (MoM)	Jan-22	1,2
15 March	China	Industrial production (YoY)	Jan-22	9,6
	UK	Unemployment Rate (%)	Jan-22	4,1
16 March	US	Federal Reserve Interest Rate (%)	Mar-22	0,3
	Japan	Industrial Production (MoM)	Feb-22	-1,3
17 March	US	Industrial Production (MoM)	Feb-22	1,4
	US	Philadelphia Fed Business Survey	Mar-22	16,0
	UK	Bank of England Interest Rate (%)	Mar-22	0,5
18 March	Japan	Bank of Japan Interest Rate (%)	Mar-22	-0,1
23 March	UK	Inflation (YoY)	Feb-22	5,5
24 March	Switzerland	Swiss National Bank Interest Rate (%)	Mar-22	-0,8
25 March	Germany	Ifo Business Climate	Mar-22	98,9
30 March	US	Real GDP (QoQ)	Dec-21	7,0
31 March	UK	Real GDP (QoQ)	Dec-21	1,0
	Switzerland	KOF Leading Indicator	Mar-22	105,0

Let's talk about it.

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