FK Market Commentary

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Dear clients of Finanz Konzept AG, dear readers!

After 2021 generated capital market growth decoupled from the real economic situation, we are now feeling the true state of the global economy. In context of high inflation, tighter monetary policy and geopolitical uncertainty, the markets went through the first phase of revaluation. The technology-heavy Nasdaq 100 is down more than 30% since the beginning of the year, while the S&P 500 is down about 20%. European indices such as the DAX and CAC 40, as well as emerging market indices, posted similar losses, with the UK's FTSE 100 down comparatively little at around 6%. The Chinese markets were already at a lower level, which is why the price losses here amount to just under -10%.

The further development is mainly characterized by three drivers: The end of years long, loose monetary policy with enormous liquidity overflow and low interest rates, the impact of the Ukraine conflict and the role of China in the global economy & value chain. Tight monetary policy will be felt in the form of lower demand and liquidity in the markets. In the U.S., markets are pricing in, the biggest monetary tightening since the 1990s. And the interest rate-sensitive housing market is already showing the first material declines. The effects of the Ukraine conflict will primarily stun European growth due to dependence on Russian raw materials. The situation in China with regular lockdowns is slowing down economic activity and putting additional pressure on already pre-stressed supply chains, which in turn impacts global growth.
We are carefully evaluating these risks while at the same time working to identify and seize opportunities in this environment.

We wish you a thrilling read!

Yours sincerely

Lars Oberle

Director of Finanz Konzept AG

INTERNATIONAL INVESTOR AWARD WINNER 2020

FINANZ KONZEPT
INDEPENDENT WEALTH MANAGEMENT FIRM
SWITZERLAND// 2020

In Short

Money- and Capital Markets Capital market interest rates in % (10y government bonds)

	31.12.21	30.06.22	6 M	12 M
CHF	-0.135	0.98	↗	↗
EUR (DE)	-0.179	1.37	↗	↗
GBP	0.972	2.35	↗	↗
USD	1.498	2.97	↗	↗
JPY	0.070	0.225	↗	↗

- Central Banks raise interest rates to tackle inflation
- The Bank of Japan continues extensive asset purchase program
- US bond yields increase

We recommend:
- Short maturities and inflation-linked bonds
- Neutral weight on bonds
- Opportunities in investment grade bonds

Stock Markets Indices

	31.12.21	30.06.22	6 M	12 M
SMI	12 875.66	10'703.25	↘	↘
EUR STOXX 50	4 298.41	3'451.54	↘	↘
FTSE 100	7 384.54	7'170.75	↘	↗
S&P 500	4 766.18	3'788.98	↘	↘
Nikkei	28 971.71	26'384.26	↘	↘
DAX	15 884.86	12'783.77	↘	↘

- Conflict in Ukraine and high inflation pushes uncertainty for investors
- We have entered a bearish market with strong corrections
- Further selloffs are possible

We recommend:
- Structure portfolio defensively
- Value and quality stocks offer opportunities

Forex Markets Currencies

	31.12.21	30.06.22	6 M	12 M
EUR / CHF	1.0358	1.001	↘	↘
EUR / USD	1.1374	1.048	↘	↘
EUR / JPY	130.935	142.25	↗	↗
GBP / CHF	1.2339	1.1629	↘	↘
USD / CHF	0.9110	0.955	↗	↗

- Continued US dollar strength
- Euro falls behind dollar and swiss franc
- EUR/CHF parity
- (Artificial) recovery of the ruble

We recommend:
- Maintain USD and CHF share
- Buy the dips in euro

Commodities in USD

	31.12.21	30.06.22	6 M	12 M
Crude WTI (USD)	79.32	114.81	↗	↗
Gold (USD)	1 814.95	1'807.31	↘	↗
Silver (USD)	23.06	20.27	↘	↘
Platinum (USD)	965.50	895.50	↘	↘

- Gold increases marginally
- Sharp rise in energy prices
- Ukraine conflict causes uncertainty on commodity markets

We recommend:
- Increase gold positions
- Build small positions in platinum and silver
- Long-term investemnts in renewable energy

Crypto-Markets

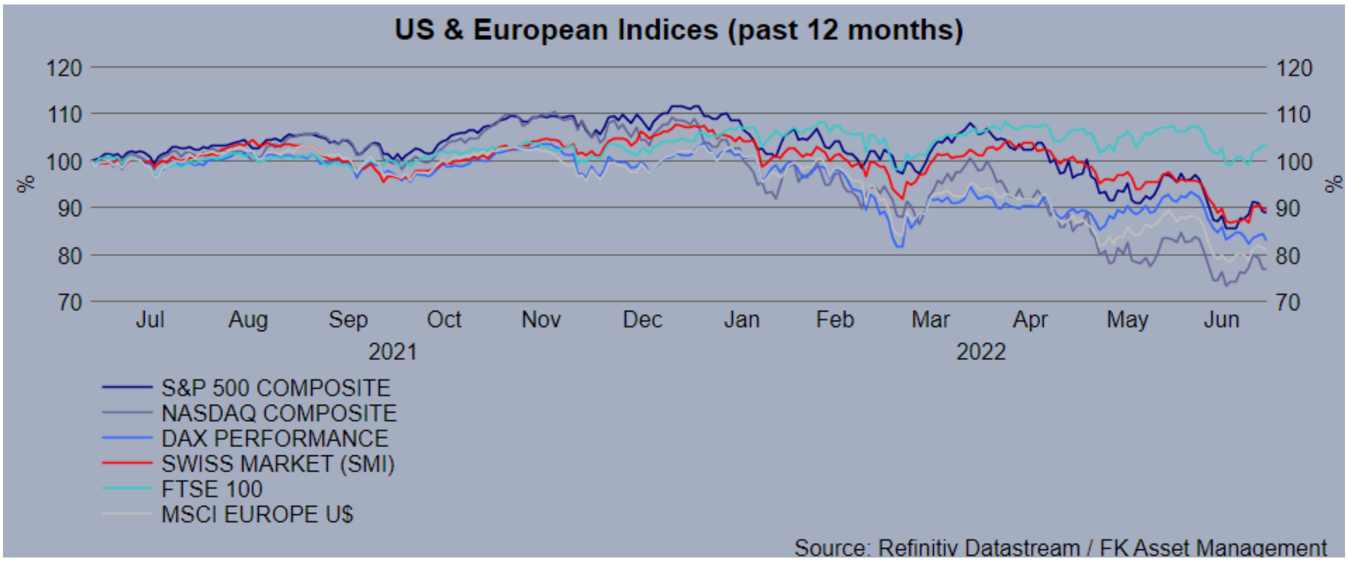
	31.12.21	30.06.22	6 M	12 M
BTC (USD)	46 306.45	20'076.03	↘	↘
ETH (USD)	3 682.63	1'092.96	↘	↘
XRP (USD)	0.831	0.331	↘	↘
SOL (USD)	170.30	31.96	↘	↘
LTC (USD)	146.41	51.85	↘	↘

- The crypto market has plummeted
- Risk appetite and confidence low

We recommend:
- Realize existing gains
- Wait for stabilization of price levels

The Roaring Bear

Stock markets have shown high volatility in the first half of 2022. The risk of a global recession is depressing investor sentiment, and persistently high inflation figures, as well as the Ukraine conflict are contributing to the uncertain market situation. Many investors are positioning themselves defensively with liquidity on the sidelines in order to remain flexible in the event of a further intensification of the market situation and, to time for even more favorable entry prices. At the start of 2022, equity markets were at record highs. The S&P 500 peaked in early January. Subsequently, first tech stocks and then the entire market environment entered a bear market. The current correction is almost on par with those in the aftermath of the 2020 Covid crash, with the Nasdaq losing 33% from its all-time high in November 2021. European indices are following similar trends. Japan's Nikkei Index, has struggled with less severe declines. Despite the correction, the consumer staples and health care sectors are holding up robustly while promising high dividend-yields. Financial, industrial and technology stocks had to see their forecasts plummet at the beginning of the year and have recorded strong price losses. These had previously gained in value due to the flood of liquidity in the course of low interest rates and pandemic-related stimulus packages.
China continues to pursue a zero-covid policy. This is causing endless container jams outside Chinese ports, which disrupt global supply chains. This is being felt especially strong in the industrial sector, as well as in private consumption. Some goods are currently not available, or on par with long waiting times. Thus, for example, important components in the automotive and aviation industries are slowing down production lines. The political and economic situation in China is having a great impact on Chinese stock prices. The low Chinsese stock prices are expected to recover with a change in the covid strategy of the far east giant.
Increases in key interest rates by the Fed and ECB means less cheap money on the market which slows down economic growth, and so dies the surge in inflation. As a result, bonds will become more attractive, which will encourage risk-averse investors to reallocate their portfolios. In the short to medium term, markets are likely to remain bearish. Further sell-offs are to be expected. Historically, the worst market phase occurred at the time when key interest rates peaked and the effects were felt in form of reduced liquidity in the market.



Fixed Income is Back

The bond markets went through turbulent months. Persistent inflation, diffuse monetary policy and supply chain problems remain the main issues in global credit markets. Interest rates in the U.S. have risen rapidly in the face of record high inflation of 8.6% (as of May 2022). The Fed announced a 75 basis point rate hike in June, the largest move since 1994, with more to come. By the end of the year, the U.S. federal funds rate is expected to be 3.25%-3.5%. In the course of the first half of 2022, the yield curve has flattened and even inverted in part due to inflation expectations. As a result, the yields of 10-year and 2-year Treasuries are currently at 2.97% and 2.98%, respectively. Between the two scenarios of "soft landing" and "recession", the latter is increasingly taking center stage. Inflation in the euro zone also rose to over 8% in May. In this context, the commodity shock caused by the Ukraine war is pouring further fuel in the fire. The ECB faces a challenge to regain control over price stability and prevent a fragmentation of the monetary union. Inflation calls for a defensive monetary policy with significant interest rate hikes to reduce the demand overhang. In such a scenario, however, the cost of capital for economically weaker countries such as Italy or Greece threatens to rise to unsustainable levels. The ECB is not implementing its first hike until July, which is why the European bond market has underperformed its U.S. counterpart. German 10-year bonds are yielding 1.37% at mid-year, French bills are hovering around a 1.95% yield, while Italian 10-year bonds are hovering at 1.95%. Switzerland is much less affected than neighboring countries, with inflation at 2.9% in May, but to the surprise of many market participants, the SNB raised key interest rates by 50 basis points to -0.25% in June. A bold, but also consistent measure, which sends an important signal in favor of decoupling the Swiss from European monetary policy. Swiss government bonds with a maturity of 10 years currently have a yield of 0.987%.
While the world's central banks are all adopting a very defensive stance more or less in lockstep, raising key interest rates, ending their purchase programs and even reducing their balance sheets again, the Bank of Japan remains on the loose monetary policy course and continues to buy government bonds in enormous quantities in order to keep the yield of 10-year government bonds below the target of 0.25% in favor of high government debt. In the second week of June, a whopping $81 billion USD was needed for this purpose.
When interest rates rise, bond prices fall. This was clearly evident across the board in the first half of the year. However, after initial challenges in dealing with volatility, attractive opportunities are crystallizing out of the bond market. Increased yields have now been making bonds a comparatively attractive investment instrument again. For example, investment-grade bonds issued by financial institutions could be worth considering as they could benefit from the high interest rate environment.

Selected 10 year government bond yields (past 12 months, in %)				
	30.06.2021	**31.12.2021**	**30.06.2022**	**Change (YoY)**
China	3.083	2.783	2.81	-0.273
United States	1.444	1.515	2.97	1.526
United Kingdom	0.717	0.972	2.35	1.633
Switzerland	-0.24	-0.135	0.987	1.227
Germany	-0.203	-0.179	1.37	1.573
Japan	0.0542	0.0701	0.225	0.1708

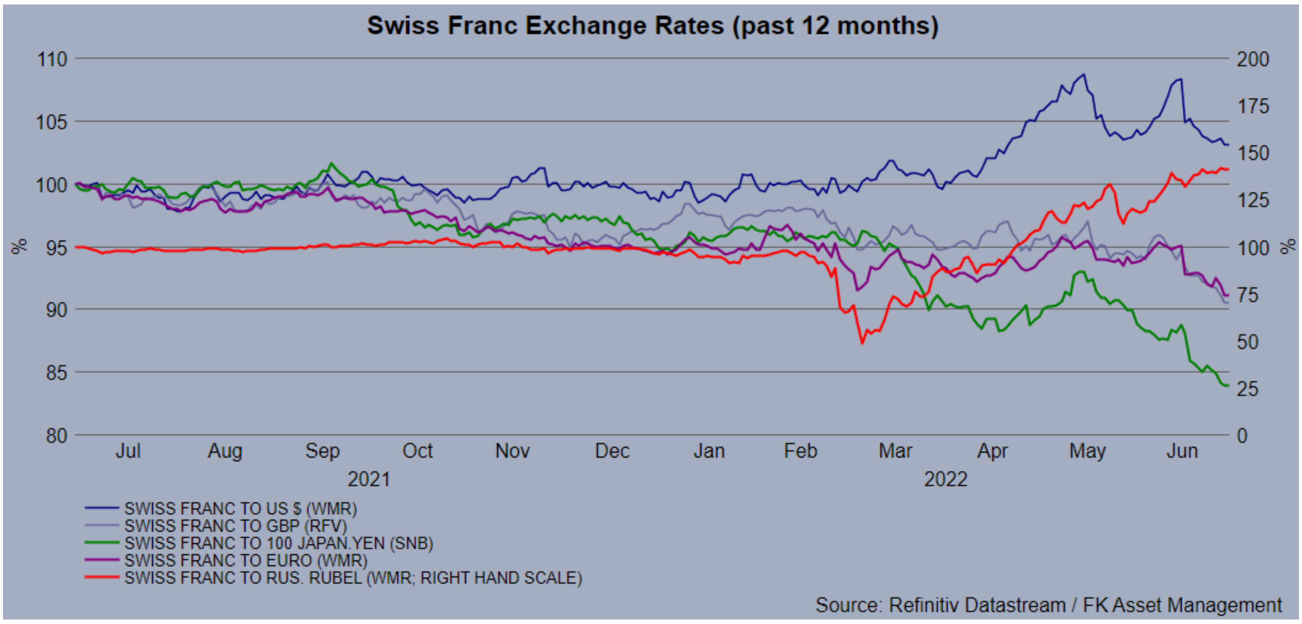
Broadly Based Dollar Strength

As addressed in the last issue of our market commentary, a continued dominance of the USD in the FX markets was to be expected. Stubborn inflation and across-the-board monetary tightening are the main reasons for this. In addition, the USD acted as a refuge currency in the context of the geopolitical conflict in Ukraine and appreciated against cyclical currencies (GBP and EUR). At the beginning of the second quarter, the USD appreciated by around 5% against all major currencies. The JPY is at a 15-year low against the USD as the Bank of Japan holds on to the cap on the 10-year bond yield at 0.25% and yield differentials between US and Japanese bonds put pressure on the currency. The British pound weakened under broad-based USD strength, and additionally depreciated due to less restrictive monetary policy. At least until monetary policy normalizes, the USD strength will persist due to the Fed's commitment to fighting inflation. Currently, USD/EUR is at 1.048, USD/CHF at 0.955, USD/GBP at 0.82 and USD/JPY is at a very high level of 135.79.

The euro showed mixed performance. The sensitivity to the Ukraine conflict is noticeable, which is related to the geographical proximity on the one hand, and Russian gas imports on the other. However, as there is still more upside yield potential for long-term Eurozone bonds than for corresponding U.S. securities, this may support further depreciations, despite the risks from the Ukraine conflict.

The Swiss franc has appreciated against its neighboring currency. This was initially due to monetary and geopolitical conditions. At the beginning of March, EUR/CHF briefly reached parity, then moved in the range between 1.01 - 1.05 and closed the half-year close to parity. In the medium term, the CHF should continue to be in demand on the currency markets, especially since the SNB raised interest rates by 50 basis points in June. Should the SNB end the era of negative interest rates with further hikes, we expect a marked appreciation against the EUR and USD. After the Russian rouble took a nosedive in the context of the Ukraine conflict, a spectacular recovery to pre-invasion levels followed. However, this development is deceptive, as it is largely caused by Russias demand of conducting paymets for its natural resources in Rubel. This has resulted in an artificial surge in demand for the currency.

Meanwhile, chaos reigns in the crypto market. Bitcoin and Ether are currently trading in price ranges last seen in late 2020, before the bull market. The crash and current bear market is caused by abruptly decreased risk appetite and confidence-destroying events: the Luna Project, which launched an algorithmic stablecoin (UST), is a thing of the past. The algorithm could no longer withstand the volatility in the market and fell below the (actually) fixed equivalent of USD 1. This caused a cascade of liquidations and UST lost its entire market capitalization of USD 18 billion.



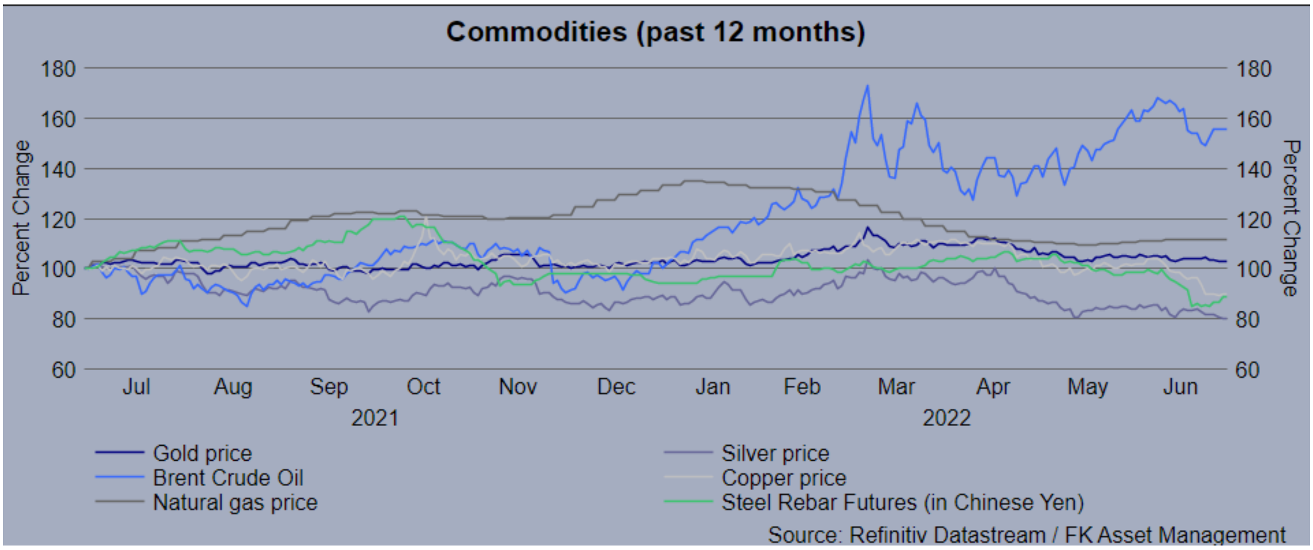
Cold Winter?

The commodity markets have again been a topic of conversation in the first half of the year. Uncertainty induced by the Ukraine conflict and rapidly rising energy prices are shaping the picture. Crude oil demand has increased enormously in the wake of the economic recovery, with production curtailed as a result of low prices at the start of the Corona pandemic. The summer travel season and the easing of COVID-19 restrictions in China will further boost demand. The U.S. and some allies have imposed an embargo on Russian oil, raising prices on crude from other regions. Russia is the second largest oil exporter and accounts for 10% of global crude oil production. Crude oil prices have risen by more than 50% in the first half of 2022, which could arguably have similar consequences as the oil price crisis in the 1970s. Moreover, Russia is the largest exporter of natural gas, accounting for 44% of the world's pipeline gas. Germany alone takes a quarter of that (as of 2020). Energy exporters such as the U.S., Kuwait and Qatar are benefiting primarily from higher demand for LNG (liquefied natural gas) from Europe in the wake of the non-operation of the "Nord-Stream 2" gas pipeline and Europe's drive to become less dependent on Russian gas. Europe resumes relations with Venezuela on oil imports after 2 years. Part of the Venezuelan oil is used for swap transactions, whereby oil deliveries are made to pay off debts.

Wheat prices have increased 54% year-on-year as a result of the situation in Ukraine. Russia and Ukraine combined account for about a quarter of global exports in this key commodity. Russia's blockade of Ukrainian Black Sea ports is preventing the export of several million tons of grain, putting upward pressure on food prices, and hitting emerging markets in Africa and Asia particularly hard.

Industrial metals such as aluminum, steel, and palladium, which is used primarily for exhaust catalytic converters, have risen sharply in price, as Russia is a major exporter in these commodities as well. As a result, the automotive sector, the manufacturing sector as well as the construction sector are under increasing pressure. Compared to the previous year, gold gained 3% and stood at USD 2,000 per troy ounce shortly after the outbreak of the Ukraine conflict. Subsequently, the price has settled between USD 1800 and USD 1900 per troy ounce in May and June 2022. Although gold is currently trading in a low range, gold ETFs are seeing surprisingly strong inflows.

Commodity price inflation is playing a pivotal role in inflation trends. Energy price developments, for example, have an impact on almost all sectors. Private households bear increased costs almost exclusively. As a result, the expansion of renewable energies will probably be pushed ahead faster than expected, but a delay in the coal phase-out due to higher energy prices and efforts to achieve energy sovereignty are also conceivable in some countries.



Excursion: Stagflation - Back to the 70s?

It is obvious that the global economy will have to cool down at some point after the years-long era of low interest rates and the accompanying growth. But what is the current state of the economy and what scenarios need to be considered? The two worries these days are stubborn inflation and flattening economic growth: there could be a threat of global stagflation, i.e. the simultaneous effect of low growth (stagnation) and inflation, as last seen in the 1970s. But how great is the risk really? In the following, we use the World Bank's "Global Economic Prospects" report to show to what extent the situation is the same as it was just under 50 years ago.

The pandemic supply shocks and disruptions caused by the Ukraine conflict are similar in their effect to the oil shocks of 1973 and 1979. In the phase preceding these shocks, very loose monetary policy with negative real interest rates was omnipresent today, as it was then. Moreover, the most affected commodities in both cases are fossil fuels and food.

Moreover, as in the 1970s, the prospects for economic growth are more likely to be modest. The World Bank estimates growth in 2022 at 2.9%, a smear of 2.7% compared to the previous year; twice the reduction in growth compared to 1976. For 2023, the World Bank assumes growth of 3%.

At the same time, the World Bank recognizes a commonality in the starting position of emerging markets and developing countries. High debt, high inflation and a weakened fiscal situation could become problematic and foster financial crises if interest rates rise to unsustainable levels in the context of fighting inflation.

But the differences are equally striking. The dollar is much stronger today, and commodity price increases, while currently very high, are still dramatically lower than they were then. Commodity prices, for example for crude oil, quadrupled in the 1970s, while the price is currently about double what it was in early 2021.

In addition, the central banks of most countries, especially the developed countries, have for some time had clearly laid out mandates to maintain price stability, which they have successfully implemented in recent decades. 50 years ago, central banks sometimes pursued conflicting objectives, such as price stability and full employment. In this context, the World Bank also sees better anchored inflation expectations.

Finally, the World Bank sees another key difference in the flexibility of economies. Collective wage bargaining and price controls now play a much less relevant role, allowing states to react significantly more agilely to crises.

Overall, it remains to be said that the risk of global stagflation exists but should not be considered a baseline scenario due to the differences mentioned above. It is even more important that the mistakes of the past are not repeated; even if such measures appear attractive in the short term, they are detrimental to medium- and long-term economic development.

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