R & A GROUP
RESEARCH & ASSET MANAGEMENT

Global Investment Strategy

4th Quarter 2022

Phone +41-44-201 07 20 · e-Mail info@ragroup.ch · www.ragroup.ch

Overview

Global economy

- Current economic data show some softening but not a slump as unemployment rates in Western countries have remained near record lows.
- In Europe and the US, weaker economic activity is needed to combat inflation, with inflation and rising central bank rates driving the slowdown. This process is likely to last through much of next year.
- European energy: Stress test results for German electricity. Winter weather the key imponderable.
- China's economy keeps struggling with lockdowns and a weak real estate sector.

Capital markets

- Central banks' fight against inflation will preoccupy the capital markets for some time.
- Government bond yields are again at interesting levels.
- The medium-term economic outlook is positive for equities, while in the coming 6 to 12 months volatility likely will remain elevated.

Chapter 1: Performance review

The main trends in the capital markets in the first half of the year were lower bond prices, a strong US dollar and weak stock markets. After a very weak June, industrialised-country stock markets recovered significantly, though sentiment deteriorated again in mid-August and took another dive after the Fed meeting in September. With bond yields rising, growth stocks underperformed value stocks in September.

Government bond prices were under pressure for most of the third quarter.

Oil prices fell markedly in the third quarter (partly as a result of the release of strategic reserves).

Global financial markets

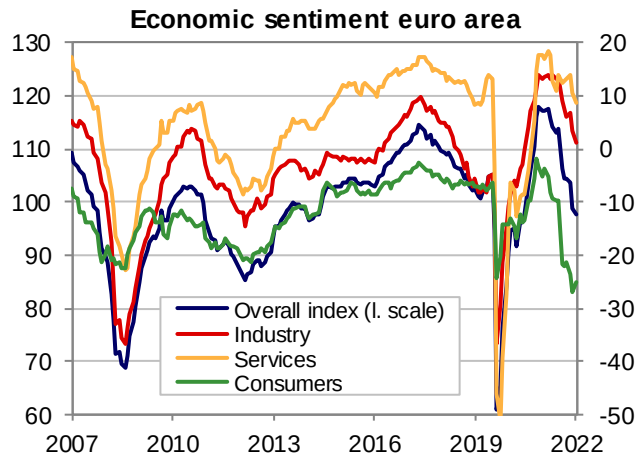
	EUR-Performance			CHF-Performance			USD-Performance		
	Sep-22*	3Q22*	2022*	Sep-22*	3Q22*	2022*	Sep-22*	3Q22*	2022*
Equity markets									
MSCI World	**-3.1%**	**4.3%**	**-10.9%**	**-6.5%**	**-1.2%**	**-18.6%**	**-7.2%**	**-4.2%**	**-24.5%**
MSCI Value	-2.0%	3.2%	-2.9%	-5.4%	-2.3%	-11.3%	-6.2%	-5.2%	-17.8%
MSCI Growth	-4.2%	5.4%	-18.9%	-7.5%	-0.1%	-25.9%	-8.2%	-3.2%	-31.4%
MSCI Small Cap	-4.9%	4.4%	-13.0%	-8.3%	-1.1%	-20.6%	-9.0%	-4.1%	-26.4%
Stoxx Europe 600	-6.0%	-4.1%	-20.0%	-9.3%	-9.2%	-26.9%	-9.9%	-12.0%	-32.3%
DAX (price return)	-4.3%	-3.9%	-25.1%	-7.7%	-9.0%	-31.6%	-8.4%	-11.8%	-36.6%
Swiss Market Index	-3.2%	-0.3%	-13.8%	-6.6%	-5.6%	-21.3%	-7.3%	-8.5%	-27.0%
USA (S&P 500)	-2.5%	6.2%	-8.5%	-5.9%	0.6%	-16.4%	-6.6%	-2.4%	-22.5%
Nasdaq	-3.9%	7.3%	-17.9%	-7.3%	1.6%	-25.1%	-8.0%	-1.5%	-30.5%
Japan (Topix)	-4.4%	2.1%	-11.8%	-7.8%	-3.3%	-19.4%	-8.5%	-6.2%	-25.3%
MSCI Emerging Markets	**-4.8%**	**-1.4%**	**-13.1%**	**-8.2%**	**-6.7%**	**-20.7%**	**-8.9%**	**-9.5%**	**-26.5%**
Emerging Asia	-6.1%	-3.6%	-14.3%	-9.4%	-8.7%	-21.8%	-10.1%	-11.5%	-27.5%
Bond markets									
Germany (5-7 y.)	-3.3%	-4.5%	-12.2%	-6.7%	-9.6%	-19.8%	-7.4%	-12.3%	-25.6%
Switzerland (5-7 y.)	0.4%	2.6%	1.4%	-3.1%	-2.9%	-7.4%	-3.8%	-5.8%	-14.2%
Europe, investment grade	-2.4%	-2.2%	-13.8%	-5.9%	-7.3%	-21.3%	-6.6%	-10.2%	-27.0%
Europe, high yield	-2.0%	1.7%	-13.0%	-5.5%	-3.7%	-20.5%	-6.2%	-6.6%	-26.4%
USA (5-7 y.)	1.3%	4.6%	4.1%	-2.3%	-0.9%	-5.0%	-3.0%	-3.9%	-11.9%
USA, high yield	1.7%	9.7%	2.1%	-1.9%	3.9%	-6.7%	-2.6%	0.7%	-13.6%
Emerg. mark. (hard curr.)	0.6%	7.1%	-7.2%	-2.9%	1.4%	-15.2%	-3.6%	-1.6%	-21.4%
Commodities									
Crude oil (Brent)	-7.6%	-19.9%	29.1%	-10.9%	-24.1%	17.9%	-11.6%	-26.4%	9.3%
Industrial metals	-0.6%	0.7%	-2.0%	-4.1%	-4.7%	-10.5%	-4.8%	-7.6%	-17.1%
Gold ($/ounce)	-0.1%	-1.4%	5.7%	-3.6%	-6.6%	-3.5%	-4.3%	-9.4%	-10.5%
Agric. commodities	4.7%	10.2%	34.2%	1.1%	4.4%	22.5%	0.3%	1.2%	13.6%
Hedge Funds									
Hedge fund of funds	-	10.5%	12.0%	-	4.7%	2.3%	-	1.5%	-5.2%

*Data as per 26-Sep-22. Hedge Funds as per latest available month-end. Source: Index provider

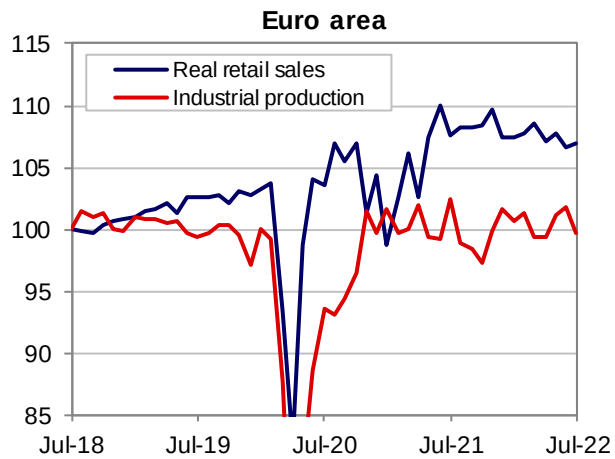
Europe: Slowdown likely to intensify

In Europe, record low unemployment rates point to an overall intact economy. So far, private consumption has held up better than expected, given the energy shock. After a dip in early summer, economic data surprises are also no longer negative.

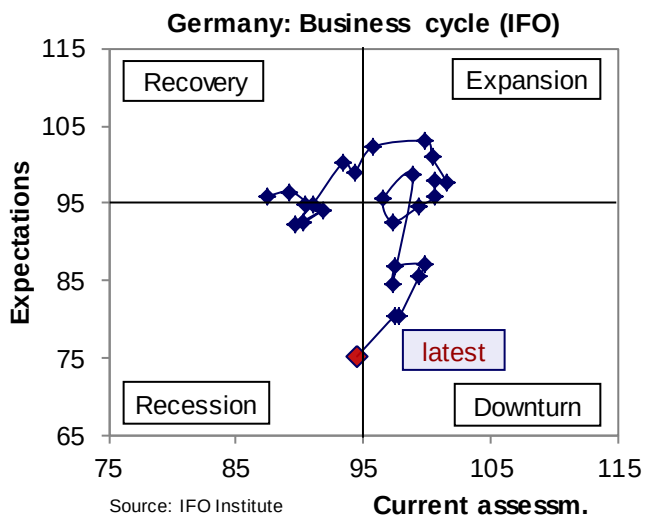
Nevertheless, a number of indicators point to weakening of economic momentum. In particular, extreme prices for natural gas and electricity remain a challenge, although government subsidy measures are providing some relief to households.



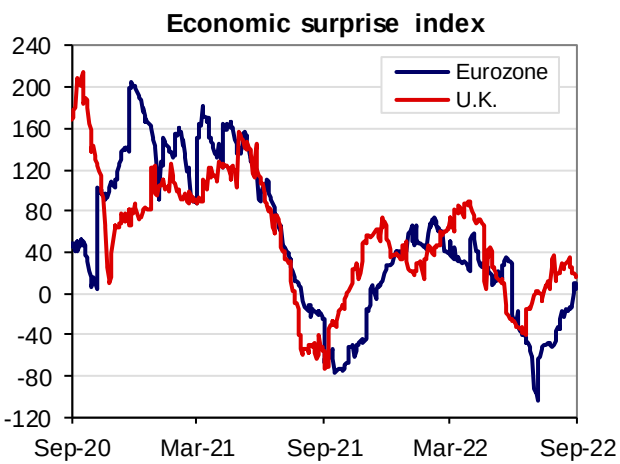
Source: European Commission



Source: National statistics, own calculations



Source: IFO Institute



Source: Citigroup

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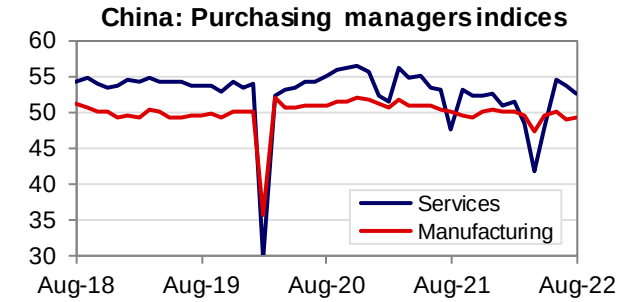
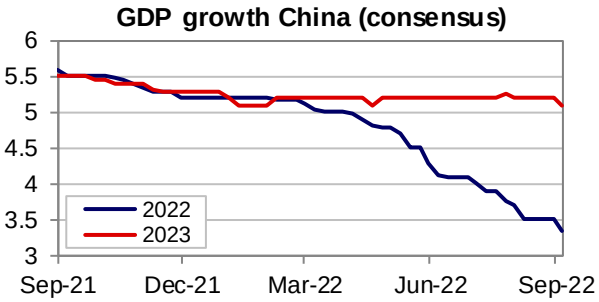
China: Local lockdowns systemic

China's zero tolerance to Covid-19 remains a burden. A way out would be possible (e.g. through a vaccination campaign with common mRNA vaccines), but a change in strategy is not currently apparent. Covid-19 is primarily countered with regular area-wide tests and local lockdowns, with the latter likely continuing to weigh on economic activity in the foreseeable future.

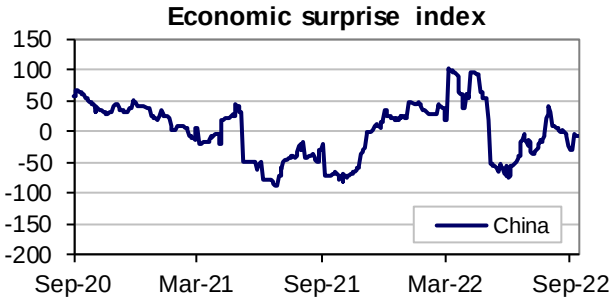
In the coming years, we continue to see declining economic growth in China, with around 3-4% real economic growth at the end of the decade (compared to around 6% in the pre-pandemic years). As China experiences a shift in its sources of growth (away from real estate and towards consumption and technology), risks remain on the downside in the coming years.



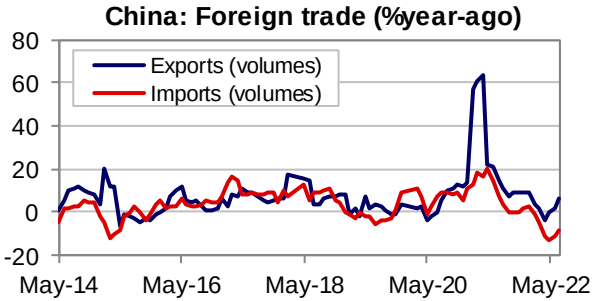
Source: S&P Global



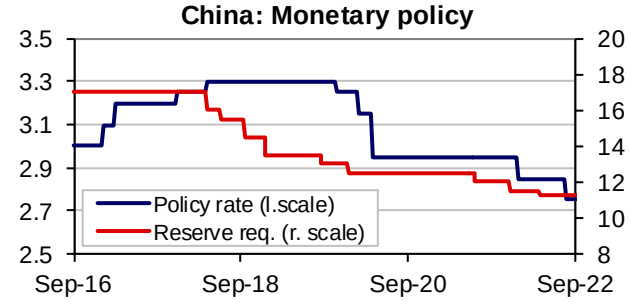
Source: Bloomberg indices



Source: Citigroup



Source: Customs General Administration



Source: PBoC

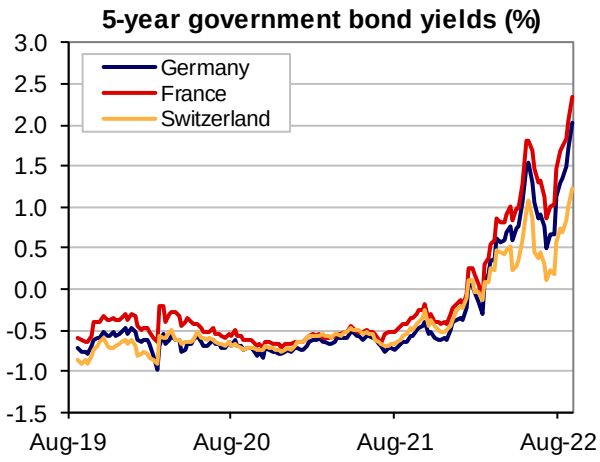
Source: The People's Bank of China

Chapter 4: Bond markets – Inflation and monetary policy

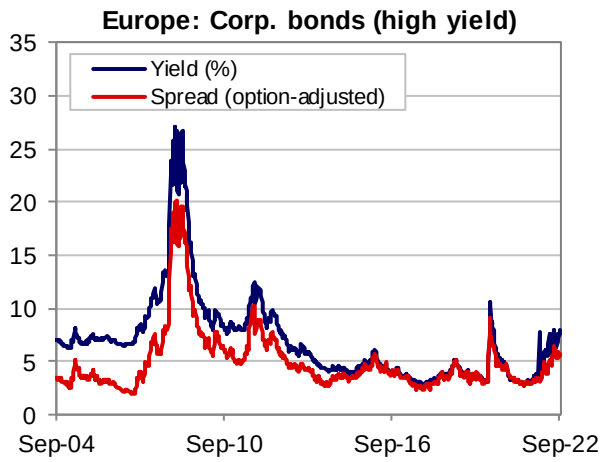
Bond yields tend to move higher when policy rates are raised, with yields on longer-dated bonds usually rising far less than policy rates.

Inflation expectations have remained broadly stable in both Europe and the US. In contrast, real yields, which reflect the economy and monetary policy, have risen significantly, especially in the US. With monetary policy aiming to slow economic momentum, real interest rates and especially the yields of longer-dated bonds are likely to fall in the course of the coming year.

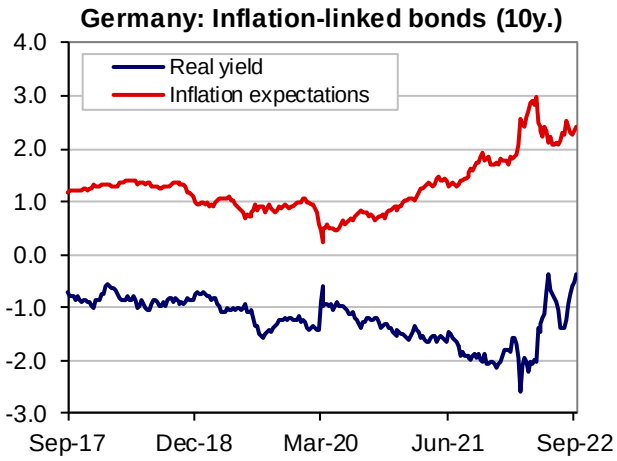
High-yield bonds continue to offer interesting yields, though they would underperform government bonds in the event of a significant economic downturn.



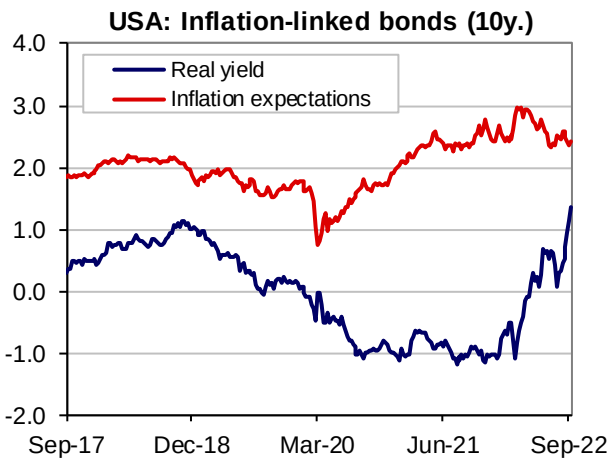
Source: Index provider



Source: Index provider, own calculations



Source: Index provider, own calculations



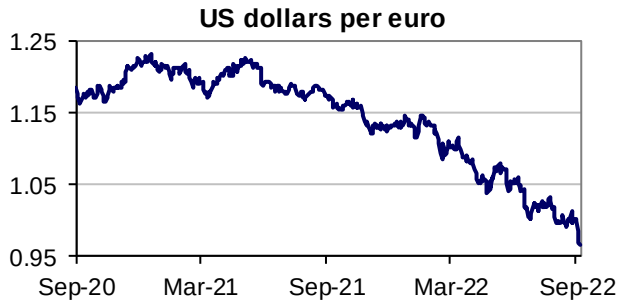
Source: Index provider, own calculations

Chapter 5: World currencies – Energy drives the euro

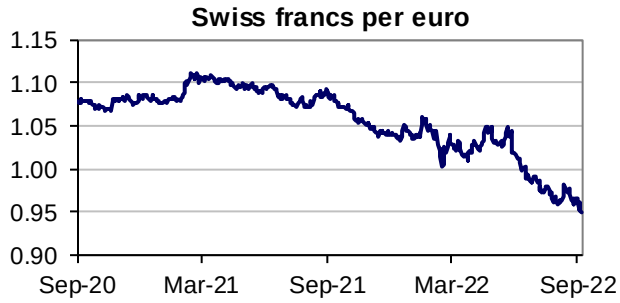
After weakness in July and August, the euro stabilised somewhat in September. Economic risks remain higher in Europe than in the US due to the energy issue und the Ukraine war. We expect the US dollar to remain well supported.

The Swiss franc has benefited from heightened uncertainties in the euro area, and we continue to view the currency as structurally strong.

The British pound has been suffering from inflation and an extremely stimulating fiscal policy at a time when the economy needs restraint to fight inflation



Source: Bloomberg BGN



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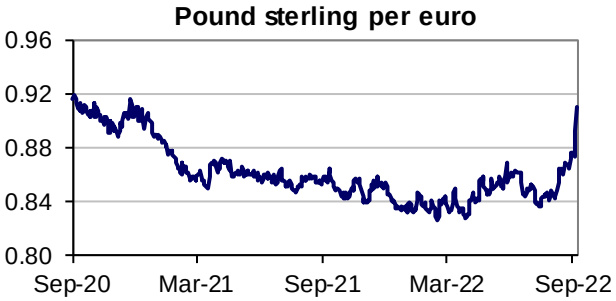


Source: Bloomberg BGN

Currencies

	Perform. in euro		C.acc.
	3Q22*	2022*	(%GDP)
Switzerland	5.5%	9.3%	6.7
Great Britain	-5.4%	-7.6%	-3.1
Sweden	-2.2%	-6.1%	5.1
Norway	-0.1%	-3.0%	2.5
Czech Rep.	0.4%	1.0%	-0.3
Poland	-1.3%	-3.6%	0.5
Hungary	-2.4%	-9.2%	-0.2
Russia	2.3%	53.1%	3.8
Turkey	-1.6%	-14.8%	0.9
USA	8.8%	18.0%	-2.2
Canada	2.9%	9.6%	-2.1
Brazil	8.6%	24.9%	-2.7
Australia	2.4%	5.6%	0.7
Japan	2.7%	-5.5%	3.7
China	1.7%	4.7%	1.0
South Korea	-2.2%	-2.1%	3.6
India	5.3%	7.8%	-0.9
Indonesia	7.1%	11.2%	-2.7

*Data as per 26-Sep-22. C.acc. = Current account balance. Source: National statistics, Bloomberg BGN

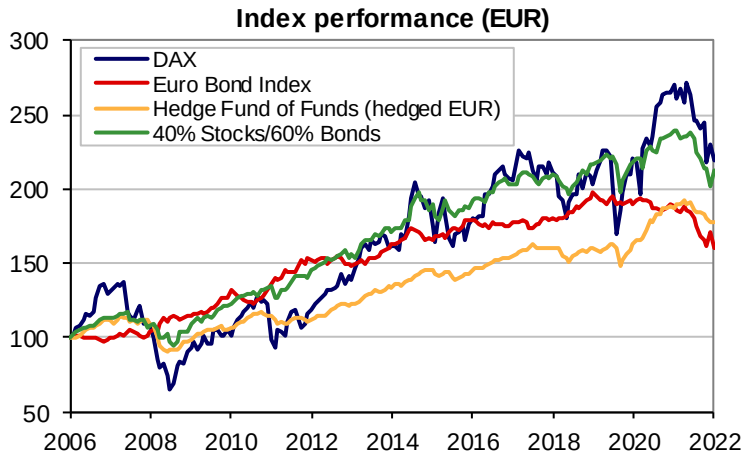
Chapter 6: Hedge funds and real estate

Hedge funds have delivered fairly weak returns in recent years, most often shy of a classic balanced portfolio (50% stocks/50% bonds), which we consider to be a natural benchmark.

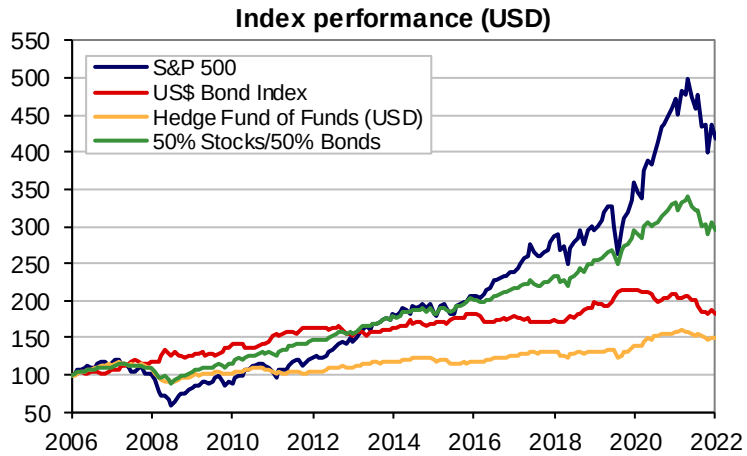
Hedge Funds

	CCY		Year*	2021
Hedge fund index	**USD**	**Hedge Fund of Funds**	**-5.2%**	**6.2%**
Currency hedged	EUR	Hedge Fund of Funds	-6.1%	6.2%
	CHF	Hedge Fund of Funds	-6.7%	5.2%
Classic portfolio	**USD**	**50% US-Stocks/50% US Bonds**	**-14.3%**	**11.9%**
Equity type	USD	Equity Market Neutral	-1.2%	6.2%
	USD	Long-Short Equity	-8.3%	8.3%
	USD	Emerging Markets	-7.4%	5.2%
	USD	Convertible Arbitrage	-3.3%	6.3%
Event/fixed income	USD	Distressed	-2.8%	12.5%
	USD	Event Driven	-6.0%	12.9%
	USD	Event Driven-Multi Strategy	-7.0%	13.9%
	USD	Fixed Income Arbitrage	-2.3%	5.2%
Macro/CTA, other	USD	Global Macro	21.9%	9.6%
	USD	Managed Futures	19.2%	8.2%
	USD	Multi-Strategy	-0.4%	7.0%
	USD	Risk Arbitrage	-4.9%	5.3%

*Note: Data available as per 31-Aug-22. Source: Bloomberg



Source: Index provider, own calculations

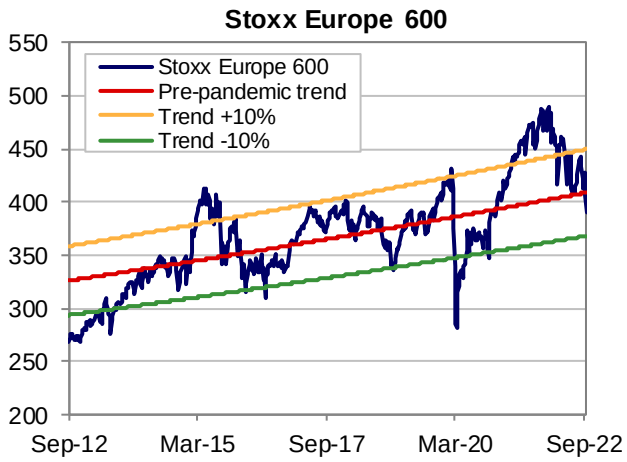


Source: Index provider, own calculations

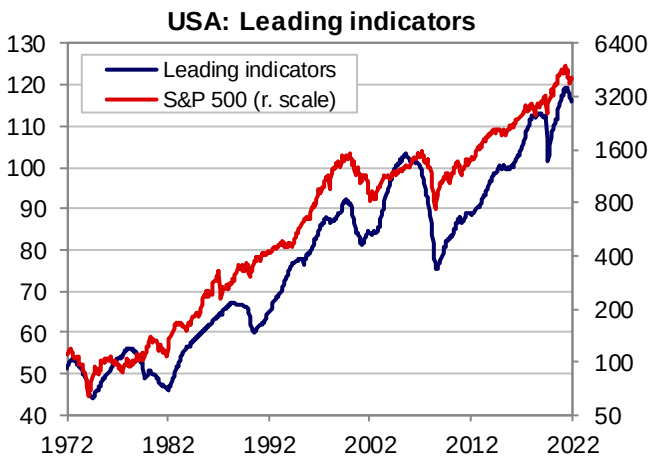
Chapter 7: Equity markets – Fundamentally cautious

The charts show the equity market trends in recent years. The upper end of the range would be realistic in case of a soft-landing scenario, characterised by only modestly slower economic growth and easing inflationary pressures. The lower end of the range would be expected in the event of a meaningful economic slowdown.

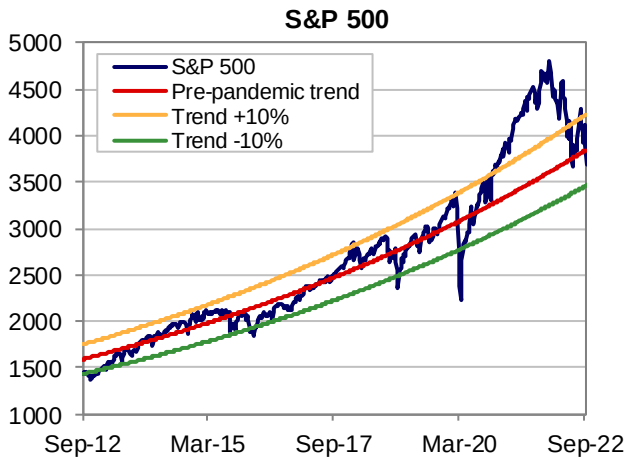
Stock markets tend to weaken when economic momentum slows. A good timely economic indicator with a long data history is the index of leading indicators in the US. The index has recently fallen somewhat. While this drop does not signal a meaningful downturn, it nonetheless provides, based on the empirical relationship between this indicator and the stock markets, a signal of caution.



Source: Index provider, own calculcations



Source: Conference Board, index provider



Source: Index provider, own calculcations

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