ARVEST

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Investor Info

Investment Commentary

Briefing from the ARVEST Investment Committee

From the perspective of an investor who calculates in Swiss francs, we experienced a very gratifying financial year 2021. Shares worldwide increased by around 23%. This was mainly due to US stocks, which dominate the world equity index with a share of around two-thirds. Equities from Switzerland and Europe also contributed to the good result. By contrast, companies from China, Hong Kong, Korea or Brazil are underrepresented in the world equity index and were unable to achieve any significant price gains last year. Geographical differences were considerable. But there were also large divergences between sectors.

If one analyses the global bond markets in the same way, then these are better diversified geographically. Almost 40% of outstanding bonds are from issuers in the United States, followed by the Eurozone with 24%, Japan with 13% and China with 8%. In Swiss francs, bonds have lost a total of 1.5% globally. Currency developments against the Swiss franc were the main contributing factor, as long as they were not hedged. The Chinese yuan was the strongest currency against the Swiss franc last year, gaining 5.8%, the US dollar also gained an impressive 3.2%, the euro lost 4% and the Japanese yen even lost 7.5%.

The past year was a seamless continuation of a forty-year trend characterised by global economic growth, but also by low and steady inflation and falling long-term interest rates. The latter declined, for example, in the global reserve currency, the US dollar, from over 15% in September 1981 to historically low rates of less than 1%. This environment was extremely positive for both bonds and equities.

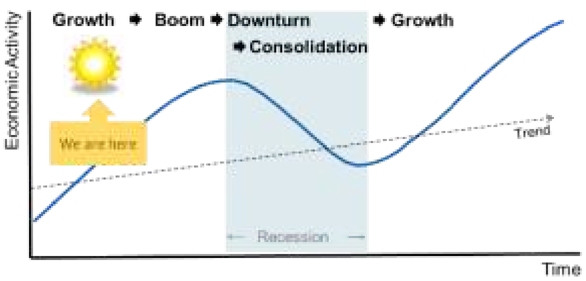
Other asset classes such as commodities or real estate also posted gains last year. This was pleasing for all those who were invested. And, of course, also for those who live off the financial returns of their pension and retirement schemes. On the other hand, the fact that many assets became more expensive is less pleasing for those who are at the beginning of their working lives and have yet to accumulate their savings.

Future Prospects

At this time of year, financial forecasters usually ask themselves how much next year's economic and financial market performance could deviate from the long-term trend, taking into account cyclical and geopolitical factors. The current consensus is that equities have a better chance than bonds for 2022. If the US Federal Reserve will fight inflation and tighten its monetary policy as announced, bond prices will initially lose more than the higher interest rates will increase income.

For equities, most experts expect an average trend year with returns around six to eight percent. After five years of cumulative price gains of more than 60%, it is hard to challenge equity investments. The high valuations are not sufficient warning signals for short-term annual forecasts. Particularly since companies are doing extremely well. Many companies are simultaneously reporting record sales and record profit margins. Demand for consumer goods is enormous, not least thanks to liquidity injections by governments and central banks.

The economy in the US but also in Europe has recovered spectacularly from the recession of 2020 and is still growing at an above-average rate. Even if the slowdown in the pace of growth continues, a normalisation of growth in 2022 is more likely than a slide into a new recession.



In this respect, the ARVEST Investment Committee agrees with the consensus. We currently see the global economy in a growth phase, whereby the US in particular likely has entered its second half. However, we would like to explicitly point out that this consensus is based on the continuation of the globalised growth regime with low interest rates and contained inflation in the global reserve currency, the US dollar. The US appears to be increasingly utilising the dollar in its role as the world's trade currency as a means to advance national interests. Therefore, challengers like China are indeed interested in exploring potential alternatives. A historical perspective reveals that the last forty years have also been the exception rather than the norm. In the US, for example, the general economic context was quite different in the 1930s and 1940s or in the 1970s, with much more unsteady inflation or interest rate movements. It cannot be ruled out that 2022 could become a significant transition year.

Last year's unexpected core inflation in the US of well over 4% showed how difficult forecasting is, even for central banks. After all, only twelve months ago the Fed was still expecting inflation of only 2%. When consumer habits and life in general are disrupted by a global pandemic with multiple waves and a wide range of government measures, real-time economic data cannot be at all reliable. For example, how can one define a representative shopping basket for the last few years that has been stable over time? We expect significant revisions in published economic data in hindsight. If even looking back is uncertain, perhaps we should approach forecasts with all the greater humility.

11 January 2022
On behalf of the Investment Committee
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