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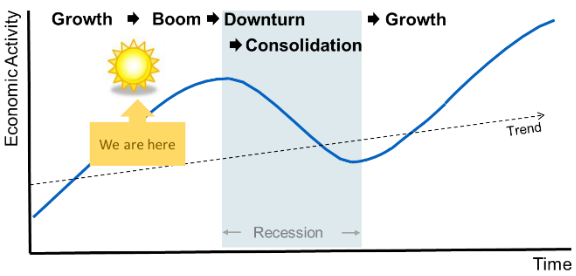
# Investor Info

## Investment Commentary

## Briefing from the ARVEST Investment Committee

After a very pleasing review of the 2021 financial year, we closed our last investment commentary in January with humility. The widespread expectation that the positive trend would continue unabated was, in our opinion, on too shaky a footing. Of course, we could not have foreseen then that the Putin government would launch a terrible attack on Ukraine on February 24. In this investment commentary, we would like to put the impact of the war on global financial markets in perspective, although the war is far from being the only relevant factor.

The two most important effects of the war on financial markets are the increased uncertainty for energy and commodity supplies and for the reactions of political actors worldwide. Both areas have been under pressure before. Oil prices already rose above USD 80 per barrel back in January. This was well above the average of the last seven years and, in addition to industrial supply bottlenecks, already had an inflationary effect on the supply side. We have already written several times about the rivalry between China and the United States, which is likely to become decisive for the global economy this decade. Both powers will also decide what the medium- and long-term consequences of the Ukraine war will be. In doing so, they will primarily pursue their own goals.




### Future Prospects

According to the ARVEST Investment Committee, the Ukraine war also accelerated and strengthened the dynamics of the economic cycle already observed before. Growth in the US economy had slowed from a very high level since last summer. In our opinion, the US economy is now in a late-cycle boom phase with full employment. As the world's largest oil producer and a major food exporter, the US will also benefit economically from higher commodity prices. However, the current US key interest rate of 0.5% is far too low for a boom phase. The Fed must fight inflation and will further slow down the US economy in the process. The financial markets therefore expect an accelerated increase in the key interest rate to 2.5% by the end of the year. It must be taken into account that the slowdown of US consumption will only occur with some delay. Typically, this is expected to take up to one year. The ARVEST Investment Committee therefore does not yet expect a recession in the US this year. However, the challenges for a soft landing are very significant. The economic and political consequences of inflation are likely to continue to preoccupy us in the coming quarters. For global, US-heavy financial markets, monetary policy is likely to become a more important issue than the Ukraine war, unless a NATO member were to become directly involved.

Outside the US, the economy was less advanced in the business cycle, according to the ARVEST Investment Committee. Covid measures were more restrictive in many places and the economic recovery less dynamic. In particular, the zero covid strategy in China seems powerless against the new viral mutations. Their continuation or expansion presumably poses the greatest risk to the global economy. But also a rapid cutback of Russian gas supplies to Europe would plunge the old continent into a deep recession before the economy could regain its footing after Covid. Both risks are political in nature, the consequences of which decision-makers could limit with a cool head. But the enormous internal and external pressure they face could have disastrous economic consequences.

We therefore expect the financial markets to continue to be characterised by considerable uncertainty. We prefer investments that are better able to withstand unpleasant surprises. Put simply, these are shares in companies that are already favourably valued and therefore depend less on expectations that lie far in the future. At the same time, these are companies that have a solid, defensive and independent business model and could therefore continue to invest if interest expenses rise, for example. Unfortunately, it is very difficult to find stocks that fulfil both criteria at the same time. As we view the US, where valuations are particularly high, as beeing in a boom phase, we have reduced the recommended equity allocation somewhat in order to tactically profit from price rallies before the markets could also start to price in a recession. Strong geographic and sector diversification is also particularly important in uncertain times.

After the recent heavy losses in the "safe" bond markets, the question is whether there are already entry opportunities. However, we continue to see the consensus of a continuation of the forty-year growth regime with low interest rates and controlled inflation in the global reserve currency, the US dollar, in question. We therefore invest primarily in short-term bonds up to five years and diversify into different currencies, as we also expect increasing price fluctuations in currencies.

7 April 2022
On behalf of the Investment Committee
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