ARVEST

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# Investor Info
## Investment Commentary

## Briefing from the ARVEST Investment Committee

The past financial year 2022 was one of the most difficult in recent decades for investors who calculate in Swiss francs. Virtually all asset classes suffered double-digit losses. The world equity index including dividends lost around 17%. Bonds lost around 13% worldwide, even after interest payments. The regulatory provisions, which require conservative investors to hold a higher proportion of fixed-income bonds instead of equities, thus did not protect against double-digit price losses. A better result was only possible with investment strategies that provided for a high proportion of liquidity or employed derivative financial instruments for hedging. We were very pleased that most of our customers allowed us to do this by choosing an ARVEST CYCLE mandate.

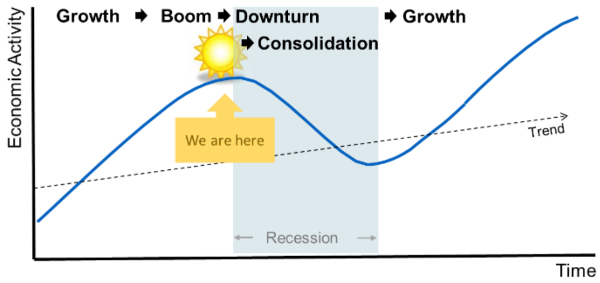
With high energy prices following Putin's unspeakable war of aggression in Ukraine and widespread fears about energy supply security, with inflation spiraling out of control, and against a backdrop of a failed zero-covid strategy in China and record asset losses in financial markets, it would be easy to believe that the global economy was in recession last year. However, that was not the case! The U.S. economy in particular proved to be very resilient. Labor markets and corporate profits boomed despite sharp interest rate hikes by central banks. Full employment and the still high savings of U.S. households stemming from the pandemic were able to bolster consumption. But where do we go from here?

**Future Prospects**

Both the wavering behavior of financial market participants and our economic analysis reinforce our belief that the entry into a recession and the associated capitulation in the financial markets are yet to come. Our favorite forward-looking models currently project that the U.S. economy is most likely to peak between March and May 2023, at which point it will enter a recession. These models take into account many past recessions. However, in the past, the run-up to a recession never included years of zero interest rate policies and a pandemic with financially generous public support. This time, U.S. households and businesses did their jobs and made their financial position more resilient. Thus, it may take longer for the U.S. economy to tip. But given the Fed's determination to fight inflation, we firmly expect a recession. After all, the Fed also seems to be strongly focused on containing further wage increases to prevent a wage-price spiral in the labor market.

Why does the exact timing of a U.S. recession matter so much? Why not just wait for the NBER[1] to date the recession with a few quarters delay? Real-time assessment is important for our ARVEST CYCLE investment policy, which dynamically adjusts equity exposure to the business cycle. It would do no good to anticipate a recession years in advance. Financially unattractive hedges would then have to be held for years. On the contrary, it would be optimal to trade only shortly before most investors. In this context, it is not the particular day that matters. Price corrections in the environment of cyclical recessions occur in waves over many months. They usually begin before a recession starts and continue during the recession. The price corrections are so large that even a gradual approach can perform better than stubborn adherence to a fixed equity allocation.

It is not until the recession that weaker or hapless companies go bankrupt. Often, a specific, widely known company or event is the focus of the news coverage. As a result, the stock markets capitulate with a sharp drop in prices (crash). We have not seen such an event yet. The insolvency of the crypto exchange FTX last November would have been an exemplary candidate, but seemingly FTX was only relevant for the crypto sector. Moreover, according to our assessment, the U.S. was not yet in a recession either. Indeed, the ARVEST Investment Committee still sees the U.S. economy in a boom phase.




We had already reduced the equity allocation in the portfolios and no longer need to reduce it significantly. We will continue to roll over the planned hedges after phases of recovery. In our opinion, it is still too early for a "full" re-entry into the stock market. However, quality stocks with safe and sustainable dividends as well as a true global diversification of investments remain essential. Short- to medium-term bonds with low default risk appear comparatively attractive to us following the rise in interest rates. However, in our opinion, long-term bonds are still pricing in too little inflation risk. It remains to be seen whether the next upswing will again be accompanied by global deflation.

9 January 2023
On behalf of the Investment Committee
Stefan Kimmel
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[1] National Bureau of Economic Research