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Market Insights
No. 249- December 20, 2021

Essentials

Swiss stock markets stood out last week, with indexes ending in positive territory, unlike those in other regions. Large caps, which are more defensive, fared particularly well. This trend has been going on for close to two months now and is a sign that uncertainty has returned and that there is less short-term visibility on the global economic outlook.

Discretionary consumer spending continues to suffer in Asia. The sector has lost 28% since the start of the year, lagging way behind both regional and global indexes. Investor sentiment is struggling to pick up after the clampdown on tech companies and fresh lockdowns as a result of the new variant.

The eurozone's purchasing managers' index dropped slightly in December after governments brought in another round of restrictions in response to the new wave of COVID-19 infections. The services sector, which is the most affected by social distancing measures, unsurprisingly lost ground, while the manufacturing sector held up well as supply bottlenecks showed signs of easing.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	→	↘	→	↗	↘	↓	↗	↓	↗	↓	↘
% YTD	4.3%	-3.9%	1.1%	18.8%	17.1%	23.0%	10.0%	-5.8%	-5.3%	41.9%	3.0%

↓: < -1% ↘: -1 to -0.25% →: -0.25 to + 0.25% ↗: + 0.25 to 1% ↑: > 1%

*Weekly trend

Central banks are unaffected by Omicron

Daniel Varela
Chief Investment Officer

Central banks have hardened their tone as we reach the end of the year. This change in stance was widely expected a few weeks ago, but it may come as more of a surprise now that COVID-19 cases have surged across much of the northern hemisphere. If the world's leading central banks are to be believed, it's no longer the spike in inflation that will be transitory but the current wave of infections. The US Federal Reserve was the first to shrug off the worsening public health situation. It was already well on its way to normalising monetary policy, and Fed Chair Jerome Powell announced that he would pick up the pace. The asset purchase programme will be tapered more quickly than expected – it will now end in March 2022 rather than June 2022 as previously announced. In other words, the Fed will stop pumping money into the economy at the end of the first quarter. Powell's reasoning is that inflation is proving more stubborn than expected and the US jobs market has recovered more quickly than forecast. The Fed may also soon raise interest rates. Its own forecasts point to three or four rate hikes next year.

The Bank of England didn't wait for the Fed before making its move. It was the first major central bank to raise rates, from 0.10% to 0.25%, showing little fear about the Omicron variant that has been ravaging the UK in recent days. Given the circumstances, the European Central Bank (ECB) probably didn't want to lag behind and also announced that one of its economic stimulus programmes – the Pandemic Emergency Purchase Programme – would end sooner than expected. It's still way too early for a rate hike, but the ECB has also begun to change course.

This shift in rhetoric among central bankers seems to be all about maintaining credibility, about not appearing to be lagging behind in managing inflationary risk, which has risen sharply, and about keeping some control over long-term interest rates. And it seems to be working for now – long-term yields remained remarkably stable last week. We are still convinced that they will trend upwards in 2022, however.

A bumper year for alternative funds

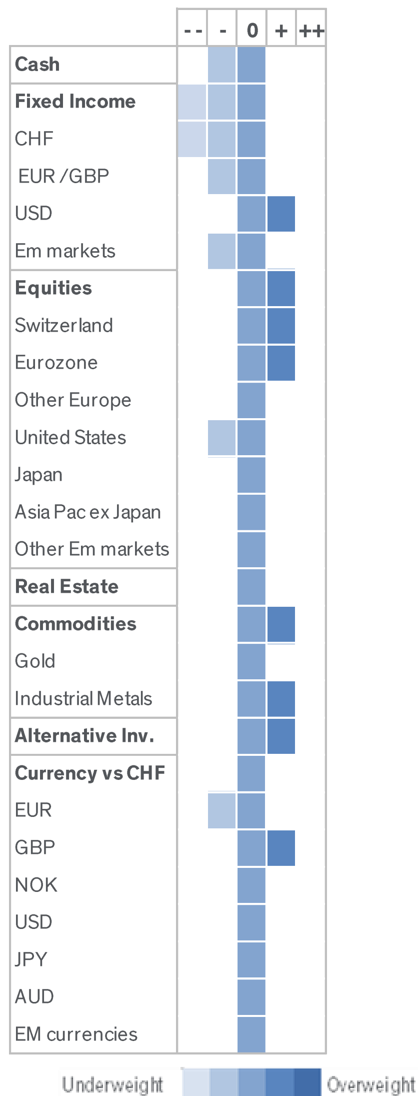
Léonard Dorsaz
Investment analyst and manager

Thanks to the buoyant financial markets, alternative funds look set to end the year up by close to 7%, continuing the solid trend seen in 2020.

The strong market in the first quarter got these funds off on the right foot, with indexes tapping into the solid performance of cyclical themes and hopes that economies would reopen. Despite regular rotations between growth and value investment styles, both equity and credit managers managed to limit losses by generating solid alpha on short portfolios. They then reduced their leverage starting in the summer, taking a more cautious approach so they wouldn't be hit too hard by the uptick in volatility in the last quarter. Macro strategies were the only ones that did not do so well, with managers hurt by the trend in interest rates, which defied expectations by not reacting to the sharp rise in inflation.

We think that this return to alternative funds is a long-lasting trend rather than just a cyclical rebound. The industry has been through a long adjustment phase, and that has helped to clear out excess capital and reduce competition. What's more, during periods of volatility, they have delivered convex returns, with more upside participation than downside. So even when markets are volatile and lack direction, we think that alternative funds will continue to offer attractive, weakly correlated returns.

Synoptic view



Recent Recommendations

Equinor ASA	Garder	01 déc 2021
Alphabet Inc	Garder	30 nov 2021
China Mobile Ltd	Garder	30 nov 2021
Oversea-Chinese Banking Corp	Vendre	30 nov 2021
ABB Ltd	Garder	30 nov 2021
Essilorluxottica	Garder	23 nov 2021

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