Marketing material



# Monthly Update - March 2022

As at 24 February 2022

#### Summary: Realistic market expectations

- We continue to see robust global economic developments overall and the first signs of stabilisation in economic growth after the slight slowdown in recent months.
- The inflation trend is about to peak worldwide. We expect significantly lower inflation rates in the coming quarters.
- Central banks retain control and credibility for the time being. Market participants expect only a moderate rise in inflation and interest rates.
- There will be a further tightening of monetary policy worldwide and a phasing out of bond purchase programmes (QE) in the coming months.
- We expect a significant toughening of central bank rhetoric. However, markets have already anticipated and priced in much of this.
- The latest escalation of the Ukraine crisis has also been partially priced in.
   Historically, political crises have typically had little long-term impact.
- Overall, we continue to see realistic assessments of monetary and political risks by market participants, and thus a solid investment environment.

### Significant changes compared to the previous month

- The fundamentally solid global economic development has cooled off moderately in recent months due to the strong spread of the omicron variant as well as higher inflation, and thus falling consumer confidence. Currently, however, various indicators are again pointing to a stabilisation and the disappearance of negative factors, especially in Europe.
- We believe that inflation rates have peaked globally, and will decline again in the foreseeable future. The reasons for this are diminishing supply-chain problems, increasing base effects, clearly slowing money supply growth, and a slight calming of the economic development, as well as a slight easing in overheated labour markets.
- Yield curves continue to flatten, signaling only moderate inflation expectations and high confidence in monetary stability and the credibility of central bank policy.
- The Fed remains on a well-communicated, moderate tightening path. The ECB, on the other hand, has, in the meantime, actually toned down the possible interest rate trajectory it hinted at at its last press conference.

Fisch Asset Management FischView | March 2022 Page 2 | 5

 Overall, liquidity in the financial system remains sufficiently high, especially due to increasing credit impulses and money creation in the private banking system.

— The strong price movements, but, nevertheless, less-than-extreme reactions in US-dollar trading, on stock markets, in long-term interest rates and in the oil price at the beginning of the most recent escalation phase of the Russia/Ukraine conflict also prove that the technical condition of financial markets is still robust for the time being: strongly negative news is, thus far, exerting only a limited influence.

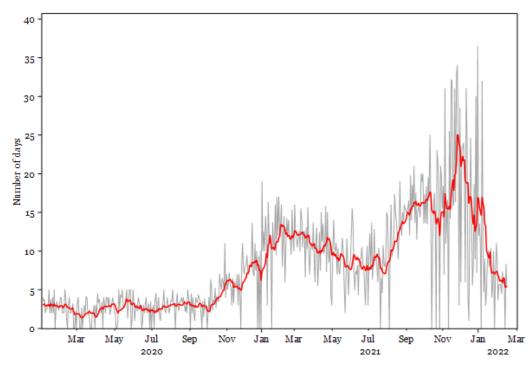
#### Current situation and positioning

- Our baseline scenario remains a combination of solid global economic growth, declining
  inflationary pressures (especially in Europe) and a controlled tightening of monetary
  policy. The Russia/Ukraine conflict is likely to have only a limited negative impact on
  global financial markets in the medium-to-longer term, despite the latest escalation.
  Historically, political crises have typically had little influence on the long-term
  development of stock markets.
- In addition, several factors will have structurally positive effects for some time to come: high cash holdings of private households, high incoming orders in the industrial sector, globally declining supply-chain problems, low inventories, rising US employment rates (once again) and strong credit impulses in the private banking system.
- For the time being, we do not expect an overreaction ("policy mistake") by central banks to the current high inflation rates, but rather a well-controlled, gradual increase in interest rates and an expiry of bond-buying programmes. In addition, the Fed is likely to start reducing its balance sheet (QT) before the end of the year, although these steps should also be communicated in good time, and are already partly included in market expectations.
- However, the so-called "Fed put" will remain in place, albeit with a lower strike price. The Fed (but also the ECB) is therefore likely to ease its more restrictive monetary policy again immediately in the future in the event of a potentially excessive economic slowdown or stock market turmoil. In the current central bank state of mind, however, significantly higher volatility and somewhat stronger market setbacks are likely to be tolerated temporarily. The current flattening trend of the yield curves is, however, a warning signal for the Fed, and a good reason not to tighten monetary policy too much.
- Given the inflation and economic growth rates to be expected in the US in the medium-to-long term (in the range of 2.5% to 3% in each case), we consider Fed funds rates of 2.5% ("terminal rate") in the course of 2023 to be very realistic. This would result in a level of 2.8% to 3.5% for 10-year bonds and would thus be in the range of the Fed's last tightening cycle in the years 2016 to 2019. In contrast, we expect a slower pace of tightening at the ECB, with the first rate hikes not anticipated until the end of 2022.
- With the currently communicated and already implemented monetary policy, the inflation trend and related expectations should remain under control worldwide.
   Especially in Asia and Australia, where inflation is already very moderate. Thus, there remains no threat of pronounced wage-price spirals.
- Market technicals and market behaviour are currently positive. Financial markets are behaving as if monetary policy had already been tightened and interest rates raised several times. Much of the negatives have already been priced in and expectations appear realistic. Overall, there is still potential for positive surprises both on equity markets and in interest rates and credit markets.

Fisch Asset Management FischView | March 2022 Page 3 | 5

### Topics "on the radar"

Chart: Supply chain problems are diminishing and the global situation is easing significantly



— Los Angeles, Average Days at Anchor & Berth (10 day smoothed) — Los Angeles, Average Days at Anchor & Berth

Source Longview Economics

The chart on "Los Angeles Port Traffic" shows that the daily average days of ships at anchor and at their berths is massively decreasing. This, among many other indicators, is clear evidence that global supply-chain problems are very much on the decline.

On the one hand, this easing has a dampening effect on inflation, and at the same time promotes global growth, and thus has extraordinarily beneficial effects on equity and bond markets.

In addition, this will also make it easier for central banks to perform their task of ensuring full employment and high monetary stability concurrently. This is a fundamental difference to the developments in the 1970s with their major conflicts of objectives for monetary policy.

Fisch Asset Management FischView | March 2022 Page 4 | 5

# Summary of FischView model outputs

	US	Europe	Japan	Asia ex- Japan	LatAm	CEEMEA	Ke	y:
Equities	0	0	0	+	+	+	+	+ Strong positive
<b>Government Bonds</b>	-	-	-				4	Positive
Credit IG	0	0 1		+	+	+	C	Neutral
Credit HY	0	0		+	+	+	-	Negative
Convertibles	0	0	0	0			-	Strong negative
Commodities	Energy	++ ↑	PrecMet	+	InduMet	+		

**Notes regarding the table:** Changes from prior month are indicated with  $\downarrow$  or  $\uparrow$ . i.e. "O  $\downarrow$ " means that the output has weakened from a prior value of + or ++.

The methodology for calculating model outputs, and how the various pieces fit together to form the big picture, is explained here.

Within government bonds, we consider the most important bonds for each region, e.g. German Bunds in Europe, and a representative group of countries for Latin America, Asia ex-Japan and CEEMEA (Central and Eastern Europe, Middle East and Africa).

# Cross asset class preferences

This table combines top-down views with bottom-up analysis at the portfolio level.

	Most preferred	Least preferred
Convertible Bonds	<ul> <li>Recovery names</li> <li>Growth at a reasonable price (GAARP)</li> <li>Stocks related to electrification of economy</li> </ul>	<ul> <li>Expensive growth</li> </ul>
Global IG Corporates	<ul><li>Financials, energy</li><li>"Rising Stars"</li></ul>	<ul><li>Real estate</li><li>Capital goods</li></ul>
<b>Global Corporates</b>	<ul><li>Financials, energy</li><li>Spread duration 7-10 years</li><li>"Rising Stars"</li></ul>	<ul><li>Real estate</li><li>Capital goods</li><li>Spread duration 20-30 yrs.</li></ul>
Global High Yield	<ul><li>'B' rating segment</li><li>Telecoms</li><li>Basic industry</li><li>Energy</li></ul>	<ul><li>Banking</li><li>Transportation</li></ul>
Emerging Market Corporates -Defensive	<ul><li>Indonesia</li></ul>	<ul><li>Singapore</li><li>Taiwan</li></ul>
Emerging Market Corporates - Opportunistic	<ul><li>High yield commodities</li><li>LatAm</li><li>Sub-Sahara Africa</li></ul>	<ul><li>Bahrain</li><li>Qatar</li></ul>

**Note:** Preferred sectors/regions may differ between asset classes owing to respective performance drivers. In particular, equity exposure is the key performance driver for convertible bonds and is not relevant for corporate bonds.

Fisch Asset Management FischView | March 2022 Page 5 | 5

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