Letter from the President and the Fund Managers

July 2022

Russia's invasion of Ukraine, which dominated the headlines in the first quarter, sent investors running for cover. The considerable reduction in investor risk appetite was hardly surprising, since it was feared that the conflict would escalate beyond Ukraine's borders, and concerns were rampant about its impact on the supply of oil, gas, metals and agricultural commodities, as well as on inflation and the economy. The economic outlook, and particularly the outlook for the euro zone with its dependence on Russian energy, has deteriorated.

The reaction of the equity markets was an unexpected one – the decline that set in immediately after the Russian invasion on 24 February was rapidly overcome. In the course of the month, people became increasingly convinced that the war would not spread beyond Ukraine. Investors also started to believe that the Fed would genuinely do something to tackle inflation. And the US Federal Reserve did indeed raise its benchmark interest rate by 75 basis points – a hike not seen since 1994. Instead of calming the situation, this measure only added to existing fears. Stock and bond prices tumbled and even commodities were no longer safe havens for investors, with the exception of oil and agricultural commodities. In the case of currencies, only the US dollar lived up to its reputation as a safe haven.

In January and February, stock markets worldwide lost considerable ground. Then, at the beginning of March, investors regained their confidence. At the beginning of the second quarter, hopes that the stock markets would continue their recovery were dashed against the backdrop of what were regarded as aggressive rate increases by the US Federal Reserve. The MSCI All Country World Index fell by 19.2% during the first six months of the year in local currencies.

Bond markets are struggling with the dual challenge of rising inflation and expected hikes in the benchmark rates. In addition, at the end of the first half, a gap started to emerge in the euro zone between government bond yields in the core countries (like Germany) and the more indebted countries in southern Europe (like Italy).

It is not surprising that the US dollar appreciated considerably as a "safe haven" at such a time of crisis, even rising in the course of the first half by 4.7% against the Swiss franc – another currency with great appeal when conflict prevails.

By contrast, the currencies of many European countries with no raw materials to export came under pressure. The only exception here was the Swiss franc, which attained parity with the euro before the Swiss National Bank intervened on the currency market to halt its rise.

During the first quarter, the commodity markets confirmed their role as a shock absorber for risks at a time of accelerating inflation. In the second quarter, the picture was a mixed one with the price of energy and agricultural commodities rising, while the price of copper (-20.4%), aluminium (-30.3%) and nickel (-29.5%) fell sharply.

Gold remained stable over the first half of the year (+6.5% in the first quarter and -6.9% in the second quarter), held back by the increase in real yields (nominal performance minus inflation rate) resulting from the central banks' tightening of monetary policy. Gold loses its appeal when investors feel there is a chance of higher returns elsewhere.