BELVALOR
Vermögensbetreuung

Half-Year Letter

Stephan Vollert, Head Research & Analysis, Belvalor AG

The topic of inflation concerns us more than we would like. Central banks hoped until the very end that the inflation triggered in 2021 would fall of its own accord within a useful period of time. But, it remains persistent and has even accelerated. Corona's late effects, which were far from expected to this extent, as well as war-related additional price hikes in the energy and commodity sector are reasons for this.

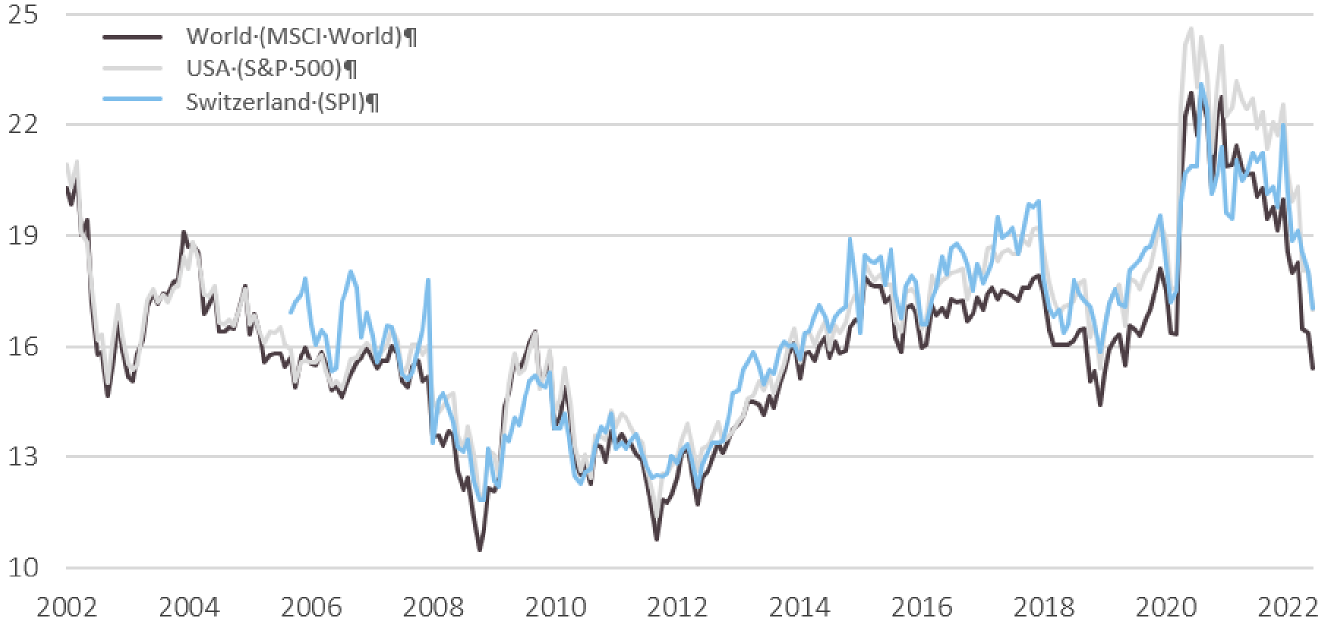
In general, a **conflict** between inflation and economic growth is manifesting itself, intensified by geopolitical tensions. This is depressing the sentiment and has hit the capital markets hard in recent weeks. The central banks have found themselves in a dilemma. Inflation, which is beginning to take hold and is very broad-based, is forcing them to raise interest rates on the one hand. On the other hand, the slowing economy demands the opposite.

Central banks have decided to fight inflation - with the exception of the European Central Bank (ECB), which is acting very hesitantly. The first interest rate hikes have taken place and finally the Swiss National Bank (SNB) has also reacted. Nipping inflation in the bud takes courage, but shows foresight. The economy can cope with a stronger Swiss franc; however, this issue will become more of a topic in Switzerland going forward.

The **effects** of inflation and higher interest rates are gradually leaving their mark. Momentarily, with the exception of cash, no asset class is immune to interest rate shocks. Bond prices have fallen. Equity valuations have corrected, those of growth companies disproportionately. With a delay, the prices of real estate and private market investments are also negatively affected.

The economic slowdown will negatively affect companies' revenue growth and cost inflation will put pressure on profit margins. In our opinion, this has not yet been sufficiently reflected in the earnings estimates of companies and analysts. This problem and the fact that the central banks are currently putting the brakes on rather than providing support are causing us not to fully utilise the risk budget. The dangers of a recession as well as stagflation - a combination of a stagnating economy and inflation - have not been averted either. Regionally, the risks of this are lower in the US than in Europe, thanks to the geographical distance from Ukraine and the greater private consumption potential, in case the US Federal Reserve's (Fed) fight against inflation bears fruit in the coming months.

Price-earnings ratio* of equity indices



*Source: Bloomberg, Belvalor AG; * Basis: Monthly; Profit: Estimates for coming 12 months*

the current problems, such as inflation and supply bottlenecks, will correct themselves. The long-term outlook for investors is more positive than sentiment suggests. There are already a lot of negativities in current equity prices. That is why, we remain invested.

Every price correction also brings opportunities. The investment spectrum is broadening again. Equities of quality companies that can cushion the pressure on margins and adapt their business models thanks to their pricing power are more attractively valued again - although not yet really cheap (see chart). The end of the era of negative interest rates was long overdue. Meanwhile, bonds with shorter maturities again offer the opportunity to "park" money with positive returns. In doing so, we look for good credit rating and, for the time being, relatively short maturities. Real assets such as equities and gold remain fundamentally preferred. The attractiveness of the Swiss franc has increased further.