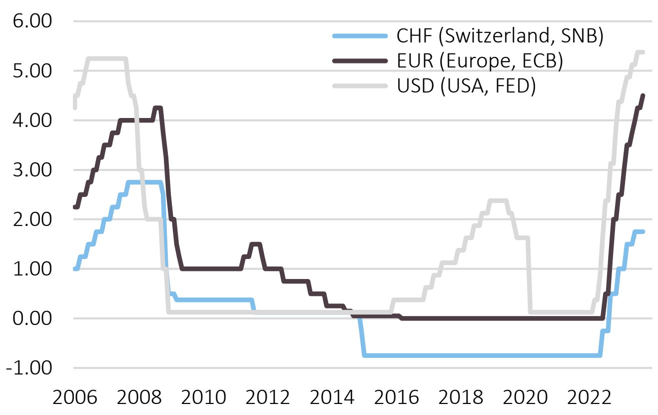
BELVALOR
Vermögensbetreuung

Central banks' monetary policy remains restrictive

Inflationary pressure

After hiking interest rates at a historically fast pace, central banks in the Western world are still pursuing a restrictive monetary policy. The graph below shows interest rates trending at a level last reached 15 years ago. Hopes that interest rates would fall back quickly have been dashed. Investors have been acting with increasing caution.

Graph: Key interest rates – Switzerland, Europe, USA*



*Source: Bloomberg, SNB, Belvalor; * in %*

Inflation has eased thanks to the base effect. However, inflationary pressure remains. Recently, there have been sharp increases in the prices of both energy and commodities. For instance, the oil price has risen back above USD 90 per barrel. Seasonal factors (winter is around the corner), low inventory levels (the US oil reserve is at a historic low) and structural demand (energy transition) work against the economic slowdown.

Economic growth is weakening

Changes in interest rates often have an impact with a time lag. They make their mark slowly but surely on economic growth. It can take 3–4 years before the full effects are felt. Inflation is increasingly having an impact on consumer spending. Higher financing costs make investments and inventory more expensive. As a result, many companies cut back their inventories. In addition, less tense supply chains enable companies to keep lower stock levels. These trends dampen growth prospects for the global economy.

Interest rate rises

Central banks are tending to reduce their balance sheets and increase interest rates. Although the pace of the increases has eased, interest rates will remain higher for longer than hoped. Rates will only start to be cut after inflation has been contained to some extent. The major central bank key interest rate decisions in September were as follows:

Swiss National Bank (SNB, CHF):	➔	1.75%
European Central Bank (ECB, EUR):	↑ (+0.25%)	4.50%
US Federal Reserve (FED, USD):	➔	5.25-5.50%
Bank of England (BOE, GBP):	➔	5.25%
Norges Bank (NOK):	↑ (+0.25%)	4.25%
Sveriges Riksbank (SEK):	↑ (+0.25%)	4.00%
Bank of Japan (BOJ, JPY):	➔	-0.1%

As a result of falling inflation, which has been below 2% for three months, the SNB did not feel the need to raise interest rates any further. This decision was surprising for some market participants. As a result, the SNB has made the strengthening Swiss franc (CHF) slightly less attractive, at least some time. This will come as a boon to exporting sectors as well as those dependent on tourism. On the other hand however, it will not undermine the long-term, structural attractiveness of the CHF. We are therefore maintaining our preference in favour of a high proportion of CHF in the portfolio.

Investment policy: scenario unchanged

The market picture is noticeably evolving in line with our outlook for 2023. Due to the persisting inflation and interest rate risks, the economic slowdown as well as geopolitical risks, we continue to exercise tactically some degree of caution and do not to use up the full equity risk allocation. We are sticking to our long-term investment strategy focusing on real, inflation-proof assets, especially equities. Corporate bonds are suitable as a complementary element within the portfolio, as well as being a liquidity substitute.