Prime Partners

SINCE 1998

MARKET INSIGHT

NOVEMBER 2022

CITYWIRE SWITZERLAND TOP50 INDEPENDENT ASSET MANAGERS 2022

Market Analysis

November 2022

Investors still can't look beyond the short term

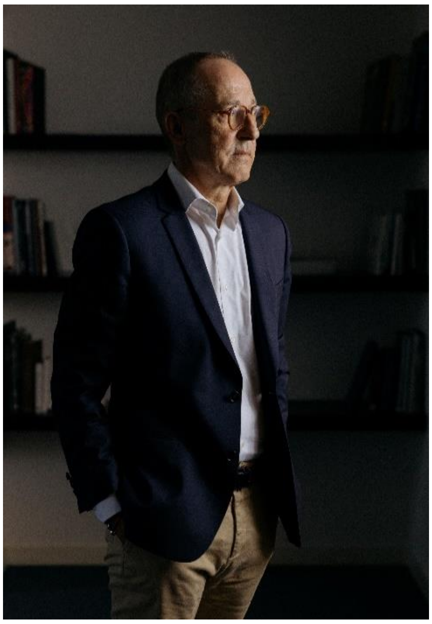
October was no different from the rest of 2022 for financial markets, with erratic movements in interest rates and on the main stock exchanges.

Investors' sensitivity to inflation figures and monetary policy outlook remains high, and is the main driver of risk assets performance.

In this regard, the second half of the month saw the return of the "pivot theory" for key interest rates, following statements from certain members of the Federal Reserve, and Christine Lagarde's comments after the ECB decided to raise its interest rates by 75 bps.

Bond and equity markets regained some positive momentum, especially as the Q3 22 earnings season went better than expected.

The rapid resolution of the UK political crisis following Liz Truss's departure was another reason for investors feeling more confident about risky assets; the fiscal mistakes of September, which fuelled a bond shock that went beyond UK sovereign debt, have gone away.



Economic data – such as US and German GDP for Q3 – continues to feed doubts. While the latter figure was surprisingly resilient (+0.3%) and raised questions over whether a European recession is inevitable, the former (+2.6%) should be viewed with caution as it shows a weakening of domestic demand.

These two examples alone mean we should emphasise the lack of visibility over the economic cycle, which has not improved in recent weeks. However, it is obvious that economic growth remains on a downward trend, given that central banks have not finished their monetary tightening.

> "Despite the markets' improvement in September, near-term uncertainty is just as high."
>
> **FRANÇOIS SAVARY,** CHIEF INVESTMENT OFFICER, PRIME PARTNERS

Last month we increased the probability of a recession in the next few quarters to 50% and see no reason to adjust this figure, which is part of a general view that adverse scenarios for the global economy outweigh those of a more positive nature.

We are paying close attention to inflation figures, especially in the United States. The upcoming publication of the October CPI number on November 10 will be important, after two months of dashed expectations that US inflation might fall more sharply.

With the Federal Reserve having just ramped up the cost of borrowing again, there is every reason to believe that the next inflation figures will be decisive for the monetary authority's ability to adjust the pace of its policy tightening. Any fresh disappointment over the subsidence of inflation would justify a continuation of the quick rate-hiking cycle (+75 bps) in December, keeping financial assets volatile in the short term.

Although it is reasonable to assume that monetary tightening is nearing its completion (the consensus forecast is for it to end in spring), questions remain over how this will be achieved (robustly, or more gradually) over the coming months. Jerome Powell's comments after the recent FOMC meeting gave no clear indication on this matter, although he did restate a steadfast commitment to combating inflation.

November will also bring the US mid-term elections, the outcome of which is uncertain. However, the polls suggest a Republican victory, at least in the House of Representatives.

Given how divided the US political landscape is, it seems unwise to look at past analyses to draw any hasty conclusions about the consequences

of such a result on the markets. The proof is in the pudding! Once the results are known, we will have to consider what the effects might be, bearing in mind that the scale of any Democrat loss will determine the leeway available to the White House incumbent over the next two years.

Despite the markets' improvement in September, near-term uncertainty is just as high. While a tentative stabilization of interest rates in recent weeks is noteworthy, it remains fragile. And although corporate earnings have generally been stronger than expected, we cannot ignore the fact that EPS growth is slowing and businesses have given little clear indication of the prospects for the months ahead.

In light of recent market developments (equity rally over the second half of October) and the different events scheduled for the coming weeks, we followed the same investment path last month, sticking with the more cautious themes introduced during the summer.

We recommend keeping a defensive bias in equities, preferring visible growth stocks, those offering high dividends, and energy companies.

On the bond front, despite a fine performance by high yield debt in recent weeks, it seems unwise to be strengthening positions given the economic outlook (high probability of recession in the short term).

We are upholding our strategy of buying good quality corporate bonds, gradually extending the portfolios' duration.

Government bonds – especially US – with longer maturities may also be accumulated. We may buy more of them given the Fed's recent decision. At a time when the Fed is clearly prioritising the fight against inflation at the expense of short-term growth, the return of some degree of decorrelation between fixed income assets and equities seems likely. Moreover, yields of more than 4% on long-dated issues offer some attractive investment opportunities.

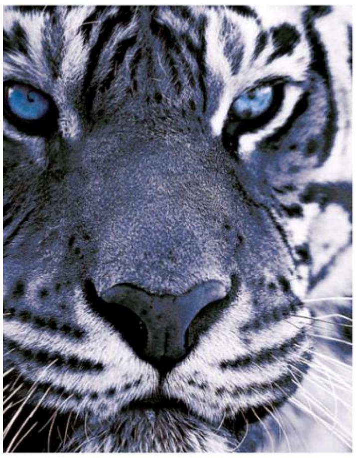
At a foreign exchange level, recent weeks have seen attempts at stabilization by the US dollar, which remains strong against all other currencies. We think that the greenback is overvalued on a 12-month horizon, and are maintaining our target of 1.05 versus the euro in the medium term.

To sum up, investors remain under the influence of short-term uncertainty, primarily due to the time it will take for central banks to complete the rate-hiking process. Until visibility improves, they will be unable to assess the long-term implications for companies' profits. It is from this perspective that the inflation figures due out on November 10 will be particularly important.

In such circumstances, equity market volatility is likely to remain high in the near term and justify a defensive approach, especially as November will be an eventful month.

The strengthening bias on our fixed income component will be the focus of our search for opportunities over the coming weeks.

Geneva, 3 November 2022



Prime Partners SA
Rue des Alpes 15
P.O. Box 1987
1211 Geneva 1

www.prime-partners.com

CONTACTS

François Savary
Chief Investment Officer

Jérôme Schupp
Equity Analyst

Julien Serbit
Senior Investment Advisor

Tel +41 22 595 09 97
fsavary@prime-partners.com
jserbit@prime-partners.com