

Turbulent start to the year

Overview

After making thundering gains in 2021, equity markets have started 2022 on a different footing. Without any particular news acting as a trigger, the overbuying of certain sectoral and thematic positions observed for more than two years is now correcting itself.

Since 2009, the Fed has supported the markets through monetary policy and a raft of quantitative easing plans. These continuous injections of liquidity have benefited equity markets by supplying a constant source of inflows. Investors had taken on board the fact that the Fed – through its asset purchases – would keep rates low and indirectly provide unconditional support to stocks. This even got a name: “the Fed put”. In recent years, moderate growth stocks with less sexy profiles have massively underperformed many companies offering exposure to more dynamic themes. This trend remained intact regardless of the fact that the companies neglected had strong balance sheets, steady earnings and often attractive valuations. Funds flowed indiscriminately into thematic index products such as ETFs (exchange traded funds), which buy a list of stocks representative of a theme without much in the way of bottom-up analysis. In this latest bull market, guided by a mood of exuberance, a historically high number of stocks that had never made a profit saw their share prices soar.

Moderate growth stocks with less sexy profiles have massively underperformed many companies offering exposure to more dynamic themes

But the Fed does seem to have withdrawn its ‘put’. We have therefore been witnessing investors getting ‘back to basics’ since the beginning of the year. Strong stocks with low valuations are outperforming their pricey peers. Valuation differentials are narrowing back to standard readings.

This week investors are with some trepidation awaiting news of the Fed’s decision this coming Wednesday. This is expected to offer an indication of how quickly US rates will rise in 2022.

We have been witnessing investors getting ‘back to basics’ since the beginning of the year

The geopolitical tensions surrounding Ukraine and high oil prices are also weighing on the overall mood amid the more inflationary conditions. In this setting, volatility has risen into the 30% range. Gold is recovering but still not very quickly, while cryptocurrencies have taken a hit. The price of Bitcoin is down by more than 27% since the beginning of the year. So conditions are more turbulent but the focus is firmly back on value and fundamentals. Investors can therefore expect some good opportunities, which may take the form either of premium income or, where called for, the construction of direct positions in blue-chip securities.





Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.91	1.03	12'355.54	4'229.56	15'603.88	7'068.59	7'494.13	4'397.94	13'768.92	27'522.26	1'244.31
Trend	➡	➡	⬇	⬇	⬇	⬇	➡	⬇	⬇	⬇	➡
YTD	-0.02%	-0.27%	-4.04%	-1.60%	-1.77%	-1.18%	1.48%	-7.73%	-11.99%	-4.41%	1.00%

(values from the Friday preceding publication)

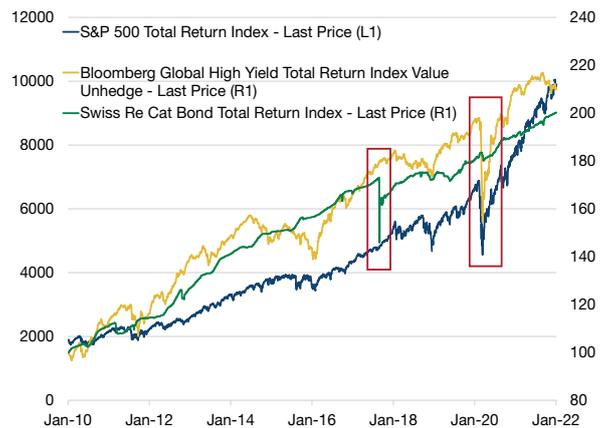
CAT bonds

CAT bonds are instruments that allow insurance companies to offload part of the risk linked to natural disasters to the market under specific terms, over a stated period of time. Coverage includes hurricanes and earthquakes, for example.

In return for this risk, investors receive a premium that varies according to the probability of loss occurrence. CAT bonds have four advantages:

- » An average net return of 3.5% to 4%
- » Virtually no taxation, as almost all the return stems from the insurance premium income
- » No correlation with equity or bond market fluctuations, as the price of a CAT bond depends solely on the occurrence of the loss it covers
- » No counterparty risk, as the investor's money is only available to the issuer if the stipulated conditions are met

Investing in one CAT bond on its own can be very risky, but this kind of exposure makes sense when the investment is made through a diversified fund.



Authors and contact



Julien Stähli
Chief Investment Officer (CIO)
MBF Boston University



Françoise Mensi
Ph.D in Economics



Pierre-François Donzé
M. Sc. in Economics



Karine Patron
MScF Université de Neuchâtel



Mickaël Gonçalves
MSc in Accounting, Control and Finance

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch

facebook.com/
banquebonhote

linkedin.com/
company/bonhote

twitter.com/
alexvincent

instagram.com/
banquebonhote

youtube.com/
banquebonhote1815

This document is provided for your information only. It has been compiled from information collected from sources believed to be reliable and up to date, with no warranty as to its accuracy or completeness. By their very nature, markets and financial products are subject to the risk of substantial losses which may be incompatible with your risk tolerance. Any past performance that may be reflected in this document is not a reliable indicator of future results. Nothing contained in this document should be construed as professional or investment advice. This document is not an offer to you to sell or a solicitation of an offer to buy any securities or any other financial product of any nature, and the Bank assumes no liability whatsoever in respect of this document. The Bank reserves the right, where necessary, to depart from the opinions expressed in this document, particularly in connection with the management of its clients' mandates and the management of certain collective investments. The Bank is a Swiss bank subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not authorised or supervised by any foreign regulator. Consequently, the publication of this document outside Switzerland, and the sale of certain products to investors resident or domiciled outside Switzerland may be subject to restrictions or prohibitions under foreign law. It is your responsibility to seek information regarding your status in this respect and to comply with all applicable laws and regulations. We strongly advise you to seek independent legal and financial advice from qualified professional advisers before taking any decision based on the contents of this publication.