WYSS & PARTNER

Annual Review 2022 W&P Dynamic USD

Traditional mixed portfolios suffered a historically dismal year. Western central banks increased key interest rates with unprecedented speed and magnitude to fight rampant inflation. The size and intensity of the current hiking cycle and the resulting spike in real yields undermined the traditional diversification dynamics between stocks and bonds, bringing about significant losses across asset classes.

Chart 1: Performance W&P Dynamic USD (02.06.2020 – 31.12.2022*)

*From 02.06.2020 to 26.03.2021, the product was implemented through an actively managed certificate, issued by the Helvetic Bank, with the same rules and restrictions applying. The actively managed certificate was transferred into the fund on 26.03.2021 and subsequently terminated. Past performance is no reliable indicator or guarantee for future performance

As the year progressed, central banks had to admit that they had misjudged inflationary dynamics. The long-held view that price pressures were only transitory subsequently had to be abandoned, prompting monetary authorities to fight inflation not only with hawkish rhetoric but also with excessive interest rate hikes. Such drastic changes in the direction of monetary policy leave a clear mark on the economy and financial markets. In contrast to the recent past, however, the restoration of price stability is now the one top priority, and slowdowns in growth or market distortions are deliberately accepted. And even if the peak of the current hiking cycle now appears to be within reach, expectations have also shifted to the effect that central banks will keep key interest rates at this current high level for an extended period in order not to prematurely declare the fight against inflation to be over.

- The pivot in monetary policy subsequently triggered a revaluation on stock markets. The sell-off was broad-based and affected all areas of the market except for the energy sector. However, after lagging for more than a decade, value stocks significantly outperformed quality and growth stocks. Companies in the technology or communications sectors, as well as cyclical consumption, were particularly hard hit. Winners of the past years like Alphabet, Nvidia or Microsoft suffered disproportionate losses. Bright spots in the portfolio that delivered a positive performance for the year include traditional telecoms like

AT&T, pharmaceutical companies Regeneron and Merck, insurers MetLife and Zurich, as well as Enphase Energy, a leading player in solar energy.

- The Fed arguably waited too long to counteract price pressure. With interest rate hikes of 4.25% over the span of just nine months, the yield curve has not only moved up dramatically, it also changed shape and has been deeply inverted for most of the second half of the year. Short term rates rose substantially further than the longer end, reflecting market fears of a seemingly inevitable recession. These fears also resulted in increasing credit spreads, exacerbating losses for corporate bonds. Emerging markets bonds suffered from a historically strong US dollar, aggravating these countries' debt loads.

- With real yields significantly higher and a strong US dollar, investments in gold were unable to back up their reputation as effective hedges against inflation. Our conviction in gold additionally stems from its qualities to stabilize and diversify a portfolio during uncertain times, which has proven to be justified considering the geopolitical turmoil that encompassed 2022.

The consequences of adjusting interest rates generally make themselves felt in the real economy with a delay of several months. The real estate market and various leading indicators already suggest that the global economy will grow at a below-average rate in the coming year, but the full extent of the change in the rate landscape will probably only become clear over the course of the coming year. We expect that central banks, supported by continued tight labor markets, will nevertheless continue to raise rates, albeit at a more modest pace and to a lesser extent. Inflation is expected to decline steadily but remain well above the 2% target in most economies. A partial correction of expected corporate profits has already taken place, but a full-blown recession does not yet seem to be reflected in prices.
Against this backdrop, we have been underinvested in equities for some time, preferring to invest in stocks that are able to better defend their margins through competitive advantages as well as stable demand and that can generate solid cash flows. We are also convinced that even during a phase of weak or negative growth, certain sectors of an economy can develop positively, which means that investments in structurally preferred sectors such as energy efficiency and storage solutions, automation or IT security can be worthwhile. Due to the stability of their earnings and attractive dividend yields, we also maintain our increased exposure to the healthcare and insurance sector.