MONTHLY COMMENT

XO INVESTMENTS

December 2021

MARKET REVIEW

December or the symbol for 2021, stocks up, bonds down

The month of December was a mixed bag for the financial markets. After the FED's statements on the further reduction of liquidity injections and the fears of closure due to the omicron variant, the markets did not have an easy end to the year. Despite this, the last two weeks have seen a certain amount of optimism return, which has enabled equities to end 2021 favourably. Switzerland is particularly well.

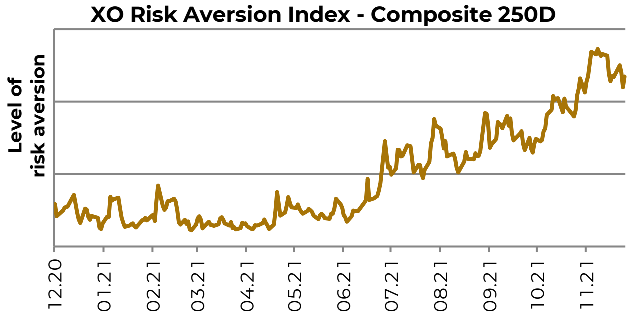
The prospect of higher interest rates in the US is the main reason for the final slide in bonds. Both Swiss and international bonds were down for the month and for the year. Long-dated bonds were avoided throughout 2021. Real estate rebounds strongly after a difficult period to post a good annual result.

The USD and EUR are down slightly for the month but have ended in opposite directions over the last few months.

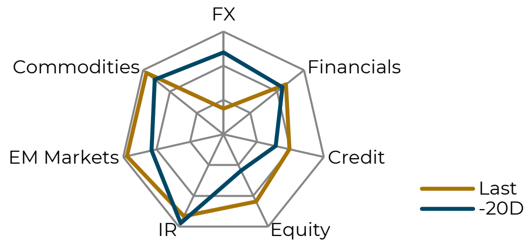
Gold and silver stabilised in December but posted negative performance for the first time since 2015, despite massive inflationary figures. Oil is the best asset of the year.

	Value	December	2021
Equity markets			
Switzerland (SMI)	12 876	5,89%	20,29%
United States (S&P500)	4 766	4,36%	26,89%
Europe (Euro Stoxx 50)	9 491	5,81%	23,34%
Japan (Nikkei)	28 792	3,49%	4,91%
China (Shanghai SE)	3 640	2,13%	4,80%
Brasil (Bovespa)	104 822	2,85%	-11,93%
Currencies			
USD/CHF	0,913	-0,80%	3,13%
EUR/CHF	1,037	-0,38%	-4,03%
GBP/CHF	1,234	1,02%	2,06%
EUR/USD	1,137	0,52%	-6,99%
Other asset classes			
Swiss Real Estate		3,87%	7,32%
Swiss Bonds		-0,76%	-1,82%
Foreign Bonds		-0,55%	-2,49%
Commodities		7,59%	40,35%
Oil	75,21	13,64%	55,01%
Gold	1 829,20	3,09%	-3,44%
Rates / Indicators			**Δ**
10 years Swiss rate		-0,14%	0,42%
10 years US rate		1,51%	0,60%
US Unemployment		4,20%	-2,50%
US GDP		4,90%	7,20%
US CPI		4,90%	3,30%

XO Risk Aversion Index - Composite 250D



XO Risk Aversion Index - Components



2021 ON AN INFLATIONARY TUNE

The covid vaccination provided a wave of hope in 2021. But rising inflation and the willingness of central banks to reduce liquidity injections to counter it have added a dose of volatility.

The very rapid development of the Covid-19 vaccines at the end of 2020 set the pace for the beginning of 2021. A positive spiral was set in motion in the first quarter and, as early as spring, the damage caused by Covid the previous year was fully recovered.

A real race against time was launched to vaccinate as many people as possible as quickly as possible. Israel and then the United States took the lead before Europe followed suit. In May, the entire adult population became eligible for vaccination, which gave rise to a wave of optimism among the population and on the financial markets.

But this optimism was immediately dampened by inflationary concerns. Indeed, this is the defining feature of 2021. Supply disruptions, rapid recovery, poor harvests, lack of containers or the stoppage of navigation on the Suez Canal for a few days were the triggers for a rise in prices for all raw materials. In turn, wood, industrial metals and agricultural products rose. This rapid rise, which pushed the consumer price index to almost 5% in the United States, led the US Federal Reserve to announce a future change in its monetary policy. This prospect of reduced liquidity injections and then interest rate hikes, however distant, has created doubt in the markets. This doubt will persist throughout the second half of 2021.

China, which had come through the 2020 crisis with great solidity and serenity, experienced a more difficult 2021. The upcoming elections for the presidency of Xi Jinping are changing the outlook. The government is working to reduce property risks and intends to act on private education. The will of the party is to redistribute wealth by transferring wealth from the richest to the poorest. The luxury industry is obviously targeted by these new constraints.

The end of the year was relatively turbulent. The FED's statements, which were increasingly oriented towards a reduction in capital injections, and the increase in covid cases in Europe, combined with the appearance of the Omicron variant, made the markets nervous as of November.

Swiss equities underperformed at the beginning of 2021, a form of compensation for the good performance of 2020. The volatility induced by the materialisation of the Omicron variant created a lot of nervousness in the leading Swiss equity index in the last quarter.

SMI evolution in 2021

Source : Bloomberg, XO Investments SA

The disparity within the SMI index is very large. Richemont is leading the way thanks to its outstanding business figures. Although China wants to regulate more drastically and redistribute, the luxury sector is doing remarkably well. In August all luxury stocks were down for the year, but from September onwards a significant rise gradually materialized. Novartis was the second worst performing stock. Investors sold the stock following the sale of Roche shares held by the company. Finally, Credit Suisse was the worst performer. The bank has been under pressure for two years now, as new scandals were revealed to the press throughout the year.

Evolution of the main SMI stocks

Cie Financière Richemont	74.6%
Sika	58.7%
Partners Group	48.6%
ABB	45.2%
Swiss Life	41.9%
Alcon	37.4%
Geberit	37.0%
UBS	34.9%
Lonza	34.6%
Givaudan	30.8%
Roche	26.4%
Nestlé	25.4%
SGS	17.5%
Swatch Group	16.9%
Swiss Re	15.8%
Zurich	12.8%
Swisscom	12.7%
Novartis	-0.3%
Holcom	-0.9%
Credit Suisse	-21.4%

Source : Bloomberg, XO Investments SA

Internationally, France and the United States are performing well. China, via Hong Kong, is the worst performer and is accompanied by other Asian neighbours (Japan, South Korea) or emerging countries (Brazil).

In sectoral terms, the winners of 2020 will have been the losers of 2021. Solar, biotechnology and chemicals have suffered throughout the year.

Currencies are behaving unevenly against CHF. Emerging currencies are largely shaken with the Turkish lira losing more than 40%. The USD, despite the dizzying increase in the FED's balance sheet, is performing well. China is the currency that is appreciating the most against the CHF, reflecting its growing economic and geostrategic weight. After holding up well during the first year of the health crisis, the EUR fell massively against the CHF at the end of the year.

Evolution of the main equity indices

Sweden - OMX Stockholm	SEK	29.1%
France - CAC 40	EUR	28.9%
US - S&P 500	USD	26.9%
Switzerland - SPI	CHF	23.4%
South Africa - FTSE Top 40	ZAR	23.3%
Italy - MIB 30	EUR	23.0%
India - Mumbai Sensex 30 Index	INR	22.0%
Canada - S&P TSX Comp Index	CAD	21.7%
US - Nasdaq	USD	21.4%
Switzerland - SMI	CHF	20.3%
Russia - Russian Traded	USD	18.4%
Germany - DAX 30	EUR	15.8%
Thailand stock ex. Index	THB	14.4%
Great-Britain - FTSE 100	GBP	14.3%
Australia - S&P 200	AUD	13.0%
Spain - IBEX 35	EUR	7.9%
Japan - Nikkei 225	JPY	4.9%
China - Shanghai Comp Index	CNY	4.8%
Korea - Korea composite Index	KRW	3.6%
Brazil - Bovespa stock index	BRL	-11.9%
Hong Kong - Hang Seng	HKD	-14.1%

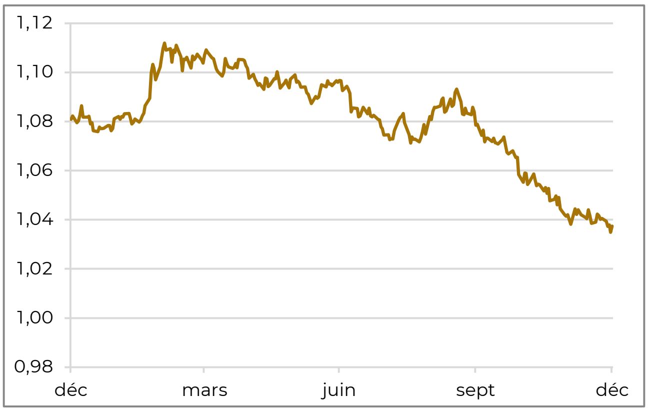
Source : Bloomberg, XO Investments SA

Evolution of currencies against CHF

Cina Renminbi	5.8%
Canadian Dolar	3.9%
US Dollar	3.1%
Malaysian Ringgit	3.1%
Hong Kong Dollar	2.5%
British Pound	2.1%
Russian Ruble	1.6%
Indian Rupee	1.0%
Singapore Dollar	1.0%
Indonesian Rupiah	0.7%
Norwegian Krone	0.3%
Mexican Peso	0.0%
New Zealand Dollar	-1.8%
Australian Dollar	-2.7%
Brazilian Real	-3.5%
Euro	-4.0%
South African Rand	-5.0%
South Korean Won	-5.5%
Swedish Krona	-6.3%
Japanese Yen	-7.5%
Argentine Peso	-15.6%
Turkish Lira	-42.5%

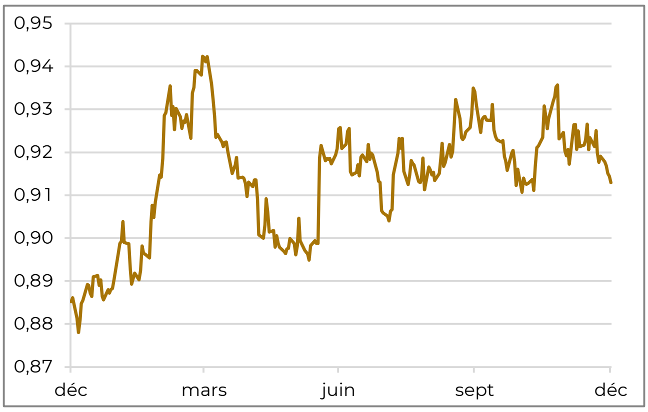
Source : Bloomberg, XO Investments SA

Evolution of the EUR/CHF exchange rate 2021



Source : Bloomberg, XO Investments SA

Evolution of the USD/CHF exchange rate in 2021



Source : Bloomberg, XO Investments SA

Commodities were the best asset in 2021. Initially buoyed by a base effect linked to the calculation of the consumer price index, inflation only increased throughout the year. All commodities (industrial metals, energy, and agriculture) have risen sharply against a background of supply difficulties. However, volatility remains high in this type of asset.

Evolution of the commodity index 2021

Source : Bloomberg, XO Investments SA

Oil is obviously the symbol of this inflation. From a negative price on 20 April 2020, it approached $85 a barrel in early autumn, before fears of a shutdown took some of the pressure off.

Evolution of oil in 2021

Source : Bloomberg, XO Investments SA

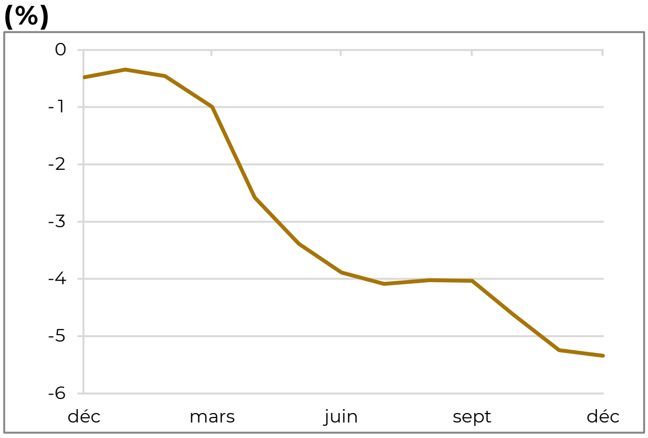
Gold, the true barometer of inflation, was, like the other precious metals, the big loser in this inflationary dynamic.

Evolution of gold in 2021

Source : Bloomberg, XO Investments SA

However, gold benefits from an ideal configuration since real interest rates are largely negative.

Real interest rates in the United States (%)

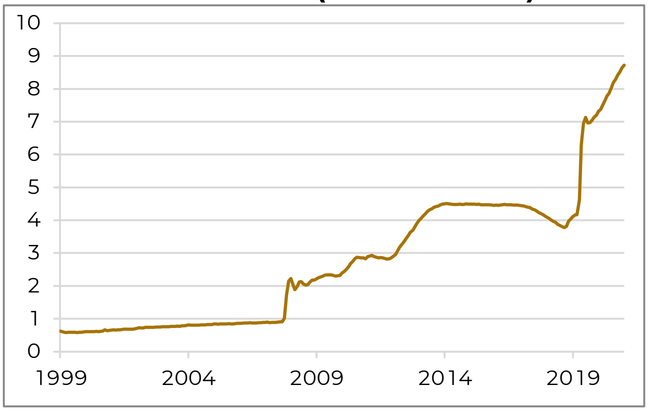


Source : Bloomberg, XO Investments SA

Central banks continued to inject hundreds of billions to combat the economic consequences of the pandemic and in particular to finance the growing deficits of governments.

The FED created USD 120 billion of new banknotes per month in the middle of the year. This brought the Federal Reserve's balance sheet to almost USD 9 trillion. The SNB was not to be outdone, and the symbolic threshold of 1,000 billion was passed in 2021.

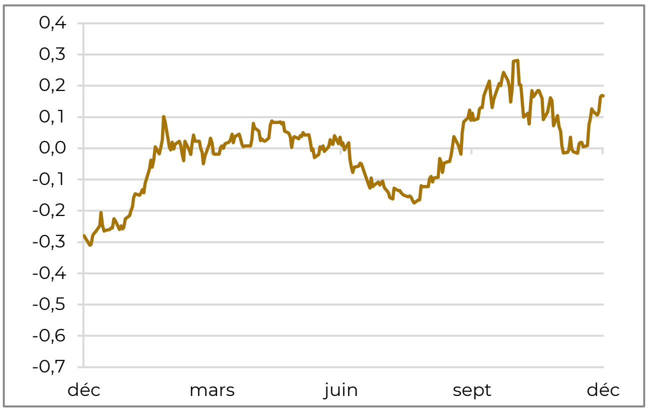
FED balance sheet (trillions USD)



Source : Bloomberg, XO Investments SA

Nevertheless, the rhetoric of central bankers changed during the year. Their willingness to reduce capital injections led to a gradual rise in interest rates. Even if rates remain low, this slight trend is a real change after 40 years of interest rate cuts.

Evolution of Swiss 10-year interbank rates

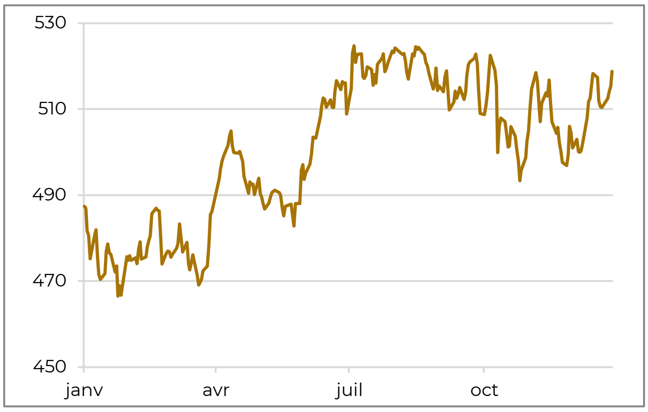


Source : Bloomberg, XO Investments SA

Bonds have suffered from this movement. SBI yields are rising. While they stood at -0.18% on 31.12.2020, they end 2021 at -0.09%. However, normalisation is still some way off and the SNB's base interest rates are not expected to rise quickly.

Real estate had a mixed year. After a very good first half of the year, the second half saw an erosion of performance.

Evolution of the swiss real estate market in 2021



Source : Bloomberg, XO Investments SA

The year 2022 is shaping up to be explosive. While the winners of the crisis are getting excited, social clouds are gathering. People are tired of the coercive measures taken by governments and tensions are rising between different opinions (vaccinated versus unvaccinated in particular). Inflation, which seems to be taking hold, will only reinforce these frustrations and the gaps between economic actors.

Nevertheless, the outlook remains very good in economic terms. Infrastructure programmes, new environmental technologies and the use of data in a medical and biomedical context are three major catalysts for the growth and development of our economies. Confidence is therefore the order of the day.

"Investment is the sustainable source of development " Jaquet Nsanzumukiza

Perhaps 2022 could be the year of sustainable investment as a source of development.