MONTHLY COMMENT

April 2022

MARKET REVIEW

Wherever one looks, interest rates are apparent

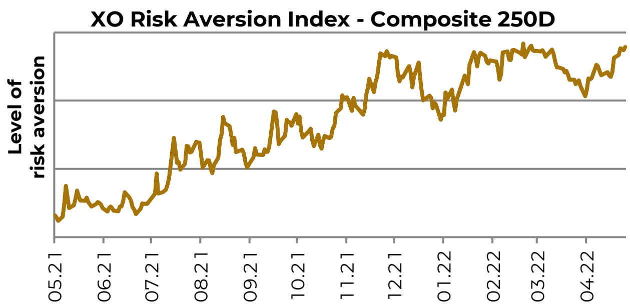
Interest rates have continued their almost uninterrupted rise over the last 4 months. In Switzerland, the 10-year rate has risen by 1.10 percentage points since the beginning of the year, while in the United States it has risen by 1.30 percentage points over the same period, which is almost equivalent to a doubling of rates in four months! These movements mechanically affect the bond indices which have long durations. The indices have fallen by about 8% since the beginning of the year. This has a massive impact on the indices used by pension funds (LPP25 or LPP40). Equities are also suffering from this trend. After a positive month of March, they have started to fall again. Western indices are in retreat. China, with the confinement of Shanghai, is in free fall and is at -20% over 2022.

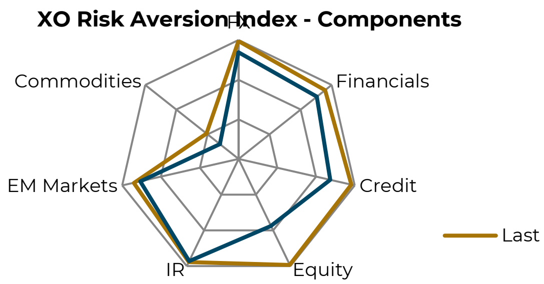
In a context of maximum risk, tension on bonds and shares, the CHF traditionally acts as a safe haven. This is only partially the case this time. The USD is appreciating while the EUR is stabilising, and all commodity currencies are rising against the CHF.

Finally, commodities take a break but remain the only positive asset for the year.

The overall risk indicator remains high but is falling on financials.

	Value	April	2022
Equity markets			
Switzerland (SMI)	12 129	-0.27%	-5.80%
United States (S&P500)	4 132	-8.80%	-13.31%
Europe (Euro Stoxx 50)	8 461	-2.08%	-10.85%
Japan (Nikkei)	26 848	-3.50%	-6.75%
China (Shanghai SE)	3 047	-6.31%	-16.28%
Brasil (Bovespa)	107 876	-10.10%	2.91%
Currencies			
USD/CHF	0.972	5.38%	6.45%
EUR/CHF	1.026	0.53%	-1.06%
GBP/CHF	1.224	0.95%	-0.81%
EUR/USD	1.055	-4.85%	-7.26%
Other asset classes			
Swiss Real Estate		-1.13%	-5.25%
Swiss Bonds		-1.99%	-7.93%
Foreign Bonds		-2.94%	-8.08%
Commodities		5.12%	39.94%
Oil	104.69	4.40%	39.20%
Gold	1 896.93	-2.44%	3.70%
Rates / Indicators			**Δ**
10 years Swiss rate		0.87%	1.01%
10 years US rate		2.93%	1.42%
US Unemployment		3.60%	-0.30%
US GDP		3.60%	-1.90%
US CPI		6.50%	1.00%





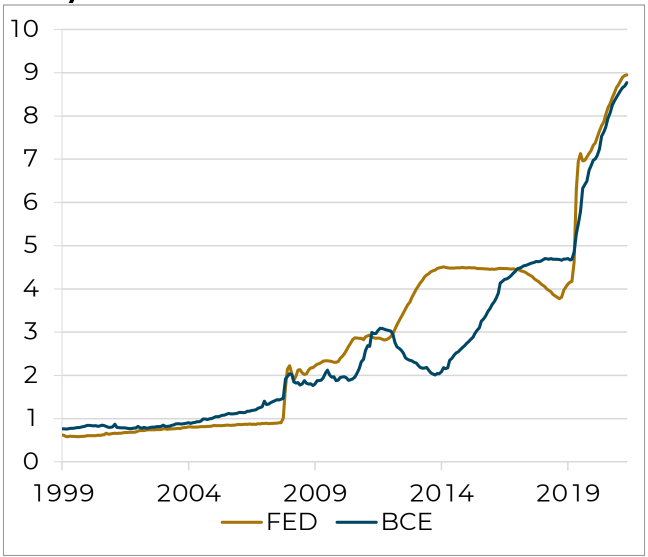
CENTRAL BANKS, MODERN-DAY PRIVATEERS

Emerging central banks are increasing their holdings of gold as the precious metal returns to favour

Out-of-name balance sheets

Since the subprime crisis, central banks around the world have increased their balance sheets to combat the effects of successive crises. Both the FED and the ECB have deployed colossal resources since 2008. The Covid crisis has only continued this trend, even if the acceleration is notable. The balance sheet downturns of the major central banks have only been temporary for more than two decades now.

Central bank balance sheet (billion USD)



Source : Bloomberg, XO Investments SA

The increase in central banks' balance sheets has been achieved through *ex-nihilo* money creation. This newly created money was used to buy government debt, thus financing public deficits, or private assets (bonds or shares) to support the economy.

Western central banks hold few foreign currency assets except for their gold reserves. Conversely, the Swiss National Bank (SNB) or emerging central banks (e.g. Russia) hold many foreign currencies in addition to their national currency, in particular the euro or the dollar. Gold thus appears to be the only common point, almost a "standard", for all the main central banks.

Gold reserves are, like the rest of the balance sheet, officially reported by all central banks. The US still has the largest gold reserve in the world followed by Germany and the IMF. The top 10 gold holders in the world are Westerners with the exception of China and Russia.

Western countries have a higher hedge ratio than the newly acquiring countries. For example, France's gold reserves represent almost 60% of its central bank's balance sheet. Germany has 67%. On the contrary, India has a coverage ratio of 7%, Taiwan 4.5%.

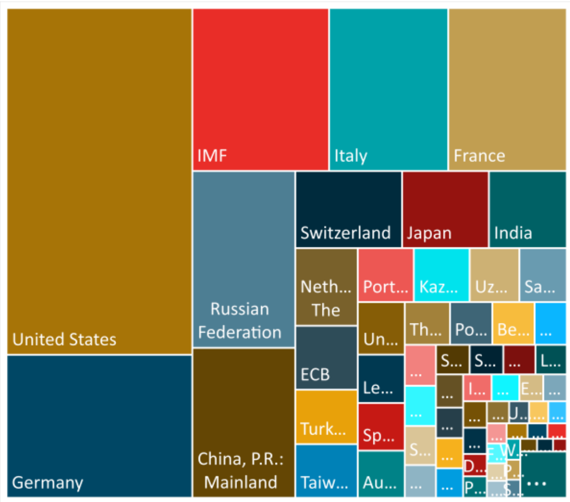
Official gold reserves (April 2022)

	Country	Tonnes	% of reserves
1	United States	8 133.5	67.6%
2	Germany	3 358.5	67.3%
3	IMF	2 814.0	
4	Italy	2 451.8	64.3%
5	France	2 436.5	59.6%
6	Russian Federation	2 298.5	22.1%
7	China, P.R.: Mainland	1 948.3	3.5%
8	Switzerland	1 040.0	5.8%
9	Japan	846.0	3.8%
10	India	758.0	7.3%
11	Netherlands, The	612.5	57.3%
12	ECB	504.8	35.6%
13	Turkey	429.4	27.4%
14	Taiwan Province of China	423.6	4.5%
15	Portugal	382.6	72.8%
16	Kazakhstan, Rep. of	380.2	69.5%
17	Uzbekistan, Rep. of	338.7	58.7%
18	Saudi Arabia	323.1	4.3%
19	United Kingdom	310.3	10.1%
20	Lebanon	286.8	48.8%

Source : World Gold Council, XO Investments SA

The holding of gold as a central bank reserve is therefore largely concentrated in the hands of a few states.

Official Gold Reserves (April 2022)

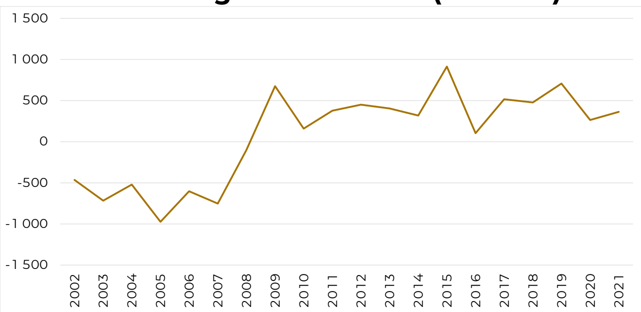


Source : World Gold Council, XO Investments SA

Growing demand for gold from emerging central banks

In the early 2000s central banks were on average sellers of gold. France and Switzerland sold a large part of their stock. The flow was reversed from 2008 onwards when all central banks became gold buyers for an average of 500 tonnes per year.

Central bank gold demand (tonnes)



Source : World Gold Council, XO Investments SA

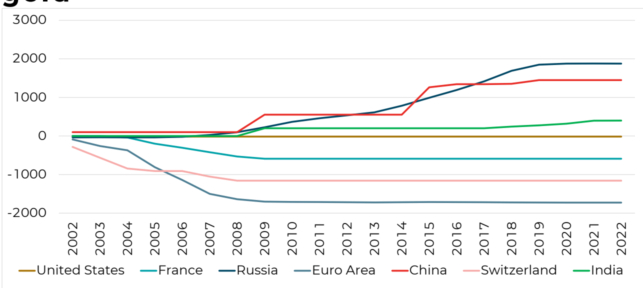
This buying movement is not homogeneous, as the behaviour of the different central banks differs greatly .

The Eurozone, France and Switzerland stopped their sales in 2008. At that time, purchases began in China, Russia and India. These three central banks are the main buyers of the last 15 years. Over the period, China acquired 1500 tonnes of gold, Russia almost 2000 tonnes.

China retains a low ratio of gold cover to its balance sheet, but Russia has a stockpile that now represents 22% of its total balance sheet. This proved useful when its foreign assets were frozen. The gold was stored in Russia, so it could not be seized.

The geopolitics of central bank gold is undoubtedly an indicator of financial dynamics as buying countries seek to lend credibility to their economic policies.

Cumulative movement of central bank gold

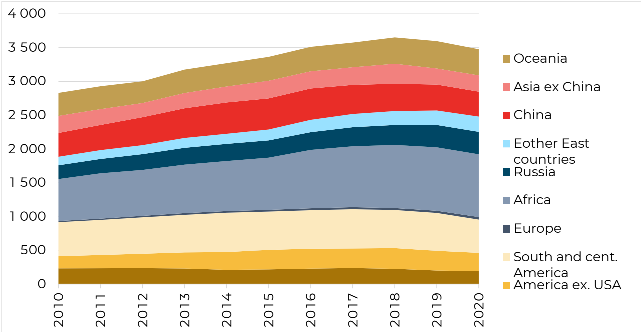


Source : World Gold Council, XO Investments SA

Gold production in the world

An easy way to increase your gold stockpile is to buy domestic production. But not every country has a rich subsoil.

Evolution of gold mine production (tonnes)



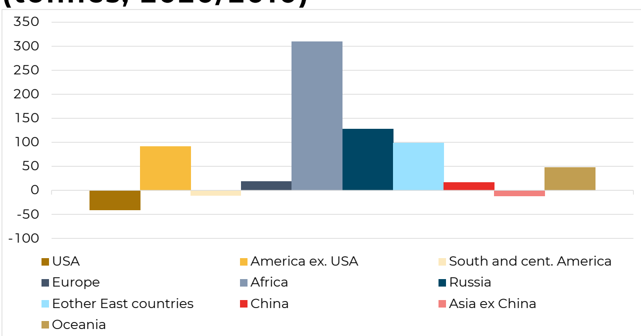
Source : World Gold Council, XO Investments SA

The most important production areas are in South America, Africa, China and Oceania.

Over the last decade, Africa has increased its gold production the most, with an additional 300 tonnes produced each year. South Africa is still a major producer but is now overtaken by Ghana with 140 tonnes per year.

Russia is the second most important state in terms of increased production with 128 tonnes more per year. If we include allied states such as Kazakhstan, we are looking at an additional 220 tonnes. On the other hand, production in the United States has declined and Europe is almost devoid of gold in its subsoil.

Increased gold mine production (tonnes, 2020/2010)

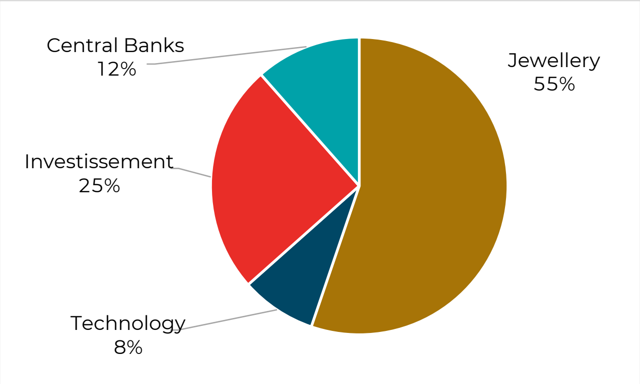


Source : World Gold Council, XO Investments SA

Strong Asian private demand

Although central banks are increasing their demand for gold, it remains low compared to the demand for jewellery. More than 55%, or 2,200 tonnes of annual global demand comes from this sector. Investment demand accounts for a quarter of the volumes (1000 tonnes), followed by central banks and technology.

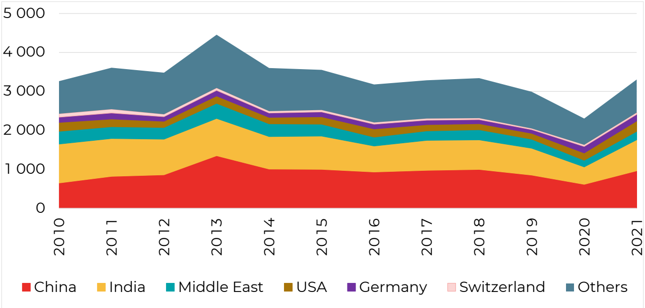
Demand for gold 2022



Source : World Gold Council, XO Investments SA

In a similar way to the behaviour of central banks, the demand for gold, particularly for jewellery, comes first from China and then from India. Between them, these two countries consume 1,800 tonnes of gold per year, i.e. half the world's annual production!

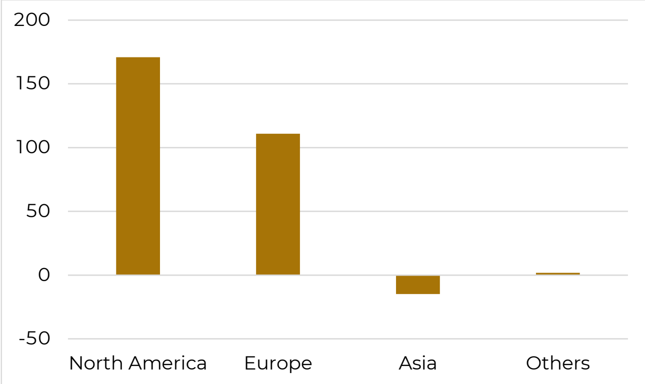
Demand for gold (tonnes)



Source : World Gold Council, XO Investments SA

Finally, the return of inflation and geopolitical fears are leading investors to reinvest in this commodity. In terms of investments, particularly in financial vehicles (ETFs, trackers, etc.), the majority of flows came from American and European banks. Asia, on the other hand, is slightly down at the beginning of the year. Over the first three months of 2022, flows into gold financial products exceeded 250 tonnes. Interest in the `barbaric relic` is back, not only among central banks and jewellery purchasers but also among investors.

2022 investment flows (tonnes)



Source : World Gold Council, XO Investments SA

Privateering central banks

Central banks have been independent entities since their creation a century ago, but their links with politicians are becoming ever closer and tend to increase potential conflicts of interest. In Europe and the United States, central bankers are former secretaries of the treasury or treasury secretaries are former central bankers. The political dimension and a form of alignment with the interests of governments is only increasing. Central banks in emerging countries are doing what their Western counterparts did a century ago: buying gold to give their currencies credibility.

Central banks are the armed wing of governments. Like modern-day privateers they acquire wealth, gold in particular, fight countries by freezing their assets, and spend lavishly on their states. It remains to be seen whether states will avoid monetary mutinies, i.e. uncontrolled inflation.