MONTHLY COMMENT

November 2022

XO INVESTMENTS

MARKETS REVIEW

Christmas before its time

After 9 complicated months for the financial markets, the month of November is acting as an early Christmas present. Inflation figures are slowing down in the US, which allows the FED to lighten up its rhetoric on further interest rate hikes. This new situation allows financial assets to breathe and to recover some of the decline of the last months.

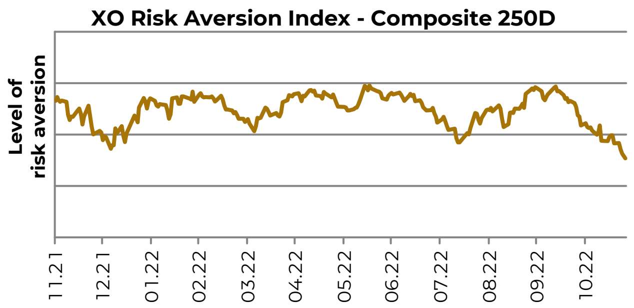
Stocks rebounded by 3%. This is a good monthly performance, but it should be put into perspective in view of the continued, extremely negative annual performance. The Swiss market is lagging behind the rebound in European equities.

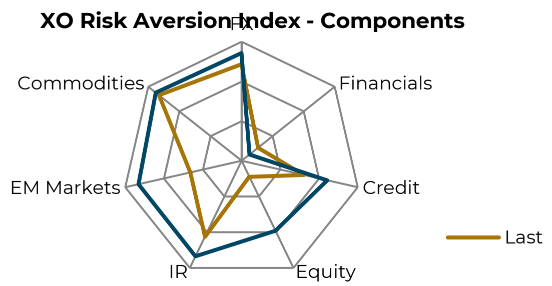
The fall in long-term interest rates is beneficial for bonds, which had a good month in November. Real estate is rising in the same proportion but remains the most negative asset class in 2022.

The FED's announcement has had its way with the USD, which has weakened massively over the month. Oil is behaving in the same way but for different reasons: the fear of economic slowdown is weighing on energy. Gold is doing the opposite and is now close to neutral for the year.

The risk indicator is falling on most parameters except for commodities and currencies.

	Value	November	2022
Equity markets			
Switzerland (SMI)	11 128	2.77%	-13.58%
United States (S&P500)	4 080	5.38%	-14.39%
Europe (Euro Stoxx 50)	8 973	9.70%	-5.46%
Japan (Nikkei)	27 969	1.38%	-2.86%
China (Shanghai SE)	3 151	8.91%	-13.42%
Brasil (Bovespa)	112 486	-3.06%	7.31%
Currencies			
USD/CHF	0.951	-4.96%	4.22%
EUR/CHF	0.981	-0.83%	-5.41%
GBP/CHF	1.136	-1.01%	-7.86%
EUR/USD	1.032	4.33%	-9.28%
Other asset classes			
Swiss Real Estate		1.56%	-16.40%
Swiss Bonds		1.48%	-9.73%
Foreign Bonds		2.12%	-12.32%
Commodities		-1.71%	27.75%
Oil	80.55	-6.91%	7.10%
Gold	1 752.88	7.17%	-4.17%
Rates / Indicators			Δ
10 years Swiss rate		1.11%	1.25%
10 years US rate		3.61%	2.10%
US Unemployment		3.70%	-0.20%
US GDP		1.90%	-3.80%
US CPI		6.30%	0.80%





THE PUZZLE OF RUSSIAN NUMBERS

The war in Ukraine has been going on for 9 months and at the same time the Russian economy is entering a recession in the third quarter but with economic statistics that European countries can envy.

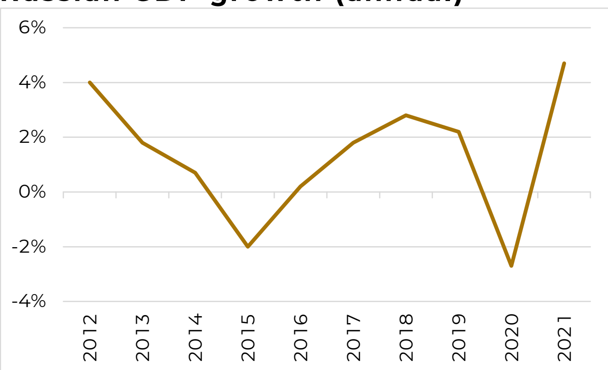
Slowdown in the Russian economy

Nine months ago, Russia's "special operation - operation Z" in Ukraine began. An operation that was supposed to last a few days or even a few weeks. 9 months later, it is clear that the approach of winter is leading us to envisage a longer-term conflict.

Western countries reacted very quickly to this invasion by making Russia fear, and even threaten, an economic collapse. It must be said that the pressure that had been put on Russia in 2014 for the same reasons, had led to a massive fall in the Russian currency.

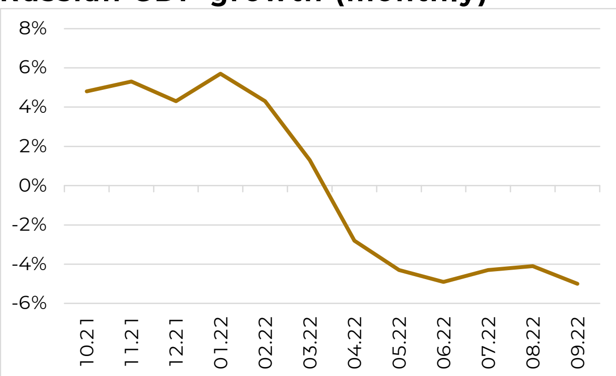
Russian growth gradually settles into negative territory in 2022. Russia enters a recession in the third quarter of 2022 with a decline in GDP of around 4%. The first signs of deterioration in the positive dynamic data from the start of the conflict in February and the shift into negative territory in April.

Russian GDP growth (annual)



Source : Ministry of economic development, XO Investments SA

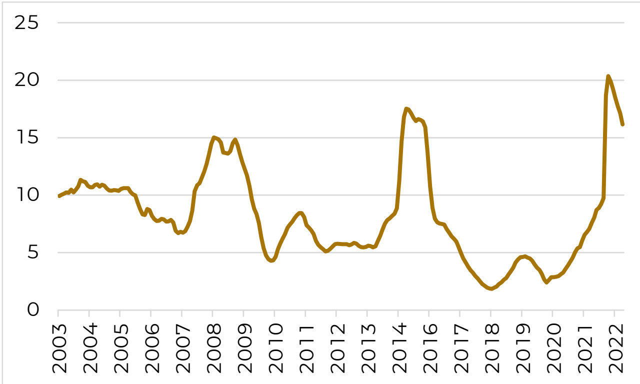
Russian GDP growth (monthly)



Source : Ministry of economic development, XO Investments SA

As in Western countries, Russia is facing significant pressure on prices. Inflation is well over 10%. Even if the figures seem to indicate a lull, the price increase is major and will obviously affect the population.

Core Russia inflation (%)



Source : Federal Service of State Service, XO Investments SA

Currency changes

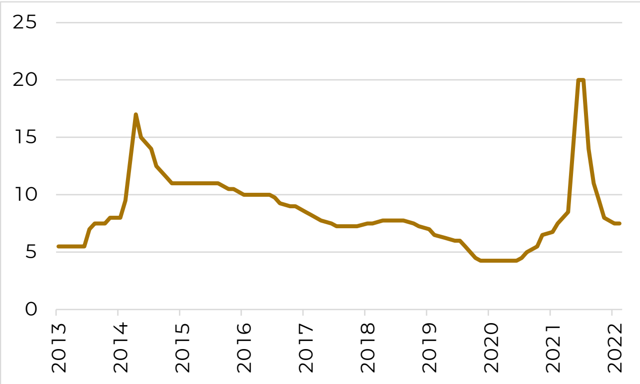
The first sanctions put in place by the West, probably the most surprising and harshest, were the freezing of part of the assets of the Russian central bank. These sanctions were reflected in February by a significant drop in the value of the Ruble (around 30%). But this was without counting on the Russian response. The Russian government immediately made it compulsory to sell Russian products in RUB (and not in USD or EUR) and the central bank put in place constraints on the sale of RUB. The rebound of the RUB was huge, making the Russian currency the most appreciated currency in 2022 against all other currencies

Exchange rate RUB/USD

Source : Bloomberg, XO Investments SA

At the same time, and to counteract the desire to sell the Ruble, the central bank raised its reference rates. The rates were set at 20%. The improvement of economic conditions in Russia in recent months has allowed a gradual return to a rate of 7.5%, a relatively small differential against the USD.

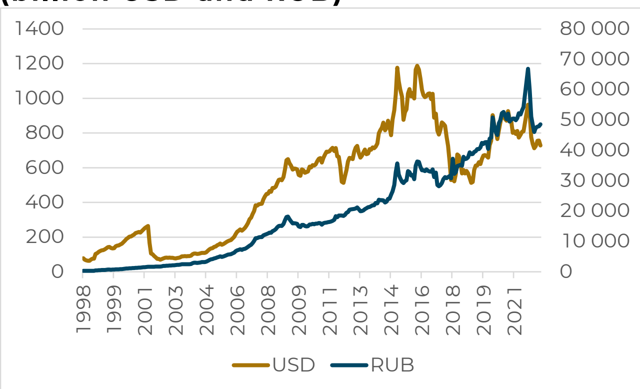
Reference interest rate (%)



Source : Central Bank of Russia, XO Investments SA

The Russian central bank thus seems to have mastered the stormy events of recent months. Its balance sheet had grown strongly in recent years. Foreign exchange reserves reached around USD 700 billion. It therefore still has significant reserves, despite the difficult conditions, and even though half of them have been seized.

Central bank Russia balance sheet (billion USD and RUB)

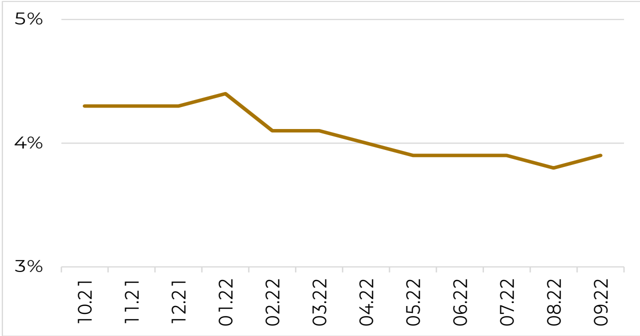


Source : Central Bank of Russia, XO Investments SA

The Russian economy is holding up

Despite difficult conditions and an entry into recession, the Russian economy appears to be resilient. The unemployment rate is stable at a low level. The hiring of new conscripts at three times the median wage may also explain some of this stability.

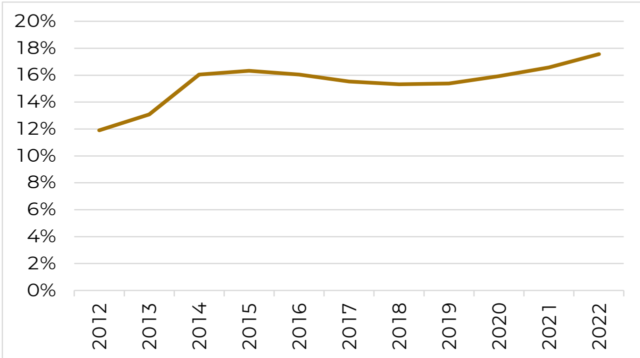
Unemployment rates Russia



Source : Federal state statistics service, XO Investments SA

Russian state debt also remains very low, at around 18% of GDP, especially when compared to the debt levels of Western countries which generally exceed 100% of GDP. Russia has little external financing, which is a considerable asset in financing its activities, particularly military.

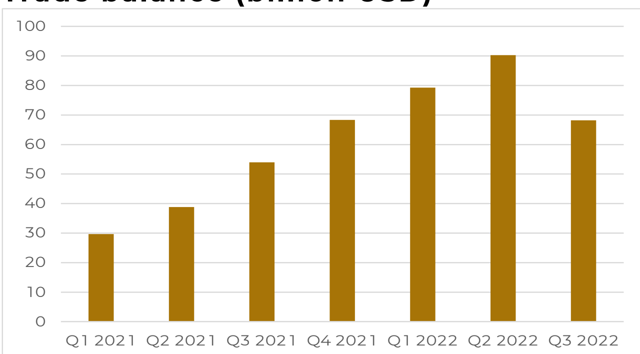
Government debt as % of GDP



Source : Banque centrale de Russie, XO Investments SA

Finally, and probably most importantly, the Russian trade surplus is exploding.

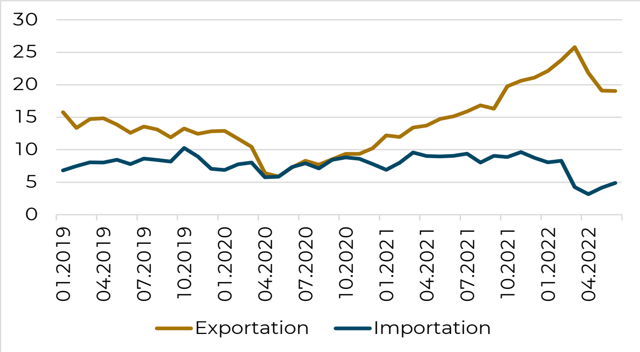
Trade balance (billion USD)



Source : Central Bank of Russia, XO Investments SA

With a $240 billion trade surplus in the first 3 quarters of 2022, Russia is twice as strong as in 2021! The rise in raw material prices and the rise in the currency are the two catalysts of this result. Western sanctions do not seem to be weakening Russia, but strengthening it, at least in the short term. These results are obviously the consequence of an increase in the value of exports but also of a decrease in the value of imports which will affect the population as a whole.

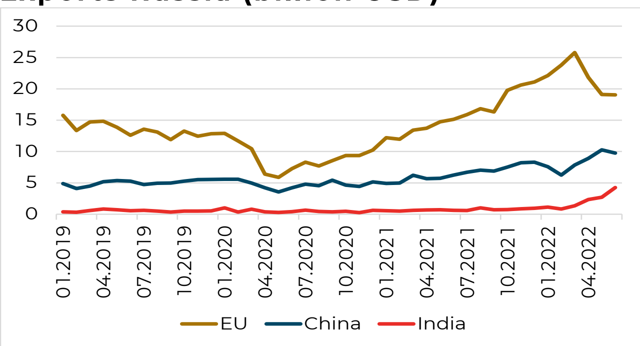
Import/export Russia-EU (billion USD)



Source : Eurostat, XO Investments SA

In terms of exports, the fall in imports from the EU, of around 25%, is offset by the rise in exports to China and especially India. This is particularly true for oil products.

Exports Russia (billion USD)

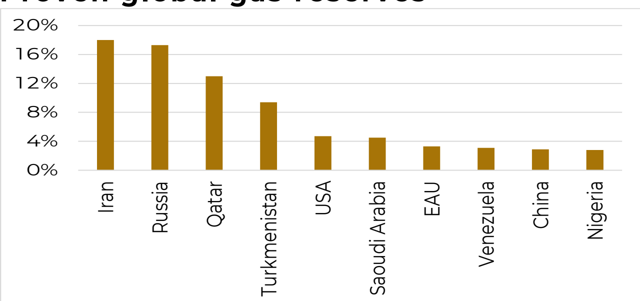


Source : Eurostat, XO Investments SA

An energy and resource giant

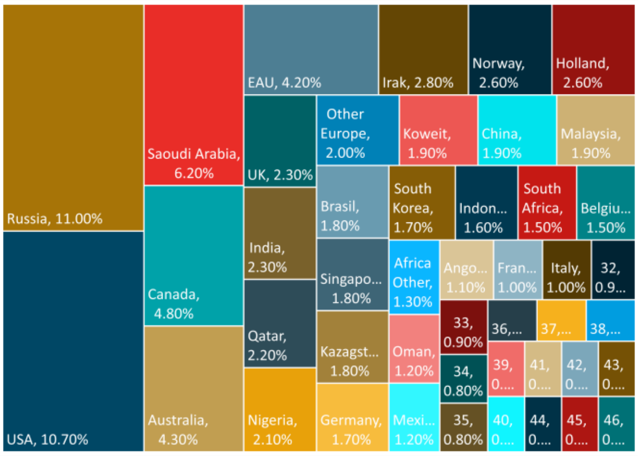
Russia remains an energy giant, both in terms of oil and gas. It is the second largest state, in terms of proven gas reserves behind Iran and ahead of Qatar.

Proven global gas reserves



On a global level, it is difficult to do without Russia. It is a world leader in many resources: energy, industrial metals, agriculture, etc.

Share of world exports for energy products, cereals, industrial metals, platinum, palladium (2020)



Source : OEC, XO Investments SA

An energy and resource giant

After a year of war, and although Western sanctions are affecting the Russian economy by causing it to go into recession, it is clear that it still has considerable assets in the 'new world' that is emerging.

Russia remains a key player in the commodities market, especially in energy. Its currency remains solid, which is a fundamental change compared to the last few decades. Thus, Western sanctions seem to be directed mainly against Europe !!, which must envy Russia's level of debt and its energy independence. This should make European countries think about their capacity for independence.