

MARKETS REVIEW

Black December for a black year.

December ends 2022 on a sour note. After two good months in October and November, and despite the FED's confirmation of a slowdown in interest rate hikes, the markets are posting negative performances for this final month of 2022. Equity markets are the main victims of this renewed nervousness. The US and Switzerland are the worst performing western markets. Europe, although entangled in its energy problems, had a less dramatic result.

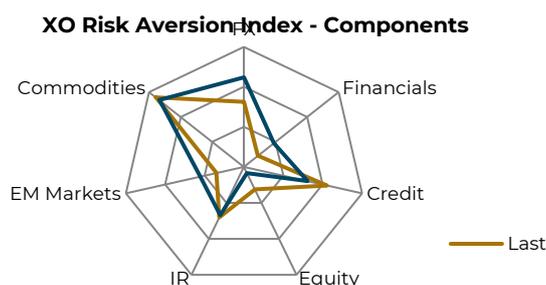
Interest rates have set the pace throughout 2022, and December was no exception. Rates rose sharply at the beginning of the month, reaching annual highs, before easing somewhat. Bonds thus ended a terrible year in terms of performance. Swiss real estate ended 2022 on a positive note and mitigated, somewhat, the worst performance in its history.

While the EUR has been stabilising for a few months, it is the USD that is now the focus of attention and is sliding against all currencies. The slowdown in the rate hike is obviously not unrelated to this movement.

Finally, the highlight of this last month of the year is that precious metals are soaring. Having lagged all year, a change seems to be in the offing for the "barbarian relic".

The overall risk indicator falls on all indicators except commodities.

	Value	December	2022
Equity markets			
Switzerland (SMI)	10 729	-3.58%	-16.67%
United States (S&P500)	3 840	-5.90%	-19.44%
Europe (Euro Stoxx 50)	8 590	-4.27%	-9.49%
Japan (Nikkei)	26 095	-6.70%	-9.37%
China (Shanghai SE)	3 089	-1.97%	-15.13%
Brasil (Bovespa)	109 735	-2.45%	4.69%
Currencies			
USD/CHF	0.925	-2.83%	1.27%
EUR/CHF	0.990	0.83%	-4.62%
GBP/CHF	1.119	-1.55%	-9.28%
EUR/USD	1.071	3.78%	-5.85%
Other asset classes			
Swiss Real Estate		1.48%	-15.17%
Swiss Bonds		-2.62%	-12.10%
Foreign Bonds		-1.58%	-13.71%
Commodities		-1.38%	25.99%
Oil	80.26	-0.36%	6.71%
Gold	1 824.02	4.06%	-0.28%
Rates / Indicators			Δ
10 years Swiss rate		1.62%	1.75%
10 years US rate		3.87%	2.36%
US Unemployment		3.70%	-0.20%
US GDP		1.90%	-3.80%
US CPI		6.00%	0.50%



2022 : THE YEAR OF IMBALANCE

The past year will be remembered as a year of imbalance, as all asset classes were disrupted by two major factors : rising interest rates and the war in Ukraine.

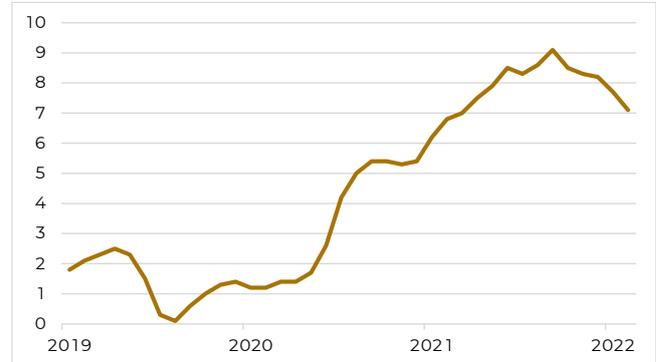
When a liquid changes to a gaseous state, the material changes its physical properties without chemical change. This phenomenon is called vaporisation. The opposite direction is liquefaction. In 2022, the financial markets experienced a similar transformation. After 7 years in a world of low or even negative interest rates, the financial markets now find themselves in a situation of largely positive rates with a return of inflation. We have moved from one world to another.

The marked return of inflation and the war in Ukraine have created an imbalance in all markets. All asset classes, with the exception of energy commodities, were swept away by the hurricane that arose. The very principles of diversification were affected, leaving investors in disarray with low-risk portfolios performing similarly to the riskiest ones. You have to go back to 1931 and 1937 to find such performances on balanced investment strategies (stocks-bonds).

The tipping point has, moreover, been accelerated by the Russian intervention in Ukraine. Two blocs are now pitted against each other in a war that is unfortunately becoming less and less cold. The Western sanctions and the Russian measures seem to be the premises of a new economic and monetary balance to come. The freezing of the Russian central bank's assets, the sale of Russian products in roubles, China's agreements with its partners to exchange in Yuan, the energy crisis in Europe, all announce a period of major imbalance, until equilibrium returns.

Inflation has been the central economic theme since the beginning of the year, peaking at 9.1% at its summer high. The US Federal Reserve, imitated by the other central banks, strengthened its discourse and massively raised its benchmark rates. A rapid and significant increase, without precedent. The declining figures at the end of the year give hope that the situation is under control for the US monetary authorities.

Evolution of US inflation en 2022

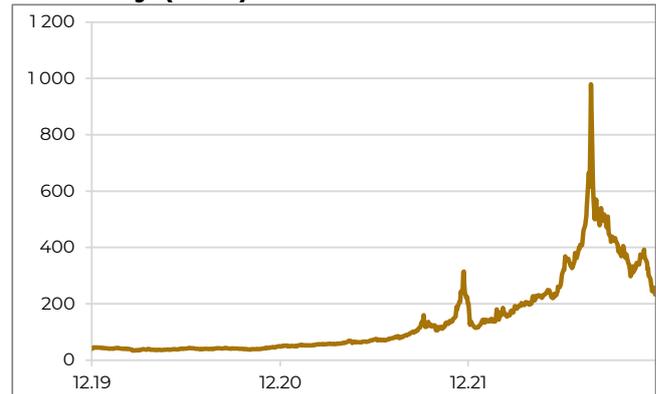


Source : Bloomberg, XO Investments SA

Switzerland remains relatively unaffected by this inflationary trend thanks to its strong currency. Europe and its currency have everything to fear, as inflation is high and energy shortages are a problem.

The second major development of the year was the explosion in electricity prices. Oil and gas prices soared at the beginning of the year in parallel with the Russian intervention. Economic players, particularly in Europe, were hit by a problem never before experienced, with electricity prices increasing 20-fold in a few weeks.

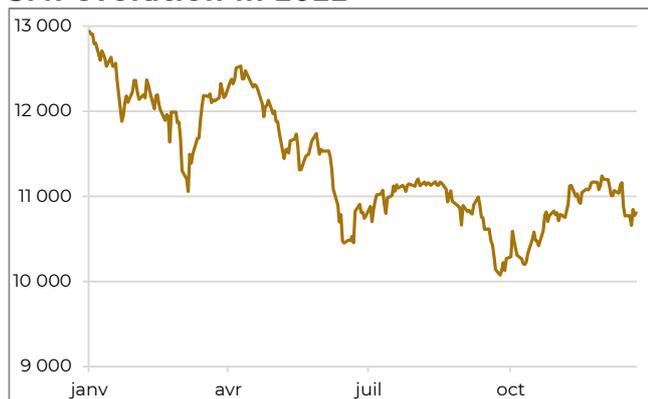
Evolution of the price of MWH in Germany (EUR)



Source : Bloomberg, XO Investments SA

This situation has improved since August, but over the course of a year the price of electricity has doubled. This increase has forced many companies to stop production. Europe faces a huge challenge to maintain its standard of living and economic leadership.

SMI evolution in 2022



Source : Bloomberg, XO Investments SA

In this context, shares were badly hit, sliding throughout the year with a few rebounds. In Switzerland, Credit Suisse is the most penalised stock in a very difficult period for the country's second largest bank. Weakened by scandals, the bank was forced to recapitalise. Zurich Insurance, buoyed by higher interest rates, and Novartis had a good year.

Evolution of the main stocks of the SMI

Zurich	16.1%
Novartis	8.5%
Holcim	7.9%
UBS	7.7%
Swiss Re	2.6%
Swisscom	2.5%
Swatch Group	-3.4%
Compagnie financière Richemont	-9.6%
Swiss Life	-11.0%
Nestlé	-14.0%
ABB	-14.4%
Roche	-21.3%
Alcon	-21.5%
SGS	-27.3%
Givaudan	-39.8%
Lonza	-40.2%
Geberit	-40.2%
Sika	-41.1%
Partners Group	-44.2%
Credit Suisse	-66.6%

Source : Bloomberg, XO Investments SA

Evolution of the main equity indices

Brazil - Bovespa stock index	BRL	4.7%
India - Mumbai Sensex 30 Index	INR	4.4%
Great Britain - FTSE 100	GBP	0.9%
Thailand stock ex. Index	THB	0.7%
South Africa - FTSE Top 40	ZAR	-0.1%
Australia - S&P 200	AUD	-5.5%
Spain - IBEX 35	EUR	-5.6%
Canada - S&P TSX Comp Index	CAD	-8.7%
Japan - Nikkei 225	JPY	-9.4%
France - CAC 40	EUR	-9.5%
Germany - DAX 30	EUR	-12.3%
Italia - MIB 30	EUR	-13.3%
China - Shanghai Comp Index	CNY	-15.1%
Hong Kong - Hang Seng	HKD	-15.5%
Sweden - OMX Stockholm	SEK	-15.6%
Switzerland - SPI	CHF	-16.5%
Switzerland - SMI	CHF	-16.7%
US - S&P 500	USD	-19.4%
Korea - Korea composite Index	KRW	-22.9%
US - Nasdaq	USD	-33.1%

Source : Bloomberg, XO Investments SA

Internationally, India, Brazil and the UK posted positive performances. The performance of the British market is largely due to the weakness of its currency, which has fallen by almost 10% against the CHF. The countries most affected are those with few energy-related stocks in their composition, the only sector in the green in 2022. The Nasdaq and all the technology stocks are the worst performers of the year.

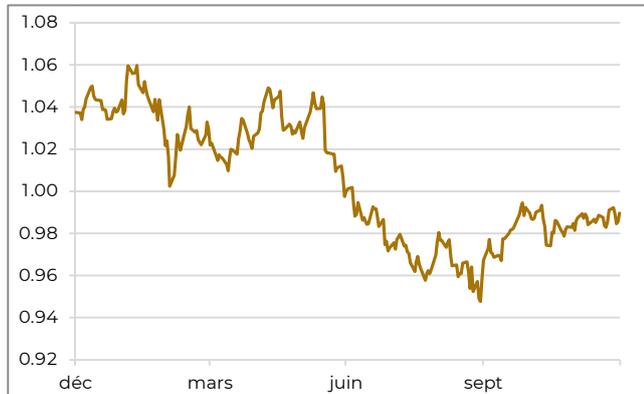
The evolution of currencies in 2022 is the true symbol of the world's great economic upheaval. The ruble is the best currency of the year. Russia is now selling its oil and gas in rubles which creates a natural demand. The best currencies are all currencies of countries with significant commodity resources. Brazil, Mexico, the United States or the United Arab Emirates have subsoils full of energy products. The Euro is the main victim of the Western sanctions against Russia. Having lost its main buyer, the European currency has depreciated throughout the year against CHF or USD.

Currency development against CHF

Brazilian Real	6.7%
Mexican Peso	6.5%
Russian Ruble	2.7%
Singapore Dollar	2.0%
Hong Kong Dollar	1.3%
US Dollar	1.3%
South Korean Won	-4.2%
Malaysian Ringgit	-4.2%
Euro	-4.6%
Australian Dollar	-4.9%
South African Rand	-5.2%
Canadian Dollar	-5.7%
New Zealand Dollar	-5.9%
China Renminbi	-6.6%
Indonesian Rupiah	-7.0%
Indian Rupee	-8.8%
Norwegian Krone	-8.9%
British Pound	-9.3%
Japanese Yen	-11.0%
Swedish Krona	-11.9%
Turkish Lira	-28.3%
Argentine Peso	-41.2%

Source : Bloomberg, XO Investments SA

Evolution of the EUR/CHF exchange rate in 2022



Source : Bloomberg, XO Investments SA

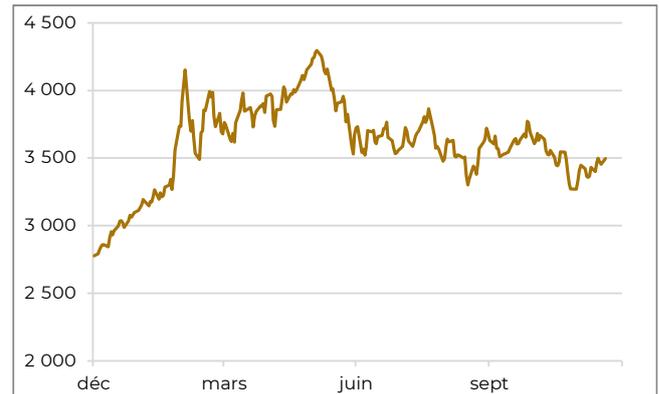
Evolution USD/CHF exchange rate in 2022



Source : Bloomberg, XO Investments SA

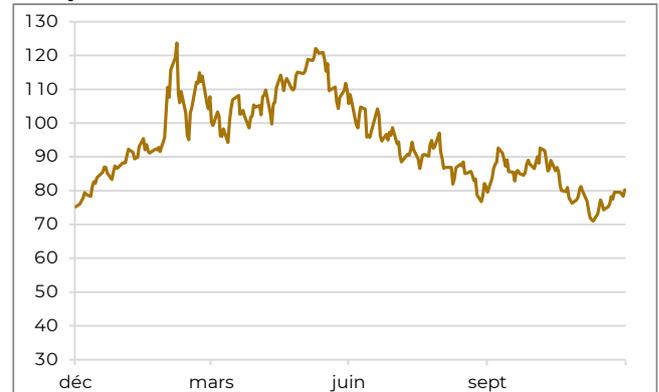
As in 2021, commodities are the best asset class. However, after a strong start to the year, things have calmed down in the second half. And the performances are very disparate from one commodity to another. Only energy is largely positive.

Evolution of the commodity index in 2022



Source : Bloomberg, XO Investments SA

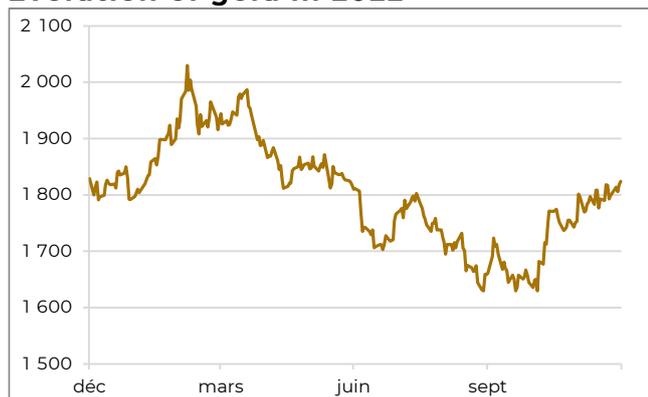
Oil prices in 2022



Source : Bloomberg, XO Investments SA

Oil touched \$120 a barrel before falling back below \$80. The same thing happened to gold, which, after having exceeded \$2,000 an ounce, fell back below \$1,700. It nevertheless ended the year well.

Evolution of gold in 2022



Source : Bloomberg, XO Investments SA

Central banks have made their mark on the year 2022. They have shown their determination to fight inflation with rate hikes that have never been seen in such a short period of time. In Switzerland, rates rose by more than 2% to the highest level of the year. In the US the figures are even more impressive as the 10 year rate rose from 1.5% to 4.3%.

Swiss 10-year interbank rates in 2022



Source : Bloomberg, XO Investments SA

The shock was terrible for bonds, with a decline of more than 10%. The only positive point is that the yield to maturity has largely recovered and new bond issues are offering attractive yields again.

SBI performance in 2022



Source : Bloomberg, XO Investments SA

Real estate has had a disastrous year. The index was down 20% at mid-year before the last few weeks of 2022 helped to ease the pain.

Development of the Swiss real estate market in 2021



Source : Bloomberg, XO Investments SA

Will 2023 allow us to return to a more peaceful equilibrium? This is the question that economists are currently asking themselves. The reopening of China could stabilise global supply, while the Federal Reserve's more moderate rhetoric gives hope of a forthcoming pivot on rate hikes. But will inflation fall back below 2%? Nothing is less certain.

The rise in interest rates does have a positive impact: it is now possible to invest with attractive returns in good quality investments, i.e. with moderate risk.

However, energy will continue to be the focus of European concerns against the backdrop of the war in Ukraine. Whether it escalates or whether a peace process begins will play a major role in world developments.