ROSSIER, MARI & ASSOCIATES LTD
Investment Consultants

Investment Report
June 30, 2022

2022 had started quite well. As of March 31, 2022, our performance was up 2.2% whilst our benchmark was already in the red (-5%). Then Russia invaded Ukraine and the mood on the markets turned sour. The already prevailing inflation started to accelerate. The fear of higher interest rates, a weakening economy, supply difficulties, a deepening conflict, increasing flow of refugees began to have an impact on the markets. Despite of all these negative news our fund proved to be resilient in this difficult environment. Unfortunately, as from April onwards we couldn't defend our good result so far, any longer; however, we were successful in slowing down as much as possible the negative trend. The half year performance of our fund as at June 30, 2022 is **-13.54%**. whilst our Benchmark (40% SMI, 40% S+P, 20% Eurostoxx) amounts to **-17.72%**. Of course, presently the main question is: where do we go from now on? Most of the investors are fallen into a deep pessimism. We take the risk to see the future in a less depressed manner. The themes that we retain very important for the future trends of the markets are the inflation, interest rates, economy, and geopolitics.

Inflation

We differentiate the demand side inflation or demand-pull inflation from the supply side of inflation or cost-push inflation. The demand side inflation is the classic definition of inflation. The demand increases faster than the offer and it can be reduced by increasing interest rates. The inflation that we are experiencing today is a supply side inflation due to difficulties of delivery, deficient channels of distribution or decreasing production due to pandemics, natural catastrophes, or wars. After the various lockdowns the demand of goods and especially services (travelling, hotels, restaurants, leisure, etc.) got back to the standards pre-Covid while the producers/suppliers couldn't keep on and necessitate more time to replenish their stocks and increase their production to the pre-Covid pace. Moreover, the war and the sanctions have worsened the situation. The supply side inflation is more difficult to fight and necessitates more time. The increase of interest rates together with a tighter money supply is going to slow down the economy. More efficient would be to introduce measures sustaining the offer such as fiscal reductions to the production, postpone the environmental constraints (coal, nuclear) and diversification of gas and oil suppliers. Equally the EC should bundle up their energy purchases to get better prices. In the next months we expect an improvement of the situation. Already now we notify a beginning of normalization in the distribution of chips and construction materials like lumber. The prices of agricultural products have started to decline (wheat, corn, soyabean, cotton). Even the energy prices should start stabilizing after the choc incurred by the war. A stabilizing of the oil price would have an impact of 2 to 3% on the inflation and an additional 2% from the construction and agricultural products. Some questions remain about the future trend of the core inflation (all but energy and food).

Interest rates

Not all central banks react equally in fighting the inflation. Whilst the FED has already increased twice the rates (0.5% and 0.75%) the ECB has not yet modified the Euro rate. The Swiss National Bank did increase its rate by 0.5% even if the Swiss inflation rate is only 2.9% compared to the American and European inflation rate over 8%. Unfortunately, I am afraid that the monetary authorities are looking retrospectively rather than to follow the leading indicators. We believe that the FED has acted too late, and it is intervening whilst the economy is already weakening. If the intervention is too strong and too long a recession is possible.

Economy

The growth will depend on the action taken by the central banks. If interest rates are too fast and/or too strongly, this could equally lead to a recession. We are not so far yet. Actually, forecasts by companies are positive and we anticipate good second quarter results although pessimism among private investors is increasing. Anyway, the present monetary policy will slow down the economy.

Geopolitics

An end of the war in the Ukraine is not yet conceivable. The China aggressive attitude towards Taiwan and the atomic tests planned ed by North Korea are weighting on the international relations.

Conclusion

The damage caused to the markets are heavy and some time will be needed before investors switch their mood from the actual Risk Off mode to Risk On. There is a lack of visibility on the markets. The markets are oversold and the evaluations of companies, especially in the tech sector, have reached an interesting level. However, a possible recession would have a negative impact on the markets. Today, a prediction would be a mere speculation. Our good, diversified investment strategy enables us to stay on the sideline and follow very closely until we acquire a better visibility.

July 1, 2022
Georges Mari