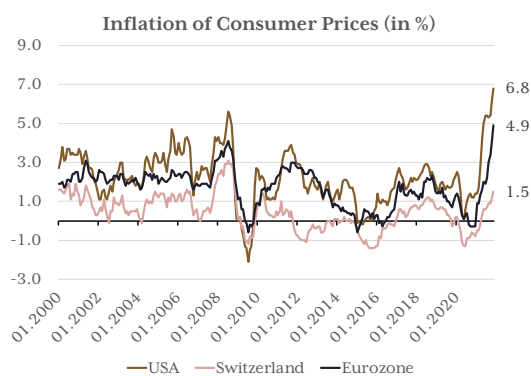


Investment View – 4th Quarter 2021

The year has come to an end, time to organize the flood of information and focus on the main driving forces of markets.

One of these drivers is inflation. Much has been written about inflation in the past two years. First about the ongoing asset inflation, driven by the low interest rates and in the last few months, the focus has turned to inflation of consumer prices, which have shown the highest growth rates for decades.



Source: Valvest Partners AG / Bloomberg

The decisive factor will now be whether this is a temporary phenomenon or a sustained trend reversal. The answer to this key question will be pivotal for the development of interest rates and thus for the valuation of all assets.

The dominant factors in answering this question are, on the one hand, technological progress, globalization of production and demographic conditions, all of which have a strong deflationary effect. On the other hand, the expansionary fiscal policy of most countries and the loose monetary policy of central banks have an inflationary effect. Temporary events such as strained trade relations between important economic regions or exceptional increases in demand, as occurred after the flattening of the first Covid wave, will not change these long-term structural conditions. Nevertheless, this year has shown that even strongly deflationary trends cannot absorb exceptional increases in demand in the short term. Based on the economic recovery, the most expansionary phase of the central banks is over for the time being. However, the effects of this unique economic and social situation are likely to last for a long time.

Global supply chains continue to face difficulties, forcing companies to maintain, or continue to build, higher than usual inventory levels. Higher procurement costs have not yet been fully passed on to customers, while at the same time cost pressures including labor cost are expected to continue. It will probably take some time before prices settle at a new, higher level and deflationary forces gain the upper hand again.

Technology will play an increasingly important role. The technology companies we follow closely have reported a significant increase in spending by their customers. The lockdowns and home office have finally shown all companies the importance of technology for efficiency gains, but also to maintain competitiveness of service quality.

The second area that has benefited greatly from Covid is medical technology. Novel vaccination technologies, diagnostics and investments in hospital infrastructure will continue to benefit from this demand shock for a long time to come. This can be observed in the high growth rates of these companies but also in their demanding valuations. As a long-term investor, it is important to put these trends into the context of the respective valuations to profit from them in the long term.

Due to the demanding valuations, more restrictive central bank policies and slightly rising interest rates, increased price volatility is likely. We continue to view the equity market as attractive and the prospects for earnings growth of well-positioned companies as intact. Changes in our asset allocation will therefore be made primarily at the level of individual investments, while we maintain the long-term overweighting of equities and continue to make opportunistic additions to our client's portfolios.

Zurich, end of December 2021