Valvest

Investment View – 1st Quarter 2022

Geopolitical as well as economic settings often develop over decades. A large part of time generally passes in a more or less calm and orderly manner. This can be deceptive and cause people to orient themselves according to a time horizon that is too short. In asset management, decisions are sometimes made on a short-term and impulsive basis, temporary trends are overweighted, and returns are measured and compared at short intervals. We believe that when it comes to assets, a cross-generational perspective is the more promising timeline. The highest priority is inflation-adjusted asset protection. This is before any attention can be given to the best possible asset growth. The robustness of the portfolio thus has the upmost priority and should withstand various long-term scenarios.

The robustness of a portfolio results on the one hand from the diversification of asset classes and on the other hand from the sometimes neglected diversification of investments within an asset class. It is crucial not to expose all assets to the same risk factors. In this respect, we are experiencing an interesting year. Fixed-income investments, which among other things have the task of having a stabilizing effect on portfolio returns, are under pressure this year. This is because interest rates have risen significantly. At the same time, the stock market and in particular companies that have benefited from low interest rates have also corrected. As a result, the two most important asset classes in a balanced portfolio have posted negative year-to-date returns.

What is even more interesting is what has happened within these two asset classes so far. The maturities of the total outstanding bonds have risen steadily in recent years. Investors desperate for yield in the low interest rate environment and companies wanting to lock in their corporate loans for as long as possible in the face of low interest rates have favored this development. The longer the maturity of a bond, the more strongly it reacts to rising interest rates. Investors who oriented themselves to passive indices have continuously increased the risk of the portfolio, possibly without being aware of this fact. For us, active asset management means deciding which risks to take and to what extent, irrespective of benchmark indices and competitors. With interest rates around zero percent, we did not see an attractive risk-return ratio to increase the maturities of our bonds to the extent of the overall market.

On the equity side, regional yield and valuation differences often receive media attention. We believe that other factors play a much more decisive role than the country in which a global company is headquartered. The two driving return factors of recent years, growth and earnings stability, have been the weakest performers this year. Growth companies are valued predominantly on future expectations. As interest rates rise, future earnings are exposed to higher opportunity costs. Companies with high earnings stability have been very challenging to value because the low interest rate environment has left investors desperate for reliable earnings. Now that interest rates are rising, the prices of these firms must fall to maintain their previous risk premium over "risk-free" government bonds.

The third important component in our balanced portfolio is gold, the oldest and most value-preserving currency. A supposedly unproductive asset that does not generate any income and therefore cannot compete with productive assets in the long run. In times when neither the economic development, the value of paper money nor the reliability of the creditworthiness of financial institutions can be relied upon, gold has been able to increase in value and cushion losses of other asset classes somewhat.

Being robust means having different exposures to different risk factors. It is a good idea to use times like these to analyse your asset allocation to understand how your portfolio will behave when a storm hits. Our focus, as always, is to continually maintain the robustness of our client portfolios. Many of these changes occur within individual asset classes, while at the asset class level, we believe disciplined allocation in a long-term strategy is critical for success.

Zurich, end of March 2022