Cham, 06. April 2023

Outlook for Q2 2023

Inflation still dominates headlines

Moving on into the second quarter of 2023, the stock and bond markets will remain exceptionally volatile. MPM's expectations of a bumpy start in the new year, now seek as a bit of an understatement. We regard the extremely positive January performance as a correction of the significant bearish exaggerations towards the end of last year. Towards mid-February, market sentiment turned green in all segments of the stock market. 2022 Corporate profits consistently delivered positive surprises, as if the "annum horribilis of 2022" had never happened and macroeconomic data eased investors' fears. It remains controversial that a recession is now finally off the table. In the past, a recession was often reported on the basis of provisional data, only to be revoked after a few weeks, or respectively, not to be confirmed. The alarmingly low US Purchasing Managers' Index, the PMI, is currently giving cause for concern. This early warning indicator is at a low 46.3 points, 50 would be growth-neutral.

A politically difficult environment and the stress surrounding the bank failures in the USA and Switzerland surprised investors. This topic will keep us busy in the next coming weeks. In mid-March, a global frenzy of rate hikes started to curb stubborn inflation. Equity markets have digested these bold moves surprisingly well, and consumer and investor confidence is steadily improving.

The black swan these days is the crash of Credit Suisse and Silicon Valley Bank. Much-criticized communication and panicked outflows of assets sent these big banks into a death spiral within days. As early as February 19th, we urgently pointed out in an internal paper that we should end any commitments related to the precarious situation of CS. Both institutes were 'saved' by takeovers. A global fatal domino effect was just avoided. Nevertheless, the reputational damage, especially for the Swiss banking centre, should keep us concerned for some time. The never sleeping stress tests of the supervisory authorities apparently overlooked the skeletons in the bank basement. The 'too big to fail' regulation has been exposed as useless. The human factor and mass psychology cannot be set in stone using regulations.

In the coming months, all financial institutions will be under special scrutiny. The class-action mentality of the investors will scan every single bank balance sheet for problems. Powerful short sellers have already tried to bring Deutsche Bank to its knees. This theme also has clear winners: frightened and angry investors will shift their assets to high-quality big banks. Lawyers and consulting firms are already fighting over a profitable piece of the pie. Large law firms will undoubtedly file a lawsuit against FINMA and the Confederation. It could be expensive for Swiss taxpayers.

Central banks' interest rate policies remain dominant in the macroeconomic environment. Towards the end of the first quarter of 2023, the US FED, the European ECB, the Swiss SNB, the UK, Norway and Australia have raised interest rates sharply. The path out of years of low interest rate policy is the fastest since 1929, not least due to political pressure. With sibylline words, monetary policymakers are obfuscating the next steps. Inflation remains stubborn and is falling too slowly.

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Phone +41 (41) 725·3535 · www.mpmswiss.com

Higher interest rates continue to drive up prices, especially in the real estate sector, i.e. construction and housing costs. The profit performance of highly leveraged companies also needs to be questioned. In exposed companies, under the interest burden, equity is melting like snow on the sun. Investments in real estate funds could suffer unduly. Higher capital costs and expensive investments thanks to energy regulations damage returns. The exploding interest service on government debt threatens to overwhelm even finance ministers. Not only the USA or Germany but above all Japan, Greece, Italy and France will still be a talking point. Not for the first time, Argentina is threatened with national bankruptcy.

The recessionary pressure is easing in the USA, which the central bank thinks is too slow. Wage increases of up to 15% strengthen the purchasing power of price-conscious Americans. The money is loose in your pocket. The mainspring of the global economy remains intact. In the first quarter, inflation in the eurozone fell to 6.6%. The EU is still struggling with inflation-driving unreasonableness. General importers make basic necessities excessively expensive and do not pass on falling prices for raw materials and food to retailers, or only do so with a very long delay. The banks are also accused of only passing on the new interest rate advantages to savers in bits and pieces.

The momentum on the stock exchanges swung in a positive direction around February 18, 2023, synchronously worldwide in all essential investment areas. It goes without saying that short sellers practice fearmongering in their interest. Such attempts to push the market into a correction have been digested surprisingly well by the stock markets for weeks.

HSBC, the primary international banking heavyweight, now wishes for an interest rate relief. Up to the end of the year, we act with decidedly cautious optimism. The following outlook on economic growth, inflation and currencies has been calculated and updated as a consensus of the major market participants.

	ECONOMIC GROWTH %			**INFLATION %**		
	2022	2023	2024	2022	2023	2024
WORLD	3.4	2.4	2.8	8.3	5.2	3.5
United States	2.1	1.9	0.3	8.0	3.6	2.3
EU ZONE	3.5	1.1	0.1	8.4	4.8	1.7
GERMANY	1.9	0.7	0.4	7.9	5.1	1.2
UK	4.1	-0.4	1.0	9.1	6.7	2.5
SWITZERLAND	2.0	1.2	0.9	2.8	1.8	0.7
JAPAN	1.0	1.1	1.3	2.5	1.5	0.3
CHINA	3.0	5.2	4.9	1.9	2.3	2.3
INDIA	7.1	4.8	6.8	6.8	4.6	4.1
BRAZIL	3.0	0.4	2.4	9.0	5.1	4.1

Source Bloomberg, Consensus Big Players Financial Market

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Phone +41 (41) 725-3535 · www.mpmswiss.com

- Western industrialized countries are threatened with weak growth by 2024, too weak compared to inflation rates.
- UK on the decline, this year an economic area with a mild, short-lived recession.
- Brazil is sliding more and more into the economic crisis.
- India and China as economic locomotives whose growth exceeds inflation rates.
- Russia remains uncommented due to the political situation.

CURRENCIES

	Spot	+3M	+12M
EUR/USD	1.06	1.10	1.15
USD/JPY	136.60	125.00	123.00
EUR/GBP	0.88	0.89	0.89
GBP/USD	1.21	1.24	1.29
EUR/CHF	1.00	1.01	1.02
USD/CHF	0.94	0.92	0.89
EUR/SEK	11.09	11.20	10.85
EUR/NOK	10.98	10.80	10.30
USD/CAD	1.36	1.34	1.30
AUD/USD	0.67	0.73	0.74
NZD/USD	0.62	0.67	0.68
USD/BRL	5.21	4.90	5.00
USD/MXN	18.33	19.00	19.50
USD/TRY	18.88	21.00	25.00
USD/RUB	75.10	75.00	80.00
USD/CNH	6.95	6.75	6.70
USD/KRW	1323.00	1220.00	1200.00
USD/THB	35.40	32.50	32.00
USD/IDR	15250.00	15100.00	15000.00
USD/INR	82.70	83.00	80.00
USD/ZAR	18.30	16.70	17.00

General consensus of global banks and brokers sees the US dollar weaker within a year until spring 2024. The worldwide slowdown in economic growth in the coming year is also striking. We remain sceptical about India as an investment destination. India, which now has the largest population on the planet, is not China. The caste system and bureaucracy cripple progress too much. There is an ice age on the diplomatic stage between the USA and China and the risk of another cold trade war persists. The global economic momentum is picking up speed quickly. Despite the temptations, investors should think twice about the risks of investing in China.

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Phone +41 (41) 725·3535 · www.mpmswiss.com

In the current sector rotation, some branches of industry are particularly in focus: new energy technologies, defence technology and artificial intelligence. Data security also remains an ongoing issue. To give just one example: the new generation of quantum computers makes many password systems unusable, and new technologies are needed.

Portfolio diversification can no longer be limited to 'IT'. Everything, be it trade or transportation, home devices, cars, air travel or other services, etc., is largely digitalised.

Image source: cabb-chemicals

Just a few days ago, 1929 was a buzz word again. However, a look back at almost 100 years of stock market development shows that many bonds suffered total losses at the time, but that share prices rose by an average of more than 15% per year in the years that followed.

When hard times break for the stock market bears, investors with a long investment horizon can hope for profitable years. Continued high-added value in future-oriented industries forms the basis for long-term solid security investing.

The subdued mood among fund managers in the last few days of March is not surprising given the banking debacle. Nevertheless, we expect volatility to calm down this year, as the VTX index indicates. Central banks continue to make significant balance sheet reductions. The fact that such large volumes have been tolerated so far by the financial markets is signalling that the year will continue on a positive note. With a progressive and cleanly diversified portfolio, you can enjoy the summertime carefree.

Your MPM Swiss AG

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Phone +41 (41) 725-3535 · www.mpmswiss.com