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04.2023

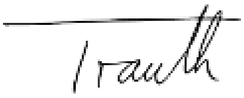
15 April 2023

In March equity and bond markets performed positively and pared February's losses, although tightening monetary conditions have started to create stress in the US real estate sector as well as in the banking sector. The US Case-Shiller Home Price index for example has been falling since July. Silicon Valley Bank went under, while Credit Suisse had to be rescued by UBS. Nevertheless, markets remained relatively resilient, partly because central banks and governments stepped in.

However, financing not only becomes more expensive but banks are tightening their credit standards. As a result, access to credit will become much more difficult, which will slow growth further.

While inflation is clearly on a downward trajectory, we do not think that central banks will loosen monetary policies in the foreseeable future. In sharp contrast, fixed-income markets imply large rate cuts in the second half of this year.

We are staying defensive and clearly underweight stocks and REITs, since we see elevated risks of a further equity market downturn.



Trauth

Thomas Trauth
CEO – IMT Asset Management AG

RECESSION ANTE PORTAS?

Financial markets

After weakness in February, most equity markets performed positively in March. The S&P500 index rose by 3.5%, outperforming the MSCI Europe, which fell by 0.5%. The technology-heavy NASDAQ index even rallied by 6.7%. Year-to-date the best performing sectors were technology and consumer discretionaries. Financials and real estate, being the prime victims of tightening monetary conditions, even performed negatively.

Bonds rallied in March with 10-year yields falling by 45 basis points in the US and 36 basis points in Europe. As a result, the losses in February were mostly reversed. Break-even inflation rates (inflation expectations) fell somewhat in March, in line with falling headline inflation numbers. Credit spreads, however, widened, especially in the high-yield segment, where spreads increased by 23 basis points.

Most remarkably, gold strongly rallied. The price of gold rose clearly above 2,000 USD/oz and is nearing its historic high of 2,063 USD/oz of August 2020. With the exception of precious metals, prices for energy and industrial metals fell by 6.9% and 0.3%, respectively. In March crypto assets rallied. The price of Bitcoin rose by almost 23% and of Ethereum by 13%. REITs had a difficult month with the global REITs index falling by 6%.

In general, the USD weakened in March. The USD fell by 2.5% against the EUR, by 2.6% against the GBP, and by 2.4% against the JPY. The EUR-CHF exchange rate did not move much in March.

Macroeconomics

This positive stock market environment was made possible by several developments. The much-feared Europe-wide energy crisis did not come about. Consequently, prices for electricity and gas fell considerably and are now significantly below their highest levels recorded in summer 2022. For example, at the beginning of 2021 the price of European gas was about 19 EUR/ MWh. In August 2022 the price of gas reached its historic peak of 340 EUR/MWh, before dropping down to its current level of about 41 EUR/MWh. As a result, the rate of inflation has been continuously falling. In addition, the threatening recession was avoided, though the rate of growth has very noticeably slowed down.

In March most major manufacturing PMIs fell further and stayed below 50. A PMI level below 50 indicates that GDP is going to decline. Meanwhile, inflation is falling, not least since energy prices peaked at panic levels a year ago when Russia invaded Ukraine but

European natural gas price, EUR/MWh

have fallen back to much lower levels at present. In March Eurozone inflation fell to 6.9% and US inflation to 5%, and thus stayed clearly above central bank inflation targets of 2%. Non-farm payrolls increased by a solid 236,000 and unemployment dropped to a record low of 3.5%, indicating that the US labor market remains very resilient and that wage pressure is likely to persist

Central banks

On 16 March the ECB hiked rates by 0.5%-points despite uncertainties about the health of the financial sector. This confirmed the ECB's commitment to fight inflation.

In addition, the US Fed raised rates by another quarter-point on March 22. Just two weeks before the meeting, the Fed had to support the banking system after some banks failed. The market situation currently implies another rate hike in May or June, followed by rate cuts in the second half of this year.

The SNB similarly raised rates by half a percentage point on 23 March, as it was concerned that inflation could become more firmly entrenched in Switzerland. Swiss inflation was at 3.4% in February and therefore clearly lower than in most other developed countries.

Outlook

Although inflation has declined substantially in the past few months, the fight to get it under control has not yet been won. Inflation in the US is still at 5% and in the Eurozone at 6.9%. Furthermore, it can be assumed that inflation is going to persist at a high level for a long time to come, not least because of the high wage increases that are expected.

For that reason, the central banks will be forced to raise their key interest rates still further, and moreover the key rates will have to stay at their high levels for quite a long time in order to achieve the desired effect. In the last few months it became apparent that the higher interest rates were already having undesirable effects: the US housing market has come under considerable pressure, and certain banks — the Silicon Valley Bank und also Credit Suisse — had to stop operations or be saved from bankruptcy.

We expect a recession in the next 9-12 months. We are in one of the most aggressive cycles of interest rate increases of the last 100 years. Almost all cycles of rate hikes have sooner or later led to a recession and thus to substantial stock market losses.

In view of the outlook described above, we are keeping to our defensive position. We see a clearly increased risk of a further equity market correction. Therefore, we are remaining underweight in shares and REITs. Conversely, we have increased the liquidity in the portfolio, which reduces portfolio risks and will enable us to buy shares in the event of a correction.

ECONOMICS

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Fig. 1: Manufacturing PMIs

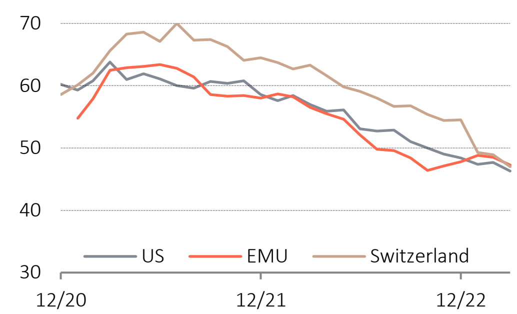


Fig. 2: Manufacturing PMIs

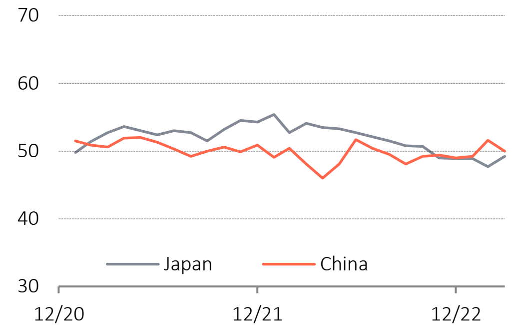


Fig 3: Consumer price inflation, in % YoY

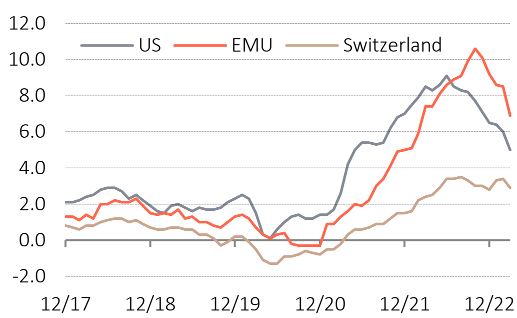


Fig. 4: Consumer price inflation, in % YoY

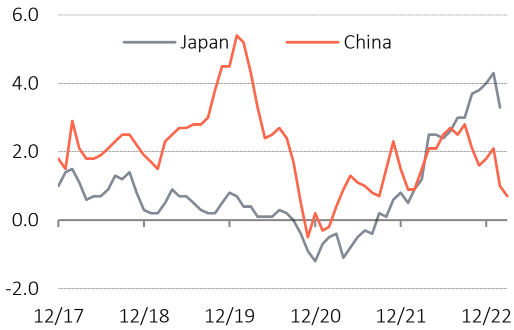


Fig 5: Unemployment rates, in %

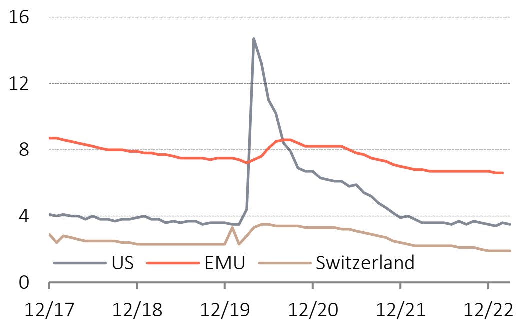
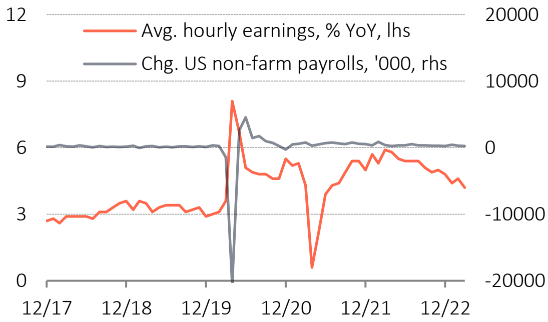


Fig 6: US labor market



FIXED INCOME

Bonds rallied in March with 10-year yields falling by 45 basis points in the US and 36 basis points in Europe. As a result, the losses in February were mostly reversed. Break-even inflation rates (inflation expectations) fell somewhat in March, in line with falling headline inflation numbers. Credit spreads, however, widened, especially in the high-yield segment, where spreads increased by 23 basis points.

Fig.7: 2Y government bond yields

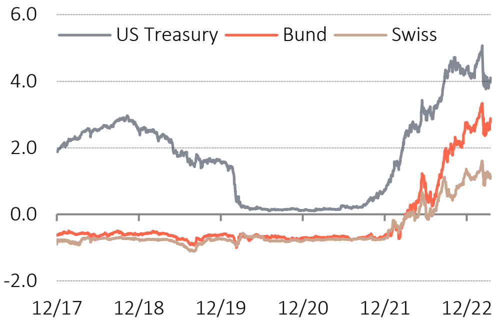


Fig. 8: 10Y government bond yields

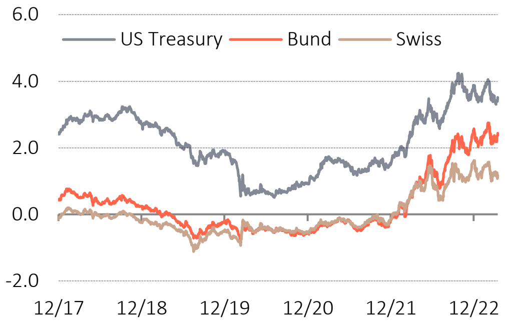


Fig 9: 10Y break-even inflation

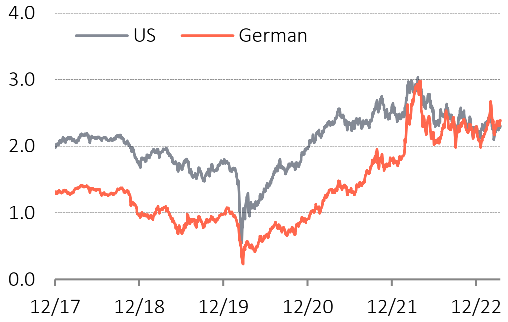


Fig. 10: Credit spreads, 5Y credit default swaps

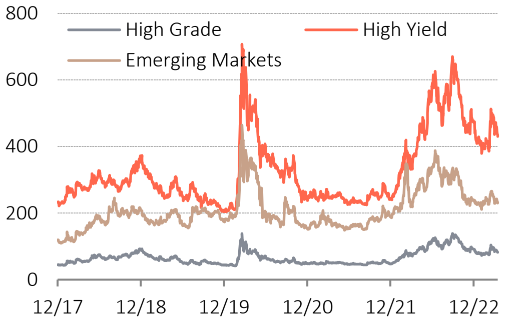


Fig 11: Money market spreads (O/N-2Y)

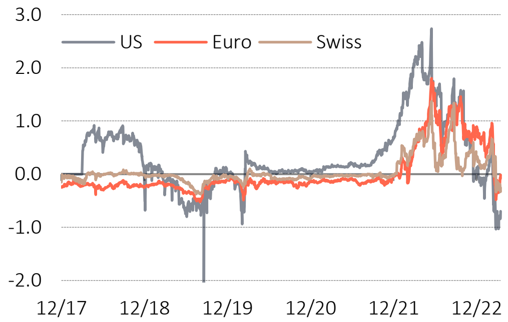
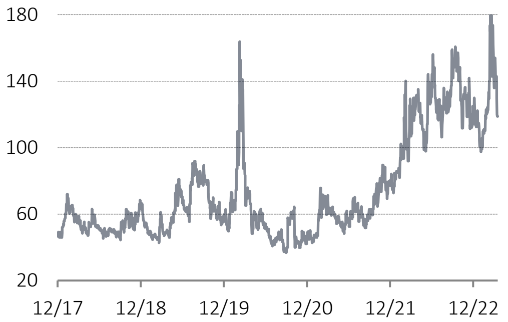


Fig 12: Merrill Lynch volatility index (MOVE)



EQUITIES

After weakness in February, most equity markets performed positively in March. The S&P500 index rose by 3.5%, outperforming the MSCI Europe, which fell by 0.5%. The technology-heavy NASDAQ index even rallied by 6.7%. Year-to-date the best performing sectors were technology and consumer discretionaries. Financials and real estate, being the prime victims of tightening monetary conditions, even performed negatively.

Fig. 13: MSCI equity indices – major regions

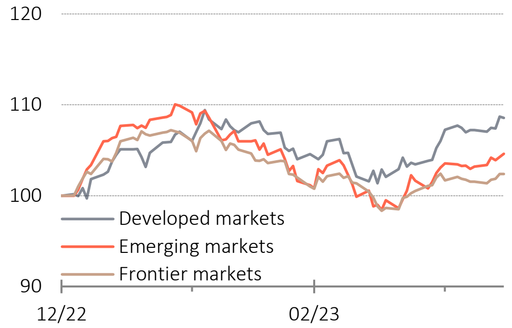


Fig.14: Equity indices – major developed markets

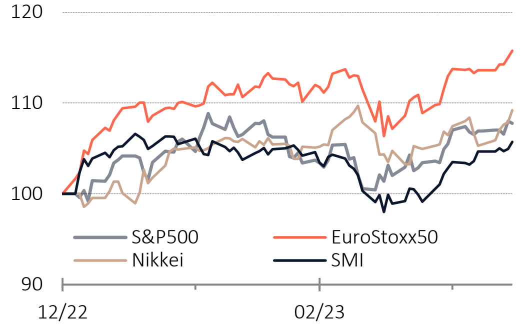


Fig 15: Equity indices – major emerging markets

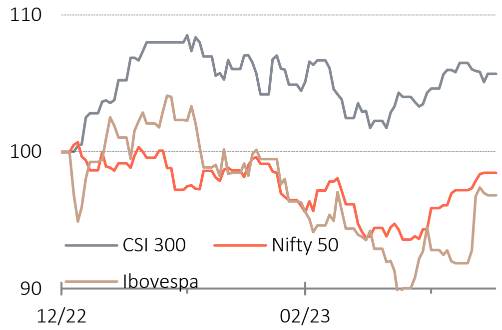


Fig. 16: Sector performance, MSCI Europe, YTD

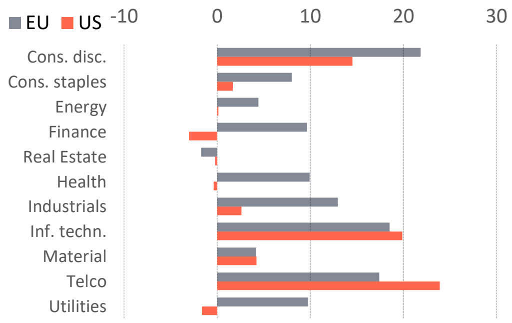


Fig 17: Price-earnings ratios

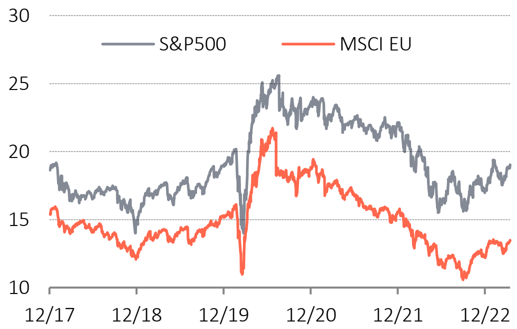
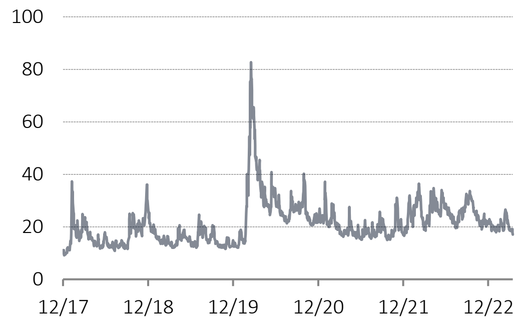


Fig 18: Equity volatility – S&P500 VIX index



ALTERNATIVE INVESTMENTS

Most remarkably, gold strongly rallied. The price of gold rose clearly above 2,000 USD/oz and is nearing its historic high of 2,063 USD/oz of August 2020. With the exception of precious metals, prices for energy and industrial metals fell by 6.9% and 0.3%, respectively. In March crypto assets rallied. The price of Bitcoin rose by almost 23% and of Ethereum by 13%. REITs had a difficult month with the global REITs index falling by 6%.

Fig. 19: Gold price, USD/oz

Fig.20: Brent oil price, USD/bl

Fig 21: Bloomberg commodity indices

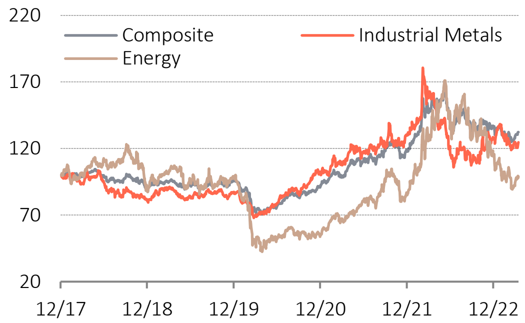


Fig. 22: HFRU hedge fund indices

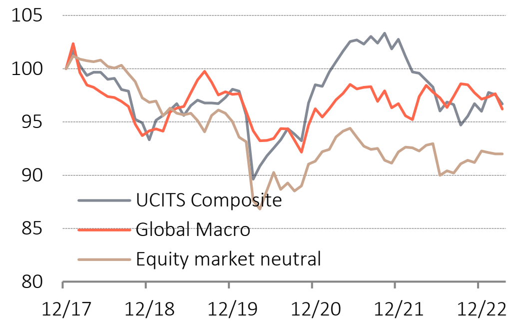
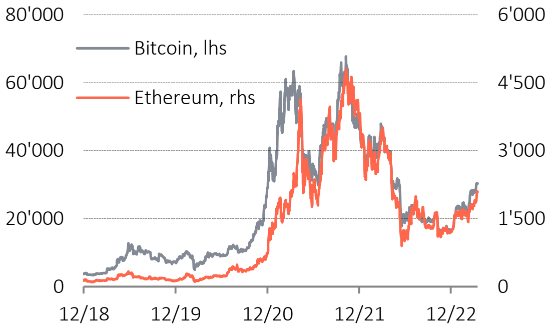


Fig 23: FTSE EPRA/NAREIT global REITS index

Fig 24: Crypto Assets



CURRENCIES

In general, the USD weakened in March. The USD fell by 2.5% against the EUR, by 2.6% against the GBP, and by 2.4% against the JPY. The EUR-CHF exchange rate did not move much in March.

Fig. 25: EUR-USD exchange rate

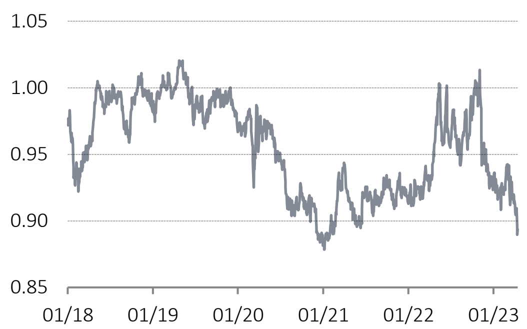
Fig. 26: GBP-USD exchange rate

Fig 27: USD-JPY exchange rate

Fig. 28: USD-CNY exchange rate

Fig 29: EUR-CHF exchange rate

Fig 30: USD-CHF exchange rate

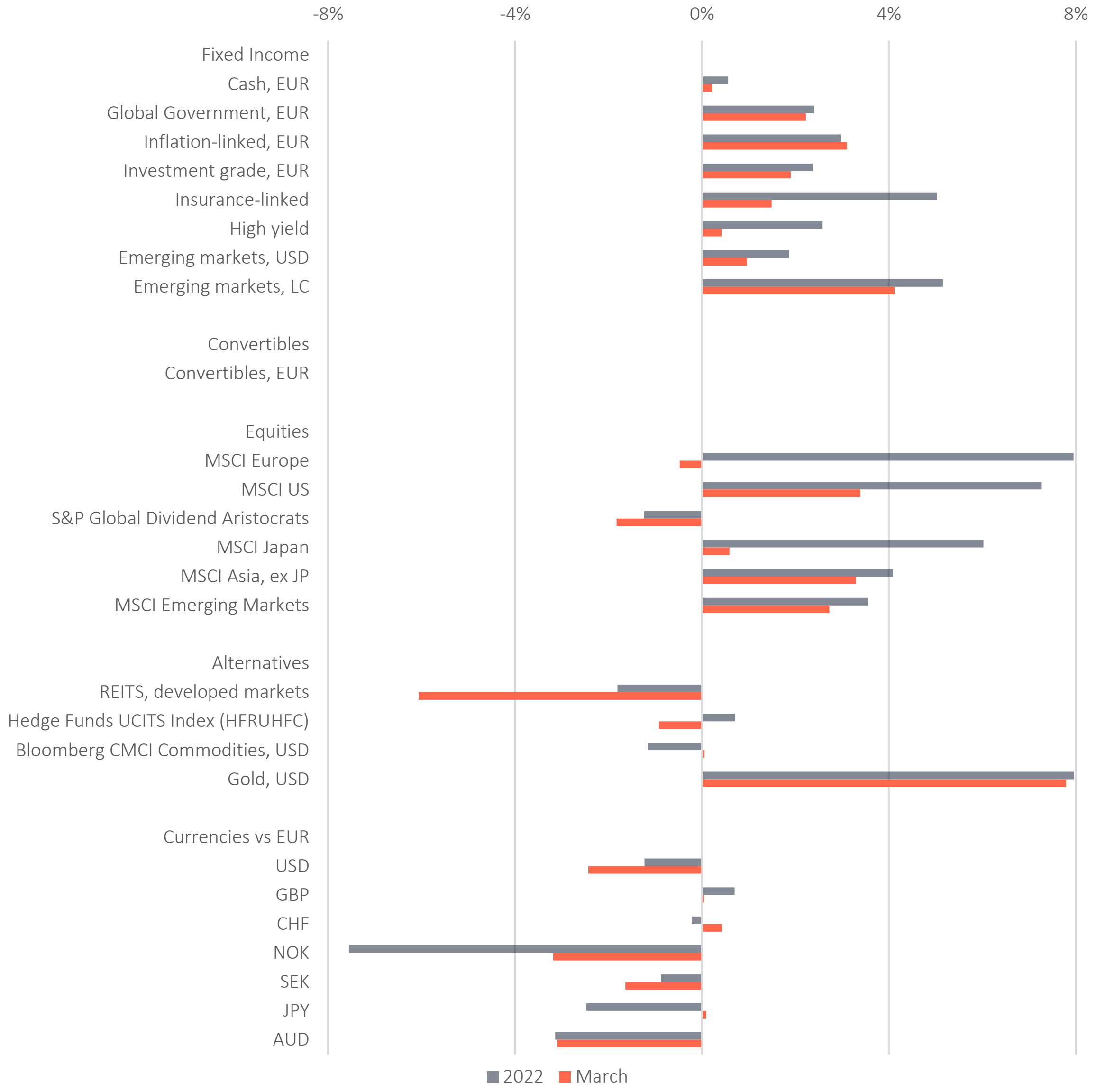


ASSET ALLOCATION

In March equity and bonds performed mostly positively. The exceptions were the MSCI Europe and the Dividend Aristocrats. REITs had a difficult month and fell by about 6%. Growth-sensitive commodities fell, while precious metals strongly rallied.

For EUR-based investors most foreign currencies had a negative performance impact.

Fig. 37: Performance of major asset classes, based on our EUR portfolio strategy

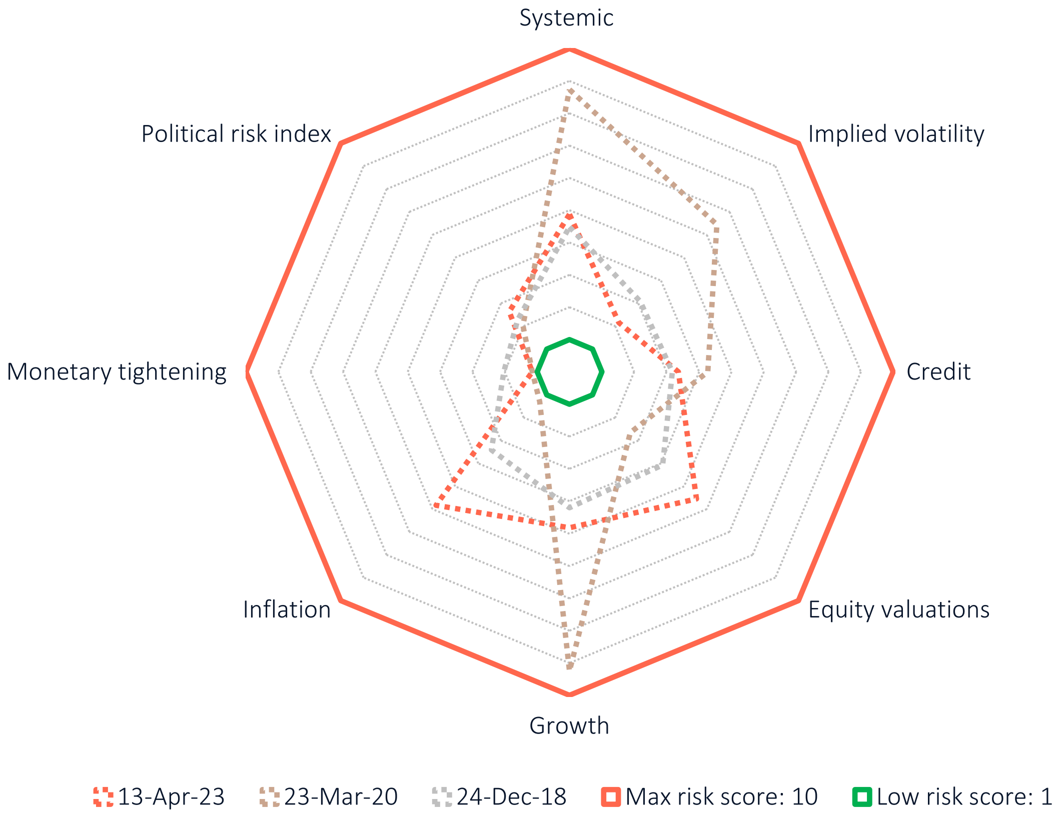


RISK MONITOR

Inflation remains the biggest risk factor. At the same time, monetary tightening risks have subsided, since the market expects the tightening cycle to peak soon. After the failure of Silicon Valley Bank and the rescue of Credit Suisse, our systemic risk indicator rose sharply, but has recently declined. Implied volatility, i.e., option prices, remained very low. We think market participants look very complacent. In our view, macro risks are currently clearly elevated.

Fig. 38: IMT Risk Monitor

23-Mar-2020: Global pandemic
24-Dec-2018: Growth and monetary tightening fears



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