Vontobel

Investors' Outlook

A Corona to celebrate the end of Covid? Not quite yet.

May 2022

Content

Imprint

Publishing by
Bank Vontobel AG
Gotthardstrasse 43
8022 Zurich

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Frequency
Ten times per year
(next issue June 2022)

Concept
MetaDesign AG

Creation & Realization
Vontobel

Images
Gettyimages,
Vontobel

Input deadline for this edition
April 27, 2022

Remarks
* see page 15 “Legal information”:
analyst confirmation

A Corona to celebrate the end of Covid? Not quite yet.

—
Dan Scott
Head of Vontobel Multi Asset, Vontobel

Dear readers,

Just when we thought we could raise a bottle of Corona beer—or a glass of Tsingtao, for that matter—to celebrate the end of the Covid-19 pandemic, China imposed some of the strictest lockdown measures ever witnessed. There's chaos on the streets of Shanghai, a megapolis of 25 million, with people holed up in quarantine centers or even scrambling to get some food on the table. There are also severe disruptions in the southern Chinese city's manufacturing plants and the port, the world's second-largest.

Meanwhile, western central banks are withdrawing monetary support to get rampant inflation under control. The US Federal Reserve is getting ready for what promises to be a hike up a steep hill, preparing the markets for a series of rate increases.

The situation in China and the US will affect global economic growth. And yes, a war in Europe is still raging. All of this leaves market watchers worried, and voices crying stagflation are getting louder. While mindful of this possibility, we still don't see this happening, but are watching the situation closely. Likewise, a recession is not on the cards right now, but first signs of an economic contraction could appear earlier than expected if central banks step on the brakes too hard while China remains in quarantine.

→ Webcast
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Common sense may yet prevail
Much will depend on the development in the Middle Kingdom and the decisions taken in the hallways of the US Fed and its peers. Should China maintain its strict "zero-Covid" policy without cranking up the economy, things may start going sour. And if central bankers in the west remain staunch "hawks" for too long, they will help bury what economic green shoots are left. However, we trust it won't come to that. The Chinese authorities may still come to their senses, and western central banks will be keen on getting a grip on inflation without endangering growth.

For the time being, we believe investors should position themselves for rising rates and inflation that remains relatively high. Our advice: remain faithful to equities while treading carefully, preferring the US and Switzerland in terms of regions, and (high) quality in terms of style. Remaining invested in commodities and gold also seems advisable for inflation protection reasons.

While there's much to be concerned about, let me qualify my introductory statement: life does slowly get back to normal in many places. In my beloved Brazil, for instance, beer will have been in short supply during the long-awaited return of the Rio carnival. Even in sober Zurich, a city not usually known for partying, the traditional rite of spring, the burning of the ***Böögg*** effigy on a pyre, resumed after a bleak two years, drawing an enthusiastic crowd. And I'm sure even investors will be able to clink glasses, or bottles, in due course.

—
Frank Häusler
Chief Investment Strategist,
Vontobel

—
Mario Montagnani
Senior Investment Strategist,
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Keeping our allocation unchanged in turbulent times

It is fascinating, or downright scary, to realize how fast long-held assumptions can go out the window. Visions of a brutal war in Europe or a locked-down Shanghai (pictured) would have been dismissed as outlandish phantasies a short while ago. And yet here we are. The events in Ukraine and China, and the shock waves they send across energy and financial markets, keep economists and investors busy, to put it mildly.

As stewards of client assets, we prefer a sober look to a nervous finger on the "sell" or "buy" key. Moreover, despite negative headlines, concerns over a global recession seem premature, although we have downgraded our GDP forecasts for most regions.

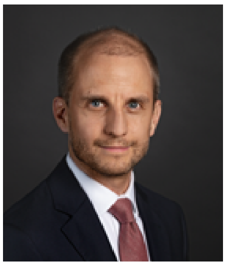
Consequently, our general allocation doesn't change, save minor adjustments on segment level. Our stance on equities, downgraded last month to neutral due to our more guarded views on European companies, remains in place. In this asset class, we are cutting our weight in Japanese shares while upgrading Swiss ones. We also reaffirm our longstanding underweight in bonds. At the same time, we acknowledge that the US Federal Reserve's waking up to the threat of inflation, and the higher base rates and yields this brings, is making fixed income more attractive. Commodities and gold, the only two asset classes to post positive returns so far this year, remain on overweight. For details, see the overview page 5 or read the asset class-focused items on pages 10 to 13.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity			→			Cash may occasionally be a haven to investors. But as long as risks in financial markets remain relatively limited, we remain neutral on liquidity.
2 Bonds		→				Fixed income markets have witnessed some gruesome weeks since the start of the year. The sell-off was triggered by the twin effect of a surge in inflation, which doesn't bode well for interest payments, and expectations that central banks would hike key rates aggressively. However, a tighter monetary policy also moves bond yields higher, which will draw buying interest at some stage. We keep an underweight for the time being, waiting for better entry points. Our views on all sub-segments remain unchanged. We stay neutral on government and high-yield bonds, negative on securities with an investment-grade rating, and slightly positive on selected emerging-market debt.
3 Equities			→			The risk of recession in 2023 has increased but this isn't our base scenario at the moment. Equities will, therefore, remain well supported, we believe. We remain neutral overall, but have made two changes on sub-asset class level. Swiss equities are now overweight with their defensive tilt and overall solid quality offsetting their high valuation. Another favorite of ours is the US equity market. By contrast, Japanese equities are now on underweight versus previously neutral. Their heavy exposure to cyclical sectors is a negative, in our view.
4 Gold				→		The yellow metal remains on overweight. Gold looks set to benefit from a situation of slowing economic growth and rising inflation. Its diversification and hedging properties are beyond doubt.
5 Commodities				→		We upgraded commodities to overweight in January 2022, and the move proved beneficial. As star performers in the year running, they currently show their mettle as hedge against inflation and geopolitical risks. Moreover, their scarcity value is likely to rise because of the widespread lack of investment in new mines or fields in recent years, and rising demand for certain commodities due to the transition to a "green" economy. We feel comfortable with our rating.
6 Alternative strategies				→		Our overall overweight on alternative strategies remains in place, but that's only due to our favorable view on gold and commodities, which are part of the alternatives category in our system. Within the asset class, hedge funds remain on a slight underweight. Other types of alternative investments such as insurance-linked securities are on neutral.

Changes month-on-month: same → higher ↗ lower ↘

Recession risks are rising in the short and longer term

China's lockdowns are a bad omen for economic growth and inflation, further heightening the risks tied to Russia's invasion of Ukraine. Things look particularly shaky in Europe. Meanwhile, monetary tightening by resolute central banks is fueling the risk of a US and possibly global recession in 2023.



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When it rains, it pours—so the saying goes. Just when the world was about to recover from "long Covid", China has imposed strict lockdown measures in important cities, increasing the strain on global supply chains. Therefore, the world's second-biggest economy is likely to shrink in the current quarter. Moreover, Moscow has begun turning off the gas tap to Poland and Bulgaria, making matters worse for Europe given its dependency on Russian deliveries. Although we don't expect a recession in our baseline scenario for this year, apart from some Eastern European countries, the air is getting thinner. Another negative shock of global magnitude would probably lead to a contraction of European growth.

However, leading indicators like global purchasing managers' indices still point to a moderate growth globally (see chart 1) while also signaling a worsening sentiment for emerging markets. We expect energy prices and supply chain pressures to recede over the second half of the year. Global inflation readings should peak in the current quarter and decline in the second half, in our opinion. As inflation readings are likely to stay way above central banks' targets in most developed countries, we expect the monetary watchdogs to continue their significant policy tightening. This rise in funding costs will increase the risk of an economic deterioration in the course of next year.

Europe: Facing various risks but resilient so far
Having revised our growth forecast substantially downward last month, we currently stick to our 2.8% growth forecast for 2022 and of 2.2% for 2023. The latest economic data held up quite well, and sentiment indicators didn't deteriorate as much as one could have feared after the Russian invasion, while governments strengthened their fiscal support for households and companies. Yet renewed supply chain problems due to China's lockdowns will weigh on economic performance. We currently don't expect negative quarterly growth rates in the euro zone but any additional shock, for example a sudden ban of Russian oil or gas imports, would probably trigger an economic contraction. This would further increase price pressures and put the European Central Bank (ECB) in an even trickier situation. It is already walking a fine line of bringing inflation back to its 2% inflation target without causing a collapse in demand through a tighter monetary policy. Unless the growth outlook deteriorates further, the ECB is likely to stop net asset purchases in the third quarter and proceed with a first key-rate hike in the fourth quarter, or even earlier. The Bank of England will probably arrange at least two more rate increases this year, while the Swiss National Bank isn't likely to raise policy rates in 2022.

US: A Fed-induced economic slowdown is coming up

The US economy is still very healthy, boasting strong private consumption and solid manufacturing activity despite higher input costs. The unemployment rate stood at 3.6% at the end of the first quarter, below a level of 4% that's estimated to reflect a job market in equilibrium. Moreover, other measures such as the availability of workers show that companies struggle to fill their open positions. The strong labor market enables workers to seek higher wages, which in turn heightens general price pressure. Headline inflation in March rose to 8.5% versus the year-ago period, the highest growth rate since the 1980s. It's worth noting that inflation readings will start coming off their highs in the coming months due to base effects.[1] The US Federal Reserve remains committed to bringing prices down by lowering overall economic demand. This will in all probability lead to a series of large rate hikes this year bound to slow down activity—an undertaking not without risks—and the US Fed may struggle to manage the desired "soft landing" for the economy. We still forecast solid growth in 2022, but an economic slowdown and risks of recession are looming in 2023. In the short term, the steep rise in 30-year mortgage rates (see chart 2) to above 5% will start weighing on the housing market.

Japan: Tender green shoots

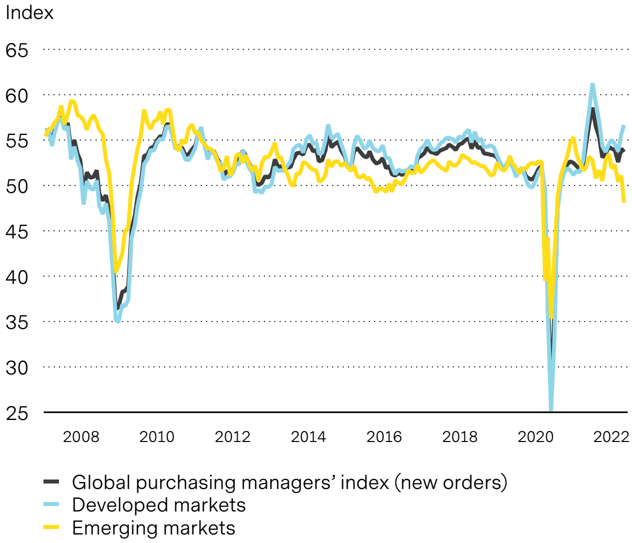
Tender green shoots are appearing for the economy amid a slow reopening. But surging energy costs and a very weak Japanese yen are headwinds. The growing policy divergence between the Bank of Japan and other global peers will test the Japanese monetary authority's resolve to stay accommodative in the next few months.

Emerging markets/China: New Covid restrictions hurt

We have downgraded our GDP forecast for China to 4.3% for 2022 (previously: 5.1%) on the back of tighter Covid-19 restrictions to suppress a new outbreak of the pandemic. This brings our emerging market GDP forecast to 3.2% (3.6%). China's initially successful "zero-Covid" policy has lost its luster given the more contagious, but less lethal, recent mutation of the Corona virus. However, we reckon that the government could soften its stance a bit, partly because of headline-grabbing negative side effects of its anti-Covid strategy such as poor supply of food and medical services to people in lockdown. Thus, after a sluggish second quarter, the economy should recover in the second half of this year amid a loosened lockdown regime and increased fiscal and monetary support from the state. Outside China, most emerging economies are on a continued monetary tightening path. Already now, the broad upward move in emerging market interest rates since late 2020—an increase by 180 basis points – makes it one of the most aggressive tightening cycles in emerging markets since the 1990s. The economic effects should be felt later this year (see chart 3), preventing a recovery of the growth rate to above 4% in 2023.

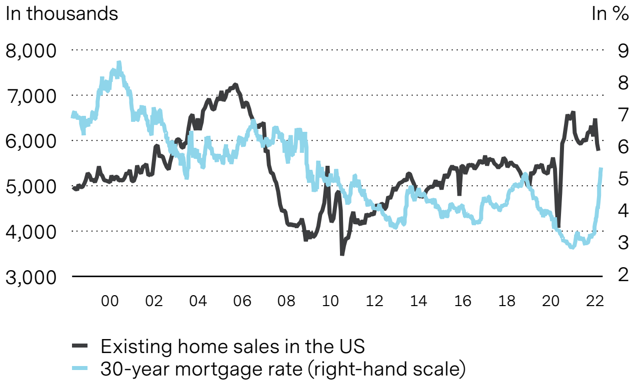
[1] In 2021, inflation readings were driven higher by base effects stemming from higher energy prices. This effect will reverse again in the course of this year, easing the upward pressure from energy prices.

Chart 1: China's lockdowns and the war in Ukraine pull emerging markets down, others remain solid



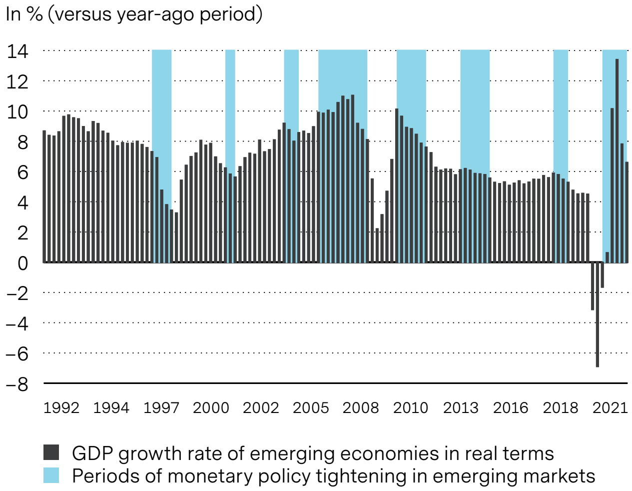
Source: Standard & Poor's, Refinitiv Datastream, Vontobel

Chart 2: Steep rise in US mortgage rates depresses housing market prospects

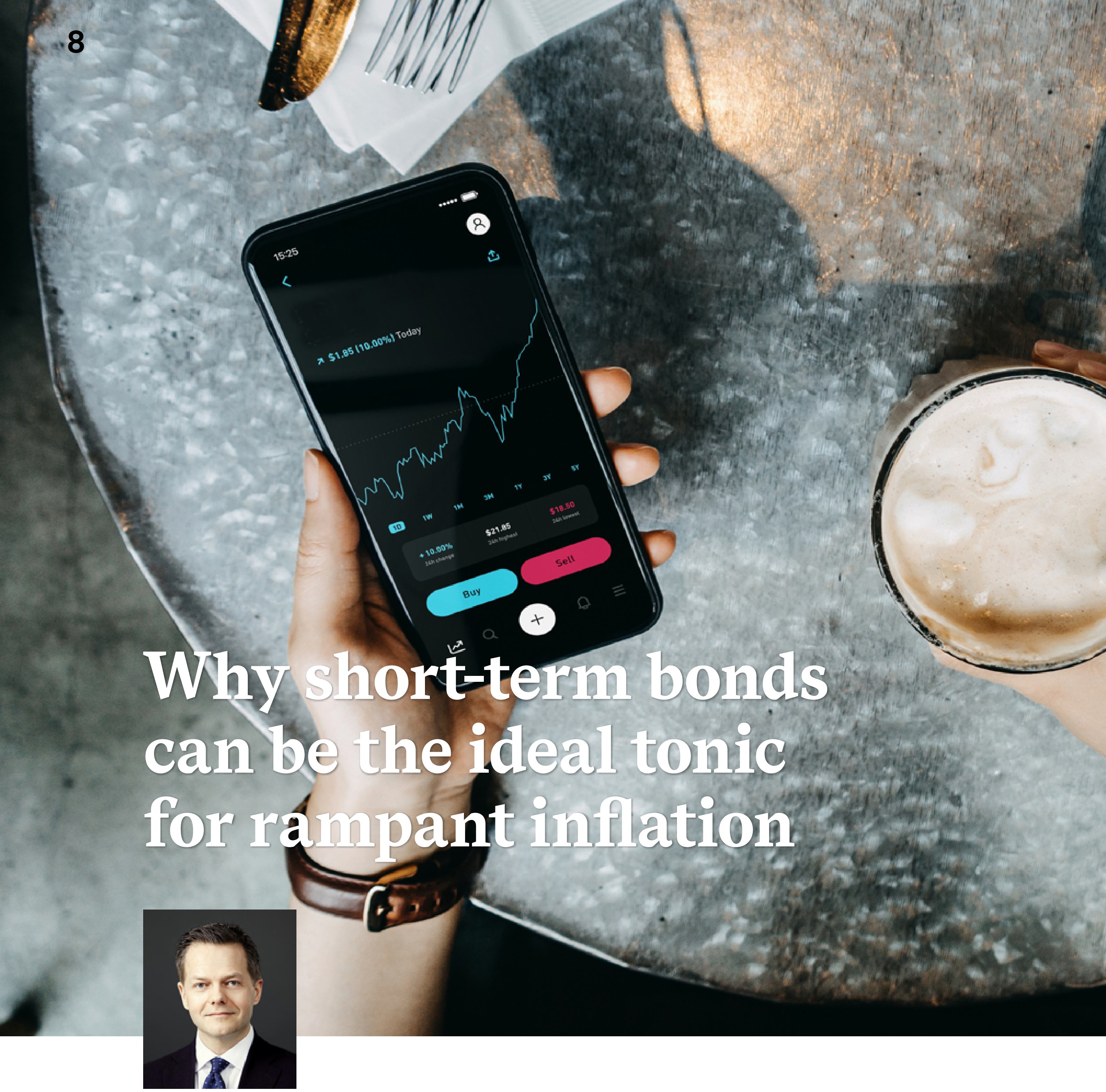


Source: Refinitiv Datastream, US Mortgage Bankers Association, National Association of Realtors

Chart 3: Emerging economies' rate hikes to fight inflation come at an economic cost



Source: Refinitiv Datastream, Vontobel



Why short-term bonds can be the ideal tonic for rampant inflation

—
Chris Bowie
Partner, Portfolio Manager,
TwentyFour Asset Management[1]

Russia's invasion of Ukraine has not only added to inflationary pressures but introduced the risk of economic slowdown and even recession, as well as bringing a nasty bout of volatility to the bond markets. As a result, bond investors face the unenviable task of navigating the capital-eroding effects of rising rates and volatility. In our view, this backdrop means investors must engage with the risks posed by excess duration.

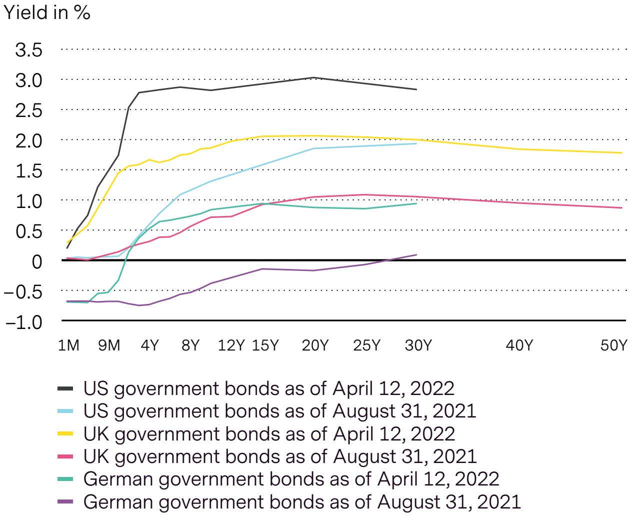
[1] London-based fixed-income specialist TwentyFour Asset Management is an independent operating subsidiary of Vontobel.

We believe portfolios composed of short-duration, primarily investment-grade bonds can help answer some of the biggest questions posed by the present market environment such as excess duration, a measure of bonds' sensitivity to interest rates. The longer the duration, the greater the possibility of seeing pronounced swings in the security's value in response to changes in base interest rates.

There are some natural advantages
One advantage of short-term bonds is "roll-down". This is the capital gain created by the natural fall in a bond's yield as it approaches maturity. The steeper the curve, the bigger the potential for roll-down gains, since the bond's yield has further to fall (generating a bigger capital gain) with each passing year of maturity. Roll-down potential is generally much larger in short-term bonds than in longer maturities because yield curves tend to be much steeper at the short end.

As the chart below shows, the front end of both the US and the UK government bond yield curve is especially steep, having moved sharply over the past few months as investors have begun to price in multiple rate hikes from both the US Federal Reserve and the Bank of England. Once you move past the four-year mark in the US and the two-year mark in the UK, the curve becomes so flat that the extra roll-down potential of buying a longer bond is overwhelmed by the extra duration risk you're taking on.

Chart 1: Steepness at the short end of yield curves points to potential for capital gains



Source: Bloomberg, TwentyFour Asset Management. Past performance is not a reliable indicator of future performance.

The opportunity for roll-down gains is also typically more pronounced in short-dated corporates rather than government bonds since corporate bond curves tend to remain steep throughout market cycles, and of course offer investors a higher yield for a similar level of duration risk. With two-year US Treasuries now yielding well over 2%, a typical two-year investment-grade US corporate bond could be offering well over 3%, which in our view is an attractive prospect given the latter's potential for roll-down gains and its relative lack of duration.

Another natural advantage of short-term bonds, particularly those with around 12 months to maturity, is "pull-to-par". Pull-to-par reflects the reality that as a bond approaches its maturity date, it will begin to "pull" to its par value as default risk becomes increasingly negligible, and the cash price of the bond amortizes to 100. Investors holding longer-dated bonds don't benefit from this pull effect since the maturity date is too far away to provide the same level of certainty around principal repayment and the general level of market yields. Importantly, pull-to-par occurs whether a bond is trading at a discount or a premium as both would repay at 100 regardless.

Finally, short maturities give short-term bond strategies the opportunity to pursue yield enhancement, and this is typically done via a couple of distinct strategies. Firstly, in an environment of rising yields like we are experiencing today, a large allocation to bonds with 12 months to maturity or less means a short-term bond strategy receives regular principal repayments that can be reinvested at higher yields. Those invested in longer-dated bonds have far longer to wait for this re-investment opportunity and may have to resort to asset sales (that may incur capital losses and spread costs) to speed up the process. Secondly, short-term bond strategies will try to boost the portfolio yield via making high-conviction allocations to riskier assets but with ultra-short maturities, where default risk has been dramatically reduced but the yield remains relatively high when compared with traditionally less risky assets. For example, we currently see many opportunities in short-dated corporate hybrids and subordinated bank bonds, which can yield over 6% for maturities of just two years.

No return guarantee, but better protection
By themselves, these natural advantages of short-term bonds cannot guarantee positive returns. However, they do give fixed income investors the ability to help insulate against possible capital losses while protecting income, and in our view. They can provide a more solid platform than longer-dated strategies for managers to target enhanced portfolio returns through asset allocation and stock selection. Given the twin pressures of inflation and volatility, we believe the inherent strengths of short-term bond strategies can give investors some comfort through this phase of uncertainty.

Quick rise in yields may re-ignite investor interest

—
Sandrine Perret
Senior Economist,
Fixed Income Strategist,
Vontobel

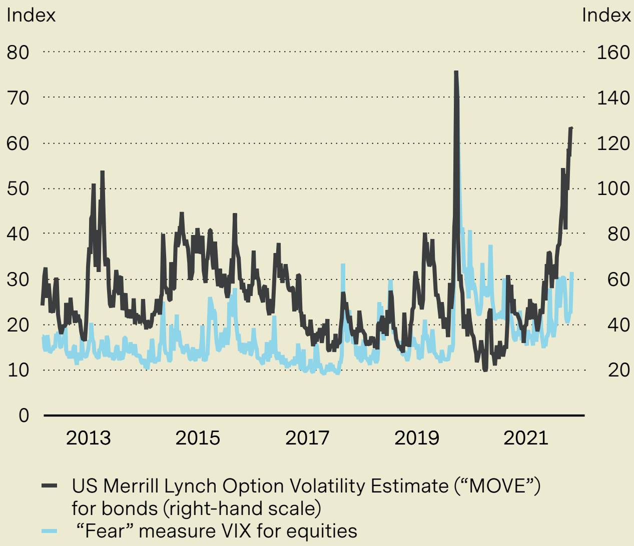
Rising interest rates and an ever-smaller share of debt with negative yields are making expected bond returns more attractive. We remain underweight in fixed income as we believe that yields may rise further. A worsening economic outlook and signs that central banks' "hawkishness" has peaked are two catalysts that could benefit bonds in the coming months.

After a disastrous first quarter for bond markets, the start of the following three-month period offered only limited respite. The hawkish rhetoric of most central banks—clear indications that a tighter monetary policy will follow—intensified around the International Monetary Fund's spring meeting in late April. By that time, fears of more entrenched inflation had increased again as China's strict "zero-Covid" policy and new lockdowns heightened worries about new supply chain bottlenecks. As a consequence, bond yields rose to new highs with ten-year US Treasuries reaching 2.9% for the first time since 2018. The real yields (nominal yield minus inflation rate) in that segment edged into positive territory, a first since the start of the pandemic. The difficult trading environment for fixed income is currently reflected in a much higher volatility compared to that of equities (see chart 1). Stocks have been under pressure in 2022 as well, but their volatility as measured by the "fear index" VIX has remained more contained than in the bond space.

Yield moves will question the "TINA" narrative
The moves in fixed income markets also had the effect of sending many deeply "red" yields back into positive territory. For example, German ten-year government bonds now yield +0.9% compared to −0.6% at the end of 2020. The share of negative-yielding debt in the Global Aggregate Index dropped to only 4% from last summer's 25% (see chart 2). Higher expected returns from bonds may question long-held views that "there is no alternative" to equities, an approach that came to be known as "TINA" in market circles. The yield gap between equities and bonds has narrowed, rendering bond valuation increasingly attractive.

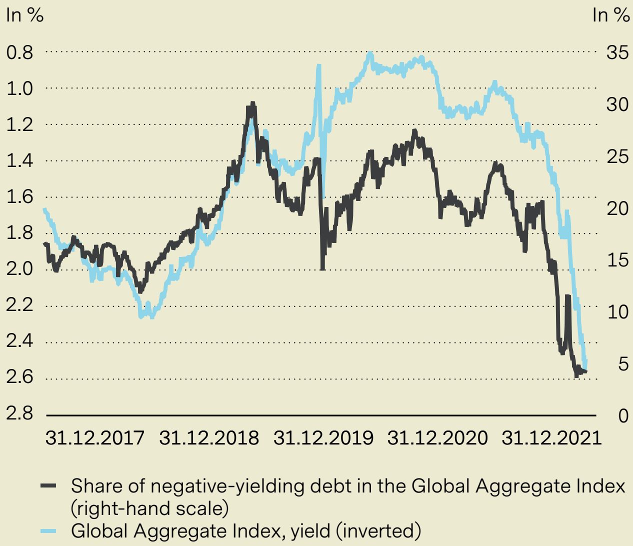
Regardless, we stay underweight in fixed income for now. Higher yields are still possible in the near future, even if most of the rise is probably already behind us. Hawkish central banks as well as higher inflation pressure are two headwinds that could continue to be a drag on bond performance. That said, we are mindful of the slowdown in growth and the rising risks of a recession in the US next year. Should these risks become even more pronounced in the coming months, the real yields expected in "safe" fixed income, i.e. government bonds, will again become an attractive option for investors.

Chart 1: Volatility in the bond market exceeds that of equities



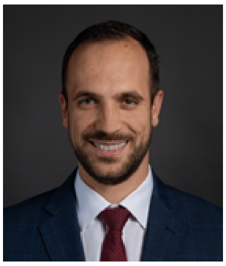
Source: Refinitiv Datastream, Chicago Board Options Exchange, Merrill Lynch, Vontobel

Chart 2: Rising interest rates mean fewer bonds with negative yields



Source: Bloomberg Barclays, Vontobel

Swiss shares look Matterhorn-solid, some hurdles notwithstanding



—
Stefan Eppenberger
Equity & Commodity Strategist,
Vontobel

The Swiss equity market may lack the perks of, say, the US with its cutting-edge tech sector. But if you are looking for steadiness, Switzerland's unique mix of rock-solid pharma and food giants as well as less well-known niche players seems like a good place to be. We have upgraded Swiss stocks to overweight.

Soaring inflation, tighter monetary policies and a slowing economy have depressed the outlook for equity markets, prompting financial analysts to lower earnings forecasts for many companies. Over the past 12 months, no money has been made in equities (see chart 1).

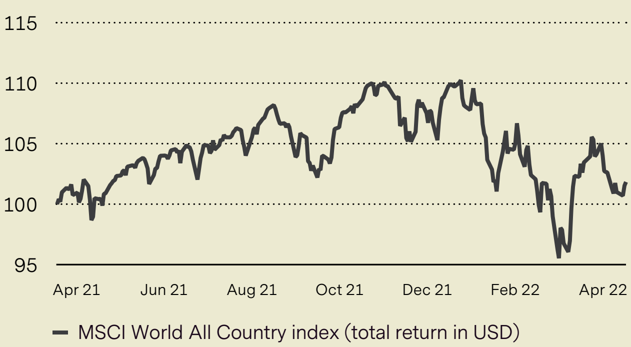
No wonder some equity investors are getting cold feet. Unfortunately, things don't look much better in many other asset classes. It's also worth noting that equities still offer the best prospects in times of crisis, unless there is a protracted recession—and that isn't our base scenario for this year.

In times of uncertainty, Switzerland's quality credentials shine brighter. We, for our part, are drawn by above-average corporate profit margins (see chart 2), strong brand names, high pricing power and profitable business models. The stocks of such companies hold up better than global peers, especially in a shaky economic and political environment. Another plus is the Swiss stock market's relatively low sensitivity to economic swings, largely because the three pharma and food heavyweights (Roche, Novartis, and Nestlé) follow cycles of their own governed by global medicines and food consumption.

Quality comes at a price
As a rule, high quality comes with high valuations. While many investors are willing to pay top dollar for top companies in normal circumstances, they often hold back when interest rates rise, and that's what we are seeing now. When central banks move base rates higher, the discount factor goes up as well, and that measure is used to convert expected corporate earnings to present-day values. The detrimental effect of a rising discount factor is particularly hurting successful niche players, where analysts often spot excellent profit potential. However, the picture for Swiss equities will brighten again once yields stop rising.

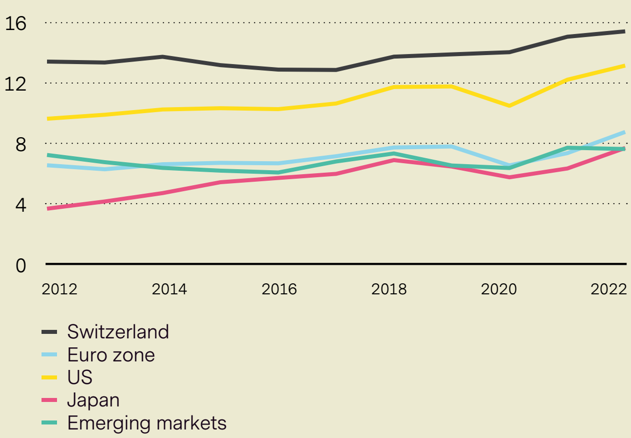
Currency-related gains may beckon
Last but not least, the Swiss franc may prove to be another asset. A traditional so-called safe-haven currency, it looks set to appreciate, also because of Switzerland's still moderate inflation readings. Investors spending Swiss francs now may thus be looking at currency-related gains at a later stage.

Chart 1: Investing in global equities has been a zero-sum game



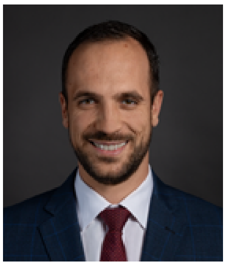
Source: Refinitiv Datastream, Vontobel

Chart 2: Swiss copanies boast the highest profit margins worldwide



Source: IBES, Refinitiv Datastream, Vontobel

Surge in commodities and gold shines a light on diversification



—
Stefan Eppenberger
Equity & Commodity Strategist,
Vontobel

If you need a good argument to explain the benefit of diversification, consider what happened in financial markets so far this year. Commodities and gold have thrived while equities and bonds have lost in value due to high inflation and central banks' efforts to control the surge in prices. We expect this to change over the next months, but we recommend being patient for now.

Investors with traditional equity-and-bond portfolios have had little to celebrate. Almost all equity markets and sectors are down so far this year, and bond markets have been hit hard across the board. By contrast, often-shunned assets such as gold and commodities have posted significant gains. The latter category's performance of more than 30% in the first few months of 2022 has been particularly impressive (see chart 1).

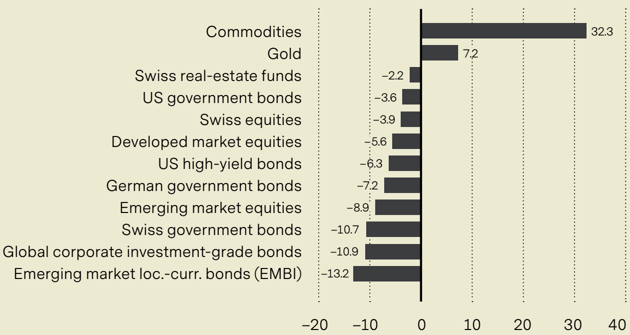
The new situation is down to the surprising surge in consumer prices with indices hitting highs not seen since the early 1980s. Gold has always cushioned portfolios against the effects of inflation. This holds true for commodities as well, though they are, somewhat ironically, partly to blame for the overall upward trend in consumer prices.

Another important reason for the changed environment is the stepped-up effort of the US central bank to stave off inflation. The good performance of commodities and gold in times of tighter monetary policy is no surprise if you consider the market development during periods of US interest rate hikes since the 1950s (see chart 2). We distinguish between strong rate hiking cycles, where rates have on average been raised at least in every central bank meeting and sometimes between meetings as well, and so-called weak interest rate hike cycles where this was not the case.

It turns out that commodities, gold and equities usually perform best when the US Federal Reserve starts raising rates. However, a quick succession of upward moves benefits equities little while boosting the performance of commodities and gold. At the moment, we are witnessing such a cycle of rapid rate hikes.

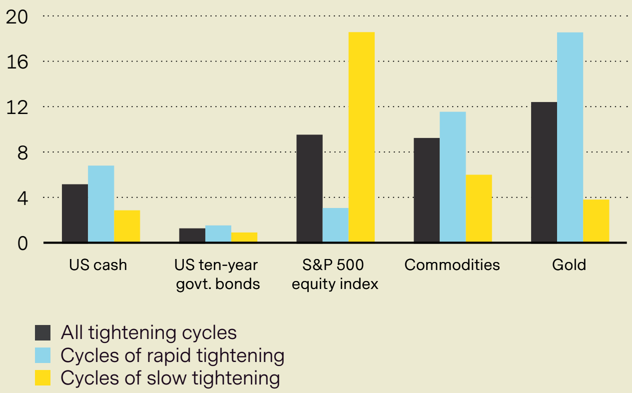
Watch out for a turning point in inflation
Our analysis shows that this positive performance of commodities and gold can last for a relatively long time. However, it is also clear that rising inflation rates are responsible for the tight monetary policy. As soon as inflation indices start coming off their highs, this is likely to change, and new investment decisions will be taken. But that is still some way off, and until then, we will probably feel comfortable with our commodities and gold overweight.

Chart 1: Commodities and gold excel while most other asset classes struggle
2022 returns in % (local currencies)



Source: Refinitiv Datastream, Vontobel. Data as of April 20

Chart 2: A fast tightening cycle in the US usually benefits the yellow metal and commodities
Annualized returns in % during periods of US interest rate hikes[1]



[1] Between the 1950s and now
Source: Global Financial Data, Refinitiv Datastream, Vontobel

The dollar gets a lift as some investors lose their risk appetite

—
Sven Schubert, PhD
Senior Investment Strategist,
Head of Strategy Currencies,
Vontobel

Stringent lockdowns in China, slowing global growth and rising US rate expectations have kept currency traders busy in the past few weeks. Some investors have lost their risk appetite in the second half of April, which has helped the US dollar.

In an effort to rebuild its credibility and get inflation back under control, the US Federal Reserve has embarked on what promises to be a long rate-hiking journey. This has helped the US dollar move higher (see chart 1). Rate expectation have risen in the euro zone as well, but at a much slower pace, a reason being that the US labor market is overheating while the European one isn't. Moreover, the European Central Bank (ECB) faces more uncertainties as to how the war in Ukraine will impact growth.

Even though this should lend the US dollar near-term support, its upward drive may stall soon as US inflation is about to peak. This in turn should limit the room for US rate expectations to rise further. Stabilizing rate expectations in the US would probably allow the euro to fall back into the usual trading pattern versus the dollar, which tends to lose ground in the early phase of a US rate-hiking cycle.

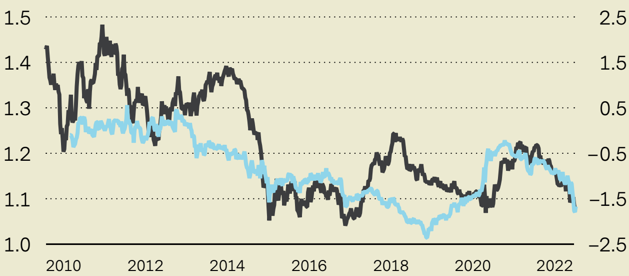
"World currency" status unchallenged
Another aspect possibly limiting the dollar's potential over time is its over-representation in categories such as trade invoicing, foreign-exchange trading and the currency allocation of central banks (see chart 2). Moreover, the freeze of Russia's US dollar reserves suggests that monetary authorities, particularly those of autocratic states, should diversify their currency holdings.

However, the US dollar will in all probability keep its status as the world's reserve currency. Over the next decade and beyond, we see no rival challenge given that the US currency is supported by the deepest of all financial markets as well as America's economic, technological, and military might. That said, the Chinese yuan looks set to gain market share on the back of China's increased importance.

Swiss franc gains ground without being too expensive
Our argument that the Swiss franc is gaining ground without being exceedingly expensive still stands. The strength of the Swiss franc over the recent month stems to a large extent from the weakness of other currencies, undermined by the surging producer price inflation many of Switzerland's trading partners witness. Moreover, the country still boasts a decent current-account surplus, which generates appreciation pressure on the franc. Therefore, the "Swissy's" recent weakness against the US dollar should be seen as a medium-term buying opportunity.

Chart 1: US central bank's new inflation-fighting stance also supports the dollar

Exchange rate — Spread[1] in %

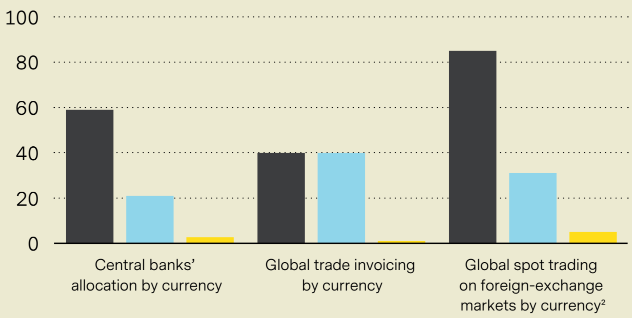


EUR/USD spot price
Yield spread of US 10-year Treasury vs. German government bond in real terms (right-hand scale)

[1] The wider the spread (i.e. the more negative the percentage), the better for the USD
Source: Refinitiv Datastream, Vontobel

Chart 2: Chinese yuan looks set to snatch away market share from the US currency

Share in %



US dollar
Euro
Chinese yuan

[1] As such transactions always involve two currencies, the total share of all foreign-exchange trades amounts to 200%, not 100%
Source: Refinitiv Datastream, Vontobel

Economy and financial markets 2020 – 2023

The following list shows the actual values, exchange rates and prices from 2020 to 2021 and our forecasts for 2022 and 2023 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates and commodities.

GDP (IN %)	2020	2021	CURRENT[1]	FORECAST 2022	FORECAST 2023
Euro zone	–6.5	5.3	4.6	2.8	2.2
US	–3.4	5.7	5.5	3.0	1.9
Japan	–4.5	1.7	0.5	2.2	1.7
United Kingdom	–9.3	7.4	6.6	3.7	2.0
Switzerland	–2.5	3.7	3.9	2.5	1.6
China	2.3	8.0	4.8	4.3	5.3
INFLATION (IN %)					
Euro zone	0.3	2.6	7.5	6.9	2.6
US	1.2	4.7	8.6	7.0	3.6
Japan	0.0	–0.3	0.9	2.0	0.7
United Kingdom	0.9	2.6	7.0	6.8	3.2
Switzerland	–0.7	0.6	2.4	2.1	0.8
China	2.5	0.9	1.5	2.5	2.1

KEY INTEREST RATES (IN %)	2020	2021	CURRENT	FORECAST 3 MONTHS	FORECAST 12 MONTHS
EUR	–0.50	–0.50	–0.50	–0.50	0.00
USD	1.75	0.25	0.50	1.75	2.50
JPY	–0.10	–0.10	–0.10	–0.10	–0.10
GBP	0.75	0.25	0.75	1.00	1.50
CHF	–0.69	–0.76	–0.75	–0.75	–0.50
CNY	4.35	4.35	4.35	4.35	4.35
10-YEAR GOVERNMENT-BOND YIELD (IN %)					
EUR (Germany)	–0.2	–0.6	0.8	0.8	1.0
USD	1.9	0.9	2.9	3.0	2.6
JPY	0.0	0.0	0.2	0.3	0.3
GBP	0.8	0.2	1.9	1.9	2.0
CHF	–0.5	–0.5	0.8	0.7	0.9
EXCHANGE RATES					
CHF per EUR	1.09	1.08	1.02	1.05	1.00
CHF per USD	0.97	0.88	0.94	0.96	0.88
CHF per 100 JPY	0.89	0.86	0.74	0.80	0.75
CHF per GBP	1.28	1.21	1.23	1.24	1.19
CHF per AUD	0.68	0.68	0.69	0.70	0.66
USD per EUR	1.12	1.22	1.08	1.09	1.13
JPY per USD	109	103	127	120	118
USD per AUD	0.70	0.77	0.74	0.73	0.73
CNY per USD	6.95	6.51	6.86	6.45	6.50
COMMODITIES					
Crude oil (Brent, USD/barrel)	66	52	112	110	100
Gold (USD/troy ounce)	1,521	1,898	1,984	2,000	2,200
Copper (USD/metric ton)	6,149	7,749	10,298	11,000	12,000

[1] Last officially available quarterly data year-over-year
na: not yet available
Source: Thomson Reuters Datastream, Vontobel; closing prices for all data: April 18, 2022, forecasts as of April 21, 2022

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