Vontobel

Investors' Outlook

Globalization is here to stay

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Content

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Globalization is here to stay

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Dan Scott
Head of Vontobel Multi Asset,
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Dear readers,

Given that the date of this year's World Economic Forum (WEF) was moved from January to May for pandemic reasons, the Alpine resort Davos greeted the participants with a view of lush meadows instead of snow. The world has moved on quite a bit since the last physical meeting of the world's decisionmakers in the Swiss Alps two years ago. We have endured several waves of a pandemic that left millions of people dead, and have witnessed the return of large-scale warfare long thought to be impossible in the Europe of today.

Back in 2018, Donald Trump unleashed a global trade war at Davos under his AMERICA FIRST scheme. This year, for obvious reasons, geopolitical tensions and a potential new world order were major topics in various round-table discussions and private talks around the event. While Volodymyr Zelenskiy spoke to the forum from Ukraine's capital Kiev, neither Joe Biden, Kamala Harris, Xi Jinping, nor Vladimir Putin were present. The American president instead decided to go on a trip to Asia where he gathered 12 countries to join a new economic bloc under his nation's leadership to counter China's influence.

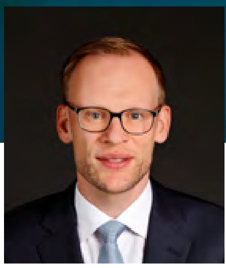
While things don't seem to change much at Davos, they do, and at a fast pace, on capital markets. After hitting a record close on January 3 this year, the S&P500 equity index is now officially skirting around bear-market territory, defined as a retracement of 20%. While the Chinese government is trying to handle the health crisis without losing face, it seems increasingly clear that global markets won't be able to recover unless China changes its zero-tolerance stance on Covid-19.

We are left with a gnawing sense that neither Covid-19 nor inflation were ever particularly "transient". Could it be that central banks miscalculated the relatively new push towards "deglobalization" and its potentially lasting upward effect on consumer prices? Has the war in the Ukraine made it clear to us that switching from gas to renewables will come at an economic cost? What if the productivity gains tied to globalization many countries have achieved over the past three decades are now quickly undone? This could indeed lead to a deep and protracted global recession.

Economic ties that bind

The world order we have long regarded as a given seems shaky these days. We firmly believe, however, that neither the current geopolitical tensions, the health crisis, nor the global push towards environmental, social and governance-based objectives will undo globalization. Our economies as well as financial markets are inextricably linked, and capital flows in all directions. After Japan, China is the largest holder of US debt, while western companies are heavily invested in China. At the same time, the world's most populous country is a net importer of food and agricultural products. China won't go back to an agricultural economy, nor will US companies want to forgo the potential profits in this huge market. All told, we believe globalization is here to stay, which is also what we predicted in our "Harder—better—tougher—greener" Investment Outlook publication in January.

→ Webcast
To view our webcast on recent market developments, click **here**



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Warming to bonds and cooling off on commodities

The participants of this year's World Economic Forum in Davos (pictured) didn't only come to the Swiss Alps in May to rub shoulders and exchange ideas about global growth. Surely, many of them listened closely to what their colleagues had to say about financial markets.

We weren't privy to their discussions, but had a busy month of May nonetheless. While retaining equities on neutral, we have changed our allocation in some other asset classes. For instance, we abandoned our long-standing underweight in bonds, putting them on neutral. Fixed-income markets took a beating this year with inflation readings rocketing and US key rates moving higher fast. However, the picture has brightened for bonds. Several factors indicate that inflation has started to peak in the US.

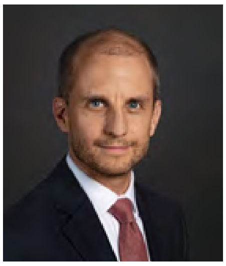
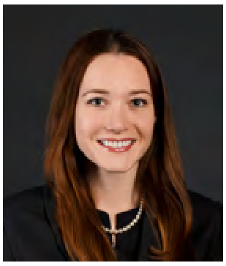
We also decided to take a more cautious stance on commodities, this year's highflyer, moving to neutral from overweight. After benefiting from supply and demand imbalances but also extraordinary factors such as Russia's invasion of Ukraine and Chinese lock-down measures, the asset class may find it hard to keep the momentum. 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			→			Our cash positioning remains neutral. Cash may occasionally be a haven to investors but we currently don't see a need for hedging.
2 Bonds			↗			Our upgrade of the government bond segment from neutral to positive leads to an overall neutral view on the whole asset class, up from underweight. Whilst we cannot rule out that prospects will worsen again, for instance via an escalation of the war in Ukraine or other armed conflicts, we believe it is the right time to get more sanguine on government paper. Adding a bit of duration—picking up securities with a relatively high sensitivity to interest rate changes—is best done by upgrading government bonds that may see lower yields, i.e. higher prices, over the next 12 months. Our view on all other sub-segments remains unchanged. We stay underweight in investment-grade corporate bonds (with exposure to this sub-segment deemed riskier than that to pure duration), neutral on high-yield bonds, and slightly overweight in selected emerging-market debt.
3 Equities			→			High inflation, tighter monetary policies and economic concerns are weighing on equities, and some analysts are beginning to cut their earnings forecasts. A neutral view on the asset class is still reasonable, we believe, as long as a recession remains a somewhat distant prospect. We also confirm all our regional views. This means that we continue to prefer shares of US and Swiss companies, which tend to outperform in periods of slowing growth given their strong earnings increases and high margins. By contrast, their peers in the euro area and Japan appear less attractive due to their cyclical nature, justifying an underweight. We also reiterate our neutral view on emerging-market equities.
4 Gold				→		We reiterate our slightly positive view on gold, which looks set to benefit from an expected slowdown of the economy. Moreover, the precious metal, a classic safe-haven investment and hedge against inflation, should draw strength from the broad movement towards higher consumer prices as well as concerns over Vladimir Putin's war in Ukraine.
5 Commodities			↘			Our decision to overweight commodities in early 2022 has paid off handsomely so far. This is the only asset class to have generated positive returns this year – more than 30 % at the time of writing. However, commodities are cyclical and as such, prone to setbacks during times of slowing economic growth. Metal prices, for example, have already corrected quite substantially. In light of the recent massive commodities rally, we recommend a neutral stance.
6 Alternative strategies			↘			We are still modestly underweight on hedge funds. We maintain our neutral view on other types of alternative investments, such as insurance-linked securities. Given our downgrade of commodities, which we consider an alternative investment, we are now neutral on alternative investments overall versus overweight previously.

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

Central banks decide to fight inflation even if it imperils economic growth

Central banks remain bent on bringing down inflation despite the risk to economic growth this poses. Meanwhile in China, more fiscal and monetary stimulus appears to be underway and should match the reopening of the economy. This should lead to a modest rebound of global growth in the second half of the year, but recession risks will get more serious later.

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Developed-market central banks have signaled a swift tightening of their ultra-expansionary policy while currency watchdogs in emerging economies are already well advanced in their hiking cycle. This puts economic growth rates under pressure and increases the likelihood of a global recession next year. At the same time, central banks still seem to believe in a modest growth recovery this year, first in the US but then also in China and the euro zone – a view we share. In the current quarter, however, global growth rates look set to hit the lowest point this year, with China contracting and the euro zone stagnating. Inflation should start to retreat slowly during the remainder of the year. This is due to easing supply-chain distortions amid prospects of an economic reopening in China, and the view that energy prices will stop rising after digesting the initial shock from the war in Ukraine.

Of course, things may turn out different. China might remain closed for longer and the Russian government could stop its gas supply to Europe. Such new tremors would see growth deteriorate quickly and inflation surge again. Consequently, stepped-up efforts by central banks to control prices could result in key rates rising too high, curbing growth and setting the stage for a global recession rather sooner than later.

Europe: The fight against inflation has finally started
Even the European Central Bank (ECB) has shifted gears, using some “hawkish” rhetoric. We now expect the bank to raise its key rate twice in the third quarter, bringing the deposit rate from –0.5% to zero, followed by at least one more rate hike in the last quarter of the year. The picture emerging from forthcoming economic indicators will be a key factor in determining the future path for key rates.

According to our forecasts, growth will stagnate in the current second quarter but recover over the summer with the service sector— for example, international travel—hopefully improving due to the relaxation of the last Covid-related restrictions. Inflation should peak during summer as supply-chain price pressures are expected to ease slowly during the second half of the year (see chart 1). Our estimate is predicated on a slow implementation of the mulled sanctions against Russian oil exports that wouldn’t compromise the euro zone’s energy supply. Any significant disruption would push inflation higher again and lead to a recession in Europe.

Our reassessment of the ECB’s next steps also changes our view on the Swiss National Banks’ future policy. We believe the SNB will move its key rate from –0.75% to –0.5% before year-end. Meanwhile, the Bank of England looks set to hike its key rate two more times this year.

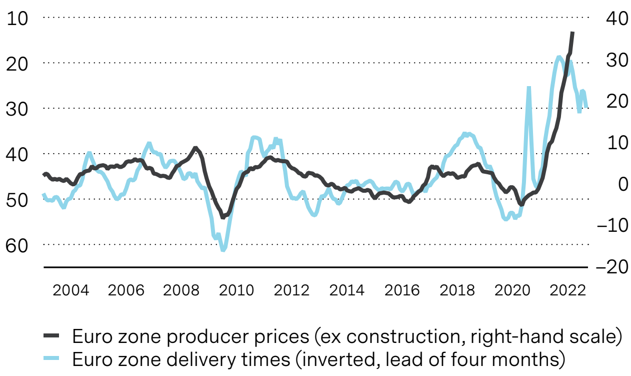
US: Achieving a soft landing next year will be difficult
Hardly a day goes by in the US without a member of the US Federal Reserve's rate-setting body reaffirming the central bank's determination to bring inflation under control. Chairman Jerome Powell recently said that the Fed would continue to raise policy rates until there is "clear and convincing" evidence that inflation is coming down. While annual inflation has started to decline, the 8.3% year-on-year increase in April showed that prices remain close to a 40-year high. Moreover, pressure from the services sector – which accounts for 60% of the price index – kept rising that month, and convincing signs of this pressure rapidly abating are yet to emerge (see chart 2). We see a continued rise in US key rates to 2.75% by the end of this year. The Fed is aware that some economic pain will be the price to pay for a controlled inflation. The economy has been resilient so far in 2022, helped by the strong labor market and supported by consumer spending. High prices are likely to slow the economy in the second half, but the tightening financial conditions will start to bite with a lag of six to nine months. They will be felt more strongly in 2023, with growth expected to slow to a below-potential level of 1.8% for the year. A soft landing is not impossible but by then, the US economy will be weaker and more vulnerable to unexpected negative shocks.

Japan: Finally succeeding in moving prices higher
After years of trying, the Bank of Japan has finally reached its goal to move the inflation rate above 2% (2.1% in April). Despite this, the policy watchdog is keen to stay accommodative, as it deems the latest uptick unsustainable. Pressure to follow other global peers, i.e. tighten policy, is set to intensify in the months ahead.

Emerging markets/China: Tightening cycle starts to bite
We are at an advanced stage of the third most aggressive policy tightening cycle in emerging markets since the mid-1990s. On aggregate, key rates have gone up by around 200 basis points (in GDP-weighted terms). There is a time lag of typically nine to 12 months between cause and effect, which is why some economies are beginning to feel the pinch. Away from monetary policy issues, China has so far failed to take decisive steps to clean up the property loan book of banks, which weighs on the country's growth outlook. But we believe Chinese measures to stimulate the economy (see chart 3) will be sufficient once the lockdowns to fight the pandemic are scaled back, which could happen in June. We see a 2022 Chinese growth rate of 4.3% in real terms, well below the historical average.

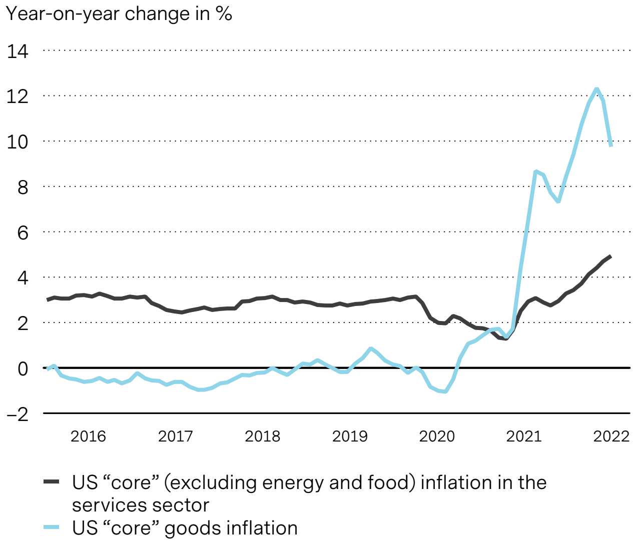
Inflation rates in emerging markets are expected to peak this summer with upward pressure on prices much more contained in north Asia, particularly China, than elsewhere. This is due to a modest rise in food costs (especially pork) and the slowing housing market. It's worth noting that food and housing account for half of the Chinese consumer basket that serves as a reference to compute inflation. This is good news for China's central bank, which may be thinking about adopting an even looser policy.

Chart 1: Falling European producers' delivery times point to possible easing of price pressure



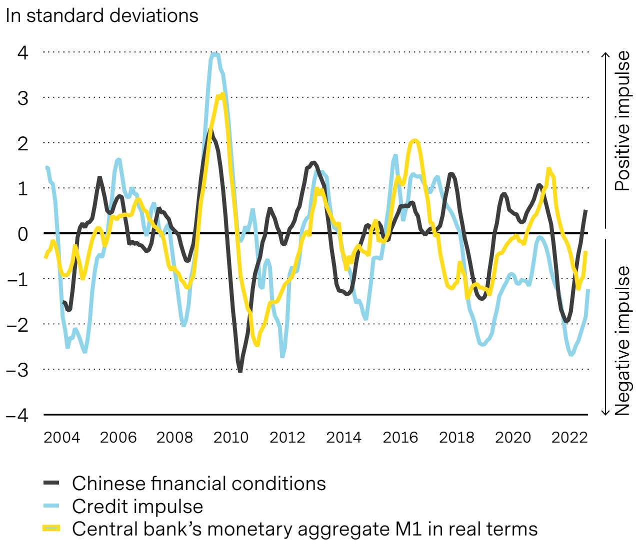
Source: Eurostat, S&P Global, Refinitiv Datastream

Chart 2: With prices for US goods falling, upward pressure is now felt in services



Source: Bureau of Labor Statistics (BLS), Refinitiv Datastream, Vontobel

Chart 3: The Chinese government has started to stimulate the economy



Source: Refinitiv Datastream, Vontobel

China—green shoots of stabilization

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At the recent summit of representatives of southeast Asian countries in Washington, supply chain disruptions and the situation in China were at the center of attention. These two issues are interlinked given the ongoing lockdowns in Shanghai, a city of 25 million—roughly the population of Australia—that generates more output than many a European economy.

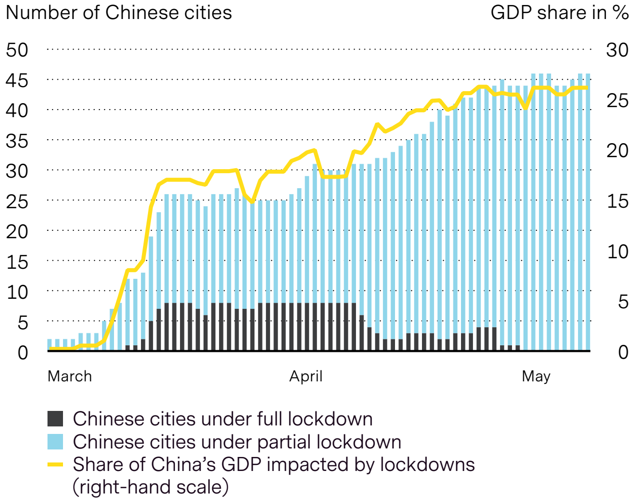
The standstill in the southern Chinese metropolis as well as in other cities disrupts economic activities and dents the country's GDP growth. What does this mean to investors active in China's equity markets? These stock exchanges underperformed most global indices in March and April, in some cases significantly, with the recent havoc caused by the more transmissible, albeit less lethal, Omicron variant of the Covid-19 virus playing a major part.

Whilst we can't predict what will happen, we do see signs of market stabilization. In our view, this is due to three developments.
- The wave of new infections seems to have been broken, at least for now.
- Market participants are gaining confidence in the measures announced by the government to support economic growth.
- The implied risk premium—the price investors pay in relation to the risk taken, which, if deemed excessive, can turn them away—is now falling again, allowing valuations to recover. The risk premium has risen sharply over the past few months due to concerns that many Chinese companies would have to delist their American Depository Receipts (ADRs) from the New York Stock Exchange or the Nasdaq Stock Market. Other reasons for the rise were China's position on the Russian invasion of Ukraine, and Beijing's heavy regulatory push last year to exert more control over the Chinese private sector, particularly technology companies.

The number of new infections per week has come down from peaks of around 460,000 at the beginning of March to below 100,000. The steps taken under the dynamic zero Covid policy, i.e. varying degrees of lockdown measures, seem to have had the hoped-for effect. However, since the Omicron variant has such a high transmissibility, this sets the stage for continued local restrictions over the coming months, we believe.

Morgan Stanley Research has pointed out that since the end of April, the number of cities under full or partial lockdown has been stable between 40 and 45. Taken together, they represent about 25% of the nationwide GDP (see chart 1). The bank also highlighted a significant fall in the number of cities classified as risk areas to ten from 50 at the beginning of April.

Chart 1: Chinese heavy-handed lockdowns have hit GDP, but the negative effect isn't worsening



Source: Morgan Stanley Research, media reports, Vontobel

Chinese stocks regain footing but terrain remains slippery

Where will Chinese equities go from here? A further large-scale increase in infection rates could well shake up the stock markets again. But because the price / earnings ratio based on expected earnings for the next 12 months is currently at a relatively low 9.5, signalling investor caution regarding Chinese companies' prospects, the potential for further setbacks seems to be limited.

In our view, however, the government's next moves to support and stimulate the economy will be decisive. In mid-April, the market reacted favorably to confirmation of the 5.5% GDP growth target. Similarly positive for stocks were announcements regarding an expanded urbanization in rural areas, news of a more normal level of regulatory supervision over the financial activities of Chinese internet companies, the central bank's looser monetary policy, and local stimulus measures underpinning real-estate markets.

Large differences in returns between sectors

The improved sentiment is also apparent in the performance of the various sectors. For example, over the course of a month, shares of infrastructure and construction companies have rebounded, as have food, utility, and telecommunication stocks. This has occurred against the backdrop of widely varying sector returns over the past three months. For example, there is a gap of nearly 30% between the result for the best-performing sector, oil and gas, and that of the worst-performing sector, hotels. This illustrates that there is still potential for stock picking despite the adverse economic environment.

Raising our exposure as growth fears emerge next to inflation scare

—
Sandrine Perret
Senior Economist,
Fixed Income Strategist,
Vontobel

Fixed-income returns have hardly ever been as negative as this year. Surging yields and overshooting inflation readings proved a toxic mix for most bond sub-segments. Given a still rampant inflation, central banks are not yet done with raising policy rates. But with risks to the growth outlook likely to increase in coming months, we have taken profits on our underweight positioning in fixed income by upgrading our exposure to government bonds.

There aren't enough superlatives to describe this year's shock in fixed-income markets. Looking at US government bonds since January, the longest maturities have suffered the most with the US 30-year Treasury, for example, dropping by more than 20% until May, clearly underperforming shorter maturities (see chart 1). In this environment, both our underweight position in overall fixed-income assets, and reduced exposure to long-duration bonds, proved to be suitable shields against rising yields and the historic surge in inflation.

Upgrading government paper on prospects of slowing growth

Is the tide turning for the bond market? For sure, the large central banks remain focused on reasserting their control on the price front, ready to accept some economic pain to bring inflation down to a sustainable level of 2%. While inflation is not yet under control and will depend, among other things, on developments in China (will the leadership change its radical "zero Covid" policy?) and Europe (will the war in Ukraine continue to push prices higher?), we believe that market participants will start positioning for slowing growth in coming months.

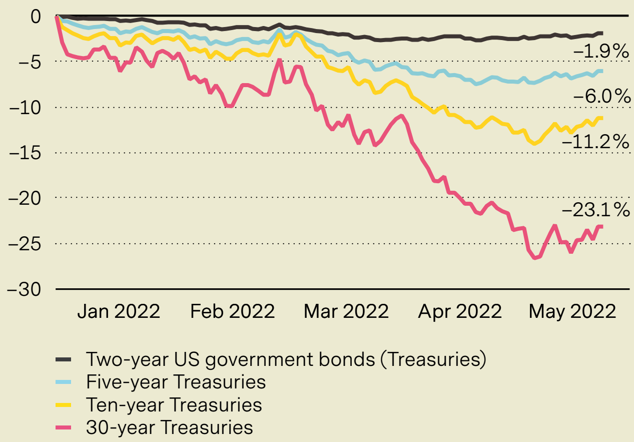
Indeed, the tightening of financial conditions that dogged markets this year will soon have a more material impact on real economic activity. As a result, we have decided to upgrade government bonds in our portfolios and slowly add some duration again. Government bonds are likely to recoup some of their losses from the first half as yields slowly find a ceiling. That said, we remain cautious on duration and would advise against picking up very long maturities. Their prices are highly sensitive to moves in interest rates and the volatility in fixed-income markets remains elevated.

Spread widening suggests caution on corporate bonds

We keep an underweight position in high-quality corporate issues as their spreads—the yield difference to benchmark bonds—are still likely to rise due to the upcoming economic slowdown and recession risks. Historically, these spreads have widened when market conditions for bank loans deteriorated. The latest Senior Loan Officer Survey from the US Federal Reserve already points to a mild deterioration in credit standards for commercial and industrial loans (see chart 2).

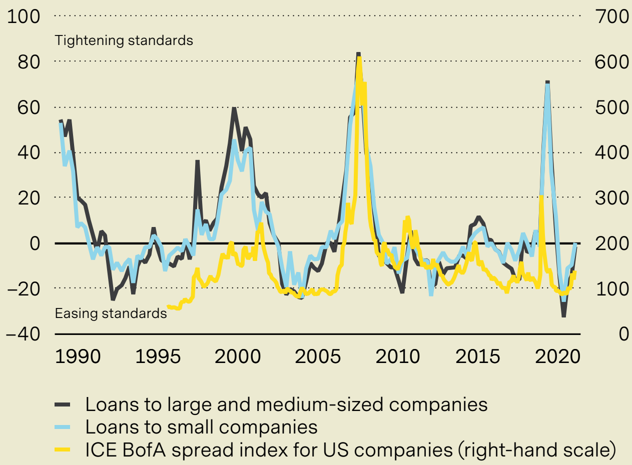
Chart 1: Bonds remain deep in the red, but markets have stabilized in May

Total returns (rebased to 0 on December 31, 2021)



Source: Refinitiv Datastream, Vontobel

Chart 2: Tightened lending conditions by US banks will push corporate bond spreads higher



Source: Senior Loan Officer Survey, US Federal Reserve, Bank of America Merrill Lynch, Vontobel

Why are analysts still so upbeat about corporate profits?

—
Stefan Eppenberger
Equity & Commodity Strategist,
Vontobel

Have financial analysts missed an important detail? Most of them have clung on to their profit forecasts despite the ongoing downturn on equity markets that points to a more somber state of affairs. Past experience suggests that analysts will have to lower their estimates. We remain neutral on equities.

The first four months of this year were the worst such period for global equity markets since World War II, with high inflation rates and restrictive monetary policies taking out much of the previous froth. As a result, stock valuation metrics such as the price/earnings ratio are trading at long-term historical averages again.

Such measures are rooted in the development of corporate earnings, and analysts' profit estimates help investors to gauge stock market prospects. Surprisingly, earnings expectations haven't changed significantly since the beginning of the year despite occasional panic selling of stocks. Could it be that market participants are too pessimistic?

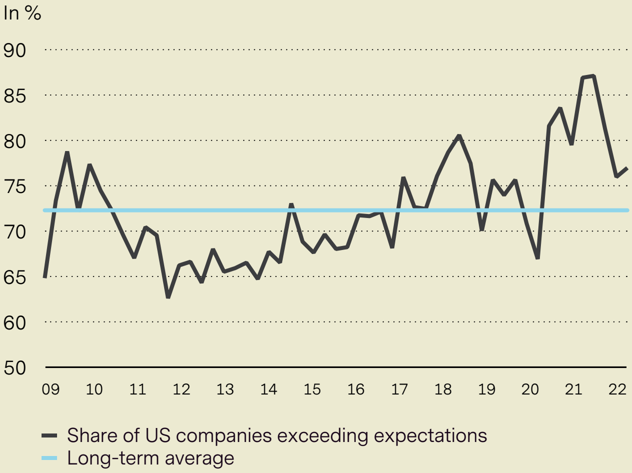
Earnings are solid but the outlook has darkened
Let's look at the basics. Corporate earnings as reported for the first quarter of this year were mostly better than forecast, with 77% of US companies, for example, beating analysts' expectations. This is significantly higher than the long-term average, although somewhat lower than in recent quarters (see chart 1). Critics may say that companies manage expectations better these days, learning to "underpromise" whilst "overdelivering" later. At the same time, the first-quarter reporting season reveals underlying problems. Many companies did defend their profit margins, but rising prices and supply chain bottlenecks have prompted many of them to turn less optimistic about the future.

Presently, analysts expect corporate earnings to rise by around 8% for this year and next. This would be a remarkable feat given economic and political uncertainties, and even more so if we take into account downgrades of growth estimates by a range of economists.

Consider, however, that analysts tend to adjust their earnings upwards or downwards mostly after the stock markets have moved one way or another (see chart 2). This means that analysts will in all likelihood have to reduce their expectations in the coming months – not a pleasant scenario for investors.

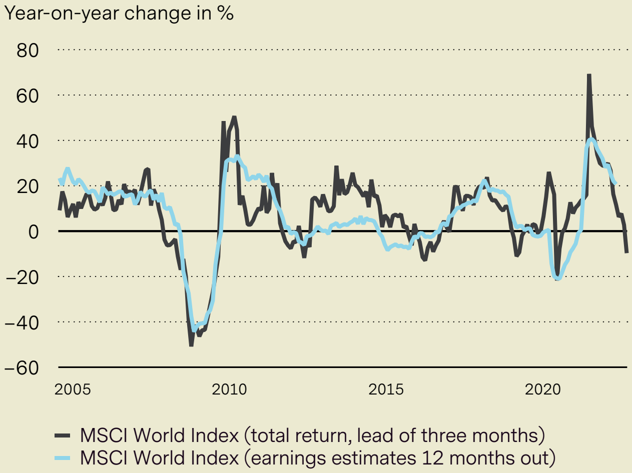
A lot of bad news factored in
That said, it's also fair to assume that current market prices already reflect the possibility of negative surprises for stock exchanges. We believe opportunities still beckon as long as we avoid a strong recession like at the time of the financial crisis, or a stagflation like in the 1970s.

Chart 1: Most US corporate earnings beat analyst expectations in the first quarter



Source: Refinitiv Datastream, Vontobel

Chart 2: Earnings estimate revisions usually follow stock price moves—not the other way round



Source: Refinitiv Datastream, Vontobel

Time to get less bullish on the “last class standing”

—
Stefan Eppenberger
Equity & Commodity Strategist,
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Commodities have emerged as the sole winner in this year’s beauty contest of asset classes. But prospects of slower economic growth and an ensuing drop in commodities demand call for caution. We have closed our overweight in the asset class, knowing full well that an escalation of the war in Ukraine, i.e. a further rise in prices, could prove us wrong.

The commodities asset class has outdone itself this year with other cyclicals dropping out of the “last man standing” game one by one. Some investors have drunk their fill from the commodities cauldron, but the brew may soon go bad.

As so-called late cyclicals, commodities are latecomers to an economic upward trend, often keeping their drive even as other asset classes are on their way down. However, during an economic slowdown, commodities will at some stage start feeling the pinch – and rightly so, because rising prices of energy and other categories are partly responsible for the currently darkening economic prospects.

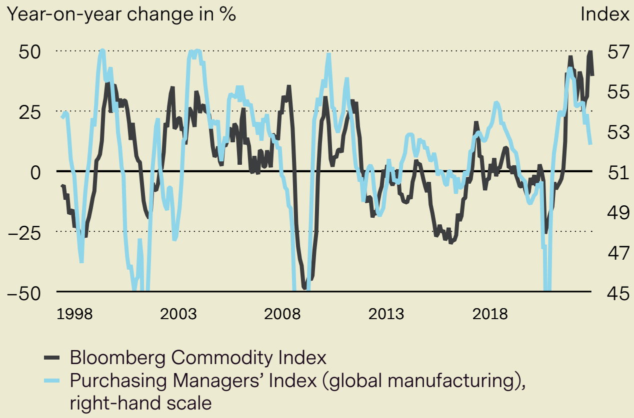
Falling metals prices foreshadowing wider decline?
Commodity indices still hover at multi-year highs, but metals have lost well over 10% since mid-April. This was partly due to special effects such as the hard lockdown in China, and consequently, lower metals demand. Even so, we believe other commodity segments will sooner or later follow metals lower given more widespread economic uncertainty, as they have done on previous occasions (see chart 1).

Oil consumption isn’t giving commodities any respite either. Demand growth in the US is already declining despite a strong pick-up in travel following the end of Covid-19 lockdowns. In addition, diesel and gasoline prices are at all-time highs, which will drive some consumers away.

While it’s safe to say the US driving season will get underway despite some American motorists stepping on the breaks, other important aspects governing the energy market are highly uncertain. Will we enter stagflation, a period of weak economic growth combined with high (commodity) inflation? Such a development cannot be ruled out. Will the European Union decide on an oil embargo against Russia? Could President Vladimir Putin react by banning oil and even gas exports, a measure that would quickly deplete European gas reserves (see chart 2), send commodity prices higher and Europe towards recession? This is also possible.

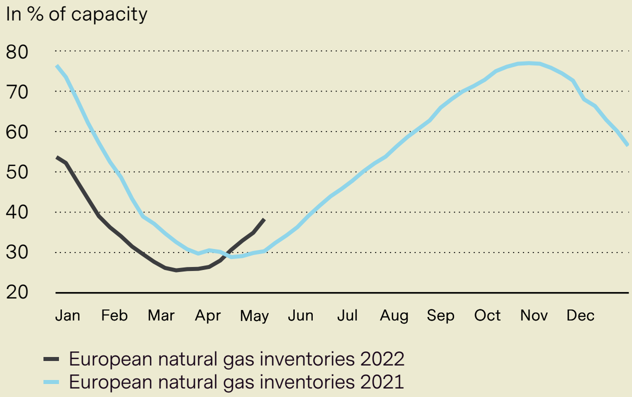
We hope—not only as investors—that this won’t happen and that we will be spared extreme moves on commodity markets. Assuming that demand and supply effects will balance each other out, we are closing our overweight in commodities.

Chart 1: History shows that a worsening economic outlook hurts commodities over time



Source: Refinitiv Datastream, Vontobel

Chart 2: Europeans are quickly filling up gas inventories to guard against any Russian export ban



Source: Refinitiv Datastream, Vontobel

Dollar on the top flight but mulling a descent

—
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Head of Strategy Currencies,
Vontobel

It has been almost 12 months since the start of a rally in the US dollar, a "safe haven" for many investors during crises. Despite geopolitical uncertainty and rising US key rates, we believe the American currency has reached, or is about to reach, its peak.

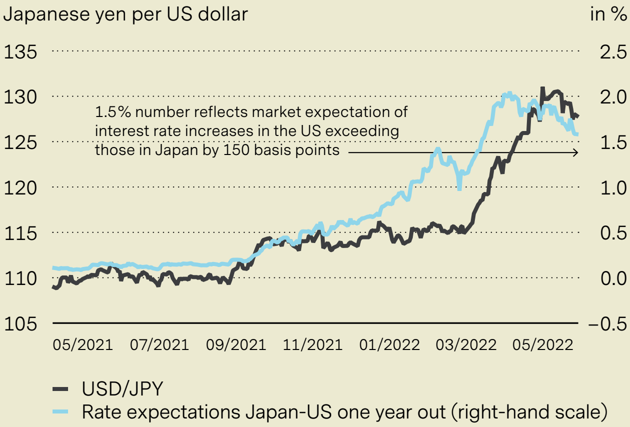
The US dollar's upward trend may have run its course, judging by the exchange rates of other major currencies versus the dollar, i.e. their deviation from levels suggested by interest rate differentials, or equity and commodity prices. Even the Japanese yen, an underperformer this year given the Bank of Japan's extremely generous monetary policy, could recover. After all, the USD/JPY pair is trading more than 40% north of its purchasing power parity (PPP) – meaning the dollar has significantly appreciated versus the yen over time – and there are expectations that US interest rates may not rise as fast as previously thought (see chart 1). We think it might be time to start unwinding "long" dollar positions that reflect expectations of an appreciating currency.

Possible window to buy Swiss francs
For the first time since 2018, the USD/CHF exchange rate rose above parity in April, with the dollar lifted by an aggressive monetary policy tightening in the US. Despite a recent recovery of the franc, the dollar remains 20% above a PPP-compliant level. Over time, the Swiss currency is likely to draw strength from the country's sizable current-account surplus of presently 9% of GDP. Moreover, the support for the dollar coming from the US Federal Reserve's rate hiking message looks set to diminish. In our opinion, global inflation is close to its peak, or past it in the US, so the Fed can be more relaxed. In the past, less "hawkish" talk from the central bank has often opened a downward path for the US dollar. This is why we see selling opportunities for the USD versus the CHF.

We see upside potential for the franc against the euro as well. In the short term, however, the Swiss currency may slip to a level of 1.05–1.10 as we are approaching the European Central Bank's policy rate lift-off in the summer. A further sustained drop of the franc seems unlikely to us after Swiss National Bank (SNB) President Thomas Jordan's recent comment that the current rise in Swiss inflation combined with a weaker franc would be counterproductive. This suggests the SNB could tighten its policy earlier than thought if the Swiss franc depreciates.

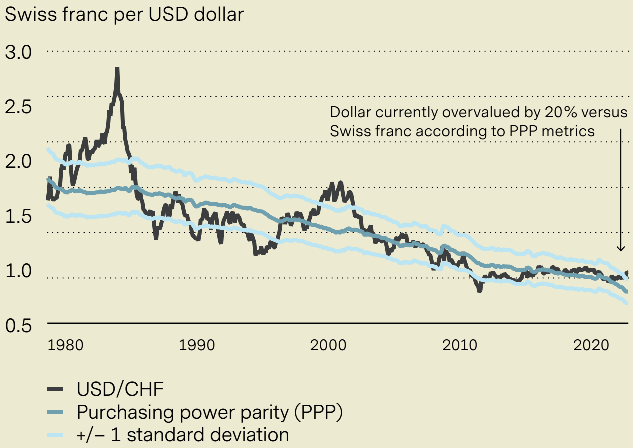
The magnitude of any euro recovery will depend on the effect of the energy price shock on European economies. In the short term, we see the risk that Russia could try to make Europe pay dearly for the planned switch to other gas suppliers.

Chart 1: Toned-down US interest rate hike expectations could give the Japanese yen a boost vs USD



Source: Refinitiv Datastream, Vontobel

Chart 2: In purchasing-power terms, the Swiss franc is cheap against the US dollar



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	5.4	5.0	2.6	2.1
US	-3.4	5.7	3.6	2.7	1.8
Japan	-4.5	1.7	0.5	2.0	1.7
United Kingdom	-9.3	7.4	8.7	3.7	2.0
Switzerland	-2.5	3.7	3.9	2.5	1.6
China	2.2	8.1	4.8	4.3	4.8
INFLATION (IN %)					
Euro zone	0.3	2.6	7.5	6.9	2.7
US	1.2	4.7	8.2	7.1	3.6
Japan	0.0	-0.3	1.2	2.0	0.8
United Kingdom	0.9	2.6	7.0	7.2	3.7
Switzerland	-0.7	0.6	2.6	2.1	1.0
China	2.5	0.9	2.1	2.2	2.1

KEY INTEREST RATES (IN %)	2020	2021	CURRENT	FORECAST 3 MONTHS	FORECAST 12 MONTHS
EUR	-0.50	-0.50	-0.50	-0.25	0.50
USD	1.75	0.25	1.00	2.00	2.75
JPY	-0.10	-0.10	-0.10	-0.10	-0.10
GBP	0.75	0.25	1.00	1.50	1.75
CHF	-0.69	-0.76	-0.75	-0.75	-0.25
CNY	4.35	4.35	4.35	4.35	4.35
10-YEAR GOVERNMENT-BOND YIELD (IN %)					
EUR (Germany)	-0.2	-0.6	1.0	1.1	0.8
USD	1.9	0.9	2.9	3.1	2.5
JPY	0.0	0.0	0.2	0.3	0.3
GBP	0.8	0.2	1.7	1.9	1.8
CHF	-0.5	-0.5	0.7	1.0	0.6
EXCHANGE RATES					
CHF per EUR	1.09	1.08	1.04	1.05	1.00
CHF per USD	0.97	0.88	1.00	1.01	0.89
CHF per 100 JPY	0.89	0.86	0.77	0.84	0.76
CHF per GBP	1.28	1.21	1.22	1.22	1.19
CHF per AUD	0.68	0.68	0.69	0.68	0.66
USD per EUR	1.12	1.22	1.04	1.04	1.12
JPY per USD	109	103	129	120	118
USD per AUD	0.70	0.77	0.69	0.67	0.71
CNY per USD	6.95	6.51	6.86	6.80	6.70
COMMODITIES					
Crude oil (Brent, USD/barrel)	66	52	112	110	100
Gold (USD/troy ounce)	1,521	1,898	1,815	2,000	2,200
Copper (USD/metric ton)	6,149	7,749	9,185	10,000	10,000

[1] Last officially available quarterly data year-over-year
na: not yet available
Source: Thomson Reuters Datastream, Vontobel; closing prices for all data: May 15, 2022, forecasts as of May 19, 2022

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