

Swiss Economics

Swiss analysts protect their portfolios against inflation

Financial Market Survey Switzerland | 26/01/2022, 08:54, UTC

Financial analysts are looking beyond the temporary challenges posed by the Omicron wave and anticipate a marked recovery in the spring.

In addition, in response to higher inflation and in anticipation of more hawkish monetary policy, most survey respondents have made adjustments to their portfolios.

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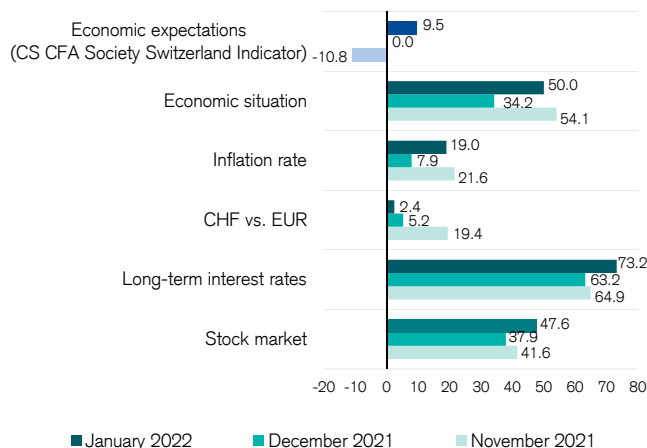
Sentiment indicator climbing despite Omicron

In spite of the Omicron variant of Covid-19, the CS CFA Society Switzerland indicator rose in January for the second month in succession and currently stands at 9.5 points (see figure 1). Even though the Omicron wave is in full swing and there are initial signs of a slowdown in the economy, just over 80% of the financial analysts surveyed are looking through these difficulties and expect a marked economic recovery in Switzerland and Europe over the next six months (see table).

Survey participants are still moderately pessimistic only with regard to the US, where the economy will likely have to digest first key rate hikes in the months ahead. Conversely, the analysts' expectations for China have improved considerably, perhaps on account of its monetary and fiscal easing.

Figure 1: Indicators for Switzerland

Balance of responses (a positive value signals the net percent expecting a rise, while a negative reading indicates the net percent expecting a fall)



Source: CFA Society Switzerland, Credit Suisse

Inflationary concerns back in focus

Due to the arrival of the Omicron wave, which could again prove to be a drag on global supply chains, as well as the shift in communications from the US Federal Reserve, which has retired the word "transitory" from its inflation forecasts, analysts have gone back to worrying about future inflation

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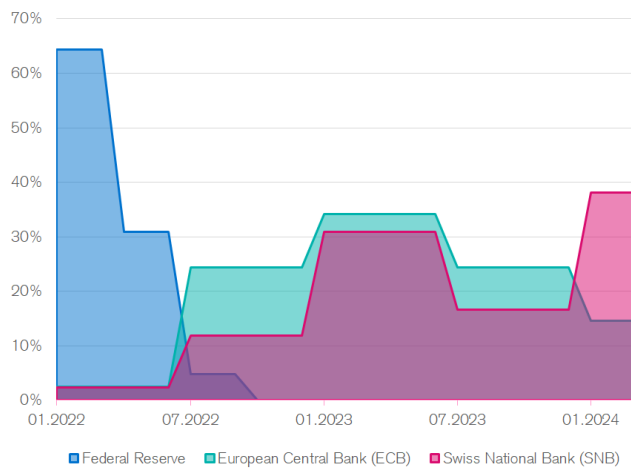
rates. In recent months the proportion of analysts who expected inflation rates to keep rising had declined, but has now increased again in January. Survey participants' oil price expectations – they no longer believe it will fall over the next six months – may be a contributory factor in this regard. Another factor could be that survey respondents are forecasting a tighter labor market, with almost no analysts expecting the unemployment rate in Switzerland to rise. All in all, analysts have not been this optimistic about the labor market situation since April 2018.

Analysts not worried about a sustained equity market correction

In contrast to much of last year, at least as far as the US is concerned, the survey respondents expect the high level of inflation to prompt a response from the central bank in the form of rate hikes (more on this in our special question), as revealed in their forecasts for short-term US interest rates. Turning to the long end of the yield curve, survey participants are largely in agreement about further rises in the US, Switzerland and Europe. And although global equity markets have had a challenging start to 2022 owing to the forthcoming normalization of US monetary policy and rising interest rates, the financial analysts surveyed do not expect to see a longer-lasting correction. Their expectations regarding the important indices Swiss Market Index, EuroStoxx 50 and S&P 500 have actually increased again since December – around 60% of analysts expect further gains.

Figure 2: Special question on the normalization of monetary policy

When do you expect the first key rate hike?



Source: CFA Society Switzerland, Credit Suisse

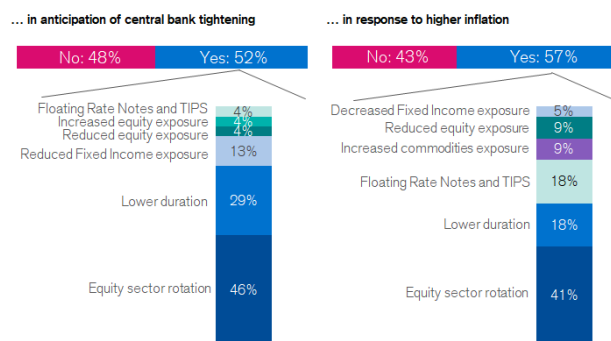
US Federal Reserve to lead the normalization process

In a special question on the normalization of monetary policy, we asked the financial analysts about their expectations regarding the first rate moves by the US Federal Reserve (Fed), the European Central Bank (ECB) and the Swiss National Bank (SNB; see figure 2). The respondents clearly expect the normalization process to be fastest in the US and slowest in Switzerland. 95% of the survey participants anticipate a first key rate hike by the Fed in the first half of 2022, with

almost two-thirds even projecting a move at the January or March meetings. There is a lower consensus regarding the ECB, with a broader spread of responses. The largest proportion – one-third of respondents – looks for a rate hike in the first half of 2023, while the share of those who think a move is possible in the six months before or after this period is 25% in each case. The most likely scenario for the SNB, according to the analysts at 38% of the responses, is a rate move no sooner than 2024. In terms of earlier options, the respondents consider the first half of 2023 more likely than the second.

Figure 3: Special question on inflation and monetary policy

Have you made adjustments to your portfolio in the last six months for the following reasons?



Source: CFA Society Switzerland, Credit Suisse

Financial analysts have prepared their portfolios for inflation

In another special poll, we asked the analysts about steps they have taken in the last six months to prepare their portfolios for higher inflation and monetary policy normalization. The results show that a narrow majority has made corresponding adjustments, although the percentage of those who do not consider any special preparations necessary is also high at 48% (with regard to monetary policy normalization) and 43% (with regard to inflation). Among respondents who have adjusted their portfolios in anticipation of a tighter monetary policy, rotations within the equity allocation – for example in favor of the financial sector or value stocks – are the most popular measures (see figure 3). Almost one-third of respondents have trimmed the duration of their fixed income portfolio, while 13% have even scaled back the entire fixed income allocation. The analysts have taken similar measures against rising inflation, with 41% repositioning their equity allocations, including shifts to companies with high pricing power. Besides opting for a low duration, reallocations to floating rate notes or inflation-protected bonds (TIPS) are popular measures.

The CFA Society Switzerland and Credit Suisse have been conducting the Financial Market Survey Switzerland (a monthly survey of financial analysts) since January 2017. Detailed results of the survey

conducted between 13 and 20 January 2022, involving the participation of 42 analysts from the Swiss financial sector, are published here.

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: January 2022 results

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	52.4	10.3	45.2	-4.8	2.4	-5.5	50.0	15.8
Eurozone	40.5	11.6	50.0	-7.9	9.5	-3.7	31.0	15.3
USA	54.8	12.7	42.9	-9.7	2.4	-2.9	52.4	15.6
China	14.6	3.8	75.6	5.3	9.8	-9.1	4.8	12.9
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	26.2	-2.7	57.1	15.0	16.7	-12.2	9.5	9.5
Eurozone	33.3	1.7	42.9	6.1	23.8	-7.8	9.5	9.5
USA	23.8	2.7	50.0	10.5	26.2	-13.3	-2.4	16.0
China	41.5	16.5	46.3	-9.3	12.2	-7.2	29.3	23.7
Inflation rate	increase		no change		decrease		balance	
Switzerland	45.2	5.7	28.6	-0.3	26.2	-5.4	19.0	11.1
Eurozone	47.6	5.5	19.0	0.6	33.3	-6.2	14.3	11.7
USA	35.7	1.5	16.7	3.5	47.6	-5.0	-11.9	6.5
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	38.9	13.1	61.1	-3.4	0.0	-9.7	38.9	22.8
Export momentum (expectations)	11.1	-4.5	69.4	3.8	19.4	0.6	-8.3	-5.1
Unemployment rate	2.6	-16.3	61.5	-6.1	35.9	22.4	-33.3	-38.7
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	35.7	9.4	64.3	-9.4	0.0	0.0	35.7	9.4
Eurozone	35.7	9.4	64.3	-9.4	0.0	0.0	35.7	9.4
USA	90.5	14.2	9.5	-14.2	0.0	0.0	90.5	14.2
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	17.5	14.6	77.5	-13.9	5.0	-0.7	12.5	15.3
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	75.6	9.8	22.0	-9.6	2.4	-0.2	73.2	10.0
Germany	73.2	7.4	24.4	-9.8	2.4	2.4	70.8	5.0
USA	85.0	6.1	12.5	-5.9	2.5	-0.1	82.5	6.2
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	38.5	21.8	53.8	-24.0	7.7	2.1	30.8	19.7
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	59.5	8.1	28.6	-6.5	11.9	-1.6	47.6	9.7
EuroStoxx 50 (Eurozone)	61.9	7.8	28.6	-3.8	9.5	-4.0	52.4	11.8
S&P (USA)	52.4	9.2	33.3	-1.8	14.3	-7.3	38.1	16.5
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	28.6	-8.2	45.2	13.6	26.2	-5.4	2.4	-2.8
USD	33.3	4.4	40.5	-4.2	26.2	-0.1	7.1	4.5
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	30.0	8.8	40.0	-14.5	30.0	5.8	0.0	3.0
Gold (per ounce)	35.9	-9.6	46.2	15.9	17.9	-6.3	18.0	-3.3

Note: 42 analysts took part in the Financial Market Survey Switzerland for January from 13 to 20 January 2022. Analysts were asked about their expectations for the next six months. The numbers displayed are percentages. The balances represent the difference between the positive and negative shares of responses.

Source: CFA Society Switzerland, Credit Suisse

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22C014A_IS

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Cross Border classification: 5.2.5/3.2.5.

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