tellco

# Market Overview 02 | 2023

A glance at the markets and current issues

## Equities S. 2

– Fabulous January is followed by a setback.
– Even in China, things are looking up.
– Are hopes of a soft land-ing justified?

## Fixed Income S. 3

– The central banks have spoken.
– As inflation goes, so do interest rates.
– When will the ceiling be reached?

## Investments S. 6

– Lenders are also focusing on ESG.
– Which instruments do they use for this?
– Yields must not be short-changed.

**Equities**

# New year, new luck?

US inflation fell to 6.4 % in January 2023 (YoY), below the previous month (6.5 %) but above market expectations of 6.2 %. This caused interest rates on long-term US bonds, especially those with a ten-year maturity, to rise from 3.5 % at the beginning of the month to as high as 3.9 %.

The equity markets were affected by this interest rate development and lost much of their performance since the beginning of the year. Since the beginning of February, the S&P 500 Index has lost around 1.4 % in USD (+0.4 % in CHF), but has gained 4.7 % since the start of the year (6.2 % in CHF). The MSCI AC World Index lost 1.6 % (in USD) in February (+0.2 % in CHF) and is up 5.4 % year-to-date (6.8 % in CHF). The Swiss equity market lost 0.2 % in February and is trading at 5.3 % year-to-date.

## Things are also slowly looking up in China

The Chinese equity market loses ground 1.28 % in February, up 6.0 % since the start of the year. The strong annual result confirms that the end of the coronavirus restrictions is having a positive effect on the local equity market.

There were some big companies in February that surprised analysts positively in terms of corporate earnings. For example, Airbnb, Marriott, Arista Networks or PepsiCo. Others, however, fell short of expectations, such as Apple, Alphabet and Amazon.

## Investors hope for a soft landing

Investors' expectations still seem to be geared towards the best-case scenario, i.e. a soft landing: a drop in inflation and a recovery of the economy without a recession. This seems to conflict with certain forecasts that inflation might persist. Either way, both a fall in inflation and a possible recession could force the Fed to intervene sooner than expected and take countermeasures.

## US dollar gets stronger and stronger

The growth in interest rates in February also helped to strengthen the US dollar, with its index rising from 102.10 to 104.69, recording an increase of 2.54 %. This has also affected the corresponding exchange rates against the Swiss franc and the euro. As a result, gold derivatives fell by 5.12 % in February, compared to a year-to-date gain of 0.24 %. Likewise, the strengthening of the dollar helped to weaken oil. This can be seen, for example, in the US WTI oil price futures, which lost 3.61 % in February and 5.53 % since the start of the year.

**Fixed Income**

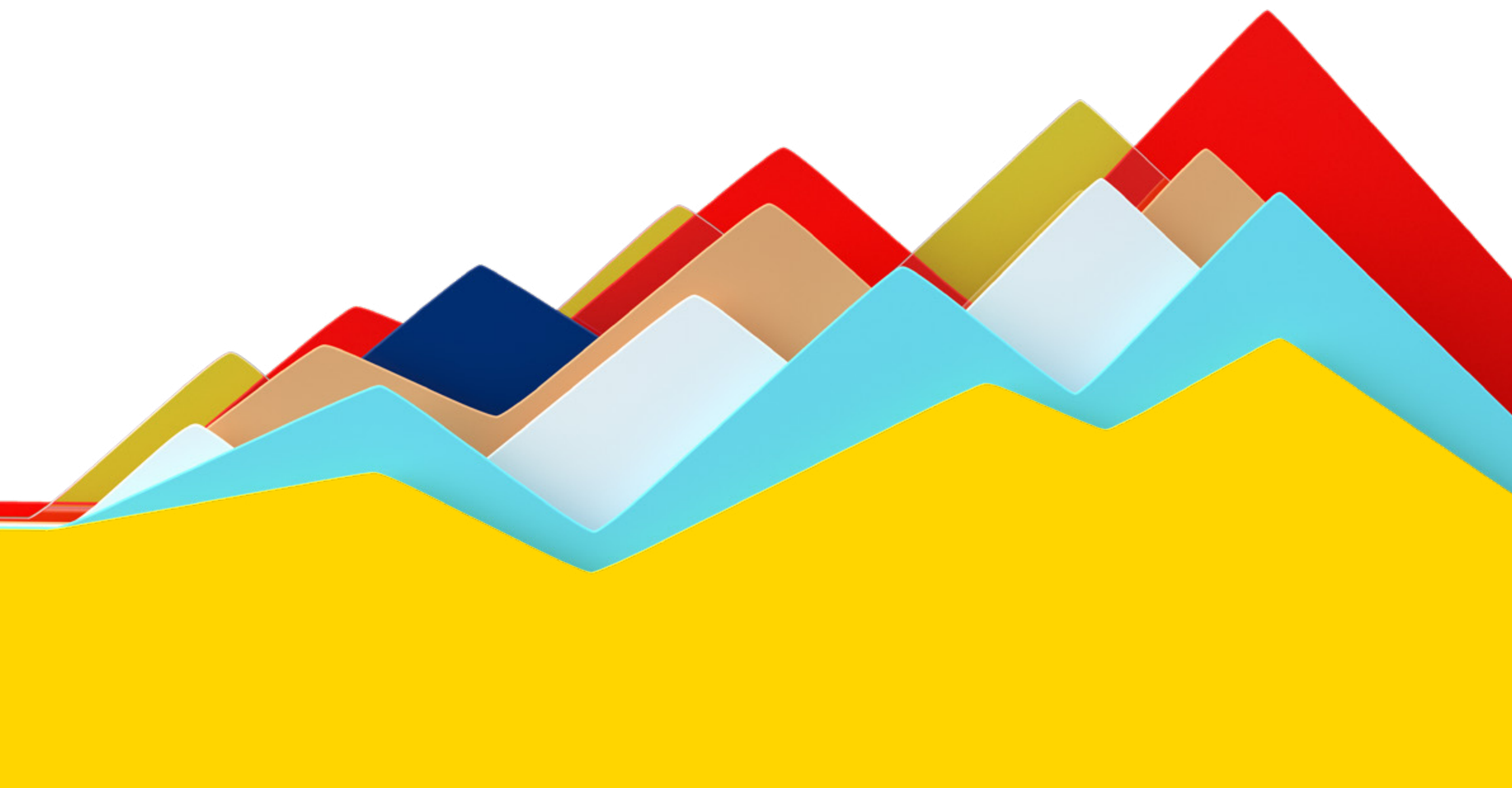
# Inflation is not over yet

The most important issue for the financial markets remains the question to what level the central banks will raise key interest rates in order to contain inflation. While 2023 started with some volatility, key interest rates should continue to rise overall in the first quarter as inflation remains high.

Only the amount of the interest rate steps might be further reduced. As central banks focus on stabilising prices, government bond yields continue to grow, especially at the short end of the curve. The varying rates of interest rate tightening by the Swiss National Bank (SNB) and the European Central Bank (ECB) have led to a widening of the spread between EUR and CHF interest rates – the restrictive comments by the ECB further reinforce this trend. This makes it clear that central bank dynamics, along with the development of real yields, are the main reason for the widening of spreads. This expansionary trend is likely to continue for the time being, but the potential for stabilisation in the second quarter is already apparent.

## Central banks raise interest rates again

The central bank meetings of the USA, the Eurozone and the United Kingdom took place in February. All three have raised key interest rates to combat persistent inflation. However, the central bank summit report was received as "dovish", unexpectedly leading to a sharp fall in long-term yields and consequently a rally in bonds. The European Central Bank was one of the last to join the rate hike party of the central banker's club. Now it is trying to convince the markets that it will remain among those that will be raising interest rates to curb inflation for the longest time. The bond markets were not impressed:



ten-year Italian government bond BTPs saw yields fall by almost 40 bp on the same day, the most since March 2020. More recently, the markets have been assuming that the rate hike cycle will be over by the middle of the year. The question remains to what extent consumer prices will fall, if at all. It should be remembered that while inflation is falling, core inflation (excluding energy and food price components) is not. And the latter is the measure for central banks of whether the economy moves in line with the 2 % inflation target. The prospect of a soft landing and solid corporate earnings led to continued stability in risk premiums (credit spreads) in the investment grade bond segment. This is also confirmed by the low default rates in private debt and high-yield bonds.

## USA: rising interest rates, rising public debt

The US Federal Reserve raised interest rates by another 25 basis points, following a 50 bp move in December – and four hikes of 75 bp each before that. Fed Chairman Jerome Powell has signalled the possibility of further hikes. At the same time, he spoke out against betting on interest rate cuts later in the year. The members of the Open Market Committee expect that interest rates will have to be raised to above 5 % and then left there so that the measures gradually take effect in the economy. The labour market report in January was better than expected. The US labour market continued to show strength in January. Non-farm job growth almost doubled (517,000 jobs compared to 260,000 the previous month), which was well above consensus expectations of 185,000 jobs. The unemployment rate was at a historic low of 3.4 %, compared to 3.5 % in the previous month. US inflation cooled to 6.4 % in January, but remains below expectations. Energy prices rose by 8.7 %, while food prices increased by 10.1 %. Core inflation slowed from 5.7 % to 5.6 %. The Congressional Budget Office has cautioned that the US government will soon be unable to service its debts. In fact, the USA is facing a default as early as July if the current USD 31.4 trillion borrowing cap is not raised or suspended. Default might occur before July if the revenues flowing into the treasury in April fall short of expectations.

*Eurozone inflation fell to an eight-month low in January, slowing to 8.5 % from 9.2 % the previous month.*

## EU: rising interest rates, weaker inflation

The ECB has raised interest rates by another half point to 3 %. However, the main focus was on how it will proceed at the next meetings. This depends on the medium-term development of consumer prices, especially core inflation. Eurozone inflation fell to an eight-month low in January, slowing to 8.5 % from 9.2 % the previous month. It was the slowest increase in eight months and was largely driven by lower energy costs – while the prices of food and industrial goods continued to rise. Core inflation, which excludes energy and food prices, was unchanged at 5.2 %. The ECB is planning a further rate hike of 50 bp in March. An assessment of the further monetary policy approach will then be made as well as a decision as to how high interest rates still have to rise. In any case, the Governing Council's key interest rate decisions will continue to depend on the data situation and will be determined from meeting to meeting. The "ECB hawks" are in favour of a 50 bp rate hike in March and see no reason for a rate freeze or pause in May. Klaas Knot (Netherlands), for example, called for a further 50 bp step in May in an interview. And Martins Kazak (Latvia) said in another interview that he saw no reason for holding interest rates in May. If underlying inflationary pressures do not diminish noticeably, it may well be appropriate to continue the pace of rate hikes in May. Risks to the inflation outlook have become more balanced, according to the ECB. On the one hand, a stronger-than-expected economic recovery in China could give a boost to commodity prices and external

demand. Escalating inflation expectations and high wage agreements could also fuel inflation in the medium term. On the other hand, the recent decline in energy prices, if it continues, could slow down inflation faster than expected. This downward pressure on the energy component could also translate into weaker dynamics in underlying inflation. The further weakening of demand would also contribute to lower price pressure than currently expected, especially in the medium term. In any case, the government bond market saw a bond rally after the ECB's interest rate announcement. The yield on ten-year German Bunds fell by almost 20 bp on the same day. It fell by more than 30 bp for Italian bonds. The Asset Purchase Programme (APP) bond portfolio is to be reduced by an average of EUR 15 billion per month between the beginning of March and the end of June 2023. The subsequent speed of the portfolio reduction will be determined over time. The redemption amounts are to be partially reinvested, largely in line with current practice. In Eurosystem purchases of corporate bonds, the amounts remaining for reinvestment will be more focused on issuers with better environmental performance. To the extent possible without compromising the ECB's price stability objective, this approach supports the gradual decarbonisation of the Eurosystem's holdings of corporate bonds in line with the objectives of the Paris Climate Agreement.

### UK: rising interest rates, but probably not for much longer

The Bank of England (BoE) raised interest rates for the tenth time, as expected, by 50 bp to 4 %. This comes in the wake of the risk of inflation taking hold in the UK economy. In comments after the central bank meeting, the Governor noted that persistent inflation would require further tightening. The outlook on the economy was interpreted as "dovish" by bond investors, as the BoE sees the recession flattening out compared to the November outlook. Economists, however, expect the cycle of interest rate hikes to end soon.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**Indicative interest rates* as of March 2023**

| | | |
|---|---|---|
| **Fixed-rate mortgage** | 3 Years | 2.59 % |
| | 5 Years | 2.58 % |
| | 7 Years | 2.59 % |
| | 10 Years | 2.64 % |
| SARON mortgage** | SARON + 0.60 % MARGIN | |

* These interest rates are benchmarks for first-ranking mortgages on owner-occupied residential property and apply to prime properties and borrowers with impeccable credit ratings.

** The interest rate is at least 0 %, plus the margin

**Alternative investments**

# ESG investing for lenders

(Private) equity investors are now also expected to integrate ESG criteria into their investment process. There is increasing acceptance that environmental, social and governance factors are essential in the long term: for expected yields and for the assessment of the investment risk. This means that they have to play an important role in the investment decision.

The number of signatories to the UN PRI (Principles for Responsible Investment) has increased to 5,300 (as of December 2022). Together, they have USD 121 trillion in assets under management. And they are all committed to practising the PRI's six principles – for example, Principle 1: "We will incorporate ESG issues into investment analysis and decision-making processes".

## What does ESG mean for lenders?

What is the role of lenders in this? How can they contribute to responsible investing or ESG investing, when as investors they tend to take a passive role in contrast to shareholders? For institutional lenders, such as large mid-market lenders, the ESG process now goes far beyond simple exclusion lists of companies in sensitive industries such as tobacco, pornography or controversial weapons. The reason for this is that they are in ongoing communication with their portfolio companies and private equity sponsors and exchange views on ESG methods. They advise companies on the implementation of best ESG practices. ESG factors also figure prominently in investment decisions. If the ESG risk is assessed to be increased, a higher spread must compensate for the additional risks. Investments are generally not made if the ESG risks are very high. In contrast to equity investors, for whom ESG factors also represent a set of opportunities for value creation, for lenders it is primarily a matter of identifying and limiting downside risks.

### Which instruments are available?

There are also opportunities for lenders to promote sustainable investing in the selection of investment instruments. By now, most readers are probably familiar with Green Bonds – fixed-income financial instruments whose proceeds are used to fund projects that are intended to have a positive impact on the environment and the climate. The first Green Bond was issued by the European Investment Bank in 2007. But the instrument continued to languish in a niche market for a long time. In the meantime, however, the issue volumes have gone up considerably: In 2021, USD 600 billion of Green Bonds were issued. Today, the World Bank is also an important issuer of such instruments, the proceeds of which are used for projects in renewable energy, clean transport, agriculture and land use. There is also the subgroup of Blue Bonds, which are used to fund projects to protect the oceans – for example to support sustainable fishing, protect ecosystems or reduce pollution. Climate Bonds are another subgroup, which focuses on the reduction of carbon emissions or the mitigation of climate change. The analysis and valuation of Green Bonds does not differ significantly from conventional bonds. An additional risk with Green Bonds, however, is green-washing, i.e. the risk that the funds may be misappropriated and not used for sustainable projects at all.

### From bonds to loans

In recent years, sustainability-linked loans have been used increasingly in the direct lending segment, especially in Europe. These differ from Green Bonds in that the purpose for which the funds are used is not restricted as in the case of Green Bonds, but the loan terms change depending on predefined ESG performance targets (e.g. CO2 reduction targets). If these targets are met, the spread will be adjusted downwards over time and the interest burden will be reduced for debtors. Conversely, they will have to pay even more if they miss their targets. The first test of the key figures typically takes place after one year. If successful, it is common for debtors to donate the interest savings to charitable organisations. The range around which the effective interest rate can fluctuate is kept relatively narrow, but it is still motivating.

### However, this rule still applies: yields come first

According to a recent study by the CFA Institute, more than 70 % of institutional investors are willing to lower their yield expectations somewhat, but only if their value expectations are implemented accordingly. However, asset managers are usually not prepared to grant excessive incentives or interest rate savings, as the instruments must first of all meet their yield targets.

## Tellco-Products

### Tellco Classic

| | ISIN | Tranche | February 28th | % February | % YTD | Web |
|---|---|---|---|---|---|---|
| Tellco Classic II Global Equities** | CH0443816621 | V | 192.90 | −1.21 | 5.55 | More info |
| Tellco Classic Swiss Equities | CH0421075018 | V | 172.25 | −1.15 | 4.55 | More info |
| | CH0421074961 | R* | | | | |
| Tellco Classic Best Idea | CH0442770316 | V | 91.57 | −0.47 | 12.26 | More info |
| | CH0442615701 | R | 98.81 | −0.46 | 12.26 | |
| Tellco Classic Sustainable Heritage | CH0583763542 | V | 83.95 | −1.47 | 3.74 | More info |
| | CH0583763534 | R | 74.42 | −1.48 | 3.71 | |
| Tellco Classic Bonds CHF | CH0421043669 | V | 97.00 | −1.31 | 0.98 | More info |
| | CH0421043594 | R* | | | | |
| Tellco Classic Bonds in foreign currency | CH0421043768 | V | 87.11 | −1.39 | 1.29 | More info |
| | CH0421043743 | R* | | | | |
| Tellco Classic Bonds in foreign currency hedged | CH0469074956 | V | 90.94 | −0.94 | 0.50 | More info |
| | CH0469074865 | R | 85.61 | −0.94 | 0.49 | |
| Tellco Classic Inflation Protection | CH1101347354 | V | 102.04 | 0.95 | 0.28 | More info |
| | CH1101347347 | R | 100.46 | 0.94 | 0.33 | |

* Not yet launched **available only to swiss pension funds

### Tellco Classic Strategy

| | ISIN | Tranche | February 28th | % February | % YTD | Web |
|---|---|---|---|---|---|---|
| Tellco Classic Strategy 10 | CH0450199770 | V | 117.56 | −0.70 | 1.42 | More info |
| | CH0544445619 | R* | | | | |
| Tellco Classic Strategy 25 | CH0450201261 | V | 125.15 | −0.82 | 2.34 | More info |
| | CH0544465658 | R* | | | | |
| Tellco Classic Strategy 45 | CH0450201329 | V | 139.79 | −0.91 | 3.43 | More info |
| | CH0544465757 | R* | | | | |
| Tellco Classic Strategy 100 | CH0450382632 | V | 117.18 | −1.52 | 4.77 | More info |
| | CH0544465773 | R | 88.76 | −1.52 | 4.78 | |

* Not yet launched

## The Tellco Top Products

### Top-Performer

### Top-Seller

**Tellco Classic Best Idea**
The Tellco Classic Best Idea fund aims at a long-term appreciation of invested capital, by investing in listed equities issued by companies whose expected growth is a multiple of global GDP growth, thanks to innovations primarily, and without limitation, in the technology, healthcare and energy fields.

**Tellco Classic Sustainable Heritage**
The Tellco Classic Sustainable Energy fund invests in all industries that benefit from a sustainable future. The investment universe includes themes such as renewable energy, energy storage, green and smart transport solutions, water and waste-water treatment, the digitalisation of energy systems and the integration of smart and efficient technologies in cities (smart cities).

# Numbers

## Equity markets

| | February 28th | % February | YTD |
|---|---|---|---|
| MSCI AC World | 330.61 | −2.87 | 4.10 |
| SMI | 11,098.35 | −1.66 | 3.44 |
| SPI | 14,303.48 | −1.29 | 4.14 |
| DAX | 15,365.14 | 1.57 | 10.35 |
| EuroStoxx 50 | 4,238.38 | 1.80 | 11.72 |
| EuroStoxx 600 Price Index | 461.11 | 1.74 | 8.52 |
| FTSE 100 | 7,876.28 | 1.35 | 5.70 |
| DOW Transportation | 14,722.68 | 0.51 | 9.94 |
| S&P500 | 3,970.15 | −2.61 | 3.40 |
| NASDAQ 100 | 12,042.12 | −0.49 | 10.08 |
| Shenzen-Shanghai CSI300 | 4,069.46 | −2.10 | 5.11 |
| Emerging Market | 964.01 | −6.54 | 0.80 |
| Nikkei | 27,445.56 | 0.43 | 5.18 |
| Volatilität | 20.70 | 6.70 | −4.48 |

## Commodities

| | February 28th | % February | % YTD |
|---|---|---|---|
| WTI-CrudeOil | 77.05 | −2.31 | −4.00 |
| Brent Oil | 83.89 | −0.71 | −2.35 |
| ThomReuters /JefferiesCRB | 269.84 | −2.97 | −2.85 |
| Gold | 1,829.36 | −5.20 | 0.29 |

## LIBOR

| | February 28th | % February | % YTD |
|---|---|---|---|
| Saron 6M CHF | 1.49 | 14.84 | 22.02 |
| Euribor 6M | 3.29 | 10.11 | 22.17 |
| Libor 6M USD | 5.26 | 3.20 | 2.42 |

## Alternative Investments

| | February 28th | % February | % YTD |
|---|---|---|---|
| S&P Leveraged Loan TR Index | 3,405.51 | 0.82 | 3.51 |
| ILS Advisers Index | 187.97 | 0.76 | 1.95 |
| Swiss RE Cat Bond TR Index | 381.59 | 1.72 | 3.46 |
| HFRX Global Hedge Fund Index | 1,384.21 | −0.47 | 1.20 |

# Numbers

## Currencies

| | February 28th | % February | % YTD |
|---|---|---|---|
| EUR/USD | 1.061 | −2.66 | −0.92 |
| USD/CHF | 0.937 | 2.69 | 1.38 |
| USD/JPY | 135.810 | 4.59 | 3.58 |
| EUR/CHF | 0.994 | −0.04 | 0.45 |
| GBP/CHF | 1.134 | 0.16 | 1.38 |
| CAD/CHF | 0.688 | 0.26 | 0.83 |
| AUD/CHF | 0.633 | −1.96 | 0.32 |
| JPY/CHF | 0.690 | −1.82 | −2.20 |
| BRL/CHF | 0.180 | 0.00 | 2.86 |
| CNY/CHF | 0.135 | 0.00 | 0.90 |
| INR/CHF | 0.011 | 0.01 | 1.35 |
| RUB/CHF | 0.012 | −3.76 | 0.16 |
| TRY/CHF | 0.050 | 2.30 | 0.51 |
| ZAR/CHF | 0.051 | −2.66 | −5.89 |

## Countries / GDP

| | Q3 21 | Q4 21 | Q1 22 | Q2 22 | Q3 22 | Q4 22 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| USA | 2.00 % | 6.90 % | 1.10 % | −0.90 % | 2.60 % | 2.70 % | 5.70 % | 2.10 % | 0.80 % |
| Euro Area | 3.70 % | 4.70 % | 5.00 % | 3.50 % | 2.10 % | 1.80 % | 5.20 % | 3.45 % | 0.45 % |
| Japan | −3.00 % | 5.40 % | −1.00 % | 2.20 % | −1.20 % | 0.60 % | 1.70 % | 1.10 % | 1.20 % |
| China | 4.90 % | 2.90 % | 4.30 % | 0.30 % | 3.90 % | 2.90 % | 8.10 % | 3.00 % | 5.30 % |
| Switzerland | 3.00 % | 3.70 % | 4.30 % | 2.85 % | 0.90 % | 0.75 % | 3.60 % | 2.00 % | 0.60 % |

## Countries / CPI

| | Q3 21 | Q4 21 | Q1 22 | Q2 22 | Q3 22 | Q4 22 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| USA | 5.20 % | 6.60 % | 8.00 % | 8.60 % | 8.30 % | 7.10 % | 4.70 % | 8.00 % | 4.00 % |
| Euro Zone | 2.80 % | 4.40 % | 6.10 % | 8.00 % | 9.30 % | 10.00 % | 2.60 % | 8.40 % | 5.60 % |
| Japan | −0.20 % | 0.50 % | 0.80 % | 2.40 % | 2.80 % | 3.80 % | −0.20 % | 2.50 % | 2.10 % |
| China | 1.10 % | 1.94 % | 1.10 % | 2.20 % | 2.70 % | 1.80 % | 0.90 % | 2.00 % | 2.40 % |
| Switzerland | 0.90 % | 1.30 % | 2.10 % | 3.00 % | 3.40 % | 3.00 % | 0.60 % | 2.90 % | 2.20 % |

# Numbers

## Rates

| | February 28th | in bps February | in bps YTD |
|---|---|---|---|
| 10j.USD(Swap) | 3.93 | 44.60 | 9.61 |
| 10j.EUR(Swap) | 3.23 | 35.50 | 2.72 |
| 10j. UK (Swap) | 3.74 | 35.95 | −1.00 |
| 10j.CHF(Swap) | 1.95 | 24.50 | −13.00 |

## Bonds

| | February 28th | in bps February | in bps YTD |
|---|---|---|---|
| US Govt 10Y | 3.92 | 41.24 | 4.63 |
| GER Govt 10Y | 2.65 | 36.50 | 8.34 |
| Swiss Govt 10Y | 1.43 | 18.31 | −14.99 |
| UK Govt 10Y | 3.82 | 49.43 | 15.92 |
| IT Govt 10Y | 4.47 | 32.22 | −22.75 |
| ESP Govt 10Y | 3.60 | 32.18 | −5.19 |

## Generic iTRAXX

| | February 28th | in bps February | in bps YTD |
|---|---|---|---|
| Europe Main | 79.57 | 0.26 | −11.03 |
| Finl Sen | 88.45 | −0.04 | −10.84 |
| Finl Sub | 154.33 | −1.53 | −17.77 |
| X-Over | 413.68 | −0.69 | −60.43 |

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