



Swiss Large & Mid Cap Equities

World economics

The spike of inflation extended in the third quarter amid strong economic activity and supply bottlenecks that might hamper businesses throughout the second semester and even during 2022. GDP has surpassed its pre-pandemic level in the US and is approaching it in Europe. As a result, central banks are expected to tighten sooner. In the US, the Fed has flagged its first interest hike should be in 2022 rather than in 2023. In Europe, the BCE has communicated that it would raise its interest rate only after inflation will have established itself around 2%. Previously, the central bank was aiming at keeping the inflation lower than 2,0%. In September, the markets have been shaken by the threat that Evergrande, a Chinese real estate developer would default on its huge debt of 300 billion USD.

Swiss economics

Swiss GDP will surpass its pre-pandemic level in the second half of the year, according to the SNB. The central bank lowered its growth prediction for 2021 to 3,0% from 3,3%, because the hospitality sector struggled during the summer. Several conjunctural indicators point that the path of growth has started to normalize. Consumer prices inflation has become positive again in August (year on year) after the price of oil bounced sharply. The underlying inflation is still too close to 0%. The SNB still forecasts very low inflation during the next 3 years if it keeps its director interest rate at its record low level of -0,75%.

Equity markets

After going higher in July and August, stocks dropped in September. For the quarter, the Swiss market (SPI index) hedged -2,0% lower. The smaller caps were better off as the SPIEX index lost -0,4% only. Despite the heavy ponderations of defensive stocks, the Swiss market underperformed its European and US counterparts. The Stoxx 600 erased only -0,5% of its value and the SP 500 gained +1,5% in the third quarter in francs.



Individual stocks

VAT (+10.4%) and Lindt & Sprüngli (+13,4%) performed well thanks to their good first half results. Tecan (+16,0%) appreciated on the news of a transformational acquisition. Swatch (-22,7%) slumped after Beijing launched new policies for less social inequalities. Cembra (-39,3%) plummeted after the loss of a very large customer. The Evergrande issue and fears about the health of the Chinese real estate sector were detrimental to Schindler (-11,2%). Polypeptide (+41,0%), a competitor of Bachem (+30,5%), rose after its successful IPO.

Investment actions

Profits were taken on Straumann and Logitech was sold ahead of its inclusion in the large cap index. Baloise was trimmed. Galenica, Swatch, Also and Temenos were reinforced. New positions were built in Emmi and Julius Baer.

Outlook

Despite elevated uncertainties and demanding valuations for the quality names, equities appear relatively attractive. We keep a prudent approach, but remain ready to seize the opportunities that might arise.