

# “The euro keeps falling”

Our Opinion  
July 2022

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Dear Readers

On page 3, in the article “The euro keeps falling” we show how the EUR/CHF currency pair recently developed and what the background to this is.

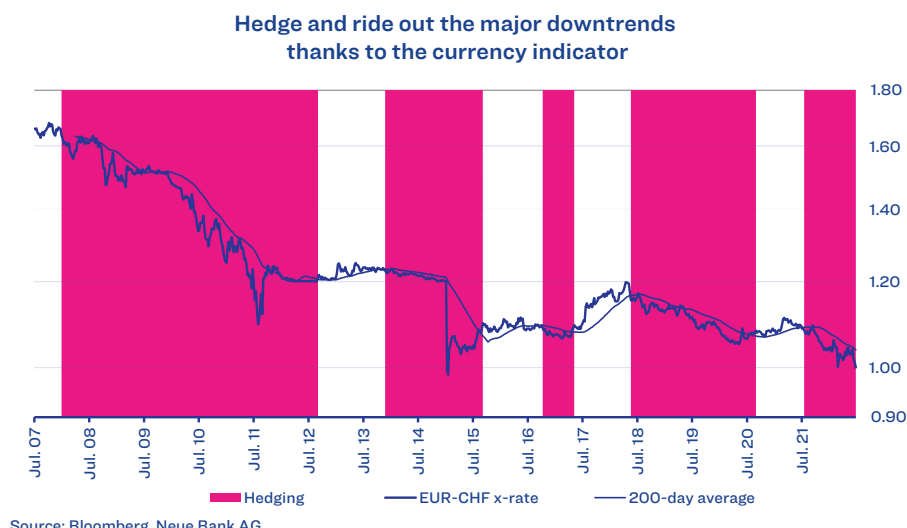
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We wish you a pleasant read.  
Your Advisory Team

# “The euro keeps falling”

## Currencies

One euro (EUR) now buys less than one Swiss franc (CHF). The last time the exchange rate was this low was January 2015, when the Swiss National Bank (SNB) lifted its floor of 1.20. Thanks to the economic recovery, the EUR subsequently rose to 1.20 again by 2018, even without SNB support. But then it began a downtrend that has continued until today and was interrupted only briefly, due to the economic support measures during the coronavirus crisis. Thanks to our currency indicator, we had hedged the EUR in our mixed CHF portfolios during each of the downtrends.

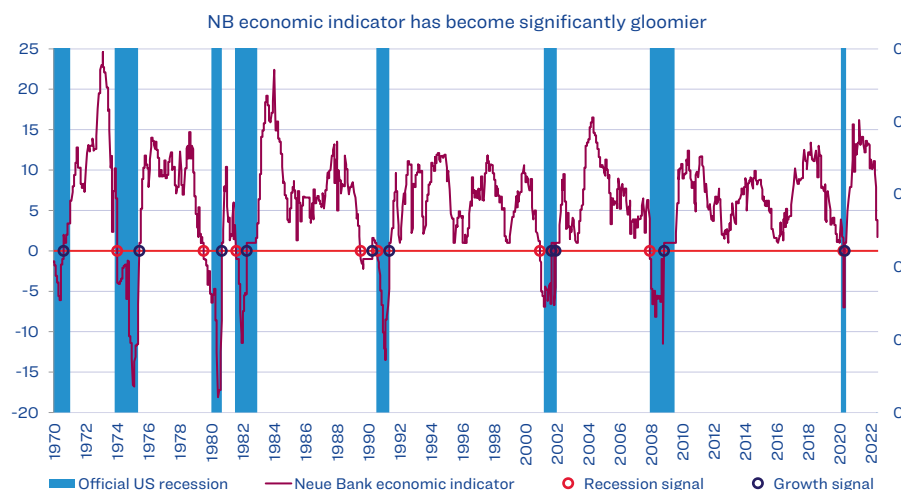


The CHF has long been labelled a safe haven currency. This means that when the global economy weakens, but especially when uncertainties increase during crises, flight into the CHF is a common means of securing assets. This speaks to the high level of confidence in Switzerland as a safe haven. This confidence is based on the stable political conditions over many decades, together with a sound financial policy. Another point supporting the CHF's appreciation against all other currencies is that inflation in Switzerland is usually much lower, as it is now. While annual inflation in the Eurozone is currently 8.1%, it is not even half as high in Switzerland (3.4%). Of course, the currency trend also ensures that Switzerland has recently suffered less from the strong rise in prices. In contrast to general assumptions, however, the ETH Swiss

Economic Institute believes that this makes up at most one percentage point of the difference. A much more decisive reason is that food has hardly become more expensive in Switzerland. What currently has a positive effect on inflation is a considerable burden on consumers when there is no crisis. The prices of food grown in Switzerland are decoupled from the world market due to protectionist measures. To protect farmers from foreign competition, foreign agricultural products are raised to the higher level price in Switzerland through import duties. While prices have accordingly remained stable during the current crisis, the price level in general is much higher. So far, electricity prices in Switzerland have also hardly risen, given that Switzerland has to import electricity only in the winter. But this also means that certain effects which had an immediate impact in the Eurozone (where nearly 20% of electricity is produced from natural gas, which caused electricity prices to rise much faster) will manifest themselves in Switzerland only with a delay. Even in the case of food, it is not the raw materials alone that determine the price; additionally, the increased costs for fertilisers and energy costs for harvesting and further processing are passed on to the products over time. Due to the differences in the inflation trend, the fair value of the EUR/CHF exchange rate according to our calculation of the relative purchasing power parity would be 0.87 –significantly lower even than the currently traded exchange rate. We are maintaining our hedge.

## Economy

Jerome Powell, chair of the US Federal Reserve, stated that the fight against inflation is being prioritised. While the Fed is not trying to plunge the country into recession, it is accepting a certain level of risk that this may happen. This is also reflected in the economic indicators, which have deteriorated significantly.



Source: Bloomberg, Neue Bank AG

Our recession indicator as well might also signal a recession soon if the trend continues.

## Bonds

Also on the bond market, the focus is now less on increased inflation and more on the threat of recession. At the same time, inflation expectations have also decreased.

**“Also on the bond market, the focus is now less on increased inflation and more on the threat of recession.”**

Accordingly, ten-year bond yields in Europe (e.g. Germany from 1.8% p.a. to 1.1% p.a.) and the United States (from 3.5% p.a. to 2.9% p.a.) have corrected significantly. However, we are still far above the rates that prevailed at the beginning of the year, when – for example in Germany – no positive return could be achieved on ten-year government bonds.

## Equities

The indices on global equities have lost about 20% over the first half of the year (measured in USD). This is indeed considerable. Nevertheless, valuations are still above average, historically speaking. It is therefore questionable whether a recession has already been priced in. And of course, horror scenarios have also been projected by some for the coming months, due to Europe's dependence on Russian gas. Investors should keep a cool head and proceed in a structured – rather than emotional – way. We accordingly rely on the Neue Bank traffic light, which is currently at yellow/amber (neutral).

## Alternative investments

The prices for gas and wheat on the commodity exchanges, which are particularly in focus due to the Russian war in Ukraine, have eased somewhat. Two events have led to this price decline: Firstly, Canada now wants to send back a serviced turbine for the Nord Stream 1 pipeline after all, making the delivery of more Russian gas more likely again; secondly, negotiations between Russian and Ukraine are expected to be held in Turkey regarding a corridor for food exports across the Black Sea. It remains to be seen whether the hope for a sustained easing of tensions is justified. We remain invested in commodities, at least for now.

## Neue Bank traffic light

-  strongly bearish
-  bearish
-  neutral
-  slightly bullish
-  bullish
-  strongly bullish

# PRIMUS–ACTIVE

With the PRIMUS-ACTIVE mandate, we offer you the opportunity to invest your assets according to traditional insights of well-known portfolio theories. We place particular emphasis on broad diversification, both in the strategic definition of asset classes and in the selection of securities. We also take into account that the financial markets are subject to long-term cycles and trends, and we strive to use these fluctuations to your advantage. The client advisors of Neue Bank AG look forward to showing you the special features of this asset management solution in a personal consultation.

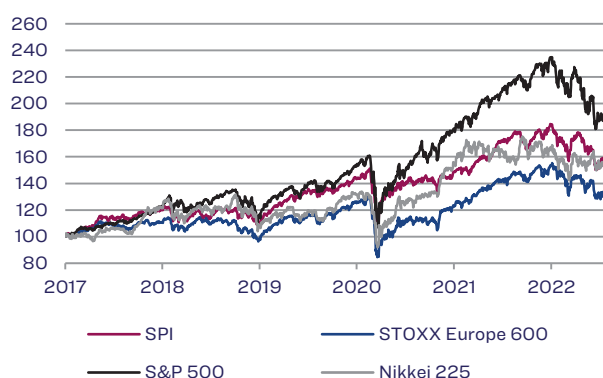
## Key performance indicators for PRIMUS–ACTIVE Balanced in CHF<sup>1</sup>

	30.06.2022	2021	2020	2019	2018	2017
<b>PRIMUS-ACTIVE Balanced</b>	-10.13%	8.39%	3.05%	11.13%	-2.51%	3.82%
<b>Peergroup</b>	-12.08%	4.51%	3.21%	8.81%	-5.67%	3.44%

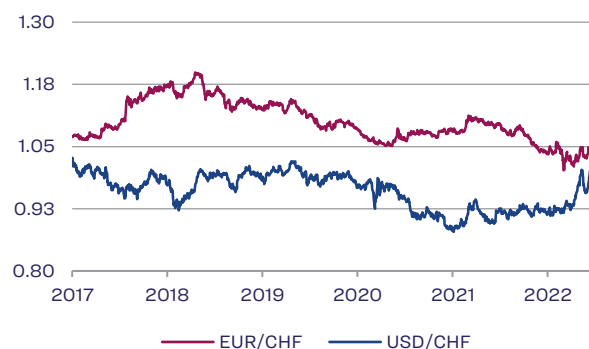
<sup>1</sup> Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: [www.neuebankag.li](http://www.neuebankag.li) S.E.& O.

# Market data

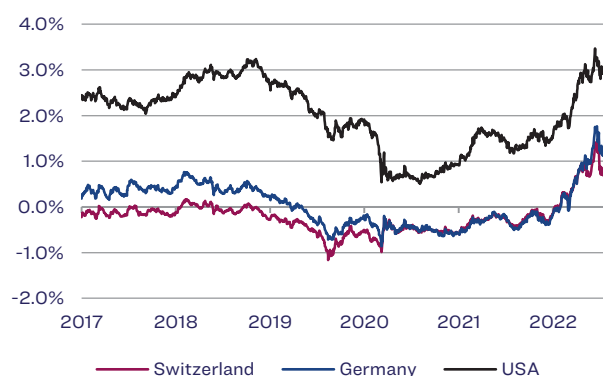
Stock market (indexed)



EUR/CHF and USD/CHF



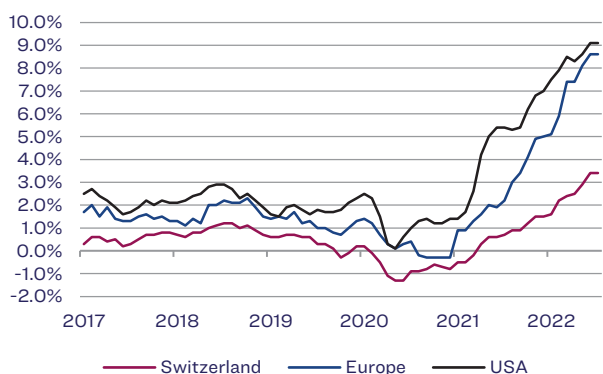
10-year government bond yield



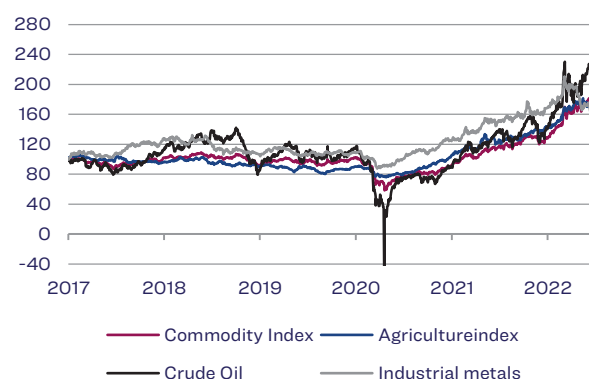
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.



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