

# LMM COMPASS



## Dear reader

Inflation affects us all. It makes products and services more expensive, leads to an increase in interest rates, to adjustments in the valuation of assets and unsettles consumers and entrepreneurs with regard to planning future spending. In our article, we would like to explain the most important points on this topic based on current assessments of various market participants.



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## THEMES



**Market data**  
Markets and strategies



**Specialist article**  
Inflation - come to stay?



**LMM Inside**  
Foundation of  
LMM (Schweiz) AG



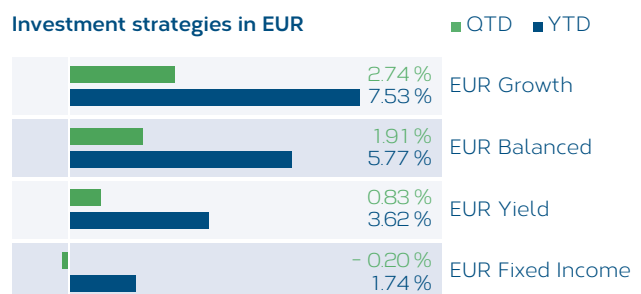
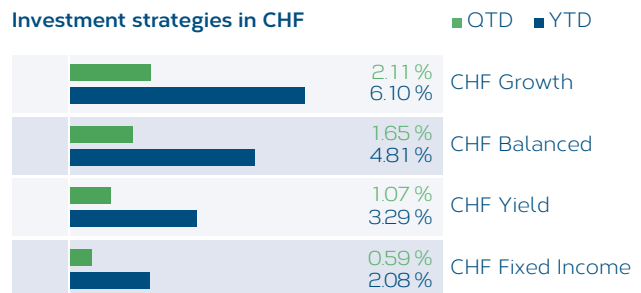
## MARKETS AND STRATEGIES

After the "shock" of last year, stock markets have stabilized, respectively, are clearly up since the beginning of the year. It is mainly the technology and communication sectors that explain the plus in the stock indices. In anticipation of declining inflationary pressure in the medium term, bond yields have stabilized or have fallen slightly. In the case of short-term money market investments, investors can continue to benefit from rising interest rates.

In the second quarter, most investment strategies recorded a plus, i.e. the positive performance since the beginning of the year was extended. The higher the equity allocation, the greater this increase. Overall, investment results of between 2% and around 6% are expected for the first half of 2023 (note: reference currencies CHF and EUR).

		Value	% QTD	% YTD	Currency
Currencies	EUR / CHF	0.98	- 1.65	- 1.15	
	EUR / USD	1.09	+0.42	+2.22	
	USD / CHF	0.89	-2.07	-3.30	
	USD / JPY	144.54	+8.60	+9.54	
Bonds	Switzerland		+2.14	+3.58	CHF
	Europe		+0.16	+2.25	EUR
	USA		-0.84	+2.09	USD
	EMMA (Hard Currency)		+ 1.26	+3.55	USD
	Inflation Linked		- 1.76	+2.63	USD
	High Yield		+2.02	+5.23	USD
	World		- 1.53	+ 1.43	USD
Equities	Switzerland		+ 1.87	+7.35	CHF
	Europe		+2.31	+ 11.12	EUR
	North America		+8.60	+ 16.84	USD
	Pacific		+3.50	+8.38	USD
	EMMA		+0.90	+4.89	USD
	World		+6.18	+ 13.93	USD
	Alternatives	Real Estate		+0.54	+ 1.58
Commodities			-3.82	- 10.04	USD
Gold			-2.54	+5.23	USD
Private Equity (listed)			+8.46	+ 15.96	USD
Hedge Fonds			+0.64	+0.63	USD

Calculation LMM: Period 01.01- 06.30.2023



Note: the figures are before costs  
Calculation LMM: Period 01.01-06.30.2023



## INFLATION – COME TO STAY?

Inflation rates have retreated recently and the rapid rise in inflation, particularly due to the energy shock in 2022, is losing steam. The development is being watched with argus eyes by central banks and investors, as inflation is still there and well above the central banks' targets.

### Headline and core inflation CH



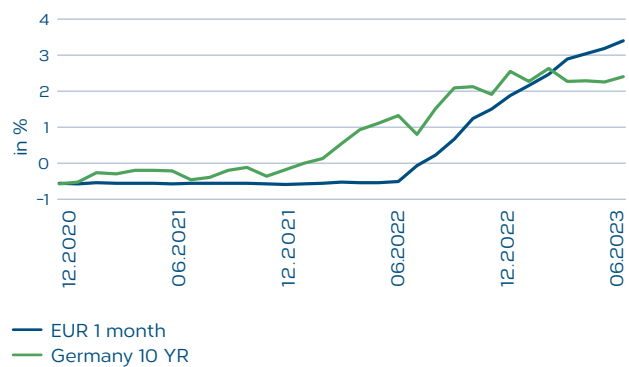
Source: SNB

The SNB has defined a range of 0 to 2% as its target value. The ECB and the FED are aiming for a medium-term target value of 2% p.a. As per today, the core rates, especially in Europe and the USA, are still well above the target values.

Experts and central bank representatives have pointed out that inflation spreads in spurts across the economy as a whole as players try to pass on costs. In this context, one also speaks of second-round effects, which are currently particularly noticeable in the services sector.

At the most recent central bank meetings, further interest rate hikes (Switzerland and Europe) were decided or planned adjustments were indicated (USA). The central banks expect a stubborn core rate which will only recede slowly. They intend to counter this development with determination and to raise interest rates further if necessary.

### Interest rate developments on key rates and ten-year government bonds in EUR



Source: ECB

After several years of low interest rates, an abrupt and rapid rise in interest rates can be seen since 2022. The new interest rate reality is now affecting economic development with a certain delay. On the part of the experts, it is expected that the economy will weaken. This expectation is also reflected in the financial markets. For example, in the case of bonds, short-term rates are higher than longer-term rates.



## SPECIALIST ARTICLE

### Conclusion: What points can be noted?

- As far as inflation is concerned, it is not (yet) possible to sound the all-clear. The second-round effects are taking effect and ensure that, according to central bank expectations, the core rate will decline only sluggishly.
- The central banks have communicated as follows with regard to possible further steps:  
SNB: "...it cannot be ruled out that additional rate hikes will be necessary..."  
ECB: "...raise key interest rates to a sufficiently restrictive level and maintain this level for as long as necessary."
- Central banks have raised interest rates within a very short period of time and in large steps. Imagine, for example, that the ECB has raised rates by a remarkable 400 basis points (or 4%) since last July.
- The new "interest rate world" will have a negative impact on economic development, but when and to what extent is difficult to assess at the moment. For this reason, the majority of central banks (with the exception of Japan) are sticking to their restrictive policies. A sharp downturn in the economy could prompt the central banks to abandon the path they have taken to date.



## LMM INSIDE

For many years, we have been serving private and institutional clients from Switzerland with our services. The direct local contact and the proximity to the headquarter in Vaduz ensure short distances and our clients appreciate the individual and personal support.

Due to the steady growth in the Swiss market, we have decided to underpin our activities with the foundation of LMM (Schweiz) AG. We have therefore converted our previous branch office into a Swiss public limited company.



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LMM Investment Controlling AG is an independent provider of investment controlling services and represents the interests of private and institutional clients vis-à-vis banks and asset managers. In addition to its headquarters in Vaduz, it has offices in Baar, Frankfurt, Vienna, Dubai and Sydney.

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