

SWISSQUOTE

FINANCE AND TECHNOLOGY UNPACKED

CRYPTO
Bitcoin,
the rebel

AUTOMOBILE
Luxury
cars defy
the crisis

DOSSIER

MONETARY MADNESS

How Swiss firms are adapting
Central banks under pressure
Forex in turmoil





COLLECTION
Villeret



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MANUFACTURE DE HAUTE HORLOGERIE

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SPEEDMASTER '57
Co-Axial Master Chronometer

A CLASSIC ICON RETURNS

With its unique Broad Arrow hands and tachymeter scale on the bezel, the Speedmaster '57 is emblematic of the first, revolutionary Speedmaster that was launched in 1957. For the latest update, OMEGA has lifted the vintage spirit to another level, with slimmer styling, extraordinary colour, and a Co-Axial Master Chronometer engine that takes precision to the next gear. This enduring watch is a front seat companion for George Clooney, and represents the original, timeless look of the Speedmaster line.



Buying fear



By Marc Bürki,
CEO of Swissquote

It's coming. The recession everyone is dreading is lurking just around the corner. Fear and uncertainty have taken hold of the markets. The concerns that typically arise during this type of economic situation are starting to re-emerge: has fear reached its zenith? How low will share prices fall? Is now the right time to invest? Moreover, the biggest issue at the moment is whether we have passed peak inflation.

Although it is uncertain how the future will unfold, we can look to past crises and events for guidance. The first thing to note is that whenever the markets are expecting the worst, the reality often turns out to be not as bad as expected. It is possible – even probable – that equities have already partially priced in a worst-case scenario. The second thing to note is that bear markets present an opportunity for investments with a sufficiently long time horizon. If you need proof, just look back at past movements in any of the major stock indices.

No one can say for sure whether the equity market as a whole will

tumble even further over the coming months, but certain sectors and regions will become attractive to investors. Valuations of European companies, for instance, are excessively low at the moment. These include “value” stocks which have sound business models and which produce goods or services that are useful in everyday life. These stocks can be found in areas such as healthcare, consumer staples and utilities. Green sectors are another attractive option over the longer term.

At the time of writing, the markets are eagerly awaiting the Fed's upcoming decision on 2 November. Everyone is expecting the US central bank to raise its key interest rate once again in order to curb inflation, which remains high in the United States (8.2% in mid-October). Just how much rates will increase, however, remains to be seen. In any case, the rate hike will surely ruffle some feathers at a time when the dollar is soaring and Europe's trade balance is declining. Bring on 2023!

Enjoy!

p. 24



HAPPY SPORT
Handcrafted in Ethical Gold

Chopard

THE ARTISAN OF EMOTIONS – SINCE 1860

SCANS



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DOSSIER

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SCANS



“Apple is playing with fire. We cannot allow Chinese companies beholden to the Communist party into our telecommunications networks”

Marco Rubio, US Senator, about the Chinese chips that could eventually be installed in the iPhone 14.

energy
UK DRILLING RESUMES IN THE NORTH SEA



Disused oil rigs in the Cromarty Firth estuary, off the coast of Scotland.

ISTOCK

With the war raging in Ukraine, the new British Prime Minister Liz Truss wants to reduce the UK’s heavy dependence on imported fossil fuels. The government therefore initiated a new tender round for exploration permits, to be awarded this autumn. Several other projects are already in the works. This spring, Shell received the green light

from London to develop the Jackdaw natural gas field, 270 km off the coast of Scotland. Once extraction starts in 2025, the site will cover 6.5% of the UK’s natural gas output. During the same period, BP is planning to start production at the Murlach field, also off the north-eastern coast of the United Kingdom.

pharma

VACCINE: TAKEDA MAKES SANOFI GO ALL DENGUE



Dengue fever is an infectious disease caused by an arbovirus transmitted by the tiger mosquito.

Will this be the final blow to Dengvaxia, the dengue vaccine developed by French giant Sanofi? After positive clinical trials, the Japanese firm Takeda Pharmaceutical has obtained approval in Indonesia to market its own vaccine, TAK-003. Takeda’s candidate prevented 84% of hospitalised dengue cases and 61% of symptomatic dengue

cases, making it more effective than Sanofi’s product. TAK-003 is also safer. Launched in 2015 as a blockbuster, Sanofi’s vaccine increases the risk of developing a severe form of the disease in subjects who have never been in contact with the virus. People therefore need to be tested before the vaccine can be injected, but this is an expensive and difficult procedure. Takeda’s product promises to forgo all that. Half of the world’s population (nearly 4 billion people, mainly in tropical areas, but increasingly in Europe as well) is now at risk of contracting dengue fever, which causes 390 million infections and 20,000 deaths each year, according to the World Health Organization.

— 4502 — SNY



17%

The percentage of gas that Europe imported from Russia this summer. Before the war in Ukraine, imports could be as high as 40%. The situation has since worsened, as Moscow closed the Nord Stream 1 pipeline at the end of August.



\$465 M

The record-breaking cost of the first season of *The Lord of the Rings: The Rings of Power*, the new series produced by and streamed on Amazon Prime. The story is a prequel that takes place thousands of years before *The Hobbit* and *The Lord of the Rings*.



“We’re currently managing as we go along due to market volatility”

Ingo Steinkruger, CEO of Interroll, in an interview with *Finanz und Wirtschaft*.

influencers

LIVESTREAMING E-COMMERCE HITS THE WEST



A livestreamer selling food products during the China International Consumer Products Expo (CICPE) in Haikou (28 July, 2022).

YANG GUANYU / AFP

In China, influencers abound, selling huge amounts of goods in livestreams hosted on e-commerce sites. By 2022, they are expected to generate sales totalling \$430 billion, representing 15% of the country’s online commerce. In the West, the phenomenon – reminiscent of the old home shopping networks on TV – is just starting to take off. Amazon,

YouTube, Facebook and Instagram have all launched live e-commerce channels. The Amazon Live channel sells technology gadgets, cosmetics and pet accessories promoted by influencers who take a cut of between 3% and 10% of the sales price. In the United States, live e-commerce is expected to generate \$20 billion this year and \$57 billion by 2025.

RANKING

TOP FIVE PRIVATELY OWNED OIL COMPANIES IN THE WORLD (based on their 2021 revenue)

- 1. EXXONMOBIL (US) \$285.6 BN
- 2. SHELL (GB-NL) \$272.6 BN
- 3. TOTAL (FR) \$184.6 BN
- 4. BP (GB) \$157.7 BN
- 5. CHEVRON (US) \$155.6 BN

Source: Oil & Gas IQ

TOP FIVE COUNTRIES WITH THE HIGHEST INFLATION RATE MID-2022 (in percentage)

- 1. TURKEY 80.21%
- 2. ARGENTINA 78.5%
- 3. RUSSIA 14.3%
- 4. NETHERLANDS 12%
- 5. SPAIN 10.5%

Source: Trading Economics

TOP FIVE COMPANIES ON THE PACKAGED FOOD MARKET (based on their market capitalisation mid-2022)

- 1. NESTLÉ (CH) \$333 BN
- 2. PEPSICO (US) \$249 BN
- 3. UNILEVER (GB) \$121 BN
- 4. MONDÉLÉZ INTERNATIONAL (US) \$90 BN
- 5. KRAFT HEINZ (US) \$ 48 BN

Source: Bloomberg

SIX

ACCELLERON, THE NEWCOMER TO THE SWISS STOCK EXCHANGE

The headquarters of Accelleron in Baden, Aargau.



ABB has spun off its turbocharging subsidiary Accelleron. Invented in 1924 by Swiss engineer Alfred Büchi to improve the performance of ship engines, turbocharging reduces fuel consumption and CO₂ emissions from internal combustion engines. As most countries have made strong commit-

ments to achieve carbon neutrality, turbocharger sales are expected to rise significantly. Posting revenues of \$750 million last year, Accelleron forecasts growth of 6% in 2022. The company, which employs 2,300 people worldwide, was listed on the Swiss stock exchange in early October.

THE BUST

Snapchat slips in popularity

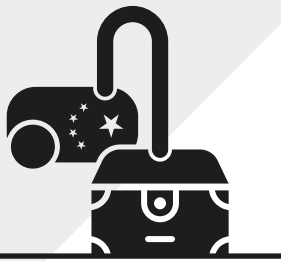
Long considered Gen Z's favourite social network, Snapchat is no longer the go-to media for its target audience, who now prefer TikTok. Rising interest rates and inflation have also caused the online advertising market to contract, reducing the firm's main revenue stream. Its parent company issued a profit warning this spring that sent its share price

plummeting. It is now approaching the \$10 mark compared to more than \$75 a year ago (down 85%). At the end of August, the social network also announced that it would make 20% of its 6,400 employees redundant, cancel its original content and in-app games, and ditch its self-flying camera drone, Pixy, after launching it in April.



“If you look at the big four marijuana companies, all of us could’ve saved between an extra \$40 million and \$80 million in cash if we were taxed as a normal industry”

Charlie Bachtell,
CEO of Cresco Labs,
a US cannabis operator



\$26 BN

The amount that Jack Ma, founder of e-commerce portal Alibaba, has lost since the beginning of the year according to *Forbes*. At the end of 2021, he was worth \$48.4 billion. This drop is due to run-ins he has had with the Chinese government. Authorities want to rein in his all too powerful firm.



Upgrade to Audi's business class

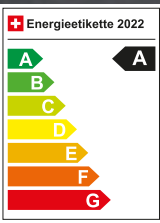
As an SME, you can benefit from special conditions on a range of models.

Audi e-tron GT from CHF 569.-/month

incl. 15% SME discount

Audi e-tron GT quattro, 100% electric

Gross price	111 550.-
4.2% compensation	- 4680.-
11% EnterprisePlus (after compensation)	- 11 750.-
Your special price	95 120.-
Your discount	16 430.-
Annual percentage rate for leasing	1.9%
Leasing rate per month	569.-*



Audi e-tron GT quattro, 476 HP, 21.6 kWh/100 km, 0 g CO₂/km, category A.* Leasing offer: down payment CHF 23 780.-, 48 months, 10 000 km per year. See table for price calculations. Displayed model: Audi e-tron GT quattro, 476 HP, 21.6 kWh/100 km, 0 g CO₂/km, category A, Daytona Grey Pearl Effect, alloy wheels, 5-twin-spoke concave module with graphic print, black, 9.5 J x 21 | 11.5 J x 21 with 265/35 | 305/30 R21 tyres, Matrix LED headlights with dynamic indicators, black plus optical package, single frame in car colour, regular price CHF 121 970.-, compensation CHF 5120.-, EnterprisePlus discount CHF 12 850.-, cash purchase price CHF 104 000.-, annual percentage rate for leasing 1.9%, term 48 months (10 000 km/year), down payment CHF 26 000.-. Leasing rate: CHF 619.-/month. All offers exclusive of compulsory comprehensive insurance. The granting of credit is prohibited if it leads to over-indebtedness on the part of the consumer. Financing provided by AMAG Leasing AG. Offer valid for contracts concluded by 31 December 2022 or until further notice. Subject to change. Applies to all vehicles imported by AMAG Import Ltd. Suggested list price of importer AMAG Import Ltd. EnterprisePlus: commercial offer, only available for vehicles registered to companies with an entry in the commercial register.

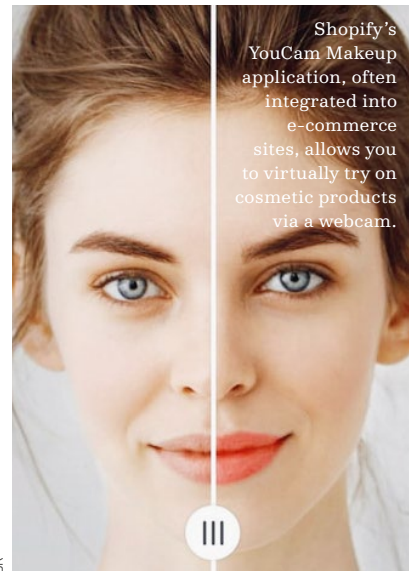
Further attractive offers for SMEs



SCANS

cosmetics

MAKE-UP AND TECHNOLOGY



Shopify's YouCam Makeup application, often integrated into e-commerce sites, allows you to virtually try on cosmetic products via a webcam.

The world of make-up has long been dominated by a few big names in cosmetics, such as Estée Lauder and Chanel. But a handful of small US companies are disrupting the industry, including Fenty Beauty, Il Makiage, Glossier and e.l.f. (for eyes, lips, face). E.l.f. is listed on the New York Stock Exchange, and its share price has soared in recent months. These brands use artificial intelligence and virtual reality software to determine which foundation colour is best for each customer, or to allow them to "try" a specific lipstick. They promote themselves through influencers, sell most of their goods online and offer a range of products that suit most skin types, including black and Asian. — ELF



"People who are otherwise healthy – especially if they're young, have been vaccinated, have had a boost already – boosting them again, I'm just not sure if it's really a good use of resources"

Pascal Soriot,
CEO of AstraZeneca

parcels

DRONE DELIVERY FINALLY GETS OFF THE GROUND



MK27-2, Amazon Prime Air's new autonomous delivery drone, is due to launch later this year in the United States.

AMAZON

The United Kingdom will create an aerial superhighway for drones, in collaboration with telecoms giant BT. The route will link the towns of Reading and Coventry, covering a distance of 265 km, and will be operational within two years. Drone operators will be able to use it to deliver parcels without having to deploy human spotters to maintain visual

contact with the machines, which has been mandatory until now. Ground-based equipment will communicate with the drones to avoid collisions with planes and helicopters. Amazon, set to launch drone delivery in Lockeford, California, has taken a different approach. The aircraft will be built with a system that senses and avoids objects in their path.

ecology

SWISS CHOCOLATE MAKERS SAY NO TO MILK



Nestlé's KitKat Vegan, renamed KitKat V.

NESTLÉ

More and more people are turning to a vegan diet. For Swiss chocolate makers, this is not good news. But they are hitting back, with several of them launching vegan products. Nestlé has come out with KitKat V, which replaces the milk in the chocolate with a rice-based alternative, available in 15 European countries. The carbon footprint

of the vegan chocolate bar is 18% lower than its milk-based counterpart. Lindt & Sprüngli is also trying to capitalise on the trend by introducing an oat milk chocolate bar. The vegan chocolate market is already worth \$533 million and is expected to grow to \$1.4 billion by 2033, according to Transparency Market Research. — NESN — LISN



-44%

Over the first nine months of 2022, the number of companies to go public worldwide fell by 44% compared to the same period in 2021.



"In every past recession we've grown stronger and faster because people don't stop flying in a recession, they get more price sensitive. The recession will make us stronger"

Michael O'Leary,
CEO of Ryanair

KICKSTARTER



DR

DREAM MACHINE

SLEEP MAKER

Dream Machine is a white cube that works with artificial intelligence to monitor its user's sleep. Sensors collect information, constantly measuring the sounds the user makes (snoring, breathing), the brightness and the ambient temperature. Using this data, it automatically adjusts various settings throughout the night to optimise the sleep environment and enhance sleep quality. For example, the machine initially glows with a warm, subdued light, as this promotes melatonin production, and then increases the brightness as the morning approaches to gently bring you into wakefulness. It will also play calming sounds as you fall asleep and diffuse scents that promote sleep (sage, lavender, jasmine) or wake you up (citrus, sea air). What is the Dream Machine's key advantage? By monitoring the user's sleep, it gradually learns what works best for each individual.

FUNDS RAISED
\$19,042

AVAILABLE
SEPTEMBER 2023

SCANS



56 G

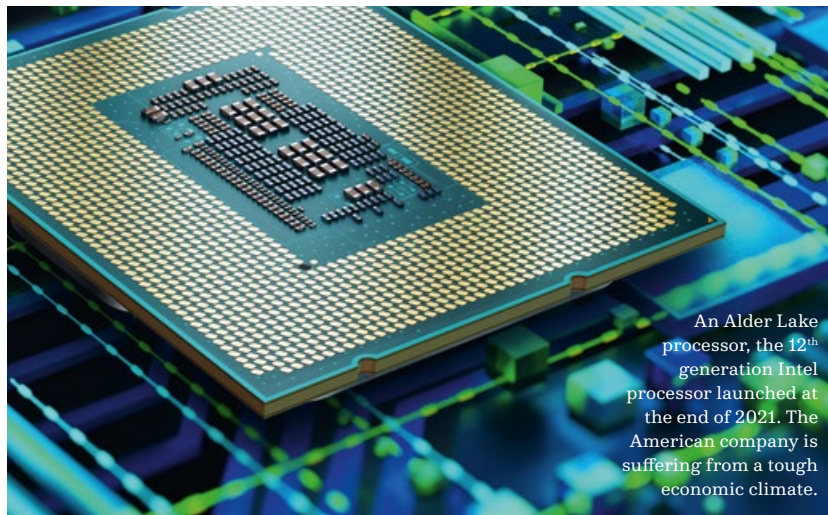
The average amount of CO₂ produced by one hour of video streaming, according to a study by the University of Zurich.

But the figure varies greatly depending on the country and type of energy used. In Sweden, the impact is limited to 3 g, compared with 76 g in Germany. By way of comparison, a car emits an average of 122.4 g of CO₂ according to an EU study from 2019.

fashion

ONLINE CLOTHES SHOPPING:
THE ORGY IS OVER

To boost volumes, the retail websites of clothing brands have long allowed free returns, encouraging customers to buy several sizes or colours of the same garment and then keep only one piece. As a result, 40% of clothing and shoe orders were returned in the United States in 2021. This practice is costly for retailers. They have to foot the bill of shipping costs for returns and pay the staff who sort the goods as they come in. Only 5% of returned goods can be resold as is. Most are marked down or simply thrown away. A handful of e-tailers, such as Uniqlo and Zara, have started charging for these returns.

semiconductor
WHEN THE CHIPS ARE DOWN

An Alder Lake processor, the 12th generation Intel processor launched at the end of 2021. The American company is suffering from a tough economic climate.

INTEL

From shortage to surplus. In 2021, after semiconductor production struggled to keep pace with demand, leading to supply disruptions and plant shutdowns – especially in the automotive sector – the situation is moving in reverse. Tech giant Intel posted a loss of \$500 million in the second quarter of 2022. Its compatriot Nvidia registered sales of \$6.7 billion in the second quarter, well below the initial forecast of \$8.1 billion. And Wall Street took notice of the bad news. With Intel down 50% and Nvidia tumbling 60% since the beginning of the year, what gives? After the pandemic boom, demand for consumer electronics

– the world's largest consumer of semiconductor chips – is in free fall, driven down further by inflation and eroding purchasing power. The research and consulting firm Gartner predicts that the semiconductor sector is entering “a period of weakness”, with a growth forecast at 7.4% in 2022, one-third of growth in 2021, and a 2.5% decline in revenue in 2023. The investment bank Jefferies is even more pessimistic, forecasting a 10% decline in 2023. A recovery is expected by 2024. According to several analysts, the 2022 market crash of the chip giants is a good entry point for investors.

— INTC — NVDA

IPO

SYNGENTA TO LIST IN SHANGHAI

Syngenta is heading back to the stock market. The Swiss pesticide and seed giant delisted from the SIX Swiss Exchange in 2018 after being taken over by the Chinese conglomerate ChemChina for \$43 billion. Its IPO is planned by year-end on the Shanghai Star Board, China's Nasdaq. The firm hopes to raise \$10 billion, which would make it

one of the biggest listings this year. Restructured in 2020 to integrate the Israeli company Adama, Syngenta saw its sales rise 24% in the second quarter to \$9.2 billion, after already climbing 26% in Q1. This strong performance results from the rise in the price of seeds and other agricultural products, fuelled by the war in Ukraine.

HUBLOT




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BIG BANG UNICO

Titanium and blue ceramic case.
In-house UNICO chronograph movement.

TRENDS



the figure

MARKUS BERNSTEINER

Stadler Rail has a new boss

Position
CEO

Age
55

Nationality
Swiss

The shoes to be filled are big. When he takes over the reins of Stadler Rail in January 2023, Markus Bernstein will replace Peter Spühler, the founder of the railway rolling stock manufacturer. Mr Bernstein, 55, joined the Thurgau-based company in 1999 and has spent almost his entire career there. He rose through the ranks to become CEO of the company's

Swiss division, which employs 13,000 people worldwide. This is the second attempt by the 63-year-old Peter Spühler to hand over the management of his company. In 2018, Thomas Ahlburg was appointed CEO. But the two men did not get along and Ahlburg left in 2020. Markus Bernstein is inheriting an organisation with a record order book. However, he will have to contend with a strong Swiss franc, rising energy prices and supply chain issues. For example, the company had to halt production at its Minsk plant in Belarus because of sanctions related to the war in Ukraine.



the country

TURKEY

The Turkish paradox

Upon first glance, Turkey is struggling, suffering crisis after crisis since 2018. The lira, the local currency, has plummeted, inflation is now at more than 80% and foreign investors are staying away from Turkish stocks and bonds. This situation was caused by the erratic monetary policy of president Recep Tayyip Erdoğan who continues – against economic logic – to maintain low interest rates to fight inflation. However, the Turkish economy has been surprisingly resilient thus far. Last year, GDP increased by 11% and it climbed another 7.6% in Q2 of this year. The country owes this success to its status as fertile ground for industry. It is home to several well-diversified conglomerates, such as Koc and Sabanci, which produce car parts, household appliances, cement, electricity and financial products. They are just as productive

as large German groups. In addition to big companies are small family companies that are agile and flexible, enabling them to survive economic shocks. Turkey has also become a competitive destination for Western groups that wish to reduce their dependency on China. Last year, IKEA and Hugo Boss moved part of their production from Asia to Turkey.

Population
85 million

GDP per capita
\$9,586.6 (2021)

Growth
11% (2021)

Main economic sectors
Textiles, cars, household electronics, construction materials and agriculture

Different dreams. One mindset.



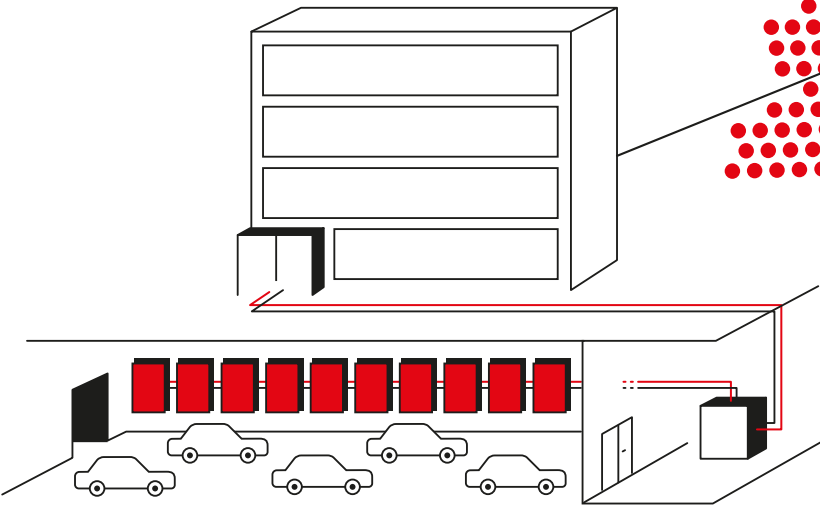
Be one of us.
drivenbydreams.ch



PORSCHE

SWISS STARTUPS IN THIS EDITION

BY GRÉGOIRE NICOLET



ENERDRAPE

GEOTHERMAL PANELS IN CAR PARKS • • • • •

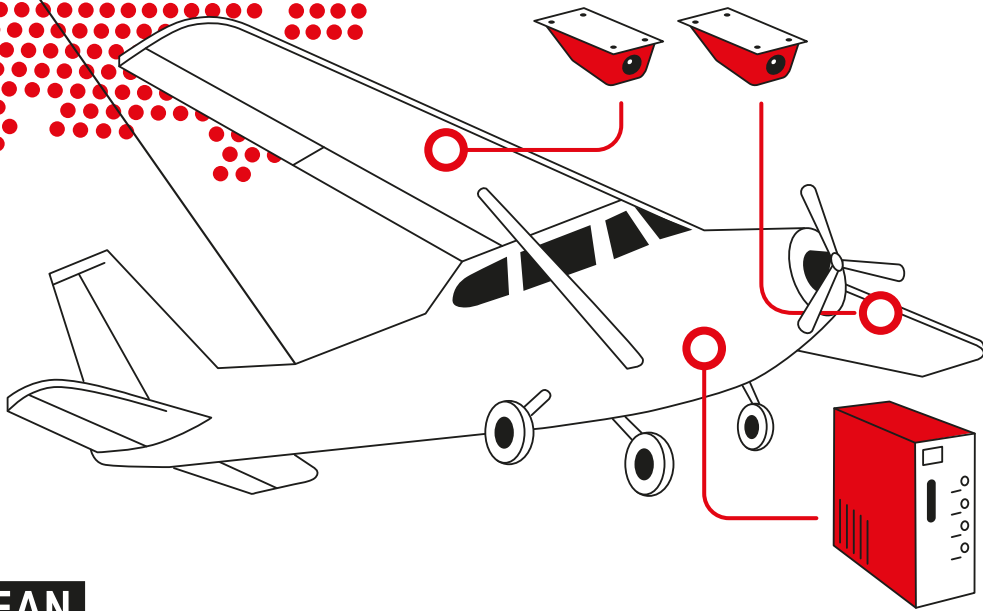
Number of employees	3
Founded	2021
Headquarters	Ecublens (VD)

The EPFL startup Enerdrape has developed technology that combines geothermal panels and heat exchangers to heat or cool buildings. Measuring 70 cm x 140 cm, the panels allow for water circulation and are built to be installed on concrete walls in underground structures (car parks, tunnels, metro stations) to recover heat or cold. This type of installation has the advantage of not being invasive, unlike geothermal drilling. The recovered energy goes towards heating or cooling the building (1 square metre of panels can heat up to 5 square metres of surface area).

“Our panels use unexploited surfaces and do not require rare metals, which makes them less expensive to manufacture than solar panels,” says

Margaux Peltier, founder of Enerdrape. “In addition, the energy is available continuously, and not intermittently like solar power.” A successful test phase took place at the Sébeillon car park in Lausanne in late 2021, and the first commercial installations are scheduled for 2023.

In June, Enerdrape won the Grand Prize in the →venture→ competition, which honours innovative young Swiss startups. The Vaud-based company also won the SUD award organised by the daily Swiss newspaper *Le Temps*, as well as the Trophée PERL from the Lausanne Region. At the end of October, Enerdrape will be one of 10 Swiss startups selected by Venture Leaders Cleantech to participate in a roadshow in Munich.



DAEDALEAN

TOWARDS PILOTLESS PLANES • • • • •

Number of employees	100
Founded	2016
Headquarters	Zurich Oerlikon (ZH)

Zurich-based startup Daedalean has developed a piloting assistance system for light aircraft and eVTOLs (electric vertical take-off and landing aircraft) that uses machine learning. Developed in collaboration with US avionics firm Avidyne, the solution, called PilotEye, is expected to be certified for market launch in 2023.

The system features up to four cameras placed on the aircraft wings and fuselage, a box with an onboard processor, and a screen, which is optional and can be replaced with an iPad. It’s a sort of co-pilot, Luuk van Dijk, CEO of Daedalean, explains, “PilotEye works like a pilot’s assistant. It serves as an extra set of eyes in the cockpit, bringing visual detection

of airborne hazards such as drones and birds, as well as of other aircraft that do not have an automatic monitoring system.” The startup says that its technology is the first of its kind to use artificial intelligence. More importantly, PilotEye is the first step towards the company’s goal of developing a fully autonomous piloting system for electric vertical take-off and landing aircraft, or eVTOLs, which are destined to be the future air taxis.

In May, Daedalean raised \$58 million, for a total of \$78 million since it was founded. This funding round was led by the venture capital arm of US giant Honeywell. Daedalean has been a partner to its subsidiary Honeywell Aerospace since 2019.

Crypto Chronicles

Safe haven, you say?

Bitcoin had been moving in step with the Nasdaq, as of late. But for some months the digital currency has been showing signs of decorrelation.

BY LUDOVIC CHAPPEX

Will autumn 2022 mark a new turning point in Bitcoin's bewildering trajectory? BTC has remained remarkably stable around \$19,000 since late June, in a very negative economic climate. Meanwhile Nasdaq, the leading index for tech stocks, has continued to decline against a backdrop of high volatility. In early October, Bitcoin posted a 1% gain for the previous three months, while the Nasdaq 100 and S&P 500 lost 3% and 4% respectively over the same period.

That episode provided food for thought, as the markets had become used to Bitcoin mimicking the performance of the Nasdaq – and to a lesser extent the S&P 500 – more and more closely. According to data from the website The Block, the correlation between Bitcoin and Nasdaq reached a record value of 0.9 over a period of several weeks this past spring (a correlation of 1 would mean that they are entirely in sync). It has since fallen to around 0.7.

What does all of this mean? To help us understand, let's briefly review

the context. When Bitcoin first launched, it had no link with traditional finance. For a long time, BTC was a fringe investment whose value was not really correlated to the markets. Then came the bull run of 2017, which raised its profile and gradually attracted a myriad of private and institutional investors. That's when BTC started behaving like a high-risk tech stock. But this asset class was hampered in November 2021 by the emerging economic crisis and the Fed's desire to tighten its monetary policy, signalling reduced liquidity. To make matters worse, many investors who fell victim to margin calls on the equity markets sold their Bitcoins to reduce their exposure to risk – and in some cases to save their portfolio. As a result, nearly one year later, Bitcoin had lost more than two-thirds of its value.

In recent months, however, BTC has shown greater resilience than shares, offering a faint glimmer of hope for its aficionados. What's more, for fans of the cryptocurrency, it is paradoxical that Bitcoin, which is by nature a deflationary currency and similar to gold in terms of its fundamentals –

its supply is finite, as only 21 million BTC will ever be mined – is not benefiting more from the inflation that is affecting fiat currencies.

It is paradoxical that Bitcoin, which is by nature a deflationary currency is not benefiting more from the inflation that is affecting fiat currencies

But perhaps it's only a matter of time, if Bitcoin and equities become less correlated as a result of persistent inflation and more intense macroeconomic disturbances, which is exactly what Barry Silbert, CEO of Digital Currency Group, a venture capital firm focusing on the digital currency market, believes will happen. In a tweet dated 28 September, the American investor predicted: "Bitcoin is about to become the safe haven asset. Nowhere else to hide." Let's see where things stand in six months, shall we?



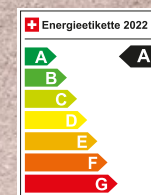
THE NEW GLC

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DOSSIER

MONETARY MADNESS

Distraught central banks, a turbulent currency market and Swiss firms resisting the weak euro. Our dossier.

BY LUDOVIC CHAPPEX

- 24. The Fed says goodbye to growth
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- 36. Swiss firms: not afraid of the strong Swiss franc
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Dossier prepared by Ludovic Chappex and Julie Zaugg

GOODBYE GROWTH

The restrictive monetary policy led by Jerome Powell, Chairman of the Board of Governors of the United States Federal Reserve (Fed), is the target of numerous criticisms. Pictured here during his hearing for renomination on Capitol Hill, before the Senate Banking, Housing and Urban Affairs Committee (11 January, 2022).

KEYSTONE

The US Federal Reserve has shaken up the markets by making several interest rate hikes since the start of the year to combat inflation. The dollar is soaring, while the euro and sterling have declined. The threat of recession looms.

BY LUDOVIC CHAPPEX

Tensions, plot twists, decision-makers under pressure, everyone else on tenterhooks – for anyone following the monetary policy decisions of the major central banks this year, it has been a bit like watching a TV drama. The context is entirely novel. Record inflation has inevitably led those institutions to incrementally raise their interest rates by levels unprecedented in recent decades. The Fed, America's powerful central bank, has raised its benchmark interest rate five times since March, from zero to over 3%, a trend that will likely continue over the coming months. That's because Fed chair Jerome Powell is determined to do whatever it takes to curb inflation in the United States. In September, the year-on-year price increase there amounted to 8.2%, barely less than the 8.3% year-on-year increase recorded in August.

A BUZZ OF ACTIVITY

Recent weeks have seen increased activity. A 0.5% rate hike by the Reserve Bank of Australia on 6 September was followed by a 0.75% hike by the Bank of Canada

the next day. The European Central Bank (ECB) also raised its policy rate by another 0.75% on 9 September, and the Fed followed suit on 21 September. The Bank of England then raised its key interest rate by 0.5% on 22 September.

“If the euro weakens, the eurozone will continue to import inflation”

Maxime Botteron, economist at Credit Suisse

For the time being, this flurry of measures has not been enough to prevent noticeable price rises. The reality in the eurozone is stark – inflation reached a new all-time high of 10% in September. Only the Fed's actions have had a somewhat positive impact on its economy. Although the rising dollar has reduced exports for many US companies, which are suffering as a result of the current situation, it has had an overall positive effect on foreign trade for the US, which is a net exporter of oil and gas. But the opposite situation prevails in Europe, whose trade balance is collapsing ▶



mainly due to its dependence on US oil and gas, which are paid for in dollars.

The depreciation of the euro is clearly putting a big strain on the EU: “If the euro weakens, the eurozone will continue to import inflation,” says Maxime Botteron, an economist at Credit Suisse. “Current inflation in Europe is due not so much to an overheating of the economy as to rising energy prices.”

Experts expect to see high volatility with strong fluctuations on the markets in the coming months

There’s something paradoxical about the current situation. Central banks are now trying to strengthen their currencies, after having accustomed the markets to competitive devalu-

ations. “After several years of competitive depreciation of currencies, we are now seeing competitive appreciation,” says Frederik Ducrozet, head of macroeconomic research at Pictet Wealth Management.

HEADING TOWARDS RECESSION
For many analysts, everything seems to indicate that this widespread monetary tightening is leading the global economy towards an inevitable recession (defined as a period of reduced economic activity characterised by a decline in a country’s gross domestic product (GDP) for at least two consecutive quarters). “There will definitely be a recession,” says Ducrozet. “But it would be even worse to go through a recession without having raised interest rates.”

The big question is whether the central banks, and in particular the ECB, will stay the course in the event of

a drastic economic slowdown. “We believe the ECB will not turn back,” says Ducrozet. “But it will probably stop at an interest rate of around 2% (ed. note: vs 1.25% currently), when recession threatens to lead to a sharp rise in unemployment.”

After all, interest rate hikes have many negative effects, such as higher borrowing costs for companies and individuals, lower government bond yields and higher debt costs for governments (whose finances are often already weak). Not to mention the harmful consequences for the financial markets, as the major stock exchanges are none too pleased at the prospect of a recession combined with persistent inflation. Since the start of the year, the correction of the Dow Jones, the S&P 500 and the Nasdaq is respectively -20%, -25% and -30% (as of 15 October), to name only the major US indices, which dictate the markets’ mood.

UPS AND DOWNS
Given the current climate of uncertainty, experts expect to see high volatility with strong fluctuations on the markets in the coming months. For some of the bolder and more savvy investors, this situation could be a boon. Economist Marc Touati summed things up in an article published on the website of the French magazine *Capital* on 8 September: “Stock markets will remain turbulent, alternating between crashes and periods of recovery, weathering choppy waters, jostled by explosive ups and downs.”

“Everybody is running to increase interest rates, and this will bring us to a global recession”
Josep Borrell, Vice-President of the European Commission

SUPPORT AND OPPOSITION
A number of prominent voices are speaking out in response to these events. Some are encouraging the central banks to continue to combat inflation, while others are arguing that the restrictive policies are ineffective at best and destructive at worst. Politicians and institutional leaders (current and former) are weighing in, as are economists, writers and many more besides.

On 27 August, at an annual gathering for central bankers in Jackson Hole, German economist Isabel Schnabel, a monetary hawk, said that “sacrifices” need to be made, and that rising prices must be combated “even at the risk of lower growth and higher unemployment.” Joachim Nagel, president of the Bundesbank, expressed similar views a few days later, on 31 August: “We need a strong rise in interest rates in September. And further interest rate steps are to be expected in the following months,” he warned. On 7 October, Kristalina

Georgieva, managing director of the International Monetary Fund (IMF), reinforced this point: “The central banks need to stay the course and do more” to combat persistent inflation, she said in an interview with Agence France-Presse.

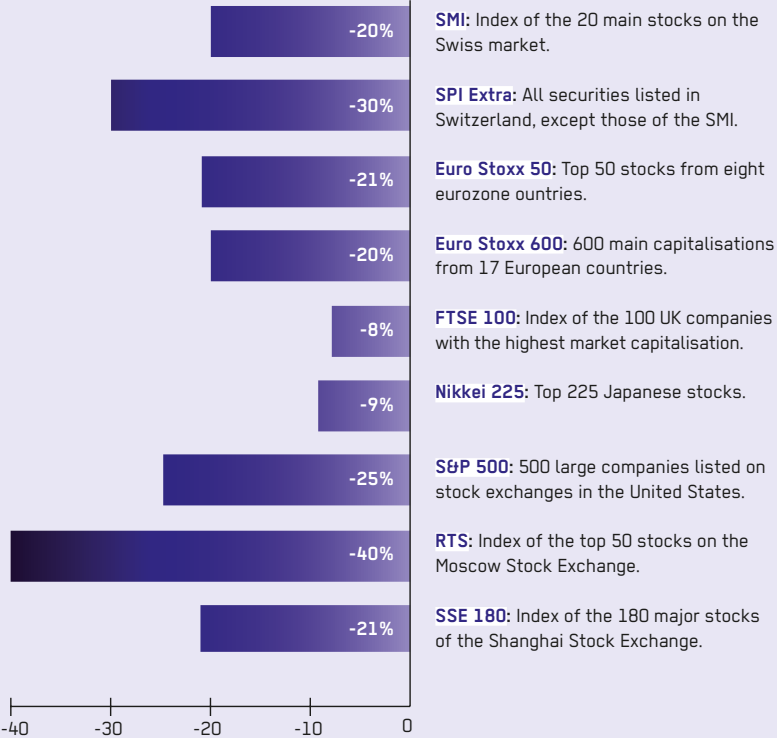
Outside of official bodies, Paul Krugman, winner of the 2008 Nobel Prize in Economics, who is usually a proponent of accommodative monetary policies, said at a conference organised by the ECB that he too is in favour of higher interest rates, invoking the “precautionary principle”. Economist Jean Pisany-Ferry summarised these positions in the French business newspaper *Les Echos* on 19 September: “No economic model advises having a

key interest rate around 1% when inflation is close to 9%.”
In the other camp, several former or current leaders are voicing their scepticism. In an essay published in mid-September by the Peterson Institute for International Economics, Maurice Obstfeld, former chief economist of the IMF (until October 2018), warns: “The present danger [...] is not so much that current and planned moves will fail eventually to quell inflation. It is that they collectively go too far and drive the world economy into an unnecessarily harsh contraction.”
Within the official sphere, criticism came from of the head of European diplomacy Josep Borrell, on 10 October during a speech to EU ambassadors, >

The truth about stock market indices

After the euphoria of 2021, global markets are going through their biggest crisis in more than 10 years.

(Change between 1 January and 15 October, 2022)



leaving an impression: “Everyone has to follow the rate hikes decided by the Fed, otherwise the currencies will be devalued against the dollar,” he stated. “Everybody is running to increase interest rates, and this will bring us to a global recession.”

The United Nations Conference on Trade and Development (UNCTAD) also voiced its concerns in a statement dated 3 October, warning of a global recession induced by current monetary policies. Vitor Constancio, a former member of the ECB’s Executive Board and an active Twitter user, is also calling for prudence and progressiveness. The Portuguese economist is critical of the ECB’s action and says that interest rates are not a suitable instrument for responding to supply shocks such as the EU’s current energy crisis, and that this policy will not have an impact on energy prices or the prices of goods containing imported components.

The ECB is in a complicated situation with no happy outcome, according to experts

In the same vein but in more vindictive language, French writer and economist Jacques Attali drove the message home in an article dated 7 September: “Today’s inflation has no monetary origin; to try to curb it by raising interest rates, as central banks are doing and will continue to do, is suicidal. All in all, this will lead to a downward balance of supply and demand, dragging the economy into a recessionary spiral, when what is needed is a massive boost to investment in the sectors of the future, with very low interest rates.”

This line of reasoning is starting to resonate across the Atlantic, even though the respective situations of the EU and the US are not comparable. In an open letter dated 10 Octo-

ber, Cathie Wood, star investor and founder of the investment management firm Ark Invest, says the Fed is making a serious policy error that will cause deflation. She argues that the Fed is focusing on employment and inflation, both of which are lagging indicators, and that it should instead be focusing its attention on soaring commodity prices.

CENTRAL BANKS ALL BEARING THEIR OWN CROSS

While all central banks are looking to control inflation, they don’t all have the same means to do so – far from it. In the rate hike race, the Fed is one of the only actors that has a few powerful advantages. Its actions have started to bear fruit in recent weeks, with inflation inching downwards in the US (8.2% at the end of September). The global economy is highly dependent on the dollar and hangs on the decisions of the US central bank. Everyone is eagerly awaiting 2 November, when the Fed will likely announce another rate hike.

By comparison, the ECB is in a complicated situation with no happy outcome, according to experts. If inflation in the eurozone is not due to tensions on the labour market but to a supply shock linked to the energy crisis, then interest rate hikes – and therefore lower demand – will not help solve the problem. It looks like the ECB will ultimately have no choice but to ease up on its monetary policy in order to avoid an overly harsh recession.

The situation isn’t any better for the Bank of England (BoE). Since the government’s announcement of controversial budget measures in late September, borrowing costs for the British government have soared. Faced with the sharp drop in the sterling over the past year, the BoE has also introduced a restrictive monetary policy and raised its interest rates. As for the Reserve Bank of India, it is also unable to stop the historic fall of its currency, the

rupee, against the dollar, despite a new monetary tightening at the end of September and a massive use of foreign exchange reserves.

China and Japan, the two other economic heavyweights, are continuing to pursue a completely different monetary policy strategy. They are maintaining very low interest rates – with China even reducing them – despite inflation, so as to avoid affecting growth. The problem, however, is that the yen reached a new all-time low against the dollar on 17 October, making Japanese imports more expensive. The situation is the same for the yuan, which reached its lowest level versus the dollar since 2008 on 17 October.

THE SNB’S ENVIABLE STATUS

Where does the Swiss National Bank stand in all this? While it does not have the power to lower energy prices, it is nevertheless able to contain inflation in Switzerland and neutralise the impact of the strong dollar – unlike the ECB – making energy imports less expensive thanks to the strength of the Swiss franc. Although the decline in the euro versus the Swiss franc is collateral damage from the SNB’s interest rate rise, the central bank decided it would rather combat inflation through currency appreciation. On 16 June, it surprised everyone by raising its key rate by 0.5% before the ECB did so, putting the euro/CHF pair under pressure. The SNB’s lead-

ers said they intend to continue on that path, even stating in mid-September that: “If the Swiss franc were to weaken, we would consider selling currencies.”

Is the ECB worried that this could potentially cause the euro to tumble? Maxime Botteron of Credit Suisse says: “The ECB’s monetary policy has a much greater impact on the SNB’s monetary policy than the other way around, due to the impact that the EU and Swiss economies have on one another. The SNB is also clearly more dependent on external factors, over which it has no control, than the ECB and the Fed. Its actions have less of an impact on the markets.”

This situation explains why the SNB is seeking to give itself some leeway: it operates discreetly, which makes its policy difficult for the markets to predict. At Pictet, Frederik Ducrozet specifies “The SNB’s policy is dictated by domestic considerations. The fact that it meets only once every quarter doesn’t make things any simpler. It may decide to raise its rates by a greater increment in one go.”

Ducrozet’s last remark appears to suggest that the SNB is in a very comfortable position: “We are sceptical as to its strategy which involves potentially intervening in the foreign exchange market. With inflation at just 3.5%, is an even stronger Swiss franc really necessary?” ▲



DANIEL ROLAND / AFP

A YEAR OF BREAKING RECORDS

Inflation rates. Exchange rates. Mortgage rates. Stock market indices... The past few weeks have been off the charts! Here is an overview.

94

CENTS

The Swiss franc broke its record against the euro in late September. On 26 September, it cost a mere 94 Swiss franc cents to buy one euro.

\$19.6

BILLION

The Bank of Japan spent 2.8382 trillion yen (\$19.6 billion) in September to prop up its flailing currency. But it was a waste of time. The intervention only bought the Japanese currency a week of respite. In early October, the dollar had already cleared the 145 yen per dollar mark, a peak not reached since 1998.

115

The DXY index, which measures the value of the dollar against a basket of foreign currencies, neared the symbolic threshold of 115, hitting 114.74 on 28 September, a feat not achieved since 2002.

-22%

The fall in the DAX, the main German stock market index, since the beginning of the year.

10%

The one-year inflation rate reached in the 19 eurozone countries in September. This is the highest figure ever recorded by the European statistics office since the indicator was first published in January 1997.

\$0.97

As of 15 October, the dollar is trading at \$0.97 per euro, the highest level since December 2002, the year the European single currency was introduced.



The increase in profits for firms on the CAC 40, which have an extensive international reach, in the first half of 2022. The companies are riding on the back of the weak euro against the dollar.

+26%

-11%

The average loss in value of emerging country currencies against the dollar between January and August 2022, based on World Bank data. The dollar's strength could have catastrophic consequences, as most of the world's poorest countries hold debt in dollars. Sri Lanka and Namibia have already declared themselves in default, and the list could grow.

+43.3%

The increase in industrial producer prices in August 2022 from August 2021 in the euro zone.

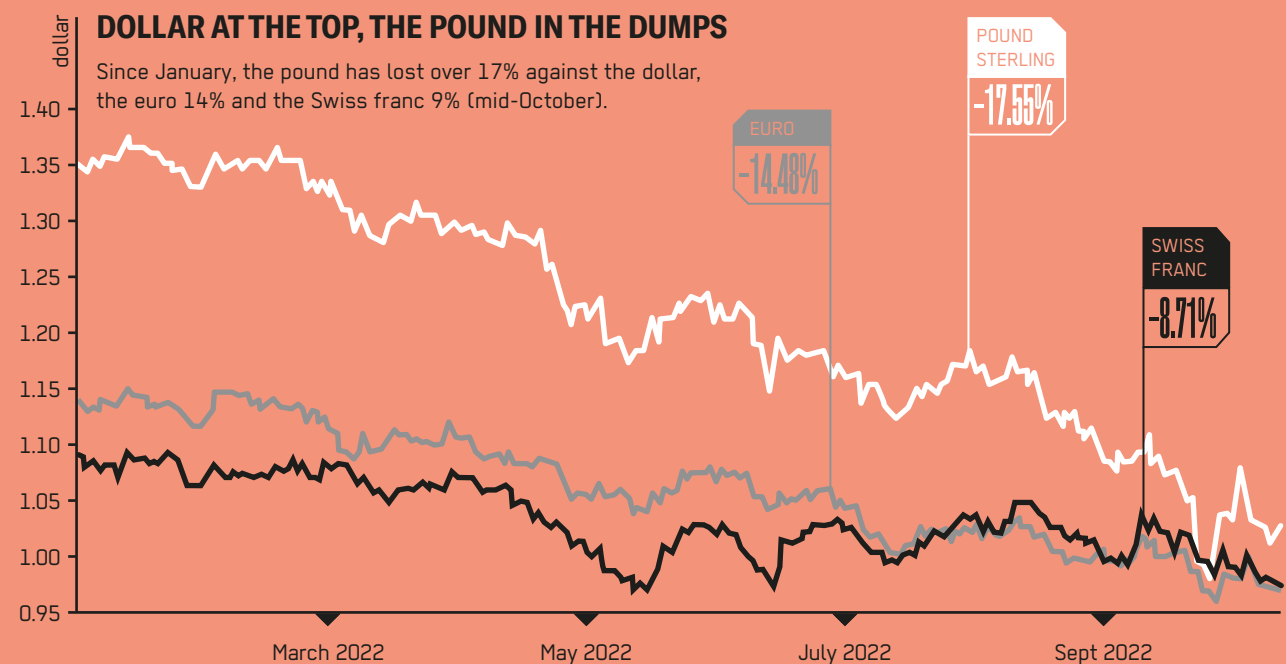
13.7%

Inflation in Russia soared to 17.1% year-on-year in April, breaking a 20-year record, but retreated to 13.7% year-on-year in September, according to the Russian Federal State Statistics Service, Rosstat.



+263,000

The number of jobs created in the United States in September brought the unemployment rate down to 3.5%, the lowest level in 50 years. That news has caused jitters on the markets. Given the current context of high inflation, these figures could prompt the US central bank (Fed) to raise interest rates a fourth time when it meets in early November.



THE FOREX MARKET IS HEATING UP

The current fluctuations in the currency market are piquing interest from traders. We provide an overview of the main investment strategies.

BY JULIE ZAUGG

AN UNCERTAIN CLIMATE

According to all the experts, one trend dominates the currency market: the strong dollar. Patrick Reid, the co-founder of The Adamis Principle, a UK consulting firm that specialises in Forex, believes it is an effect of the US central bank's (the Fed) policies. "The Fed increased its interest rates more quickly and more aggressively than its counterparts in other countries," he says. As a refuge currency, the dollar is attractive to investors in uncertain global situations.

Valued for its stability, the Swiss franc is in a similar situation. But Switzerland could suffer from energy shortages this winter as a result of the war in Ukraine, which could have an impact on its currency, according to Christopher Lewis, an analyst at the platform Daily Forex.

The situation is bleaker on the rest of the European continent. In late September, the pound reached a historic new low, trading at 1.035 against the dollar. The markets reacted to a series of tax cuts announced by the government. "The concern now is that inflation could increase and lead the country into a recession that could last at least five quarters," says Reid.

While the euro is doing marginally better than the pound, it has nevertheless dropped below parity with the dollar, after falling nearly 10% since this spring. "The European Central Bank waited too long to raise its interest rates and the continent will suffer from a shortage of Russian gas this winter," says Reid.

MOMENTUM BETTING ON THE STRENGTH OF THE DOLLAR

Peter Trager, an expert on the currency market who teaches at the University of Kentucky, advises investors to bet on the strength of the US dollar. "I would take a long position (ed. note: a buying position) on the dollar, compared to most other currencies," he says. "I would also take a long position on the euro compared to the pound, because I believe that the problems in the UK seem more serious and more long-term than those faced by the European Union."

This strategy, considered the most basic, is called "momentum". It involves observing the dominant Forex trends and following the movement by taking positions that reflect what other investors are doing. "This strategy can generate significant returns, without taking too much of a risk, because you can quickly sell a position if you feel that the tides are changing," says Richard Levich, professor of finance at the New York University Stern School of Business. As this strategy requires significant responsiveness, it is best suited to short-term investments. In some cases, positions are bought and sold in the same day – known as day trading.

REMAIN IN THE KNOW

To anticipate trends on the currency market, it is crucial to closely follow monetary policy announcements from central banks. A hike in interest rates that is seen as too much, or not enough, could have an immediate impact on a currency. And in some cases, the fact that a central bank abstains from or stops intervening can also be very consequential: “When the SNB discontinued the minimum exchange rate of 1 euro for 1.20 francs in January 2015, the effects were devastating,” says Trager. When the limit was removed, the euro briefly fell to 0.965 compared to the franc.

Currencies are also very sensitive to political decisions, such as the tax cuts recently announced by the UK government, as well as geopolitical turbulence, such as the war in Ukraine. They also react to macroeconomic indicators, such as inflation, growth rate and balance of payments. The weak euro is due in part to the negative balance of payments by the European Union, caused by increased prices for energy imports.

The price of certain currencies is influenced by unique factors. It is therefore worth studying the political and economic situation of a country before investing in its currency. For example, the Canadian dollar is strongly correlated to the price of oil, given that the country is a large oil producer.

FIND THE CURRENCIES THAT ARE FALSELY VALUED

A second strategy, known as “value”, involves taking a short position on currencies that seem to be overvalued and taking a long position on undervalued currencies, in the hopes that they reach the correct value. “It’s a long-term strategy that requires in-depth knowledge of the currency market,” says Levich. The dollar will most likely remain strong over the next few months, but it can’t maintain its current value forever. “At the first sign of a drop, it will make

sense to take a short position on the dollar,” says Reid of UK consulting firm, The Adamis Principle. A report from the International Monetary Fund (IMF) published in August indicated that the US dollar is already overvalued by 20%.

The Chinese yuan, the Czech koruna and the Indian rupee are also overvalued, according to Bloomberg (at the end of September). Conversely, the Turkish lira, undermined by the country’s rapid inflation and the unorthodox monetary policy of President Recep Tayyip Erdoğan, is undervalued, just like the yen.

To determine whether a currency is under- or overvalued, the best method is to conduct the purchasing power parity test, which consists of comparing its exchange rate based on whether the price of a basket of goods in one currency is equal to the price in another currency. There are also a myriad of technical tools, such as the Bollinger bands or the Relative Strength Index, which determine whether a currency is under- or overvalued. The IMF also publishes regular analyses that include this information.

CARRY


THE INTEREST RATE GAME

A third strategy, known as “carry” involves betting on the difference in interest rates between two currencies. Investors purchase the currency with the highest interest rate using a loan taken out in the currency with the lower rate. Profits come from the difference between these two rates. Rendered virtually obsolete by a long period of interest rates close to zero, the carry strategy has regained popularity thanks to higher interest rates from several central banks.

In the current climate, the USD/JPY pair is particularly well-suited to this strategy. “Using a 10 year bond yield as an example, there’s a differential of approximately 3.5% between the interest rates of these two currencies,” says Levich. “That results in a sizeable profit.”

The carry strategy is reserved for experienced investors, as it can lead to many regular small gains, but it comes at a higher risk. “You’re betting on the fact that the currency with the higher rate will continue to increase and the currency with the lower rate will fall, but if the opposite happens, your gains will quickly disappear,” says the finance professor. It also requires patience, as changes in interest rates happen over months rather than over several days or hours.

To implement such a strategy, investors need to closely monitor the differences in interest rates between currencies. The CME FedWatch tool, which makes predictions on future announcements from the US federal bank, can be useful in this approach.



WHO'S AFRAID OF THE STRONG SWISS FRANC? NOT SWISS FIRMS...

As the euro nosedives, Switzerland's national currency is holding strong. And without any complaints from Swiss industry. At least not yet.

BY LUDOVIC CHAPPEX

word: inflation. Inflation has been unhinged for several months in the eurozone, where prices rose by 10% year-on-year in September, according to Eurostat, compared to only 3.3% in Switzerland. This differential compensates for the competitive disadvantage caused by the exchange rate and has therefore benefited Swiss companies that export their products to the EU. “If we take the real exchange rate (ed. note: factoring in relative price levels in Switzerland and the EU), the Swiss franc is even lower against the euro than it was in 2015 after the SNB discontinued its minimum rate,” says Martin Eichler, a member of the management board at BAK Economics. In detail, the SNB index which provides the real exchange rate of the franc in the eurozone (since December 2000 on a monthly basis in base 100) currently stands at 116, against nearly 120 during the first six months of 2015.

Another important difference between the current circumstances and those of 2015 is that, at the time, the euro’s decrease was sudden and dramatic, causing major instability. This is not the case today. The trauma experienced in 2015 had one positive outcome, in that Swiss firms took steps accordingly to safeguard themselves against exchange rate fluctuations, including optimising their production costs and boosting innovation.

“Swiss firms are now very cautious,” says Michael Foeth, head of Swiss Industrial Research at Vontobel. “And they have become accustomed to offsetting currency fluctuations.” As a result, many companies can opt for suppliers and subcontractors from the euro zone to reduce their costs. Plus, multinationals often have production sites in the coun-

Thursday, 15 January 2015, 10.30 am: the Swiss National Bank (SNB) sent a shock wave through the markets when it announced that it would discontinue its minimum exchange rate of CHF 1.20 to the euro. That rate had been maintained since it was introduced four years earlier. The euro almost immediately hit parity with the franc, and then hovered around CHF 1.05 for several weeks. Swiss industry was stunned and angry. How could it stay competitive when more than half its products were exported to the euro zone?

Monday, 26 September 2022: while the Swiss franc remained well below parity with the euro for several weeks, it crossed a new psychological barrier of CHF 0.95 against the euro. And no reaction. Not even the slightest concern expressed by Swiss industrial firms. Quite a

contrast to the widespread panic from a few years earlier. Have Swiss companies become so efficient that they will not let mere exchange rate fluctuations bother them? Or is it a change in the economic climate?



“If we take the real exchange rate the Swiss franc is lower against the euro than it was in 2015 after the SNB discontinued its minimum rate”

Martin Eichler, a member of the management board at BAK Economics

Both, according to the experts we interviewed. At the macroeconomic level, the essential difference between the context in 2015 and the situation today boils down to one

tries where they sell their products. So the strong Swiss franc is not a cause for concern, at least not for the time being. “With the post-COVID recovery, Swiss companies’ order books are full,” notes Maxime Botteron, an economist at Credit Suisse. “For the months to come, however, the situation looks more complicated. We should expect a decline in demand, especially in the eurozone.” “We also need to be wary of the delay effect,” Martin Eichler says.



“What is painful for Swiss firms is when rates move sharply and quickly”

Jérôme Schupp, analyst at Prime Partners

“Many companies sign medium-term contracts with their suppliers and customers. This shields them against exchange rate fluctuations for a while, but the real impact may hit in a few months.” BAK’s chief economist outlines a standard scenario of the risk to a typical Swiss company. “It is active in metals; it uses a lot of energy and raw materials that it has to pay for in dollars; it manufactures most of its products in Switzerland but primarily exports them to Europe.” This profile describes an SME rather than a listed multinational. Does this mean that most large Swiss companies are safe? How low can the euro go before Swiss industry experiences difficulty? “We regularly get asked this question,” smiles Philippe Cordonier,

spokesperson for French-speaking Switzerland at Swissmem, the umbrella association of the machinery, electrical equipment and metals industry. “It’s tough to answer because our sector is so diverse. The pain threshold varies considerably from company to company.” Michael Foeth of Vontobel comes to a similar conclusion, “There is no model that would enable us to declare that the Swiss franc becomes too strong at a given point.”

As the SNB is currently focused on containing inflation, a large majority of analysts expect the Swiss franc to continue to gain strength against the euro. In a 29 August article, Lombard Odier predicts a EUR 0.93/CHF exchange rate over the next 12 months, in line with estimates of other banks. In the same post, the private bank forecasts the USD/CHF currency pair trading at 0.95. Some go much further. Michel Girardin, a lecturer at the

Geneva Finance Research Institute, estimates that the equilibrium exchange rate should currently be CHF 0.83 per EUR 1, based on purchasing power parity (PPP) and the spread between real short-term interest rates for the euro and Swiss franc. This leaves the SNB room to raise interest rates on multiple occasions to keep the franc high.

Most experts believe that the Swiss economy will adapt, on the one condition that exchange rates do not change too suddenly. “What is painful for Swiss firms is when rates move sharply and quickly,” says Jérôme Schupp, an analyst at Prime Partners. “Fluctuations of around 2% to 4% per year are manageable, but things become more complicated beyond that. Companies cannot raise their prices too quickly and remain competitive. Based on that analysis, the Swiss franc has risen a little too fast in recent weeks.” ▲

PHARMA UNCONCERNED, THE METAL INDUSTRY ON EDGE

Depending on their field of business, Swiss companies have a variety of reactions to currency fluctuations. We take a look at the main sectors.

BY LUDOVIC CHAPPEX / ILLUSTRATIONS: JÉRÉMIE MERCIER

PHARMA & CHEMICAL

A STRONG DOLLAR AS A COUNTERWEIGHT

More than half of all goods exported from Switzerland are from the pharma and chemical industries. Pharma alone makes up more than a third of all exports. Like watchmaking, this sector is mostly impervious to the strong franc: “Pharmaceutical exports are not very sensitive to interest rates and economic conditions,” says Maxime Botteron, an economist at Credit Suisse. “They are expected to maintain their high level of exports in the months to come.”

“The United States remains the number one market”

Jérôme Schupp, analyst at Prime Partners

“Pharma is a very international sector with a bias towards the dollar,” says Jérôme Schupp, an analyst at Prime Partners. “The United States remains the number one market. For Roche, for example, the losses

associated with the weakened euro are perfectly compensated by the strength of the dollar. In the chemicals sector as well, the dollar is the most important currency.”

This trend can be seen in annual reports from Novartis, as the Basel-based firm has published its

results in dollars since 2002: “In this way, Novartis allows investors to easily compare its growth to that of international competitors,” says Schupp. “UBS does the same. As a result, the exchange rate between the dollar and the franc doesn’t complicate things when reviewing reports.”

> NOVARTIS > ROCHE > CLARIANT > LONZA >

WATCHES AND JEWELLERY (LUXURY)

PRICE HIKES ARE WELL RECEIVED

Swiss public companies that are active in the luxury segment are rare, but they don’t go unnoticed. Richemont and Swatch alone represents more than 20 billion francs in turnover. Good news: the luxury watch industry is one of the sectors that is least affected by currency fluctuations. Not only are margins high, but cost increases can easily be shifted to end customers, due to very inelastic demand: “Pricing power, or the ability to increase the prices of products, is an important factor in the luxury industry,” says Christophe Laborde, an analyst at Bordier et Cie. “Brands such as Cartier have started to raise prices and the increases are accepted well by customers. The customer base that purchases watches or jewellery for \$3,000 or more is not as adversely impacted by the economic situation as other groups. Richemont will see a good Q3.”

Another significant advantage for the two Swiss groups is that they sell most of their goods in dollars – including often in Asia – and the US currency is at a high. Plus there’s the fact that sales are also booming, as indicated by the latest statistics from the Federation of the Swiss watch industry (FH). In August, exports of Swiss watches increased 14.7%, to 1.7 billion Swiss francs, after already increasing by 8.3% in July, compared to the same month last year. Since the start of the year, exports have gone up 11.7% compared to this period in 2021. Asia and the United States are still the primary markets for these exports.

“The customer base that purchases watches or jewellery for \$3,000 or more is not as adversely impacted by the economic situation as other groups. Richemont will see a good Q3”

Christophe Laborde, analyst at Bordier et Cie

“A company like Swatch is benefiting from the current strength of the dollar” notes Jérôme Schupp, analyst at Prime Partners. “If the dollar was down, I bet that Nick Hayek (ed. note: CEO of Swatch) would not be happy with the SNB policies. If

he had to do business up against a weak dollar and a weak euro at the same time, that would be much more problematic.”

Beyond the strictly luxury sector, brands that are seen as premium also have some flexibility to increase their prices. These are brands such as Lindt and Calida, whose clientele has higher than average purchasing power. In an interview in August 2022 with *Finanz und Wirtschaft*, the CFO of Calida, Sacha Gerber, confirmed that the brand would be “better prepared than H&M” to handle inflation and increase its prices.



RICHEMONT > SWATCH

Cartier, Baume & Mercier, A. Lange & Söhne, IWC, Jaeger LeCoultre, MontBlanc, Officine Panerai, Piaget, Roger Dubuis, Vacheron Constantin, Van Cleef & Arpels

Blancpain, Breguet, Glashütte Original, Harry Winston, Jaquet Droz, Longines, Mido, Omega, Rado, Swatch, Tissot

INDUSTRY

COMPANIES ARE HIGHLY EXPOSED TO THE EURO

This is the economic sector that everyone watches when the euro declines against the Swiss franc. The trauma of 15 January 2015 has left its mark. The Swiss National Bank (SNB) discontinued the minimum rate of 1 euro to 1.20 francs, causing the imme-

diately fall of the euro against the franc. Several Swiss companies were very negatively affected, particularly those active in the machine industry. "80% of our industry is exports, and 55% of that goes to the eurozone," says Philippe Cordonier, francophone

Switzerland spokesperson for Swissmem, the association of the Swiss machinery, electrical and metal industry. As such, for these companies, a weak euro is a threat. The equation is simple: the lower the exchange rate between the euro and the franc, the less money these companies receive for goods that they sell in the eurozone. And the current exchange rate would certainly be a cause for concern if low inflation – currently contained to 3.3% in Switzerland – didn't significantly temper the situation, as our article explains on p. 36.

> RIETER > STADLER RAIL > GEORG FISCHER >

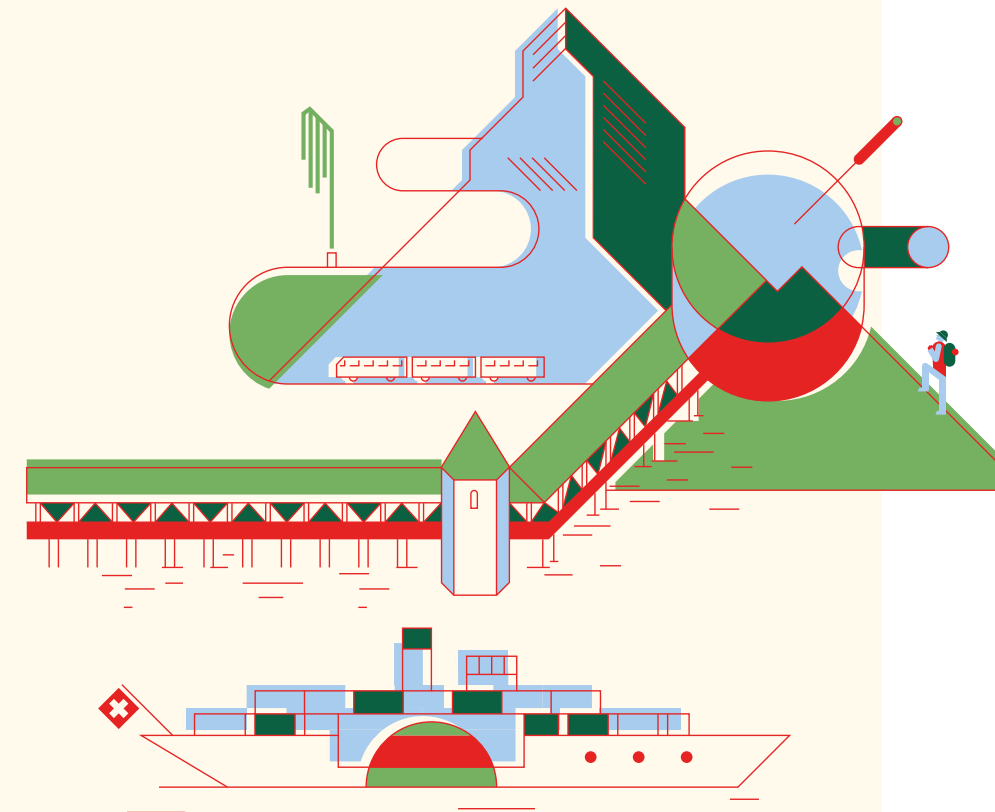
"Heavy industry is particularly affected because its margins are smaller than in other industries"

Philippe Cordonier, francophone Switzerland spokesperson for Swissmem

Despite this context, some companies could begin to suffer if the euro continues to decline. "Heavy industry, particularly metallurgy, is particularly affected because its margins are smaller than in other industries," says Cordonier. "SMEs are more at risk than multinationals, which have more flexibility in terms of where their supply comes from."

Michael Foeth, head of Swiss industrial research at Vontobel, agrees: "Some of the most impacted companies are the many industrial SMEs that receive supplies from and manufacture in Switzerland, but have clients in Germany." These companies have higher costs when the franc is stronger than the euro, making them less competitive (compared to the competition, which is often German). This pitfall is most often avoided by Swiss companies that are publicly listed: "A company such as Stadler Rail has factories all over the world, it receives supplies from all over the world, and it sells its products in many markets," says Foeth. "Even a smaller company such as St. Gallen-based VAT, a valve specialist, has several options. It manufactures in Switzerland but also has production sites in Malaysia, Romania and Taiwan. Moreover, it sells a significant portion of its products in dollars to the United States."

While Swiss industry isn't particularly concerned by the weakened euro, its players do have other issues that are capturing their attention. "Our sector is primarily concerned by increased costs for energy and raw materials," says Cordonier. "And supply chain issues remain, even in the wake of the pandemic." Since raw materials are primarily paid for in dollars, fluctuations in the CHF/USD pair have a larger impact, according to companies.



TOURISM

BLESSED IS INFLATION IN THE EUROZONE

Publicly listed Swiss companies are rarely directly linked to the Swiss tourism industry. A notable exception is Jungfrau Holding, known for owning the Jungfrau railway. Hotels and hotel chains are primarily private or belong to foreign companies. Given the soaring franc, one might think that the industry is under lots of pressure. But it isn't. Since inflation remains contained in Switzerland, prices are increasing at a lower rate than they are elsewhere, particularly in Europe. "Our competitiveness is increasing overall," said Andreas Züllig, president of Hotellerie-Suisse on 13 August to German radio SRF, adding that the sector

had "almost returned to the same level as its record year in 2019". The Swiss hotel industry had a very good summer, and the post-COVID recovery was faster than expected.

However, the industry is very-concerned about the risk of an electricity shortage this coming winter, as Züllig mentioned: "If we stop the mechanical lifts and close the wellness centres, we will have a bigger problem."

Tourism in Switzerland and its associated sectors account for 3% of Swiss GDP, according to figures from the Swiss Federal Statistical Office (FSO).

FINANCE

THE RETURN TO GRACE OF INTEREST RATES

“For the majority of banks, the impact of exchange rate fluctuations will be relatively neutral,” says Jérôme Schupp, an analyst at Prime Partners. “They will turn less of a profit from the euro and more from the dollar. For the most skilful establishments, trading right now could actually be very profitable, given the volatility of the markets.”

On the other hand, certain cantonal banks seem to benefit from the increased interest rates that are passed down from central banks fighting inflation. The Banque Cantonale Vaudoise (BCV) saw a significant rebound in its share

price after the SNB raised its interest rates for the first time in June 2022. “With the end of negative rates, Swiss banks no longer need to pay to deposit money in the SNB, and they could even turn a profit if interest rates continue to increase,” says Schupp. “A cantonal bank such as BCV is currently playing its role as a safe haven.”

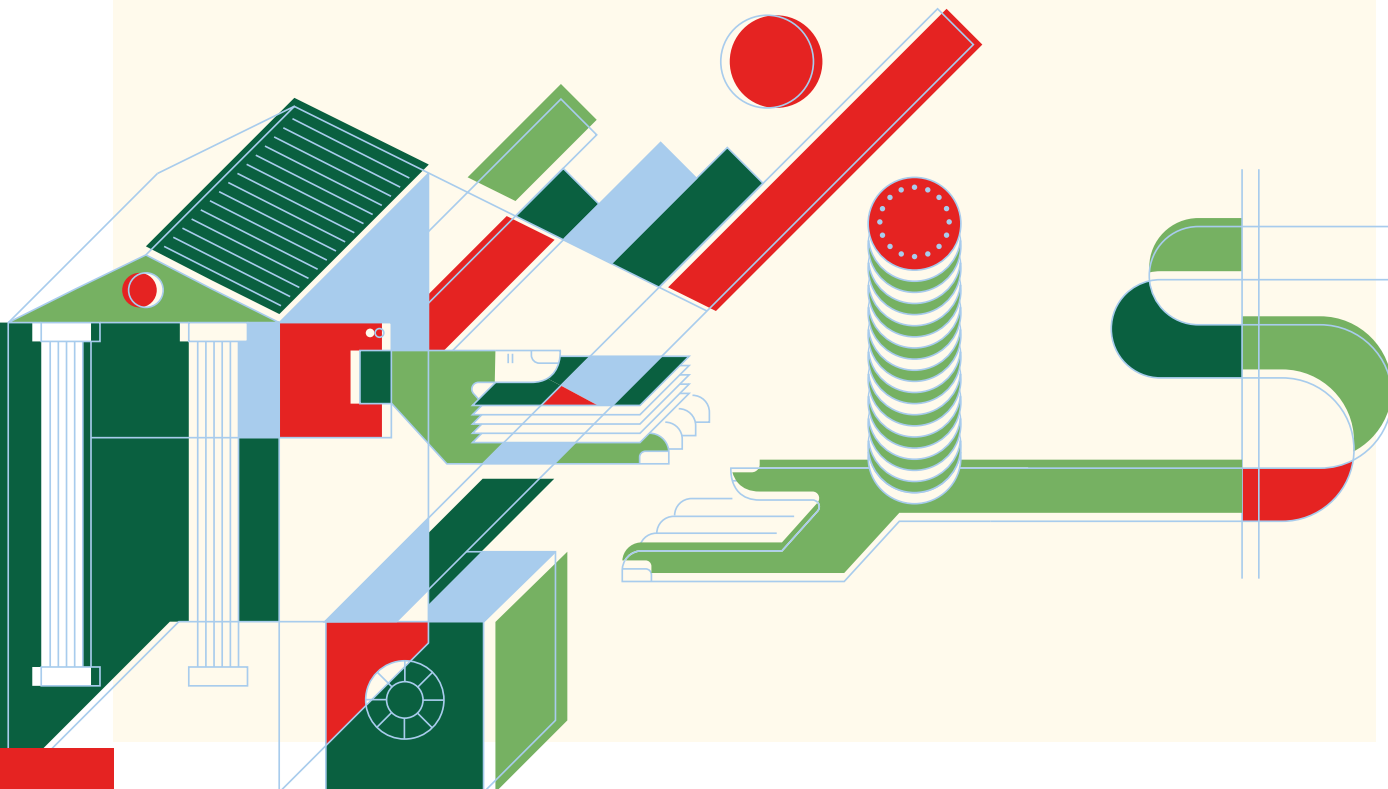
“The banks’ interest margin, which has fallen to a historically low level, should improve a little, but we will not return to the situation before the 2008 financial crisis,” says Maxime Botteron, an economist at Credit Suisse.

“A cantonal bank such as BCV is currently playing its role as a safe haven”

*Jérôme Schupp, analyst
at Prime Partners*

Loans granted to clients only make up a portion of banks’ profits, alongside their market activities. And it remains difficult to evaluate the impact of the economic slowdown and increased mortgage rates on the business world.

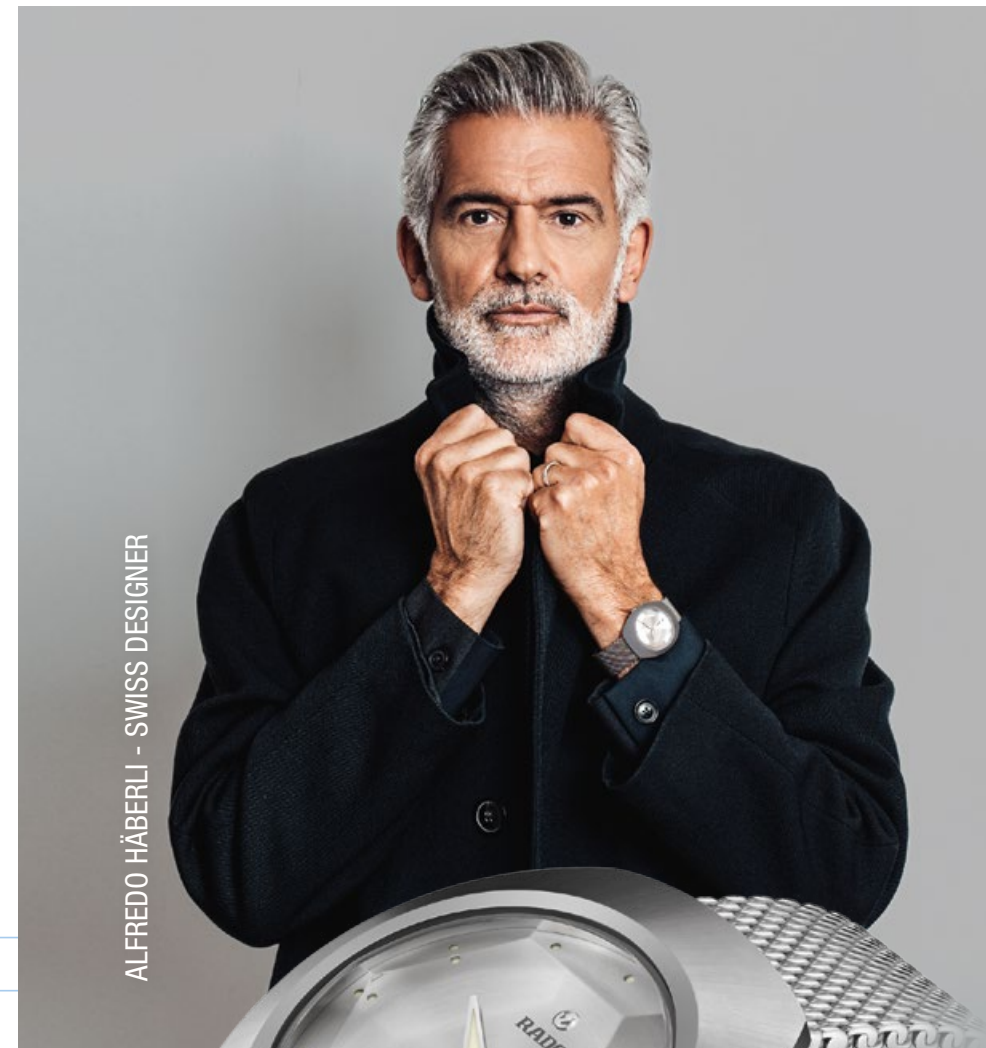
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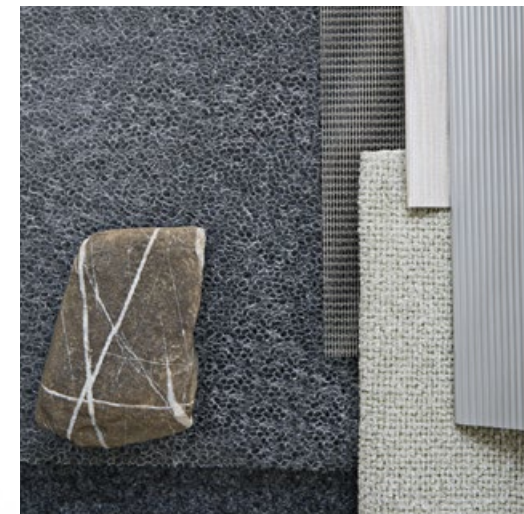
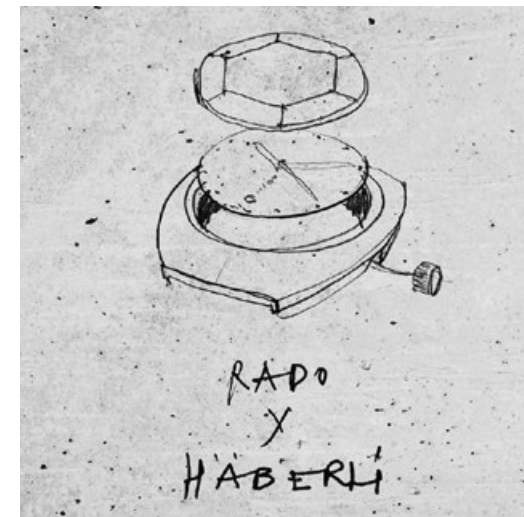
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LUXURY CARS DEFY THE CRISIS

While overall the automotive market is deep in crisis, the premium segment stands out as an exception. Sales (and margins) have hit record levels since the beginning of 2022.

BY BERTRAND BEAUTÉ

Scene from the music video for *True Survivor*. Performed by David Hasselhoff posing in front of a Lamborghini Countach, the song is from the soundtrack of the 2015 parody film *Kung Fury*.

Triple whammy. After the health crisis in 2020 and the semiconductor shortage last year, 2022 is shaping up to be a third catastrophic year in a row for the automotive industry. But not the whole industry. One market segment is resisting the downturn: luxury cars. "We are currently seeing very strong demand. Our order book stretches out for the next 18 months," Lamborghini's boss Stephan Winkelmann said in August. The Italian firm owned by Volkswagen, sold 5,090 cars in the first six months of the year, a 4.9% increase in sales from the previous year. ▶

Ferrari shows even better results. In the first half of the year, the Prancing Horse delivered 6,706 cars, up 23% from the same period in 2021. In a different style, Bentley is also firing on all cylinders. The British luxury car manufacturer, also owned by VW, more than doubled its profits in the first six months of the year to

€398 million, delivering 7,398 vehicles (up 3%). These performance figures are even more impressive considering that they come after what was a banner year for most luxury vehicle manufacturers. For example, Bentley posted the best sales in its history last year with 14,659 vehicles delivered, a 31% increase from 2020.

“In 2021, the global economy was affected by a shortage of semi-conductors,” says Flavien Neuvy, director of L’Observatoire Cetelem. “Under the circumstances, chip manufacturers flocked towards the highest paying customers. That’s why luxury vehicle manufacturers were not impacted. Meanwhile,



Oliver Blume (right), CEO of Porsche and the VW Group, and Lutz Meschke, member of the Porsche Board of Management, ring the bell to launch the company's IPO on the Frankfurt Stock Exchange on 29 September.

DANIEL ROLAND / AFP

Porsche, in a class of its own

The sports car manufacturer is off to a fantastic start. Despite the current market turmoil, Porsche made a smashing debut on the Frankfurt Stock Exchange on 28 September under the trading symbol P911, an allusion to one of its emblematic models. Shares were priced at €82.50 but rose to over €92 a week later, i.e., an increase of more than 10%. Few premium car brands are listed on the stock market. Only the Italian car manufacturer Ferrari or the UK's Aston Martin Lagonda can potentially serve as a benchmark. After going public in 2015, Ferrari shares have shot up 360% in seven years. James Bond's favourite, however, is not doing

so hot. The Aston Martin share has crashed since its IPO in 2018, shedding 97% of its value.

Porsche obviously hopes to tread on the side of the Italian powerhouse rather than the elegant English automaker. Porsche and Ferrari may both feature a prancing horse on their grilles, but the similarities end there. Nearly 300,000 cars roll out of the German company's factory, a stark contrast to Ferrari's 15,000 units. The difference is attributable to the Italian brand's much more elitist positioning. A Ferrari goes for at least €220,000, while Porsche's base price is set at a mere €60,000

(without options). The margins pocketed by the two manufacturers also diverge, at 35% and 15% respectively. A majority of analysts recommend buying Ferrari shares, but they are more cautious when it comes to Porsche. Apart from Ferrari's status as more of a luxury brand than its German counterpart, analysts point to the company's governance. While Ferrari has completely separated from its former parent company Fiat, Porsche remains under the tutelage of Volkswagen and the Porsche-Piëch family – the heir of founder Ferdinand Porsche – which holds a blocking minority.

— P911



BENTLEY

A Bentley employee at the company's historic factory in Crewe in the north west of England.

mass-market brands were short on chips, and some had to rein in production.”

“Chip manufacturers flocked towards the highest paying customers. That’s why luxury vehicle manufacturers were not impacted”

Flavien Neuvy, director of L’Observatoire Cetelem

But while the semiconductor shortage is easing, mainstream makers are still looking gloomy. EY measured a drop of more than 10% in total sales for the world's top 16 automakers in the first six months of 2022 compared to the same period

in 2021. How can we explain such a gaping difference between sales of exceptional vehicles and those of mainstream cars? “The luxury goods industry is very resistant to economic cycles,” Flavien Neuvy says. Modest households are impacted by inflation; hence, they postpone buying new cars. Conversely, the wealthiest customers are hit less hard by the crisis. Only a lasting recession could change anything for manufacturers of prestige cars.”

The rise in sales of the most luxurious models can therefore partly be explained by the increase in the number of wealthy people in the world. A report published this summer by New York-based consulting firm McKinsey forecasts that, between 2021 and 2026, the number of people with assets totalling between \$1 million and

\$30 million will grow 33% in Asia, 28% in the United States and 27% in Europe. As a result, McKinsey estimates that the niche market for the most expensive cars (priced above \$500,000) will grow by 14% per year through 2031, and that the market for vehicles within the \$150,000 to \$500,000 price band will grow by about 10%. In comparison, the “cheap” segment (less than \$80,000), which accounts for 97% to 98% of total car sales worldwide, will grow by only 1% per year over the period.

Porsche took advantage of the bright outlook to return to the Frankfurt Stock Exchange on 29 September. With shares priced at €82.50, the IPO valued the German firm at a staggering €75 billion (see inset opposite). As a comparison, the market capitalisation for the ▶



Lamborghini Urus
assembly line, in
the Italian firm's
factory in Sant'Agata
Bolognese.

entire Volkswagen group, which sells 30 times more vehicles than Porsche with brands including VW, Audi, Škoda, Seat, Bentley and Lamborghini, is €80 billion, while the market cap of Stellantis (Fiat, Chrysler, Peugeot, Citroën) comes to a mere €40 billion.

Porsche hopes this IPO will help it to catch up to its rival Ferrari in the stock market race. Listed since

2015 on the New York Stock Exchange under the symbol "RACE", the Italian firm's share has risen more than 360% in seven years, i.e., more than 25% annually.

GOING ELECTRIC

But can this stock market rally last, when environmental concerns risk driving people away from the roaring, polluting engines that built the reputation of these prestige brands?

No, says Bernard Jullien, executive director of the International Automotive Network (GERPISA). "You might think that sports car manufacturers are torn between their traditional customer base, which likes internal combustion engines, and the younger generation, which is concerned about the environment and is drawn to electric models. But in reality, luxury firms can afford to do both at the same time." All

manufacturers are therefore moving further into the EVs, while in parallel maintaining their iconic internal combustion models.

For example, since 2019, Porsche has added to its line-up the 100% electric Taycan and two hybrid models. The German car maker plans to increase the share of total sales from electric cars to 50% by 2025. Meanwhile, Rolls-Royce will

launch its first electric vehicle, Spectre, at the end of 2023. Ferrari has announced the launch of battery-powered models for 2025 and aims to sell 80% electric and hybrid models by 2030. Lamborghini also plans to invest €1.5 billion into releasing a 100% electric vehicle by the end of the decade. "We're only at the beginning of this energy transition, but luxury brands have realised that EVs will win," Flavien Neuvy says. "They will invest a lot in R&D in this area, and their customers will get used to electric motors. The growth potential is huge." In 2021, Porsche delivered 41,296 units of its Taycan electric sports car, twice as many as in 2020, compared with 88,362 units of the Macan, its most popular model.

"It's much more complex to make a cheap car than a very expensive one"

Bernard Jullien, executive director of the International Automotive Network (GERPISA)

The transition to electric may actually be easier for luxury automakers than for their mass-market counterparts. "It's much more complex to make a cheap car than a very expensive one," Bernard Jullien says, "because you can build any available technologies into your products, regardless of price, as budget is not an issue for your customers. However, mainstream car manufacturers are forced to think about the cost of a technology first before integrating it into their product, because the retail price is a critical factor in purchase decisions."

So, while runaway inflation is eroding the budgets of modest households, in 2022 supercar makers have all jumped on the opportunity to crank up their margins. In 2021, for example, Porsche secured a 15% margin. That figure is expected

to reach 17% or 18% in 2022, then 20% in the longer term. At Ferrari, one of the world's most profitable car manufacturers, margin is close to 35%, a profit of nearly €100,000 per car sold!

The prestige segment is also successful due to manufacturers' ability to align with trends by reinventing their DNA. The latest example is Ferrari. Last September the car maker unveiled the "Purosangue", the first SUV to feature the Prancing Horse stamp. The brand's purists have long considered that association to be unimaginable. Yet, after seventy-five years of designing sport coupes, the Italian legend has finally joined the ranks of premium carmakers that also produce SUVs like Lamborghini with the Urus, Bentley with the Bentayga or Rolls-Royce with the Cullinan. The Purosangue is expected to boost Ferrari's sales, bearing in mind that SUVs already account for 60% of sales at Porsche and 40% at Bentley.

Despite all that, luxury brands should remain watchful. "Tesla has shown that a revolution is possible in the automotive sector," Flavien Neuvy says. "The question now is how the added value will be distributed in the future. Today, luxury car builders are making the bulk of the profit, but what about in the future? As models shift towards electric motors, part of the added value will be rerouted from automobile makers to the battery industry. And with the emergence of autonomous cars, new players will grab their slice of the pie, especially electronic chip makers such as Apple, Qualcomm and Nvidia. And yet another share of the added value could veer away from manufacturing towards use in operation, with the increase in subscriptions and on-board services. The exorbitant margins taken by luxury car manufacturers may not be guaranteed in the long run." ▲

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THE PRICE OF TIME THE REAL STORY OF INTEREST

By Edward Chancellor
Atlantic Monthly Press, 2022

In his latest book, Edward Chancellor – called “one of the greatest financial historians alive” by *Fortune* magazine – explores the history of interest from Mesopotamia 5,000 years ago to the credit boom of the 21st century. His analysis shows that interest was not always a popular practice, but lenders needed a reward in exchange for giving up their capital. And interest serves other essential purposes, such as encouraging people to save or attributing value to risk. Although often described as the “price of money”, interest, according to the author, should be more appropriately referred to as the “price of time”. Interest is the time value of money. Longlisted for the *Financial Times* Business Book of the Year 2022, *The Price of Time* has already been reissued one month after its publication.



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CHIP WAR THE FIGHT FOR THE WORLD'S MOST CRITICAL TECHNOLOGY (HARDCOVER)

By Chris Miller
Scribner, 2022

Chris Miller is an economic historian and assistant professor at Tufts University. In *Chip War*, he retraces the development of electronic chips and how they led the US to victory in the Cold War by rendering the Soviet arsenal obsolete. Yet, US dominance in semiconductors has eroded in recent years, undermined by tech leaders such as TSMC (Taiwan) and Samsung (Korea). A new threat now looms on the horizon: China. The country is spending lavishly to design its own chips and catch up, which, the author notes, could threaten US military superiority and economic prosperity.



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Investing in an environment with lower return expectations



Investors are likely facing a future of lower returns. In such an environment, passive strategies cannot achieve alpha. Strategies are needed that enhance investment efficiency and offer an ideal trade-off between risk and returns.

Ivan Durdevic, Head of ETF Distribution for Switzerland, Germany and Austria, J.P. Morgan Asset Management

Passive management is often thought of as an economical way to get market exposure at an unchanged risk profile for investors. In addition, it holds few surprises beyond what the market delivers.

What if there was a way to potentially outperform the benchmark after fees and to do so with a benchmark-like risk profile? An enhanced indexing approach, for example, combines the benefits of passive investing with active management.

Why enhanced indexing?

After many years of highly constructive equity returns, valuation multiples have become considerably higher. Whilst the recent correction in prices has brought those multiples somewhat back to earth, the key macro risks of the war in Ukraine, tightening monetary policy and a possible risk of recession mean that equity investors are likely to face a lower-return environment moving forward. Expected long-term annual returns from global equities have fallen by 30% in the past five years, from 7.5% to 5.0%. In this environment, investors need to be aware that passive investment could mean lower returns.

Additional alpha

Investors are constantly faced with trade-offs between risk and return. On a statistical level, this can be thought of as the volatility of investment returns or as standard deviations. The growth in passive assets leads investors to focus not only on absolute performance, but also on relative returns and the volatility of such excess returns – or the tracking error.

What does a low tracking error offer the investor? On the surface, lower tracking errors suggest a lower likelihood of achieving alpha, either positive or negative. However, the attractiveness of enhanced indexing lies not only with its lower tracking error but also with its higher efficiency. The information ratio is typically the measure of this efficiency of alpha compared to risk taken on.

The information ratio matters to investors. Significantly high information ratios not only provide investors with a greater chance to achieve their investment objective in a more

predictable way, it also allows a more effective allocation of risk budget. Historically, enhanced index managers have consistently achieved higher information ratios than fully active managers with high tracking error targets.

The view from the efficient frontier

The chart below compares efficient frontiers. The yellow line shows the index returns for shares and bonds, while the blue line shows the returns from our enhanced index strategy. The inclusion of our enhanced index strategies raises the aggregate return with only a small corresponding increase in aggregate risk.

Why J.P. Morgan Research Enhanced Index (REI) Strategies?

J.P. Morgan REI strategies are index-like portfolios that pick stocks based on insights from our research analysts. In doing so, REI strategies seek to generate positive alpha with benchmark-like risk profiles. The main focus is on generating consistent alpha while minimising active risk (i.e., a low tracking error)¹ within a robust ESG (environmental, social and

governance) framework. This active approach makes it possible to incorporate sustainability into all investment decisions by engaging with companies, thoroughly analysing ESG factors, and excluding controversial sectors.

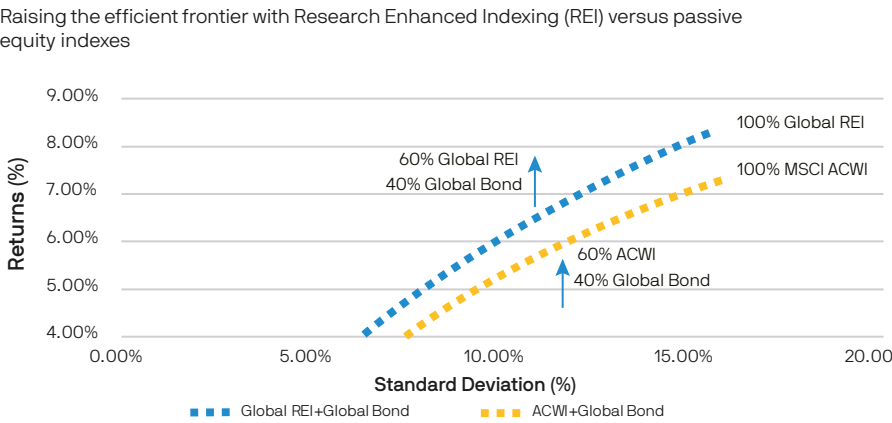
Our Global REI strategy launched in September 2003 and has delivered annualised alpha of 0.84% at a tracking error of 0.68. This has led to a high information ratio of 1.24.

Our fundamental approach stands out clearly from the competition in enhanced indexing, where many of them choose to use a pure quantitative approach where backward-looking and historical data are the key drivers. The fundamental approach is less prevalent in this space and that's what makes the J.P. Morgan REI strategy unique.

Enhancing investment efficiency

Enhanced index strategies can be an important part of the solution for improving investment efficiency. For investors with a heavy allocation in passive strategies, enhanced index strategies can hit their sweet spot on the return/risk spectrum.

Global REI vs passive equity index



Source: J.P. Morgan Asset Management, Bloomberg. Data from October 2003 to August 2022. Performance data for global REI portfolio is based on the Global ACWI REI Composite in USD before fees. Global bond returns are based on Bloomberg Barclays global aggregate total return index. **Past performance is not a reliable indicator of current and future results.**

¹ The Investment Manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met.

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Better days ahead

To fully benefit from the expected market rebound, investors should consider Lombard loans, an advantageous tool. Interview with Jürg Schwab, Head of Strategic Relations at Swissquote.

Can you explain why the markets are down significantly since the start of the year?

This crisis is the result of an accumulation of events. The war in Ukraine acted as a catalyst, but before that, the increased price of raw materials was a harbinger of high inflation to come. The pandemic also significantly affected global supply chains, partly due to lockdowns in China. Furthermore, many business sectors are suffering from employee shortages.

How is the situation evolving?

Very high inflation, above 8%, in both the eurozone and the United States, has led central banks to react with strong measures. They have raised interest rates several times over the

past few weeks. After seven years of negative interest rates in Switzerland and Europe, the context has completely changed.

We're starting to see supply chain issues resolve, but we now have another major issue: the cost and availability of energy sources.

Is now the right time to invest?

It seems favourable. Companies are increasing the prices of their products due to inflation, and we expect them to generate more revenue next year. Stock investors should benefit from increased share prices and attractive dividends. In that sense, a Lombard loan is an ideal tool to further benefit from future increases.



JÜRGEN SCHWAB
HEAD, STRATEGIC RELATIONS
SWISSQUOTE BANK

Potential buying opportunities include companies in the industrial export sector. Their share prices were driven down significantly in recent weeks due to the fall in the euro, but also due to the sharp increase in interest rates. Another interesting option is the financial sector, particularly banks, who will benefit from higher interest rates. ▲

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AUTO

A breath of Italian fresh air

BY BLAISE DUVAL

A newcomer in the SUV segment, the Maserati Grecale is an exciting addition to the category. We took it for a test drive.

Another SUV enters the ring! As if the premium SUV market wasn't crowded enough already, Maserati has released its newest vehicle, the Grecale, positioned just below the Levante in the brand catalogue.

This new line is led by a souped-up version – the Grecale Trofeo – equipped with a 530 hp V6 engine, derived from the MC20 supercar. But the majority of sales will be of the GT model, equipped with a modest and more reasonable 300 hp 2 L four-cylinder engine and a 48 volt mild hybrid system. This entry-level model is what we test drove for a few days (a 330 hp Modena model is also available).

A quick tour around the vehicle reveals the elegant and unmistakable Maserati DNA: wide radiator grille adorned with the Maserati trident, tail lights reminiscent of the 3200 GT coupe, triple lateral air intakes in the form in a parallelogram... It's all there. Inside the

vehicle, however, the departure from previous models is much more evident. The cult of the touchscreen has resulted in the inevitable assortment of displays – to the extent that almost nothing remains from the traditional dashboard. Even the legendary central clock is now digital. Overall, the dashboard certainly looks good (with a special mention for the metallic grilles for the Sonus faber speakers), but the atmosphere doesn't stray far from what we see in much less specialised brands – at least in our test model, which had a black leather interior.

Measuring in at 485 cm long, the Grecale is one of the largest in its segment, even though it has the same platform as its cousin, the Alfa Stelvio, which comes in at just 468.7 cm. The Porsche Macan (472.6 cm), one of its intended rivals, is also quite a bit more compact. As a result, the Italian is extremely roomy in all seats and boasts a large boot (535 L).

Once behind the wheel, it rather quickly becomes clear that the GT label (for gran turismo) suits this vehicle well. It is both comfortable and powerful at all speeds. There are more luxurious, more silent, and more snappy models out there, but the Grecale effortlessly combines all of these elements with no obvious weaknesses. When the drive becomes more intense on the motorway or winding roads, the chassis feels very secure. The paddle shifters on the steering wheel (in manual mode) add a bit of spice, allowing the excellent ZF eight-speed automatic gearbox to shine.

As one might expect from a 2022 model, all driving assistance and infotainment systems are included. But only the Sonus faber audio system (with 21 speakers) really stands out. Its bass in particular is something you won't forget in a hurry. It almost makes up for the lack of a V6 engine. And for the die-hards, there's always the Trofeo version... ▴

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TRAVEL

The four faces of Morocco

From the Atlantic Ocean to the Atlas Mountains, through Marrakesh and the dunes of the Sahara, you can explore several worlds in one trip to Morocco. Just follow this guide.

BY JULIE ZAUGG

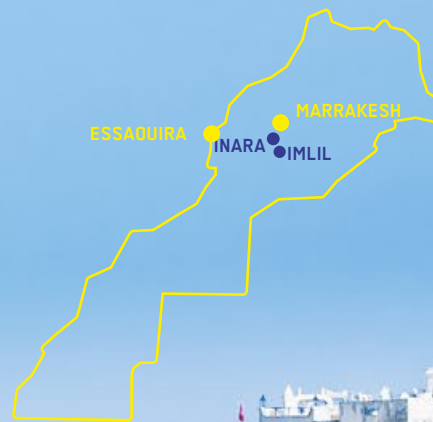
SEASIDE

Essaouira, exhilarating port city

Located on the Atlantic Ocean, the small town of Essaouira stands like a white fortress that has held up against the waves and wind. The best way to explore the place is to wander aimlessly through its maze of narrow streets. In doing so, you happen upon an artisan crafting boards in olive wood, a lithographer reinterpreting on paper the town's maritime symbols (whales,

sunsets) to create astonishingly modern works, or a traditional market selling argan oil and amlou, a typically Berber almond and honey spread. At the foot of the city walls lies its star attraction: the port. The multicoloured boats are lined up to unload their catches straight to the dozens of stalls, filled with the cries of fishmongers selling fresh fish, oysters or octopus. The blend

of scents, colours and sounds is exhilarating. Plus, Essaouira has a long beach of golden sand, ideal for kitesurfing. The city is also known for the many films and television series that have been shot here, including Orson Welles' *Othello* and, more recently, *Game of Thrones*. Even today, you still might come across a film crew and extras in costume. ▸





CITY

Marrakesh, and not just the souk

Marrakesh is a historic gem founded in the 11th century. The city is best known for its souk, packed to the hilt with pottery, carpets and leather goods; Jemaa el-Fnaa Square, which fills every evening with dozens of stalls selling kebabs; and Bahia Palace, decorated with spectacular multicoloured mosaics. But the city with a population of one million has much more to offer. Majorelle Garden, created by French Orientalist artist Jacques Majorelle starting in 1923 and restored in the 1980s by fashion designer Yves Saint-Laurent and his partner Pierre Bergé, is an oasis in the heart of the city. Cactus forests, all shapes and sizes of palm trees, and giant water lilies stand side by side in a wonderful tropical patchwork. The Yves Saint-Laurent Museum, located just nearby, showcases the work of the legendary designer. Venturing outside the tourist areas and into the New City of Marrakesh, you find a modern city brimming with gourmet restaurants, sleek shops, and art galleries. And if the city gets too hot, you can always stop off at the Beldi Country Club, a taste of paradise with several pools lined with olive trees and rose gardens, just outside Marrakesh.

DESERT

Inara, the inviting getaway

Morocco is, of course, the gateway to the Sahara, the majestic desert spanning all of North Africa. But for travellers who cannot leisurely embark on an expedition lasting several days, the Agafay Desert, which stretches out from the gates of Marrakesh, offers an eye-popping alternative. When you leave the main road to travel deep into the desert, the landscape changes immediately. Shrubs and dusty villages dwindle as a grand, empty expanse opens, filled with ochre-toned valleys that veer into pink, golden or red hues in the play of sunlight. Nestled in one of these bare hills is Inara Camp. With a selection of luxury tents, it offers a comfortable way to experience the desert. Available activities include a dromedary ride, a quad tour, or a dip

in the pool overlooking the dunes. In the evening, you can wrap up in large blankets and sip a drink by the fire,

to the sound of Berber musicians. Afterwards, you head to a large tent for dinner, a perfectly cooked tagine.



ANNIE SPRATT



MOUNTAINS

Cool off in the tiny village of Imlil

When you leave Marrakesh from the southern side of the city, you quickly reach the foot of the Atlas Mountains. You take a winding road to arrive in the hamlet of Imlil, rising 1,800 metres above sea level. The air is cool and dry, in contrast to the stifling heat of the plains. The village acts as a base camp for mountain climbers setting out to ascend Toubkal, the highest mountain in North Africa (4,167 m). The hike takes two days. On the first day, you climb to one of the two refuges, located at 3,200 me-

tres of altitude. The 11 km walk lasts about five hours. On the second day, you leave three hours before dawn to reach the summit at sunrise. Easier walks are possible from Imlil, during which you can explore the hazelnut, cherry and apple forests surrounding the village, or trek to a rocky pass with stunning views of the snow-capped peaks. You can also visit the village of Armed, a Berber community with well-preserved traditions, and even take a cooking class with a local family.

WHERE TO STAY

Inara Camp

Located in a valley in the heart of the Agafay Desert, Inara Camp offers a glamping experience amid the dunes. Each tent has real beds and a bathroom with running water, all in surroundings that look like an Indiana Jones film set. Two swimming pools are available, as well as an enclosure for dromedaries. inaracamp.com | +212 524 205 070 From € 120

Riad Azoulay

Behind a non-ostentatious façade in the Jewish Quarter lies an oasis of calm and delight. The five rooms of this riad are tastefully decorated with antique wooden furniture. You can also go for a refreshing dip in the small pool in the central courtyard or enjoy a delectable Moroccan meal on the rooftop terrace overlooking the city. 3 derb Jamaa el Kbir, Hay Essalam, Marrakech From 280 Swiss francs

TOP SPOTS

TRISKALA

Inventive, organic cooking
58 rue Touahen, Essaouira

This candlelit restaurant with its stone walls features an original menu that changes every day, offering vegetarian and fish dishes. All ingredients are local and organic.

DOMAINE DU VAL D'ARGAN

Lunch at the vineyard
Ounagha

On the road between Essaouira and Marrakesh, this vineyard was founded by the French winemaker Charles Mélia, who established his name in Châteauneuf-du-Pape. A package deal includes a tour of the estate, a delicious lunch in a flower orchard, and access to its elegant pool.

GALERIE 127

The North Africa of artists
Second floor, 127 Ave Mohammed V, Gueliz, Marrakesh

This photo gallery was founded by Nathalie Locatelli, who long worked for Cartier and the Richemont group. It is located on the upper floor of a somewhat run-down building in the New City. An exciting selection of contemporary North African artists is on display.

HÉRITAGE SPA

Luxury hammam
40 Arset Aouzal, Bab Doukkala, Marrakech

Tucked away deep in the medina, this luxurious hammam offers body scrubs with black soap and bitter orange, rhassoul wraps, and argan oil or hot stone massages in a gorgeous setting.

BOUTIQUE



HIGH-TECH BIKE FOR THE WHOLE FAMILY

A newcomer to the electric bike market, the Parisian manufacturer Gaya offers innovative multi-seat models. The Cargo can carry two young passengers lined up behind the rider. It has a range of up to 100 km and a throttle button to get you going without pedalling. An anti-theft system with geolocation is built into the bike that can cut the motor and send an alert to the dedicated app.

gaya.bike
From 2,200 Swiss francs



CONNECTED HEADLAMP

Featuring up to 15 hours of light time, the NAO+ headlamp is designed for those who practise outdoor sports at night (jogging, trail running, cross-country skiing, mountain biking, etc.). You can pair it with a smartphone to track remaining battery life in real time or adjust the amplitude and power (up to 750 lumens) of the light beam. And the big bonus is that, on demand, an ambient light sensor automatically adjusts brightness to the user's needs.

petzl.com
From 202 Swiss francs



RECYCLING HOT AIR BALLOONS

To meet safety standards, the giant envelope on hot air balloons is replaced after about 600 hours of flight. The Franco-Swiss brand Orbe Novo now repurposes this fabric into a line of accessories. Its original creations range from waist pouches to travel bags and computer cases, all made exclusively in France.

orbe-novo.com
480 Swiss francs

SELF-CHARGING HEADPHONES

Sports equipment manufacturer Adidas has teamed up with Swedish solar power expert Exeger to develop supra-aural headphones that charge with solar energy and in artificial light. The high-endurance gadget delivers up to 80 hours of play time, twice as much as the previous generation of Adidas headsets.

adidas.com
250 Swiss francs



A NEW TAKE ON THE VIOLIN

Founded by engineer and classical musician Laurent Bernadac, 3Dvarius makes futuristic-looking electric violins, combining the art and craftsmanship of making string instruments with the latest technology. The brand's flagship model is fully transparent and made from resin with a 3D printer. Not stopping there, the French company is coming out with a cello this autumn.

3d-varius.com
From €6,999 (the 3Dvarius model)

DIGITAL TELESCOPE

At the crossroads of camera and telescope, the Canon PowerShot ZOOM snaps pictures and shoots videos of objects far, far away, despite its compact size and ultra-light weight (145 g). The lens offers two focal lengths equivalent to 100 mm and 400 mm (the digital zoom even delivers up to 800 mm). Equipped with a 12.1 megapixel sensor, the monocular also features image stabilisation and a 10 fps burst mode. The PowerShot is perfect for watching an animal on a nature walk or filming videos of budding footballers from the touchline.

canon.ch
320 Swiss francs



CHAIRMAN SIMULATOR

TRIED AND TESTED

AT THE HELM OF THE FED

BY GÉRARD DUCLOS

The US central bank is making headlines due to its repeated interest rate hikes. Our reporter tested a simulator in which you can pretend to be the Chair of the US Fed.

First 0.5% in interest rates, then 1.75%, 2.5% and finally 3.25% (for now). The Fed, the US central bank, had almost been forgotten on the markets to which it had lent money at historically low rates for years, but in recent months, investors have become keenly aware of it following a total reversal of its monetary policy. Faced with staggering inflation around the world, it's time to say goodbye to cheap funds and "printing money" and hello to rigour and alarmist statements.

This is a delicate exercise for Jerome Powell, the head of the Fed, who needs to tighten regulations to contain inflation while also avoiding a market overreaction, or even a global recession. This "soft landing" – to use the current analogy – that the Fed is hoping to achieve should allow the US economy (and as a result the global economy) to escape from the financial bubble without too much damage. Even though it's too early to judge the results of this policy, which has been in place since the start of

the year, Wall Street – faced with a massive downward market trend – quickly increased pressure on the Fed to review its policies.

The wisest strategy is to progressively reduce interest rates and introduce a bit of quantitative easing

Can regular people handle it any better? That is the question that an anonymous developer tried to answer with an online game called *Fed Chairman Simulator*, which can be accessed via an internet browser.

The player needs to hold a four-year term as Chairman while ensuring that GDP remains high and inflation stays low. To do that, there are two primary "levers": interest rates and the monetary policies of quantitative easing and quantitative tightening. The budding Chairman can also, at regular intervals and based on their reputational

credit (determined by the results of their policies), make a public statement regarding inflation and GDP. If they lose the confidence of their government or the markets, the player is removed from their position and the game ends.

After trying all combinations imaginable, including the most improbable, it seems the winning strategy is... to simply do nothing, or almost nothing. The wisest strategy is to progressively reduce interest rates and introduce a bit of quantitative easing. Once this technique has been mastered, the game stops being very interesting and the term can be finished in approximately 20 minutes. Only a few random political events could potentially disturb the peaceful growth of economic indicators.

Is it realistic? Absolutely not, but the game has the merit of offering a fun way to experience how a fundamental economic institution works, in the absence of a more serious alternative offered by a professional video game maker. ▴

TRIED AND TESTED

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SANTOS
DE
Cartier