

Dear Member,

Financial markets started 2022 in negative territory with fears of an escalation of the conflict between Russia and Ukraine followed in February by the Russian invasion which led to increased volatility across all stock markets. War-related sanctions and potential supply bottlenecks in the energy sector raised concerns about the global economy, which is still recovering from the coronavirus pandemic. In addition, inflation returned and rose significantly in many countries, peaking in summer. This has prompted the major central banks to raise policy rates, moving them from a zero or even negative interest rate policy to a monetary tightening policy. Against this backdrop of rising prices and geopolitical tensions, investor activity has been something of a balancing act.

During the summer, the release of US inflation at 8.3% for the month of August was a shock to the financial markets (US inflation fell back to 7.10% in November). The US 10-year interest rate rose above 4%, a level not seen since 2008, before falling back to its current level of 3.50%. Central banks then initiated a restrictive monetary policy which led them to drastically raise their interest rates. For example, the Federal Reserve has raised its key rate several times, most recently in December 2022 to 4.50% (0.25% in January 2022).

2022 is also the end of the negative interest rate era in Switzerland and Europe. Financial analysts have been forced to revise upwards their interest rate expectations, which has had a significant negative impact on bond prices, since it is known that these fall when rates rise.

All the above explains the extent of the turnaround in the financial markets, with both the equity (-15% for the Swiss SMI index) and bond (-7% for short-term CHF bonds) markets falling sharply.


What impact does the current economic situation have on La Mutuelle's investments?

Despite the prudent approach of our bond investment policy and a short duration, the rise in interest rates and the subsequent bond market correction are having a strong negative impact on investments. While the bond portfolio managed directly by La Mutuelle shows a relatively small unrealized loss (-2.70%) compared to market performance (-7% for short-term CHF bonds), the same cannot be said for the investment mandates managed by banks, whose overall performance is currently between -4.26% and -9.83%. Even though bonds will recover their initial value, as they will be repaid at 100% upon maturity, IPSAS requires that unrealized losses recorded on 31 December must be reported. Consequently, it will be necessary to temporarily withdraw unrealized losses, which are expected to be significant, from La Mutuelle's extraordinary reserve to cover the expected deficit for 2022. On the other hand, it should be noted that once bonds have recovered their lost ground, the recorded unrealized gain will be credited back to the extraordinary reserve.

2022 is likely to be the worst year for financial markets in the last 30 years, including for La Mutuelle. Hopefully the precautionary approach implemented by the Board of Directors since the subprime crisis in 2008, through a significant increase in reserves and the maintenance of bond investments until maturity, will allow us to get through this episode with serenity. Moreover, the economic slowdown and moderate inflation expected for 2023 should have a positive impact on bond prices, opening the way for a much better year. It should also be noted that AMFI's other activities, i.e. loans and insurance, are performing very well.

The Investment Committee will keep you informed of investment developments during the first quarter of 2023 once the 2022 annual accounts have been finalized.

Our warmest season's greetings to you and your family, and our best wishes for a happy and successful New Year.



Benjamin Hauser
Treasurer



Patrick Humair
Investment Officer