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## Glimmers of hope

*Investment Report – 30<sup>th</sup> September 2020*



## Glimmers of hope

Glimmers of hope from the economy gave the financial markets a further boost in the third quarter. The central banks' ultra-lax interest rate policy has played its part in driving up the prices for stocks and bonds. The valuations appear rather inflated which is why we have maintained an overall neutral weighting of equities.

In the past quarter, the majority of the international financial markets experienced a tailwind that further reduced the losses from the crash in the spring, or even turned them into a plus. All investment categories benefited from the summer high-pressure weather, although the pressure was naturally not the same everywhere.

Especially American and Asian stocks were popular with investors, whereas advances in Europe were rather modest. Bonds also benefited from the favourable stock market climate, as did gold and alternative investments.

Economic performance also varied a great deal. While production and consumption are almost normal again in the one country, the others are still licking their wounds. In China, for example, the economy is doing well again.

Even the global air transport industry, badly shaken by the crisis, is enjoying an upswing in the Middle Kingdom, as the number of domestic flights is slowly approaching the level that at the beginning of January 2020. International flights and overflights, on the other hand, remain at a very low level. Here, better days are still a long way off; with regard to international air passenger traffic, the previously gloomy forecasts were even reduced once again recently.

### Encouraging economic signals

Things look better for the movement of goods. For example, the global container-handling index compiled by the Leibniz Institute for Economic Research RWI, and the Institute for Shipping Economics and Logistics (ISL), has almost reached the previous year's level after a V-shaped recovery, reports the newspaper "Finanz und Wirtschaft".

### Average Growth and Inflation Expectations of the Economists polled in the "Bloomberg Composite Forecast":

	Real GDP Growth		Inflation	
	2020	2021	2020	2021
China	2.1%	8.0%	2.8%	2.2%
Germany	-6.0%	4.8%	0.5%	1.4%
EU	-8.0%	5.4%	0.7%	1.3%
United Kingdom	-10.0%	6.4%	0.9%	1.5%
Japan	-5.7%	2.5%	0.0%	0.2%
Switzerland	-5.1%	4.0%	-0.7%	0.1%
USA	-4.4%	3.7%	1.1%	1.9%

Its researchers, who base their evaluations on the data from 91 container ports around the world, write that the revival of world trade is growing in breadth and can be observed in more and more regions.

There are also rays of hope in the United States, which is still badly affected by the Covid-19 pandemic. Consumer confidence, the real estate market, retail sales, inventory changes and, last but not least, the Purchasing Manager Indices and the labour market are all delivering encouraging signals.

Something similar can be observed for important EU economies such as Germany and France, but also for Switzerland. All in all, there are increasing signs that many countries could come out of the crisis with a black eye in the medium term, provided that the second wave of infections can be brought under control to some degree.

The central banks' lax interest rate policy has contributed a lot to driving the markets higher. The fundamental valuations are a little inflated, but since interest-bearing titles are not attractive, many investors seem to be simply acting in accordance with the TINA principle: «There is no alternative.»

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### Sword of Damocles: Politics

However, politics hovers like a sword of Damocles over the economy and markets. The presidential election in the USA has reached its maximum flying height with the first television debate between Donald Trump and Joe Biden (although the level reached resembled more of a grounding).

In the polls, the incumbent president is trailing behind Biden, on average by 6.6 percentage points, as the business data platform Statista calculated with reference to the RealClearPolitics institute. Depending on the source, the lead is sometimes wider, sometimes narrower. Reuters even put it at 9 percentage points recently, while NBC/Wall Street Journal estimated it at 8 percent. Even the news channel Fox News, as a rule loyal to Trump, was obliged to report a lead for Biden.

Of course, the election is far from over, but the closer November 3rd nears, the greater the fear of great chaos. Trump never fails to miss any opportunity to rant in advance about possible electoral fraud in connection with the postal vote, which is particularly popular this year, should he not leave the field as the winner. This time around, days, maybe even weeks, could pass before the final result of the election becomes known. This will not please the financial markets. President Trump's infection with the corona virus that became publicly known at the beginning of October, also fuels uncertainty.

After a long, superficial calm, Brexit is back in the spotlight. Prime Minister Boris Johnson is challenging the EU by suddenly refusing to accept important points in the withdrawal treaty. By setting an ultimatum to London, the EU immediately fell into the trap.

Should there actually be a hard Brexit without a trade agreement between the UK and the Union, Johnson will be able to blame the EU. This issue also has explosive potential for the stock

exchanges. The «usual suspects», specifically, the tensions in the Near and Middle East and, more recently, in Belarus, Armenia and Azerbaijan, do their bit to spoil the appetite for investment amongst our faint-hearted contemporaries.

### Change in Equity Markets since the beginning of the year:

		Dec. 2019	Sept. 2020	Change
Asia ex Japan	MSCI AC Asia ex Japan	509.4	537.0	5.4%
Europe	DJ STOXX 600	897.5	793.7	-11.6%
Japan	MSCI Japan	2057.0	1'984.0	-3.5%
Switzerland	SPI	12837.5	12'724.6	-0.9%
USA	MSCI USA	8714.7	9'309.5	6.8%
World	MSCI AC World	6909.7	7'027.3	1.7%
Hedge Funds	HFRX Global HF	1292.4	1'313.4	1.6%

Development of index in local currency. Exceptions Asia ex Japan and World in USD. MSCI-Indices are net total return.

The **equity funds employed by us** achieved the following returns since the beginning of the year:

Aberdeen Asia Pacific (USD)	3.6%
Swiss Rock Emerging Markets Equities (USD)	-2.5%
GAM Japan Stock Fund (CHF hedged)	2.1%
GAM Japan Stock Fund (€ hedged)	2.2%
Strategy Certificate SIM-Swiss Stock Portfolio Basket	-4.9%
iShares Core SPI ETF (CHF)	-3.5%
iShares Stoxx Europe 600 ETF (€)	-12.2%
Performa European Equities (€)	-18.9%
Performa US Equities (USD)	24.3%
BB Adamant Medtech & Services Fund (CHF)	-0.2%
BB Adamant Medtech & Services Fund (€)	0.7%
BB Adamant Medtech & Services Fund (USD)	5.2%
State Street SPDR MSCI World Energy ETF (USD)*	-11.1%

Performance in fund currency. Source: Bloomberg or respective fund company. \*) Performance since May 2020

**Other funds employed by us** performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-5.6%
Acatis IfK Value Renten Fond (€)	-5.6%
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	-0.5%
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	-0.4%
Franklin Templeton K2 Alternative Strategies Fund (USD)	1.1%
Lyxor ETF Euro Corp. Bond Fund (€)	0.8%
Pictet CH-CHF Bond Fund	0.3%
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-1.5%
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	-1.4%
ZKB ETF Gold (USD)	25.0%

Performance incl. re-invested dividends where applicable.

### Asset Allocation

At its meetings, the Investment Committee decided on the following changes to the asset allocation for medium-risk balanced Swiss Franc portfolios, not subject to client's restrictions (mandates in different reference currencies at times display different nominal weightings and weighting changes).

### Money Market

The money market quota remains at an over-weighted level. In uncertain times, it serves as a buffer against price fluctuations in the other asset classes, as well as a reserve in order to be able to act quickly when opportunities suddenly arise.

During the course of the year, yields on **10-year government bonds** declined almost everywhere:

	Dec. 2019	Sept. 2020	Change
Europe	-0.19%	-0.52%	-174%
United Kingdom	0.82%	0.23%	-72%
Japan	-0.01%	0.02%	300%
Switzerland	-0.47%	-0.49%	-4%
USA	1.92%	0.68%	-65%

### Bonds

We did not make any active changes to the bond portfolio in the third quarter. Of course, there were repayments as a result of maturities and, where possible, reinvestments made in new securities. Overall, we are still underweight in bonds.

### Equities Switzerland

Swiss equities continued to gain slightly in the third quarter and, as measured by the Swiss Performance Index (SPI), now stand just under one percent in the red since the beginning of the year. The direct investment portfolio "Swiss Stock Portfolio" (SSP) was able to outperform the benchmark in all of the past three months and thus further reduce the underperformance compared to the index. Siegfried (+47.6% in the third quarter), Sonova (+23.5%) and Cembra Money Bank (+18.2%) were the most noticeable stocks in this stock selection, which was compiled according to value criteria.

For the first nine months of the year, the SSP selection showed a performance of -3.08% that of the SPI was -0.88%. For the SSP-based certificate, «Strategy Certificate linked to the SIM – Swiss Stock Portfolio Basket» (Valor: 36524524, ISIN: CH0365245247), the performance in the same period was -4.9%.

In the long term, the performance of our value-criteria driven selection is quite presentable. Since 2012, the average annual performance of the SSP amounts to 13.9%, a result that beats the average benchmark's performance of 10.5% markedly. Since 2012, the total cumulative return of this strategy amounts to about 211%, while that of the index is 138%. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

Measured on the **Price/Earnings ratio** using the latest 12 months profit figures, all equity markets have become more expensive since the beginning of the year:

	Dec. 2019	Sept. 2020	Change
SPI Index	15.9	21.5	35.2%
DJ STOXX 600 Index	20.7	38.4	85.5%
MSCI AC Asia ex Japan	16.3	21	28.8%
MSCI Japan	15.7	26.3	67.5%
MSCI USA	22.2	27	21.6%
MSCI AC World Index	20.6	28.8	39.8%

Source: Bloomberg. MSCI-Indices are net total return.

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### Equities Europe

The European direct investment portfolio, “European Stock Portfolio” (ESP), which is also focused on the value style, is -12.2% in the year to date and was thus able to recover slightly in the third quarter. The broad Dow Jones Stoxx 600 Index brings it to -11.6% (price changes plus distributions) in the same period. The Dow Jones Stoxx 600 Value Index, which focuses on the value style, shows a minus of 23.5% at the end of September.

In the long term, the ESP displays a marked out-performance against the broad index. Since 1993, the ESP has returned on average 7.8%, compared to the 6.5% achieved by the benchmark. The transaction costs, as well as taxes withheld, are deducted in ESP figures, whereas the index is calculated without bearing any costs. The cumulative performance of the ESP since 1993 amounts to about 772%, while that of the benchmark to about 504%.

### Equities USA

The weighting of American equities did not change in the third quarter and thus remained neutral. The rise, which was mainly carried by technology stocks, continued more or less unchecked and made the index of US stocks (MSCI +9.5%) one of the best in the last three months.

The Performa Fund US Equities we use performed even better and cracked the 10% mark for the past

quarter. In the year to date, this fund has clearly outperformed the benchmark index with an increase of 24.3%. The BB Adamant Medtech und Services Fund has also moved up, whereas the MSCI World Energy ETF purchased in May, has not yet met expectations.

### Equities Asia (ex Japan)

In the emerging countries, especially in Asia, the stock market development was even more dynamic. The MSCI Index Asia ex Japan gained 10.7% in the third quarter and is now trading at +5.4% so far this year. We estimate that the emerging economies in the Far East will do better than in other regions of the world in the future, and that the Covid-19 pandemic will separate the wheat from the chaff even more. For this reason, we also reflect this scenario more closely in the investments. We have therefore sold the SwissRock Emerging Markets Equity Fund, which is invested globally.

On the one hand, we used the proceeds to increase our holding in the Aberdeen Asia Pacific Fund. At the same time, we have switched to the institutional tranche of this fund wherever this had not yet been the case. The reason being that this tranche bears lower costs for the investor. A new investment was made in the Barings ASEAN Frontiers Fund. This vehicle invests – nomen est omen – in countries that belong to the Southeast Asian confederation ASEAN.

Currently, more than three quarters of the funds invested are in companies in Singapore, Thailand and Indonesia. This is followed by investments in shares in Malaysia, Vietnam and the Philippines. In total, the Association of Southeast Asian Nations comprises ten countries with over 600 million inhabitants and an area of almost 4.5 million square kilometres. In addition to the nations mentioned above, Brunei, Cambodia, Laos and Myanmar are ASEAN members.

### Price/Book and Dividend Yield of major equity markets:

	Price/ Book	Div. Yield
SPI Index	2.32	2.76%
DJ STOXX 600 Index	1.81	2.63%
MSCI AC Asia ex Japan	1.72	2.14%
MSCI Japan	1.29	2.22%
MSCI USA	3.9	1.71%
MSCI AC World Index	2.66	2.06%

Source: Bloomberg. MSCI-Indices are net total return.

### Equities Japan

Stocks in Japan also saw the recovery continue over the most recent three-month period. However, the level of the overall stock market valuation has not yet reached the level of the end of 2019. The positions remained unchanged and thus remained slightly overweighted.

### Alternative Investments

The number for the quarterly change in alternative investments also lights up green. Although the alternatives have not yet made much headway, they were punished much less by the crash in March than other forms of investment. We have not made any changes here and have kept our underweight position.

### Precious Metals

Gold did not lag behind in this reporting period, on the contrary, it expanded its performance lead over other asset classes and cost around a quarter more at the end of September than at the end of 2019. At the beginning of August, the precious metal climbed to an all-time high at 2,060 US dollars per ounce, before it corrected downwards a little recently. We kept the positions unchanged, which corresponds to an overweight position.

Summary of our current  
**Asset Allocation:**

Asset class	
Money Market	overweight
Bonds	underweight/ short duration
Equities Switzerland	neutral
Equities Europe	underweight
Equities USA	neutral
Equities Asia	neutral
Equities Japan	slightly overweight
Precious Metals	overweight
Alternative Investments	underweight

For a Swiss Franc referenced portfolio.

Since the beginning of the year, selected **foreign exchange rates** have developed as follows:

	Dez. 2019	Sept. 2020	Change
CHF / Euro	1.0855	1.08	-0.5%
CHF / USD	0.9676	0.9214	-4.8%
Euro / USD	0.8918	0.8531	-4.3%
Yen / USD	108.61	105.53	-2.8%

Source: Bloomberg.

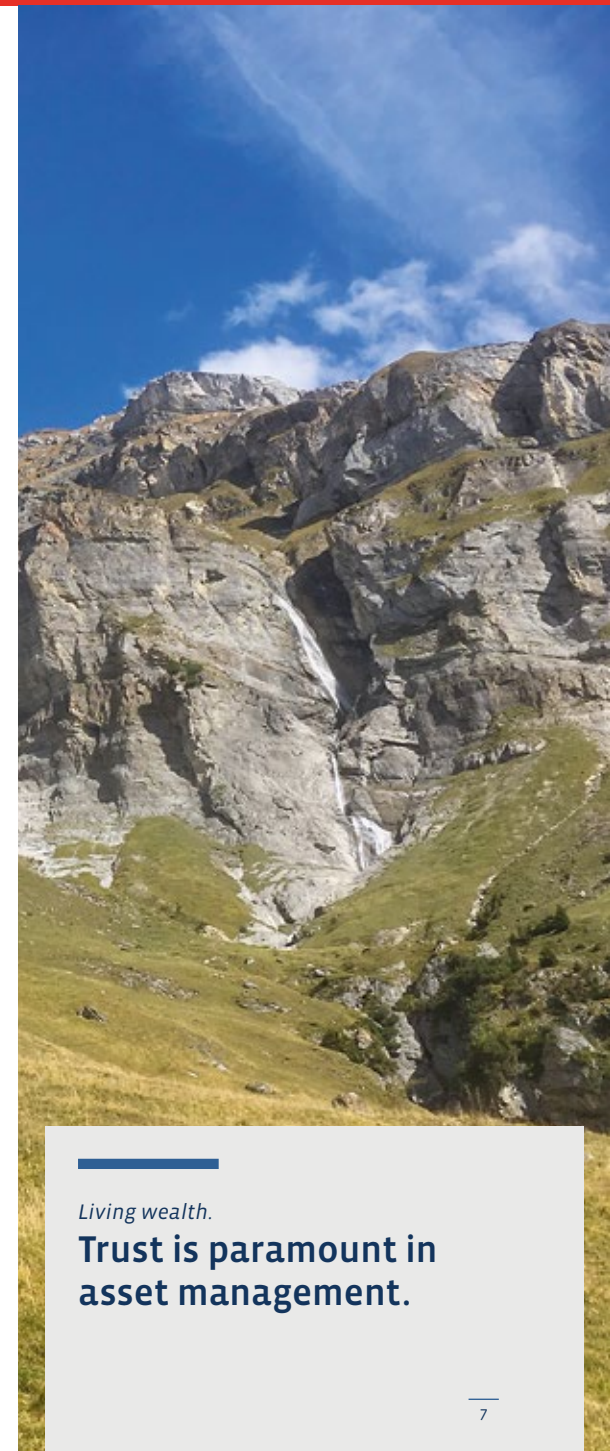
**Finally, this**

It should actually be the October festival season now, and not only in Germany, a hearty “O’zopft is!” (“It’s tapped!”) would ring through the tents of many festival pubs. Covid-19, of course, makes that impossible, at least on a large scale. Of course, this does not prevent the friends of this Bavarian tradition from upholding the tradition in some form.

The Liechtenstein asset manager, Incrementum, did this in an unconventional way, in which, based on Reuters and Statista data, they compared the development of the price of a glass of beer, called a “Mass” (the standard serving unit at the Munich Oktoberfest corresponding to one litre) with the development of the gold price.

Accordingly, the number of “Mass” that could have been bought in the years at the «Wiesn» (Bavarian name for the festival site in Munich) between 1950 and 2020 for one ounce of gold fluctuated between 48 in 1971 and 227 in Year 1980 (this year, due to the absence of the festival, the previous year’s price was used). The average was 89 Mass. This autumn, thirsty festival visitors could have ordered 136 litres of the barley juice with one ounce of gold.

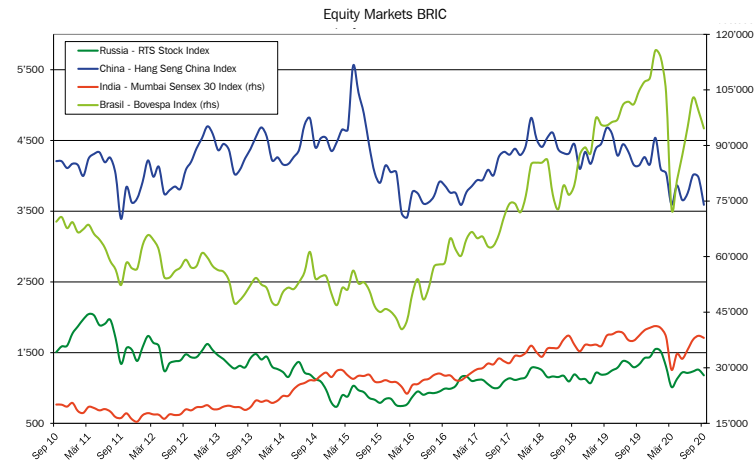
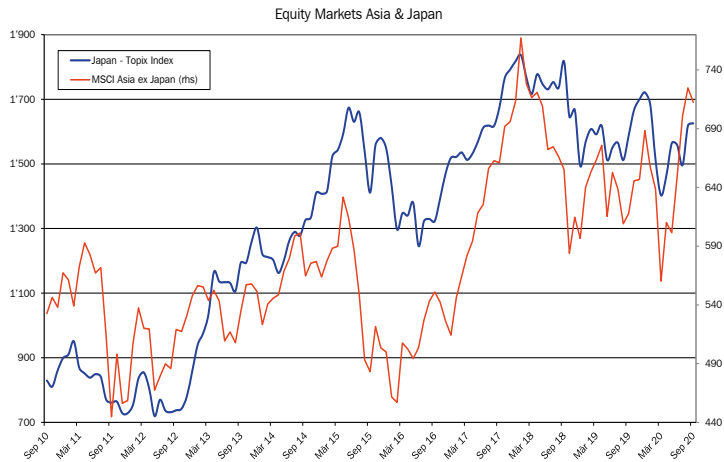
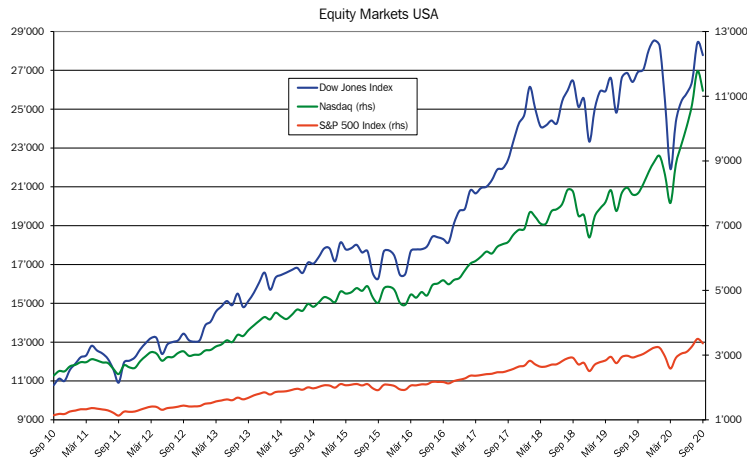
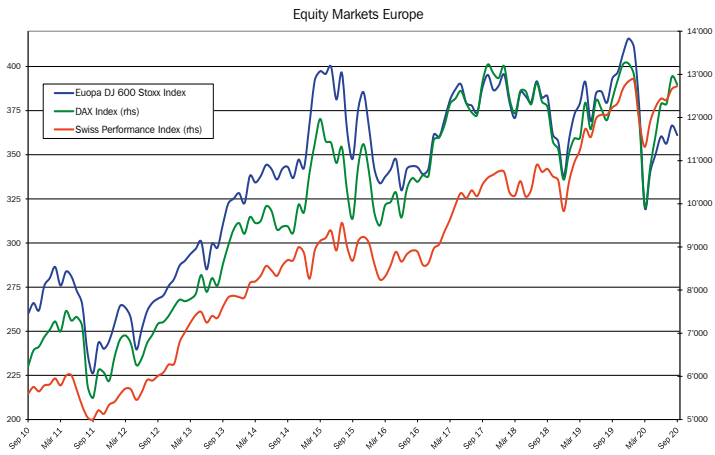
Without wanting to interpret too much into these statistics, one could say that gold has proven to be an excellent investment as a hedge against rising beer prices. All the more so since the price of a “Wiesn-Mass”, at least since 1991, has risen substantially more than the general Consumer Price Index for German beer would have indicated.



*Living wealth.*

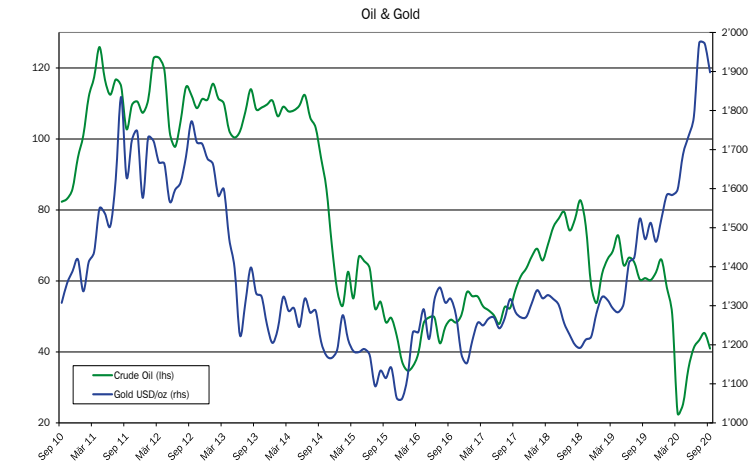
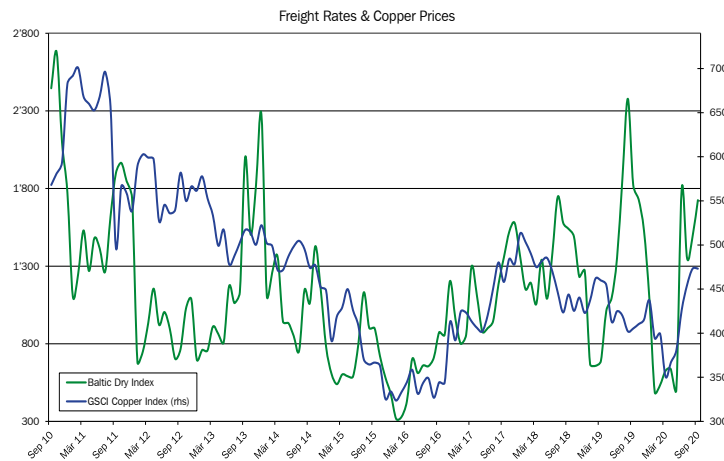
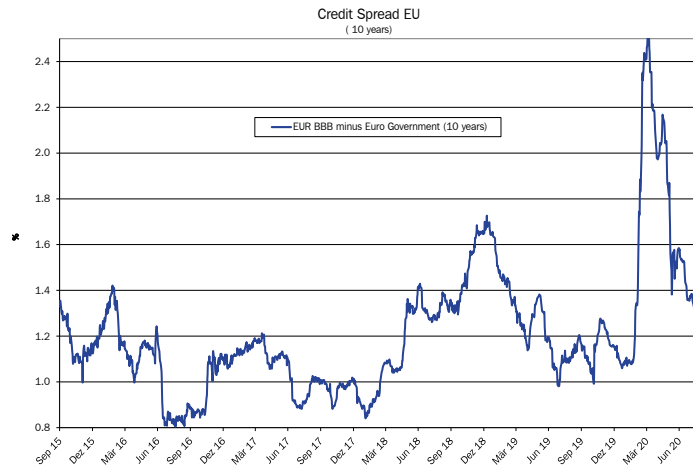
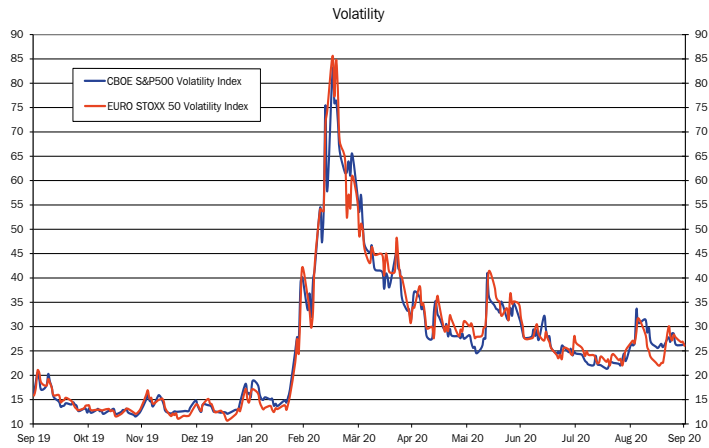
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## Equity Markets at a glance





## Bonds yields an other indicators





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## Closing words

We wish you a fine autumn in the best of health and thank you for the trust you have placed in us.

**Alfred Ernst**  
Director, Relationship Manager

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