SALMANN
INVESTMENT MANAGEMENT

Wild Rollercoaster Ride

Investment Report – 30th June 2020

Wild Rollercoaster Ride

In financial markets, the first half-year of 2020 was not for the faint hearted. At least the recovery of market prices during the second quarter managed to take some pressure off investors' nerves.
All hope now rests on constraining the pandemic effectively and getting economic activity back on course.

From one end of the country to another, fun fairs everywhere (commonly referred to as "Chilbis" in Switzerland) are cancelled. Despite this, investors have no reason to complain about the lack of rollercoaster rides, quite the contrary. The fearsome drop on the exchanges during the first quarter in nearly all countries seamlessly turned into a climb, leaving many an investor gasping for air.

Between early April and end of June, the German DAX Index commanded particular respect in this domain. A plus of 24 % within three months is the adrenalin-suffused result of this sprint. With this, the German exchange's benchmark finished the first half-year down by about 7 %. Although (in local currency) this was bettered by Swiss equities (SPI -3.1 %) and US-American stocks (-2.5 %). The latter likewise delivered a measured rally (+21.6 %), compared to which, Helvetian equities, up a "mere" 10 %, remained within the acceleration realm of a children's merry-go-round. The global equity index, recovering by a good 19 % during the second quarter, finished the half-year comparison down 5.8 %. Unrivalled by all, the crisis currency Gold, which today (measured in US Dollar) is quoted 17 % above the price on New Year's Eve, shines brightly.

Confident equity exchanges

All done and dusted, crisis over? A look at equity markets may suggest so; the question remains however, where did the gunpowder for the past three months' fireworks actually come from? It certainly could not have been from the immediate economic environment, as the economic fallout of the Corona crisis in 2020 will prove disastrous.

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

		Dec. 2019	June 2020	Change
Asia ex Japan	MSCI AC Asia ex Japan	509.4	485.3	-4.7 %
Europe	DJ STOXX 600	897.5	788.7	-12.1 %
Japan	MSCI Japan	2057.1	1'896.7	-7.8 %
Switzerland	SPI	12837.5	12'436.0	-3.1 %
USA	MSCI USA	8714.7	8'501.0	-2.5 %
World	MSCI AC World	6909.7	6'511.1	-5.8 %
Hedge Funds	HFRX Global HF	1292.4	1'278.4	-1.1 %

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

Just recently, the International Monetary Fund (IMF) lowered its Gross Domestic Product (GDP) expectations again. According to the IMF's augurs, the global economy will shrink by 4.9 % (previous estimate 3 %) in the current year. In the USA, the IMF expects a contraction by 8 % (previously 5.9 %), and in Canada one of 8.4 % (previously 6.2 %). The estimates for countries such as France, Italy and Spain are even worse, as the IMF expects GDP contractions in the low double digits.

Slightly less pessimistic are the average expectations of the economists polled by data provider, Bloomberg, which also feature Switzerland (see table "Average Growth and Inflation Expectations of the Economists polled in the Bloomberg Composite Forecast"). Notwithstanding the overall forecasts, encouraging signals of sub-indicators can be found here and there, leaving the hope for a marked economic rebound in the coming year intact. As far as inflation is concerned, this is unlikely to pose a problem either this year or next.

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

	Real GDP Growth		Inflation	
	2020	2021	2020	2021
China	1.8 %	8.0 %	2.8 %	2.2 %
Germany	-6.3 %	5.0 %	0.6 %	1.4 %
EU	-7.6 %	5.2 %	0.6 %	1.3 %
United Kingdom	-8.1 %	5.6 %	0.9 %	1.5 %
Japan	-4.9 %	2.5 %	-0.1 %	0.2 %
Switzerland	-5.6 %	4.0 %	-0.5 %	0.2 %
USA	-5.6 %	4.1 %	0.8 %	1.7 %

Bond markets unworried too

Things have also calmed down markedly in the bond markets. The panic about potential defaults has given way to a chase for yields again. Correspondingly, yields have retracted. On the sovereign debt markets, this was particularly pronounced in Italy, Spain and Greece. In the meantime, ten-year Greek bonds yield even less than Italian ones.

Interest rate differentials between issuers of different quality also retracted. The sovereign interest rate differentials (spreads), as can be observed, for example, in Europe in the spread above prime German government bonds (Bundesanleihen), which are back to similarly low levels as last seen before the financial and Euro crises. This is cause for concern. In the corporate bond sector, High Yield Bonds (also referred to as Junk Bonds) have regained a large part of their spread widening since mid-March.

The fact that the generous stopgap-measures introduced by many countries will markedly increase government debt does not appear to be concerning to markets. Global government debt is expected to expand by nearly 20 % points in the current year, to about 100 % (debt in relation to Gross Domestic Product) according to IMF estimates.

This may be manageable for countries like Germany and Switzerland that entered the pandemic with a relatively low indebtedness of way below 100 %. But how will countries that failed the opportunity to reduce their debt post the financial crisis and entered the Corona crisis with debt above the 100 % mark (e.g. Greece, Italy, Japan and Portugal to name but a few) be able to cope, is quite a different matter.

The **equity funds employed by us** achieved the following returns since the beginning of the year, in places beat their benchmarks:

Aberdeen Asia Pacific (USD)	-5.1 %
Swiss Rock Emerging Markets Equities (USD)	-12.4 %
GAM Japan Stock Fund (CHF hedged)	-4.3 %
GAM Japan Stock Fund (€ hedged)	-4.3 %
Strategy Certificate SIM–Swiss Stock Portfolio Basket	-8.5 %
iShares Core SPI ETF (CHF)	-3.9 %
iShares Stoxx Europe 600 ETF (€)	-12.2 %
Performa European Equities (€)	-19.9 %
Performa US Equities (USD)	11.6 %
BB Adamant Medtech & Services Fund (CHF)	-7.0 %
BB Adamant Medtech & Services Fund (€)	-5.0 %
BB Adamant Medtech & Services Fund (USD)	-4.9 %
State Street SPDR MSCI World Energy ETF (USD)*	-1.6 %

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

Other funds employed by us developed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-6.1 %
Acatis IfK Value Renten Fond (€)	-6.3 %
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	-3.4 %
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	-3.3 %
Franklin Templeton K2 Alternative Strategies Fund (USD)	-2.2 %
Lyxor ETF Euro Corp. Bond Fund (€)	-1.0 %
Pictet CH-CHF Bond Fund	-1.3 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-2.7 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	-2.6 %
ZKB ETF Gold (USD)	17.5 %

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 allocation remained at slightly elevated levels throughout the second quarter and with that remains overweight. We are keeping some powder dry here, to be able to benefit as and when opportunities present themselves.

Bonds
We did not initiate any active changes to the inventory and remain underweight in this sector.

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

	Dec. 2019	June 2020	Change
Europe	-0.19 %	-0.45 %	-137 %
United Kingdom	0.82 %	0.17 %	-79 %
Japan	-0.01 %	0.03 %	400 %
Switzerland	-0.47 %	-0.44 %	6 %
USA	1.92 %	0.66 %	-66 %

Equities Switzerland
Swiss equities recovered markedly during the second quarter. The performance of the directly invested “Swiss-Stock-Portfolio” (SSP) came in with -7.12 % for the first half-year, that of the benchmark Swiss Performance Index (SPI) at -3.13 %. The benchmark benefitted from the high weightings of its top components Nestlé, Novartis and Roche, which, although also contained in the SSP, are lower weighted there. The “Strategy Certificate linked to the SIM Swiss Stock Portfolio Basket” (Valor: 36524524, ISIN: CH0365245247) based on the SSP declined by 8.5 % during the first half-year.

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 13.7 %, 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 198 %, while that of the index to 133 %. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

As every spring, we completed the regular annual rebalancing during the second quarter. In the process, the most attractive names of the Swiss market either are added, or remain in the portfolio, whereas the least attractive ones are sold. Even more so than in previous years, the emphasis in stock selection was on high quality. As part of the rebalancing, all components’ weightings were adjusted. These adjustments apply equally to the direct investments in clients’ portfolios, as well as to the composition of the certificate.

New to the selection are the stocks of Alcon, Emmi, Lafargeholcim and Vifor Pharma, whereas Autoneum, Metall Zug, Orior as well as Ypsomed have had to make way. Adecco, Also, Baloise, Bell Food, Cembra Money Bank, Coltene and Helvetia Holding remained in this selection of domestic stocks unchanged. Nestle, Novartis and Roche also defended their positions. The same goes for Siegfried, Sonova, Swatch, Swisscom, Swiss Life, as well as Vetropack.

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

	Dec. 2019	June 2020	Change
SPI Index	15.9	26.9	69.2 %
DJ STOXX 600 Index	20.7	18.8	-9.2 %
MSCI AC Asia ex Japan	16.3	17	4.3 %
MSCI Japan	15.7	19.3	22.9 %
MSCI USA	22.2	23	3.6 %
MSCI AC World Index	20.6	21.4	3.9 %

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

Equities Europe
Our value-style centric, directly invested "European Stock Portfolio" (ESP) managed to recover more than 20 % during the second quarter and beat the index during that period. Nevertheless, it suffered a loss of 13.8 % during the first half of the year, measured in Euro. The broad Dow Jones Stoxx 600 Index achieved -12.1 % (price change plus dividends) during the first half-year. The value-style driven Dow Jones Stoxx 600 Value Index, however, stood at -21.3 % at the end of June.

In the long term, the ESP displays a marked outperformance 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 757 %, while that of the benchmark to about 500 %.

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

	Price / Book	Div. Yield
SPI Index	2.08	2.82 %
DJ STOXX 600 Index	1.66	2.91 %
MSCI AC Asia ex Japan	1.58	2.41 %
MSCI Japan	1.25	2.47 %
MSCI USA	3.64	1.88 %
MSCI AC World Index	2.47	2.27 %

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

The European Stock Portfolio also underwent its regular annual revitalisation. New names amongst the most attractively valued stocks are Enagas and Neste (Energy sector), as well as the utility, Terna. Nokian Renkaat, Swatch and Taylor Wimpey also made it on the list. In the technology sector, the new names are ASM International, as well as Dialog Semiconductor. IG Group (Financials) as well as the Chemical and Pharma stocks, Diasorin, Fuchs Petrolub and Recordati round off the list of new additions.

A2A, Aurubis, Amsterdam Commodities, Barratt Developments, British American Tobacco, Covestro, Hikma Pharmaceuticals, as well as Jupiter Fund Management, held on to their places in the selection of Europe's 25 most attractively valued stocks. The same applies to Legal & General, Persimmon, Randstad, Siltronic and Tate & Lyle. Whereas Babcock International, Repsol, Saras, SKF, Renault, Sopra Steria, Software AG, CNP Assurance, Nordea Bank, Fresenius Medical Care, UCB und Arkema were dropped from the portfolio.

Equities USA
American equities were amongst the high-flyers of the second quarter this year. The Performa US Equities Fund employed by us even bettered this by clearly beating its benchmark in the year to date. During the course of the past quarter, we sold part of the US equity allocation that before had been overall overweight and reduced the position to neutral weight. In return, we bought units of State Street Global Advisors' SPDR MSCI World Energy ETF.

Stocks of the energy sector suffered a massive setback as demand plunged. The energy sector is amongst the most battered sectors of the crash. At the peak of the crisis, energy stocks were trading at discounts to the overall market never before seen, as well as being fundamentally valued at extremely low levels. With a recovery in economic activity, oil and gas prices are likely to recover and heave stocks in the industry to a higher level. We view this purchase as a tactical engagement of limited duration, not as a long-term strategic one.

Equities Asia (excluding Japan)
Equities of the Asian-Pacific region managed a recovery that during the second quarter almost reached the magnitude of the top-performers America and Germany. Other emerging countries achieved slightly less impressive progress. The engagement in this sector remained unchanged throughout the reporting period, which is to say we continue to be underweight.

Equities Japan
Slightly above neutral weight is the unchanged position in Japanese stocks, which pulled clear of March's lows in lockstep with other markets.

Alternative Investments
Alternatives proved themselves as relatively low volatility investments during the crisis. Since the reduction in March, we have not initiated any further changes and with that maintained our underweight position.

Precious Metals
Gold outshone everything in the second quarter too. During the past three months, the price per ounce in US Dollar has climbed by nearly 13 %, and since the start of the year, this amounts to a cumulative of about 17 %. The gold ETF moved in similar dimensions. We left the position 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	underweight
Equities Japan	slightly overweight
Precious Metals	overweight
Alternative Investments	underweight

For a Swiss Franc referenced portfolio.

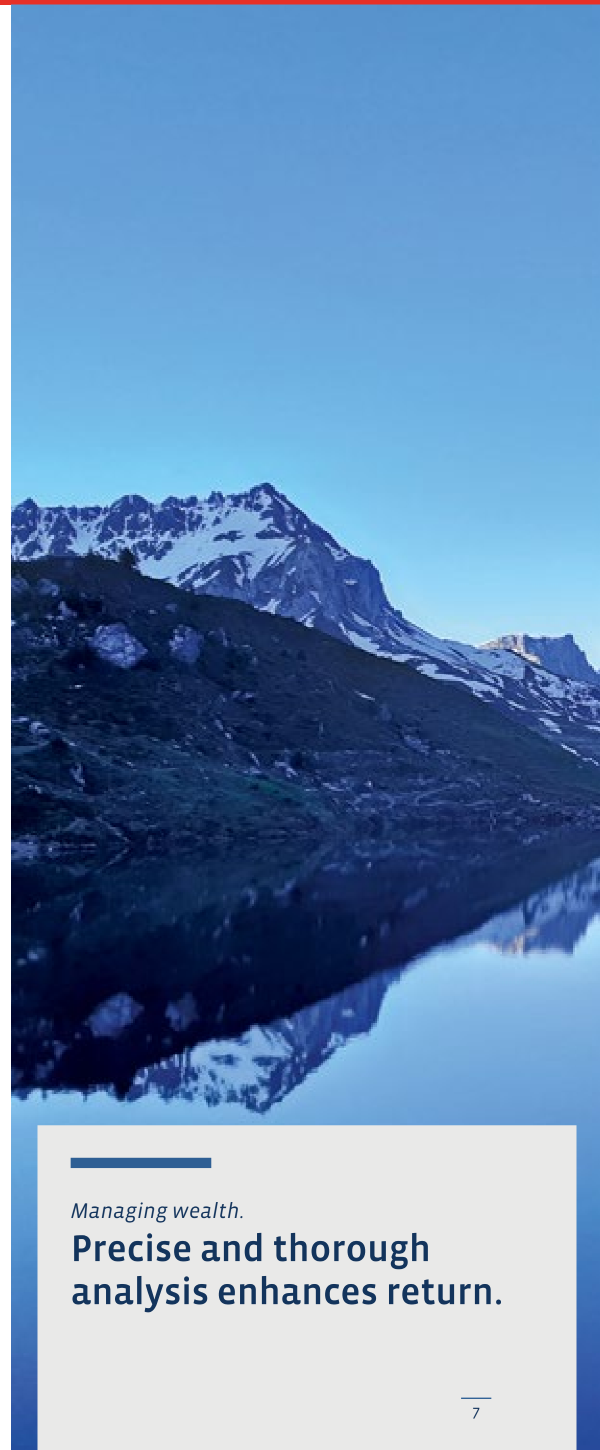
News of our own

As part of long term and continuous succession planning, Markus Gartmann recently joined Salmann Investment Management. He is a banking specialist and financial planner with a Federal Certificate of Competence. Markus Gartmann took up his position as Relationship Manager in June. He has more than 20 years' experience in private banking. In addition to his keen understanding of classic wealth management, he has many years of experience in providing comprehensive advice to private clients, encompassing such matters as financing, financial planning and succession planning. We wholeheartedly welcome our new colleague and wish him much success and fulfilment in his new domain.

Selected **foreign exchange rate** developments since the beginning of the year:

	Dez. 2019	June 2020	Change
CHF / Euro	1.0855	1.0642	-2.0 %
CHF / USD	0.9676	0.9473	-2.1 %
Euro / USD	0.8918	0.8902	-0.2 %
Yen / USD	108.61	107.93	-0.6 %

Source: Bloomberg.



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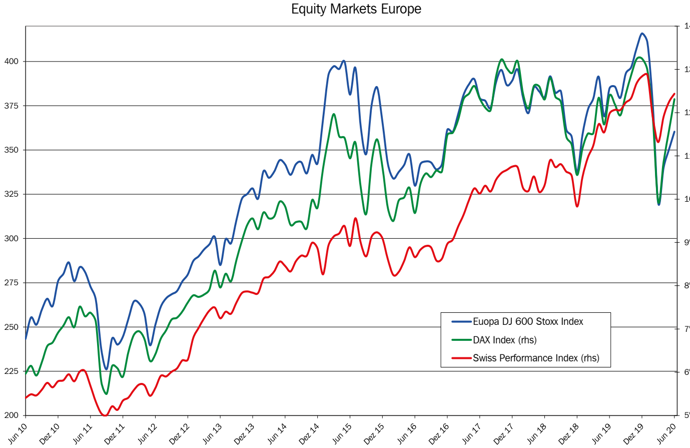
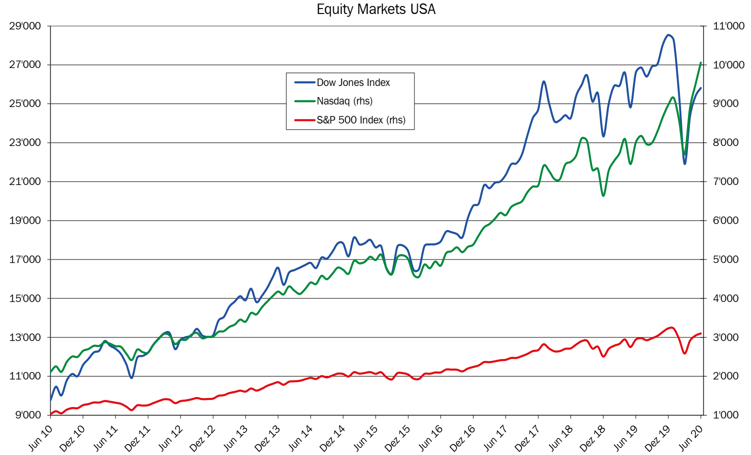
Equity markets at a glance

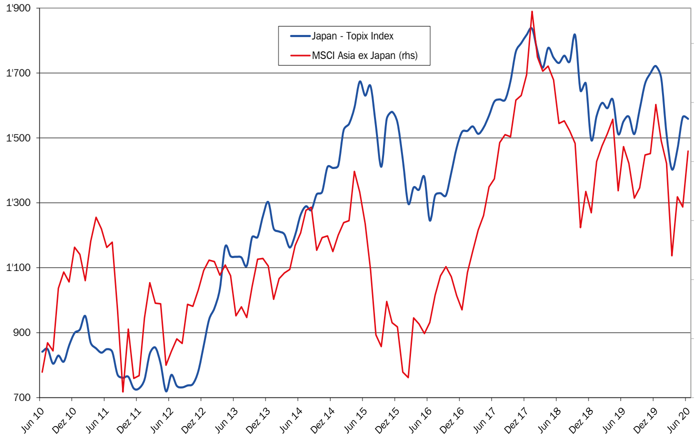
Equity Markets Europe



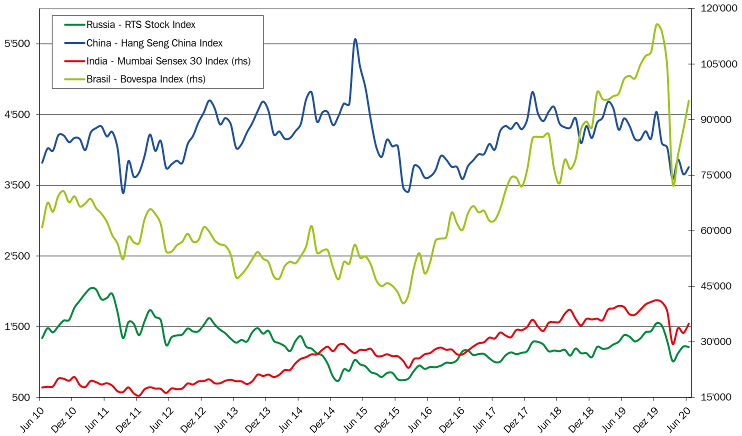
Equity Markets USA



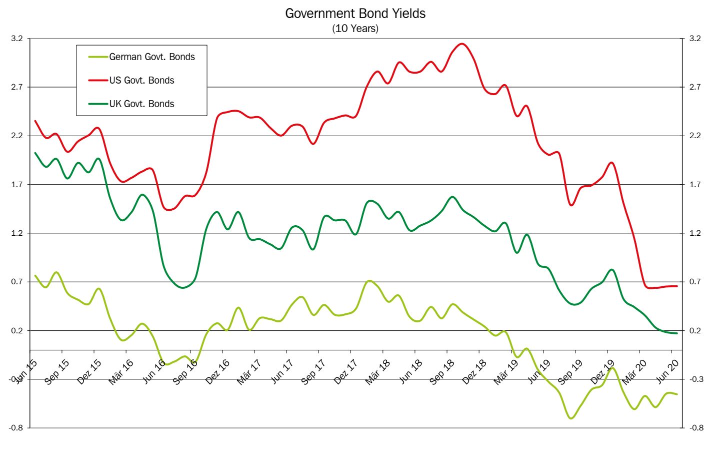
Equity Markets Asia & Japan

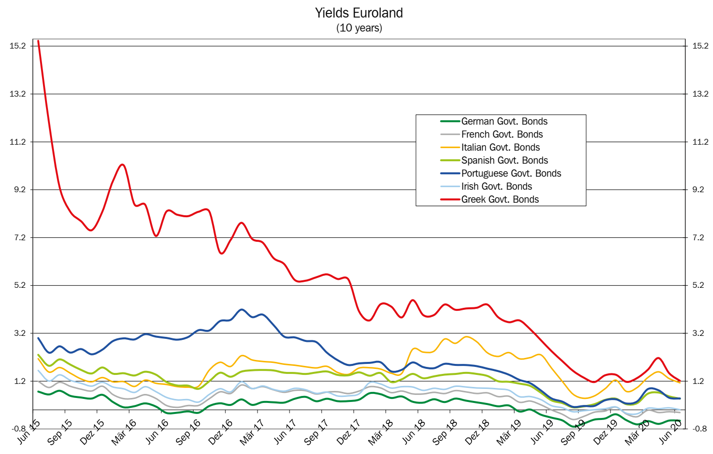


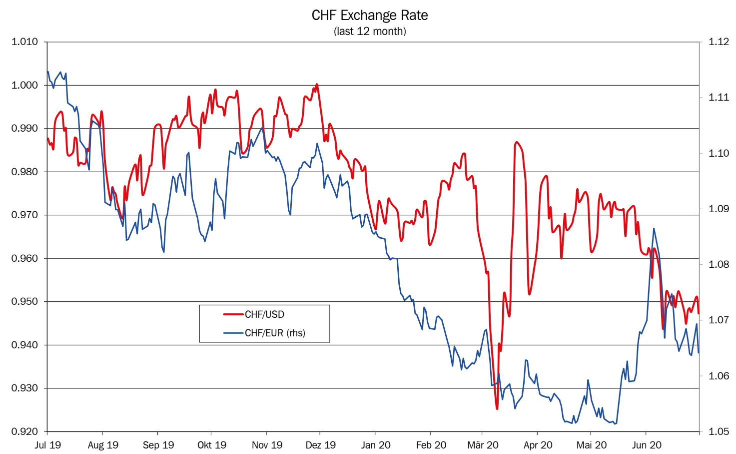
Equity Markets BRIC



Bond yields and other indicators







Notes

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Closing words

We wish you many sunny summer days in good health and thank you for the trust placed in us.

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