SALMANN
INVESTMENT MANAGEMENT

# Equities climb the Wall of Worry

*Investment Report – 31st December 2021*

# Equities climb the Wall of Worry

The Western world stock exchanges staged a brilliant final sprint in the fourth quarter, while the Asian markets were unable to escape the doldrums. All in all, investors can look back on a very gratifying year on the stock markets, in which a high equity weighting and the underweighting of fixed-interest securities paid off once more.

Two familiar stock market sayings proved true again in the fourth quarter, namely that "bullmarkets love to climb the Wall of Worry" and that "the future is traded on the stock markets". As to the first saying, there was certainly no lack of worries in the last three months of the year. The sharp rise in inflation as a result of shortages of materials and workers, the onset of the next Corona wave, exacerbated by the new Omicron variant of the virus, as well as the Russian military build-up on the border with Ukraine have driven up the worry barometer around the globe.

Apparently, though, the investment community peered through this Wall of Worry with great confidence (which brings us to the second nugget of wisdom) and has espied a bright future beyond the Wall. To what extent the record highs on the various stock exchanges have already priced in this anticipated fair weather is of course another question, and one that is difficult to answer.

In actual fact, however, there are some arguments that justify a certain optimism. For one thing, economic growth remains high. According to the latest estimates of economists surveyed by Bloomberg (see the table "Average growth and inflation forecasts of economists surveyed by Bloomberg Composite Forecast"), growth in the year now ended, as well as in the coming year, could be just below previous estimates in some cases.

The pandemic is not over yet and is once again putting the brakes on growth. However, the differences to the estimates at the end of the third quarter of 2021 are only marginal.

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

| | | Dec. 2020 | Dec. 2021 | Change |
|---|---|---|---|---|
| Asia ex Japan | MSCI AC Asia ex Japan | 636.9 | 606.8 | -4.7% |
| Europe | DJ STOXX 600 | 879.6 | 1'098.7 | 24.9% |
| Japan | MSCI Japan | 2'237.3 | 2'538.1 | 13.4% |
| Switzerland | SPI | 13'327.9 | 16'444.5 | 23.4% |
| USA | MSCI USA | 10'520.8 | 13'304.1 | 26.5% |
| World | MSCI AC World | 8'008.5 | 9'755.7 | 21.8% |
| Hedge Funds | HFRX Global HF | 1'380.5 | 1'430.9 | 3.7% |

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

**The economy remains dynamic**

Especially when it comes to economic growth, forecasts are in any case always fraught with great uncertainties, and even the values reported in the past are often revised later, sometimes several times. Mark Twain is said to have been aware of the problems of forecasting and famously said; "Prediction is difficult, especially when it involves the future."

But let's get back to the pragmatic work of the economic researchers. While 2022 should prove to be rather dynamic, with projected real growth above the long-term trend in both the USA and Europe, the clouds of a much slower pace loom on the horizon for 2023. A very rough estimate is that growth rates in the established industrial nations could then be roughly halved as compared to 2022. However, this scenario is still a long way off at present, and besides, what was it that Mark Twain said again?

*Living wealth.*

**Trust is paramount in asset management.**

Average **growth and inflation** forecasts of economists surveyed by "Bloomberg Composite Forecast":

| | Real GDP Growth | | Core-Inflation | |
|---|---|---|---|---|
| | 2021 | 2022 | 2021 | 2022 |
| China | 8.0% | 5.2% | 1.0% | 2.2% |
| Germany | 2.8% | 4.1% | 3.1% | 2.7% |
| EU | 5.4% | 4.3% | 2.6% | 2.8% |
| United Kingdom | 6.9% | 4.8% | 2.5% | 4.0% |
| Japan | 1.8% | 2.9% | -0.2% | 0.7% |
| Switzerland | 3.5% | 2.9% | 0.5% | 0.7% |
| USA | 5.6% | 3.9% | 4.7% | 4.4% |

The optimistic economic forecasts therefore indicate that companies will remain able to operate in a favourable environment. With a few exceptions, the congestion in the supply chains is likely to ease or dissipate in the coming year, and the pandemic-related restrictions are likely to ease too, at least in terms of the trend.

On both sides of the Atlantic, consumers have substantial savings that are in a position to sustain consumption. The strained labour markets in many locations also speak in favour of a robust spending mood.

The **equity funds employed by us** achieved the following returns since the beginning of the year, partly exceeding their benchmarks:

| | |
|---|---|
| Aberdeen Asia Pacific (USD) | -3.4% |
| Barings ASEAN Frontiers Equities (USD) | 13.3% |
| GAM Japan Stock Fund (CHF hedged) | 10.2% |
| GAM Japan Stock Fund (€ hedged) | 10.4% |
| Strategy Certificate SIM–Swiss Stock Portfolio Basket | 18.4% |
| iShares Core SPI ETF (CHF) | 23.3% |
| iShares Stoxx Europe 600 ETF (€) | 24.8% |
| Performa European Equities (€) | 21.0% |
| Performa US Equities (USD) | 24.4% |
| BB Adamant Medtech & Services Fund (CHF) | 20.4% |
| BB Adamant Medtech & Services Fund (€) | 25.7% |
| BB Adamant Medtech & Services Fund (USD) | 16.8% |

Performance in fund currency. Source: Bloomberg or respective fund company.

And last but not least, the Central Banks are still pursuing a very relaxed monetary policy. Although the first interest rate hikes in the USA are considered certain to occur in the new year, the first dose should be easily absorbed for the time being. In contrast, there are hardly any signs in Europe that the European Central Bank (ECB) is willing or able to move away from its current, very relaxed policy any time soon. The high level of national debt is a major obstacle in this respect, since in certain important countries of the Eurozone, such as Italy, higher key interest rates would inevitably lead to problems that would be felt far beyond the country's borders.

### Stock exchanges are shrugging off inflation worries

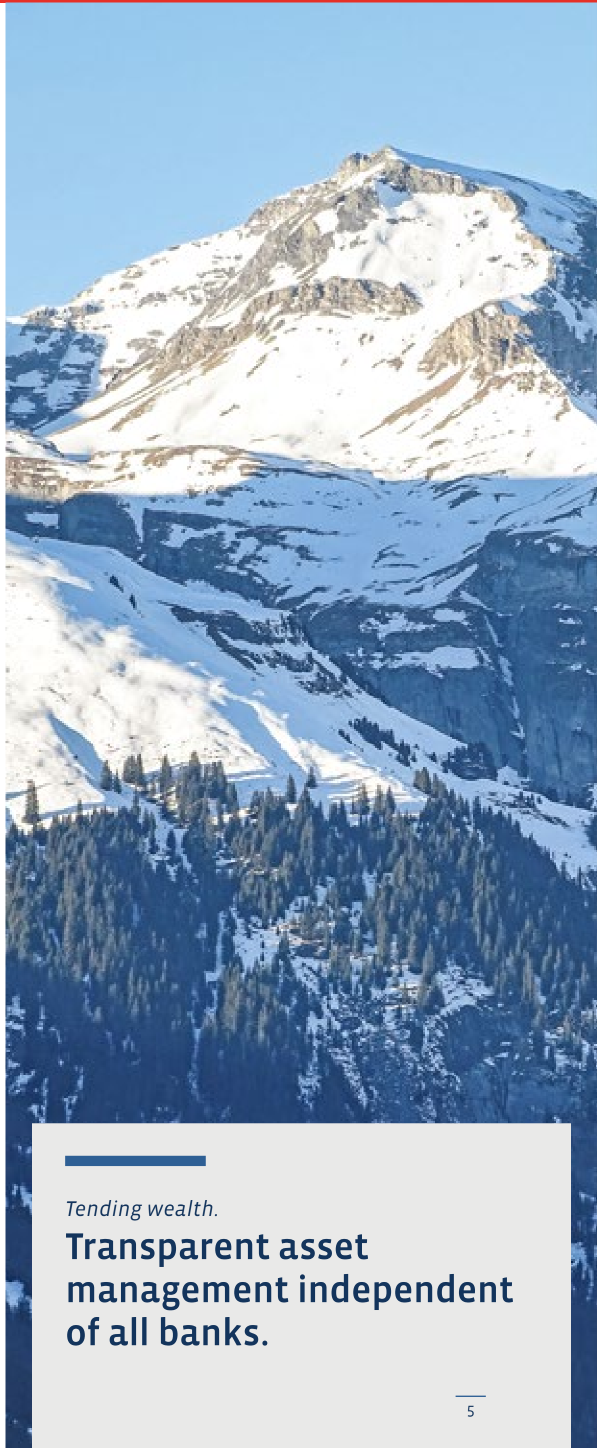
This brings us to the "But". The kick-start to the economy, coupled with certain exceptional factors such as supply bottlenecks and rising energy prices, has caused inflation to soar. The consumer price index in the USA rose by 6.8% in November compared to the same month last year. Inflation was at its highest level since 1982.

The main driver behind this increase was energy prices that rose by 33%, with heating oil and petrol each making an above-average impact of around 58%. However, cars also increased in price for consumers by a double-digit figure compared to a year ago. Core inflation, which is calculated without food and energy, rose 4.9% year-on-year by the end of November.

In the euro zone, overall inflation climbed to 5% in December. In the Old World, too, there has not been such a spike since the introduction of the common currency 20 years ago. The core rate, however, was recently a less dramatic 2.6%. In Switzerland, overall inflation climbed to 1.5% in December, with the core rate at 0.8%.

So far, the stock markets have shrugged off the fears of inflation with ease. They are already eying a flattening of the inflation curve, which according to current estimates should become evident from the second or third quarter of 2022.

Moreover, equities are intrinsically well-suited as investment instruments even in inflationary times. As prices rise, companies' sales and profits usually increase, which in turn allows them to pay out rising dividends. Companies' real assets, such as real estate, also become more valuable. Equities therefore have an advantage over bonds, even in times of moderate inflation.



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

| | |
|---|---|
| Acatis IfK Value Renten Fond (CHF hedged) | 1.6 % |
| Acatis IfK Value Renten Fond (€) | 1.9 % |
| BCV Liquid Alternative Beta Fund (CHF hedged) | 6.0 % |
| BCV Liquid Alternative Beta Fund (Euro hedged) | 6.1 % |
| BCV Liquid Alternative Beta Fund (USD) | 7.3 % |
| Franklin Templeton K2 Alternative Strategies Fund (CHF hedged) | 1.7 % |
| Franklin Templeton K2 Alternative Strategies Fund (€ hedged) | 2.0 % |
| Franklin Templeton K2 Alternative Strategies Fund (USD) | 2.8 % |
| Lyxor ETF Euro Corp. Bond Fund (€) | -1.0 % |
| Pictet CH-CHF Bond Fund | -2.3 % |
| Swiss Rock Absolut Ret. Bond Fund (CHF hedged) | -0.7 % |
| Swiss Rock Absolut Ret. Bond Fund (€ hedged) | -0.6 % |
| ZKB ETF Gold (USD) | -4.5 % |

Performance incl. re-invested dividends where applicable.

**Conclusion: Equities rather than bonds**

Politics is always a major unknown factor affecting the future of the financial markets. The current situation also has the potential to dampen investors' appetite for investing. To name but a few of the imponderables, think of China's threatening gestures towards Taiwan, Russia's deployment of troops on the Ukrainian border or the ongoing nuclear dispute with Iran.

Predictions here are also difficult, if not impossible (once again, Mark Twain rings true), and for this reason, as professional asset managers, we are constantly vigilant, conducting in-depth financial analyses and keeping our portfolios broadly diversified to ensure that they are both sound and flexible. Currently, this means a slight overweighting in equities, an underweighting in bonds and adherence to the proven quotas in gold and alternative investments. More on this in the following asset allocation sections.

**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 varying nominal weightings and weighting changes.

**Money Market**
The percentage rate lies approximately within the range of a neutral weighting. No active changes were made in the past quarter. As is widely known, there has been no return in this asset class for a considerable time. Nevertheless, the asset class is still required, as it serves as a buffer against value fluctuations in other categories and as a reserve in order to be able to react quickly to opportunities as they arise.

**Bonds**
We have also made no changes to the bond positions The current weighting of fixed-interest securities remains below the long-term strategic level. Maturities that are staggered and not too long remain the order of the day, as does a good spread of credit ratings.

*Tending wealth.*

**Transparent asset management independent of all banks.**

Since the beginning of the year, **yields on 10-year government bonds** increased everywhere:

| | Dec. 2020 | Dec. 2021 | Change |
|---|---|---|---|
| Europe | -0.57 % | -0.18 % | 68 % |
| United Kingdom | 0.20 % | 0.97 % | 385 % |
| Japan | 0.02 % | 0.07 % | 250 % |
| Switzerland | -0.55 % | -0.14 % | 75 % |
| USA | 0.91 % | 1.51 % | 66 % |

**Equities Switzerland**

Swiss equities had a very pleasing fourth quarter, which more than compensated for the drop experienced in the late summer. The year as a whole has been even more impressive. While the Swiss Performance Index (SPI) gained 9.3% in the last three-month period, it rose a respectable 23.4% for the year as a whole. Our "Swiss Stock Portfolio" (SSP), which is compiled according to value criteria, was not quite able to keep pace and closed the year 2021 with a plus of 20.3%. The figures are total returns, i.e., price changes plus any dividends.

In addition to the Index heavyweight, Nestlé (annual performance 25.4%), Sonova (+57%), Swiss Life (+42%) and Siegfried (+37%) were particularly impressive performers in the portfolio over the course of the year. Newcomer Tecan (+36% since purchase in May) also cut a fine figure. At the other end of the spectrum, the red lantern went to Cembra Money Bank (-36%), where the surprising end to the collaboration agreement with Migros caught investors on the wrong foot.

Long-term, the performance of the "Swiss Stock Portfolio" is excellent. Since 2012, the average annual performance of the SSP amounts to 15.2%, which clearly exceeds the average benchmark performance of 12.3%. Since 2012, this strategy has achieved a cumulative total performance of around 297%, compared to 208% for the index. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

The **price/earnings ratios** based on the last known profits for twelve months have fallen everywhere:

| | Dec. 2020 | Dec. 2021 | Change |
|---|---|---|---|
| SPI Index | 22.6 | 16.4 | -27.4 % |
| DJ STOXX 600 Index | 51.4 | 20.8 | -59.5 % |
| MSCI AC Asia ex Japan | 25.8 | 16.2 | -37.2 % |
| MSCI Japan | 30.7 | 15.1 | -50.8 % |
| MSCI USA | 30.4 | 27.1 | -10.9 % |
| MSCI AC World Index | 33.3 | 23.2 | -30.3 % |

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

**Equities Europe**

European equities also benefited from a following wind. Although the broad DJ Stoxx 600 Index posted 7.6% for the last quarter, this was a slightly smaller gain than that of its Swiss counterparts. The European market was also in the top league in 2021, with an annual performance of 24.9%. Transaction costs and withholding taxes are deducted from the ESP figures, whereas the benchmark index is calculated without costs.

Although there were some top performers in the portfolio, notably ASM International (annual performance +118%), A2A (+38%) and Ahold Delhaize (+35%), these failed to lift the overall selection above the index in terms of returns. At the other end of the list, Kindred Group (-30%) and Neste (-25%) failed to meet expectations in 2021.

The long-term ESP performance since 1992 continues to speak in favour of the value style applied in this selection. Over this period, ESP has achieved an average annual performance of 8.68%, compared to 7.33% for the benchmark. The portfolio has thus accumulated 1,114%, whereas the cumulative index performance is "only" 736%. The comparison with a reference index limited to value stocks is also interesting. In this comparison, for which we have data since 1998, the annual performance of the European Stock Portfolio amounts to 6.79%, compared to 4.59% of the benchmark. In other words, the ESP actually outperformed the value benchmark by 2.21 percentage points per year, compared to 1.35 percentage points for the overall market.

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

| | Price / Book | Div. Yield |
|---|---|---|
| SPI Index | 2.57 | 2.26 % |
| DJ STOXX 600 Index | 2.17 | 2.61 % |
| MSCI AC Asia ex Japan | 1.8 | 1.95 % |
| MSCI Japan | 1.42 | 2.10 % |
| MSCI USA | 4.95 | 1.24 % |
| MSCI AC World Index | 3.29 | 1.67 % |

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

**Equities USA**
There was no holding American equities back in 2021. The leading index MSCI TR USA excelled with an annual performance of 26.5%. In the fourth quarter alone, it was 10%. The Performa US Equity Fund we use crossed the finish line with a similar performance. Clients calculating in Swiss Francs and Euros also benefited from the appreciation of the US Dollar. We are slightly overweight in American equities. There were no changes in the positions in the fourth quarter.

**Equities Asia (ex Japan)**
The positions in Asian equities (excluding Japan) also remained unchanged. The slight overweight in the Far East also remained. The positions remained unchanged in the past quarter. However, 2021 was not the Asian stock markets' year, with negative performance values in the index both for the fourth quarter and for the year as a whole. Nevertheless, the funds we used outperformed the benchmark. The Barings Asean Frontier Markets Fund even delivered a clear double-digit increase.

**Equities Japan**
Contrary to the negative equity trend in the Asian emerging markets, Japan delivered good results as an established industrial nation. The leading index in the Land of the Rising Sun more or less stood still in the fourth quarter. However, in the year-end reckoning, a plus in the order of a good 13% remained. The positions remained unchanged, thus maintaining a slight overweighting.

**Alternative Investments**
Hedge funds were unable to shake off their lethargy in the final quarter. Overall, 2021 was simply too quiet for hedge funds to really play to their strengths. Nonetheless, the BCV fund posted a gain of more than 6% in Swiss Francs and Euros, which is well above the benchmark. We did not make any changes to the positions in the fourth quarter.

**Precious Metals**
Apparently, Gold did not want to stay out of the spotlight during the sparkling Christmas season and showed signs of life again towards the end of the year. In Dollars, however, a loss remained for the whole year, although the higher Dollar exchange rate almost compensated this loss for investors in Francs. Investors in Euros even managed a positive performance thanks to the Greenback. We have left the positions unchanged.

In 2021, the selected **foreign exchange rates** have performed as follows:

| | Dec. 2020 | Dec. 2021 | Change |
|---|---|---|---|
| CHF / Euro | 1.0821 | 1.0375 | -4.1% |
| CHF / USD | 0.8852 | 0.9129 | 3.1% |
| Euro / USD | 0.8178 | 0.8793 | 7.5% |
| Yen / USD | 103.3 | 115.08 | 11.4% |

Source: Bloomberg.

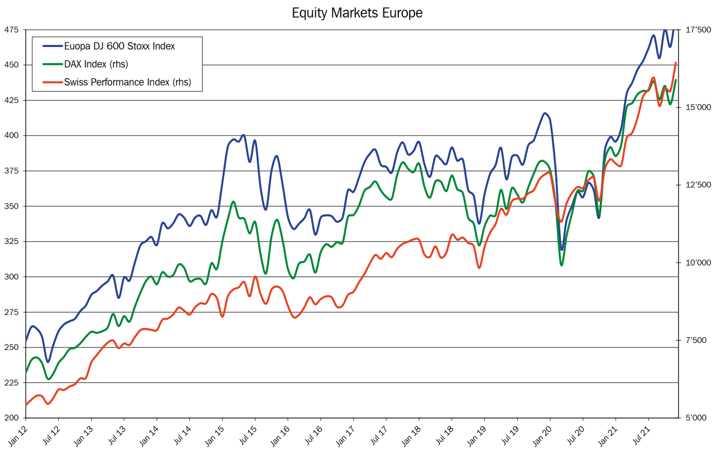
Summary of our **current Asset Allocation:**

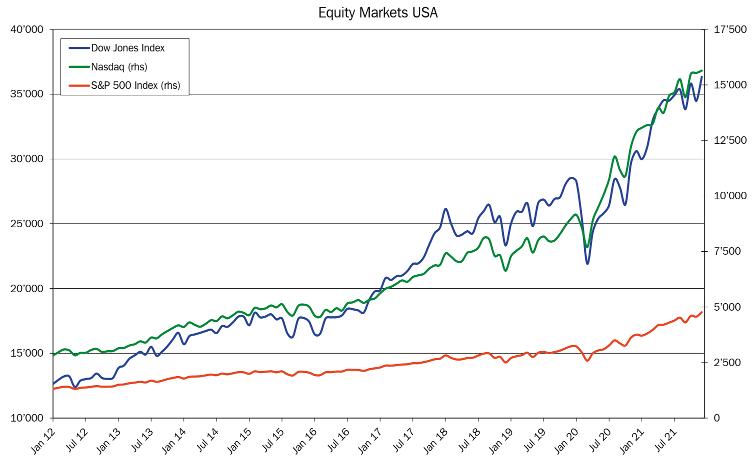
| Asset class | |
|---|---|
| Money Market | neutral |
| Bonds | underweight / short duration |
| Equities Switzerland | slightly overweight |
| Equities Europe | slightly underweight |
| Equities USA | slightly overweight |
| Equities Asia | slightly overweight |
| Equities Japan | slightly overweight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

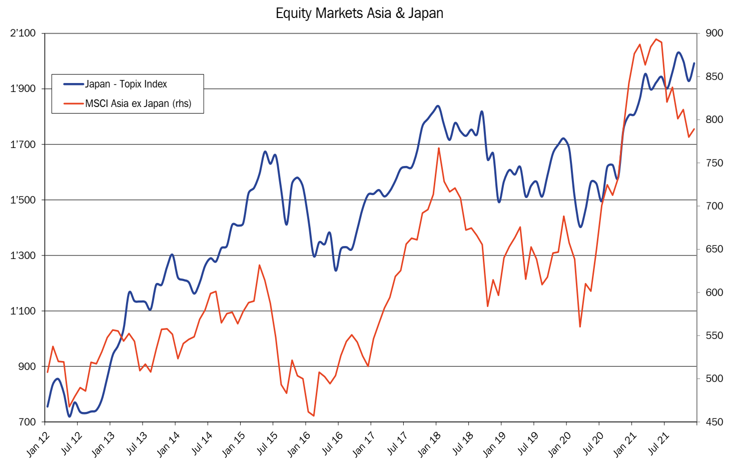
For a Swiss Franc referenced portfolio.

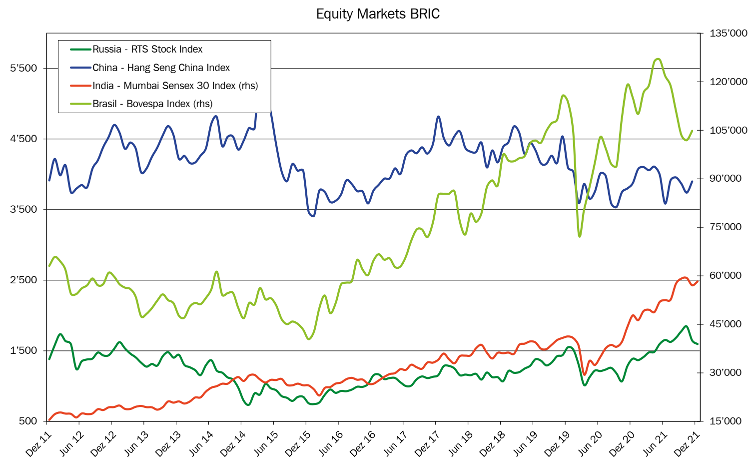
*Managing wealth.*
**Precise and thorough analysis enhances return.**

# Equity Markets at a glance

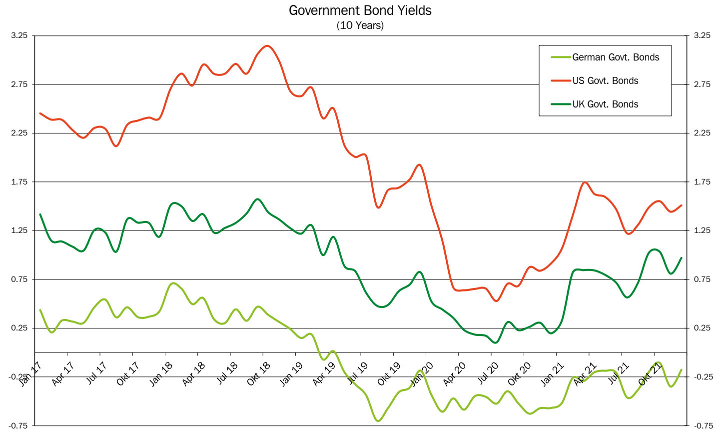


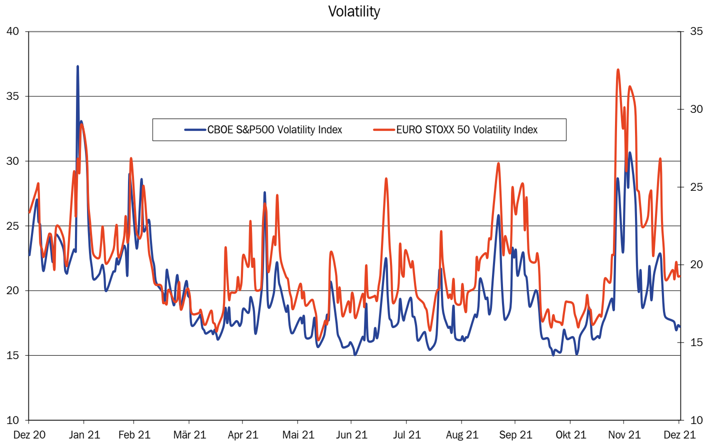



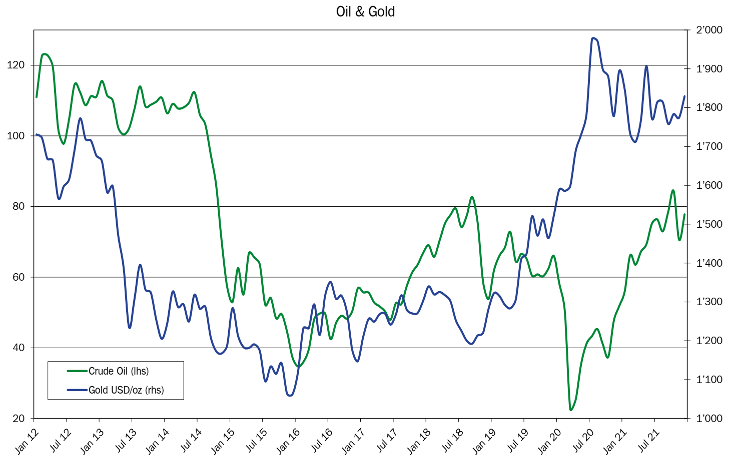



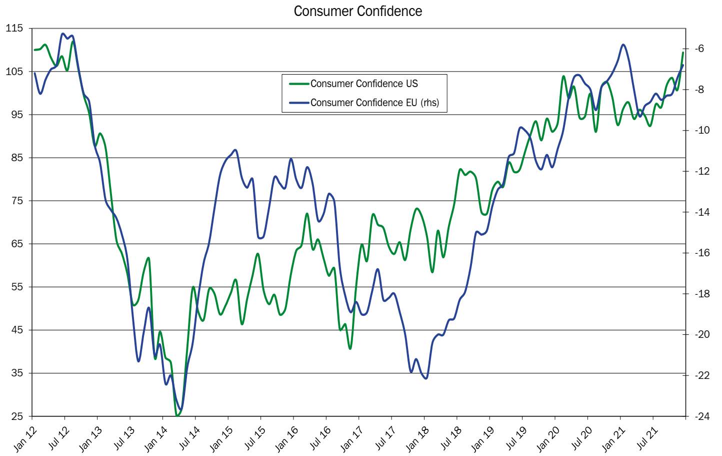



# Bond yields and other indicators



# Notes

## Closing words

We thank you for the trust you have placed in us and wish you a healthy, happy and successful New Year.

**Alfred Ernst**
Director, Relationship Manager

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