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# Keep your seat belts fastened

*Investment Report – 31<sup>st</sup> March 2023*



## Keep your seat belts fastened

Despite some severe turbulence, an overall positive trend prevailed on the international stock and bond markets in the first quarter. European and American equities particularly benefited from the upturn.

"Keep your seat belts fastened" was the best advice for investors on how to get through the first quarter on the financial markets without sustaining any lasting injuries. In January, share prices took off on a steep climb after a picture-perfect start. This was followed in February by a passage at a reasonably stable altitude. Then turbulence set in and numerous air pockets were hit before the aircraft named "The Stock Market" regained sufficient uplift under its wings at the end of March and resumed its climb.

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

		Dec. 2022	Mar. 2023	Change
Asia ex Japan	MSCI AC Asia ex Japan	487.5	508.6	4.3%
Europe	DJSTOXX 600	981.8	1'064.2	8.4%
Japan	MSCI Japan	2'424.1	2'596.4	7.1%
Switzerland	SPI	13'734.9	14'547.1	5.9%
USA	MSCI USA	10'663.8	11'473.7	7.6%
World	MSCI AC World	7'985.9	8'603.2	7.7%
Hedge Funds	HFRX Global HF	1'367.9	1'367.8	0.0%

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

Whether investors can now unbuckle their seat belts remains to be seen. Despite the crisis in the U.S. banking sector, which reached a momentary climax with the collapse of Silicon Valley Bank (SVB) and Signature Bank (in addition to tail spinning at other banks) and the enforced takeover of Credit Suisse by UBS, the Central Banks continued their fight against inflation.

Higher key interest rates were the result. This was the case in March in the USA, where the Fed Fund rate was increased by 0.25 percentage points to a range of 4.75 – 5%, in Switzerland, where the SNB raised the benchmark interest rate from 1 to 1.5%, and in the UK, where there was an increase of 0.25 percentage points to 4.25%.

### All eyes are on the Fed

Naturally, given its function as the bellwether for the global financial system, investors' main focus is on the U.S. Federal Reserve (Fed) and its chair, Jerome Powell. The latter made it clear that interest rates could be raised even further if necessary. However, observers now see the interest rate peak in sight at slightly over 5%. On the one hand, the economy is just plodding along, and on the other, inflation is easing, albeit slowly.

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

Aberdeen Asia Pacific (USD)	2.5%
Barings ASEAN Frontiers Equities (USD)	3.2%
BB Adamant Medtech & Services Fund (CHF)	0.2%
BB Adamant Medtech & Services Fund (€)	-0.3%
BB Adamant Medtech & Services Fund (USD)	1.5%
CS Index Fund Equity Switzerland Large Caps (CHF)	5.1%
Franklin Templeton FTSE India ETF (USD)	-5.3%
GAM Japan Stock Fund (CHF hedged)	6.8%
GAM Japan Stock Fund (€ hedged)	7.3%
GAM Swiss Sustainable Companies Fund (CHF)	13.9%
iShares Core SPI ETF (CHF)	5.7%
iShares Stoxx Europe 600 ETF (€)	7.3%
Performa European Equities (€)	4.7%
Performa US Equities (USD)	6.5%

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



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Bank failures in the U.S. could further slow demand, having an effect similar to additional rate hikes. "That basically means that monetary policy has less work to do," Powell said in announcing the latest rate move. In contrast to the Federal Reserve chair's remarks, the market is already dominated by hope of interest rate cuts. The swaps market expects the U.S. federal funds rate to fall faster than does the Federal Open Market Committee of the central bank, seeing it begin as early as mid-2023.

Similarly, the long-term outlook for the bond market is brighter than it has been, with the yield curves for Swiss Franc, Dollar and Euro-denominated government bonds having fallen somewhat recently. As a result, ten-year bond yields are lower than they were at the end of 2022 (see the "Since the start of the year, yields on ten-year government bonds have fallen everywhere" table).

Ten-year yields are also below yields on two-year securities in most countries, which indicates little fear of sustained high inflation, but also signals a coming economic slowdown. In addition, a certain flight to quality is likely to have driven down government bond yields.

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

Acatis IfK Value Renten Fond (CHF hedged)	1.8%
Acatis IfK Value Renten Fond (€)	2.2%
Amundi ETF Euro Corp. Bond Fund (€)	1.2%
BCV Liquid Alternative Beta Fund (CHF hedged)	-0.3%
BCV Liquid Alternative Beta Fund (Euro hedged)	0.1%
BCV Liquid Alternative Beta Fund (USD)	0.8%
Pictet CH-CHF Bond Fund	1.4%
Plenum European Insurance Bond Fund (CHF hedged)	-0.9%
Plenum European Insurance Bond Fund (€)	-0.5%
ZKB ETF Gold (USD)	8.8%

Performance incl. re-invested dividends where applicable.

The economic outlook has brightened a little. The forecasters surveyed by data provider "Bloomberg" expect recessions in only a few countries (see the "Average growth and inflation forecasts" table). However, the battle against inflation has yet to be won. Nevertheless, the trends are pointing downwards. Significantly lower inflation rates are likely to be noted in the coming year.

Just at the turn of the quarter, however, Opec (the Organization of the Petroleum Exporting Countries) threw a spanner in the central bankers' works by announcing that it would reduce daily oil production by around 1.6 million barrels in the coming weeks. Although this corresponds to only about 1 – 2% of the daily global demand of (depending on the source) around 100 million barrels, it immediately triggered the reaction on the market presumably desired by Opec, namely a price increase of several percent.

**Uncertainties remain**

It remains difficult to predict what problems may yet to bubble up to the surface. A record 620 billion US dollars in unrealized losses were lying dormant on the balance sheets of US banks at the end of 2022. These book losses, caused by the sharp rise in interest rates, dwarf anything ever seen before. Even in the 2008/2009 financial crisis, the potential shortfalls never reached comparable heights.

It was book losses such as these that proved to be the undoing of Silicon Valley Bank (SVB), as this bank had to realize the losses due to the rapid and large withdrawals of funds by customers. However, it should also be noted that this institution criminally disregarded the so-called

"golden balance sheet rule", according to which short-term funds (customer deposits on accounts) should not be invested in the long term (bonds with long maturities).

The situation at Credit Suisse (CS) is quite different. Both the business model and the client base of the major Swiss bank were much more diversified than those of SVB. The equity ratio and liquidity were still adequate. However, as a result

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

	Real GDP Growth		Core-Inflation	
	2023	2024	2023	2024
China	5.3%	5.0%	2.3%	2.3%
Germany	0.0%	1.1%	6.1%	2.5%
EU	0.5%	1.4%	6.3%	2.7%
United Kingdom	-0.5%	0.9%	6.5%	2.4%
Japan	1.1%	1.1%	2.2%	1.2%
Switzerland	0.6%	1.4%	2.4%	1.4%
USA	0.9%	1.2%	4.1%	2.5%

of the accelerating loss of confidence, CS was in danger of being excluded from business with other banks, which would have inevitably led to the collapse not only of this bank, but also of the global financial market.

Concerns that European banks could face a similarly uncomfortable situation as their American counterparts must also be put into perspective. In terms of key indicators, European banks are in a much better position than their counterparts on the other side of the Atlantic. For example, according to J. P. Morgan Asset Management, European banks have significantly higher capital and liquidity ratios than their American counterparts, and unrealized losses on long-term investments are much lower in Europe than in the USA.

#### 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 other reference currencies show partially deviating changes and weightings.

#### Money market

Overall, the overweighting of liquid assets did not change during the reporting period. Above a

certain amount, generally 100,000 Swiss Francs or more, liquid assets can now also be invested again in interest-bearing call and time deposits.

#### Bonds

We remain underweighted in bonds, but have decided to slowly increase the duration (weighted residual maturity) somewhat in Swiss Franc and Euro mandates. In USD mandates, this step has already been taken. For the Swiss Franc and Euro mandates, this means that we will replace maturing bonds with bonds with a slightly longer residual maturity, so that the duration of all bonds can increase slightly on average.

Since the beginning of the year, yields on ten-year government bonds have fallen everywhere:

	Dec. 2022	Mar. 2023	Change
Europe	2.57%	2.29%	-11%
United Kingdom	3.67%	3.49%	-5%
Japan	0.42%	0.35%	-17%
Switzerland	1.62%	1.25%	-23%
USA	3.88%	3.47%	-11%

#### Equities Switzerland

Our value stock selection for the domestic market, the "Swiss Stock Portfolio" (SSP), performed extremely well in the first quarter. It generated an overall performance (price changes plus dividends) of 12.8%, outperforming its benchmark, the Swiss Performance Index (SPI), by a full 6.9 percentage points. No changes were made to the position size, maintaining the roughly neutral weighting. The Coltene shares were sold, because sufficient market breadth was becoming less and less of a given for us.

Long-term performance is also very good. Since 2012, the average annual performance has been 12.3%, significantly outperforming the median benchmark performance of 9.3%. Since 2012, this strategy has achieved a cumulative total performance of approximately 269%, while the index has achieved one of 172%. Transaction costs are deducted in the SSP figures, whereas the benchmark index is cost-free.

On the Swiss equities market, mid-cap companies performed best during the reporting period (+10%). As a group, they outperformed the large- and small-capitalization companies, each advancing by around 5% as a group. Among the heavyweights, Novartis shares stood out with a performance of +15%. Positive study results of a breast cancer drug helped their performance here.



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An even better performance was achieved by the industrial sector, with Zehnder (heating & ventilation) rising by 37%, SFS (precision components/fastening) by 35%, and Vetropack (glass packaging) by almost 28%. On the losing side, in addition to Roche (-7%), were Cembra Money Bank (-7%) and the laboratory equipment supplier Tecan (-3%).

The price/earnings ratios based on the latest 12 months profit figures, have mostly increased:

	Dec. 2022	Mar. 2023	Change
SPI Index	17.7	20.8	17.5%
DJ STOXX 600 Index	14.6	13.8	-5.5%
MSCI AC Asia ex Japan	12.3	15.4	25.2%
MSCI Japan	13.5	15.7	16.3%
MSCI USA	18.9	20.2	6.9%
MSCI AC World Index	16.7	17.8	6.6%

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

### Equities Europe

The European dividend stocks also ended the first three-month period of the year with unchanged positions and thus slightly underweight. The European stock selection, the "European Stock Portfolio" (ESP), returned 6.2%, while the benchmark DJ Stoxx 600 Index returned 8.4%.

The best performing stocks included the semiconductor company, BE Semiconductor (+42%), the mining company SSAB (+34%) and Deutsche Post (+22%). Meanwhile, bringing up the rear in the first quarter were stocks in the Norwegian energy group Equinor (-15%), IG Group (financial sector, -11%) and Logitech (-7%), the manufacturer of computer technology.

The long-term performance of ESP since 1992 shows an annual average return of 8%, compared to 6.9% of the benchmark. The portfolio has thus accumulated 1,020% since the beginning of the measurement period, compared with a cumulative index performance of 710%. In the figures for the ESP, transaction costs and withholding taxes are deducted, whereas the benchmark index is calculated without costs.

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

	Price/Book	Div. Yield
SPI Index	3.3	2.9%
DJ STOXX 600 Index	1.9	3.4%
MSCI AC Asia ex Japan	1.5	2.7%
MSCI Japan	1.3	2.4%
MSCI USA	4.1	1.7%
MSCI AC World Index	2.9	2.2%

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

### Equities USA

Has the Fed overdone it with its interest rate hikes (the fastest and most marked increase in the Fed Funds rate in the last 40 years, with 9 hikes in a row)? Some say yes. They point to the severe financial turmoil seen at American regional banks, where the first fatalities have already been reported. No, say others, who point to the persistently tight labour market and stubborn inflation rate despite the downward trends. The Wall Street Journal called the latest increase a "high-wire act".

In the fourth quarter of 2022, sales per share of S&P 500 companies fell compared to the previous quarter for the first time since the outbreak of the pandemic. While the decrease is small, it could be an indication that earnings are coming under pressure. Based on the overall index, according to «Bloomberg», the market consensus was not expecting earnings per share growth at the moment. Given the numerous uncertainties and the not-cheap valuations, a wait-and-see attitude seems to be justified for US equities. We have made no changes in US equities in the past twelve-week period.

### Equities Asia (ex Japan)

In January, we decided to halve the position held in the Aberdeen Asia Pacific Fund and invest the proceeds in the Franklin Templeton India ETF. In the Aberdeen Fund, the allocation to Chinese equities is about 25%. Since the last party congress in China, we believe the pendulum has swung towards a deterioration in the political environment. Xi Jinping has further centralised and cemented his power. It seems that ideology now takes precedence over economic prosperity. China is also behaving more aggressively towards Taiwan.

All this makes us sceptical about the Middle Kingdom, which is why we have made the shift. India is likely to replace China as the world's most



populous country this year. The Indian population is on average much younger than the Chinese, the economy is far from having exhausted its potential and is growing fast. According to forecasters surveyed by "Bloomberg", India's GDP is expected to grow by 6% or more this year and next, outpacing China's expected growth.

**Equities Japan**

We remain neutral on Japan. We made no changes in the first quarter and remain slightly overweight in the relatively attractively valued Japanese market.

**Alternative Investments**

Alternative investments did not make any big splashes in the first quarter and were treading water. In a multi-year comparison since 2016, the BCV Liquid Alternative Beta Fund has beaten both the relevant indices and representative competitor products in terms of performance. We have not made any changes to the positions and are therefore still underweighted in alternative investments.

**Precious Metals**

We currently do not hold any precious metal positions.

Summary of our **current Asset Allocation:**

Asset class	
Money Market	overweight
Bonds	underweight
Equities Switzerland	neutral
Equities Europe	slightly underweight
Equities USA	slightly overweight
Equities Asia	slightly overweight
Equities Japan	slightly overweight
Precious Metals	no position
Alternative Investments	underweight

For a Swiss Franc referenced portfolio.

**News from us**

After 21 years of loyal service to our company, **Emil Aerne** ended his career at Salmann Investment Management AG at the end of March 2023. Mr Aerne was Senior Portfolio Manager and a member of the Investment Committee, where he was responsible for the European equity market. He was also responsible for our European Stock

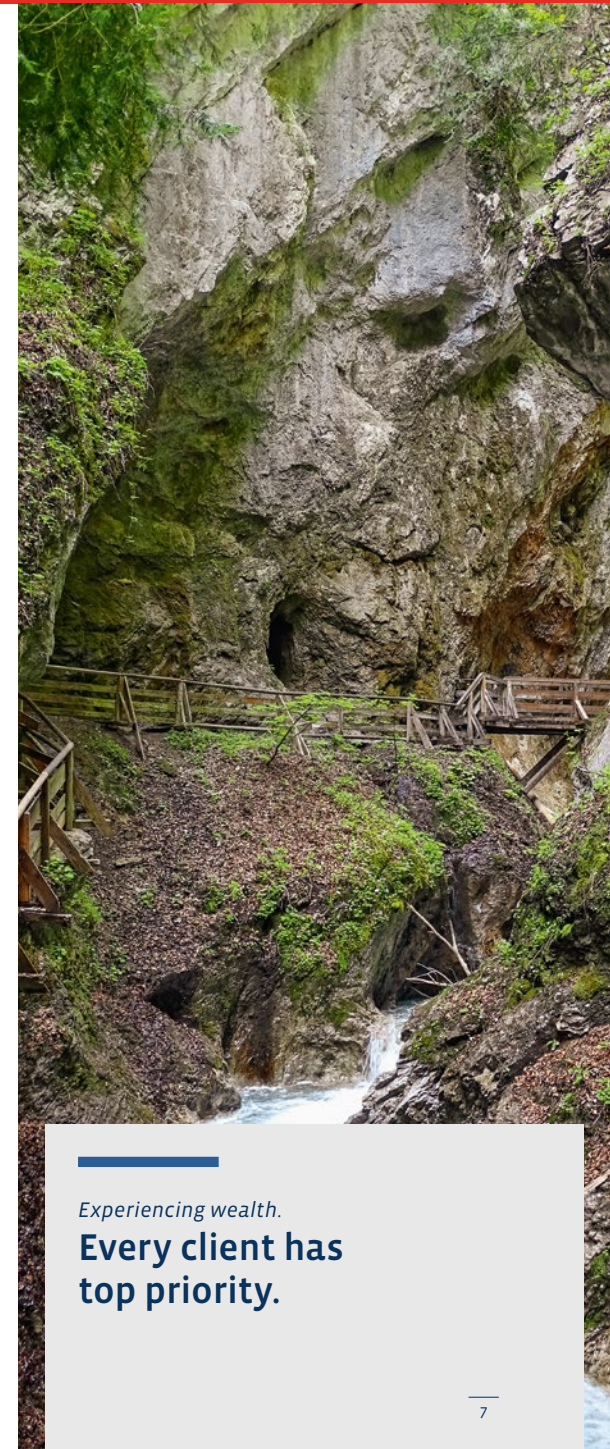
Portfolio, the in-house selection of attractively valued European dividend stocks. We would like to thank Mr Aerne most sincerely for his decades of loyal service and wish him all the very best for the future.

**Roland Arioli**, CEFA, assumes Emil Aerne's responsibilities as Senior Portfolio Manager and member of the Investment Committee. After training as a financial analyst and asset manager, he gained experience as a Portfolio Manager for private and institutional clients for more than 25 years. Before joining Salmann, he worked for various private banks and asset managers in Vaduz and Zurich. He joined Salmann in March 2023 with the rank of Vice Director. We would like to extend a very warm welcome to Mr Arioli.

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

	Dec. 2022	Mar. 2023	Change
CHF / Euro	0.9896	0.9922	0.3 %
CHF / USD	0.9245	0.9153	-1.0 %
Euro / USD	0.9341	0.9226	-1.2 %
Yen / USD	131.12	132.86	1.3 %

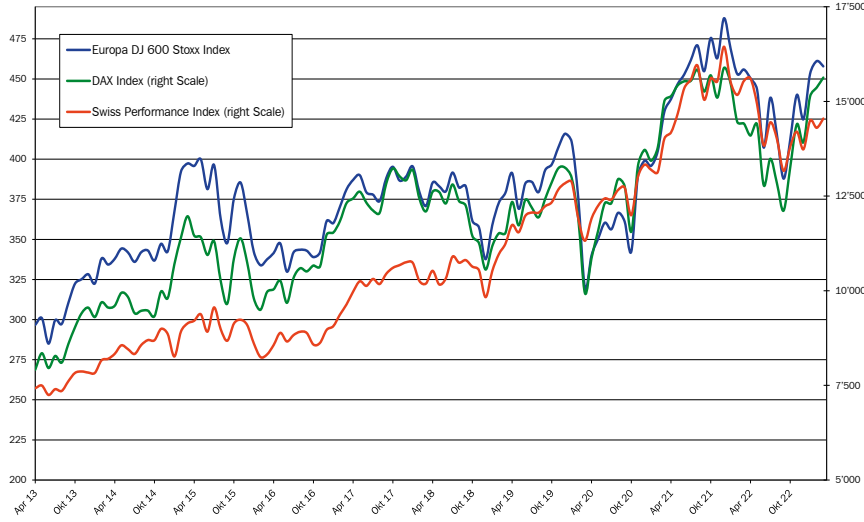
Source: Bloomberg.



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## Equity Markets at a glance

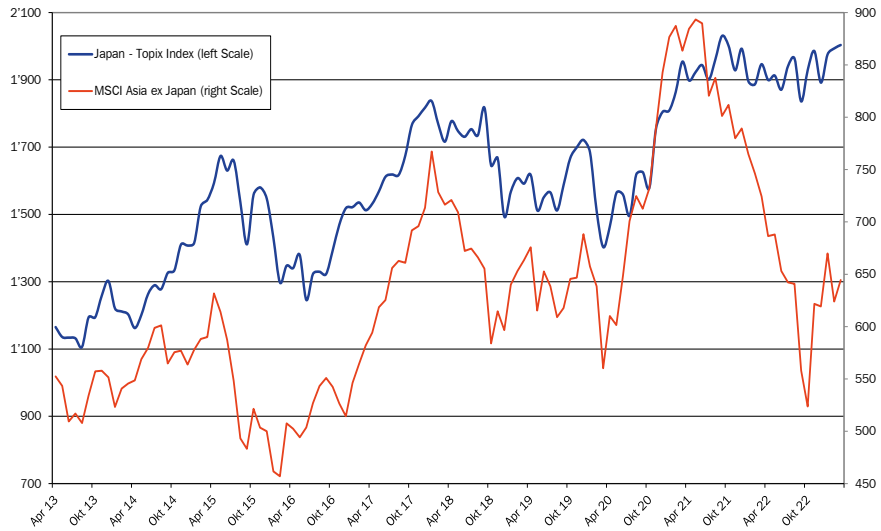
Equity Markets Europe in Index-Points



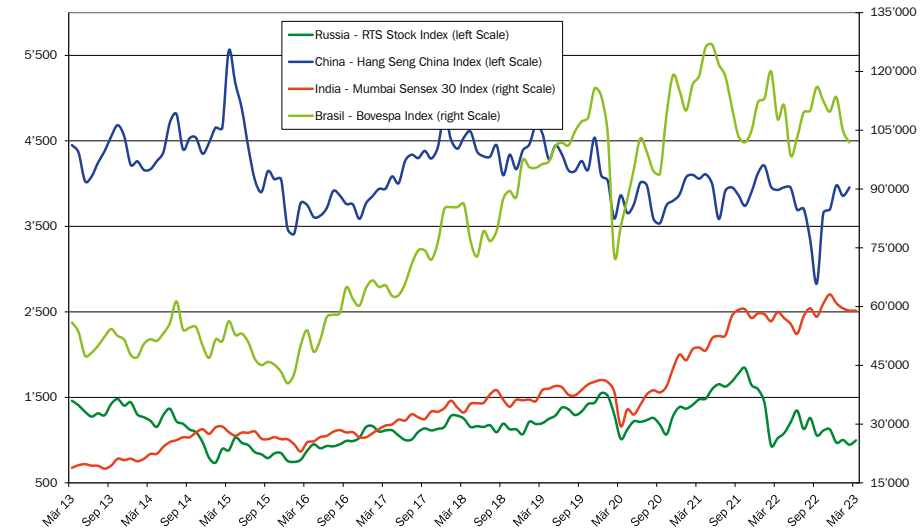
Equity Markets USA in Index-Points



Equity Markets Asia & Japan in Index-Points



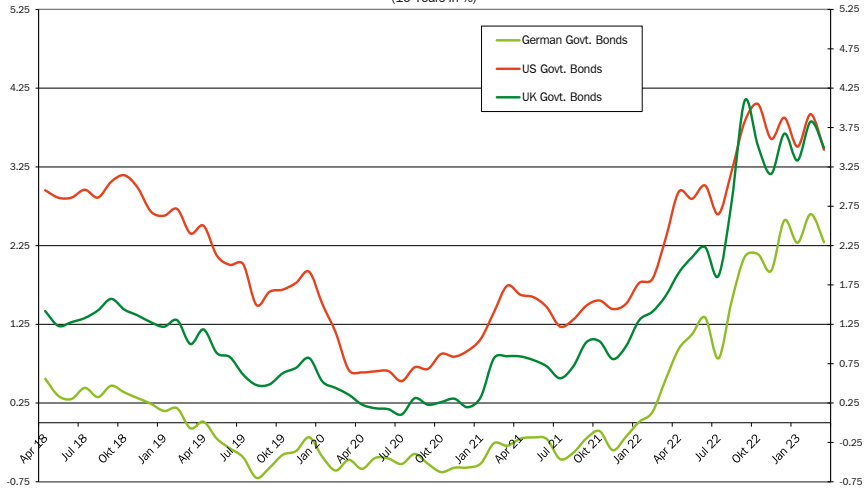
Equity Markets BRIC in Index-Points



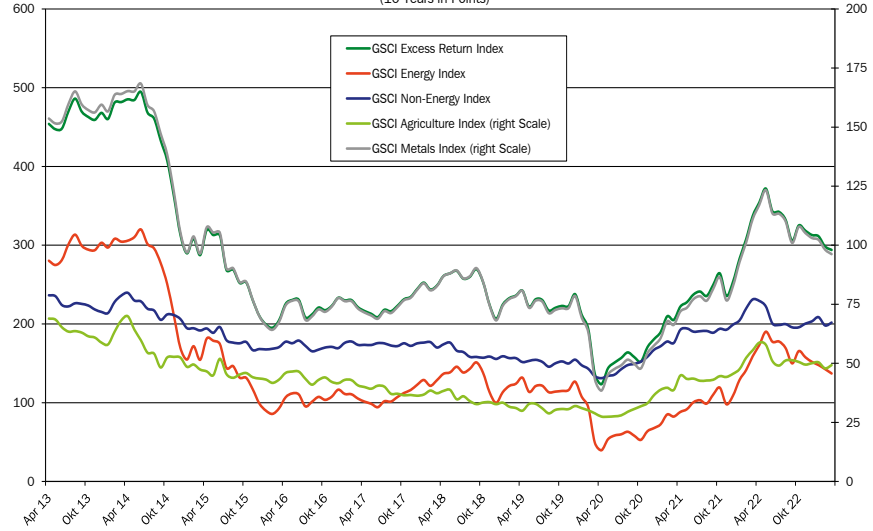


## Bond yields and other indicators

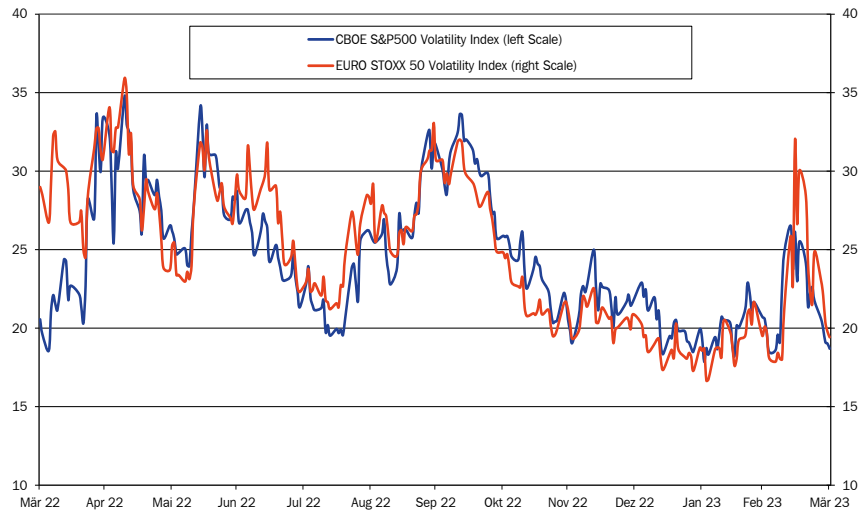
Government Bond Yields  
(10 Years in %)



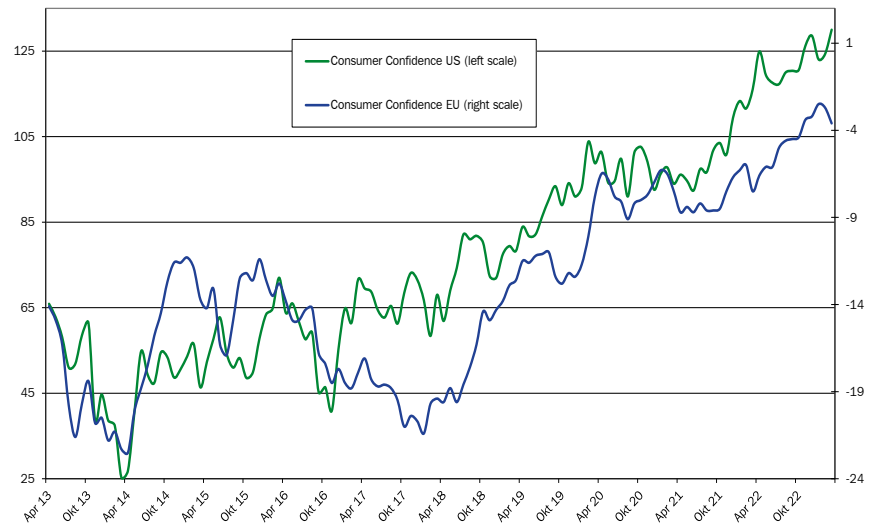
Commodity Indices  
(10 Years in Points)



Volatility in %



Consumer Confidence in Index-Points



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**Notes**

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## Closing words

We thank you for the trust  
you have placed in us  
and wish you many enjoyable  
spring days.

**Alfred Ernst**  
Director, Relationship Manager

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