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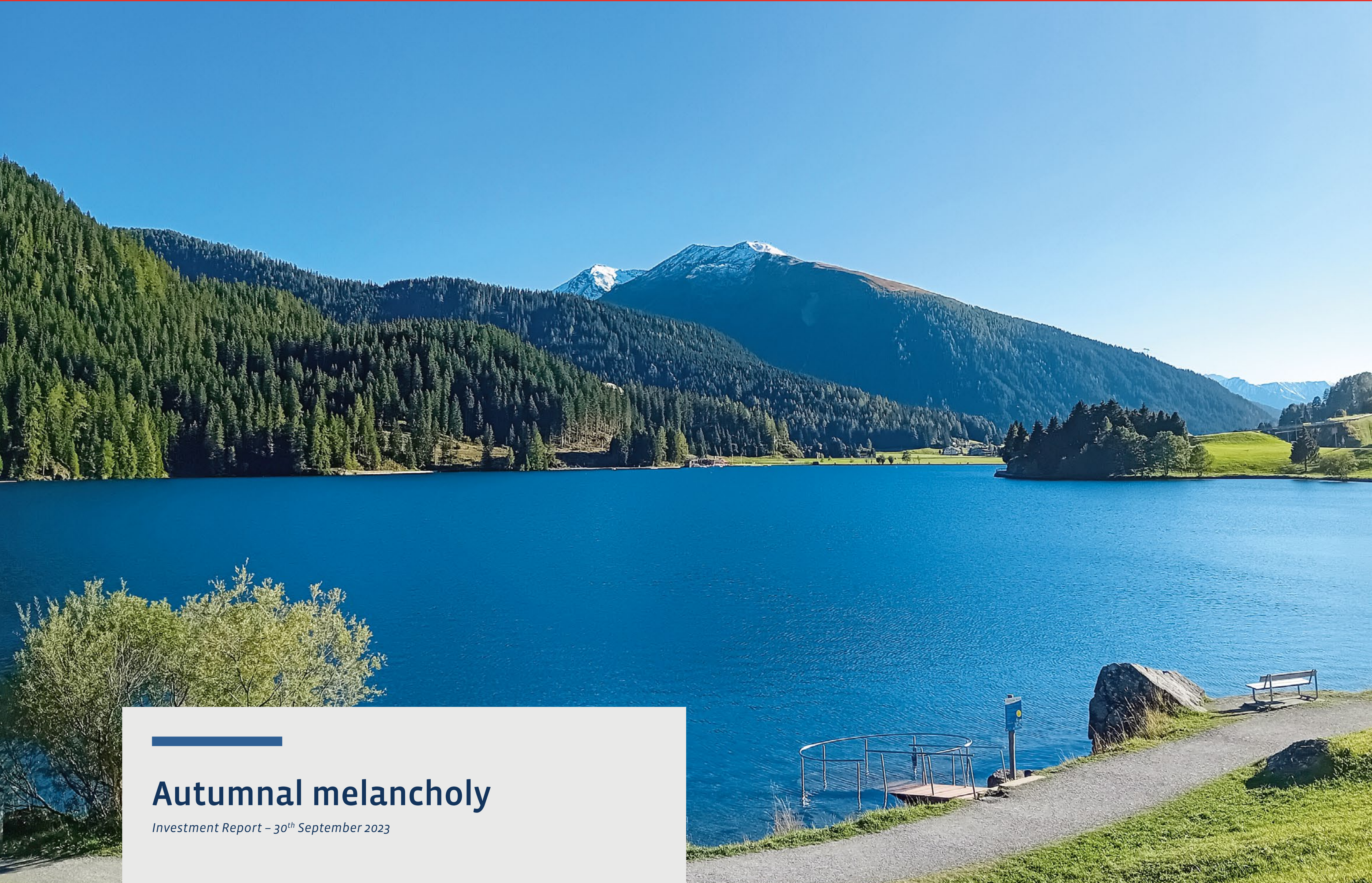


Autumnal melancholy

Investment Report – 30th September 2023

Autumnal melancholy

Unlike the weather, the financial markets were hit by an autumnal melancholy early this year. While bonds mostly drifted sideways, there were reversals on various stock exchanges, particularly during September. Over the course of the year as a whole, however, positive trends dominated.

“Higher for longer”. That is the latest fear on the financial markets as regards the general interest rate situation. What this means is that the central banks' key interest rates may remain at a higher level for longer than previously anticipated. Or they may even (have to) be increased yet further before being lowered again at a later point in time.

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

		Dec. 2022	Sept. 2023	Change
Asia ex Japan	MSCI AC Asia ex Japan	487.5	485.4	-0.4%
Europe	DJ STOXX 600	981.8	1'065.4	8.5%
Japan	MSCI Japan	2'424.1	3'048.8	25.8%
Switzerland	SPI	13'734.9	14'368.6	4.6%
USA	MSCI USA	10'663.8	12'064.1	13.1%
World	MSCI AC World	7'985.9	8'872.6	11.1%
Hedge Funds	CS Hedge Fund Index*	734.4	759.1	3.4%

Development of index in local currency. Exceptions Asia ex Japan and World in USD. MSCI-Indices are net total return.
* New index, as the data of the previous one is no longer accessible. Value as of the beginning of September.

Most recently, the Swiss National Bank (SNB) and the US Federal Reserve (Fed) kept their policy rates unchanged (Switzerland 1.75%, USA 5.25 to 5.5%). However, to control inflation, both institutions had previously tightened the screw again in the summer. In Europe, interest rates went up another notch in September, namely by a quarter of a point to 4.5% for the European Central Bank's (ECB) principal lending rate

Over the summer months, a listless back-and-forth dominated the stock markets, with substantial regional differences. In September, prices began to slide. On the one hand, the aforementioned interest rate hikes, the weakening economy and the considerable political uncertainties weighed on prices. On the other hand, hope was kindled by the fact that, despite all the prophecies of doom, the American economy had not yet slid into recession and that inflation everywhere was slowing down.

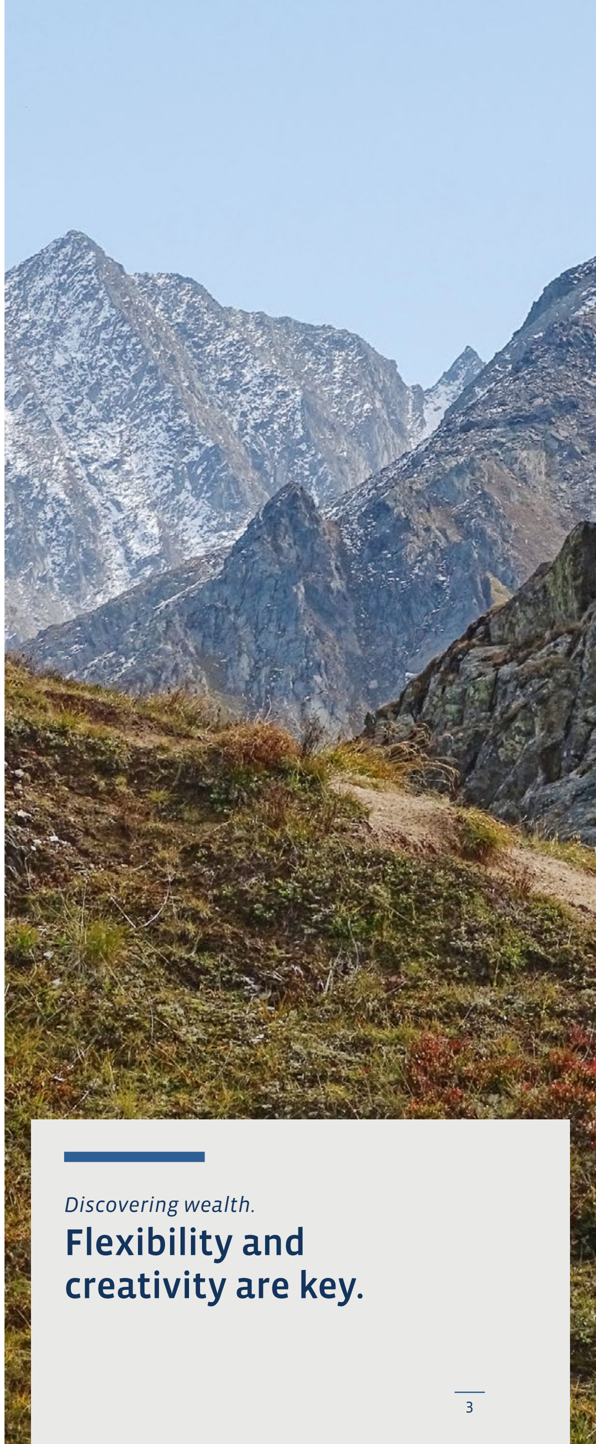
All eyes on the USA

Many observers still expect a “soft landing” in America, i.e. a scenario in which the Fed's tight interest rate regime pushes the GDP growth rate towards zero, but not below. This seems increasingly to be the most likely scenario. It is possible, though less likely, that there will be a “no-landing”, i.e. the economy will not slow down any further and will soon start to grow more dynamically again.

It remains to be seen what will actually happen. At the moment, there are some signs of weakness on the other side of the Atlantic. On the labour market, for example, the number of job vacancies and voluntary resignations has reduced, which could be a sign that the unemployment rate will soon start to rise further. In August, it rose for the first time in a long time from 3.5% to 3.8%.

On the US real estate market, sales of existing residential properties have plummeted. Owners avoid selling whenever possible, as in many cases they would then have to give up their current, low-interest fixed-rate mortgages and would have to shoulder higher financing costs if buying a new property. On the buyers' side, surveys show that 80% of respondents consider the high level of interest rates to be an important reason for not buying a property at present. The last time the rates were as high as they are today, was in the 1980s.

High interest rates and more challenging financing conditions are a concern among small businesses, on a scale last encountered during the financial crisis of 2008. Last but not least, the stock of so called “excess” savings of the



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

	Real GDP Growth		Core-Inflation	
	2023	2024	2023	2024
China	5.0%	4.5%	0.6%	1.9%
Germany	-0.3%	0.6%	6.1%	2.9%
EU	0.7%	1.2%	6.2%	3.0%
United Kingdom	0.4%	0.5%	7.5%	3.1%
Japan	1.8%	1.0%	3.1%	1.9%
Switzerland	0.8%	1.3%	2.2%	1.6%
USA	2.1%	0.9%	4.1%	2.7%

population is rapidly heading towards pre-pandemic levels, which is likely to undermine the appetite to spend.

Why is it so important to watch what is happening in the USA at the moment? Because China, for example, which in the past often stepped into the breach when it came to keeping the global economy going, is currently also posing more questions than it has answers. And because economically speaking, Europe, with a few exceptions such as Spain, is at best just keeping its head above water.

On the other hand, this lacklustre economic performance is actually helping to push inflation down further. The trend is already pointing downwards and will probably continue to do so well into next year. At the moment, however, inflation in many parts of the world is still above the central banks' 2% target.

Peak in interest rates in sight

The good news is that, given all these factors, the end of interest rate hikes seems to be in sight. It may be that the European Central Bank will raise its policy interest rates again this year. In Switzerland, on the other hand, a further increase would be a surprise.

In the USA, where short-term interest rates are already higher than in the Old World, the possibility of a further increase is still on the cards or remains an open question for Fed officials as a precautionary measure. However, the markets currently rate the likelihood of such a scenario as low. On the other hand, hopes of rapid interest rate cuts have been dashed. "Higher for longer", this acknowledgement, (or would it be better to say disillusionment?) has painfully asserted itself on the financial markets, especially in September.

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

Aberdeen Asia Pacific (USD)	-8.6%
Barings ASEAN Frontiers Equities (USD)	-3.1%
BB Adamant Medtech & Services Fund (CHF)	-5.5%
BB Adamant Medtech & Services Fund (€)	-3.7%
BB Adamant Medtech & Services Fund (USD)	-4.5%
CS Index Fund Equity Switzerland Large Caps (CHF)	5.3%
Franklin Templeton FTSE India ETF (USD)	9.9%
GAM Japan Stock Fund (CHF hedged)	13.9%
GAM Japan Stock Fund (€ hedged)	15.6%
GAM Swiss Sustainable Companies Fund (CHF)	5.0%
iShares Core SPI ETF (CHF)	4.5%
iShares Stoxx Europe 600 ETF (€)	5.1%
Performa European Equities (€)	2.4%
Performa US Equities (USD)	11.3%

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

Given this scenario, the stock markets are likely to remain in a "wait-and-see" position for a while. We can expect price fluctuations going in both directions. October, which in the past has not exactly been a brilliant month for stock markets, is not yet over. On the other hand, the markets seem to have already absorbed some of the bad news.

Other funds employed by us performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	4.3%
Acatis IfK Value Renten Fond (€)	5.7%
Amundi ETF Euro Corp. Bond Fund (€)	1.5%
BCV Liquid Alternative Beta Fund (CHF hedged)	-0.7%
BCV Liquid Alternative Beta Fund (Euro hedged)	0.6%
BCV Liquid Alternative Beta Fund (USD)	2.4%
Pictet CH-CHF Bond Fund	3.5%
Plenum European Insurance Bond Fund (CHF hedged)	0.6%
Plenum European Insurance Bond Fund (€)	2.1%

Performance incl. re-invested dividends where applicable.

Valuations, measured for example by price/earnings ratios, are close to their long-term averages (Switzerland, USA) or slightly below (Europe, World). In view of our neutral equity weighting and the almost neutral bond weighting, we believe we are correctly positioned for the current uncertainty with a chance of improvement in the coming year.

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
We have been using some of the liquidity gradually for selective purchases of bonds. Apart from that, it can be said that there is finally some return in this investment category again, as long as investments can be made in call and fixed deposits. Depending on the bank, however, certain minimum amounts have to be complied with. When it comes to interest on account balances, on the other hand, the banks are still very cautious, if not to say tight-fisted.

Bonds
Moving sideways, that sums up the performance on the bond markets in the third quarter in a nutshell. It is noteworthy how currency hedges have become more expensive due to the differences in interest rates between the various currencies that once again exist.

While in times of global zero or negative interest rates there were hardly any differences in performance between individual currency classes of the same fund, it is now apparent that hedging costs are again leading to significant differences in performance. This is due to the fact that interest rate differences between the various currencies have widened again.

For example, the Acatis IfK Value Renten fund, which has performed well, has returned 5.7% in terms of Euros over the year to date. The same fund in the Swiss Franc tranche hedged against the currency risks has achieved only 4.3%. Naturally, this development can also be observed with hedged equity funds (see also tables “The equity funds employed by us…” and “Other funds employed by us…”).

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

	Dec. 2022	Sept. 2023	Change
Europe	2.57 %	2.84 %	11 %
United Kingdom	3.67 %	4.44 %	21 %
Japan	0.42 %	0.77 %	83 %
Switzerland	1.62 %	1.10 %	-32 %
USA	3.88 %	4.57 %	18 %

Equities Switzerland
The market “Blues” did not pass Swiss equities by. The Swiss Performance Index (SPI) fell 3.3% in the third quarter.

Nevertheless, our stock selection based on value criteria, the “Swiss Stock Portfolio” (SSP), has generated a pleasing result so far this year with an overall performance (price changes plus dividends) of 7%. The Swiss Performance Index (SPI), which serves as a benchmark, was up 4.6% by the end of September.

The stocks of UBS (+25.4%), Also (+19.6%) and Swiss Life (+9.3%) performed particularly well in the SSP. UBS made rapid progress following its takeover of CS, creating clarity and confidence

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in the investment community. Swiss Life benefited from the Group's good business performance, which, as with many other insurers, is being boosted by the higher interest rate level.

For the third quarter, Zehnder (-25.7%), Lonza (-20.2%) and Barry Callebaut (-15.6%) brought up the rear. While the former company is feeling the effects of the slump in the European construction industry, Lonza securities suffered as a result of the departure of its CEO, Pierre-Alain Ruffieux, and the discontinuation of the Moderna Corona vaccine production at the Visp site.

The **price / earnings ratios** based the latest 12 months profit figures, have varied in numbers:

	Dec. 2022	Sept. 2023	Change
SPI Index	17.7	15	-15.3 %
DJ STOXX 600 Index	14.6	12.7	-13.0 %
MSCI AC Asia ex Japan	12.3	15.5	26.0 %
MSCI Japan	13.5	16.7	23.7 %
MSCI USA	18.9	21.8	15.3 %
MSCI AC World Index	16.7	18.2	9.0 %

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

The performance of the SSP is very good over the long term. Since 2012, the average annual performance has been 11.3%, clearly outperforming the median benchmark performance of 8.8%. Since 2012, this strategy has achieved a cumulative total performance of around 250%, the index one of 169%. Transaction costs are deducted in the SSP figures, whereas the benchmark index is calculated without costs. The positions were not actively changed, which means that we are currently neutrally weighted.

Equities Europe

The performance of European equities was very similar. The overall market, as measured by the DJ Stoxx 600 Index, was down 2.1% over the three-month period. Nevertheless, our direct investment selection, the "Europe Stock Portfolio" (ESP), managed to make up further ground. Over the past three months, it has risen by 1.3%.

Over the course of this year, this value-oriented selection has delivered an overall performance (price gains plus dividends) of 9.9% whereas the benchmark index DJ Stoxx 600 has achieved 8.5%.

The best-performing stocks of the quarter in the ESP were the Norwegian Equinor and the Spanish Repsol, each with a performance of around 20%. Rising oil prices helped these two energy stocks.

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

	Price / Book	Div. Yield
SPI Index	3.4	3.0 %
DJ STOXX 600 Index	1.8	3.5 %
MSCI AC Asia ex Japan	1.4	2.7 %
MSCI Japan	1.4	2.2 %
MSCI USA	4.1	1.6 %
MSCI AC World Index	2.8	2.1 %

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

The Norwegian fish and seafood producer Mowi (+16.6%) followed in bronze medal position. Not in favour were the shares of Volkswagen (-11.4%), Tietoevry (IT services, -12.8%) and DHL Group (-13.8%).

The long-term performance of the ESP since 2004 shows an annual average return of 7%, compared to 6.4% for the benchmark. The portfolio has thus accumulated a total of 278% since 2004, compared with a cumulative index performance of 238%. Moreover, transaction costs and withholding taxes have been deducted from the ESP figures, whereas the benchmark index is calculated without costs. We are slightly underweight in European dividend stocks. The performance of the SSP and ESP can always be tracked on our website www.salmann.com in the "Investment Strategies" section.

Equities USA

The American stock market also lost steam in the third quarter. The broad market barometers such as the MSCI or the S&P 500 index each lost about 3%. So far this year, however, Wall Street remains among the best-performing markets in the world and has defended its double-digit performance for the nine-month period. The technology index, Nasdaq, continues to race ahead. It has gained 25% since New Year's Eve, not least because of the hype surrounding Artificial Intelligence.

The performance of the American stock market, however, has to be qualified with a big "But". The good performance of the indices is essentially due to eight stocks, namely Apple, Microsoft, Amazon, Nvidia, Alphabet, Tesla, Meta and Berkshire Hathaway (which in turn holds a large position in Apple). These stocks account for 29% of the S&P 500 index. If all 500 stocks in the index were equally weighted, the market would only show a black zero so far this year, writes the independent research institution, "The Macro Strategy Partnership".

Since the beginning of the year, our **selected currency rates** have performed as follows:

	Dec. 2022	Sept. 2023	Change
CHF / Euro	0.9896	0.9676	-2.2 %
CHF / USD	0.9245	0.9153	-1.0 %
Euro / USD	0.9341	0.9458	1.3 %
Yen / USD	131.12	149.37	13.9 %

Source: Bloomberg.

We have made no changes in US equities over the past twelve-week period and remain slightly overweight.

Equities Asia (without Japan)
Asian equities were also hit early in the summer by an autumnal melancholy and began to fade. A commendable exception was India, where the price advance of the first quarter continued. The positions did not change, nor did the neutral weighting.

Equities Japan
In Japan, the market presented its cheerful side, which helped the Land of the Rising Sun to defend its double-digit performance for the year. We made no changes in the third quarter and are now overweight here as a result of the relative value shifts against other markets.

Alternative Investments
We have not made any changes to the holdings and are therefore remain underweighted.

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	neutral
Equities Japan	overweight
Precious Metals	no position
Alternative Investments	underweight

For a Swiss Franc referenced portfolio.

News from us

The latest addition to our team is **Nicole Kindle**. She is Assistant to the Management and is in charge of reception. Before joining Salmann, Nicole completed a bank apprenticeship and was a bank clerk at a Liechtenstein bank. We extend a warm welcome to Nicole and wish her every success and fulfilment in her new position.

This investment report marks my retirement from my role as author and production manager of this regular Salmann publication. Since I took over responsibility for providing the reports to clients and interested parties on 30 June 2009, I have written a total of 58 of these quarterly reports. I have had the privilege of reporting on sky-high stock markets, but also had to report on abysmally gloomy financial markets. I will continue to serve as a Relationship Manager, while the responsibility for this report will pass to Markus Gartmann. Thank you very much for your loyalty as a reader.

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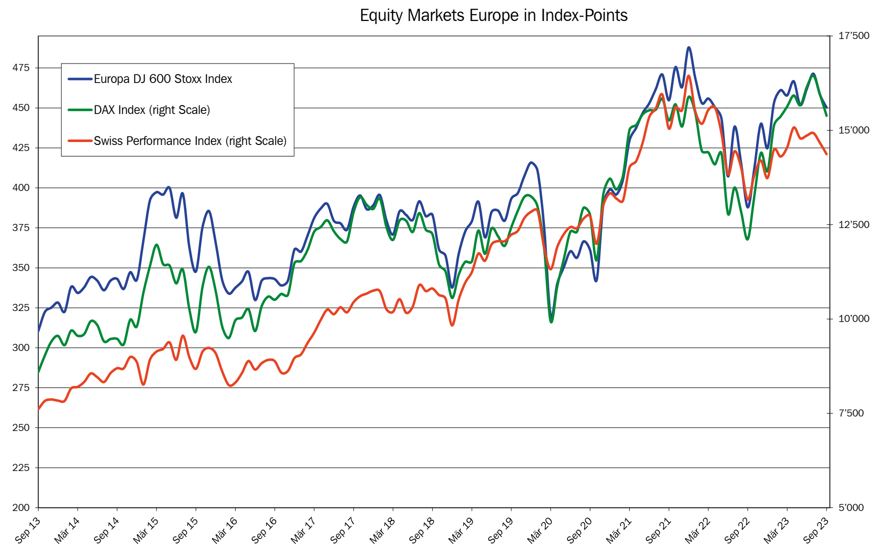
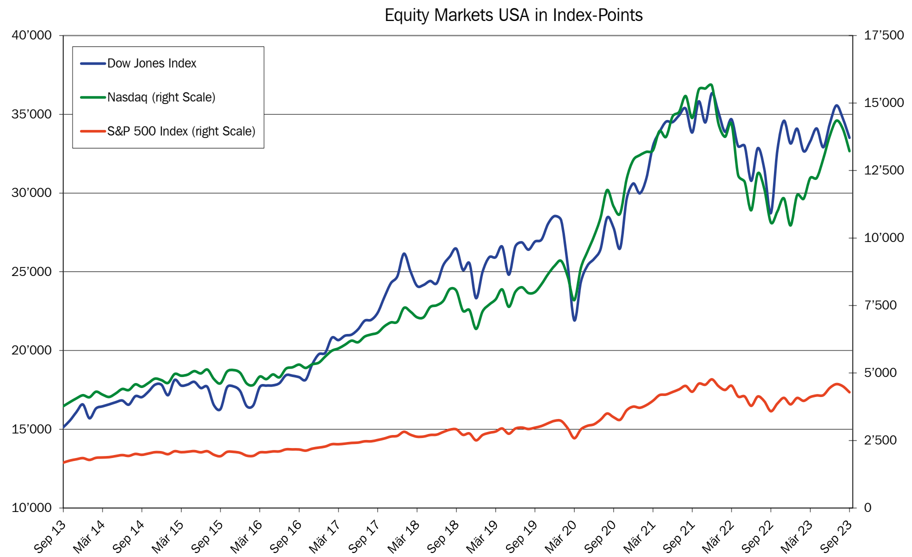
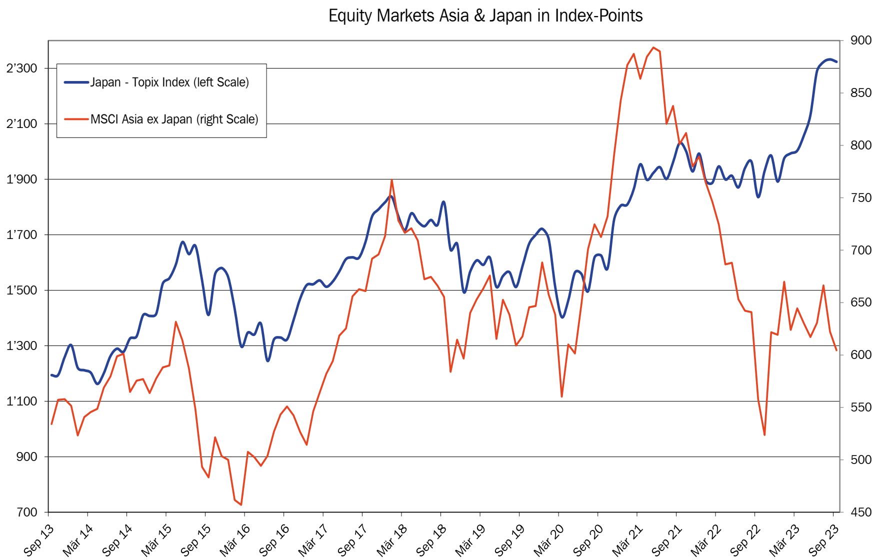
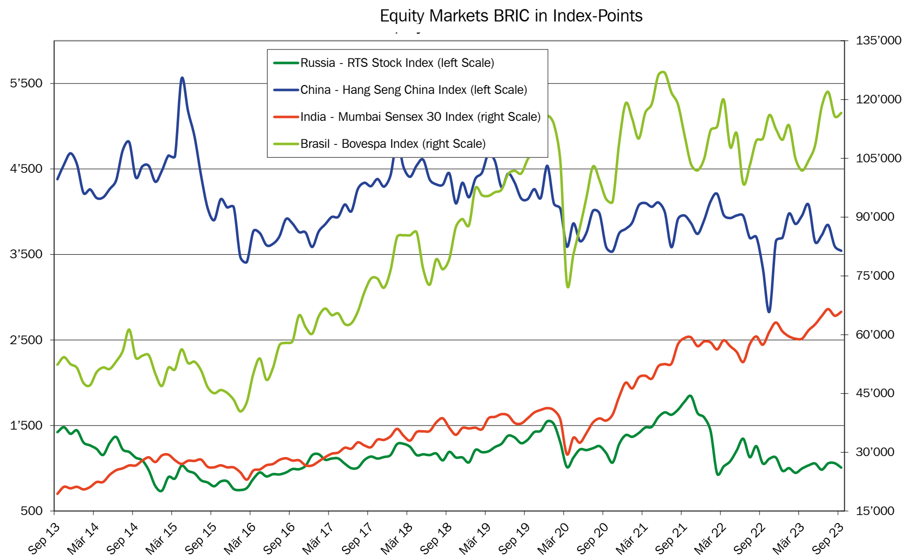
Equity Markets at a glance

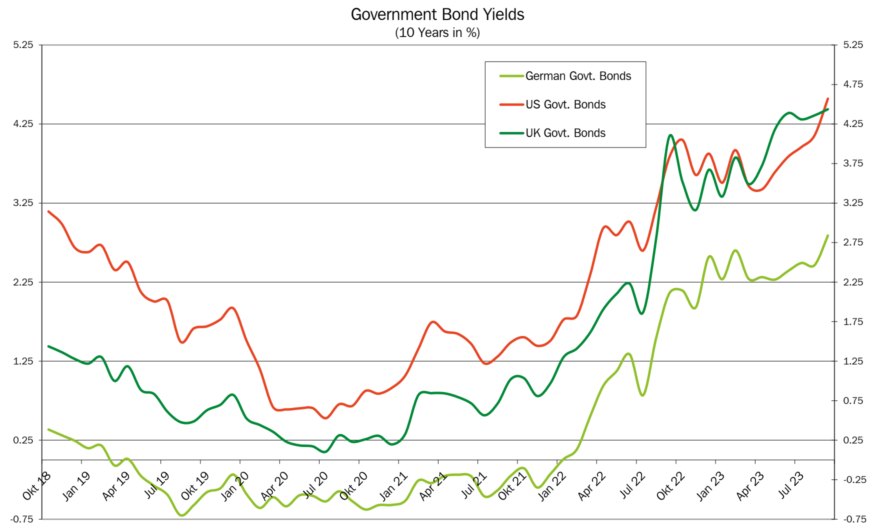


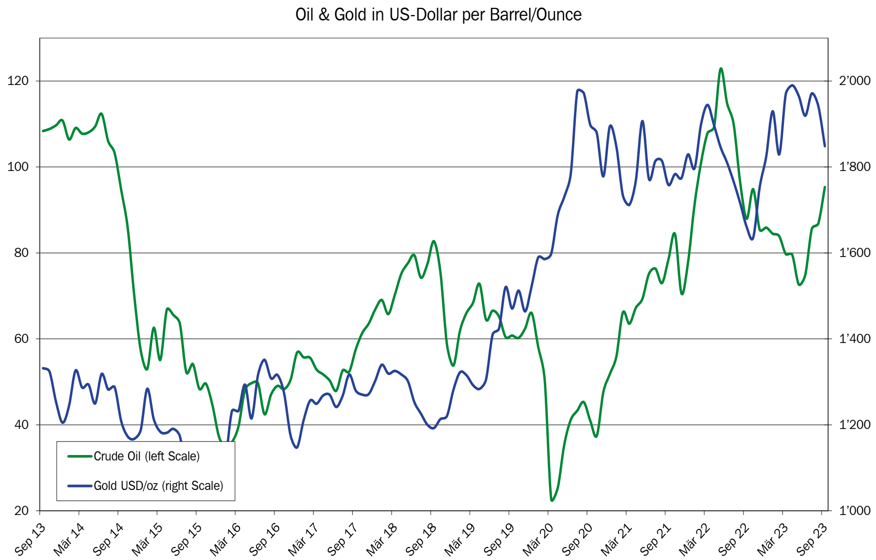


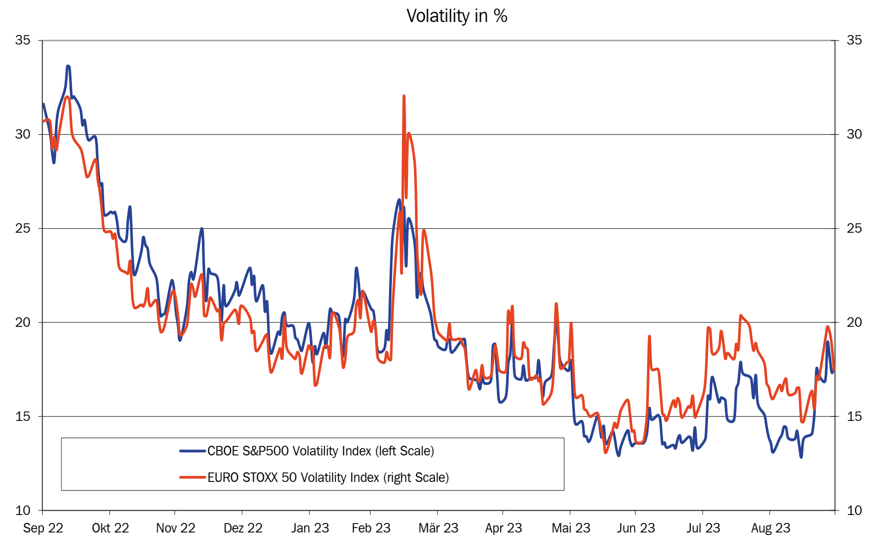


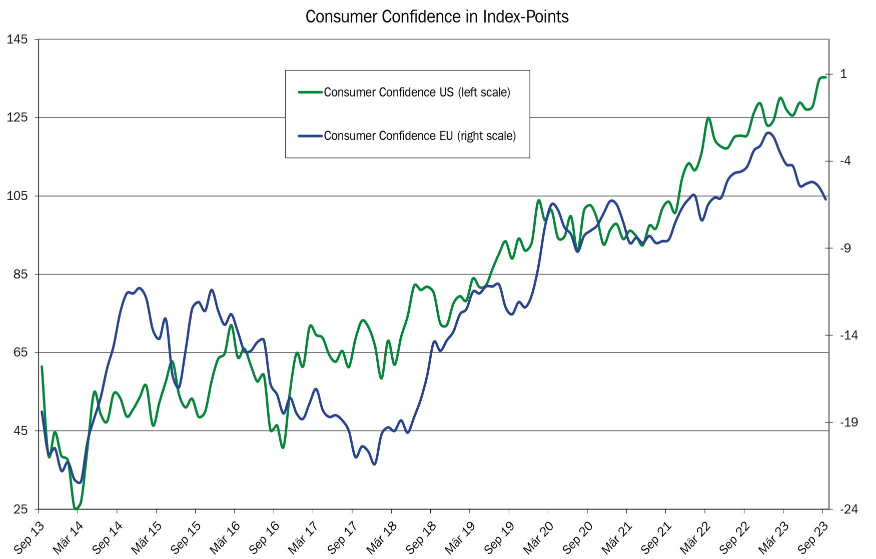


Bond yields and other indicators









Notes

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Closing words

We thank you for the trust
you have placed in us
and wish you many golden
autumn days.

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Director, Relationship Manager

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