SALMANN
INVESTMENT MANAGEMENT

September lives up to its bad name

Investment Report – 30th September 2021

September lives up to its bad name

Meteorologists would be delighted with this textbook sequence of events; a summer high pressure area followed by a cold front with a low pressure zone. In the third quarter, this is exactly what happened on the financial markets. Over the course of the year so far, however, sunshine has continued to predominate, with mostly double-digit performances for equities and a flat trend for bonds.

"Easy come, easy go", you might say when looking at most of the stock markets in the third quarter. Although dividend stocks initially continued to soar in the summer, with the Nasdaq-100 index, for example, at times 8% higher than at the end of June, nothing much remained of this upsurge at the end of September. The Nasdaq gain stands at just 1%. Other markets are hovering around the zero mark or even below it, as is the case with the Swiss Performance Index (SPI). September has once again lived up to its reputation of being historically the worst stock market month of the year.

Japan is the commendable exception. At the end of the reporting period, prices on the Kabuto-cho, measured by the MSCI Japan Index, were a respectable 5% higher than at the end of June. However, the Far East is also where the worst market is to be found: the MSCI Asia Pacific Index (excluding Japan) lost 9% in the third quarter and consequently actually drove the annual result into the red (please refer to the table "Change in Equity Markets since the beginning of the year").

Letting off hot air

This cooldown is no mere coincidence. During the summer, the stock markets were simply in too much of a good mood, it was all sunshine and no shade anywhere, and the fundamental valuations had clearly left the comfort zone and headed upwards. A certain disillusionment then followed in September, and more attention was paid again to the arguments against the unrestrained storming of the equities peaks.

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

		Dec. 2020	Sept. 2021	Change
Asia ex Japan	MSCI AC Asia ex Japan	636.9	614.4	-3.5%
Europe	DJ STOXX 600	879.6	1'021.5	16.1%
Japan	MSCI Japan	2'237.3	2'560.6	14.4%
Switzerland	SPI	13'327.9	15'044.6	12.9%
USA	MSCI USA	10'520.8	12'097.6	15.0%
World	MSCI AC World	8'008.5	9'052.7	13.0%
Hedge Funds	HFRX Global HF	1'380.5	1'429.9	3.6%

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

This is true, for example, with regard to the pandemic and inflation. The renewed rise in the number of Covid Delta cases, as well as shortages in commodities, materials, transport capacity and labour with simultaneous price increases, have spooked companies and consumers. In the United States in particular, this has sharply fuelled inflation and pushed the inflation rate to a multi-year high.

So is this inflation just a temporary phenomenon or a permanent one? Opinions are divided on this. A quick look at the consensus of the estimates collated (please refer to the table "Average Growth and Inflation Expectations of the Economists polled in the Bloomberg Composite Forecast"), indicates that the forecasters see inflation, at least momentarily, as a primarily American issue. And even there, the majority assume that inflationary pressure is likely to ease again as early as next year. Apart from short-term upward outliers, inflation elsewhere does not seem to pose a threat for the time being.

However, the fear of rising interest rates has returned to the forefront of investors' minds. Yields on 10-year government bonds have risen everywhere in the current year (please refer to the table "Yields on 10-year government bonds"). With an interest rate of around 1.5%, the USA also leads the developed industrial nations in

Discovering wealth.

Flexibility and creativity are key.

this ranking, but the top of the incline does not seem to have been reached yet. The independent, renowned research house “Bank Credit Analyst” (BCA) considers that this rate should today be closer to 2% in order to do justice to the economic dynamics in the Land of Unlimited Possibilities, and that an increase to around 2.15% is on the cards in the coming year.

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

	Real GDP Growth		Inflation	
	2021	2022	2021	2022
China	8.4%	5.5%	1.2%	2.3%
Germany	3.1%	4.5%	2.9%	1.8%
EU	5.1%	4.5%	2.2%	1.9%
United Kingdom	6.8%	5.4%	2.1%	2.5%
Japan	2.4%	2.5%	-0.1%	0.6%
Switzerland	3.5%	3.0%	0.5%	0.6%
USA	5.9%	4.2%	4.3%	3.0%

The US Central Bank, the Federal Reserve (Fed), has also changed its tone in recent weeks. Now the talk about scaling back the Central Bank's bond purchases is clearer than before, and one or more increases in the short-term key interest rate (Fed Funds) can be expected in the coming year. At the moment, however, the market assumes that the Fed will not turn the interest rate screw until the second half of the year at the earliest.

The peak of growth momentum in the USA now seems to have been passed. Over the last two months, industrial production growth has slackened and various consumer confidence indices have fallen. A slight deceleration (albeit at a high level) can also be observed in the Purchasing Managers' Indices. In September, a weakening manifested itself here, especially in Europe, whereas this barometer actually rose again in the USA. In China, the Purchasing Managers' Index recently even slipped below 50 points and hence below the growth threshold.

China – Cause for Concern

Speaking of China, the Middle Kingdom kept the investment community on tenterhooks in the third quarter, not just because of the economic slowdown, but also with major upheavals in the corporate world. Government measures aimed at, amongst other things, cooling excessive lending (and speculative mania) have, for example, helped to destabilise the highly indebted Chinese real estate giant, Evergrande.

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

Aberdeen Asia Pacific (USD)	-2.2%
Barings ASEAN Frontiers Equities (USD)	12.4%
GAM Japan Stock Fund (CHF hedged)	14.8%
GAM Japan Stock Fund (€ hedged)	15.0%
Strategy Certificate SIM–Swiss Stock Portfolio Basket	11.7%
iShares Core SPI ETF (CHF)	12.6%
iShares Stoxx Europe 600 ETF (€)	15.7%
Performa European Equities (€)	16.8%
Performa US Equities (USD)	14.5%
BB Adamant Medtech & Services Fund (CHF)	16.5%
BB Adamant Medtech & Services Fund (€)	16.6%
BB Adamant Medtech & Services Fund (USD)	10.4%

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

This has even raised the spectre of a new global financial crisis on the stock markets, but it does not seem it will come to that. At least, that is the assessment of the economists of the “Bank Credit Analyst”, who classify the debt problems of Evergrande and other Chinese real estate developers as serious, but ultimately as a predominantly Chinese problem. At least for the moment.

To top it all off, China is also making headlines with an energy crisis. Recently, there have been power cuts and rationing. There are several reasons for this. On the one hand, the Middle Kingdom is at loggerheads with its important coal supplier, Australia, and is no longer allowing coal from “Down Under” into the country. On the other hand (obviously much more important), electricity prices are capped by the state, making production using this source of energy, which has recently become much more expensive, a loss-making business for the electricity power plants.

The fact that the demand for energy is currently particularly high for economic and climatic reasons, and that China's government also wants to achieve certain CO_2 targets despite all, is an additional factor. In short, the electricity crisis is affecting both private households and industry, which in turn could exacerbate the global shortage of certain semi-finished and finished goods. This is a problem that could also be accentuated in the UK where a shortage in petrol and diesel supply is causing discontent amongst consumers. Meanwhile, the European continent may face shortages and/or higher prices of natural gas as winter approaches.

Last but not least, the outcome of the German parliamentary elections at the end of the quarter did not help to dispel the early autumn melancholy on the financial markets. The stalemate between the political forces in Europe's largest economy and the World's fourth largest also reminds investors not to take too much of a gamble for the time being.

Conclusion: Climate remains fundamentally favourable to equities

Although the economic momentum has cooled down slightly, we expect the economies to continue to expand. The Central Banks' policy is likely to change only slowly in the direction of a little more restrictive position. This means that equities, from which a little of the pressure has recently dissipated, should continue to be favoured over bonds.

Other funds employed by us
performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	2.4 %
Acatis IfK Value Renten Fond (€)	2.7 %
BCV Liquid Alternative Beta Fund (CHF hedged)	5.2 %
BCV Liquid Alternative Beta Fund (Euro hedged)	5.3 %
BCV Liquid Alternative Beta Fund (USD)	6.2 %
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	1.0 %
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	1.2 %
Franklin Templeton K2 Alternative Strategies Fund (USD)	1.8 %
Lyxor ETF Euro Corp. Bond Fund (€)	-0.6 %
Pictet CH-CHF Bond Fund	-2.1 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-0.1 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	0.0 %
ZKB ETF Gold (USD)	-6.8 %

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
There have been no significant changes here. The percentage rate lies approximately within the range of a neutral weighting.

Bonds
We have also made no changes to the bond positions, which means that the weighting of fixed-interest securities remains underweighted. The slight upward shift in the yield curve that occurred in the past quarter has been in our favour, as the losses have been limited. However, despite the slightly higher bond yields, an increase in bond maturities is not indicated in any currency. We continue to avoid government bonds. High-yield bonds move in a positive economic environment.

Tending wealth.
Safe and experienced hands.

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

	Dec. 2020	Sept. 2021	Change
Europe	-0.57%	-0.20%	65%
United Kingdom	0.20%	1.02%	410%
Japan	0.02%	0.07%	250%
Switzerland	-0.55%	-0.16%	71%
USA	0.91%	1.49%	64%

Price/Earnings ratios, using the latest 12 months profit figures, have all declined:

	Dec. 2020	Sept. 2021	Change
SPI Index	22.6	13.9	-38.5%
DJ STOXX 600 Index	51.4	22.1	-57.0%
MSCI AC Asia ex Japan	25.8	17.7	-31.4%
MSCI Japan	30.7	16.9	-45.0%
MSCI USA	30.4	26.4	-13.2%
MSCI AC World Index	33.3	23.4	-29.7%

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

Equities Switzerland

The prices of Swiss equities declined slightly in the reporting period. The Swiss Performance Index (SPI) went down by around 2%, slightly more than our “Swiss Stock Portfolio” (SSP), whose performance amounts to -1.55%. The figures are understood as total return, i.e. price changes plus any dividends. For the first nine months of the year, the performance of our value stock selection is +13.26%, beating the SPI by 0.38 percentage points and the large-cap index, the SMI, by 1.38 percentage points.

For the “Strategy Certificate linked to the SIM-Swiss Stock Portfolio Basket” certificate based on the SSP (Valor: 36524524, ISIN: CH0365245247), the performance for the first half of the year amounts to a plus of 11.7%.

Seen in the long term, the performance of the “Swiss Stock Portfolio” continues to be excellent. Since 2012, the average annual performance of the SSP has been 14.48%, significantly outperforming the average benchmark performance of 11.25%. Since 2012, the total cumulative return of this strategy amounts to around 274%, while the index that of the index is 182%. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

Equities Europe

Our European stock selection, the “European Stock Portfolio” (ESP), decreased by 1.2% in the third quarter, whereas the broad DJ Stoxx 600 Index was able to post a gain of 0.85%. For the first nine months of the year, the total performance (price changes plus distributions) amounts to +13.16% and thus lags behind the benchmark, which achieved 16.13%. Transaction costs and withholding taxes are deducted from the ESP figures, whereas the benchmark index is calculated without costs.

The long-term picture, however, is much better. The cumulative performance of the ESP since 1993 amounts to around 1067%, while that of the benchmark to around 677% or 8.61% and 7.14% annualised. 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 6.69%, compared to 4.39% of the benchmark. In other words, per year, the ESP actually outperformed the value benchmark by 2.3 percentage points, compared to 1.47 percentage points when compared to the overall market.

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

	Price/Book	Div. Yield
SPI Index	2.27	2.53%
DJ STOXX 600 Index	2.1	2.65%
MSCI AC Asia ex Japan	1.81	2.09%
MSCI Japan	1.48	1.90%
MSCI USA	4.58	1.33%
MSCI AC World Index	3.1	1.74%

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

Equities USA

American equities continue to be overweighted. However, this includes the position in the BB Adamant Medtech & Services Fund. This is not a classic investment in a country, but an international sector fund that currently includes mainly American companies. Without this investment vehicle, the US equity position would correspond to a neutral weighting. The double-digit performance of both the Performa and the Medtech & Services Fund was additionally made sweeter for the Swiss Franc and Euro clients by the appreciation of the US dollar.

Equities Asia (ex Japan)
Asian equities (excluding Japan) are also slightly overweighted. The positions remained unchanged in the past quarter. The funds we used were able to cushion the poor performance of the region's index or, in the case of Barings ASEAN Frontier Markets, even more than compensate for it. Converted to the position size in a balanced client portfolio in Swiss Francs or Euros, the exposure to Chinese equities via the Aberdeen Asia Pacific Fund amounts to a manageable 1 to 2%.

Equities Japan
The Japanese market was not affected by the September blues, quite the opposite. The Land of the Rising Sun was one of the few winners in the third quarter. The change of government, but also a certain amount of goodwill shown by investors towards companies that are well positioned for export and have relatively favourable valuations, helped prices to rise. The positions are unchanged and therefore slightly overweighted.

Alternative Investments
Hedge funds, as measured by the Global Hedge Fund Index, were more or less flat in the third quarter. For the year to date, a slight plus remains. Of the instruments we use, the units of the BCV Liquid Alternative Beta Fund have outperformed their benchmark index. There has been no change in the positions compared to the end of June.

Precious Metals
Gold has continued to consolidate. On the one hand, it suffered from the rise in interest rates and, on the other, was unable to benefit from the heightened nervousness on the markets as a safe-haven investment. We have left the positions unchanged.

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.

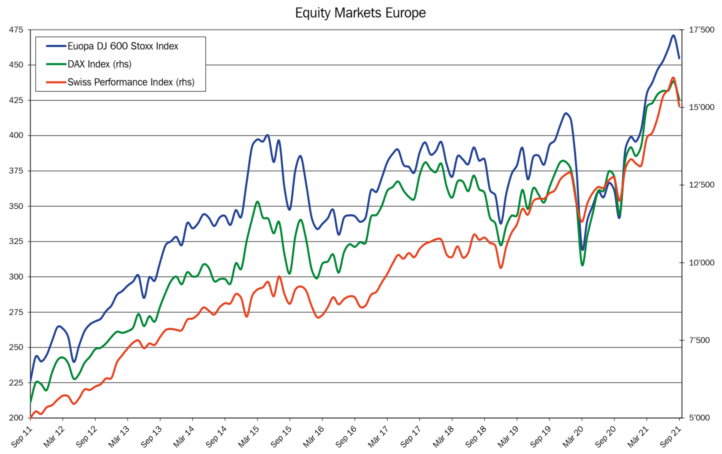
Since the beginning of the year, selected **foreign exchange rates** have developed as follows:

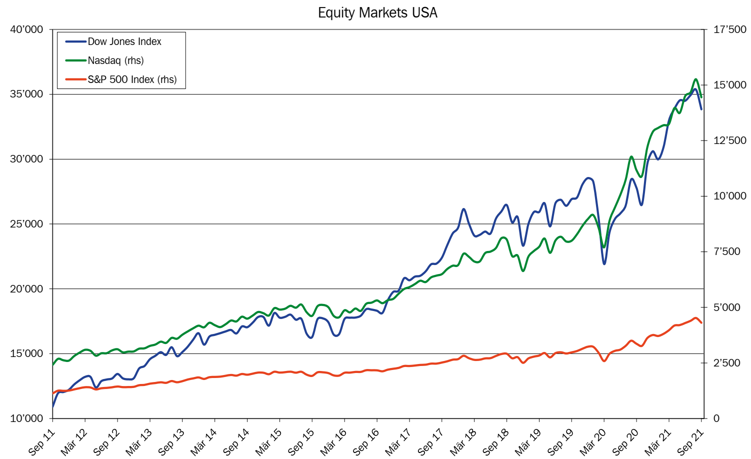
	Dec. 2020	Sept. 2021	Change
CHF / Euro	1.0821	1.0808	-0.1%
CHF / USD	0.8852	0.9341	5.5%
Euro / USD	0.8178	0.8642	5.7%
Yen / USD	103.3	111.44	7.9%

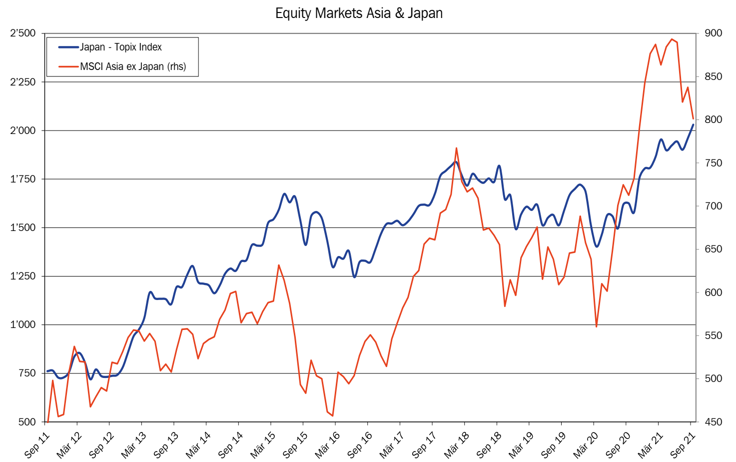
Source: Bloomberg.

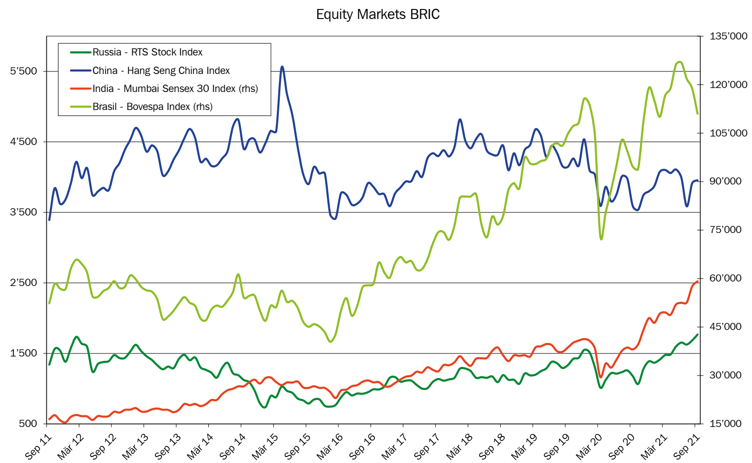
Growing wealth.
Performance is the tangible result of our expertise.

Equity Markets at a glance

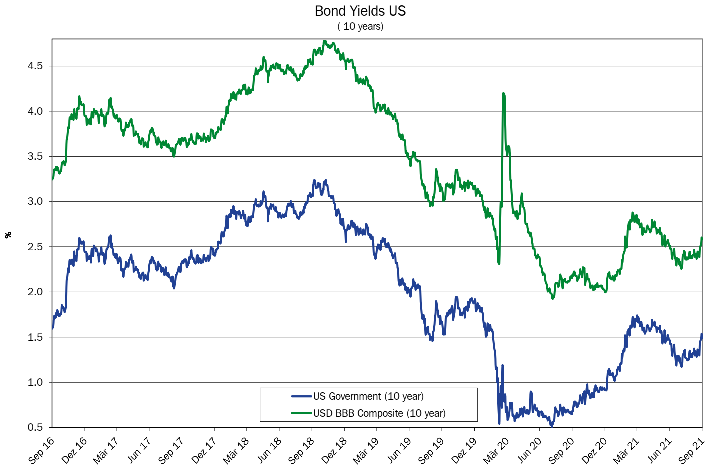


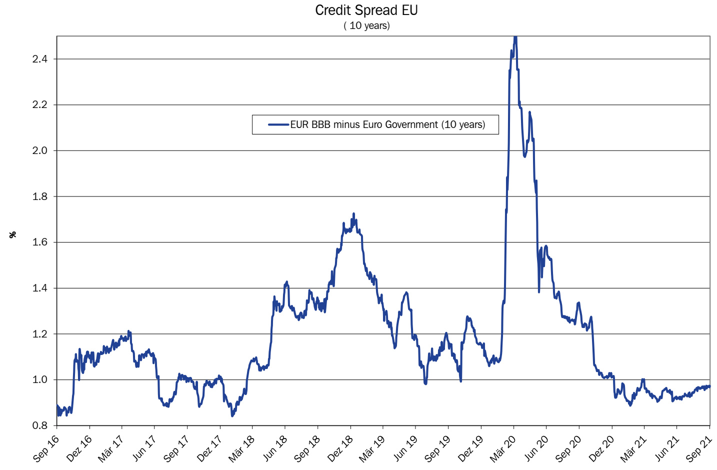


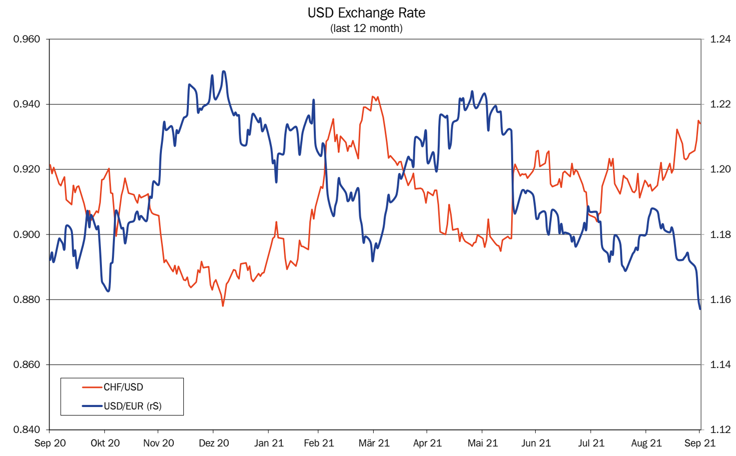


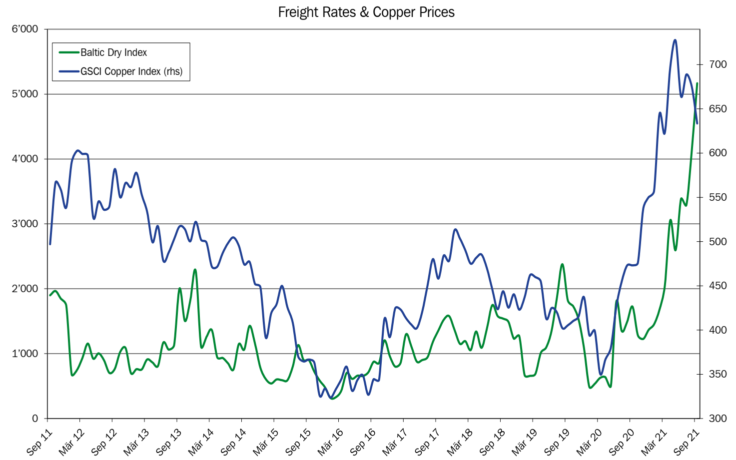


Bond yields and other indicators









Notes

Closing words

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

Alfred Ernst
Director, Relationship Manager

Contact us

Salmann
Investment Management AG

Beckagässli 8
FL-9490 Vaduz

T +423 239 90 00
F +423 239 90 01

www.salmann.com