SALMANN
INVESTMENT MANAGEMENT

From the pandemic into the war

Investment Report – 31st March 2022

From the pandemic into the war

The pandemic has largely disappeared from the headlines and has given way seamlessly to the war in Ukraine. With the exception of gold, all asset classes suffered losses on the financial markets in the first quarter. It remains to be seen whether the stock market adage that political stock markets have short legs, namely, that setbacks are only short in duration and moderate in scale, also applies to this conflict.

It was not just at the Russian army's invasion of Ukraine that share prices around the world nose-dived. Prices were already under pressure in January and February. In addition to the growing fear of war, it was the ever increasing inflation figures and the resulting rise in yields on the bond markets that gave investors a real headache following the lively New Year's Eve party and the ensuing January slump.

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

		Dec. 2021	Mar. 2022	Change
Asia ex Japan	MSCI AC Asia ex Japan	606.8	558.3	-8.0%
Europe	DJ STOXX 600	1'098.7	1'032.5	-6.0%
Japan	MSCI Japan	2'538.1	2'498.4	-1.6%
Switzerland	SPI	16'444.5	15'538.6	-5.5%
USA	MSCI USA	13'304.0	12'598.1	-5.3%
World	MSCI AC World	9'755.7	9'253.0	-5.2%
Hedge Funds	HFRX Global HF	1'430.9	1'411.5	-1.4%

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

In terms of the market as a whole, Germany, the Asia/Pacific region (excluding Japan) and the American technology exchange, Nasdaq, were hit particularly hard, with losses for the quarter of around 9%, 8% and 7% respectively. The USA and Switzerland, where the leading indices were "only" down by 5% on 31 March, fared better. Meanwhile, in Japan, there are no signs of a severe crisis in the index at all. The MSCI World Equity Index (in US dollars) shows a loss of around 5%.

However, these figures barely reflect the enormous volatility. The Nasdaq Composite Index, for example, plunged by more than 20% between December 31 and March 17 but has since recovered by around 16%. Other markets experienced similar fluctuations in part.

Gold has once again proven itself to be a safe port in the storm, trading around 7% higher in US dollar terms than at the beginning of the year. Commodities have experienced a huge price explosion. This applies not only to the omnipresent energy resources, such as oil and natural gas (+33 and 56%, respectively, since New Year's Eve), but also to aluminium and wheat (+24 and +30%, respectively). A quick look at the GS Commodity Index reveals a plus of 29%.

A total withdrawal from Russian energy supplies would most likely plunge Europe into recession. Indeed, Russia, which represents barely 2% of global GDP, supplies 40% of the natural gas consumed in the EU (even more in Germany) and is, together with Ukraine, a major player on the world market for other commodities such as wheat and industrial minerals.

The economy under threat

Obviously, the Russian president could also turn the tables and cut off the flow of oil and gas to the West at his own discretion. The consequences for Europe, but presumably also for the rest of the world, would be the same; skyrocketing energy prices, higher inflation, business disruption, bankruptcies, short-time working, higher unemployment and recession.

Either way, the Russian invasion has significantly darkened the economic outlook. Looking at the forecasts compiled by Bloomberg (see table "Average growth and inflation forecasts of economists surveyed by 'Bloomberg Composite Forecast'"), GDP is still expected to expand in most countries in 2022. However, some of the expectations are now significantly below year-end figures, and further falls are constantly being factored into the forecasts.

Discovering wealth.

Flexibility and creativity are key.

Here is an example; whereas the Bloomberg forecasts for Germany currently stand at 2.5% growth for the current year, the "Council of Economic Experts" in Germany, the so-called "Five Wise Men", has recently been forecasting only 1.8%. The economic experts' forecast of 2.9% for the Eurozone is also lower than that of the Bloomberg experts. In Switzerland, the State Secretariat for Economic Affairs (Seco) recently lowered its growth forecast for Switzerland, from 3.2% to 3%, which is roughly in line with Bloomberg's current consensual forecast.

In terms of inflation, however, expectations have gone in the other direction, namely upwards. In Switzerland (the Seco), for example, the forecast has gone from 1.2 to 1.9%. The forecasters expect a particularly sharp rise in inflation this year in the UK, Italy and the USA, where figures of over 6% are currently being predicted.

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

	Real GDP Growth		Core-Inflation	
	2022	2023	2022	2023
China	5.0%	5.2%	2.2%	2.2%
Germany	2.5%	2.7%	5.5%	2.2%
EU	3.5%	2.5%	5.3%	2.3%
United Kingdom	4.0%	1.8%	6.6%	3.0%
Japan	2.4%	1.7%	1.3%	0.9%
Switzerland	2.8%	1.8%	1.3%	0.7%
USA	3.5%	2.3%	6.2%	2.6%

Rising bond yields

Bond yields continued to climb in the first quarter. In part, the rise was accentuated by the outbreak of the war. However, the upturn was already clearly evident before that, as the markets reacted to the increased inflation expectations. Yields on ten-year government bonds have risen everywhere since the beginning of the year. At around 2.3%, this figure has climbed to its highest level in the USA since 2019.

In Switzerland and Germany, we are currently seeing around 0.55%, in the UK 1.6, and in Italy, over 2%. It is hardly surprising that spreads against German Federal Bonds in the so-called PIIGS countries (Portugal, Ireland, Italy, Greece, Spain) have widened noticeably since the beginning of January. In Europe, there has been a considerable rise outside the Eurozone. Polish government bonds now yield 5.1%, Czech 3.8% and Norwegian 2.5%.

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

Aberdeen Asia Pacific (USD)	-8.4%
Barings ASEAN Frontiers Equities (USD)	-4.5%
GAM Japan Stock Fund (CHF hedged)	-5.2%
GAM Japan Stock Fund (€ hedged)	-5.3%
Strategy Certificate SIM–Swiss Stock Portfolio Basket	-6.9%
iShares Core SPI ETF (CHF)	-6.0%
iShares Stoxx Europe 600 ETF (€)	-7.0%
Performa European Equities (€)	1.6%
Performa US Equities (USD)	-16.9%
BB Adamant Medtech & Services Fund (CHF)	-5.4%
BB Adamant Medtech & Services Fund (€)	-4.3%
BB Adamant Medtech & Services Fund (USD)	-6.4%

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

The pressure has also spread to the central banks, but the number of those that have already raised key interest rates is still relatively small. In addition to the US Federal Reserve (Fed), the Bank of England, for example, recently raised its base rate by 25 basis points to 0.5%.

Contrary to this, the European Central Bank (ECB) is still holding back. The great uncertainty stemming from the Ukraine war will greatly complicate the Europeans' plans to also move slowly towards a more normal monetary policy.

In terms of currencies, it has once again been shown what investors consider safe havens, namely the Swiss franc and the US dollar. The Euro, on the other hand, is trending weaker, while the Russian Ruble imploded for a time, but subsequently recovered considerably. Since the beginning of the year, the Greenback has appreciated by 1% against the Swiss Franc, while the Euro, after a brief dip below parity, has fallen by more than 1%.

Other funds employed by us
performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-9.5 %
Acatis IfK Value Renten Fond (€)	-9.6 %
BCV Liquid Alternative Beta Fund (CHF hedged)	-1.5 %
BCV Liquid Alternative Beta Fund (Euro hedged)	-1.5 %
BCV Liquid Alternative Beta Fund (USD)	-1.2 %
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	-4.2 %
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	-4.1 %
Franklin Templeton K2 Alternative Strategies Fund (USD)	-3.9 %
Lyxor ETF Euro Corp. Bond Fund (€)	-4.9 %
Pictet CH-CHF Bond Fund	-6.1 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-1.4 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	-1.3 %
ZKB ETF Gold (USD)	7.4 %

Performance incl. re-invested dividends where applicable.

Interest rates are likely to continue to rise for the time being, in view of the concerns regarding inflation. The Central Banks are forced to take action against a possible wage-price spiral through higher key interest rates, a gigantic challenge especially for the European Central Bank (ECB) in view of the record debt levels of some member countries. On the other side of the Atlantic, the US Central Bank, the Fed, is also behind the curve, meaning it should have started raising interest rates sooner. The market expects 5 to 7 further steps in the next twelve months to follow the first hike.

Uncertainty as far as the eye can see

How the stock market will fare depends on the course of the war and the resulting economic consequences, both of which are highly uncertain. The West is wavering between even tougher sanctions and the fear of shooting itself in the foot. Putin is apparently willing to do whatever it takes, and the whole world wonders who or what could bring him to his senses by diplomatic channels, to stop the bloodshed and destruction.

The whole world? Sadly not, as he is not completely isolated. China is engaged in a balancing act between friendship with Moscow and fear of Western economic reprisals, and India, like many other countries, does not appear to see too much wrong with the invasion. In politics, too, or even more so, the shirt on your own back is the most important. Accordingly, share prices are searching for an appropriate level amid great volatility.

We remain of the opinion that equities are more attractive than bonds and consider the roughly neutral weighting to be the appropriate one at the moment. After the Second World War, stock market corrections, or bear markets triggered by wars were usually manageable in terms of duration and extent. Whether it will be the same this time remains to be seen.

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
By divesting part of the alternative investments, we have increased the liquidity ratio by around three percentage points and are now overweighted here. Part of the liquid assets could be invested

Tending Wealth.
Safe and experienced hands.

in equities if necessary, if the development of the economic and geopolitical situation indicates that this is appropriate.

Bonds

The rise in interest rates has driven bond prices down across the board. The fact that bonds of Russian borrowers, for example Gazprom or the Russian state railway, are also listed on the Swiss and European markets has had an additional negative impact in some cases. Direct exposure to Russian debtors can also occur here, as these securities were part of the benchmark until the start of the war and offered a yield benefit. However, they are the exception. For such reasons, the Acatis IfK Value Renten Fund, among others, also holds these bonds, although the holding was around 7% before the outbreak of the war. Trading in these securities is non-existent at the moment, and prices are therefore at a very low ebb.

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

	Dec. 2021	Mar. 2022	Change
Europe	-0.18%	0.55%	406%
United Kingdom	0.97%	1.61%	66%
Japan	0.07%	0.22%	214%
Switzerland	-0.14%	0.60%	529%
USA	1.51%	2.34%	55%

Equities Switzerland

Swiss equities were unable to escape the negative trend. The widely based Swiss Performance Index (SPI) fell by 5.51%. Our "Swiss Stock Portfolio" (SSP), which is compiled according to value criteria, lost 6.25%. The figures are total returns, namely price changes plus any dividends.

Amongst the best performers during this reporting period were Helvetia (+12.3%), Sonova (+8.3%) and Swisscom (+7.9%). Tecan (-33.7%) and Vetropack (-24.7%) brought up the rear. The former suffered because demand for PCR tests slumped and results fell short of analysts' high expectations. Vetropack is directly affected by the war because it has a production facility in Ukraine that had to cease operations.

Over the long term, the performance of the "Swiss Stock Portfolio" continues to be very pleasing. Since 2012, the average annual performance of the SSP amounts to 13.7%, which clearly exceeds the average benchmark performance of 11%. Since 2012, this strategy has achieved a cumulative total performance of around 272%, compared to 191% for the index. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

Equities Europe

European equities have also had to bear the brunt of the war in Ukraine. The DJ Stoxx 600 Index ended the first quarter at -6.02%. Our European stock selection, the "European Stock Portfolio" (ESP), closed the same period at -6.69%. Transaction costs and withholding taxes are deducted from the ESP figures, whereas the benchmark index is calculated without costs.

Commodity-related equities were among the best performers, notably Aurubis (copper) with a gain of almost 25%, and Rio Tinto (mining) with a gain of over 23%. The company hardest hit by the war was the Finnish tyre manufacturer, Nokian Renkaat, which operates a large factory in Russia that is now shut down.

Measured on the **price/earnings ratio** using the latest 12 months profit figures, all equity markets have become cheaper:

	Dec. 2021	Mar. 2022	Change
SPI Index	16.4	14.4	-12.2%
DJ STOXX 600 Index	20.8	15.9	-23.6%
MSCI AC Asia ex Japan	16.2	14	-13.6%
MSCI Japan	15.1	13.8	-8.6%
MSCI USA	27.1	24.1	-11.1%
MSCI AC World Index	23.2	20.1	-13.4%

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

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

	Price / Book	Div. Yield
SPI Index	2.3	2.5%
DJ STOXX 600 Index	1.9	2.8%
MSCI AC Asia ex Japan	1.6	2.2%
MSCI Japan	1.3	2.2%
MSCI USA	4.6	1.4%
MSCI AC World Index	3.1	1.8%

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

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 8.36% compared to 7.05% for the benchmark. The portfolio has thus accumulated 1,033%, whereas the cumulative index performance is "only" 685%.

Equities USA
On the American stock markets, the gap between the growth stocks of the Nasdaq technology exchange and the broader market widened even more in the first quarter. While many of the previously very highly valued growth stocks on the Nasdaq were hit hard by the rise in interest rates and the related worsening conditions for discounting profits in the distant future, the broader market was supported by equities in the oil and gas sectors, as well as other defensive industries. There were no changes in the positions in the first quarter.

Equities Asia (ex Japan)
The positions in Asian equities (excluding Japan) also remained unchanged. Some markets in this region of the world lost less in the first quarter than, for example, European markets, or even closed this reporting period with a plus. The slight overweighting of Asian equities has not changed.

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

	Dec. 2021	Mar. 2022	Change
CHF / Euro	1.0375	1.022	-1.5%
CHF / USD	0.9129	0.9223	1.0%
Euro / USD	0.8793	0.9023	2.6%
Yen / USD	115.08	121.56	5.6%

Source: Bloomberg.

Equities Japan
In the first quarter, equities in the Land of the Rising Sun also benefited from Japan's great distance from the theatre of war. The positions have remained unchanged, maintaining a slight overweight.

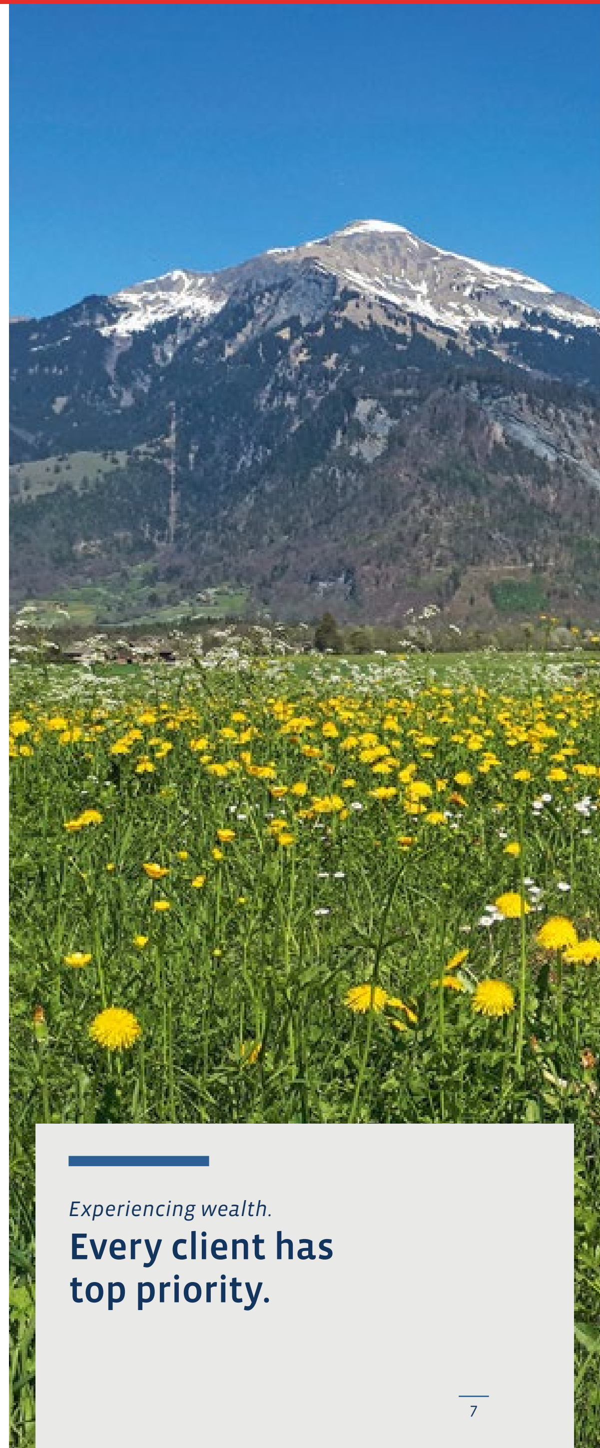
Alternative Investments
This asset class has clearly outperformed equities, for example. In order to create liquidity for a possible increase in the equity allocation, we reduced the position during the quarter by selling the Franklin Templeton K2 Alternative Strategies Fund. As a result, we are now underweight in alternative investments.

Precious Metals
Precious metals were in strong demand as a safe haven in the first quarter. At times, the price of the fine ounce of gold was quoted near the historic high of USD 2,070, before falling slightly towards the end of the month. Since the beginning of the year, the performance of the ZKB Gold ETF held in the portfolios is around 7.4%. The position is unchanged and thus overweighted.

Summary of our **current Asset Allocation:**

Asset class	
Money Market	overweight
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	underweight

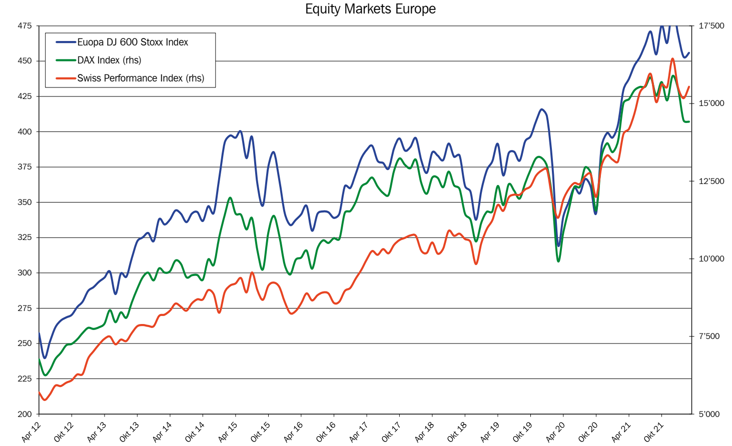
For a Swiss Franc referenced portfolio.



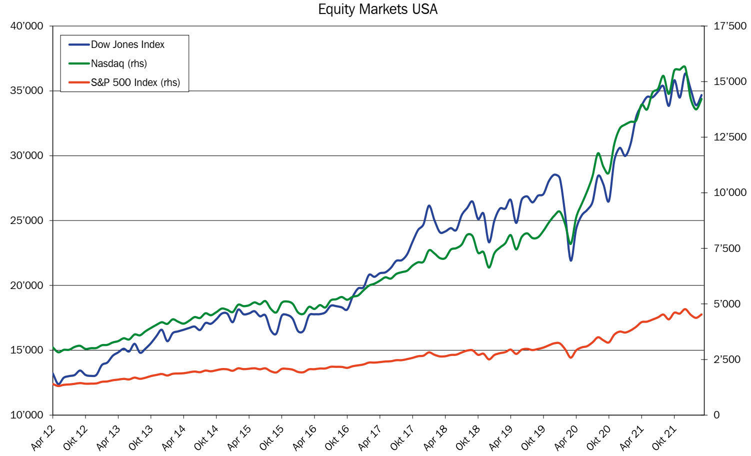
Experiencing wealth.
Every client has top priority.

Equity Markets at a glance

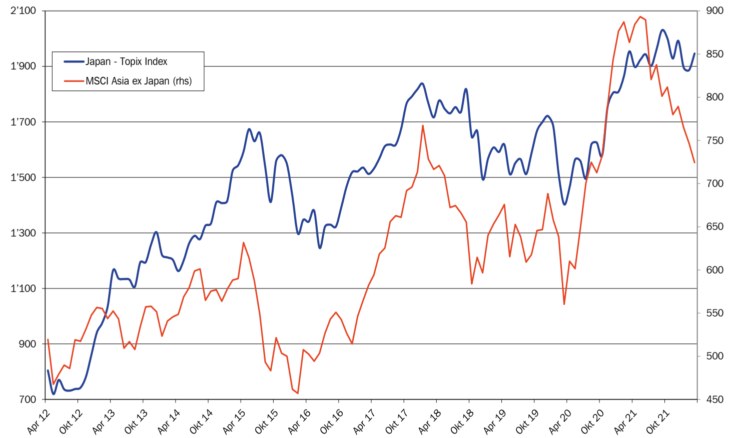
Equity Markets Europe



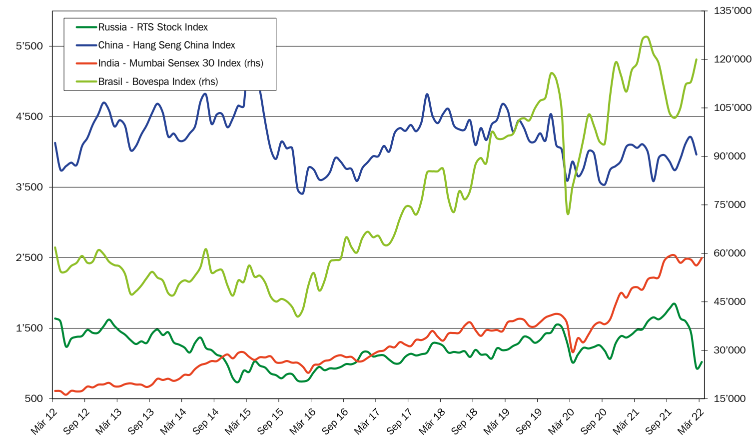
Equity Markets USA



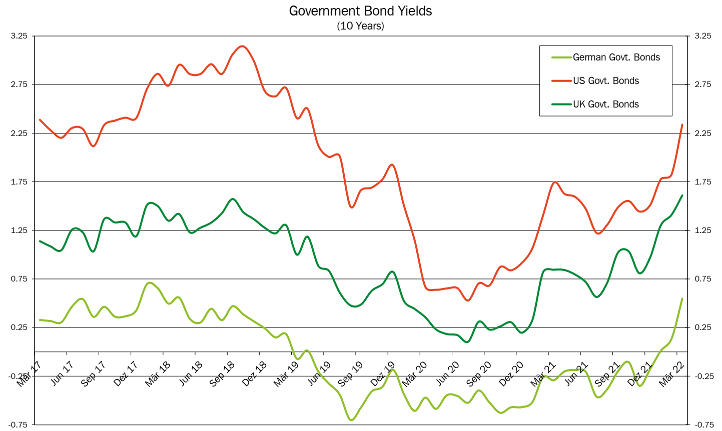
Equity Markets Asia & Japan

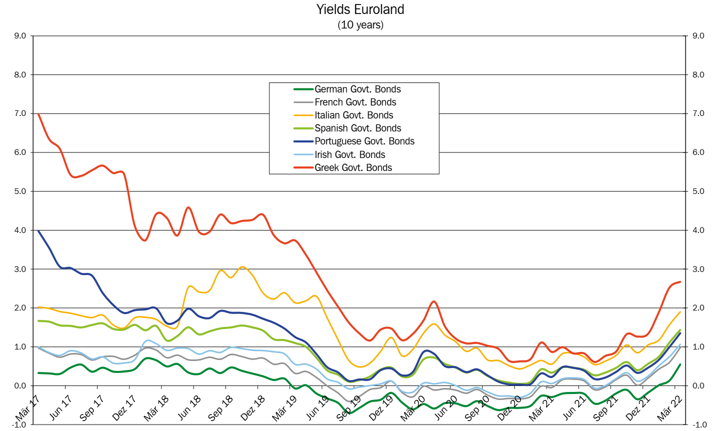


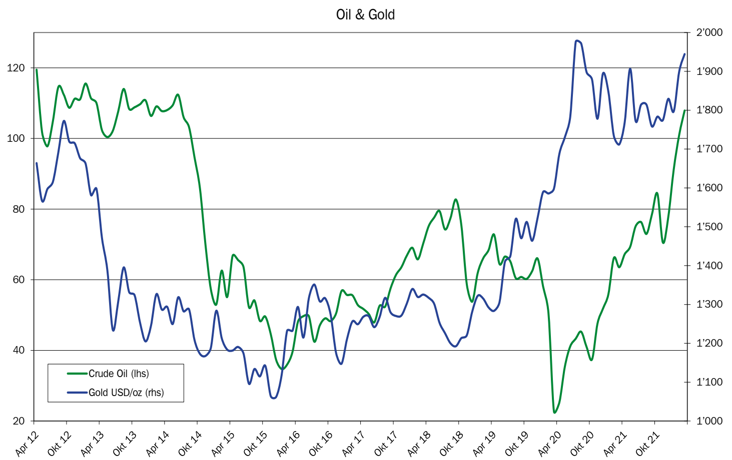
Equity Markets BRIC

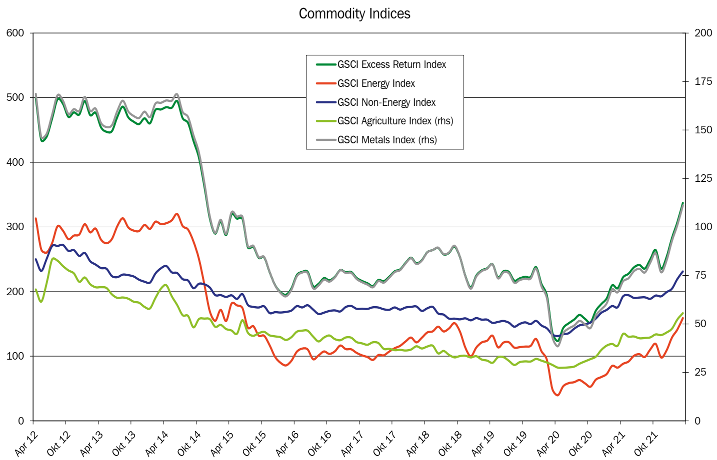


Bond yields and other indicators









Notes

Closing words

We thank you for the trust
you have placed in us and wish you
the very best.

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