SALMANN
INVESTMENT MANAGEMENT

Clearing up

Investment Report – 30th June 2023

Clearing up

Concerns about the economy and inflation, but also about geopolitical developments triggered a rollercoaster of emotions on the stock markets in the second quarter. As a result, the markets experienced stretches where there were price fluctuations in both directions. Towards the end of the quarter, the optimists regained the upper hand and brought the quarter to a conciliatory close.

"Not bad at all", one is tempted to say looking at the international stock markets. Or perhaps even "Good", because with a gain of 31% in the first half of the year, the American technology stock exchange, Nasdaq, for example, has no reason to hide its light under a bushel. This index benefited from the meteoric comeback of well-known tech stocks such as Nvidia (+181%; the AI hype making its presence felt) and Meta Platforms (+131%), but also Tesla (record high deliveries), Palo Alto Networks, Advanced Micro Devices, Amazon, Broadcom, Apple and many other stocks noted high double-digit price advances.

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

		Dec. 2022	June 2023	Change
Asia ex Japan	MSCI AC Asia ex Japan	487.5	502.2	3.0%
Europe	DJ STOXX 600	981.8	1'088.4	10.9%
Japan	MSCI Japan	2'424.1	3'000.7	23.8%
Switzerland	SPI	13'734.9	14'861.8	8.2%
USA	MSCI USA	10'663.8	12'460.0	16.8%
World	MSCI AC World	7'985.9	9'190.8	15.1%
Hedge Funds	HFRX Global HF	1'367.9	1'376.5	0.6%

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

Among the better-known stock markets, the Nasdaq performance was outperformed only by Athens (+37%) and Buenos Aires (+106% in local currency or +37% in Swiss Francs). Expressed in US Dollars, the MSCI World Equity Index gained 15%, while the defensively oriented Swiss market gained 8.2% (measured by the SPI in Swiss Francs), considerably less, but still noteworthy.

The Japanese stock market, which normally tends to doze along in the background, caused a sensation. The time-honoured Nikkei 225 index is slowly approaching the 39,000 mark once more. This all-time high is probably only remembered by veteran stock market traders, as it was last reached in 1989 and has not been even close to being reached again since then. Read more about this in the section "Equities Japan" under "Asset Allocation".

Bonds also did well. While the short-term policy interest rates controlled by the central banks were raised again, the yields on 10-year government and corporate bonds fell in most currencies in the current quarter, which was good for the prices of the outstanding securities.

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

	Real GDP Growth		Core-Inflation	
	2023	2024	2023	2024
China	5.5%	4.8%	1.2%	2.2%
Germany	-0.3%	1.1%	6.0%	2.6%
EU	0.7%	1.4%	6.3%	2.9%
United Kingdom	0.2%	0.8%	7.2%	2.9%
Japan	1.2%	1.1%	2.8%	1.5%
Switzerland	0.8%	1.4%	2.4%	1.5%
USA	1.3%	0.7%	4.1%	2.6%

One reason for the decline in long-term yields is that economic development is sluggish and various countries are teetering on the brink of recession. However, the average estimates of the economists surveyed by Bloomberg (see the table "Average growth and inflation forecasts") barely reflect these "blues" (yet).

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The average forecasts collected for the current and the coming year hardly differ from those of three months ago. Particularly as far as the current year is concerned; some of the figures are even slightly better than they were at the end of March.

Falling inflation trends

However, the situation regarding inflation is very different. Despite a downward trend, it is still stubborn in some areas and could spill over into the coming year more noticeably than previously expected. This also explains the tight interest rate policy of many central banks, where policy interest rate increases were the order of the day in the second quarter.

In Switzerland, for example, the National Bank (SNB) recently raised its policy rate by 0.25 percentage points to 1.75%. The European Central Bank (ECB) also raised its prime refinancing rate by a quarter of a point to 4%, the highest level since the summer of 2008. In the United Kingdom and Norway, it recently went up by half a percentage point to 5 and 3.75% respectively. The US Central Bank, the Federal Reserve (Fed), has paused, but at 5% it has already reached a restrictive level not seen since 2006.

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

Aberdeen Asia Pacific (USD)	-2.0%
Barings ASEAN Frontiers Equities (USD)	-1.0%
BB Adamant Medtech & Services Fund (CHF)	6.6%
BB Adamant Medtech & Services Fund (€)	7.8%
BB Adamant Medtech & Services Fund (USD)	10.2%
CS Index Fund Equity Switzerland Large Caps (CHF)	8.2%
Franklin Templeton FTSE India ETF (USD)	6.7%
GAM Japan Stock Fund (CHF hedged)	20.6%
GAM Japan Stock Fund (€ hedged)	21.8%
GAM Swiss Sustainable Companies Fund (CHF)	15.1%
iShares Core SPI ETF (CHF)	8.1%
iShares Stoxx Europe 600 ETF (€)	8.7%
Performa European Equities (€)	3.1%
Performa US Equities (USD)	17.3%

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

However, those who think that these central banks are perhaps applying the brakes a bit too hard should have a look at Turkey. There, the new Central Bank head, Hafize Gaye Erkan, in a departure from the previously incomprehensible low-interest policy dictated by President Erdogan, raised the policy interest rate from 8.5 to 15% in one fell swoop. This was urgently needed, as the Turkish lira has lost around 28% against the US Dollar in the course of this year alone, while inflation has reached a horrendous 40%. The lira already weakened massively against the Greenback in 2021 and 2022.

Yet not the whole world is plagued by high currency devaluation. In China, for example, it is rather the opposite that is causing consternation. Inflation in China was 0.2% in May, close to its two-year low. Core inflation (excluding volatile energy and food prices) is hovering around 0.6% and has not exceeded 1% for a year. Forecasters predict 1.2% for 2023. These and other indicators are already fuelling deflation fears in the Middle Kingdom. The Central Bank recently reacted to this by lowering interest rates.

But inflation has also peaked in the USA and even in Europe. The downward trend is likely to continue. The focus on faltering banks has also faded into the background recently. According to the Federal Reserve's assessment, the 23 largest credit institutions in the USA have crisis-proof capitalisation. This was determined by the Fed within the framework of a stress test.

Other funds employed by us performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	4.3%
Acatis IfK Value Renten Fond (€)	5.2%
Amundi ETF Euro Corp. Bond Fund (€)	1.5%
BCV Liquid Alternative Beta Fund (CHF hedged)	0.0%
BCV Liquid Alternative Beta Fund (Euro hedged)	0.8%
BCV Liquid Alternative Beta Fund (USD)	2.1%
Pictet CH-CHF Bond Fund	3.5%
Plenum European Insurance Bond Fund (CHF hedged)	0.2%
Plenum European Insurance Bond Fund (€)	1.1%

Performance incl. re-invested dividends where applicable.

This stress test is designed to ensure that banks are prepared for emergencies and do not have to be rescued with taxpayers' money again. To do this, the Fed examines whether capital reserves are sufficient to withstand extreme stresses such as an increase in unemployment to 10% or a 40% collapse in commercial real estate prices.

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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
In the second quarter, we started to gradually reduce cash and cash equivalents and to increase the bond ratio (see also section "Bonds").

Bonds
The market situation for bonds has improved, which is why we have started to further reduce the underweight in this asset class. Specifically, we have increased the tactical bond ratio in Swiss Franc and Euro mandates by up to six percentage points, and in US Dollar mandates by about three percentage points. Coupled with this, we are aiming for a slightly higher duration (weighted residual maturity) of the fixed-interest securities in the portfolios. The adjustment will be achieved by reducing the liquid assets (money market).

Equities Switzerland
Our value stock selection in Switzerland, the "Swiss Stock Portfolio" (SSP), performed well in the first half of the year. It generated an overall performance (price changes plus dividends) of 10.48% and outperformed its benchmark, the Swiss Performance Index (SPI), by 2.28 percentage points.

In addition, the annual rebalancing took place in Spring. The stocks of Barry Callebaut (chocolate), Leonteq (financial services) and Medacta Group (implants) were the new additions.

The stocks of Bucher Industries, Holcim, SFS Group, Vetropack and Zehnder remain part of the Swiss Stock Portfolio in the Basic Materials/Industrial sector. In the Consumer Goods sector, these are Bell Food, Emmi, Forbo, Nestlé and Swatch. In the Technology sector, Also and Swisscom retain their established positions.

The financial sector continues to be represented by Helvetia, Swiss Life and UBS. The previous representatives of the chemical and pharmaceutical sectors, Alcon, Lonza, Novartis, Roche, Siegfried, Sonova and Tecan, have also managed to remain in the selection of the most attractive Swiss equities. On the other hand, the shares of Cembra Money Bank and, already at an earlier date, those of Coltene were eliminated from the portfolio.

As far as the performance of individual stocks in the quarter is concerned, Alcon, Siegfried and Novartis were the top performers. Bringing up the rear were Leonteq, Tecan and Swatch.

The SSP's long-term performance is also very good. Since 2012, the average annual performance has been 11.82%, significantly outperforming the median benchmark performance of 9.3%. Furthermore, during the same period, this strategy has achieved a cumulative total performance of approximately 261%, while the index has achieved one of 178%. Transaction costs are deducted in the SSP figures, whereas the benchmark index is cost-free.

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

	Dec. 2022	June 2023	Change
Europe	2.57 %	1.87 %	-27 %
United Kingdom	3.67 %	2.71 %	-26 %
Japan	0.42 %	0.75 %	79 %
Switzerland	1.62 %	1.06 %	-35 %
USA	3.88 %	2.88 %	-26 %

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

	Dec. 2022	June 2023	Change
SPI Index	17.7	22.8	28.8 %
DJ STOXX 600 Index	14.6	13.5	-7.5 %
MSCI AC Asia ex Japan	12.3	14.8	20.3 %
MSCI Japan	13.5	18.2	34.8 %
MSCI USA	18.9	22	16.4 %
MSCI AC World Index	16.7	18.8	12.6 %

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

Equities Europe
The European stock selection, the "European Stock Portfolio" (ESP), has also been thoroughly scrutinised and given a fresh makeover. A number of new additions were made. These include Imperial Brands (tobacco products) and Mowi (fish farming) in the consumer sector, Arcelormittal (steel) and Glencore (commodities trading) in the chemicals and commodities sector.

In the energy supply sector, Repsol is a new addition to the selection; in the financial sector it is the MAN Group, and in the health sector Roche and Sanofi. The packaging manufacturer, Mondi, has also made it into the portfolio of the fundamentally most attractive European stocks, as have the technology stocks Capgemini, STMicroelectronics and Tietoevry. Last but not least, Volkswagen is a new addition to this list. On the other hand, 13 stocks were removed from the portfolio.

Ahold, Yara International, A2A, Equinor, Hannover Re, IG Group, Legal & General and Nordea Bank defended their places as did Ipsen, AP Moller-Maersk, Deutsche Post and Barratt Developments.

So far this year, the European stock selection has delivered a total performance (price gains plus dividends) of 8.44%. The benchmark DJ Stoxx 600 Index has managed 10.85%. A2A, Hannover Re and Ipsen were among the best performers in the second quarter, while Arcelormittal, Tietoevry and Mowi brought up the rear.

The long-term performance of the ESP since 2004 shows an annual average return of 6.98%, compared to 6.57% of the benchmark. Since 2004, the portfolio has thus accumulated 273%, compared with a cumulative index performance of 246%. 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	2.9	2.9 %
DJ STOXX 600 Index	1.7	3.4 %
MSCI AC Asia ex Japan	1.5	2.7 %
MSCI Japan	1.5	2.3 %
MSCI USA	4.3	1.6 %
MSCI AC World Index	2.9	2.1 %

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

In previous investment reports we have shown the cumulative performance since 1992, i.e. since we have pursued a uniform strategy with individual European equities. For the first time, we will limit ourselves to the figures since 2004, i.e. from the time when the current Salmann strategy, which is closely focused on the value style with the current selection criteria, has been applied.

Equities USA
Notwithstanding their high fundamental valuation compared to other countries, US equities have also had a buoyant quarter aside from the technology sector and were able to enjoy a double-digit semester performance. We have made no changes in US equities over the past twelve-week period and remain slightly overweight.

Equities Asia (ex Japan)
The Asian emerging markets were caught up in the economic slowdown in the industrialised nations in the past quarter. This tends to mean fewer exports for them. In addition, declining commodity prices weighed on their trade balances. So it is not surprising that these stock exchanges went into reverse gear. We have not made any changes and are neutrally weighted in this region of the world.

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

	Dec. 2022	June 2023	Change
CHF / Euro	0.9896	0.977	-1.3 %
CHF / USD	0.9245	0.8956	-3.1 %
Euro / USD	0.9341	0.9167	-1.9 %
Yen / USD	131.12	144.31	10.1 %

Source: Bloomberg.

Equities Japan
Japan's stock market is the talk of the town again. In the second quarter alone, foreign investors bought a net 39 billion US Dollars' worth of shares in the Land of the Rising Sun. The stock market in the Tokyo Kabutocho district has also generated attention because of statements by the investment legend, Warren Buffett, who said that after American stocks, Japanese shares now made up the largest position in the portfolio of his investment vehicle, Berkshire Hathaway.

Nippon is currently benefiting from economic growth above that of the USA, with low interest rates and low inflation. In addition, Japanese companies are increasingly making efforts to improve their corporate image, for example, through share buybacks and higher dividend payouts. We made no changes in the second quarter and remain slightly overweight here.

Summary of our **current Asset Allocation:**

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

For a Swiss Franc referenced portfolio.

Alternative Investments
Alternative investments were more or less flat in terms of returns in the past quarter, as in the first half of the year. Our position (measured in US Dollars) performed slightly better than the benchmark index. We have not made any changes to the holdings and are therefore still underweighted in alternative investments.

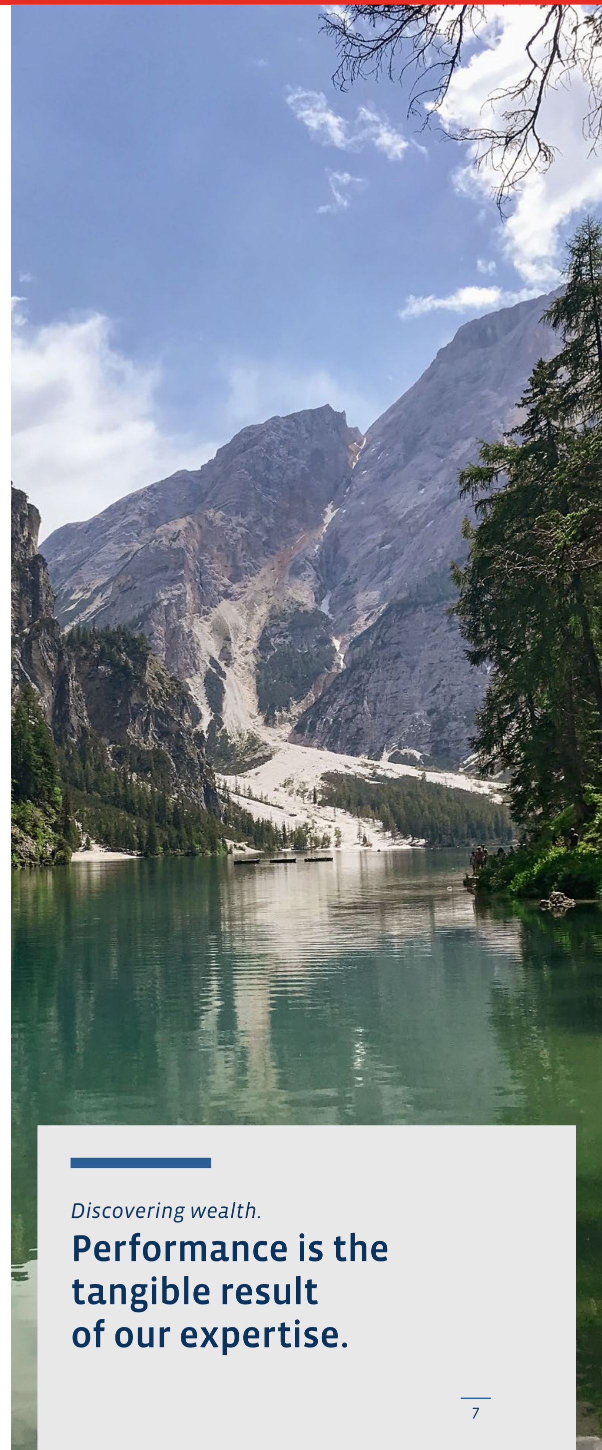
Precious Metals
We currently do not hold any precious metal positions.

News from us

Adrian Müller, Head of Portfolio Management and Chairman of the Investment Committee, joined the circle of partner shareholders at the beginning of June. Adrian Müller, CFA, completed his banking apprenticeship with a Swiss vocational baccalaureate in a Swiss bank. After obtaining his diploma, he gained expertise in the area of client advisory services and in the securities department. He then studied Business Administration at the FHS St. Gallen (B.Sc. in Business Administration), specialising in Corporate Finance. He joined Salmann in 2008, became a member of the Executive Board in 2018 and is now a Partner.

Markus Gartmann was promoted to the position of Director in June. He joined Salmann Investment Management in 2020 as an Account Manager. Today, in addition to his responsibility for client consultancy and acquisition, his duties also include membership of the Investment Committee. Markus Gartmann is a banking specialist and financial planner with a Swiss Federal Diploma. He has more than 20 years of experience in private banking. In addition to his special interest in traditional asset management, he has many years of experience in providing comprehensive advice to private clients, encompassing topics such as financing, financial planning and succession planning.

We extend our warmest congratulations to Adrian Müller and Markus Gartmann on these career milestones and wish them continued success and fulfilment in their work.



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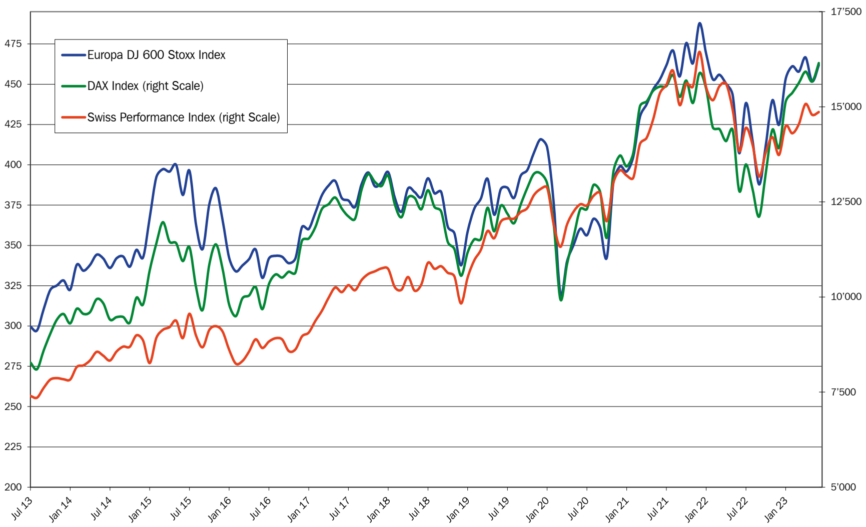
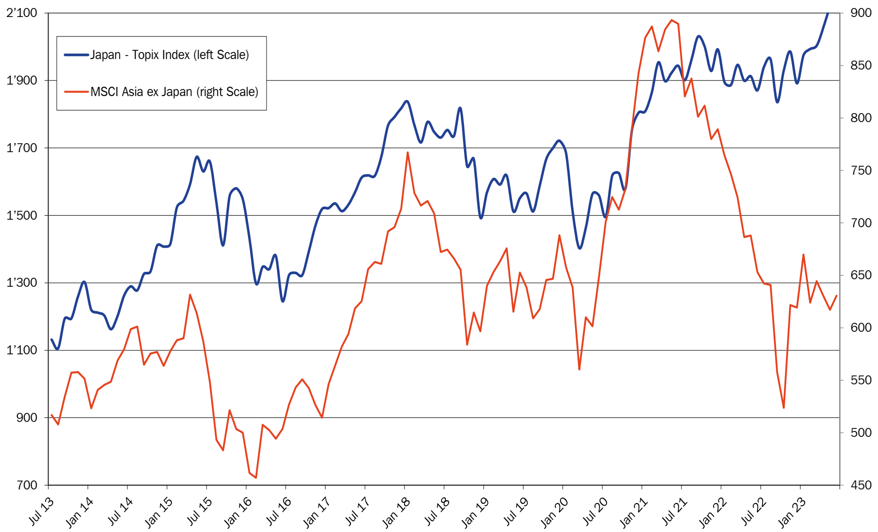
Equity Markets at a glance

Equity Markets Europe in Index-Points

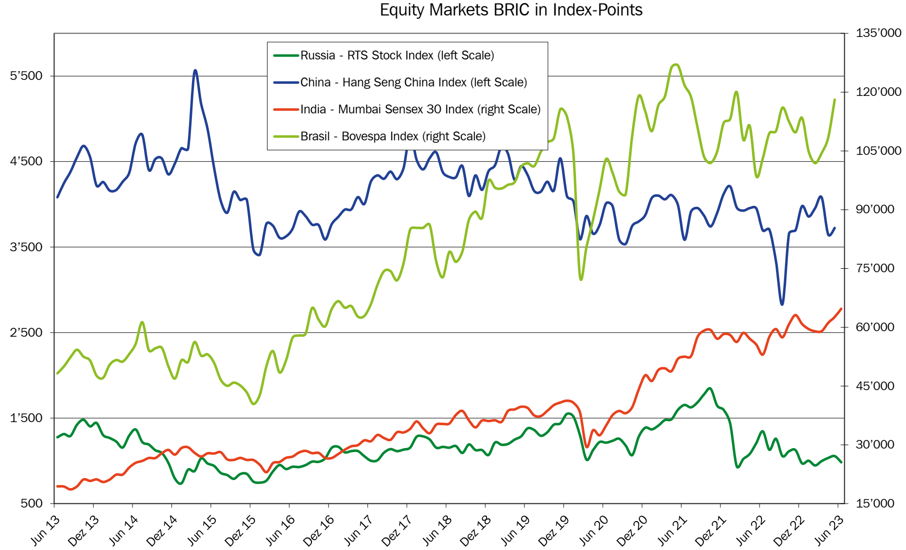


Equity Markets USA in Index-Points

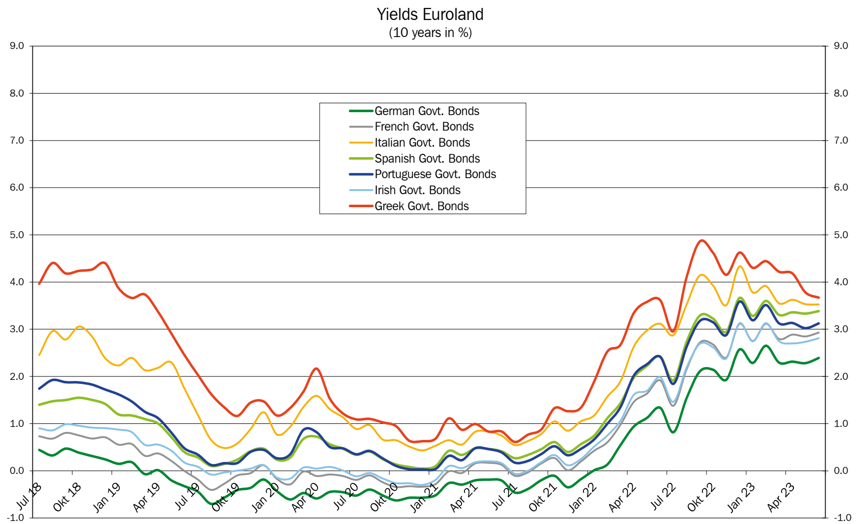
Equity Markets Asia & Japan in Index-Points

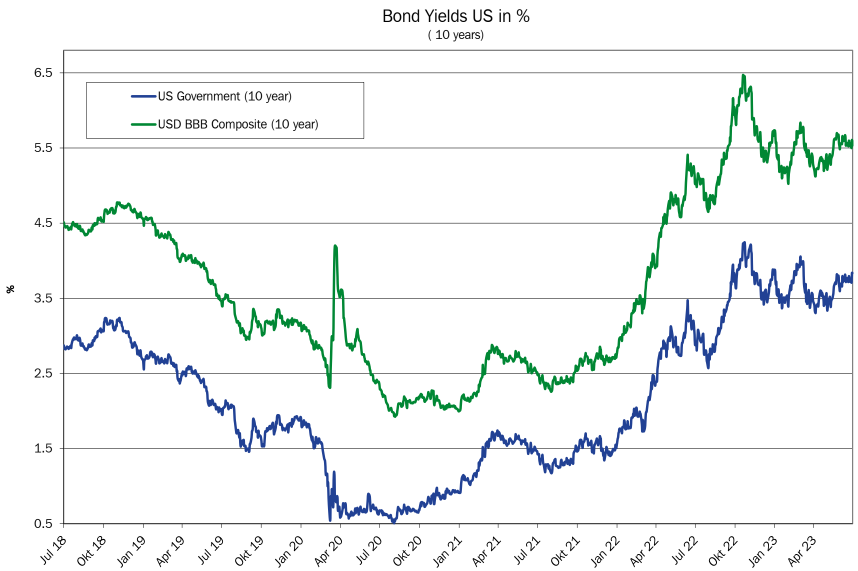


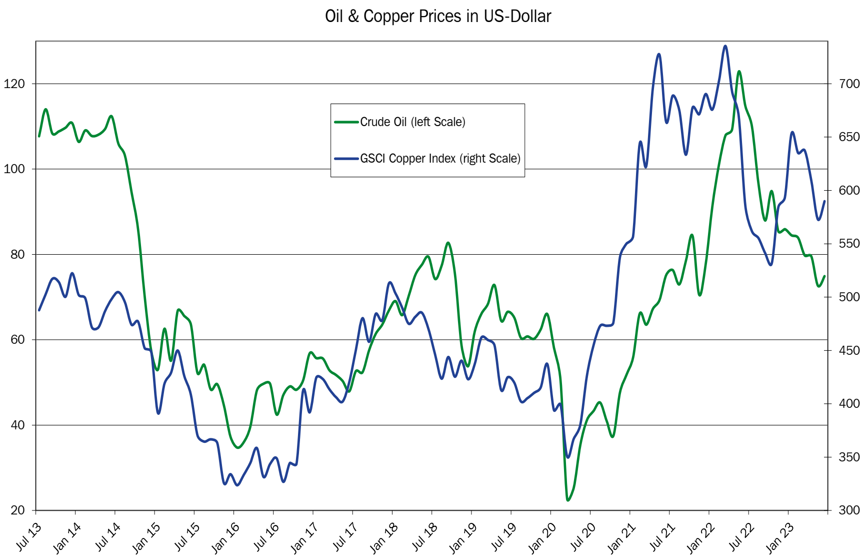
Equity Markets BRIC in Index-Points

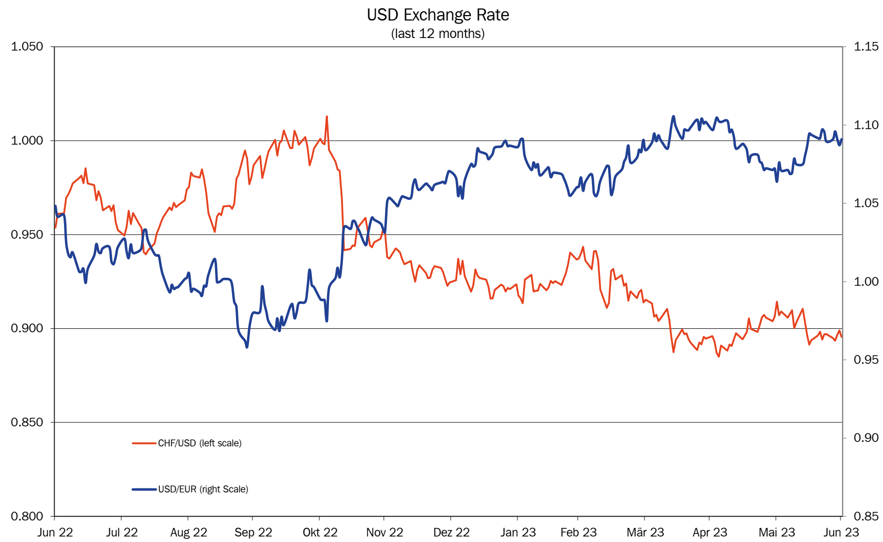


Bond yields and other indicators









Notes

Closing words

We thank you for the trust
you have placed in us
and wish you many relaxing
summer days.

Alfred Ernst
Director, Relationship Manager

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