SALMANN
INVESTMENT MANAGEMENT

Wide-ranging recovery

Investment Report – 31st December 2023

Wide-ranging recovery

After a grim 2022, 2023 brought the financial markets the desired, albeit volatile, recovery. The bond and equity markets were driven primarily by hopes that interest rates had peaked and that the central banks would not have to raise interest rates any further as inflation abated. The spectre of recession has not yet made an appearance either.

Equities experienced a rollercoaster ride last year. For example, the Swiss stock market rose by almost 10% from January to April, only to fall again by the same amount between May and October. In almost textbook fashion, the majority of the other stock markets also suffered a poor trading phase in October. In the last two months of the year there was another global recovery. In this phase alone, Swiss equities, for example, regained 6%.

Other stock exchanges literally kicked into turbo gear. The Nasdaq 100 Index of the US technology stock exchange, Nasdaq, which soared by around 54%, topped them all. The MSCI World Equity Index recorded an increase of almost 24% in US Dollar terms. Japan also performed well, achieving +29%.

Unfortunately for Swiss Franc investors, this pleasing scenario is clouded by the weakness of foreign currencies, unless hedged. The Greenback weakened by 9% against the Swiss Franc during the course of the year, the Euro fell by 6% and the Japanese Yen by as much as 16%.

Inflation and interest rates were two of the driving forces behind these fluctuations. At 0.2%, inflation in Switzerland was very low in November. Over the twelve-month period, it has shrunk to 1.4%. Core inflation, which is calculated without the volatile energy and food prices, was also moderate at 1.4%.

Inflation has also continued its downward trend in the rest of Europe, as well as in the USA. In America, the latest figure was 3.1%, and in the Eurozone, 2.4%. The outlook for the new year is favourable. For most countries, only low inflation is expected in 2024 (see also table "Average growth and inflation forecasts»).

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

		Dec. 2022	Dec. 2023	Change
Asia ex Japan	MSCI AC Asia ex Japan	487.5	516.6	6.0%
Europe	DJ STOXX 600	981.8	1'136.9	15.8%
Japan	MSCI Japan	2'424.1	3'116.3	28.6%
Switzerland	SPI	13'734.9	14'571.2	6.1%
USA	MSCI USA	10'663.8	13'488.7	26.5%
World	MSCI AC World	7'985.9	9'885.5	23.8%
Hedge Funds	CS Hedge Fund Index*	734.4	771.8	5.1%

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 December.

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

Aberdeen Asia Pacific (USD)	-3.2%
Barings ASEAN Frontiers Equities (USD)	-0.9%
BB Adamant Medtech & Services Fund (CHF)	-4.3%
BB Adamant Medtech & Services Fund (€)	1.6%
BB Adamant Medtech & Services Fund (USD)	5.2%
CS Index Fund Equity Switzerland Large Caps (CHF)	6.9%
Franklin Templeton FTSE India ETF (USD)	22.0%
GAM Japan Stock Fund (CHF hedged)	23.3%
GAM Japan Stock Fund (€ hedged)	26.0%
GAM Swiss Sustainable Companies Fund (CHF)	12.3%
iShares Core SPI ETF (CHF)	5.9%
iShares Stoxx Europe 600 ETF (€)	11.8%
Performa European Equities (€)	7.4%
Performa US Equities (USD)	24.5%

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

Tending Wealth.

Safe and experienced hands.

As far as interest rates are concerned, the major central banks have recently kept their feet firmly on the ground. In Switzerland, the key interest rate now stands at 1.75%, in the USA it is in the range between 5.25 and 5.5% and in Europe the ECB's benchmark rate is 4.5%.

Although the central banks are not yet saying it openly, in view of these figures, interest rates have probably peaked. The question is how quickly will the central banks begin to lower rates again? "Higher for longer" is the new buzzword. The general consensus is that the first interest rate cuts will take place in the first half of next year.

Recovery in fixed-interest securities as well

Fixed-interest securities have benefited from the decline in inflation. Prices have risen and yields have fallen. In Switzerland, the 10-year government bond yield to maturity is currently 0.7%. It has therefore more than halved compared to its peak in March. In the USA, yields have fallen from 5% in October to 3.88%, and in the Eurozone from 2.96% to 2.02% (see also the table "Yields on ten-year government bonds have fallen almost everywhere since the beginning of the year").

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

	Real GDP Growth		Core-Inflation	
	2023	2024	2023	2024
China	5.2%	4.5%	0.4%	1.4%
Germany	-0.2%	0.3%	6.1%	2.7%
EU	0.5%	0.9%	6.2%	2.8%
United Kingdom	0.5%	0.3%	7.4%	3.0%
Japan	1.9%	0.8%	3.2%	2.3%
Switzerland	0.8%	1.1%	2.2%	1.5%
USA	2.4%	1.2%	4.1%	2.7%

In contrast to securities, commodities saw a mixed performance. Gold, along with coffee and orange juice, is one of the few positive exceptions and is trading 12% higher in US Dollars than at the beginning of the year.

Here too, investors' enthusiasm is based on the expectation of falling interest rates, which make the non-yielding precious metal more attractive than interest or dividend-bearing forms of investment. Needless to say, defence against the unforeseen also plays a role with gold. Furthermore, there is the unease in the face of the increasing mountains of debt almost everywhere and the associated devaluation risks of paper currencies.

One interesting aspect is the movement of crude oil. After hopes of an economic upturn in China evaporated in the spring, the price of Black Gold fell to between 70 and 75 US Dollars, only to rise again towards 95 US Dollars. The Hamas attack on Israel and the subsequent war in the Gaza Strip, however, only caused a brief spike in the oil price. As the feared escalation has so far failed to materialise, the price has once again aligned itself with the sluggish global economic situation and has fallen to around 77 US Dollars.

Other funds employed by us performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	8.0%
Acatis IfK Value Renten Fond (€)	10.1%
Amundi ETF Euro Corp. Bond Fund (€)	7.1%
BCV Liquid Alternative Beta Fund (CHF hedged)	0.9%
BCV Liquid Alternative Beta Fund (Euro hedged)	2.7%
BCV Liquid Alternative Beta Fund (USD)	5.1%
Pictet CH-CHF Bond Fund	7.2%
Plenum European Insurance Bond Fund (CHF hedged)	6.7%
Plenum European Insurance Bond Fund (€)	9.0%

Performance incl. re-invested dividends where applicable.

Economic outlook remains mixed

The outlook for the economic developments is anything but clear. Many observers in America continue to expect a "soft landing", i.e. a scenario in which the Fed's interest rate regime pushes the growth rate of gross domestic product towards, but not below, zero. This increasingly appears to be the most likely scenario.

In the EU, the economy is more or less stagnating. Growth of 0.5% is expected for 2023 and 0.9% for 2024. If the labour market deteriorates, there is even a risk of recession for the Eurozone. The economy will probably not pick up until inflation rates fall still further and the central banks cut interest rates. This will take a little more time.

Things look more positive for the emerging economies. Looking at the BRIC countries, we see falling unemployment over twelve months, a positive business climate, expansionary monetary policy and higher growth.

According to the International Monetary Fund (IMF), global growth will slow to 3% in 2023 (2022: 3.5%) and 2.9% in 2024. These growth forecasts are well below the historical average (2000-2019) of 3.8%. The difference between the rate of growth in the developed economies (2022: 2.6%, 2023: 1.5%, and 2024: 1.4%) and the emerging economies (2022: 4.1%, 2023 and 2024: 4%) is striking. The latter are forecast to see only a slight decline in growth since 2022.

The majority of global purchasing managers' indices (PMIs) for industry are in the red, which implies shrinking activity. Nevertheless, the downward trend has recently slowed or even reversed slightly. The global PMI stands at 49.3 points and is therefore slightly higher than in the previous month. However, only China (50.7), Mexico (52.5), India (56) and South Korea (50) are in positive territory, i.e. at or above 50 points. The basement dwellers Switzerland (!) and Germany were able to recover slightly from their very low values of around 40 into the 42 range. Dynamism definitely looks different.

The political outlook leaves little room for enthusiasm. A deadlocked war in Ukraine, which threatens to go against Ukraine due to indecision and war-weariness in the European capitals and in Washington, a brutal campaign with many civilian casualties in the Gaza Strip and growing populism and autocracies around the world are darkening the horizon. The US election year is already casting its long shadow. Here, too, the prospect of a possible race between Joe Biden and Donald Trump is not really inspiring.

Neutral weightings prudent

The valuations of equities, for example, based on price/earnings ratios, are close to their long-term averages (Switzerland, USA) or slightly below (Europe, World). In view of our roughly neutral equity weighting and almost neutral bond allocation, we believe that we are correctly positioned for the current uncertainty with the possibility of an 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

There was no active change here. Where possible, we also invest in call and fixed-term deposits, which generate at least a small return.

Bonds

We see positive arguments in favour of bonds once again. Initially in US Dollars and recently also in Swiss Francs and Euros, we have slightly increased our holdings as well as the durations (weighted residual terms). The yield curves up to 10 years remain inverted.

Equities Switzerland

The Swiss Performance Index (SPI) rose by 1.4% over the last three months, thereby achieving an annual performance of 6.1%. Our stock selection based on value criteria, the "Swiss Stock Portfolio" (SSP), achieved an overall performance (price changes plus dividends) of 8% for the year and thus generated a pleasing result.

Yields on ten-year government bonds
have fallen almost everywhere since the beginning of the year:

	Dec. 2022	Dec. 2023	Change
Europe	2.57%	2.02%	-21%
United Kingdom	3.67%	3.54%	-4%
Japan	0.42%	0.61%	45%
Switzerland	1.62%	0.70%	-57%
USA	3.88%	3.88%	0%

Living wealth.

Trust is paramount in asset management.

Sonova (+26%), UBS (+15%) and Holcim (+12%) performed particularly well in the SSP in the past quarter. Lonza (-17%), Leonteq and Helvetia Versicherungen brought up the rear, each with a discount of around 10%.

The performance of the SSP is very good over the long term. Since 2012, the average annual performance has been 11.1%, significantly outperforming the median benchmark performance of 8.7%. Since 2012, this strategy has achieved a cumulative total performance of around 253%, compared with 173% for the index. 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 currently have a roughly neutral weighting.

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

	Dec. 2022	Dec. 2023	Change
SPI Index	17.7	19.6	10.7%
DJ STOXX 600 Index	14.6	13.7	-6.2%
MSCI AC Asia ex Japan	12.3	16.6	35.0%
MSCI Japan	13.5	16.5	22.2%
MSCI USA	18.9	23.7	25.4%
MSCI AC World Index	16.7	20.2	21.0%

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

Equities Europe
Despite major challenges, the performance of European equities was positive. In the fourth quarter alone, the DJ Stoxx 600 benchmark index posted an overall performance (price gains plus dividends) of 6.7% in Euro terms. This resulted in an increase of 15.8% for the year. Our direct investment selection, the "Europe Stock Portfolio" (ESP), returned 3.2% in the last three-month period of the year, resulting in an overall performance of 13.5% for 2023.

Barratt Developments (+27.5%), IG Group (+19%) and DHL Group (+16.4%) were among the best performers in our selection in the last quarter. The figures are shown in the respective local currencies. The worst performers were Sanofi (-11.5%), Ipsen and Repsol, which fell by around 13% each.

The long-term performance of the ESP since 2004 shows an average annual return of 7.05%, compared with 6.63% for the benchmark. The portfolio has thus accumulated a total of 290% since 2004, compared with 261% for the cumulative index performance. Moreover, transaction costs and withholding taxes have been deducted from the figures for the ESP, whereas the benchmark index is calculated without costs. We are slightly underweighted in European dividend stocks. The performance of the SSP and ESP can also be tracked at any time on our website www.salmann.com in the "Investment strategies" section.

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

	Price / Book	Div. Yield
SPI Index	3.6	3.0%
DJ STOXX 600 Index	1.8	3.3%
MSCI AC Asia ex Japan	1.5	2.5%
MSCI Japan	1.4	2.2%
MSCI USA	4.6	1.5%
MSCI AC World Index	3.1	2.0%

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

Equities USA
The US stock market had an impressive run. For example, the Nasdaq 100 Index rose by an impressive 54% in US Dollar terms, while the broader S&P 500 Index rose by around 24%. However, it should be noted that this development is primarily a product of the soaring performance of the "Glorious Seven", which are: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

Without these Big Caps, which represent around 28% of the index, and have gone through the roof as a result of the hype surrounding artificial intelligence amongst other things, the performance of this market would be more likely to be closer to that of Swiss equities. We made no changes to US equities in the past quarter and remain slightly overweight.

Equities Asia (without Japan)
In the Asian equities segment, we sold the remaining shares in the Aberdeen Asia Pacific Fund and invested the funds released in the Galileo Vietnam Fund. The background to this transaction is our earlier decision to refrain from investing in equities in China for the time being due to political risk considerations. Aberdeen is invested in China with around a quarter of the fund's assets. In addition, Vietnam is in a very dynamic state with equity valuations that remain moderate.

Equities Japan
Another sale relates to the GAM Japan Equity Fund. This fund has recently suffered from capital

outflows. As a result, the assets under management have fallen below what we consider to be a sensible level. In the Land of the Rising Sun, we have now invested in the Alma Eikoh Japan Large Cap Equity Fund, in which we have found a good alternative.

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.

Alternative Investments
We have not made any changes to the portfolios and remain underweighted in alternative investments.

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

News from us

In the fourth quarter, we welcomed two new Relationship Managers to our team. One of these is Mr **Sebastian Schredt,** CFA, M.A. HSG. Before joining Salmann, Sebastian gained experience in corporate transactions at a global consulting firm and as an investment associate at a private equity fund in Zurich. He also completed an internship at Salmann after completing his studies. Sebastian Schredt is a CFA-charterholder and completed a Master's degree specialising in accounting and finance at the University of St. Gallen, as well as a semester abroad at the City University of Hong Kong.

The other new member is **Ivan Melay,** MSc, CFA. After graduating from the University of Liechtenstein with a degree in Entrepreneurship, he worked for over twelve years as a private banker in a medium-sized financial institution in Liechtenstein, most recently as team leader for Central Europe. He specialises in advising private clients and SMEs in the fields of wealth management, financial planning, financing and succession planning. Ivan Melay is a CFA-charterholder.

Both Mr Schredt and Mr Melay are also members of the Investment Committee. We would like to extend a warm welcome to our new colleagues and wish them every success and great satisfaction in their new posts.

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

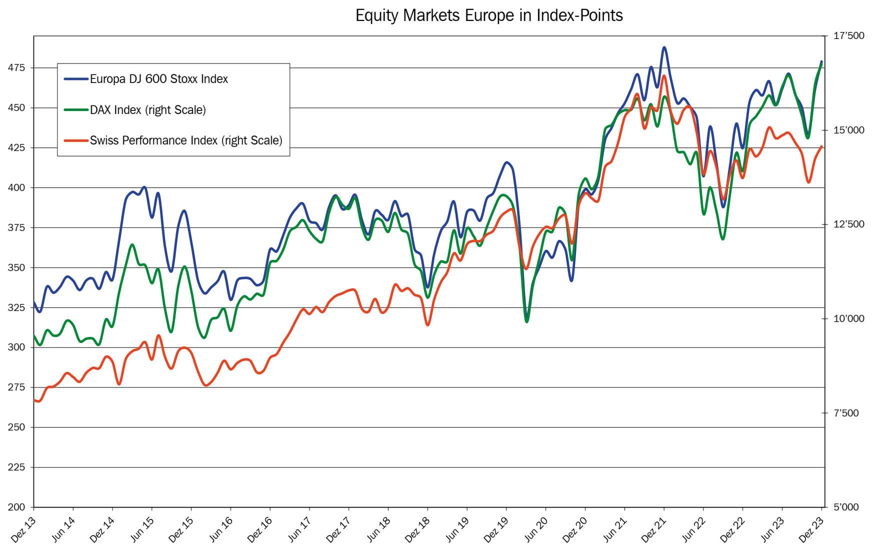
	Dec. 2022	Dec. 2023	Change
CHF / Euro	0.9896	0.9289	-6.1%
CHF / USD	0.9245	0.8414	-9.0%
Euro / USD	0.9341	0.9059	-3.0%
Yen / USD	131.12	141.04	7.6%

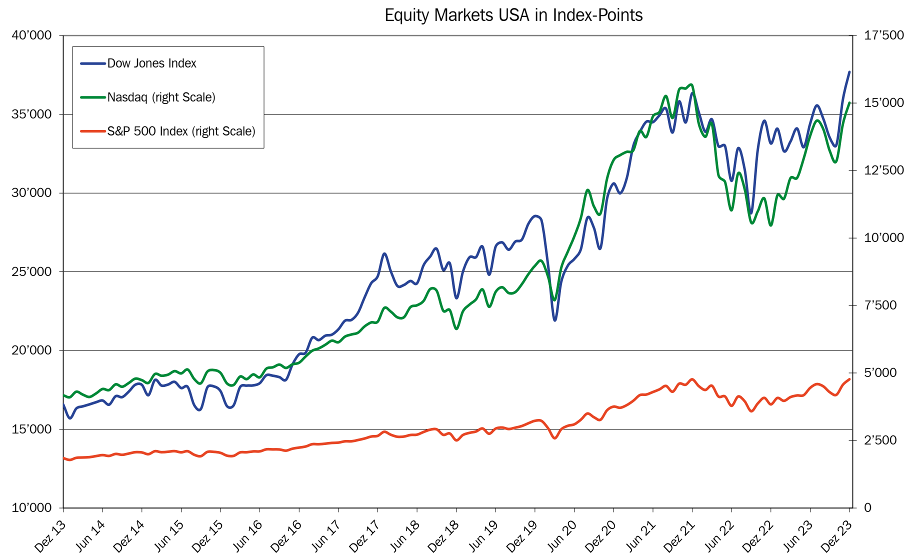
Source: Bloomberg.

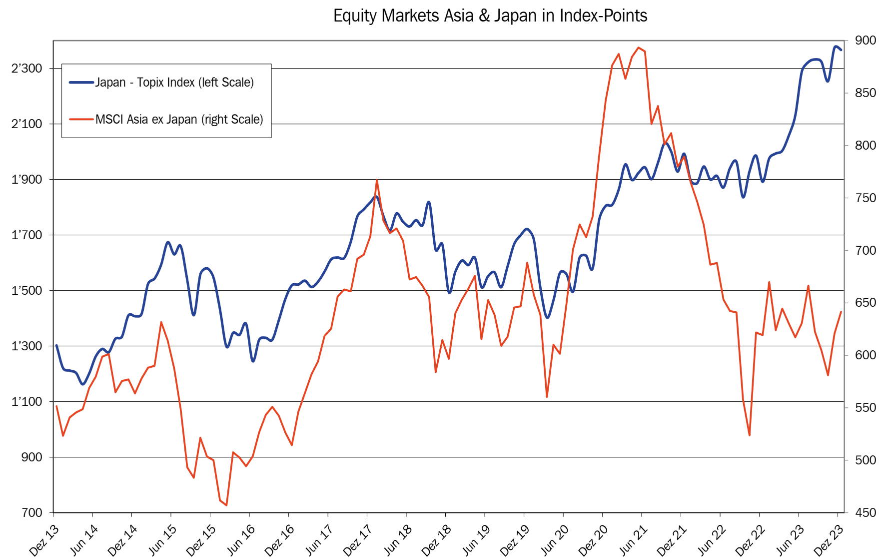
Appreciating values.

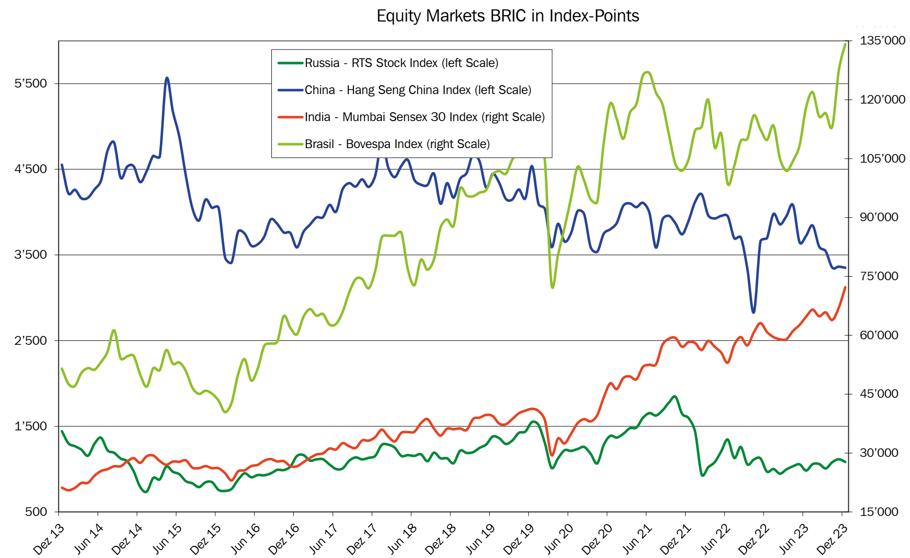
Continuity is one of our strengths.

Equity Markets at a glance

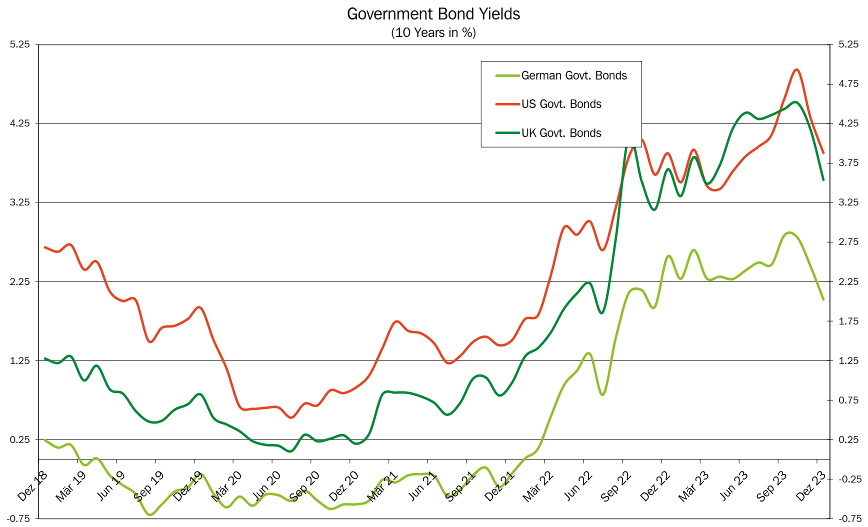


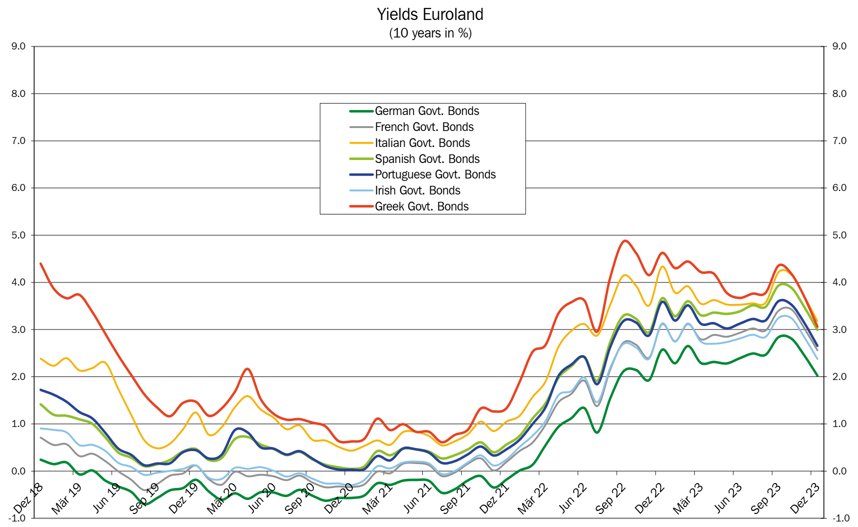


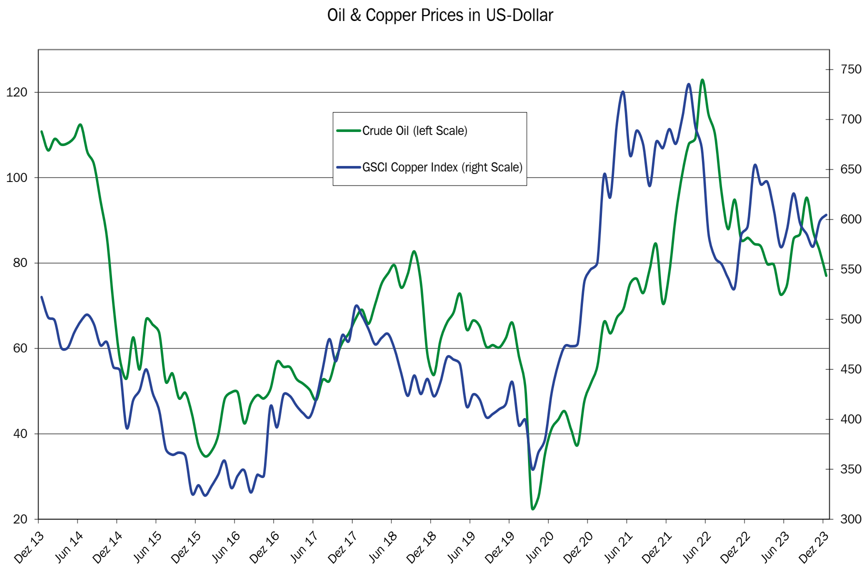


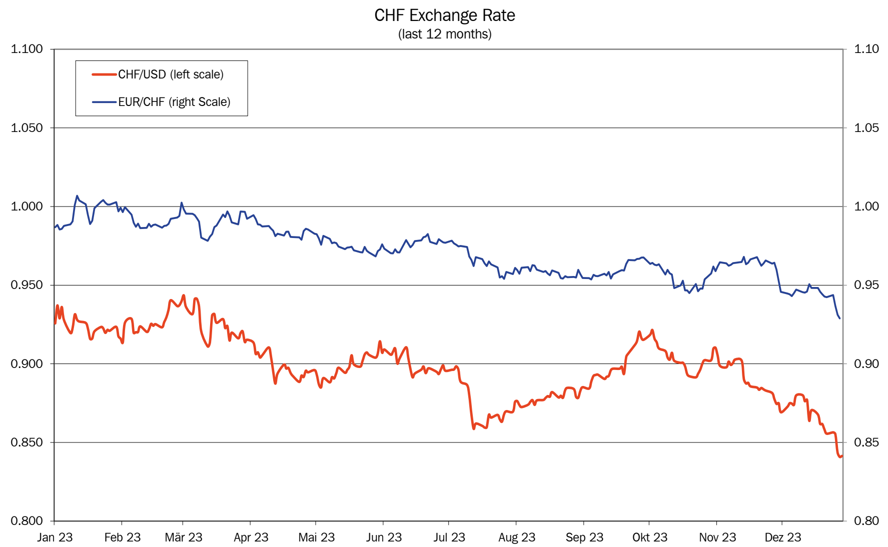


Bond yields and other indicators









Notes

Closing words

We would like to thank you for the trust you have placed in us and wish you all the best for a happy, healthy and successful New Year.

Alfred Ernst
Director, Relationship Manager

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