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A Bittersweet End to the Year

Investment Report – 31st December 2024

A Bittersweet End to the Year

After a timid October, the Republican victory in the US presidential election boosted the US stock markets over the last two months. In particular, the large technology companies benefited from the prospect of the advantages of Trump's economic policy and the interest rate cuts by the central banks. In contrast, the European and Asian financial markets concluded the year on a more muted performance, with some of them posting negative quarterly results.

The election of Donald Trump as the 47th President of the United States is often referred to as the "comeback of the year." The result was astounding, not only because of the win itself, but also because of the way it was achieved. The close race with his Democratic opponent, Kamala Harris, which had long been predicted in the polls, turned into a showdown for the resilient Republican. In the end, his party also won a majority in both chambers of parliament. The "red sweep" will facilitate the governance process for Trump. Even before his inauguration on 20 January 2025, Trump's announcements have had a significant impact on the political and business sectors. Notably, the potential introduction of tariffs on imports from China, Canada and Mexico has generated considerable attention. Trump's plans to reduce taxes, streamline the state administration and pursue deregulation have garnered widespread support and are intended to make America great again. The US stock markets responded euphorically to the election victory and embarked on a respectable year-end rally.

The geopolitical picture is somewhat different in Europe, where the Ukraine war, which will soon be ongoing for three years, and domestic political problems in France and Germany are fuelling uncertainty and hindering sustainable economic growth. The war fronts remain static, and the outcome remains uncertain. In Paris, historic events took place with the deselection of Prime Minister Michel Barnier and in Germany, the dismissal of Finance Minister Christian Lindner led to new elections being called in February. This political confusion is weighing on investor sentiment in Europe, contributing to a lag in share prices on our continent despite low valuations.

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

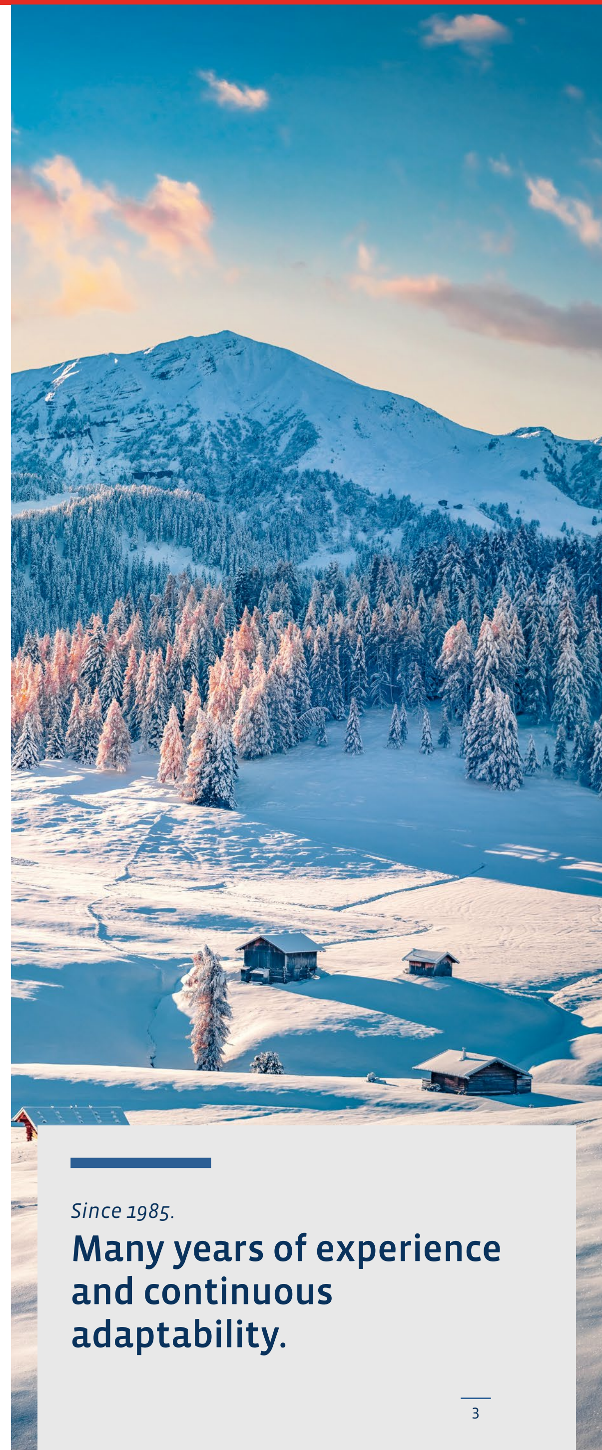
		Dec. 2023	Dec. 2024	Change
Asia ex Japan	MSCI AC Asia ex Japan	516.6	578.4	12.0 %
Europe	DJ STOXX 600	1'136.9	1'236.8	8.8 %
Japan	MSCI Japan	3'116.3	3'762.6	20.7 %
Switzerland	SPI	14'571.2	15'472.3	6.2 %
USA	MSCI USA	13'488.7	16'804.3	24.6 %
World	MSCI World	9'885.5	11'731.2	18.7 %
Hedge Funds	CS Hedge Fund Index*	777.2	853.9	9.9 %

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.

Market review 4th quarter 2024

American shares from the technology sector were favoured in the final quarter. The Nasdaq Composite Index rose by 7.3% during this period. It is striking that the European stock markets recorded negative price trends despite low valuations. The Swiss Performance Index (SPI) is down 4.7%, the Stoxx 600 Europe 3.2% and the French CAC40 4.1% since the end of September. The emerging stock markets in India (Nifty 50 -8.2%) and Korea (Kospi -7.4%) are also on the losing side for once. By contrast, the German stock market barometer DAX (+3.0%) and the Italian stock market (FTSE MIB +1.1%) recorded positive price trends. Despite this mixed performance in the fourth quarter, the 2024 equity year can be described as a successful one overall.

The last few weeks of the year were characterised by the strength of the USD. The Swiss franc (-7.5%) and the euro (-7.7%) weakened against the greenback. However, the CHF remained robust against the other major currencies despite low key interest rates (see table "Selected exchange rates have developed as follows since the beginning of the year").



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

CS Index Fund Equity Switzerland Large Caps (CHF)	7.3 %
GAM Swiss Sustainable Companies Fund (CHF)	-4.5 %
iShares Core SPI ETF (CHF)	6.1 %
iShares Stoxx Europe 600 ETF (EUR)	8.4 %
iShares Core Euro Stoxx 50 (EUR)	10.9 %
Performa European Equities (EUR)	5.5 %
BB Adamant Medtech & Services Fund (CHF)	17.2 %
BB Adamant Medtech & Services Fund (EUR)	16.1 %
BB Adamant Medtech & Services Fund (USD)	8.8 %
Performa US Equities (USD)	26.7 %
Alma Eikoh Capital Japan (CHF)	18.9 %
Alma Eikoh Capital Japan (EUR)	21.7 %
Barings ASEAN Frontiers Equities (USD)	10.6 %
Franklin Templeton FTSE India ETF (USD)	10.6 %
Galileo Vietnam Fund (USD)	6.6 %

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

Low bond yields in Swiss francs

Most central banks have lowered their key interest rates in response to falling inflation. Key interest rates are in the target range of 4.25% – 4.50% for the USD, 3.15% for the EUR, 0.25% for the JPY, 4.75% for the pound and 0.5% for the CHF.

In particular, the Swiss National Bank and the European Central Bank have decreased interest rates. In Switzerland, the term "negative interest rates" is already being bandied about again. By contrast, US Federal Reserve Chairman, Jerome Powell, has so far been reluctant to cut interest rates. The market currently expects only two small interest rate cuts in the US in 2025.

Despite a general decline in key interest rates, the prices and yields on fixed-interest securities developed differently. In the US and Europe, the decline in interest rates was less pronounced than expected and even led to an increase in yields. In Switzerland, the yield to maturity on 10-year government bonds was 0.33% in December; in the US, an investor would receive a yield of 4.57% for the same maturity, 4.57% for UK gilts and 2.37% for 10-year bonds in the eurozone.

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

	Dec. 2023	Dec. 2024	Change
Euro / CHF	0.9289	0.93955	1.1 %
USD / CHF	0.8414	0.9078	7.9 %
GBP / CHF	1.0716	1.1364	6.0 %
CHF / Yen	167.6520	173.374	3.4 %
USD / EUR	0.9059	0.9663	6.7 %
USD / Yen	141.0400	157.37	11.6 %

Source: Bloomberg.

Precious metals and other commodities

After peaking in September, the gold price (USD/oz) has taken a breather in recent weeks (Q4: -1.3%). The stronger USD and the slower than expected decline in US interest rates are the reasons for the pause.

The prices of the main industrial metals (e.g. aluminium, copper, nickel and lead), as measured by the S&P GSCI Industrial Metals Index (USD), fell by 6.3%.

The oil price (WTI grade) fluctuated between USD 65 and USD 77 during the fourth quarter, with only a marginal price shift since the end of September despite the approaching heating season. Chinese efforts to stimulate the economy have supported the oil price, but supply continues to outweigh demand. In line with Trump's "drill, baby, drill" election slogan, future US energy policy is expected to further increase supply in 2025, and the oil price is likely to fall in the coming months.

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

	Dec. 2023	Dec. 2024	Change
Switzerland	0.70 %	0.33 %	-0.38 %
Germany	2.02 %	2.37 %	0.34 %
United Kingdom	3.54 %	4.57 %	1.03 %
USA	3.88 %	4.57 %	0.69 %
Japan	0.61 %	1.10 %	0.49 %

The economic data do not paint a uniform picture

Inflation continues to fall, but remains stubbornly above the 2% target in most economies. Inflation (CPI) was last measured at 2.9% in the US and 2.5% in the eurozone. Fortunately, CPI rates in individual EU countries are close to this average. The inflation rate in Switzerland is currently very low at 1.1%. Economists expect inflation rates to continue to fall in the coming year (see table "Average growth and inflation forecasts").

Despite the inflationary environment and high key interest rates, there was no widespread recession. Robust consumption, reflected in the mostly positive purchasing managers' indices for the services sector (services PMIs), provided decisive support for global demand. By contrast, the purchasing managers' sentiment barometer for industry (PMIs) remain below the 50 mark globally, indicating pessimism. In the US and the eurozone, the inversion of the yield curve, which was seen as a sign of an impending recession, has disappeared.

However, GDP growth forecasts for 2025 remain modest worldwide. The highest growth rates are expected in Asia. All in all, the results are mixed, making it difficult to give a clear forecast for 2025.

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

	Real GDP Growth		Core-Inflation	
	2024	2025	2024	2025
China	4.8%	4.5%	0.4%	0.9%
Germany	-0.1%	0.4%	2.5%	2.1%
EU	0.9%	1.3%	2.5%	2.2%
United Kingdom	0.9%	1.4%	2.5%	2.5%
Japan	-0.2%	1.2%	2.6%	2.1%
Switzerland	1.3%	1.3%	1.1%	0.7%
USA	2.7%	2.1%	2.9%	2.5%

Our asset allocation: equities

Following the conclusion that the Republicans would win the presidency and a majority in both chambers of parliament, we decided at an extraordinary investment committee meeting at the beginning of November to further increase our overweight position in the US equity market, at the expense of liquidity in the corresponding reference currencies.

At our most recent Investment Committee meeting, the following asset allocation of a balanced Swiss franc portfolio with a medium risk level, without client restrictions, was agreed. It should be noted that mandates in other reference currencies may have different changes and weightings. Should you wish to inquire about these, please feel free to contact your client advisor.

Money market
We have reduced the overweight of liquidity in our balanced portfolios. This has been achieved in connection with the increase in the equity allocation and the purchase of the Plenum European Insurance Bond Fund. We are now fully invested.

Bonds
The yield advantage of USD bonds over their CHF counterparts widened during the period under review because of the stronger interest rate cuts by the SNB. We are retaining a 4% allocation to USD bonds as part of the asset allocation and due to the appreciation of the USD, investors with CHF as their reference currency also benefit from currency gains. As an admixture and to increase returns, our strategy involves focusing on two distinctive funds within this asset class, which have delivered convincing returns since the beginning of the year (see also Table 4 "Other funds we use").

Other funds employed by us
performed as follows:

Pictet CHF Bonds Tracker (CHF)	4.8%
Acatis IfK Value Renten Fond (CHF hedged)	9.2%
Acatis IfK Value Renten Fond (EUR)	11.9%
Amundi ETF Euro Corp. Bond Fund (EUR)	4.4%
Plenum European Insurance Bond Fund (CHF hedged)	10.3%
Plenum European Insurance Bond Fund (EUR)	13.1%
AXA Wave Cat Bonds Fund (CHF hedged)	9.0%
AXA Wave Cat Bonds Fund (EUR hedged)	11.8%
AXA Wave Cat Bonds Fund (USD)	13.5%

Performance incl. re-invested dividends where applicable.

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Equities Switzerland

We remain slightly underweight in Swiss equities compared to our strategic focus. The Swiss Performance Index (SPI) lost 4.7% over the last three-month period. In the last quarter, we sold the shares of Swatch and Vetropack and used the proceeds to increase our holdings in Tecan, Richemont and Nestlé. Our stock selection based on value criteria, the "Swiss Stock Portfolio" (SSP), posted an overall performance (price changes plus dividends) of -4.6% in the third quarter and slightly outperformed its benchmark. Compared to the benchmark, we hold a larger weighting of Swiss equities from the small and mid-cap segment, which usually leads to deviations from the SPI.

Particularly strong performers in the SSP over the last quarter were Galderma (+28%), EFG (+16%) and Swissquote (+14%). The worst performers were Tecan (-24%), Barry Callebaut (-23%) and Zehnder (-18%).

Over the long term, the SSP has performed very well. Since 2012, its average annual performance has been 9.74%, significantly outperforming the average benchmark performance of 7.89%. Since 2012, our strategy has generated a cumulative total performance of around 267%, compared with 190% for the index. Transaction costs are deducted from the SSP figures, while the benchmark index is calculated free of charge.

The **price/earnings ratios based** on the last known earnings for twelve months have developed differently:

	Dec. 2023	Dec. 2024	Change
SPI Index	19.8	20.0	0.8%
DJ STOXX 600 Index	13.4	14.7	9.5%
MSCI AC Asia ex Japan	16.5	14.8	-10.0%
MSCI Japan	16.5	15.5	-6.0%
MSCI USA	23.7	26.9	13.3%
MSCI World Index	20.2	22.0	8.8%

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

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

	Price/ Book	Div. Yield
SPI Index	3.5	3.0%
DJ STOXX 600 Index	2.0	3.4%
MSCI AC Asia ex Japan	1.7	2.3%
MSCI Japan	1.6	2.2%
MSCI USA	5.1	1.3%
MSCI AC World Index	3.5	1.7%

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

Equities Europe

Domestic political problems in Germany and France and years of over-regulation are putting pressure on European equity markets. In the fourth quarter the broad Stoxx 600 Europe NR fell by 3.2%, while the Euro Stoxx 50, which includes the 50 largest stocks from the EUR currency area, fell by 2.4%.

In our European stock selection, we sold shares in Orange, SEB, Deutsche Post and Volkswagen due to the uncertain situation in France and Germany. We made corresponding replacement investments in the shares of Moncler, HSBC, ASML (increase), Enel and Nestlé. Despite the tactical adjustments mentioned above, our European stock selection was unable to make up for the shortfall against the benchmark in the previous quarters. In the fourth quarter, the ESP lost 4.5% and underperformed its benchmark.

The best performing European stocks in the last quarter were Tenaris (+30%), Moncler (7%) and HSBC Holdings (+5%). At the bottom of the share price table were Capgemini (-19%), Novo Nordisk (-21%) and DSM-Firmenich (-21%). Figures are shown in the respective local currencies.

As a keen reader of our Investment Report, you will have noticed that there is no information on the long-term performance of the European Stock Portfolio (ESP).

Having reviewed our long-term European equity selection process, we have decided to make certain adjustments. The previous value-oriented approach focused on undervalued stocks and led to an overweight in small- and mid-capitalised companies relative to the benchmark. The new selection process expands the investment universe to include growth, quality and large-cap stocks and incorporates other qualitative factors and technical analyses into the five-stage process. More flexible rebalancing and the increased use of ETFs should enable us to respond quickly to market changes. The new approach will reduce our dependence on any particular investment style.

Equities US

In the fourth quarter, the rally in US equities continued with the tailwind of the US election result. We tactically increased our US equity selection by investing in two funds on the Nasdaq 100 and the Russell 2000 index. We believe that technology companies in the Nasdaq 100 and small and mid-cap US companies from the Russell 2000 Index will benefit more than average from Trump's policies.

Equities Asia (excluding Japan)
We have not made any changes to our investments in mainland Asia since our last report. In addition to our long-standing position in the equity fund Barings Asean Fund, which holds equities from emerging countries in Southeast Asia, we are invested in Indian and Vietnamese equities through two country funds. We are slightly overweight in this investment region.

Equities Japan
The Bank of Japan (BOJ) shocked investors with a small interest rate hike at the end of July. Since then, the BOJ has remained on hold and the Japanese equity market has continued its recovery. We believe a neutral weighting in Japanese equities is appropriate.

Alternative Investments
We are currently underrepresented in alternative investments compared to the strategic weighting and are only invested in the AXA Cat Bonds Fund. This fund invests in bonds that reinsure clearly defined natural catastrophe losses. Although some losses during the hurricane season had a slightly negative impact on the fund's return, the risks were very well compensated for by the attractive premiums. The fund closed the year with a positive return.

Summary of our current **Asset Allocation:**

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

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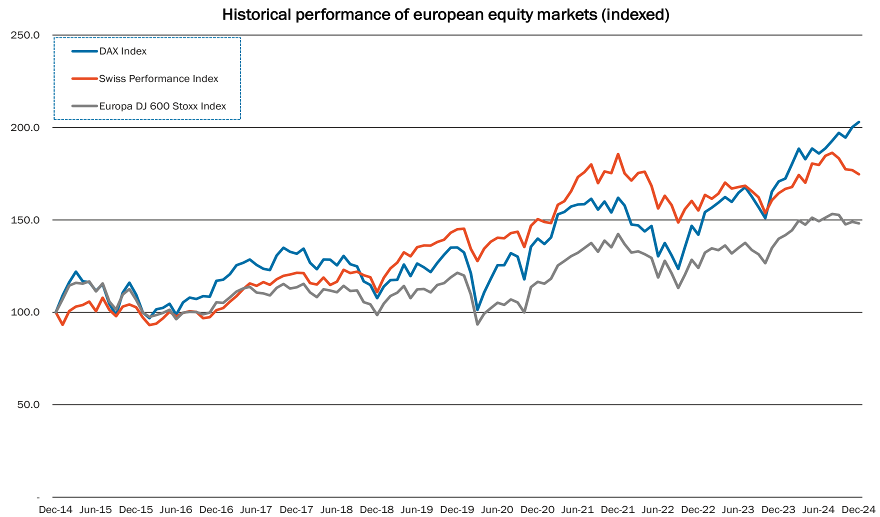
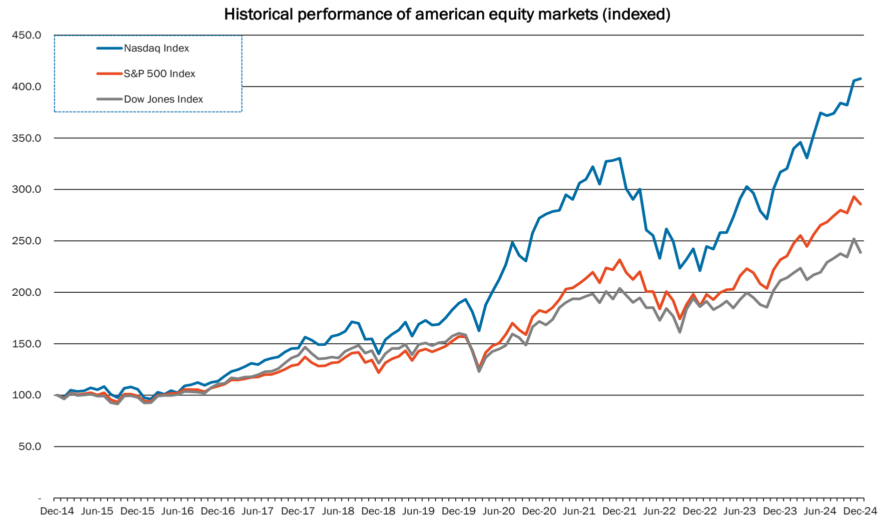
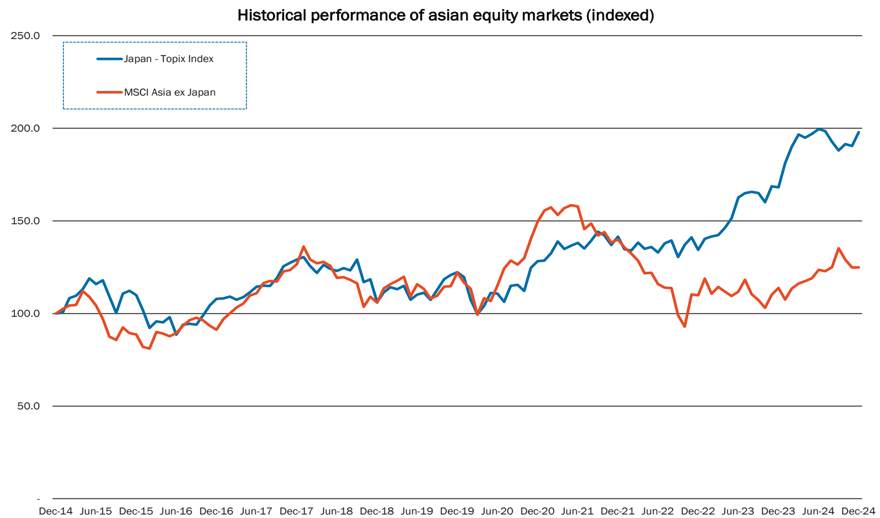
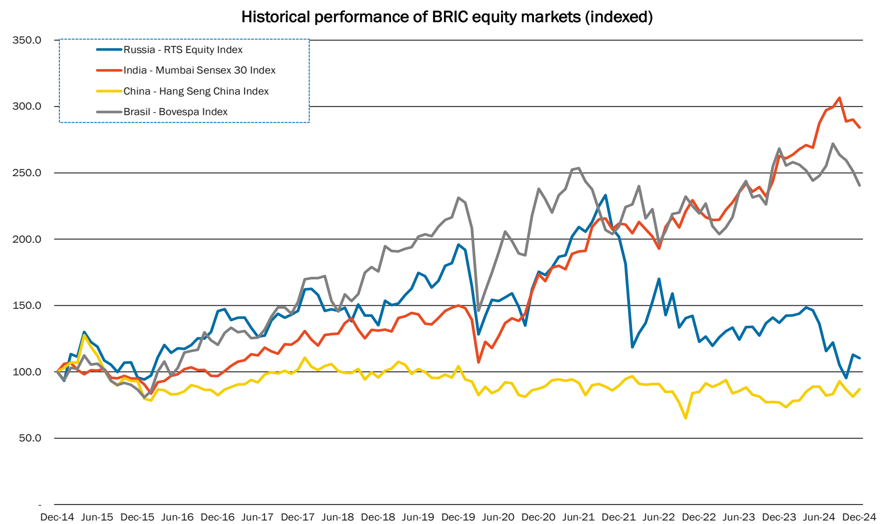
Equity Markets at a glance

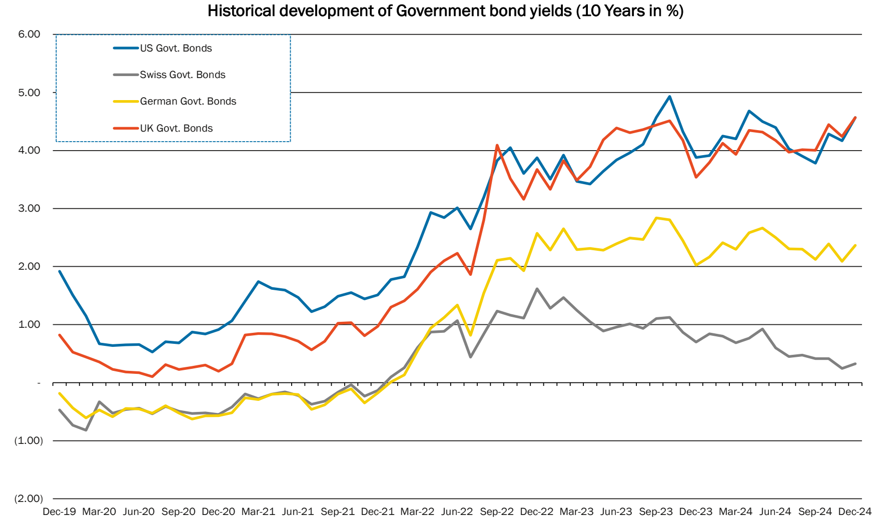


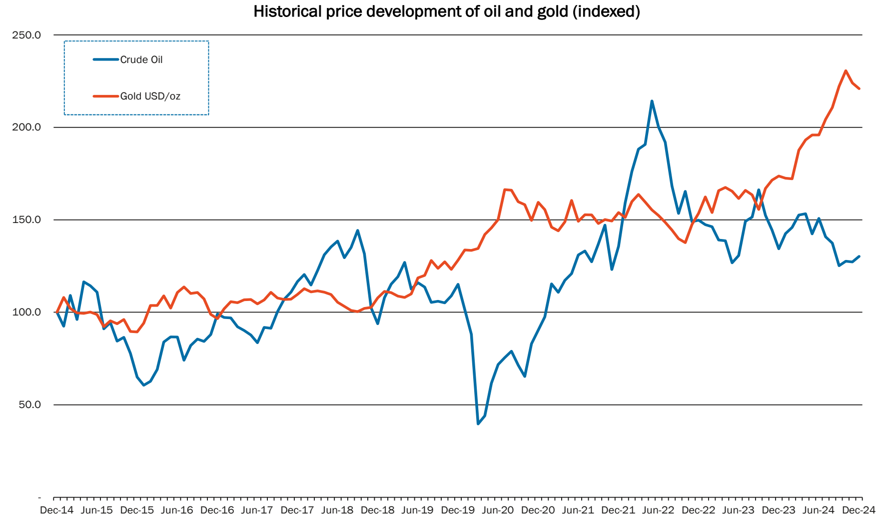


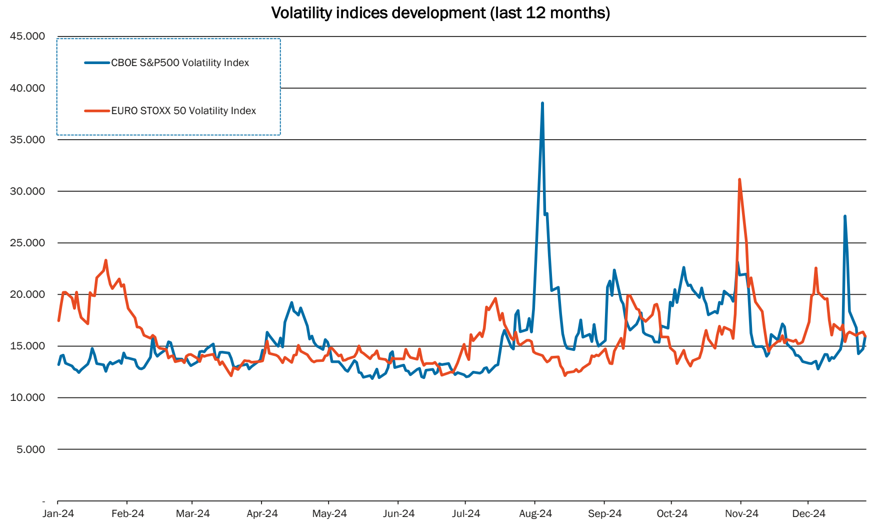


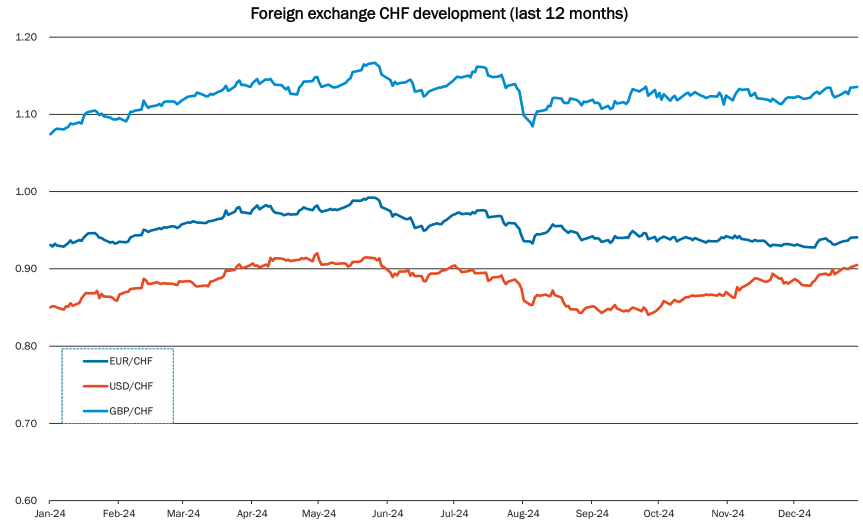


Bond yields and other indicators









Notes

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Closing words

We would like to thank you for your trust you have placed in us and for your interest in our investment commentary and wish you a healthy and happy New Year.

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