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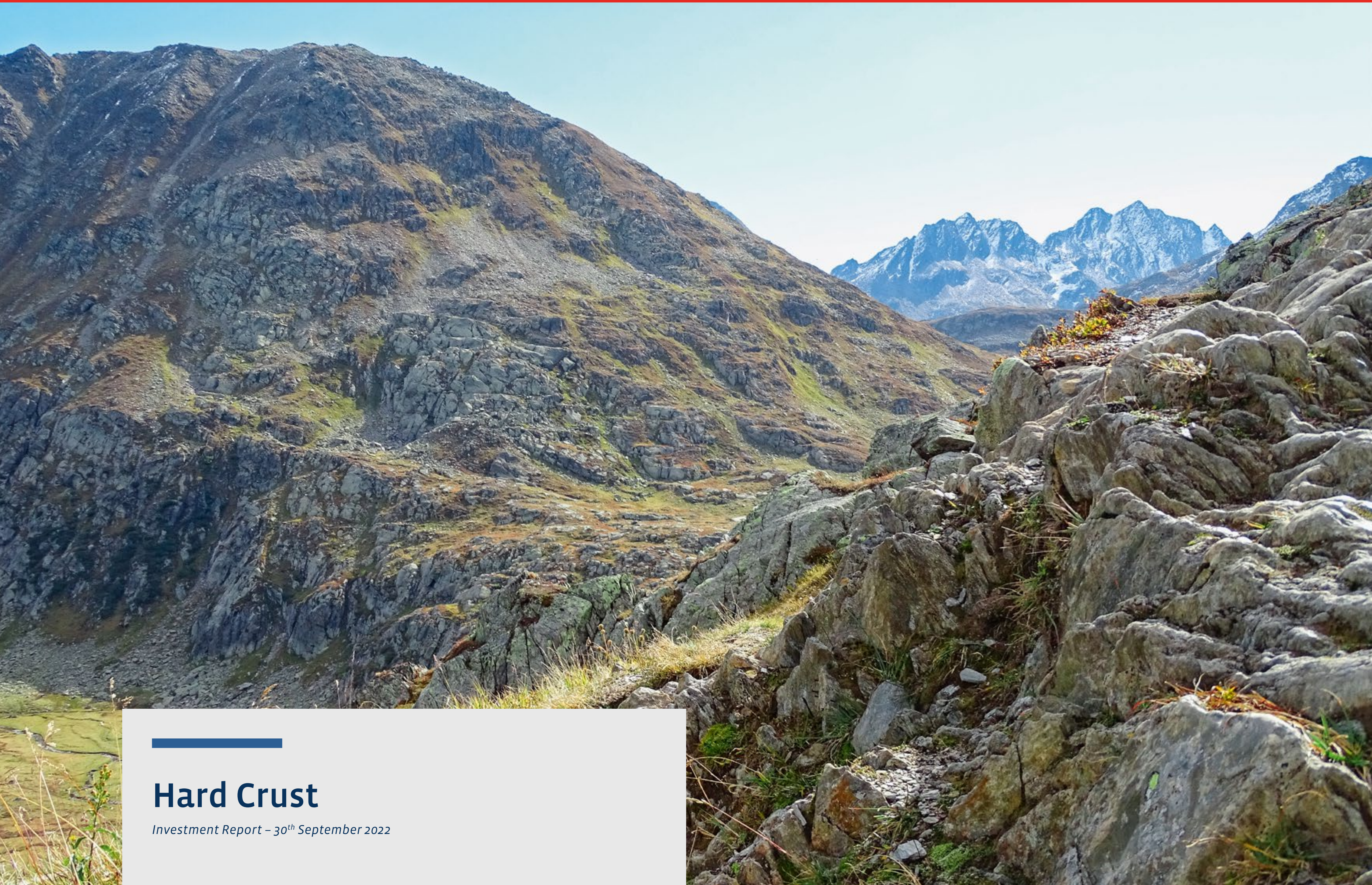

Hard Crust

Investment Report – 30th September 2022

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Hard Crust

Stocks, bonds, precious and industrial metals; in rare unanimity, they all headed in only one direction in the third quarter – downwards. The reasons for this were inflation, the belated reactions of the Central Banks, and as a result, a feared economic slowdown or recession and, last but not least, the war in Ukraine.

Central bank interest rate hikes were the order of the day in the third quarter. In September, the US Federal Reserve (Fed), the Swiss National Bank (SNB) and the British central bank all raised interest rates. This is the Fed's third hike of 0.75 percentage points, which means that the interest rate now stands in the range between 3 and 3.25 per cent. Analysts assume that the Fed will raise the Fed Funds rate still further, bringing it to 4% or higher by the end of the year.

However, there are also some who question the pace of interest rate hikes. Even before the last hike, Nobel Prize winner Joseph E. Stiglitz wrote in the online news service «The Pioneer» that the Fed would do well to defer further policy rate hikes until it is clearer how the economy and inflation evolve.

Strategists at Bank of America (BoA) also believe the Fed needs to slow the pace of rate hikes to prevent a dysfunction in the lending market. The BoA strategists recently wrote that important risk parameters had recently been above the highs of June and thus in critical territory.

In Switzerland, the SNB raised the policy rate by 0.75 percentage points to 0.5% and has hinted that further increments could follow if necessary. In the UK, the reference rate is now 2.25%. In the Eurozone, with inflation stubbornly high, a further increase is also expected during the course of October. This could push the main refinancing rate from 1.25% to 1.75% or 2%.

Bond yields sharply higher

Against the backdrop of currency devaluations of over 8% in the US and 10% in the Eurozone, and the tightening of reins that this has compelled, government and corporate bond yields have leapt upwards during the reporting period. The rise has been most pronounced in the UK, where the yield on ten-year Gilts has almost doubled in three months. In the United Kingdom, following the announcement of an aggressive government budget, the Bank of England even felt forced to intervene in the market to slow the fall of the pound and bond prices.

In Switzerland, and especially in Japan, bond yields have increased only slightly. However, everywhere the same applies; the interest rate increases have strongly depressed the prices of already existing securities. The performance of bonds, especially those with longer maturities, has therefore been as poor as that of equities this year, which is a highly unusual situation.

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

	Dec. 2021	Sept. 2022	Change
Europe	-0.18%	2.11%	1272%
United Kingdom	0.97%	4.09%	322%
Japan	0.07%	0.24%	243%
Switzerland	-0.14%	1.23%	979%
USA	1.51%	3.83%	154%

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Equities in reverse gear

Red was the dominant colour on the equities markets. The Swiss Performance Index (SPI), showing -19.9%, is not even the worst affected in the current year. Various stock exchanges such as the US technology exchange, NASDAQ, Stockholm and Vienna, are waiting in the wings with losses of 30 or more percent. The MSCI World Equity Index is down by around 25%.

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

		Dec. 2021	Sept. 2022	Change
Asia ex Japan	MSCI AC Asia ex Japan	606.8	437.8	-27.9%
Europe	DJ STOXX 600	1'098.7	893.8	-18.6%
Japan	MSCI Japan	2'538.1	2'348.5	-7.5%
Switzerland	SPI	16'444.5	13'166.4	-19.9%
USA	MSCI USA	13'304.0	9'968.1	-25.1%
World	MSCI AC World	9'755.7	7'275.4	-25.4%
Hedge Funds	HFRX Global HF	1'430.9	1'365.6	-4.6%

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

In fact, there are also a few, rather exotic markets that are up, even in Swiss Franc terms. These include Buenos Aires and Istanbul, where the first nine months of the year saw price advances of a quarter or more. However, these are stock exchanges that do not belong to our investment universe.

Commodity prices have experienced a roller-coaster ride. Since their peak earlier in the year, they have fallen sharply in some cases. This even applies to energy prices. Since the beginning of the year, however, there have been significant price increases in the energy sector and for agricultural goods.

The economy is slowing down everywhere. In the US, the strong financial health of the private sector and a robust financial sector make a recession unlikely in the near future. However, according to CS, US growth will slow dangerously close to zero, making it more vulnerable to fiscal and monetary policy missteps and external shocks.

Europe has even more problems. Here, the Central Bank failed to tighten monetary policy in time. Households and companies are struggling with higher energy prices, which encourages political activism.

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

	Real GDP Growth		Core-Inflation	
	2022	2023	2022	2023
China	3.4%	5.1%	2.3%	2.3%
Germany	1.5%	-0.2%	8.1%	5.4%
EU	3.1%	0.6%	8.5%	5.2%
United Kingdom	3.5%	-0.1%	9.1%	6.7%
Japan	1.6%	1.5%	2.1%	1.3%
Switzerland	2.3%	1.0%	2.9%	2.0%
USA	1.6%	0.9%	8.0%	3.8%

In general, the political situation is explosive. Ukraine's military advances make the situation in this war even more dangerous, as Putin could feel cornered by the retaking of Russian occupied territory. Statements and actions to this effect have already taken place by the Kremlin. Other political trouble spots such as China, Iran, Italy and soon probably the USA too, are keeping market participants constantly on their toes.

In any case, it is not surprising that the outlook for the economic performance of national economies has deteriorated further. For 2023, the forecasts for gross domestic product (GDP) compiled

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

Aberdeen Asia Pacific (USD)	-27.8%
Barings ASEAN Frontiers Equities (USD)	-21.3%
GAM Japan Stock Fund (CHF hedged)	-10.7%
GAM Japan Stock Fund (€ hedged)	-10.7%
Strategy Certificate SIM-Swiss Stock Portfolio Basket	-24.6%
iShares Core SPI ETF (CHF)	-21.5%
iShares Stoxx Europe 600 ETF (€)	-20.3%
Performa European Equities (€)	-11.6%
Performa US Equities (USD)	-35.0%
BB Adamant Medtech & Services Fund (CHF)	-20.1%
BB Adamant Medtech & Services Fund (€)	-14.2%
BB Adamant Medtech & Services Fund (USD)	-26.1%

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

by data providers, Bloomberg, have been downgraded in 24 of 26 countries since the beginning of July. The EU and the USA are expected to grow by a meagre 0.6 to 0.9%. In July, the forecast was still about one percentage point higher. With the exception of Russia, however, the forecasters do not expect GDP to fall noteworthy anywhere on an annual basis, either this year or next. This is becoming increasingly difficult to believe in view of the various individual indicators that are coming into play.

For example, the levels of consumer confidence in the Eurozone and in the UK have recently plummeted to record lows. Even less marked lows have always led to economic contraction in the past. The map of purchasing managers' indices (PMIs) also shows more shades of orange and red. Contraction is now indicated in about half of the countries observed.

These include the Eurozone, Germany, Italy, Spain and the UK. The signal lights are also on orange in China, South Korea and Taiwan. In contrast, the figures in Switzerland, the USA, Australia, Japan and India are still within the growth range.

Inflation is a worry almost everywhere. The inflation estimates for 2022 and 2023 have risen almost without exception since July, but they are below the current figures. For example, in 2023, inflation in the USA is expected to be 3.8% (currently 8%) and in the European Union 5.2% (currently 10%).

Conclusion: A glimmer of hope on the horizon

At the moment, the dominant message from the Central Banks is to stay the course, as they want to maintain the impression that they are fighting currency devaluation resolutely. From this perspective, the trend in short-term rates is likely to continue upwards. However, various inflation input factors are already on the decline. The inflation peak is probably close or maybe even already surpassed.

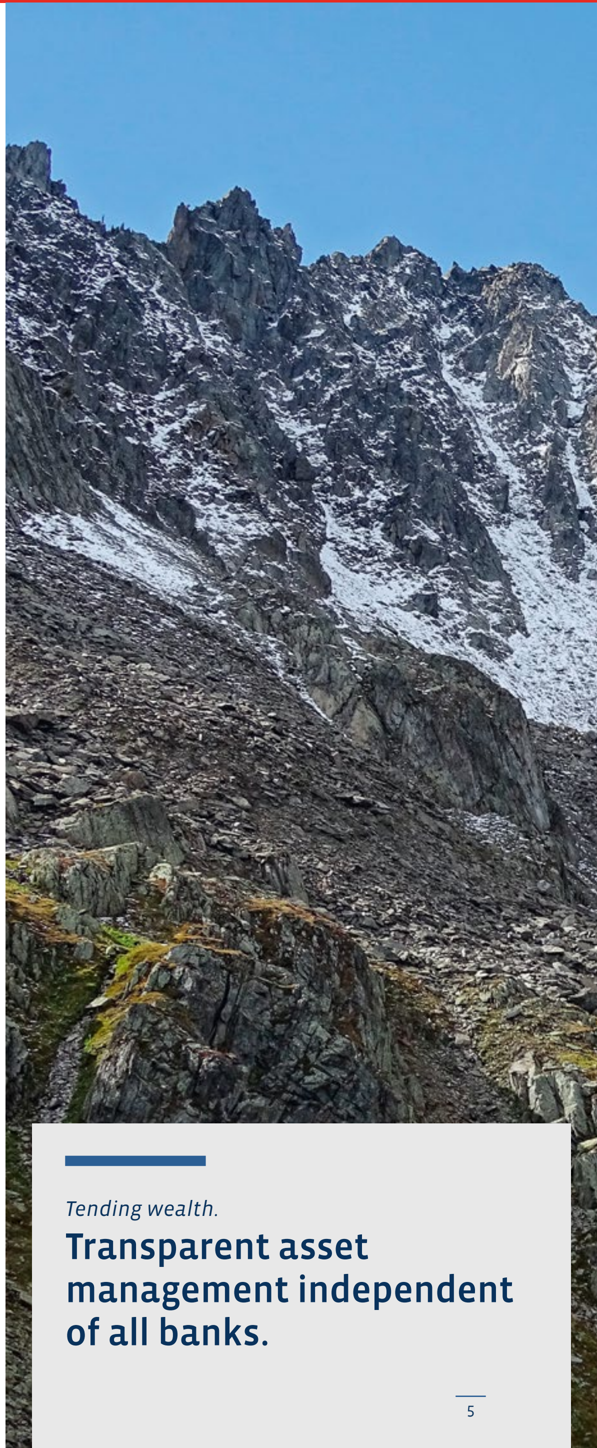
Moreover, it remains to be seen how far the Central Banks will stay on their course should the economy continue to cool down significantly and slide into a recession, with rising unemployment figures, company bankruptcies and other unpleasant accompanying consequences.

Companies are being confronted with many negative factors. Higher labour, materials and financing costs are facing slowing sales growth. Therefore, profits and margins are likely to have passed their zenith. This may not be fully priced in by the markets yet, as forecasts continue to trend upwards. In the US, for example, earnings per share of companies in the MSCI index are expected to be 11% higher in twelve months than currently estimated.

Other funds employed by us
performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-14.8 %
Acatis IfK Value Renten Fond (€)	-14.7 %
BCV Liquid Alternative Beta Fund (CHF hedged)	-9.1 %
BCV Liquid Alternative Beta Fund (Euro hedged)	-9.1 %
BCV Liquid Alternative Beta Fund (USD)	-7.7 %
Lyxor ETF Euro Corp. Bond Fund (€)	-14.7 %
Pictet CH-CHF Bond Fund	-11.9 %
Plenum European Insurance Bond Fund (CHF hedged)	-20.4 %
Plenum European Insurance Bond Fund (€)	-20.5 %
ZKB ETF Gold (USD)	-7.8 %

Performance incl. re-invested dividends where applicable.



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However, market psychology is in a sorry state. Seldom before have investors been in such a gloomy mood, as illustrated by the surveys of the data providers, Sentix, at the end of September. From the perspective of such a contrarian signal, however, the selling pressure should ease and a counter-movement could ensue.

As things stand today, we believe it is too late to sell stocks. The bottom may not have been reached everywhere yet, but experience teaches us that it is impossible to time the market. On the other hand, if you miss the (few) best days on the stock market, you miss out on the long-term high return potential of equities (see also Investment Report of 30 June 2022).

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

Due to the sale of the remaining gold position in July, the money market ratio increased again in the third quarter. Overall, we are now overweight in liquid assets.

Bonds

Finally, bonds that offer a positive interest rate worth mentioning can be found once again. This is good news for investors who want to make new investments or who are looking for successor investments for maturing securities. In US dollars, attractive buying opportunities could soon arise for slightly longer-term securities, whereas in Swiss Francs and Euros, the focus should still be on short durations, and thus maturities of no more than five years. We did not actively change our positions during the reporting period and continue to be underweighted in bonds

Equities Switzerland

Our value stock selection, the «Swiss Stock Portfolio» (SSP), had to concede some terrain compared to the benchmark SPI. This is also due to the fact that the index benefited from the relatively solid performance of its dominant heavyweights Nestlé, Novartis, Roche and Zurich Insurance.

The SSP, which also includes numerous medium-sized and smaller companies (mid and small caps) with the same weighting as the aforementioned Blue Chips, was more severely affected by the greater price erosion in the mid and small cap sector. Only Holcim, Siegfried and Tecan were able to end the quarter with price advances. The red lanterns went to Also, Sonova and Vetropack, where the interim results were below analysts' expectations or, in the case of Vetropack, the destruction of a plant in Ukraine had a direct impact on the company.

The **price/earnings ratios** based the latest 12 months profit figures, have become cheaper everywhere:

	Dec. 2021	Sept. 2022	Change
SPI Index	16.4	15.6	-4.9%
DJ STOXX 600 Index	20.8	13.5	-35.1%
MSCI AC Asia ex Japan	16.2	10.8	-33.3%
MSCI Japan	15.1	14.2	-6.0%
MSCI USA	27.1	18	-33.6%
MSCI AC World Index	23.2	15.4	-33.6%

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

Over the course of the year to date, the performance of the SSP is -23.5%. From a long-term perspective, the performance is more positive. Since 2012, the average annual performance amounts to 10.9%, clearly outperforming the average benchmark performance of 8.75%. Since 2012, this strategy has achieved a cumulative total performance of around 204%, compared to 146% for the Index. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

Equities Europe
The European stock selection, the «European Stock Portfolio» (ESP), was also unable to evade the poor stock market performance. It lost 4.7% in the quarter, which is 23% since the beginning of the year. The DJ Stoxx 600 Index is down 18.6% for the first nine months. Hannover Re, SSAB and IG Group were among the best performers last quarter, while UK property stocks Persimmon and Barratt Developments (interest rate rise, recession fears) were among the worst. Transaction costs and withholding taxes are deducted from the ESP figures, whereas the benchmark index is calculated without costs.

The long-term performance of ESP 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 7.2%, compared with 5.9% for the benchmark. The portfolio has thus accumulated 837%, whereas the cumulative index performance is 585%.

Equities USA
The positions are unchanged. Due to the high weighting of growth stocks, which react particularly sensitively to interest rate hikes, the Nasdaq Index in particular took a beating in the USA. But the broader market as a whole was also unable to evade the downward spiral.

Equities Asia (ex Japan)
The positions in Asian equities and thus the slight overweighting also remained unchanged.

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

	Price / Book	Div. Yield
SPI Index	2.3	3.1%
DJ STOXX 600 Index	1.6	3.7%
MSCI AC Asia ex Japan	1.2	3.0%
MSCI Japan	1.2	2.6%
MSCI USA	3.7	1.8%
MSCI AC World Index	2.5	2.4%

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

Equities Japan
Japan seems further away than ever. Although share prices also fell, they did not fall nearly as much as on other stock exchanges. In the third quarter, the most important stock indices even trended more or less sideways. In terms of inflation and interest rate hikes – both of which are hardly an issue in the Land of the Rising Sun – the Island Kingdom is also like a different planet. The weak yen, however, is not a cause for celebration, but thanks to the currency hedges it did not affect our (unchanged) positions.

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

	Dec. 2021	Sept. 2022	Change
CHF / Euro	1.0375	0.9674	-6.8%
CHF / USD	0.9129	0.987	8.1%
Euro / USD	0.8793	1.0202	16.0%
Yen / USD	115.08	144.74	25.8%

Source: Bloomberg.

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Alternative Investments
Hedge funds offer counter-cyclical (relative) hedges against equity market risk in general, as well as against specific risks from, for example, political crises. This year, they have again achieved a relative out-performance compared to the global equity and bond markets. The asset class remained unchanged in the third quarter.

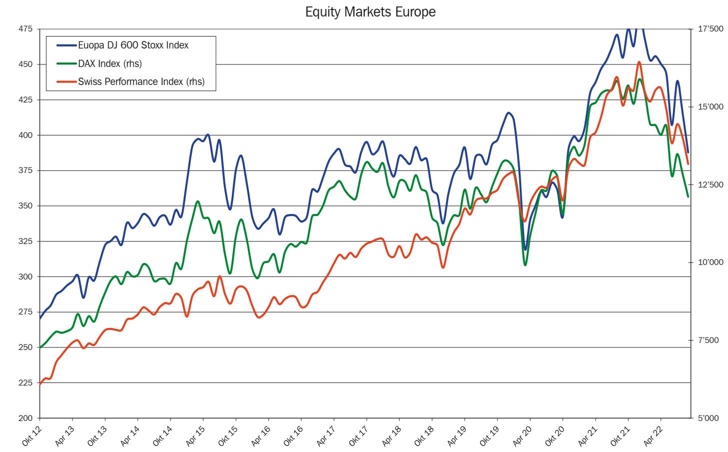
Precious Metals
Gold (and silver) seem to be losing their role as a hedge against inflation temporarily. This has to do with rising interest rates and the resulting increase in opportunity costs for precious metals. After we had already halved the gold positions in the second quarter, we also sold the rest at the beginning of July.

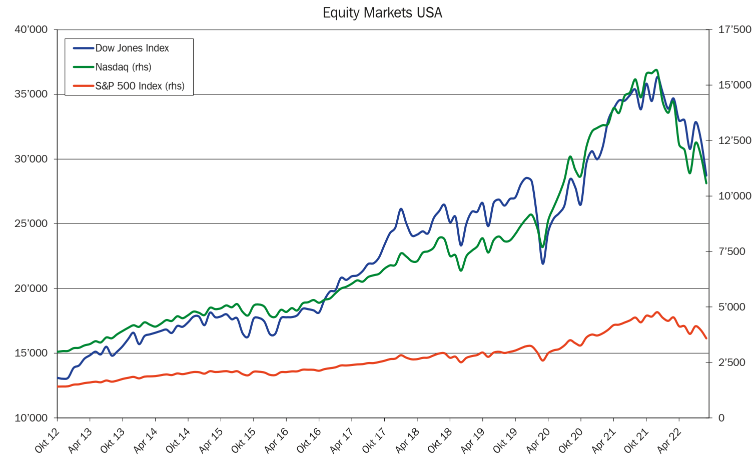
Summary of our **current Asset Allocation:**

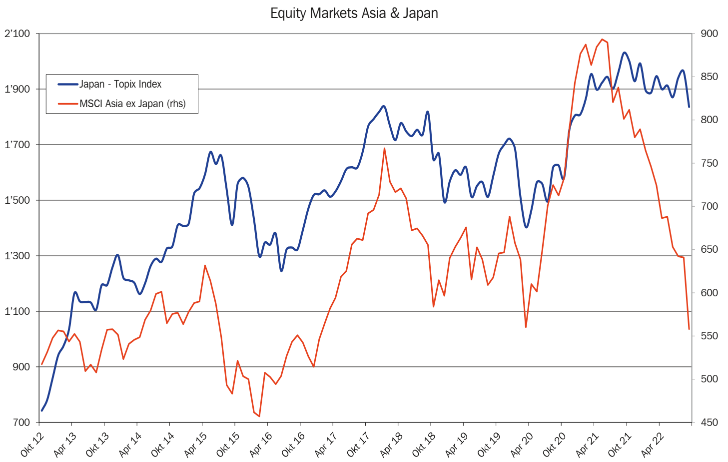
Asset class	
Money Market	overweight
Bonds	underweight/ short duration
Equities Switzerland	neutral
Equities Europe	slightly underweight
Equities USA	slightly overweight
Equities Asia	slightly overweight
Equities Japan	slightly overweight
Precious Metals	no position
Alternative Investments	underweight

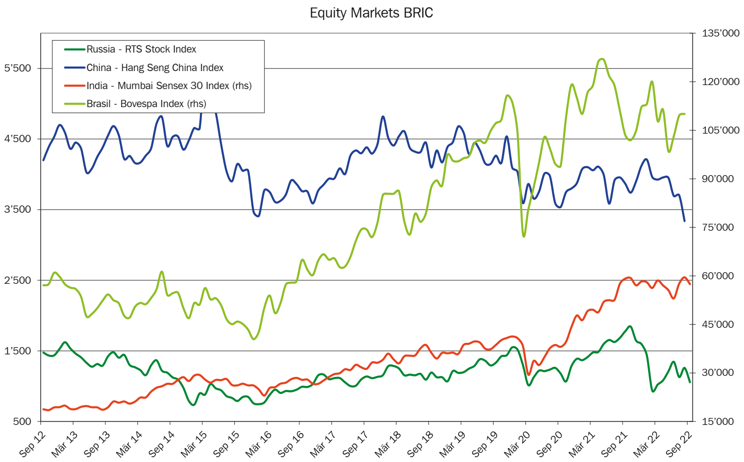
For a Swiss Franc referenced portfolio.

Equity Markets at a glance

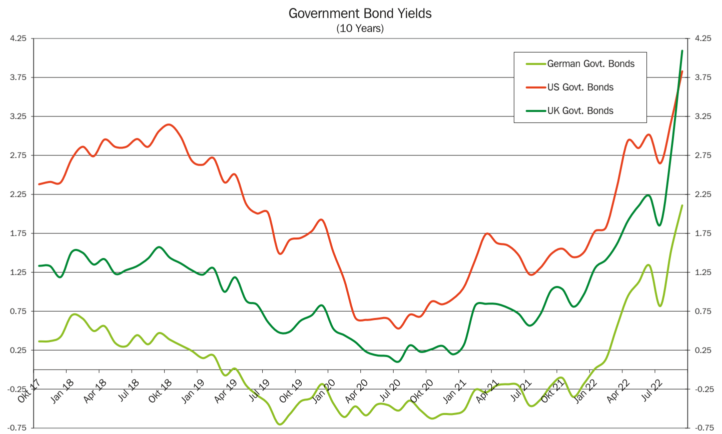


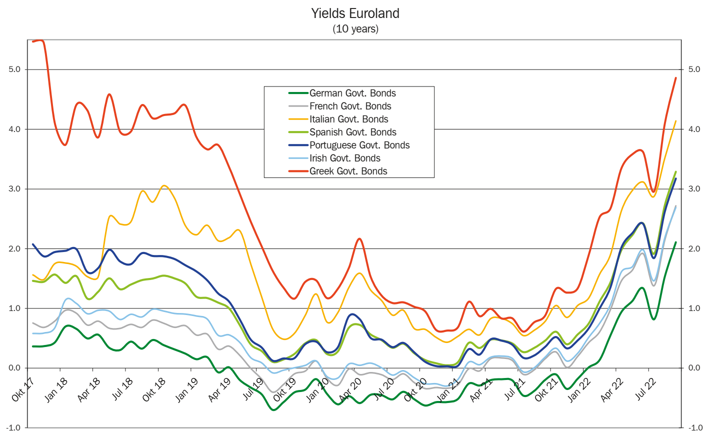


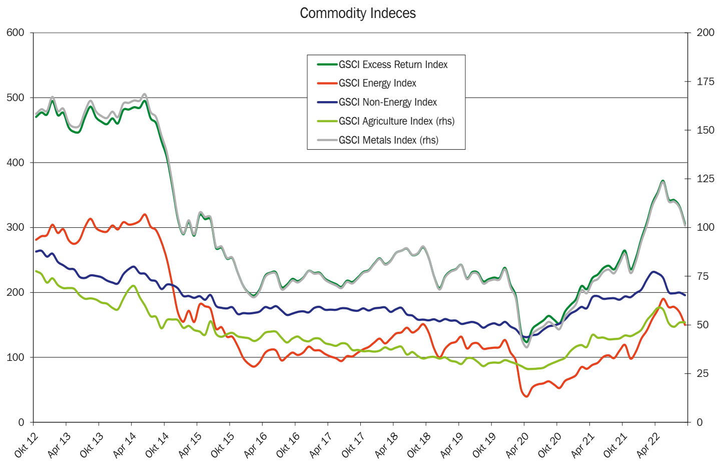


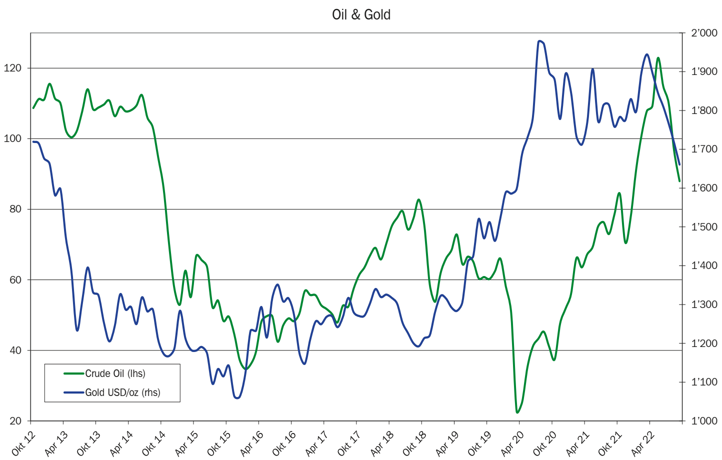


Bond yields and other indicators









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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

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