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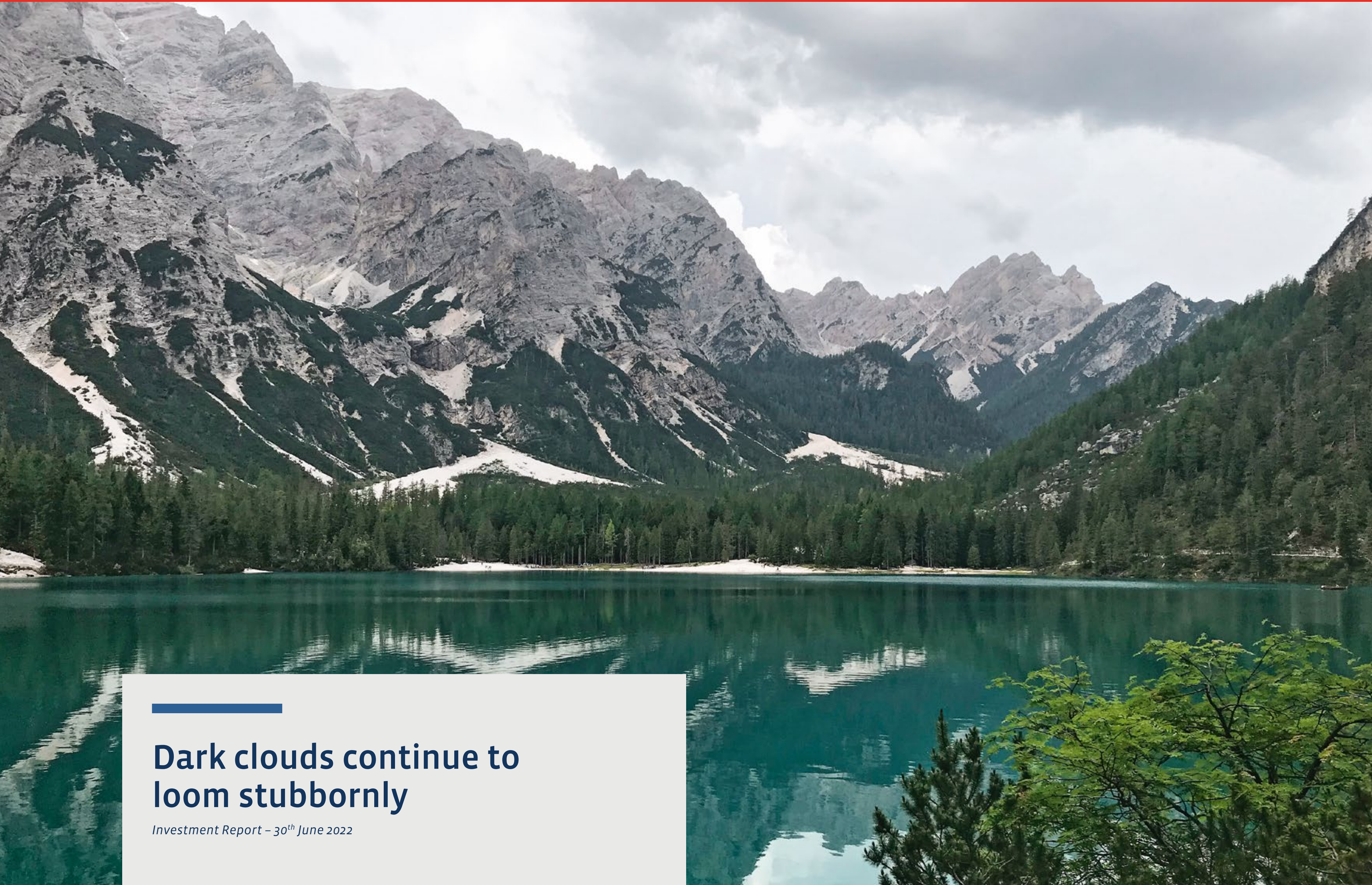

Dark clouds continue to loom stubbornly

Investment Report – 30th June 2022

Dark clouds continue to loom stubbornly

Inflation, rising interest rates, fears of recession and war have once again wreaked havoc on the financial markets in the second quarter. Equity and bond prices have suffered losses the like of which investors have not had to bear for a long time. However, this also gives rise to hope that the worst is over.

So, it has happened: For many years, the leading central banks such as the Fed, the ECB, the SNB and the BoJ have preached to us that the monetary expansion they were pursuing would not be inflationary. Indeed, even more, they held it was their objective to achieve a "healthy" inflation of around 2% through their measures (although an explanation as to why 2% is the right level of inflation has not been given to this day). So, the genie has been out of the bottle for a long time, and now it cannot be simply forced back into it.

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

	Real GDP Growth		Core-Inflation	
	2022	2023	2022	2023
China	4.1%	5.2%	2.2%	2.3%
Germany	1.8%	2.1%	7.2%	3.4%
EU	2.9%	2.0%	7.3%	3.5%
United Kingdom	3.6%	1.1%	8.3%	4.8%
Japan	1.7%	1.8%	1.9%	1.2%
Switzerland	2.5%	1.7%	2.3%	1.1%
USA	2.5%	1.9%	7.5%	3.4%

At first glance it would appear that last year's rapid economic recovery with its surge in demand, the Covid-related supply bottlenecks (including a lock down in China), and the war in Ukraine (increased energy and food prices) are responsible for the spike in inflation we now see. There is a lot of truth in this.

However, the root of the all-of-a-sudden problematic inflation lies in the fact that the world has lived beyond its means for years, not least thanks to the generous support of the central banks. Furthermore, when the pandemic finally ended, economic superpowers such as the USA stimulated their economies with massive state interventionism, when they should have instead applied the brakes in a measured way.

This brings us to the core of the matter, which is that central banks are lagging behind in raising their policy rates. The US Fed, at least, has already made several hikes, although you have to go back to 1994 to find the last time there was a comparable increase of 75 basis points. Currently, these rates are in the range of between 1.5 and 1.75%.

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

		Dec. 2021	June 2022	Change
Asia ex Japan	MSCI AC Asia ex Japan	606.8	508.1	-16.3%
Europe	DJ STOXX 600	1'098.7	934.2	-15.0%
Japan	MSCI Japan	2'538.1	2'387.5	-5.9%
Switzerland	SPI	16'444.5	13'834.3	-15.9%
USA	MSCI USA	13'304.0	10'472.2	-21.3%
World	MSCI AC World	9'755.7	7'755.3	-20.5%
Hedge Funds	HFRX Global HF	1'430.9	1'358.7	-5.0%

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

Surprisingly, the Swiss National Bank has also raised policy rates by 50 basis points to -0.25%, the first increase since 2007. The ECB, on the other hand, has so far only announced that it too intends to tighten the screw over the summer. First, the bond purchases would have to be stopped, followed by a gradual increase in the policy rates.

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Our investment style is one of long-term engagement rather than short-term speculation.

The trend in short-term interest rates seems to be continuing upwards. While America has taken the lead and the Fed Fund rate could perhaps rise from its current level of 1.75% to 3.5% by the end of the year, the ECB finds itself in a dilemma. On the one hand, it should be taking steps to prevent a wage-price spiral; however, on the other hand, it cannot risk a new European debt crisis. Highly indebted Italy is once again in danger of becoming the Eurozone's fly in the ointment.

Marked correction on the bond markets

Yields on government and corporate bonds have risen further, pushing down the prices of the existing securities. The larger-than-expected increase in policy rates in the US and the surprise move in Switzerland have hurt bonds further in recent weeks. One has to go back a long way to find a similarly poor performance of fixed-income securities.

Meanwhile, bond yields seem to have priced in a fair amount of interest rate and inflation fear. Corporate balance sheets are generally in good shape, so the risk of defaults should not increase significantly. However, the danger of further energy price shocks hangs over the markets like a sword of Damocles. At least there are finally bonds in Swiss Francs and Euros that once again offer a positive interest rate worth mentioning.

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

	Dec. 2021	June 2022	Change
Europe	-0.18 %	1.34 %	844 %
United Kingdom	0.97 %	2.23 %	130 %
Japan	0.07 %	0.23 %	229 %
Switzerland	-0.14 %	1.07 %	864 %
USA	1.51 %	3.01 %	99 %

Equities are not out of the woods yet

The equity price recovery in April has vanished into thin air. Some indices, such as the American or the World Stock Index, are even lower than they were mid-March. Various markets are now "officially" in a bear market, i.e. they have lost more than 20% from their last peak. These include the Nasdaq (-30%) and the S&P500 index (-21%). However, the numbers are dark red on other markets too.

In the wake of these dramatic drops in prices, equities have become fundamentally cheaper. In our valuation model, Chinese, British, Brazilian and Continental European stocks are now the most attractive. The Swiss and Japanese markets have a neutral rating, while the American and Indian markets are among the more expensive in relative terms.

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

Aberdeen Asia Pacific (USD)	-18.9 %
Barings ASEAN Frontiers Equities (USD)	-19.4 %
GAM Japan Stock Fund (CHF hedged)	-10.0 %
GAM Japan Stock Fund (€ hedged)	-9.9 %
Strategy Certificate SIM–Swiss Stock Portfolio Basket	-18.4 %
iShares Core SPI ETF (CHF)	-15.9 %
iShares Stoxx Europe 600 ETF (€)	-15.1 %
Performa European Equities (€)	-8.6 %
Performa US Equities (USD)	-36.1 %
BB Adamant Medtech & Services Fund (CHF)	-19.2 %
BB Adamant Medtech & Services Fund (€)	-16.3 %
BB Adamant Medtech & Services Fund (USD)	-23.1 %

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

A glance at the fundamental key figures reveals (at least in terms of appearance) low figures that have not been seen for a long time. The pan-European and German markets stand out with price/earnings ratios (on reported earnings) of 15 and 12 respectively. With P/Es based on earnings estimates, these two markets no longer look expensive, with P/Es of 12 and 11 respectively. The same is true for the UK at 10, and especially so for Brazil and China with estimated P/E ratios of around 6.

Whether this is cheap or expensive depends on the way the economy performs in the future. The motor is running less smoothly, the danger of a recession has generally increased, but it does not seem to be excessively great. The Purchasing Managers Index (PMI), among others, also points in this direction. The global PMI, for example, stood at 52.2 points at the end of June, only slightly below the previous month's figure. Numerous countries, including Switzerland, the USA, but also Australia, Brazil, India and even the Eurozone reported numbers that, at over 50 points, were in the growth range. China has recently just made it back into the positive zone.

The GDP growth expectations have been significantly curtailed. However here too, with the exception of Russia, the forecasters do not yet see any acute danger of recession. According to the average forecasts compiled by Bloomberg, Switzerland's Gross Domestic Product (GDP) should increase by 2.5% in the current year. The economic experts currently see the USA and some of our neighbouring countries growing at the same rate. Germany is estimated to be less dynamic at 1.8%, while the Eurozone is expected to gain more traction at 2.9%. China hopes to reach around 4% despite all the Covid restrictions.

Other funds employed by us
performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-14.7 %
Acatis IfK Value Renten Fond (€)	-14.8 %
BCV Liquid Alternative Beta Fund (CHF hedged)	-8.6 %
BCV Liquid Alternative Beta Fund (Euro hedged)	-8.5 %
BCV Liquid Alternative Beta Fund (USD)	-7.8 %
Lyxor ETF Euro Corp. Bond Fund (€)	-12.1 %
Pictet CH-CHF Bond Fund	-10.1 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-3.9 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	-4.0 %
ZKB ETF Gold (USD)	-0.4 %

Performance incl. re-invested dividends where applicable.

This forecast comes with a big "But". On the one hand, the latest interest rate hikes may not have been factored into these estimates everywhere yet. On the other, the European energy crisis hangs over the continent like a sword of Damocles. If, for example, Russian natural gas supplies were to be cut back, or worse still, cut off entirely, a recession in the Old World would almost certainly have to be reckoned with.

Consumers have already reacted to the crisis markedly. For example, indices measuring consumer sentiment have plummeted in several countries. In the USA, the Conference Board Consumer Confidence Index has fallen to a 16-month low. While the current situation is still seen as reasonably stable, the component indicator of future expectations has plummeted to its lowest value since 2013. In Germany and France, comparable indices have also plunged to multi-year lows.

Inflation is especially causing stomach aches. Inflation is on everyone's lips, with readings of over 8% (compared to the level 12 months ago) in the US and the Eurozone.

Peak in inflation in sight?

However, some bright spots can be found. Apart from energy prices, other commodities have even become cheaper again. These include metals such as aluminium (-15%), copper (-17%) and tin (-32%). Even agricultural commodities have eased recently. The Rogers Commodity Index, which includes around 35% agricultural products, has fallen by around 15% from its multi-year high in mid-May.

The World Container Index compiled by the consultancy company, Drewry, based on the freight rates for various shipping routes, has fallen by around 24% since the beginning of the year and is almost a third below the peak recorded in September 2021. All in all, it is quite possible that inflation figures will recede in the coming months, an assessment that is also supported by the renowned research house "Bank Credit Analyst".

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Conclusion: Hold your nerve

We are sticking to equities with a neutral weighting. Many markets have already lost 20 percent or more in value, which provided there is no recession, is already quite a lot. An end to the war or the passing of the inflation peak, which we foresee in the not too distant future, should give the equity markets some tailwind again.

Although the former "TINA" argument (There is no alternative [to equities]) is waning, in real terms, long-term bonds still offer too little compensation, and hence we remain committed to short duration (weighted residual maturity). The expected cooling of the economy as well as the restoration of intact supply chains should have a braking effect on commodity prices. Gold will be held in check by rising interest rates. As far as currencies are concerned, from a Swiss perspective, the signs are more in favour of the US Dollar and against the Euros.

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

The money market allocation has increased because we sold a portion of the gold position. Overall, we are currently overweight in liquid assets.

Bonds

We sold the SwissRock Absolute Return Bond Fund and bought units in the Plenum European Insurance Bond Fund. This highly specialised fund invests in lower tier bonds issued by European insurance companies. The focus is on so-called Tier 1, Tier 2 and Tier 3 bonds. Since the capital structures and financing of companies in the insurance industry require a great deal of specialised knowledge that is not widely available on the broader market, investors often neglect this area of the bond market. It is for this reason that higher returns are possible than is the case with ordinary bonds. Apart from banks, life insurers are the only industry that benefits from rising interest rates. European insurers are very robustly capitalised and, as a sector, are less affected than others in the event of a possible recession.

Equities Switzerland

After the annual realignment in Spring, our "Swiss Stock Portfolio" (SSP), which is composed of the most attractive Swiss value equities, presents itself in fresh green. The equities of Bucher Industries, UBS and Lonza have been newly added. The equities of Holcim, SFS Group, Vetropack and Zehnder remain unchanged in the Basic Materials/Industrials sector as do Bell Food, Emmi, Forbo, Nestlé, Lonza and Swatch in the Consumer Goods sector.

In the technology sector, Also and Swisscom retain their positions. The financial sector continues to be represented by Cembra Money Bank, Helvetia and Swiss Life. The previous representatives of the chemical and pharmaceutical sectors, Alcon, Coltene, Novartis, Roche, Siegfried, Sonova and Tecan have also succeeded in remaining in the selection. On the other hand, Schweiter Technologies, Swiss Re and, at an earlier date, Vifor Pharma have been removed from the portfolio.

Over the course of the year to date, the performance of this selection of equities has been -17.4%. This was slightly below the Swiss Performance Index (SPI) of -15.9%. Over the long term, the performance of the "SSP" continues to be good. Since 2012, the average annual performance amounts to 12%, which clearly exceeds the average benchmark performance of 9.5%. Since 2012, this strategy has achieved a cumulative total performance of around 228%, while the index has achieved 159%. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

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

	Dec. 2021	June 2022	Change
SPI Index	16.4	25	52.4 %
DJ STOXX 600 Index	20.8	14.7	-29.3 %
MSCI AC Asia ex Japan	16.2	11.9	-26.5 %
MSCI Japan	15.1	13.8	-8.6 %
MSCI USA	27.1	19.4	-28.4 %
MSCI AC World Index	23.2	16.5	-28.9 %

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

Equities Europe
The European equities selection, the "European Stock Portfolio" (ESP), also has a new composition. The equities of Equinor (energy), Deutsche Post, SSAB (steel) as well as the equities of the electronics manufacturer Spectrics and the logistics company Moller-Maersk are new among the fundamentally most attractive equities. Also new are the equities of the lift and escalator producer, Kone, and those of Mercedes-Benz.

In the technology sector, the newcomers are BE Semiconductor from the Netherlands and Logitech from Switzerland. The new additions from the financial sector are Sofina (investments), Hannover Re (reinsurance), and Nordea Bank. In the chemicals and pharmaceuticals sector, the French company Ipsen has made it into the portfolio.

Rio Tinto, Skanska and Neste (mining and industry respectively), the consumer-related Ahold Delhaize and Kindred Group as well as the utilities equity, A2A, continue to be included in this selection. The equities of the British real estate companies, Barratt Developments, and Persimmon, were also able to maintain their positions. Likewise, IG Group and Legal & General remained unchanged on the list, as did Recordati, Yara and Covestro (pharmaceuticals and chemicals sector).

The DJ Stoxx 600 Index ended the first semester at 15% lower. Our European equities selection lost 19.5%. The ESP figures exclude transaction costs and withholding taxes, whereas the benchmark index is calculated without costs.

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 7.8% compared to 6.6% for the benchmark. The portfolio has thus accumulated 878%, whereas the cumulative index performance is 611%.

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

	Price / Book	Div. Yield
SPI Index	2	2.9%
DJ STOXX 600 Index	1.7	3.6%
MSCI AC Asia ex Japan	1.4	2.5%
MSCI Japan	1.3	2.5%
MSCI USA	3.8	1.7%
MSCI AC World Index	2.6	2.2%

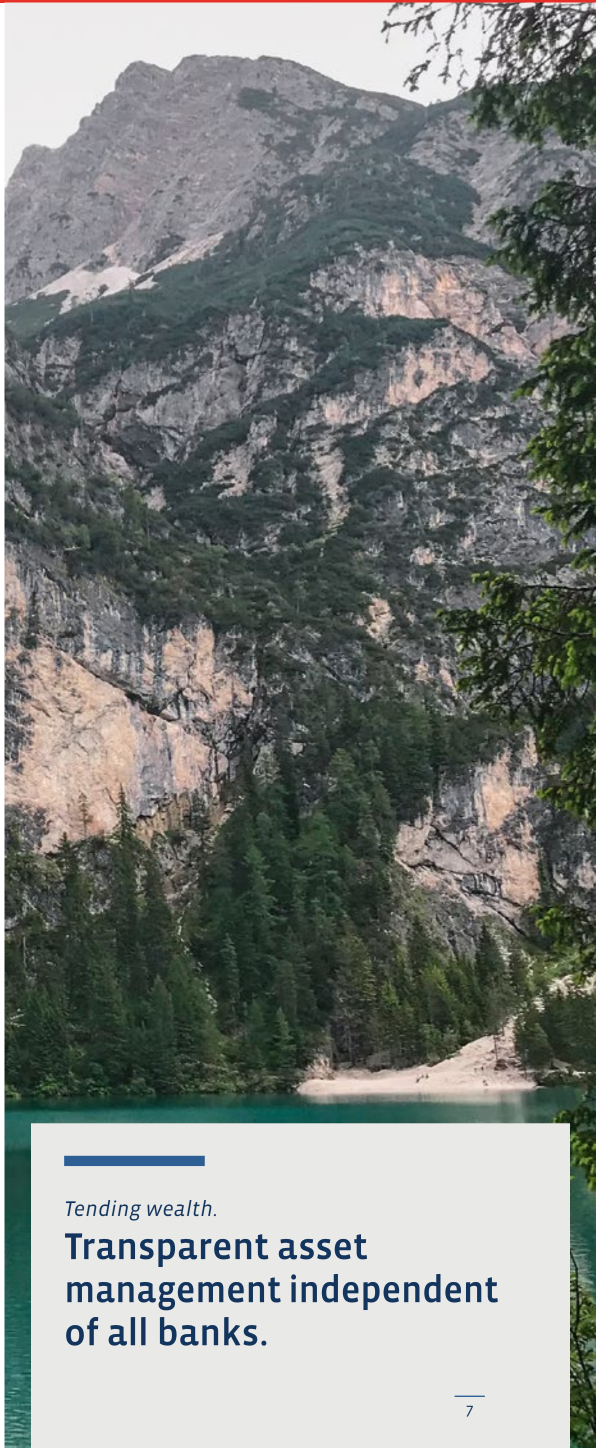
Source: Bloomberg. MSCI-Indices are net total return.

Equities USA
The US equities market has been particularly hard pressed so far this year. While the Performa US-Equity Fund consists of both solid growth companies and promising small companies and therefore suffered even more than the index, the BB Adamant Medtech & Services Fund, which is based in healthcare technology, fared somewhat better. The positions remained unchanged in the second quarter.

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

	Dec. 2021	June 2022	Change
CHF / Euro	1.0375	0.9998	-3.6%
CHF / USD	0.9129	0.9537	4.5%
Euro / USD	0.8793	0.9541	8.5%
Yen / USD	115.08	135.67	17.9%

Source: Bloomberg.



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Equities Asia (ex Japan)
The positions in Asian equities (excluding Japan) also remained unchanged. There has been no change in the slight overweighting of Asian equities.

Equities Japan
We have also left the positions in the Land of the Rising Sun unchanged and maintained the slight overweighting.

Summary of our **current Asset Allocation:**

Asset class	
Money Market	overweight
Bonds	underweight/ short duration
Equities Switzerland	slightly underweight
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.

Alternative Investments
This asset class also saw no changes in the second quarter.

Precious Metals
The gold price fell away during the course of the quarter. Since gold historically has always had a hard time in times of rising interest rates, and in order to keep liquidity ready for possible equity purchases, we halved the gold positions in the second quarter.

To end, a little something more

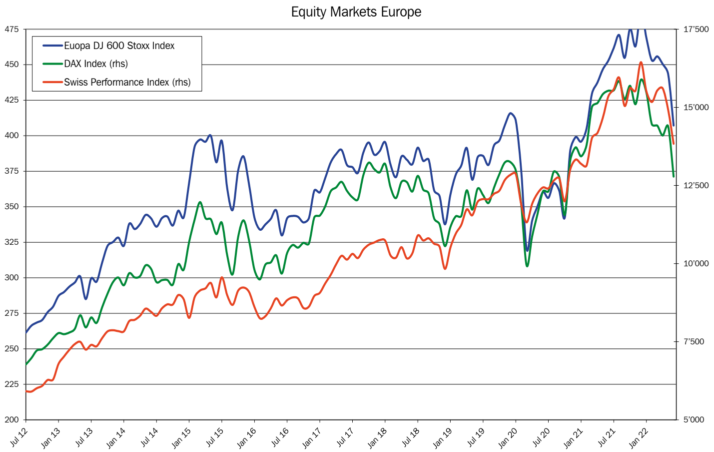
It would be marvellous if there were a bell on the stock markets that would ring before a particularly bad or a particularly good day on the stock exchange, so that investors could exit or enter the market in good time before a drastic change. Unfortunately, there is no such bell. Bad and good days come without warning and often alternate in rapid succession. Since nobody has a crystal ball, the investment community has no choice but to be invested more or less all the time if it wants to benefit from the excellent long-term returns of equities.

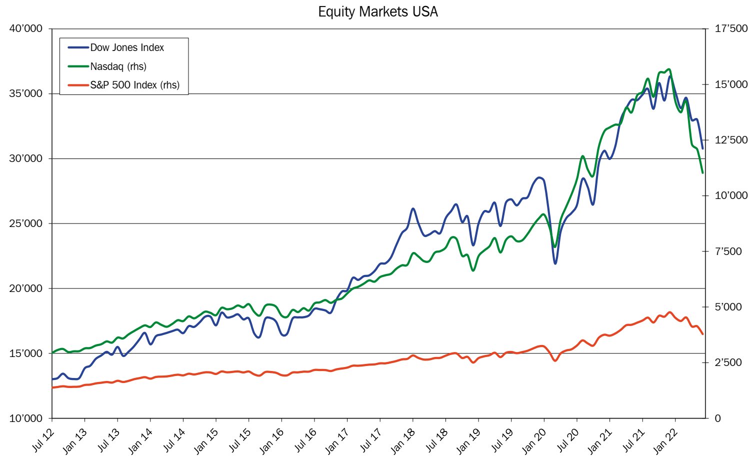
If one were to miss even a few days of sharp upward movements by standing on the sidelines of the market, over an extended period, long-term equity returns would shrink considerably. The LUKB Expert, Fondsleitung, recently calculated how this would look in a brochure. The Swiss Performance Index was examined from 1969 to 2021. During this period of 13,830 trading days, the SPI produced an average annual return of 8.3%. An initial investment of 100 francs in 1969 would have grown to 6,979 francs by 2021.

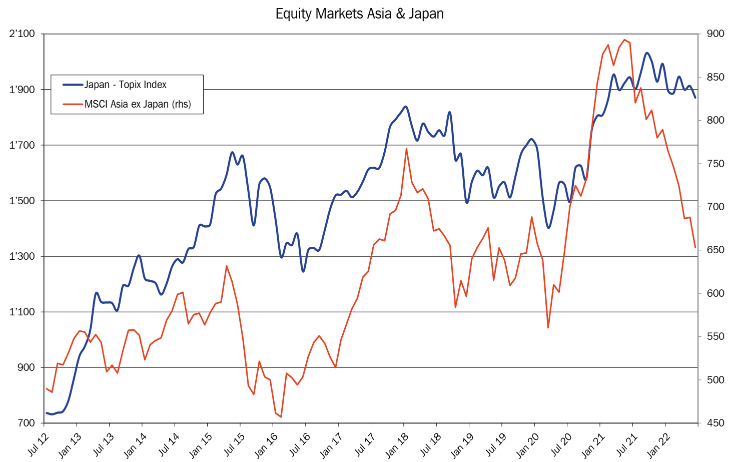
However, if an investor had been standing on the sidelines on only the 10 best trading days during these years, the annual return would have averaged only 7%, resulting in a capital of 3,682 francs. Missing the 30 best trading days would have been even less favourable (0.22% of all trading days!). In this scenario, the average annual return would have been 5.1%, meaning the initial 100 Swiss Franc note would have grown to 1'411 Swiss Francs.

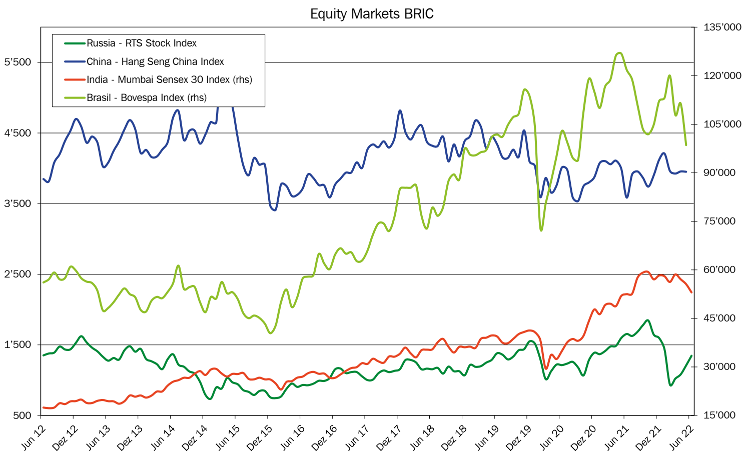
This exercise can be conducted on all stock exchanges and over different periods of time. The result is always the same; missing a few best days reduces the return considerably. Some may argue that, conversely, being on the sidelines on the 10 or 30 worst days of the stock market would increase average returns significantly. That is true. Nevertheless, unfortunately the warning bell mentioned above does not exist. Therefore, the following maxim applies to long-term oriented investors; being in is good, staying in is everything!

Equity Markets at a glance

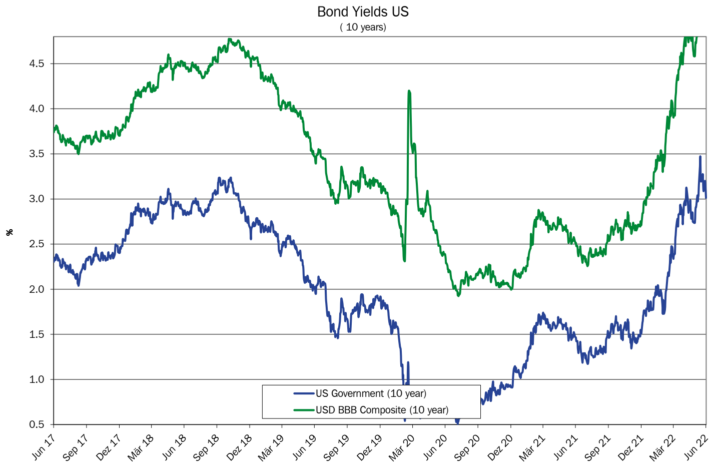


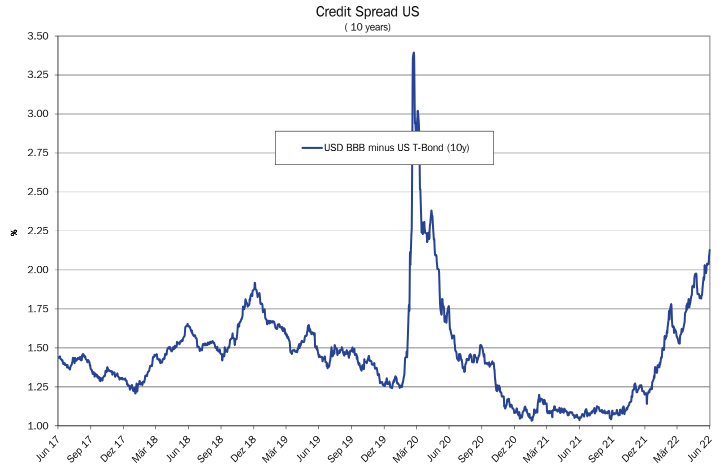


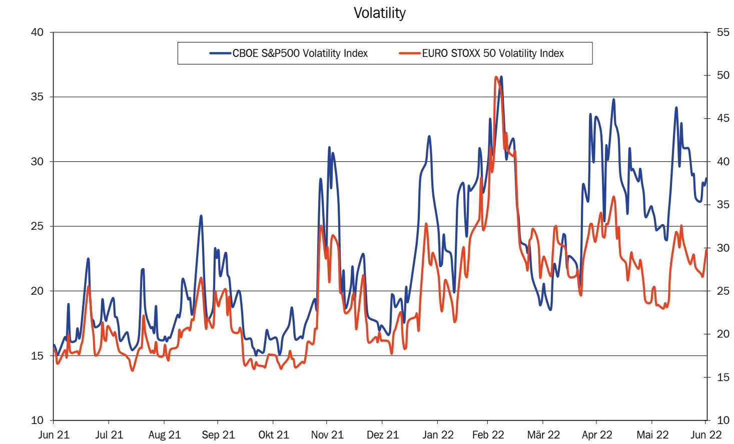


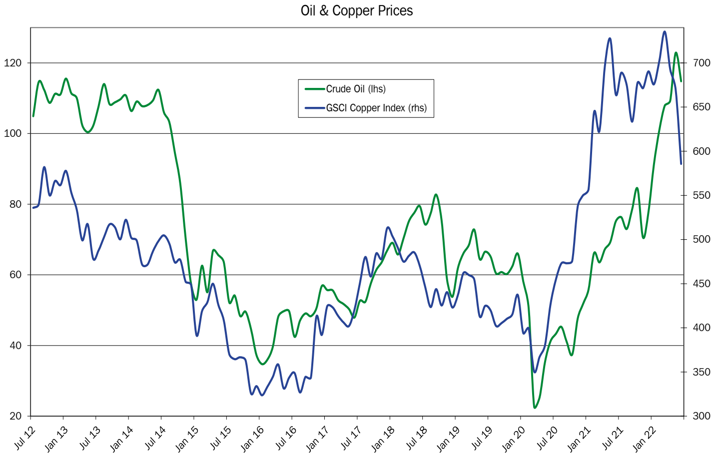


Bond yields and other indicators









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Closing words

We thank you for the trust placed in us and we wish you sunny and relaxing summer days.

Alfred Ernst
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