
Politics and interest rate cuts – stock markets prove solid

Investment Report – 30th September 2024

Politics and interest rate cuts – stock markets prove solid

In the third quarter, the previously established upward trend on the European stock markets initially levelled off. After the abrupt global price setbacks at the beginning of August, triggered by the one-day crash on the Japanese stock exchange, share prices recovered in anticipation of the interest rate cuts finally implemented in Europe, the USA and Switzerland. Thanks to the rally in September, the most important stock markets closed the quarter with gains.

When there was little doubt that Donald Trump would inevitably become the next US president, the situation changed with Joe Biden's withdrawal from the election campaign. The campaign regained momentum with the candidacy of Kamala Harris and speculation has returned to the question of who will become the next leader of the world power, the USA. Is a Republican or a Democrat more favourable for the stock market? Opinions differ and it is not possible to make a final judgement at this point. The old investor adage that political stock markets have short legs is more apt.

The deadlock in the Ukraine-Russia conflict and the spread of the Middle East conflict to Lebanon show that the USA has lost its military supremacy and foreign policy strength. The USA can no longer end conflicts on its own initiative and to its own greatest advantage.

However, what applies to politics does not apply to the financial markets. On the contrary, the major growth companies from overseas, such as Tesla, Meta and Apple, continue to set the pace on the trading floor in the third quarter. Following the decline in inflation close to the central banks' 2% target, rising unemployment figures in the summer months led to concerns that the global

economy could slide into a recessionary zone instead of the hoped-for soft landing.

Parallel to the fears of recession, however, hope rose for the first interest rate cut in over four years by the US Federal Reserve (Fed), which was

Change in Equity Markets since beginning of the year:

		Dec. 2023	Sep. 2024	Change
Asia ex Japan	MSCI AC Asia ex Japan	516.6	625.9	21.2%
Europe	DJ STOXX 600	1'136.9	1'270.2	11.7%
Japan	MSCI Japan	3'116.3	3'552.3	14.0%
Switzerland	SPI	14'571.2	16'241.9	11.5%
USA	MSCI USA	13'488.7	16'364.2	21.3%
World	MSCI World	9'885.5	11'749.7	18.9%
Hedge Funds	CS Hedge Fund Index*	777.2	826.2	6.3%

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 September.

finally fulfilled on 19th September with a "jumbo cut" of 0.5%. As the European Central Bank (ECB) and, more recently, the Swiss National Bank (SNB) also made further interest rate cuts, the international investment community appears reassured and well-disposed. The global equity barometer, the MSCI World Index, advanced by a pleasing 6.5% in USD terms in Q3.

The stock markets from the "global South" – the term does not represent a new investment region but rather stands for emerging markets or developing countries – also experienced a small revival in the third quarter. For example, the Nifty 50 (India, +7,8%), the Hang Seng (China, +21,7%) and the Brazilian IBOVESPA (+6,4%) shone brightly in investors' skies. Some of the few losers were the stock exchanges in Japan (Topix -5,0%) and South Korea (KOSPI -7,3%).

The Swiss franc strengthened against almost all currencies in Q3 due to the narrowing interest rate differential. A rare exception is the exchange rate against the yen, which gained 5,7% due to the rise in Japanese interest rates after many months of depreciation. The franc gained 6,0% against the US currency, 2,2% against the euro and a slight 0,4% against the pound sterling. Currency forecasts are generally difficult to make. However,



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it seems safe to assume that Swiss government's debt discipline will ensure that the Swiss franc remains strong.

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

CS Index Fund Equity Switzerland Large Caps (CHF)	12.6 %
GAM Swiss Sustainable Companies Fund (CHF)	7.4 %
iShares Core SPI ETF (CHF)	11.2 %
iShares Stoxx Europe 600 ETF (€)	12.1 %
iShares Core Euro Stoxx 50	13.4 %
Performa European Equities (€)	2.9 %
BB Adamant Medtech & Services Fund (CHF)	13.5 %
BB Adamant Medtech & Services Fund (€)	12.1 %
BB Adamant Medtech & Services Fund (USD)	13.3 %
Performa US Equities (USD)	21.0 %
Alma Eikoh Capital Japan (CHF)	16.9 %
Alma Eikoh Capital Japan (€)	19.0 %
Barings ASEAN Frontiers Equities (USD)	19.1 %
Franklin Templeton FTSE India ETF (USD)	22.5 %
Galileo Vietnam Fund (USD)	10.0 %

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

In America, inflation (CPI) was last measured at 3,2%, in the eurozone at 2,6%. Fortunately, the CPI rates in the individual countries of the Union are close to this average. The inflation rate in Switzerland is currently 1,4%. Therefore, most inflation rates are close to the year-end forecasts (see also table "Average growth and inflation forecasts").

The central banks have become active in many places. The FED, ECB and SNB have lowered their key interest rates, in some cases several times. Conversely, Japan has left the territory of negative interest rates with a second rate hike this year. Key interest rates are at 5,0% for USD, 3,65% for EUR, 0,25% for JPY, and 1,0% for CHF.

We expect further interest rate cuts in USD, EUR and CHF by the end of the year.

Price recovery for fixed-interest securities

Prices for fixed-interest securities have benefited from falling key interest rates. In contrast, new investors have to make do with lower yields on interest-bearing securities. In Switzerland, the yield to maturity for 10-year government bonds is currently 0,41%. For the same term, an investor in the USA receives a yield of 3,78%, for UK Gilts 4,0% and in the eurozone the 10-year Bund yields 2,12%.

The price of gold reached a new high in September. The weaker USD and falling bond yields are two additional reasons for the continuing high.

The performance of the most important industrial metals (e.g. aluminium, copper, nickel and lead) parallels the stock markets: after falling in July and August, prices recovered in September in the hope of an economic upturn.

Other funds employed by us performed as follows:

Pictet CH-CHF Bond Fund	3.8 %
Acatis IfK Value Renten Fond (CHF hedged)	7.8 %
Acatis IfK Value Renten Fond (€)	9.8 %
Amundi ETF Euro Corp. Bond Fund (€)	3.4 %
Plenum European Insurance Bond Fund (CHF hedged)	8.6 %
Plenum European Insurance Bond Fund (€)	10.7 %
AXA Wave Cat Bonds Fund (CHF hedged)	5.6 %
AXA Wave Cat Bonds Fund (EUR hedged)	7.4 %
AXA Wave Cat Bonds Fund (USD)	8.7 %

Performance incl. re-invested dividends where applicable.

The price of oil (WTI grade) fell by almost 10% in the third quarter, returning to the level seen at the beginning of the year. The fall in the price of "black gold" is attributed to a slight supply surplus and a lack of demand from China.

Economic data are mixed

So far, there have been no major recessionary phases. However, global GDP growth forecasts remain modest. Asia (ex Japan) continues to grow at an above-average rate. In Europe, Spain impresses with 2,7% and the estimated US growth of 2,6% for 2024 as a whole is also respectable.

The purchasing managers' sentiment barometer for industry (PMIs) remains below the 50 mark globally, expressing pessimism. In contrast, purchasing managers in the services sector are optimistic. In particular, consumers' positive spending mood appears to support the services sector.

The Chinese central bank (PBoC) announced several monetary policy measures towards the end of the month to stimulate economic growth. It was the most comprehensive easing since 2015 and included lowering the key interest rate, reducing the interest rate for outstanding mortgages, lowering the minimum down payment for property purchases, simplifying access to liquidity

for share purchases and direct financial aid for the poorest section of the population. Whether these measures are sustainable enough to solve the structural problems in the long term has yet to be seen.

Conclusion: GDP forecasts indicate modest growth in Europe and North America. There is hope in Asia, but the situation there depends heavily on the recovery in China. However, falling interest rates and intact consumer sentiment, should support the economy.

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%	0.5%	1.4%
Germany	0.0%	1.0%	2.4%	2.1%
EU	1.0%	1.6%	2.6%	2.2%
United Kingdom	1.1%	1.4%	2.6%	2.4%
Japan	0.0%	1.2%	2.5%	2.0%
Switzerland	1.4%	1.5%	1.3%	1.1%
USA	2.6%	1.8%	2.9%	2.2%

Slightly overweight equities

The fundamental valuation ratios of equities, expressed in terms of price/earnings ratios, for example, remain around their long-term averages for European equities (including Switzerland), emerging market equities and Japanese equities. Although the key figures suggest overpricing in the USA, this is justified by the intact growth opportunities for large-cap American technology companies. Even in comparison to the decline in bond yields, we still consider a slight overweight in equities to be appropriate.

Asset allocation

At our last Investment Committee meeting in mid-September, we decided on the following asset allocation of a balanced Swiss franc portfolio with a medium risk level, without client restrictions. Mandates in other reference currencies may have different changes and weightings. You are welcome to enquire about these with your client advisor.

Money market

We tactically hold a higher "cash ratio" in our balanced portfolios. This is, on the one hand, at the expense of the CHF bond ratio due to the lack of yield advantage and, on the other hand, at the expense of the alternative asset class.

Bonds

USD bonds remain attractive due to the higher interest rate compared to their CHF counterparts, with a yield premium of just under 3%. We are maintaining a 4% allocation in this segment as part of the asset allocation. Bonds in CHF have benefited from the interest rate cut by the SNB, but new investments are now becoming less attractive at this yield level. As an admixture and to increase returns, we are focussing on two special funds in this asset class, which have been convincing with a significant excess return since the beginning of the year.

Yields on ten-year government bonds have developed differently since the beginning of the year:

	Dec. 2023	Sep. 2024	Change
Switzerland	0.70%	0.41%	-0.29%
Germany	2.02%	2.12%	0.10%
United Kingdom	3.54%	4.00%	0.47%
USA	3.88%	3.78%	-0.10%
Japan	0.61%	0.86%	0.25%



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Equities Switzerland

The Swiss Performance Index (SPI) rose by 2,0% over the last three-month period. Our stock selection based on value criteria, the "Swiss Stock Portfolio" (SSP), also posted an overall performance (price changes plus dividends) of 2,0% in the third quarter and was thus on par with its benchmark. Compared to the benchmark, we hold a larger weighting of Swiss equities from the small/mid-cap segment, which usually results in deviations from the SPI.

The price/earnings ratios based on the last known earnings for twelve months have mostly increased:

	Dec. 2023	Sep. 2024	Change
SPI Index	19.8	21.2	7.1%
DJ STOXX 600 Index	13.7	15.7	14.8%
MSCI AC Asia ex Japan	16.5	17.6	6.7%
MSCI Japan	16.5	16.0	-3.3%
MSCI USA	23.7	26.9	13.3%
MSCI World Index	20.2	23.2	14.7%

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

Siegfried (+22%), DKSH (+11%) and Lonza (+9%) performed particularly well in the SSP in the past quarter. Bringing up the rear were Forbo (-17%), EFG (-14%) and Tecan (-7%).

The SSP has performed very well over the long term. Since 2012, the average annual performance has been 10,31%, significantly outperforming the average benchmark performance of 8,42%. Since 2012, this strategy has achieved a cumulative total performance of around 285%, compared with 204% for the index. Transaction costs are deducted from the SSP figures, whereas the benchmark index is calculated free of charge.

Equities Europe

The sideways movement seen on the European market as a whole since mid-May came to an abrupt end with the general turmoil at the beginning of August. However, a strong rebound in September enabled new highs for the year. At the end of the quarter, the comprehensive Stoxx 600 Europe NR was up +2,6%, while the Euro Stoxx 50, comprising the 50 largest shares in the EUR currency area, rose by 2,4%. Among European shares, those from Spain were the most popular in the third quarter. The IBEX in Madrid rose by 9,5%.

We have added Siemens, LVMH, Novo Nordisk, DSM-Firmenich and ASML to our European stock selection and have taken two tactical positions in European large caps and Swiss equities by means of corresponding ETF positions. Despite the tactical adjustments mentioned above, our European stock selection, the "European Stock Portfolio" (ESP), was not yet able to make up for the short-fall against the benchmark in the first half of the year. Although the ESP gained +1,15% in the third quarter, it still lagged behind the benchmark index.

Price-to-Book Values and Dividend Yields of major equity markets:

	Price/ Book	Div. Yield
SPI Index	3.7	2.9%
DJ STOXX 600 Index	2.1	3.2%
MSCI AC Asia ex Japan	1.9	2.2%
MSCI Japan	1.4	2.2%
MSCI USA	5.2	1.3%
MSCI AC World Index	3.6	1.8%

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

Tesco, DSM Firmenich (+17% each) and Sanofi (+14%) were among the ESP's best performers in the last quarter. The worst performers were ASML (-23%), Novo Nordisk (-21%) and Gerresheimer (-20%). The figures are shown in the respective local currencies.

The ESP's long-term performance since 2004 shows an average annual return of 6,62%, compared with 6,95% for the benchmark. Cumulatively, the portfolio has thus achieved a total return of 278% since 2004, whereas the cumulative index performance is 303%. The figures for the ESP include transaction costs and withholding taxes, whereas the benchmark index is calculated without costs.

The developments of SSP and ESP can always be followed on our website www.salmann.com in the "Investment strategies" section.

Equities USA

The performance of the US equity market was also convincing in the third quarter. US equities, summarised in the S&P500 Index, rose by 5,9% in the period under review. The fundamental valuations (e.g. price/earnings ratio) are above the ten-year averages. In terms of market technology, the strong momentum of the US market stands

out. Stocks from the technology, financial and communications sectors are performing best. We are maintaining our tactical overweight in US equities.

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 contains equities from emerging countries in Southeast Asia, we are invested in Indian and Vietnamese equities through two single country funds. We saw strong price rises in Southeast Asia in the third quarter, and the Indian equity market is really booming. The Vietnamese equity fund also made a positive contribution to portfolio returns.

Equities Japan

The Japanese stock market was one of the best performers in the world until the middle of the year. This year, the Japanese central bank began to raise key interest rates, which led to the appreciation of the yen and, at the same time, to severe distortions on the Japanese stock exchange at the beginning of August. Share prices in the Land of the Rising Sun have since stabilised. Nevertheless, the TOPIX Index posted a negative return of 5,0% in the past quarter. We have decided to reduce the weighting of our allocation in Japan to neutral and to capitalise on price gains.

Alternative investments

We are currently only invested in the AXA Cat Bonds Fund and are underweighted in alternative investments. The fund invests in bonds that reinsure clearly defined loss events from natural disasters. This investment segment currently has an attractive premium-risk ratio.

Summary of our current **Asset Allocation**:

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

For a Swiss Franc referenced portfolio.

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

	Dec. 2023	Sep. 2024	Change
Euro / CHF	0.9289	0.94147	1.4 %
USD / CHF	0.8414	0.8445	0.4 %
GBP / CHF	1.0716	1.1317	5.6 %
CHF / Yen	167.6520	169.478	1.1 %
USD / EUR	0.9059	0.897	-1.0 %
USD / Yen	141.0400	143.12	1.5 %

Source: Bloomberg.

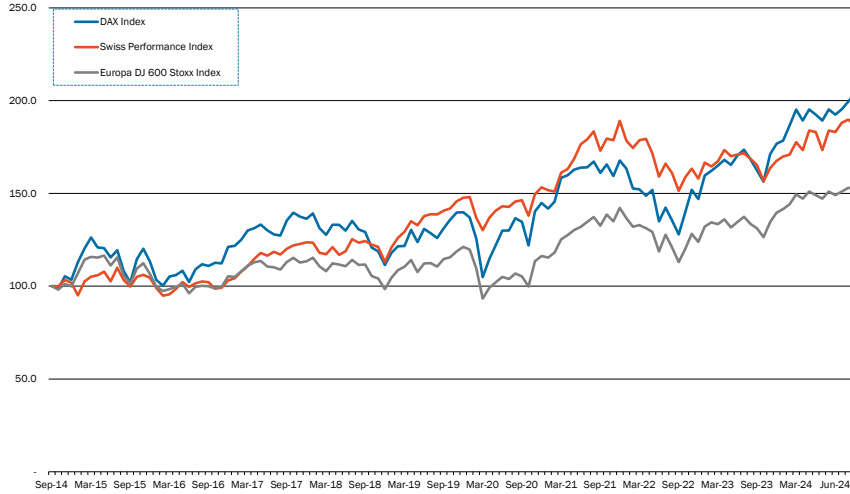


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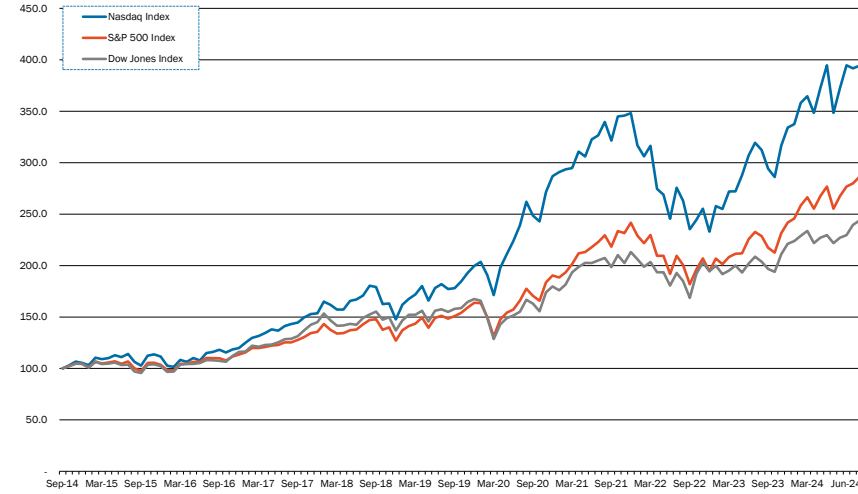
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Equity Markets at a glance

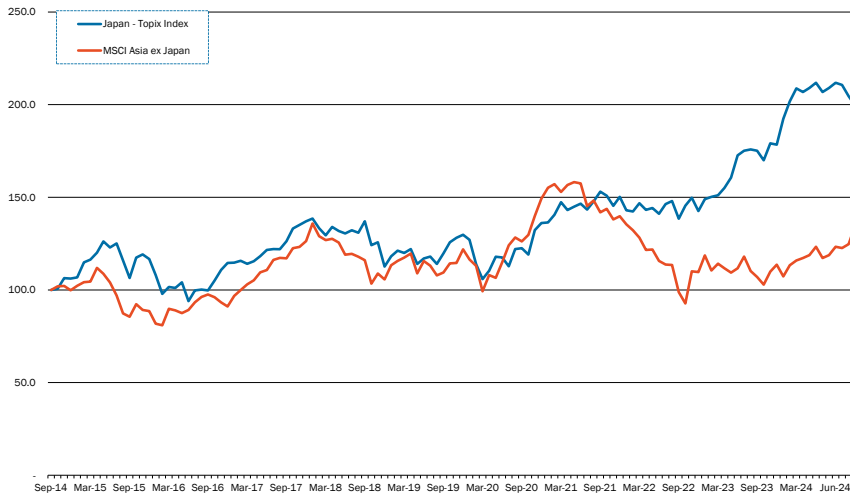
Historical performance of european equity markets (Indexed)



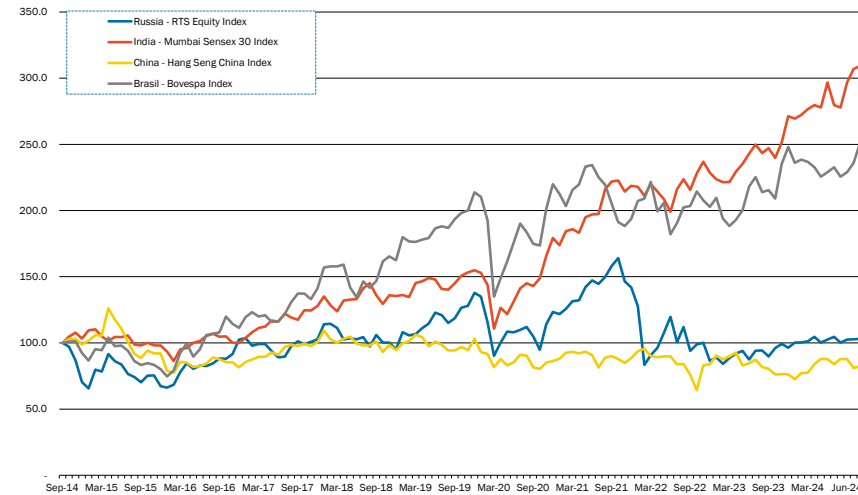
Historical performance of american equity markets (Indexed)



Historical performance of asian equity markets (Indexed)

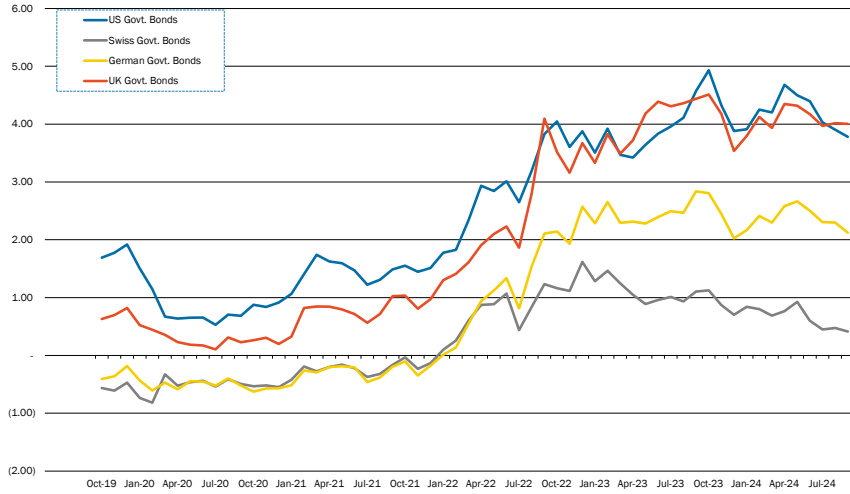


Historical performance of BRIC equity markets (Indexed)

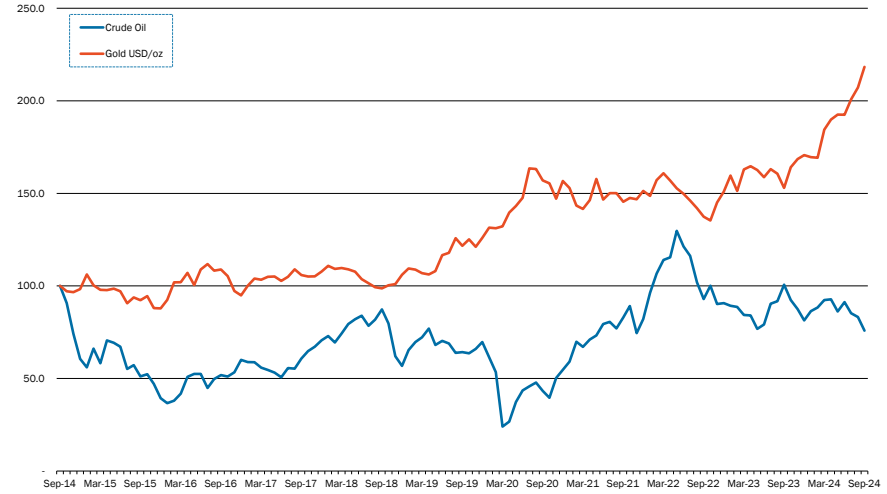


Bond yields and other indicators

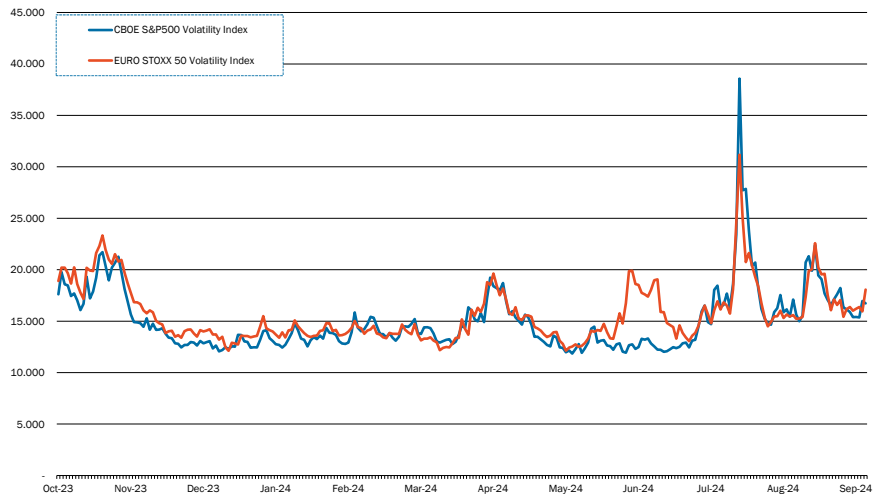
Historical development of Government bond yields (10 Years in %)



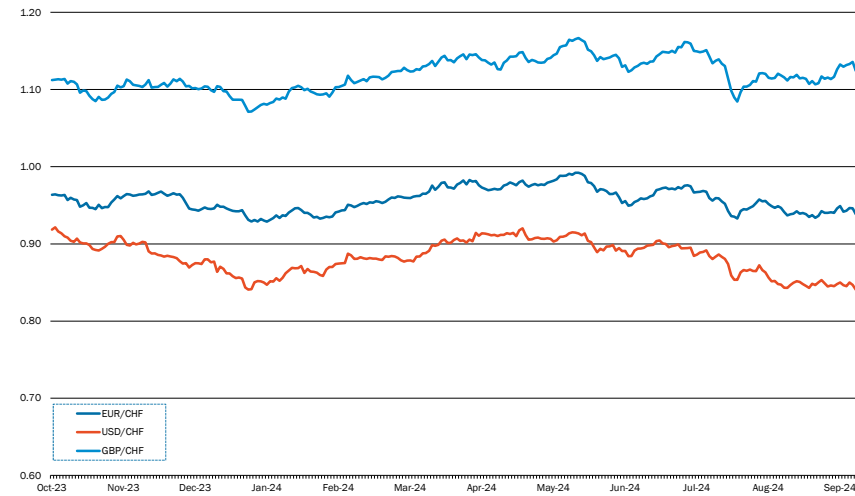
Historical price development of oil and gold (Indexed)



Volatility Indices development (last 12 months)



Foreign exchange CHF development (last 12 months)





Notes

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Closing words

We would like to thank you for the trust you have placed in us and for your interest in our investment commentary and wish you a golden autumn.

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