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CURRENT SITUATION ASSESSMENT

3rd quarter 2022

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Current situation assessment
Summary

Asset class	Current positioning		History		Long-term assessment (5 years)			Short-term assessment (9 months)		
	Conclusion	– o +	Yield	Risk	Yield	Risk	SAA	Yield	Risk	TAA
Liquidity										
Bonds										
Government bonds	Negative		5,7%	5,6%	0,5-1%	Careful		Negative	Negative	
Investment Grade	Neutral		4,5%	3,7%	1,5-2,5%	Neutral		Neutral	Careful	
High Yield	Neutral		5,1%	12,6%	5,5-6,5%	Neutral		Neutral	Neutral	
Emerging Markets	Neutral		7,4%	7,8%	5,5-6,5%	Neutral		Neutral	Neutral	
Equities	Neutral		7,7%	17,2%	6-8%	Neutral		Neutral	Careful	
Europe	Positive		7,5%	18,1%	6-8%	Neutral		Neutral	Careful	
USA	Neutral		10,6%	17,9%	6-8%	Neutral		Neutral	Careful	
Emerging Markets	Neutral		8,8%	23,2%	6-8%	Neutral		Neutral	Careful	
Technology	Careful				6-8%	Neutral		Careful	Careful	
Health	Careful				6-8%	Neutral		Careful	Neutral	
Commodities										
Gold	Neutral		4,5%	15,5%	4-5%	Neutral		Neutral	Neutral	
Raw materials	Neutral		1,9%	15,1%	3-4%	Neutral		Positive	Neutral	
Alternative investments					4-6%	Neutral		Neutral	Neutral	
Private Debt	Neutral				3-4%	Neutral		Neutral	Careful	
Private equity	Neutral				8-10%	Neutral		Neutral	Careful	
Diversified (HF)	Neutral		4.4%	6%	4-5%	Neutral		Neutral	Neutral	

Legend: Negative | Careful | Neutral | Positive | Very positive | Upgrade | Downgrade

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Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Economy	▪ The economy continues to develop according to the historical three-year cycle. A natural progression includes one and a half years of upswing followed by one and a half years of downswing. ▪ Fiscal and monetary policy support remains in place (US ahead of Europe) and is increased situationally in case of an impending economic downturn	▪ We expect the next cyclical trough at the end of Q1/beginning of Q2 2023, with a decline in economic momentum until then. Recessionary trend from the beginning of 2023 ▪ Inflation rates of over 2% (target values of central banks) lead to key interest rate increase ▪ Aggressive action by central banks is a risk factor, as the effect of the key interest rate increase only occurs with a delay of 8 months	▪ OECD leading indicator (9) ▪ Inflation expectations (12) ▪ Expected interest rate steps of the US central bank, derived from the futures market curve (10)
Interest	▪ Short-term interest rates remain at low levels ▪ Fiscal policy measures bring inflationary pressure ▪ Long-term interest rates rise continuously (inflation target 2%) ▪ Due to the active influence of the central banks on the interest rate level and the high level of overall economic debt, there will be no rapid rise in interest rates	▪ Peak in inflation rise reached. Inflation topic nevertheless remains present ▪ Easing of the inflation environment by the end of the year gives central banks room to manoeuvre ▪ This results in a decline in interest rates, which also reflects the weaker economic environment (US 10y interest rate at 2-2.5%).	▪ Inflation expectations (12) ▪ Long-term interest rate development (13) ▪ Relationship between interest rate level and economic activity (14)

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Current situation assessment
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Bonds	▪ As a consequence of continuously rising interest rates, government bonds and investment grade bonds remain below their historical yields. ▪ Due to the current lows, government bonds and investment grade bonds are vulnerable to interest rate changes, which is why we prefer maturities of a maximum of 5-6 years. ▪ Both investments are irreplaceable as defensive building blocks (low or negative correlations with equities) in the portfolio.	▪ Yields have become more attractive after the rise in interest rates ▪ Increased risk premiums offer opportunity and increase attractiveness ▪ Interest rate decline at the end of the year brings recovery potential ▪ Government bonds become more attractive, but the additional security of the lower default risk reduces the return potential ▪ Investment-grade bonds offer a higher yield than government bonds and are thus better protected against interest rate rises ▪ High-yield and emerging market bonds offer the highest return potential. However, these have a higher risk due to a higher correlation to equities. ▪ In a weak economic environment, high-yield and emerging market bonds are additionally exposed to rising default risk	▪ Comparison YTM (16) ▪ Risk premiums (17)

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Current situation assessment
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Equities	▪ Monetary and fiscal policy measures provide a solid foundation for further gains ▪ The high valuation level argues for lower yields in the long term, at the lower end of the historical average of 6-8%. ▪ The US benefits from more aggressive monetary and fiscal policy ▪ Europe still faces structural problems ▪ Emerging markets, with increased focus on domestic consumption, are delivering sustainable growth and becoming the global economic engine ▪ Innovative sectors (such as technology) have above-average earnings growth potential in the long term ▪ Defensive regions (Switzerland) or sectors (health) show their advantages in correction phases via lower fluctuation margins	▪ The correction has brought the slightly exaggerated valuation level back into the realm of normality ▪ Equity markets are already pricing in a slightly recessionary environment ▪ Equities anticipate development in the economic cycle with 3 to 6 months (Sept to Dec) ▪ For the second half of the year we expect continued high volatility into the fourth quarter ▪ There are additional risks, such as slipping into a deep global recession or the energy crisis in Europe	▪ Rating (19) ▪ Slight recession in equities priced in (20) ▪ Business cycle (9) ▪ Business cycle lead equities (21) ▪ Trend Europe (22)

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Current situation assessment
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Raw materials Precious metals	▪ The trend towards electrification and electromobility requires a high consumption of raw materials and provides an additional increase in demand ▪ Gold makes sense as an admixture in mandates with equities due to the negative correlation (long-term target return 3-5%)	▪ Gold and commodities still show no exaggeration in long-term trend growth despite strong performance ▪ Rising interest rates make gold less attractive, as there are no current profits with gold (like dividends with equities) ▪ For commodities, the fundamental situation remains very good as demand for commodities increases due to energy transition	▪ Inflation (12) ▪ Trend Gold (24) ▪ Real yield and gold (25) ▪ Trend Raw Materials (27)
Alternative investments	▪ More attractive yield compared to fixed income ▪ Low correlation to traditional investments, especially equities ▪ Portfolio stability in difficult market phases (e.g. Corona in March 2020) ▪ Long-term target return 4-6%	▪ The task of stabilisation in the portfolio works ▪ The outlook for private debt is positive ▪ The outlook for private equity is neutral, but remains volatile	

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Current situation assessment
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Currencies	▪ No strong trends are discernible in the currency markets in the long term ▪ In the portfolio context, additional risk factor (additional volatility to the investment)	▪ US dollar with continued strong trend against the euro (and other currencies) ▪ The first interest rate hike in fifteen years appreciates the Swiss franc	▪ Technology EUR/USD (29) ▪ Technology EUR/CHF (30)
News	▪ The Corona crisis has accelerated technological applications, creating wider acceptance in the long term	Ukraine/Russia baseline scenario ▪ Ongoing war in Ukraine ▪ Sanctions against Russia remain in place ▪ Influence on global financial markets basically low; with the exception of rising commodity prices (energy crisis in Europe is exacerbated by war, but is not the only trigger of rising prices)	▪ Scenarios Ukraine (32)

Details short-term situation assessment Economy / Macro

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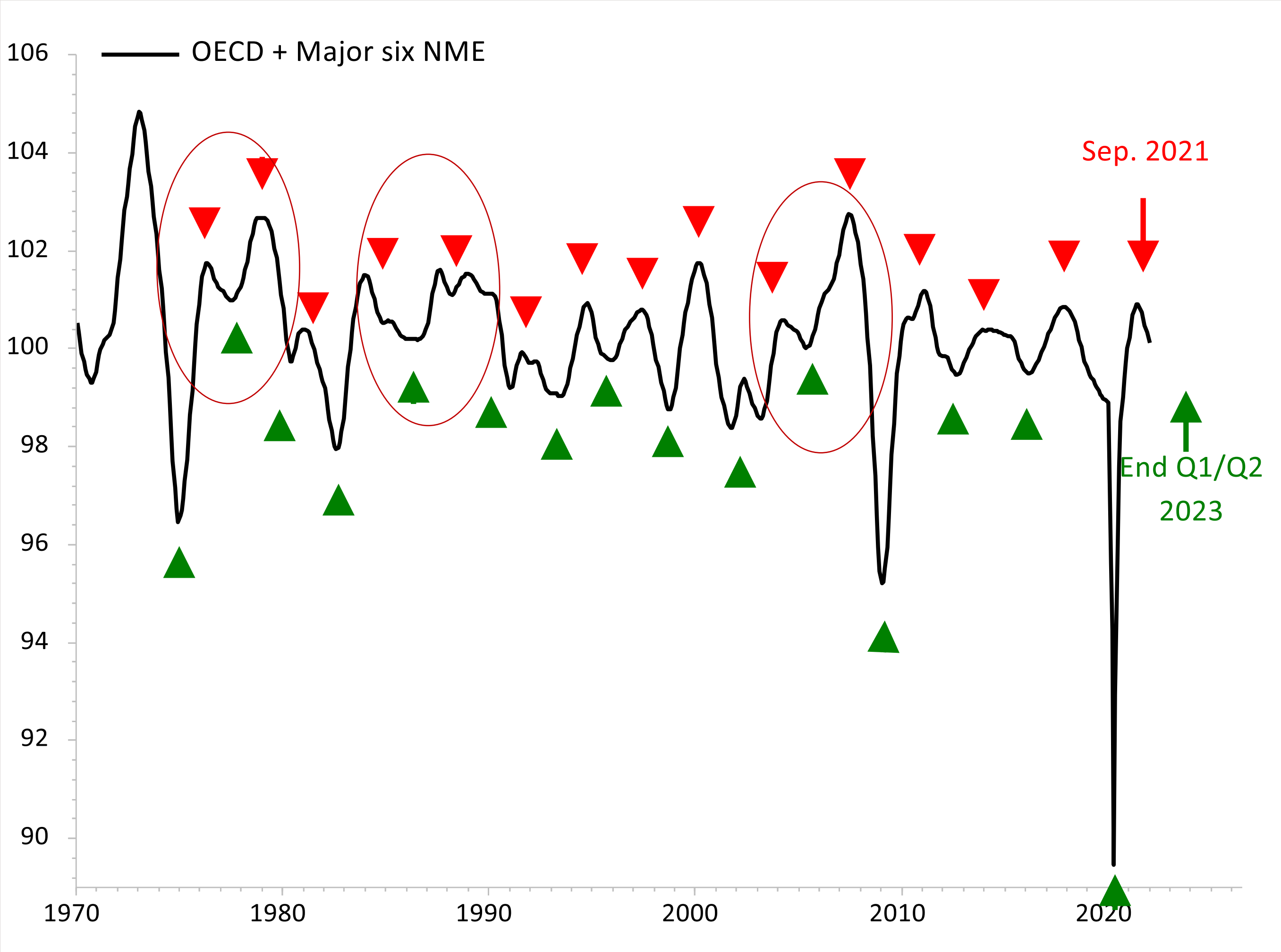
Economy / Macro
OECD Leading Indicator (Global)



Assessment
Neutral

Justification

- Significant recovery after the Corona shock 2020
- Resumption of the normal, historical cycle

Explanation

- The OECD Leading Indicators provide early signals of turning points in the business cycle (lead: 6–9 months to GDP).
- Normal cycle lasts three years, approx. 1.5 years upswing and 1.5 years downswing

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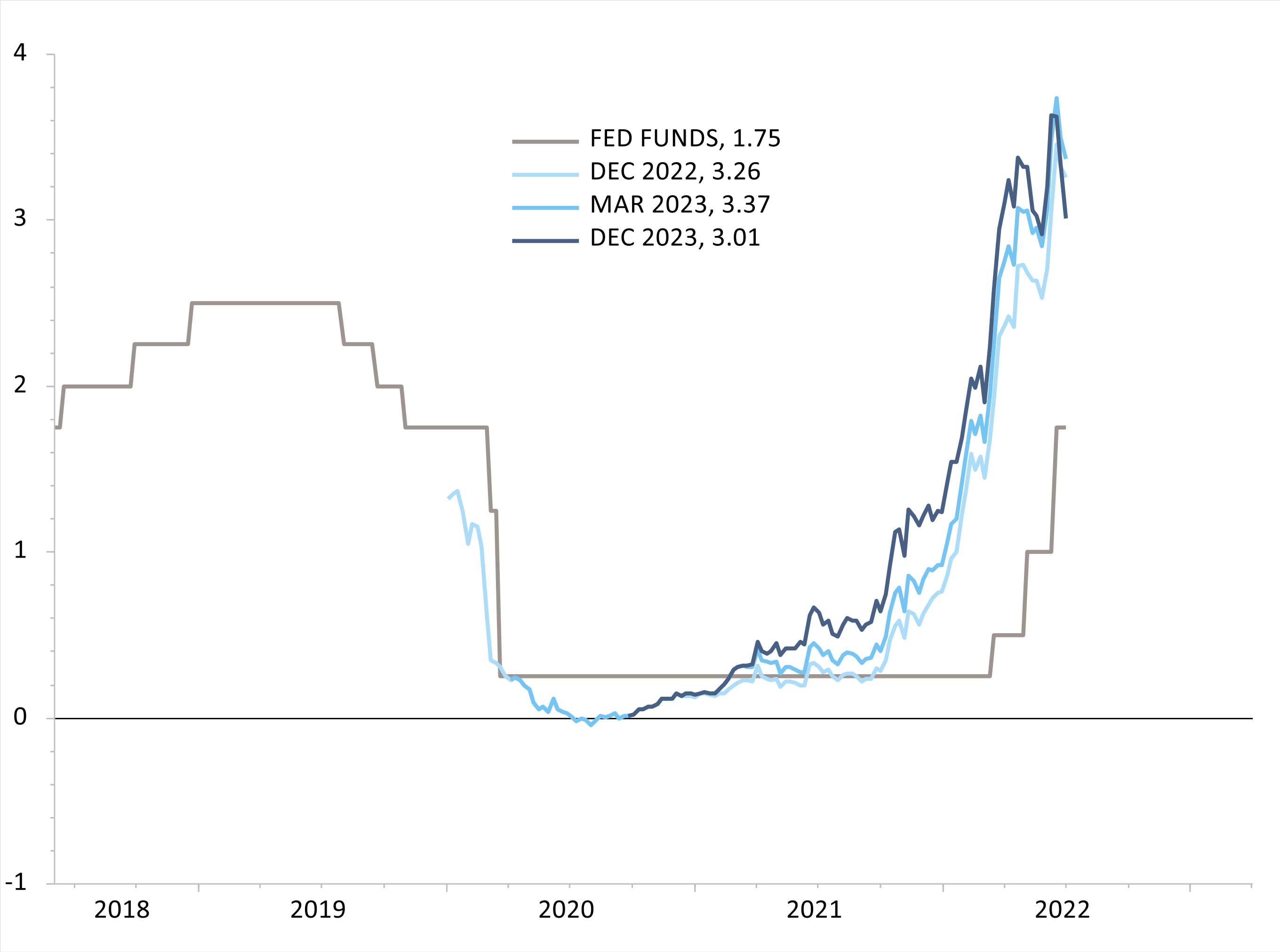
Interest rate policy
Implicit interest rate expectations (USA/Fed)



Assessment
Careful

Justification

- Rising interest rates are priced in

Explanation

- The futures markets give an indication of where market participants see the interest rate going over time

Details short-term situation assessment
Interest rate policy

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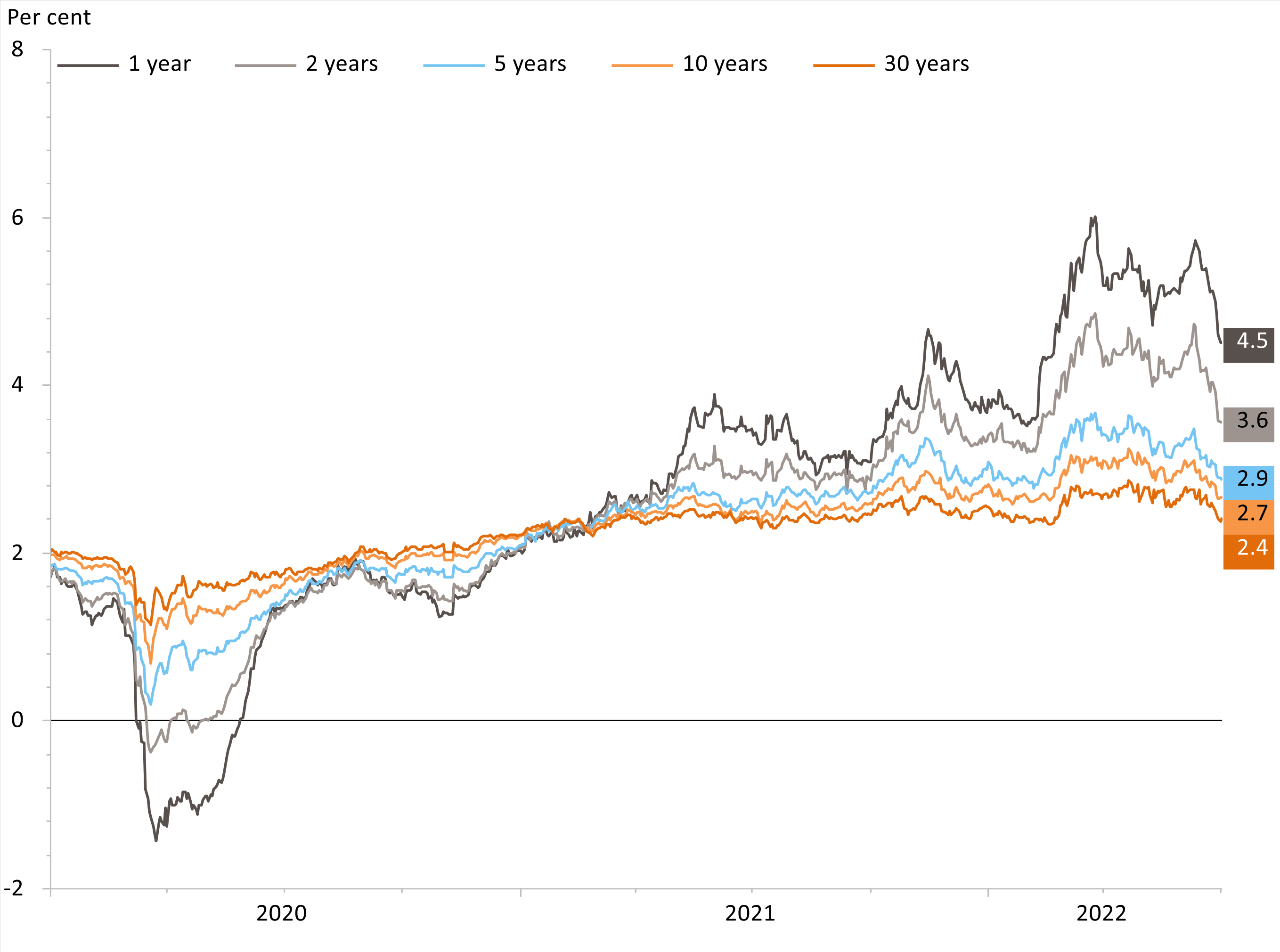
Economy / Macro
Monetary policy: Inflation expectations



Assessment
Careful

Justification

- As commodity prices rise, inflation figures settle at a higher level compared to pre-Corona times (inflation target 2%)
- Central banks' inflation target (2%) is exceeded, but is at the upper end of the central banks' comfort zone

Explanation

- Inflation expectations derived from bond markets for the next 5, 10 and 20 years

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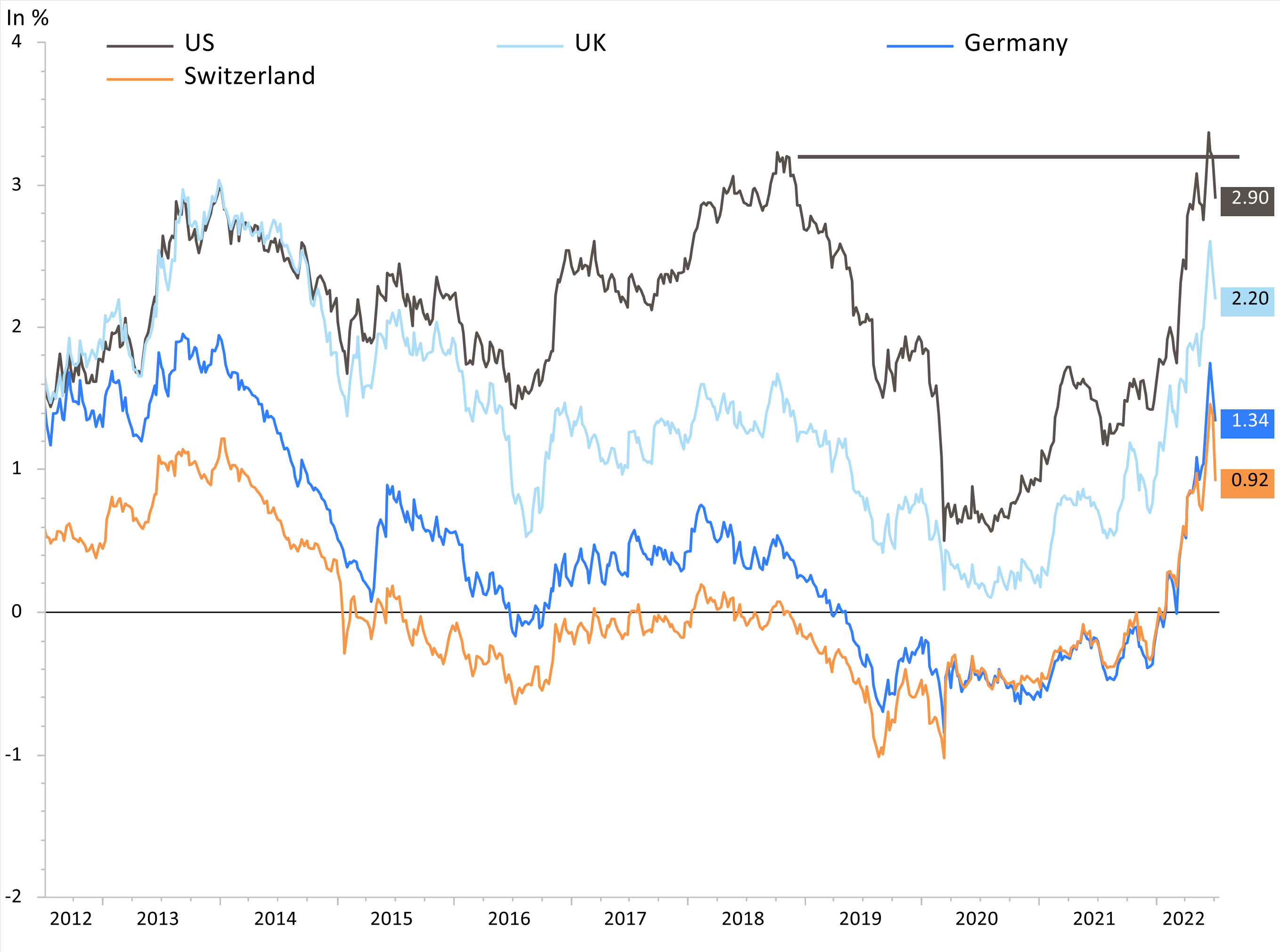
Interest rate policy
Long-term interest rate level (10 years)



Assessment
Neutral

Justification

- Negative interest rates in Germany and Switzerland are overcome
- Long–term interest rates are too low in view of the economic normalisation and are continuously rising

Explanation

- Long–term interest rate level: term 10 years

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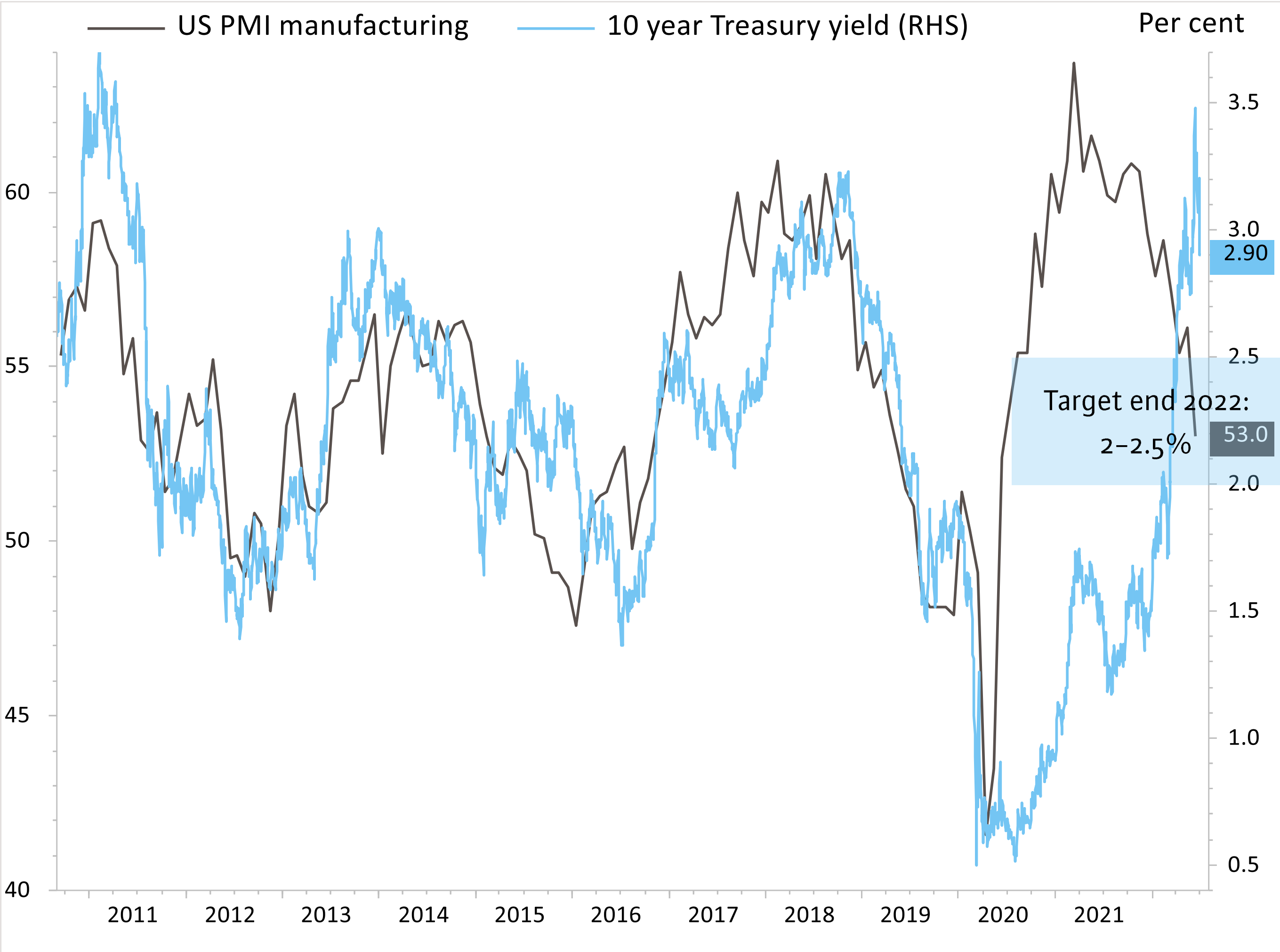
Economy / Macro
PMI (USA) and 10-year government bond (USA)



Assessment
Positive

Justification

- The solid economic environment argues for stagnating/slightly falling interest rates

Explanation

- Bond markets are sensitive to economic growth. The 10-year US government bonds are based on the level of the US Purchasing Managers' Index (ISM).

Details short-term situation assessment

Bonds

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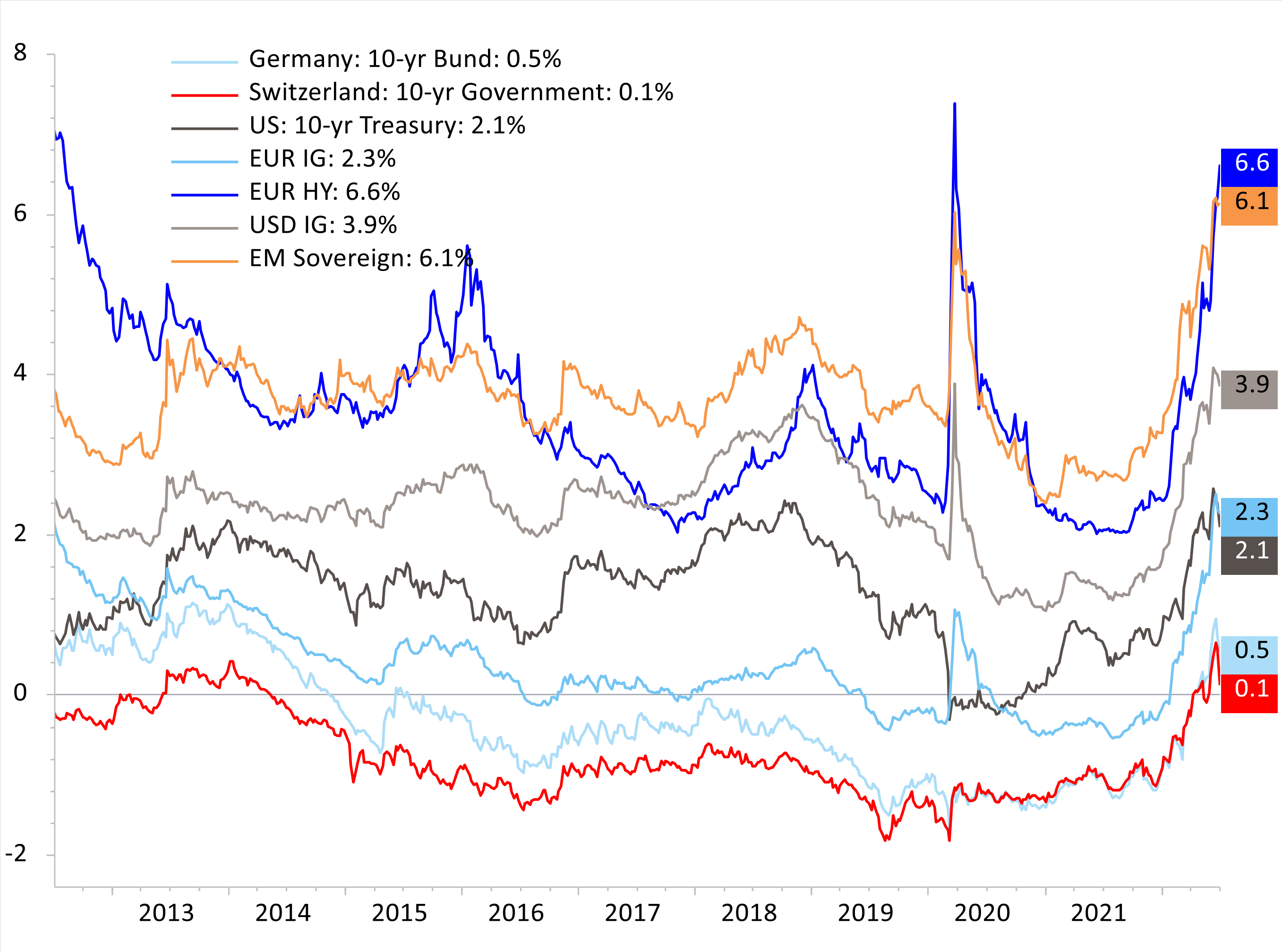
Yield: Yield to Maturity
EUR Investment Grade



Assessment
Positive

Justification

- Rising yields bring opportunity
- Maturity limitation with advantages in the environment of rising interest rates

Explanation

- Lower interest rate environment is positive and goes hand in hand with higher bond prices
- Interest rate determines attractiveness
- Net returns

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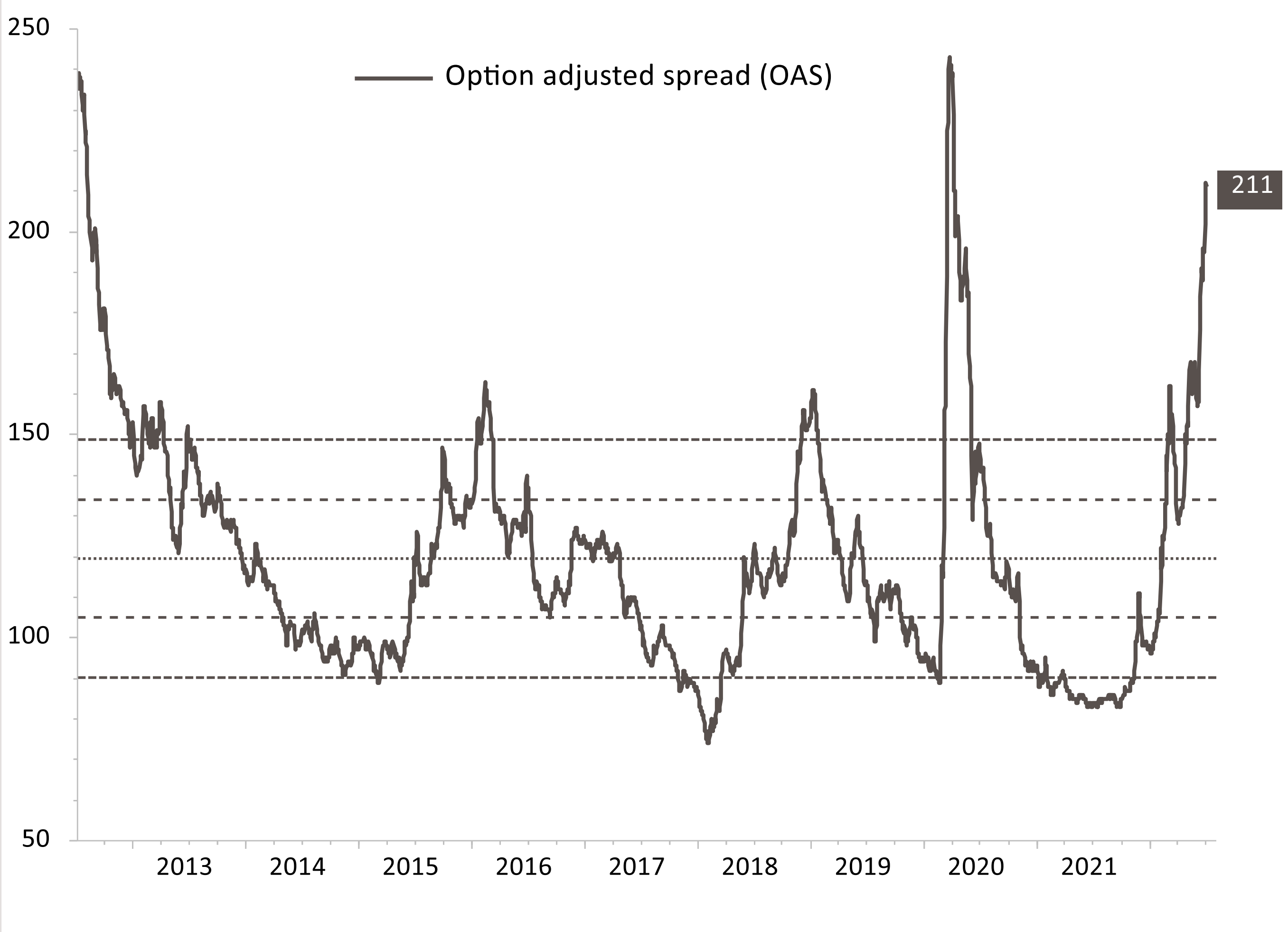
Risk premium

Interest rate differential to government bond: EUR investment grade



Assessment

Very positive

Justification

- Above twice the standard deviation

Explanation

- The interest rate differential between the index and the government bond is a measure of the attractiveness of the bonds
- Option Adjusted Spread (OAS) shows this interest rate difference to the government bond
- The higher the difference, the more attractive
- Independent of the interest rate level and thus comparable over time

Details short-term situation assessment
Equities

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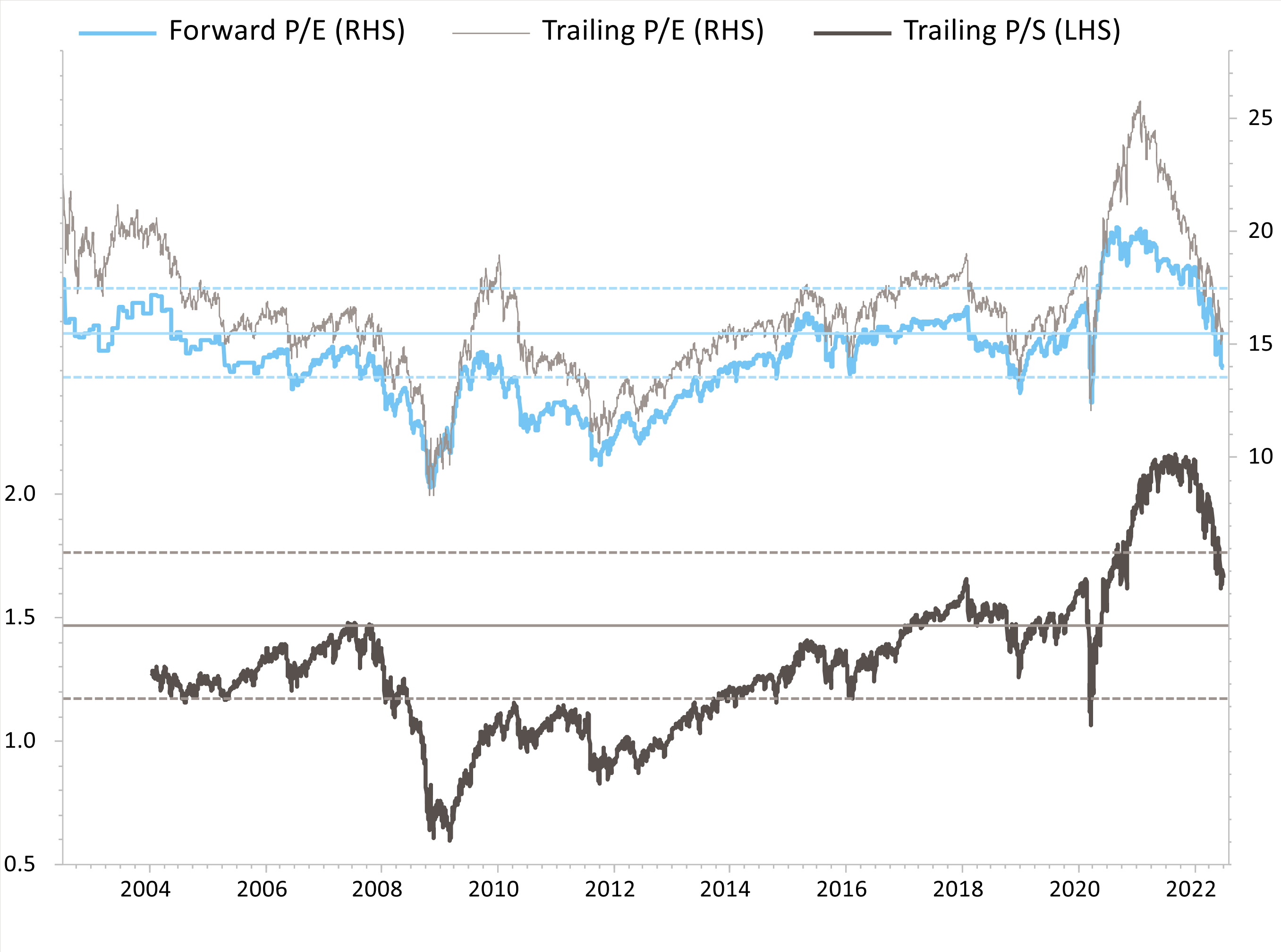
Valuations
Price-earnings ratio (Global)



Assessment
Neutral

Justification
- Historically above-average valuation
- Highest value in the last 15 years

Explanation
- Valuation in 10-year historical comparison with average and standard deviation
- In case of extreme valuation compared to historical ranges positive or negative impulse
- Expected profits (top) and realised sales (bottom)

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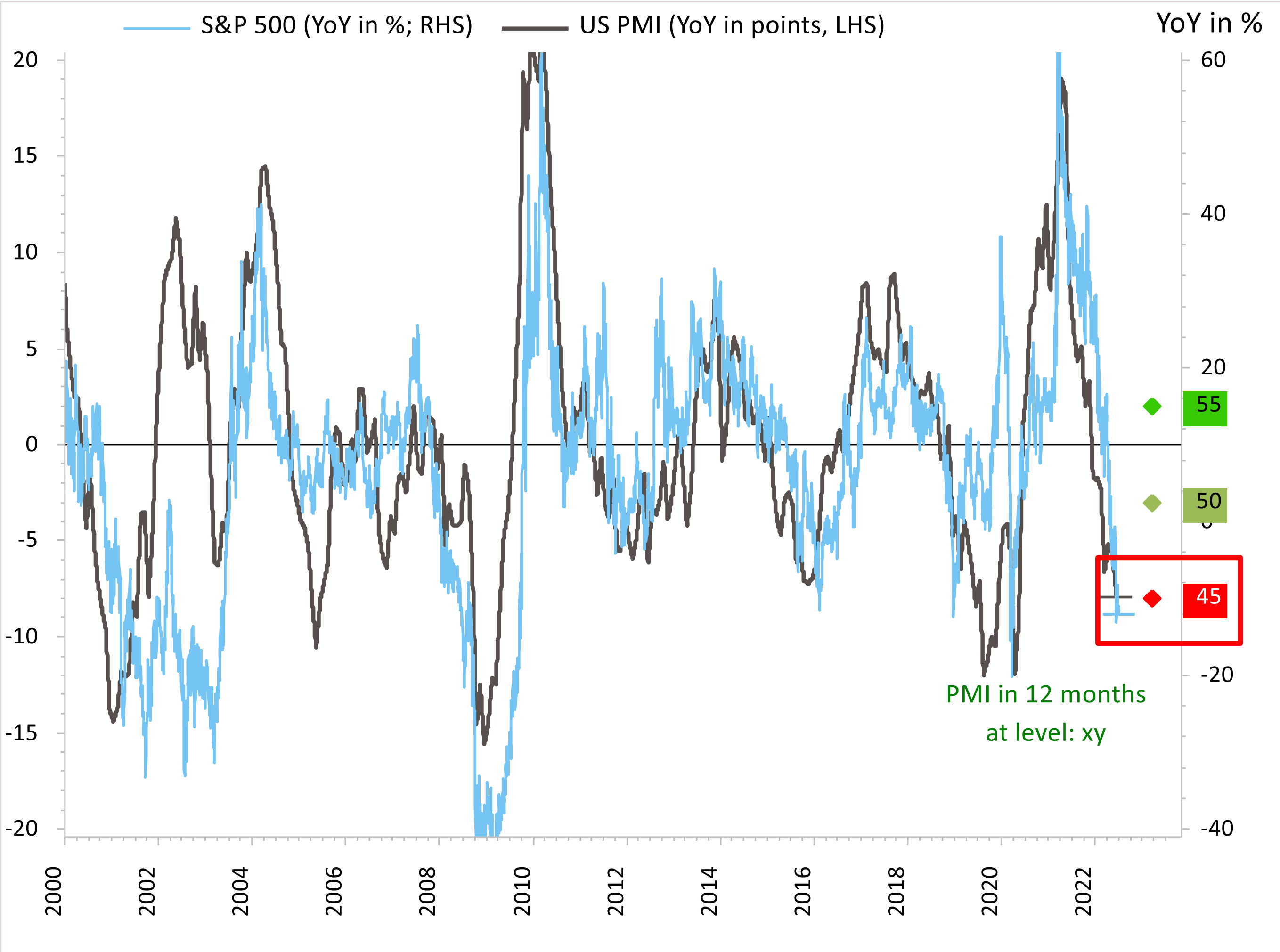
Economy / Macro
PMI (USA) and S&P 500



Assessment
Neutral

Justification

- Currently, the stock markets are pricing in a recessionary economic development (PMI=45).
- A PMI of 45 corresponds to a correction potential of 0% from the current level

Explanation

- S&P 500 year-on-year shows the stock market's expectation for the economic cycle

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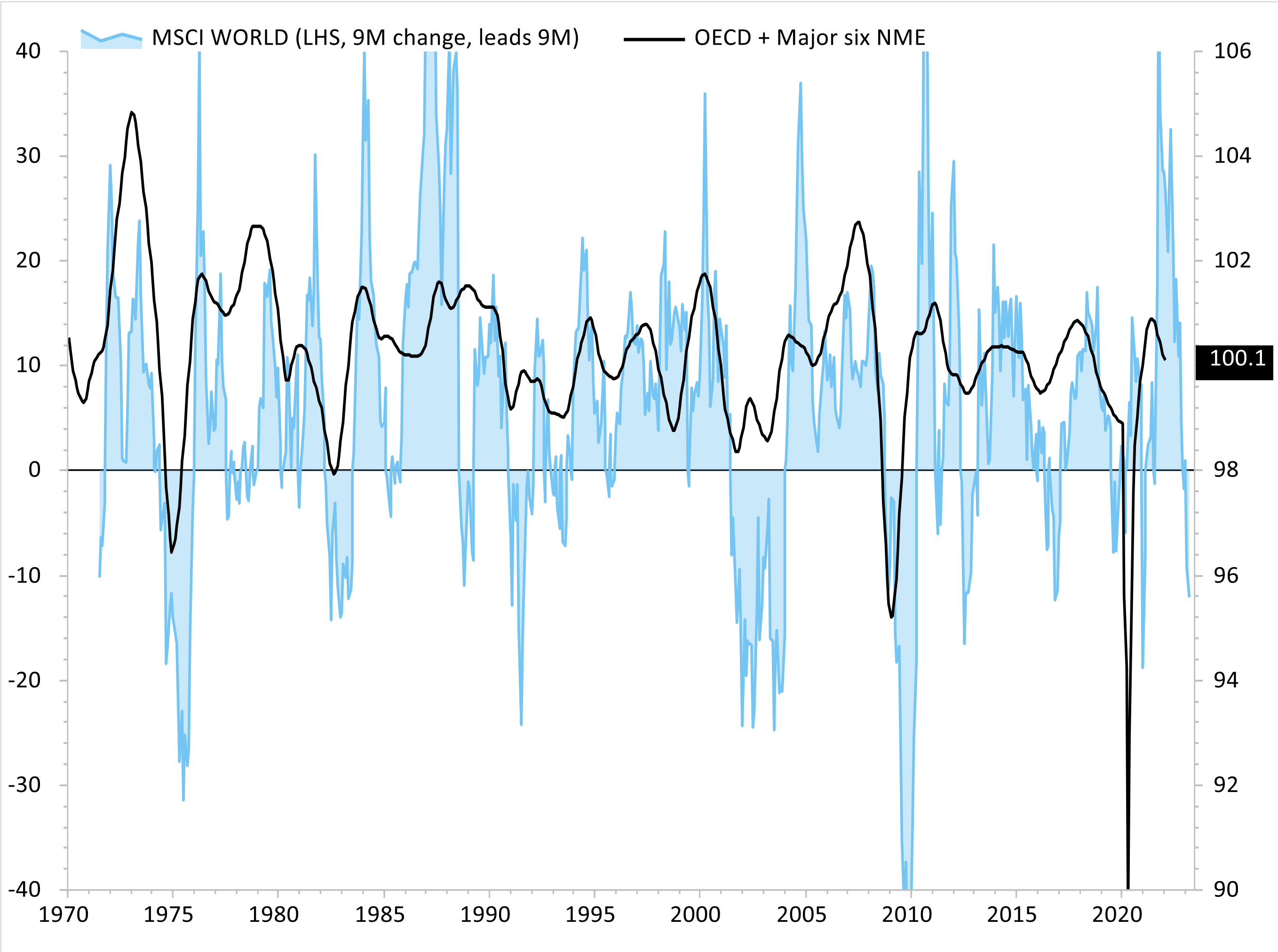
Economy / Macro
OECD Leading Indicator (Global)



Justification

- Best correlation with lead in equities of 3–6 months
- At 9 months correlation still strong
- Not all cycles behave the same

Explanation

- The OECD Leading Indicators provide early signals of turning points in the business cycle (lead: 6–9 months to GDP).
- Normal cycle lasts three years, approx. 1.5 years upswing and 1.5 years downswing

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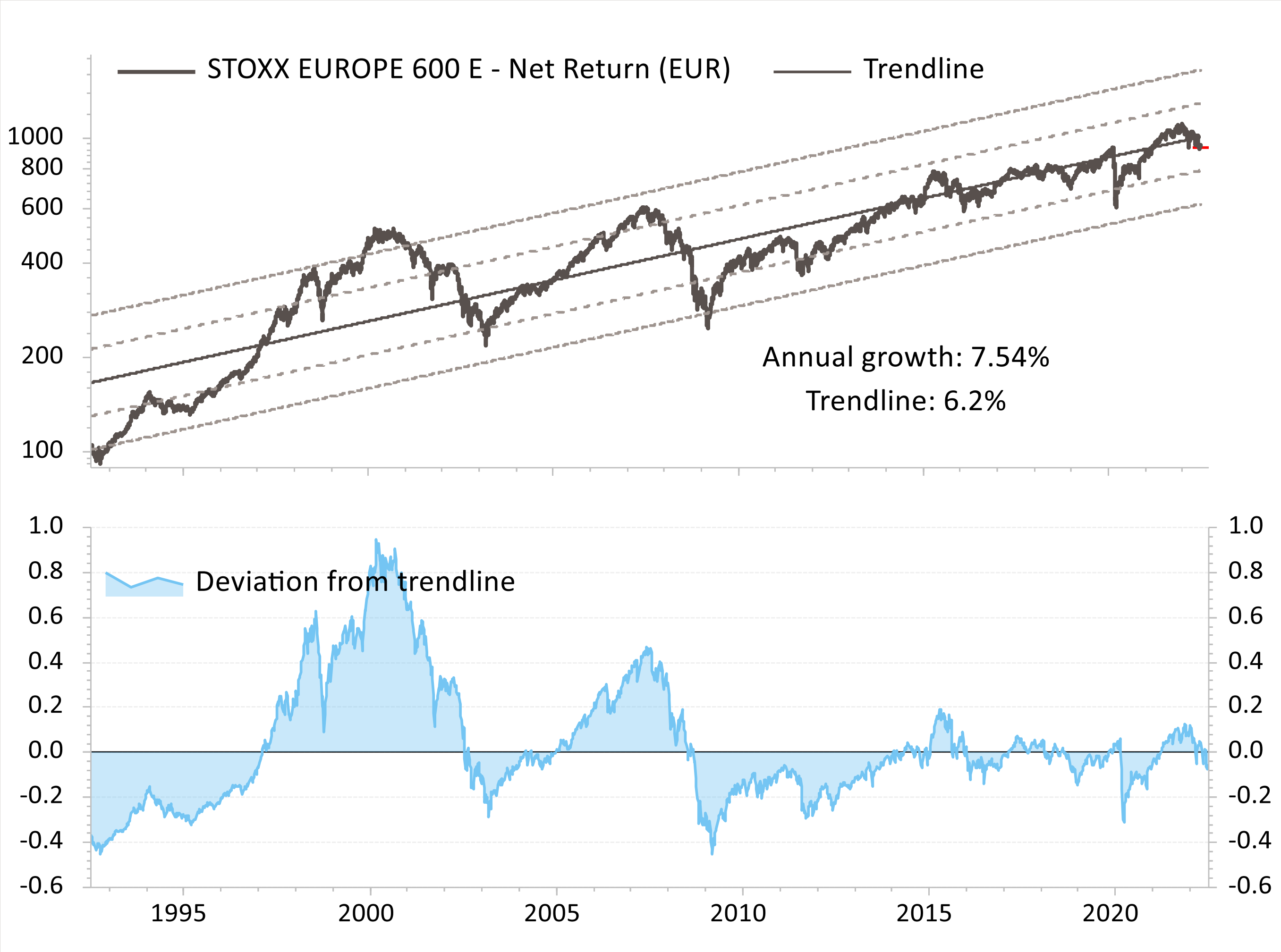
Strategy / Trend channels
30 years (Europe)



Assessment
Neutral

<u>Justification</u>

- Close to long-term trend growth
- No exaggeration in the current environment

<u>Explanation</u>

- Equity indices move in long-term trend channels and deviate to varying degrees from the average development

Details short-term situation assessment Commodities – Precious Metals

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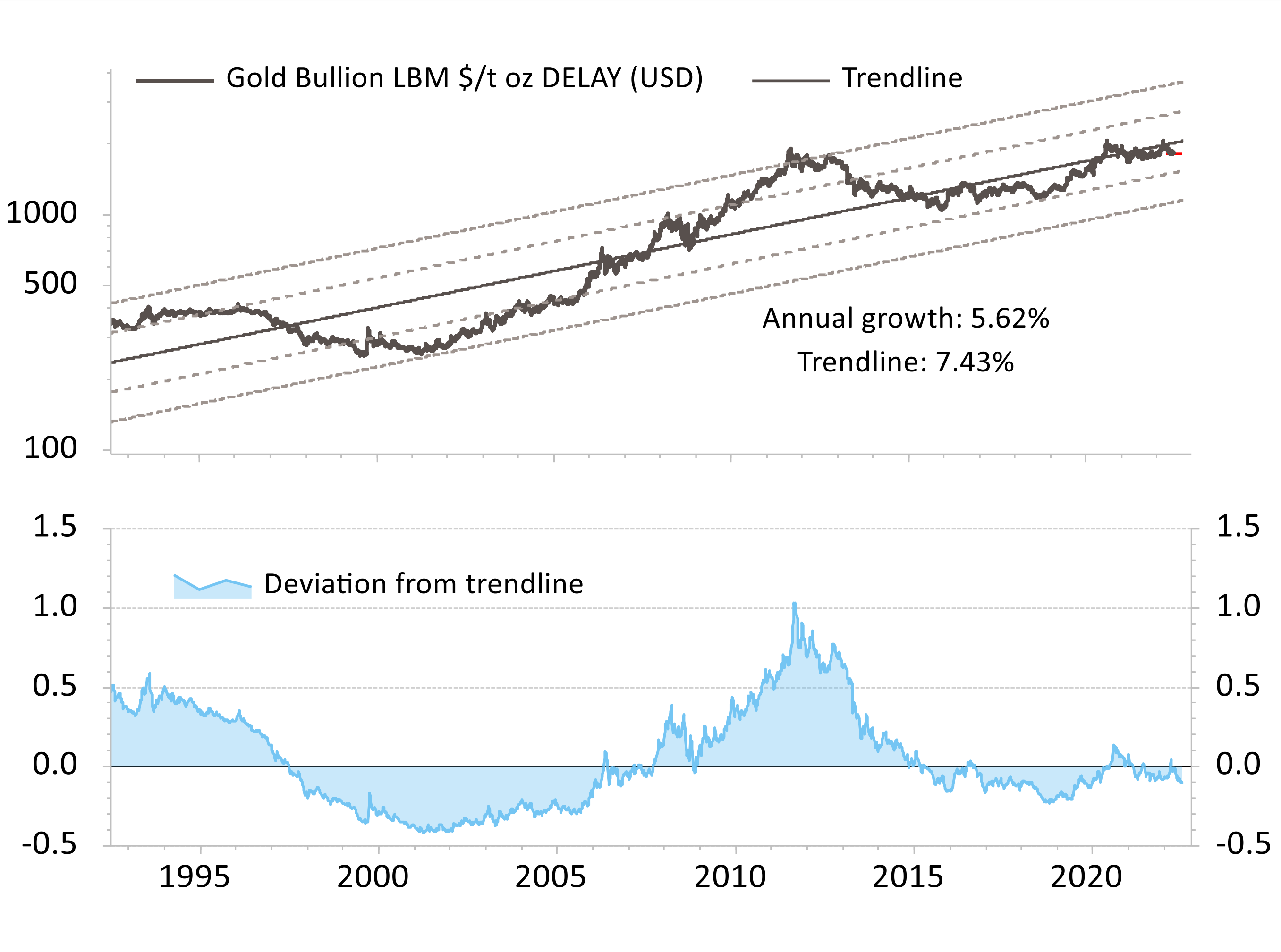
Strategy / Trend Channels
30 years (Gold)



Assessment

Neutral

Justification

- Very close to the long-term trend line
- Average annual growth of approx. 5%

Explanation

- Gold price moves in a long-term trend channel and deviates from the average trend to varying degrees

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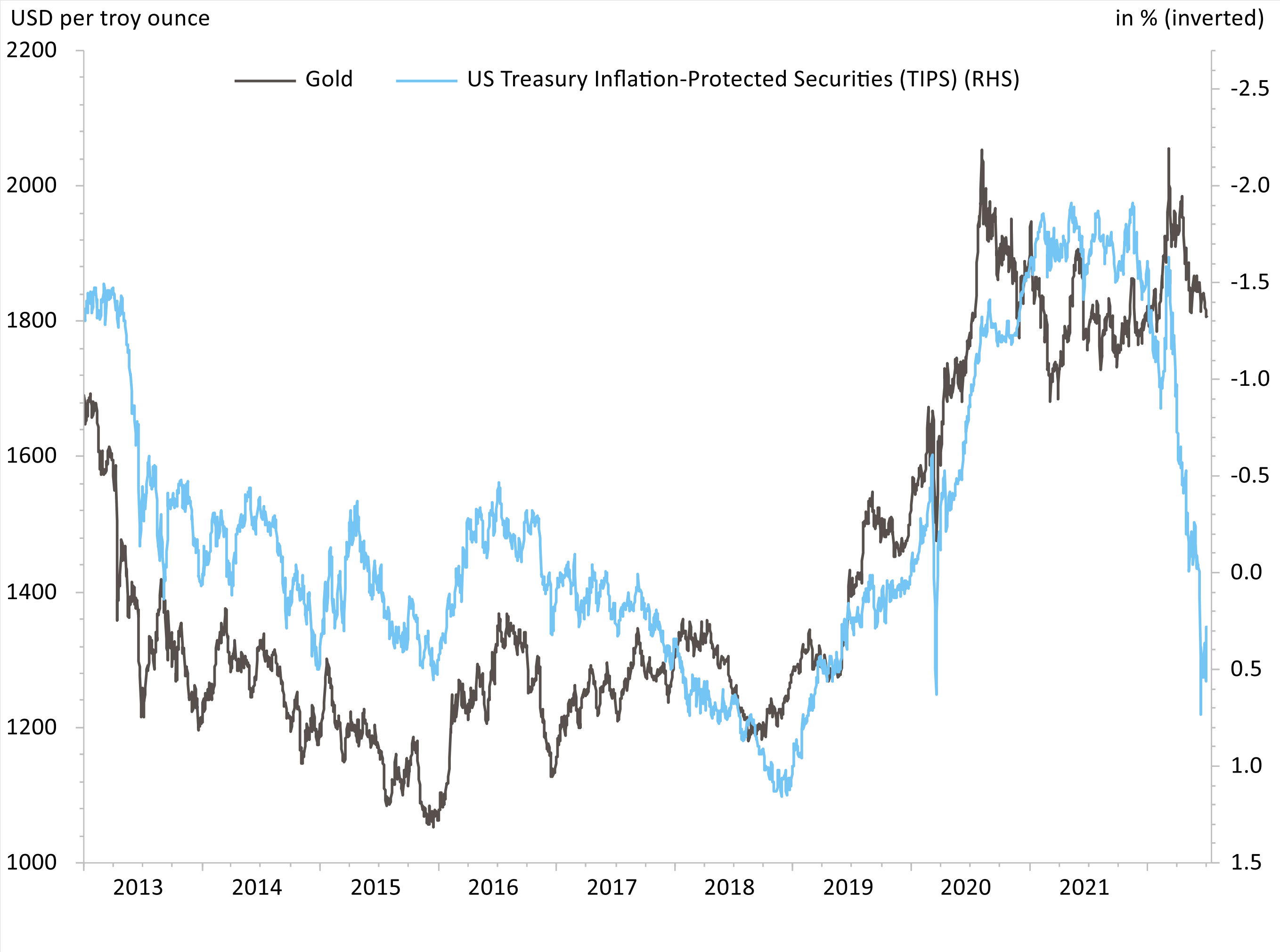
Monetary policy
Real yield and gold price



Assessment
Careful

<u>Justification</u>

- Rising real interest rates make gold less attractive in comparison

<u>Explanation</u>

- Strong negative correlation between gold price development and US Treasury Inflation Protected Securities (TIPS)
- The TIPS reflect the level of the real return via inflation protection

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Details short-term situation assessment
Commodities – Raw Materials

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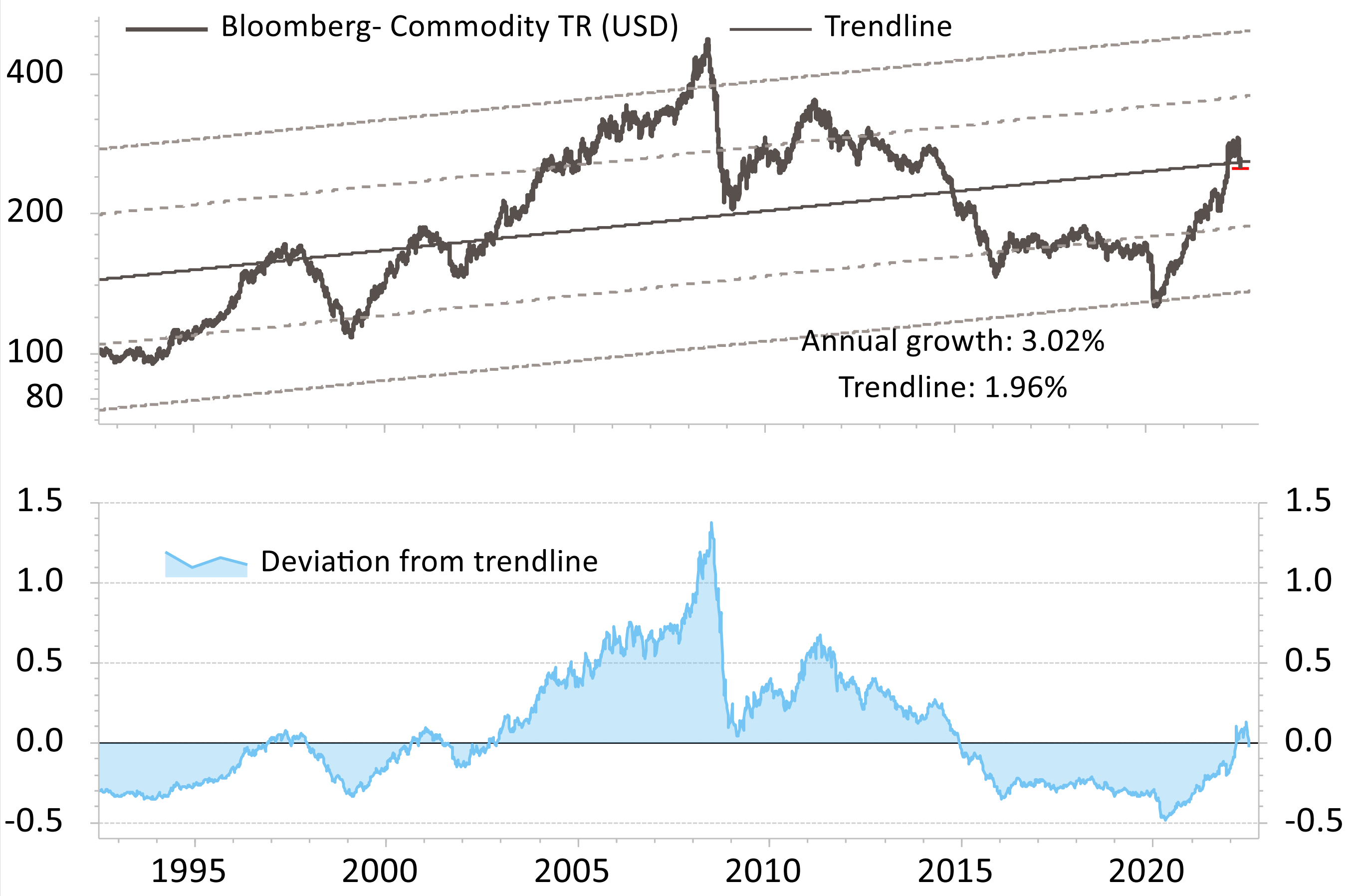
Strategy / Trend channels
30 years (Commodities)



Assessment
Neutral

Justification
- Strong deviation from the trend line
- Within the simple standard deviation

Explanation
- Commodity index (Bloomberg Commodity Index) moves in a trend channel
- Commodities include energy, precious and industrial metals and agricultural goods

Details short-term situation assessment
Currencies

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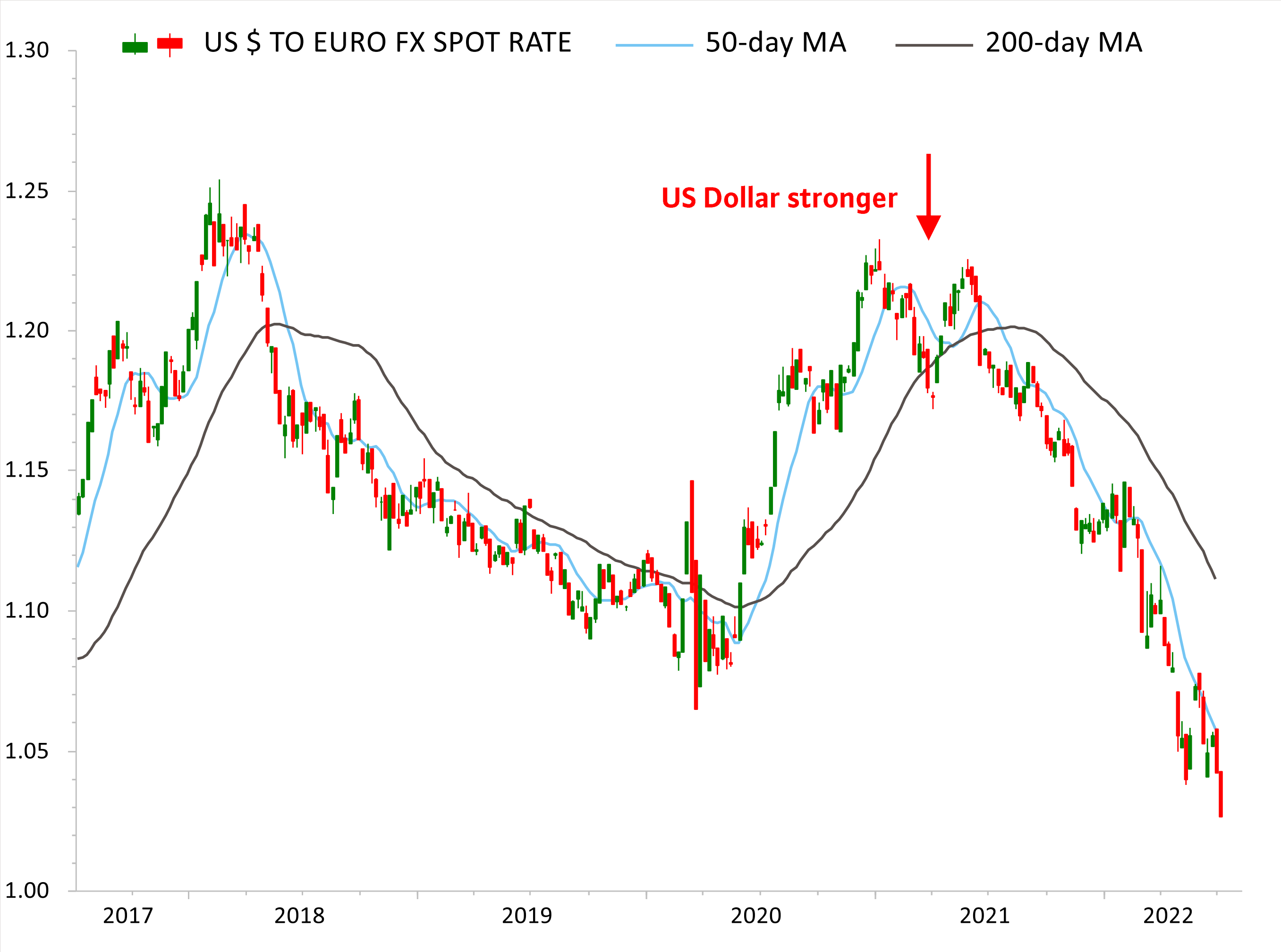
Market technique
200- and 50-day moving average (EUR/USD)



Assessment
Positive

<u>Justification</u>

- Price below the two average lines
- Slope of the long-term trend (200 days): negative (USD strength)
- Slope of medium-term trend (50 days): negative (USD strength)

<u>Explanation</u>

- Comparison of the current price with the 50 and 200 day average lines
- 200-day average line: long-term trend
- 50-day average line: medium-term trend

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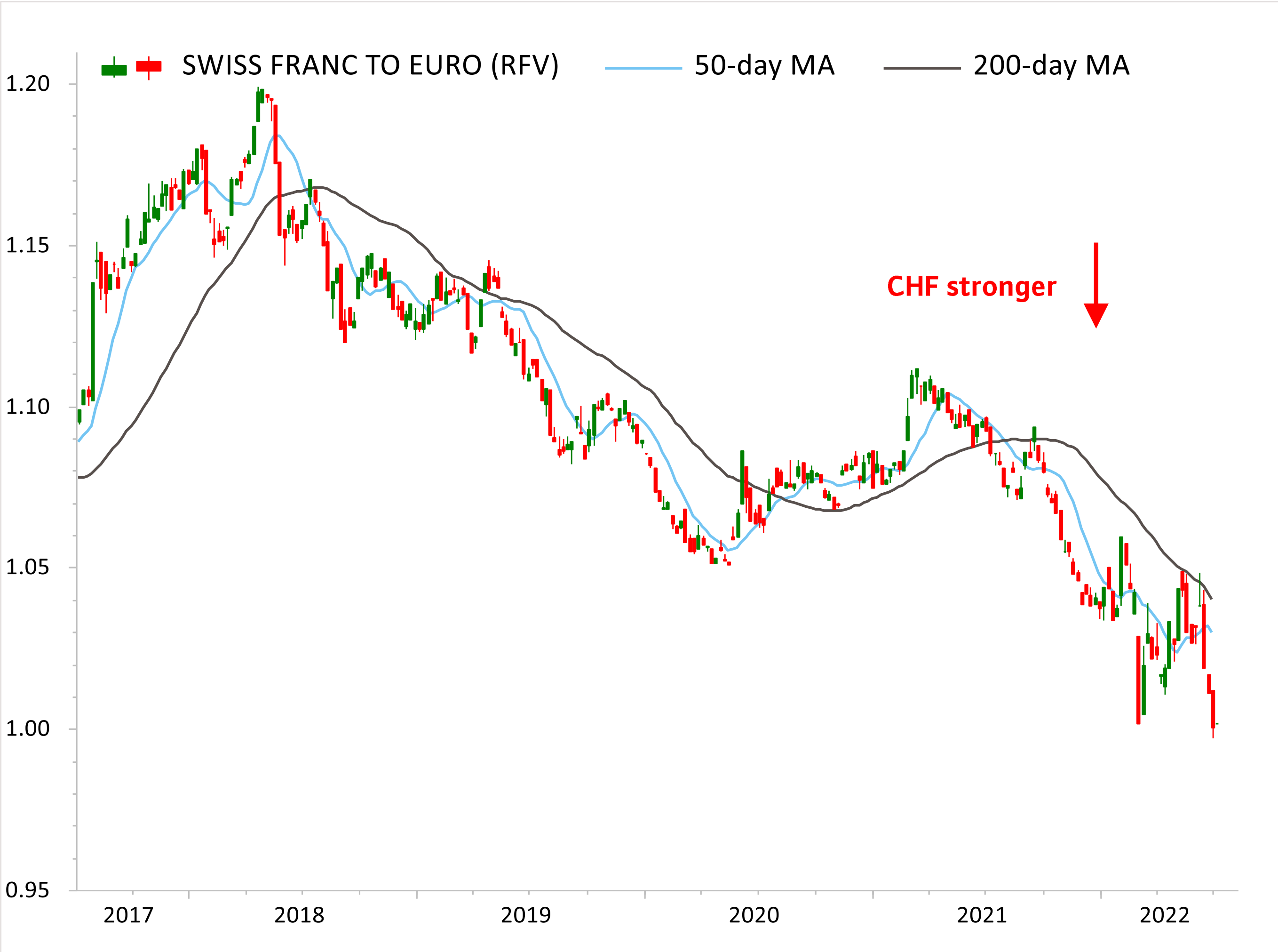
Market technique

200- and 50-day moving average (EUR/CHF)



Assessment
Positive

<u>Justification</u>

- Course between the two average lines
- Slope of the long-term trend (200 days): positive
- Slope of the medium-term trend (50 days): neutral

<u>Explanation</u>

- Comparison of the current price with the 50 and 200 day average lines
- 200-day average line: long-term trend
- 50-day average line: medium-term trend

Details short-term situation assessment

News

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Ukraine crisis
Work scenarios

	Scenarios	Description	Affected asset classes
	Deposition of Putin	– Coup from within the Russian government, e.g. via oligarchs – Political orientation unclear, but conciliatory thrust – Sanctions are lifted	– Equities: +20% – Bonds +5% – Commodities: -20%
	Sustainable peace negotiations	– Search for a face-saving solution for all parties involved – Division into a Russian and Ukrainian part – Sanctions are gradually being lifted	– Equities: +10% – Bonds +/-0% – Commodities: -10%
Current baseline scenario	Ongoing conflict/war	– Long lasting war – Sanctions against Russia remain in place – Influence on financial markets decreases after initial uncertainty (bottoming out after 20 days after outbreak of war)	– Equities: +/-10% – Bonds +/-0% – Commodities : +10
	Russia wins	– Russia's military victory over Ukraine – Installation of a pro-Russian government in Ukraine – Sanctions against Russia remain in place	– Equities: -10% – Bonds -5% – Commodities: +20%
	Escalation of the conflict with NATO participation	– Involvement of NATO in conflict – Outbreak of World War 3 with use of nuclear weapons	– Equities: -40% – Bonds +10% – Commodities: -40%

Overview of all short-term indicators

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Short-term situation assessment
Summary

Asset class	Estima-tion	TAA – o +	Analysis									
Liquidity												
Bonds												
Government Bonds	*Negative*		*Macro*	*Int. rate policy*	*Yield*		*Default risk*	*Correlation*	*Uncertainty*	*News*	*Partner*	
Investment Grade	*Neutral*		*Macro*	*Int. rate policy*	*Yield*	*Premium*	*Default risk*	*Correlation*	*Uncertainty*	*News*	*Partner*	
High Yield	*Neutral*		*Macro*	*Int. rate policy*	*Yield*	*Premium*	*Default risk*	*Correlation*	*Uncertainty*	*News*	*Partner*	
Emerging Markets	*Neutral*		*Macro*	*Int. rate policy*	*Yield*	*Premium*	*Default risk*	*Correlation*	*Uncertainty*	*News*	*Partner*	
Equities	*Neutral*		*Macro*	*Mon. policy*	*Trend*	*Profits*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Europe	*Positive*		*Macro*	*Mon. policy*	*Trend*	*Profits*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
USA	*Neutral*		*Macro*	*Mon. policy*	*Trend*	*Profits*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Emerging Markets	*Neutral*		*Macro*	*Mon. policy*	*Trend*	*Profits*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Technology	*Careful*		*Macro*	*Mon. policy*	*Trend*	*Profits*	*Evaluation*	*Mood*	*Technology*	*News*		
Health Care	*Careful*		*Macro*	*Mon. policy*	*Trend*	*Profits*	*Evaluation*	*Mood*	*Technology*	*News*		
Commodities												
Gold	*Neutral*		*Macro*	*Mon. policy*	*Trend*	*US Dollar*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Raw Materials	*Neutral*		*Macro*	*Mon. policy*	*Trend*	*US dollar*		*Mood*	*Technology*	*News*	*Partner*	
Alternative Investments												
Private Debt												
Private Equity												
Diversified (HF)												

Legend: *Negative* *Careful* *Neutral* *Positive* *Very positive* *Upgrade* *Downgrade*

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Short-term situation assessment
Summary

Asset class	Estima-tion	TAA – o +	Analysis									
Euro												
US Dollar (EUR/USD)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Franc (EUR/CHF)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*		*Technology*	*News*	*Partner*	
Pound (EUR/GBP)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*		*Technology*	*News*	*Partner*	
Swiss Franc												
US dollar (USD/CHF)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Euro (EUR/CHF)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*		*Technology*	*News*	*Partner*	
Pound sterling												
US Dollar (GBP/USD)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Euro (EUR/GBP)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*		*Technology*	*News*	*Partner*	
US Dollar												
Euro(EUR/USD)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Swiss franc (USD/CHF)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
Pound (GBP/USD)	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	
US Dollar Index	*Neutral*		*Macro*	*Politics*	*Trend*	*Interest*	*Evaluation*	*Mood*	*Technology*	*News*	*Partner*	

Legend: *Negative* *Careful* *Neutral* *Positive* *Very positive* *Upgrade* *Downgrade*

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