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Wealth Management

CURRENT SITUATION ASSESSMENT

4th quarter 2022

October 22

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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	Careful		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	Neutral		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	Neutral				6-8%	Neutral		Careful	Careful	
Health Care	Neutral				6-8%	Neutral		Careful	Neutral	
Commodities										
Gold	Neutral		4,5%	15,5%	4-5%	Neutral		Neutral	Neutral	
Raw Materials	Positive		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 | Cautious | Neutral | Positive | Very positive | Upgrade | Downgrade

Current situation assessment
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 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 low in March 2023, until then further decline in economic momentum, or recessionary trend from the beginning of 2023 onwards ▪ Falling energy and food prices, supply chains that are functioning again and stagnating real estate development are causing consumer prices to fall ▪ The labour market will cloud over	▪ OECD leading indicator (9) ▪ Global consumer prices (10) ▪ Labour market (11) ▪ Inflation expectations (12) ▪ Expected interest rate steps of the US central bank, derived from the futures market curve (10)
Interest	▪ Fiscal policy measures bring inflationary pressure ▪ Short-term interest rates rise steadily due to persistent inflationary pressures (above 2%) ▪ Even with long-term interest rates, the trend towards rising interest rates persists	▪ Expectations of future inflation have already fallen sharply, reflecting the slowdown in economic growth. ▪ Only the turnaround in consumer price inflation will take pressure off central banks and bring a temporary end to the rise in short-term interest rates. ▪ Short-term interest rates will consequently rise less than expected ▪ Long-term interest rates are also showing signs of reaching a peak (US 10-year interest rate heading towards 3%).	▪ Inflation expectations (13) ▪ Expected interest rate steps of the European Central Bank (ECB), derived from the futures market curve (14) ▪ Long-term interest rate development (15) ▪ Relationship between interest rate level and economic activity (16)

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Current situation assessment
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Bonds	▪ After the rise in interest rates, yields have become more attractive again and we were able to adjust the target yields upwards ▪ Government bonds and investment grade bonds are vulnerable to interest rate changes, which is why we prefer maturities of 3-4 years maximum ▪ Both investments are irreplaceable as defensive building block (low or negative correlations with equities) in the portfolio ▪ High-yield and emerging market bonds have a higher risk profile, but promise higher yields as compensation	▪ The increased risk premiums offer opportunity and increase the attractiveness in addition to the increased expiry yields ▪ Interest rate decline at the end of the year brings recovery potential ▪ Government bonds become more attractive, but remain less attractive compared to bonds of first-class borrowers due to the somewhat lower yield potential ▪ Investment grade bonds bring stability to the portfolio due to the low correlation to equities and are preferable to government bonds because of the yield buffer (higher compared to government bonds) ▪ High-yield and emerging market bonds are significantly above target returns, but also have a higher risk due to the higher correlation to equities ▪ In a weak economic environment, high-yield and emerging market bonds are additionally exposed to rising default risk	▪ Comparison YTM (18) ▪ Risk premiums (19) ▪ Default risks (20)

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Current situation assessment
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Shares	▪ Fiscal policy measures provide a solid foundation for further gains ▪ The neutral valuation level argues for returns in line with the historical average of 6-8% in the long term ▪ The US benefits from a more aggressive fiscal policy ▪ Europe is still facing structural problems. Many years of underperformance continue ▪ 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 equity market anticipates the coming economic low with a lead time of three to six months and prices in the brightening economic environment ahead of time (Oct to Dec) ▪ As equity markets are already pricing in a recessionary environment, we expect a bottom to be reached in the course of Q4. ▪ The very negative investor sentiment also signals that there is a lot of negativity in current prices ▪ The decline in inflation and interest rates additionally supports equities, especially the growth segment ▪ Uncertainty may arise in view of the "only" average valuation level with unclear corporate earnings development and the geopolitical risks remaining high	▪ OECD leading indicator (9) ▪ Equities anticipate the economic cycle (22) ▪ Recession in equities priced in (23) ▪ Negative investor sentiment (24) ▪ Rating (25)

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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 burdened by dollar rise ▪ With the turnaround in interest rates, the attractiveness of gold increases again ▪ Commodities still no exaggeration despite good performance, in long-term trend growth ▪ Exaggeratedly negative sentiment on commodities given the very good fundamental situation (demand for commodities due to energy transition)	▪ Gold and USD (27) ▪ Real yield and gold (28) ▪ Trend raw materials (30) ▪ Mood raw materials (31)
Alternative investments	▪ More attractive yield compared to fixed income ▪ Low correlation with 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 especially well for private debt ▪ Private equity is also subject to certain risks and cannot escape the volatility of traditional asset classes ▪ The outlook for private debt is positive ▪ The outlook for private equity is neutral, we expect volatility to decrease	

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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)	▪ The two strong drivers in favour of the US dollar (equity market and economic downturn also apply to the Swiss franc in a weakened form) turn around in the course of Q4. ▪ US dollar trend reversal supported by extreme trend deviation and high valuation ▪ From Q4 2022, EUR, GBP trend stronger and USD, CHF weaker	▪ US dollar and the economy (33) ▪ US dollar and equity market (34) ▪ EUR/USD trend deviation (35) ▪ EUR/USD valuation (37)
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 (38)

Details short-term situation assessment Economy / Macro

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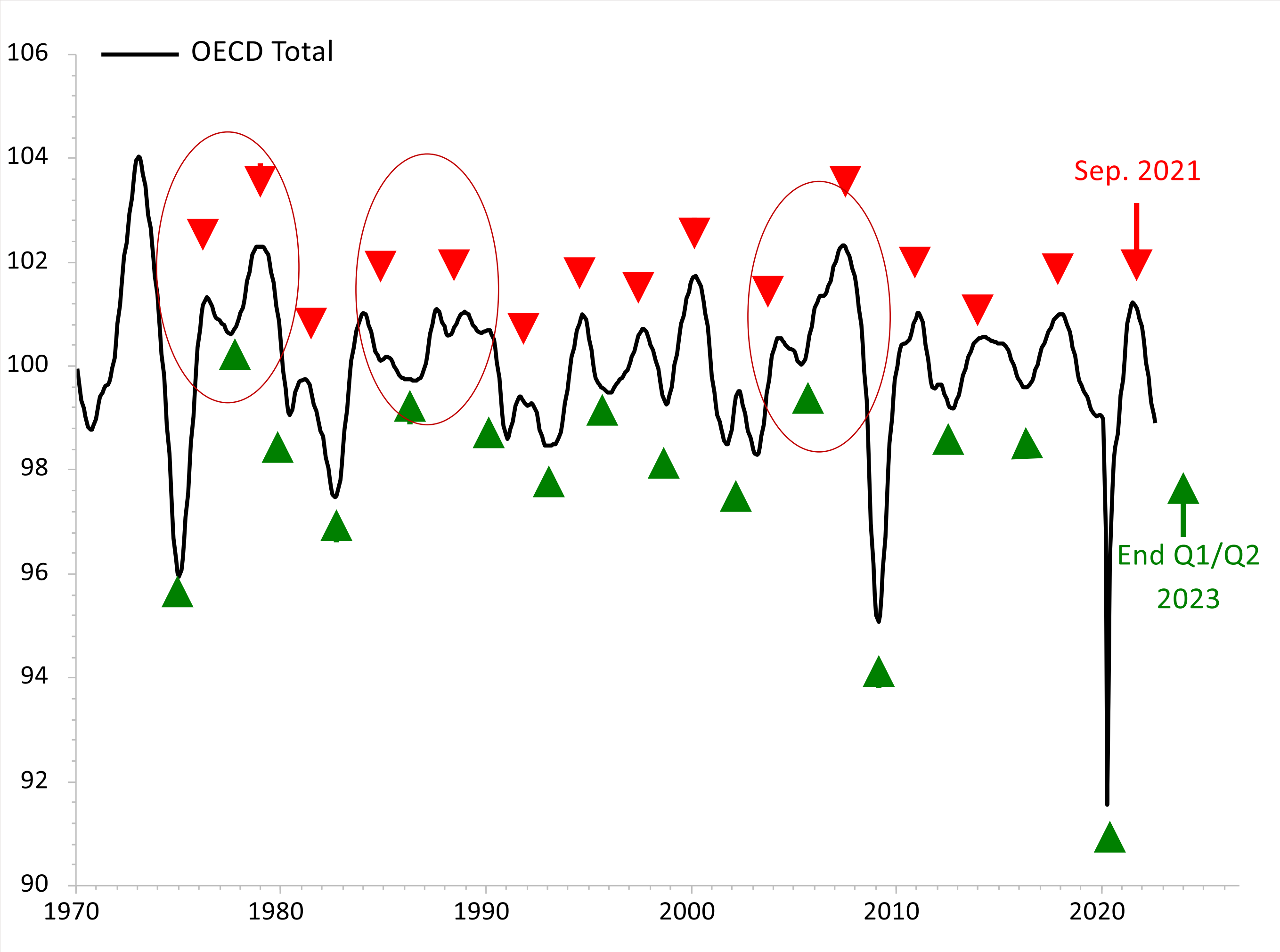
Economy/Macro
OECD Leading Indicator (Global)



Assessment
Careful

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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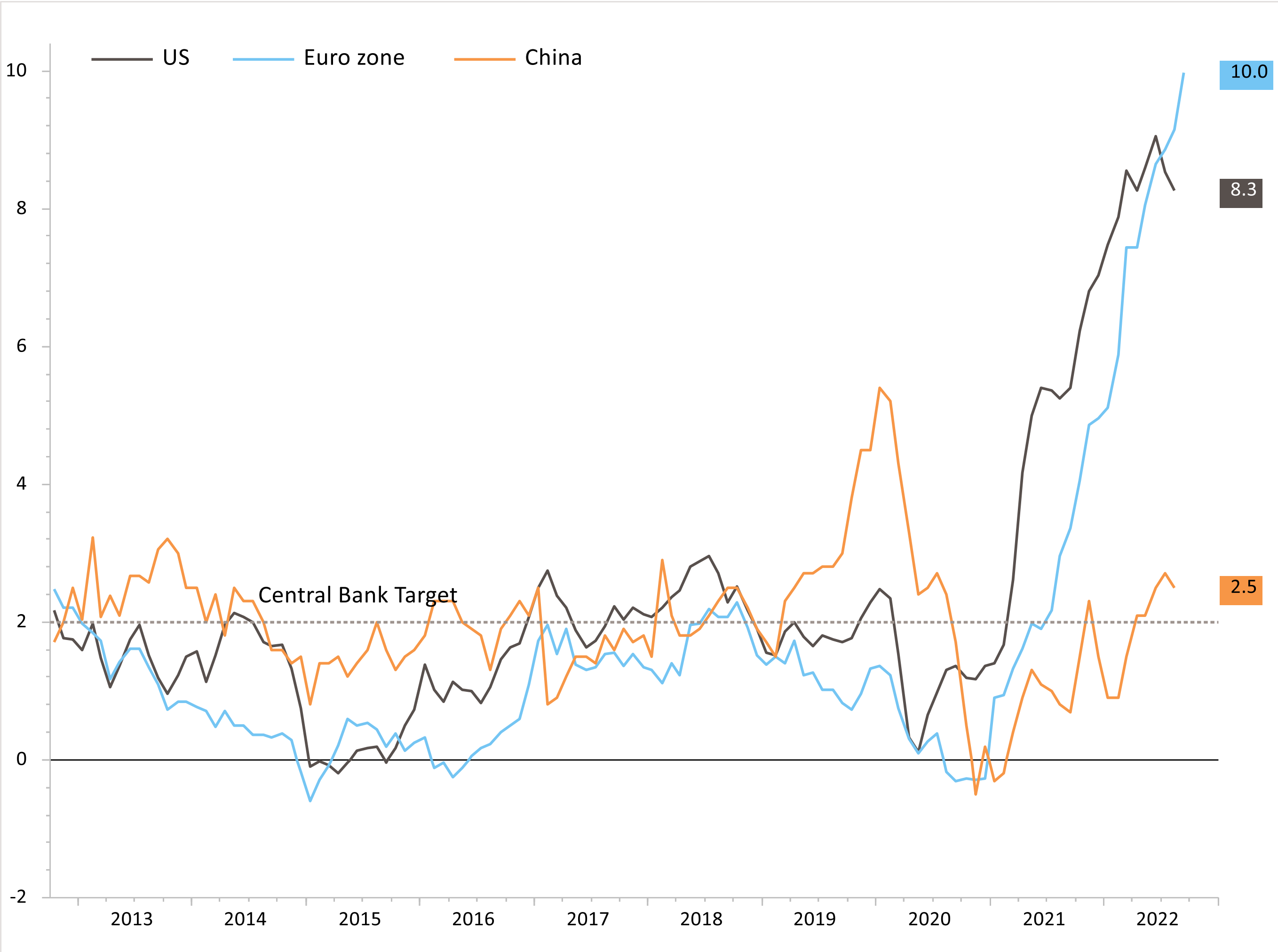
News
Inflation Global (CPI)



Explanation

- Global comparison of inflation rates across the consumer price index

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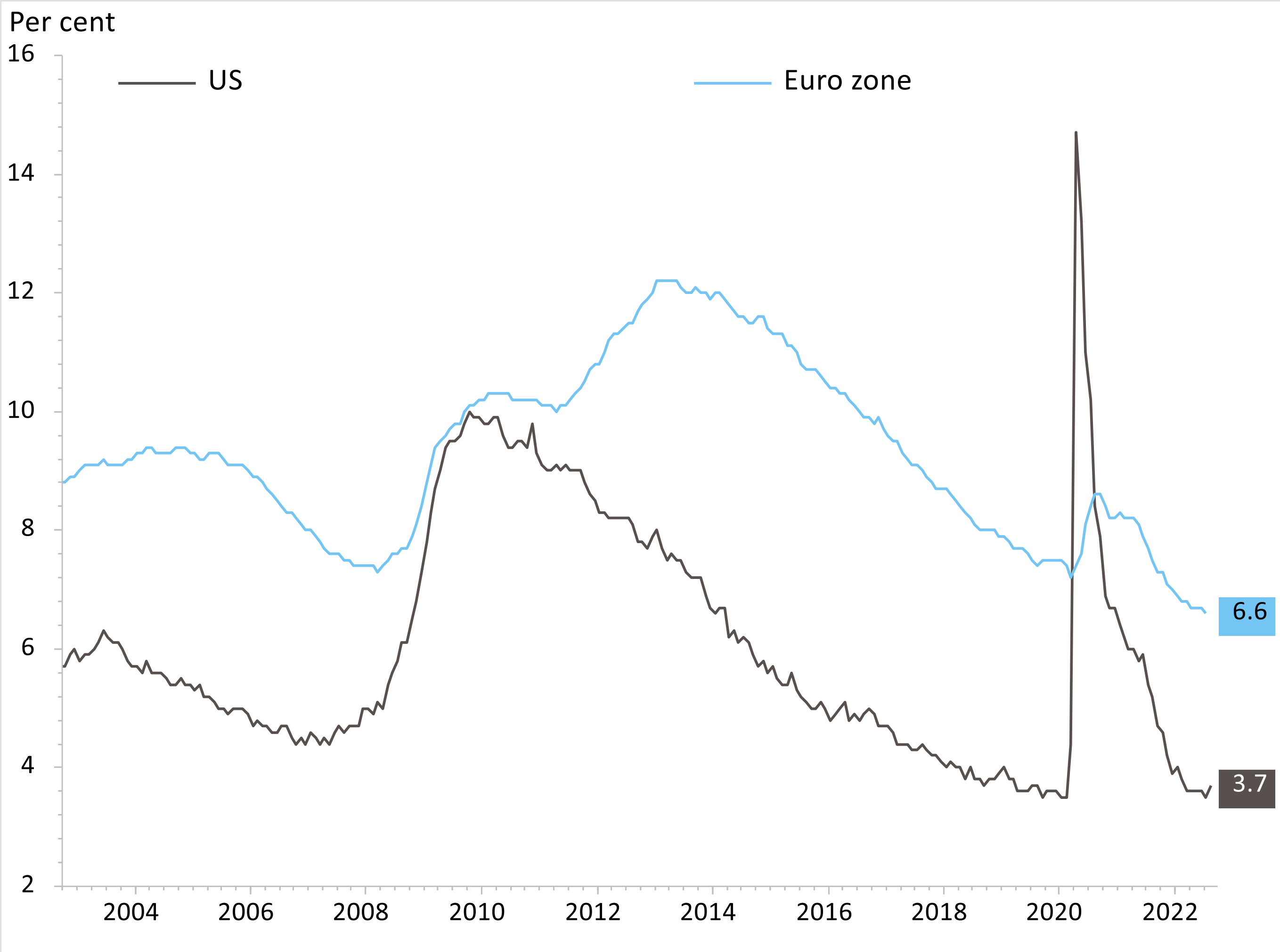
Economy / Macro
Unemployment rate (Global)



Assessment
Positive

Justification

- Decline in US unemployment rate positive
- At a historically low level

Explanation

- The unemployment rate relates the number of registered unemployed to the labour force and thus measures the relative underutilisation of labour supply

Details short-term situation assessment
Interest rate policy

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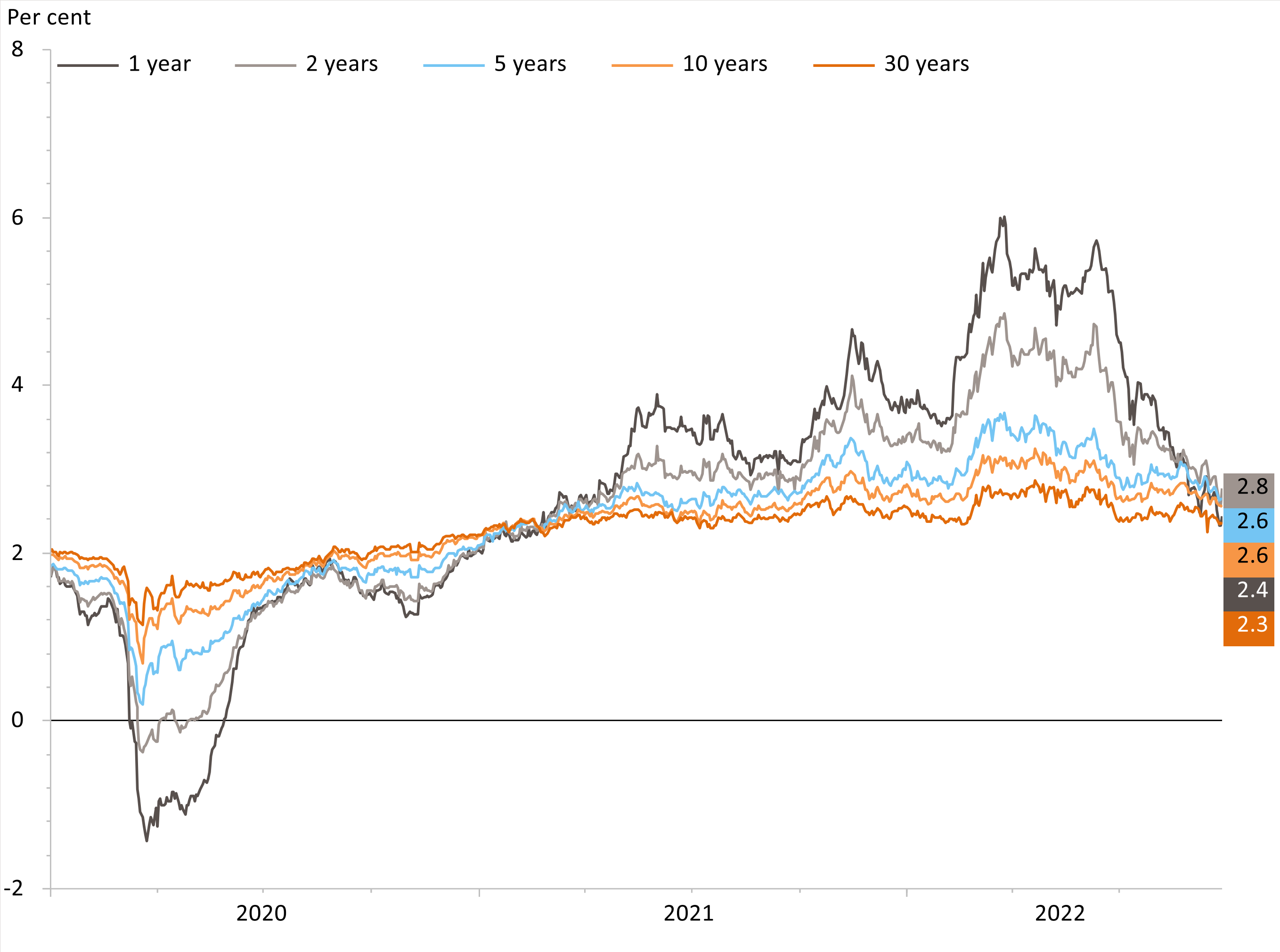
Economy/Macro

Monetary policy: inflation expectations



Assessment
Careful

<u>Justification</u>

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

<u>Explanation</u>

- Inflation expectations derived from the bond swap market for the coming 1, 2, 5, 10 and 30 years

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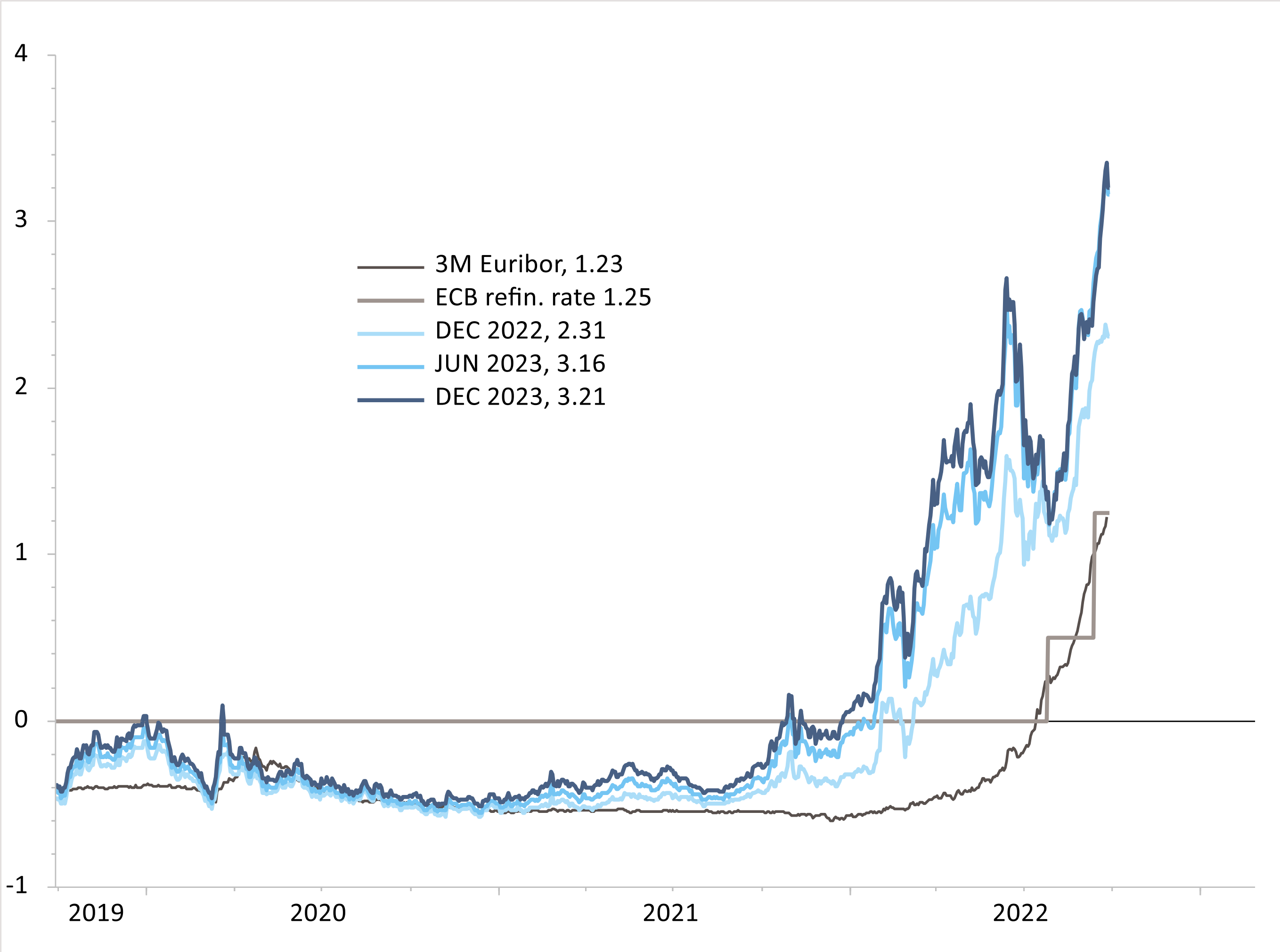
Interest rate policy
Implicit interest rate expectations (Europe)



Assessment

Neutral

Justification

- The market anticipates further interest rate hikes and has priced them in

Explanation

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

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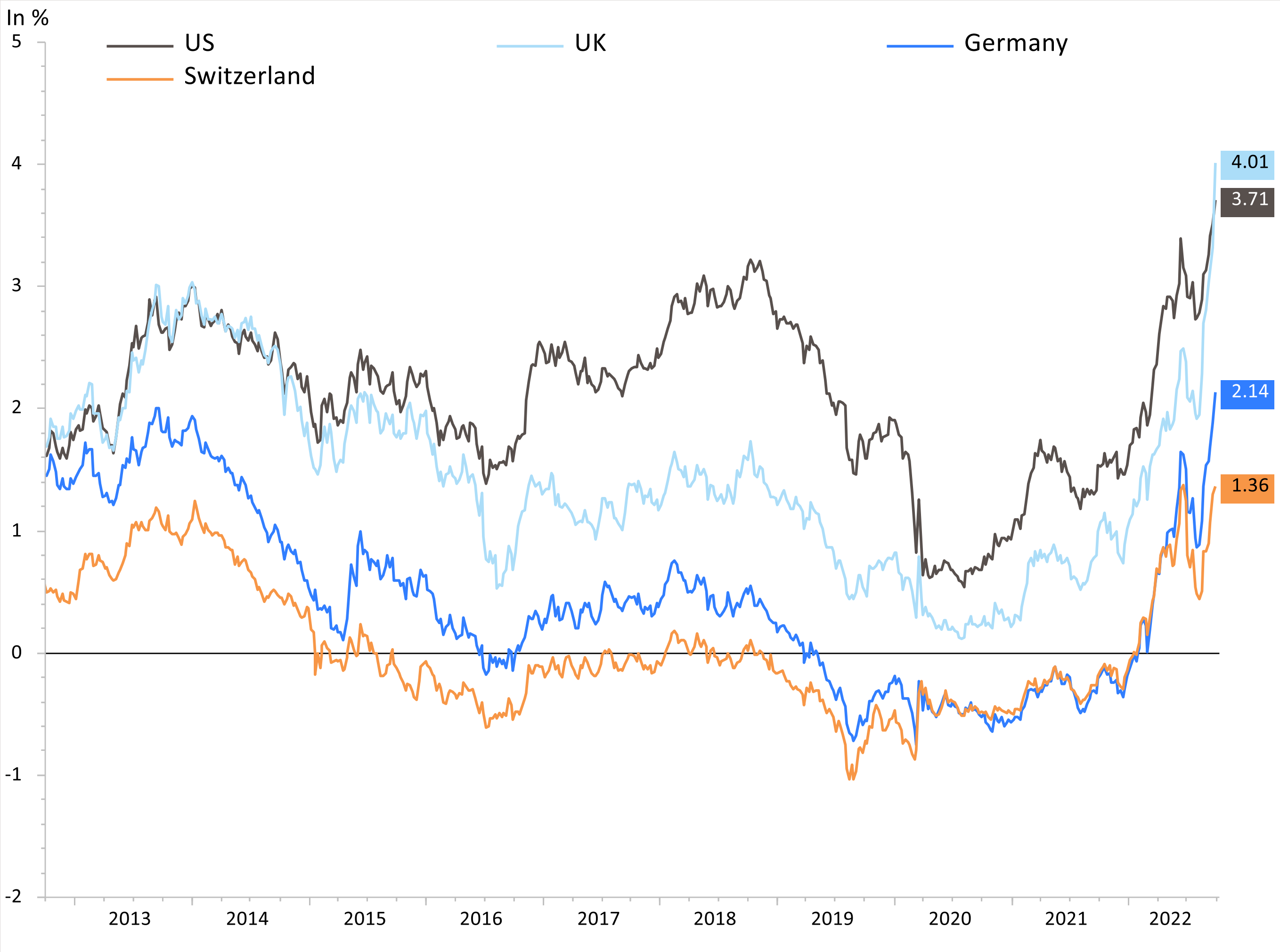
Interest rate policy
Long-term interest rate level (10 years)



Assessment
Careful

Justification

- Positive and rising interest rates in Germany and Switzerland
- US and UK interest rates rise sharply and are at new highs

Explanation

- Long-term interest rate level: term 10 years

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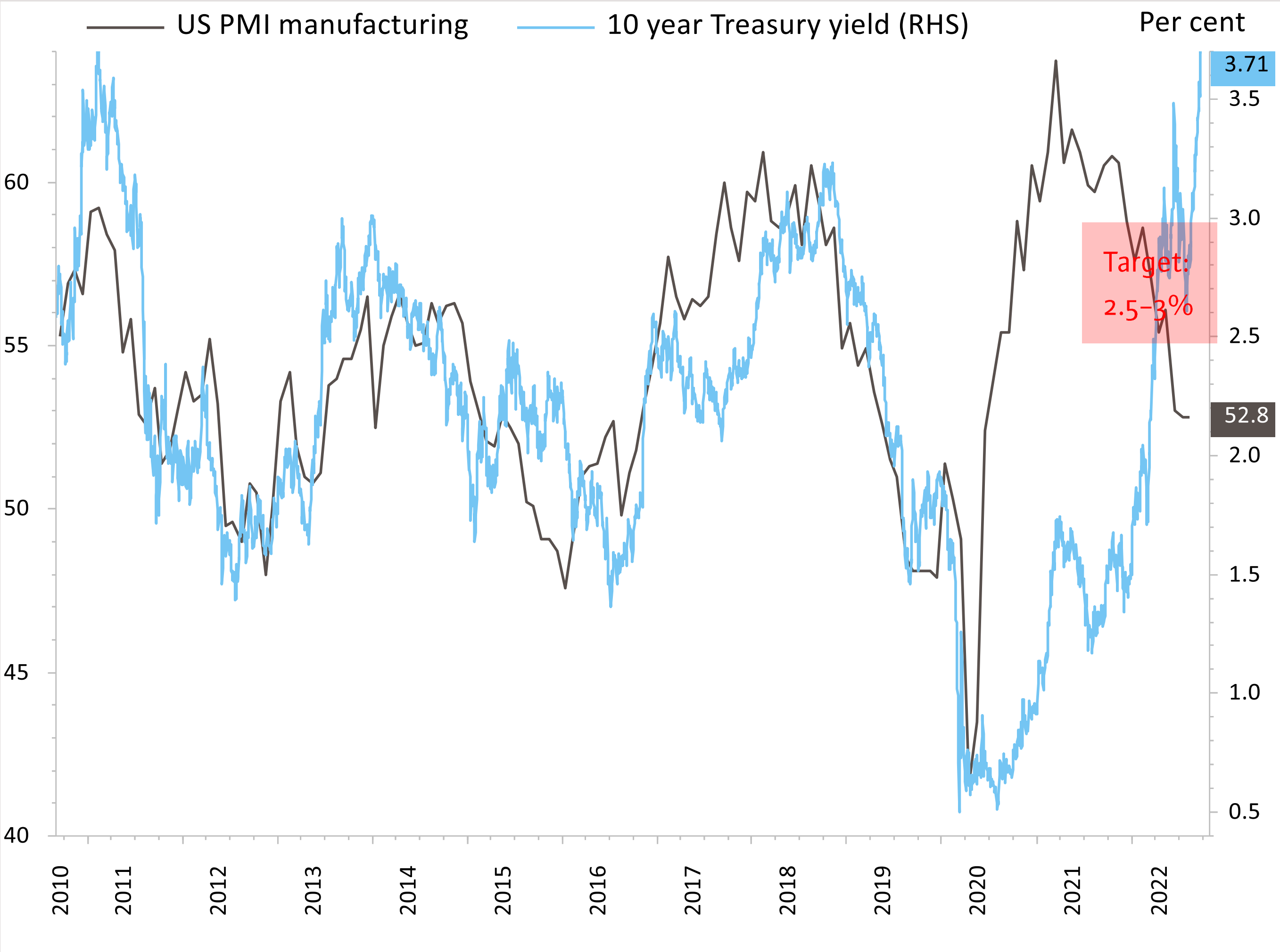
Economy / Macro
PMI (USA) and 10-year government bond (USA)



Assessment
Positive

<u>Justification</u>

- Weaker economic environment argues for falling interest rates

<u>Explanation</u>

- Purchasing Manager Index (PMI): Indicator of economic development
- 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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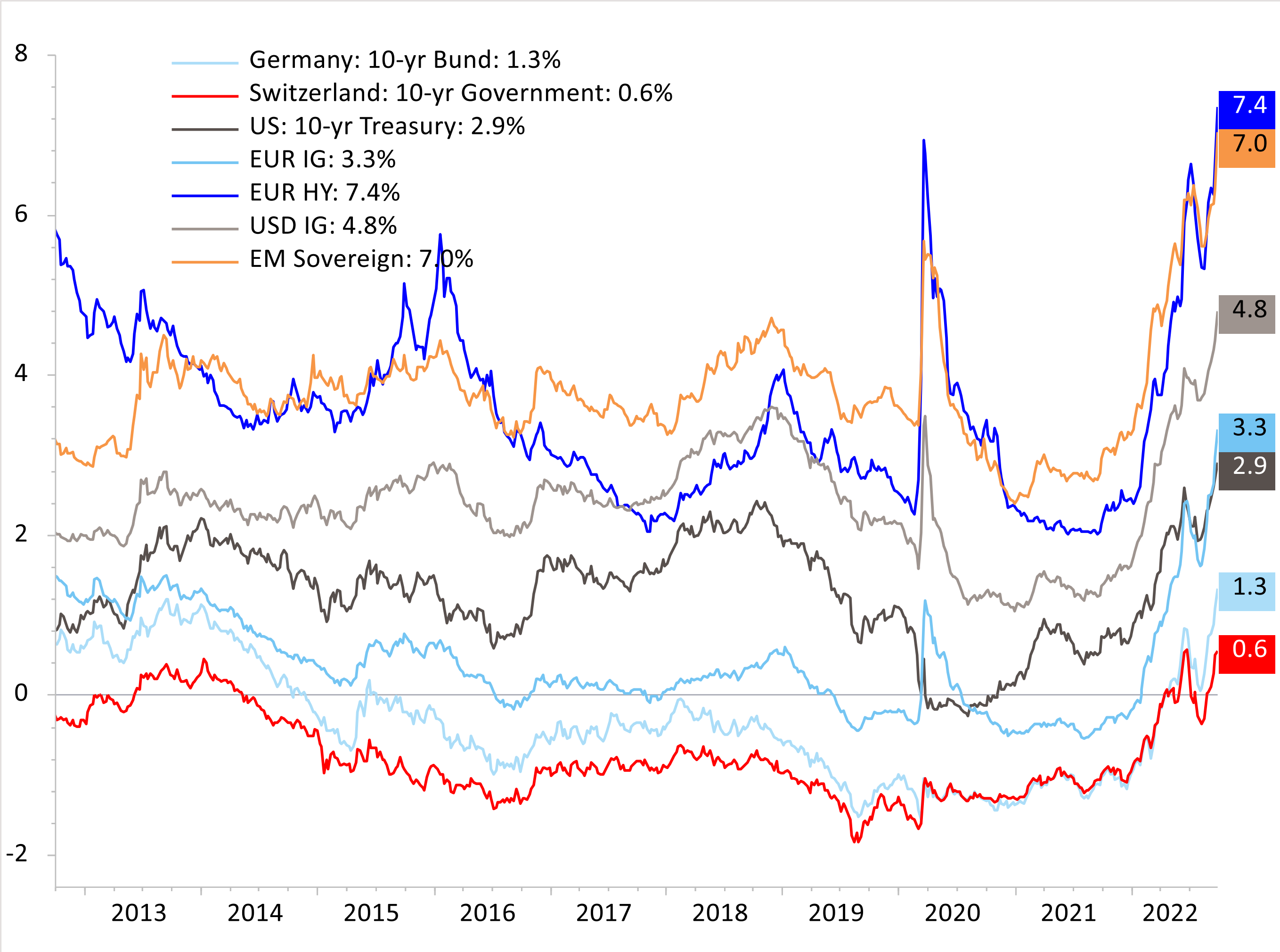
Yield: Yield to Maturity
EUR Investment Grade



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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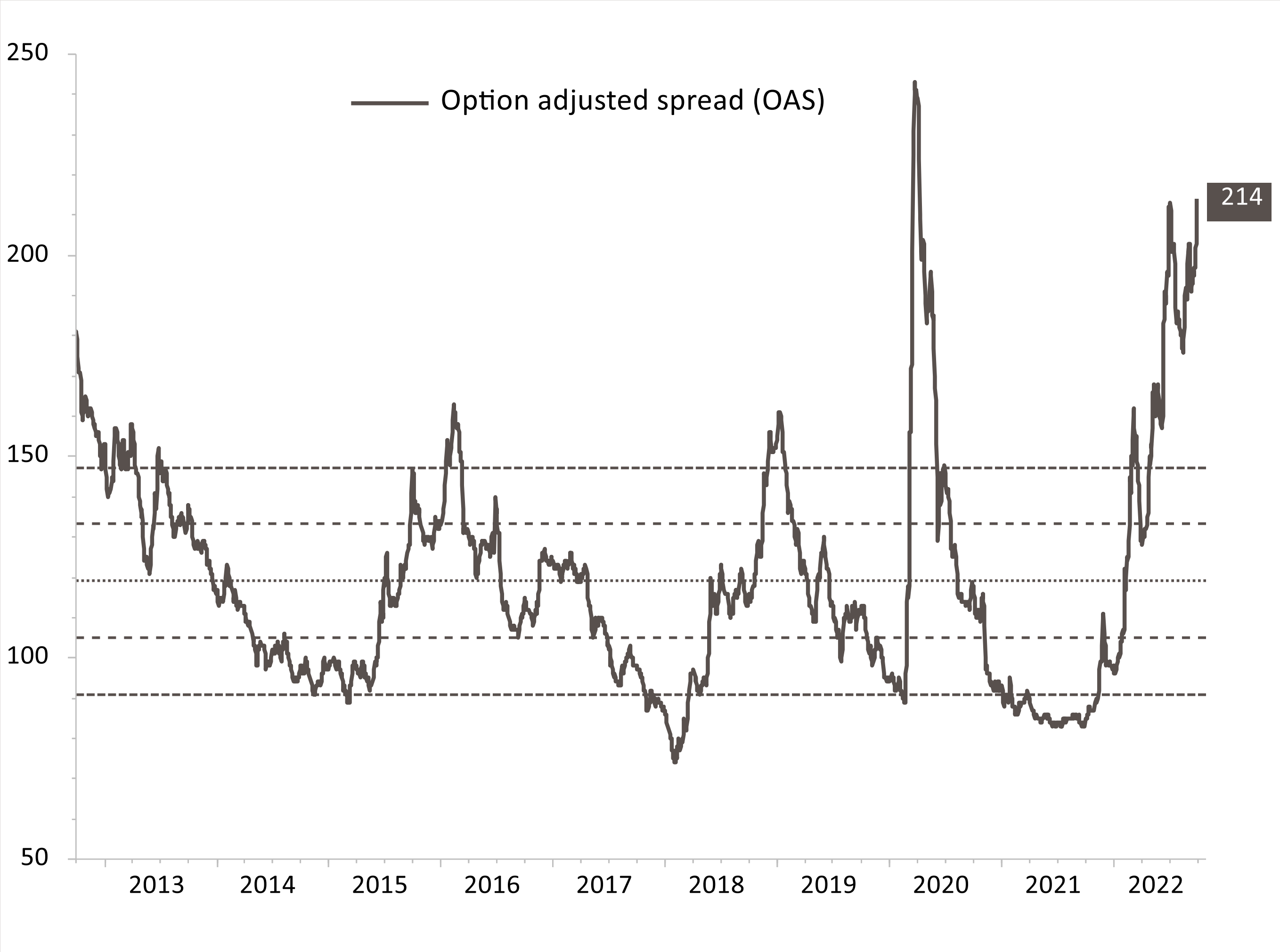
Risk premium

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

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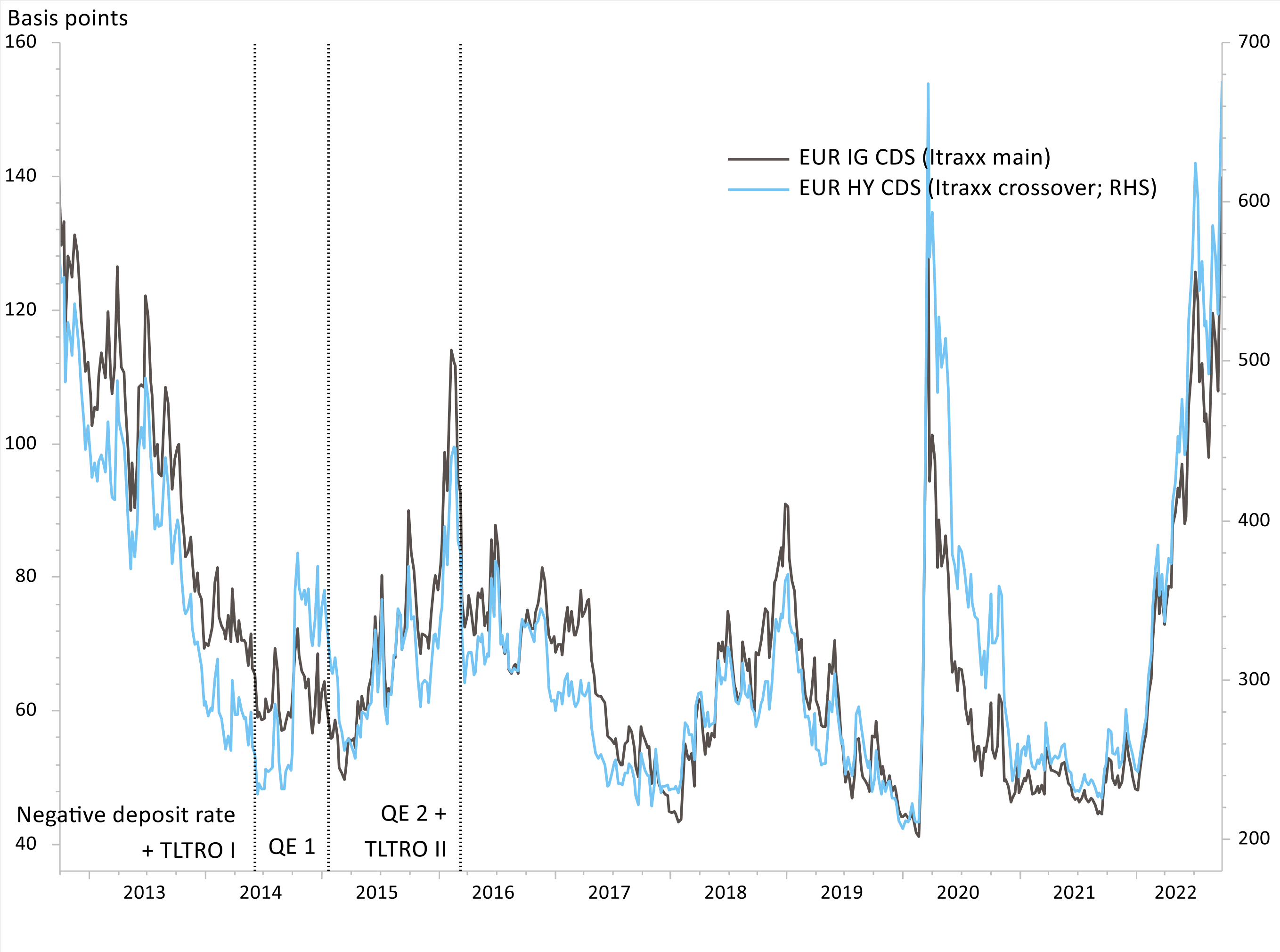
Default risks

Credit Default Swaps: Corporate Europe



Assessment
Careful

Justification

- High default risks

Explanation

- A credit default swap (CDS) or credit default swap is a credit derivative in which default risks of loans, bonds or debtor names are traded
- Rising prices mean higher default risk

Details short-term situation assessment Equities

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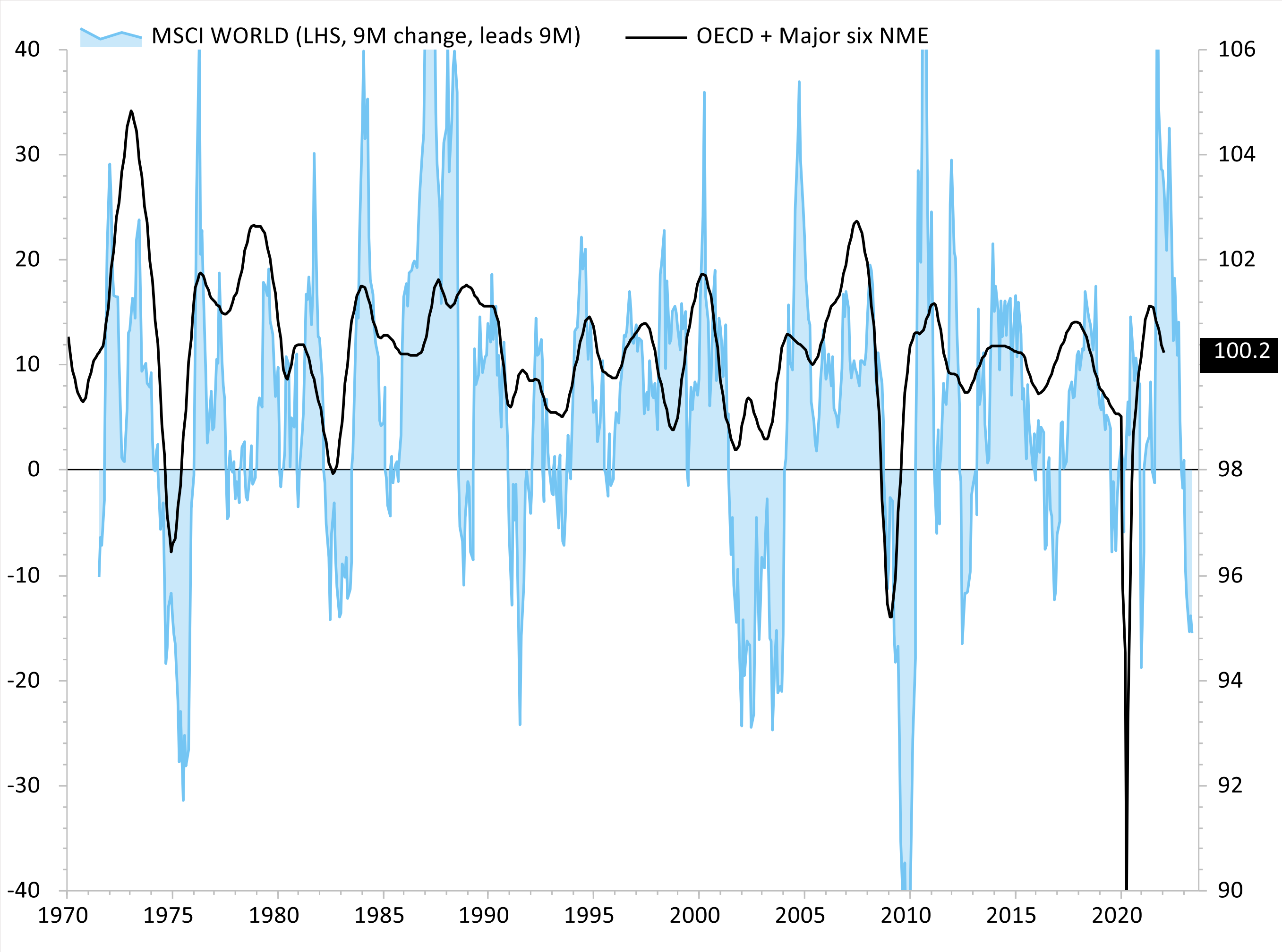
Economy/Macro
OECD Leading Indicator (Global)



Justification

- Best correlation for equities with a lead time 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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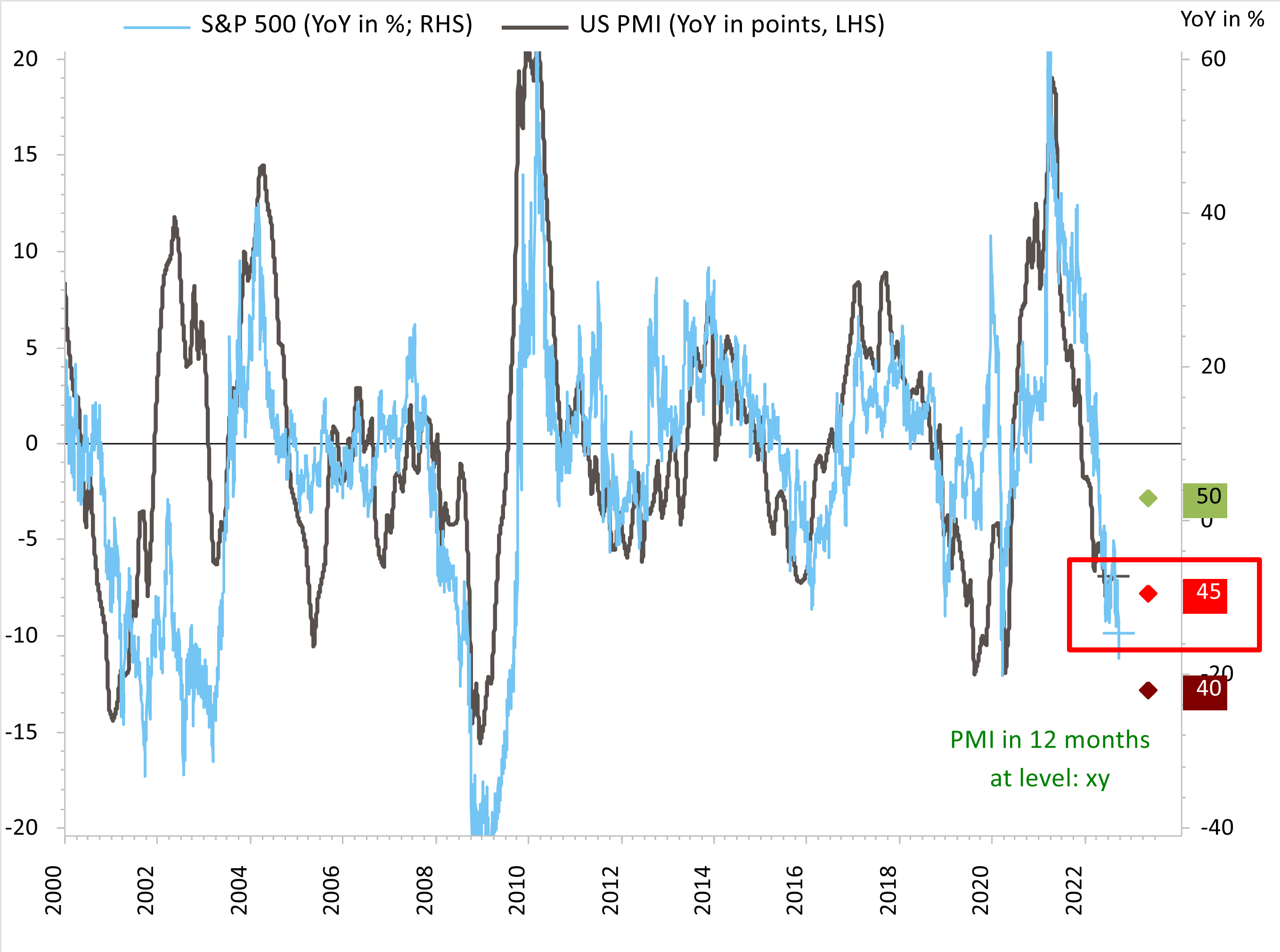
Economy / Macro
PMI (USA) and S&P 500



Assessment
Neutral

Justification

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

Explanation

- Purchasing Manager Index (PMI): Indicator of economic development
- S&P 500 year-on-year shows the stock market's expectation for the economic trend

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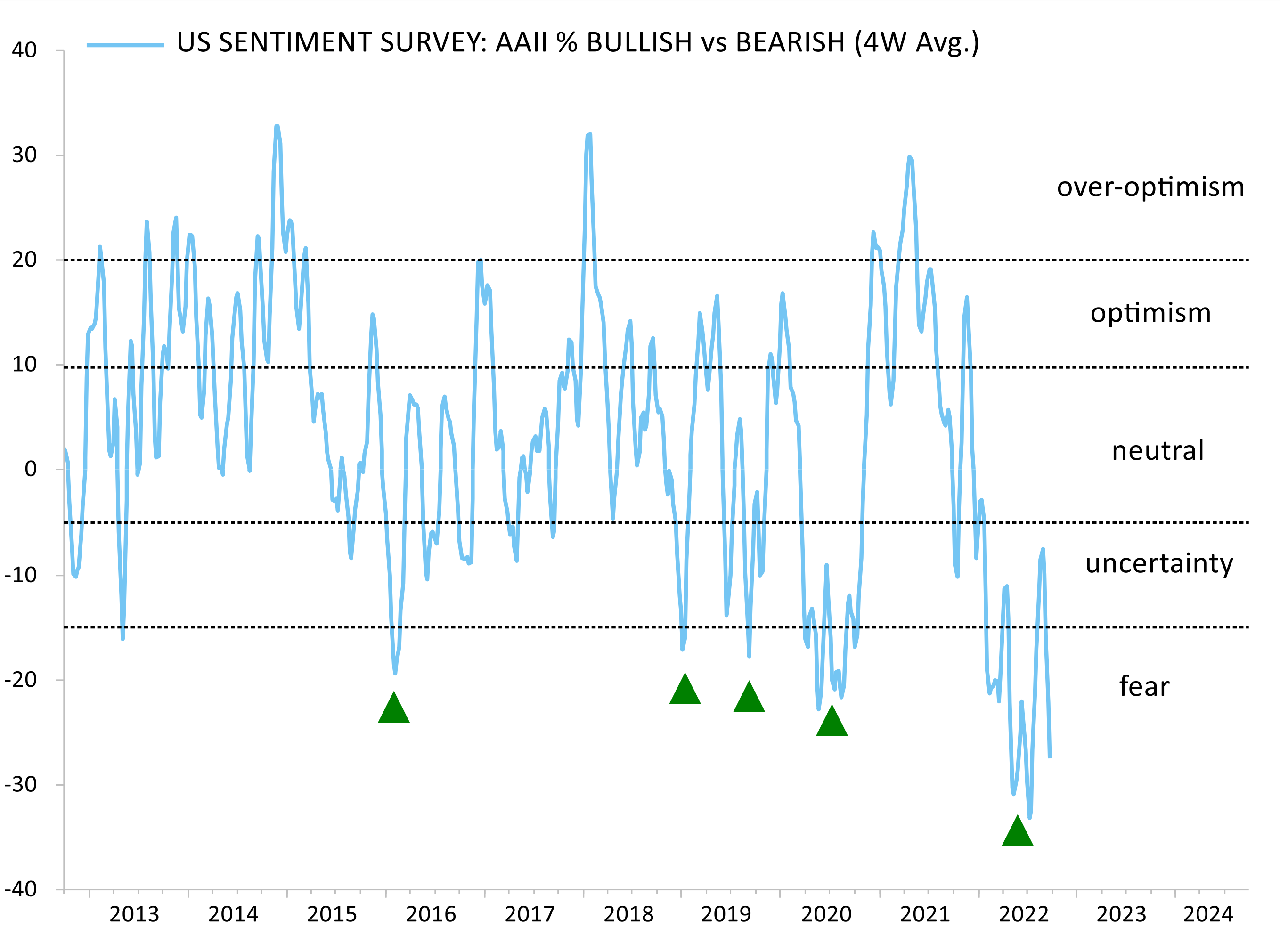
Sentiment

Sentiment Survey (Global)



Assessment
Very positive

Justification

- Negative assessment by private investors, the indicator remains in the fearful range
- Positive as a contra-indicator, as there is a lot of negativity in it

Explanation

- The sentiment of private US investors is surveyed through a weekly poll
- Extreme position of the global sentiment index is to be interpreted as a contra-indicator

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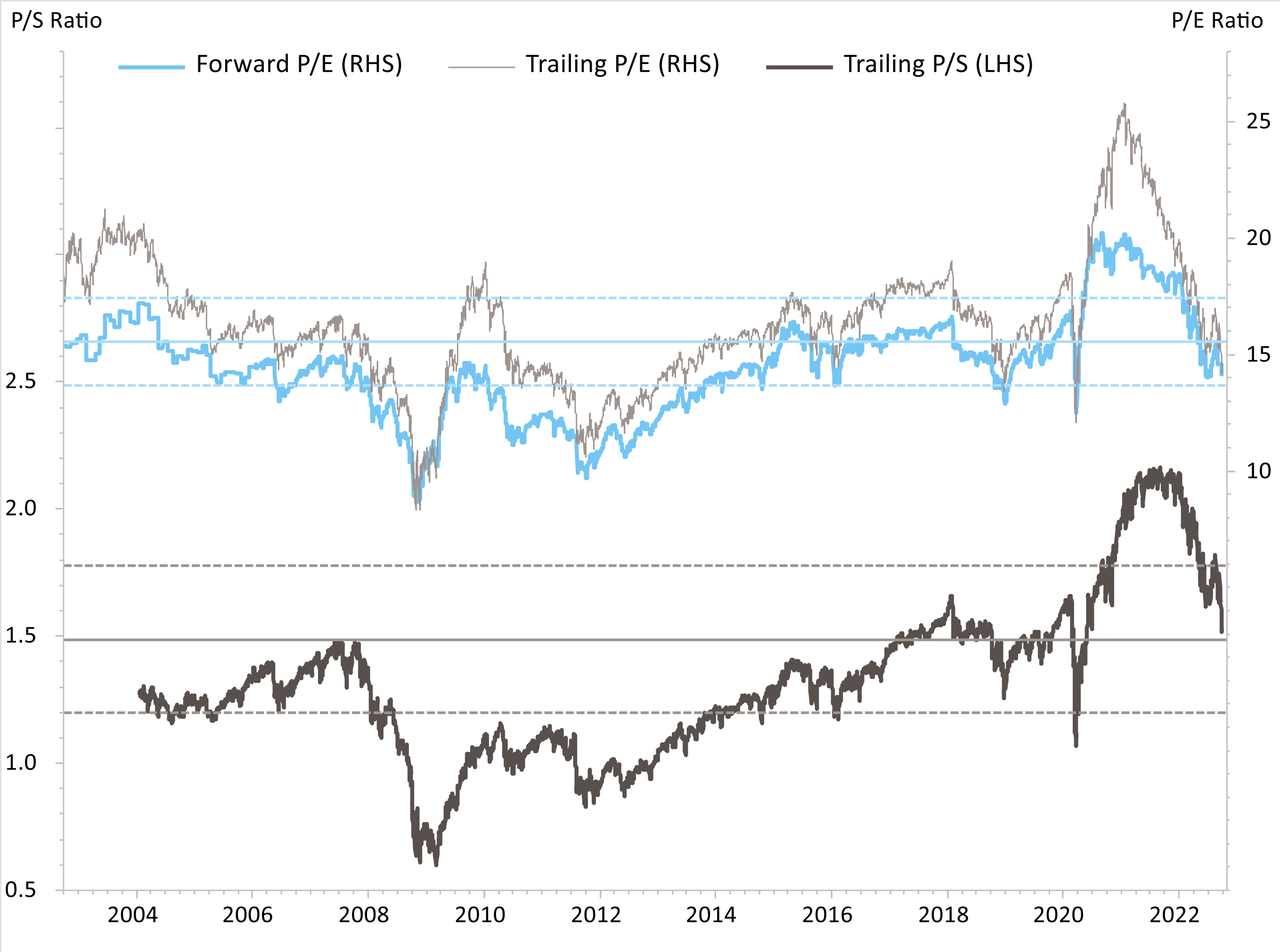
Valuations
Price-earnings ratio (Global)



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)

Details short-term situation assessment Commodities – Precious Metals

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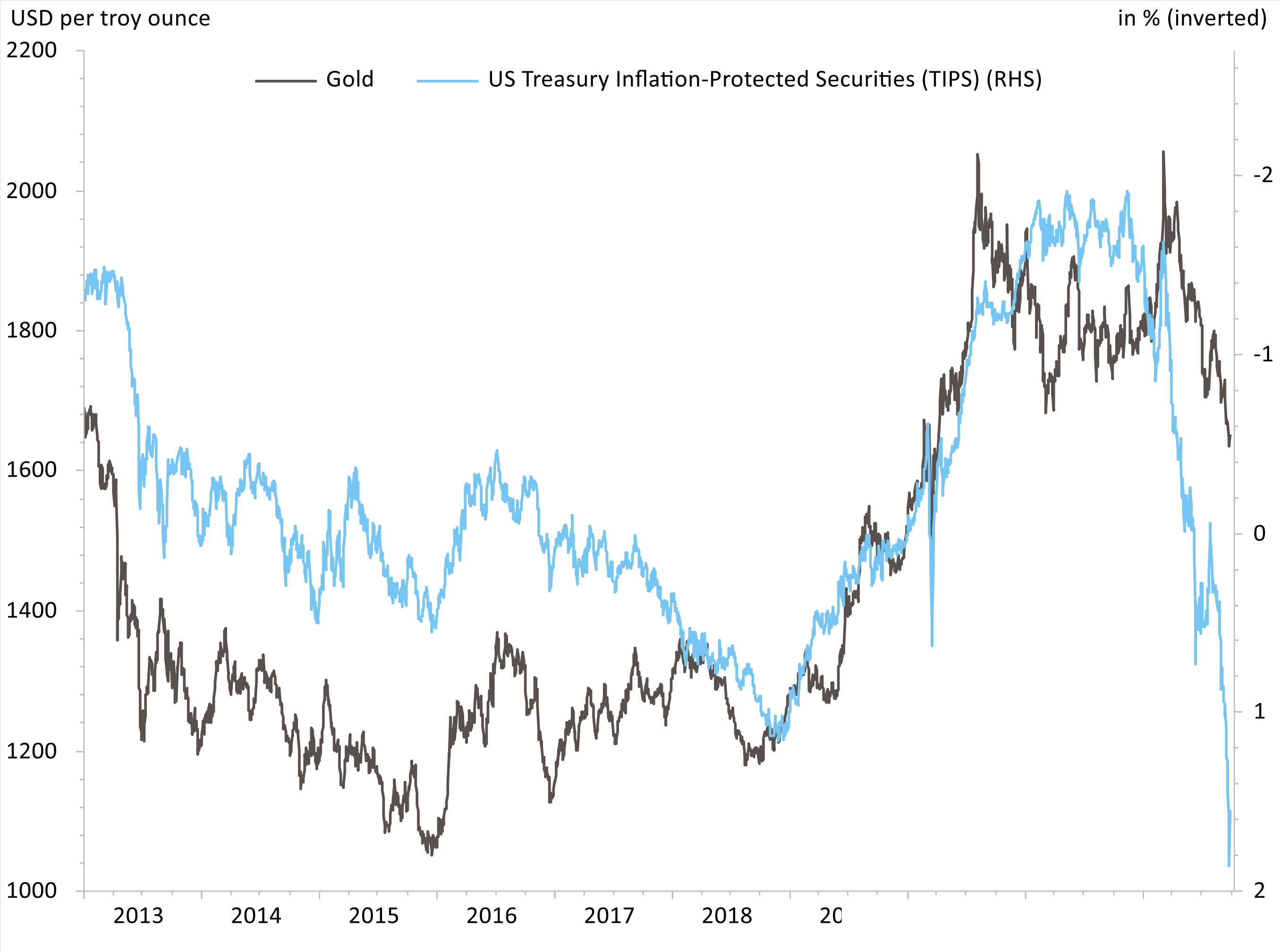
Monetary policy
Real yield and gold price



Assessment
Careful

Justification

- Rising real interest rates make gold less attractive in comparison

Explanation

- 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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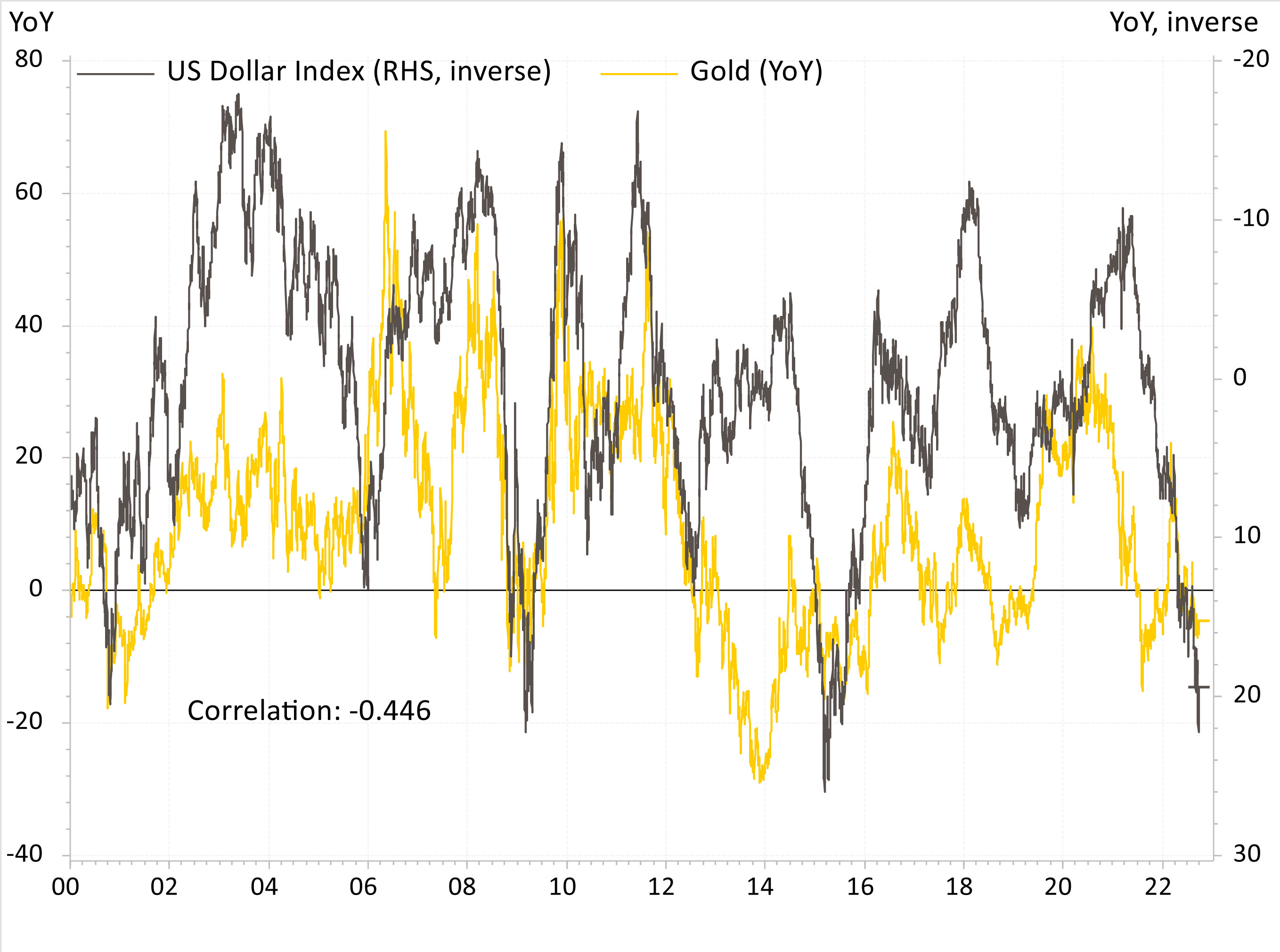
US dollar
Currency impact



Assessment
Neutral

Justification

- A slightly stronger US dollar is negative for the gold price
- The current exchange rate already reflects the dollar's strength

Explanation

- Connection between the US dollar and gold
- When the dollar falls, the value of other currencies increases. This increases the demand for gold (inverse relation)

Details short-term situation assessment
Commodities – Raw Materials

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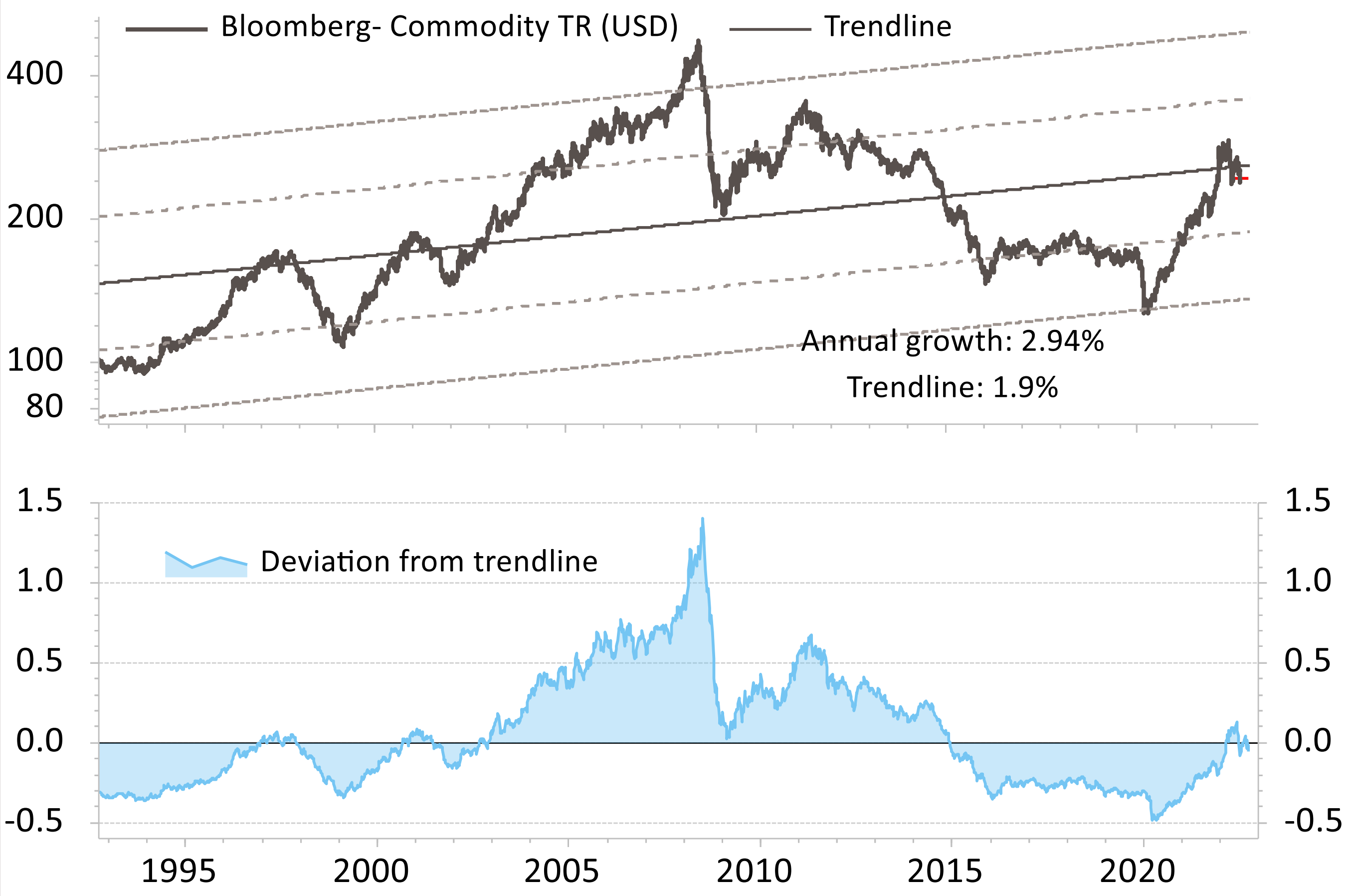
Strategy / trend channels
30 years (commodities)



Assessment
Neutral

<u>Justification</u>

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

<u>Explanation</u>

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

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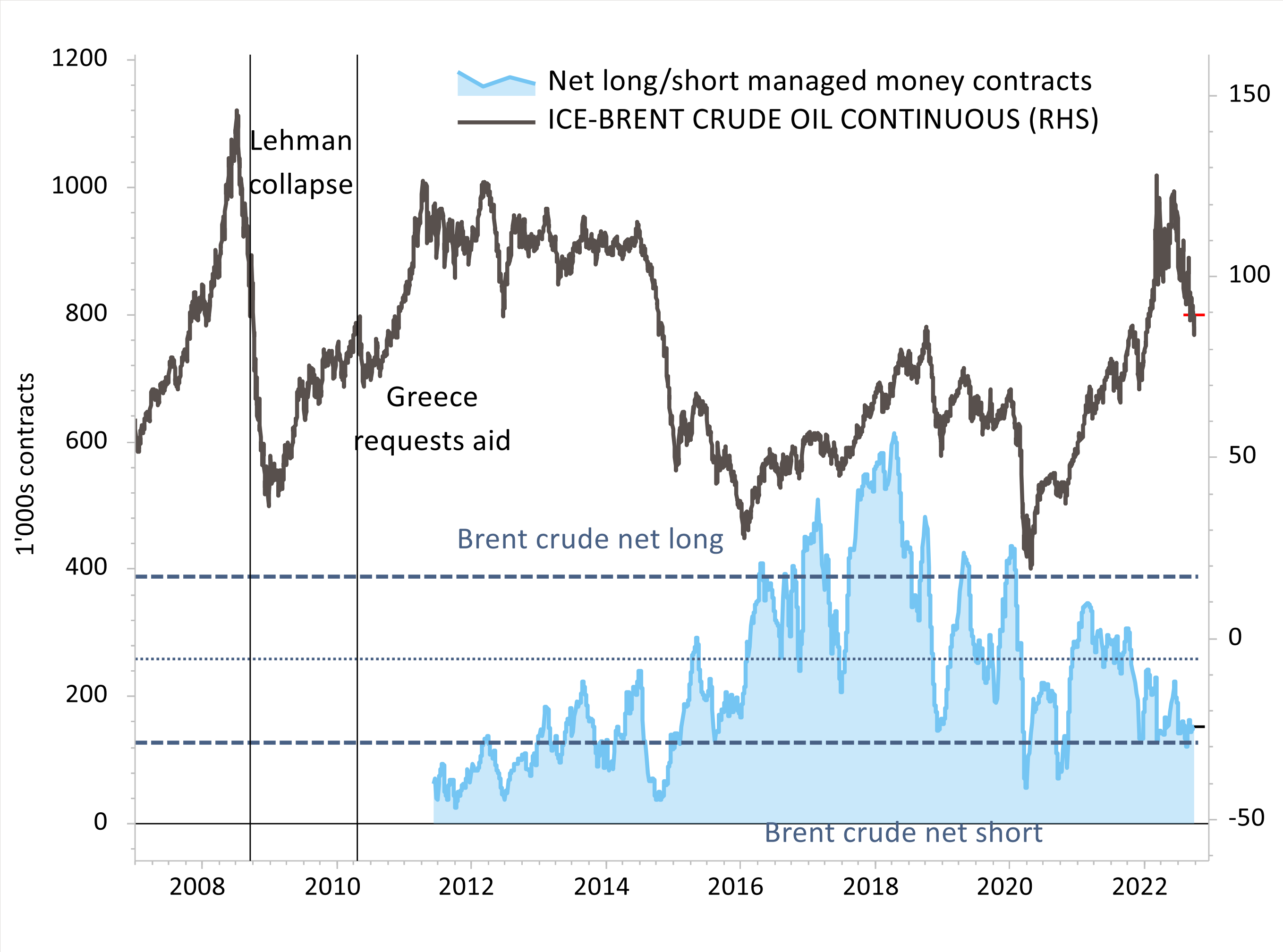
Sentiment

Speculative positions on the crude oil futures market



Assessment

Positive

Justification

- Neutral positioning on the futures market

Explanation

- Speculative Positions in the Gold Futures Market
- In case of extreme valuation compared to historical ranges positive or negative impulse

Details short-term situation assessment Currencies

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Economy / Macro
PMI (Global)

Assessment

Positive

Justification

- Economic slowdown speaks in favour of the US dollar

Explanation

- Purchasing managers' indices: Monthly indicator of economic development
- Values above 50 mean expansion
- Values below 50 indicate a contraction of the economy

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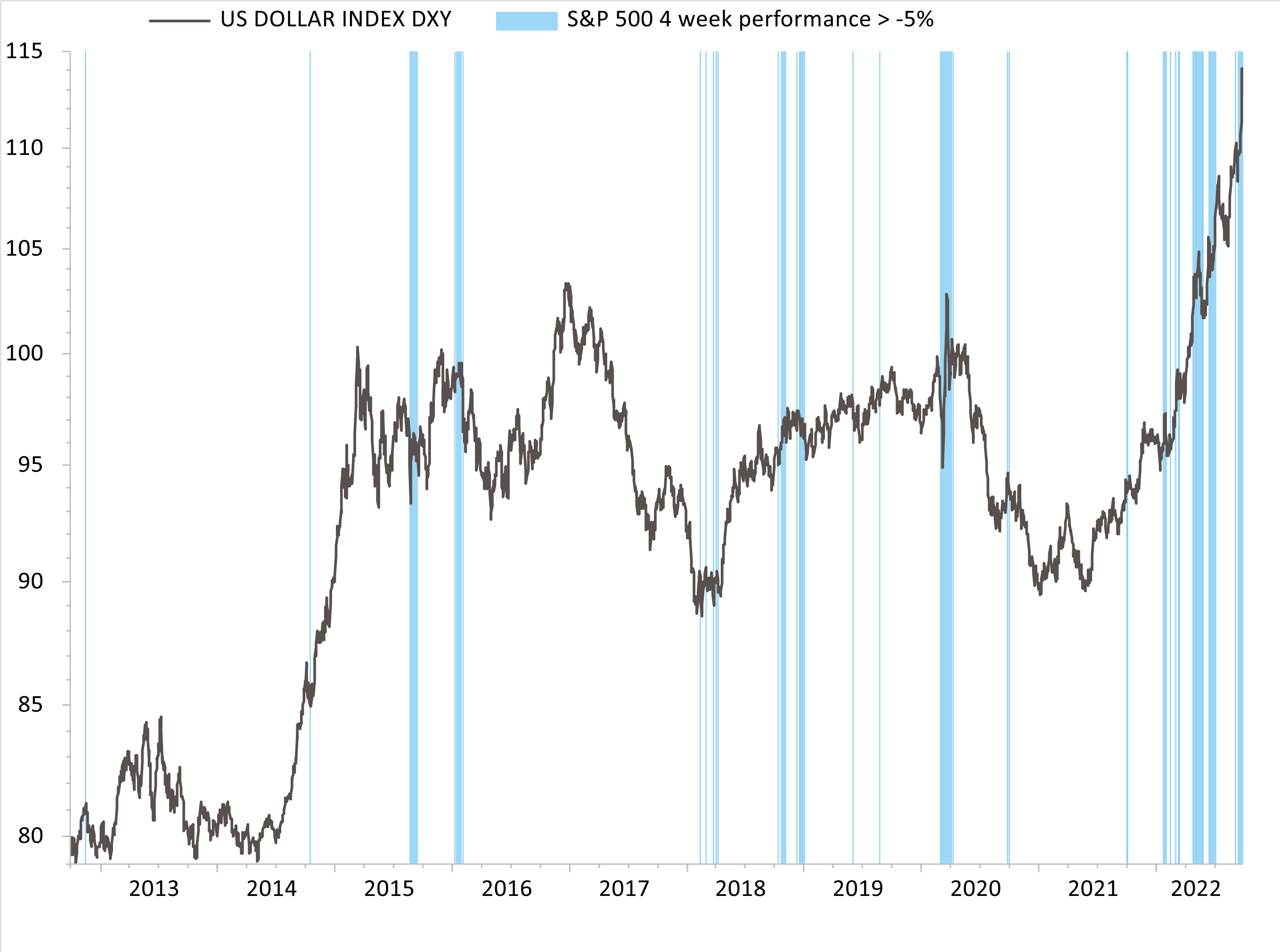
Properties
Average movement vs. USD for S&P 500 decline 5%



Justification

- Due to the global reserve status of the USD, its demand should be high
- This is especially the case during periods of weakness in equities, when the USD increases in value. Over the last 10 years, the USD has generally appreciated when equities have been weak.

Explanation

- The US dollar remains the most stable and liquid currency for world trade

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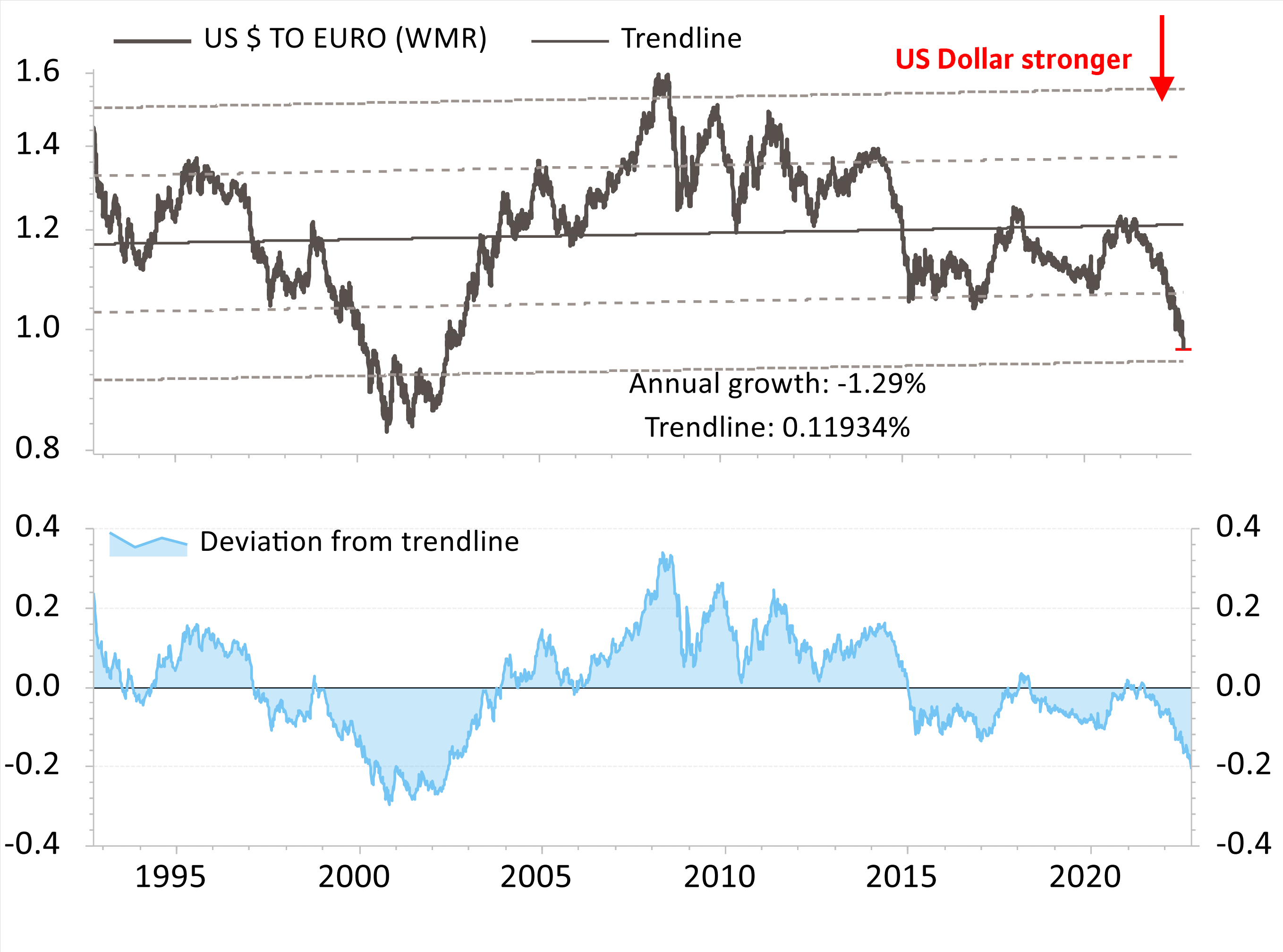
Strategy / Trend Channels
30 years (EUR/USD)



Assessment
Careful

Justification

- Deviation below the simple standard deviation
- Cautious for the US dollar

Explanation

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

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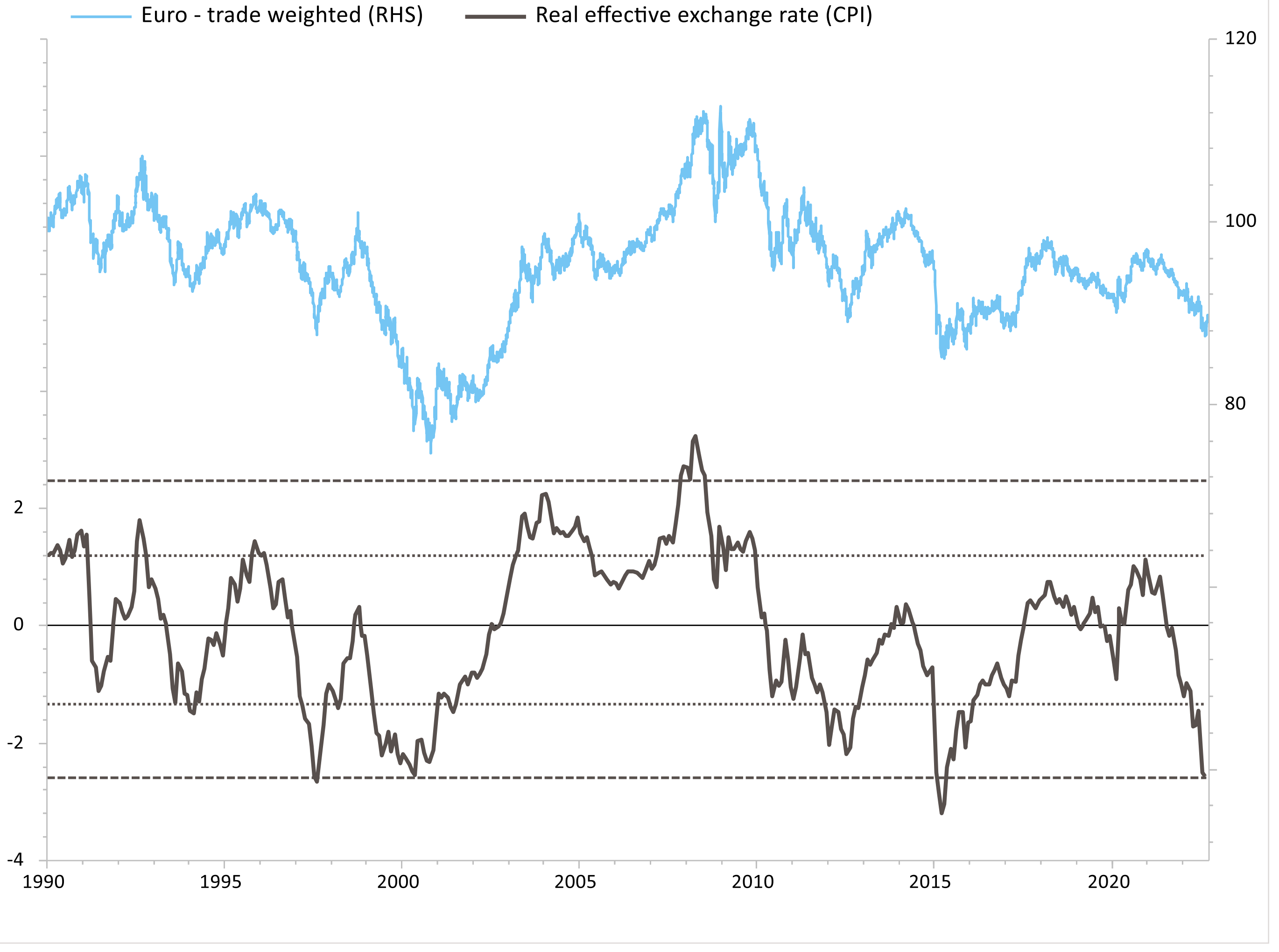
Valuations

Real Effective Exchange Rate with Trade-Weighted Exchange Rate (Euro)



Assessment
Careful

Justification

- Historically attractive euro valuation

Explanation

- The real effective exchange rate is a measure of the change in a country's competitiveness, taking into account the change in prices relative to other countries
- Valuation in historical 5-year comparison with average and standard deviation

Details short-term situation assessment

News

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Ukraine crisis
Work scenarios

	Scenarios	Description	Affected asset classes
	Deposition 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% – AI: +5%
	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% – AI: +5%
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 – AI: +5%
	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% – AI: +5%
	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% – AI: +5%

Overview of all short-term indicators

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Short-term situation assessment
Summary

Asset class	Estimation	TAA - 0 +	Analysis									
Liquidity												
Bonds												
Government Bonds	Careful		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	Neutral		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	Neutral		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News		
Health Care	Neutral		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	Positive		Macro	Mon. policy	Trend	US Dollar		Mood	Technology	News	Partner	
Alternative Investments												
Private Debt												
Private Equity												
Diversified (HF)												

Legend: Negative | Cautious | 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)	Careful		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner	
Franc (EUR/CHF)	Careful		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)	Positive		Macro	Politics	Trend	Interest	Evaluation		Technology	News	Partner	
Pound sterling												
US Dollar (GBP/USD)	Careful		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)	Positive		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)	Positive		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner	
US Dollar Index	Careful		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner	

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

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