

CURRENT SITUATION ASSESSMENT

4th quarter 2023

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	Neutral			5,7%	5,6%	0,5-1%	Cautious		Cautious	Cautious	
Investment Grade	Positive			4,5%	3,7%	1,5-2,5%	Neutral		Neutral	Cautious	
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	Cautious	
Europe	Neutral			7,5%	18,1%	6-8%	Neutral		Neutral	Cautious	
USA	Neutral			10,6%	17,9%	6-8%	Neutral		Cautious	Cautious	
Emerging Markets	Neutral			8,8%	23,2%	6-8%	Neutral		Neutral	Cautious	
Technology	Cautious					6-8%	Neutral		Cautious	Cautious	
Health Care	Cautious					6-8%	Neutral		Cautious	Neutral	
Commodities											
Gold	Cautious			4,5%	15,5%	4-5%	Neutral		Neutral	Neutral	
Commodities	Neutral			1,9%	15,1%	3-4%	Neutral		Neutral	Neutral	
Alternative investments											
Private Debt	Neutral					4-6%	Neutral		Neutral	Neutral	
Private Equity	Neutral					3-4%	Neutral		Neutral	Cautious	
Diversified (HF)	Neutral			4,4%	6%	8-10%	Neutral		Neutral	Cautious	
				4,4%	6%	4-5%	Neutral		Neutral	Neutral	

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Economy	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Global economy continues to recover, with large regional differences USA supported by historically low unemployment rate, stable private consumption and high government spending Economic activity in Europe, especially Germany, rather disappointing (cf. leading indicators PMIs) Only moderate economic recovery until Q3/Q4 2024 due to high, stagnating interest rate environment 	<ul style="list-style-type: none"> OECD leading indicator (9) Labour market (10) State budget / fiscal impulse (11) Purchasing managers' indices regional (12) Inflation expectations (13) Effect of interest rate hikes on the economy with a lag (14)
Interest	<ul style="list-style-type: none"> Fiscal policy measures bring inflationary pressure Although inflation has gone beyond the extremes, it is likely to remain slightly above the central banks' target rate of 2-3% in the longer term. For long-term interest rates, the trend towards rising interest rate levels persists 	<ul style="list-style-type: none"> Inflation figures are declining but remain above the central banks' target of 2%. Central banks caught between price stability, inflation control and economic growth Solid economy, stubborn inflation and normalisation of yield curves suggest stagnating to slightly rising interest rates: 10Y-EU rate at 2.25-3%; 10Y-US rate at 4-4.75%; 10Y-CH rate at 1-1.5% 	<ul style="list-style-type: none"> Expected interest rate steps of the European Central Bank, derived from the futures market curve (16) Yield curve Europe (17) Expectation of interest rate level in Europe (18)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Bonds	<ul style="list-style-type: none"> ▪ After the rise in interest rates, yields have become more attractive again ▪ 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 	<ul style="list-style-type: none"> ▪ Low and negative interest rate era are over. More attractive yields in the EUR 3-4% and CHF 1-2% range ▪ The high risk premiums offer opportunities, especially for investment grade bonds, and increase their attractiveness. ▪ 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 currently have very attractive yields to maturity, but also a higher risk due to the higher correlation to equities ▪ Increase in default risks due to overall higher interest burden for states and companies 	<ul style="list-style-type: none"> ▪ Comparison YTM (20) ▪ Risk premiums (21)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Equities	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ A moderate economic recovery is priced into equity prices ▪ Valuations have risen to neutral to expensive levels after strong performance during the year ▪ Slightly underperforming trend (10Y) offers further potential for rising prices ▪ Investor sentiment has normalised and provides no impetus for future performance ▪ Market technique suggests a normal environment for equities with rising prices ▪ Expected development for equities in line with historical development (6-8%) 	<ul style="list-style-type: none"> ▪ OECD leading indicator (9) ▪ Economic cycle and equities (23) ▪ Valuation global (24) ▪ Trend (25) ▪ Investor sentiment (26) ▪ Technical analysis (27)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Precious metals and Commodities	<ul style="list-style-type: none"> 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%) 	<ul style="list-style-type: none"> In an environment of rising interest rates, interest-free gold loses its appeal Gold shows no exaggeration in the long-term trend (30Y) Due to the greater return potential in bonds and equities, we are maintaining our underweight in commodities The technical picture for commodities is improving 	<ul style="list-style-type: none"> Real yield and gold (29) Technical analysis Commodities (31)
Alternative investments	<ul style="list-style-type: none"> Alternative investments are long-term non-exchange traded investments and have helped stabilise portfolio returns every year for the last 7 years (except 2019) 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% 	<ul style="list-style-type: none"> Sensible diversification of investment risks Due to the rise in interest rates, the expected return in the private debt area will increase In private equity, the risks increase with the interest rates, diversification is important 	

Current situation assessment

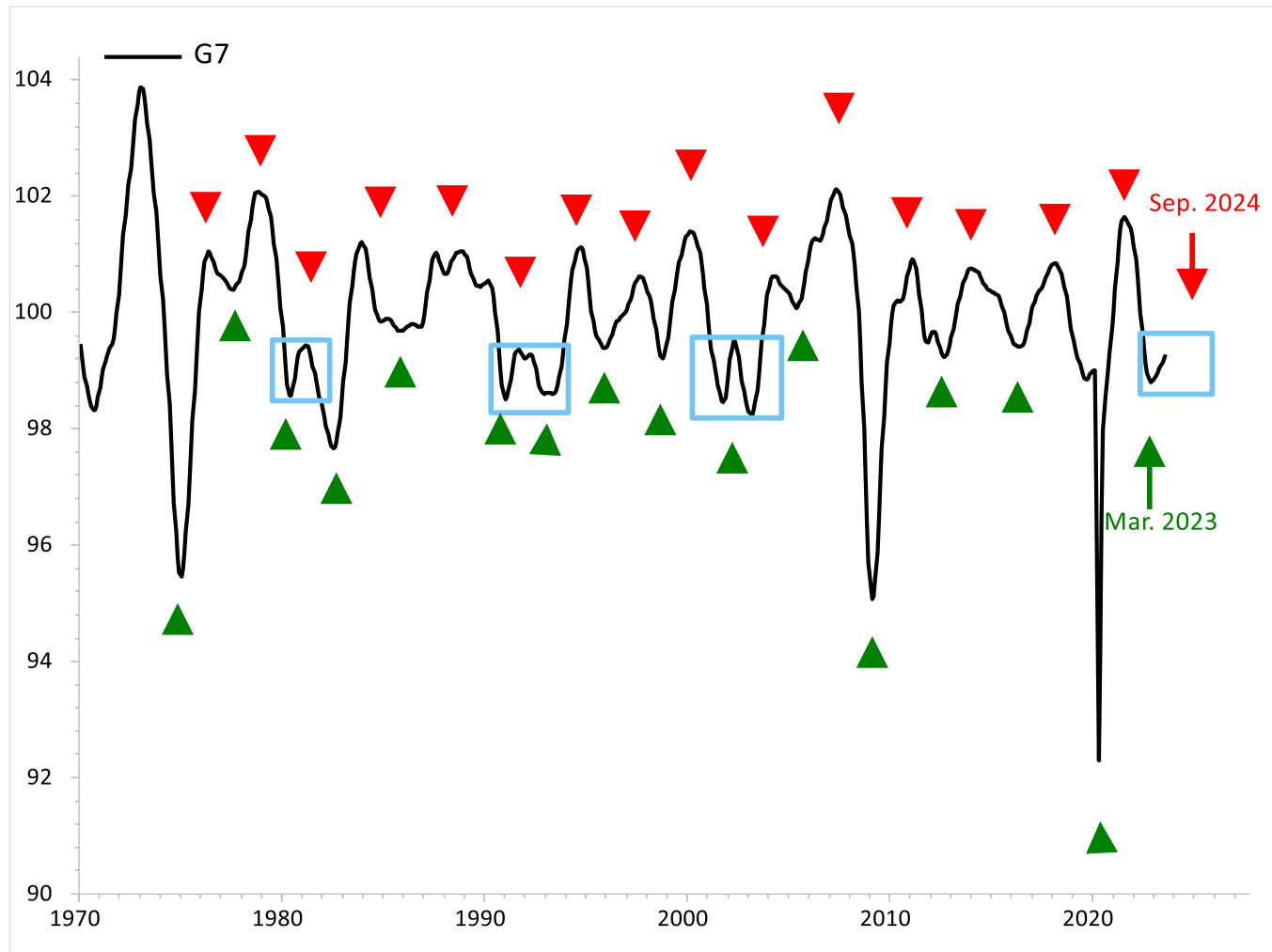
Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Currencies	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> Slight US dollar strength against other currency pairs, as economic upswing already fully priced in EUR/CHF interest rate differential suggests weaker franc, but is offset by National Bank (SNB) CHF purchases Different development of interest rates in recent years (USA vs. Europe vs. Switzerland) has made the costs of currency hedging more expensive 	<ul style="list-style-type: none"> US dollar and economy (33) EUR/CHF Interest rate differential (34)
News	<ul style="list-style-type: none"> The Corona crisis has accelerated technological applications, creating wider acceptance in the long term 	<ul style="list-style-type: none"> Energy prices have normalised. Only slightly increased level compared to the period before the outbreak of war in Ukraine. Prolonged war in Ukraine, with only minor impact on financial markets 	<ul style="list-style-type: none"> Gas prices (36) Ukraine Conflict (37)

Details short-term situation assessment Economy / Macro

Economy / Macro

OECD Leading Indicator (Global)



Assessment
Neutral

Justification

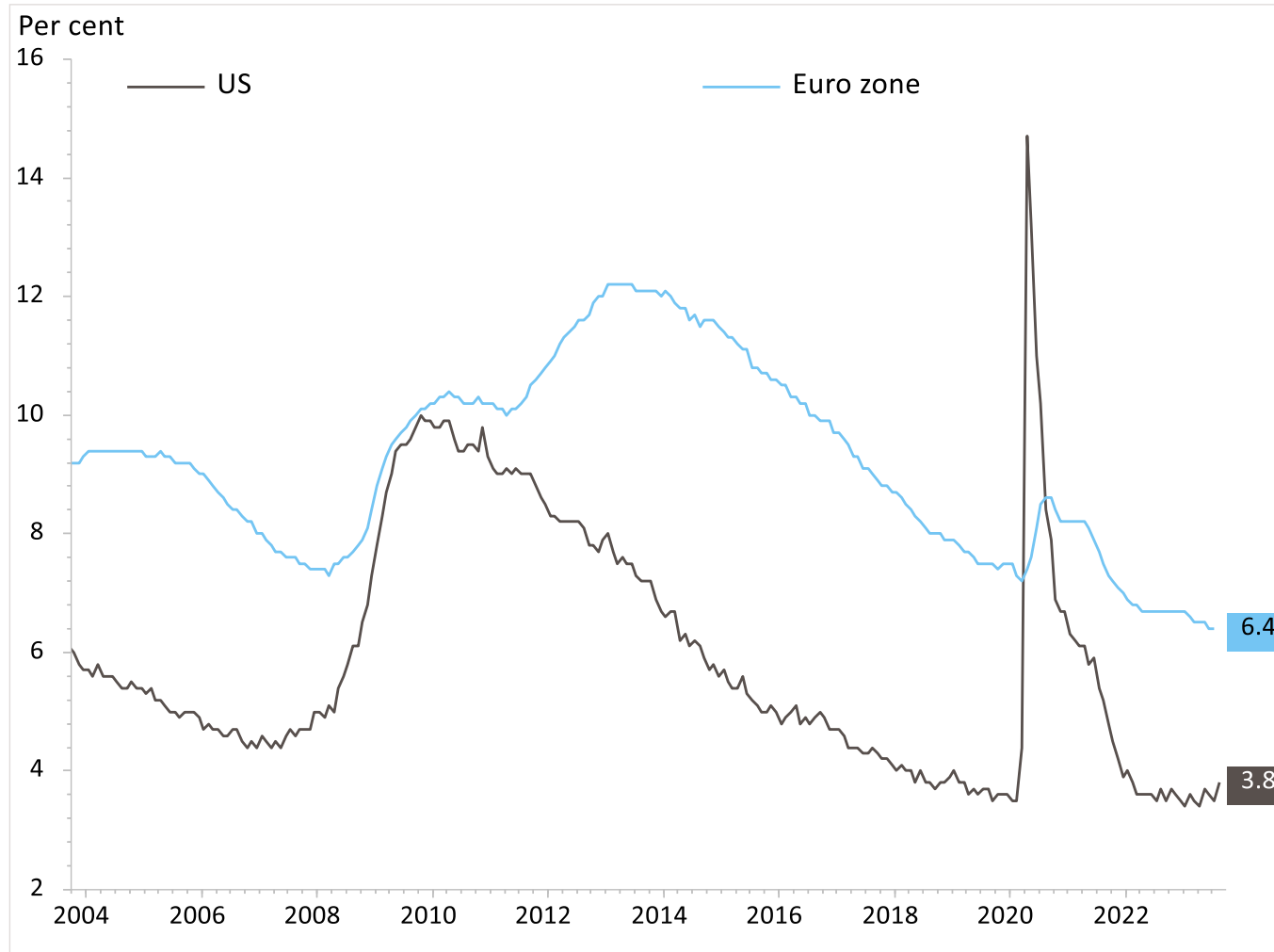
- As expected, bottom reached end Q1/early Q2 2023
- Weak recovery thereafter due to high inflation and the resulting interest rate pressure

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

Economy / Macro

Unemployment rate (Global)



Assessment
Very Positive

Justification

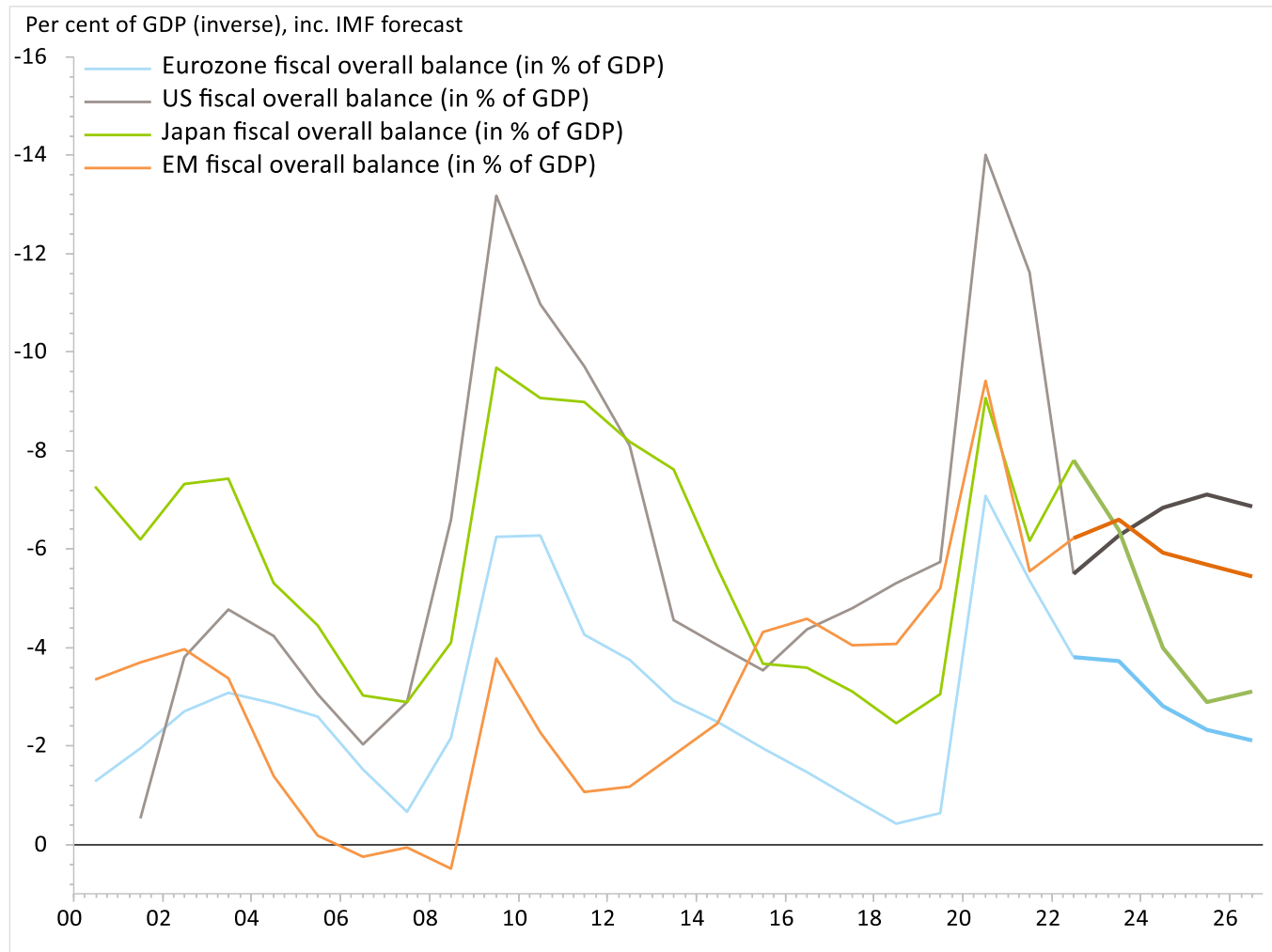
- Unemployment rates at a historically very low level
- Very strong labour markets

Explanation

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

Economy / Macro

Fiscal programmes (Global)



Assessment
Positive

Justification

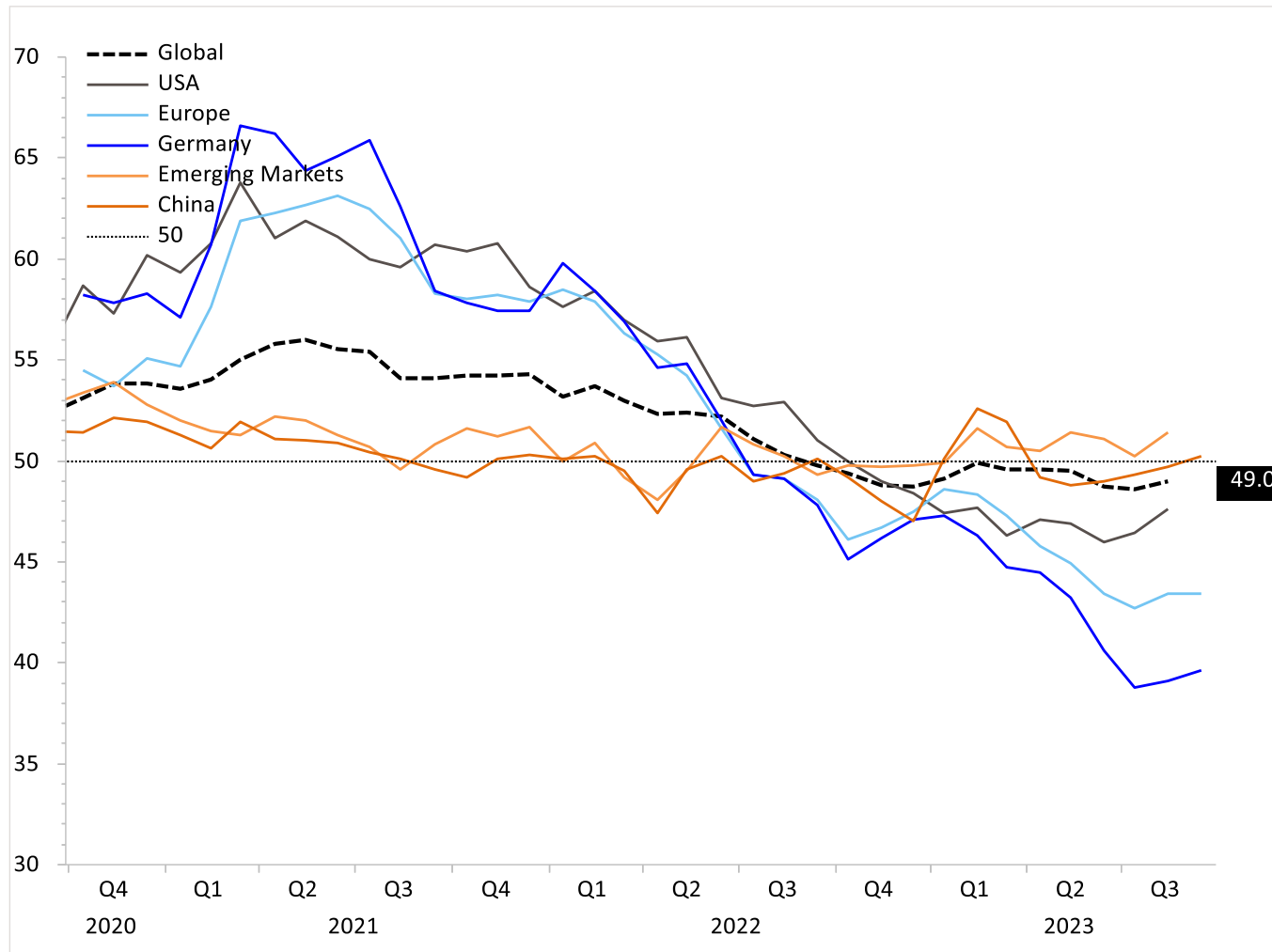
- Historically high level of fiscal programmes
- USA higher than Europe
- Emerging markets with strongest long-term stimulus

Explanation

- Expectations of the International Monetary Fund (IMF) regarding the upcoming fiscal programmes

Economy / Macro

Purchasing Managers' Indices (PMIs Global)



Assessment
Cautious

Justification

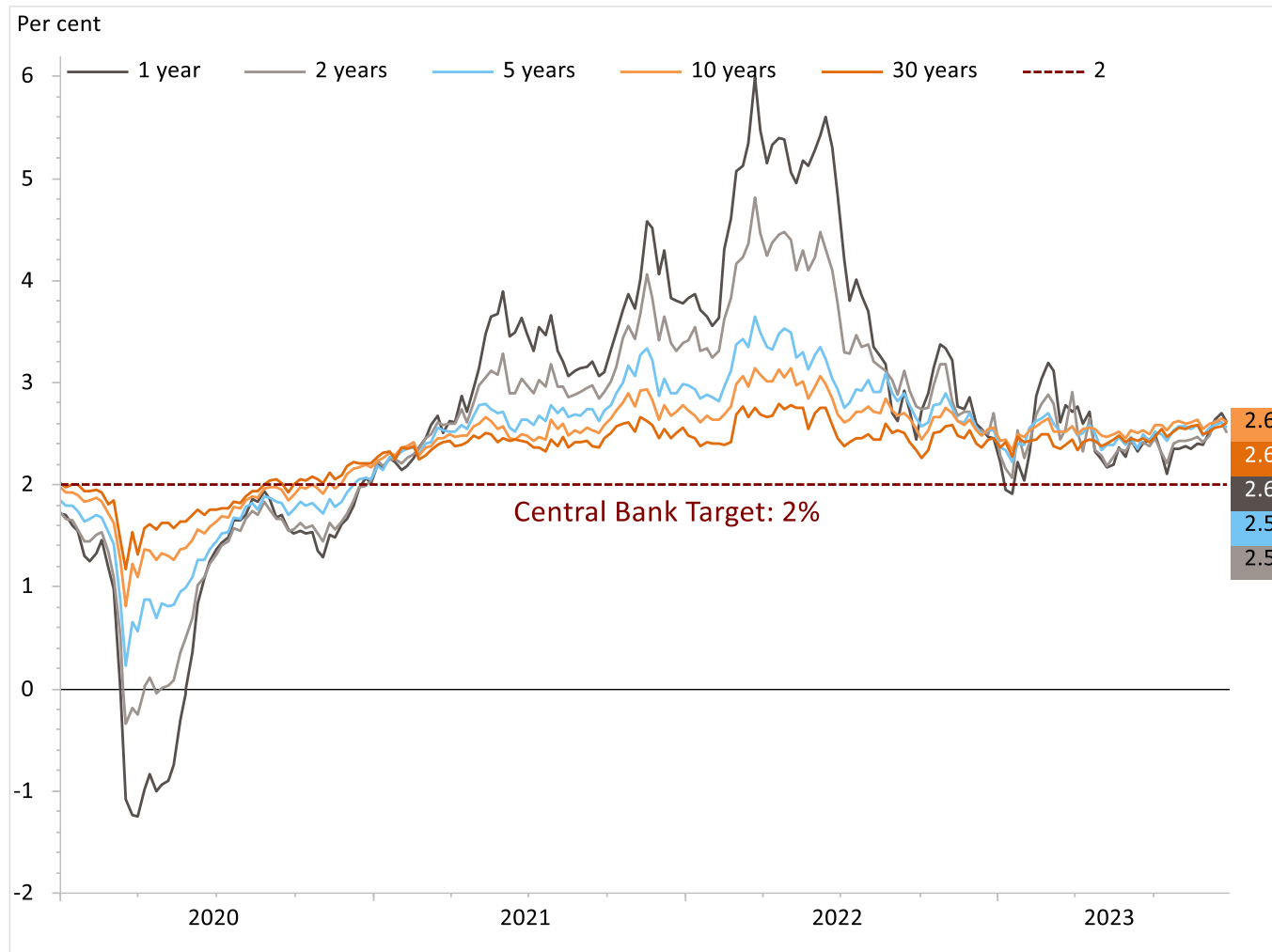
- Industrialised countries (Global) on the growth threshold of 50 (Europe weak)
- Emerging markets over the growth frontier

Explanation

- Purchasing managers' indices (=PMI): monthly indicator of economic development in the manufacturing sector.
- Values above 50 mean expansion
- Values below 50 indicate a contraction of the economy

Economy / Macro

Monetary policy: US inflation expectations



Assessment
Cautious

Justification

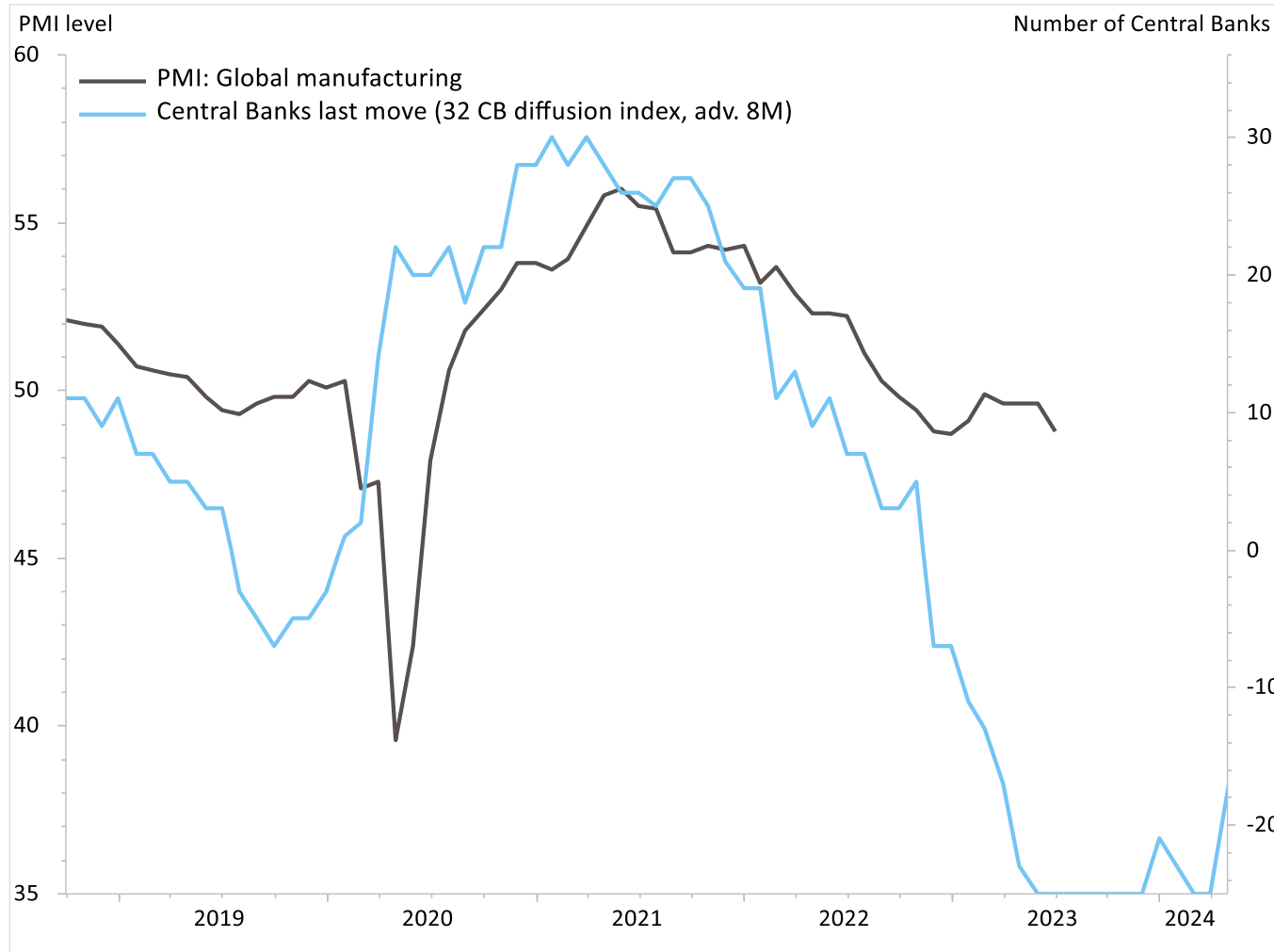
- Inflation figures settle at a higher level compared to the pre-Corona period
- The central banks' inflation target (2%) is exceeded

Explanation

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

Economy / Macro

Monetary Policy: Central Banks (Global)



Assessment
Negative

Justification

- Tighter central bank monetary policy weakens global growth
- Transition from expansionary to restrictive monetary policy, led by the FED

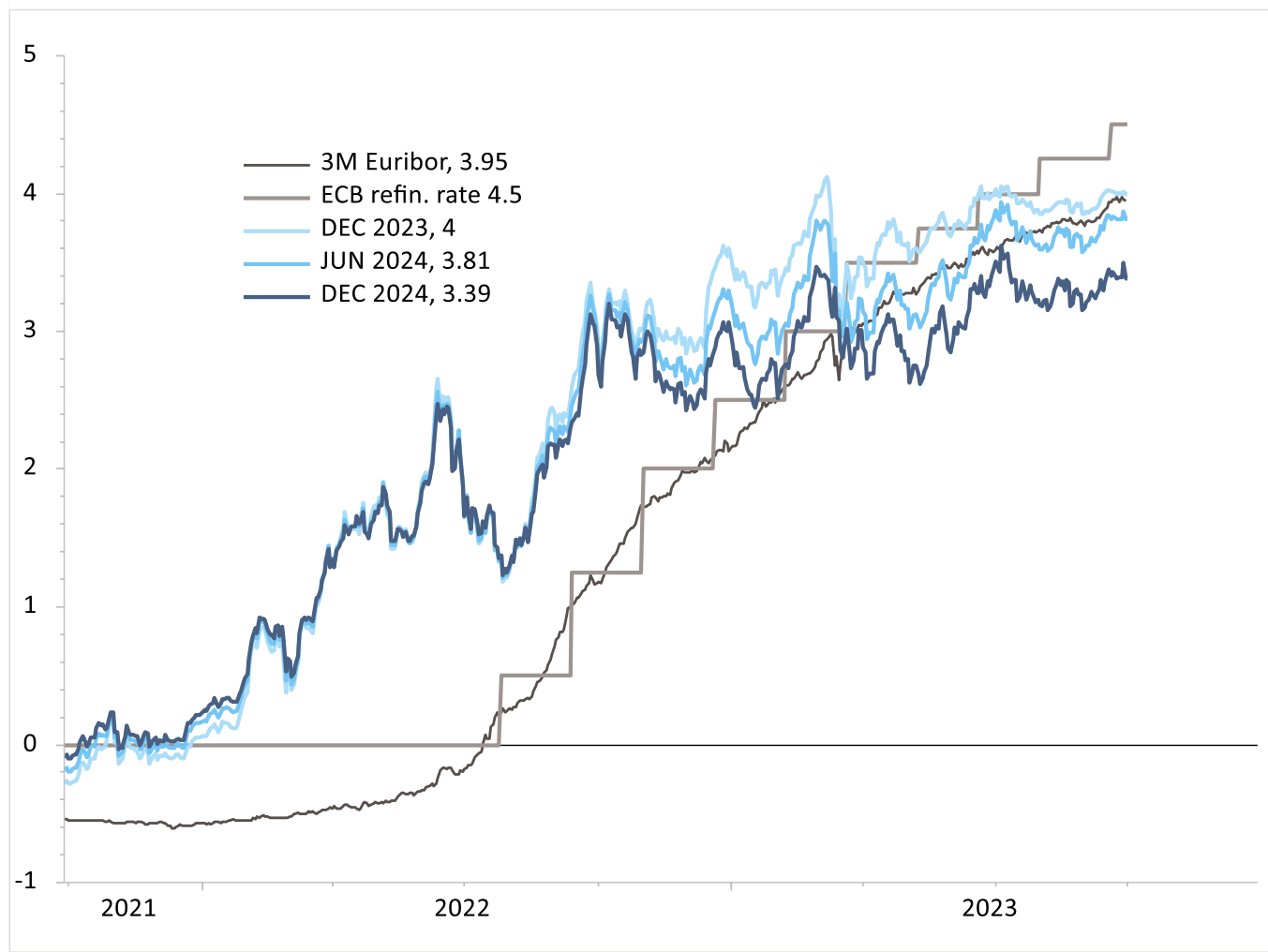
Explanation

- Central banks' liquidity supply influences the global economy with a lead time of 8 months
- 32 Central banks are examined according to the last action. Interest rates lowered = +1 point Interest rates raised = -1 point

Details short-term situation assessment Interest rate policy

Interest rate policy

Implicit interest rate expectations (Europe)



Assessment
Positive

Justification

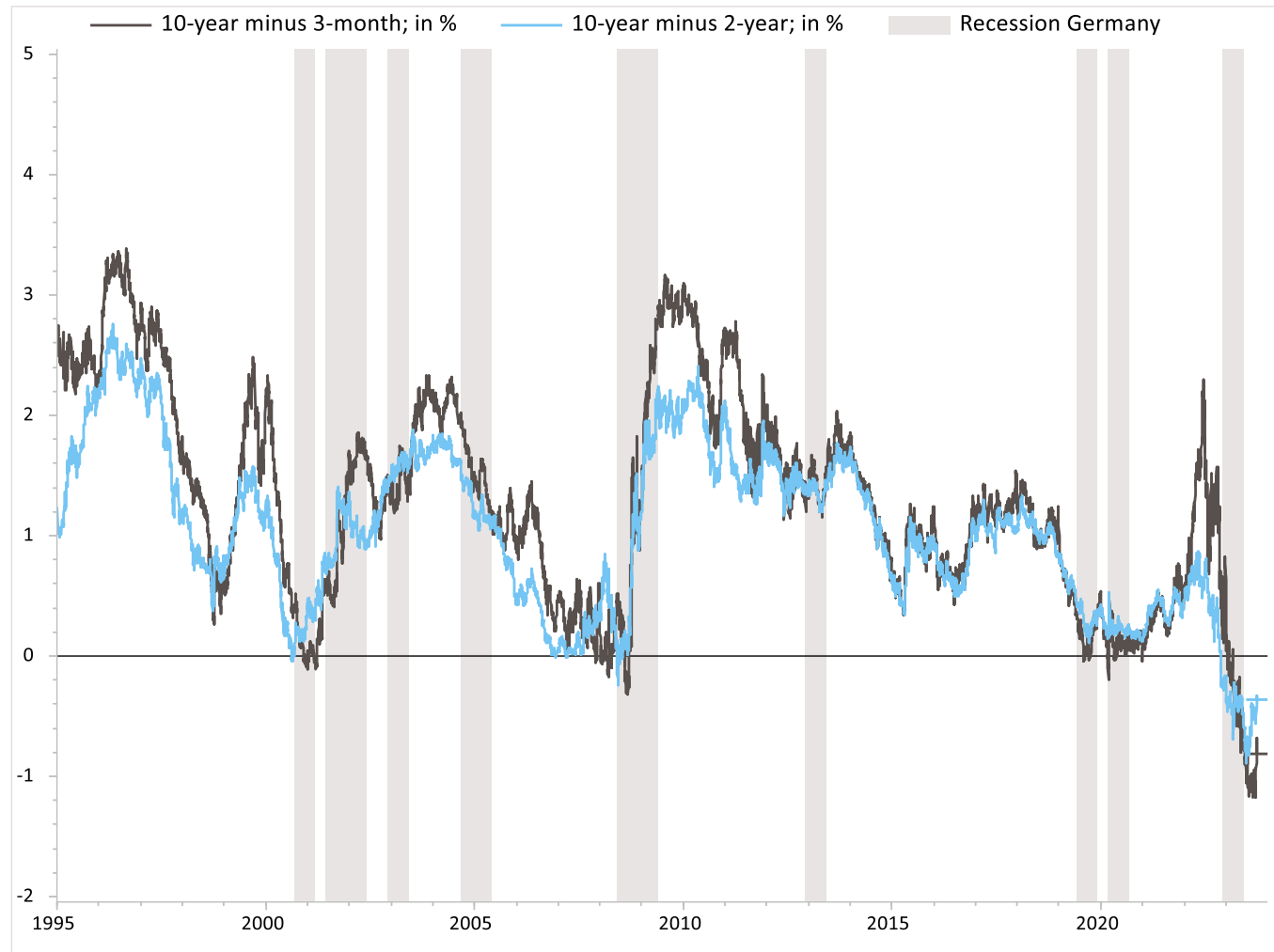
- Expectation of falling interest rates
- The market anticipates further interest rate hikes and has priced them in

Explanation

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

Economy / Macro

Yield curve Europe / Germany



Assessment
Negative

Justification

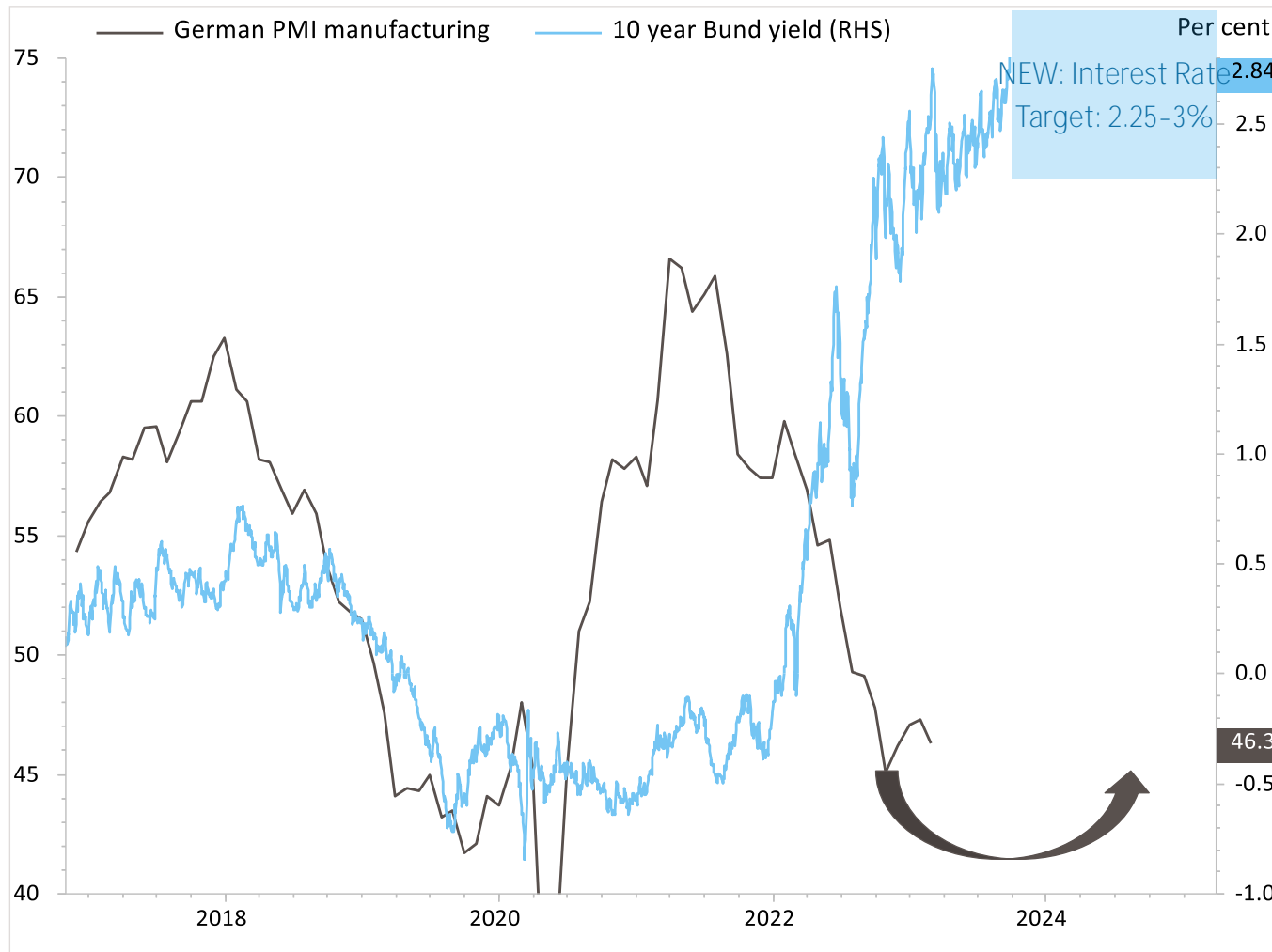
- Yield curve starts to normalise (3M and 2Y)

Explanation

- Long-term development (10 years) is more difficult to predict than the short-term (3 months)
- This higher risk must be rewarded
- Therefore, in a normal environment: bonds with a long maturity usually yield more than those with shorter maturities
- Inverse yield curve: Strong recession signal

Economy / Macro

Purchasing managers' index and 10-year government bond (Germany)



Justification

- The improved economic environment argues for stagnating interest rates

Explanation

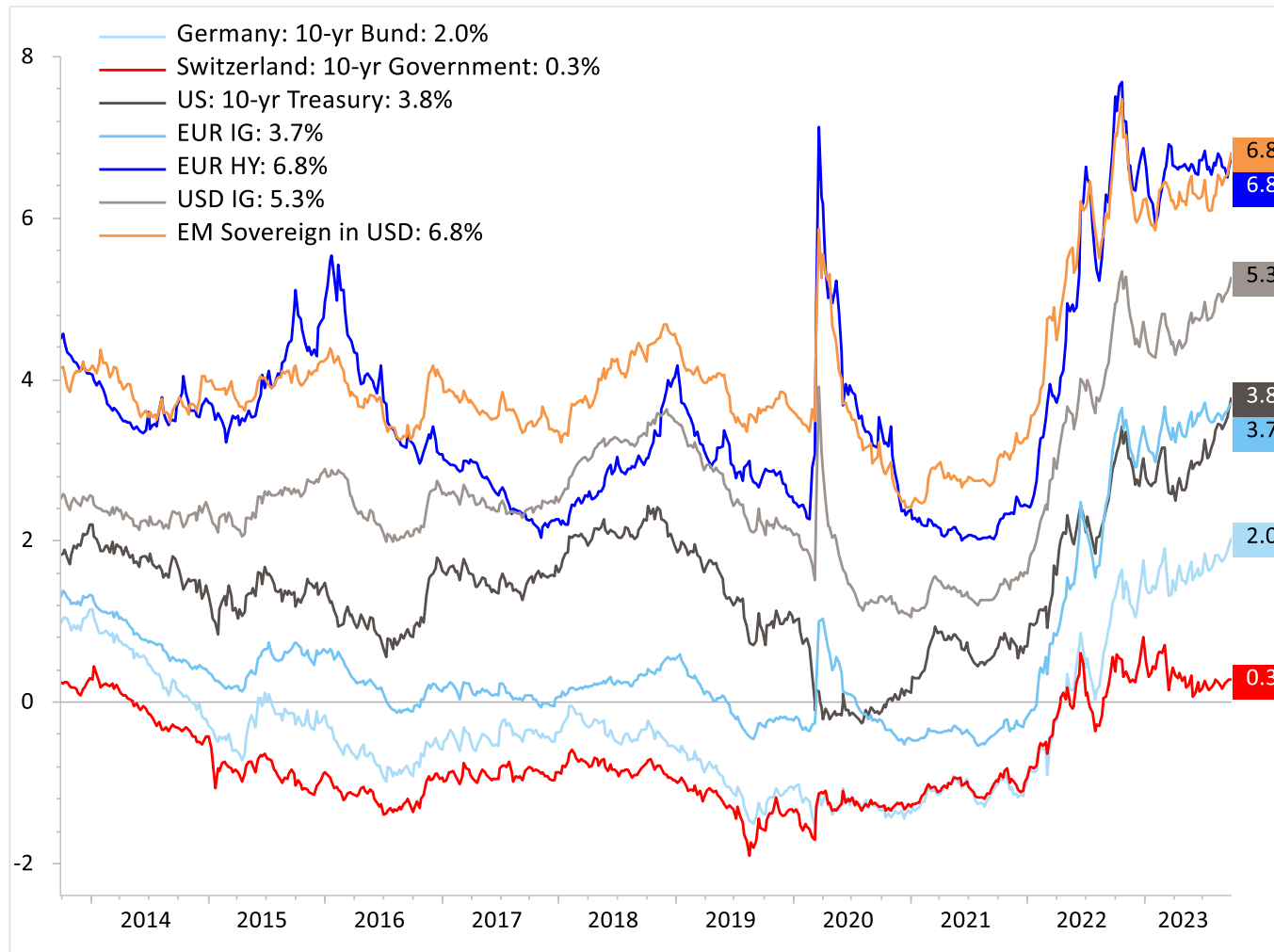
- Purchasing Manager Indices (PMI): Indicator of economic development
- Bond markets are sensitive to economic growth. The 10-year German government bonds reflect the level of the German Purchasing Managers' Index (PMI)

Details short-term situation assessment

Bonds

Yield: Yield to Maturity

EUR Investment Grade



Assessment
Positive

Justification

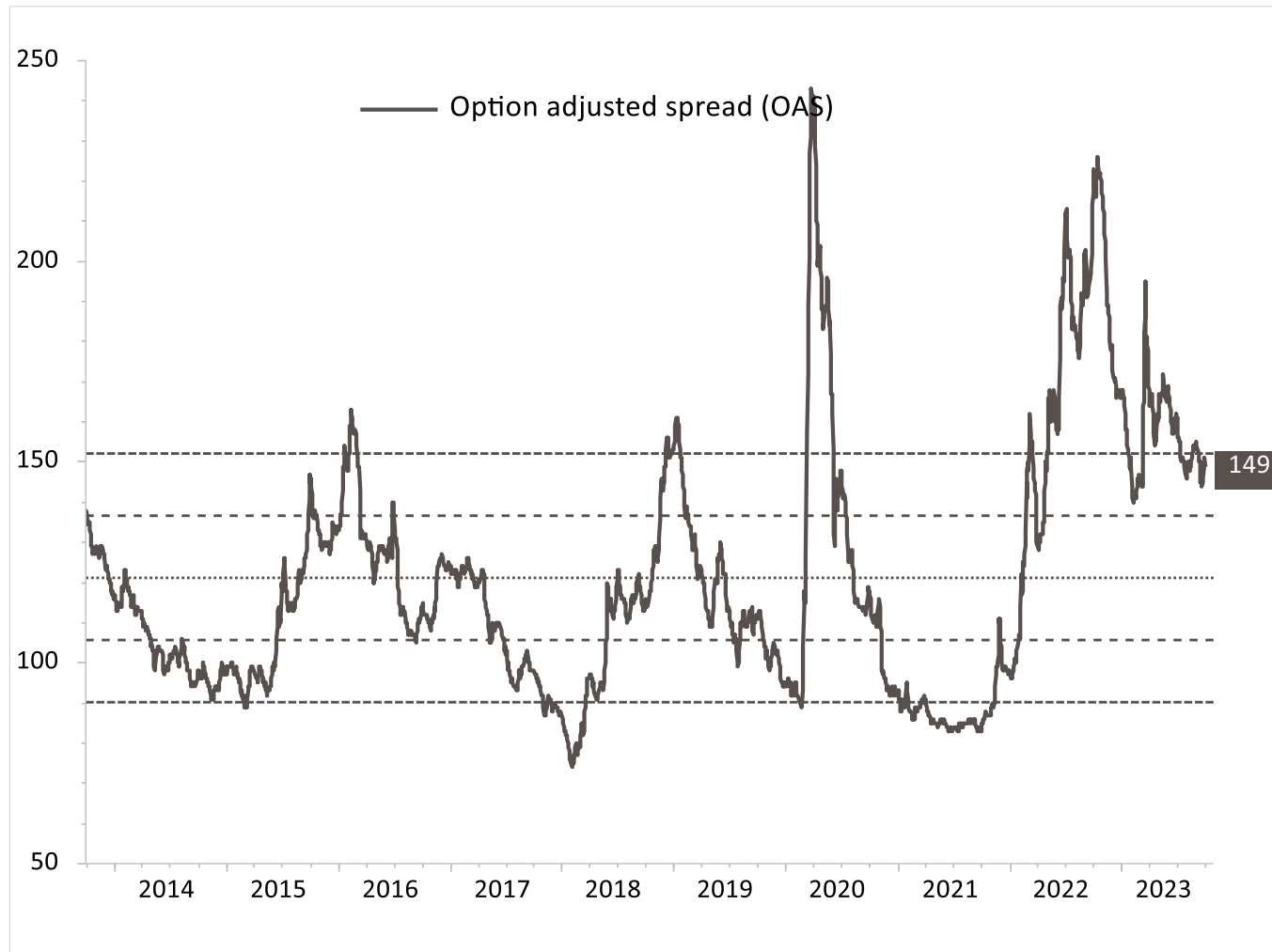
- Rising yields bring opportunity
- Maturity limitation with advantages in the environment of rising interest rates

Explanation

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

Risk premium

Interest rate differential to government bond: EUR investment grade



Assessment
Positive

Justification

- Strong deviation from the 10-year average

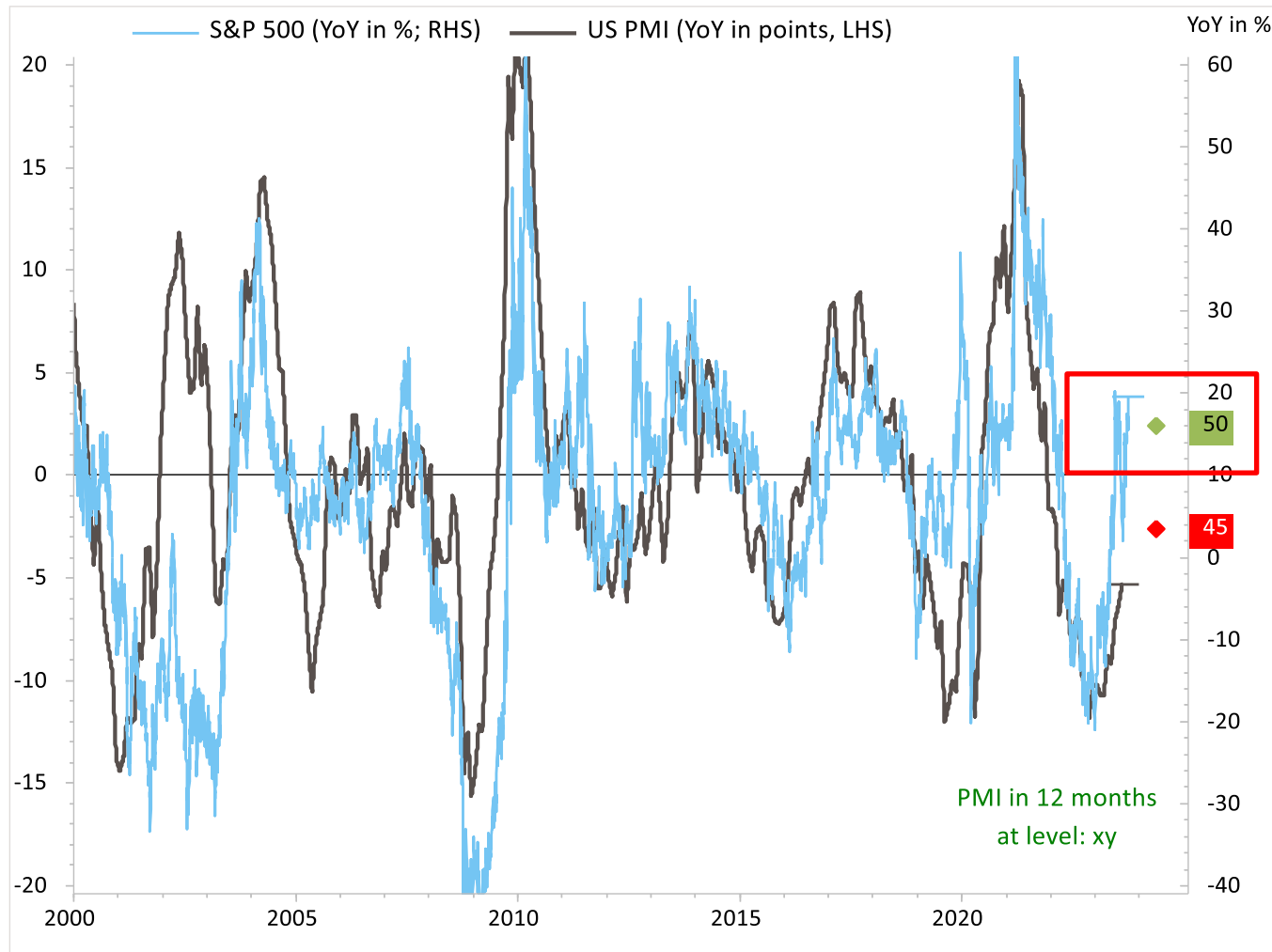
Explanation

- 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

Economy / Macro

PMI (USA) and S&P 500



Assessment
Neutral

Justification

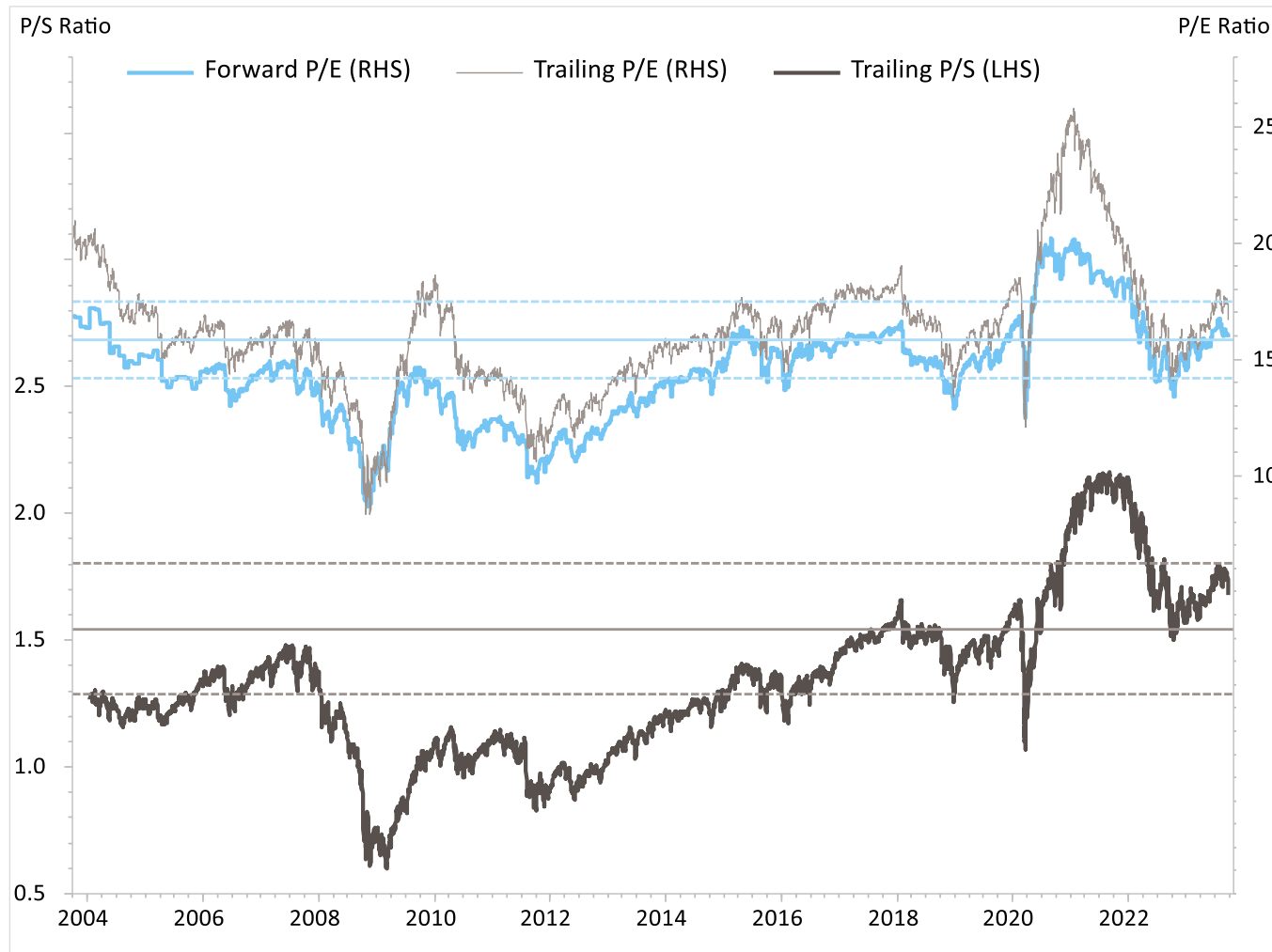
- Currently, equity markets are pricing in weaker economic development (PMI=50)
- A PMI of 50 corresponds to a correction potential of 0% starting from the current level

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

Valuations

Price/earnings ratio (Global)



Assessment
Neutral

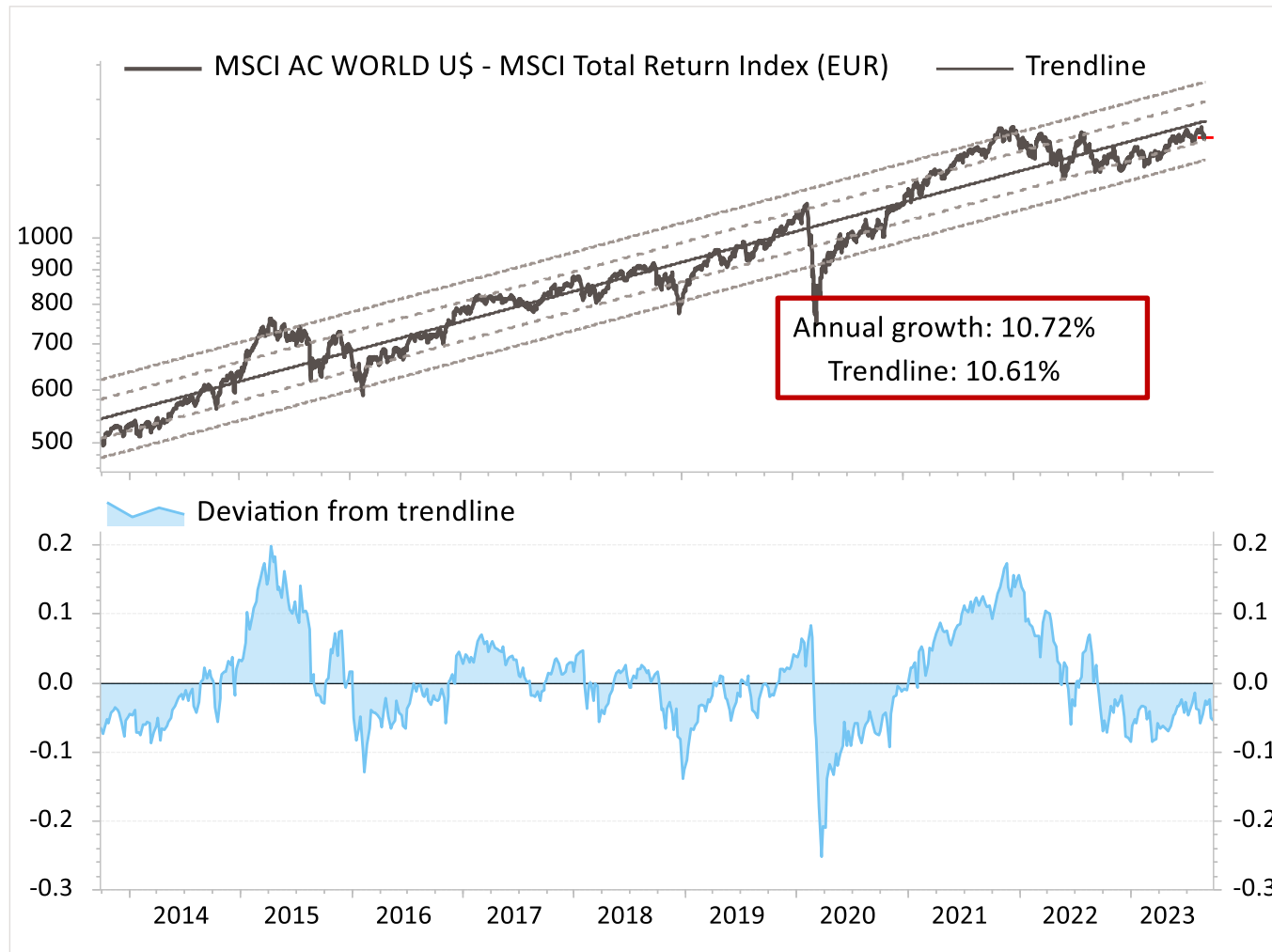
Justification

- Historically average to slightly elevated valuation

Explanation

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

Strategy/Trend Channels 10 years (Global)



Assessment
Neutral

Justification

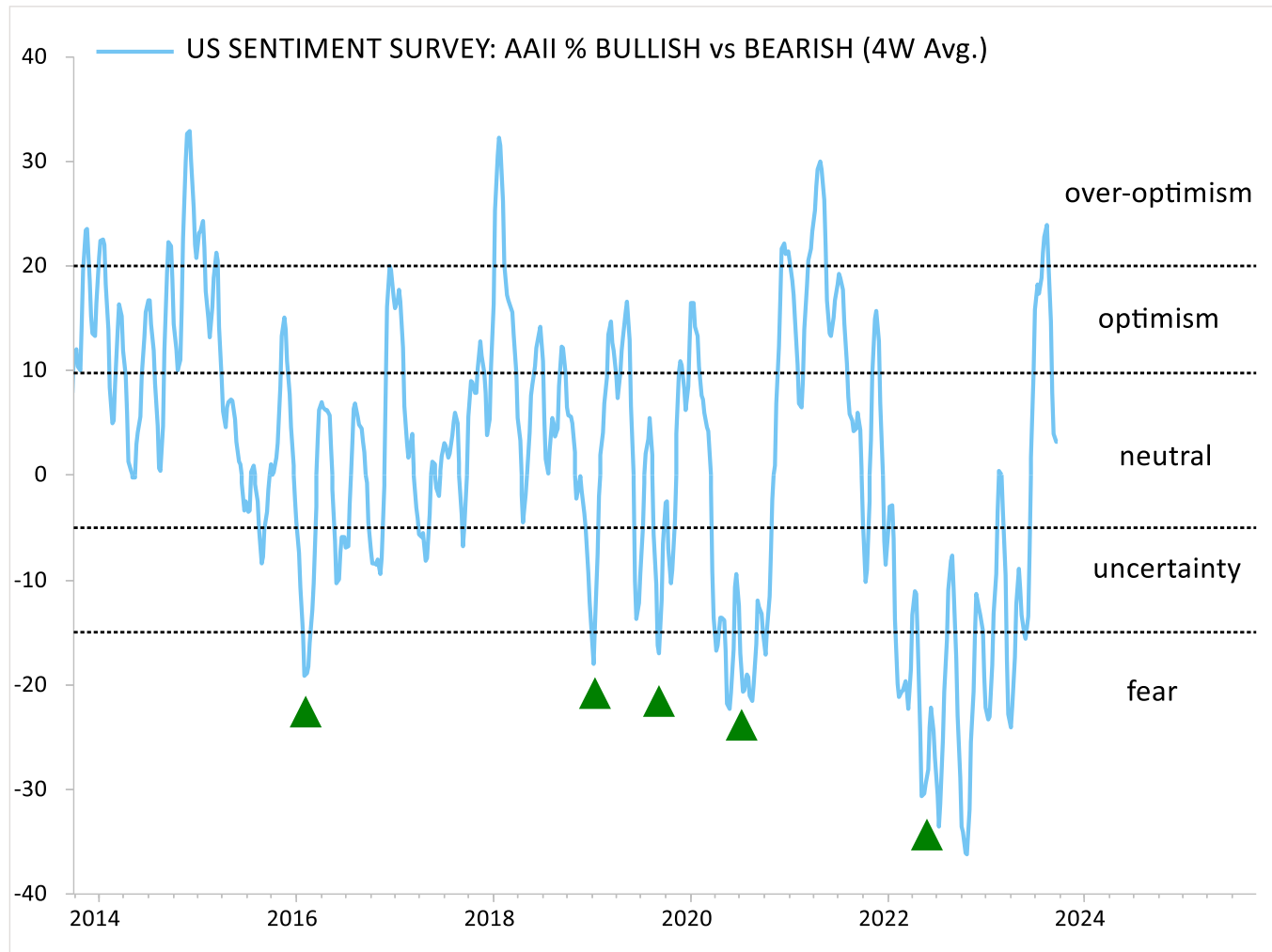
- In the long-term trend
- Deviation from the trend line close to the simple lower standard deviation

Explanation

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

Sentiment

Sentiment Survey (Global)



Assessment
Neutral

Justification

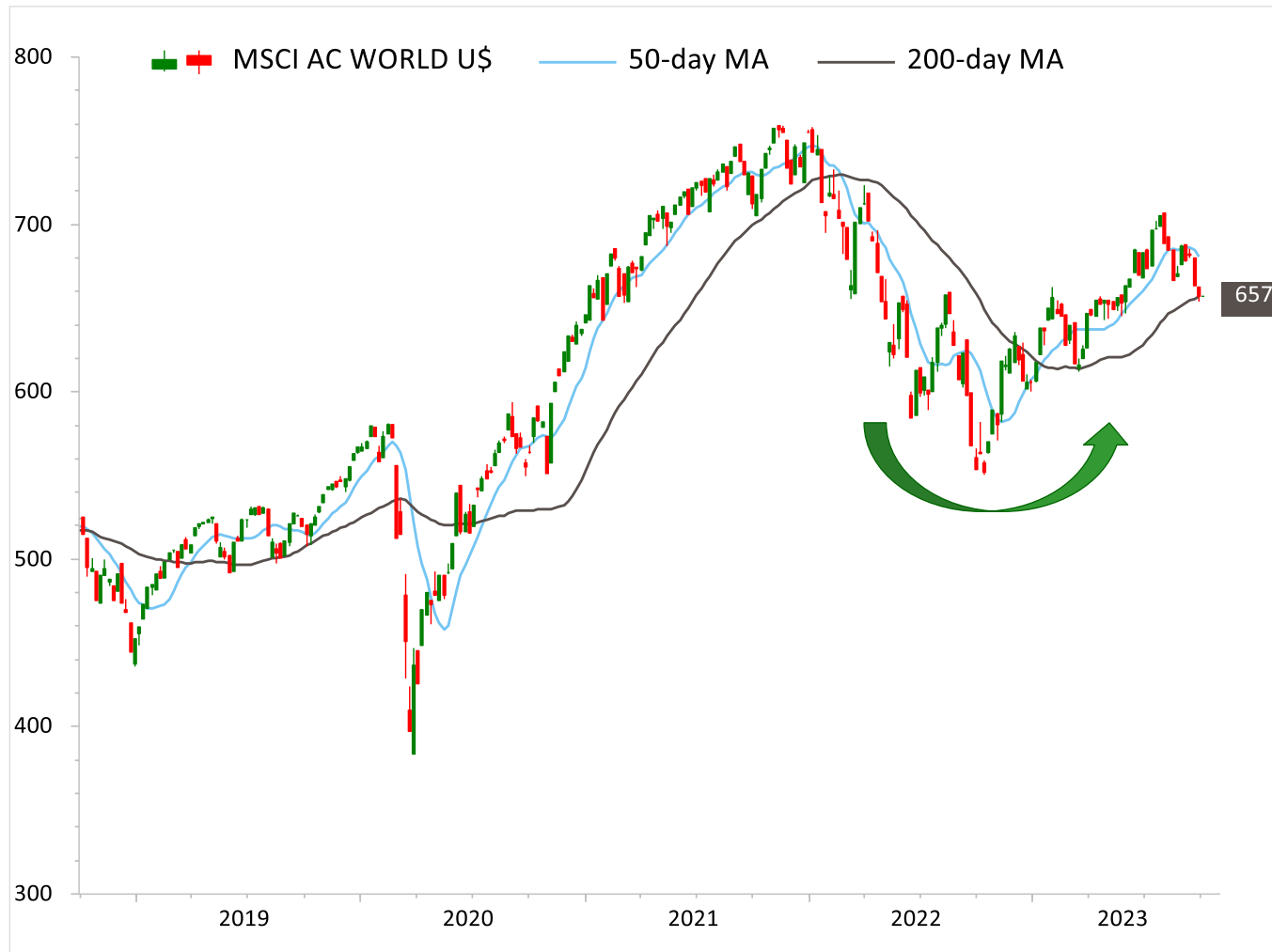
- Neutral assessment of private investors, without impulse/signal

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

Technical analysis

200- and 50-day moving average (Global)



Assessment
Positive

Justification

- Price within the two average lines
- long-term trend line (200 days): rising
- medium-term trend line (50 days): falling

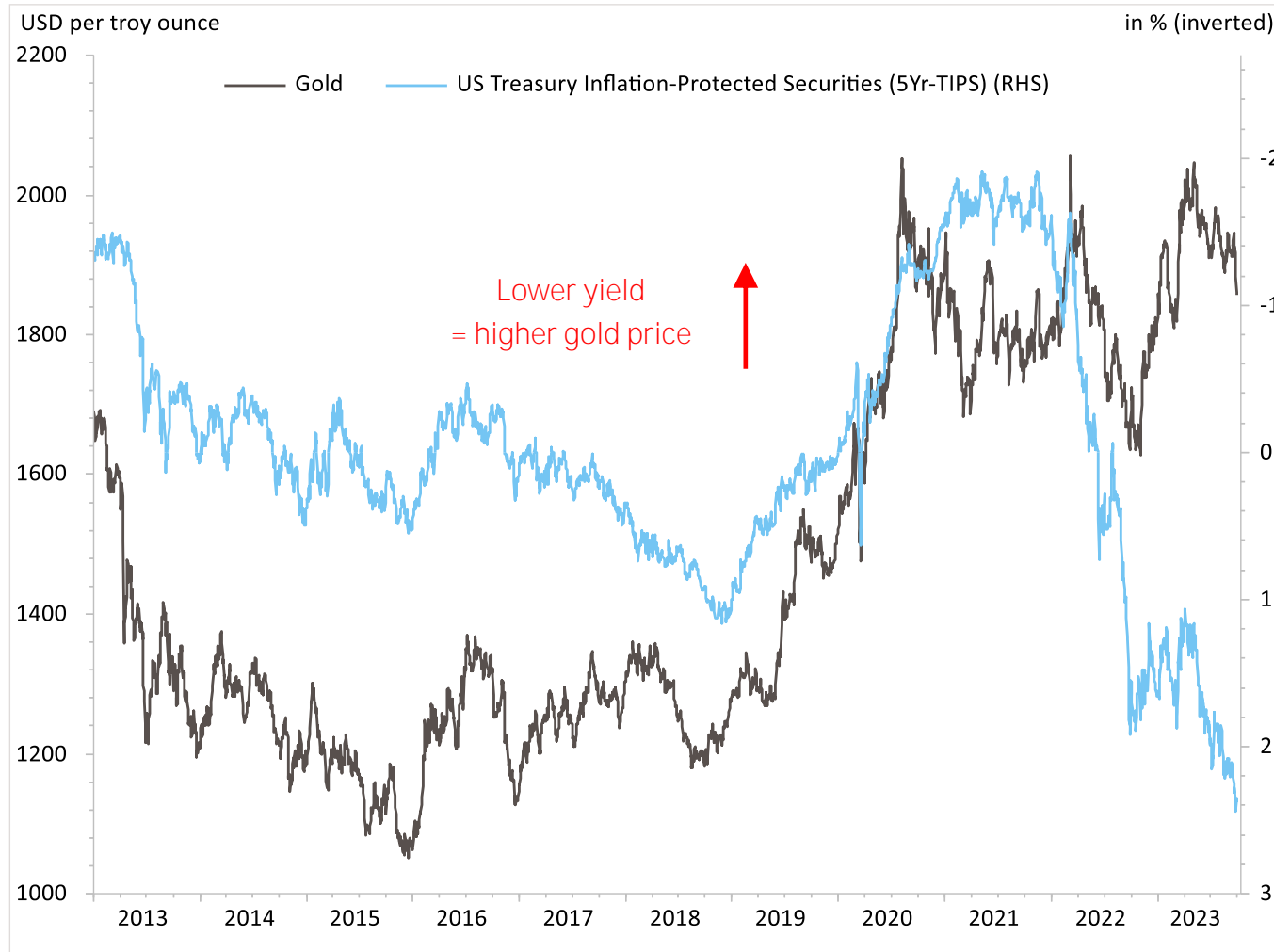
Explanation

- 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 Precious Metals

Monetary policy

Real yield and gold



Assessment
Negative

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)
- TIPS reflect the level of real yield via inflation protection

Details short-term situation assessment Commodities

Technical analysis

200- and 50-day moving average (commodities)



Assessment
Neutral

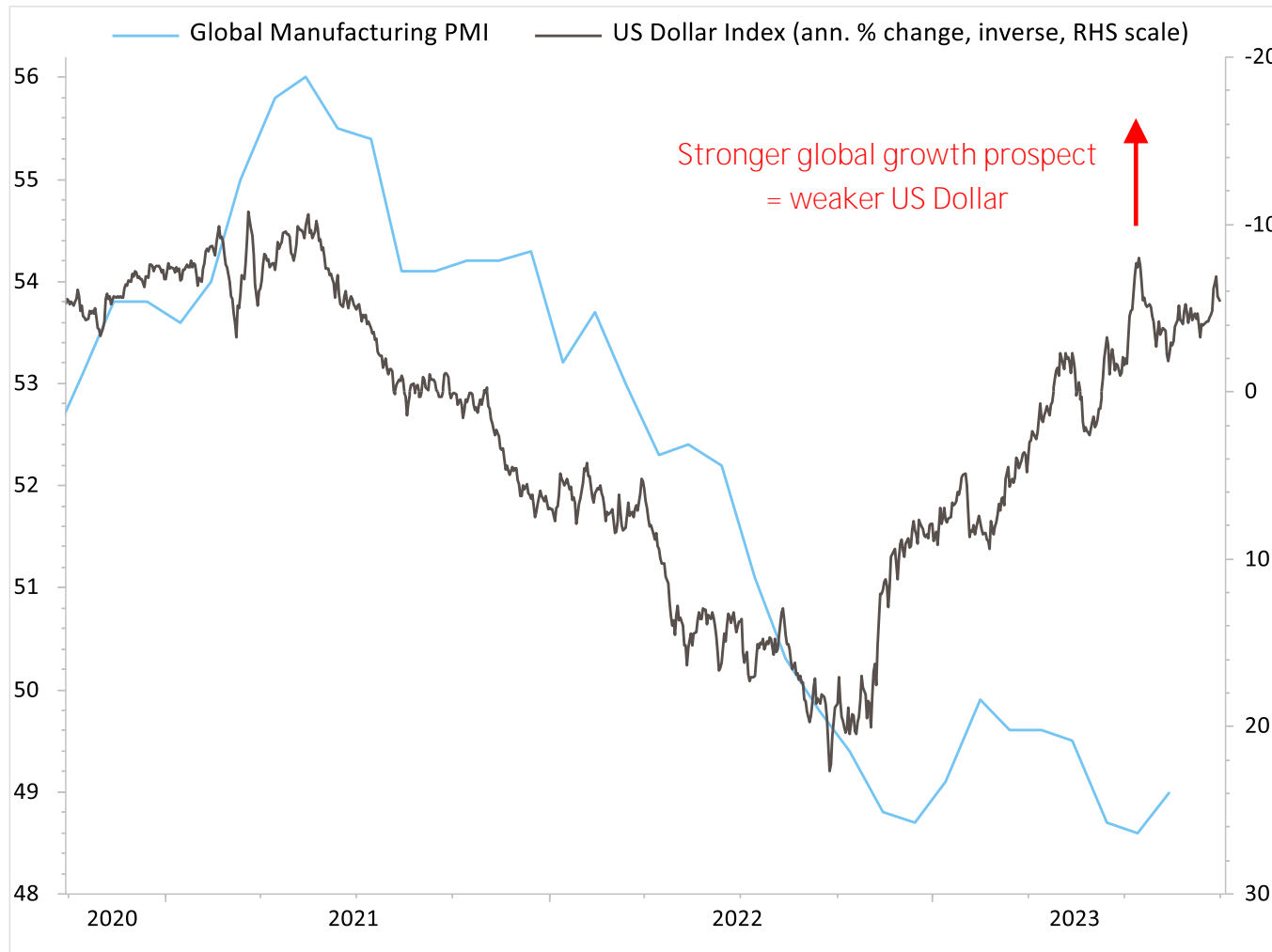
- Justification
- Price within the two average lines
 - long-term trend line (200 days): sideways
 - medium-term trend line (50 days): rising

- Explanation
- 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 Currencies

Economy / Macro

PMI (Global)

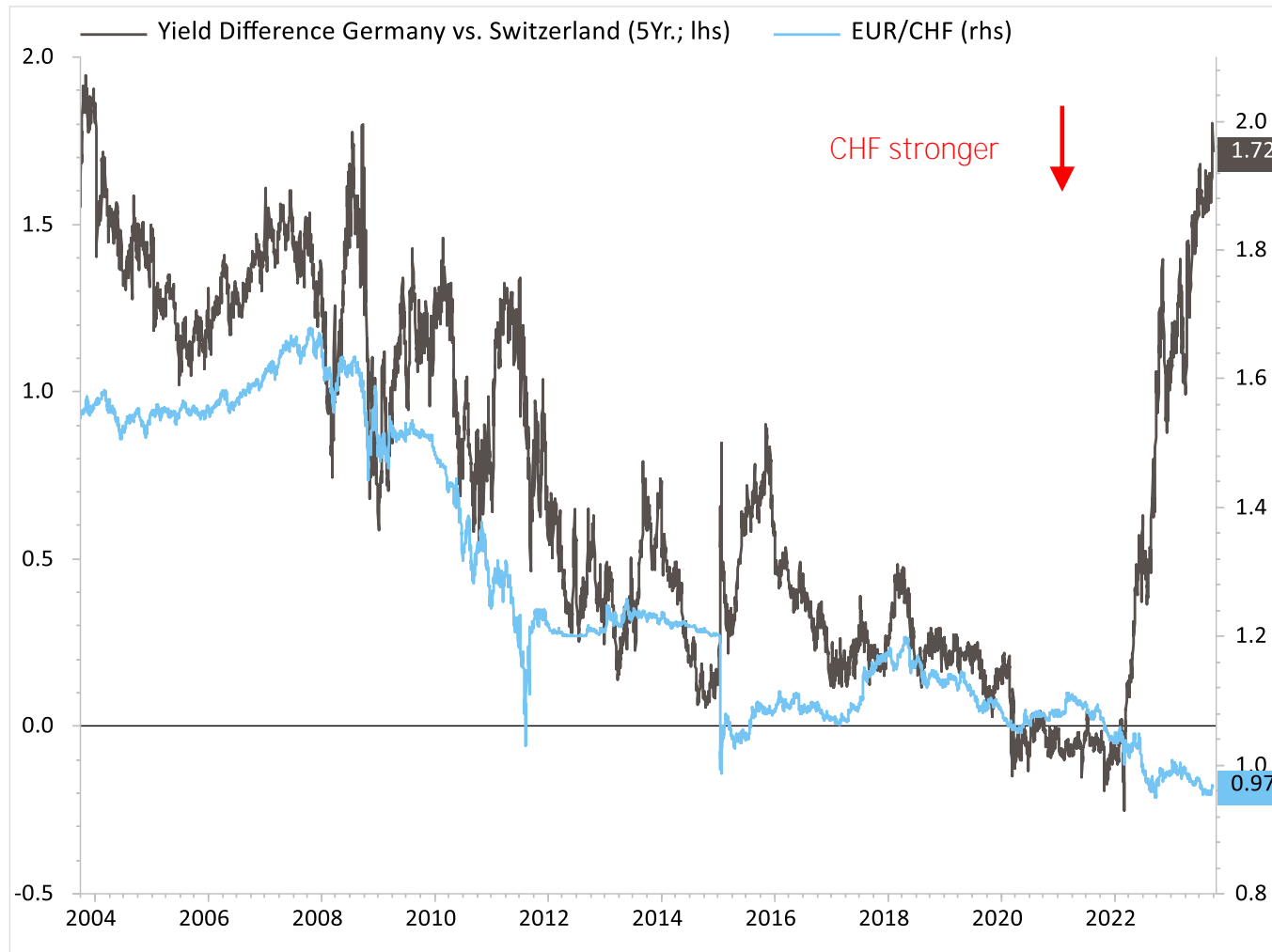


Assessment
Positive

- Justification
- Moderate economic recovery argues against the US dollar
 - US dollar weakness since mid-2022 already anticipates moderate economic recovery
- Explanation
- Purchasing managers' indices: Monthly indicator of economic development
 - Values above 50 mean expansion
 - Values below 50 indicate a contraction of the economy

Interest rate differential

Exchange rate and 5-year interest rate differential (EUR/CHF)



Assessment
Negative

Justification

- Interest rate differential speaks against Swiss franc

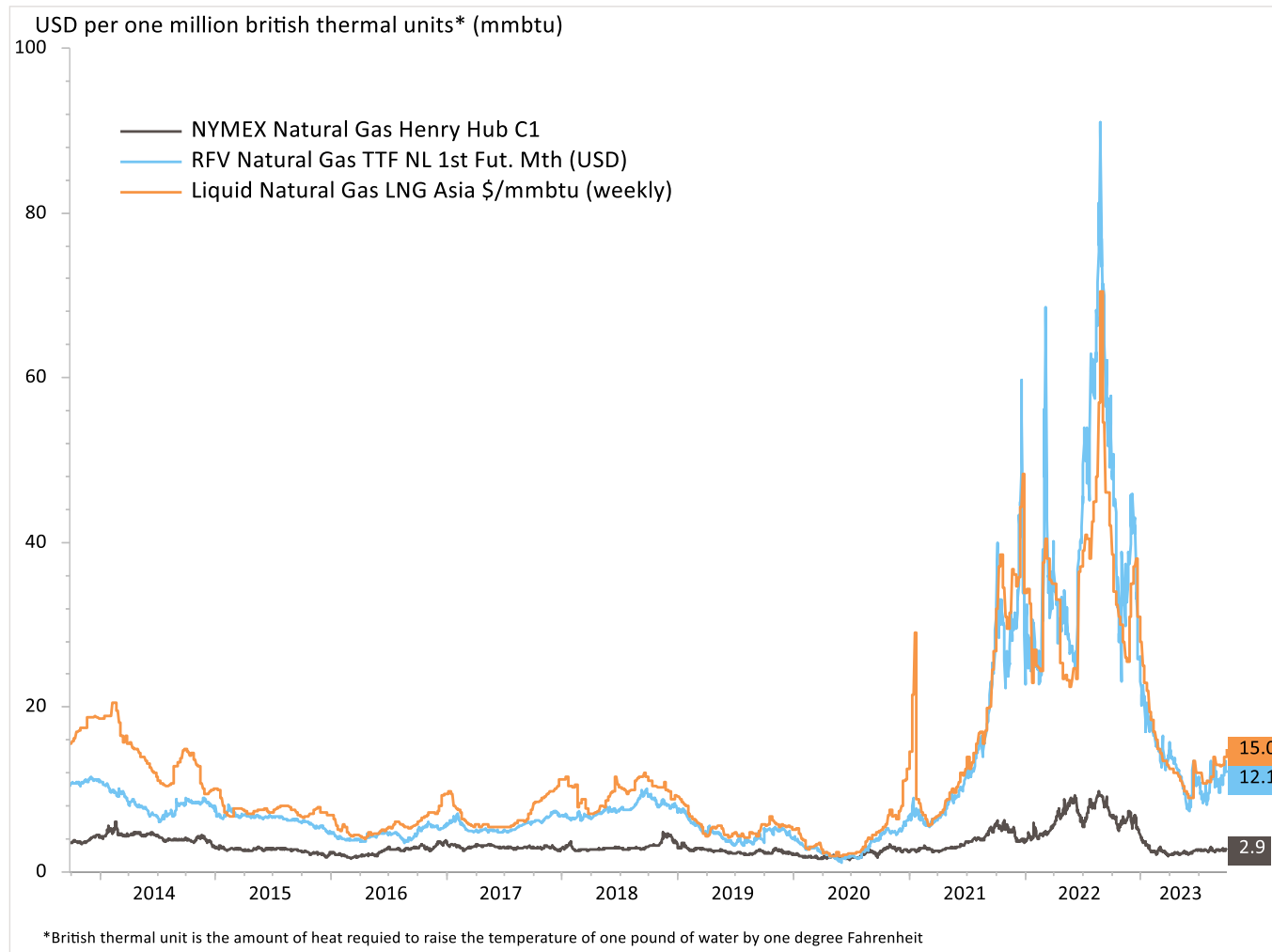
Explanation

- Higher interest rates increase the attractiveness of the currency as an investment currency, which leads to higher demand and a correspondingly higher exchange rate

Details short-term situation assessment News

News

Global Gas Prices



- Gas prices are back below the level before the outbreak of the Ukraine war
- High price differences, as global markets are not strongly interconnected
- USA with significant price advantage over the rest of the world

Ukraine crisis

Work scenarios

	Scenarios	Description	Affected asset classes
Current baseline scenario	Deposition Putin	<ul style="list-style-type: none"> – Coup from within the Russian government, e.g. via oligarchs – Political orientation unclear, but conciliatory thrust – Sanctions are lifted 	<ul style="list-style-type: none"> – Equities : +20% – Bonds +5% – Commodities: -20% – AI: +5%
	Sustainable peace negotiations	<ul style="list-style-type: none"> – Search for a face-saving solution for all parties involved – Division into a Russian and Ukrainian part – Sanctions are gradually being lifted 	<ul style="list-style-type: none"> – Equities : +10% – Bonds +/-0% – Commodities: -10% – AI: +5%
	Ongoing conflict/war	<ul style="list-style-type: none"> – 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) 	<ul style="list-style-type: none"> – Equities: +/-10% – Bonds +/-0% – Commodities: +10% – AI: +5%
	Russia wins	<ul style="list-style-type: none"> – Russia's military victory over Ukraine – Installation of a pro-Russian government in Ukraine – Sanctions against Russia remain in place 	<ul style="list-style-type: none"> – Equities : -10% – Bonds -5% – Commodities: +20% – AI: +5%
	Escalation of the conflict with NATO participation	<ul style="list-style-type: none"> – Involvement of NATO in conflict – Outbreak of World War 3 with use of nuclear weapons 	<ul style="list-style-type: none"> – Equities : -40% – Bonds +10% – Commodities: -40% – AI: +5%

Overview of all short-term indicators

Short-term situation assessment

Summary

Asset class	Estima- tion	TAA			Analysis									
		-	0	+										
Liquidity														
Bonds														
Government Bonds	Neutral				Macro	Int. rate policy	Yield		Default risk	Correlation	Uncertainty	News	Partner	
Investment Grade	Positive				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	Sentiment	Technology	News	Partner	
Europe	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
USA	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
Emerging Markets	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
Technology	Cautious				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News		
Health Care	Cautious				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News		
Commodities														
Gold	Cautious				Macro	Mon. policy	Trend	US Dollar	Evaluation	Sentiment	Technology	News	Partner	
Commodities	Neutral				Macro	Mon. policy	Trend	US Dollar		Sentiment	Technology	News	Partner	
Alternative Investments														
Private Debt														
Private Equity														
Diversified (HF)														

Short-term situation assessment

Summary

Asset class	Estima- tion	TAA - 0 +	Analysis											
			Macro	Politics	Trend	Interest	Evaluation	Sentiment	Technology	News	Partner			
Euro														
US Dollar (EUR/USD)	Neutral		Macro	Politics	Trend	Interest	Evaluation	Sentiment	Technology	News	Partner			
Franc (EUR/CHF)	Cautious		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)	Positive		Macro	Politics	Trend	Interest	Evaluation	Sentiment	Technology	News	Partner			
Euro (EUR/CHF)	Positive		Macro	Politics	Trend	Interest	Evaluation		Technology	News	Partner			
Pound sterling														
US Dollar (GBP/USD)	Neutral		Macro	Politics	Trend	Interest	Evaluation	Sentiment	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	Sentiment	Technology	News	Partner			
Swiss franc (USD/CHF)	Cautious		Macro	Politics	Trend	Interest	Evaluation	Sentiment	Technology	News	Partner			
Pound (GBP/USD)	Neutral		Macro	Politics	Trend	Interest	Evaluation	Sentiment	Technology	News	Partner			
US Dollar Index	Cautious		Macro	Politics	Trend	Interest	Evaluation	Sentiment	Technology	News	Partner			

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