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PORTFOLIO UPDATE

SEPTEMBER 2023

MONTHLY REVIEW

In Europe, the hot days of summer meant that equity investors were in no mood for shopping. The unusually high temperatures reduced the pace of life to a crawl and made it hard to think straight. As a result, the summer-induced correction dragged on over the course of last month.

The reporting season that has just come to an end proved to be a mixed bag. Even though most companies exceeded expectations, results announcements were generally followed by a negative share price reaction. However, this was predominantly due to what was largely subdued guidance. In the case of more than half the companies that issued an outlook, the guidance was broadly negative. In the main, investors therefore took advantage of good results to sell shares. In the US, at least the energy sector made a comeback, leading the pack alongside healthcare. Conversely, there was a crowded field of losers, with utilities hit especially hard. It was much the same picture in other regions, though in Europe investors steered clear of basic resources in particular.

For a good many market participants, a month without an interest rate decision was a holiday in itself. For once, there was no strong impetus stemming from a handful of individuals. The Fed minutes too failed to spark any market volatility, while the labour market figures and inflation numbers were the only data readings to cause a few ripples on the markets. On the whole, though, there were no major surprises. Only wages, which continued to rise, prompted a few murmurs and furrowed brows among investors and strategists. Accordingly, bonds with strong credit ratings generally ended the month down owing to the modest rise in yields, while high-yield bonds benefited from a lower spread and therefore performed better.

Turning to currencies, the trade-weighted dollar index made interim gains of approx. 2%. This meant that Swiss investors benefited from unhedged foreign currency positions. As a consequence, the strong greenback weighed on precious metal prices. However, precious metals rallied in the second half of the month, making up for these early losses.

Financial markets 2023 total return

Equities	August	2023
S&P 500 (US)	-1.6%	18.7%
Dow Jones Industrial Average (US)	-2.0%	6.4%
EURO STOXX 600 (EU)	-2.5%	11.1%
DAX (DE)	-3.0%	14.5%
SMI (CH)	-1.6%	6.8%
MSCI Emerging Markets (EM) in USD	-6.1%	4.8%
Fixed Income	**August**	**2023**
US Corporate Bonds Inv. Grade	-0.8%	2.8%
US Corporate Bonds High Yield	0.3%	7.1%
Pan-European Corporate Bonds Inv. Grade	0.1%	3.6%
Pan-European Corporate Bonds High Yield	0.3%	6.5%
Alternative Investments	**August**	**2023**
Gold	-1.5%	6.5%
Oil (brent)	2.1%	7.5%

Sources: swisspartners, Bloomberg

MANDATE RETURNS GROSS

	Euro			Swiss Franc			US Dollar			British Pound		
	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn
2012	6.6%	7.4%	10.5%	4.3%	6.5%	10.9%	5.9%	8.4%	11.8%			
2013	1.5%	6.5%	13.5%	1.9%	8.3%	16.7%	2.9%	9.4%	18.5%			
2014	6.1%	8.0%	10.2%	4.9%	6.5%	9.2%	1.6%	2.2%	3.1%			
2015	2.7%	6.3%	9.9%	-0.8%	0.0%	1.8%	-0.3%	0.0%	1.0%			
2016	2.3%	5.3%	7.1%	1.3%	3.9%	5.7%	2.8%	6.2%	7.2%	4.6%	9.5%	12.1%
2017	3.5%	7.3%	10.8%	4.3%	8.9%	15.0%	7.1%	12.7%	18.1%	4.7%	8.7%	14.2%
2018	-4.3%	-9.0%	-10.5%	-5.6%	-10.1%	-12.1%	-2.5%	-7.9%	-9.8%	-3.3%	-8.6%	-10.4%
2019	9.2%	15.7%	21.6%	8.3%	14.8%	19.6%	11.5%	17.5%	22.0%	9.4%	15.3%	19.8%
2020	3.2%	5.3%	8.6%	2.6%	5.5%	9.0%	6.7%	9.7%	13.6%	4.6%	6.5%	10.3%
2021	5.3%	10.5%	16.5%	4.3%	8.9%	14.2%	4.2%	8.4%	13.9%	4.2%	8.7%	14.4%
2022	-9.6%	-11.7%	-14.7%	-10.7%	-13.2%	-16.4%	-8.8%	-10.8%	-13.6%	-8.3%	-9.5%	-12.2%
Jan 23	2.9%	4.1%	4.8%	3.1%	4.2%	4.9%	3.4%	4.8%	5.4%	3.0%	4.1%	4.9%
Feb 23	-0.8%	-0.8%	-0.5%	-0.9%	-0.9%	-0.7%	-1.1%	-1.3%	-1.0%	-0.8%	-0.9%	-0.6%
Mar 23	0.8%	0.0%	-0.1%	0.6%	-0.2%	-0.2%	1.5%	0.7%	0.8%	0.9%	0.1%	0.2%
Apr 23	0.4%	0.5%	0.8%	0.2%	0.1%	0.4%	0.9%	1.0%	1.3%	0.3%	0.4%	0.9%
May 23	0.4%	0.5%	0.3%	0.0%	0.2%	-0.1%	-0.3%	-0.2%	-0.5%	-0.2%	-0.1%	-0.3%
Jun 23	0.8%	1.9%	2.6%	0.8%	1.9%	2.5%	1.4%	2.6%	3.3%	0.9%	2.0%	2.6%
Jul 23	0.9%	2.0%	2.1%	0.4%	1.3%	1.4%	1.3%	2.3%	2.5%	1.2%	2.2%	2.2%
Aug 23	-0.5%	-1.2%	-1.8%	-0.6%	-1.2%	-1.8%	-0.7%	-1.4%	-2.1%	-0.3%	-1.1%	-1.7%
2023	5.0%	7.0%	8.3%	3.4%	5.2%	6.4%	6.5%	8.5%	9.8%	5.0%	6.6%	8.2%

Actual portfolio returns may differ from the values shown above owing to the level of implementation, costs and restrictions on implementation.

TRANSACTIONS IN AUGUST

For a detailed overview of the transactions for each strategy, please do not hesitate to contact us.

POSITIONING

Liquidity (neutral)

Conservative	6.0%
Balanced	3.5%
Dynamic	5.0%

- Excess liquidity is invested in money market funds or fiduciary investments where possible.
- In the current difficult market environment, an increased cash allocation offers the possibility of temporarily parking surplus liquidity in order to participate in investment opportunities at a later date.

Bonds (underweight)

Conservative	55.0%
Balanced	35.0%
Dynamic	12.0%

- Against the backdrop of rising debt in the public and private sectors, we prefer bond issuers with solid balance sheets, a healthy business model and correspondingly good credit ratings. At the same time, however, one must position oneself outside the AAA/AA rating segment in order to achieve an attractive yield to maturity in real terms.
- Especially in lower ratings, we rely on broadly diversified investments in order to act as cautiously as possible.
- Driven by central bank communication and inflation expectations, interest rates have returned to more attractive levels.
- Duration remains slightly underweighted. The inflation issue has moved into the background and the FED is coming off its aggressive course, making medium duration bonds look very attractive again after a historically bad phase.
- In an economic environment that remains good, high-yield bonds should also offer some protection against interest rate rises, which we are also taking advantage of.

Equities (overweight)

Conservative	29.0%
Balanced	51.5%
Dynamic	75.5%

- The central banks' fight against rising inflation is keeping a tight grip on the global economy and the stock markets.
- The persistently high inflation and the partly massive increase in the cost of capital as well as the change in consumer spending will have a negative impact on earnings growth in the coming quarters.
- Within the equity allocation, we continue to favour Europe over the USA. Due to the defensive orientation of the Swiss equity market, it is still considered attractive. The cooling of the global economy makes investments in emerging markets less interesting; accordingly, developed markets are preferred to emerging markets.
- Within the individual sectors, we continue to consider basic materials, energy and industrial stocks, as well as cyclical consumer goods as attractive; accordingly, these sectors are overweighted in the portfolios.
- Due to valuation and the rapid turnaround in interest rates, our outlook for the real estate, utilities and information technology sectors remains negative, which is why these sectors are underweighted.
- Financials, non-cyclical consumer goods and healthcare are neutrally weighted.

Alternative investments (overweight)

Conservative	10.0%
Balanced	10.0%
Dynamic	7.5%

- High liquidity is the basic prerequisite and determines which strategies come into question.
- The goal is to achieve a positive market return with low volatility in a normal market environment.
- We protect ourselves from pronounced market corrections with market-neutral bond strategies, cat bonds and multi-strategies.
- With higher visibility of the markets, a more offensive positioning is taken.

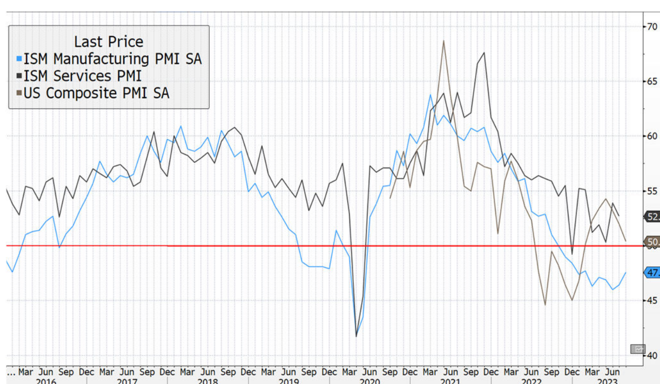
MARKET ASSESSMENT

Is the global economy at a crossroads?

Hard landing? Soft landing? Or a normalisation in growth? These questions have been preoccupying central banks and investors alike for almost a year now. This uncertainty about the future path of the global economy has been and remains highly relevant in the current environment, as in historical terms policy errors on the part of central banks have been more common than the materialisation of desired outcomes.

The leading indicators shown in figure 1 reflect sentiment regarding the state of the economy and are based on the purchasing managers' indices for the US.

1) US leading indicators

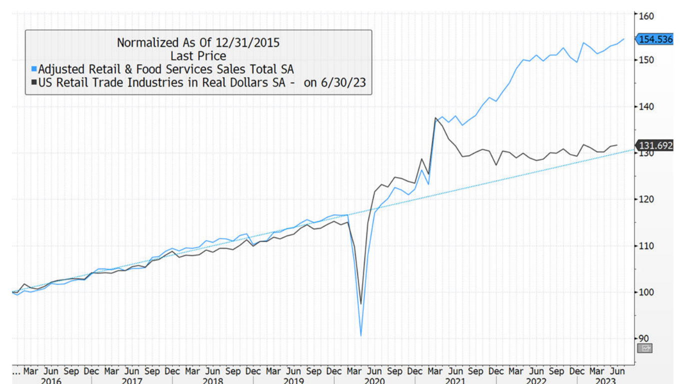


Source: Bloomberg

These indicators provide forward guidance for the actual trend in GDP. The US, which has been the growth engine of the global economy in recent months, is likely to lose pace in the second half of the year according to the leading indicators. The slowdown is already at an advanced stage in manufacturing industry due to the normalisation process after Covid-19 and is also apparent in the service sector. This phenomenon is not limited to the US, but is also visible in both Europe and Asia. As persistent economic weakness in China is having a knock-on effect on Europe's export-oriented countries in particular, industrial companies are less upbeat about the future. At the same time, softer demand is fuelling hopes among investors that the hawks at the central banks will be somewhat undermined, reducing the probability of further rate hikes.

Meanwhile, fiscal stimulus, consumer demand and the anticipated turnaround in inventory reductions in the manufacturing sector will be supportive to the economy. Despite the substantial policy rate hikes, US households have a lower interest burden than they did in 2019, while real incomes are (slowly) climbing at the same time. Consumer spending is continuing to surprise to the upside and clearly exceeds the medium-term trend. This has accelerated in recent months and should bolster growth in the months ahead. Moreover, a brighter economic outlook in tandem with rising incomes could trigger second-round inflation effects, at least in some sectors.

2) Nominal and real retail sales in the US



Source: Bloomberg

Conclusion

It remains to be seen whether the widely envisaged recession will materialise or whether inflation will make a comeback. Based on the data available today, we assume that investors will have to brace for a higher level of inflation compared to previous years. At the same time, we assume that the central banks will be slow to cut key rates in response to a potential economic cooldown – unless a severe recession is imminent, which is still not part of our baseline scenario.

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This publication was prepared by:

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