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PORTFOLIO UPDATE
NOVEMBER 2023

MONTH OF THE GOLD RUSH

This year does not seem to be getting any better as far as the equity and, above all, the bond markets are concerned. Last month saw further losses for conservative, balanced and dynamic portfolios and, in some cases, sent returns for the year into negative territory. Bonds above all continued to disappoint as they have accumulated losses for almost 800 days since their previous peak, and investors are slowly losing patience with this prolonged downtrend.

The reporting season is under way and so far companies with an international focus seem to be performing slightly worse on average. The energy sector in particular is reporting weaker-than-expected growth combined with mixed guidance. Other sectors too are generating a rather mixed picture. While consumer cyclicals and financials have impressed by delivering better-than-expected growth, consumer stocks have still been punished by the markets owing to concerns over the outlook.

These worries surrounding a possible or even probable recession and an inflation revival in the context of policy rates that are still high meant that currencies remained strong. Investors exploited this strength and channelled their uncertainty into higher gold purchases. This buying seemed to be taking place all over the world, primarily by market participants whose books are already full of long-dated sovereign bonds and who were therefore unable to take up the usual volumes of the huge new issuance from the US Treasury. As a result, the relatively low level of interest in this government paper sent long-dated yields to fresh highs.

The rapid rise in the price of cryptocurrencies has put this issue firmly back on the agenda. The forthcoming admission of ETFs in the US has stoked speculation further, tempting many investors into these assets on the expectation of further price gains.

Financial markets 2023 total return

Equities	October	2023
S&P 500 (US)	-2.1%	10.7%
Dow Jones Industrial Average (US)	-1.3%	1.4%
EURO STOXX 600 (EU)	-3.6%	5.3%
DAX (DE)	-3.7%	6.4%
SMI (CH)	-5.2%	-0.1%
MSCI Emerging Markets (EM) in USD	-3.9%	-1.8%

Fixed Income	October	2023
US Corporate Bonds Inv. Grade	-1.9%	-1.9%
US Corporate Bonds High Yield	-1.2%	4.6%
Pan- European Corporate Bonds Inv. Grade	0.3%	3.0%
Pan- European Corporate Bonds High Yield	-0.3%	6.4%

Alternative Investments	October	2023
Gold	7.3%	8.8%
Oil (brent)	-8.1%	8.8%

Sources: 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%
Sep 23	-1.1%	-1.4%	-2.0%	-1.0%	-1.1%	-1.8%	-1.5%	-1.8%	-2.4%	-0.7%	-0.9%	-1.6%
Oct 23	-1.3%	-2.4%	-2.9%	-1.7%	-2.7%	-3.3%	-1.3%	-2.4%	-2.8%	-1.1%	-2.3%	-2.7%
2023	2.5%	3.0%	3.1%	0.7%	1.2%	1.1%	3.6%	4.1%	4.2%	3.1%	3.2%	3.5%

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

Transactions in October

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	58.0%
Balanced	37.0%
Dynamic	13.5%

- 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	7.0%
Balanced	8.0%
Dynamic	6.0%

- 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.

HAS THE 60/40 PORTFOLIO RUN ITS COURSE?

Following marked losses last year and a zero sum game in 2023 to date, it is reasonable to ask whether a balanced mandate holding around 60% of the portfolio in equities and 40% in bonds no longer makes sense.

You have to go back around 90 years to find as poor a performance as that achieved by a balanced portfolio last year. Expectations were therefore high that this historically poor showing would be followed by a recovery rally, enabling portfolios to make strong gains once again in 2023. Now, two months before the year-end, it seems unlikely that this scenario will materialise. Statistically speaking, the last two months of the year tend to be strong on the equity markets. However, sentiment amongst investors is visibly subdued and there is an absence of drivers that have the potential to lift the markets on a sustained basis.

Ultimately, one of the main reasons for the balanced mandate's disappointing performance is the negative contribution from bonds. While this asset class usually exhibits a negative correlation to equities and therefore offers protection from significant losses in the portfolio in a normal market setting, this has not been the case for around two years. In an environment of rising interest rates, these purportedly safe havens are also losing value and materially contributing to the portfolio's weak performance at present.

Performance of 10-year US sovereign bonds (1928-2023)

Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	0.8%	1948	2.0%	1968	3.3%	1988	8.2%	2008	20.1%
1929	4.2%	1949	4.7%	1969	-5.0%	1989	17.7%	2009	-11.1%
1930	4.5%	1950	0.4%	1970	16.8%	1990	6.2%	2010	8.5%
1931	-2.6%	1951	-0.3%	1971	9.8%	1991	15.0%	2011	16.0%
1932	8.8%	1952	2.3%	1972	2.8%	1992	9.4%	2012	3.0%
1933	1.9%	1953	4.1%	1973	3.7%	1993	14.2%	2013	-9.1%
1934	8.0%	1954	3.3%	1974	2.0%	1994	-8.0%	2014	10.7%
1935	4.5%	1955	-1.3%	1975	3.6%	1995	23.5%	2015	1.3%
1936	5.0%	1956	-2.3%	1976	16.0%	1996	1.4%	2016	0.7%
1937	1.4%	1957	6.8%	1977	1.3%	1997	9.9%	2017	2.8%
1938	4.2%	1958	-2.1%	1978	-0.8%	1998	14.9%	2018	0.0%
1939	4.4%	1959	-2.6%	1979	0.7%	1999	-8.3%	2019	9.6%
1940	5.4%	1960	11.6%	1980	-3.0%	2000	16.7%	2020	11.3%
1941	-2.0%	1961	2.1%	1981	8.2%	2001	5.6%	2021	-4.4%
1942	2.3%	1962	5.7%	1982	32.8%	2002	15.1%	2022	-17.8%
1943	2.5%	1963	1.7%	1983	3.2%	2003	0.4%	2023	-5.3%
1944	2.6%	1964	3.7%	1984	13.7%	2004	4.5%		
1945	3.8%	1965	0.7%	1985	25.7%	2005	2.9%		
1946	3.1%	1966	2.9%	1986	24.3%	2006	2.0%		
1947	0.9%	1967	-1.6%	1987	-5.0%	2007	10.2%		

Source: X, Creative Planning, Charlie Bilello, 18 October 2023

The chart below illustrates the scale of the persistent weakness on the bond markets over the last three years, which is a historically rare phenomenon.

But to return to the question we posed above: declining inflation rates on both sides of the Atlantic suggest that further central bank rate hikes to tame inflation are unlikely. This in turn should palpably reduce upward pressure on the general interest rate level and gradually make losses on the bond markets a thing of the past. Return on capital and a possible uptrend in prices would then come back into play in an environment of falling rates (although the situation for corporate bonds is slightly more complex).

All in all, therefore, there is a good chance that the fixed-income portion of the portfolio will make a positive contribution to returns again in the near future. In a balanced mandate with a bond allocation of around 40%, this could account for a substantial share of the annual performance. We have outlined various scenarios below:

Expected performance in different interest rate scenarios (in %)

	US Treasury bonds:							
	Yield as of 12 Oct. 2023	+200bps	+100bps	+50bps	0bps	-50bps	-100bps	-200bps
2-year zero-coupon bond	4.98	2.7	3.7	4.1	4.6	5.1	5.6	6.7
5-year zero-coupon bond	4.62	-3.2	0.5	2.4	4.4	6.4	8.5	12.8
10-year zero-coupon bond	4.65	-11.7	-3.9	0.3	4.7	9.3	14.2	24.6

Source: Kepler Chevreux

Ultimately, we are encouraged by the prospect of a balanced mandate returning to the fore as an ideal portfolio mix for long-term investors in the current interest rate environment.

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