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Portfolio Update
September 2024

August volatility: tech tumbles, energy and health shine amid recession fears.

In August, the equity markets experienced considerable volatility due to recession worries in the US. Weak economic data and poor corporate earnings weighed on markets, particularly the tech-heavy Nasdaq 100. Investors remained cautious due to stretched valuations and seasonal weakness, with some analysts comparing the sell-off to the 1987 crash. However, stocks soon rallied globally, supported by positive retail sales and jobless claims data. The outlook is mixed as concerns about growth and market sentiment remain.

In August, the technology sector, particularly stocks like Nvidia and Intel, faced significant pressure, driving the Nasdaq 100 lower. Meanwhile, the healthcare sector, led by Eli Lilly, and the energy sector, with resilient performances from Chevron and ExxonMobil, showed relative strength amid broader market declines and economic uncertainties.

On interest rates, the Federal Reserve is expected to cut rates by 25 basis points in September, with more than 90 basis points of easing anticipated by the end of 2024. While U.S. economic data has reduced the likelihood of a more aggressive rate cut, there is still a strong expectation of easing due to concerns over economic growth. The market's recent volatility has been exacerbated by these expectations, as well as by shifting bond yields, with U.S. 10-year Treasury yields fluctuating around 3.8%.

Financial markets 2024 total return

Equities	August	2024
S&P 500 (US)	2.4%	19.5%
Dow Jones Industrial Average (US)	2.0%	11.7%
EURO STOXX 600 (EU)	1.6%	12.8%
DAX (DE)	2.2%	12.9%
SMI (CH)	1.0%	15.1%
MSCI Emerging Markets (EM) in USD	1.6%	9.8%
Fixed Income	**August**	**2024**
US Corporate Bonds Inv. Grade	1.6%	3.5%
US Corporate Bonds High Yield	1.6%	6.3%
Pan- European Corporate Bonds Inv. Grade	0.3%	2.9%
Pan- European Corporate Bonds High Yield	1.3%	5.9%
Alternative Investments	**August**	**2024**
Gold	3.1%	21.3%
Oil (brent)	0.9%	3.0%

Source: Bloomberg

In commodities, oil prices saw mixed movements, with concerns over Middle East tensions and fluctuating Chinese demand. Gold remained relatively stable, benefiting from its safe-haven status amid market uncertainty.

The U.S. dollar experienced volatility, influenced by the shifting expectations of Fed rate cuts, while the Japanese yen strengthened due to the unwinding of carry trades following the Bank of Japan's unexpected rate hike.

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%
2023	9.1%	10.7%	12.3%	6.1%	7.5%	8.6%	11.2%	13.4%	15.1%	10.1%	12.7%	12.8%
Jan 24	0.8%	0.6%	0.8%	0.8%	0.6%	0.8%	0.7%	0.3%	0.5%	0.7%	0.3%	0.5%
Feb 24	0.6%	1.4%	2.4%	0.9%	1.9%	2.9%	0.6%	1.4%	2.5%	0.8%	1.6%	2.6%
Mar 24	1.6%	2.6%	3.4%	1.9%	3.0%	3.8%	1.7%	2.6%	3.4%	1.7%	2.7%	3.4%
Apr 24	-1.5%	-1.8%	-2.1%	-1.5%	-1.8%	-2.1%	-1.5%	-2.0%	-2.3%	-1.3%	-1.8%	-2.1%
May 24	1.2%	1.6%	1.9%	0.9%	1.3%	1.8%	1.5%	2.1%	2.5%	1.2%	1.6%	2.0%
Jun 24	1.5%	1.5%	1.8%	1.2%	1.0%	1.1%	1.5%	1.3%	1.4%	1.5%	1.5%	1.7%
Jul 24	0.9%	0.9%	0.8%	0.5%	0.5%	0.3%	1.1%	1.3%	1.2%	0.9%	0.9%	0.7%
Aug 24	1.0%	0.8%	0.7%	0.6%	0.2%	0.1%	1.5%	1.5%	1.6%	1.1%	0.8%	0.7%
2024	6.2%	7.8%	10.0%	5.4%	6.9%	8.9%	7.3%	8.8%	11.2%	6.8%	7.8%	9.9%

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 (overweight)

Conservative	12.0%
Balanced	10.5%
Dynamic	8.0%

- Excess liquidity is invested in money market funds or fiduciary investments where possible.
- In a challenging market environment, an increased cash allocation offers the opportunity to temporarily park surplus liquidity in order to participate in investment opportunities at a later date.
- We currently overweight bonds with short maturities (money market funds) in order to hedge against interest rate risks. At the same time, the interest rate level at the short end of the yield curve is attractive.

Bonds (underweight)

Conservative	55.0%
Balanced	37.0%
Dynamic	17.0%

- Against the backdrop of rising debt, preference is given to bonds from issuers with solid balance sheets outside the AAA/AA segment in order to achieve attractive yields to maturity.
- In lower ratings, the focus is on broadly diversified investments in order to act cautiously. Carefully selected active managers can generate added value here.
- Interest rates have become attractive due to the measures taken by central banks, with a relatively strong easing of interest rate policy currently priced into the market. The expected interest rate cuts are therefore already strongly reflected in the curve, meaning that an overweight position is unlikely to have a favourable risk/return ratio at present. Surprises currently seem to be trending upwards, so that a shorter duration is advantageous.
- Due to the less favourable economic outlook, credit spreads on European bonds are more attractive. A globally more relaxed situation is once again offering opportunities for exposure to bonds with good credit ratings from the emerging markets and Asia.

Equities (overweight)

Conservative	29.0%
Balanced	49.5%
Dynamic	72.5%

- The central banks' fight against inflation appears to be on the home straight on both sides of the Atlantic. The increased cost of capital, changes in consumer spending and heterogeneous growth in the end markets will have a negative impact on earnings growth in individual sectors.
- Within the equity allocation, investments in the USA and globally are slightly favoured over Europe. The Swiss equity market remains attractive due to its defensive orientation and the current weakness of the Swiss franc. The subdued growth of the global economy makes investments in emerging markets less attractive, and developed markets are therefore favoured over emerging markets.
- Within the individual sectors, energy, real estate, technology and cyclical consumer goods are considered attractive and are therefore overweighted in the portfolios.
- Financials, industrials, communication services and non-cyclical consumer goods are neutrally weighted.
- The outlook for the utilities, basic materials and healthcare sectors remains negative due to valuation, high interest rates or other macroeconomic factors.

Alternative Investments (underweight)

Conservative	4.0%
Balanced	3.0%
Dynamic	2.5%

- A high level of liquidity (usually UCITS) is the basic prerequisite and determines which strategies are considered.
- The aim is to achieve a positive market return with relative low volatility in a normal market environment.
- At present, a market-uncorrelated Cat Bond fund is intended to participate in the continued attractive premiums.

IN FOCUS

In early August, equity markets experienced a sharp sell-off that at first glance seemed exaggerated and, in our view, difficult to justify to such an extent. As mentioned above, this sell-off was primarily driven by deteriorating economic data. Consumer spending came in lower than expected, and labor market data briefly cast doubt on the likelihood of a soft landing. However, a closer analysis shows that these developments are not as serious as they first appeared.

Consumer spending may be slowing, but it has not collapsed. History has shown that consumer spending rarely drops dramatically, even in tough times. People have bills to pay and adjust their spending habits accordingly. Far more important is how businesses respond to these changes. Economic downturns (recessions) are often driven by corporate investment decisions. However, it is noticeable that investment spending, especially in the technology sector, is currently pointing in a different direction.

In fact, many large technology companies have raised their investment forecasts when reporting their quarterly results. This spending, particularly in areas such as artificial intelligence, is likely to continue to grow strongly in the coming years. As long as this spending continues to grow, there is no sign of a fundamental change in direction, and therefore no sign of a recession. Caution is warranted only if it becomes clear that companies are significantly scaling back their investment plans.

Recent weeks have also shown that the labor market remains robust. The temporary dip in early August was only a brief period of weakness. The rise in the unemployment rate was due more to an increase in new entrants to the labor market than to actual layoffs. Companies have obviously learned from the COVID crisis and understand how difficult it is to find qualified personnel. For this reason, it is unlikely that we will see a significant increase in layoffs in the near future. Companies will be reluctant to lay off too many people for fear that they will have trouble finding good new employees later on.

In fact, equity markets have already recovered almost all of their losses since early August. Bonds are a different story. In our view, bond yields have not yet fully normalized, and the Federal Reserve is still expected to cut rates more aggressively than we had anticipated. For this reason, we have recently significantly reduced the interest rate risk (modified duration) in our portfolios.

In summary, high corporate spending will continue to drive the economy. The Fed will signal strength with a slightly less dovish stance, which could provide further room for market gains. However, we should be aware that equity markets often become directionless or even bearish after the first rate cut. We are also entering a challenging period seasonally. Therefore, it is advisable to remain vigilant and keep an eye on potential risks.

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This publication was prepared by:

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