

Investment Strategy

Economic and financial market outlook

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Economic outlook

Current discussion

Economy: Probability of a soft landing in the US has increased again

- **US economy remains surprisingly resilient – mild recession to start only in Q4**
- **Eurozone economy, on the other hand, increasingly fragile and already contracting in Q3**
- **Image of strong labour market gets cracks: Rising unemployment in several countries**
- **Financing conditions hardly slow down, but banks' lending conditions are clearly restrictive**

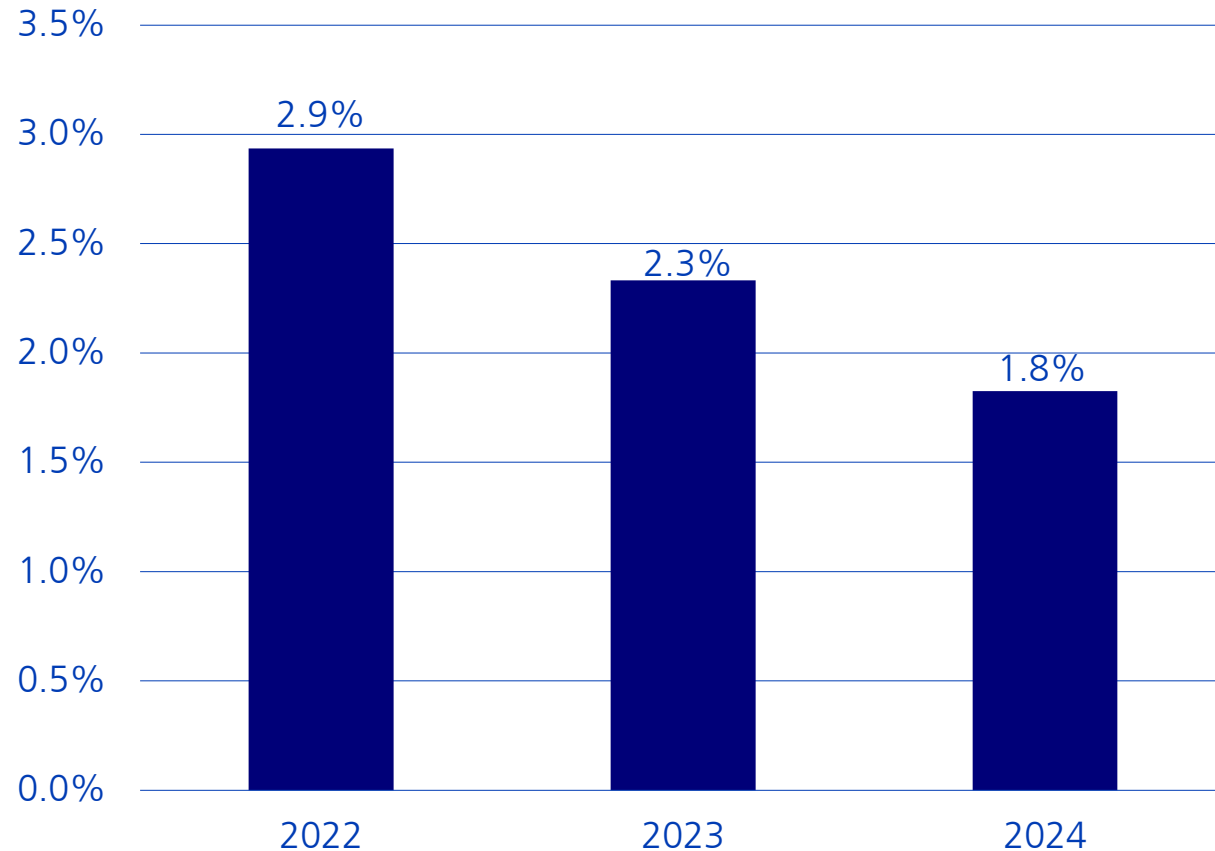
Monetary policy: Rate hike cycle enters final round in September – but no rate cuts before 2024

- **Final interest rate steps expected from ECB, BoE, RBA and SNB**
- **Further interest rate hike by the Fed not completely ruled out**
- **First interest rate cuts in emerging markets (Brazil, Chile) already implemented**

Global growth: baseline scenario remains a further slowdown in the coming quarters

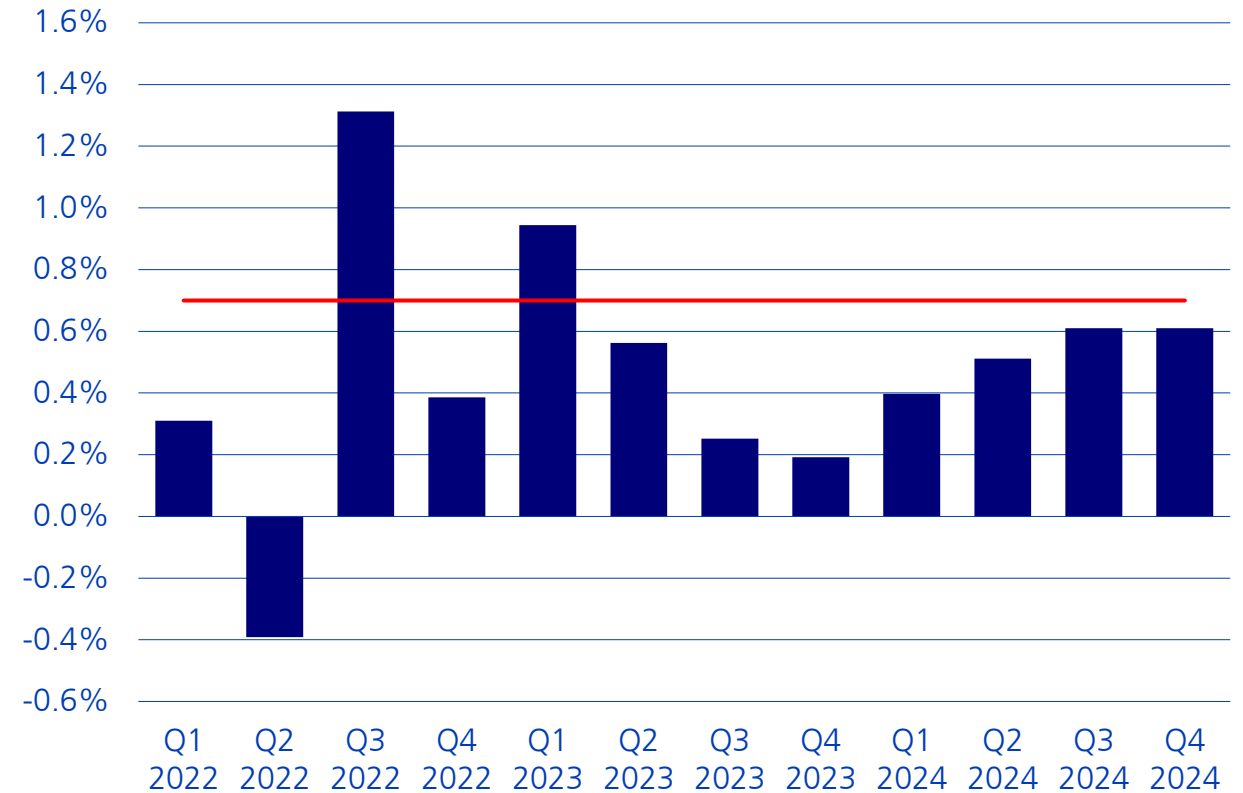
Slowing growth rates

Expected growth of the global economy in %



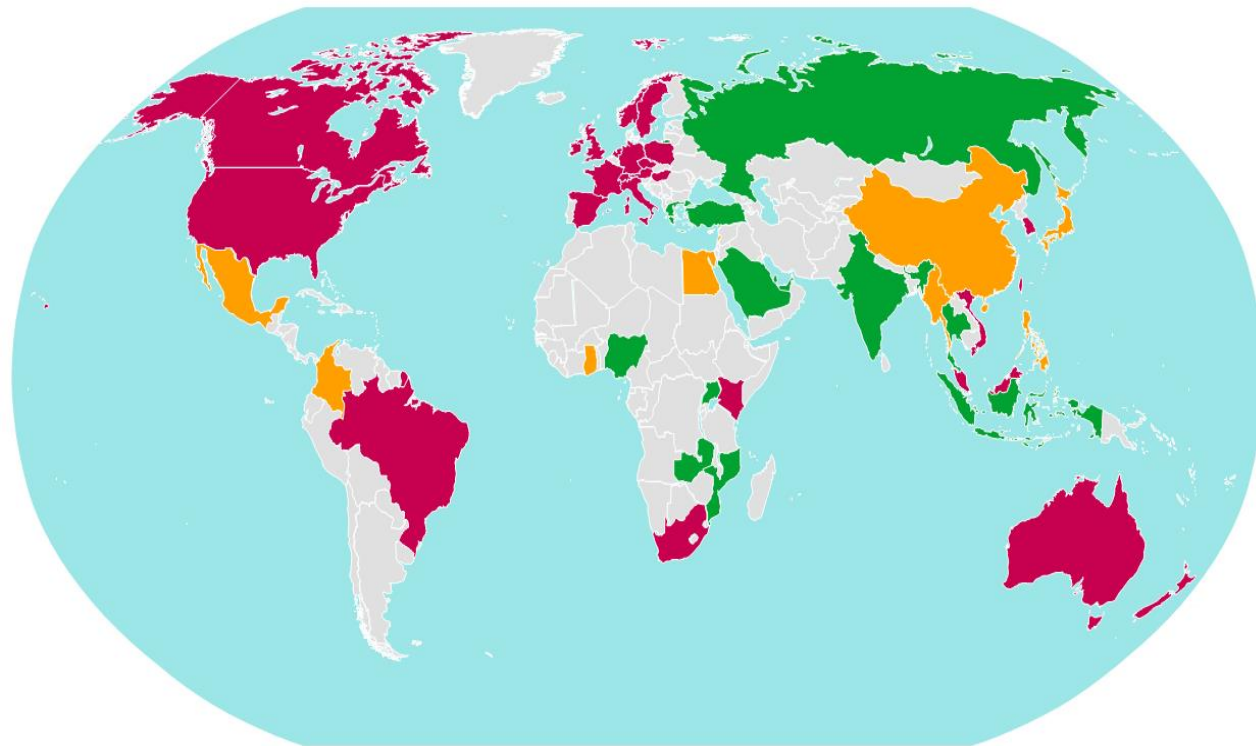
Outlook for the 2nd half of the year: growth comes to a virtual standstill

Growth of the global economy in % (QoQ)

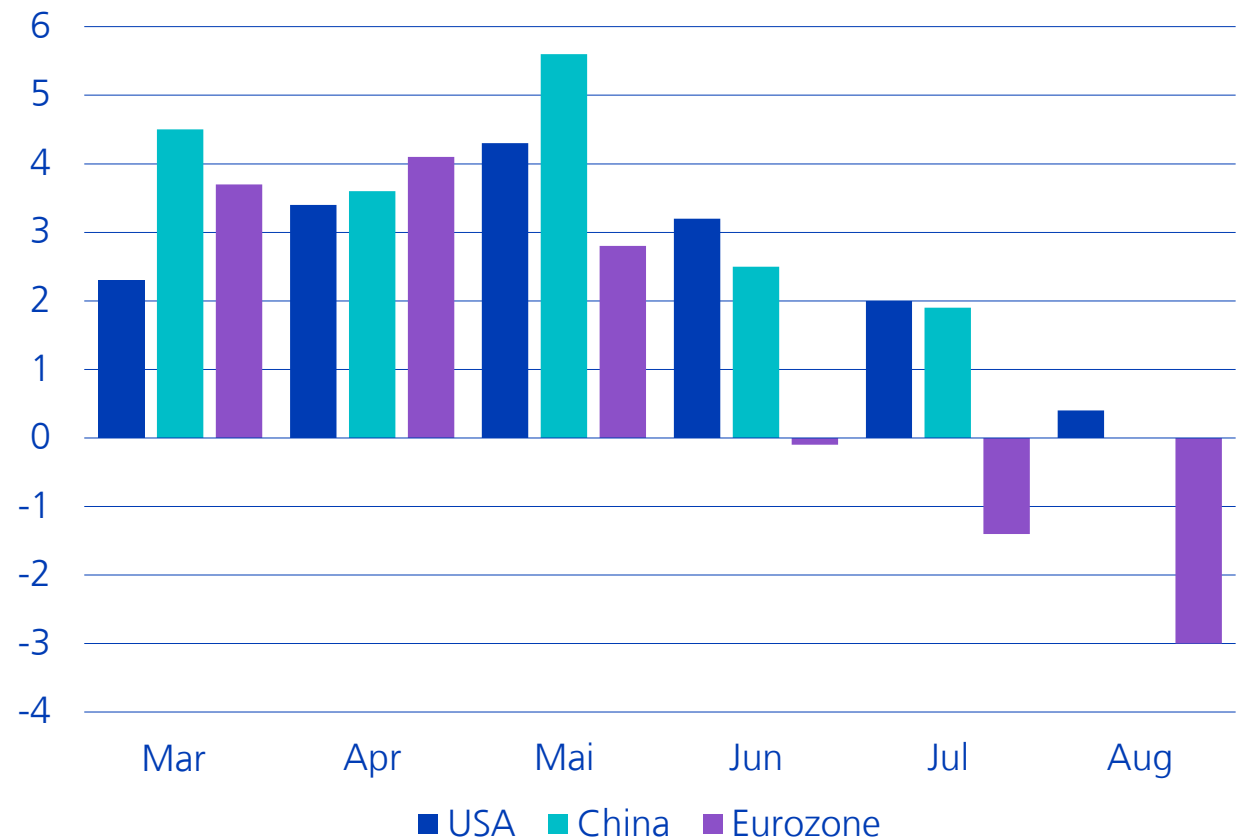


Growth: Eurozone and China with growing concerns – US economy, however, continues to show more resilience

PMI Manufacturing: Industrialised countries still in downturn July 2023



PMI signals recession in the Eurozone, stagnation in the USA Development of the PMI Composite (deviation from 50 points)

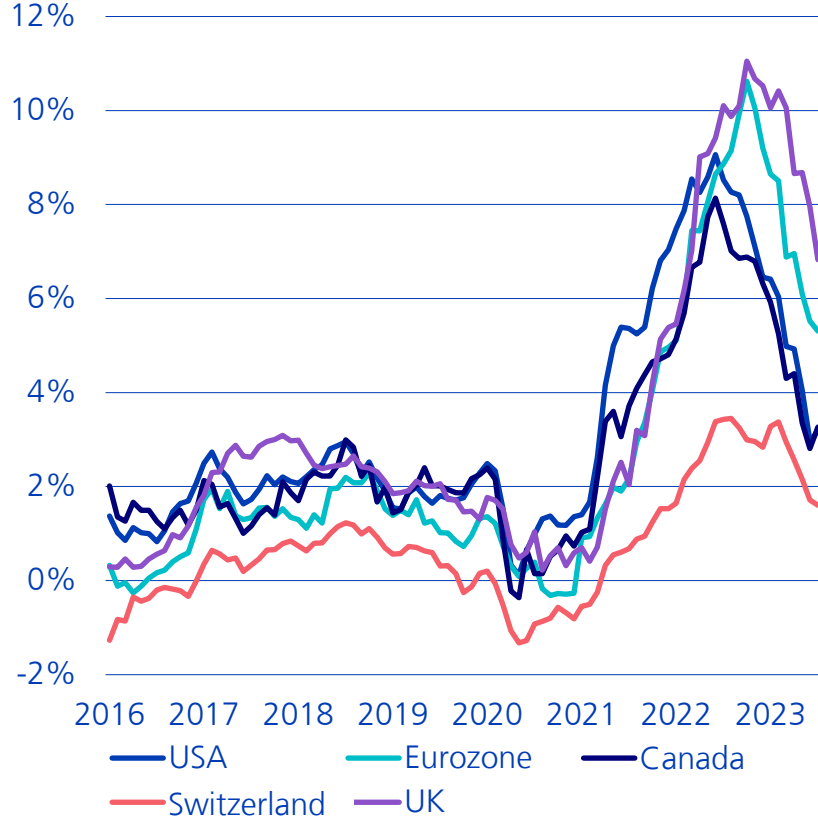


Downward trend in inflation tends to continue, core inflation still far too high – first cracks in the labour market become visible

Downward trend in the US and Canada loses some momentum



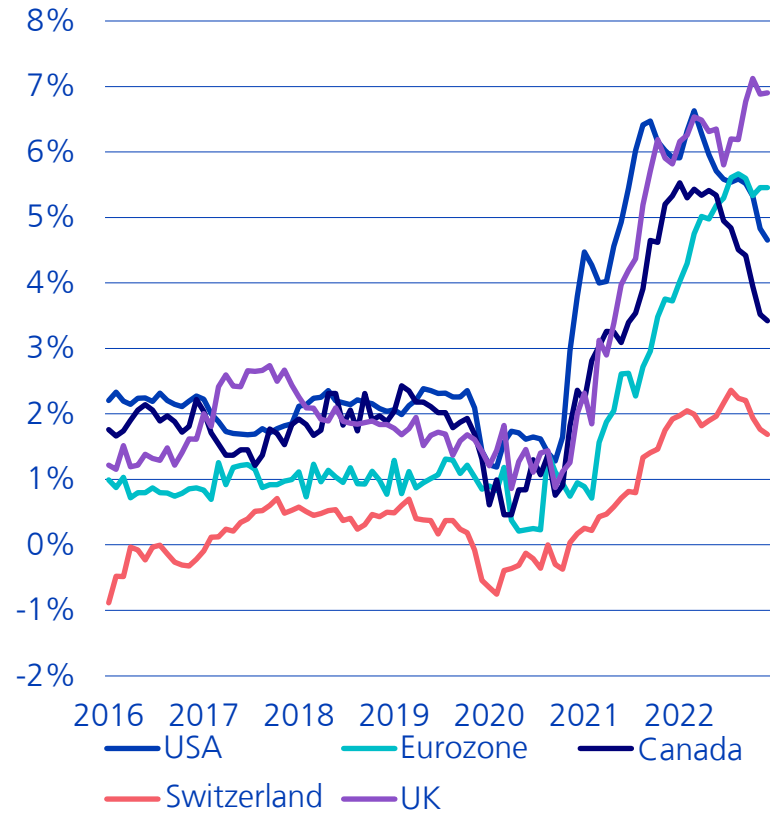
Headline inflation annual rates in %



Still too high, especially in the Eurozone and UK

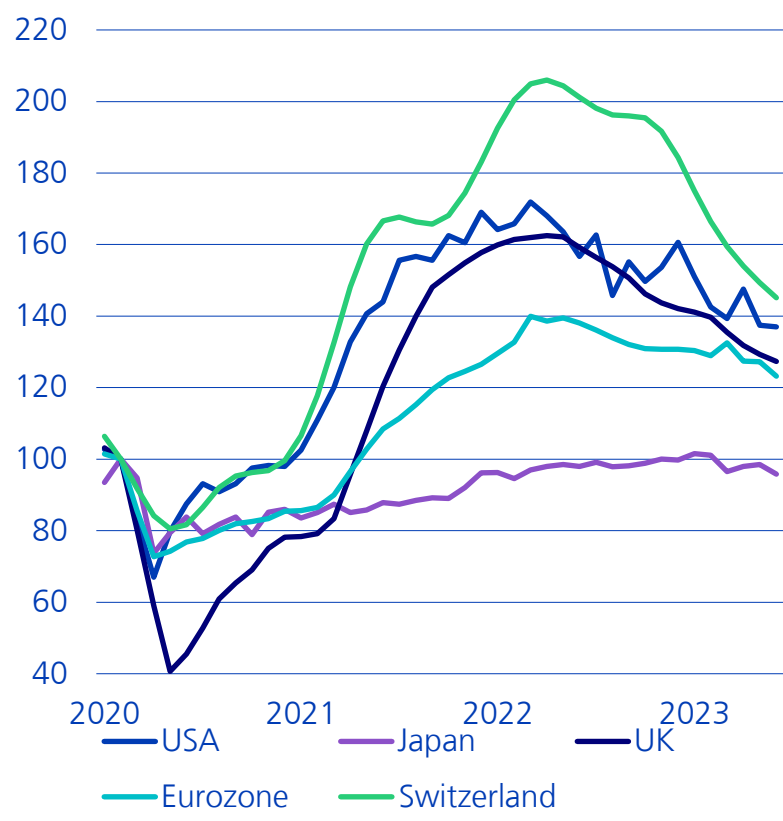


Core inflation annual rates in %

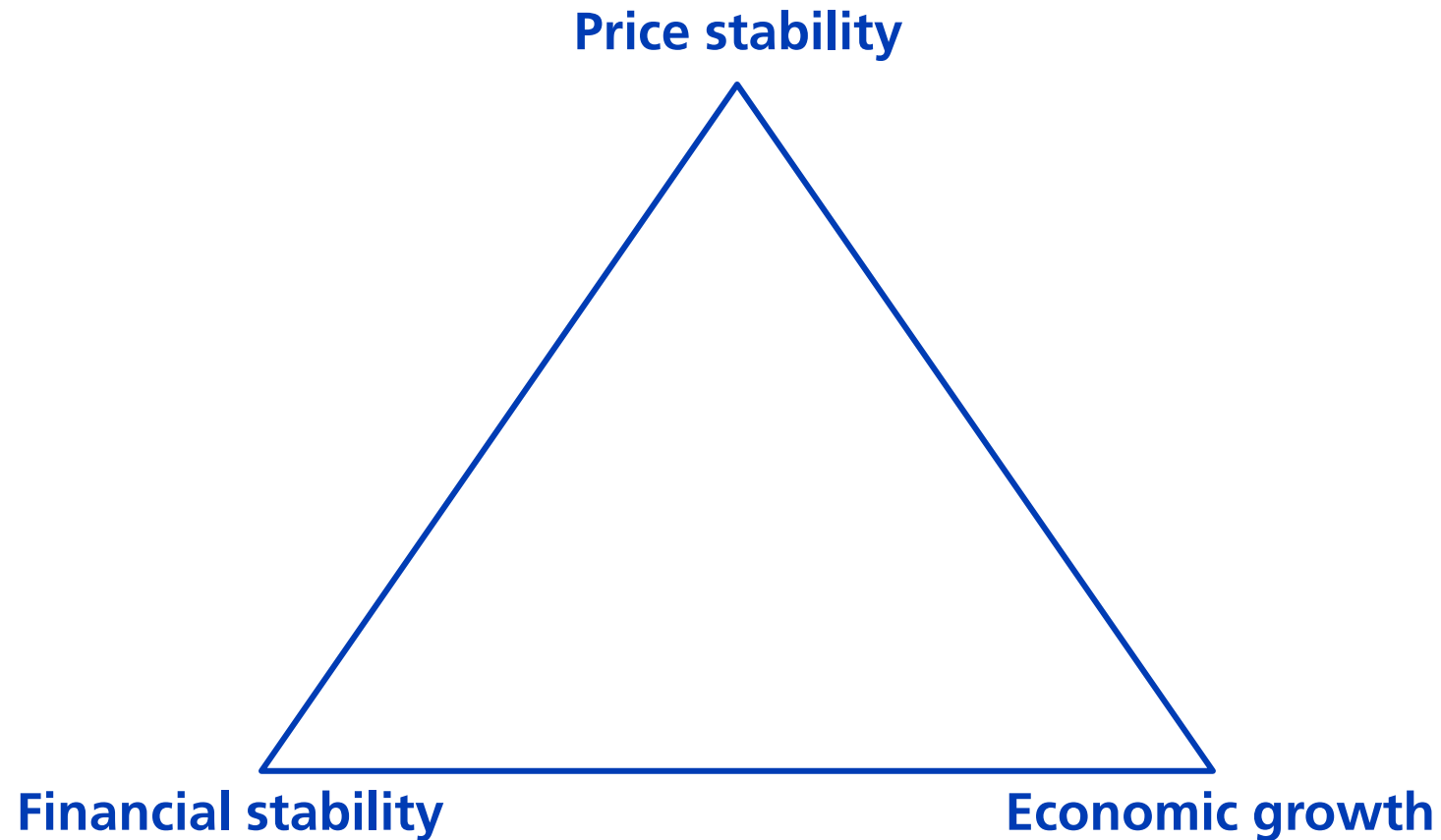


Number of vacancies decreases in all regions

Index (February 2020 = 100)

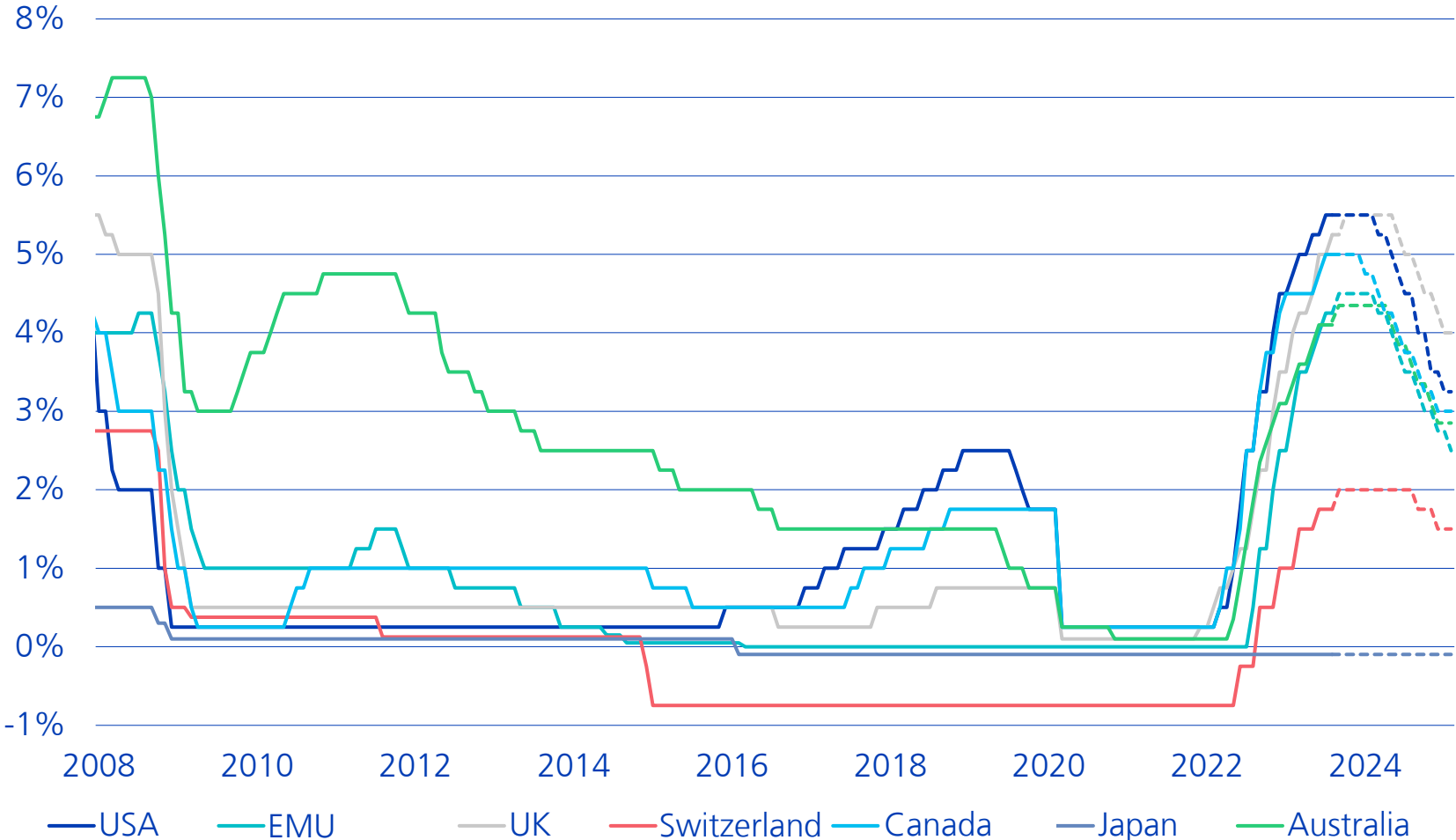


Trilemma – central banks facing a trade-off between different policy objectives



Monetary policy: Last key interest rate hikes in Q3

Realized and predicted monetary policy key interest rates










	Current (August)	Expected Peak	First Interest Rate Cut
USA	5.50	5.50	Mar 2024
UK	5.25	5.50	Mai 2024
Canada	5.00	5.00	Jan 2024
EMU	4.25	4.50	Mar 2024
Australia	4.10	4.35	Mai 2024
Switzerland	1.75	2.00	Sep 2024
Japan	-0.10	-0.10	-

Financial markets and investment strategy

Economic background: bad news for risky assets more likely

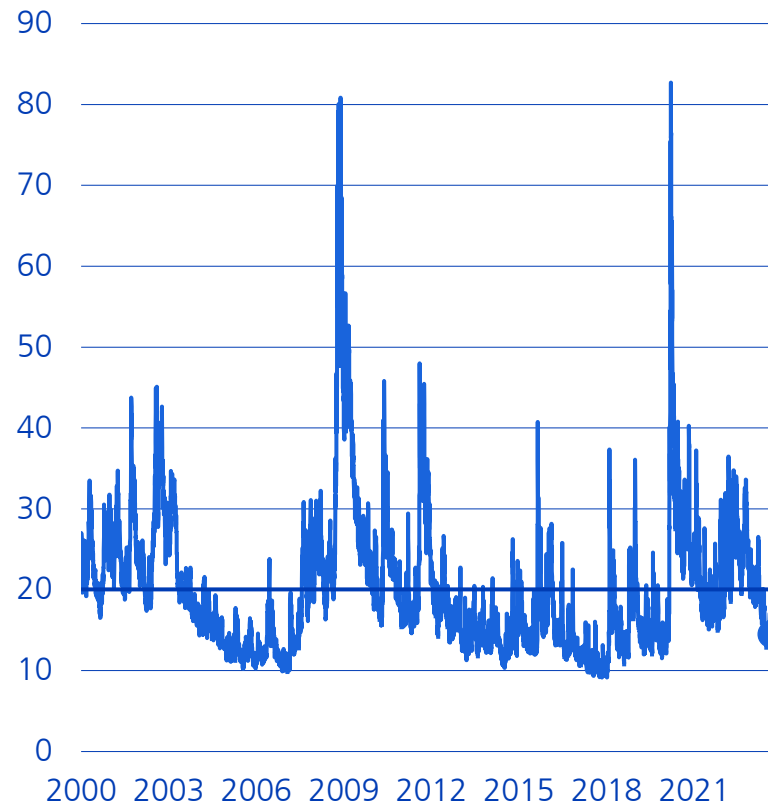
-  High inflation / loss of purchasing power
-  Restrictive monetary policy
-  Restrictive lending practices
-  Falling leading indicators
-  Industry in recession
-  Inverse yield curve
-  High debt, fragile real estate markets

-  Household surplus savings
-  Expansionary fiscal policy
-  Higher liquidity and capital buffers of banks
-  Continuing shortage of skilled workers, rising wages
-  Resilient service sector
-  Brisk investment activity (energy, pandemic, AI)
-  Long maturities, stabilisation on the housing market

Uncertain macroeconomic environment little apparent on the financial markets

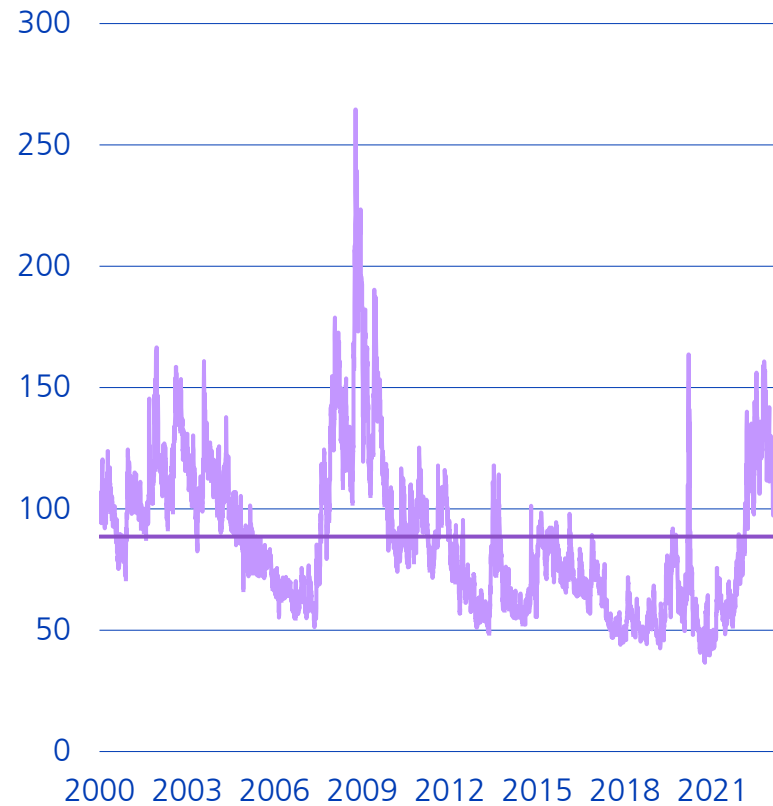
Relatively calm equity markets

VIX



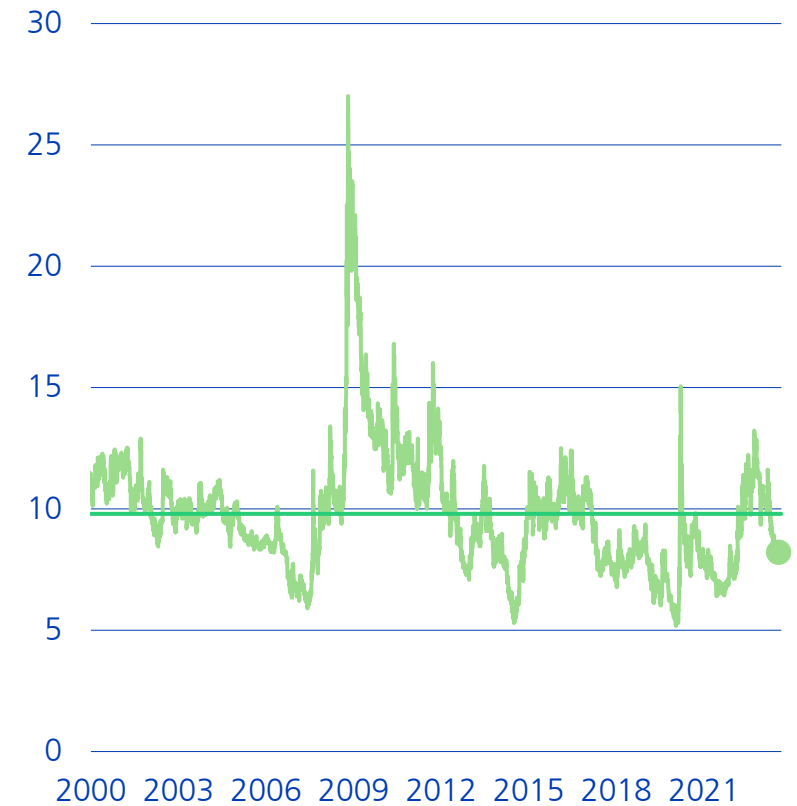
Slightly more volatile bond markets

MOVE Index



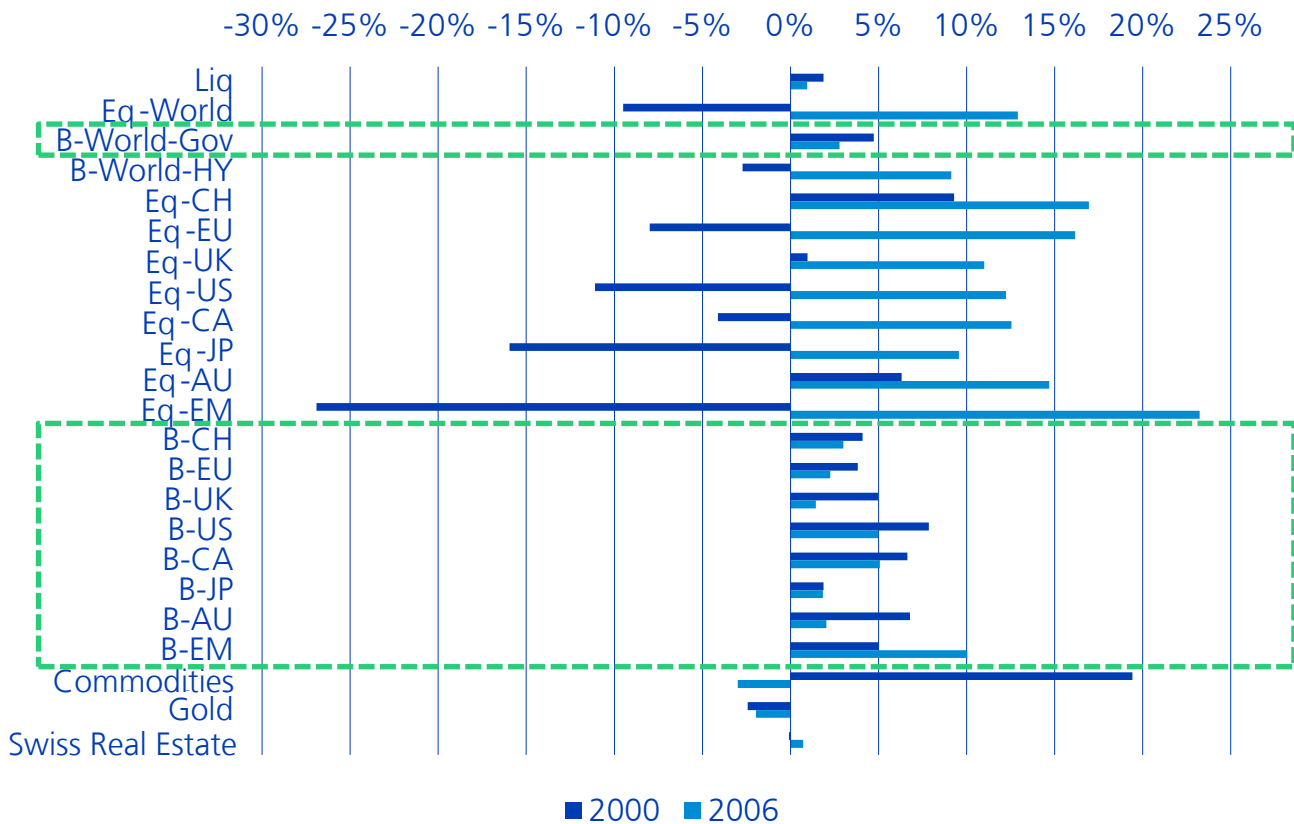
Moderate currency movements

FX Volatility



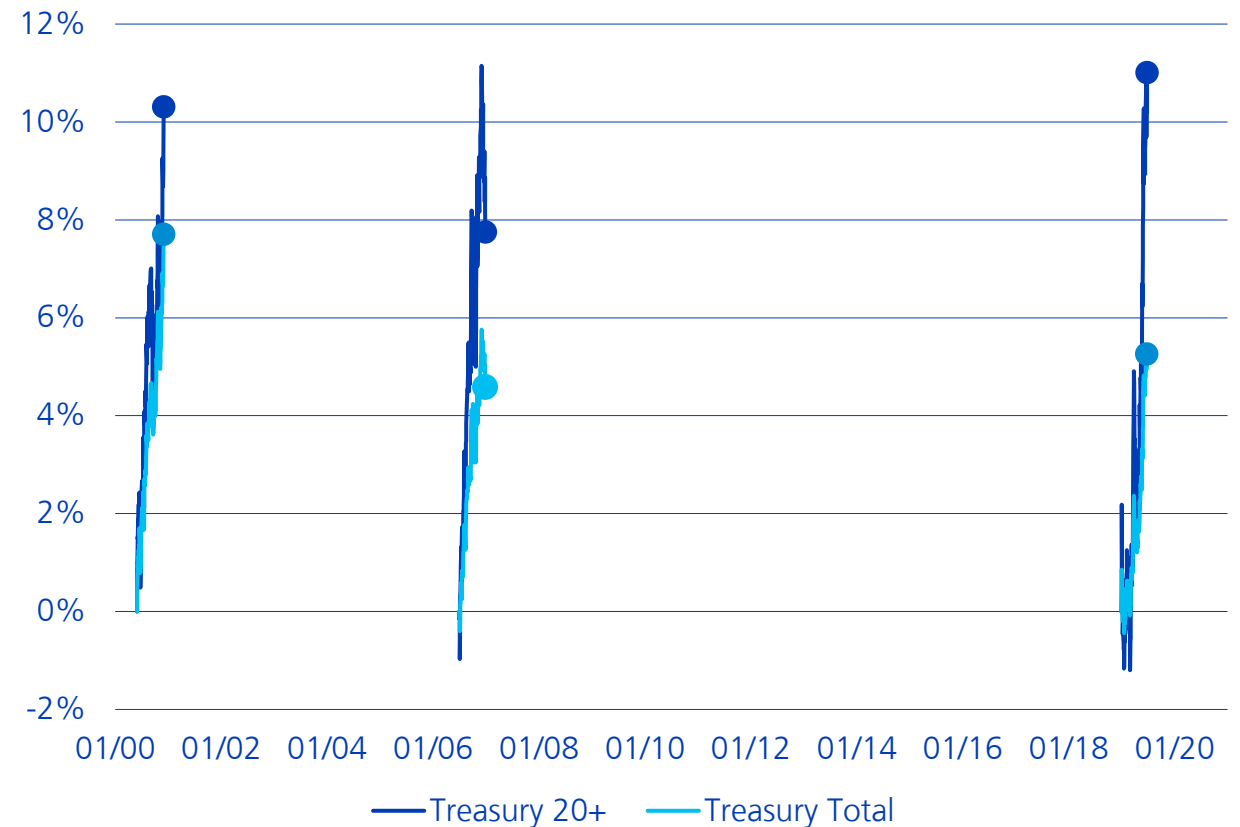
Bonds with consistently positive performance after last rate hike

Performance asset classes six months after last US Fed rate hike



Time for longer maturities

Performance six months after last US Fed rate hike



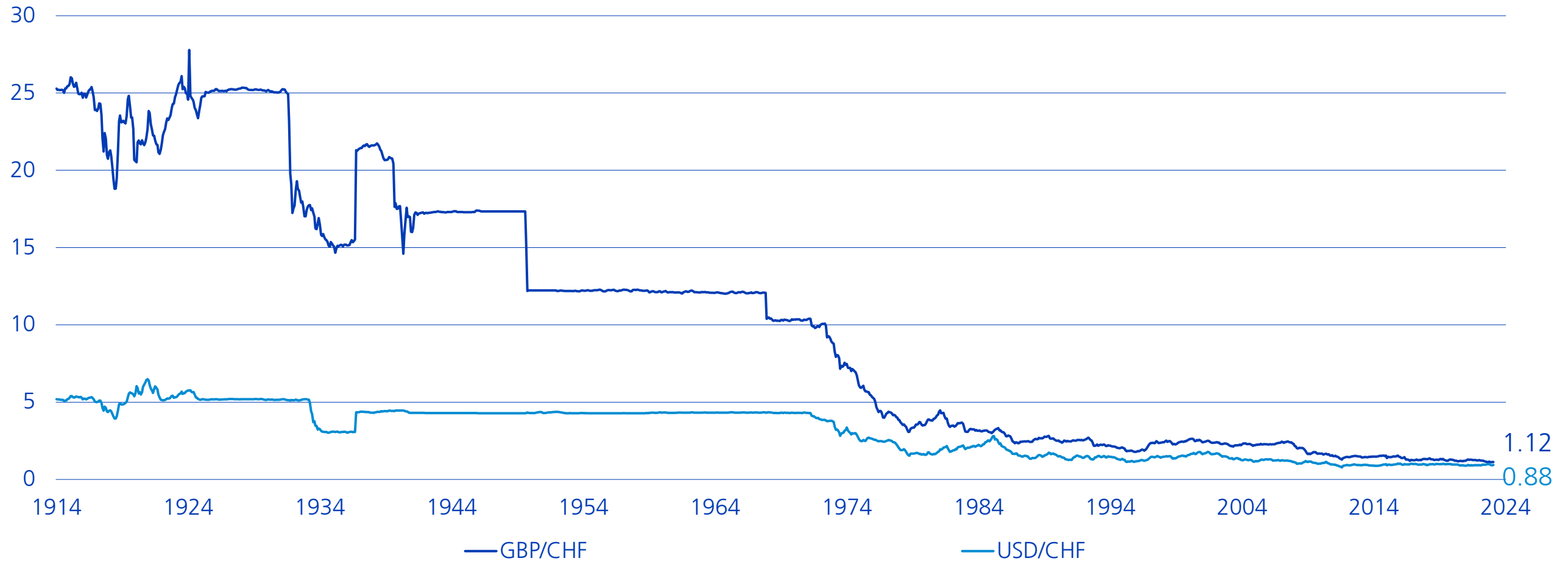
Structural Currency Resilience Map

August 2023

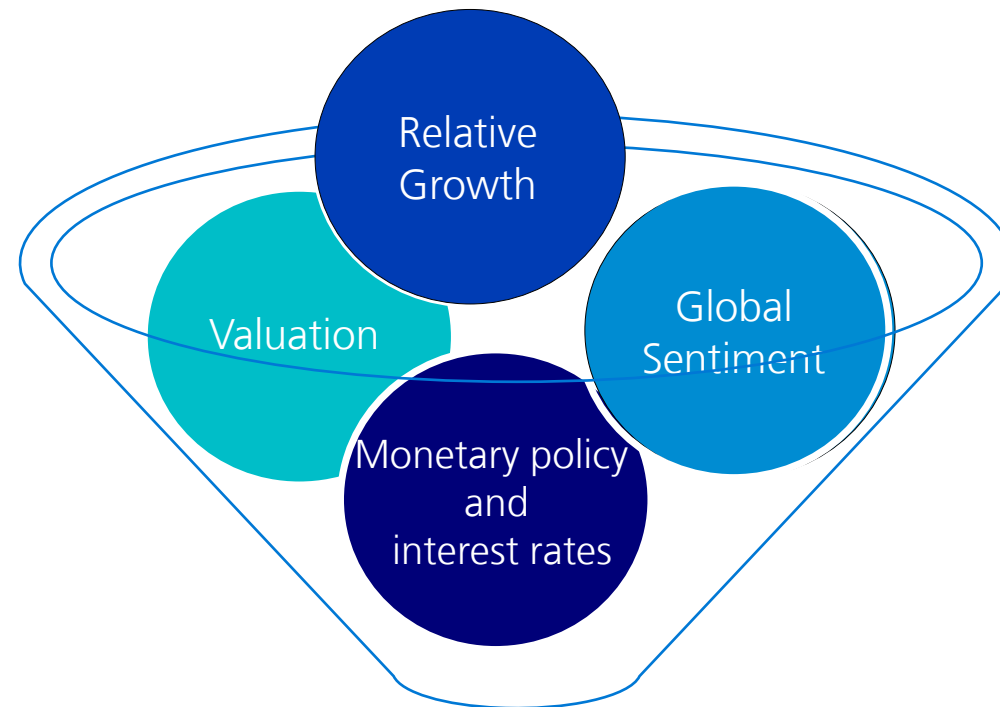
Indicator	USD	EUR	JPY	GBP	AUD	CAD	CHF	SEK	NOK	NZD	CNY	SGD	KRW	INR	MXN	TWD	ZAR	BRL	PLN	THB	ILS	IDR	CZK	TRY	HUF	CLP	PHP	MYR	COP	RON	PEN	ARS
Trend growth	1.9%	1.3%	0.3%	1.1%	2.2%	1.7%	1.5%	1.8%	1.7%	2.3%	4.7%	2.5%	2.2%	5.2%	1.1%	3.0%	0.9%	1.6%	3.3%	2.2%	3.8%	4.3%	1.8%	3.7%	3.2%	2.1%	4.8%	3.7%	3.0%	3.4%	2.6%	1.0%
Competitiveness	84	78	82	81	79	80	82	81	78	77	74	85	80	61	65	80	62	61	69	68	77	65	71	62	65	71	62	75	63	64	62	57
Current account balance	-3%	2%	3%	-4%	1%	-1%	7%	5%	17%	-6%	1%	15%	3%	-2%	-1%	12%	-1%	-3%	-1%	2%	4%	-1%	1%	-3%	-2%	-4%	-1%	3%	-5%	-7%	-2%	1%
Inflation	3.9%	3.5%	1.3%	4.4%	3.4%	3.3%	1.0%	4.2%	3.7%	3.9%	1.8%	2.7%	2.4%	5.9%	5.2%	1.4%	4.9%	6%	7.3%	1.6%	2.0%	2.8%	7.1%	33%	8.5%	5.8%	3.9%	1.7%	6.3%	7.2%	4.5%	65%
Inflation Target	2.00	2.00	2.00	2.00	2.50	2.00	1.00	2.00	2.00	2.00	3.00	2.00	2.00	4.00	3.00	2.00	4.50	3.25	2.50	2.00	2.00	2.75	2.00	7.50	3.00	3.00	3.00	2.50	3.00	2.50	2.00	10
Public debt	122%	93%	258%	106%	59%	105%	38%	32%	39%	50%	82%	135%	55%	83%	56%	25%	72%	88%	51%	61%	58%	39%	44%	35%	73%	37%	57%	67%	62%	48%	33%	76%
Private debt	178%	142%	187%	155%	171%	208%	236%	216%	209%	167%	201%	162%	201%	79%	41%	141%	82%	83%	66%	162%	99%	40%	75%	77%	76%	145%	64%	139%	61%	28%	61%	21%
Government budget	-5.2%	-1.5%	-4.3%	-3.6%	-2.6%	-1.1%	0.2%	0.1%	0.9%	-0.8%	-4.7%	-0.3%	0.2%	-5.4%	-1.2%	-1.1%	-3.0%	-4.0%	-2.2%	-1.9%	-1.8%	-1.7%	-1.6%	-3.0%	-1.8%	-1.6%	-1.6%	-2.8%	-2.3%	-3.7%	-1.4%	-2.8%
Foreign exchange reserves	0%	2%	26%	3%	2%	4%	100%	7%	11%	4%	18%	68%	24%	16%	13%	80%	12%	15%	23%	40%	38%	9%	43%	7%	17%	12%	0%	24%	15%	19%	35%	4%
Net foreign assets	-66%	-1%	78%	-14%	-34%	38%	104%	40%	204%	-51%	14%	182%	46%	-12%	-47%	195%	24%	-41%	-34%	-3%	36%	-19%	-20%	-28%	-47%	-18%	-12%	5%	-52%	-44%	-43%	19%
Equity beta (vs. USD)	-	0.19	0.06	0.29	0.41	0.23	0.16	0.33	0.57	0.36	0.07	0.14	0.21	0.07	0.42	0.07	0.38	0.24	0.32	0.13	0.20	0.23	0.33	0.18	0.32	0.27	0.07	0.12	0.37	0.20	0.09	0.04
Currency turnover	88%	31%	17%	13%	6%	6%	5%	2%	2%	2%	7%	2%	2%	2%	2%	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Real effective exchange rate	10%	18%	-22%	-1%	-2%	-4%	-1%	-14%	-10%	-2%	-9%	7%	-4%	0%	21%	0%	-10%	9%	2%	-2%	-7%	4%	14%	-24%	-1%	3%	-4%	-9%	-8%	8%	4%	-28%
E-Score	5.4	4.2	3.6	4.6	6.2	6.8	5.0	6.5	7.3	7.1	3.9	2.6	2.4	3.3	4.9	2.3	5.0	7.4	4.9	3.9	3.2	5.7	4.7	4.0	4.5	6.3	4.0	5.9	6.9	4.9	6.8	6.1
S-Score	7.2	7.5	7.8	7.3	7.3	7.0	8.3	7.9	8.1	7.7	6.9	7.9	8.2	3.6	5.2	8.4	4.2	5.0	7.1	5.8	7.6	5.1	7.8	5.6	7.2	5.9	4.8	6.2	4.7	5.9	5.1	5.3
G-Score	5.6	7.3	7.1	6.8	7.6	8.0	8.8	8.9	9.0	8.0	4.8	7.3	7.7	4.9	4.3	8.1	5.8	4.3	6.2	5.3	6.6	5.3	7.3	4.0	5.4	5.9	4.5	6.0	4.5	5.7	5.4	4.7

The Swiss Franc – a success story

Exchange rates since 1914



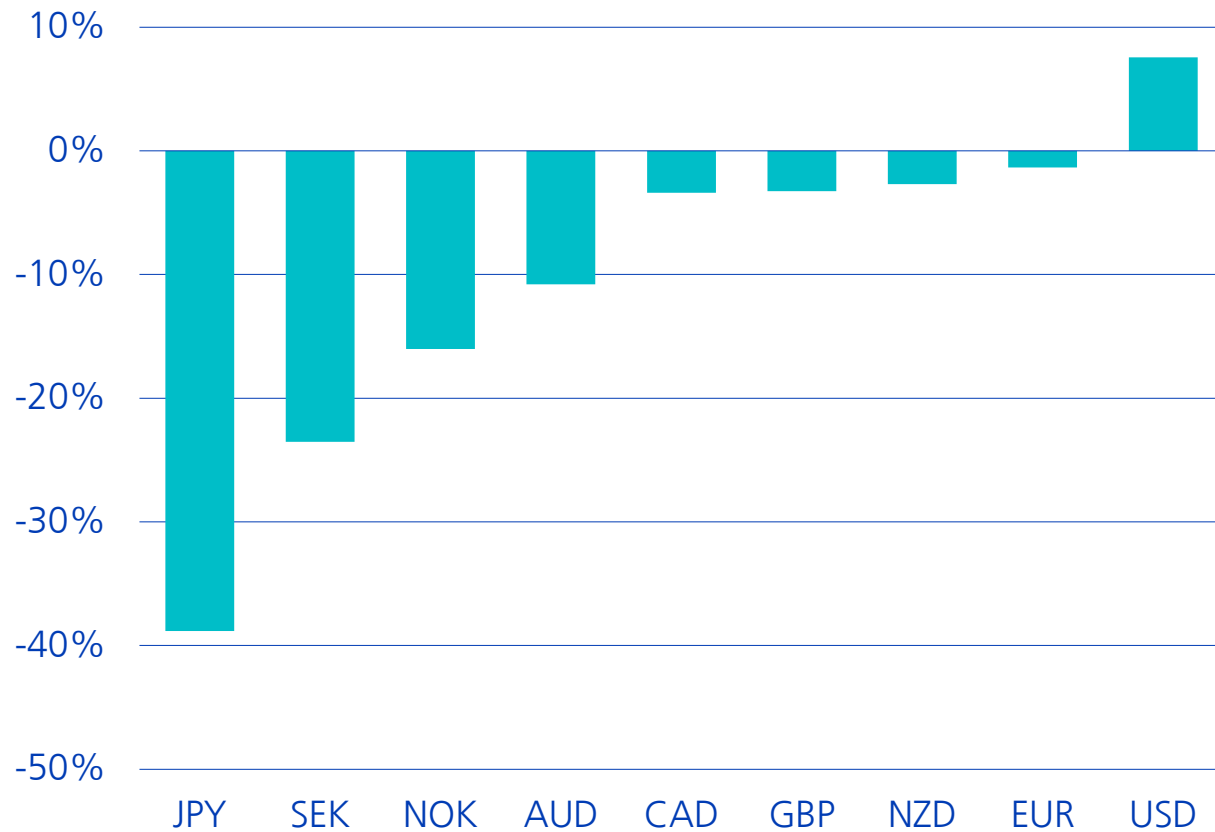
Four fundamental currency drivers



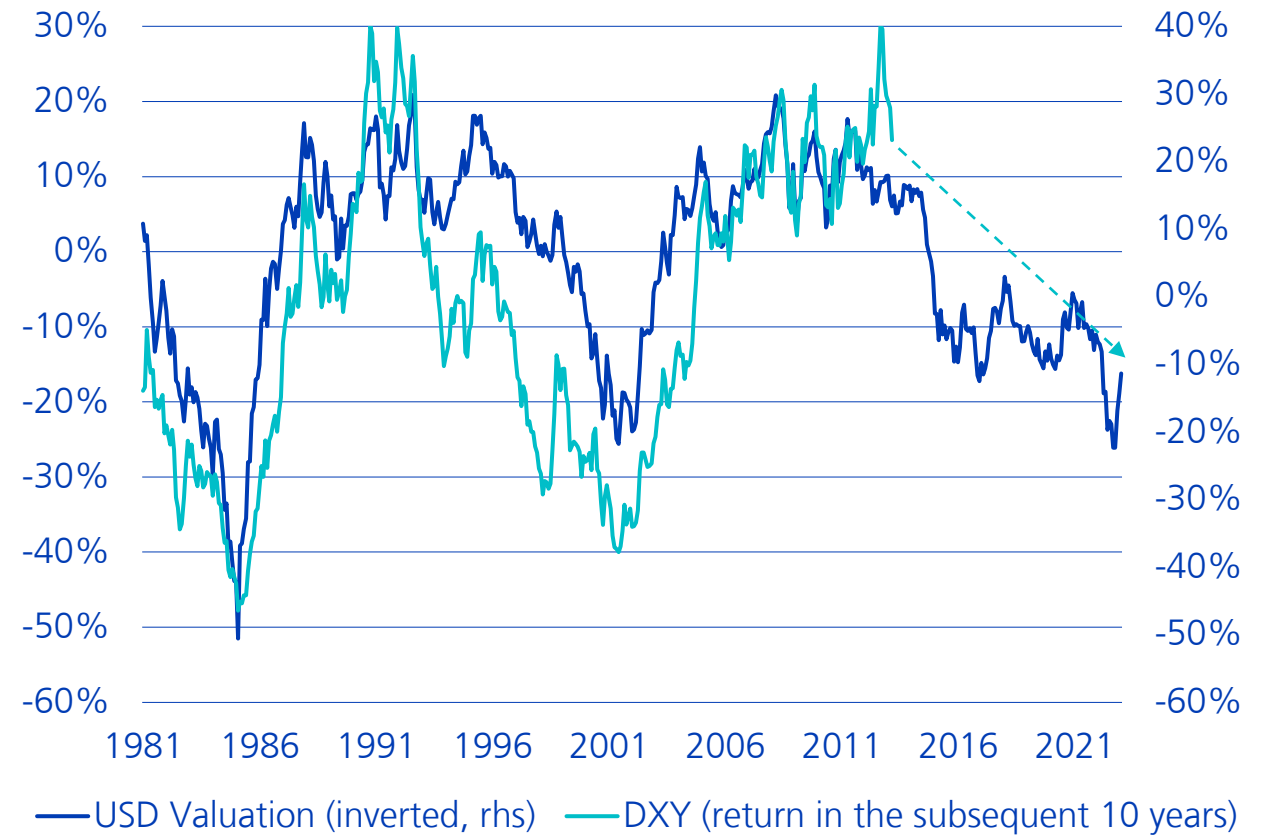
Valuation – USD still somewhat expensive, JPY offers value

Valuations according to purchasing power parity

Over/undervaluation against CHF, in %

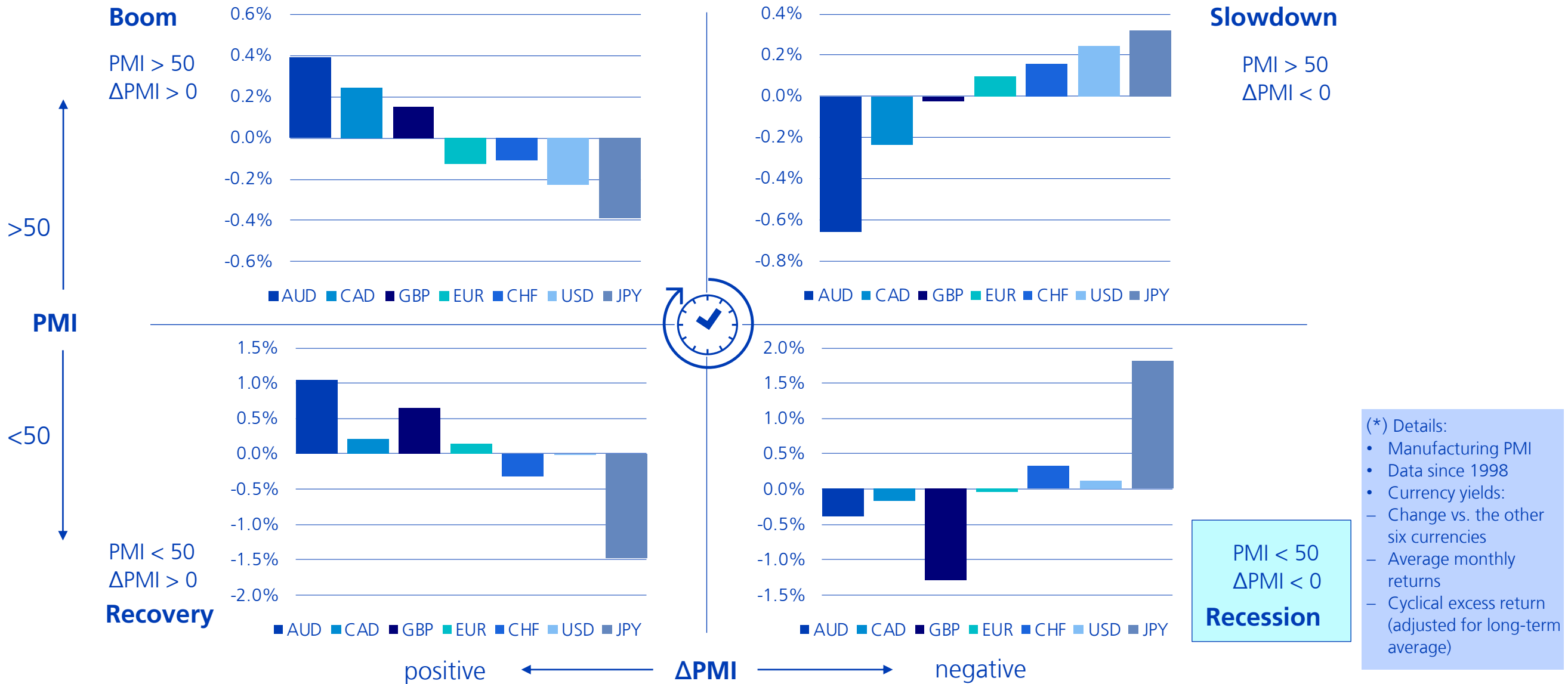


USD valuation speaks for a weak coming decade



FX business cycle clock argues for safe havens

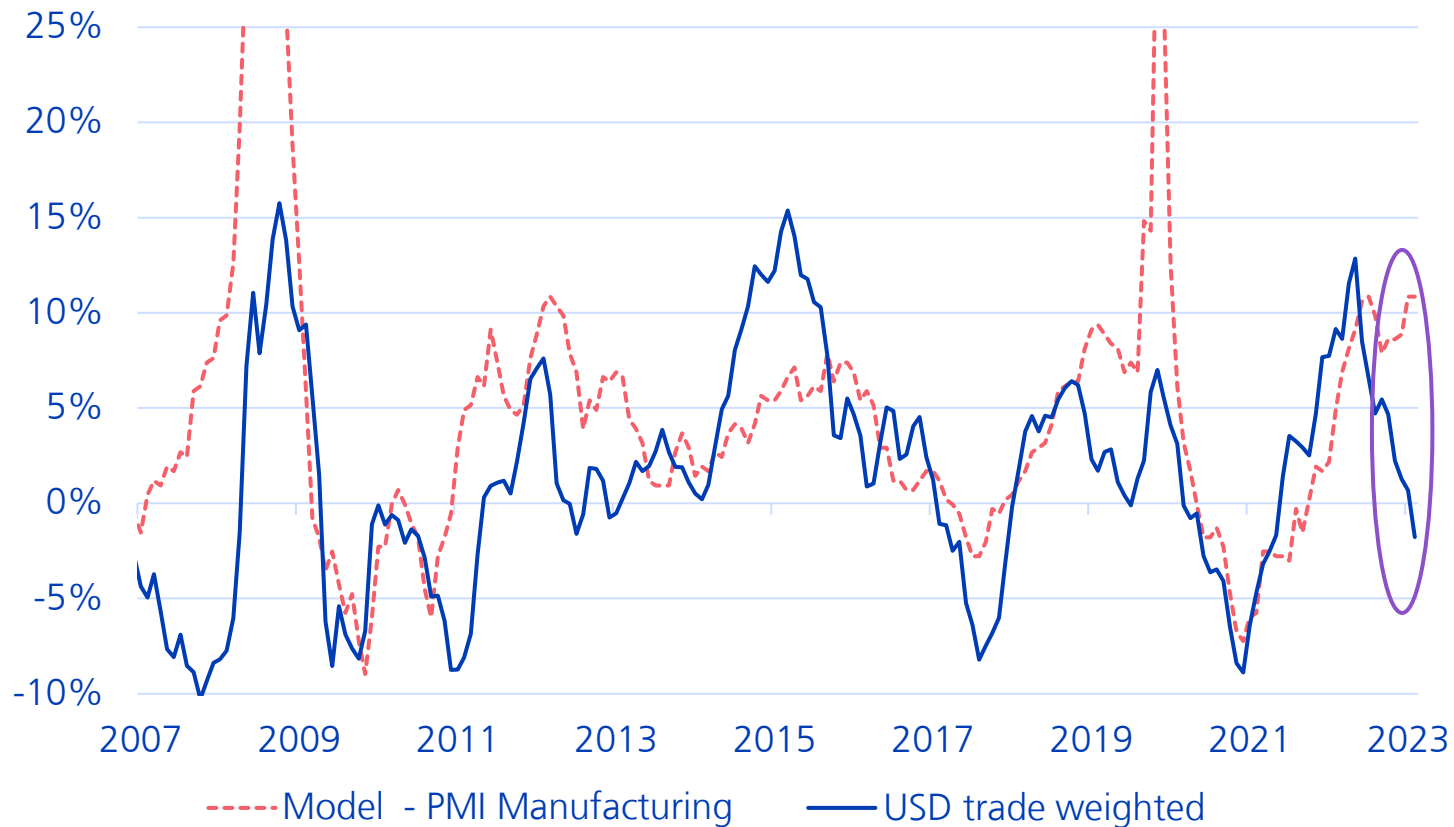
Monthly currency returns by phase of the global PMI*, 1998-2022



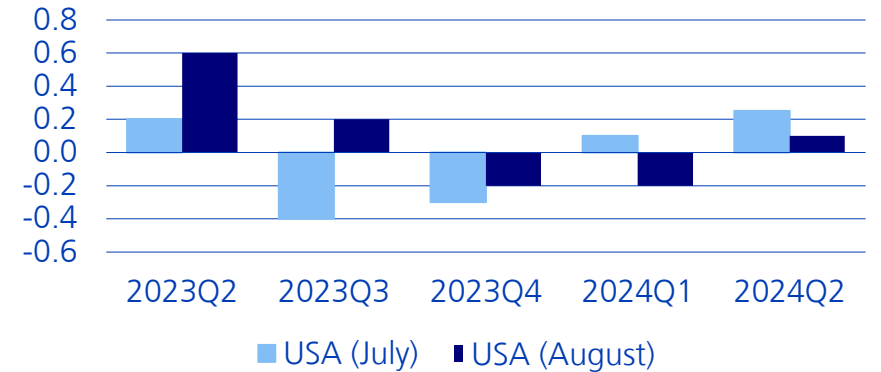
Global economic slowdown, US recession postponed: the immediate environment for the USD has improved

USD not yet really benefiting from renewed global slowdown

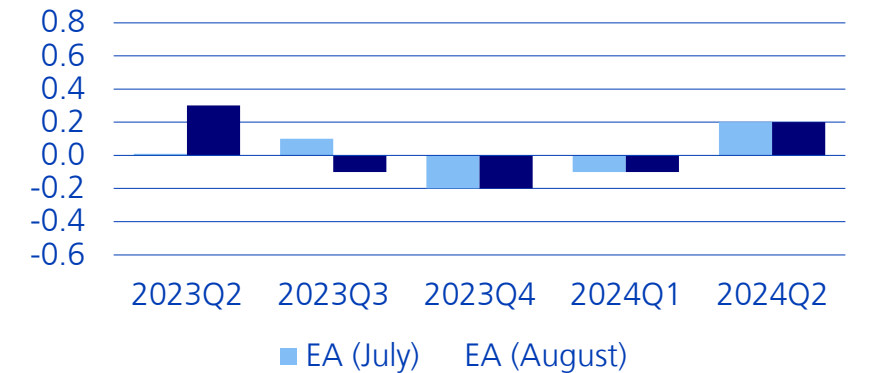
USD TWI (YoY, in %) and historical relationship with global PMI Manufacturing



Recession in the USA later and milder...



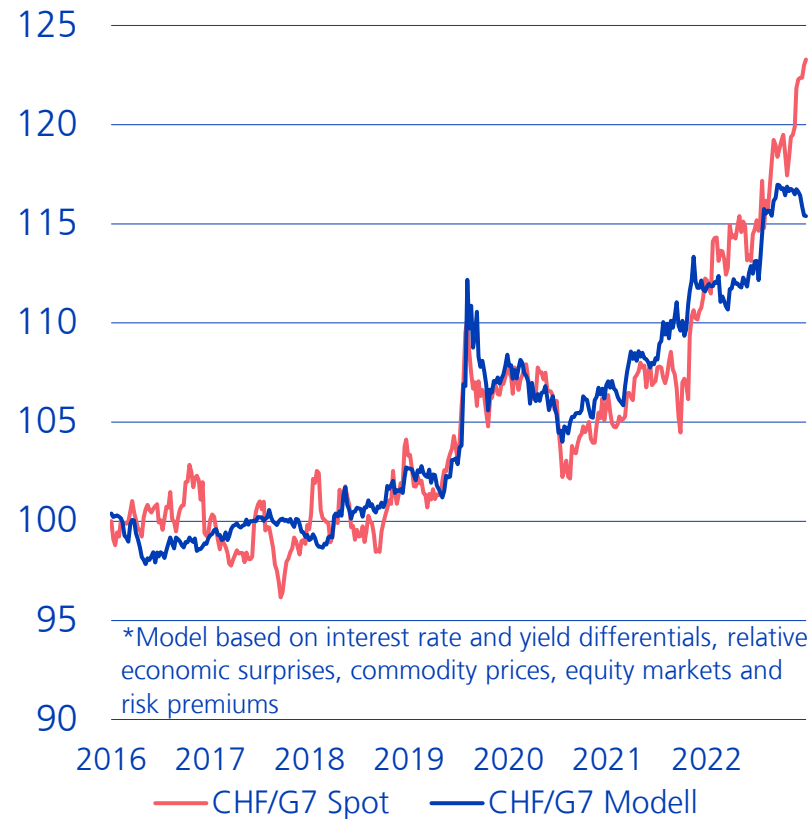
...earlier and longer lasting in the euro area



CHF has moved (too) strongly compared to fundamentals

CHF - strong performance YTD

Shorter Term Fundamental Valuation Model*



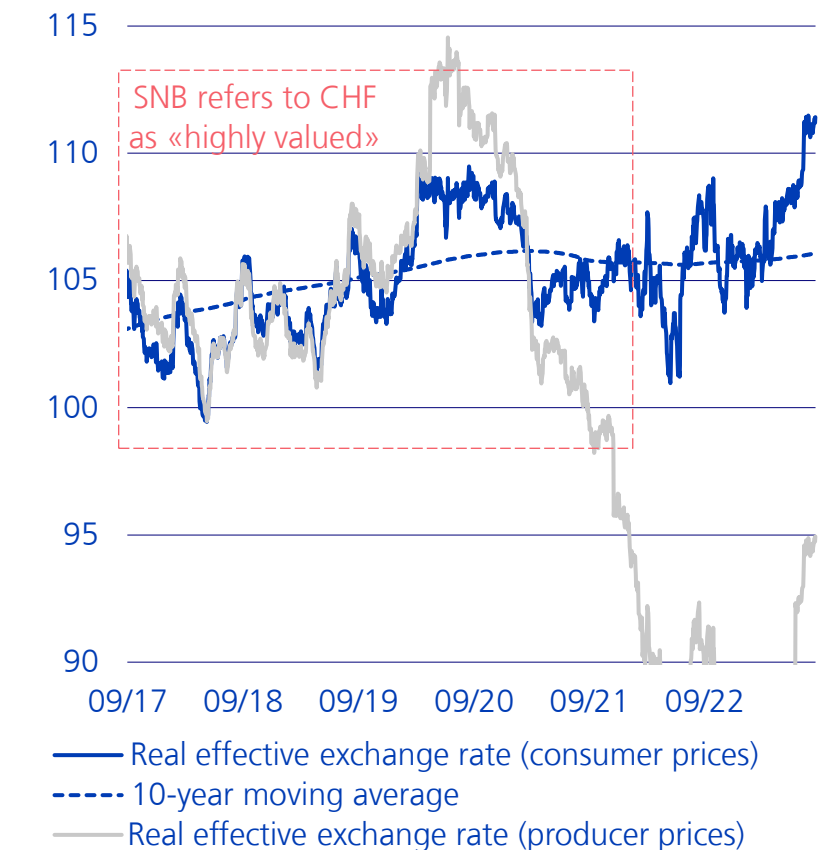
... not fallen off the bull

CHF appreciates against beta currencies (AUD/CAD/GBP) despite equity market recovery



SNB with a shift in focus?

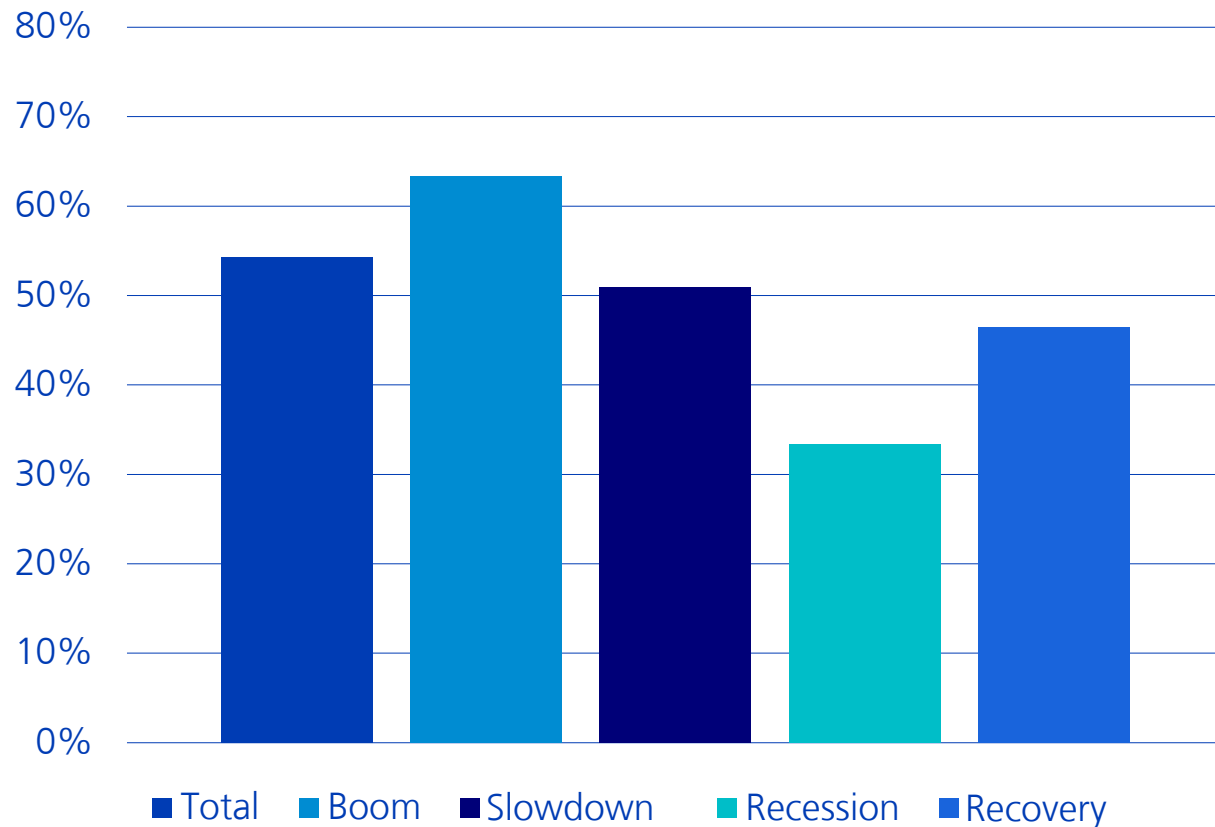
Given CHF appreciation, SNB could switch to a more neutral intervention policy



Let's talk about recession – commodities and gold

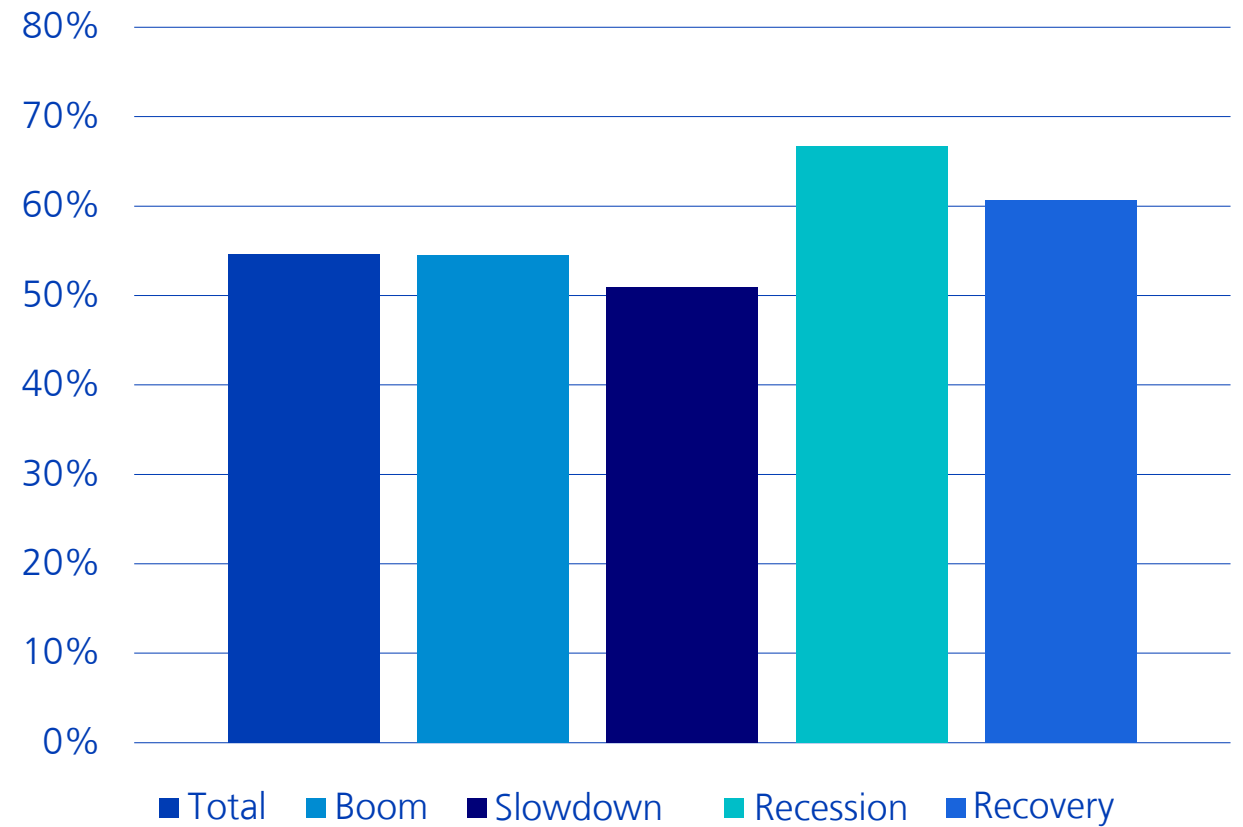
Commodities – not the place to hide when growth is low

Share of positive monthly performance by phase of the global PMI*, since 1998



Gold – usually a recession hedge

Share of positive monthly performance by phase of the global PMI*, since 1998

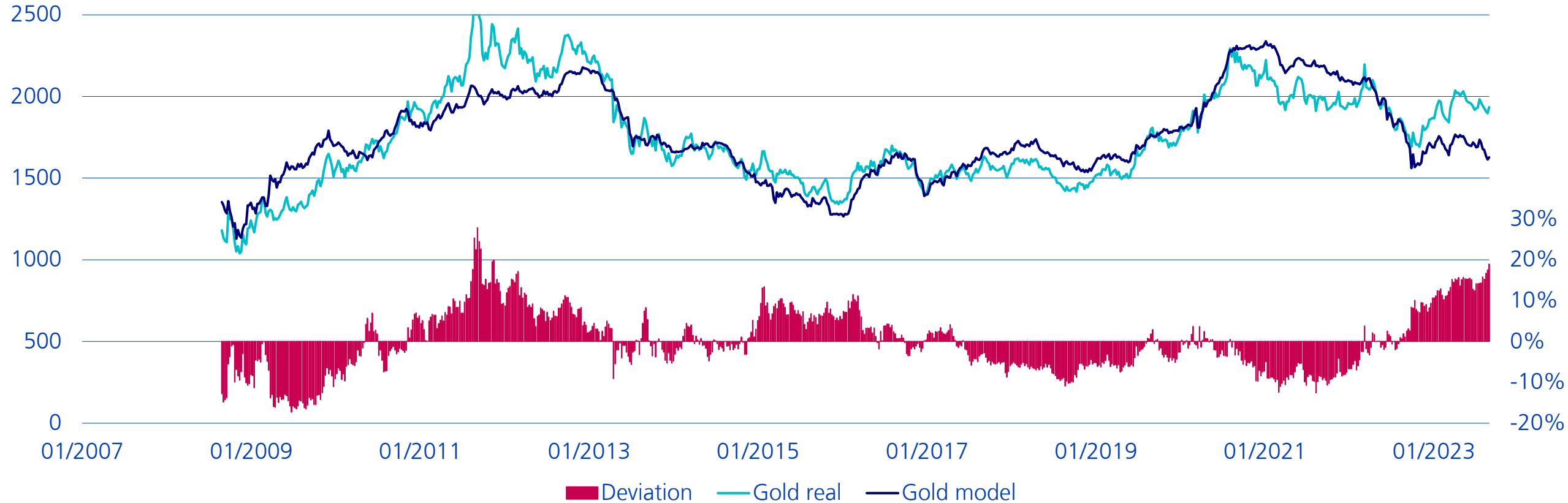


Focus: the drivers of the gold price

High real yields make gold look expensive

Real gold price vs model

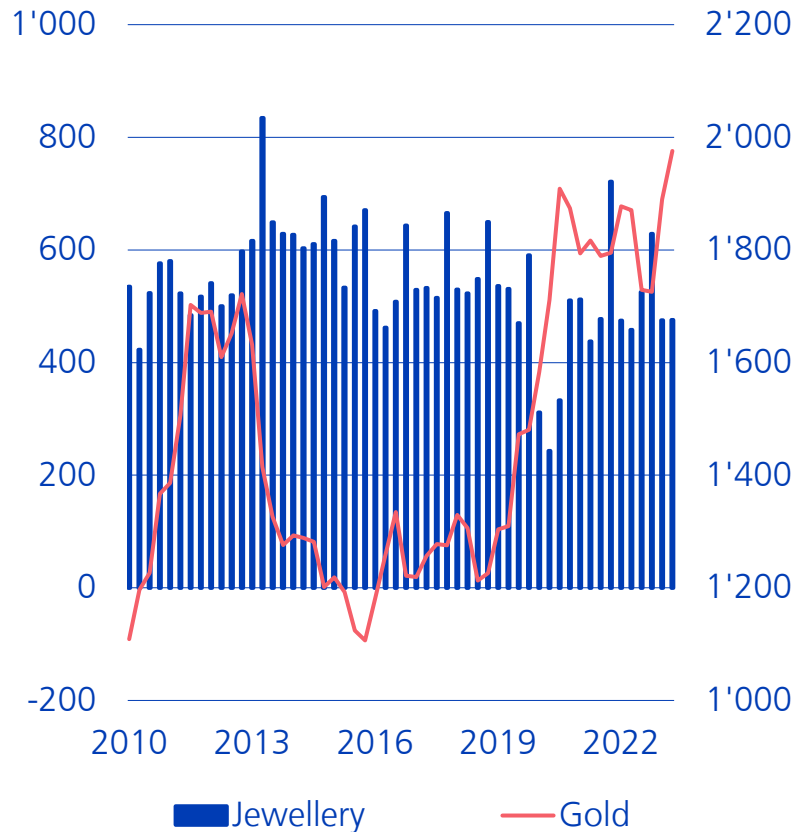
10yr US real yields, DXY, ETF holdings



Jewellery demand and central banks as price takers – investment demand driving prices

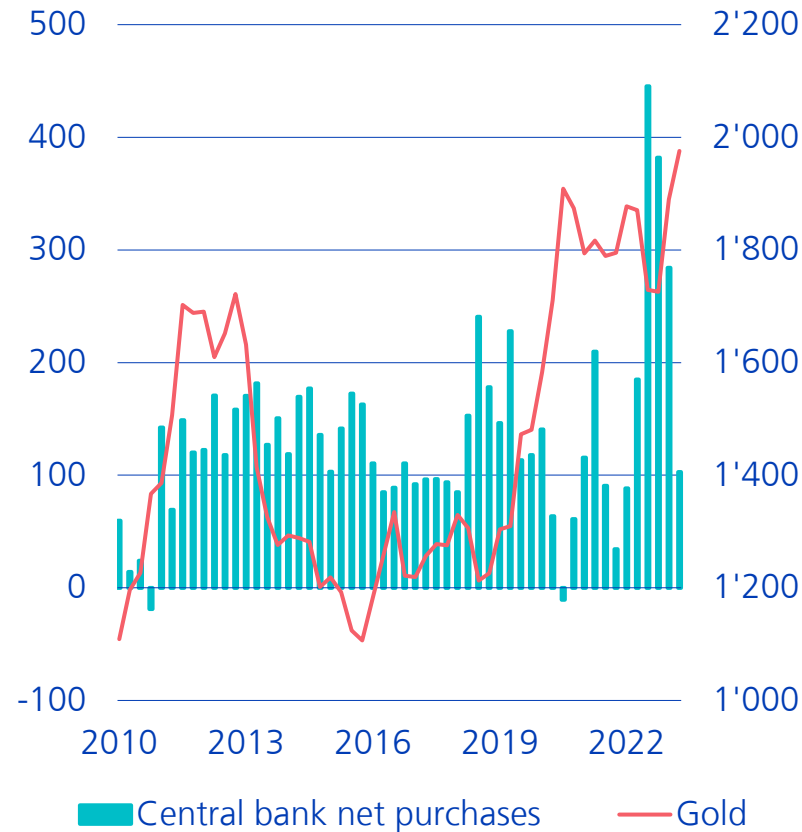
Jewellery demand

in tons



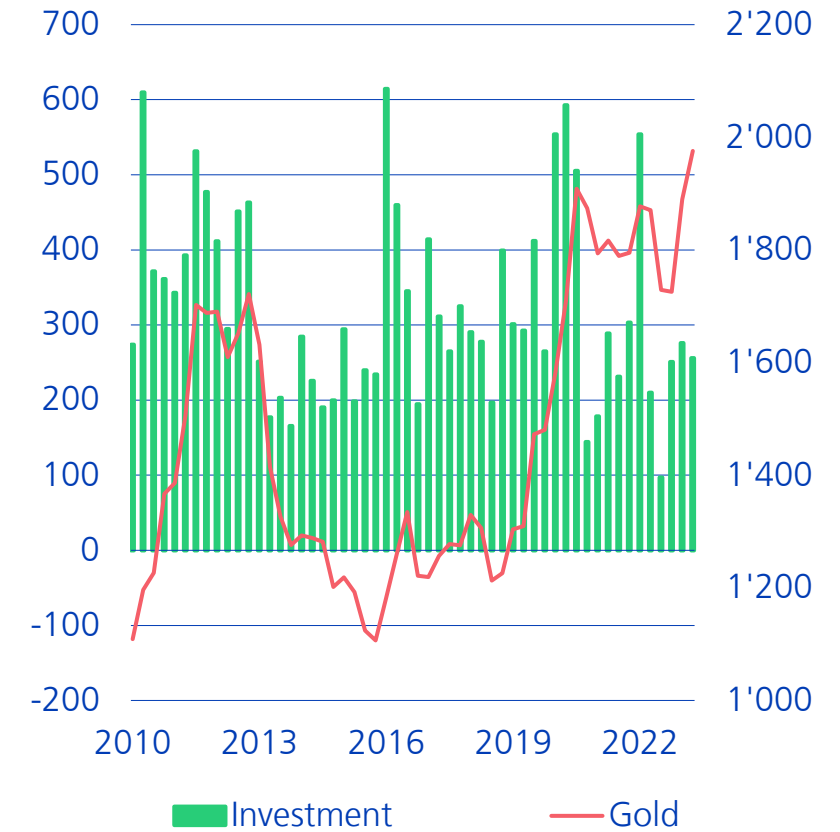
Central bank demand

in tons



Investment demand

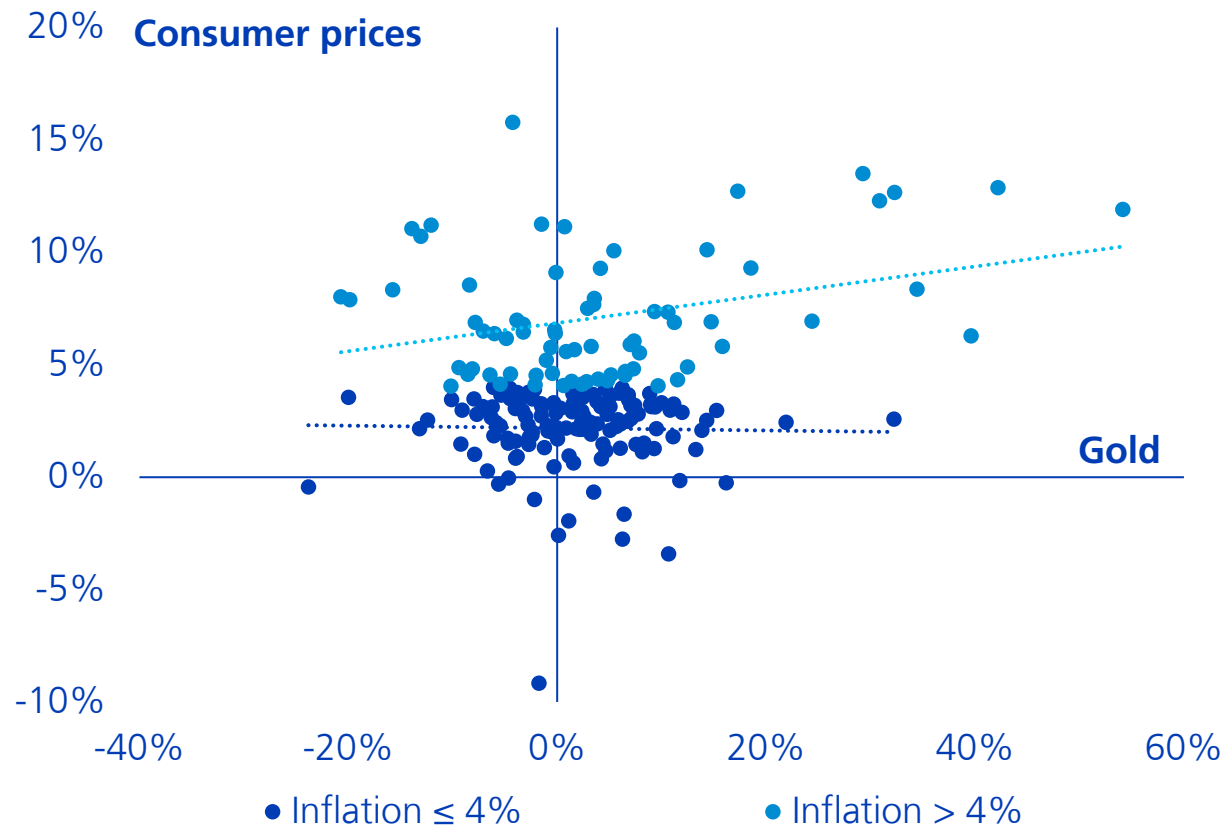
in tons



Gold and current inflation with weak correlation – in the long term gold is a good inflation protection

Gold vs US Consumer Price Index

Quarter-on-quarter change, since 1970



Gold compensates for accumulated inflation

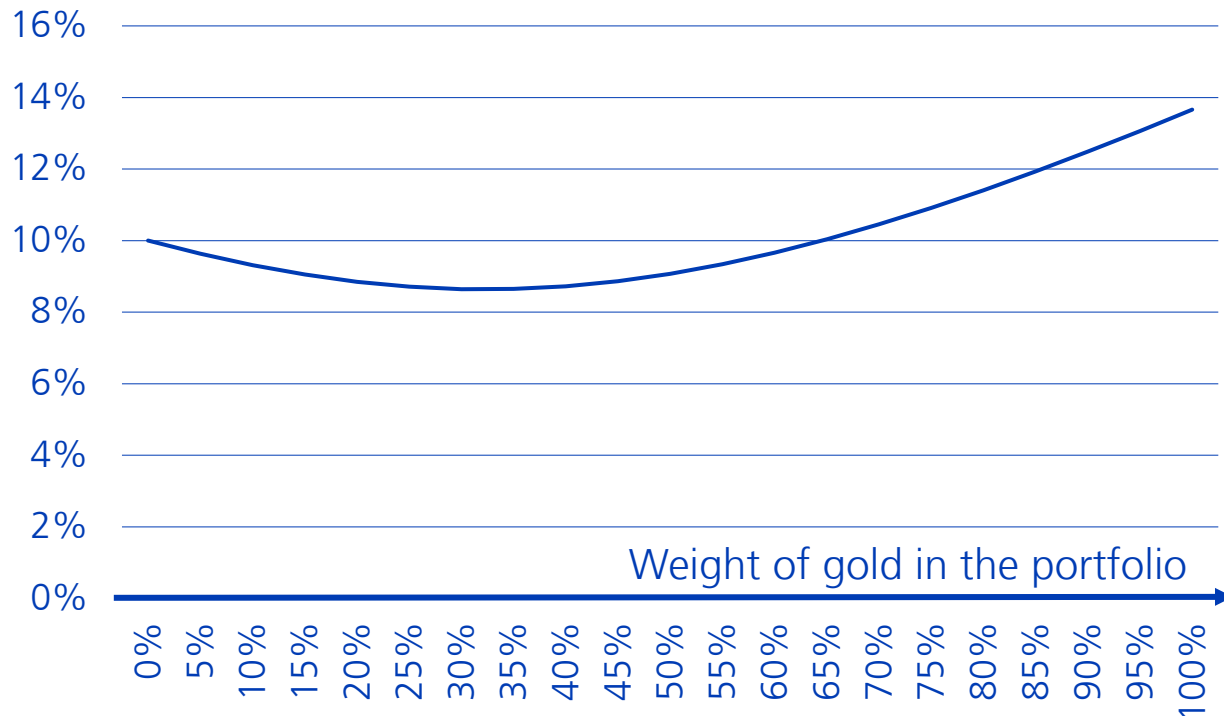
Real gold price deflated by US consumer prices



Gold as a portfolio diversifier

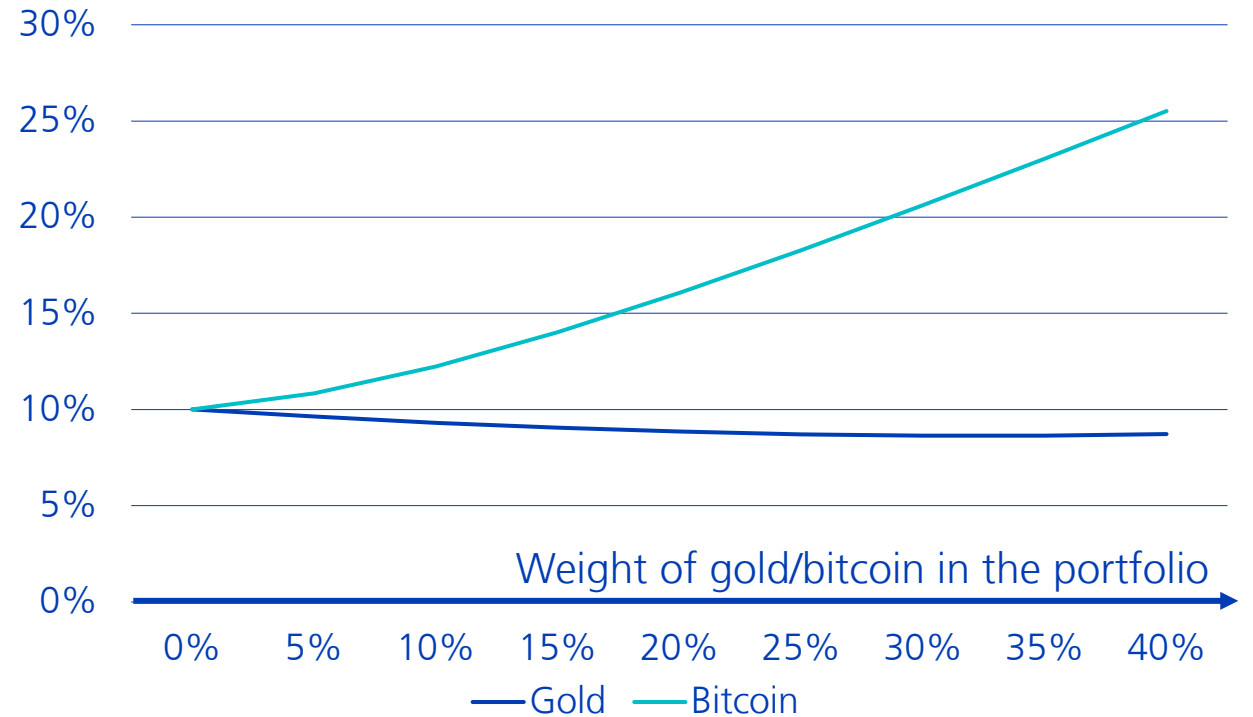
Gold can smooth portfolio fluctuations

Portfolio volatility – addition of gold in a 50/50 bond equity portfolio, based on weekly data over the last two years



Gold vs Bitcoin

Portfolio volatility – addition of gold/bitcoin in a 50/50 bond equity portfolio, based on weekly data over the last two years



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