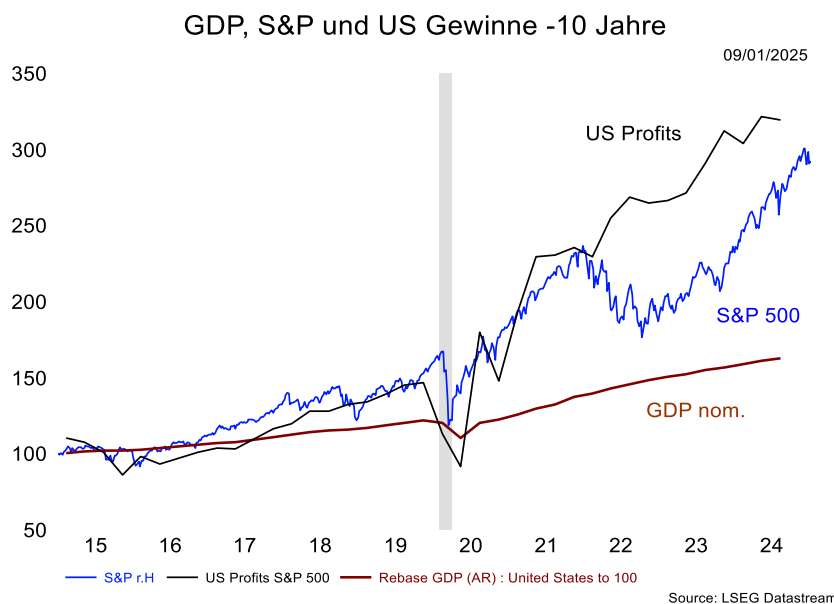


Quarterly report

4th Quarter 2024

- The global economy has recovered well from major shocks
- Are autocrats and neo-colonialists jeopardising the weakened Western democracies?

The global economy is in an enviable position. This is particularly true for the USA. The following chart shows that the nominal gross national product has risen by 35% in the last five years, the S&P share index by 79% and the profits of S&P companies by 68%. Europe has recorded similar figures. This is all the more astonishing as the world has experienced an unprecedented cascade of shocks in the period mentioned.



First came the global pandemic, which prevented many workers from attending work. This was followed by a boom in demand to compensate for the forced reduction in consumption during the pandemic. This was followed by the war in Ukraine, which had serious consequences for the energy markets. Europe was hit particularly hard as energy supplies from Russia came to a sudden standstill.

Setbacks in the fight against the pandemic led to major disruptions in supply chains. This resulted in far-reaching production stoppages in almost all sectors.

The lack of supply allowed companies to significantly increase margins and prices. A situation that is intrinsic to market economy systems but resulted in soaring inflation figures. This prompted the US Federal Reserve in particular to make a shock-like braking manoeuvre, which was also followed by the European Central Bank. The move was justified by the fear that a wage-price spiral could be set in motion, as was common in the 1970s and 1980s and could only be stopped with a drastic braking manoeuvre and a subsequent recession. Many economists did not share this view. They argued that the wage formation process had largely decentralised over the last thirty years and that the degree

of union organisation had been reduced to an insignificant level. The price increases were merely due to the balancing of supply and demand.

With the market clearing, the price increases disappeared relatively quickly, even before the monetary policy lag (around 18 months) reached the real markets. The price increases were therefore merely transitory in nature. The price of this new pattern of inflation is that wages are only adjusted to inflation with a time lag. The term 'cost of living crisis' has been coined to describe the catch-up phase, particularly in the English-speaking world. This is good news for the assessment of future supply inflation. It seems advisable to take a much calmer approach to monetary policy in such situations. A neutral monetary policy is more likely to do justice to the situation.

The opportunities that the supply shortage offered companies in terms of price increases, as well as the delayed adjustment of wages, explain to a large extent the excellent profit situation of many capital market companies. The high stock market gains of recent years are therefore fundamentally well founded. With a few exceptions, there can be no talk of a bubble forming. If we also consider that the market imbalances caused by the shocks have largely been corrected and that the central banks' braking manoeuvre could have been completed long ago, there is further supportive impetus for risk assets.

The high expectations of the AI revolution have not yet been disappointed either. It is clear that the diffusion of this innovation has gained momentum. It promises capital investors high productivity gains and a reduction in labour costs.

Trump's election should also significantly improve the framework conditions for American companies. The programme for the far-reaching reduction of civil servant positions is an efficient method for implementing and controlling undesirable laws only in a weakened form or not at all. This works faster than legislative changes. The areas most likely to be affected are the environment, social affairs, energy and

competition. Other countries will not be able to escape these liberalisation efforts.

However, it is critical that Trump has significantly radicalised his foreign policy ambitions. They bear witness to a spirit that no longer has much to do with the much-vaunted liberal values of democracy. Practically every day, he makes decisions that indicate that he views the independence of the state institutions more as an obstacle to his government activities. He is also hardly interested in the demarcation between the private and public sectors, even when conflicts of interest are obvious. Nepotism is part of this concept.

However, the apparent willingness to disregard international agreements and treaties is even more critical in terms of investment policy.

Until recently, it was assumed that his threat of tariffs was merely intended to serve as a pledge in return. However, his press conference on 7 January made it clear that he does not shy away from territorial claims. Nor does he rule out military means. Even when it comes to friends within NATO (e.g. Denmark, Canada and Mexico). He deliberately puts me on the same level as Putin, whom he has always admired and whom he even defends with regard to the war against Ukraine. He understands the security policy need not to have NATO troops in his front yard. The USA has similar security needs. The tariffs that he has threatened Europe with could very well result in demands that make it easier for him to strike a deal with Russia. The large trade surpluses of the EU and Canada with the USA also bother him.

In the case of Canada, he explicitly asserted territorial claims at the aforementioned press conference. 'The artificial line between the two states should be abolished. The prospects for both

sides would be excellent with this integration.' One journalist asked whether he would use military means to achieve his goal. This would not be necessary, as economic pressure would be sufficient. However, he could not rule out military means to take over the Panama Canal. After all, the canal is a security risk. It was already being operated by the Chinese. The takeover would not only serve the USA, but the entire free world. The takeover of Greenland was also necessary in terms of security policy. With regard to the trade surpluses of the Europeans, he said that he did not need these products. They have enough of them.

These 'revelations' raise serious questions for Europe. If power is to determine what is valid and no longer legal principles, then Europe is in a difficult situation. The continent is in a desolate state in terms of security policy. Unable to defend itself. It also lacks an integrated air defence and nuclear umbrella. It is also barely able to act in terms of foreign policy and, with the failure of its asylum policy, in terms of domestic policy

increasingly exposed to the extreme demands of the right. In this situation, politicians who act according to the principle of power will have to pay a high price. Be it in favour of Russia or - newly - in favour of America or even both.

This new situation has prompted us to abandon the offensive investment policy path of recent years in favour of equities until there is more clarity about Trump II's foreign and economic policy course. We are therefore reducing our overweighting of equities to a neutral position, with a slight underweighting of Europe in favour of the USA. We still see room for interest rate cuts, particularly in European short-term interest rates, from which property will also benefit. Gold should continue to be in demand in this environment. The Swiss franc will also benefit from this and force the SNB to cut interest rates further, as the renewed build-up of foreign currency on the balance sheet will probably only be considered as a second-best solution.

So much for the broad lines.

Yours sincerely,

Prof Dr Josef Marbacher



Investment Strategy 1st Quarter 2025

sensusPLUS

Meeting of the
investment advisory committee

24.12.2024

		Investment Strategy							
Asset class		Income	+/-	Balanced	+/-	Growth	+/-	Capital gain	+/-
Defensive	Liquidity	8%	0%	7%	0%	5%	0%	5%	0%
	Fixed Income incl. Bond Funds	60%	0%	35%	0%	15%	0%	0%	0%
Offensive	Stocks incl. Stock Funds and ETF	25%	0%	50%	0%	70%	0%	85%	0%
	Others Real Estates, Commodities, Gold, Structured Products, Alternatives	7%	0%	8%	0%	10%	0%	10%	0%
		100%		100%		100%		100%	

Additional parameters

Reference currency CHF

Currency allocation

CHF	min.	50 %
EUR	max.	20 %
USD	max.	20 %
GBP	max.	15 %
Other	max.	20 %
(max 10 % per currency)		

Variations +/- 5 % are possible for the various investment categories.

In our view, the global economy will continue to recover from the effects of the pandemic in 2025, but not as rapidly as assumed. We expect the US to outperform the eurozone and Switzerland again. The Trump administration's political intentions require vigilance with regard to inflationary pressures and trade policy changes. Advances in the field of artificial intelligence (AI) and new technologies will result in efficiency gains and bring further dynamism to the economy. Upheavals and transformation processes will become more decisive. We have a neutral weighting for 'global equities' and the Swiss equity market and a slightly higher weighting for bonds and cash. The annual return expectation for 2025 is likely to be slightly lower than the above-average return in 2024.

All in all, we are more cautious in our equity forecasts.

After the USD's short-term surge, normality will return and the Swiss franc will regain its strength. Interest rates in Switzerland and especially in the eurozone will continue to fall towards 'negative interest rates', but at a slower pace than forecast.