Market Commentary
2nd Quarter 2024

Business Activity and Global Economy

The stock market boom of the first quarter of 2024 continued in the second, with most of the major indices finishing the quarter in positive territory.

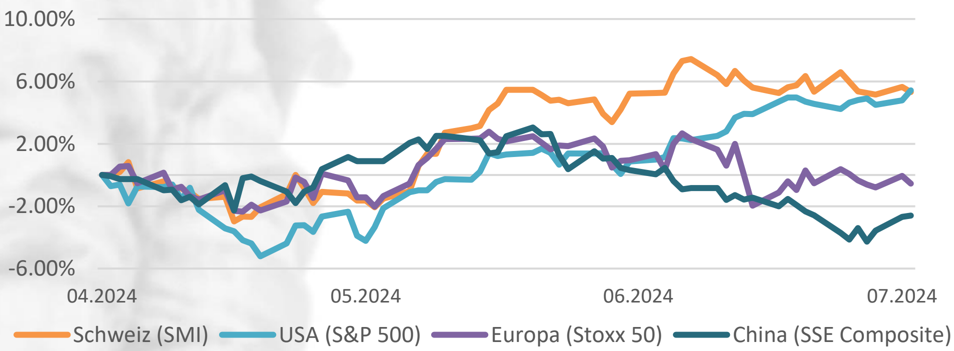
At the start of the second quarter, however, it was uncertain whether the levels from the previous three months could be extended further. Geopolitical crises weighed on the markets: Iran's direct attack on Israel led to uncertainties regarding the already restrained trade routes in the Persian Gulf and, in the US, the military aid package for Ukraine faced headwinds in Congress. In addition, the high inflation numbers in April came as a negative surprise to investors who had hoped for interest rate cuts.

From mid-May, the danger of a further escalation in the turbulent regions seemed to have been averted for the time being. At the same time, higher-than-expected unemployment data, which is regarded as an indicator of economic activity and therefore inflation, pointed to an easing of monetary policy, including interest rate cuts in the US, which boosted the markets. Meanwhile, good quarterly results from companies provided further support.

With the gradual decline in inflation figures and slightly higher unemployment, the scenario of a soft landing - a normalisation of the inflation rate below the 2% mark while avoiding a recession - appears to be within reach. This is supported by the continued optimism of company leaders, which is reflected in the manager surveys. The monthly surveys show that the economic environment for companies in the US, Europe and Switzerland has improved since the beginning of the year. The service sector in particular is confident due to the growth in incoming orders. However, the sample also shows that the manufacturing industry in Europe is still struggling with problems such as weak foreign demand, which led to falling production output.

In the second half of the year, political risks will remain on the agenda. Following the elections in France and the UK, which have reshuffled the political balance of power, fundamental decisions about the countries' future path will be made before the US elections take the stage in the autumn.

Figure 1: World Indices in Local Currency in the 2nd Quarter



Source: Refinitiv, Datastream as of 02.07.2024

Key Takeaways

- The market observed a first interest rate reduction by the European Central Bank (ECB) and a second reduction by the Swiss National Bank (SNB).
- Geopolitical crises unsettled investors at the beginning of the second quarter, but by the end of the Q2, the threat of escalation seemed to have subsided.
- The lower inflation figures in the United States were encouraging for investors toward the end of the second quarter of 2024.
- Gold experienced significant gains at the start of the quarter and subsequently stabilized at a high level.

Monetary Policy

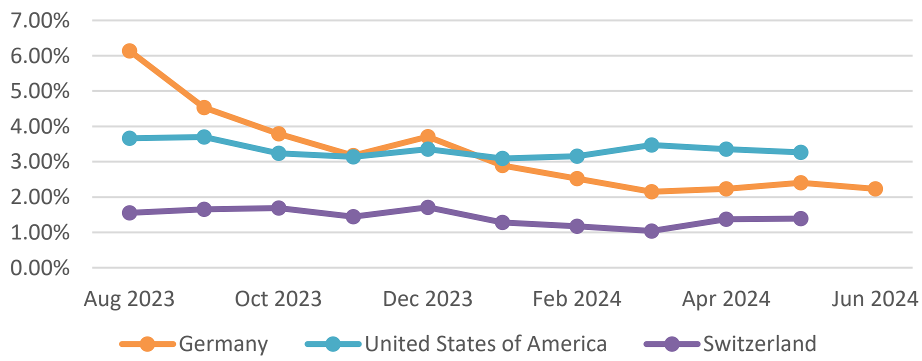
In the first quarter of 2024, we already saw the first, surprising interest rate cut in Switzerland, while the European Central Bank (ECB) and the US Federal Reserve (Fed) maintained their previous interest rate levels.

Inflation and labor market data in the beginning of the quarter have left monetary authorities in the US and Europe little room for interest rate cuts. After the inflation figures for March, which were above expectations at 3.5% (year-over-year), the room for cuts became even smaller. The healthy US economy and low unemployment figures signaled that interest rate cuts were not to be expected in May or June in the US. The following month of April did not bring a sharp fall in inflation either, which is why the Fed left interest rates unchanged at its meeting in May. However, there were signs of easing inflationary pressure in May, which was reflected in higher unemployment data and ultimately in the published inflation figures.

In the eurozone, represented by Germany in Figure 2, inflation in April remained slightly above the target range of 2% at 2.4%. Despite the rise in annual inflation to 2.6% in May, the European Central Bank decided in June to cut the key interest rate by 25 basis points to 4.25%. The move was justified with the progress made in combating inflation, particularly in comparison to the previous year's figures. Nevertheless, the ECB emphasized, supported by wage data, that the upward pressure has not yet been broken and will continue until next year according to the ECB forecasts. Inflation also remains unevenly distributed between the member states of the eurozone. While countries such as Belgium reported inflation figures of over 5% in June, six member states of the monetary union were already within the target range.

In Switzerland, inflation has been within the target range defined by the SNB since June of last year. However, the export-oriented Swiss economy is weakening slightly due to weak foreign demand and weak economic activity in neighboring Germany. The Swiss National Bank's committee therefore decided to make a further interest rate cut in June.

Figure 2: Inflation Rates Over Time (Annualized Rates)



Market Data

Equity Markets Perf.	2024
SPI	9.50%
DAX	8.43%
Euro Stoxx 50	11.41%
S&P 500	16.32%
Nasdaq Composite	20.10%

Yield to Maturity of Government Bonds	in %
10Y Swiss Federal Bond	0.70%
10Y German Federal Bond	2.61%
10Y US Treasury	4.43%

Gold (oz.) Perf.	2024
in CHF	21.00%
in EUR	15.94%
in USD	12.75%

Commodities Perf.	2024
Oil Brent	11.43%

Year-to-Date (YTD) performance in local currency, as of 02.07.2024

Source: Refinitiv, Datastream

Source: Refinitiv, Datastream as of 02.07.2024

Financial and Capital Markets

The partial interest rate cuts and the expectation of cuts in the near future as a result of the low inflation data, published in the second half of the second quarter, caused stock markets to rally to new heights. Similar to the previous quarter, Nvidia once again exceeded the high expectations. The company, which manufactures chips for training artificial intelligence models, increased its revenue by 18% compared to the previous quarter and posted a profit of over USD 14 billion. Following the announcement, the shares broke through the USD 100 price barrier, helping the company to become temporarily the most valuable company by market capitalization. However, as in the first quarter, reservations about the sustainability of Nvidia's growth remain, which is why price corrections are possible, as was the case after the publication of Meta's quarterly data. Although Meta's fundamentals were convincing, the share price corrected downwards on the day of the release, since the growth forecast by Meta for this year was below analysts' expectations. At the same time, Meta, which is a leader in the field of artificial intelligence, emphasized that this technology is already useful for targeted advertising, but it does not yet work on a large scale. Overall, the reporting season was pleasing, with SAP in Germany and Novartis in Switzerland also delivering convincing results, which resulted in strong daily gains for the shares. Both have also made significant advances since the beginning of the year.

The largest indices all closed the first half of 2024 with comfortable gains. Only the Chinese Shanghai Index lost ground in the second quarter of 2024 and is now marginally in the red on an annualized basis. There are many reasons for this, including the ailing property market, greater government intervention in the economy and subdued domestic consumer sentiment. The French stock market also corrected downwards in the second quarter due to the uncertainties following the country's parliamentary elections, in which the parties on the far left and right achieved gains.

The high inflation data at the beginning of the quarter drove the current yields on fixed-interest bonds up, which was accompanied by price falls on them. Following the publication of the US labor market data, the market factored in future interest rate cuts as a result of the fall in inflation, which led to falling yields. The interest rate cuts towards the end of the quarter in Switzerland and the eurozone confirmed the market sentiment of lower interest rates which resulted in bond investors achieving price gains. In addition to benchmark interest rates, creditworthiness is a key factor for investors. In the second quarter of 2024, investors demanded higher yields on French government bonds, as the country's credit rating was downgraded in May due to its high and rapidly growing government debt level.

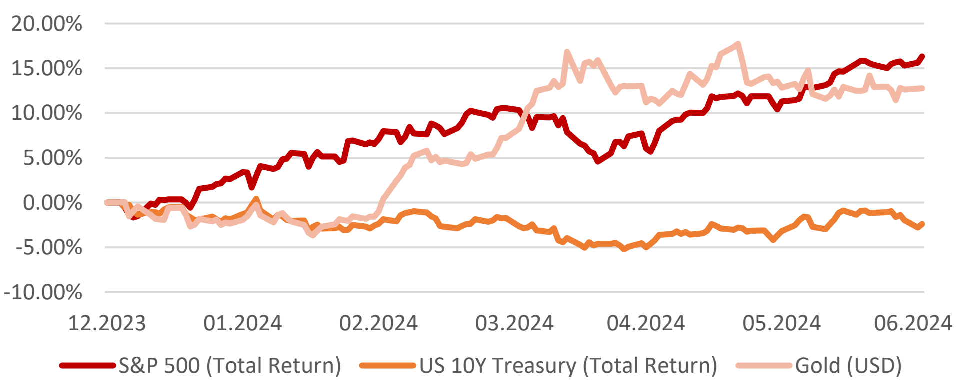
Gold made significant gains at the beginning of the quarter. This was driven in particular by geopolitical uncertainties in the Middle East and higher-than-expected inflation. Purchases by national banks from developing countries that want to build up gold reserves also had a supporting effect. After reaching a new all-time high in May, gold corrected slightly and has since trended sideways.

Asset Allocation

Asset Class	Positioning
Cash	Overweight
Fixed Income	Underweight
Equity	Neutral
Gold	Strong Overweight

- We maintain liquidity, such as holding money market funds, to remain flexible and respond dynamically during market corrections.
- Amid uncertainties in the markets at the beginning of the quarter, gold experienced significant gains. This affected our mandate performance positively due to our considerable allocation to gold.
- Since the end of April, the Swiss Franc has strengthened against the US Dollar and Euro. However, this trend reversed in June.
- Despite being underweight in equities, we benefited from the technology hype by being selectively invested in certain individual stocks.
- Bonds remain an important part of our portfolio and experienced price increases during June.

Figure 3: Total Return of the S&P 500, 10Y Treasury and Gold for the year 2024 (YTD)



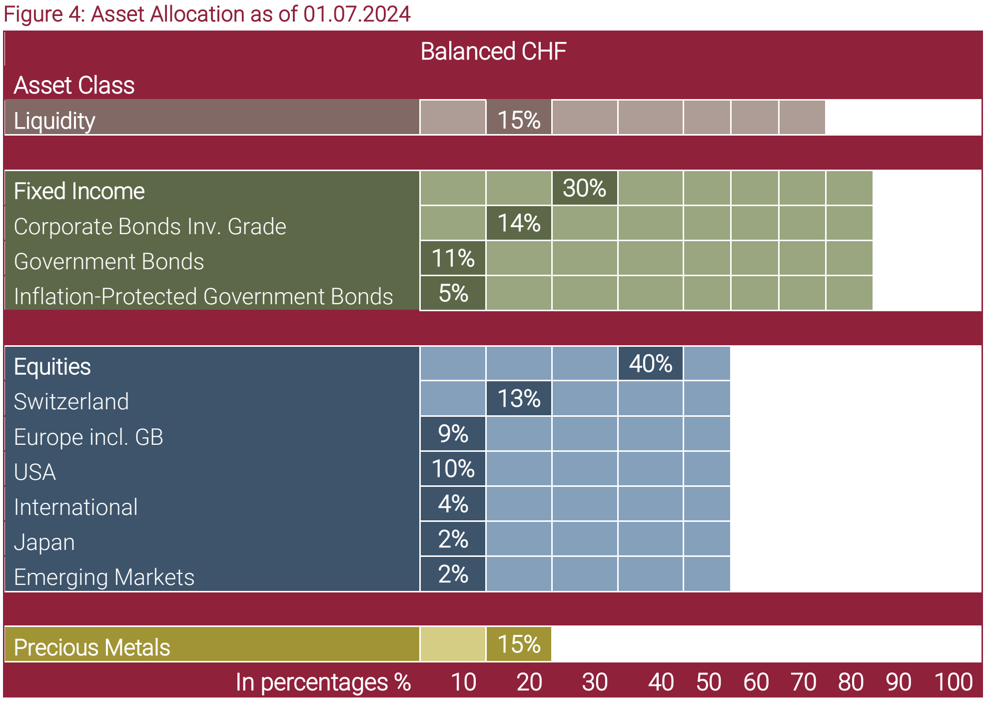
Quelle: Refinitiv, Datastream as of 02.07.2024

Current Asset Allocation

At the beginning of the quarter, the bank decided to reduce a portion of the inflation-protected bonds in favor of other fixed income securities. This move reflects the higher yield opportunities from fixed-rate bonds in a potential interest cutting cycle. Additionally, maturing bonds were replaced with such that had similar characteristics. Overall, the bank's allocation remained largely unchanged. We maintain a neutral weight in equities, with selective realization of gains. Alongside our strong focus on gold, we continue to adopt a defensive stance while retaining the possibility to participate in further market gains through index positions.

Notably, in the relatively weak month of April, we outperformed our benchmark group in terms of returns and maintained this lead throughout the subsequent growth months until the end of the quarter. Our equity positions, including the outstanding performance of the Swiss stock market in the second quarter, contributed to a positive half-year result. However, bonds were relatively weak during the first half of 2024, although they also saw gains towards the end of June, partly due to interest rate cuts by the Swiss National Bank. In our EUR and USD portfolios, we recorded gains in the second quarter, although not as high as in the CHF portfolio. Overall, the quarter demonstrated the effectiveness of our conservative approach with participation in growth phases. As we navigate in a changing economic environment with significant elections in major economies, such as the USA, on the horizon, we remain cautious while keeping an eye out for the growth potential of new and existing trends.

Figure 4: Asset Allocation as of 01.07.2024



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