CHECK-UP

September 2024
Client information
Reichmuth & Co Private Bankers

Editorial

From a historical viewpoint, political and economic uncertainties are nothing unusual. Faced with the ongoing formation of blocs in the world, unpredictable election results, and escalating conflicts, long-term investors are asking themselves the following question: "How should assets be aligned so that opportunities can be exploited and major risks minimised?" There is a growing need for future-proof investment concepts.

These concepts must always be adapted to the individual situation. While the focus today is often on standardised processes geared towards efficiency, we place people and their specific set of circumstances at the centre.

For timely implementation, it is important to analyse historical parallels with current trends – in order to derive the scenarios that best suit the various customer needs. We wish you stimulating reading.

Remy Reichmuth
General
Partner

Future-proof

A look back into the past will help us better understand the current situation. Political upheavals and economic crises have shaken the markets time and time again, and we can draw several lessons from this.
1970s: The Cold War was raging and state finances were out of kilter. Oil crises and high inflation made precious metals such as gold and silver safe havens.
1980s: An economic upturn was in full swing. Deregulation under Reagan and Thatcher led to booming stock markets.
1990s: With the end of the Cold War, globalisation gathered momentum. Inflation was practically a non-issue thanks to global competition. The dot-com bubble at the end of the 1990s revealed the transformational importance of emerging technologies, but also the risks of inflated markets.
2000s: The financial crisis of 2008 ushered in increased regulation and unprecedented, extraordinary central bank measures. Nevertheless, investors were able to achieve long-term profits with high-quality equities and real estate.

Whereas the rivalry between the US and China increasingly resembles the Cold War era, the recently ended market surge of the “Magnificent Seven” technology stocks is reminiscent of the turn of the millennium. However, there is no sign anywhere of deregulation or peaceful coalescence.

Charting a course in the democratic West

2024 has proven to be a very interesting election year thus far. The EU parliamentary elections have primarily had an impact on national politics, as was seen in France, for example, where President Macron called new elections shortly afterwards. The right-wing party emerged triumphant in the first round of voting, but was countered by a united left in the second round and is currently facing a stalemate. A similar turnaround was seen in the US election campaign. Images of the assassination attempt on Donald Trump boosted his poll ratings, only to dip again shortly afterwards with the withdrawal of President Biden and the announcement of the new Democratic candidate, Kamala Harris. Rarely have election forecasts been so speculative. Whether the USA is led by a Democrat or a Republican, the days of free trade are unfortunately over. Protectionism and industrial policy are back in favour. Companies are having to deal more frequently with trade barriers, customs duties, and sanctions.

Focus on long-term interest rates

Inflation does appear to be under control for now. This, in turn, will lead to lower short-term yields. As the spending spree by Western countries rolls on and government debt keeps mounting, the question arises as to who is supposed to buy these new government bonds and at what yield? Once doubts arise about a country’s creditworthiness, longer-term yields will start to climb, which would destabilise financial markets. As they always have in the past, central banks will continue to counter this risk in the future by printing money, with negative effects on monetary value and exchange rates.

In view of these challenges, the following guidelines seem sensible to us:

1) **Ownership in preference to debt claims:**
   Equities are ownership rights of a company. A broadly diversified portfolio will keep default risks low. Price risks remain, but in the long term equities offer real value preservation with growth opportunities, as you are holding a share in the real economy. In this environment precious metals are also in demand. Gold is scarce, cannot be printed, and has no counterparty risk.

2) **Diversification:**
   People become rich by taking concentrated risks. People stay rich by avoiding major risks. The best way to achieve this is through a broad diversification of asset classes, sectors and regions. The precise details need to be assessed and determined on a case-by-case basis, depending on the financial situation, requirements and preferences.

3) **Freedom of action – beware of high debt levels:**
   Time is an investor’s best friend. However, in difficult times you need good friends, so it is important to remain capable of taking action at all times. Investments with high leverage should be treated with caution since loans remain nominal in times of crisis and have deprived many an investor of the time they needed and led to major losses. Conversely, a certain degree of liquidity in reserve enables investors to take advantage of opportunities as they arise. Short-term yields are currently even more attractive than longer-term ones.

4) **Alternative investments as a complement:**
   Infrastructure investments and hedge funds offer good diversification potential with attractive expected returns. They also help to smooth out volatility in a portfolio.

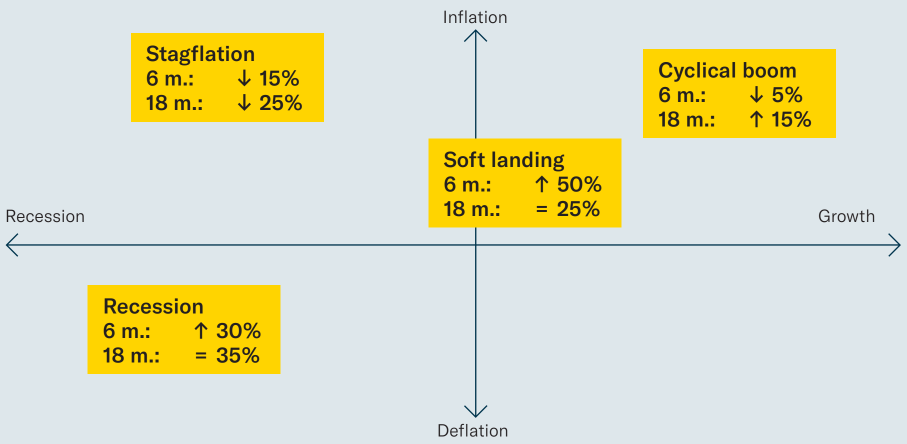
5) **Exercise caution with real estate and long-term bonds:**
   Historically, directly held properties have offered good returns and increase in value. In view of the precarious state of government finances, however, the possibility of political intervention on the real estate market should not be overlooked: unlike private individuals or companies, real estate cannot simply relocate in the event the situation in a country were to turn very unfavourable. Due to the negative outlook for government finances, we are being highly cautious when investing in long-term bonds as well.

Given the political and economic challenges, we believe a well-diversified, real-value-oriented strategy makes the most sense. In our view, a future-proof portfolio consists primarily of equities, precious metals and alternative investments, supplemented by money market investments and short-term bonds. This will allow you to look forward to the future with a certain level of tranquillity and peace of mind.

Christof Reichmuth
General Partner

Scenarios and investment consequences

Soft landing a precursor to a marked economic slowdown?



Current assessment

- Monetary policy – fine line between tackling inflation and risking recession
- Technology recovery is well under way. Defensive sectors, dividends and value stocks are attractive
- US fiscal policy remains supportive, regardless of the outcome of the presidential election

■ Scenarios – estimated probability of occurrence over time
↑↓= Changes since the previous publication

The US and European economies were able to cope surprisingly well with the higher interest rate regime introduced to combat inflation. A soft landing remains possible, but is unlikely given the historical context. The economic slowdown in the USA is paving the way for interest rate cuts in the near future. The risk remains that these cuts will be more pronounced than expected.

Basic scenario: Soft landing

Mounting indicators of the induced weakness on the US labour market are seen by the Fed as a chance to lower key interest rates more than expected. Significantly lower interest rates trigger an investment boom on the part of companies, which fuels the productivity boost already initiated by artificial intelligence. Sooner than expected, productivity growth also reaches sectors and regions that are only indirectly associated with the strong pull of artificial intelligence. There is growing confidence among stakeholders that, thanks to lower interest rates, the immense debt burden of governments will not upset the applecart, at least not in this cycle.

Best investment ideas:
- Growth stocks with a focus on artificial intelligence
- Small and mid caps / cyclical small caps
- High-quality corporate bonds within the investment grade segment

Alternative scenario: The time is ripe for a recession

Due to now-understood one-off effects (such as the excessive savings during the pandemic), the period for higher interest rates to take full effect has been prolonged. To stop inflation – which may be falling but remains stubbornly above the central bank's target – from spinning out of control, the Fed is lowering its key interest rates in tiny increments only, causing economic activity to suffer noticeably and credit defaults to surge. In addition, domestic problems in China mean that no significant support for the global economy can be expected from that region this time around.

Best investment ideas:
- Reduced equity allocation and higher liquidity
- Focus on defensive sectors
- Gold and other diversifiers from the alternative investment sector (e.g. trend-following strategies)

Cajetan Bilgischer and Silvan Betschart

Major sector rotation?

Defensive stocks for the interest rate cut cycle

The US Fed is expected to begin its cycle of interest rate cuts soon. We consider a serious recession due to excessive balance sheet problems, whether corporate or private, to be unlikely. From an investor's point of view, interest rate cut cycles are not a bad environment per se, provided that the economic downturn is not too severe and profits do not collapse. We are maintaining our equity allocation for now, but are taking a more defensive stance with a high proportion of dividend stocks. Other investments such as precious metals, alternative investments and cash will remain important diversification elements in the coming months.

What does a defensive equity portfolio look like?
In the case of an equity portfolio that generates short-term returns and participates in the long-term upside potential of markets without losing too much ground in a recession, the focus must be on defensive sectors and the limitation of segments with excessive valuations. Depending on the region, there is a variety of consequences:

1) The Swiss stock market index (SMI), with its defensive heavyweights in the healthcare and non-cyclical consumer sector with stable cash flows, is well suited to this approach. The dividend yield for the SMI remains above 3%, with yields for index heavyweights like Roche, Nestlé and Novartis (just under 50% of the index) exceeding this. This barrier will be difficult for relative investors to beat if defensive stocks outperform. If the mood improves, some smaller capitalised companies, which are scarcely represented in the index, would offer significantly more upside potential, which is why we are supplementing our Swiss equities selection with small caps.

2) The reverse is true for equity world investors (e.g. MSCI World Index). The USA and the tech segment have dominated this space for several years. In an environment where defensive quality is increasingly in demand, it pays to deviate from the index if you are an active investor. The USA continues to be highly innovative and is home to many profitable companies. In addition to the high valuations in some segments (particularly technology), the concentration in the US indices is also at historical highs. For this reason, we recommend a broader diversification and advise including companies from other sectors in addition to a few select tech giants. Alongside defensive sectors such as non-cyclical consumption, we also consider energy (as a hedge against inflation) and biotech (relatively cost-effective innovation) in the USA to be attractive.

3) In Europe, in addition to the defensive sectors, we are increasingly prioritising industrial leaders in the field of electricity management and efficiency (see page 5).

4) Emerging markets offer a select number of favourable investment opportunities and complement a global portfolio. We are currently focusing on markets such as Vietnam. A weaker USD would favour investments in emerging markets. We do not expect a clear trend to emerge until the US elections.

> **"From an investor's point of view, interest rate cut cycles are not a bad environment per se."**

Upcoming sector rotations
Depending on macroeconomic developments, other groups of shares will be in demand and outperform the market as a whole. These groups are categorised according to factors. Until July of this year, it was principally a small number of momentum stocks that were in demand. Since July, mainly defensive stocks from the healthcare, non-cyclical consumer and utilities sectors have performed better. Based on this, we expect defensive dividend stocks to remain in demand over the next few months until the US elections.

Nonetheless, market sentiment is weak and given the current index levels, there is no reason to buy for the time being until the US elections. A major sector rotation, however, could then be on the horizon.

Patrick Erne
Head of Research

Electrification of the world

Investment opportunity: Structural increase in electricity demand

Following a decline in demand for electricity over the last two decades, we are now facing a critical turning point. The shift towards electric heating, increasing e-mobility, industrial automation, and energy-intensive data centres are just a few examples. Electricity demand in Europe is expected to increase by around 40% over the next ten years.

AI requires more computing capacities

Switzerland is also investing more heavily in the expansion of data centres, although we already have the highest density of data centres per capita in Europe. At the beginning of 2024, a data centre was opened in Schaffhausen covering an area of 8,000 m^2 and accounting for 75% of the canton's total electricity consumption. Compared with conventional data centres, AI data centres consume up to 10 times more energy per server rack. The expansion of computing capacities worldwide is estimated to cost up to USD 1 trillion over the next few years.

Outdated network infrastructure

The grids infrastructure in Europe and the USA are between 40 and 50 years old and require urgent investment. In Europe, the political focus for investments in recent years has largely been on the development of renewable energies such as wind and solar, with investments in electricity grids being neglected to a great extent. Decentralised energy production, the expansion of charging facilities for electric vehicles, and higher loads from electrified buildings and factories must be handled by the grid. To achieve this, investments will almost double compared with the 2015–2022 period.

Where do the opportunities lie?
We see profit makers in three areas

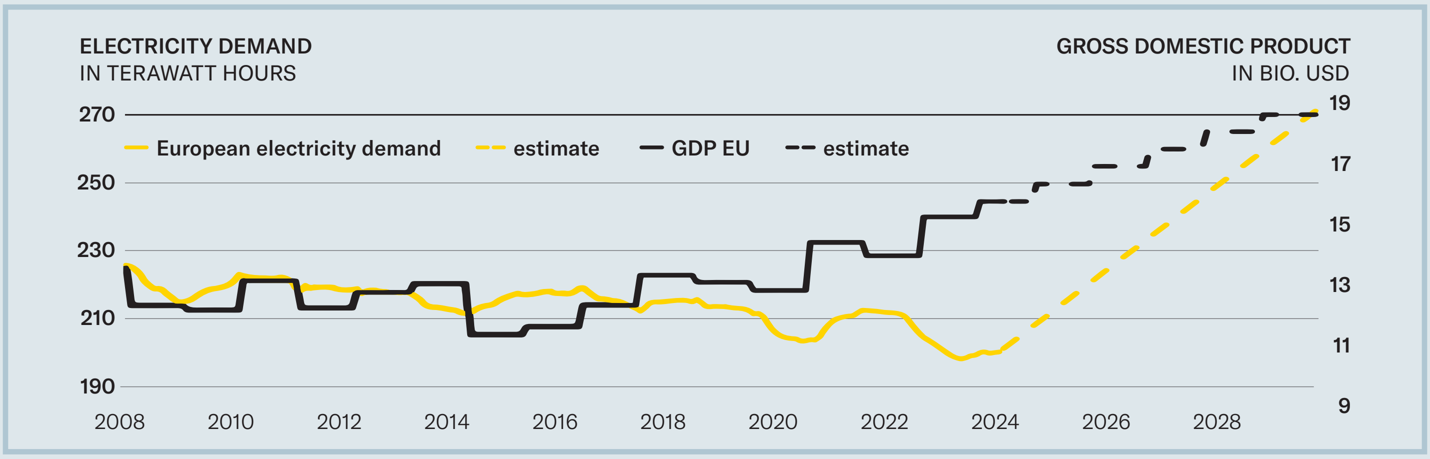
1) **Electricity producers, suppliers** and **distributors** that will benefit directly from the rising demand for electricity.

2) **Suppliers of critical raw materials** because demand will rise structurally. For example, 40 kg of critical raw materials are required for a conventional vehicle as opposed to over 200 kg for an electric vehicle.

3) **Manufacturers of data centre infrastructure** that will profit from the trend towards AI-based business models.

Summary: With artificial intelligence, electrification and the expansion of renewable energy, electricity security and management has become the backbone of technological progress. Well-positioned industrial companies from the "Old World" play a key role here and are likely to have full order books for the next few years. We recommend implementing this theme with a diversified basket across various points of the value chain.

Matthias Ramser
Chief Investment Officer



Sources: IMF, Bloomberg, Jefferies

The Young Socialists' appetite for expropriation

The "Initiative for a Future", submitted by the Young Socialists in Switzerland (JUSO Schweiz), calls for a new inheritance tax of 50% on assets over CHF 50 million. It aims to generate considerable funds for climate protection measures and the ecological restructuring of the economy. This initiative could have a severe impact on entrepreneurs and high-net-worth individuals.

Diminishing attractiveness of a location

The possible introduction of such a high inheritance tax undermines Switzerland's legal stability and reliability, especially if the tax is allowed to come into force on the day of the vote, as envisaged in the initiative text. Switzerland will become unattractive for high-net-worth taxpayers or entrepreneurs with company assets of over CHF 50 million. If they leave Switzerland, it will have a negative impact on the economic development and jobs. The departure of major taxpayers would leave shortfalls in the state coffers, which could necessitate tax increases for the remaining population.

Be prepared

On 21 August 2024 the Federal Council responded to Daniela Schneeberger's interpellation on the JUSO expropriation initiative 24.3763. The interpellation's main objective was to determine whether the retroactivity clause can be implemented or not. In its response, the Federal Council has made it clear that there is no urgent need for action before the 2026 vote. In other words: An exit tax is off the table. If the initiative were adopted, its implementation would at any rate have to fulfil the requirements of constitutional and international law and, in particular, the principle of proportionality. This clarification was very important and means that exiting Switzerland before the vote is not necessary. However, we must all do our utmost to put an end to these expropriation ambitions and reject the initiative most emphatically.

Stay informed

Even if the chances of this JUSO initiative being adopted are not very high, it is important to keep close track of developments. We would be happy to provide you with comprehensive information about the details and, in particular, the possible courses of action with regard to the initiative. Use the QR code to request the presentation and receive regular updates that will provide you with information on the latest developments and recommendations.

Christof Reichmuth
General Partner

In Focus: Mortgage margins

During the years of negative interest rates, mortgages were cheap yet still a lucrative business for banks. The negative refinancing costs gave lenders manoeuvring room to reduce margins. Many clients were able to secure these low interest margins, at least for a certain period of time, in the form of multi-year SARON agreements or fixed-rate mortgages.

Rising margins

The balance of power in the renegotiations has now shifted. Lenders are trying to widen margins significantly in some cases, as the tailwind of negative interest rates has disappeared. In fact, it has reversed. Stricter regulatory requirements (e.g. Basel III) are increasing the cost of equity for some types of financing. On the supply side, a key player has also been absent since the demise of Credit Suisse, a major credit institution. At the same time, it seems that not all banks are now willing to grow in the mortgage market. All in all, it is not an easy starting position for mortgage borrowers.

Better solutions with neutral support

As private bankers with unlimited liability partners, direct loan financing is not our core business, but providing neutral guidance to our clients during the mortgage application process certainly is. Instead of you having to negotiate with various providers yourself, we take care of the application process via banks, insurance companies and digital platforms. And of course, we utilise our experience when negotiating the margins. You will receive an independent recommendation tailored to your overall financial situation, which also takes into account your pension and tax situation.

Do you have a mortgage that is due or are you considering taking out a new one? Simply contact us and we will be happy to provide you with comprehensive and integral support and advice.

Oliver Amrhein
Client Relations Manager

Impactful philanthropy

Doing good – the appropriate solution for every situation

For over 20 years, we have had the privilege of assisting foundation clients and supporting them in their philanthropic activities. These include large, professionally organised foundations with full-time employees, as well as smaller foundations that are managed by volunteer board members. Karl Reichmuth laid the foundation stone in 2000. Together with a longtime friend, Reichmuth & Co provided the financial means for the establishment of an umbrella foundation: the Rütli-Foundation. It is named after our Lucerne headquarters on Rütligasse.

Efficient, cost-effective – yet individualised

The tax-exempt Rütli-Foundation offers donors professional support and administration that is comparatively very cost-effective. As an umbrella foundation, it also reports to the supervisory authority. With the Rütli-Foundation, even smaller assets can be efficiently channelled into philanthropy and "do something good". The allocations are determined individually and are based on the specific foundation purpose defined for each sub-foundation as well as the separately managed assets with their personalised investment strategy. The Rütli-Foundation currently has around 45 sub-foundations. Remy Reichmuth and Jürg Staub, general partners with unlimited liability, also appreciate the advantages of engaging in philanthropy in this way.

AGENDA

Information event for Foundation Board members

Reichmuth & Co is the event partner for this year's Swiss foundation plenum organised by "Biehler Stiftungsberatungen und Management". You will receive an overview of the foundation landscape in Switzerland, including current trends. There will also be an update on the framework conditions for foundation activities with presentations on investing in geopolitical crises, sustainable reporting, and investment governance.

When: Wednesday, 30 October 2024
Zurich: 10.00 am–1.30 pm at the Ecofin conference centre – including lunch
Lucerne: 3.30 pm–7.00 pm at the Migros-Klubschule – including aperitifs and nibbles

Interested?
Participation is free of charge and the number of places is limited.

Further details and registration at:

The appropriate foundation for every goal

In the case of a sub-foundation, the founders permanently divest a portion of their assets. Experience shows that many founders do not want to definitively give away their assets during their lifetime, not least because of unforeseeable financial needs later in life. For this reason, the Rütli-Foundation launched the "Returns for Charity©" innovation in some cantons in 2008. The donor makes their money available to charity for a limited period of time and can reclaim the ceded capital after a minimum term.

In the case of independent foundations, we often encounter the same types of challenges as we work together. We have summarised these findings in our **"Health Check"** for foundations.

Among other things, it deals with questions such as:

- Is there a (current) foundation strategy?
- Is the composition of the Board appropriate?
- Can the foundation's purpose still be fulfilled?

Are investments and the foundation's purpose in harmony?

Ratio of costs to foundation asstes?

Are you interested in engaging in philanthropic activities yourself? Or we can perhaps contribute our experience to your existing foundation and enable you to concentrate on what is truly important to you: impactful philanthropy.

Feel free to contact us for a non-binding chat if you would like any further information.

Nicole Brast
Client Relations Manager

Outstanding

Interview with Marc Strub, Head of Portfolio Management

Mr Strub, in early summer you were named "Best Portfolio Manager Equity Switzerland" by the analysis company Citywire. How did this come about?
(laughs) Yes, that's right, and I'm delighted about it. Citywire carries out multi-year analyses of risk-return adjusted results for various publicly available strategies. This also includes Swiss equities, and we have been a leader in this field for a long time. This award is a wonderful confirmation of our day-to-day efforts and our 25 years of expertise in Swiss equities.

How long have you been working in portfolio management?
Even before I started my studies, I was able to do an internship in this area at another bank. In 2012, I joined a client team at Reichmuth & Co and began to gain experience in client management. I am still advising many of those clients today. To deepen my knowledge in the area of investment, I then took the opportunity eight years ago to switch to our portfolio management, which I have been heading up for several years now.

What appeals to you about your day-to-day work in portfolio management?
Firstly, I enjoy the proximity to the action that takes place on the financial markets and the opportunity to understand the dynamics and driving forces behind market movements. I am impressed by how macroeconomic developments, political events, and corporate news affect markets. And secondly, I relish the challenge of incorporating all of this into daily decisions when designing portfolios.

Where do you think your portfolio management really stands out from the rest of the competition?
The current environment has been shaped by increasing regulatory requirements for some time now, leading many asset managers to employ very process-oriented structures. In contrast, we operate on a "dual track". On the one hand, our team is responsible for our strategy and equity funds as well as the implementation of our clients' portfolios in our in-house strategy. We also offer opportunities to efficiently incorporate personal preferences, such as dividend strategies or those focusing on Swiss investments. On the other, clients' portfolios with additional customised specifications can also be managed on a decentralised basis by the client teams. We have deliberately chosen to use less rigid processes and also allow a certain degree of inefficiency, which does, however, enable more individuality.

What goals will you and your team be pursuing in the future?
I was surprised at how many people were aware of the award I received; I was delighted and this motivates me in my daily work. However, we should never rest on our laurels. We must now defend this ranking and generate added value over the next market cycle. Our primary goal for the future is to continue successfully managing the client portfolios entrusted to us. This includes correctly understanding client needs and implementing the right investment strategies for our clients. At the same time, we have to react flexibly as a team to market changes. I also want to keep developing and improving what we offer, which includes integrating new and innovative approaches and technologies into portfolio management.

AGENDA

"2025 Market Outlook"

Our private client events will take place this year as follows:

Lucerne:	Tue, 5 Nov. 5.30 pm
	Mon, 18 Nov. 6.30 pm
St. Gallen:	Thu, 14 Nov. 6.30 pm
Zug:	Mon, 04 Nov. 6.30 pm
Zurich:	Thu, 7 Nov. 5.30 pm
	Wed, 13 Nov. 6.30 pm
Munich (DE):	Tue, 19 Nov. 6.30 pm
Essen (DE):	Mon, 25 Nov. 6.30 pm

Invitations will be sent out at the beginning of October.

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