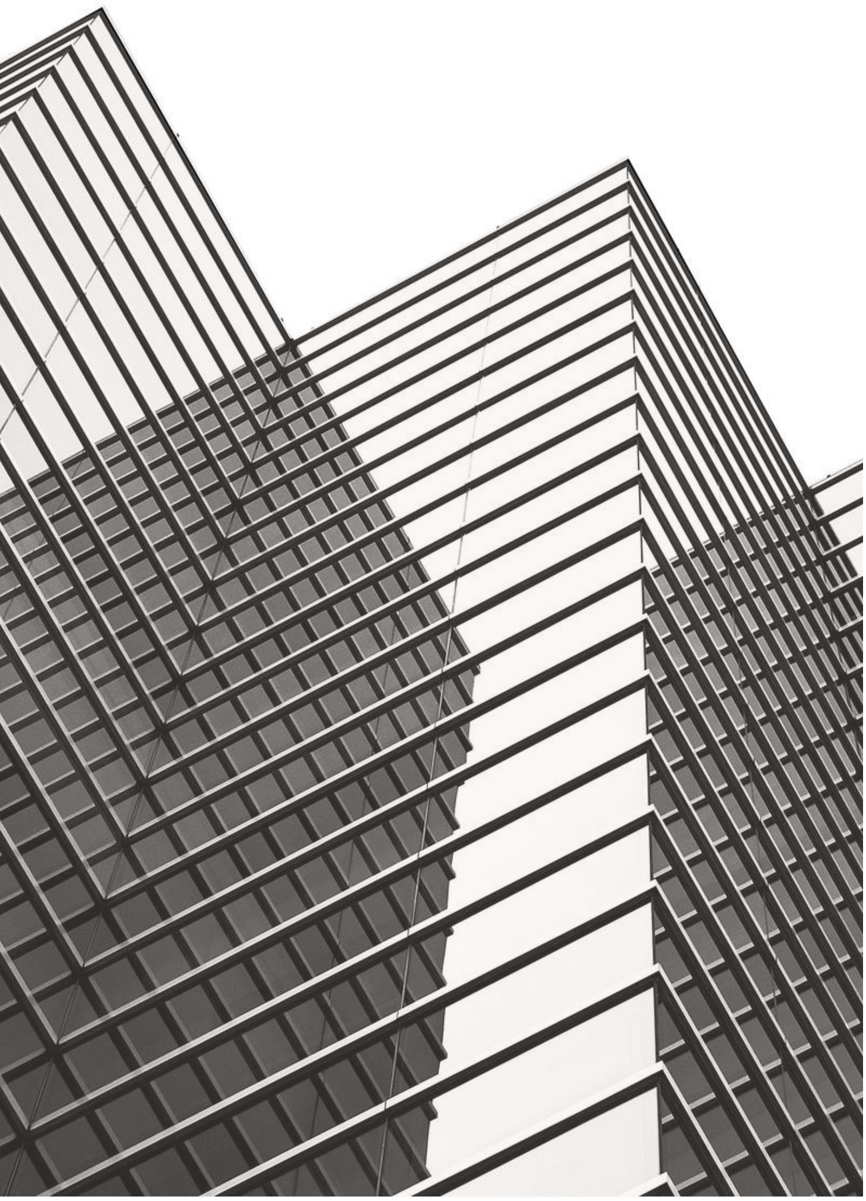
QUARTERLY REPORT

Q3 2023 - BANCA DEL SEMPIONE

BANCA DEL SEMPIONE
SIMPLON BANK
BANQUE DU SIMPLON



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MESSAGE – FINANCE AND MARKET DIVISION

Interest rates will stay high for longer than investors' expectations, or perhaps hoped. Probably behind this statement, repeated on several occasions by various central bankers, is centered the disorderly movement that has hit the financial markets in the last 2 months.

Short-term rates, which have shown an increase over the past 18 months that has little historical precedent in speed and intensity, had not been accompanied by equally intense movements in the longer-term parts. The consequence, i.e. negatively inclined interest rate curves, which was not a usual phenomenon, suggested a downward return in short-term rates and a more composed trend in the long part of yields, also favored by the fall in inflation.

The declared need to keep rates at the high levels reached for longer, combined with huge debt issues to finance government deficits, especially by the US Treasury, have caused a sudden tightening of long-term rates, which has had strongly negative effects on the entire bond sector.

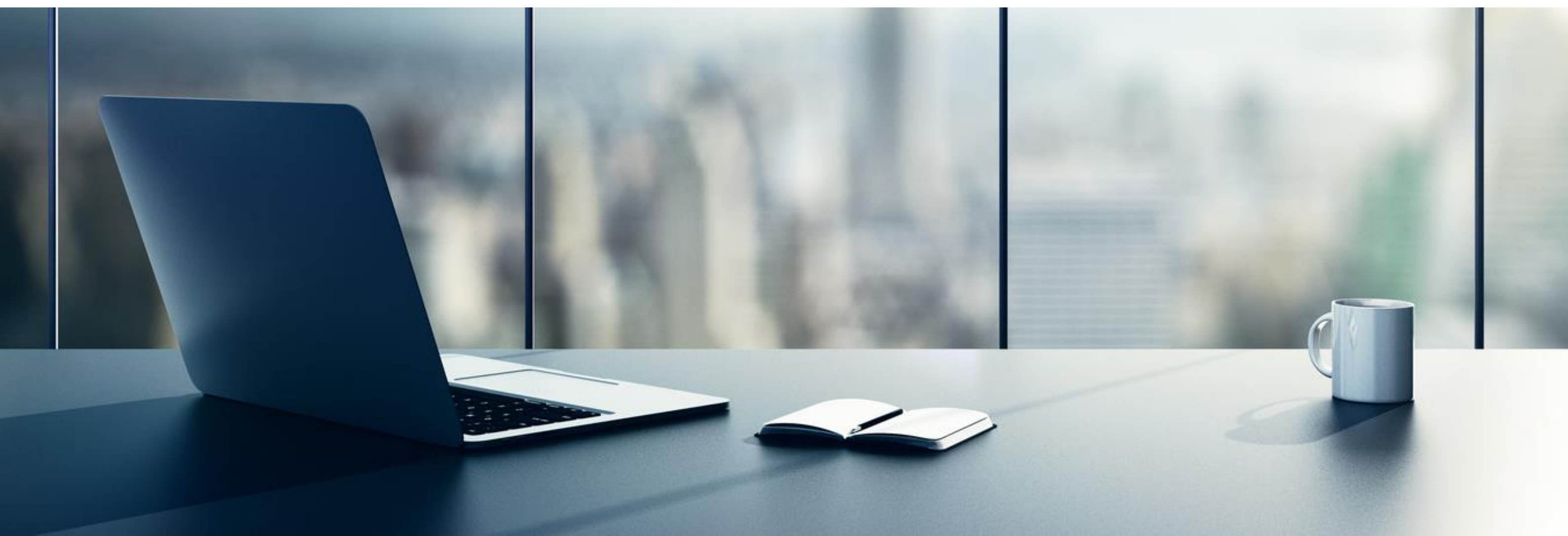
On the other hand, economic growth does not seem to show any particular signs of slowing down, neither from what emerges from the macroeconomic data nor from the results published by most listed companies.

The positioning of our portfolios continues to favor the fixed income component, which we believe to have greater value despite the performance of recent periods. As for equities, which have been underweighted for some time, we prefer sectors where the valuation profile appears more encouraging than the themes currently favored by the market but whose valuations do not seem sustainable to us.

We believe that slow but steady inflation, monetary policies coming to an end in the hiking cycle, and global growth that will be partly impacted by higher borrowing costs will create better opportunities to enter the stock market and benefit the bond sector.

PIETRO SCIBONA

DEPUTY GENERAL MANAGER
HEAD OF THE FINANCE AND MARKETS DIVISION



MACROECONOMIC OVERVIEW

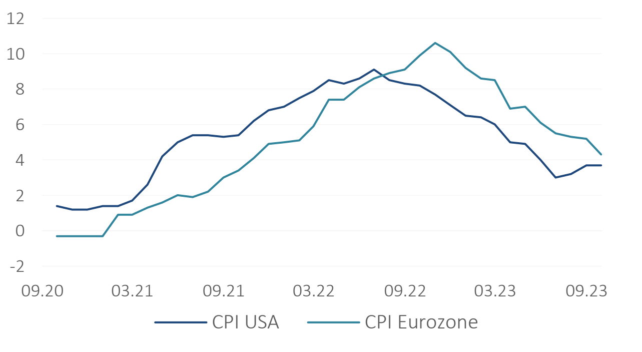
Global economic scenario

The third quarter of 2023 confirmed the continuation of the phenomena manifested in the previous period, with a global economy generally able to ward off the hypothesis of a recession. In the United States, the expected growth of **Gross Domestic Product (GDP)** for the end of the quarter is around 4.9% according to the forecast models of the Federal Reserve (FED) of Atlanta, while Europe remains anchored to a slightly positive trend for the end of the year (0.5% year-on-year according to analysts' estimates), mainly hindered by Germany, which has experienced two quarters with a decrease in GDP.

In Europe, data related to the evolution of prices showed **inflation** approaching the target of the European Central Bank (ECB), with the aggregate figure for September at 4.3%. In the US, however, the latest readings have indicated a slight increase in the Consumer Price Index from the recent low of 3% to 3.7% in September, renewing fears of a return of inflation (second-round effects). This has been driven by the rise in energy prices, primarily oil and gasoline, and negotiations for wage increases that have affected various sectors, including the automotive industry and Hollywood writers.

Consumer Price Index, Europe and USA

% YoY; 09.20 – 09.23



Source: Bloomberg

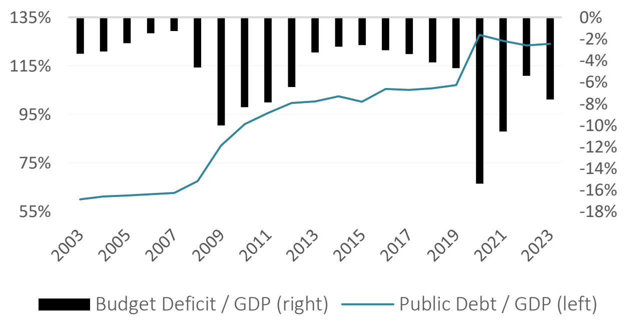
As a result, **central banks** have reignited concerns in financial markets: the US Federal Reserve leveraged the latest updates in monetary policy, opting for a modest 25 basis points hike at the end of July. This move intensified the rhetoric on maintaining interest rates at sufficiently restrictive levels for an extended period.

Similarly, the **Bank of England (BoE)** and the **European Central Bank (ECB)** have responded in kind. The ECB, in particular, implemented two additional rate hikes, setting the benchmark rate at 4%, with the intention of adjusting decisions according to macroeconomic data in the coming months. **The Bank of Japan (BOJ)**, on the other hand, has maintained a contrary stance, making only minor adjustments to its policy and indicating that significant changes in the short term are not under consideration. In their respective statements, central bankers focused on identifying potential rises in inflationary pressures, trusting that they would not have to sacrifice growth and solidity to fulfil the price stability mandate.

Following the resolution of the debacle related to the US debt ceiling, which led to the suspension of public funding, the **US government** resumed issuing approximately 1.7 trillion dollar in new debt to fund public spending, with yields ranging from 4% to 4.5% over ten-year maturities. With a projected public deficit of around 7% and a public debt equal to 120% of nominal GDP, the credit rating agency **Fitch** decided to downgrade the credit rating of the US government from AAA to AA+, distancing the US Treasury from its traditional status as a risk-free asset. The increased cost of debt has led to new discussions on the management of public finances. This aspect influenced the negotiations between parties for funding state entities, which were successfully concluded shortly before the October 1 deadline, avoiding the suspension of non-essential public services.

Public Debt and Annual Deficit, United States

% of GDP; 2003 – 2023



Source: Bloomberg

MACROECONOMIC OVERVIEW

Focus: geopolitical context and Switzerland

Geopolitical context

The **BRICS** summit, held in Johannesburg, South Africa, from August 22 to 24, provided new insights into the potential geopolitical developments of the coming decades. The dialogue among representatives focused on strengthening an understanding among emerging countries, including the exploration of a new currency for trade. Additionally, the number of participating nations in the talks was increased with the inclusion of six more countries starting from 2024. Among the new members are Saudi Arabia, Argentina, Egypt, the United Arab Emirates, Ethiopia, and Iran. This new coalition would represent approximately 30% of the global GDP and 46% of the population according to data from the United Nations Conference on Trade and Development (UNCTAD).

Geopolitical tensions with the USA, following the lockdowns during the pandemic crisis, had a negative impact on **China**, as evidenced by data on foreign direct investments (FDI). According to the United Nations World Investment Report, in 2022, China experienced a 4.4% decrease in foreign direct investments in dollars and was surpassed by India in terms of announced projects during the year.

In the frontier countries, a new coup took place: after the revolts in Sudan in the second quarter of 2023, it was the turn of **Niger**, a former French colony located in the center of the African continent. The country is of significant geopolitical interest due to its uranium and oil extraction and other raw materials, as well as hosting various activities of the Russian mercenary group Wagner. The coup led to the capture and deposition of President Mohamed Bazoun by the local army, linked to the presence of the Sahel jihadist militia group.

In the **Western world**, media attention focused on wage negotiations between labor unions and **the automobile industry.** The United Auto Workers (UAW) union declared strikes against three major US-based automakers, including Ford, General Motors, and Jeep (under the Stellantis group), demanding a 30% salary increase. President Biden also joined the protesters, an unprecedented event for a sitting president.

Switzerland

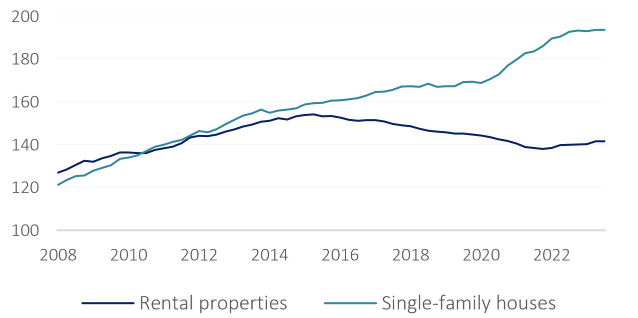
The Swiss macroeconomic context presents a mixed picture. The latest **GDP** revisions for the second quarter of 2023 indicate stagnation in growth, and expectations in the manufacturing sector appear to be contracting. On the other hand, unemployment has stabilized at the lowest levels since 2000/2001, and the balance of payments has shown a recovery in exports, indicating a positive state of affairs for consumers and businesses.

The Swiss National Bank (SNB) limited the interest rate hikes to only 25 basis points in September, anchoring the rate at 1.75%, in what should be the last hike for the market. The decision follows the trend of consumer prices, which returned as expected in September at +1.7% (year-on-year), prompting the SNB to revise down the expected inflation for the coming quarters.

The effects of the recent SNB rate hikes, which were less pronounced compared to other central banks, have had a marginal impact on the **Swiss real estate sector**. Despite mortgage rates currently ranging between 2.5% - 3% for 10-year loans, sustained demand for houses in Switzerland, combined with a slowly increasing supply and a low vacancy rate (around 1.15% overall), has even led to an appreciation of 2% - 4% compared to end-of-2021 values. Of note: the divergence between rising prices for single-family homes and declining rental properties has persisted over the last 10 years.

Single-family houses prices and rental properties

100; 2008 – 2023



Source: Bloomberg

FINANCIAL OVERVIEW

Equity market

Indices	Price	Quarterly Performance	YTD Performance
MSCI World	2'853.24	-3.83%	9.63%
SMI	10'963.50	-2.81%	2.18%
STOXX Europe 50	4'174.66	-5.10%	10.04%
FTSE MIB	28'243.26	0.04%	19.13%
DAX	15'386.58	-4.71%	10.51%
S&P 500	4'288.05	-3.65%	11.68%
NASDAQ 100	14'715.24	-3.06%	34.51%
Nikkei 225	31'857.62	-4.01%	22.09%
Hang Seng	17'809.66	-5.85%	-9.97%

Source: Bloomberg

After a positive start in the first half of the year with increases in global equity indices, the beginning of the second period saw a correction from the year's highs. The quarter taken into consideration in this report started positively in July, with macroeconomic data confirming the **strength of global economies**, especially the American one. The most surprising aspect continues to be the consumer spending in the US, which, for the moment, does not seem to be significantly impacted by the increase in interest rates and the inflation. Despite a decrease, inflation still maintains levels higher than those targeted by central banks.

The persistent positive data have led the market to revise expectations of interest rates by the end of the quarter, aligning with the central banks' view of the so-called **soft landing** and high rates in the long term, causing widespread increases in bond yields that have also affected stock performances.

As often happens, and as historical data shows, the months of August and September are usually heralds of increased **volatility**, due to reduced activity by financial operators in the summer period. Also this year the volatility was no exception, and after the positive month of July, supported by quarterly publications that generally exceeded expectations, the indices began to retrace, especially in Europe, following worsening data. In America, there were profit-taking activities following the FED conference still heavily focused on restrictive monetary policies.

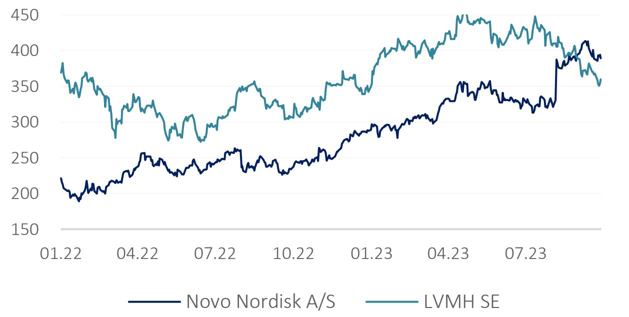
Analyzing the index and sector performances in more detail, it is still evident that in the **US**, the strength of the "big seven" (Microsoft, Nvidia, Google, Meta, Tesla, Apple, and Amazon) remains fundamentally intact.

Despite some fluctuations, these companies continue to show significant performances since the beginning of the year (e.g., +30% for **Apple**, +190% for **Nvidia**), thanks to the widespread impact provided by artificial intelligence. The rest of the market continues to struggle, as demonstrated by the growing gap between the market capitalization-weighted performance of the **S&P 500** and the equal-weighted performance.

In **Europe**, the fragility of the luxury sector has intensified following conferences and statements from key industry figures about reduced consumer spending. This situation has had a significant impact on the indices and led to a change in leadership within the Stoxx 50 index. **LVMH** has stepped down from the top position, making way for **Novo Nordisk**, which thanks to its obesity drug Wegovy, has become the largest European company by market capitalization. In a generally negative quarter, the only positive note comes from the energy sector, which, thanks to WTI reaching 95 dollar per barrel due to extended cuts by Saudi Arabia, closed a good quarter.

<u>Market capitalization of Novo Nordisk and LVMH</u>

EUR billion; 01.22 - 09.23



Source: Bloomberg

The strength of the US dollar and the overall reduction in risk also weighed on **emerging markets**, despite India's positive contribution. The situation in **China** remains complicated, where issues in the real estate sector have extended to some financial institutions and asset managers. For the moment, there does not seem to be much concern on the market side, but the already low sentiment does not show signs of a turnaround despite the party's commitment to stimulate the economy

FINANCIAL OVERVIEW

Bond market

Government yields (in % p.a.)	2 years	5 years	10 years
Switzerland	1.20	1.02	1.06
Italy	4.01	4.20	4.78
Germany	3.20	2.77	2.84
United States	5.04	4.61	4.57

Source: Bloomberg

The third quarter of 2023 will be remembered for **the general upward movement** in government and non-governmental bond yields. The shifts in government yield curves have been quantified at around 70-90 basis points upward, with the movement focused on the longer-term parts, while the shorter-term ones have remained relatively stable. This movement has led to the reduction of the inversion that has characterized yield curves for some time.

Not only the longer parts of the curves, but also real yields have experienced a sharp rise: in the US, the yield of an inflation-linked bond reached **a real 10-year yield** of around 2.25% at the end of September, levels seen previously in 2007, and the same is true for Germany at 0.5% for 10 years, an increase of 50-60 basis points.

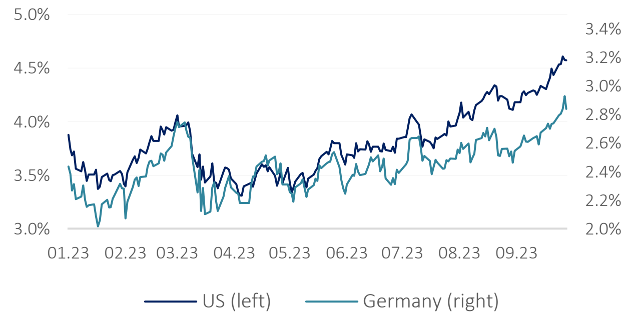
What happened to cause such a movement? Has inflation gone up? Have central banks raised rates beyond expectations? The answer is no. At the level of inflation and central bank statements, it's all pretty much as the markets had expected three months earlier. Yet, largely unexpectedly, there has been a major repricing of bond markets.

What happened can be explained by an awareness of how high the needs of the states are, especially the United States, which is running a budget deficit of over 7%, forcing them to ask investors to finance them at an unprecedented pace. **Fitch's** downgrade of August 1st on American debt was probably the trigger that set off the sales storm. For more than two months now, there has been constant pressure on the markets, which seems to find no relief. In America, the 5% yield threshold on the long part of the curve now appears to be just around the corner, and in Europe, German debt, which has been widely bought at negative yields for years, currently finds no easy buyers below 3%.

In the recent months, the markets expected or feared a potential **slowdown in economies** due to restrictive monetary policies. In reality, these negative effects have not yet materialized, and in fact, economies are showing remarkable resilience. However, remains a doubt regarding how indebted economies like the US (e.g. the level of private debt, credit card usage, mortgages, student loans, etc.) can absorb financing rates that in several areas exceed 10% without experiencing a noticeable slowdown. It is on this issue that the battle between the bearish and bullish forces in the bond markets is being fought, for which the coming months will provide an answer.

<u>Ten-year government bond yields, USA and Germany</u>

%; 01.23 – 09.23



Source: Bloomberg

The upward movement in yields reflects a positive assessment of the state of the economy, and significant increases in credit spreads have not been reported to date. Yields on both investment-grade and high-yield **corporate bonds** have risen but in line with the increase in the so-called risk-free rate represented by government bond yields.

In emerging markets, the major turmoil has been concentrated in the Chinese real estate sector, still plagued by issuers unable to meet their bond payment obligations, with a media communication that has given particular emphasis to the definitive failure of Evergrande already widely anticipated for over a year. Overall, credit spreads on emerging market bonds rose slightly in late September, remaining stable for the rest of the quarter.

FINANCIAL OVERVIEW

Currencies	Price	Quarterly Performance	Yearly Performance
EUR/CHF	0.9676	-0.96%	-2.22%
USD/CHF	0.9153	2.20%	-1.00%
EUR/USD	1.0573	-3.08%	-1.23%
GBP/USD	1.2199	-3.97%	0.96%
USD/JPY	149.37	3.51%	13.92%

Source: Bloomberg

Currencies

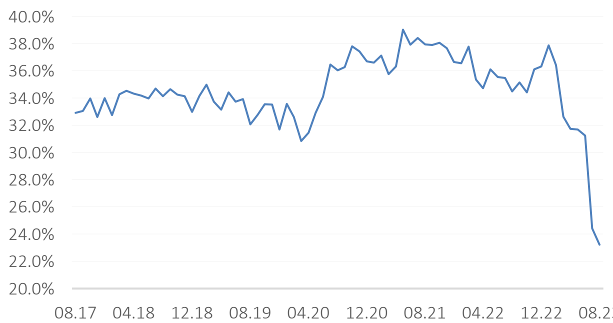
Over the quarter, divergence between US and European macroeconomic data and the still largely restrictive rhetoric of the FED, led to a reversal of the **EUR/USD** trend year-to-date. The exchange rate decreased from 1.09 to 1.057 in three months, after peaking at 1.12 in July.

The **Swiss franc**, on the other hand, fell after an initial appreciation in the quarter, due to a more accommodative SNB than its European and US counterparts, signaling further sales of foreign exchange reserves to stabilize the exchange rate at current levels.
With the renewal of ultra-expansionary policies by the BOJ, the depreciation of the **yen** continued this quarter, with the **USD/JPY** ratio settling at a high of 150 at the end of September.

The reduction in the use of the **US dollar** has been at the center of discussions by macroeconomic analysts and the BRICS countries in recent years, however another currency has experienced a sharp decline in use within the global payments circuit (SWIFT): the **euro**. As illustrated by the chart below, the share of transactions in EUR in recent years has decreased from a high of almost 40% to the current 23%.

Share of EUR in the international payments circuit

%; 08.17 – 08.23



Source: Bloomberg

Commodities	Price	Quarterly Performance	Yearly Performance
WTI Oil	90.79	28.52%	13.12%
Brent Oil	95.31	27.25%	27.25%
Natural Gas TTF	39.00	6.27%	6.27%
Gold	1’848.63	-3.68%	-3.68%

Source: Bloomberg

Commodities

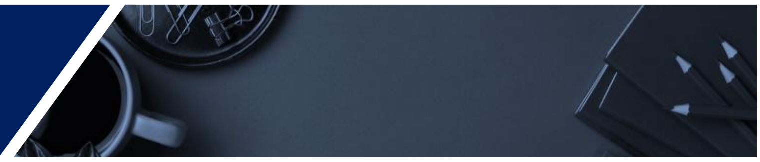
In the third quarter, commodities experienced an overall positive trend as demonstrated by the +6.6% of the **Bloomberg Commodity** Index. The performance of energy commodities such as oil and gas has been particularly strong, while precious metals have seen negative performance, and the reaction of industrial metals and food goods has been mixed.

In the energy sector, **oil** was boosted, not only by a solid demand but also by the extension of production cuts extended until the end of the year by Saudi Arabia and Russia, two of the largest OPEC+ producers. To put further pressure on barrel prices, the US would seem to have blocked the sales of strategic reserves in fact by further reducing supply. The consequence was an important performance of crude oil that touched 95 dollars per barrel from about 70 at the start. On the **natural gas** front, strikes at important Chevron plants in Australia have led to renewed price increases.

Gold and **silver** were affected both by the significant increase in government yields, which are the main alternative to holding precious metals, and by the strength of the US dollar, which historically represents another weakness for the yellow metal, which closed the quarter at 1850 USD/ounce.

On the other hand, the price action on industrial metals and agricultural raw materials with underlying assets was more mixed, which depending on the case were positive or negative with the lack of precise catalysts. Of note is the negativity of **copper** and the positive performance of **iron** and **aluminum**, slightly in contrast to the timid Chinese restart, the largest consumer of these resources.

Did you know that...



> *… Arm, Instacart and Klaviyo quotations seem to have restored investors' confidence to fuel the US IPO market again…*

During the third quarter of the year, the US IPO market showed important signs of recovery, with September recording the largest capital raising since January 2022, thanks to the new listings of Arm, Instacart and Klaviyo.

What are the benefits of an IPO?

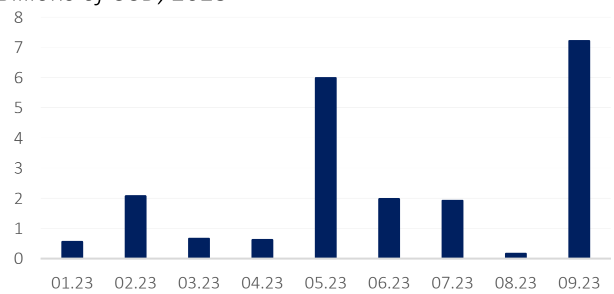
The Initial Public Offering (IPO) is the tool through which a company has the opportunity to offer its shares on regulated markets, effectively offering them to the public for the first time. While this process can be very resource- and time-consuming, it is a viable alternative to private and debt markets. The raising of capital through regulated markets allows a company to increase its visibility both nationally and internationally, attracting more talent and investors. Moreover, unlike a private placement, the market often recognizes a "premium" in terms of valuation to a company that wants to list, due to the greater transparency and regulatory obligations. This solution also allows existing shareholders to make their investment more liquid than other alternatives and to raise resources by diversifying their sources of funding.

What is influencing the recovery in the IPO market?

After almost two years of strong geopolitical tensions, high inflation and tight monetary policy on the part of central banks, Arm, Instacart and Klaviyo quotations seem to have restored investors' confidence to fuel the US IPO market again. The new macroeconomic data, in fact, show that the economy is slowing but still solid, inflation is falling and the cycle of rising interest rates seems to have come to an end, according to recent statements by central bankers. In addition, lower volatility than last year, measured through the so-called fear index, (the VIX) allows greater visibility on the potential proceeds of the listing and greater stability for the share price in the days immediately following the listing.

US IPOs over USD 7 billion in September

Billions of USD; 2023



Source: Bloomberg

KEY TAKEAWAYS

1 – GLOBAL NUMBER OF IPOs IN THE 3RD QUARTER[1]:

350

2 – CAPITAL RAISED WORLDWIDE IN THE 3RD QUARTER[1]:

38.4 Mld USD

3 – ARM, THE LARGEST IPO SINCE NOVEMBER 2022, COLLECTED:

4.87 Mld USD

1. Data published in the Global IPO Trends Q3 2023 Report by Ernst & Young

Expert Talk
Simone Malnati

What have been the developments in ESG In recent years?

*Interview with **Simone Malnati**, Head of Green Division and Special Projects:*

The ESG theme has attracted considerable media attention in recent years, as well as interest from many investors. But what exactly do we mean by ESG in finance?

It seems to be a recent theme, but sustainability has actually been talked about for more than thirty years. A first definition can be traced back to the 90s with the concept of the 3Ps by John Elkington (People, Planet, Profit), which subsequently evolved into the concept of ESG around the 2000s. ESG, an acronym for environmental, social and corporate governance responsibility, represents a framework in the financial world that on one hand helps us to identify potential risks and on the other possible opportunities.

If we focus on the risks, Harvard Business Review in 2021 calculated that a hypothetical tax on CO2 emissions of $ 100 per ton would put a strain on the budgets of many companies. Take ExxonMobil as an example: considering the average emissions recorded in 2020, the tax would impact the income statement by 11 billion dollars per year. This figure is significant if we consider that the company has recorded average profits of about 8 billion dollars in the previous five years ("Carbon Might Be Your Company's Biggest Financial Liability", HBR 2021). Aspect like this, like many others, to be taken into account but at the same time should not take away our sleep at night.

> *ESG, an acronym for environmental, social and corporate governance responsibility, represents a framework in the financial world that on one hand helps us to identify potential risks and on the other possible opportunities.*

Two decades after its introduction, how have financial operators and at the same time the regulator moved on the subject of sustainability?

In Switzerland, there has been a considerable increase in financial operators who have approached the topic, integrating the ESG framework into investment decisions. More recently, the regulator (not only Swiss) has started to intervene to formalize the concept of financial sustainability, establishing clearer and more uniform guidelines (e.g. EU Taxonomy, revision of the Swiss Financial Services Act, SBA Directives, SFDR etc.). However, much work remains to be done.

An important issue is now clear: the financial players that until now have moved concretely are better able to adapt to the new regulations than those who have considered the theme mainly as a marketing tool. Looking ahead, we expect the ambiguity in considering what is "sustainable" and what is not to thin out. The capabilities and tools to assess ESG impact in investments will be increasingly sophisticated and data more accessible. In this context we will be able to make more informed decisions and above all be able to focus only on what is concretely "material".

SIMONE MALNATI

Head of Green Division and Special Projects

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