QUARTERLY REPORT

ECONOMY AND MARKETS

Q1 2024 - BANCA DEL SEMPIONE

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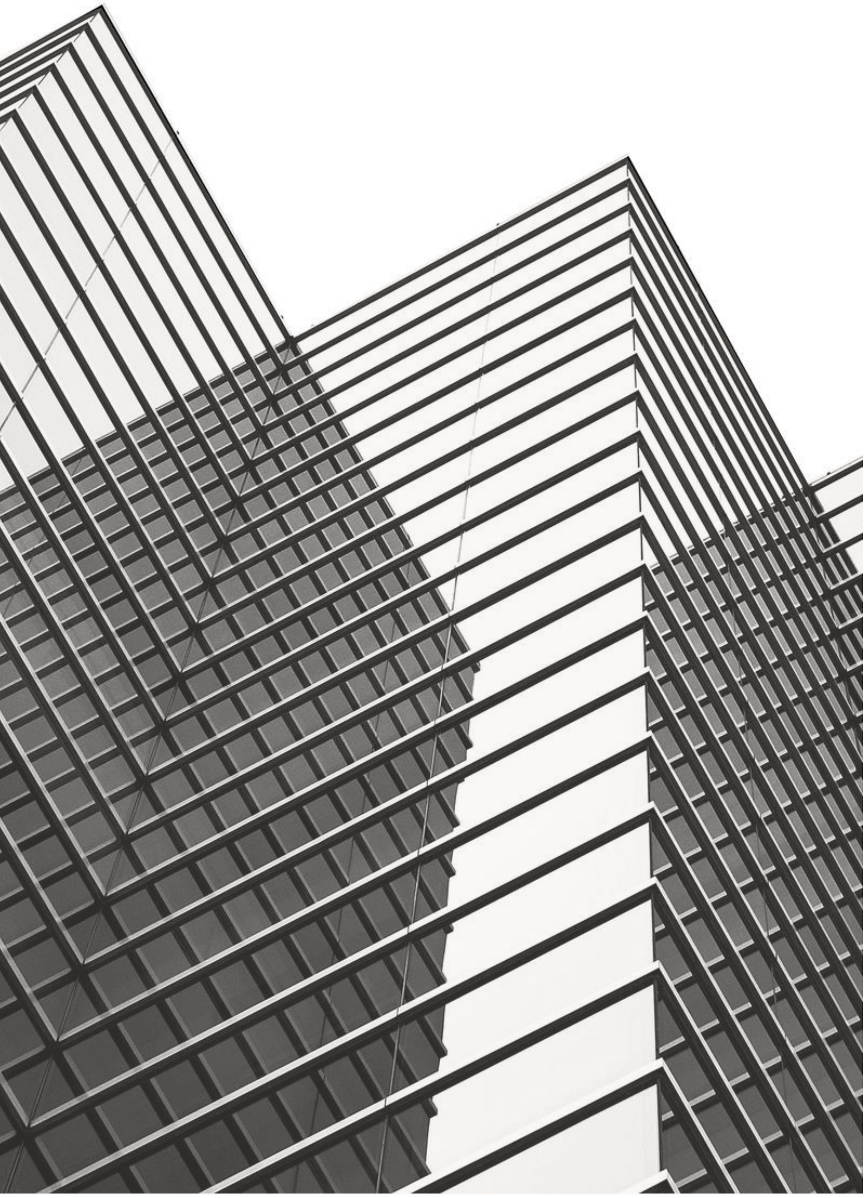
PRIVATE BANK
SINCE 1960



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MESSAGE – FINANCE AND MARKETS DIVISION

After a sparkling end to the year, especially for bond markets, which had begun to bet on the end of restrictive monetary policy towards the end of autumn, 2024 began with a partial profit-taking in fixed income. Despite a widespread view of the end of the bullish cycle, the strength of economic activity, especially in the United States, led the market to favor a longer period at the current levels of interest rates.

Equity markets, on the other hand, continue to attract strong investor acceptance, with often passive flows, as evidenced by the increase in ETF volumes. Therefore, it remains the challenge of active management in equities, where trends and fashions continue to push prices beyond traditionally considered levels of equilibrium. This is particularly evident in U.S. indices, which continue to have few stocks driving performance. In Europe, despite the good performance of the price lists, there is a greater economic difficulty partly due to Germany's current industrial challenges.

The difficulties of the Chinese markets have, again, manifested themselves with a poor start to the year, partially offset by a series of interventions implemented by monetary and governmental authorities to support financial markets. However, we are still far from a situation where investors have regained the confidence necessary for a structural recovery in prices, despite an apparently excellent entry point into various sectors.

In general, even in a context where geopolitical risk has significantly increased, markets continue to bet that there will be no significant impact on global growth and corporate profits.

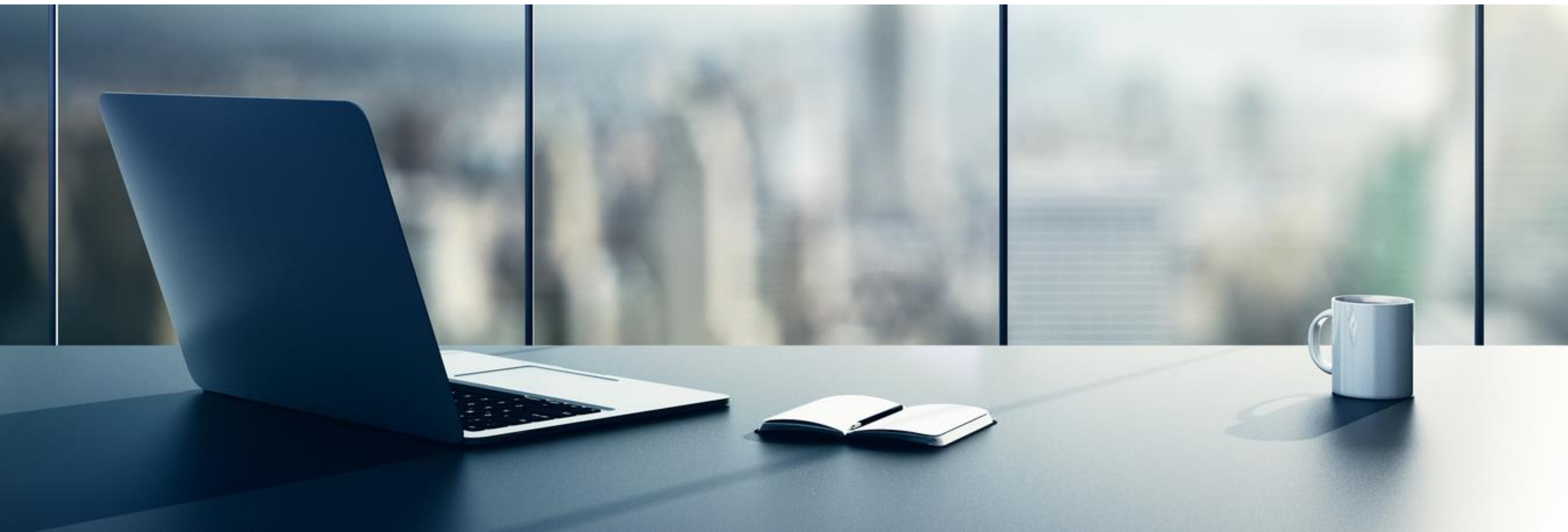
Regarding the bonds market, we maintain a strongly positive approach. We are not seeking immediate capital gain, which could result from a sudden drop in interest rates, but rather for a constant contribution from a consolidated coupon flow in the purchases of the past months.

Conversely, on the equity side, with the risk of anticipating certain trends too much and missing out on part of a rally that sometimes seems excessive on certain stocks or themes, we maintain a certain amount of caution, while trying not to deviate too much from the reference benchmarks.

PIETRO SCIBONA

DEPUTY GENERAL MANAGER

HEAD OF THE FINANCE AND MARKETS DIVISION



MACROECONOMIC OVERVIEW

Global economic scenario

The first quarter of the new year has further confirmed the **economic strength** of developed countries, dispelling fears of an imminent recession. This has led several economists and experts to expect a scenario of mild and sustainable growth.

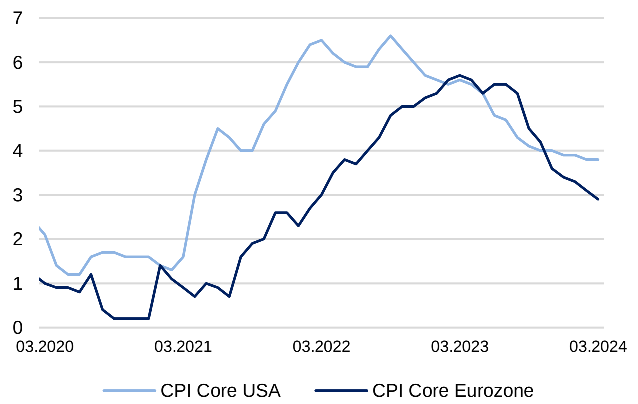
Among developed countries, divergent trends in **economic growth** continue to manifest, particularly between the United States and the Eurozone. The North American country continues to stand out among nations with the strongest macroeconomic momentum, thanks to a sustained GDP growth expected in the last quarter of 3% compared to the previous year, confirmed by positive indicators of productivity, labor market, and consumer confidence. In contrast, the European bloc shows disappointing aggregate growth, around 0% in the last quarter and still weak in terms of aggregate manufacturing indicators. The recent weakness in Germany and France has affected Eurozone data, resulting in the former reporting a decline in GDP after two quarters of stagnation.

Although there are contrasting scenarios in terms of growth, on the **inflation** front, a more moderate decline in consumer prices is observed. Despite recent slowdowns in the demand for goods and in energy prices leading to a price decrease in the basket of goods in many developed countries, the resilient growth in the cost of services and rents continues to support increases in the narrower basket of inflation (defined as core).

Despite the slowdown in the decline of inflation, central banks have maintained a rhetoric aimed at mitigating recent tightening monetary policies. The **Federal Reserve** (FED) chose not to change interest rates in March, opening the possibility for the first cuts as early as the July meeting. A similar discourse applies to the **European Central Bank** (ECB), which remains data-dependent until there are clear signs that inflation fears are receding. Consequently, the market had to align its optimistic early-year estimates, which anticipated cuts between the FED and ECB of over 150 basis points, reducing current expectations to 75 basis points for both, with cuts expected around June/July. Contrary to this trend, the **Bank of Japan** (BOJ) acted, thanks to a return of inflation in Japan, by raising interest rates for the first time since 2007, bringing the reference rate to 0% - 0.10%.

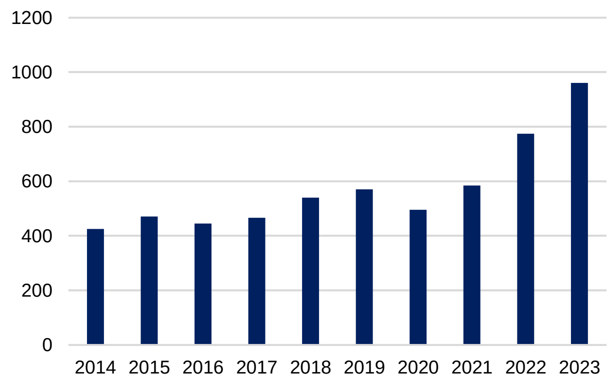
In a tumultuous political context, which will be marked by elections in the most important countries in the world, the issue of **public spending** has once again fuelled economists' fears. In the U.S., both candidates will have to contend with a debt increase of 2.7 trillion dollars just in 2023 and a sharply rising interest expenses: in the first quarter of 2024, the U.S. Treasury Department spent about 234 billion dollars on interest costs, more than triple the average of the last 20 years. A similar situation exists in Europe, where countries like France have significantly exceeded their budget deficit, set at 4.9% for 2023 but reaching 5.5% of GDP.

<u>Core inflation trends in the USA and Europe</u>
%; YoY monthly data, 03.20-03.24



Source: Bloomberg

<u>Interest expenses, U.S. Treasury Department</u>
Billions of USD; 12.2004 – 12.2023



Source: Bloomberg

MACROECONOMIC OVERVIEW

Focus: geopolitical context and Switzerland

Geopolitical context

The ongoing military clashes continue in the Gaza Strip, with **Israel** gradually deepening its military presence on the conflict-ridden soil. Prime Minister Netanyahu of Israel has consistently rejected the recurring calls for a ceasefire from the UN and the United States, aiming to end the war with Hamas as quickly as possible. Meanwhile, the situation remains deadlocked on the Ukrainian front. While U.S. funding to **Ukraine** faces challenges in reaching its destination, Europe has persisted in supporting Kiev, bypassing Orban's veto for a 50 billion euros military support package.

The new geopolitical tensions have had a ripple effect across all **NATO countries**. According to reports released by the NATO Secretary General, around 18 countries of the alliance will exceed 2% of GDP with a **military spending** budget growing to 380 billion dollars in Europe alone, an increase of about 60% compared to 2014. Research by the International Institute of Strategic Studies states that global military spending increased by 9% in 2023 alone, with an estimated expenditure of around 2’200 billion dollars in new armaments. The U.S. remains among the top financiers in the sector, with approximately 905 billion dollars, followed by China at 219 billion dollars.

2024 saw the start of the election cycle in Taiwan, where the Democratic Progressive Party (DPP), led by William Lai, triumphed as predicted by the polls. The victory did not elicit the feared reactions from the Chinese Communist Party, thanks to the attainment of a 40% majority, which is not enough to guarantee an absolute majority in government bodies. However, the Beijing government did not miss the opportunity, at the 14th Chinese National People's Congress, to reaffirm its ambition for the annexation of the Taiwanese peninsula, which remains one of the country's top geopolitical objectives under the leadership of Xi Jinping.

Nevertheless, all eyes will remain on the outcome of the United States elections in November. Donald Trump's candidacy as the rival to Joe Biden is official, following his victory in the Republican primaries against opponents Ron De Santis, Vivek Ramaswamy, and Nikki Haley.

Switzerland

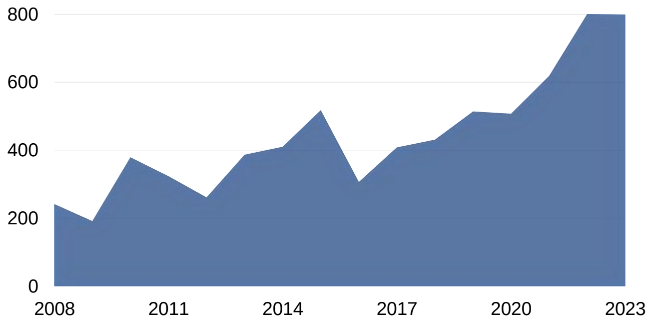
The Swiss economy continues on a trajectory of stable growth, although it remains below the historical average, with GDP growth of +0.3% in the last quarter of 2023. Growth continues to be driven by services and the tertiary sector, while the manufacturing sector remains stagnant due to a rather weak global and European context. In the industrial sector, SME forecast indicators are still contracting, with the last update in March at 45.2, an improvement from the previous 44.

However, renewed confirmation came regarding inflation, which steadily fluctuated between 1.7% (in January) and 1% (in March) year-on-year, well within the target range of the Swiss National Bank (SNB). Despite the upcoming resignation of the famous governor Thomas Jordan in September, the SNB has chosen to act ahead of its European and American counterparts, implementing an initial interest rate cut of 25 basis points, bringing the benchmark rates down to 1.5%.

The interest rate cut will support the Swiss private sector, which has lagged behind the rest of the developed countries in terms of economic performance, with slightly negative growth in 2023 for the basket of companies in the Swiss Performance Index (SPI). Since 1999, Swiss companies have experienced an average growth of 8% per year, driven mainly by the pharmaceutical, consumer goods and industrial sectors, which make up a large part of the current market. The recent development is attributable to the context of stagnant global economic growth and the relative strength of the Swiss franc, which weighs on Swiss corporate balance sheets.

Earnings per share growth, SPI index

Earnings per share in CHF; 2008 – 2023



Fonte: Bloomberg

FINANCIAL OVERVIEW

Equity market

Indices	Prices	Quarterly Performance	YTD Performance
MSCI World	3'437.76	8.44%	8.44%
SMI	11'730.43	5.32%	5.32%
STOXX Europe 50	5'083.42	12.43%	12.43%
FTSE MIB	34'750.35	14.49%	14.49%
DAX	18'492.49	10.39%	10.39%
S&P 500	5'254.35	10.16%	10.16%
NASDAQ 100	18'254.69	8.49%	8.49%
Nikkei 225	40'369.44	20.03%	20.03%
Hang Seng	16'541.42	-2.97%	-2.97%

Source: Bloomberg

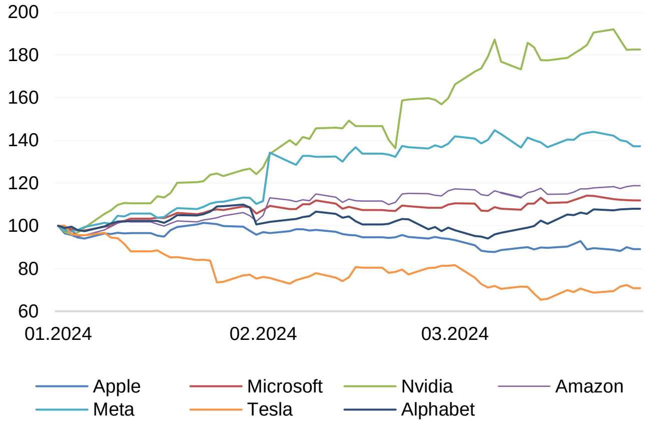
After the close of an optimistic 2023, characterised by signs of inflation that led to a change in the rhetoric of the world's main central banks, the new year got off to a cautious start, with indexes in negative territory in the opening five sessions, due to an excess of euphoria in the final part of last year. Thereafter, the indices recovered ground, delivering performances that, depending on their nature, reached double digits without suffering significant corrections.

As happened last year, the **technology sector** contributed significantly to performance, once again highlighting a particularly positive quarterly earnings season and equally favourable guidance, which were the main focus of investors in this results session. Globally, a clear difference emerged between companies that were able to increase their estimates and those that confirmed previous numbers, even in the face of higher-than-expected publications for the year 2023. Interestingly, companies continue to invest in Artificial Intelligence (AI) and in increasing the computational capacity of their databases. A tangible example of this trend are the results of Nvidia, which continues to break records and record "monstre" revenue increases.

Examining the movements of indexes in more details, it can be noticed changes from previous quarters. In America, the "**Magnificent 7**" (Meta, Tesla, Alphabet, Amazon, Apple, Microsoft, and Nvidia) protagonists of an outstanding 2023, have been reduced to five companies with Apple and Tesla dropping -10% and -26%, respectively in the quarter, while the remaining ones continued to mark new highs.

Performance of the "Magnificent 7"

100; 01.24 – 03.24



Source: Bloomberg

On the sidelines of the technology sector, major contributors in terms of performance in early 2024 also included **oil companies** and commodity extractors, due to renewed price increases in oil, gold and industrial metals caused by rising geopolitical tensions.

The resilience of the U.S. economy, evidenced by GDP growth and a more accommodating central bank stance, allowed **MSCI World** to end the quarter up +8.50 percent.

Despite **Europe** is in a more uncertain economic situation than the United States, it performed very well, especially in the financial sector, which continues to benefit from high rates, and in the luxury sector, which, after a complicated 2023, reassured investors with the good guidance communicated by LVMH and Hermès.

The **Swiss market**, however, show a certain delay. One of the main reasons remains, in addition to the pharmaceutical sector still in transition, the persistent strength of the Swiss franc, which continues to penalize Swiss exports.

To complete the global picture, **China** continues to suffer from a general weakness in consumption, caused mainly by the real estate situation. Despite the government's efforts, measures do not seem to be able to remedy and create the conditions for a more robust recovery.

FINANCIAL OVERVIEW

Bond market

Government yields (in % p.a.)	2 years	5 years	10 years
Switzerland	0.85	0.69	0.63
Italy	3.42	3.22	3.68
Germany	2.85	2.32	2.30
United States	4.62	4.21	4.20

Source: Bloomberg

The first quarter of the year proved to be more challenging than expected for the bond market, especially for the government component. After the positive closure of 2023, fuelled by the FED's rate-cut projections starting from mid-2024, the fight against inflation seemed to have succeeded, pushing bond yields to historic lows.

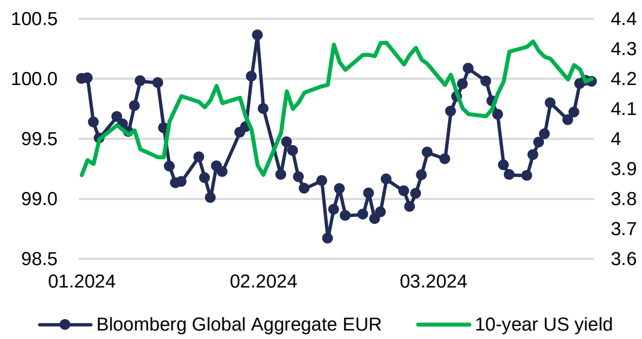
However, the idyllic picture that was forming was sharply interrupted by the release of the Consumer Price Index in the United States for the months of January and February. These data showed an unexpected recovery in price growth, with the services component struggling to show progress. The interpretation of this phenomenon is subject to debate: some **FED** members hypothesize a significant statistical effect due to seasonality, reiterating confidence in the possibility of starting rate cuts in early summer; other observers are more pessimistic about whether inflation is under control, especially in light of continued solid economic performance.

Such uncertainty has led to an increase in yields across all government **bond curves**, with the US ten-year yield at 4.20%, up 32 basis points, although still far from the highs recorded in early autumn. The performance of the Bloomberg Global Aggregate index has been affected (-0.37% in the euro-hedged version). The yield curves remain very flat, and in some cases inverted, historically a harbinger of economic recession, although this does not seem to arise in the current context.

While the FED appears undecided between the desire to lower rates and an economic context that does not allow it to do so with ease, other central banks seem to have a clearer operational framework. The **ECB**, in fact, has indicated that a rate cut in June should be considered extremely likely, especially considering that economic growth in the eurozone is decidedly less robust than that on the other side of the Atlantic.

<u>Bloomberg Global Aggregate EUR performance and 10-year US yield trend</u>

Points (to the left), % (to the right); 01.24 – 03.24



Source: Bloomberg

Even more determined is the **Swiss National Bank**, which had already surprised the markets by raising rates in advance in 2022, and now replicates the surprise effect by moving first with the rate-cut cycle, having lowered the benchmark rate by 25 basis points in March. Finally, a historic move by the **BOJ**, which with the first hike since 2007 has finally taken Japan out of the negative interest rate policy, while maintaining an extremely expansionary policy that prevented significant turbulence in the Japanese bond market.

The risk of keeping high rates for longer than expected does not seem to have a negative impact on the **credit** market; corporate bonds, in fact, continue to outperform government bonds, thanks to steadily narrowing spreads. The market appreciates the more encouraging economic growth outlook than expected, which for most issuers more than offsets the negative effect of high rates. Default rates are rising, albeit moderately, and some segments appear to be under particular pressure, especially those linked to commercial real estate. Financial bonds continue to be well-positioned in the current macroeconomic context, with the exception of American regional banks and some themes related to the real estate market in Central and Eastern Europe.

Despite the significant tightening of credit spreads observed in recent months, **absolute yields** remain at elevated levels compared to the recent past, which is the reason why demand for new issuances remains high in these early months of the credit market.

FINANCIAL OVERVIEW

Currency and commodities market

Currencies	Price	Quarterly Performance	Yearly Performance
EUR/CHF	0.9731	4.72%	4.72%
USD/CHF	0.9014	7.17%	7.17%
EUR/USD	1.0790	-2.26%	-2.26%
GBP/USD	1.2623	-0.84%	-0.84%
USD/JPY	151.35	7.33%	7.33%

Source: Bloomberg

Currencies

The first quarter of 2024 continues to be dependent on central bank decisions.

Thanks to inflation rates stabilizing consistently below the central bank's target and the diminishing need for a strong currency, the SNB has been able to cut interest rates, leading to a significant downward movement of the **Swiss franc** against major currencies (EUR/CHF has moved from 0.925 to 0.98, and USD/CHF from 0.84 to 0.90).

As regards FED, the resilient performance of the economy in the face of rising interest rates, both in terms of growth and employment, and inflation still above 3%, have led traders to exercise greater caution regarding the reduction of US rates. The ECB also seems to be adopting a wait-and-see approach before embarking on an accommodative path, which has kept the **EUR/USD** cross in a narrow range between 1.07 and 1.10.

The BOJ move to raise rates after about 20 years has not had any effect on the **Yen**, which continues a phase of weakness against the USD and EUR.

It is also worth noting the performance of **Bitcoin**, which, thanks to demand brought by ETFs listed in the USA and the approaching *halving*, has risen above dollar 70'000 per bitcoin.

Performance of the USD/JPY exchange rate over the last 6 months

10.23 – 03.24

Source: Bloomberg

Commodities	Price	Quarterly Performance	Yearly Performance
83.17	16.08%	16.08%	83.17
87.48	13.55%	13.55%	87.48
27.45	-14.08%	-14.08%	27.45
2'229.87	8.09%	8.09%	2'229.87

Source: Bloomberg

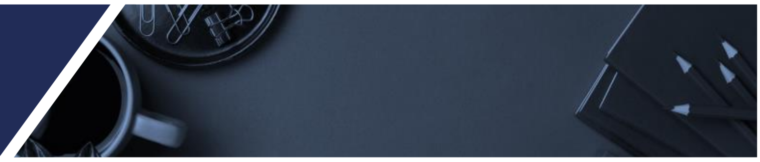
Commodities

In the first quarter of 2024, commodity prices have remained relatively stable, as evidenced by the **Bloomberg Commodity Index**, which increased by +0.85%. While the contribution of oil has been positive, that of industrial metals has been more mixed. It's worth noting, however, a significant movement in precious metals, particularly gold.

The price of **oil** per barrel has increased, supported by an unstable geopolitical climate in the Middle East, where the ongoing war situation remains unsolved despite international mediation efforts. Additionally, OPEC has taken a cautious approach by maintaining production cuts throughout the quarter, resulting in the price of WTI rising from 72 to 83 dollars per barrel compared to the end of the previous year.

The quarter has been extremely favourable for **gold**, which, despite a slight increase in yields, has managed to reach dollar 2'230 per ounce, setting new records. This success is mainly attributable to Asia, where central banks in the region are increasing their reserves, and to an increased interest in this asset class, which had been rather limited in the previous months.

The performance of **industrial metals** has been mixed, with copper and nickel on the rise due to a recovering demand and still positive economic conditions, while iron ore and steel continue to suffer due to the delayed economic recovery in China. Movements in **food commodities** have also been mixed, but a significant increase in cocoa prices is noteworthy due to adverse weather conditions damaging production in West Africa, one of the major global producing regions. In fact, the price has more than doubled, from dollar 4'200 per ton in January to over dollar 9'700 per ton by the end of the quarter.



Did you know that...

...the artificial intelligence chip market could reach $400 billion by 2027 compared to the current $54 billion at the end of 2023...

In the first quarter of 2024, **Nvidia** reached a market capitalization of dollar 2.2 trillion, making it the third largest company in the world, surpassing the Saudi oil giant Aramco and the American tech giants Google and Amazon.

What is behind Nvidia's success?

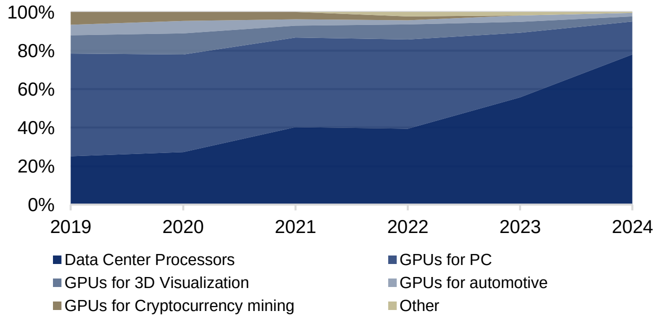
The California-based chip manufacturer Nvidia has experienced exponential growth in its stock price over the past year, thanks in particular to the increasing interest in its artificial intelligence processors. Initially founded as a company specializing in the production of graphics cards for video games, Santa Clara's company has recently managed to innovate and develop cutting-edge processors capable of powering the high computational power required by new AI models. These cards and processors are used by various American tech giants and many emerging companies offering niche solutions in specific markets such as healthcare, autonomous driving, or data analysis. In particular, among the key innovations that have contributed to this growth is the new H100 processor launched in early 2023, which is behind the significant acceleration in the development of large-scale language models such as OpenAI's ChatGPT and Microsoft's, or Google's rival, Gemini.

Is Nvidia's competitive advantage sustainable?

Despite the fact that the processors of the California-based company are far more efficient in terms of performance and power consumption, many investors continue to question whether this leadership will be confirmed in the future. American big tech companies, from which Nvidia generates about 40% of its revenue, are reluctant to rely too heavily on individual suppliers and have therefore begun to internally develop their own AI processors, as in the case of Amazon with the Anthropic chatbot Claude. Furthermore, several competitors have started to follow Huang's company by launching their own versions of processors, such as AMD with the MI300. For the time being, Nvidia seems to be one step ahead of its rivals, having already announced the updated version (Blackwell B200) of its flagship microchip. The race for AI appears to have just begun, as reported by Lisa Su, CEO of AMD, with the AI chip market expected to reach dollar 400 billion by 2027 compared to the current dollar 54 billion, leaving significant room for growth for the major players in the industry.

Nvidia's revenue by product line

% Revenue, 2019 – 2024

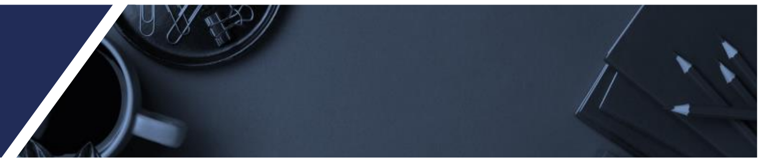


Source: Bloomberg

KEY TAKEAWAYS

1 – MARKET CAPITALIZATION OF NVIDIA AS OF 31/03/2024:	2 – PRICE OF AN H100 PROCESSOR:	3 – TOTAL REVENUE FOR NVIDIA 2023
$2'259 bn	**$40'000**	**$26'974 bn**

Expert Talk
Umberto Grimi



«What does characterize the present and future of stock investment?»

Interview with ***Umberto Grimi****, manager of the BASE Smart Equity fund:*

What are the dynamics that have guided the markets in recent months?

Both in the United States and in Europe, what has characterized the markets so far has been a high concentration on dominant themes: in the USA, 4 stocks (Nvidia, Meta, Amazon, and Microsoft) contributed 55% to the index performance, while in Europe, ASML, SAP, Novo Nordisk, and LVMH contributed over 50%.

The tech sector has been dominant for over a year and a half, and the advent of AI has fuelled expectations that have literally driven up stocks in the sector.

Only during the last month, at least in Europe, something is changing, with the rally starting to broaden to other themes: if in the first two months the aforementioned stocks contributed 60% to the performance of the Stoxx600, in March the contribution decreased to 36%. There are also some changes observed in the USA, with a particularly noticeable rally in the last month, with the oil/energy sector surprisingly emerging as the best performer of Q1, surpassing the technology sector.

> *With a gradual easing of interest rates and the waning of recession fears, this 'rotation' towards themes that have been less performing so far may become more pronounced.*

In a similar context, are there any strategies that can be preferred in the medium to long term?

With the gradual easing of interest rates and the fading of recession fears, this 'rotation' towards themes that have been less performing so far, could become more pronounced. Small caps have not fully participated in the trend and are trading at valuation levels approaching historical lows compared to large caps. The same applies to many sectors of commodities, from agribusiness to gold and oil.

At the same time, there are markets that have experienced significant capital outflows, which could become attractive. For example, Chinese tech stocks, which in many cases are valued at less than 10 times earnings, these are companies with good liquidity, business models, and markets similar to those that have been driving the American tech industry for years.

It is harder to imagine that the momentum with which tech stocks, especially those related to AI, can continue without changes. As they say in the United States, "*Jury is out*": on one hand, the demand for chips, driven by the launch of ChatGPT, is generating profits beyond initial expectations for companies involved in the theme (chips, data centres, and cloud), but the expectations projecting these explosive growths perpetually evoke comparisons with the dot-com era, when companies like Cisco seemed destined to dominate the world as the foundation of the Web infrastructure.

UMBERTO GRIMI
Portfolio Manager

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