Wilersee near Finstersee Menzingen, Canton of Zug (Photo: Andreas Busslinger)

The recession has been postponed yet again

The global economic recession predicted by many ("we are in the middle of it") has been postponed once again. At the beginning of the third quarter, the real gross domestic product (GDP) of the USA is currently set to achieve annualized growth of around +2%. The Asian economic region from India to South Korea is firmly on course to achieve around +4% growth annually in the years 2023 to 2025, which is accompanied by significant key interest rate cuts. The problem in Asia is not so much inflation, but more the deflationary nature of intense competition.

In Western Europe, the economy is growing slightly despite the restraints imposed by monetary policies (2023: +0.6%). The economic engine of recent years, Germany, is experiencing stagnation, with inflation still well above the target set by the European Central Bank. Both Southern Europe and the Swiss GDP, on the other hand, are growing. In Switzerland, the service sector has gained momentum and the labor market has remained robust, as in many places. In Eastern Europe, growth is slightly higher. These countries are well past the peak of inflation and the Eastern European central banks are accordingly in the process of lowering their key interest rates – as, by the way, is the case in most emerging countries, even in Latin America.

To put it another way: anyone who managed to resist the simple reflex of assuming a recession based on an inverted yield curve has so far achieved a good portfolio result. Anyone who underweighted equity and even excluded tech stocks out of fear of a recession found themselves hardly getting anywhere in the first half of the year. With regard to the second half of the year, it will be a matter of securing and building on the successes achieved. There is an attractive risk / return potential that we want to exploit, especially in the bond markets.

Risks were rewarded in the first half of the year

In the first half of the year, the yield of the ten-year Swiss government bond fell from 1.5% to 0.9%. This is not expected to be repeated in the second half of the year. But at least it can be said that some ground could be made up with bonds in the first half of the year. The influence of equities, however, was much greater. Although the Swiss Market Index (SMI), at 11'280 points (+5.1%), clearly performed worse than the global stock index (MSCI ACWI Index +9.5% in Swiss francs), we kept the equity ratio neutral in this environment and gave the winners free reign without any rebalancing. This meant that in the first half of the year, the higher the equity ratio (or the ratio of all tangible assets) in a portfolio was, the higher the returns were.

We are continuing to keep the equity ratio neutral for the time being. However, we will be able to respond quickly if economic developments deteriorate. Balanced portfolios have gone up impressively since the beginning of the year (e. g., Revo2 +6.0%, Revo3 +7.7%). Portfolios with an even higher share of tangible assets (equity, real estate, infrastructure, and private market investments) have performed even better (e. g., Revo4 +9.0%, Revo5 +10.3%). The dividend-focused solutions have also had convincingly good returns (e. g., RevoDividends +12.0% since the beginning of the year). The vested benefits solutions confirm the overall picture, but in view of the higher proportion of illiquid investment foundations, a valuation adjustment (e. g., of real estate and infrastructure investments) will invariably be delayed by a few months.

Strategies mainly based on individual titles	Strategy performance*	
	June 2023	YTD 2023
Zugerberg Finanz R1	+0.0%	+2.8%
Zugerberg Finanz R2	+0.7%	+5.4%
Zugerberg Finanz R3	+0.7%	+7.0%
Zugerberg Finanz R4	+1.0%	+8.5%
Zugerberg Finanz R5	+1.1%	+6.9%
Zugerberg Finanz RDividends	+1.1%	+10.9%
Zugerberg Finanz Revo1	−0.2%	+2.8%
Zugerberg Finanz Revo2	+0.4%	+6.0%
Zugerberg Finanz Revo3	+0.5%	+7.7%
Zugerberg Finanz Revo4	+0.6%	+9.0%
Zugerberg Finanz Revo5	+0.7%	+10.3%
Zugerberg Finanz RevoDividends	+1.3%	+12.0%
Zugerberg Finanz DecarbRevo3	+1.1%	+1.1%
Zugerberg Finanz DecarbRevo4	+1.4%	+1.1%
Zugerberg Finanz DecarbRevo5	+1.7%	+1.5%

Zugerberg Finanz Vested benefits	Strategy performance*	
	June 2023	YTD 2023
Zugerberg Finanz Vested benefits R0.5	−0.2%	+0.9%
Zugerberg Finanz Vested benefits R1	+0.1%	+2.2%
Zugerberg Finanz Vested benefits R2	+0.5%	+3.8%
Zugerberg Finanz Vested benefits R3	+0.6%	+4.9%
Zugerberg Finanz Vested benefits R4	+0.7%	+6.2%

Zugerberg Finanz 3a pension solution	Strategy performance*	
	June 2023	YTD 2023
Zugerberg Finanz 3a Revo1	−0.2%	+2.8%
Zugerberg Finanz 3a Revo2	+0.4%	+6.0%
Zugerberg Finanz 3a Revo3	+0.5%	+7.7%
Zugerberg Finanz 3a Revo4	+0.6%	+9.0%
Zugerberg Finanz 3a Revo5	+0.7%	+10.3%
Zugerberg Finanz 3a RevoDividends	+1.3%	+12.0%
Zugerberg Finanz 3a DecarbRevo3	+1.1%	+1.1%
Zugerberg Finanz 3a DecarbRevo4	+1.4%	+1.1%
Zugerberg Finanz 3a DecarbRevo5	+1.7%	+1.5%

* The stated performance is net, after deduction of all running costs, excluding contract conclusion costs

Macroeconomics

Subdued growth in the second half of the year

Zurich, Rennweg, 6 June 2023 (Source: provided)

Developed countries recorded below-average economic growth in the first half of 2023, and growth prospects remain subdued in the wake of the strongest restraints imposed by monetary policy in recent decades. Inflationary pressures are decreasing and deflationary pressures are emerging from the Asian region. Inventory built up in many places immediately after the pandemic. Due to the intact supply chains, the inventory held in stock is currently being reduced again and early summer clearance sales are being held.

Even if economic growth turns out to be more modest in the second half of the year, there will still be no global economic recession. While Asian economies as a whole are still growing strongly (with a growth rate of around +4% p. a.), North America is currently growing by around +2%. In Europe, GDP growth rates are often between 0% (Germany) and +1% (Switzerland). Southern Europe is growing faster thanks to tourism.

The economic slowdown expected in the second half of the year is reflected in lower long-term interest rates. These also anticipate the trend of inflation. Massively lower manufacturing prices in China are even leading to price reductions. The modest growth rates are likely to recover somewhat over the course of 2024 and 2025. The robust labor market will play an important role in this, as it helps to compensate for the loss of purchasing power due to higher costs and for the more restrictive financing conditions.

As in the past, the challenges today are likewise many and varied. The major issues include above-average inflation in Western industrialized countries, a lack of skilled labor and the associated wage pressure, geopolitical shifts, and thus measures that reduce risks while generating additional costs, such as more stable supply chains (e. g., through near-shoring, friend-shoring, etc.).

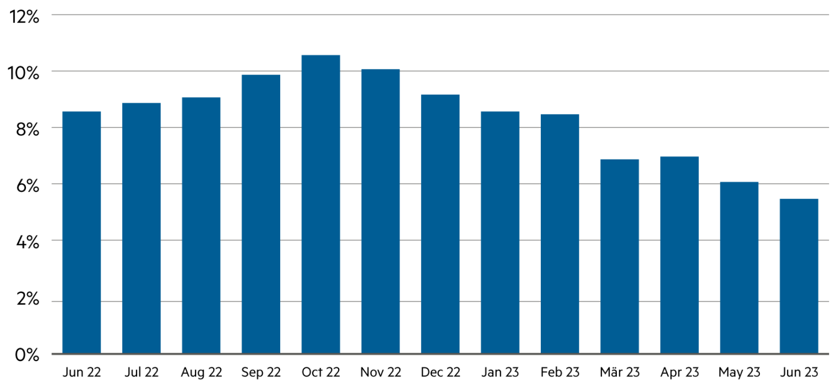
Digitization, decarbonization, and the use of efficiency-enhancing artificial intelligence also present challenges. These are associated with investment and growth. At the same time, the financial balance must be maintained in view of increased financing costs. In Europe, we are also facing a historic structural change in terms of energy policy and demographics.

Innovation is necessary for the future. This will change a great many things. We are going to have to change, because then the transformation can represent an opportunity to maintain prosperity and expand it in the longer term. But where exactly this will lead in the short and medium term remains uncertain. This can also be seen in the example of the real estate markets, where the changes in the environment (higher financing costs, fundamentally altered demand) are likewise making themselves felt. Over the last few quarters, the growth in the prices of single-family homes and condominiums has slowed down significantly, while the prices of multi-family homes have fallen noticeably. Numerous commercial properties are even facing negative value adjustments – which has consequences for the construction industry and its suppliers.

Region	3–6 months	12–24 months	Analysis
Switzerland	→↗	↗	Consumer prices stagnated in June (+0.1%) and are only 1.7% above the corresponding month of the previous year.
Eurozone, Europe	→↗	↗	The latest ECB projections for real GDP are +1.0% (2023), +1.5% (2024), and + 1.6% (2025), at inflation rates of +3.0% (2024) and +2.2% (2025).
USA	→↗	↗	America's economy continues to grow by about +2% in real terms. This resilience is due to the robust labor market and private savings surpluses.
Rest of the world	↗	↗	The massive infrastructure projects of recent years are literally laying the groundwork for an increasingly dynamic economy in India.

Liquidity, currency

The nature of inflation is changing



The inflation rate from June 2022 to June 2023

The inflation rate in the euro zone, change compared to the same month of the previous year in % (Source: Eurostat – HICP inflation rate | Graphic: Zugerberg Finanz)

While inflation is still high in the euro zone, it is gradually approaching the long-term target of 2%. In October 2022, the inflation rate was still at 10.6%. According to initial estimates by the Eurostat statistical office, it was 5.5% in June. In some countries, it is much lower (Spain: 1.6%, Greece: 2.7%). The inflation rate is only slightly above the previous year's level in Switzerland (1.7%) as well.

Inflation and economic data continue to receive a great deal of attention because people seek to derive indications for future monetary and interest rate policy from such data. Indeed, the inflation rate in the USA at the end of May, for example, stood at 4.0% – already significantly lower than half a year ago. In June, there ought to be a "3" in front of the decimal point again for the first time. Economists estimate it will be 3.1% by the end of June.

The main area that is still contributing to inflation in the USA is housing costs, which are a direct result of the key interest rate set by Federal Reserve (Fed). Since the Fed looks backwards instead of forwards, it is likely to increase the rate for the eleventh time, despite the previous ten hikes, which is rendered "necessary" by its own actions. This is also associated with concerns that central banks are now underestimating growth risks and overestimating inflation risks. This increases the risk of pushing monetary policy too far.

Inflation would also be continuing to fall in Switzerland if the Swiss National Bank (SNB) had not raised key interest rates. They have recently implemented a restrictive monetary policy due to the domestic circumstances, increasing the reference interest rate and thus rents. Lower oil and gas prices, stabilizing food prices, and falling import prices are nonetheless causing deflationary pressures. However, the boost from increased rents is unlikely to be so strong that several increases in key interest rates will be required. In any case, we expect further inflation within the SNB's target range (0% to 2%) in the coming months and quarters.

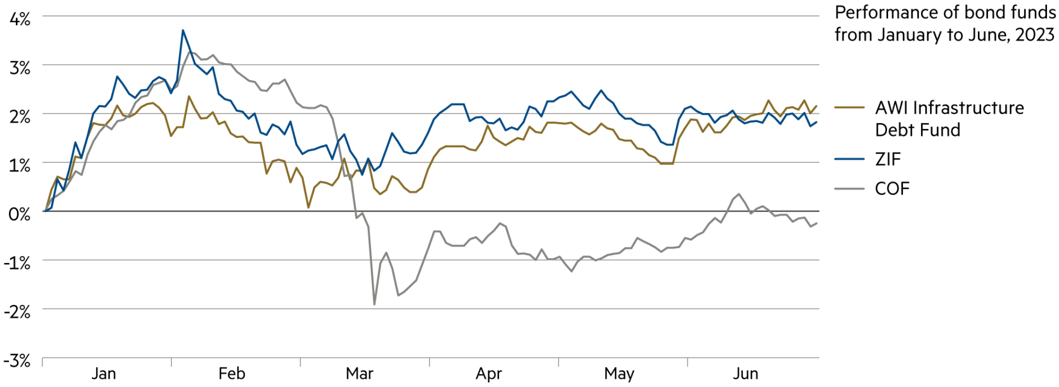
The stark differences between countries are a particular challenge for the ECB. While inflation rates are already low in southern Europe, which is experiencing growth, they are still over 6% in more stagnant countries (Germany). Creating a single monetary policy for an economic area with very different economic structures from region to region is challenging.

This also presents another challenge. If fiscal policy differs from country to country, a single monetary policy can never be "right" anyway. Paradoxically, the fiscal stimulus provided during Covid is continuing to have an effect in the post-pandemic phase as well. For example, the surplus savings of private households in the USA are estimated at over $2'000 billion, or nearly 10 percent of GDP. Despite the brakes applied by monetary policy, these financial cushions continue to stabilize aggregate demand to this day.

Asset class	3–6 months	12–24 months	Analysis
Bank account	→↗	→	The financial cushions stabilize aggregate demand to this day. This is true not only in the USA, but also in Europe and thus in Switzerland.
Euro / Swiss franc	→	→	According to the ECB, inflation expectations among consumers in the euro zone have fallen significantly over the 12-month and 3-year horizons. This has strengthened the euro.
US dollar / Swiss franc	→↘	↘	The depreciation pressure remains because, in order to continue to provide a secure, credible anchor, monetary policy must be convincing in the fight against inflation.
Euro / US dollar	→↗	↗	The euro rose in June and thus ended the first half of 2023 at a price of 1.09, in favor of a higher euro / dollar ratio (+1.9%).

Bonds

Bonds are contributing to returns once again



Performance of three bond funds from 1 January, 2019, to 30 June, 2023 (Source: Bloomberg Finance LP | Graphic: Zugerberg Finanz)

In the first half of 2023, bonds once again contributed to portfolio returns, although the key interest rate hikes are still ongoing and the yield curves are sending strong signals of a recession. The flagship “Zugerberg Income Fund” clearly ranked in the better half of bond funds in the first half of the year with a total return of +1.8%, although this almost exclusively came from corporate bonds.

The bond environment will remain challenging until interest rates peak. This is expected to occur in the third quarter of 2023: somewhat earlier in the USA than in the euro zone. In the USA, however, the cycle of key interest rate hikes also began earlier. Currently, markets implicitly expect a final 25 basis point rate hike in the USA on 26 July. Currently, the probability of this rate hike is 91%. This means interest rates ought to peak at around 5.4%. The restrictive monetary policy puts the breaks on inflation, which is primarily driven by demand.

For the time being, it cannot be expected that the European Central Bank (ECB) will move away from its tightening course in the face of high inflation in the euro zone. Rather, it is expected that there will again be key interest rate hikes in the order of 25 basis points on 27 July (90% probability) and on 14 September (69% probability). This would increase the overnight rate from the current 3.4% to 3.9%, then up to 4.0%. Currently, key interest rates are expected to remain at this level well into 2024. The outlook for bonds will ultimately only improve when interest rates peak.

We have not yet reached that point. An interest rate hike of 25 basis points (80% probability) is also expected when the Swiss National Bank (SNB) reviews its monetary policy on 21 September. The interest rate in Switzerland would thus peak at 2.0%. Lower oil and gas prices are having a dampening effect on inflation, as is the strong Swiss franc, which appreciated 3% against the dollar in the first half of the year. The SNB is afraid of second-round effects and higher rents, as well as inflationary pressures from abroad.

However, the modest growth in Switzerland and in Europe will hardly be able to sustain inflationary pressures. Unemployment is likely to increase in the second half of the year and the utilization of production capacities is likely to decrease somewhat and thus increase the pressure to lower prices.

Since the CHF bond market does not provide the diversity one would want to put together a diversified bond portfolio, it is necessary to rely on the large markets in euros and dollars, but the currency risks are eliminated in each case. This means we have to tackle the question of whether a company can deal with the respective rates in the corresponding economic area.

Asset sub-class	3–6 months	12–24 months	Analysis
Government bonds	→	→↘	Federal bonds yield 1.2% (2 years) in the short term, and 0.9% (10 years) and 0.8% (30 years) in the long term: this is what an inverted yield curve looks like.
Corporate bonds	↗	↗	How strongly monetary policy transmits to a particular industry will be very important for the specific assessment of corporate bonds.
High-yield, hybrid bonds	↗	↗	In the case of high-yield bonds, we place more emphasis on family businesses and those whose owners have "deep pockets" in view of the uncertain prospects.

Zugerberg Finanz bond solutions

Focus on sound companies

(Source: Hörmann Industries, June 2023)

With the emerging longer period of high key interest rates in Europe, particular attention must be paid to robust balance sheets and reliable interest rate and repayment discipline when it comes to bond funds. This is why both the Zugerberg Income Fund (ZIF) and the Credit Opportunities Fund (COF) have taken smaller but important steps towards risk reduction. Even more attention must be paid to the quality of the debtor than previously.

In the euro zone, the ECB experts are continuing their restrictive monetary policy, expecting inflation rates of just 3.0% in 2024 and 2.2% in 2025. Because credit banks are also becoming more cautious in their lending, companies are falling back on the capital market and accepting bond coupons of 7%, 8%, and higher. In addition to higher financing costs, high wage agreements are dampening investments, which are expected to increase only very slowly in the coming months. At the same time, good ideas and innovations must be put into practice. This is fundamental for the future viability of a far-sighted company.

In the COF, we attach particular importance to entrepreneurially managed companies. Around half of the bonds come from family businesses and companies that are backed by strong, long-term oriented private equity capital. One example is Hörmann Industries, which recently issued only the fourth bond in its almost 70-year history. The financially sound family business with a “BB” rating and an annual turnover of around 750 million euros only has one bond outstanding – in the amount of 50 million euros at 7% interest, with repayment in five years. Only a very small dividend is paid out. The vast majority of gross profit is reinvested in promising business areas. Among other things, Hörmann provides services related to stricter emissions standards, as well as intralogistics storage services for companies such as Oetker, Kärcher, Lindt & Sprüngli, and many more. This has enabled the Bavarian company to grow effectively with very little debt capital since it was founded.

In the COF, risk-reducing transactions were made in the real estate sector; two other companies had an industrial background and one had a financial purpose. We have increased our position with the English direct insurer “esure”, which is backed by the major investor Bain Capital. Then we purchased one bond each from Solvay, a major specialty chemicals manufacturer, and from Foxway. The latter is a leader in the circular economy, operates Northern Europe’s largest platform for reselling used hardware (e. g., laptops, telephones), and enables sustainability along the entire IT value chain.

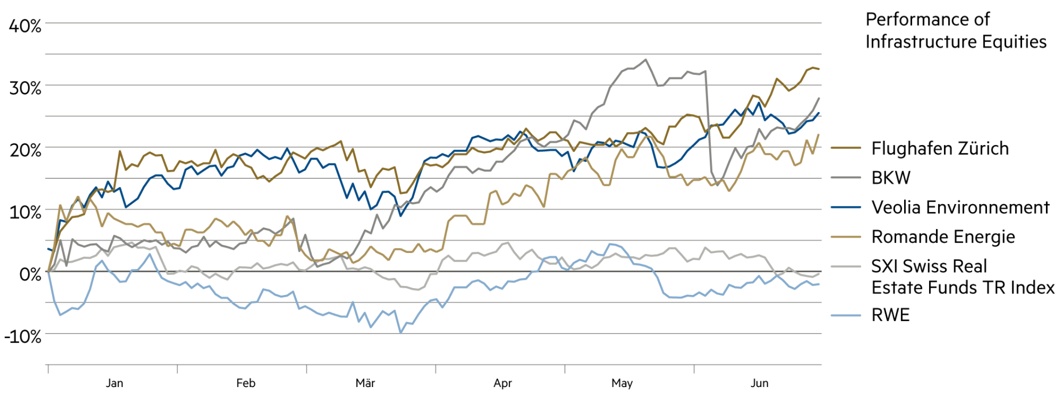
In the ZIF, there were more than a dozen transactions made in June. We tended to sell bonds of companies in which we no longer saw any potential for appreciation and which were unable to offer a sound credit outlook. We were thus able to improve the quality of the portfolio, including through several acquisitions such as Orsted, Akelius Residential Property, Energias de Portugal, and the State Bank of India.

	Zugerberg Income Fund	Credit Opportunities Fund
Yield in 2023 (since the beginning of the year)	+1.8%	0.0%
Yield since the start (annualized)	-12.1% (-2.5%)	+19.6% (+1.7%)
Proportion of months with positive yield	58%	68%
Credit risk premium in basis points (vs. previous month)	270 BP (-14 BP)	748 BP (-23 BP)
Average rating (current)	BBB	BB

You can find more information in the factsheets on the Zugerberg Income Fund and the Credit Opportunities Fund.

Real estate, infrastructure

Sideways movement in real estate funds continues



Total return of the Swiss Real Estate Fund Index from 1 January to 30 June, 2023 (Source: Bloomberg Finance LP | Graphic: Zugerberg Finanz)

Swiss real estate funds continue to stagnate. The benchmark index has hardly changed since the beginning of the year (-0.4%). This also applies to the total returns of the listed real estate equities. The SXI Swiss Real Estate Total Return Index (+1.1%) reflects the return prospects, which have been worsened by the key interest rate hikes. On the other hand, many infrastructure equities have developed significantly upwards thanks to the economic upturn in the first half of 2023.

The financing environment has changed massively within a short period of time. For years, there was an ongoing environment of low and even negative interest rates. Monetary stability was firmly rooted in people's minds and their expectations of future inflation rates and interest rates remained very low. Accordingly, buying decisions were made in many places that entailed greater involvement in the real estate market.

Not long ago, inflation was well below the 0% mark. Negative key interest rates and favorable long-term mortgage loans shaped the picture. Even in July 2021, Allreal Holding, valued at 2.5 billion Swiss francs, was able to issue a nine-year bond at 0.6% with its real estate portfolio that offered stable returns. Within a short time, the 250 million Swiss francs had been placed. The bond is now trading at 87.50 to reflect the changing interest rate environment. Allreal issued another bond in April 2023. It was much shorter term (5 years) and smaller (150 million). Nevertheless, a fixed interest rate of 3.0% had to be offered in order to place the bond.

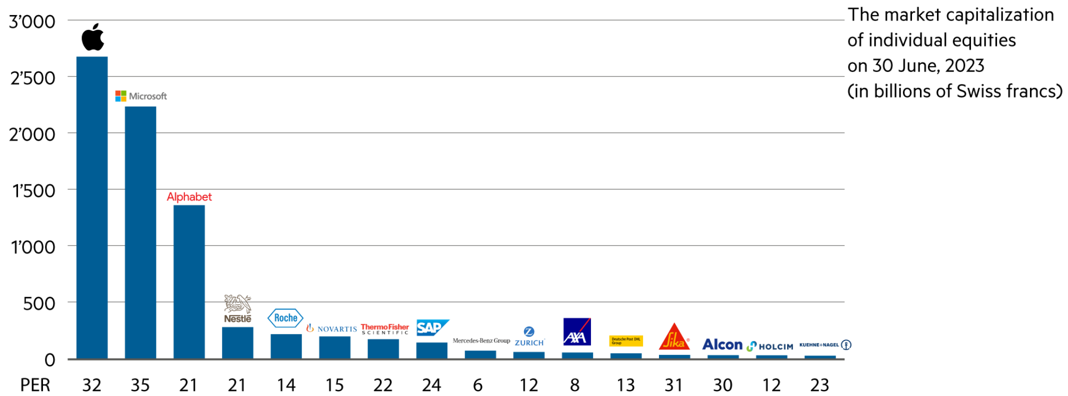
This example also highlights the current difference between bonds and equities: an investor in bonds can be relatively confident that they will achieve a return of 3% per annum over the next five years with a sound real estate company. With real estate equity, on the other hand, it becomes much more challenging to achieve this return. That's why some investors are reducing their portfolio, lowering multi-family house prices. Financing costs of around 3% are gnawing at the profitability of real estate companies. At the same time, banks have become much more cautious about financing real estate development projects.

Infrastructure companies are more exposed to economic developments. In a recession, this is felt just as much as in an economic upturn. Our chosen infrastructure companies performed exceptionally well in the first half of the year. The total returns of 33% from Flughafen Zürich reflect confidence in the future. Passenger numbers have almost recovered to the levels of the pre-pandemic year 2019. In particular, airport customers are also a bit more eager to spend than before and the Circle contributes to the positive development of earnings. Since the beginning of the year, the Bern-based energy group BKW has achieved an impressive increase (+28%). By 2026, BKW intends to have installed new renewable energy plants with an output of more than 1'000 megawatts. The recent purchase of three wind farms in southern Sweden has brought it close to this goal. In the coming years, BKW will also be investing heavily in renewable energies in Switzerland. It has hydropower, wind power, and solar power projects in advanced stages of development, but they are still bogged down in complex permit and appeals procedures.

Asset sub-class	3–6 months	12–24 months	Analysis
Residential properties CH	→	→↗	The prices for investment properties are declining. This process could continue over the coming quarters, but is unlikely to accelerate much in Switzerland.
Office and retail properties CH	→↘	→	In Switzerland, the depreciation pressure in the commercial real estate business is increasing only slightly. Annual appreciations are off the table.
Real Estate Fund CH	→	→↗	The SXI Swiss Real Estate Funds TR Index has developed sideways within narrow limits since the beginning of the year and stands at +1.1% after six months.
Infrastructure Equity / Fund	↗	↗	Due to the increased commissioning of infrastructure projects, total returns of some positions experienced double-digit growth, e. g., Flughafen Zürich (+33%), BKW (+28%), and Veolia (+26%).

Equity

Heading into the second half of the year with humility and discipline



The market capitalization of individual equities on 30 June, 2023 (Source: Bloomberg Finance LP | Graphic: Zugerberg Finanz)

The SMI certainly still has upside potential with moderate valuations of the heavyweights. On the other hand, it is important to continue to approach selection with humility and discipline and to adapt the portfolio to the uncertain economic environment. In general, profit margins are likely to decline, which is why we place a special focus on high margins. This also applies to sound balance sheets and the equity base, which we make a high priority during periods of rising interest rates.

We will continue to remain cautious and disciplined in selecting equities and maintain our domestic focus on Switzerland with a neutral equity ratio. Cogent long-term strategies and robust balance sheets, as well as market-leading positions, are three important selection criteria for us. Another criterion is, of course, the valuation. This can be viewed as an absolute value. This is called market capitalization, which is calculated by multiplying the shares issued by the current price. However, the valuation can also be determined by calculating the ratio between the current price and the expected earnings, known as the price/earnings ratio (PER).

Interestingly, the market capitalization of Nestlé, the world's largest food corporation, is CHF 285 billion. This is the highest value in the SMI, but it is still low compared to the major American technology securities. Apple is currently valued at around $3'000 billion (CHF 2'683), almost ten times as much as Nestlé. Other giants in our portfolios based on individual titles are Microsoft (2'241 billion) and Alphabet (Google, 1'366 billion).

In the healthcare sector, Roche, Novartis, and ThermoFisher have a market capitalization of around 200 billion. Axa, the world's largest insurance group by premium volume, is valued at around 60 billion euros, just like Zurich Insurance, but significantly lower than, for example, Deutsche Telekom (100 billion euros) and the software group SAP (150 billion euros), and even lower than the Mercedes-Benz Group (76 billion euros). Numerous companies with an industrial background such as Sika, Holcim, Alcon, and the logistics group Kühne+Nagel (each worth around 35 billion) are valued significantly lower.

In our India Fund, the largest position is HDFC. The largest bank in India is growing rapidly, parallel to the Indian economy. The market capitalization (160 billion) is almost three times as high as that of UBS and the fourth highest in the world. The bank has more than 8'300 branches and 120 million customers in urban and rural areas.

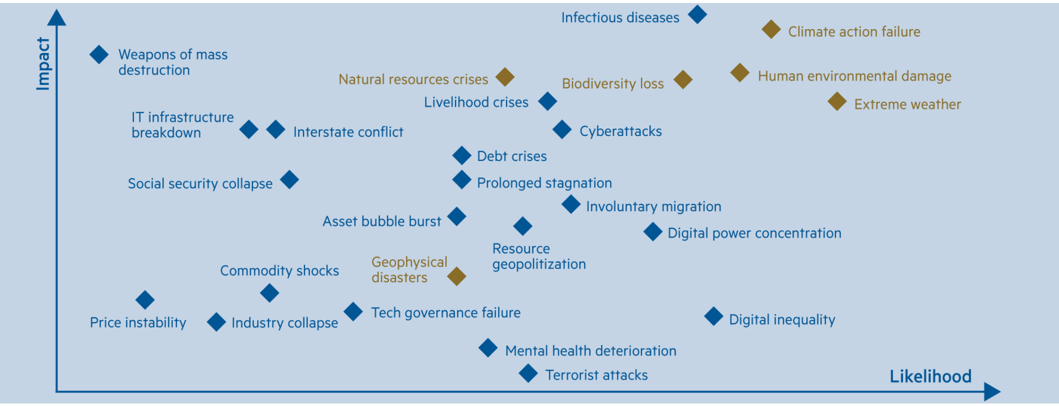
There are also major differences in the PER. While Mercedes-Benz (with a PER of 6) and Axa (8) trade relatively low, Apple (32) and Microsoft (35) trade much higher. Whether these differences are justified, only time will tell. While the modern automobile is increasingly mutating into a software-controlled technology in a comfort zone on four wheels, there are certain signs of fatigue in the smartphone sector with regard to its fundamental innovative power.

Incidentally, Roche was a flagship company on the global pharmaceutical market for many years and was valued at a PER of 30. It currently stands at 14.

Asset sub-class	3–6 months	12–24 months	Analysis
Equity Switzerland	→↗	↗	The defensive heavyweights were hardly able to increase in the first half of the year. Nestlé, Roche, and Zurich Insurance should return to their relative strength.
Equity Eurozone, Europe	→↗	↗	We achieved double-digit total returns in the first half of the year with various titles, including SAP (30%), Mercedes Benz (+28%), and Saint-Gobain (+25%).
Equity USA	→↗	↗	We expect the mood to cool off in the coming months, because the higher key interest rates are having an increasing impact on the respective income statements.
Equity Emerging markets	→↗	↗	China's equity markets lost 7% to 9% in the first half of the year. The Indian equity markets, on the other hand, rose by around +5%, with increasingly improved outlooks.

Alternative investments

Climate risks on the rise



Global Risk Landscape 2021, (Source: World Economic Forum, Davos 2021 | Graphic: Zugerberg Finanz)

One does not need to be a prophet to see that the damage from climate-related events (drought, fire, etc.) has increased in recent years. In the risk landscape, the risks that are most likely to occur and cause the most damage are almost always climate-related risks. In the pandemic year 2021, only infectious diseases such as Covid were also among the worst possible risks.

Insurance companies and their reinsurers have now reached the point that they are no longer covering certain damages. Two of the largest insurers now refuse to provide new building insurance in California, with its more than 40 million inhabitants. Other insurance giants are at least restricting their business. The exodus of insurers has a regulatory background. The rapid rise in disaster risks meant that new policies were no longer sustainable, because the regulator enforced a peculiar legality in California: the insurance authority did not approve premium increases commensurate with the risks.

The Californian regulator is a politically appointed body with no economic or environmental expertise. Rather, it is insisting that the losses of the last 20 years serve as the benchmark for premium calculations. Insurers are prohibited from using forecasting models that take climate trends, changes in vegetation, and changes in land use into account, among other things. In reality, however, the number of houses and residential areas on the edge of forests is increasing, and because of the long periods of drought, fires have recently been spreading much faster and “devouring” significantly more trees and buildings. Of the 20 largest wildfires in California, the eight largest and most significant for insurance occurred in the last six years, not the 14 previous years.

Because insurers are not allowed to react to rising climate risks, the consequences are fatal. In addition, insurers are prohibited from granting discounts if homeowners use fire-resistant building materials, remove dry bushes, and create a vegetation-free protection zone around the building. Because the real fire risk is not reflected in the premiums, construction is continuing at the edge or even in the middle of the forest. In this huge state with a notorious housing shortage, construction is continuing in zones with the greatest fire risk. People rely on the fire fighters, who expose themselves to danger again and again, especially in the transition zones between forest areas and urban areas. But California’s past-oriented approach to premiums does not prevail anywhere else.

Asset sub-class	3–6 months	12–24 months	Analysis
Commodities	→	↗	Crude oil prices recently fell below $70 per barrel of WTI (-33% within a year). The drop in gas prices was even more pronounced.
Gold, precious metals	→	→	The gold price of 1’719 Swiss francs per ounce is only 2% higher after six months than at the beginning of the year. The silver price (20.3 Swiss francs) dropped by 8%.
Insurance Linked Securities	↗	↗	Even though these were hardly profitable in the first half of the year, we think highly of subordinated insurance bonds, hedged in Swiss francs.
Private equity	→	↗	The Listed Private Equity Fund we selected rose by +9% (in Swiss francs) in the first half of the year, significantly outperforming the SMI.

Market data

Asset class		Price (in local currency)			Annual performance (in CHF)		
Equity		**30.06.2023**	**06/2023**	**2023 YTD**	**2022**	**2021**	**2020**
SMI	CHF	11'280.3	+0.6%	+5.1%	−16.7%	+20.3%	+0.8%
SPI	CHF	14'861.8	+0.5%	+8.2%	−16.5%	+23.4%	+3.8%
DAX	EUR	16'147.9	+3.5%	+14.7%	−16.3%	+10.4%	+3.5%
CAC 40	EUR	7'400.1	+4.7%	+13.1%	−13.9%	+23.6%	−7.4%
FTSE MIB	EUR	28'230.8	+8.8%	+17.8%	−17.3%	+17.3%	−5.4%
FTSE 100	GBP	7'531.5	+1.6%	+3.1%	−8.8%	+16.7%	−19.2%
EuroStoxx50	EUR	4'399.1	+4.7%	+14.7%	−16.0%	+16.0%	−5.4%
Dow Jones	USD	34'407.6	+2.3%	+0.7%	−7.7%	+22.2%	−1.8%
S&P 500	USD	4'450.4	+4.2%	+12.5%	−18.5%	+30.6%	+6.5%
Nasdaq Composite	USD	13'787.9	+4.3%	+27.8%	−32.3%	+25.0%	+31.6%
Nikkei 225	JPY	33'189.0	+1.8%	+12.0%	−19.7%	−2.6%	+11.6%
Sensex	INR	64'718.6	+1.9%	+4.1%	−4.8%	+23.2%	+3.4%
MSCI World	USD	2'966.7	+3.7%	+10.6%	−18.5%	+23.7%	+4.5%
MSCI EM	USD	989.5	+1.0%	+0.4%	−21.5%	−1.8%	+6.1%
Bonds (mixed)		**30.06.2023**	**06/2023**	**2023 YTD**	**2022**	**2021**	**2020**
Glob Dev Sov (Hedged CHF)	CHF	153.5	−0.4%	+0.9%	−13.2%	−3.0%	+3.5%
Glob IG Corp (Hedged CHF)	CHF	178.4	−0.2%	+0.9%	−16.7%	−2.0%	+6.4%
Glob HY Corp (Hedged CHF)	CHF	320.7	+1.7%	+2.7%	−13.6%	+1.4%	+3.7%
USD EM Corp (Hedged CHF)	CHF	257.0	+1.1%	+1.2%	−18.2%	−2.7%	+4.3%
Government bonds		**30.06.2023**	**06/2023**	**2023 YTD**	**2022**	**2021**	**2020**
SBI Dom Gov	CHF	172.3	−0.2%	+8.0%	−17.0%	−4.2%	+2.1%
US Treasury (Hedged CHF)	CHF	141.5	−1.1%	−0.6%	−15.0%	−3.5%	+6.3%
Eurozone Sov (Hedged CHF)	CHF	176.0	−0.4%	+1.6%	−18.9%	−3.7%	+4.6%
Corporate bonds		**30.06.2023**	**06/2023**	**2023 YTD**	**2022**	**2021**	**2020**
CHF IG Corp (AAA-BBB)	CHF	175.3	−0.3%	+1.9%	−7.5%	−0.5%	+0.5%
USD IG Corp (Hedged CHF)	CHF	183.7	+0.0%	+0.9%	−18.5%	−2.3%	+8.0%
USD HY Corp (Hedged CHF)	CHF	557.3	+1.3%	+3.1%	−13.7%	+4.1%	+5.1%
EUR IG Corp (Hedged CHF)	CHF	157.4	−0.6%	+1.3%	−14.1%	−1.2%	+2.4%
EUR HY Corp (Hedged CHF)	CHF	270.6	+0.3%	+3.5%	−10.9%	+3.2%	+2.1%
Alternative investments		**30.06.2023**	**06/2023**	**2023 YTD**	**2022**	**2021**	**2020**
Gold Spot CHF/kg	CHF	55'264.9	−3.8%	−0.2%	+1.0%	−0.6%	+14.6%
Commodity Index	USD	101.5	+1.4%	−12.7%	+15.1%	+30.8%	−11.6%
SXI SwissRealEstateFunds TR	CHF	2'247.7	−1.0%	+1.2%	−17.3%	+7.6%	+13.0%
HFRX Global Hedge Fund Index	USD	1'374.6	−1.1%	−2.0%	−3.3%	+6.7%	−2.2%
Currencies		**30.06.2023**	**06/2023**	**2023 YTD**	**2022**	**2021**	**2020**
US dollar / Swiss franc	CHF	0.8956	−1.7%	−3.1%	+1.3%	+3.1%	−8.4%
Euro / Swiss franc	CHF	0.9770	+0.4%	−1.3%	−4.6%	−4.0%	−0.4%
100 Japanese yen / Swiss franc	CHF	0.6202	−5.1%	−12.1%	−11.0%	−7.5%	−3.8%
British pound / Swiss franc	CHF	1.1368	+0.3%	+1.6%	−9.3%	+1.9%	−5.7%