



“Keep calm”

Our Opinion
October 2022

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Dear Readers

In the article “keep calm” we show you that it is of central importance when investing not to fall into a hectic state in challenging times, but to act calmly and prudently.

Looking for advice and support on financial matters? Our investment advisors look forward to hearing from you and will be happy to talk to you personally.

We wish you a pleasant read.
Your Advisory Team

“Keep calm”

Equities

The cocktail made up of the Ukraine war, the energy crisis, high inflation, and rising interest rates has led to significant losses on the equity markets. The MSCI World Index in USD dropped up to 27 % from its peak. And nobody can say whether that was it, or whether the correction is still ongoing. All this is making investors break out in a cold sweat. Who hasn't toyed with the idea of selling all their equities in recent days and weeks? It would, however, be a grave mistake to panic in difficult times like these. Investors should keep calm and stick to their investment strategy. The fact is: There has been an upward trend for many decades. Time and again, there have been severe slumps, and each time it looked as though the end of days had come. But this was never the case. The long-term upward trends on the equity market are driven by innovations. Despite all the setbacks, progress has always remained intact, and this will not change in future. The following chart shows the probability of achieving a positive return over a given period of time:

Neue Bank traffic light

- strongly bearish
- bearish
- neutral
- slightly bullish
- bullish
- strongly bullish

Share of periods during which the S&P 500 generated a positive return (incl. dividend) between 1900 and 2022



Source: Bloomberg and Neue Bank AG

Even if an investor entered the market at the worst possible time, they would have achieved break-even after 15 years in the worst case.

Since 1900, it has always been possible to achieve a positive return over any period with an investment horizon of 15 years or more. Conclusion: The easiest way to increase investment success is to extend the holding period. The Neue Bank traffic light is not designed to identify short-term setbacks, but rather longer-term downtrends. We may very well be in such a situation now, given that further signals have worsened over the course of the month. The Neue Bank traffic light is therefore currently orange, or bearish. This means that we have hedged part of the equity exposure in our mandates by means of futures. We therefore expect the equity markets to trend weaker in the coming weeks.

Economy

Since 22 July, our economic indicator for the United States has been showing a recession. Right now, the US economy is still doing quite well. In the third quarter, US GDP grew 2.6 % (first release). But inflation is still high, forcing the US Federal Reserve (Fed) to raise the key rate further, with the aim of cooling economic activity, which consequently should lead to rising unemployment. There is no example in US economic history where unemployment increased by 0.5 % or more without triggering a recession. In our view, it will accordingly be very difficult for the Fed to achieve a soft landing of the economy.

Bonds

In times of crisis, safe bonds are intended to serve as a buffer in a diversified portfolio and cushion losses in equities. Unfortunately, they currently are not serving this purpose – on the contrary, they are making a considerable contribution to the losses in mixed portfolios. Both equities (S&P 500) and safe bonds (10-year US Treasuries) are down about 20 %. Over the past 100 years, a portfolio consisting of 60 % equities and 40 % bonds performed worse only in the year of the biggest

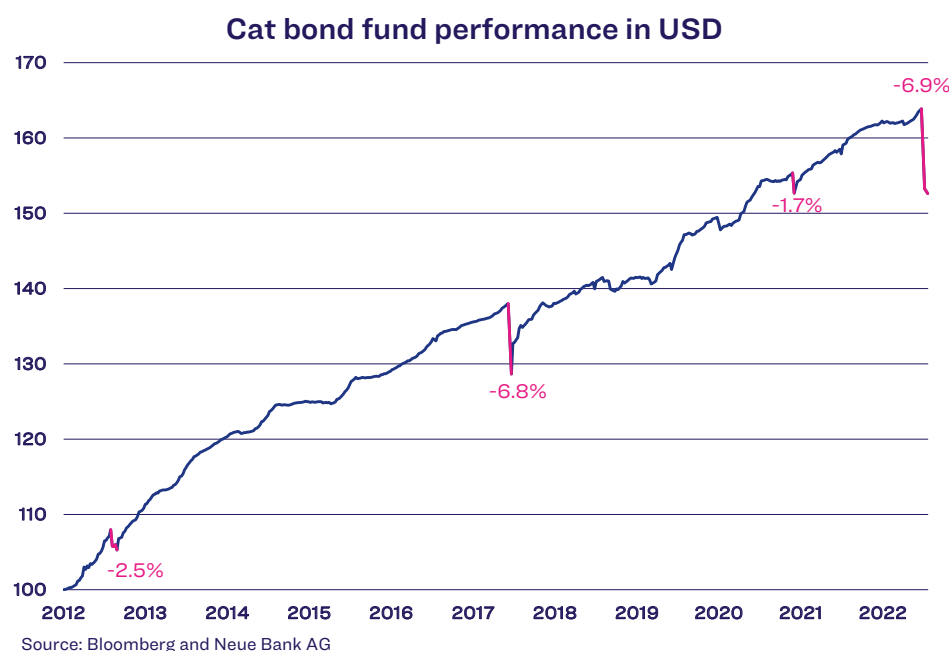
US economic crisis (Great Depression) in 1931, namely -27.3 %. This is accordingly an exceptional event. For this reason, we believe that bonds still belong in a broadly diversified portfolio and will again serve as a stabiliser in future. Especially after the sharp rise in yields, bonds have become significantly more attractive again.

Currencies

The US dollar is just below parity with the Swiss franc. Over the past eight years, the USD has repeatedly failed to reach this important mark and has never been able to break sustainably above it. We do not know whether it will be different this time, but our currency indicator is still signalling a stronger greenback. For this reason, we continue to refrain from partially hedging the US dollar in our CHF portfolio management mandates.

Alternative investments

Catastrophe (cat) bonds are some of the core investments in our portfolio management mandates, given that they develop independently of the bond and equity markets. Reinsurers offload extreme natural disasters (e.g. earthquakes, hurricanes, floods, etc.) to investors using cat bonds. A clear event is defined for each cat bond, e.g. magnitude 8.0 earthquake in Japan. If this event occurs during the term of the bond, a total loss is incurred; if not, the bond including interest is repaid. Here again, broad diversification is important, which is why we employ a fund. Until the end of September, the investment was able to deliver a positive performance contribution in the portfolio management mandates. But then monster storm Ian swept across Florida, causing severe damage. Cat bonds based on this event reacted immediately and priced in possible defaults.



In this case, the amount of damage caused by the floods is decisive. The definitive amount has not yet been determined, but it is assumed to be around USD 60 billion. If this figure turns out to be lower, prices will recover somewhat. We are convinced of the investment and are sticking with it. For investors, such a setback could be an interesting entry point, as the past shows (see chart).

PRIMUS–ACTIVE

With the PRIMUS–ACTIVE mandate, we offer you the opportunity to invest your assets according to traditional insights of well-known portfolio theories. We place particular emphasis on broad diversification, both in the strategic definition of asset classes and in the selection of securities. We also take into account that the financial markets are subject to long-term cycles and trends, and we strive to use these fluctuations to your advantage. The client advisors of Neue Bank AG look forward to showing you the special features of this asset management solution in a personal consultation.

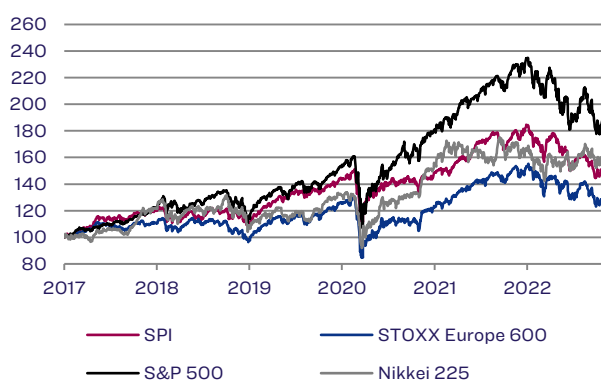
Key performance indicators for PRIMUS–ACTIVE Balanced in EUR¹

	31.08.2022	2021	2020	2019	2018	2017
PRIMUS–ACTIVE Balanced	-13.32 %	17.62 %	4.37 %	16.50 %	-3.07 %	6.65 %
Peergroup	-16.89 %	8.85 %	3.40 %	12.14 %	-7.19 %	4.36 %

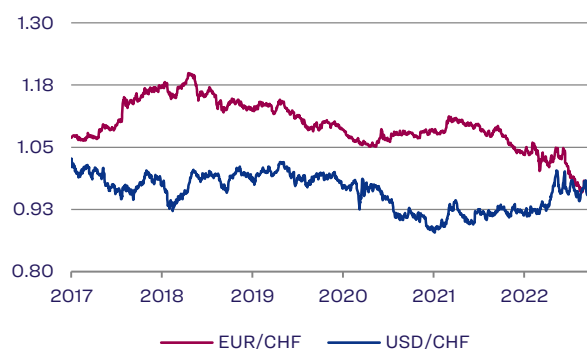
¹ Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: www.neuebankag.li S.E.& O.

Market data

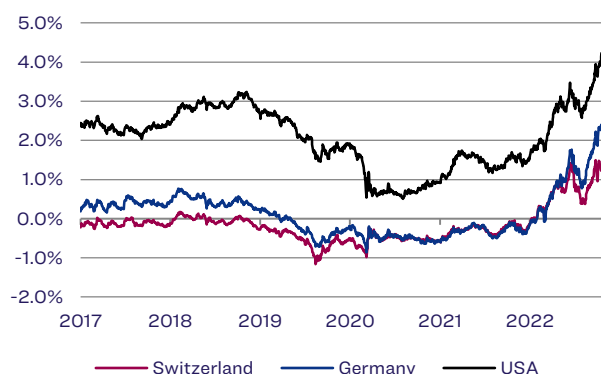
Stock market (indexed)



EUR/CHF and USD/CHF



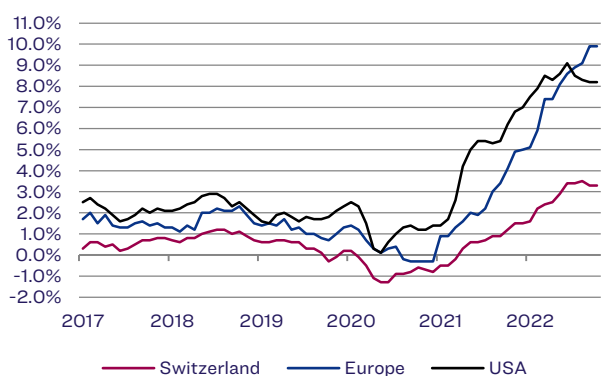
10-year government bond yield



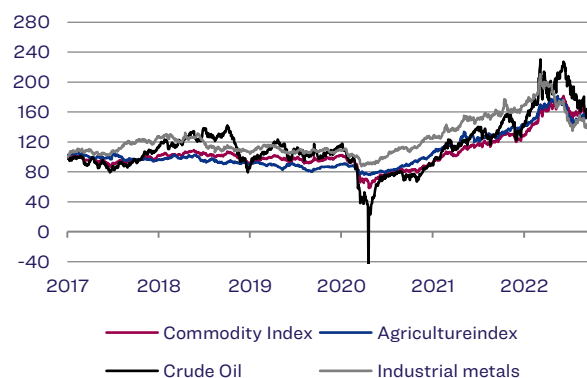
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

You can reach us at

Neue Bank AG

T +423 236 08 08

F +423 236 07 35

info@neuebankag.li

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