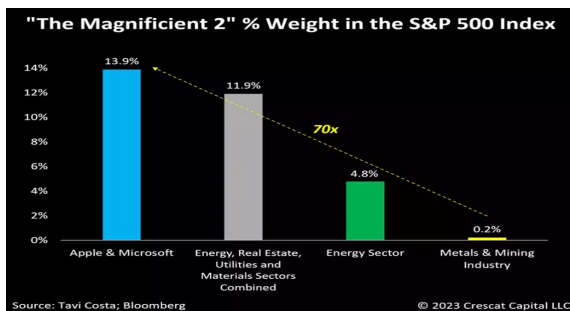
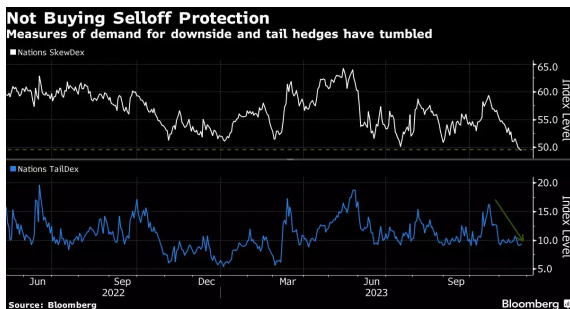


The US may be in the early stages of a new business cycle with positive economic fundamentals, albeit with some caveats for the lower & middle class. However, key nations are moving out of U.S. bonds, raising questions about the global demand for dollar reserves if geopolitical tensions increase further. Germany continues on a path towards a systematic energy crisis which its Green policies have thus-far failed to resolve.

Highlights



According to the head of derivatives strategy at RBC, demand for downside protection against a stock market correction, using various hedging metrics, is down to five-year lows. The costs of hedging have fallen over 10%, reaching their lowest points since tracking began in 2013. Demand for tail risk hedges that pay out when stocks drop up to 30% has also declined, reaching its lowest point since March. This would indicate market sentiment is confident, if a bit too cavalier.

Two companies, Apple and Microsoft, strikingly constitute a greater weight in the S&P 500 than the energy, real estate, utilities, and materials sectors combined. Additionally, each of the "Magnificent 2" are 70 times larger than the entire metals and mining industry, suggesting the extent to which mining companies have become insignificant. Typically, resource companies have an advantage during inflationary periods due to their ability to pass on higher commodity prices, making them better positioned to navigate inflationary environments vs companies lacking such pricing power.

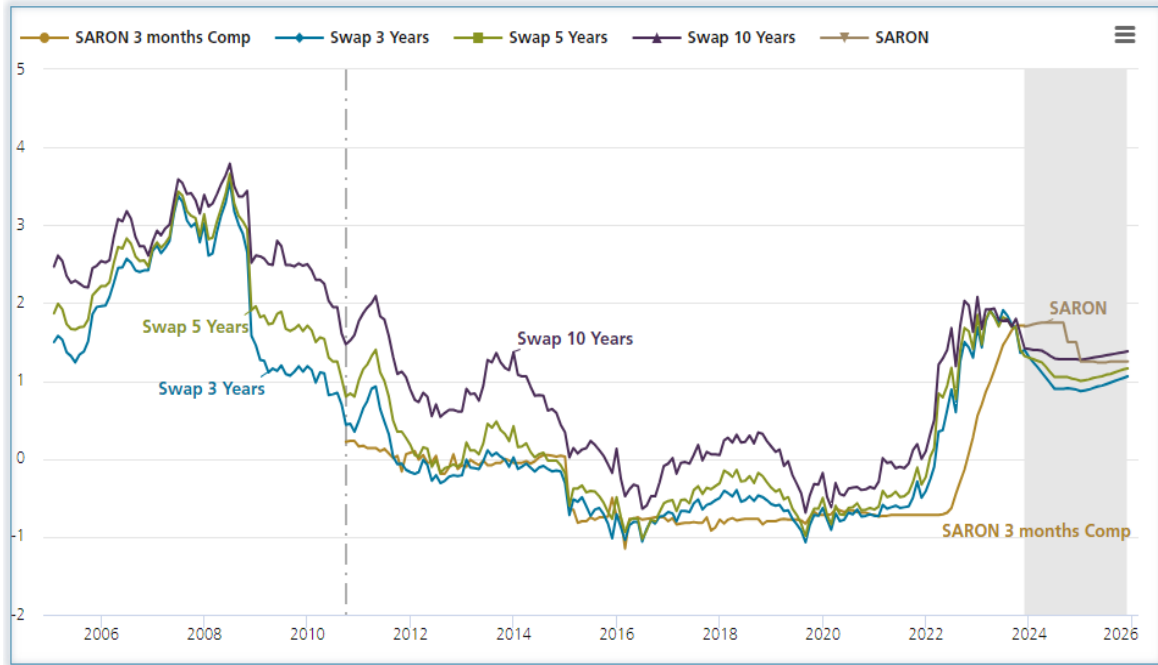
Precious Metals & Commodities

Precious metals indicate an ongoing upward trajectory. Copper, agriculture, and oil are expected to remain flat mid-term but seem bullish over the long-term, with the potential for a short-term rise in oil and agriculture.

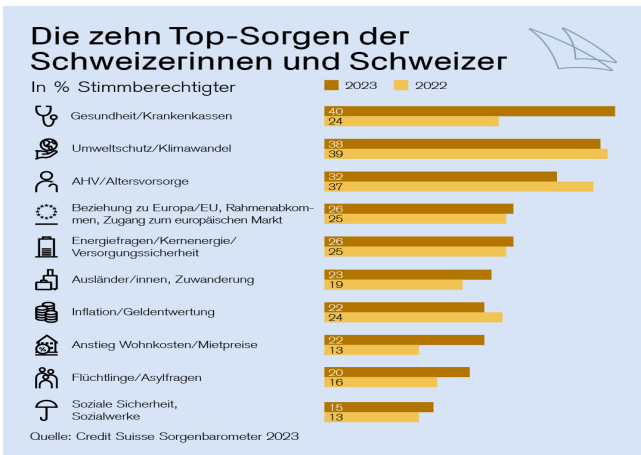
Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	↗	↗	→	↗	↗
Outlook	↗	↗	→	→	→
Trend	↗	↗	↗	↗	↗

Spot on Switzerland

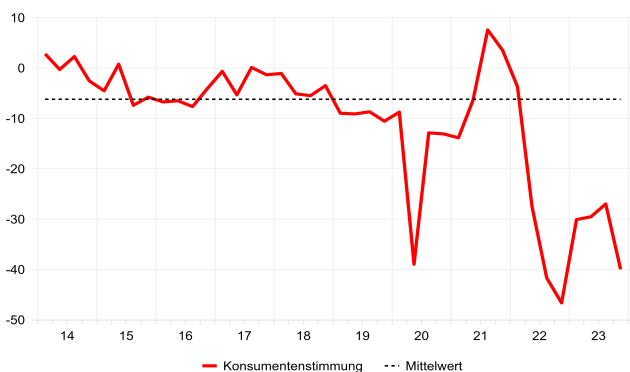
According to the forecasts of the most important Swiss financial institutions, the interest rate situation appears to be easing. The various assessments differ only in the speed of the decline to a level that is sustainable for the Swiss real economy in the long term. Overall, a flat yield curve with a key interest rate of 1 to 1.5% is expected. This rate is below the expected inflation but slightly above the yield sources freed up by economic growth. These estimates are based on stable overall economic development. Consumer behavior and global economic indicators are becoming increasingly gloomy and the speed and severity of the decline could intensify accordingly.



Swiss Highlights



The Swiss population is primarily concerned about issues such as health, environmental protection and old-age provision. Accordingly, inflation, rising housing costs, and security policy issues appear to have only just begun to reach the population, albeit with an overall upward trend. To a certain extent, voting behavior contradicts the survey results, and it will be interesting to see when the negative consumer sentiment will also be reflected in the worry barometer. In any case, it can be assumed that issues such as climate change and the relationship with the EU will become less important as sentiment declines.



According to the October survey, consumer sentiment in Switzerland is well below the previous month's figures and, at -40 points, is significantly lower than the long-term average. The downward trend has been accelerating since 2014. The rather optimistic economic forecasts contradict this trend and indicate a decoupling of real economic perception from the economic forecasts for private consumption and construction investment.

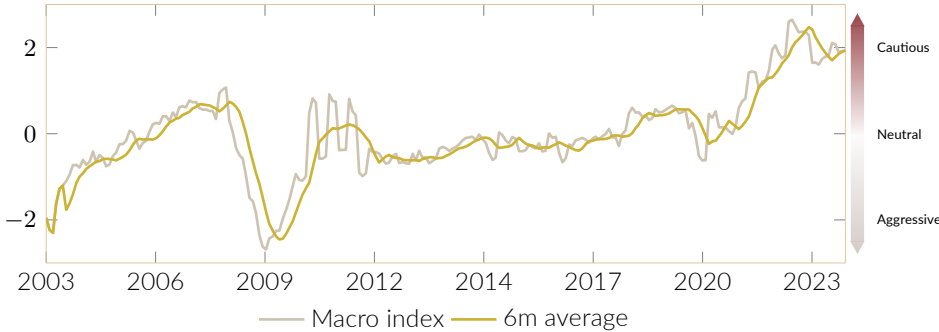
Switzerland

Switzerland's inflation rates have leveled out after dropping in early 2023. Unemployment rates are at year's highs, however profit margins have rebounded. Government bond yields have fallen over the year, while dividend yields have shown fairly stable growth.

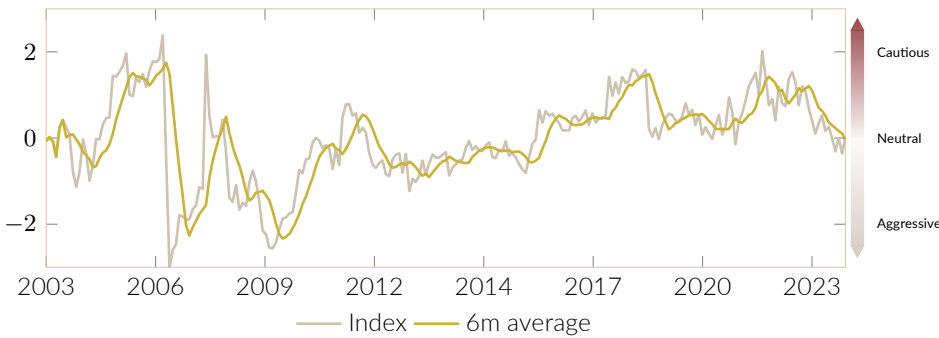
Switzerland

RISK: HIGH

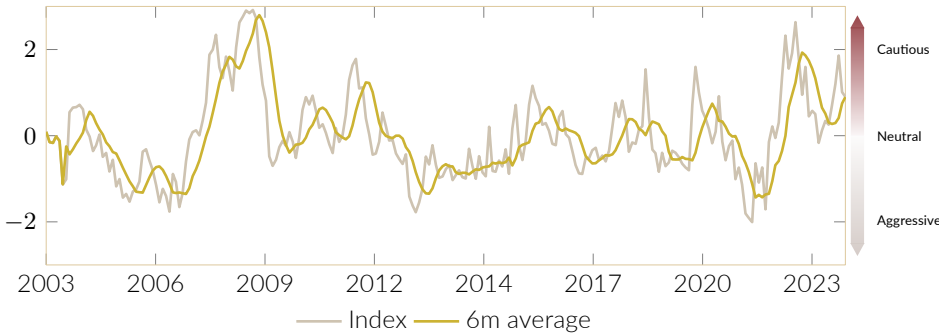
Business Cycle



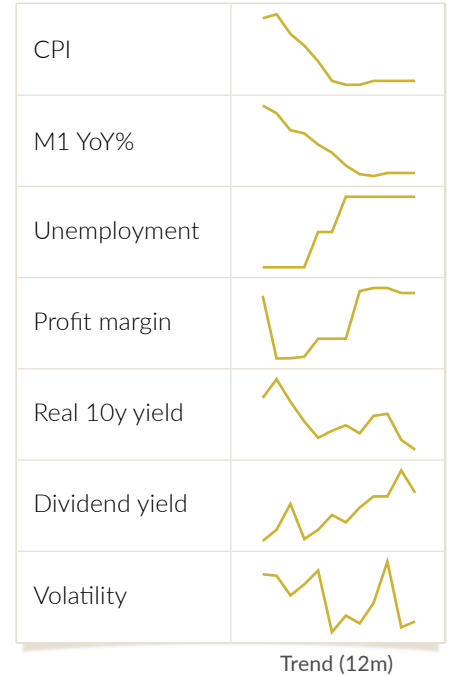
Investment Environment



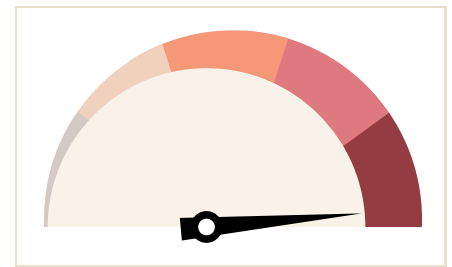
Market Behaviour



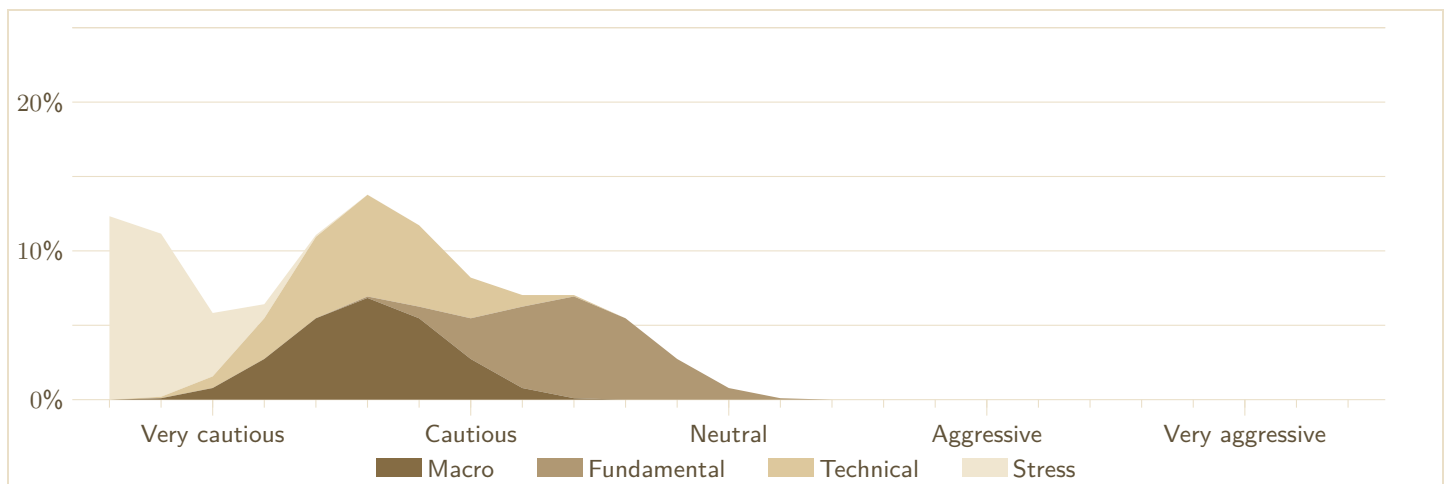
Key Macro Statistics



Monetary Stability



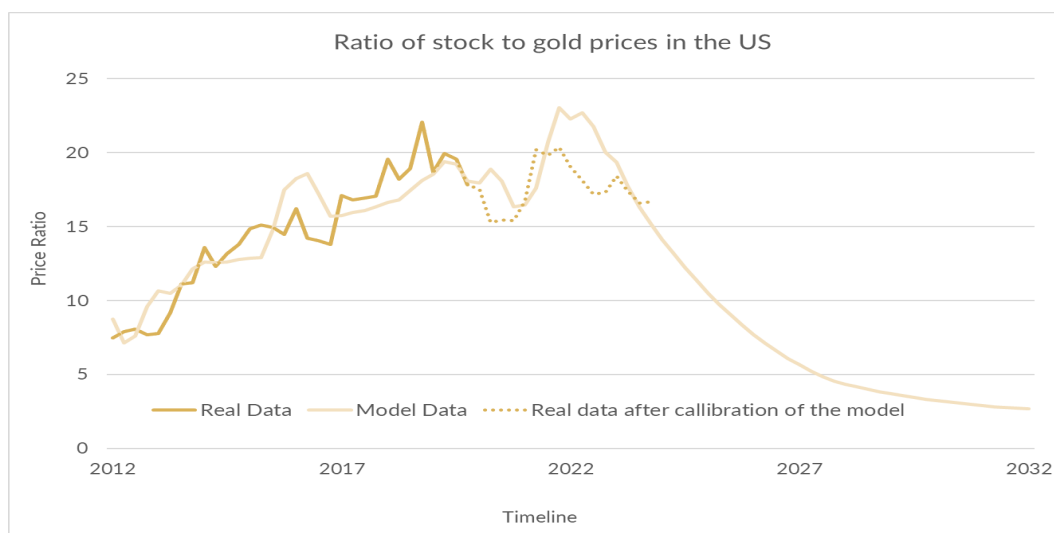
CH Market Risk Signal



Prediction Model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities. The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model was calibrated in 2019, and has not since been adjusted for new input data.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.



Gold Feature

Extra Interest Expense Per 1% Higher Interest Rates

Type	2023 (in USD bn)	as % of GDP	2000 (USD bn)	as % of GDP
Federal	316	1.20%	57	0.22%
States	12	0.05%	6	0.02%
Local Municipalities	23	0.09%	9	0.03%
Private Households	244	0.93%	78	0.30%
Non-Fin. Corporations	128	0.49%	47	0.18%
Total	723	2.76%	198	0.75%

Source: Real Investment Advice, Incrementum AG

The call for sustainability has echoed for decades amid catastrophic climate warnings, yet rapidly surmounting and unsustainable debt—particularly in the wake of Covid, the European energy crisis, and the war in Ukraine—is receiving insufficient attention by policy makers. The “whatever it takes” policy of 2020, piled on top of the adoption of MMT in 2001, and having “no alternatives” in 2008 only exacerbated pre-existing imbalances caused by 10+ years of lower rates and merely kicked the debt problem down the road.

Unfortunately, official debt figures tend to significantly underestimate their liabilities due to overlooking implicit obligations from programs like social security and other legally enshrined future claims. In Germany, as of Q4 2022, total explicit and implicit debt equaled 398.9% of GDP, a massive increase compared to the 68.7% reported figure. Paying off this (mostly) Covid-incurred debt, which increased implicit debt by nearly 180%, would require either a 16% revenue increase or a 13.8% spending cut, neither of which—from a political perspective—seem very desirable or feasible.

Added to the equation are rising interest rates which are forcing a budgetary reckoning. Comparing the additional cost per percentage point of higher interest rates both illustrates the massive debt growth, and explains central banks' inability to sustain higher rates without risking a serious debt crisis. Returning to a low-rate policy remains the most obvious way to avoid this crisis, but comes with the risk of even further imbalances and mis-allocation of capital. Additionally, if markets were to then price in inflation expectations, it would drive up inflation premiums across bonds and loans, causing the policy to become ineffective. The contraindication of reducing the debt crisis risk with low-rates induced inflation must be resolved, and policy makers face danger on either side of inaction or overly aggressive moves.