AMG Schweizer Perlen

SERAFIN
ASSET MANAGEMENT

Half-Year Report 2023

The first half of 2023 saw a continuation of the easing on the global stock markets as they recovered from the lows resulting from the Corona and energy crises since the fall of last year. Although interest rates rose worldwide and there were fears of an economic downturn, investors continued to focus on the long-term outlook for corporate earnings development.

Global purchasing managers' indicators already pointed to a marked slowdown in growth in the second half of 2022, which continued in the first half of 2023. However, there were signs of a possible recovery. While the industrial sectors continued to lose momentum, services began to recover.

But, consumer confidence in most industries remained fragile. Both private and government consumption remained the pillars of economic growth. However, consumer confidence was under pressure due to the geopolitical situation (war in Ukraine) and rising prices (energy crisis). The sentiment did not really recover and remained tense in the USA and Europe. Retail growth in these two economic regions was down or virtually stagnant.

In contrast, rising wages had a positive impact on consumption. In the USA, real disposable incomes rose and, thanks to the savings still available from the Corona crisis, consumption was supported. In the USA, loans also continued to contribute to consumer demand for the time being, although credit conditions tightened as a result of the banking crisis.

China recovered after the strict Corona measures were lifted and the country reopened. Still, the recovery was hesitant and fell short of investors' expectations. Consumer sentiment in China remained weakened and uncertainty persisted. Government stimulus helped to alleviate some of the shaken confidence. At least the real estate market did not deteriorate further, and prices slowly started to rise again.

The weakening of commodity prices had a positive impact on global financial markets. Base effects provided further relief for inflation, as a supply overhang dampened demand. In addition, the logistical situation with regard to supply and storage continued to normalize. Inflation expectations returned to their long-term level.

Despite the weakening of global economic data, global labor markets remained surprisingly quiet. Due to structural reasons, both the USA and Europe struggled with many job vacancies and high fluctuation. Although the growth rate led to some easing, unemployment rates did not rise significantly. The initially high wage growth now seems to be stabilizing, but labor availability remains a problem. In addition, the slowdown in economic growth has eased the burden on wage growth.

In the course of the first half of the year, there was some easing in monetary policy. The previously steep course of interest rate hikes was driven by the sharp rise in inflation. In the course of the first half of the year, expectations of interest rate hikes diminished. The Federal Reserve (Fed) took a pause on interest rates, while the European Central Bank (ECB) was still somewhat more cautious and China was already pursuing an expansionary interest rate policy. Short-term interest rates were mainly influenced by monetary policy measures, while long-term interest rates were under pressure due to recession fears. Under these circumstances, the yield curves behaved inversely. A special case was the yield curve in Switzerland, which showed hardly any carry effects. Overall, yield curves rose compared with previous years.

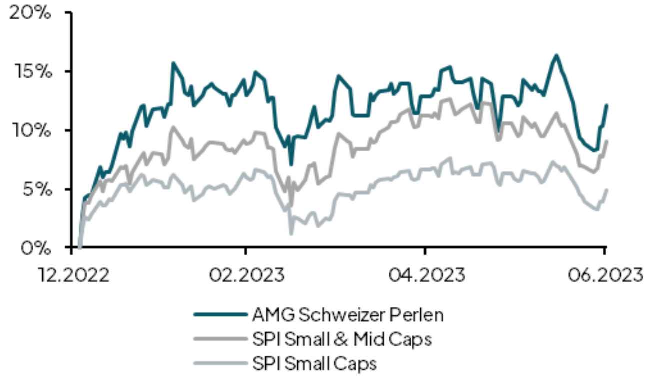
By contrast, the significant increase in the money supply of recent years appears to be over. In the USA, the M1 money supply is even declining slightly. In the short term, however, the expansion of the money supply was driven by liquidity needs. In China, the M2 money supply continues to be driven by asset accumulation.

The economic downturn increasingly weighed on the operating performance of companies and put pressure on profit margins. Price increases could only partially offset the rise in procurement costs. After some stock analysts were too negative in their reports on first-quarter results and many companies exceeded reduced expectations, there was a wave of earnings estimate revisions. However, the trend appears to be reversing, and declining profits are expected in the broad market in the coming quarters. Lower inflation, a weaker economy, and slower sales growth are leading to weakening pricing power. Although purchasing cost headwinds are easing, higher wages are weighing on margins.

Review

The AMG Perlen Schweiz fund performed positively in the first half of the year, outperforming the SPI Small & Mid Cap Index. Due to the clear focus on growth stocks, the fund benefited from the upswing in this segment.

Fig. 1: Performance comparison of the 1st half year 2023



Source: Serafin, Bloomberg

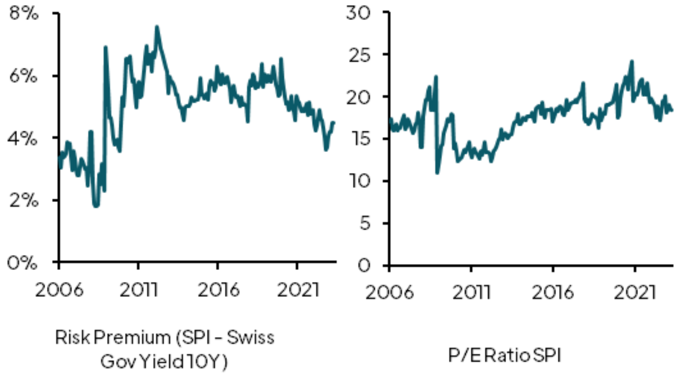
VAT Group and Lastminute.com, which recovered from the short-time pay affair, led the field of positive performers. SFS Group, Straumann, Inficon, Aryzta, Zehnder, Kardex, and Lem also performed very positively. On the other hand, Peach Property, Huber+Suhner, Komax, and Mobilezone performed disappointingly.

During the reporting period, we further optimized the portfolio to strengthen the profile in growth stocks. This was achieved by investing in new positions such as Tecan, Sensirion, and AMS-Osram. We also took advantage of the price weakness in stocks such as Comet or Huber+Suhner to increase positions. We divested from stocks that disappointed, such as Arbonia or Dätwyler. In Swissquote, we realized the gains.

Outlook

In 2023, the economic recovery continues and the stock markets anticipate part of this recovery. Inflation is decreasing and the interest rate cycle is coming to an end. Nevertheless, earnings development remains a key issue for the stock markets. Based on earnings estimates for 2023/24, equity markets are fairly valued. However, earnings revisions and stock market performance lead to an increase in valuation multiples.

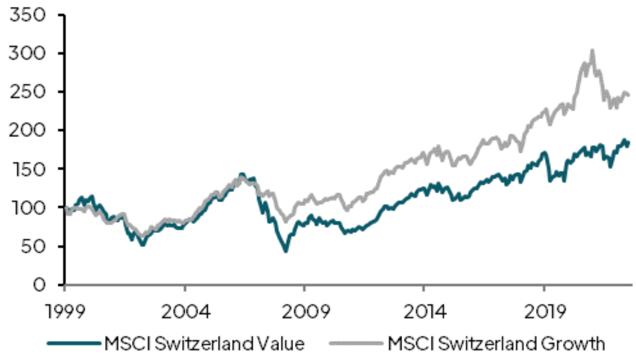
Fig.2: Valuation on the Swiss equity market



Source: Serafin, Bloomberg

We are also encouraged by the continuing skepticism among investors. Although the number of investors expecting the end of the interest rate cycle or even interest rate cuts is increasing, positioning on the stock markets is still far from "bullish". Based on this constellation, we expect the stock markets to continue to rise in the second half of the year. Should the impression strengthen that a recession can be avoided worldwide and the interest rate markets approach their peak, the bull market in growth stocks will continue.

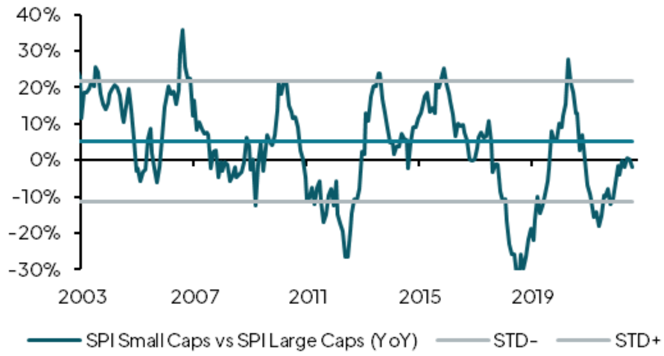
Fig. 3: Growth stocks versus substance stocks



Source: Serafin, Bloomberg

In addition, we continue to see catch-up potential in small-cap stocks.

Fig. 4: Small-cap stocks signal further potential



Source: Serafin, Bloomberg

We would like to express our sincere thanks to our investors for the trust they have placed in us.

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