FK Market Commentary

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Dear clients of Finanz Konzept AG, dear readers!

After more than a decade of low interest rates, seemingly infinitely rising technology stocks and low inflation, in 2022, we experienced a veritable paradigm shift that brought little joy to most investors. Inflation rose dramatically, and central banks globally responded with swift countermeasures, raising interest rates at breakneck speed. Hardly any asset class was able to deliver positive returns. Sectors that were thought to be dead, such as energy, due to the energy shock from the Ukraine war, or well-positioned banks, due to the prospect of rising interest margins, were the exceptions. It was much less encouraging for highly valued and interest rate sensitive investment sectors such as real estate, bonds and growth stocks. These circumstances have hit cryptocurrencies the worst, as well as the entire new blockchain sector.

The worst now seems to have been priced in and the markets have survived the first stage of revaluation in the context of high inflation, tighter monetary policy and geopolitical uncertainty. 2023 should offer opportunities again, at least in selected regions, asset classes and sectors. Nevertheless, this year remains very challenging. In addition to declining inflation, economic growth also remains down. After the initial euphoria over falling inflation and thus the end of interest rate hikes, economic growth will be the decisive factor. Interest rates signal a recession later this year. A recession has rarely been good for the stock markets, but it offers new opportunities in bonds, which are finally offering appealing yields again after a long period of dry spell.

In this market commentary, we take another look back at the eventful year, evaluate the risks and point out where opportunities can be identified and implemented this year.

We wish you a thrilling read!

Yours sincerely

Lars Oberle

Director of Finanz Konzept AG

·INTERNATIONAL·
INVESTOR
AWARD WINNER 2020

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In Short

Money- and Capital Markets Capital market interest rates in % (10y government bonds)

	30.06.22	31.12.22	6 M	12 M
CHF	0.98	1.40	↗	→
EUR (DE)	1.37	2.36	↗	→
GBP	2.35	3.59	↗	→
USD	2.97	3.74	→	↘
JPY	0.225	0.41	↗	→

- Key interest rates remain at an elevated level until the inflation rate falls towards 2%
- The Japanese central bank also starts to raise key interest rates
- An inverted yield curve points to a recession

We recommend:
- Medium-term bonds in EUR and CHF (7-10 years)
- Building up long-term bonds in USD, GBP and CZK
- Buying bonds into weakness

Stock Markets Indices

	30.06.22	31.12.22	6 M	12 M
SMI	10'703.25	10'998.5	→	↘
EUR STOXX 50	3'451.54	3'909.20	→	↘
FTSE 100	7'170.75	7'606.01	→	↘
S&P 500	3'788.98	3'839.50	→	↘
Nikkei	26'384.26	26'094.50	↗	↘
DAX	12'783.77	14'263.68	→	↘

- The Ukraine conflict and high inflation figures are causing uncertainty among investors and investors
- We are in a bear market, with sometimes strong corrections
- A recession in the second half of the year is very likely
- China is already ahead of the curve (recession)

We recommend:
- Defend portfolio and hold sufficient cash reserves
- Wait for the opportunity to enter / increase position
- Focus on quality/value stocks
- Slowly build up Chinese equities

Forex Markets Currencies

	30.06.22	31.12.22	6 M	12 M
EUR / CHF	1.001	0.99	↘	↘
EUR / USD	1.048	1.05	↘	→
EUR / JPY	142.25	137.60	↘	↘
GBP / CHF	1.1629	1.12	↘	↘
USD / CHF	0.955	0.94	→	→

- US dollar falls on view of lower than expected inflation figures
- EUR/CHF parity
- Euro recovers towards end of year against USD and CHF

We recommend:
- Maintain USD and CHF
- Overweighed JPY
- Take profit in EUR

Commodities in USD

	30.06.22	31.12.22	6 M	12 M
Crude WTI (USD)	114.81	79.33	↗	↗
Gold (USD)	1'807.31	1'833.85	↘	↗
Silver (USD)	20.27	24.35	↘	↗
Platinum (USD)	895.50	1'076.50	↘	↗

- Gold depreciates only minimally
- Rising energy prices due to China's recovery
- Geopolitics causes uncertainty in commodity markets

We recommend:
- Reduce gold overweight
- Neutral weighting in commodities

Crypto-Markets

	30.06.22	31.12.22	6 M	12 M
BTC (USD)	20'076.03	16'720.20	↗	↘
ETH (USD)	1'092.96	1'215.45	↗	→
XRP (USD)	0.331	0.35	↗	↘
SOL (USD)	31.96	9.93	↗	↘
LTC (USD)	51.85	75.60	↗	↘

- Crypto market has crashed
- Risk appetite and confidence remain low
- FTX crash strengthens distrust

We recommend:
- Build position Bitcoin/Ethereum in case of further major corrections

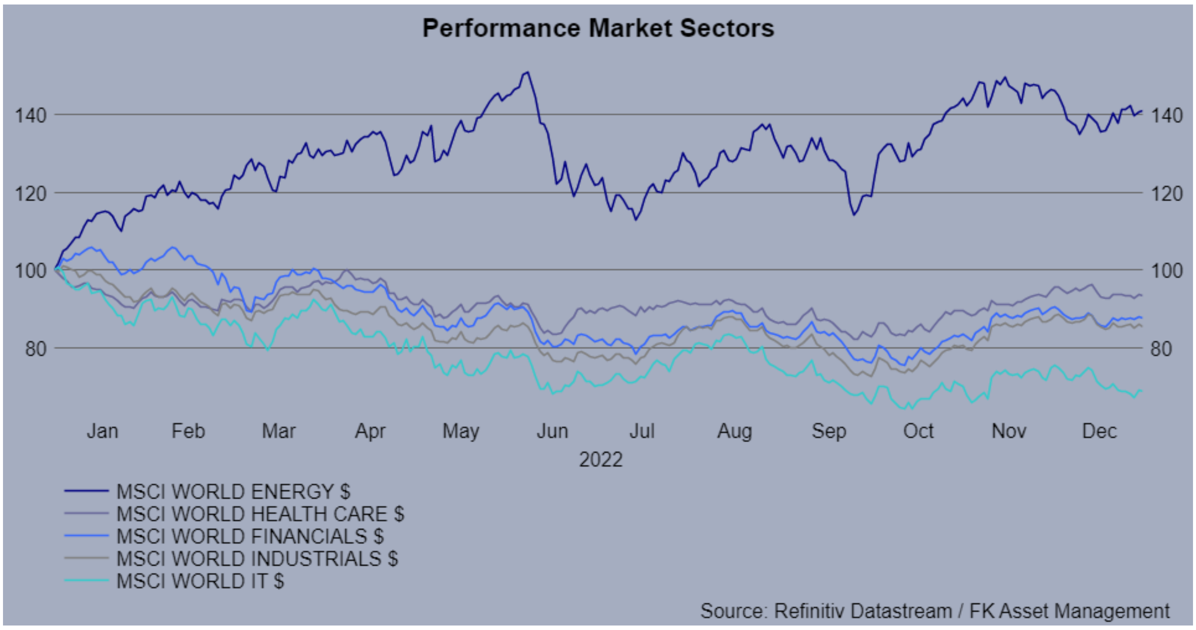
Technology stocks: Pride comes before the fall

Since January last year, the stock market has been in a bear market. The downward trend that became apparent in the first half of the year and intensified again at the beginning of the second half. Thus, the Swiss Market Index and Dow Jones fell to their annual lows at the end of September. The catalysts were the ongoing Ukraine crisis, the continued massive global inflation and the associated interest rate hikes. The stock market's inflation dependence became even more apparent in early November, when the stock market posted record daily gains after lower-than-expected inflation data were released.

Technology stocks in particular, the darlings of investors in the previous decade, have to look back on a loss-making 2022. FAANG stocks, the acronym for META (formerly Facebook), Amazon, Apple, Netflix and Alphabet (formerly Google), until last year a guarantor of high returns, plunged an average of 40% this year, with the entire tech sector plunging 34% globally. META (Facebook) which dominated the social medias for the last decades, even had to cope with a loss of 71%. The paradigm shift and the realization that growth is not infinite can also be seen in the mass layoffs at various tech companies that unhesitatingly increased staff in previous years. Sector-wise, there was only one sector that was worse off: the telecoms sector with a drop of 37%

Alongside the big losers, there are of course also the big winners, even in times of crises. For example, the energy sector rose 23% globally this year. Driven by the coal and oil-gas industry, this sector performed best in 2022. In previous years, this sector was avoided by investors, also due to sustainability considerations of investors. Whether this paradigm shift from technology to energy is sustainable remains to be seen. The dragging Ukraine conflict is propping up the commodity sector, but every conflict comes to an end sooner or later. The renewable energy sector also benefited from the energy crisis in 2022, showing growth rates of around 20% in the EU. While the boom in traditional energy is mainly due to the current geopolitical situation, the growth of renewable energy stands out as a more sustainable trend, driven by growing attention to climate change and dependence on conflict countries for fossil fuels.

The chinese government, which until the end of the third quarter still operated a zero-covid policy, relaxed its measures towards the end of the year and is now taking steps to boost the economy again. China's Hang Seng Index rose 7% on the back of easing measures announced in early November. The tourism industry also saw growth, with China Eastern Airlines up 6% and casino operators such as MGM China up around 8%. Stronger economic growth can be expected in 2023 if China's covid policy continues to ease.



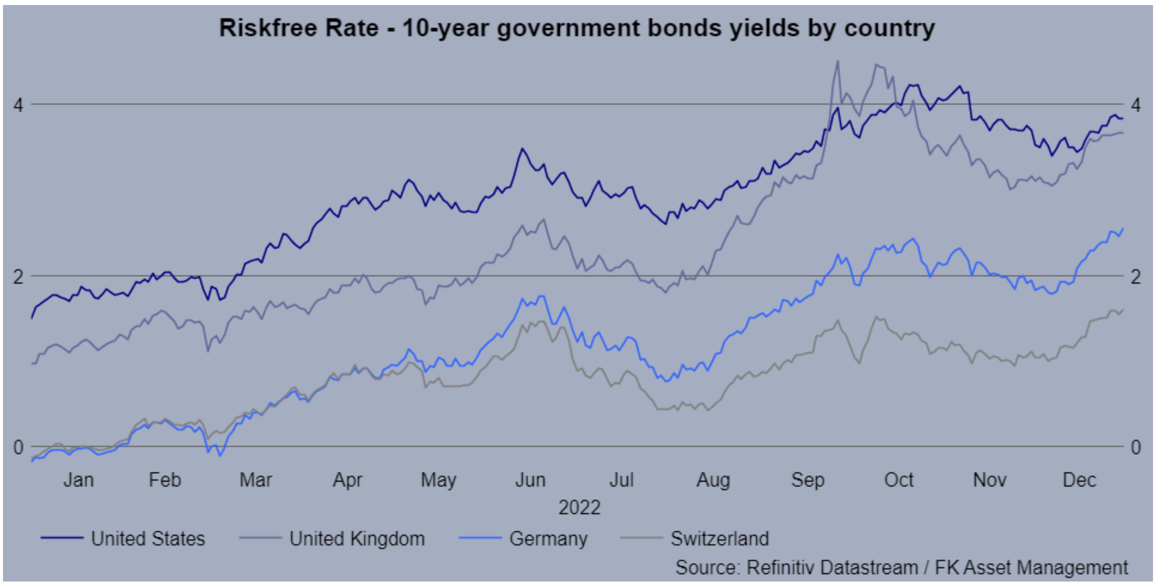
Bonds: Crash in the bond market

Most publications focus on the equity market, with a global market capitalization of USD 69 trillion. Less frequently, the focus is on the market for fixed-income debt securities. However, this market is three times larger with a capitalization of around USD 224 trillion. This supposedly conservative asset class has had a terrible year from an investor's perspective. Considering its conservative nature, it may very well be considered as a crash. After the zero-interest rate policy caused many investors to flee into long-term bonds, these investors were completely caught on the wrong foot by the abrupt shift of the central banks. For example, a 30-year German government bond lost 45% and a 30-year U.S. government bond lost 30%. Even with 10-year government bonds in USD, EUR and CHF, the average loss at the end of the year was around 20%.

The US central bank (Fed) continued to raise key rates in the second half of the year, emphasizing on several occasions that a cut in key rates would only be considered once inflation had been tackled on a sustained basis. With an adjustment of 50 basis points in December, the key interest rates now stand at 4.25%-4.50%. The measures seem to be working. The Fed's rate hikes brought inflation down from 9.1% in June to 7.3% at the end of November and it continues to fall. This is still far from the central bank's inflation target of 2% but shows the effectiveness of the measurement. In the coming months, short-term interest rates should rise only marginally. The signal that long-term rates are lower than short-term rates, also known as the inverse yield curve, leads market participants to expect a recession in the course of the year. In the past, this indicator has correctly predicted a recession by 80%. Since the real economy reacts to higher interest rates with a longer delay, it would be too early to feel safe due to the positive sentiment of the first few days of the year. The combination of attractive interest rates and a likely recession in Western countries argues for an overweight of long-term bonds.

In Europe key interest rates and inflation are at historically high levels. The immediate proximity of the still ongoing Ukraine-Russia war is causing a far greater shock to the economy than in the U.S., and a recession already has gained a foothold. Like the Fed, the ECB has now also raised key interest rates. With the first increase in July, the ECB lagged behind the Fed. The current key rate of the ECB is at 2.5%, this after an increase of 50 key points on December 15. The inflation rate is also in the EU at record levels at 10% in November. Since the ECB started to raise interest rates later, the inflation trend in Europe must be followed very closely to find the right time to buy long-term bonds.

Switzerland, with inflation of 3% in November, is much less affected than neighboring countries, but is still above the inflation target of 2%. In order to get closer to this target, the SNB tightened monetary policy further. On December 15, 2022, it raised the key interest rate by 50 basis points to 1% and also expressed its willingness to be active on the foreign exchange market if necessary.



Foreign exchange: The year of parities

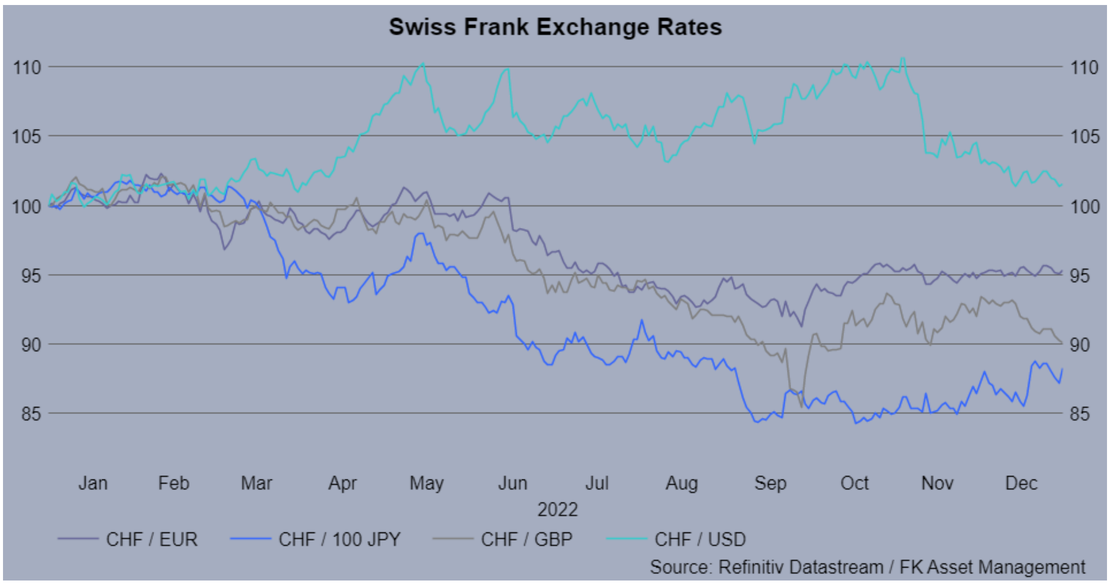
The foreign exchange market was not spared turbulence either. The strong movements in the US dollar were the starting point of an extraordinary year. After a strong rally in the first half of the year, there has recently been a sharp decline against the EUR, CHF and JPY. This decline was due to a combination of factors, including political uncertainty in the US, weaker economic data and a fall in US government bond yields and inflation. Meanwhile, other currencies, such as the Australian and Canadian dollars, also strengthened significantly against the U.S. dollar, mainly due to the stabilisation of their economies. In addition, the British pound, which has been battered under Brexit pressure, showed positive trends again against the dollar. The British economy is not yet signaling any sustainable recovery trends and inflation continues to remain at high levels, which argues against an overweight position.

The euro in particular has experienced a period of relative strength on the foreign exchange market in recent months, gaining above all against the U.S. dollar. This trend was mainly triggered by falling inflation and the narrowing interest rate differential versus long-term US government bond yields.

The Swiss franc has remained stable against the euro at a level of 1.02. Towards the end of the year, the franc also appreciated again against the US dollar. Switzerland's economic data as well as inflation remain very stable. The Swiss franc more than lived up to its image as a crisis currency last year.

The Japanese yen also recently awoke from its slumber. The Japanese central bank had to give in to the pressure and was the last of the major central banks to raise its interest rate outlook to combat inflation. The strongly undervalued yen will be able to provide a positive suprise this year.

The cryptocurrency market has not been a place for the faint-heartet over the past 12 months. Bitcoin at an all-time high of $70,000 in October 2021, stood at around USD 17,000 at the end of the year. For a long time, cryptocurrencies benefited from the ideal mix of a zero interest rate environment, a record high flood of printed money and general speculative fever. This wind has turned 180 degrees in 2022 and inevitably led to horrendous losses. For most other cryptocurrencies, the development looked even more tragic. The worst should be over, but the environment remains less than ideal for cryptocurrencies due to the dangers of recession and shrinking money supply globally. Moreover, the uncertainty surrounding the FTX collapse has also further strained confidence regarding the future of decentralized digital currencies.



Commodity market turmoil

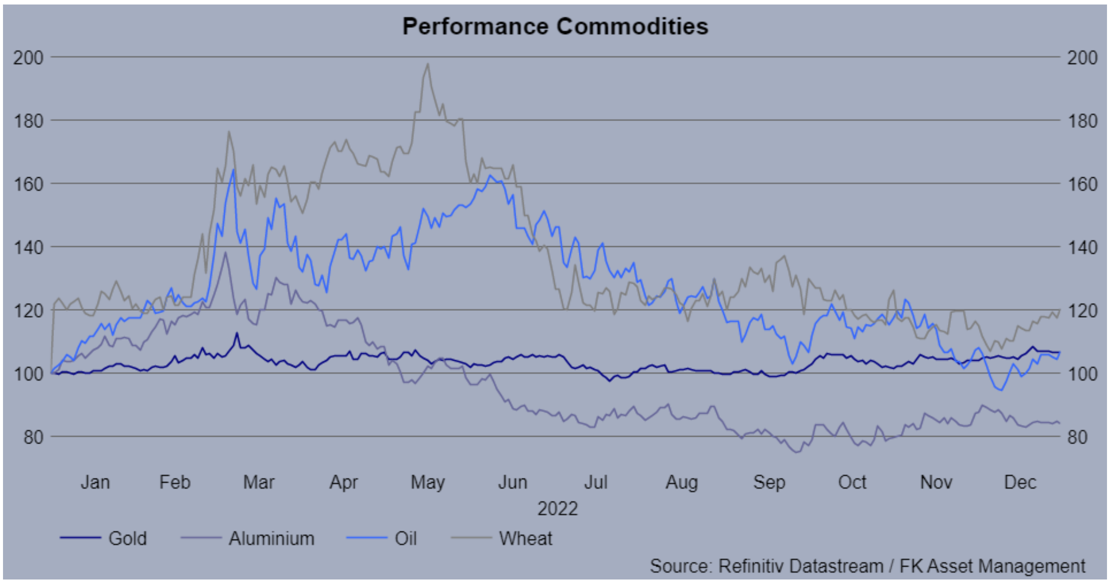
Over the past six months, the commodity market has been very volatile. Oil prices were particularly unpredictable, peaking in July 2022 before then returning to normal from August onwards. On the one hand, covid restrictions in China had inhibited demand, and on the other, the shock of the outbreak of war in Ukraine was no longer reflected as strongly in prices in the second half of 2022. A warm winter and diminishing fears of an impending energy crisis also led to a normalization of prices.

The gold price followed a similar pattern. Here, too, the war in Ukraine led to an annual high of $2,000 per ounce, but already in March, before the strong U.S. dollar and rising yields put pressure on the gold price and triggered a correction of almost 20%. Conversely, falling yields and a weaker dollar led to a recovery again towards the end of the year, so that there was hardly any change over the year. This development was similar to that of precious metals for several other commodities:

Aluminum futures traded around $2,400 per ton after recovering from a one-year low of $2,100 reached in late September, as major consumer China stepped up efforts to support its economy, fueling speculation of a pickup in demand. On the supply side, the London Metal Exchange decided not to ban trading of Russian metal and not to stockpile it in its warehouses. Aluminum prices have fallen about 40% since hitting a record high of around $4,000 in March, as fears of a demand-side global recession triggered by aggressive tightening policies by major central banks persist.

The grain market was also tumultuous. Wheat prices were particularly volatile, falling from a high of 12.18 euros per bushel in early June to a low of 6.89 euros per bushel in December. Since then, prices have recovered slightly and are currently trading at around 7.20 euros per bushel. The U.S. Department of Agriculture lowered its forecast for global wheat consumption, at the same time production remains at record levels. This certainly does not speak for a further rally this year.

The sharp rise in raw material prices in the first half of the year was decisive for the development of inflation. Energy price changes have a strong impact on virtually every sector of the economy. Cost increases are borne almost entirely by end consumers. It is therefore hardly surprising that as energy prices fell in the second half of the year, inflation also declined.



Excursion: FTX Crash – Crypto does need Regulation

Over a billion in customer funds vanished into thin air on November 11, 2022 due to the bankruptcy announcement of the second largest crypto exchange FTX. Due to the mismanagement of the founder Sam Bankman-Fried, customer funds held and traded on the online exchange were invested in high-risk transactions of the partner company Alameda Research. That this company was managed by his young and inexperienced (ex-) girlfriend is only mentioned in passing.

The high-risk appetite of the managers of the partner company, in which Sam Bankman-Fried was also involved, tragically became their undoing and the entire fortune was vaporized in a few days. Thus, also negligently misappropriated customer funds. In any regulated financial institution, such conflicts of interest would never have been tolerated by the supervisory authorities.

Due to the novelty of cryptocurrencies and the new online exchanges that emerged with them, which are often domiciled in poorly regulated locations, there was little protection for the blameless customers, who have now lost all their assets that they thought were safe there. On the one hand, this whole situation can be seen as a gross failure on the part of the responsible supervisory authorities, but on the other hand, it is also clear that this was a criminal act on the part of the management. However, it is now obvious that crypto exchanges also need to be more regulated and due diligence strengthened. Even if stronger regulations are generally not always received positively due to increased bureaucracy and mostly redundant protocols, a basis must emerge for the trading of cryptocurrencies, which is solid and reliable to protect the end customers from such situations.

Due diligence also needs to be taken more seriously, especially in this space. In light of the bankruptcy, many venture capital firms that invested a lot of money in FTX early on have also come under the spotlight. This is because it has come to light that several $100 million of investor money was invested in FTX without any real research. For example, it was leaked that in one of the pitches between Sam Bankman-Fried and Sequoia Capital, one of the largest venture capital firms in the world, video games were played during negotiations instead of discussing business plans. FTX's bankruptcy is the largest single loss in Sequoia Capital's otherwise glorious history.

Had the FTX crypto exchange been even minimally regulated, customers would not have had to bear the burden of losses, at least not to such an extent. In the investigations following the bankruptcy, it quickly became clear that no accounting or other organizationally normally standard processes were kept. There was also no transparency regarding customer funds and their management. Every financial institution in Europe, no matter how small, is monitored and controlled far better than this multi-billion-dollar colossus. We are curious about the further developments of the regulatory authorities in America, Europe and Asia, which are now working together on solutions after this disaster.

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1. Discussing of your needs

2. Identifying your risk profile

3. Strategy decisions

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FK Execution Only Mandate

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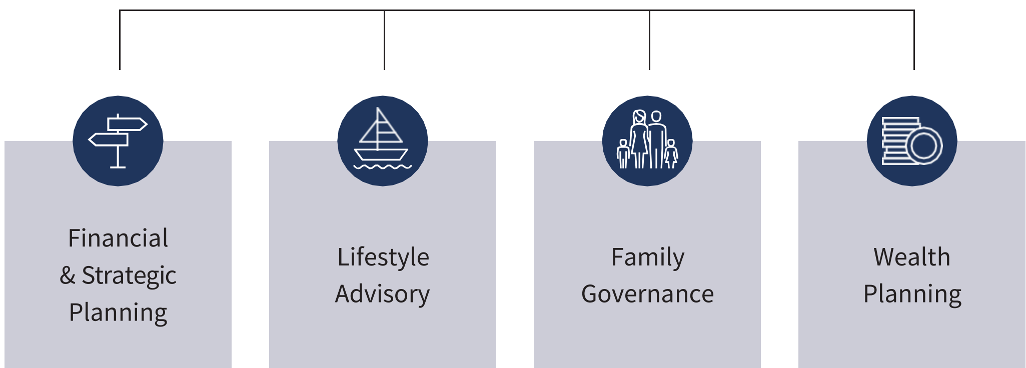

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