QUARTERLY REPORT:

ECONOMY AND MARKETS

Q2 2024 - BANCA DEL SEMPIONE

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PRIVATE BANK
SINCE 1960

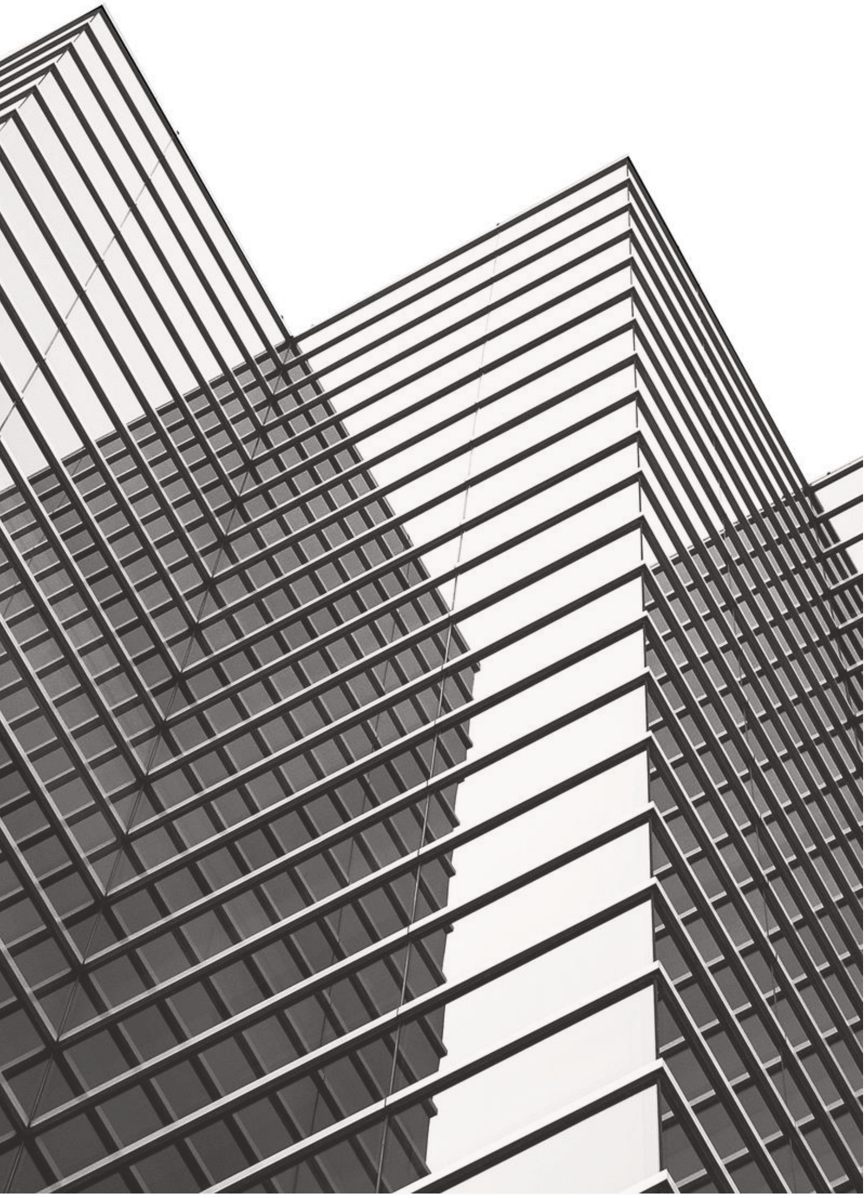


TABLE OF CONTENTS

MESSAGE – FINANCE AND MARKET DIVISION

03
MACROECONOMY

05
FINANCE

08
DID YOU KNOW THAT...

09
EXPERT TALK

MESSAGE – FINANCE AND MARKET DIVISION

The same themes and trends that characterised the financial markets in the first quarter have reappeared in the recently concluded one.

Although an expansionary cycle has begun, with several central banks already easing monetary policy, a hesitant attitude remains, aimed at verifying clearer indicators regarding the return of inflation to the 2% target. In the face of reduced monetary rates, particularly for the Swiss franc and the euro, where central banks have already lowered the cost of money, there has been an increase in yields on medium-term maturities alongside considerable volatility in the longer parts of the curves.
In recent weeks, following the European elections, French debt securities have dominated the bond market: feared political instability has caused a significant widening of the spread of these securities compared to the traditional benchmark of the German Bund.

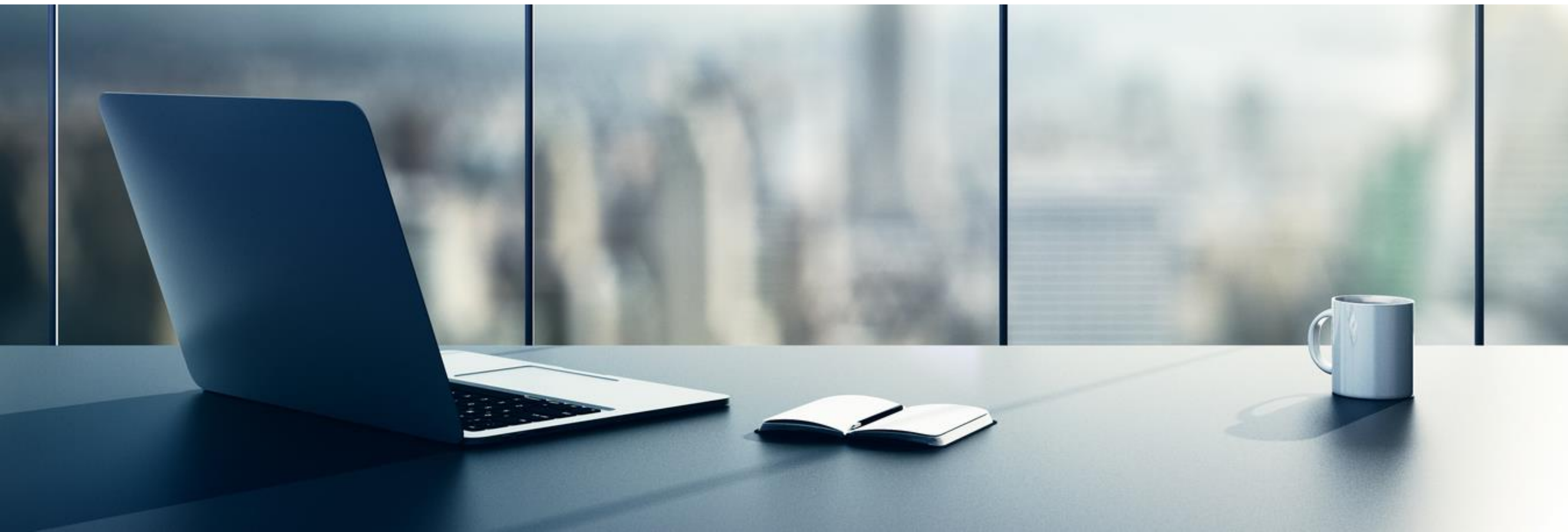
On the equity market, stocks related to the technology and artificial intelligence sector continued to be the main focus of flows. The US Nasdaq, having surpassed the highs before the 2022 crash, regularly extended its quotations, setting new records daily.

Geopolitical tensions do not seem to significantly affect economic growth and investor confidence. On a political level, in addition to the European elections, the election of a new US president is approaching. The feared inadequacy of the current president, Joe Biden, due to evident signs indicating a deterioration in his cognitive condition, has increased the chances of Donald Trump's re-election, causing a notable increase in US bond yields due to the feared widening of the US deficit and debt that "*Trumpian*" policies could provoke.

We continue to believe that, in the risk-return ratio, there is greater room in the current context to achieve returns from bond markets, without neglecting the opportunities offered by the stock market. A true rotation of themes in the equity sector has not yet been observed, and the concentration of investments caused by the increasing number of passive investors requires caution in choices aimed at finding value in stocks or themes not yet present in current investment trends.

PIETRO SCIBONA

DEPUTY GENERAL MANAGER
HEAD OF THE FINANCE AND MARKETS DIVISION



MACROECONOMY

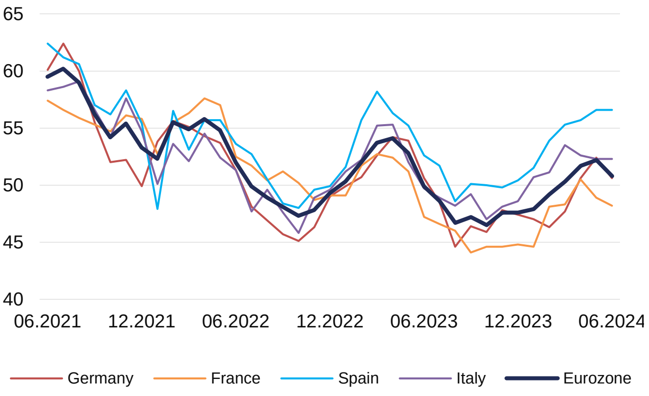
Global economic scenario

In the just-concluded quarter, the economy continued on the path towards **solid, global growth**, distancing concerns of a prolonged recession.

In 2023, according to World Bank data, **global GDP growth** stood at 2.7%, and economists surveyed by Bloomberg now forecast a further 3% increase during 2024. In the US, during the first quarter, real GDP showed growth of 0.4%, with signs of weakness in private consumption and the labour market normalising following the post-Covid surge in demand for workers. Meanwhile, more mixed signals are emerging from the European context, with quarterly GDPs recording stagnant or declining growth for Germany and France. However, these countries have seen improvements in the Purchasing Managers' Index (PMI), which reflects the expectations of operators in the main economic sectors, exceeding 50, which typically indicating a new phase of economic expansion.

Evolution of European PMI

Index; 06.21 - 06.24



Source: Bloomberg

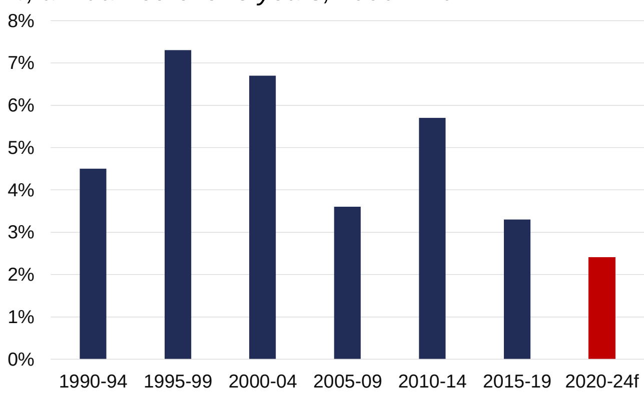
Global inflation shows significant progress. Despite forecasts of structurally higher inflation, the latest price index data indicate a movement towards central banks' targets. In the US, inflation is decreasing again after an unexpected rise in early 2024. In Europe, on the other hand, several countries are experiencing price developments at or below 2% per annum, while others are approaching this target.

After several months of static monetary policies by major central banks, several have started to reduce interest rates. Among them, the **ECB** has implemented its first cut of 0.25% to the reference rate, bringing it to 3.75%, with the aim of strengthening the European economy and the prospect of further cuts if data confirms inflation nearing targets. Meanwhile, the British **BOE**, the Australian **RBA**, and notably the US **Federal Reserve** are maintaining their current rate levels. The latter, despite slightly increasing inflation expectations and reducing the number of expected rate cuts in 2024, continues to monitor the labour market and inflation to determine the appropriate timing for the first cut. On the other hand, the **BOJ** has decided not to further tighten its monetary policy nor to alter its current government bond purchase programs.

According to an analysis by the World Bank, **international trade** will be stimulated by reduced pressures from lower inflation and interest rates. However, the pace of trade growth between countries will be slower than in past decades: none of the annual growth rates forecast up to 2025 will exceed the annual average of the periods 2000-2010 or 2010-2020. Moreover, the projected growth for the five-year period 2020-2024 will be the lowest compared to previous periods, reflecting a structural change in international relations due to inflation, geopolitical conflicts, and the relocation of production chains.

Expected and actual trade growth

%, annualized over 5 years; 1990 – 2024F



Source: World Bank

MACROECONOMY

Focus: geopolitical context and Switzerland

Geopolitical context

The second quarter of the year brought several surprises on the political front. Recent **elections** caused substantial changes in the balance of power and, in some cases, shifts in leadership. In South Africa and India, the incumbent governors secured new victories, but by much smaller margin than expected. In Europe, the results of the June polls showed a significant setback for the parties of German Chancellor **Olaf Scholz** and French President **Emmanuel Macron**. To counter the rise of **Marine Le Pen**'s far-right party, Macron has called for the dissolution of the National Assembly, convening new elections scheduled for July. For the time being, a stalemate is expected, in which no party likely to obtain the absolute majority needed to undertake the reforms presented during the election campaign. In contrast, the **United Kingdom** saw an opposite outcome, as for the first time in 14 years, the Conservative Party led by Prime Minister Rishi Sunak ceded the nation's leadership to the Labour Party led by Keir Starmer.

In the United States, both candidates are at the center of media attention: former President **Donald Trump** has been found guilty on 34 charges; nevertheless, his electoral campaign does not seem to be affected by this. His popularity has even strengthened, as evidenced by the polls sharply favoring his victory. On the other hand, incumbent President **Joe Biden** is the subject of discussions regarding a possible withdrawal from the presidential race in November 2024, due to criticism received following the first live national debate. Further confirmation is expected in the summer, when the Democratic candidate will be officially determined.

Between April and May in the **Middle East**, the risk of conflict between Israel and Iran increased following a missile attack by Tehran that was repelled by the *Iron Dome* defence system. The attack did not cause any serious repercussions and had a limited impact on markets. On the Ukrainian front, however, President Zelenskiy received more than USD 60 billion in military aid from the US. Meanwhile, ties between **China and Russia** strengthened after a three-day meeting between Xi Jinping and Vladimir Putin in May in Beijing.

Switzerland

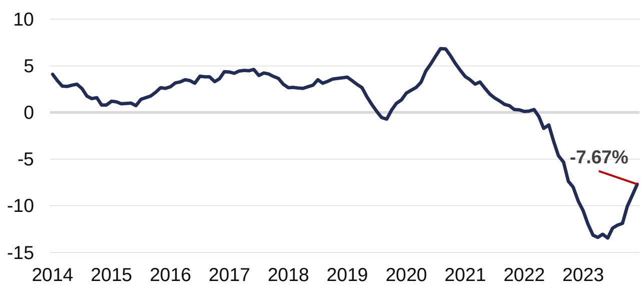
In Switzerland, the **growth situation remains stable** but below the usual levels, with a 0.5% increase in GDP in the first quarter of 2024. While the KOF Swiss Economic Institute forecasts GDP growth of +1.2% for 2024 and +1.8% for 2025, anticipatory economic signals, including PMI indices, indicate a more modest recovery in the Swiss manufacturing sector. According to analyses, the weak recovery of European industry could limit support for Switzerland's main exporters, but it should not threaten the industrial sector in the long term.

The occurrence of milder **inflation** below the central bank's targets, with a consumer price index around 1.3%-1.4%, allowed the **Swiss National Bank** to implement a further 25 basis point cut, lowering key interest rates to 1.25%. The Bank once again anticipated its European and American counterparts, supporting economic recovery and stabilising exchange rates against the euro and dollar. Furthermore, Martin Schlegel was officially appointed as the new President, succeeding the outgoing Thomas Jordan, with the handover taking place in September.

Finally, Switzerland remains one of the most active countries in reducing the amount of **circulating money** in the current context. Indeed, in May, the circulating liquidity in the group defined as M2, which includes cash, current account balances, and savings accounts, was reduced by 7.7%. In contrast, in the Eurozone, this metric expanded by 0.7% and in the US, it expanded by 0.6%.

Evolution of circulating money M2

% year on year; 2014 – 2024



Source: Bloomberg

FINANCE

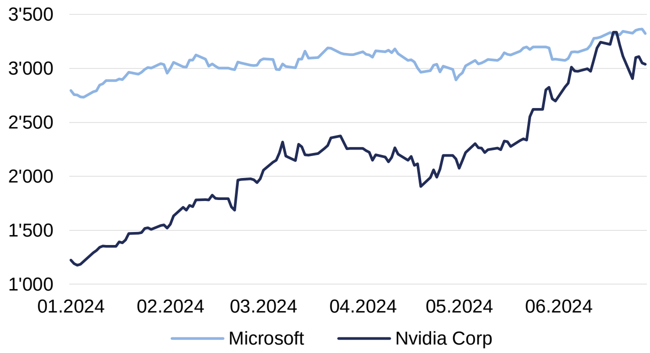
Equity market

Indices	Price	Quarterly Performance	YTD Performance
MSCI World	3'511.78	2.18%	10.81%
SMI	11'993.83	2.25%	7.69%
STOXX Europe 50	4'894.02	-3.73%	8.24%
FTSE MIB	33'154.05	-4.59%	9.23%
DAX	18'235.45	-1.39%	8.86%
S&P 500	5'460.48	3.92%	14.48%
NASDAQ 100	19'682.87	7.82%	16.98%
Nikkei 225	39'583.08	-1.46%	18.28%
Hang Seng	17'718.61	7.12%	3.94%

Source: Bloomberg

Market capitalization, Microsoft vs. Nvidia

Billion USD; 01.24 – 06.24



Source: Bloomberg

The start of the second quarter experienced initial difficulties, mainly due to rising inflation, which raised concerns about the possible prolongation of restrictive central bank policies. April, therefore, saw an initially negative performance, caused by the FED's *"higher for longer"* rhetoric. However, throughout the quarter, the strong performance of technology stocks enabled the indices to significantly recover and reach new highs.

The **technology sector** dominated by American representatives and a few European exponents, continued to drive much of the indices' returns, increasing the concentration of major listings. The race by American giants to secure as many Graphics Processing Units (GPUs) as possible from **Nvidia** led the company to extraordinary performance, putting it in competition with Microsoft for supremacy in global market capitalisation. Once again, it was Artificial Intelligence (AI) that drove stock returns.

Specifically, approximately 65% of the **S&P 500's** index performance can be attributed to about 6 of the "Magnificent 7". This situation is evident when considering that the **Nasdaq 100**, an index where the Magnificent 7 have an even greater weight, had erased its gains from the beginning of the year in April, and instead closed the quarter up by +16.98%. This success was made possible by quarterly reports that exceeded expectations and upward guidance compared to the levels initially forecast for the end of the year.

In **Europe**, the quarter was less exciting and did not continue with the excellent performance that had characterised the start of the year. The European elections brought important news in the political preferences of some key countries on the old continent. Amongst them was France, where President Macron dissolved the chambers and called new elections, causing volatility for the French stock market, which was penalised by the performance of the financial sector affected by the uncertainty of the polls and the rise in the yield of the 10-year bond.

As in the US, technology stocks benefited from positive performances in Europe, with ASML in the semiconductor sector and SAP in the software sector.

Regarding the **Swiss** market, which had lagged in the first part of the year, a relative recovery was observed, driven particularly by Roche's performance. In fact, the pharmaceutical giant received several analyst upgrades, which helped push the stock up.

Finally in **Asia**, and particularly in China, the situation remains volatile. Although the government continues to take initiatives to support growth and the financial markets, these measures still do not seem sufficient to fully convince investors, who show reluctance to return to this geographical area with conviction.

FINANCE

Bond market

Government yields (in % p.a.)	2 years	5 years	10 years
Switzerland	0.75	0.61	0.53
Italy	3.52	3.58	4.07
Germany	2.83	2.48	2.50
United States	4.75	4.38	4.40

Source: Bloomberg

The **bond market** experienced an interlocutory second quarter, awaiting clarity on the inflation trajectory and future moves by central banks. While first-quarter data on US consumer prices had signalled a worrying upward trend, the recent figures have shown inflation returning to a more reassuring level, although a quick return to the 2% target is not guaranteed. The **FED** reacted with a wait-and-see policy, minimising initial concerns, but postponing the first rate cut to an unspecified date, most likely after the summer.

In Europe too, despite the **ECB's** first cut of 25 basis points in June, a similar situation occurred. The persistence of high inflation in the service sector worries some central bankers, who would prefer to keep rates high for longer than expected. Governor Lagarde reacted with a small preventive rate cut, already “promised” to the market, but without giving precise indications of further cuts in the future, suggesting that the rate cut cycle will be slower than historical averages.

In contrast, the **Swiss National Bank** has already made two consecutive cuts, raising its reference rate to 1.25%, taking advantage of a much more favourable domestic inflation dynamic. The yield spread against the euro and dollar curves widened, complicating Swiss franc bond investment.

The global government bond market has shown volatility, but remained within a relatively narrow range, with slightly negative returns for the Bloomberg Global Aggregate Index in the euro-hedged version (-0.27% in the quarter).

Ten-year bond spread - France vs Germany

Spread; 01.24 – 06.24

Source: Bloomberg

The **credit market** shows more balance, especially in the *high-yield* segment, which continues to generate high performance due to economic stability and low default rates. Credit spreads have stabilised at moderate levels compared to historical averages (European crossover index of around 300 basis points), offering very attractive total returns when combined with still high risk-free rates.

In the old continent, the European Parliament elections caused turbulence. The disappointing results and the new elections announced by French President Macron increased the France-Germany spread to 80 basis points, levels not seen since the European debt crisis. However, the prospect of a parliament without absolute majorities and the more moderate rhetoric of Le Pen's Rassemblement National (RN), limited the spread’s widening and neutralised the contagion effect on other peripheral countries, particularly in Italy.

In emerging markets, political risk affected some countries such as Mexico, Brazil and Colombia, with noticeable negative effects on currencies and local bonds, while credit risk seems to remain contained.

FINANCE

Currency and commodities market

Currencies	Price	Quarterly Performance	Yearly Performance
EUR/CHF	0.9628	-1.02%	3.65%
USD/CHF	0.8988	-0.32%	6.82%
EUR/USD	1.0713	-0.70%	-2.95%
GBP/USD	1.2645	0.17%	-0.68%
USD/JPY	160.88	6.28%	14.07%

Source: Bloomberg

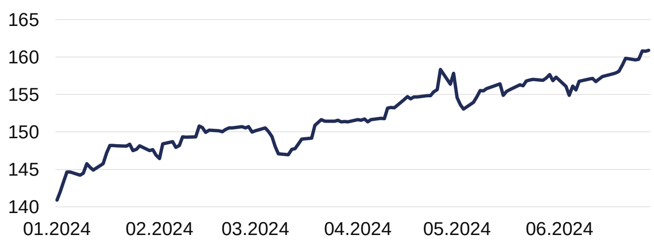
Currencies
The second quarter was characterised by low volatility on the foreign exchange market.

The Swiss National Bank cut the official interest rate for the second time, to 1.25%. As a result, the **Swiss franc** started to weaken. However, the outcome of the European elections, with the developments in France and the resulting uncertainty over the political scenario at local and European level, slowed the relative strength of the **euro**, bringing the Swiss currency back into focus and strengthening.

The **US dollar** continues to move within the 1.06/1.10 trading range against the euro, despite the first interest rate cut of 2024 by the ECB. Notably, the USD has maintained a positive trend against the **Japanese yen**, surpassing 160 (1$ = 160 ¥), reaching levels not seen since the 1990s.

Finally, in the world of cryptocurrencies, Bitcoin, after a brilliant first quarter boosted by the approval of ETFs in the US, has retraced back to USD 60,000. A similar trend has been observed with other major cryptocurrencies.

Exchange rate trend over the last 6 months – USD/JPY
01.24 – 06.24



Source: Bloomberg

Commodities	Price	Quarterly Performance	Yearly Performance
WTI crude oil	81.54	-1.96%	13.80%
Brent crude oil	86.41	-1.22%	12.16%
TTF natural gas	34.40	23.86%	6.42%
Gold	2'326.75	4.34%	12.79%

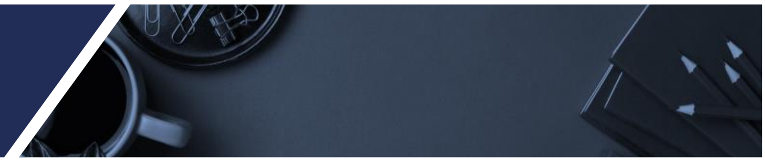
Source: Bloomberg

Commodities
The second quarter did not see significant movement on the **Bloomberg Commodity Index**, which rose by only 0.90%. However, despite the overall performance of the index, the volatility of some commodities was high.

The **oil** price experienced volatile weeks following the OPEC+ meeting, during which an increase in production or the possibility of reducing self-imposed cuts has been authorized, particularly by Saudi Arabia. Despite the volatility, with a low of USD 72.50 during the period, the price per barrel closed the quarter at approximately USD 82/83.

Gold, the quintessential precious metal, also saw a wide range of movement, starting at USD 2'250, reaching a new all-time high of USD 2'450 and then closing at USD 2'326 per ounce. This performance, considering the mixed movements of variables that determine the price of gold, were rather mixed, appearing to be once again attributable to demand from Asia. Silver also experienced a good quarter, following gold's trend and benefiting from its more industrial role.

Regarding **industrial metals**, performances were varied, as is often the case. On the one hand, copper experiences significant fluctuations during the period, reaching up to USD 520/lb before closing at USD 439, compared to the initial USD 400/lb. Aluminium and iron ore also performed well, while nickel was less volatile. As for **agricultural commodities**, with the exception of coffee, which had positive performances, the rest struggled, with cotton and sugar recording heaviest partials.



Did you know that…

> *Tesla has regained its position as the world leader in electric vehicle production, once again surpassing the Chinese company BYD...*

Despite Tesla's return to the top of *Electric Vehicles* (EV) market, demand for electric vehicles slowed in 2024, due to a weak macroeconomic environment and increased competition.

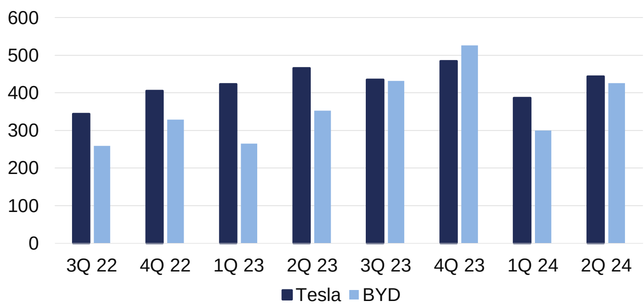
What are the new market trends affecting the performance of the electric sector?

Recently, the market dynamics of electric vehicles, which had fuelled the sector's growth, have undergone significant changes. The development of increasingly cheaper and advanced batteries, along with growing competition, especially from Chinese operators, has pushed down sales prices.
Competition does not seem to diminish in the coming years, as China, due to weak domestic demand, has begun exporting a considerable number of vehicles, forcing several Western countries to impose new tariffs on import. These phenomena have squeezed the operating margins of the entire industry, leading to the recent underperformance of stocks in the sector.
In addition, a fragile macroeconomic context characterized by high financing costs has weakened consumer demand for electric vehicles.

Why has Tesla's stock recently performed well despite this weakness?

In 2024, Tesla regained the top spot as the world's leading manufacturer of electric vehicles, once again surpassing the Chinese company BYD, which it ceded its place at the end of last year. Despite returning to the top, Musk's company recorded a 6.5% drop in the number of deliveries in the first half of 2024, influenced by the previously described market weakness. However, the Austin-based company's stock was only partially affected by this downturn, with its share price rebounding in the last quarter. According to analysts, the recent rally in the stock price is attributed more to expectations regarding Musk's autonomous driving projects than to the electric car production division.
Bloomberg estimates that the net present value of the so-called "self-driving" business (including driver-assistance features, robotaxis, and potential licensing revenues) could be close to $324 billion, approximately half of the current market capitalisation of the stock.

<u>**Vehicles delivered by Tesla and BYD Quarterly**</u>
Thousands of units, 3Q 22 - 2Q 24



Source: Bloomberg

KEY TAKEAWAYS

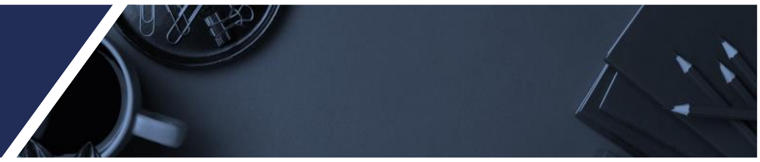
1 – MARKET CAPITALIZATION OF TESLA AS OF 30/06/2024:
USD 631 bn

2 – PRICE OF A MODEL Y BASE[1]:
USD 31'490

3 – US DUTIES ON CHINESE EV:
100%

1. List price published on Tesla website

Expert Talk
Diego Zaccaria



"Is it possible to optimise the risk-return of a portfolio with alternative strategies?"

Interview with ***Diego Zaccaria****, fund manager:*

What are the benefits of an alternative strategy within a portfolio?

In recent years, the rise of low-cost passive financial products has democratised investment in traditional markets, carving out a strategic role in any private or institutional portfolio. This change in market dynamics has occasionally shifted focus away from the big picture and the construction of balanced portfolios.

This is where alternative strategies come into play, offering returns that are distinct from traditional approaches. These products exploit market inefficiencies or widely established economic theories to create unique portfolios that are uncorrelated with traditional instruments such as stocks and bonds.

The main benefit that an alternative strategy provides is to stabilise performance, enhancing it in terms of risk-return and expanding the diversification of investment choices. In a today's environment, marked by synchronized movements and uncertainty, diversification remains crucial.

Thanks to the sophistication of today's products and the cost competition that has reduced fees, investors now have access to a wide array of alternatives to enhance their returns.

What can be the critical points when investing in alternative strategies?

One of the most important and likely complex aspects to understand is the content of an alternative fund, namely, what to expect in terms of return and how performance is generated. In this regard, the support of a financial advisor and precise information from those managing the strategy are essential. Transparency and communication are the two keys for managers of these products, diverging from the traditional approach where investor remained unaware of the decisions made by wealth managers.

The process extends beyond the only investment decision: continuous monitoring and oversight of the product's performance objectives, and its ideal placement within an investment strategy, have become a recurring process that, with the appropriate precautions, has reduced negative surprises over the years.

Finally, in our operations, we focus on liquid products that allow entry and exit from investments within a few days. The market offers thousands of potentially interesting alternatives, but many are less liquid. It is important to reconcile this factor with the investment objective and its time horizon to avoid unpleasant situations.

> *The main benefit that an alternative strategy provides is to stabilise performance, enhancing it in terms of risk-return and expanding the diversification of investment choices*

DIEGO ZACCARIA

Advisor and Fund Manager

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