QUARTERLY REPORT:

ECONOMY AND MARKETS

Q3 2024 - BANCA DEL SEMPIONE

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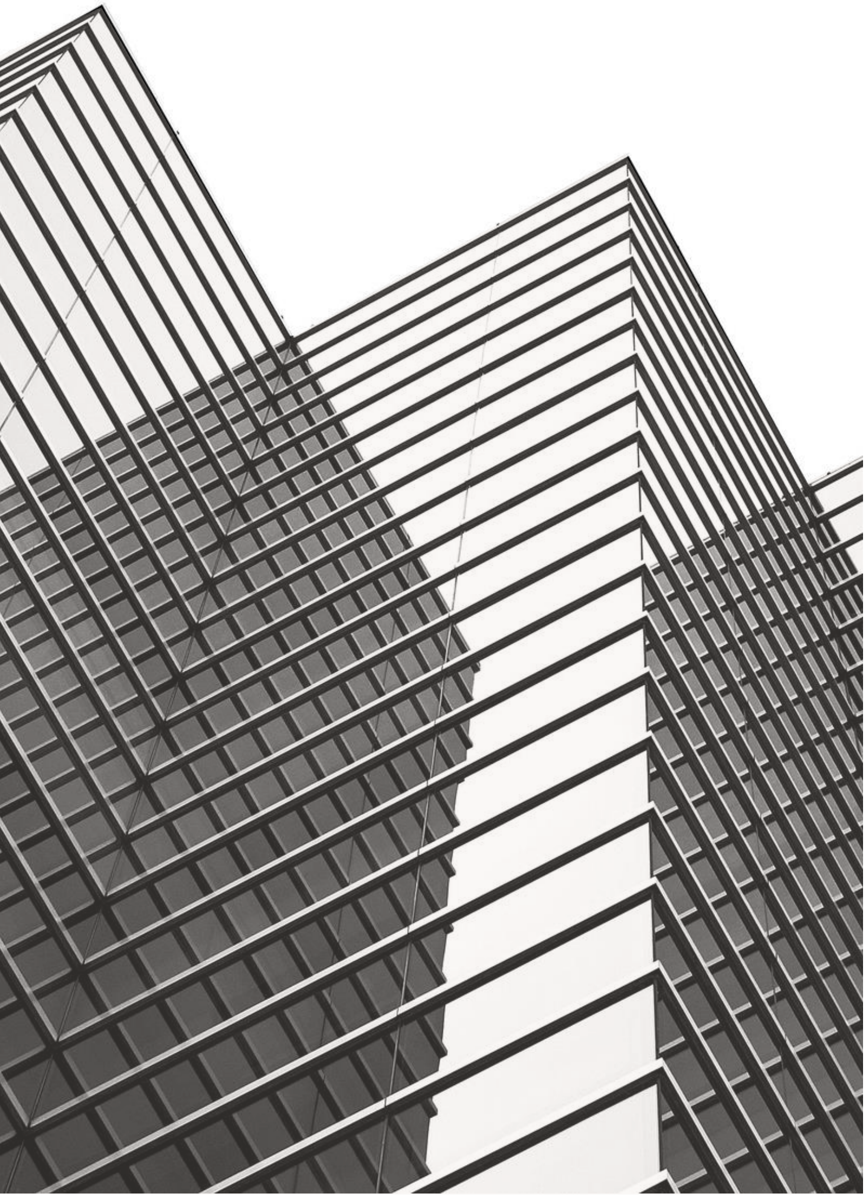
PRIVATE BANK
SINCE 1960



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MESSAGE – FINANCE AND MARKET DIVISION

Except for the sharp correction that took place in August, which largely reversed within a few sessions, the year continues to be characterized by a generally positive trend for most financial markets.

The expansionary cycle of all major Western central banks is ongoing, with markets closely scrutinizing the pace of its implementation, influenced by alternating economic data, which nonetheless seem to diminish the likelihood of a recession, at least in the United States. As a result, there is a growing expectation of a gradual, though not rapid, decline in short-term interest rates in major economies. The exception remains Japan, which, having kept interest rates slightly above zero, is starting a slow process of monetary policy normalization.

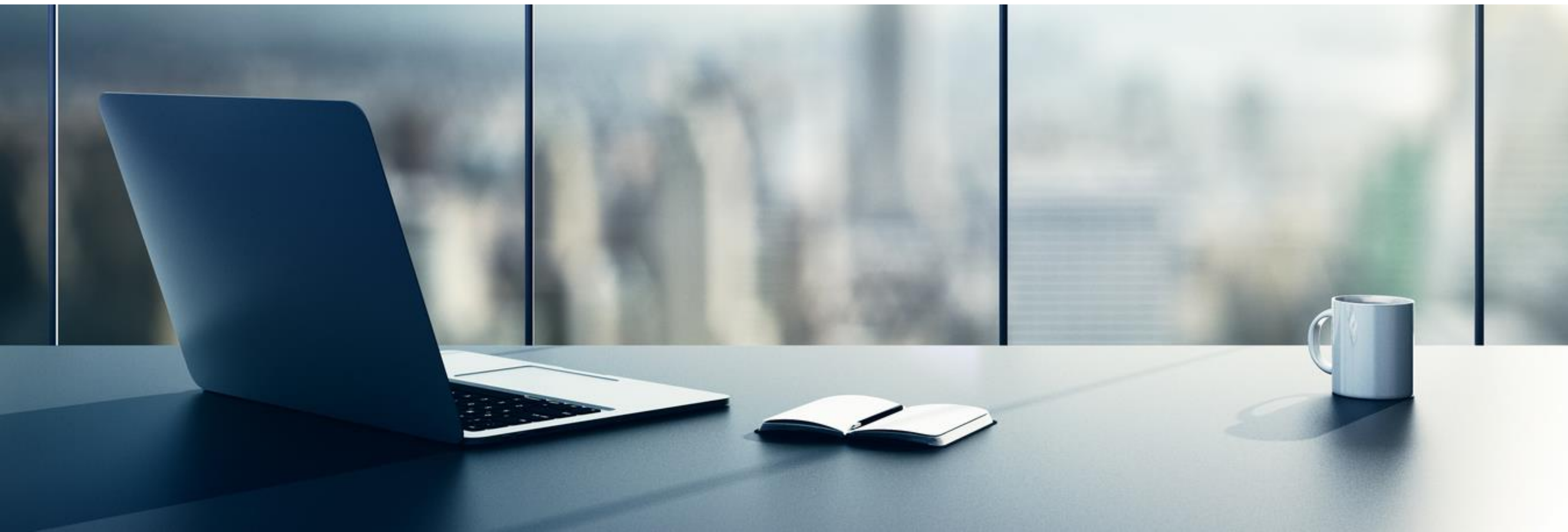
Some rotation has been observed on the stock markets, but without a real downsizing in the value of the leading giants that have driven the indices. On the other hand, the volatility events that affected the global equity environment during the summer months have triggered sectoral rotations, favoring themes that had lagged in previous quarters.

In recent weeks, the Chinese stock market has experienced an impressive rally, spurred by a series of measures announced by Beijing's monetary and fiscal authorities. However, it will be crucial to verify these measures in greater detail to understand whether the markets are truly on a path of structural growth. The undervaluation, especially of the tech sector, will therefore find a broad consensus among international investors, only as a result of concrete measures to support a strong domestic economic recovery.

In asset allocation, we maintain a preference for fixed-income components, keeping equities slightly below the maximum allowable quotas and seeking, in this context, to favor sectors or areas that have been less rewarded by flows in recent periods but which, in our opinion, retain good potential.

PIETRO SCIBONA

DEPUTY GENERAL MANAGER
HEAD OF THE FINANCE AND MARKETS DIVISION



MACROECONOMY

Global economic scenario

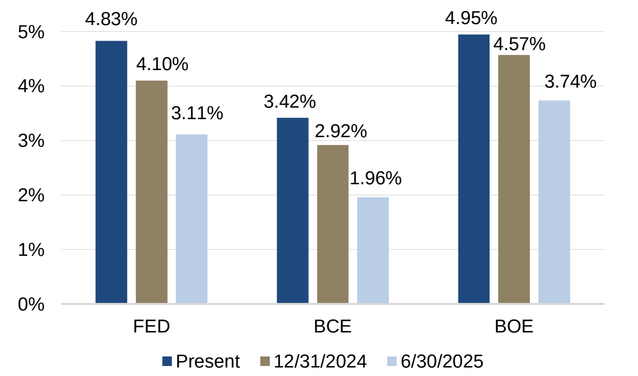
The third quarter provided new macroeconomic evidence, increasing uncertainty about the current state of developed economies, while not altering expectations for **solid** and **global growth**.

Significant progress has been observed on the **inflation** front, with pressures easing considerably in much of the world, bringing major central banks closer to their targets of containing price increases. In the United States, the increase in the Consumer Price Index (CPI) in September was 2.5% (year-on-year), while in Europe the figure was 1.9%, already below the 2% threshold set by the ECB.

The decline in inflation has justified the start of a new monetary policy cycle for **central banks**, leading to a reduction in interest rates compared to the peaks of the last two years, with the aim of mitigating the impact on local economies. The **ECB** proposed a second rate cut at the September meeting, lowering rates to 3.5% (from the previous 4%) to support GDP growth, which remains weak and influenced by the sluggish recovery of German and French manufacturing. The **FED** has begun its rate-cutting cycle, reducing rates by 0.5 percentage points to prevent a rapid deterioration in the economic environment, while remaining confident that a soft landing will be achieved (a mild slowdown in GDP growth). The Bank of England (**BOE**) is awaiting further evidence on inflation progress after an initial cut of 25 basis points, while Japan (**BOJ**) has resumed raising its reference rates, bringing them back into positive territory at 0.25%.

<u>Projections of reference interest rates</u>

% extrapolated from futures or Overnight Index Swap (OIS); as of 30.09.2024

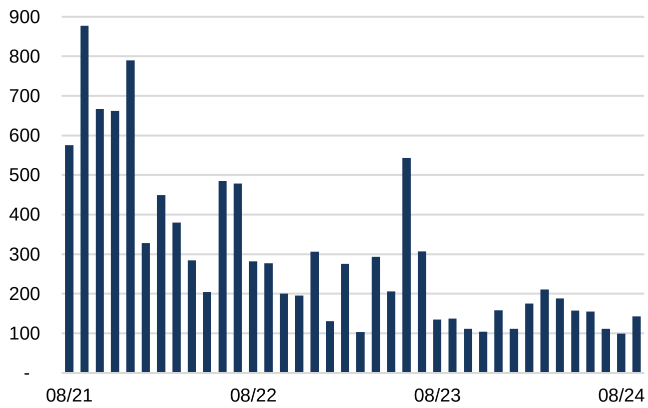


Source: Bloomberg

During the quarter, economists focused their attention on the labor market to gather insights into the state of the economy in developed countries. After more than two years of unemployment at record lows, driven by the post-COVID reopening economic momentum that generated unmet demand for workers, the labor market has shown the first concrete signs of easing. However, concern is spreading among central bankers about a rapid deterioration in employment, as evidenced by data on job creation in the US. The new FED projections, contained in the September **Summary of Economic Projections**, estimate an increase in the unemployment rate to 4.4% by the end of the year, compared to the current 4.1%, and now significantly higher than the April 2023 low of 3.4%

<u>Monthly creation of new jobs in the USA</u>

Number of jobs, in thousands; 08.21 – 09.24



Source: Automatic Data Processing Inc.

Currently, there is great uncertainty regarding the economic **growth projections** for Europe and the United States. The former is facing a significant slowdown in the **automotive sector**, which for years has been the driving force for countries such as Germany, France, and Italy, but is currently burdened by weak demand from global buyers and growing Chinese competition in the electric car market, where major brands have invested substantial monetary resources. In the United States, despite increased resilience over the past two years, questions persist about how the current situation in interest rates, employment, and consumer health may affect future economic performance.

MACROECONOMY

Focus: geopolitical context and Switzerland

Geopolitical context

During the third quarter, media attention focused on events in the **Middle East**, which on several occasions increased the risk of escalation in the conflict between Israel and Iran. The clash between the Israeli armed forces and the Islamist forces of Hezbollah, located in Lebanon, intensified, with reciprocal missile assaults leading to the killing of Hassan Nasrallah, Hezbollah's political leader, in late September, following the killing of Isma'il Haniyeh, head of Hamas, in late July. By the end of the quarter, Iran intervened in the conflict with a missile attack on Tel Aviv, in response to Israeli incursions into Lebanese territory. Currently, Israeli Prime Minister Benjamin Netanyahu does not appear inclined to respond to the numerous ceasefire requests from global leaders.

In the **United States**, new twists radically changed the landscape of the electoral race during the quarter. The dubious candidacy of the incumbent president, **Joe Biden**, was withdrawn from the presidential race in July, following a disappointing performance in the first debate with rival **Donald Trump.** In his place, current Vice President **Kamala Harris** stepped in. In the following months, between attempts to assault Trump and a first national live debate in which Kamala Harris received more positive feedback than her rival, a situation of balance was reached. The elections, scheduled for November 5, will clarify the outcome of the race.

On the **European** front, French Prime Minister Michel Barnier announced the new formation of the government at the end of September, provoking criticism from rival left-wing (NFP) and right-wing (RN) factions. In Germany, some regions are seeing an increase in support for the far-right party (AfD).

In **China**, in July, the Third Plenum was held, a strategic meeting between representatives of the public and private sectors, in which the development objectives of the second largest economy in the world were outlined. At the heart of the projects are support for the real estate sector, investment in technology, and the annexation of Taiwan.

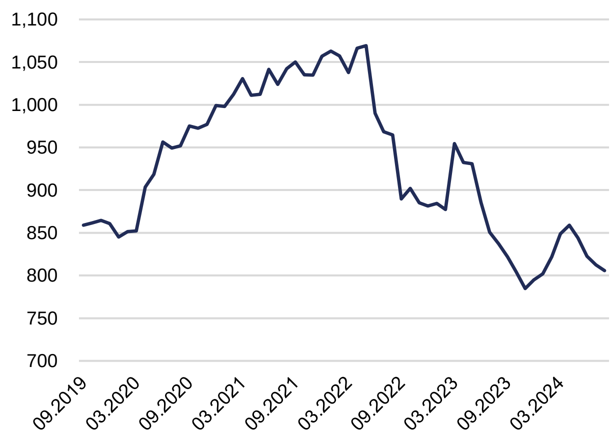
Switzerland

The **Swiss economy** showed encouraging signs of recovery, with GDP increasing by 0.7% in the second quarter of 2024, compared to 0.5% in the previous quarter, mainly supported by the recovery in the manufacturing sector and stable services. As evidenced by the economic barometer of the KOF Swiss Economic Institute, the Swiss production landscape is recovering, especially of the manufacturing sector, with the pharmaceutical, chemical and steel sectors leading the way in this recovery.

At the same time, **inflation** continues to follow a stabilizing trajectory below the 2% threshold set by the Swiss National Bank (**SNB**), with the last figure recorded at 1% in September, prompting the central bank to revise its forecasts for price developments. To further support economic growth, facilitating the weakening of the Swiss franc, the **SNB** has reduced its key interest rate by 0.25% to 1%. During his first press conference, the newly elected chairman, **Martin Schlege**l, stated that the bank is open to further cuts if necessary and does not rule out a possible return to negative rates.

At the same time, the SNB's balance sheet reduction maneuvers, thanks to the sale of foreign currency reserves and the appreciation of the franc, brought the Swiss institution's **total assets** to just over CHF 800 billion, well below the 2021 highs of CHF 1’070 billion.

Total balance sheet assets of the SNB
In billions of CHF; 09.19 – 08.24



Source: Bloomberg

FINANCE

Equity market

Indices	Price	Quarterly Performance	YTD Performance
MSCI World	3'723.03	6.02%	17.48%
SMI	12'168.87	1.46%	9.26%
STOXX Europe 50	5'000.45	2.17%	10.59%
FTSE MIB	34'125.26	2.93%	12.43%
DAX	19'324.93	5.97%	15.36%
S&P 500	5'762.48	5.53%	20.81%
NASDAQ 100	20'060.69	1.92%	19.22%
Nikkei 225	37'919.55	-4.20%	13.31%
Hang Seng	21'133.68	19.27%	23.97%

Source: Bloomberg

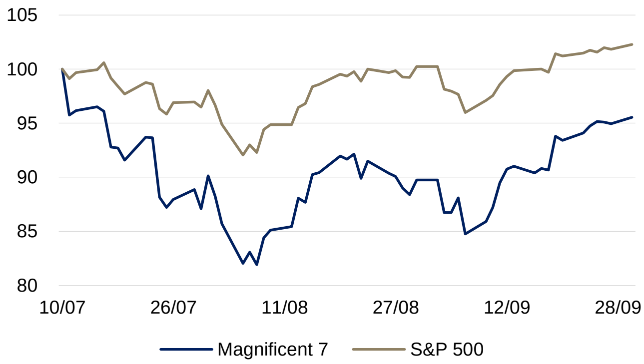
The beginning of the third quarter of the year followed the positive trend of the first two, with markets continuing to benefit from an **optimistic climate** thanks to the steady decline in inflation and prices supported by the theme of artificial intelligence (AI), which has been driving investor interest for over a year. Despite significant episodes of volatility, such as the surprise French elections in Europe and recession fears in the US caused by disappointing labour market data, global indices reached new highs or stayed close to them.

After several quarters of technological dominance, especially in terms of performance, the significant sell-off at the end of July led to greater upward participation from all those **lagging stocks and sectors.** Confirming this, despite the new highs of the S&P 500, only one of the "Magnificent 7" reached new peaks at the end of the quarter, specifically **Meta**. The slowdown in technology stocks is attributable to **quarterly reports** in which, for the first time in several quarters, the results of major companies did not significantly exceed expectations. This is largely due to the ongoing investments in the development of new and more powerful datacenters that the so-called ***hyperscalers*** are making, which have not yet generated revenues at the moment. In support of this, Microsoft CEO Satya Nadella highlighted that the risk of over-investing is considerably lower than the danger of falling behind in the AI race.

In **Europe**, performance remained positive but did not lead the index to set new records, due to the aforementioned French elections at the end of June and the persistent weakness of **Germany**, Europe's main industrial engine.

Perf. of the Magnificent 7 Against the S&P 500

Indices rebased to 100; 10.07.2024 – 30.09.2024



Source: Bloomberg

The automotive sector has been particularly hard hit, facing pressure from Chinese competition and investment in electric vehicles (EVs), which have not produced the expected returns. The announcement by **Volkswagen**, which was forced to propose the closure of one of its historic plants in Germany to optimize costs, highlights the challenges faced by the sector. However, a positive note at the end of the quarter came from the luxury sector, which regained investor attention thanks to significant new stimuli from China after months of suffering due to Asian weakness.

The main **Swiss market index (SMI)** showed greater stability, partly due to the strong appreciation of the Swiss franc. According to the Swiss National Bank (SNB), this currency strength could exert pressure on Swiss exports, leading to a potential reduction in expected growth in the last quarter of the year.

Moving to **Asia** and, in particular, to **China**, the government seems to have decided to directly address the economic weakness that has been afflicting the country for some years. In addition to the **People's Bank of China's (PBOC)** rate cut and the reduction of banks' reserve requirement ratios, the government has introduced additional state funds to support financial markets, along with measures to stimulate domestic demand and the struggling real estate sector. These maneuvers have been welcomed by investors, leading to a significant rally in China's major indices.

FINANCE

Bond market

Government yields (in % p.a.)	**2 years**	**5 years**	**10 years**
Switzerland	0.40	0.35	0.37
Italy	2.50	2.80	3.45
Germany	2.06	1.94	2.12
United States	3.64	3.56	3.78

Source: Bloomberg

The quarter was characterized by **declining yields** across all major bond curves. The "higher for longer" rhetoric, which raised concerns that interest rates would remain elevated due to the strength of economic growth, has eased, opening the door to a cycle of rate cuts by central banks. The **Federal Reserve** found itself in a complex situation: despite monetary tightening of recent years, US GDP continues to show strong growth, although the first signs of a slowdown in the labor market are emerging, with its health being an integral part of the FED's mandate, alongside price stability. This dynamic, along with the gradual decline in inflation, prompted the central bank to make an initial cut of 50 basis points, with further reductions expected in the coming months.

For the **ECB**, the picture is simpler: the slowdown in economies, particularly the German one, along with the inflation rate falling below the key level of 2% (although the core component remains slightly too high), allows for the continued implementation of the rate cutting cycle that began in June. According to market expectations, the eurozone's benchmark rate is expected to fall below 2% during 2025.

Swiss franc and yen rates, traditionally low-yielding, are moving in opposite directions: while the **Swiss National Bank** has declared victory in the fight against inflation, with the intention of quickly bringing rates back below 1%, Japan is gradually moving away from hyper-expansionary policies with its first rate hikes.

The downward trend in rates, which also affected countries such as the United Kingdom, China, Canada, and Sweden, as well as the major economies, favored an excellent quarter for the **Bloomberg Global Aggregate Bond Index** (+3.77% in the euro version at hedged exchange rates), following a slightly negative first half of the year.

On the **credit** front, there have been few changes: the market has shown extreme stability for many months. The European Crossover index, which represents high yield credit spreads, fluctuates within a narrow range of around 300 basis points. Even the mini-crash in the global stock market at the beginning of August did not have a significant impact on the credit segment, which could come under pressure only in the event of a marked economic slowdown.

Trend of the EUR Crossover 5y Index since 2022

Spread on EUR HY Credit in basis points; 01.22 – 09.24

Source: Bloomberg

The **spread** between Germany and France remains close to the highs, despite the formation of a moderate government with little parliamentary support. The premium required by the market to hold French debt is now comparable to that of countries once considered peripheral, such as Spain and Portugal. However, this situation does not seem to generate significant tensions in the European bond market, which remains healthy overall.

FINANCE

Currency and commodities market

Currencies	Price	Quarterly Performance	Yearly Performance
EUR/CHF	0.9416	-2.21%	1.37%
USD/CHF	0.8456	-5.92%	0.50%
EUR/USD	1.1135	3.94%	0.87%
GBP/USD	1.3375	5.77%	5.06%
USD/JPY	143.63	-10.72%	1.84%

Source: Bloomberg

Commodities	Price	Quarterly Performance	Yearly Performance
Petrolio WTI	68.17	-16.40%	-4.86%
Petrolio Brent	71.77	-16.94%	-6.84%
Gas naturale TTF	38.70	12.79%	20.03%
Oro	2'634.58	13.23%	27.71%

Source: Bloomberg

Currencies

The third quarter was marked by increased volatility in the currency market, mainly due to geopolitical tensions.

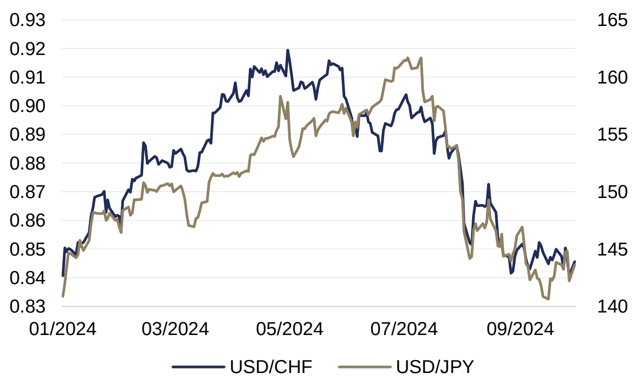
The Swiss National Bank cut the official interest rate for the third time, bringing it down to 1%. Despite this, political uncertainty in Europe and the United States has led the **Swiss franc** to appreciate, approaching its annual lows.

The **US dollar**, after months of sideways movement, broke the 1.10 level against the euro, bringing it close to 1.12. The depreciation of the dollar was also evident from the value of the **Dollar Index,** which returned to around 100. Noteworthy is the movement of the Japanese yen, driven by the rate hike by the BOJ in July, triggering a reversal in the classic USD vs. JPY carry trade, which led the Japanese currency to touch 140 per dollar ($1 = 140¥).

Finally, in the cryptocurrency sector, **Bitcoin** closed the quarter at around $64'000, with no particular changes. In contrast, the performance of **Ethereum** was notable, registering a loss of -24%, despite the approval and listing of ETFs in the United States.

Evolution of USD/CHF and USD/JPY exchange rates since the beginning of the year

USD/CHF on the left, USD/JPY on the right, 01.24 – 09.24



Source: Bloomberg

Commodities

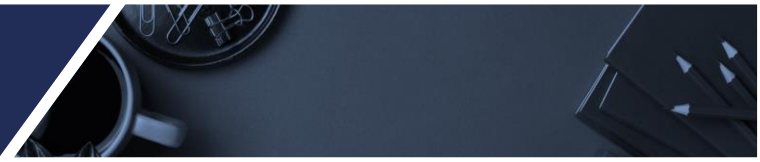
Despite elative stability in the **Bloomberg Commodity Index,** the quarter recorded significant movements in certain specific resources.

The price of **oil** pushed futures to experience a sharp drop (-16%) following Saudi Arabia's decision to ease self-imposed cuts, abandoning the goal of pushing the price of black gold to 100. However, towards the end of the month, the escalation of the conflict in the Middle East reignited interest in crude oil.

Precious metals once again experienced significant gains. The weakness of the dollar, geopolitical tensions and declining interest rates, including the first cut by the FED, contributed to **gold** reaching new highs, ending the quarter at $2'364 per ounce. The quarter was also positive for **silver**, although to a lesser extent.

Industrial metals experienced a volatile quarter, with overall fluctuations remaining contained. However, the announcement of economic stimulus in China reignited significant interest, driving up major metals such as copper, iron, and aluminum.

Finally, for **agricultural commodities**, the price of **coffee** rose due to a significant drought affecting Brazil, one of the world's leading producers. Also noteworthy is the retreat of the price of **cocoa**, another commodity that had seen significant price increases due to limited supply and constant demand.



Did you know that...

> ...among the top 10 most capitalized companies in the world, only Microsoft has remained since 2009...

How has the ranking of the most capitalized companies in the world changed from 2009 to today?

The comparison between the most capitalized companies today and those in 2009 highlights a radical shift in the dynamics and structure of the global economy, both in sectoral and geographical terms. Fifteen years ago, the ranking of the world's largest companies was dominated by Chinese companies and oil companies, such as Exxon, China Petroleum, Gazprom, and China Mobile, reflecting years when economic growth was primarily driven by demand for energy, consumer goods, and industrial expansion, particularly in the Asian country. Today, however, the American technology sector appears to have taken the lead. Among the top 10 most capitalized companies in the world, only Microsoft has remained since 2009. Bill Gates' company, along with other Big Tech firms, such as Apple, Nvidia, Amazon, Meta, and Google, represents technological innovation and artificial intelligence developments, marking the emergence of a new global economy.

The 10 largest companies in the world, 2009 vs. 2024

Top 10 Companies Expressed as % Weight of the MSCI ACWI Index

2009			2024		
		Peso%			Peso%
1	Exxon	1.5%	**1**	Apple	4.5%
2	General Electrics	1.2%	**2**	Microsoft	4.2%
3	China Mobile	1.2%	**3**	Nvidia	3.8%
4	Microsoft	1.1%	**4**	Alphabet	2.6%
5	Gazprom	0.9%	**5**	Amazon	2.6%
6	Com. Bank China	0.9%	**6**	Saudi Aramco	2.4%
7	China Petroleum	0.8%	**7**	Meta	1.4%
8	British Petroleum	0.8%	**8**	Eli Lilly	1.0%
9	AT&T	0.7%	**9**	Broadcom	1.0%
10	China Cons. Bank	0.7%	**10**	Tesla	1.0%

Source: MSCI, Nabila

What were the main drivers behind this transition?

Among the key factors that facilitated this transition is the growing role technology plays in our lives. The advent of the smartphone in 2008 accelerated the process by facilitating digital payments, e-commerce, and internet access for a large portion of the population. This mass adoption, in turn, shifted investors' focus toward the value of data and the protection of intellectual property for many companies, fostering the emergence of true monopolies in the technology sector.

In addition, important macroeconomic factors supported this evolution. Years of expansionary monetary policies and aggressive fiscal decision-making measures in the United States post-2008 incentivized rapid growth in investments in the technology sector and the birth of numerous start-ups. Finally, the recent crisis in the Chinese economy, caused by the real estate sector and the implementation of stricter regulations from Beijing has limited the expansion of companies in the country.

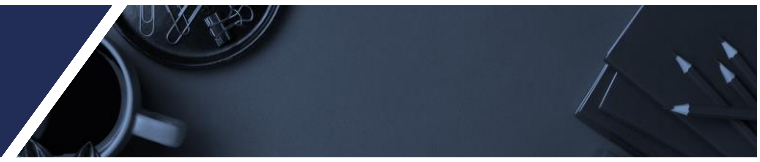
These factors have led to a greater concentration of investments in American technology companies, which are now the main components of global stock markets. The top 10 companies account for approximately 24.5% of the MSCI ACWI index, compared to less than 10% in 2009, reaching a level of concentration that has hit historical highs.

KEY TAKEAWAYS

1 – CONCENTRATION LEVEL OF THE MSCI ACWI INDEX ON TOP 10 COMPANIES - 2024	2 – AGGREGATE MARKET CAPITALIZATION OF TOP 10 COMPANIES - 2024	3 – WEIGHT OF AMERICA IN THE MSCI ACWI INDEX - 2024
24.5%	**USD 19.05 T**	**62.5%**

Source: Bloomberg

Expert Talk
Margherita Strazzari



«What are the essential points of the report on innovation and European competitiveness published by Mario Draghi on September 9th, 2024?»

Interview with ***Margherita Strazzari****, asset manager:*

What situation emerges from the European competitiveness report produced by Mario Draghi?

The report highlights a series of problems that have led Europe to lose competitiveness compared to the US and China. The gap with the United States has increased from 17% in 2002 to 30% in 2023, due to the rise in American productivity compared to that of Europe.

First of all, the economy of the European Union has remained static over time. In the United States, the main investors in research and development have shifted from pharmaceutical and automotive companies in 2000 to software and hardware technology companies in 2010, and now to digital companies. In Europe, however, automotive companies continue to be among the top three investors in R&D. Secondly, China has transitioned from being a customer to a competitor of European companies, especially in sectors crucial for the ''*green transition*'' such as renewable energy and electric vehicles (EVs). Another challenge concerns Europe's low investment in new technologies and high energy prices.

Finally, the low growth, if not decline, of the population is a concern for the development of the Western economy, as the decline in birth rates leads to a growing deficit in the labor force.

“The message is clear:
European competitiveness needs an urgent and radical but achievable change”

How to get out of this condition?

Mario Draghi identifies three areas of intervention: closing the innovation gap, especially in advanced technologies; developing a shared plan for decarbonization and enhancing safety; and finally, reducing dependencies. In each of these areas, the document outlines a lucid yet ambitious picture, based on a fundamental consideration: Europe is not starting from scratch.

The plan emphasizes Europe's failure to engage in the digital revolution 20 years ago, highlighting the need to avoid similar mistakes in the context of artificial intelligence and robotics. To achieve this, support for growth for the companies involved is essential, creating a single market without barriers and promoting capital unification. In addition, decarbonization requires streamlined administrative processes to accelerate its implementation. Reducing technological dependence abroad and enhancing the commercial efforts are also crucial, especially considering that many essential components come from Asia.

To achieve these goals, investments are estimated at €750-800 billion annually (4.4 - 4.7% of European GDP), a figure that Draghi believes is achievable by incentivizing savers, who could redirect part of their savings (about €1’390 billion) toward investments aimed at financing these developments.
The message is clear: European competitiveness needs an urgent and radical but achievable change.

MARGHERITA STRAZZARI
Asset Manager

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