



Dear Clients,

In mid-June, our team celebrated the company's 40th anniversary. We raised a glass to our success story, which we owe to you, our valued clients. As Switzerland's leading independent asset manager, we are highly motivated to carry the 'Hotz' brand and its proven investment philosophy into the future. We look forward to continuing this journey with you.

The succession process has begun!

We celebrated our company anniversary in the St. Gallen area, where it all began in a student flat back in 1986. The occasion brought back memories and reflections on that exciting period, which we reported on in detail in our client newsletter at the beginning of July last year (you can find the 2025 semi-annual report on the succession process on our website¹ www.hotz-partner.ch/en under 'Hotz Live – Semi-annual reports'). As the founder and owner of this wonderful company, it fills me with pride that our company history is set to continue for many years to come with this fantastic team.

In early autumn 2025, my son Florian joined our family business as the first representative of the second generation. Spending time with him is a wonderful experience and adds a whole new dimension to the relationship between father and son. I find it deeply fulfilling in my life as an entrepreneur. Together, we meet clients at the company's offices in Baar, and travel to see them all over Switzerland, as well as to the regions around Düsseldorf, Cologne, Hamburg, Munich, Pforzheim, Augsburg, Nuremberg and Vienna. We also have joint meetings with potential new clients, with the Investment Committee, the Executive Board and the Board of Directors. For both of us, this is a very intensive yet enriching time, which is shaping our lives during this phase of generational transition. I am very much looking forward to actively supporting this process in the years ahead.

Victoria Hotz joins the Board of Directors of the family business

My older daughter, Victoria, successfully qualified as a solicitor in August last year. Following internships at Lenz & Staehelin and the Cantonal Court of Zug, and her trainee year at Baker McKenzie, she is currently working as a solicitor at the renowned law firm Niederer Kraft Frey (NKF) in Zurich. She is now joining our family business as a member of the Board of Directors, taking over from my wife Barbara in this role – to whom I owe a debt of gratitude for her many years of greatly valued dedication. Victoria's seat on the Board of Directors addresses two important objectives for our clients, our team and, not least, our family. Firstly, as a highly competent solicitor, she will actively support us in all strategic and legal matters. Secondly, Victoria will take on a central role in our company should a worst-case scenario ever arise. Florian and I are often away on business trips together – in Switzerland, Germany and Austria. The worst-case scenario for our clients and our team would become a reality if something were to happen to Florian and me at the same time. Consequently, we have come to the conclusion within the family that, should this unwelcome but ultimately not entirely impossible scenario arise, Victoria would take on an active role on the Board of Directors and thus act as a guarantor safeguarding the independence of our family business. Of course, we do not expect this dreadful scenario to occur – but as

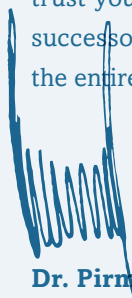
¹ www.hotz-partner.ch/en/semi-annual-reports/2025-06

responsible business owners, we are always committed to the well-being of our valued clients, which is why we want to be prepared for the unexpected.

A breath of fresh air in our client newsletter – Florian is on board

While our company history spans 40 years, we have been publishing our biannual client newsletters since 1998, when we looked back on the record stock-market year of 1997 (the Swiss equity index, the SPI, rose by over 55 percent that year) and ventured a look ahead to the new year. Long-standing clients will recall that my first letter ran to barely two pages or so. When I read this document today, I'm amazed at the rather 'unrefined' comments I made back then. My writing style was rather plain in the early days and only developed over time into the one you know today.

I hope you enjoy reading this, and thank you for the trust you have placed in our team, in my designated successor and in me. With kind regards, on behalf of the entire "Hotz Team". Yours,



Dr. Pirmin Hotz
Founder and Owner

“Writing is like wine – it takes time to mature, and sometimes a good glass to get started.”

Author unknown

Today's 'Hotz' client newsletter is a special one. For once, I shall limit myself to a brief introduction. My son and designated successor Florian will be responsible for the main body of the editorial work. This will give you, our valued clients, the opportunity to get to know him better and to learn more about his views and convictions on selected investment topics. In future, we will handle the writing of our client newsletter flexibly, dividing it between founder and successor, depending on how we feel. There will be letters in which we both have our say. Equally, there will be client letters in which one or other of us addresses you exclusively. In any case, you may rest assured that I will continue to indulge my great passion as the author of these client newsletters and specialist articles – particularly in the form of editorials in 'Finanz und Wirtschaft' – in the future as well.



Dear Clients,

The generational transition is a demanding challenge for any company. I am delighted that you are continuing to place your trust in the ‘Hotz’ brand in future. Of course, I am well aware of the huge shoes I have to fill as Pirmin Hotz’s successor – both within the company and as the author of this letter. Highly motivated, full of drive and with a great deal of passion, I am keen and ready to take on this ‘legacy’ step by step and with thorough preparation.

In the first lines I write to you, I would like to outline how my start in the family business has gone and share my assessment of the sometimes turbulent and volatile global economic situation in the context of ‘Hotz’s’ long-standing, proven investment strategy.

A great team and company

After studying in St. Gallen and Oxford and working in London, I could very easily have continued my career, with the best of prospects, in the British financial capital. My decision to join our family business is both a blessing and a curse for me. On the one hand, it is an invaluable privilege and a unique opportunity to lead an established and successful company into the next generation. On the other hand, this step involves a great deal of responsibility, high expectations and a significant risk of failure.

“I am honored by our Board’s decision to appoint me CEO of Berkshire and humbled to succeed Warren as I write my first annual letter to you. Warren is obviously a very hard act to follow.”

Greg Abel, CEO of Berkshire Hathaway and Warren Buffett’s successor, in his first letter to shareholders dated 28 February 2026

I am delighted and deeply honoured that my two sisters, Victoria and Désirée, have placed their trust in me to take charge of the day-to-day running of our family business. I am very grateful for the close and trusting relationship we have as siblings. I couldn’t ask for a more dedicated, competent and loyal member of the Board of Directors than my sister Victoria. I would also like to extend my heartfelt thanks to Désirée, a historian with a PhD and a university lecturer, for always being there to listen to me and for supporting me with both advice and practical help.

After the first ten months or so, I can safely say that joining the family business was definitely the right decision. Working with my father is extremely rewarding and defined by mutual trust. Pirmin entrusted me with responsibilities in various areas almost immediately after I joined the company and included me in long-standing client relationships. It is an exciting and rewarding time to be shaping the future of the company together with him and our wonderful team.

I am particularly pleased with the clear commitment shown to ‘Hotz’ by our long-standing partners and members of the Executive Board – Adrian Bachmann, Dr Thomas Hauser and Guido Hoyer. Their commitment to actively supporting the generational transition in the interests of continuity and stability is by no means something to be taken for granted, and I value it enormously. At the same time, all three have

expressed a desire to gradually hand over responsibility in the coming years. To shape these transitions early, carefully and in our clients' best interests, we place great importance on recruiting talented colleagues who are a good fit for us both professionally and personally, and who can gradually grow into these client relationships over the coming years. In this context, I am also delighted to congratulate Benjamin Fuchs warmly on his promotion to partner. We greatly value our cooperation with him and look forward to strengthening our partnership in the future.

I would also like to thank the whole team for welcoming me with such openness, kindness and a great sense of camaraderie. I consider my start at the family business to have been a great success. My aim is to carry on this unique company, upholding its essence and values, and to continue acting consistently in the best interests of our clients. Whilst our company is enjoying extremely encouraging organic growth, our primary aim is to maintain the personal and individual service that has always been a hallmark of our company.

“Good judgment comes from experience, and a lot of that comes from bad judgment.”

Will Rogers, American actor, author and social critic (1879–1935)

As our company now manages assets for more than 1,200 clients, I am unfortunately unable to meet them all in person during the first twelve months. However, I have already had the opportunity to attend numerous client meetings that have been both fascinating and extremely varied in content. Interacting with our fantastic clients inspires me, which is why I will continue to stay close to them in the future. In the various conversations I have had over the past few months, I have repeatedly been asked what I would like to do differently in future. Although I am very ambitious myself and set my sights high, my honest answer is: by and large, nothing at all.

You can rest assured that I am 100 percent committed to, and fully convinced of, the long-standing investment strategy of investing in high-quality shares and bonds. At the same time, it is important to continually subject one's own approach to critical scrutiny, as has always been the practice in the past. As long-standing clients may recall, in its early years 'Hotz' invested in emerging market funds, for example. Due to unsatisfactory returns, which were accompanied by higher risks and fees, this category was excluded from the investment universe many years ago. It paid off: over the past few decades, returns in many emerging markets have lagged behind those in the developed countries we favour. As our founder explained in last year's end-of-year letter, we have recently decided to reduce our exposure to shares with low market capitalisation (small caps) for liquidity reasons. This policy will continue in the future: as a general rule, we adhere strictly to our conservative investment strategy, but adjustments can and must be made where justified. As a long-standing client from the Pforzheim region, who is the third generation to run his family business, once put it, my father's investment strategy is one of 'cultivated boredom' – and I intend to carry it on into the next generation, together with our fantastic team.

“If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring.”

George Soros, Hungarian-American investor and stock market legend

How do you actually view the times we live in?

There's one client encounter that I remember particularly well. It was a meeting with two distinguished and highly successful entrepreneurs from Nuremberg, whom I had the pleasure of meeting, together with my father, at Zurich Airport. During the lively discussion, one of these two doctors asked me: “Mr Hotz, how do you actually view the times we live in, and how do you assess 'Hotz's' investment strategy against this back-

drop?” An interesting question, the answer to which is intended to illustrate my way of thinking. At the same time, it assesses how I, as a ‘youngster’, feel about my father’s tried-and-tested investment philosophy, which is in part regarded as boring or even rigid. I would like to take this opportunity to share my thoughts on the matter with you.

“History doesn’t repeat itself, but it often rhymes.”

Mark Twain, American writer, humorist and social critic (1835–1910)

In the 3 January 2026 edition, John Plender, a long-standing journalist at the ‘Financial Times’, put forward the theory that we are once again living in the Roaring Twenties. Although I am aware that historical periods should only be compared with caution – particularly those one has not experienced oneself – I find this theory fascinating and can see certain parallels with the present day. The 1920s in the USA were a time of unbroken economic boom, wild speculative bubbles, stock market euphoria and wild parties fuelled by alcohol and drugs – despite Prohibition. The novel ‘The Great Gatsby’, whose title character Leonardo DiCaprio portrayed in an iconic performance in the film of the same name, further adds to the legend of the Roaring Twenties. As is well known, this period of rapid economic growth in America came to an end with the Great Depression of 1929. As I will explain in the following pages, today’s speculative bubbles in the crypto markets, the shameless insider trading by American politicians, and the dangerous creativity in the private equity sector actually remind me of the American Roaring Twenties.

“We’ve never had people in a more gambling mood than now.”

Warren Buffett, Chairman of the Board of Directors at Berkshire Hathaway, legendary investor and known as the ‘Oracle of Omaha’, speaking at the Annual General Meeting in early May 2026

Cryptocurrencies: Two generations, one opinion

Many of you are aware of my father’s critical stance on the subject of cryptocurrencies. Unlike my father, a classic ‘boomer’, one might expect me, as a member of ‘Generation Y’, to take a much more favourable view of cryptocurrencies. That is not the case. On the contrary: although I have countless friends at home and abroad who rave about Bitcoin, Ethereum and whatever else they’re called, I have never had the slightest inclination to trade in cryptocurrencies myself, let alone include them in our investment strategy.

I simply cannot see any long-term economic benefit – apart from money laundering, the financing of child pornography, human trafficking, drug smuggling and other illegal and despicable activities – nor any intrinsic value. Even friends who work in the crypto sector or have set up their own companies have so far been unable to explain to me in a way I can understand what the actual value of cryptocurrencies is supposed to be. It’s a mystery to me. That wouldn’t change even if the price of Bitcoin were to rise to a million dollars.

One of our clients really impressed me in this regard. He is a highly intelligent young entrepreneur who, together with his partners, made a high double-digit-million sum from the sale of their accounting and tax platform for crypto investors. Given my father’s years of criticism of cryptocurrency, I would have considered it simply impossible for a highly successful crypto entrepreneur to invest a significant portion of his wealth conservatively with ‘Hotz’ and gradually build up his portfolio over the years. It’s a real pleasure to be able to work with such exciting clients!

“If shoeshine boys are giving stock tips, then it’s time to get out of the market.”

Joseph P. Kennedy (1888–1969), American politician, investor and father of the future President John F. Kennedy

I see parallels with the 1920s, particularly in the speculative frenzy sweeping across all sections of society. When I moved from London to Zurich last August, a very charming removal man told me about his supposedly outstanding investment performance in the crypto sector. He was even kind enough to offer to invest my assets in cryptocurrency for a handsome fee; he said he was already doing this 'very successfully' for a handful of friends. Thanks to his many years of experience, he claimed to have learnt how to achieve annual returns of 20 to 30 percent. Naturally, I declined his kind offer.

This example is telling: there is a veritable crypto craze, and people from all walks of life want to get involved, even those who have never invested before. This widespread euphoria is strongly reminiscent of the stock market boom of the 1920s. From taxi drivers and removal men to my old investment banking mates from London, everyone wants to make a quick buck with crypto without really understanding what they're actually investing in or speculating on.

“Can't repeat the past? Why, of course you can!”

Jay Gatsby in the novel 'The Great Gatsby' by F. Scott Fitzgerald (1896–1940)

Insider trading: everyone is equal before the law – but some are more equal than others

In the early 20th century, there was no such thing as illegal insider trading, i.e. the exploitation of information advantages over the wider investing public. Not because moral standards were higher back then than they are today, but simply because there were no laws to that effect. In many ways, it was like the Wild West. Although the first laws were enacted at the state level in the United States in the 1910s, they were extremely lax and became known as 'Blue Sky Laws'. At the federal level, appropriate regulations were not introduced until after the crash of 1929; in some parts of Europe, it took decades longer for effective insider trading rules to become a reality.

For a long time, it was socially acceptable – and in some cases even admired – to make a profit from insider information. John P. Morgan, the founder of the bank that bears his name, was a highly regarded master of insider trading and regularly formed groups with other influential financiers to manipulate exchange prices to their advantage. Today, all developed countries have strict rules in place prohibiting insider trading, with draconian penalties for non-compliance. Even though enforcement is not uniformly strict across the board and Switzerland tends to take a more cautious approach by international standards, the current situation is undeniably fairer than it was a hundred years ago – at least in the strictly regulated trading of shares and bonds.

In recent years, however, particularly in the United States, doubts have increasingly been raised as to whether the rules actually apply equally to everyone. Whether it be Covid measures (during both Trump's first term and Biden's presidency), the introduction and subsequent suspension of trade tariffs, the arrest of Venezuelan President Nicolás Maduro, or the war in the Middle East, unusual trading activity shortly before public announcements suggests that certain 'insiders' regularly make a tidy profit by exploiting their information advantage.

Just as with the 'robber barons' of the 1920s around John P. Morgan, this is not necessarily illegal. Under US company law, politicians are in many cases required to disclose their trading activities. Unlike business executives or journalists, however, there is no effective trading ban in place for politicians, even if they are in possession of information that could potentially influence share prices. The person most notorious for exploiting this loophole is probably the Democrat and former Speaker of the House of Representatives, Nancy Pelosi. Her disclosed trades have outperformed every index for years. Only a cynic would see something fishy in this. The Trump family is also right at the forefront. According to research by the 'Financial Times', the family is said to have made at least a billion dollars from various crypto deals in 2025 alone, apparently entirely 'legally'. I have little doubt that many politicians in Europe, too, operate in

legal grey areas and deliberately exploit information advantages; it is simply less well documented than in the United States.

“It has been said that politics is the second oldest profession. I have learned that it bears a striking resemblance to the first.”

Ronald Reagan, former President of the United States of America (1911–2004)

Clear evidence of the use of information advantages can also be seen in rapidly growing prediction markets such as Polymarket and Kalshi. These platforms allow users to bet on a wide range of events – from the outcome of elections and who will win an Oscar to geopolitical developments such as an attack by Israel and the US on Iran.

Providers such as Polymarket publish the latest betting odds and potential winnings around the clock. It is striking that very large individual bets are frequently placed shortly before major political events. Just a few hours before Venezuelan President Nicolás Maduro was arrested by an American Special Forces unit, a then-unknown trader bet around \$30,000 on precisely this scenario; shortly afterwards, that position was worth around \$400,000. A few weeks later, it emerged that the trader with the lucky touch was Gannon Ken Van Dyke, who, as a member of the US Special Forces, had been directly involved in the planning and execution of the military operation. He has since been arrested and charged with the unlawful use of state secrets. Van Dyke’s superior’s shenanigans also raised a few eyebrows: it is reported that Pete Hegseth, the US Secretary of Defence, asked his personal adviser at Morgan Stanley, just a few days before the American attack on Iran, whether it would be possible to acquire a fund comprising defence companies for several million dollars. The project was not pursued any further for compliance reasons. The mere fact that Pete Hegseth is alleged to have made

such a request sheds a telling light on the Trump administration’s understanding of insider trading.

“If you’re not confused, you’re not paying attention.”

Tom Peters, American management consultant, author and speaker

I wouldn’t be surprised if future financial historians look back on our era with disbelief and wonder how such behaviour could have been tolerated for so long and how such lax rules could have been accepted for so long. It is bad enough when elected politicians line their own pockets. What is even worse is that this is widely accepted by society and, in some cases, even admired.

Appearance and reality in private equity

Admittedly, private equity didn’t exist back in the Roaring Twenties – at least not in the way we understand it today. Of course, private ownership of companies already existed back then, which, from an economic point of view, is effectively ‘private equity’. What was missing, however, were specialist funds that buy unlisted companies with a view to ideally reselling them at a profit a few years later – in the sense in which the term is typically used today.

One of the most prominent experts and critics in this asset class is the Frenchman Ludovic Phalippou, who is a professor of finance at Oxford. During my time in Oxford, I had the chance to learn from ‘Ludo’ and get to know this sports-mad quick-thinker better over several jogs and drinks. For many years, he has been criticising the private equity industry for, among other things, its exorbitant fees (he calls it a ‘billionaire factory’ because only the providers get rich), its dishonest measurement of returns (he describes the ‘IRR’ return metric as ‘bullshit’), and its incentive structure, which is misguided in many respects.

One fine spring day, we were walking through Christ Church Meadow in Oxford, and I asked ‘Ludo’: “Doesn’t it bother you that you’ve been writing against

private equity for decades and hardly anyone seems to be listening? More and more money is flowing into this asset class.” Phalippou, who certainly doesn’t lack self-confidence, laughed and said he’d asked himself the same question. He had come to realise that, across the entire private equity ecosystem, there was in fact hardly anyone who was interested in the ‘true’ returns.

“Nothing is easier than self-deceit. For what each man wishes, that he also believes to be true.”

Demosthenes, Greek statesman (384–322 BC)

By their very nature, he claimed, private equity fund managers had no interest in the truth. They preferred to highlight the highest possible returns because they stood to gain from it. Consultants would be brought in to ‘monitor’ the complex investments. If less money were to flow into private equity, they would be putting themselves out of business. And the investors? In Phalippou’s view, they too were often surprisingly uninterested. This was because, as a rule, these were institutional investors who did not manage their own funds and who also employed a sub-team specialising in private equity. If they reported poor returns, they would be criticising themselves and putting their jobs at risk, because the board of trustees and the investment committee would simply no longer need the private equity team. Furthermore, investors typically committed to a period of ten years or more when investing in private equity. By the end of the contract period, those responsible would often have changed jobs at least twice. The sobering assessment made by my esteemed Oxford professor made perfect sense to me.

“It is so easy to convert others. It is so difficult to convert oneself.”

Oscar Wilde, Irish writer (1854–1900)

But even the ‘billionaire factory’ doesn’t seem to run smoothly forever. In recent times, the well-oiled machine has begun to falter noticeably. The core problem is that, during the period of low interest rates surrounding the Covid pandemic, many companies were bought at significantly inflated valuations. Even in the current climate, with stock markets close to their all-time highs, many private equity funds are finding it difficult to sell their holdings at a profit. The fact that this is happening during a bull market with moderate interest rates, of all times, is worrying. What would happen if there were a sudden stock market downturn and interest rates continued to rise, which would put even more pressure on valuations?

As a result of the slowdown in corporate sales (exits), many investors are waiting longer than expected for returns from funds in which they invested eight, ten or fifteen years ago. There is a lack of buyers willing to pay the asking prices. And because institutional investors are waiting for their money, they are understandably more cautious about investing in new funds.

In order to raise billions more from investors, the industry has had to get creative. Private equity is now meant to be accessible not only to institutional investors and very high-net-worth individuals, but also to retail investors. What do they call that in an industry full of do-gooders? ‘Democratisation’.

“A recurring feature of bubbles is how often they find new ways of democratising gambling”

John Plender, long-standing columnist for the ‘Financial Times’, 3 January 2026 edition

In October 2025, ‘Finanz und Wirtschaft’ reported that private equity heavyweights KKR and Partners Group were specifically targeting Swiss cantonal and Raiffeisen banks in an effort to make their products more appealing to retail investors. Even the highly

regarded Zuger Kantonalbank, with whom we have enjoyed a trusting working relationship for many years, occasionally surprises us. In a widely distributed communication dated 29 January 2026, which was aimed specifically at retail clients, the bank recommended products designed to “optimise returns in a low-interest-rate environment”. Behind the cleverly chosen marketing slogan lie high-margin products from which the bank is making a killing. Particularly bizarrely, trade finance products are also promoted as a means of ‘portfolio stabilisation’. Have the cantonal bankers already forgotten that Credit Suisse notably incurred billions in losses with such products in connection with the Greensill debacle – losses that ultimately proved to be its undoing? Some cantonal banks are increasingly adopting the sales practices of large banks. So be on your guard: the ‘fee optimisers’ (some call them rip-off artists) are not only to be found on Paradeplatz in Zurich or in Frankfurt’s financial district, but also among the ranks of regional and cantonal banks.

UBS is taking an even more aggressive approach. As the ‘Financial Times’ reported in early March 2026, Switzerland’s last remaining large bank has reached agreements with the private equity firms Carlyle, CVC and EQT under which it will receive a share of the exorbitantly high performance fees, typically amounting to 20 percent. This is in return for aggressively marketing their products to high-net-worth private clients. In its landmark ruling of 2006, the Swiss Federal Supreme Court already made it unequivocally clear that retrocessions belong to the client and not to the asset manager (in this case, UBS). UBS doesn’t seem to care. Bankers can apparently sleep soundly if they inform their clients ‘transparently’ in the small print about remuneration structures that contradict Federal Supreme Court case law.

In addition to aggressive sales incentives, the private equity sector also relies on intensive lobbying: I wonder if it is a coincidence that Stephen Schwarzman, the billionaire founder of the private equity giant Blackstone, made an exceptionally generous donation to the University of Oxford? The university described the donation of over £150 million as “the largest

donation since the Renaissance”. To my delight, my former professor, Phalippou, doesn’t seem to be fazed by it. He continues to publish regular critical articles on the subject. I hope that my alma mater will continue to enjoy complete independence in its research and opinions.

The Norwegian sovereign wealth fund ‘Norges’ also remains remarkably resistant to advances from the private equity sector. The Norwegians manage their fund, which is financed by oil revenues, in an exemplary manner through a broadly diversified portfolio comprising direct investments in shares, bonds and a modest proportion of property. In its pragmatism, this asset allocation is reminiscent of the ‘Hotz philosophy’ with which you are familiar. I am amazed by the Norwegians’ resilience, particularly given that the CEO of ‘Norges’ is a hedge fund millionaire who would like to invest in private equity. However, the Norwegian government has so far remained firm: on four occasions already, they have come out against the inclusion of private equity investments. Well done!

Further evidence that the notoriously secretive private equity sector is faring worse than many would like to admit is the growing prevalence of so-called ‘continuation funds’. The idea behind this is that a private equity firm can effectively ‘sell’ a stake to itself. What sounds complicated is actually surprisingly simple in practice and can be illustrated using a real-life example.

In 2018, Partners Group acquired the German energy services provider Techem. According to media reports, the Zug-based asset manager made repeated attempts to float Techem on the stock exchange or sell it. The deal fell through because the offers did not meet the sellers’ asking prices. Furthermore, a sale to another financial investor fell through due to competition law obstacles. In the summer of 2025, Partners Group apparently lost hope of finding an external buyer willing to pay the asking price. In the blink of an eye, the stake was transferred from a private equity fund to an infrastructure fund, both of which are controlled by Partners Group.

“Show me the incentive and I’ll show you the outcome.”

Charlie Munger (1924-2023), legendary investor and long-time business partner of Warren Buffett

You can imagine the potentially dangerous conflicts of interest that this gives rise to. Should the valuation of the transaction be as high as possible in order to maximise the return on the private equity fund? Or as low as possible, so that the investment appears as attractive as possible to the infrastructure fund? Do the remuneration structures and incentives differ between the two vehicles? The conflicts of interest are evident. In 2025, transactions involving continuation funds accounted for around a fifth of all private equity deals. This may mean the party goes on for longer, but doesn’t make the hangover any easier to bear – if anything, it makes it even worse.

Private debt: a looming threat on the financial horizon

In recent years, the private debt asset class has really taken off. The basic idea is simple. Investors invest in a loan fund, which lends money to companies and private individuals and charges interest in return. Unlike bank lending, the regulatory requirements for private loans are significantly less stringent. Private debt funds can provide more complex and riskier financing than banks are typically permitted or willing to offer. The promises of returns are correspondingly tempting, at least in the advertising brochures. The industry’s lobbyists go even further. They argue that systemic risk to the financial system as a whole is falling because banks are granting fewer loans and risks are being ‘outsourced’ from the banking system. In theory, that sounds plausible. In practice, I believe the opposite is true.

“If anyone claims today to know for sure what is going on with private credit right now, you should assume that they are either talking their own book or talking through their hat.”

Brooke Masters, editor-in-chief of the US edition of the ‘Financial Times’, 18 March 2026 issue

It is not uncommon for investors in private debt funds to take out bank loans in order to leverage their investment with borrowed capital. In addition, the fund secures additional credit facilities with banks in order to be able to grant even more loans and maximise returns. Ultimately, the fund grants loans to companies that in turn have already taken out bank loans. It is therefore not uncommon for a bank to believe that its credit exposure to a company is manageable. In reality, through loans to investors and credit facilities to funds and companies, it bears an indirect risk that is many times higher. The major US bank Wells Fargo is particularly heavily exposed to private-sector debtors, with an exposure of over \$60 billion. However, Bank of America, Deutsche Bank and Citigroup are also exposed to risks amounting to around \$30 billion each. It may be a coincidence that all four banks had to rely on government bailouts during the 2008 financial crisis. At the time, Wells Fargo was still the strongest of the large US banks, albeit in a weak field. Let us hope that people do not pride themselves too much on this relative strength and do not draw the wrong conclusions from it. The history of the financial markets teaches us that pride comes before a fall.

Private debt has not reduced systemic risk; rather, it has potentially multiplied it to an extent that neither banks nor regulators can fully oversee. It is simply impossible to determine which borrowers were lent how much money and through which channels.

“Leverage works both ways. Unfortunately, many people tend to forget the second way.”

Howard Marks, American investment legend and founder of Oaktree Capital

The private debt sector has found a particularly cunning trick to fuel growth in assets under management. The world's largest private equity and private debt firms, Apollo, KKR and Blackstone, have systematically acquired life insurers in recent years: Apollo acquired Athene, KKR took over Global Atlantic, and Blackstone secured Everlake. The reason for this is evident: life insurers manage hundreds of billions of dollars in insurance premiums, which must be invested for the long term.

Following the takeover, the proportion of ‘in-house’ products – that is, private equity and private debt vehicles from the respective parent company – in the insurance companies’ portfolios quickly rose to over 20 percent. In the case of Blackstone and Everlake, this share amounts to over 35 percent. The system is remarkably simple: you buy up a huge fortune, which you then manage yourself while pocketing your own exorbitant fees. In the end, it is the policyholders who bear the brunt of this, as they have little idea how their premiums are invested, let alone whose interests are being prioritised in the process.

So far, this strategy has worked – not least thanks to favourable financing terms. However, the collapse of the largely unknown automotive suppliers First Brands and Tricolor, both of which were heavily financed by private debt, led to palpable nervousness in the market in the autumn of 2025. Even though interest rates on private debt investments may seem attractive in the current climate, I would advise you to steer clear of them. Investors in private credit funds managed by UBS and the US bank Jefferies have lost hundreds of millions following the collapse of First Brands and Tricolor.

“When you see one cockroach, there are probably more.”

Jamie Dimon, the long-serving CEO of J.P. Morgan, who described ailing companies financed by private-market loans as ‘cockroaches’

From railway mania to the AI boom

As an active amateur user of artificial intelligence, I am constantly fascinated by the capabilities and potential of these models. Whether I'm writing a humorous wedding speech, planning a trip or looking for growth opportunities for 'Hotz', AI understands what I'm after remarkably well and almost always delivers impressive results. I have no doubt that artificial intelligence will fundamentally change our lives in the coming years.

However, it is by no means certain that the share prices of the ‘Magnificent Seven’ (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla) and other AI stocks will continue to perform as spectacularly as they have in recent years. Although the railway boom of the 19th century was an economic success in the long term, the capital-intensive expansion of the railway networks in the United States also led to numerous bankruptcies. It remains to be seen whether the hugely capital-intensive construction of data centres and the power stations required to run them will pay off in the long term.

“The four most dangerous words in investing are ‘This time it’s different.’”

Sir John Templeton, American entrepreneur and fund manager (1912–2008)

From an investor's perspective, there are three aspects of the AI boom that give me cause for concern. Firstly, the highly creative financing structures, which result in what are effectively circular transactions. To put it simply, a company buys chips, but pays for them not with cash but with its own shares. At the same time, it buys computing power from another provider that

relies on those very same chips. This creates the impression of strong demand, even though the companies involved are, in part, simply passing orders back and forth between themselves. In reality, such deals may be more complex, but the crux of the problem remains the same: value creation and cash flows are becoming circular, and it is unclear how much genuine external demand there really is.

Innovation is usually a blessing in the real economy. In the financial industry, however, ‘innovation’ is often a euphemism for a lack of transparency, distorted incentives and – worst of all – systematic rip-offs. Whether it’s circular transactions within the AI ecosystem, continuation deals or new crypto structures, when the finance sector celebrates ‘innovation’, alarm bells should be ringing particularly loudly.

“The world of finance hails the invention of the wheel over and over again, often in a slightly more unstable version.”

John Kenneth Galbraith, a leading American economist, author and politician (1908–2006)

The second point that concerns me about the AI boom is the rapidly rising level of debt financing. Historically, the leading tech companies were paragons of sound financial management and had very little borrowed capital. Today, Amazon, Microsoft and Meta are net debtors. Oracle is taking an even more aggressive approach. The company is pursuing heavily debt-financed expansion plans that rely almost entirely on the success of OpenAI (ChatGPT). Only time will tell whether this high-stakes gamble will pay off for Larry Ellison and his fellow shareholders. I have my doubts.

Thirdly, concentration risks have become even more pronounced, particularly in the US stock market. Passive investors who blindly invest in an index such as the MSCI World, S&P 500 or Nasdaq are allocating a significant portion of their funds to AI stocks with dangerously high valuations. And it gets even worse:

in the wake of the flotations of SpaceX, OpenAI and Anthropic, Nasdaq has gone ahead and changed its own rules. From now on, very large companies newly listed on the stock exchange can be included in the Nasdaq 100 after just 15 trading days, provided they rank among the 40 largest constituents of the index in terms of market capitalisation. Not only has the previous minimum requirement of a 10 percent free float been scrapped, but for companies with a very low free float, the index weighting is now actually multiplied by a factor of three! This forces passive investors to take on even greater concentrations of risk in highly valued shares – often without being aware of these risks. Experts are already talking about a passive investment bubble.

Imagine there are jobs available, but nobody turns up

Following on from the above comments on investment topics, I would like to share a socio-political thought with you. During a visit to Pforzheim, a long-standing client of ours – a lawyer well known beyond the region who is still working at over 80 – told me that these are the most difficult times he has ever lived through. He was very concerned about Europe. Despite – or perhaps precisely because of – my considerably less extensive life experience, I do not view the situation quite as negatively as our esteemed client does. Nevertheless, I am convinced that we must be careful not to become victims of our own prosperity.

“When life gets tough, work harder.”

Daniel, a fellow student from my time at Oxford

I firmly believe that we in Europe, and in Switzerland too, would do well to go back to the approach of my fellow student at Oxford. Just to avoid any misunderstanding: I am a strong advocate of fathers spending more time with their children, women participating more fully in the labour market, and the fact that we have more holidays today than we did 100 years ago. These are significant achievements of recent times. But

there is one thing we must not forget: we are competing on a global scale. We hardly notice this competition in our daily lives. Americans, Indians or Chinese aren't directly taking our jobs away from us. But Europe is gradually losing ground. Ultimately, we ourselves are responsible for this. A look at the OECD data is sobering. As recently as 1980, per capita gross domestic product in Germany and France was practically the same as in the USA. Switzerland was around 50 percent higher. Since then, Europe has been on a steady decline. Today, US per capita GDP is around 50 percent higher than Germany's and even twice as high as France's. Switzerland has also seen its lead narrow and is now only around 15 percent ahead of the US. During this period, China managed to significantly narrow the gap with the US. Per capita GDP is now around 15 percent of the US level – roughly ten times higher than in 1980. However, this race to catch up has clearly stalled in recent years.

“America innovates, China imitates, Europe regulates.”

Giorgia Meloni, current Prime Minister of Italy

There are many reasons for Europe's relative decline. These include unnecessary regulatory barriers and geopolitical shifts. However, a key factor is the number of hours worked. Whilst Americans worked around 6 percent longer hours than Germans in 1980, the figure today is around 35 percent. Of course, economic developments are complex and cannot be reduced to a single variable. For example, there is more part-time work in Europe, which brings down the average working hours per employee. Nevertheless, the impression remains that we work surprisingly little compared with other countries.

When I travelled to countries such as India, Vietnam and China before joining the family business, I sensed an enormous determination. Determination to catch up. Determination to succeed as a country. Determination to achieve our Western standard

of living. Perhaps it is time we in Europe stopped focusing primarily on comparing ourselves with one another, and instead turned our attention more firmly to global competition and cutting red tape.

“Europe needs to wake up, or it's dead in so many ways.”

Tracy Blackwell, outgoing CEO of the Pension Insurance Corporation, a British insurance company

This shift in economic power is also evident in everyday life. When my Swiss friends complain that American tourists are driving up the price of ski passes, perhaps it's worth taking a moment to reflect on this. Many of these foreign visitors can afford such holidays because they have worked hard and achieved financial success in an extremely competitive environment. Instead of resenting their purchasing power, we would do well to face up to global competition with confidence. Often it is the very same people who complain about high prices at home who, a few weeks later, set off enthusiastically for faraway countries because everything there is so wonderfully cheap. What we enjoy abroad suddenly seems distasteful to us on our own doorstep.

“All economic problems could be solved if we could tax complacency.”

Jacques Tati, French film director, actor and screenwriter (1907–1982)

Christin Severin, a long-standing journalist at 'NZZ am Sonntag', published a pointed commentary on the work ethic in Switzerland in the 17 May edition. The article was published under the title: “Locals in the public sector, foreigners in the private sector: the Swiss labour market is becoming increasingly similar to that of Dubai.” In it, she wryly points out that, over the last 15 years, Swiss nationals have increasingly been working in state-owned or state-affiliated enterprises, whilst

foreign nationals have been filling the majority of newly created jobs in the private sector. In my view, this is an unhealthy trend and further evidence that fewer and fewer people in this country are willing to face direct competition in the private sector.

The right investment strategy

It was a turbulent first half of the year, which once again brought home just how much the whims of a single politician can keep the global capital markets on tenterhooks. You might be wondering at this point whether I'm trying my hand at being a doomsayer – a breed of investor that my father has been delighting in poking fun at for many decades. That is not the case. I am an optimist by nature and look to the future with great confidence. That is precisely why I believe it is important not to ignore the existing risks, particularly during periods of economic boom.

The returns generated by technology shares in recent years have been impressive. Neither I personally nor the 'Hotz portfolios' have blindly followed these trends. There are good reasons for this from a risk perspective. At the same time, I am firmly convinced that our economy has enormous potential. There are countless intelligent, dedicated and innovative people who are involved in business and thus make a significant contribution to long-term prosperity. That has been the case in the past and will continue to be so in the future. It hasn't been without its challenges. And not without a few adjustments along the way. Yet humanity has survived world wars, natural disasters and political instability, and has always responded in the long term with a remarkable spirit of innovation.

As is well known, bubbles can only be clearly identified after the fact. And even if early warning signs do appear, that is by no means a reason to stay away from the stock market. The dot-com boom was already gaining momentum in the early 1990s. Between January 1991 and January 1996, the Nasdaq technology index almost tripled. Following this bull market, signs of a bubble could already have been detected. Nevertheless, January 1996 was still an excellent time to

get started. By the year 2000, the Nasdaq had risen fivefold once again, before plummeting by around 80 percent. Despite this massive slump, prices never fell below the 1996 level again. The lesson to be learnt is as simple as it is uncomfortable: no one ever knows in advance when it is the right time to get in or out. Neither you nor we.

"You only realise it's a bubble once it bursts."

Alan Greenspan, former chairman of the US Federal Reserve

Jay Gatsby, the main character in the novel 'The Great Gatsby', embodies the Roaring Twenties – an era characterised by boundless optimism and dangerous overconfidence – like no other. Combining confidence with a level-headed approach, having the courage to invest whilst remaining immune to speculative fads – these are the core values of 'Hotz'. That won't change. No one knows whether our 'Roaring Twenties' will meet the same fate as those of a hundred years ago. What we do know is this: anyone who takes a long-term view, invests in a broadly diversified portfolio of high-quality shares, has little or no debt, and steers clear of speculative fads is ideally placed to weather the next storm from a position of strength.

I would like to thank you very much for the trust you have placed in us. I also look forward to sharing my thoughts with you regularly in the future. This does not alter the fact that, for the time being, Pirmin remains the ‘editor-in-chief’ of the twice-yearly client newsletters published by the ‘Hotz’ firm. I look forward to working alongside my father for many years to come, achieving our business goals and being there for you, our valued clients.

With kind regards, on behalf of the entire “Hotz Team”.
team. Yours,

Handwritten signature of Florian Hotz in blue ink, consisting of a stylized 'FH' followed by 'Hotz'.

Florian Hotz

Member of the Executive Board



Opinion

Stock markets defy every crisis, just as they did before the dot-com crash

Pirmin Hotz

The Nasdaq has quadrupled in six years and valuations are reaching levels seen during the bubble of 2000. Two factors will decide whether financial repression rescues the bull market or whether a crash is looming.

What on earth is going on in the stock markets? After the tariff hammer-blow in April last year, the legendary banker Oswald Grübel let it be known through the media that he was parking most of his money in cash and that the time to buy shares had not yet come. Since then, the stock markets have climbed to one high after another.

It is as though they have lost all sense of gravity. Neither the wars in Ukraine and Iran, nor US President Donald Trump's erratic tariff policy, nor rising inflation and interest rates can shake the markets for long. Interim corrections give way to powerful rallies within a few days or weeks.

The performance of the American technology exchange Nasdaq 100 has been particularly impressive, driven by the hype around artificial intelligence (AI). With a breathtaking return of around 26% a year, the index has roughly quadrupled in just over six years.

Equity valuations now stand at a level last seen before the dot-com bubble burst. Measured by the Shiller PE, the US stock market is currently valued at around 40 times earnings (S&P 500) to 60 times (Nasdaq). At the turn of the millennium, the S&P 500 corrected by 40%, while the Nasdaq technology exchange slumped by as much as 80% – after which the index had to quintuple to recoup the losses. Are we, much as we were back then, on the brink of a market collapse?

Warren Buffett is suffering from the AI euphoria

One sign that points to a bubble is how euphorically investors are behaving. They are no longer content with the 7 to 9% annual return that shares yield over the long term. And who can blame investors, when shares in growth-driven companies such as ASML, Intel or Nvidia deliver a double-digit return within days or weeks?

The stock market rally is driven almost exclusively

by shares in the technology and information sector, centred on AI. 'Benchmark huggers', who invest close to the index, are currently profiting from the overheated US stock market, which carries a weighting of well over 60% in the MSCI World index and is heavily driven by information technology. According to estimates, a small number of companies that benefit from developments in the field of AI now account for close to 50% of the US stock market.

The action right now is with the AI giants, not with 'boring' corporations such as Coca-Cola, Nestlé, Procter & Gamble or Siemens, which generate steady profits and pay out attractive dividends. Value-oriented investors such as the Oracle of Omaha, Warren Buffett, are having a lean time of it in this gold-rush era. It is telling that, within a single year, his Berkshire Hathaway has been forced to report underperformance against the S&P 500 of more than 30 per cent.

"The parallels with the dot-com bubble of the turn of the millennium are impossible to miss."

With the flotations of the space and AI companies SpaceX, Anthropic and OpenAI, the tech euphoria may be reaching its peak. Their fabulous valuations rest in large part on revenue earned circularly among themselves. Under a fast-track procedure, the three companies are to be admitted to the major indices – a regulatory scandal, all the more so since swathes of passive investors are being pushed pro-cyclically into concentration risks. Experts are already warning of a passive investment bubble.

On its market debut, Elon Musk's SpaceX reached an astronomical market capitalisation of over \$2 trillion. Last year, the company generated a mere \$19 billion in revenue and posted a loss of \$5 billion. Whether Musk's gigantic ambitions as a space visionary will ultimately come good is, quite literally, written in the stars.

Experience tells us that euphoric investors react with panic almost overnight once market sentiment turns. Another sign of overheating is the alarming degree of AI-washing. Every company that wants a higher market valuation laces its business model with AI fantasy. The parallels with the dot-com bubble of the turn of the millennium are impossible to miss.

Financial repression is driving share prices

But things may turn out quite differently, and the rally may continue. The tailwind could come, of all things, from a worrying geopolitical development that one would expect to have the opposite effect: the world's spiralling government debt.

It is true that interest rates in the United States, Great Britain and Japan are at their highest in around fifteen years, yet it is becoming increasingly clear that political pressure on the world's leading central banks – the US, Japan and Europe – to cut interest rates will mount, in order to ease public finances and avoid a sovereign default.

The magic phrase will be financial repression. Under it, interest rates are held significantly below the rate of inflation. Japan has been showing the way for many years: it is saddled with horrendous debt of 235% of gross domestic product, and at 0.75% its key interest rate is a hefty 2.5 per cent below average inflation for 2025, which came in at around 3.2%.

The Bank of Japan abandoned its independence from politics long ago. As a result of Japan's financial repression, speculative hedge funds are using cheap yen loans and so-called carry trades to bet on a dramatic devaluation of the Japanese currency, whose historic undervaluation in turn fuels share prices.

In the US, where inflation has been at a similarly high level to Japan's, the key interest rate is a markedly higher 3.75% – to the annoyance of the American president. It remains to be seen whether the new head of the central bank, Kevin Warsh, can resist Trump's pressure to cut rates.

“A Shiller PE of 40 or 50 could become the norm under these conditions.”

Whether the rally continues or gives way to setbacks therefore hinges on two key questions. First: will the AI companies, which are almost solely responsible for the current stock market boom, be able to meet or even exceed the high expectations? Second: how will the leading central banks handle the mounting pressure from politicians on one side and rising inflation expectations on the other?

Disappointments in the AI sector's breakneck growth plans could trigger an interim bear market at any time. If, on the other hand, the political will to impose financial repression prevails, more and more investors will find themselves compelled to put their money into shares in order to protect themselves against creeping expropriation by the state.

As a consequence of persistently low interest rates, the financial markets would undergo a genuine paradigm shift, because tried-and-tested valuation yardsticks would be all but useless. A Shiller PE of 40 or 50 could become the norm under these conditions.

Jim Rogers, the American commodities guru and former business partner of George Soros, declared as long as ten years ago that “a crash of biblical proportions” was looming. The opposite came to pass. And today, just as then, we do not know what the future holds.

Warren Buffett endured a phase of monumental underperformance back in the late 1990s. This was followed by an impressive comeback by the legendary value investor. The investment community would do well not to write the old master off prematurely, even at his advanced age.

PIRMIN HOTZ is the founder and owner of Dr. Pirmin Hotz Vermögensverwaltungen, based in Baar, Switzerland.

Opinion

AT1 bonds as a fire accelerant

Pirmin Hotz

BANKING REGULATION – In the heated debates on UBS's equity capital, a group of parliamentarians is keen to permit the bank to make greater use of special promissory notes. But they showed just how unsuitable they are in the downfall of Credit Suisse (CS).

The Federal Council is expected to publish its dispatch on the new capital rules for submission to Parliament in April. A purported 'compromise proposal' is already being circulated by National Councillor and banker Thomas Matter, which would allow UBS to provide up to 50% of the financing for its foreign subsidiaries in the form of AT1 bonds instead of hard equity, as the Federal Council demands. As the experience with Credit Suisse has shown, the idea is likely to backfire.

The report by the Parliamentary Investigation Committee indicates that CS was already in dire straits by the end of 2022 at the latest and – due partly to the relief granted by the Financial Market Supervisory Authority (FINMA) – was undercapitalised as well. By then at the latest, the AT1 bonds should have been converted into equity, as confirmed by both the plummeting CS share price and its soaring credit risk premiums. UBS also came to the conclusion that CS was ultimately lacking in equity capital. Otherwise it would not have urged the authorities to write off the AT1 bonds during the takeover of its competitor.

This brings us to the crux of the matter: why were the AT1 bonds not written off early on, even though – viewed in the cool light of day – the authorities and CS managers had, from autumn 2022, gradually come to the conclusion that the bank urgently needed additional equity to counteract the erosion of trust among clients?

Fair-weather constructs that fail under stress

The honest answer is probably this: writing off the bonds would likely have fanned the flames of uncertainty among investors and most certainly have exacerbated the bank run, leading to the demise of CS. The bank's executives and the authorities had to assume that an AT1 event would trigger panic on the markets – a classic

vicious circle. The Federal Council, FINMA and the SNB therefore felt compelled to keep on repeating, until the very end, that the bank was facing neither a capital nor a liquidity problem. AT1 bonds are essentially intended as shock absorbers. But they can fan the flames when crisis strikes. Everyone in a position of authority must have realised this truth. And this is what prevented a write-off to stabilise CS prior to its collapse, as had originally been planned but not implemented until afterwards.

Given the questionable communication practices by the authorities and bank management in the phase leading up to the demise of CS, the Federal Administrative Court issued a decision in October 2025 dismissing the AT1 bond write-off as unlawful. Although the judges' decision was a logical response to serious regulatory failings, it might ultimately prove to be an own goal costing Swiss taxpayers billions. It follows, therefore, that a significant hike in equity capital would be the only effective lever to avert damage to taxpayers in the event of UBS going under. The combined balance sheet of UBS is equivalent to 200% of Swiss GDP, which means that no other country in the world is as exposed to a similar risk from a single bank. What is more, it is contrary to international practice for the equity of UBS's foreign subsidiaries to be financed in part with debt capital from the parent company. It would be equally absurd if a private individual applying for a mortgage with UBS were to finance the equity required for the purchase with a loan from another bank (double leverage).

Do higher capital requirements threaten UBS's competitiveness? It is astonishing to note how this fear has gained widespread traction, as there is no scientific or empirical evidence to support the theory. Many cantonal banks have been operating successfully with high equity ratios for decades. If it were true that high equity ratios actually jeopardise competitiveness, UBS would have to – by inverse logic – prioritise awarding loans to clients with little equity, which is a rather bizarre and impractical notion.

Never in the history of the big banks have equity ratios been as low as during the last twenty years.

If we follow the logic of UBS, this should have been a blessing for the bank's competitiveness and its shareholders. Even a cursory review shows that the opposite is actually true.

“Writing down the bonds would only have escalated the bank run further.”

Shareholders left empty-handed

While the Swiss market as a whole (SPI) generated a cumulative return of 217% (5.9% p.a.) between 2006 and 2025, UBS's equity investors, including all dividends, achieved a cumulative return of just 10% (0.5% p.a.). Low equity ratios are evidently no guarantee of attractive returns for shareholders, but only for salaried bonus recipients at the top. While shareholders' equity has cost UBS practically nothing for over two decades, the annual interest rate on AT1 bonds has ranged between 6 and 9%. The statement that AT1 bonds are more favourable than equity should therefore be viewed with quite some scepticism based on empirical evidence alone.

What have we learned from the UBS and CS cases? Low equity ratios increase a bank's refinancing costs, jeopardise its competitiveness and creditworthiness, erode confidence among clients and investors in times of crisis and ultimately lead to a bank run. Banks also preach these accepted wisdoms – which obviously apply to all companies – to clients when they apply for a loan.

UBS's hard equity currently stands at 4.4%. If the demand of the Federal Council is implemented, the quota will rise towards 6% – so essentially a marginal amount. This would also be achievable within ten years simply by reducing or suspending dividend payments and share buy-backs. If the Federal Council had agreed with the pre-eminent professors Anat Admati, Martin Hellwig and Simon Johnson by demanding 20 to 30% hard equity, an increase of a whopping \$300bn would have been necessary instead of 'just' \$25bn to \$40bn. As a result, the 'extreme solution' demanded by the Federal Council would seem almost like a moderate compromise proposal.

Switzerland has seen two of its largest banks collapse in the space of just fifteen years. UBS bosses assure us that this will never happen again. Really? Let us not forget the famous words of Albert Einstein: “The definition of insanity is doing the same thing over and over again and expecting different results.”

PIRMIN HOTZ is the founder and owner of Dr. Pirmin Hotz Vermögensverwaltungen, based in Baar, Switzerland.



Fluctuation reserves **Against blind faith in models**

Thomas Hauser

While fluctuation reserves were frequently calculated very approximately using the practitioner method twenty years ago, financial economics methods are commonly used today. This translates into only a scant reduction in margins of discretion.

Years ago, as a young academic, I was astonished by a statement made by the Chair of the Board of Trustees at a meeting: the reserve ratios for the applied practitioner method would be selected to create a target reserve of 18% for a given strategy. I found this “backwards engineering” highly subjective and therefore not very professional. It seemed clear to me that the objective financial economics method must be applied, especially as it is the only one to consider diversification effects.

Now, though, after years of experience with pension funds and calculating their fluctuation reserves, I have to revise my judgement, partly at least. The financial economics method is undoubtedly appropriate, but does not guarantee complete objectivity and fails to calculate the correct reserve. This is because the leeway for choosing the various parameters and, in particular, for calculating the risk/return characteristics merely shifts the subjectivity to a higher level and, in doing so, conceals it better than with the practitioner method.

Dependence on the security level...

We will take an imaginary pension fund as an example. Its allocation is: 40% equities (of which 10% Swiss equities), 20% Swiss property, 35% bonds (Swiss francs) and 5% liquidity. With an envisaged yield of 1.25% and long-term risk/return characteristics¹, the target value for the fluctuation reserve varies considerably depending on the level of security: the target reserve would be 17% if the Board of Trustees wants the reserve to be sufficient in 99 out of 100 years (99% security level) to compensate for market fluctuations and the envisaged

yield. If less security is required, the target reserve is significantly lower: 11% for a 95% security level and 14% for 97.5%. But the target value for the fluctuation reserve rises to 24% (see chart) if the Board of Trustees wishes to adopt a highly conservative approach and sets the security level at 99.9%.

This choice of parameters and the associated subjectivity of calculating the target reserve do not represent an endorsement of specifications in technical guidelines or regulations – on the contrary. It is good for the Board of Trustees to have discretionary powers and hence to be required to form an opinion on an appropriate magnitude of reserves. On average, Swiss pension funds held 16.5% fluctuation reserves with 62% real asset investments at the end of 2024². A sufficiently well-endowed fluctuation reserve helps to maintain disciplined adherence to the investment strategy, even in turbulent times. This is because experts often call on investors to engage in pro-cyclic risk reduction during periods of crisis – in other words, to sell shares. But the consequences of such an untimely change in strategy can be devastating, as the pension fund effectively abandons any hope of recovery. It's like having a reserve of road grit for the winter: the amount was selected to ensure it would be enough. But no one should start feeling nervous if it starts to dwindle towards the end of winter.

...and on the basics

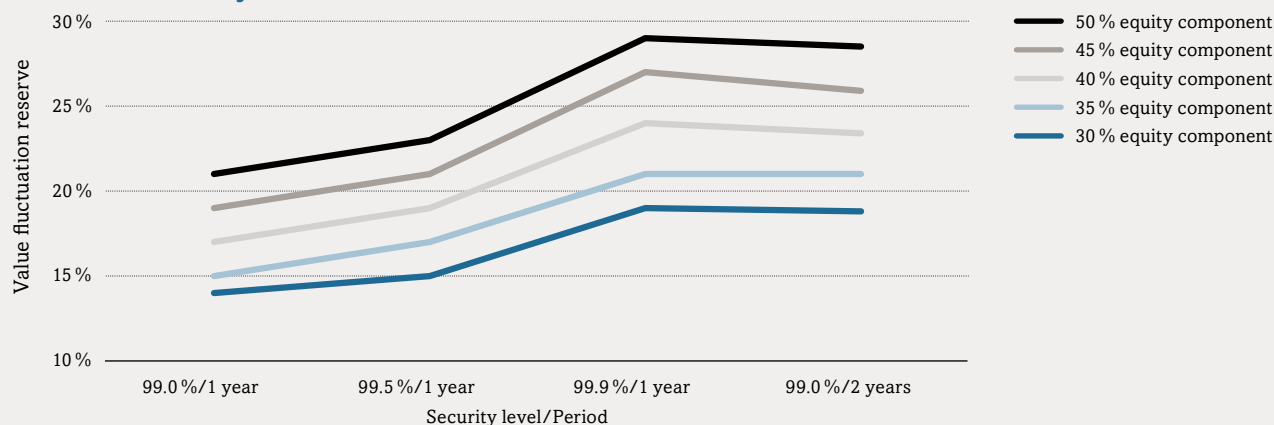
Inconsistencies in the risk/return fundamentals are a common problem when assessing the scope of target reserves. The risk parameters are particularly important here. Those in control have difficulty detecting abrupt changes in assumed volatilities (fluctuations) and correlations (interdependencies between asset classes), despite their immense impact.

This problem occurs if the periods used for the underlying data series are too short. After all, these

¹ Risk parameters are based on data since 1979, while anticipated yields are calculated using historically proven risk premiums on current interest rate structures.

² PPCmetrics AG, Pensionskassen-Jahrbuch, 2025 edition.

Target reserve for pension funds with varying equity exposure (and a fixed 20% real estate allocation) at different security levels



risk parameters go down when the markets experience fair weather phases, which lowers the need for fluctuation reserves. But volatilities can rise sharply in bear markets, accompanied by a massive increase in correlations. The target value for fluctuation reserves shoots up at the precise moment when part of the current reserve has already been utilised. This type of calculation is not appropriate and can spread unnecessary nervousness among those in charge. The risk of incorrect, pro-cyclical decisions with regard to strategy adjustments increases.

Same investment strategy, twice the reserve requirement

This will be illustrated using a historical example of the pension fund with the above strategy. The pension fund calculates the risk parameters (volatilities and correlations) for measuring the fluctuation reserve based on data from a 5-year time window. At the beginning of 2008, the first bad news about sub-prime mortgages led to a recalculation using data from 2003 to 2007. Given an envisaged yield of 1.25% and a security level of 99%, this resulted in a reserve requirement of 8%. At that time, the pension fund felt safe with its fluctuation reserve of 10% and a coverage ratio of 110%.

The financial crisis took its course and the coverage ratio fell well below 100% over 2009, settling at 102% by the end of the year. But this meant a fluctuation reserve of just 2%. The Board of Trustees decided to obtain certainty as to the target requirement for the fluctuation reserve. This time, the risk parameters were based on

data from 2005 to 2009 – so again a period of five years. With all other factors constant, the reserve requirement shot up to an astonishing 16% despite having been 8% in the most recent calculation.

But shifting the short 5-year window by two years had added the crisis years of 2008 and 2009. Risk parameters increased significantly – average volatility rose by half, while average correlation tripled – resulting in sky-rocketing reserve requirements.

These pro-cyclical increases in reserve requirements must be avoided. It is therefore necessary to draw on sufficiently long data series to obtain a stable calculation of risk parameters.

TAKE AWAYS

Discretionary powers remain, irrespective of whether the practitioner method or the actuarial method is used.

There is no right level of fluctuation reserves; the Board of Trustees must form an opinion.

A cautious approach to reserves is recommended, as this helps to remain true to the investment strategy, even in difficult phases. This is crucial for long-term investment success.

Pro-cyclical increases in reserve requirements must be avoided; therefore, sufficiently long data series should be used for the stable calculation of risk parameters.

THOMAS HAUSER Dr. rer. pol., Managing Partner,
Dr. Pirmin Hotz Vermögensverwaltungen AG

Opinion

Gold is the better Bitcoin

Pirmin Hotz

The predominant cryptocurrency is a hype and cannot replace the physical form of the precious metal to safeguard against crises and state bankruptcy.

The price of gold is breaking records almost daily in response to geopolitical uncertainty, spiralling government deficits and a global economic power struggle orchestrated by Uncle Sam. Seeking refuge in gold is not a new phenomenon of our time. The doomsday apologist Paul C. Martin published a book in early 1983 entitled “Wann kommt der Staatsbankrott?” (When will the state go bankrupt?), in which Martin advised readers to invest in gold. What has been the outcome?

Anyone who invested CHF 100,000 in gold at the beginning of 1983 would have amassed the equivalent of CHF 387,332 by the end of 2025, which is equivalent to an annual return of 3.2%. By comparison: if the investor had held the same amount in Swiss equities in the same period, it would have grown to a staggering CHF 2,685,979 by the end of 2025 due to capital appreciation and dividends – and despite the occurrence of several stock market crises during this period. The average annual return is therefore an attractive 8%. Although gold has not exactly been an exhilarating driver of returns in the long term, it is still fair to say that its performance over the last decade has been outstanding. At 12.6% per annum, it has clearly outperformed the return on Swiss equities. The SPI achieved an annualised performance of “just” 7.2% during this period.

Speculating on a sense of foreboding

Bitcoin has carved a niche as an alternative to equities and gold in recent years. Like physical gold, bitcoin is purely speculative and does not embody productive capital, nor does it pay dividends or interest. People who invest in gold or bitcoin are speculating on a mood of public foreboding or on state bankruptcy. But it is still important to bear in mind that we are unlikely to pay our butcher, baker or hairdresser in gold or bitcoin when the economy hits rock bottom, states go bankrupt and currencies become worthless.

In times of war or a global economic crisis, there is also a considerable risk that privately held gold – whether in physical or digital form – may be confiscated by governments or, in the case of bitcoin, banned. It is a simple fact that digital gold has shown a breathtaking performance over the last decade. While physical gold had to make do with an annualised return in the “pitifully” low double-digit range from 2016 to 2025, the return on bitcoin was a staggering 66%. Investors bold enough to plough money into bitcoin during its early phase in 2010 have even achieved 160% – annually.

Does this make bitcoin the better gold? Even if crypto fans may see it this way, there are rational reasons for rejecting the notion. The yellow metal played an important role in financial history until the de facto collapse of Bretton Woods in 1971. The gold standard applied for a long time, with countries pegging their currencies to the price of gold.

In contrast, bitcoin has no past and was created out of thin air. Another factor is that gold has a real place in the jewellery industry, while bitcoin is entirely useless and barely even features as a means of payment. Unlike gold, bitcoin is virtually bereft of economic benefit and possesses an intrinsic value of zero. Moreover, when viewed in the clear light of day, the argument of limited availability would only apply to physical gold. Our planet only holds the gold that is actually there. And its price is likely to increase in the long term due to the steady rise in the cost of extraction.

When conversation turns to the scarcity of gold, supporters of bitcoin are keen to point out that the protocol imposes an irrevocable limit of 21 million coins. While true, it is actually a bogus argument due to the steady emergence of new and similar cryptos on the market. And there is no reason to believe that the founder of the faith – who operates under the pseudonym Satoshi Nakamoto – will not launch bitcoin number two, three, four or even a hundred somewhere down the line. Anyone who points to the limited resource availability is trusting that humans will remain true to bitcoin as the first mover for years and decades to come.

“Bitcoin has no past and was created out of thin air.”

Throughout history, gold has frequently proved its worth as a shield against crises and inflation. There was, for example, a strong upward trend between 2008 and 2011, when the rampant Greek debt crisis sent shock waves through the global financial markets. The bull market persisted until 2012, when then ECB President Mario Draghi uttered the legendary three words “whatever it takes”. Calmed by the massive flood of money from the international central banks, the financial markets settled down and gold subsequently fell by almost 40%. It then continued to soar from 2015 onwards, fuelled by historically low interest rates.

Confidence in the USA damaged

The price of gold rose steadily and reached historic heights following the outbreak of the war in Ukraine, the subsequent Gaza conflict and the US attack on Iran. Unlike gold, bitcoin has yet to prove its worth as a safeguard against crises. It lost around half of its value in just a few days during the coronavirus pandemic. Gold purchases by central banks in Brazil, China, Kazakhstan, Poland and Turkey have risen sharply since Russia unleashed its war of aggression against Ukraine. These purchases are also viewed as a response to the fact that the G7 states – led by the USA – froze Russia’s foreign currency reserves after the outbreak of war.

Confidence in the dollar is also suffering due to America’s escalating national debt and the erratic policies of its belligerent president. Some investors therefore see gold as an alternative to the global currency. Viewed rationally, it is difficult to imagine how bitcoin could ever play a similar role. Its attributes suggest that it is likely to remain a speculative asset. Unlike physical gold, digital gold builds exclusively on hope and faith. Applied to the Greater Fool phenomenon, it embodies the hope of finding somebody dumb enough to buy an essentially worthless coin at a higher price. Bitcoin therefore has more in common with a Ponzi scheme than a valid asset class. Gold is undoubtedly the better bitcoin, but equities remain the better gold in the long term.

PIRMIN HOTZ is the founder and owner of Dr. Pirmin Hotz Vermögensverwaltungen, based in Baar, Switzerland.



Successful investors ignore politicians

Economy

Daniel Zulauf

Rising inflation rates accompanied by high national debt: this cocktail can scare even the unshakeable optimist and asset manager Pirmin Hotz.

Pirmin Hotz is a stock market professional who says things like: “Annual forecasts are hocus pocus”, “betting on individual shares is pure luck” or “performance is only no coincidence in the long term”. Holder of a PhD in economics, the asset manager believes in a systematic and consistent approach to investing money. Nevertheless, the 65-year-old from central Switzerland remains spellbound by the ups and downs in prices.

What kind of stock market year can we expect in 2026?

Pirmin Hotz: The past is more interesting and instructive than forecasts. Donald Trump caught us all by surprise with his first draconian tariffs in early April, causing a sharp drop in exchange prices. Millions of investors wondered: is now the time to buy equities at lower prices? Banking legend Oswald Gröbel dismissed the idea, saying that patient people would get the shares even cheaper.

Those were his words in our newspaper...

Yes, and he was wrong, like many professionals who know a lot about markets but are unable to make accurate predictions about when they will rise and when they will fall. 2025 was a good year on the equities market from a Swiss or Swiss franc perspective. I would have said yes if this result had been offered in the summer. After all – quite aside from the tariff shock – two terrible wars were raging with no end of potential for escalation.

Are you expecting a crash?

It will definitely come eventually. I just don't know when.

Is the hype around artificial intelligence just a bubble?

Difficult question. There are signs that it might be one. Nvidia, Microsoft, Apple, Alphabet/Google, Amazon,

the Facebook group Meta and Tesla have increased their market cap by a factor of approximately seven since 2015. The accumulated value of these seven high-flyers accounts for around a third of the US stock market. They have been feeding off each other since 2015 and, as customers and suppliers, exist in an almost unprecedented state of mutual dependency. The sheer scale of their valuation is breathtaking. And the risks are considerable.

So is it just another tech bubble?

I don't think much of comparisons with the dotcom boom of 2001, which did indeed turn out to be a bubble. Today's technology companies are generating immense profits. This is in stark contrast to the companies that fell over each other to go public 25 years ago. They were often unable to show any revenue, let alone profit. Much of it was built entirely on hope.

Are you betting on AI shares?

We are not entirely averse. We have invested in stocks such as Apple, ASML, Microsoft and Alphabet, but we don't have any Nvidia shares, as one example. If we had completely abandoned highly valued technology stocks for fear of an AI crash, we would have missed out on the entire evolution of this market segment. That would be too big of a risk for any professional asset manager.

You missed the boat with Nvidia?

Yes, unfortunately we did. Looking back, we would of course have loved to have held equities, but the big profits were simply not there when we shunned Nvidia about three years ago. Now that revenue and profits are hitting the roof, there has even been a dip in the valuation of these shares based on the price/earnings ratio. From a pure valuation perspective, the equities would even be more favourable now than they were back then. But buying equities that are trading at an all-time high or just below after a breathtaking rally goes against my intuition.

Zuger
ZeitungLuzerner
ZeitungUrner
ZeitungNidwaldner
ZeitungObwaldner
ZeitungAargauer
ZeitungSolothurner
ZeitungOltner
Tagblatt

“Unruly markets and rising interest rates are the only things that can bring politicians like Donald Trump to their senses.”

Would it be fair to say that intuition is so subjective that it should have no place in your systematic investment process?

True. But I'm not a robot. Recognising our emotions, we take great care to ensure our investment process remains guided by a systematic approach. My intuition has often deceived me. So I would not completely rule out the possibility of us buying Nvidia equities at some point.

Aren't we all waiting for the right moment?

Yes, but many fail to act when that moment arrives.

Is that more intuition?

No, this is knowledge that builds on experience. Before the great stock market crash of 2001, Microsoft equities were valued on the stock market at 70 times the annual profit. But then the prices of tech equities went into a tailspin. Microsoft too – although the company continued to increase its profits on a massive scale each year after the crash. But investors had simply lost interest in these equities. In response, Microsoft's market capitalisation plummeted to 10 times the annual profit.

Over the past 30 years, central banks have flooded the markets with endless liquidity to ease recovery after every minor stock market quake. Will they stick to this path?

That hinges largely on the development of inflation. A potential AI crash could put central banks in a serious dilemma. Despite their clear mandate to ensure price stability, they might feel compelled once again to safeguard financial stability. However, the central banks would have to raise interest rates quickly in response to an uptick in inflation. A recession and a sharp stock market correction would be possible in this scenario.

The stakes for the central banks are getting higher and higher. Does this also increase the risks?

Yes. And let's not forget how heavily indebted many traditionally industrialised countries actually are. New debt is rising in the United States even now, despite the favourable economic conditions. The situation is no better in some large European countries. Political pressure on central banks to keep interest rates low – which eases the interest burden on governments – is steadily increasing.

Donald Trump behaves as if politics rules the financial markets as well. How do you deal with this?

I believe that political stock markets have short legs. Just take a look at the political posturing around the tariffs issue. It did not lead to any prolonged imbalance on the markets. Successful investors ignore politicians who come up with crazy ideas for economic policies, as the markets do not follow a political script in a free world.

You mentioned the growing political pressure on central banks. Does Trump want a US Federal Reserve that is beholden to him?

I think he has set his sights on precisely that. Trump wants to cut taxes and distribute money, as he clearly stated in his Big Beautiful Bill. It is only a matter of time before investors on the bond market rebel. I hope that it happens soon, as unruly markets and rising interest rates are the only things that can bring politicians like Donald Trump to their senses. They get nervous when risk premiums rise. They have to get nervous, because the solvency of their countries is at stake in these scenarios.

Does America want lower interest rates to keep its debt sustainable?

Yes, but not just America. There will be a global race to lower interest rates, which will also lead to a race to devalue currencies. Countries will then be able to service their high debts even if inflation rates rise. But all of this merely leads to the financial repression of citizens. It is a kind of creeping expropriation. Earnings on their savings capital are less than inflation and quickly evaporate.

Zuger
ZeitungLuzerner
ZeitungUrner
ZeitungNidwaldner
ZeitungObwaldner
ZeitungAargauer
ZeitungSolothurner
ZeitungOltner
Tagblatt

Which is more dangerous: the AI bubble or Trump's debt budget?

While the question of the AI bubble is important, if you ask around the financial world, you quickly realise that almost everyone will first mention the rampant debt of the global community. A major crisis can be triggered from anywhere in this fraught situation – as we saw in Greece. That's what I'm most afraid of.

You don't believe that the central banks will be able to jump start the economy again?

No, in the medium term, central banks will be forced to raise key interest rates once more. Be that as it may, I think that inflation in America and in Europe is stubbornly remaining above the tolerable level. What is more, the many highly indebted countries will have to make savings, which will also decelerate growth. So while I am not a pessimist who believes in the inevitability of a deep recession, the assumption that we will see lower returns across all asset classes is nevertheless realistic.

Many politicians believe that saving has become an end in itself in Switzerland. Are they right?

Definitely not. Fortunately, the debt brake is firmly enshrined in the Swiss constitution. It is a blessing for the country. I find it alarming when even mainstream voices speak in favour of exceptions for the army. It's as if they want to open Pandora's box. Markets might not respond favourably if we abandon the path of virtue. And the consequences would be felt very quickly, because Switzerland does not belong to a large bloc and has to take care of its own currency. I think it's good that Switzerland remains independent and is not part of a union of states. But independence compels us to maintain rigorous discipline.

Is UBS a threat to Switzerland's independence?

Let me put it like this: it is highly questionable whether the country would manage to avoid a catastrophe if UBS were to collapse given its current structure and size. After two major bank failures, we must do what we can to prevent this kind of disaster from happening again.



Distance creates clarity: Pirmin Hotz does not believe in short-term trading on the equity markets. Picture: Pius Amrein (Baar, 5.12.24)

PIRMIN HOTZ is the founder and owner of Dr. Pirmin Hotz Vermögensverwaltungen, based in Baar, Switzerland.