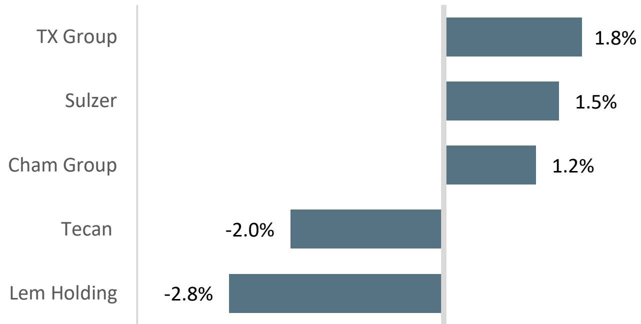
Reichmuth Pilatus - P

H2 2024

YTD -9.3%

Cyclical Small-Caps Under Pressure

The past year was disappointing for Swiss small-caps. In the second half of the year, it became clear that the expected economic recovery was not happening. As a result, the prices of cyclical small-cap stocks corrected significantly again. Reichmuth Pilatus ends the year with a disappointing performance of -9.3% in a challenging environment. We were too optimistic for the second half of the year and therefore too cyclically positioned. We did not expect the recession in China and Europe to weigh so heavily on stock prices. The performance since the start in 1996 is +6.5% p.a.The economy has now normalized, and leading indicators have stabilized. Companies are benefiting from a stronger USD. However, the hoped-for recovery in order intake has not yet materialized in many areas. We expect the low point in this regard to occur in the first half of 2025.



(largest contributions in 2024)

Positive performance contributions come from TX Group, Sulzer, and Cham Group, all companies that are adapting their structure to the market or merging with competitors. However, these could not offset the weakness of industrial-related stocks. The largest negative outliers include companies with exposure to the automotive sector, such as Komax, Dätwyler, and Lem, as well as the laboratory equipment manufacturer Tecan.

The Environment Remains Challenging

Instead of the expected recovery in the second half of the year, we experienced weak business conditions in Europe and China, which further burdened our companies. Automotive suppliers came under strong pressure, and the industrial and residential construction sectors in Europe were weak. The inventory reduction cycle is advanced, and the companies are seeing initial recovery trends. Order intake in Europe and China is stabilizing at low levels, in the US, orders are improving, but there is still low visibility everywhere for now. Capacity utilization is low, and companies have significantly reduced their costs. This brings positive operational leverage when the order cycle picks up again. This makes us optimistic. Good companies adapt to the environment: Georg Fischer, for example, focuses on the higher-margin "Water and Flow Solutions" business, which deserves a higher valuation. Companies are not cutting back on research and development spending. This is important because these are the future competitive advantages. To do this, companies need a solid balance sheet, which our portfolio companies possess. The average equity ratio is over 50%, and more than half of the invested companies hold net cash. The quality of the portfolio is right. Moreover, valuations are again at attractive levels. Fiscal policy remains expansive, and interest rate cuts provide support for the stock markets. Europe should not be written off too early, and China could also positively surprise with stimulus measures and drive growth. Our companies are market leaders in their niches and possess the quality to disproportionately benefit from the upcoming recovery.

We thank you for your trust and look forward to the new year with great confidence.

Philipp Murer
Portfoliomanager

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