MONITOR

1st Quarter 2024

Market review

From the investor's point of view, 2023 was a surprisingly positive year. In a multi-asset class context, risky asset classes have performed well. Global equities have shown resilience, as have crypto assets, after a difficult 2022 amid an uncertain economic environment.

Bonds have also performed positively despite serious concerns about inflation. Whoever would have thought that the level of interest rates at the end of the year would not be far off from that at the beginning of the year. 2023 brought some surprises: a resilient America, a disappointing China, volatile interest rates through a constantly changing narrative, sharp fluctuations in commodity prices to name just a few.

The strong Swiss franc posed a headwind for Swiss investors. This was so for all foreign currency investments, but also, above all, for Swiss equities in general, which for once underperformed significantly in an international context.

2024 promises at any rate to be an interesting year: macroeconomic data and geopolitical developments aside, November could be marred by uncertainty with it being an election year in the USA. For the time being, investors will be focusing on how long stock market sentiment can remain positive. Volatility is currently very low, and the consensus is that the USA will avoid a severe recession or "hard landing". Market breadth is expected to broaden, giving the 2023 laggards the potential to catch up – i.e. primarily small and medium-sized companies, but also Swiss blue chips.

Debt, deglobalization, artificial intelligence (AI), energy transition and disruption in healthcare are some of the big topics that will continue to stay in focus us throughout the new year.

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Market data

per 31.12.2023

Equity Markets		**since 31.12.2022**
SMI CHF	11'137.79	3.81 %
S&P 500 USD	4'769.83	24.23 %
EURO STOXX 50 EUR	4'521.65	19.19 %
FTSE 100 GBP	7'733.24	3.78 %
MSCI Emerging Markets USD	533.83	9.83 %
NIKKEI 225 JPY	33'464.17	28.24 %
MSCI All Country World Local	379.73	21.61 %

Bond Markets		**since 31.12.2022**
Eidgenossen (10y)	0.65 %	-92.6 bps
US-Treasury (10y)	3.88 %	0.3 bps
Bund (10y)	2.02 %	-54.4 bps
SBI AAA-BBB 3-5 TR	125.34	5.24 %

3 Month Key Rates		**since 31.12.2022**
CHF (SARON)	1.70 %	75.3 bps
USD (SOFR)	5.38 %	108.0 bps
EUR (ESTR)	3.88 %	199.2 bps

Exchange Rates		**since 31.12.2022**
EUR/CHF	0.929	-6.13 %
USD/CHF	0.841	-8.99 %
EUR/USD	1.104	3.12 %

Alternative Investments		**since 31.12.2022**
Real Estate (UNGL)	2'160.99	6.14 %
Gold (USD/Ounce)	2'062.98	13.10 %
US Crude Oil (USD/Barrel)	77.04	-10.32 %
Hedge Funds (HFRXGL)	1'410.29	3.10 %
Bitcoin (XBT)	42'507.90	157.01 %

Macroeconomic environment

Global economic growth accelerated at the beginning of the second half of the year. The performance of the US economy was remarkably robust. Consequently, yields on US Treasuries peaked in October in anticipation of a "higher-for-longer" interest rate scenario. Given that monetary tightening acts with a lag, there is now economic data to suggest that the US economy is noticeably slowing down. Based on estimates, the USA is likely heading for a soft landing with almost zero growth in the first half of 2024. Meanwhile, headline inflation is coming down quicker than expected – much to the relief of businesses and consumers alike.

At the same time, the US labour market does not seem to be running hot. Wage growth is not out of hand and the number of jobs created shows a slight downward trend. These factors prompted the US central bank (the Fed) to adopt a dovish stance in December and to move to possibly cut interest rates sooner than expected. Capital markets are consequently pricing in the first rate cut by as early as March 2024, and are expecting six rate cuts in 2024, versus three earlier. European economic growth is also likely to regain some momentum towards the middle of the year, as manufacturing emerges from recession and looser lending conditions boost investment.

Consumers, for their part, should feel the benefit of real wage increases from summer 2024 onwards. Until then, however, the situation is likely to remain challenging, as consumer sentiment is still gloomy and there could yet be a short-term resurgence in inflation (e.g. from higher prices for services or from the removal of subsidies).

As far as the monetary policy makers are concerned, the fight against inflation is not yet over. There is a risk that central banks may again have to veer off course.

Traditional Investments

Currencies
The Swiss franc has been strong against the Euro and the US-Dollar both in Q4 and since the beginning of the year. The Euro weakened over a stalling economic recovery in Europe. Over the next few months, we expect the EUR/CHF exchange rate to move sideways. The US-Dollar has been more volatile: the greenback fell 8% against the Swiss franc in Q4 on predicted rate cuts. These exchange rate dynamics could pose a major challenge for export-oriented Swiss companies, as profits reported in Swiss francs will decline. A change in monetary policy or the geopolitical situation or an unexpected turn in the economy could boost the US-Dollar again.

Bonds
The prospect of the leading central banks winding down the monetary tightening cycle has quickly lifted bond prices. Yields on 10-year government bonds fell in some cases by over 1.0% in Q4. US Treasuries are currently yielding well below 4% again, and 10-year Swiss Eidgenossen are offering a yield of just 0.7%. The yield curve structure has remained inverted in all major currency areas.

Credit spreads also narrowed in the final weeks of the year, which indicates an increase in investors' appetite for risk. In the current environment, we are maintaining our preference for corporate bonds with good credit ratings and a medium duration. Liquidity management using money market investments remains important.

Equities
October was marked by a sharp setback in global equity markets. Equities tumbled on the back of the "higher-for-longer" narrative, moderately good corporate quarterly reports, and the outbreak of the Hamas-Israel war. At the beginning of November, a counter-movement fortunately set in, mainly with the changed narrative about lower interest rates. This lifted growth stocks more than it did value stocks.

US equities benefited most from the rebound, gaining around 11% in value on average during Q4. The US S&P 500 index, though, just missed its all-time high of 4,797 points (on 3 January 2022). Within Europe, performance varied widely: equity markets in the eurozone gained more than 6% in the last three months, while those in Switzerland and the United Kingdom managed only low single-digit gains. In the emerging countries, Latin America as a region and India delivered good results. The performance of Chinese stocks was disappointing: in the face of well-known structural challenges, they lost over 6%.

Sentiment in the equity markets could be categorized as positive towards the end of the year. The weekly survey of US investor sentiment indicates that 52.9% of respondents expect stock prices to rise over the next six months. This is its highest level in over two and a half years. Only four times in the past 10 years have investors been more optimistic.

The combination of falling interest rates and positive economic growth – i.e. where the economy is growing neither too fast nor too slow – is often described as a "Goldilocks environment" and considered favourable for equities as an asset class. This is why equities have recently seen large inflows. The next few months will show whether investors have already priced in a scenario for US equities that is too optimistic. Swiss equities, on the other hand, appear to have some catching up to do.

Alternative Investments

Gold had a strong finish to the year (+12% in Q4, in USD/ounce). The geopolitical shock in the Middle East first boosted demand for gold, and then a weak US-Dollar supported the precious metal. Gold has thus confirmed its value as a diversifier in uncertain times.

Falling interest rates have increased the valuations of Swiss real estate funds, leading to a higher premium (about 14%) for residential real estate. In a historical context, the premium of all Swiss real estate funds is at the level of 2009, shortly after the global financial crisis, and as such is still far from the long-term average premium (agio) of about 19%.

The entire crypto universe has experienced a very strong rebound after several major US investment houses submitted applications for Bitcoin ETFs. Moreover, the next and fourth Bitcoin halving event, which is expected in April 2024, will likely dominate the headlines in the coming months. Bitcoin remains a strategic investment.

Private Markets

The much higher interest rate environment, tighter lending standards by banks and economic uncertainty have affected the private market universe in different ways. Significantly higher financing costs and diverging price expectations have caused exit volume in the *private equity* universe to fall sharply.

These same factors mean that in the *private debt* universe assets can provide higher potential returns and lower risk.

We see broadly diversified private market investments as long-term strategic portfolio building blocks.

Discover yet more interesting facts in our magazine.

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