MONITOR

2nd Quarter 2024

Market review

The year got off to a good start for many asset classes – equities, commodities such as gold and oil, individual bond segments, Swiss real estate and crypto-currencies. Sentiment among investors is correspondingly good and many macro indicators have provided positive surprises. Nine out of ten fund managers, meanwhile, no longer expect a global recession in 2024. So far, central banks seem to have pulled off the balancing act with their monetary policy, but we can only know for certain in time.

The emergency lending programme set up a year ago by the Fed to stabilize US regional banks expired in March, and this could well test these financial institutions again. Particular attention should be paid here to weakness in the US commercial real estate market.

Also, growing geopolitical risks are being practically ignored – despite the ratcheting up of the war of words between Russia and the West. The constellation in US politics will be all the more important. In the run-up to the US elections, the Biden government will be keen to maintain good framework conditions to enable the US economy to flourish.

The current constructive environment for the financial markets is also providing a tailwind for private market investments. While the last two years have been challenging with few deals because of rising interest rates, there are early indications the situation is improving. More favourable borrowing conditions should make it easier to get buyers and sellers back to the negotiating table. As strong advocates of private market investments, we believe our access to the best players in private markets will enable us to generate attractive long-term returns.

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Market data

per 31.03.2024

Equity Markets		since 31.12.2023
SMI CHF	11'730.43	5.32 %
S&P 500 USD	5'254.35	10.16 %
EURO STOXX 50 EUR	5'083.42	12.43 %
FTSE 100 GBP	7'952.62	2.84 %
MSCI Emerging Markets USD	546.47	2.37 %
NIKKEI 225 JPY	40'369.44	20.63 %
MSCI All Country World Local	415.82	9.50 %

Bond Markets		since 31.12.2023
Eidgenossen (10y)	0.63 %	-2.8 bps
US-Treasury (10y)	4.20 %	32.1 bps
Bund (10y)	2.30 %	27.6 bps
SBI AAA-BBB 3-5 TR	126.11	0.61 %

3 Month Key Rates		since 31.12.2023
CHF (SARON)	1.46 %	-23.1 bps
USD (SOFR)	5.34 %	-4.0 bps
EUR (ESTR)	3.90 %	1.7 bps

Exchange Rates		since 31.12.2023
EUR/CHF	0.973	4.76 %
USD/CHF	0.901	7.13 %
EUR/USD	1.079	-2.26 %

Alternative Investments		since 31.12.2023
Real Estate (UNGL)	2'116.07	-2.08 %
Gold (USD/Ounce)	2'229.87	8.09 %
US Crude Oil (USD/Barrel)	87.48	13.55 %
Hedge Funds (HFRXGL)	1'445.72	2.51 %
Bitcoin (XBT)	70'845.76	66.66 %

Macroeconomic environment

The global economy maintained the momentum from last year and continued to grow in the first quarter. Estimates for global economic growth in 2024 have been continually revised upwards since the beginning of the year. Not entirely surprisingly, the USA is the main driver. On the one hand, fiscal policy continues to have a positive effect on investment decisions (tax incentives, Inflation Reduction Act, etc.) and, on the other hand, the state itself is also spending more. US consumer sentiment has been rising again for the past three months, thanks in part to a robust labour market and strong US stock market performance.

While the Swiss economy experienced low but positive growth despite the strength of the Swiss franc, the eurozone, Japan and the UK tried to avoid falling into recession – the UK narrowly failed. However, the future looks rosier: the Global Manufacturing Purchasing Managers' Index reached the important 50 mark again for the first time since August 2022, indicating a rise in industrial orders following the normalization of inventories last year.

The service sector continues to be a driving force in Switzerland as well as in the USA and China. Even in the eurozone, the service sector is once again slightly expansionary. We forecast a slight increase in economic output in the important Western Regions over the next few months. As an export-oriented economy, Switzerland should also benefit from this.

On the inflation front, pressure is continuing to ease on both sides of the Atlantic – as is the case with core inflation, which excludes energy and food prices. Inflation is likely to settle at higher levels for structural reasons. With its low inflation, which has persisted below its long-term target value for some time, Switzerland started the interest rate easing cycle in March.

Traditional Investments

Currencies
The Swiss franc weakened by about 5% against the euro in the first quarter, reversing the movement seen in the previous quarter. The Swiss franc was similarly weak against the US dollar, which gained strength on the back of a better economic performance in the USA and the decision in the first quarter to delay the first interest rate cut.

The exchange rates are also pricing in the tendency for interest rates in Switzerland to fall sooner than in the eurozone and the USA. We expect a volatile sideways trend in both EUR/CHF and USD/CHF in the coming months.

The hedging costs for Swiss investors have increased again in response to the larger interest rate differential: 2.2% p.a. for the EUR and 3.5% p.a. for the USD.

Bonds
The Swiss National Bank (SNB) was the first central bank in the Group of Ten (G10) countries to get the ball rolling on rate cuts. On 21 March, it somewhat surprisingly cut its key interest rate by 25 basis points to 1.5%. Its decision is based on the belief that inflation will be no higher than 1.5% through to the end of 2026. The Fed and the ECB are likely to cut interest rates sometime in summer.

Consequently, yields on 10-year Swiss Eidgenossen have fallen back below 0.7%. This contrasts with yields on 10-year US Treasuries, which have risen again since the beginning of the year and now stand at 4.2%. Yield curves remain inverted: in Switzerland, the spread between 10-year and 2-year government bonds has narrowed; in the USA and in Germany, the spread has widened. Risk premiums for many segments in the bond market have fallen further since the beginning of the year and this indicates an appetite for risk.

Equities
The year-end rally on the stock markets did not carry on into January of the new year. The correction was short-lived, as solid economic data from the USA impressed the market and easier financing conditions took stress out of the system. Global equity markets headed for ever new highs during the course of the first quarter. For Swiss investors, equity markets in the USA, the eurozone and Japan have all performed well since the beginning of the year, chalking up double-digit returns (in CHF). The Swiss Market Index (SMI) is up 5%. Even the Chinese stock market gained over 8% on the back of stimulus measures.

Closer analysis shows a slight narrowing again of market breadth in the first quarter compared to the rally at the end of the year. In the USA, the "Magnificent Seven" and the AI beneficiaries overshadowed other companies in terms of both performance and earnings growth.

The first-quarter reporting season was overall solid, though fewer companies beat their earnings estimates than was the case six months ago. Just 30% of US companies issued an outlook that led to earnings being revised upwards – that is the lowest figure since the pandemic. There has also been a slight increase in the number of profit warnings.

And yet equity investors already seem to be focused on accelerating economic growth and falling interest rates. If our baseline scenario bears out, equity indices could still have upside potential in the coming months, with performance laggards catching up.

Alternative Investments

Gold reached a new all-time high in March despite rising real interest rates. Since sanctions were imposed on Russia, central banks in emerging markets have been increasing their gold holdings as an alternative to the US dollar and US Treasuries. Private investors in these markets have also been buying physical gold in response to the political uncertainties and crises. Curiously, gold ETFs recorded an outflow of capital.

The premium on Swiss real estate funds increased further quarter on quarter and at +18.9% is close to the long-term average. The price of Swiss commercial real estate is above the net asset value (NAV) again this year after commercial real estate funds had traded at a discount last year.

The demand for cryptocurrencies surged following the authorization of spot Bitcoin ETFs in the USA in mid-January. Both Bitcoin and Ethereum reached new highs. Cryptos will remain topical, not least because of the forthcoming Bitcoin halving event in April and the decision in the USA on the approval of spot Ethereum ETFs in May.

Private Markets

With deal volume down by 37% in 2023, private market funds have accumulated a lot of money. On the other hand, there is a record number of investments ready for exiting. More favourable lending conditions and faster price discovery should provide more exit options again this year in the private equity sector.

Even though IPOs make up only a small proportion of all exits, the public listing of Galderma on the Swiss Stock Exchange was eagerly anticipated. Its success could pave the way for further placements and get the deal market rolling.

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