Market review

The word "record" has been used a lot in recent weeks. As is the case with gold and real estate prices, various stock market indices have also reached new highs: worldwide (MSCI All Country World), in the USA, in Japan, in Australia, even in Germany, whose economy is stagnating. While market capitalizations continue to increase, companies are paying out generous dividends and launching increasingly large share buy-back programmes, for instance Apple and banks. On the other hand, Nvidia suffered the largest-ever loss in market value of an individual company in a single trading day on 3 September 2024: minus USD 279 billion!

In Western countries, interest rate cuts are happening relatively coordinated and as such may likely avoid major dislocations in the financial markets. Opinions differ as to whether the Fed has chosen the most appropriate timing and extent of interest rate cuts in order to manage a soft landing for the US economy. The stock, bond and commodity markets are pricing in different scenarios.

The tight race for the US presidency and for US Congress is entering a decisive phase. Investors are, as a consequence, engaging in little activism in the near term due to the current uncertainties. Economic data will be of more importance than the election result.

In our baseline scenario, we expect an orderly economic slowdown in the USA and a slight recovery in the Swiss and European economies next year. Money that investors have parked in short-term interest-bearing investments over the last two years is likely to be repositioned in other asset classes such as equities or gold in the medium term. And hence, we are maintaining our cautiously optimistic stance.

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Market data

per 30.09.2024

Equity Markets		since 31.12.2023
SMI CHF	12,168.87	9.26 %
S&P 500 USD	5,762.48	20.81 %
EURO STOXX 50 EUR	5,000.45	10.59 %
FTSE 100 GBP	8,236.95	6.51 %
MSCI Emerging Markets USD	623.84	16.86 %
NIKKEI 225 JPY	37,919.55	13.31 %
MSCI All Country World Local	450.78	18.71 %

Bond Markets		since 31.12.2023
Eidgenossen (10y)	0.37 %	-28.9 bps
US-Treasury (10y)	3.78 %	-9.8 bps
Bund (10y)	2.12 %	10.1 bps
SBI AAA-BBB 3-5 TR	129.31	3.17 %

3 Month Key Rates		since 31.12.2023
CHF (SARON)	0.96 %	-73.8 bps
USD (SOFR)	4.96 %	-42.0 bps
EUR (ESTR)	3.41 %	-47.2 bps

Exchange Rates		since 31.12.2023
EUR/CHF	0.942	1.37 %
USD/CHF	0.846	0.50 %
EUR/USD	1.114	0.87 %

Alternative Investments		since 31.12.2023
Real Estate (UNGL)	2,358.77	9.15 %
Gold (USD/Ounce)	2,634.58	27.71 %
US Crude Oil (USD/Barrel)	71.77	-6.84 %
Hedge Funds (HFRXGL)	1,481.90	5.08 %
Bitcoin (XBT)	63,785.09	50.05 %

Macroeconomic environment

Global economic expansion will continue for the time being, driven primarily by the booming service sector. By contrast, the global manufacturing sector has continued to deteriorate and a slight contraction in the industry is indicated in the coming months.
The latest leading indicators for the eurozone have been disappointing, signalling that expectations for an acceleration in economic growth in the first half of 2025 are premature. While the Southern European countries are benefiting from reforms, expansionary fiscal policy and booming tourism, Germany and France are acting as a brake on eurozone growth.

Switzerland's overall performance has been better than expected, potentially growing its GDP by +1.6% this year thanks to low inflation, compared with +0.8% in 2023.

On the other side of the Atlantic, the labour market, which was extremely overheated, is beginning to show early signs of normalisation, namely fewer non-farm jobs created, smaller wage increases and a slightly higher unemployment rate. The US consumer is proving astonishingly resilient, as reflected in good retail sales data and a lower savings rate. Depending on how the labour market cools, consumer spending could follow, albeit with a delay. Falling inflation data and easing key interest rates are providing a tailwind. At the moment, we assume that, not least thanks to easier lending standards, a weaker US dollar and lower oil prices, the US economy is likely to achieve a soft landing. When the US elections are over, investment and consumption decisions that had been postponed could provide positive growth impulses for 2025.

In Asia, growth is shifting away from China, where numerous macro data are sobering, and the central bank PBOC and the central government are trying to cushion the economic slowdown with stimulus measures (e.g. interest rate reduction, capital injections for banks, financial support for the poor). Lower interest rates in the USA and a more favourable US dollar could benefit Asian economies.

Traditional Investments

Currencies
The US dollar has depreciated on growth concerns in the USA and a more aggressive interest rate turnaround by the Fed. Since the end of June, the greenback has depreciated by 5.9% against the Swiss franc and by more than 3.0% against the euro. In view of the upcoming US elections, we expect the US dollar to remain stable against the Swiss franc, but could well weaken further in the longer term.

The Swiss franc gained in strength relative to the euro (+2.2%) in the third quarter, mainly due to the European elections and the weakness of the euro economy. We expect a sideways trend in the EUR/CHF rate in the fourth quarter and a tendency to appreciate next year given stronger economic activity in the eurozone.

Bonds
Inflation is falling in large parts of the Western world, which is why most bond markets recorded gains in the third quarter through lower interest rate levels. The interest rate easing cycle initiated by the Fed, the ECB and the SNB has caused short-term interest rates to fall more sharply than long-term interest rates. This is reflected in a flattening of the yield curve. In Switzerland, the yield curve is still minimally inverted for ten- and two-year maturities, which is no longer the case in the USA, Germany and France.

With stable inflation of +1.1% in Switzerland, the real yield on 10-year government bonds is still negative. The real yield on investment-grade corporate bonds is close to zero.
We favour bonds from solid issuers with medium maturities and see added value in insurance and AT1 bonds.

Equities
Global equity markets were thoroughly rocked for a short time this summer: A perfect storm mix of poor economic data in the USA, heightened geopolitical risks and technical factors (unwinding of yen carry trades after the interest rate hike in Japan) caused an increase in volatility. The markets recovered by the end of the quarter, closing up 4.9% (in US dollars). A rotation had occurred beneath the surface. Tech and commodity stocks were among the relative losers in the third quarter, while defensive sectors performed better. Cyclical sectors such as luxury goods or cars, though cheap, were not in high demand. The rotation was also evident in the relatively strong performance of value and small cap stocks, gaining more than the average. Swiss and UK equities were the best performers in CHF terms. Emerging market equities have had the best momentum in recent weeks thanks, among other things, to the cheaper USD and stimuli.

Market breadth has continued to broaden, meaning that stock market performance is being supported by a number of companies, not least by small and mid-cap companies (SMEs). History shows that SMEs perform better than large-cap companies after a phase of interest rate cuts begins.

The latest reporting season of companies in the USA, in Europe and in Japan provided a positive surprise, although the base of the prior-year period was low. The next few weeks will have a decisive influence on the main drivers of equities, with implications for our country and sector allocation.

We undertook a partial rebalancing of the portfolios and increased positions in performance laggards. We have taken profit on gold-mining stocks, which are driven by gold as well as by other factors.

Alternative Investments

The precious metal gold, which saw its price breach the USD 2,600 per ounce mark for the first time, has proved to be one of the better investments this year. Over the past four months, global physically backed gold ETFs have seen inflows again. A combination of falling interest rates, a weaker USD, geopolitical uncertainty and US elections offers good reasons to continue holding gold positions in a portfolio.

Falling interest rates boosted Swiss real estate funds during the summer quarter (YTD +7.0%). The payout ratio for Swiss real estate funds is a good 2% higher than the yield on 10-year Swiss government bonds – the highest it has been since 2022.

Bitcoin has been caught in a volatile sideways trend over the past three months. At 58.6%, Bitcoin's dominance (Bitcoin's share of the total cryptocurrency market) has reached a new high since 2022. If its dominance continues to grow, it is likely to have a positive effect on Bitcoin. The US elections could, in the short term, limit the upside potential.

Private Markets

Interest rate forecasts are reviving the transactions market and over recent weeks IPO volumes in the USA, India, Japan and China have increased accordingly. Private equity activity (incl. buyouts) is expected to be up 18% in 2024. This expands not only the investable universe for private market investors but also opportunities for exits and distributions. In recent months, the exit pipeline, in particular, has grown.

Due to value generation in the underlying private market investments and more favourable financing conditions, there are currently fewer forced sellers around. Diversification and portfolio management considerations are the main motives for exits.

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