MONITOR

1st Quarter 2025

Market review

Last year proved to be a dynamic and highly rewarding year from an investor's perspective. In 2024, numerous asset classes delivered double-digit returns in local currencies. Swiss equities were relatively disadvantaged in the global context, as they are more exposed to Europe's and China's economic weaknesses.

There are compelling reasons for the continued bull run in global equities, which started in October 2022. Historically, bull markets have lasted an average of six years. Lower inflation rates and a potential easing of restrictive monetary policy are likely to sustain the attractiveness of equities. Additionally, the 'Trump Put', which implies a market-friendly environment for the US, creates favourable conditions. Of course, the starting point of the new US presidency is much higher than in 2016: the US economy is resilient, corporate profit margins are high, valuations are demanding, and government debt is at record levels.

Thus, we see limited scope for further valuation expansion in equities and expect volatility to increase, as markets are currently optimistic, and much of the good news is already priced in.

On the interest rate front, the previously synchronized trajectory of inflation and key interest rates among major Western economies is likely to diverge, leading to differing monetary policies that will impact portfolio allocation. For Swiss investors, the possibility of returning to negative interest rates cannot be ruled out, further justifying a shift toward riskier assets.

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Market data

per 31.12.2024

Equity Markets		**since 31.12.2023**
SMI CHF	11,600.90	4.16 %
S&P 500 USD	5,881.63	23.31 %
EURO STOXX 50 EUR	4,895.98	8.28 %
FTSE 100 GBP	8,173.02	5.69 %
MSCI Emerging Markets USD	573.89	7.50 %
NIKKEI 225 JPY	39,894.54	19.22 %
MSCI All Country World Local	456.46	20.21 %

Bond Markets		**since 31.12.2023**
Eidgenossen (10y)	0.27 %	-38.5 bps
US-Treasury (10y)	4.57 %	69.2 bps
Bund (10y)	2.36 %	34.3 bps
SBI AAA-BBB 3-5 TR	131.08	4.58 %

Money Markets		**since 31.12.2023**
CHF (SARON)	0.45 %	124 bps
USD (SOFR)	4.49 %	-89 bps
EUR (ESTR)	2.91 %	-98 bps

Exchange Rates		**since 31.12.2023**
EUR/CHF	0.940	1.21 %
USD/CHF	0.907	7.84 %
EUR/USD	1.035	-6.21 %

Alternative Investments		**since 31.12.2023**
Real Estate (UNGL)	2,116.52	-2.06 %
Gold (USD/Ounce)	2,624.50	27.22 %
US Crude Oil (USD/Barrel)	74.64	-3.12 %
Hedge Funds (HFRX)	1,484.55	5.27 %
Bitcoin (XBT)	93,714.04	120.46 %

Macroeconomic environment

The fourth quarter was characterized by a mix of strong economic data and political uncertainties.

In the US, GDP growth once again exceeded expectations in the third quarter (+3.1% annualized), supported by a stable labour market and robust consumer demand. The recession feared at the start of the year did not materialize. Trump's re-election could bring additional growth stimuli through intended tax cuts and deregulation. Inflation, a key risk factor, showed a downward trend globally but remained stubborn in core segments. Expansive fiscal policies and protectionist measures, such as tariffs and stricter immigration policies in the US, could not only exacerbate the domestic labour shortage but also reignite inflation and limit the country's growth potential in the medium term.

The Eurozone's economy gradually improved over the course of the year (2024 GDP +0.8%). Nevertheless, recent leading indicators have raised concerns. Political uncertainties in France and Germany weighed on sentiment and hindered economically significant decisions. Apart from political solutions, several factors could support a Eurozone recovery in 2025: a weaker euro against the US dollar, Chinese economic stimulus, Trump's pro-growth policies (provided US trade policies and potential European countermeasures are not overly restrictive), and a de-escalation in Ukraine.

The Swiss economy could grow at a moderate +1.3% in 2025, a similar pace as in the year before. While the industrial sector remains in contraction, the service sector has shown initial signs of cooling after benefiting from strong domestic demand. The unemployment rate stood at 2.6% in November and may slightly rise, with short-time work increasingly utilized.

Overall, the global economy could this year experience a comparable upswing to 2024 (around +3.1%).

Traditional Investments

Currencies

Persistently robust economic data from the US, the Federal Reserve's restrictive monetary policy, and Donald Trump's electoral victory have significantly strengthened the US dollar since the end of September (+7.3% vs. CHF, +7.0% vs. EUR). The US dollar shows no signs of weakening anytime soon. The new US administration is targeting a strong domestic economy and has threatened to impose tariffs on goods from countries, particularly those within the BRIC bloc, should they attempt to move away from the USD as their trading currency.

The Swiss franc showed minimal movement against the euro in the fourth quarter (+0.2%). This was largely due to synchronized reductions in key interest rates, albeit with a slight time lag. We anticipate the EUR/CHF exchange rate to remain range-bound, as the prospects of political realignment in Germany and France could continue to attract investors this year, despite risks such as potential US trade tariffs.

Bonds

Over the past three months, the Federal Reserve, the European Central Bank (ECB), and the Swiss National Bank (SNB) have all continued their rate-cutting strategies. In December, the SNB implemented a 50-basis-point cut, driven by a forecasted inflation rate of just 0.6% for 2025. In the US, estimations of further rate reductions have significantly diminished due to the strong economic outlook and the potential inflationary impact of Trump's tariff policies. As a result, only two more rate cuts are currently priced in by the market, bringing the target range to 3.75–4.00% by the end of 2025.

The yield curves for 10-year risk-free government bonds developed unevenly in the fourth quarter. Yields in the US rose sharply, while German government bonds ended the year slightly higher, yielding 2.4%. In contrast, Swiss 10-year government bonds delivered a modest yield of 0.3%. By the end of the year, the yield curve structure was no longer inverted in any major currency region.

Equities

Following a subdued October in terms of performance, global equity markets (as measured by the MSCI World Index) resumed their bull market rally toward year-end. The US and Japan, the two largest markets in the MSCI World, posted gains of 10.2% and 2.8% (in CHF) in Q4, respectively. Meanwhile, the Swiss Market Index declined by 4.7%, reflecting its defensive composition and uncertainty surrounding the potential appointment of Robert F. Kennedy Jr. as the new US Secretary of Health. Kennedy's previous criticism of the US Food and Drug Administration weighed on the global healthcare sector. The Euro Stoxx 50 also recorded losses (-1.9% in CHF), predominantly driven by declines in French stocks. Despite macroeconomic headwinds, equities in Asian emerging markets gained ground, supported by economic stimulus measures in China.

The dominance of the US equity market in 2024 was remarkable, further widening the valuation gap relative to other regions. By year-end, the S&P 500's price-to-book ratio exceeded 5x, double its level from nine years ago. US companies' innovation capabilities are expected to remain a key market driver in 2025. Given that artificial intelligence remains in the early stages of its technological supercycle and the US President-elect aims to foster a strong equity market, broader participation in the US stock market could be anticipated. Analysts forecast earnings growth of approximately 12% for developed markets this year, with Europe expected to perform relatively better against the US than in 2024, potentially narrowing the valuation gap. Swiss equities could achieve earnings growth of around 9% in 2025. In particular, Swiss stocks offering attractive dividend yields are considered a compelling alternative amid declining corporate bond yields.

Alternative Investments

The gold price suffered from profit-taking following the US elections, yet the precious metal delivered an impressive annual performance of +27.2%, marking its third-best year in the past three decades. Gold continues to serve as an effective hedge against inflation, trade disputes, and debt concerns, providing further upside potential in 2025.

Swiss real estate funds benefited significantly from falling interest rates in Q4. The premium on listed Swiss real estate funds has now risen to 29%, well above the long-term average. In contrast, the global real estate index experienced a decline over the year (-2.0%).

Bitcoin, the most prominent cryptocurrency, surpassed the symbolic threshold of USD 100,000. A potentially crypto-friendly US policy and increasing demand from institutional investors are likely to offer further opportunities for Bitcoin gains this year.

Private Markets

In 2024, investments in private debt (PD) performed as expected, while private equity (PE) fell short of anticipated returns. In the coming quarters, favourable market cycles, economic trends, and technological advancements will create new opportunities for private market investors, even though the impact of falling US interest rates will only gradually materialize.

The PD market could double in size over the next five years, driven by higher risk premiums relative to publicly traded bonds. On the PE side, transaction activity is expected to pick up, and lower valuations could provide attractive entry points. The demand for infrastructure projects, notably in renewable energy and digitalization, continues to be very high.

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