Monthly CIO Letter

21 October 2024

With inflation contained for the time being, market participants are increasingly focusing on economic developments again. The US economy is proving to be extremely resilient in this respect. The relatively high valuation levels are a reflection of this, as well as the fact that risks of a certain nature are largely being ignored. We are leaving the equity allocation underweighted and maintaining the broad diversification of the portfolios.

Christoph Boner
Chief Investment Officer

Highlights

- The inflation risk appears to have been averted for the time being. This allows central banks to take greater account of the economic situation.
- The fact remains that the current valuation levels imply ambitious growth rates.
- The ongoing geopolitical tensions and the upcoming US presidential elections continue to pose a threat to this growth.

Asset Allocation

Asset Classes	Change	- -	-	=	+	+ +
Liquidity	➡					●
Bonds	➡		●			
Reference Currency	➡		●			
World / Topics	➡		●			
Emerging Markets	➡			●		
Convertible Bonds	➡				●	
High Yield	➡		●			
Equities	➡		●			
Switzerland	➡			●		
Europe	➡			●		
USA	➡			●		
Pacific	➡			●		
Emerging Markets	➡			●		
Themes	➡	●				
Alternative Assets						
Gold	➡			●		
Crypto	➡				●	
Other	➡	●				
Currencies						
CHF	➡		●			
EUR	➡				●	
USD	➡				●	

Change: compared to previous month, **Positioning:** - - strongly underweighted | - underweighted | = neutral | + overweighted | + + strongly overweighted

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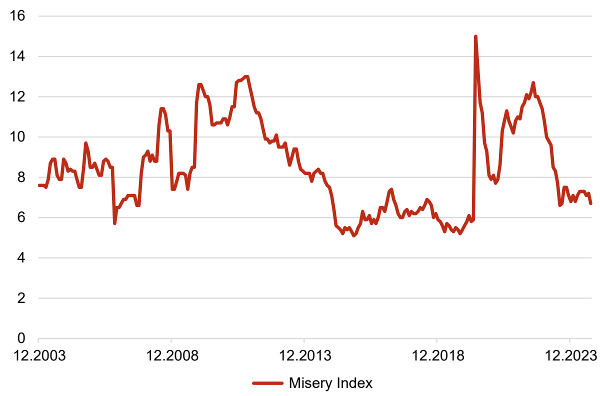
Asset Allocation

Various stock markets have reached new highs in the past few days. When calculated in USD, the global equity market has already gained more than 20% in value this year. The bond markets have also performed favourably, particularly with increasing risk levels. This means that mixed portfolios have also performed well above the long-term average to date.

The main reason for this development is that the US economy – which dominates the global equity market with a share of more than 65% – remains very robust. The inflation trend appears to be under control for the time being, and the interest rate hikes implemented for this purpose have not driven the US economy into recession. On the contrary: the US misery index, consisting of the sum of the unemployment rate and the inflation rate, is currently at a low level of 6.7.

US Misery Index: Unemployment plus Inflation



Against this backdrop, the Fed can focus more closely on economic developments – which is seen as another positive aspect by market participants.

This generally favourable sentiment has driven the stock markets to new highs; as already explained in the last CIO Letter, these share price gains also require corresponding growth. This largely ignores various risks that could be detrimental to growth: in addition to the known geopolitical risks, these include the US elections in November, the results of which are still unknown. The risk/reward picture therefore remains asymmetrical, and we are currently refraining from increasing the equity allocation despite the solid fundamental economic situation. The ratio therefore remains underweighted at the current rate of 42% for a "Balanced" profile.

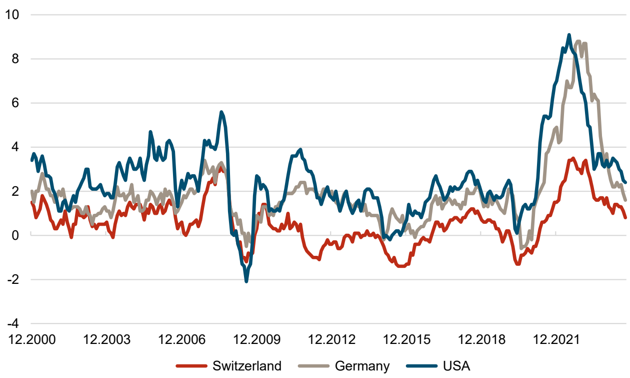
With these persistent growth expectations, interest rates at the longer end of the curve have risen in recent weeks, in some cases significantly. By contrast, expectations of interest rate cuts at the shorter end of the curve have lessened somewhat, resulting in a much more harmonious picture. The risks outlined in the last CIO Letter regarding excessive hopes of interest rate cuts have thus diminished. The negative development in the markets for fixed-interest securities in recent weeks is a reflection of this. Nevertheless, we believe it is too early to increase the duration or the bond allocation. We are leaving the bond allocation at 40% for a balanced profile. The credit quality of the portfolios, which is above the market, remains unchanged, as does the short duration.

We are continuing our diversifying investments in gold and cryptocurrencies. For additional diversification, particularly with regard to the existing geopolitical risks, we also remain invested in Brent oil via a structured product.

Bonds

With two interest rate cuts currently still expected for both the US and Europe, the bond markets present a much more harmonious picture than was the case a month ago. The yield curves have also normalised further.

Inflation Rate: Development



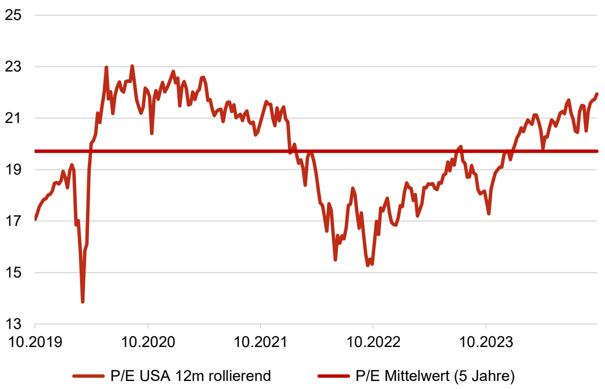
This normalisation is mainly due to a further decline in inflation. At the same time, the labour market situation suggests that economic development will remain robust without any imminent price pressure from second-round effects. The resulting (supposedly) greater scope for central banks to focus more closely on economic development is contributing to the current favourable sentiment.

Although the interest rate expectations and normalised yield curve are making duration risks more attractive again, we are refraining from increasing our exposure to fixed-interest bonds for the time being. The bond allocation remains cautious. We are leaving the duration in the EUR bond market at 4.4 years, while the duration in CHF and USD is around 3 years. Credit risks also remain underweighted.

Equities

Against the backdrop of further solid corporate data and the economic picture that has emerged in recent weeks, share prices have continued to rise. Looking at the current price/earnings ratio, the level remains above the historical average. The growth risks are therefore obvious: an above-average price/earnings ratio can be justified by sufficient growth.

US Equities: Price/Earnings Ratio



In addition to the current generally favourable sentiment, the fading of (geo)political risks and the growing expectation of a soft landing for the US economy, AI fantasies continue to drive growth expectations. The risks to growth are therefore one-sided, and exogenous shocks can have negative consequences at any time; although tamed for the moment, a resurgence of inflation is not impossible. The positive effect of technological progress is often overestimated in the short term.

On the other hand, very few positive surprise factors can be identified. Even clarity following the US elections is only likely to have a positive effect in the short term at most, regardless of which party wins, due to the envisaged economic policy thrust – spending programmes combined with the introduction of further trade barriers.

Despite a fundamentally favourable economic situation, we are leaving the equity allocation slightly underweighted due to this asymmetrical risk/return situation.

Alternative Assets

The diversification of the portfolios will continue to be ensured through the addition of gold, crypto assets and oil. The diversification contribution of gold and oil is well known; in the case of crypto investments, we are relying on a structural demand overhang thanks to increasing institutionalisation, which should continue to drive prices in the future.

Currencies

Despite the ongoing large interest rate differentials, we are maintaining our extensive hedging of the USD. The reference currency share for a balanced profile remains at around 75%; the USD share is around 6% and the EUR share is below 4%.

Editorial Investment Centre
Christoph Boner, CIO (BOC), +41 44 205 12 16, bonerchristoph@pbihag.ch
Patrick Frei, CFA (FRP), +41 44 205 13 32, freipatrick@pbihag.ch

Appendix

Economic and Market Development

GDP (E: Consensus)

	2023	2024E
USA	2.9%	2.6%
EU	0.4%	1.0%
Switzerland	0.8%	1.4%

Inflation (E: Consensus)

	2023	2024E
USA	4.1%	2.9%
EU	5.4%	2.4%
Switzerland	2.1%	1.2%

Central Bank Rates (higher)

	16.10.2024	Consensus
USA FED	5.0%	4.75%
EUR ECB	3.5%	3.00%
CHF SNB	1.0%	

Government Bonds (10 Year)

	16.10.2024	Outlook
USA	4.01%	3.75% – 4.10%
Germany	2.18%	2.05% – 2.35%
Switzerland	0.42%	0.30 – 0.50%

Foreign Exchanges

	16.10.2024	Outlook
EUR/CHF	0.940	0.93 – 0.95
USD/CHF	0.865	0.85 – 0.88
EUR/USD	1.086	1.07 – 1.09

Raw Materials and Alternatives

	16.10.2024	Outlook
Gold (USD/Ounce)	2'674	2'550 – 2'750
Oil (USD/Brent)	74.2	70 – 80
Bitcoin USD	67'620	56'000 – 70'000

Equity Markets

	P/E ø 5J.	P/E 2024	Div. Yield	Outlook
World	19.5x	18.8x	1.7%	slightly down
USA	21.5x	21.3x	1.3%	slightly down
Europe	15.8x	13.7x	3.2%	slightly down
Switzerland	19.9x	17.9x	2.9%	slightly down
Emerging Markets	13.9x	12.0x	2.5%	slightly down

Markets in Local Currencies

Equity Markets

	QTD	YTD
World	9.8%	19.7%
USA	12.0%	23.8%
Europe	3.7%	11.8%
Switzerland	5.1%	11.3%
Emerging Markets	11.8%	14.5%

Government Bond Yield (10 Year)

	16.10.2024	29.12.2023
USA	4.01%	3.88%
Germany	2.18%	-0.18%
Switzerland	0.42%	0.70%

Raw Materials and Alternatives

	QTD	YTD
Gold (USD/Ounce)	19.9%	29.6%
Oil (USD/Brent)	-9.2%	8.5%
Bitcoin USD	-4.6%	61.2%

Foreign Exchanges

	QTD	YTD
EUR/CHF	-3.4%	1.2%
USD/CHF	-4.0%	2.9%
EUR/USD	0.7%	-1.6%

Data as of 16 October 2024, QTD: Performance since Beginning of Quarter, YTD: Performance since Beginning of Year