Monthly CIO Letter

25 November 2024

After the uncertainty around the outcome of the US election, is it now time to be confident about future market developments? At least in the short term, positive momentum is likely to continue, fuelled by currently appealing growth expectations. In the medium term, however, the intended political decisions – as far as we know – are likely to be detrimental to the development of the global markets. We are increasing the equity allocation slightly and realising some of the gains on Bitcoin investments.

Christoph Boner
Chief Investment Officer

Highlights

– The outcome of the US election has had a positive impact on the US equity markets in particular; the dollar has gained in value, and USD interest rates have risen. By contrast, the European stock markets have lost ground.

– The chances of a positive development on the stock markets in the final weeks of the year are intact. A more volatile market trend is to be expected in the medium term.

Asset allocation

Asset classes	Change	- -	-	=	+	+ +
Liquidity	↓				●	
Bonds	→		●			
Reference Currency	→		●			
World / Themes	→		●			
Emerging Markets	→			●		
Convertible Bonds	→				●	
High Yield	→			●		
Shares	↑			●		
Switzerland	→			●		
Europe	→			●		
USA	↑				●	
Pacific	→			●		
Emerging Markets	→			●		
Themes	→	●				
Alternative investments						
Gold	→			●		
Crypto	→				●	
Other	→	●				
Currencies						
CHF	→		●			
EUR	→				●	
USD	↑				●	

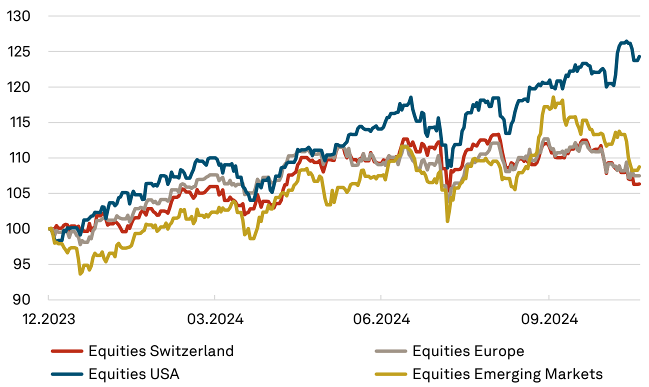
Change: compared to previous month, **Positioning:** - - strongly underweighted | - underweighted | = neutral | + overweighted | + + strongly overweighted

Asset allocation

The year of many elections – after all, more than a third of the world's population voted in 2024 – is coming to an end, and the most important election has also been decided. The result of the US presidential election was clear and gives the future Republican administration a great amount of room for manoeuvre, at least for two years.

For the time being, the US equity markets have reacted positively to the outcome of the election. The expected focus on the national economy continues to ensure robust growth expectations and a great deal of economic confidence. The flip side of this development is a negative reaction from the economies that tend to suffer from the US's domestic focus – above all the export-orientated European countries.

Equity market development 2024



In any case, this development is deceptive: A simple rough calculation shows that the attempt to compensate for the loss of revenue caused by the planned tax cuts via various tariffs and duties will not work. The deficit in the US national budget will continue to grow, and empirical evidence shows that any growth spurt will not be enough to plug this hole. Thus, the Fed can only allow further growth to a limited extent in its mission to control inflation.

Following the partial consolidation of the equity markets in recent weeks and the optimism on the stock markets triggered by the US election, we are increasing our equity exposure slightly towards the end of the year to 45% in favour of a portfolio with a balanced profile.

As explained in the last CIO Letter, it is too early to significantly increase exposure to fixed-interest bonds, even though interest rate expectations have moderated further in recent weeks. The steps expected to be taken by the new administration in Washington will maintain inflationary pressure, which on the one hand argues against far-reaching interest rate cuts by the Fed and on the other hand entails higher interest rates at the longer end.

We are leaving the bond allocation at 40% for a balanced profile. The credit quality of the portfolios, which is above that of the market, remains unchanged, as does the short duration.

The outstanding performance of the portfolios in the current year is also due to the more than doubling of the Bitcoin price to date. We are realising some of the gains and reducing the positions. Gold remains a component of the diversifying part of the portfolios, just as a structure on the oil price – a partial hedge against an escalation of geopolitical risks – remains in the portfolios.

Bonds

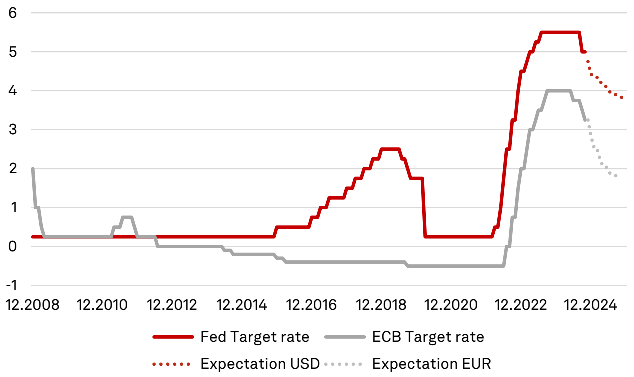
The latest inflation figures and the development of individual components have made us sit up and take notice: There is still a risk of inflation rising again in the future. It is not only trade barriers in the form of customs duties and taxes that are driving up prices. The various government spending programmes – the targeted cuts can be regarded as completely illusory – are also not easing inflationary pressure.

To make matters worse, a slowly easing labour market could once again become an inflation problem: namely, precisely when the envisaged tightening of the immigration system would lead to a noticeable shortage of labour demand.

The interest rate markets have already anticipated this development. In anticipation of economic growth and continuing inflationary pressure, interest rates on 10-year bonds have already risen significantly to over 4.5% for US government bonds.

In turn, hopes of interest rate cuts in the near future have evaporated. Only three interest rate hikes are currently expected for the USA in the coming year. As a result, the US yield curve has normalised further.

Target rate development and market expectations



Due to the weaker growth in Europe, the ECB is expected to make around six interest rate moves within a year.

With the continuing inflationary pressure and the currently low credit risk premiums, the bond allocation remains cautious. The duration in the EUR bond market is 4.4 years, while the duration in CHF and USD is around 3 years. Credit risks also remain underweighted.

Equities

With new debt peaks and interest rates remaining high, a crowding-out effect is to be expected: there will be less and less space for investments that boost growth. In combination with a more erratic policy in the US and an increasing shift away from a rule-based to a power-based world order, the risk of shocks on the global capital markets will increase. Both effects are likely to have a negative impact on market performance in the medium term.

In the short term, the current optimism is likely to continue – fuelled not least by extremely encouraging company figures in the current reporting season. However, the valuation remains high, meaning that the promise of growth must also be fulfilled.

With the largely smooth outcome of the US election, an important risk factor has disappeared. Due to the fundamentally favourable economic situation and the prevailing optimism, we are increasing the equity allocation slightly to a neutral weighting. In addition to the generally positive sentiment, seasonal effects should at least not militate against a temporary increase in equity exposure.

Alternative investments

The diversification of the portfolios continues to be ensured through the addition of gold, crypto assets and oil. The diversification contribution of gold and oil is well known.

The currently expected more open attitude of US regulators towards cryptocurrencies has led to a sharp rise in prices. After a price increase of more than 100% within a year, we are taking some of the profits and reducing the corresponding positions.

Currencies

The increase in the equity allocation is accompanied by a slight increase in the USD allocation. The reference currency share for a balanced profile is around 72%; the USD share is 10%, and the EUR share is less than 5%.

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Appendix

Economic and market development

GDP (E: Consensus)

	2023	2024E
USA	2.9%	2.7%
EU	0.4%	1.0%
Switzerland	0.8%	1.5%

Inflation (E: Consensus)

	2023	2024E
USA	4.1%	2.9%
EU	5.4%	2.4%
Switzerland	2.1%	1.1%

Central Bank Rates (higher)

	21.11.2024	Consensus
USA FED	4.8%	4.50%
EUR ECB	3.3%	3.00%
CHF SNB	1.0%	

Government Bonds (10 Year)

	21.11.2024	Outlook
USA	4.42%	4.25% – 4.55%
Germany	2.32%	2.20% – 2.45%
Switzerland	0.40%	0.30 – 0.50%

Foreign Exchanges

	21.11.2024	Outlook
EUR/CHF	0.929	0.93 – 0.95
USD/CHF	0.887	0.85 – 0.88
EUR/USD	1.047	1.07 – 1.09

Raw Materials and Alternatives

	21.11.2024	Outlook
Gold (USD/Ounce)	2’670	2'550 – 2'750
Oil (USD/Brent)	74.2	70 – 80
Bitcoin USD	98’085	85'000 – 105'000

Equity Markets

	P/E ø 5J.	P/E 2024	Div. Yield	Outlook
World	19.6x	19.1x	1.7%	slightly up
USA	21.6x	21.8x	1.3%	slightly up
Europe	15.8x	13.2x	3.4%	sideways
Switzerland	19.9x	17.0x	3.0%	sideways
Emerging Markets	13.9x	11.7x	2.7%	sideways

Markets in Local Currencies

Equity Markets

	QTD	YTD
World	10.5%	20.5%
USA	14.2%	26.2%
Europe	0.5%	8.4%
Switzerland	-0.1%	5.8%
Emerging Markets	6.2%	8.8%

Government Bond Yield (10 Year)

	21.11.2024	29.12.2023
USA	4.42%	3.88%
Germany	2.32%	-0.18%
Switzerland	0.40%	0.70%

Raw Materials and Alternatives

	QTD	YTD
Gold (USD/Ounce)	19.7%	29.4%
Oil (USD/Brent)	-8.8%	9.0%
Bitcoin USD	38.4%	133.9%

Foreign Exchanges

	QTD	YTD
EUR/CHF	-4.5%	0.0%
USD/CHF	-1.6%	5.4%
EUR/USD	-2.9%	-5.1%

Data as of 21 November 2024, QTD: Performance since Beginning of Quarter, YTD: Performance since Beginning of Year