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Portfolio Update

February 2024

MARKETS UNDER THE SWAY OF POLITICS

US election years tend to be dominated by positive sentiment and we have survived the first month of this one relatively unscathed. Yet given the current situation, it is no longer a case of if, but when key rates are likely to change.

The equity markets have shown a mixed performance, with some regions posting strong growth, while others have come under pressure. Factors such as macroeconomic trends, geopolitical tensions and monetary policy expectations were partly responsible for the variations last month. In China in particular, equities barely held up amid expectations of historically low growth, combined with unresolved challenges on the real estate market. At the sector level, returns were uneven on the markets, with tech stocks remaining robust and rate-sensitive financials benefiting from the economic recovery. Meanwhile, the consumer goods sector, as well as industrial and construction firms exposed to China, turned in a lower-than-average performance to some extent.

Investors in all asset classes are keeping a close watch on the central banks. Bond yields temporarily recovered last month, but declined slightly following the announcement from the US central bank. The first rate cut in the euro area is now expected to be sooner than previously assumed, signalling that economic pressure is higher than in the US. This trend has also been reflected by movements in the US dollar, which has enjoyed a vigorous start to the year and, together with bonds, served as an indirect hedge for Swiss investors on softer trading days. In a favourable and reassuring development, the longstanding negative correlation between bonds and equities now seems to have been restored. Traditional 60/40 portfolios have therefore regained their appeal, especially as return expectations for equities are rising at a rather subdued pace in tandem with share prices.

As things stand, there are no signs of commodity-fuelled inflation resurfacing in the near future, while gold is also rather unpopular amongst investors. It remains to be seen whether this situation will change in light of the upcoming US elections. Market reactions to political developments could trigger a revaluation of investment strategies, influencing both demand for gold and the perception of commodities as a hedging option.

Financial markets 2024 total return

Equities	January	2024
S&P 500 (US)	1.7%	1.7%
Dow Jones Industrial Average (US)	1.3%	1.3%
EURO STOXX 600 (EU)	1.5%	1.5%
DAX (DE)	0.9%	0.9%
SMI (CH)	1.8%	1.8%
MSCI Emerging Markets (EM) in USD	-4.6%	-4.6%
Fixed Income	**January**	**2024**
US Corporate Bonds Inv. Grade	-0.2%	-0.2%
US Corporate Bonds High Yield	0.0%	0.0%
Pan-European Corporate Bonds Inv. Grade	0.2%	0.2%
Pan-European Corporate Bonds High Yield	1.0%	1.0%
Alternative Investments	**January**	**2024**
Gold	-0.6%	-0.6%
Oil (brent)	6.6%	6.6%

Source: Bloomberg

MANDATE RETURNS GROSS

	Euro			Swiss Franc			US Dollar			British Pound		
	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn
2012	6.6%	7.4%	10.5%	4.3%	6.5%	10.9%	5.9%	8.4%	11.8%			
2013	1.5%	6.5%	13.5%	1.9%	8.3%	16.7%	2.9%	9.4%	18.5%			
2014	6.1%	8.0%	10.2%	4.9%	6.5%	9.2%	1.6%	2.2%	3.1%			
2015	2.7%	6.3%	9.9%	-0.8%	0.0%	1.8%	-0.3%	0.0%	1.0%			
2016	2.3%	5.3%	7.1%	1.3%	3.9%	5.7%	2.8%	6.2%	7.2%	4.6%	9.5%	12.1%
2017	3.5%	7.3%	10.8%	4.3%	8.9%	15.0%	7.1%	12.7%	18.1%	4.7%	8.7%	14.2%
2018	-4.3%	-9.0%	-10.5%	-5.6%	-10.1%	-12.1%	-2.5%	-7.9%	-9.8%	-3.3%	-8.6%	-10.4%
2019	9.2%	15.7%	21.6%	8.3%	14.8%	19.6%	11.5%	17.5%	22.0%	9.4%	15.3%	19.8%
2020	3.2%	5.3%	8.6%	2.6%	5.5%	9.0%	6.7%	9.7%	13.6%	4.6%	6.5%	10.3%
2021	5.3%	10.5%	16.5%	4.3%	8.9%	14.2%	4.2%	8.4%	13.9%	4.2%	8.7%	14.4%
2022	-9.6%	-11.7%	-14.7%	-10.7%	-13.2%	-16.4%	-8.8%	-10.8%	-13.6%	-8.3%	-9.5%	-12.2%
2023	9.1%	10.7%	12.3%	6.1%	7.5%	8.6%	11.2%	13.4%	15.1%	10.1%	12.7%	12.8%
Jan 24	0.8%	0.6%	0.8%	0.8%	0.6%	0.8%	0.7%	0.3%	0.5%	0.7%	0.3%	0.5%
2024	0.8%	0.6%	0.8%	0.8%	0.6%	0.8%	0.7%	0.3%	0.5%	0.7%	0.3%	0.5%

Actual portfolio returns may differ from the values shown above owing to the level of implementation, costs and restrictions on implementation.

TRANSACTIONS IN JANUARY

For a detailed overview of the transactions for each strategy, please do not hesitate to contact us.

POSITIONING

Liquidity (neutral)

Conservative	2.0%
Balanced	4.0%
Dynamic	6.0%

- Excess liquidity is invested in money market funds or fiduciary investments where possible.
- In the current difficult market environment, an increased cash allocation offers the possibility of temporarily parking surplus liquidity in order to participate in investment opportunities at a later date.

Bonds (underweight)

Conservative	62.0%
Balanced	37.0%
Dynamic	15.5%

- Against the backdrop of rising debt, preference is given to bonds from issuers with solid balance sheets outside the AAA/AA segment in order to achieve attractive yields to maturity.
- In lower ratings, the focus is on broadly diversified investments in order to act cautiously.
- Interest rates have become attractive as a result of the central bank moves, although duration remains only slightly underweighted due to the expected interest rate moves. The expected interest rate cuts are already strongly reflected in the curve, meaning that an overweight position is unlikely to offer a favourable risk/return ratio at present. The positioning on the yield curve is likely to have a greater influence than the absolute duration and has therefore been deliberately taken into account.
- Due to the less favourable economic outlook, credit spreads on European bonds are more attractive. The prospect of key interest rate cuts in the near future makes the region even more attractive in relative terms.

Equities (overweight)

Conservative	29.0%
Balanced	49.0%
Dynamic	72.5%

- The central banks' fight against inflation appears to be on the home straight. The sometimes massive rise in the cost of capital and changes in consumer spending will have a negative impact on earnings growth in individual sectors.
- Within the equity allocation, a balanced relationship between investments in Europe and the USA is being sought. The Swiss equity market is still considered attractive due to its defensive orientation. Nevertheless, the strong Swiss franc is increasingly posing major challenges for this segment. The slowdown in the global economy is making investments in emerging markets less attractive, with developed markets being favoured over emerging markets.
- Within the individual sectors, basic materials, energy and cyclical consumer goods are still considered attractive and are therefore overweighted in the portfolios.
- Industrials, communication services, technology and non-cyclical consumer goods are neutrally weighted.
- The outlook for the utilities, healthcare and property sectors remains negative due to valuation, high interest rates and other macroeconomic factors.

Alternative investments (overweight)

Conservative	7.0%
Balanced	8.0%
Dynamic	6.0%

- A high level of liquidity (usually UCITS) is the basic prerequisite and determines which strategies are considered.
- The aim is to achieve a positive market return with low volatility in a normal market environment.
- At present, a market-uncorrelated cat bond fund is intended to participate in the continued attractive premiums.

OUTLOOK

Is it worth trading the US elections?

The US presidential elections attract huge attention at both the political and economic levels across the world. Historical data and analyses have shown that in the medium to long term, it is difficult to make any clear predictions on whether the financial markets will perform better if the Democrats or Republicans are in power. Other factors such as specific crises or global economic developments have a far greater bearing on market movements.

Despite these historical observations, it is worth noting that Wall Street and investors worldwide endeavour, time and again, to draw up forecasts ahead of the US presidential elections and develop corresponding investment strategies with a view to benefiting from market movements at short notice. This is underpinned by the assumption that, at least in the short term, additional returns can be achieved thanks to astute positioning ahead of the elections – as long as the outcome is forecast correctly.

The electoral issues on which the parties exhibit the biggest differences are a key factor in relation to these positioning strategies. These issues include renewable energies, trade and tariffs, financial regulation, corporate taxation and geopolitics. Depending on which party is seen as the likely victor, investors may decide to invest in particular sectors that could benefit from the respective party's political agenda.

If a Republican electoral victory is expected, financials – above all banks – building materials and energy stocks are likely to outperform. This is because the Republicans are generally expected to pursue deregulatory policy that could benefit these sectors. At the same time, consumer and technology stocks could come under pressure on the back of fears around customs tariffs and export restrictions.

Conversely, in the event of an election outcome in favour of the Democrats a long position in renewable energies is likely to be an advantage, while banking stocks should probably be avoided due to elevated regulatory pressure. However, this forecast is less clear as the Democrats' political stance is perceived to be more defensive towards certain sectors of the economy.

In the short term, the theory is that it should therefore be possible to achieve excess returns via corresponding market positioning based on correctly forecasting the election outcome. That said, bets of this nature should be cashed in quickly as the initial euphoria often fizzles out as soon as the limited degree to which campaign promises can be implemented becomes clear. When it comes to the impact of political decisions on the markets, another crucial issue is whether a party succeeds in winning control of both chambers of Congress.

However, investors with a long-term horizon should steer clear of such short-term speculation. History has demonstrated that political cycles have a limited influence on long-term market performance and that other factors such as the general economic situation and global market trends are far more significant determinants of how the financial markets fare (see chart below).

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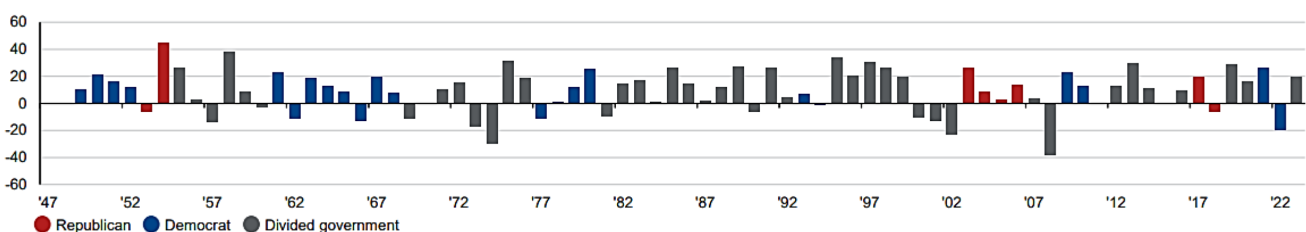
Investment Management & Solutions

S&P 500 performance (% annual return), source: JPMorgan



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