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PORTFOLIO UPDATE

MARCH 2024

GOOD, BETTER, CAREFREE?

The global financial markets are currently going through an uneven phase characterised by strong markets posting fresh all-time highs in some cases, but also by regional uncertainties in others. Investors' focus is increasingly centred on the Magnificent 7 and the digital world, with the recent company results from Nvidia pointing to a promising future. However, there has been a need for intervention in markets that are not performing as well, such as China. The measures taken by the Chinese government have been successful so far, helping to support the stock markets.

While US corporates have presented acceptable numbers on the whole, the trends in Europe are pointing to one of the region's weakest reporting seasons. Across the Atlantic in the US, the picture is bullish as far as sectors are concerned, with cyclical segments of the economy among the winners, while in Europe export-dependent sectors have generally lagged behind the market. Furthermore, the leading sectors in Europe are not making the same contribution as their counterparts in the US because they make up a relatively small proportion of the respective indices.

The major central banks remain relaxed for the time being, especially stateside, where a strong labour market and wage growth suggest that a rate cut would be premature. However, it is a different story in Europe – particularly in Switzerland. A first rate cut in the Swiss Confederation in March still looks highly likely. Thanks to the slower pace of expected policy rate cuts in the US, the US dollar has strengthened once again, further weighing on what was in any case a weak commodity market.

Financial markets 2024 total return

Equities	February	2024
S&P 500 (US)	5.3%	7.1%
Dow Jones Industrial Average (US)	2.5%	3.8%
EURO STOXX 600 (EU)	2.0%	3.5%
DAX (DE)	4.6%	5.5%
SMI (CH)	0.9%	2.7%
MSCI Emerging Markets (EM) in USD	4.8%	-0.1%
Fixed Income	**February**	**2024**
US Corporate Bonds Inv. Grade	-1.5%	-1.7%
US Corporate Bonds High Yield	0.3%	0.3%
Pan-European Corporate Bonds Inv. Grade	-0.9%	-0.7%
Pan-European Corporate Bonds High Yield	0.4%	1.4%
Alternative Investments	**February**	**2024**
Gold	-0.2%	-0.8%
Oil (brent)	2.2%	9.0%

Source: Bloomberg

Investors are facing additional challenges. Amidst widespread speculation, there is still a question mark over who will be the next president of the United States. As things stand, consolidated betting odds provide an insight into the various probabilities, with Donald Trump the favourite at odds of 47%. Joe Biden is in second place at 29%, while Michelle Obama comes in at surprisingly high odds to win of 9%, ahead of some of the actual candidates for the presidency.

Interestingly, the odds highlight some remarkably unconventional personalities. Figures such as Hillary Clinton, Condoleezza Rice and even Dwayne "The Rock" Johnson are currently viewed as having a 0.5% chance of entering the White House. Ultimately, uncertainty remains with regard to the outcome of the presidential election in the US, and all eyes are on a compelling political landscape.

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%
Feb 24	0.6%	1.4%	2.4%	0.9%	1.9%	2.9%	0.6%	1.4%	2.5%	0.8%	1.6%	2.6%
2024	1.4%	2.0%	3.3%	1.7%	2.5%	3.7%	1.3%	1.7%	2.9%	1.5%	1.9%	3.2%

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

TRANSACTIONS IN FEBRUARY

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

Optimism in a high interest rate environment

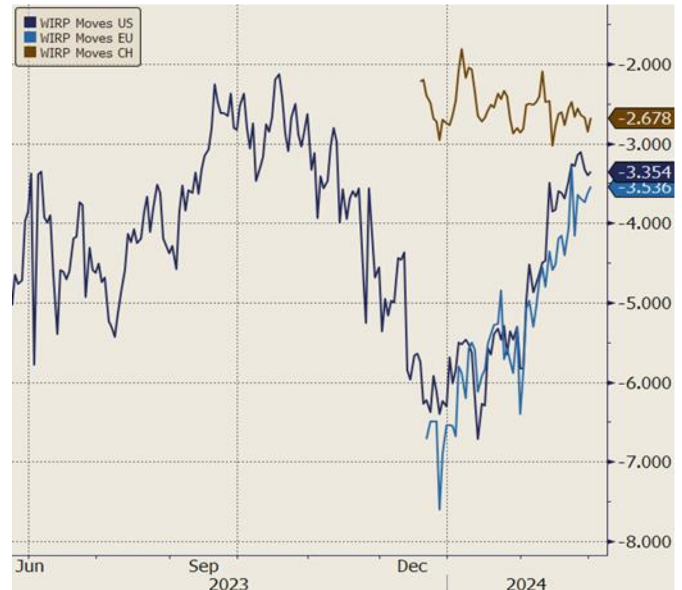
In the current financial landscape, we are dealing with a remarkable constellation that appears challenging at first glance but gives cause for optimism on closer inspection. The interest rate environment, which remains at a high level in both the USA and Europe without falling as quickly as previously expected, can initially be a test of patience for bond investors. The recent interest rate rises have led to price losses for existing bonds in the portfolio, which has certainly caused uncertainty.

Despite the increased rhetoric about interest rate cuts since the end of last year and the expectation that the first rate cuts could be introduced in 2024, the interest rate environment has not yet eased significantly. This could be perceived as negative, but a closer look reveals a different perspective. Surprisingly, the rise in bond yields has not had a negative impact on share prices. This may seem surprising at first glance, as high interest rates theoretically represent a financial challenge for both entrepreneurs and debtors. However, the current high interest rate level of 4-5% in the USA and 2-4% in Europe indicates sound economic behaviour.

Contrary to fears that high interest rates could weaken the economy, numerous economic data show that companies and consumers are able to increase their profits or at least maintain them at a high level. This shows that the current interest rate environment is not capable of bringing the economy to its knees. It has taken a while for investors to realise that the environment of high or slightly rising interest rates is no longer just a consequence of central bank policy, but rather the result of healthy economic performance. This difference is crucial because while the first scenario is usually negative for investors as the central bank tries to slow down the economy to curb inflation, the second scenario is a sign of a robust economy that can support higher share prices.

The fact that we can no longer expect 5, 6 or even 7 rate cuts by the end of the year therefore no longer needs to be interpreted as negative. The fact that companies and consumers are coping with the high interest rate environment speaks volumes. This should encourage us as investors to look positively to the future and see the current developments as an opportunity to adjust our portfolio accordingly and profit from the opportunities that present themselves in such an environment.

Falling number of expected interest rate cuts of 0.25% by the end of the year no cause for concern for equity investors!



Source: Bloomberg

In conclusion, the current interest rate environment, although challenging for bond investors, is overall a positive signal for the economy and therefore also for the financial markets. It is a sign that we are operating on a solid economic foundation that supports long-term growth and stability.

Looking to the future with optimism.

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This publication was prepared by:

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