PostFinance
Investment navigator 2024

What next in 2024?

Table of Contents

Interview

A bit of tenacity helps when investing

As Chief Investment Officer at PostFinance, Philipp Merkt is responsible for the performance of the bank's asset management products. In our interview, he reflects on the past year and looks ahead to 2024.

Philipp [1], 2023 was a complex year in every respect. How did you manage to pull through in terms of investment?

2023 was a very challenging year, both politically and economically. We saw the ongoing Russian war of aggression on Ukraine, the fallout of Hamas's attack on Israel and the government crisis in Germany. There was also an absolute rollercoaster ride of emotions on the financial markets. No clear trend emerged last year. That's why we're delighted the investment solutions managed by us performed well again in 2023 compared with our competitors.

Philipp Merkt
Chief Investment Officer

How did you manage to do that with no clear market trends?

Pro-cyclical decision-making harms successful long-term investment. Excessive euphoria during positive periods and then too much apprehension when setbacks arise isn't conducive to achieving really strong investment results. You need a clear strategy, the ability to analyse cyclical developments objectively and a bit of tenacity. There's a stock exchange maxim that says "too much trend-chasing leads to the poorhouse".

Sustainable investment is a key part of your activities. How did the sustainable investments perform?

The emotional whirlpool was even greater for sustainable investments and returns were down slightly for once. On one hand, the growing geopolitical uncertainty gave gold a real boost. However, most gold investments aren't sustainable. On the other, sustainable investment is more challenging during times of conflict. Arms-related investments can't be included in sustainable portfolios, but are performing well. However, we're confident that the return on sustainable investment will improve again when the international political situation and the global economy improves. Various studies show sustainable and non-sustainable investments have achieved a similarly high level of performance over the years.

How do you see future performance?

The real economy isn't in the clear just yet. China remains in recession, although the outlook has improved slightly. Led by Germany, Europe is sliding into recession. We're also seeing a slowdown in growth in the USA for the first time. Despite falling sharply, inflation still isn't fully under control either. The fact that energy prices are lower now than last winter is one thing. However, wage growth is now surging in all industrial nations. Wages are also costs. That means manufacturers are likely to raise prices again in the coming year. Hitting inflation targets will be challenging for central banks next year.

What does that mean for monetary policy?

It largely depends on the extent of the downturn in Europe and the USA. If the USA goes into recession too, inflation will certainly fall more quickly. Central banks can then wait without taking any further measures until relatively sluggish core inflation moves towards their targets. If recession is avoided, we can expect money market interest rates to remain at their current level for a bit longer.

[1] The PostFinance culture fosters straightforward working relationships on an equal footing. We cooperate efficiently within a flat hierarchical structure and use familiar forms of address across all levels and departments, from our apprentices to our CEO.

Are there any upsides to high interest rates? Don't investors get a better return on bonds and money market investments?

Yes, the situation for investors has changed significantly compared with the past ten years. Interest is now being paid again on nominal investments. The supposed lack of alternatives to equities is now over. As before, though, the mantra remains: diversification, diversification, diversification. Perhaps even more so today as the very high valuations of some limited companies, but also real estate investments don't yet reflect the level of interest rates, which looks set to remain high for some time.

Let's stay on the topic of real estate investments. How can valuations be too high when there's a shortage of accommodation?

That's true. Demand for living space remains strong. Another factor is that the Swiss labour market has remained robust so far, leading to constant immigration. That's why a slump in property prices isn't expected. Higher interest rates nevertheless have two negative effects on the real estate market. Firstly, the same criteria apply to the valuation of real estate as to other types of investment. Rising interest rates reduce the theoretical value of an asset. That only becomes relevant in practice if the mortgage debt is too high compared with the valuation. Yet this presents risks for investors. Secondly, we can expect a sharp decline in residential construction. Today, investors anticipate higher interest than two years ago when bond yields were in negative territory. However, in view of the rise in construction costs, higher yields can only be achieved through rent prices, which are difficult to achieve on the market.

And what about the Swiss franc? It's made strong gains this year.

And the franc's upward trend looks set to continue. That's simply due to lower inflation in Switzerland. Based on economic theory and past performance, such a currency will continually appreciate in value. The franc will make the strongest gains against the US dollar, but will also continue to appreciate against the euro. In turn, that has a restrictive effect on Swiss growth, but will curb inflation here, too. We can also buy more with the franc abroad, which means there are upsides to a strong franc. However, foreign investments are generally less attractive for Swiss franc investors and perform less well than in the local currency.

> "Successful investors have a clear strategy, are disciplined and risk-aware."

Which trends will have an impact on the stock markets in 2024?

That's always hard to predict. In 2023, there was a clear trend towards artificial intelligence (AI). Without the boom in AI-oriented limited companies, the global equity markets would have achieved much less impressive results. However, interest rates will remain a challenge in 2024. The stock markets are currently already factoring in various interest rate cuts. However, investment is much less exhilarating that the media would sometimes have us believe. You don't have to be a psychic to invest successfully. Investment is about knowing your stuff, hard work and discipline. We'll continue doing all we can in 2024 to ensure our customers are satisfied with their investments again at the end of the year.

Review of 2023

Ups and downs, but no real progress

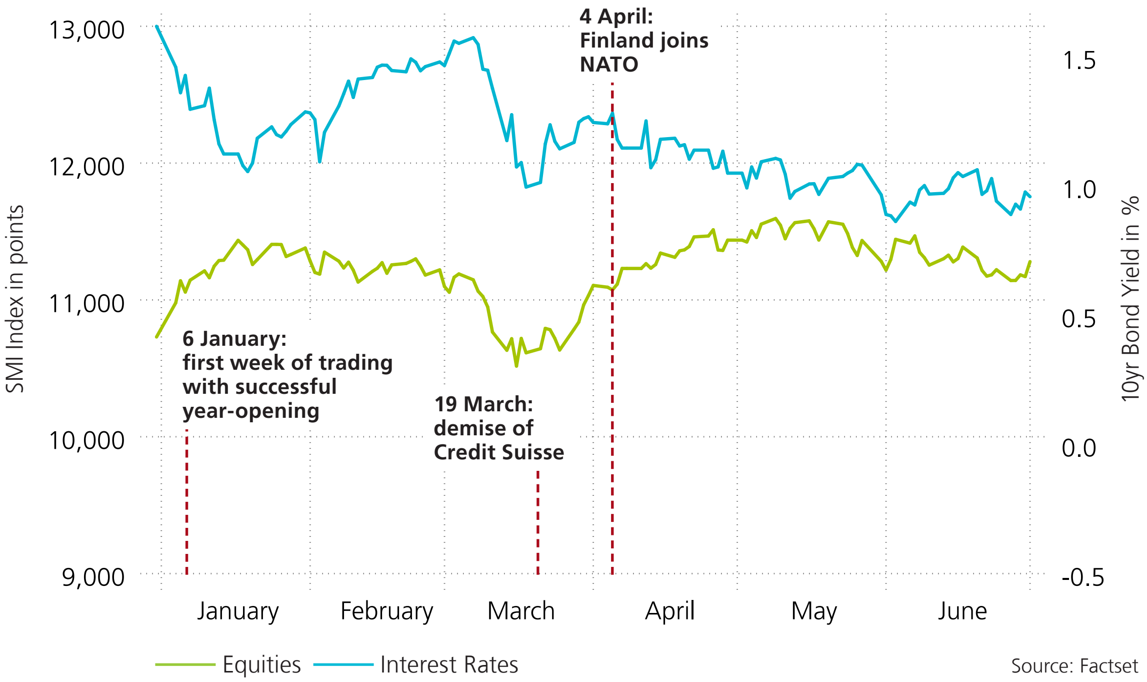
2023 was a complex year for investment. Rising interest rates worldwide and continually resurfacing concerns over the economy would have been expected to weigh on the equity markets from an economic and financial market perspective. However, some equities made substantial gains – especially in the tech sector. Beat Wittmann, Head of Investment Office, shows how PostFinance dealt with the challenges for its customer portfolios over the course of the year.

Beat Wittmann
Head of Investment Office

Friday, 6 January 2023: first week of trading with successful year-opening
The year got off to a good start on the financial markets The stock market began the New Year brimming with optimism. Long-term interest rates fell sharply in the USA and Europe. China's awakening from its COVID-19-induced slumber gave rise to hopes of fresh economic impetus. It almost seemed as though concerns over growth in Europe and persistent high inflation were yesterday's news. The cautious investment approach we began adopting in 2022 initially appeared misplaced. The Swiss equity, real estate and bond markets had made strong gains after just three weeks. We took advantage of higher Swiss real estate fund prices in January and February to take profits and reduce our real estate risk.

However, the New Year's rally didn't last long. Interest rate rises by the US Federal Reserve and European Central Bank (ECB) at the end of January and in early February triggered an abrupt slowdown. The publication of economic data on the fourth quarter did little to boost optimism. Additionally, inflation rates remained at a level unacceptable to central banks. This meant long-term interest rates climbed sharply again, particularly in the USA, increasingly raising questions over the capitalization of some major regional banks.

Review of 2023 – 1st Semester



Source: Factset

On 10 March, the second biggest bank collapse in US history occurred. Silicon Valley Bank (SVB) was neither able to bear the interest rate rises nor stem the outflow of customer deposits triggered by the decline in the bank's equity capital. This shock led to a considerable rise in banks' financing costs worldwide. This came at an extremely unfortunate time for Credit Suisse (CS). After years of continual problems, the Securities and Exchange Commission, the US supervisory authority, publicly criticized the bank's annual report. In the days after SVB's collapse, the outflow of funds from CS accelerated, plunging a bank with levels of equity and liquidity well above average into deep trouble.

Sunday, 19 March 2023: demise of Credit Suisse

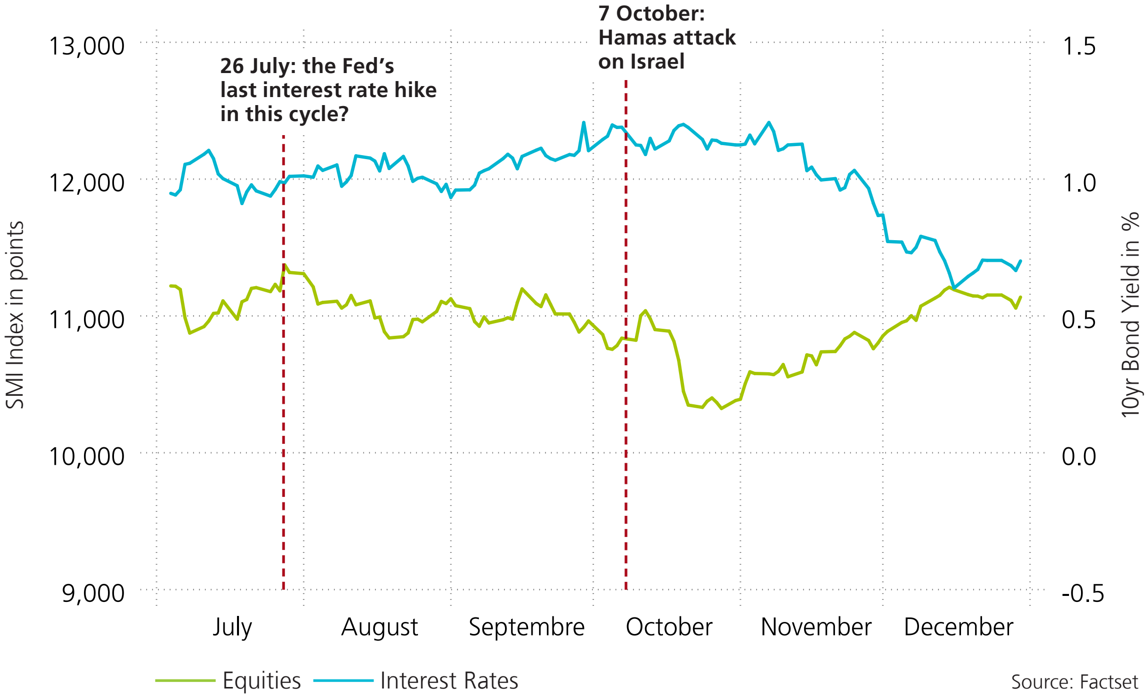
After the Swiss Financial Market Supervisory Authority (FINMA), Swiss National Bank (SNB) and finance minister Karin Keller-Suter could see no way out of the situation, CS was sold to UBS for the symbolic amount of 3 billion Swiss francs. All of this clearly had an impact on the financial markets. The price gains made on the equity and bond markets over the first few weeks of the year were wiped out again in March. That's why we took advantage of the opportunity to build up our positions in emerging market investments in the spring. Given the substantial risks that rising interest rates present for the banking system, the basic alignment of the portfolios remained defensive.

However, concerns over the quality of the banks' balance sheets didn't trouble the financial markets for long. Despite the third-biggest bank failure in US history in early May, the equity markets recovered as the level of capital market interest rates had fallen slightly and because a new story was firing the imagination of equity investors – artificial intelligence (AI).

> "As in the 19th century gold rush, investors scrambled to buy tech stocks that looked set to benefit from the use of language-based artificial intelligence."

A few days before the collapse of CS, the US organization OpenAI launched ChatGPT 4. After ChatGPT 3 had caused a major stir in the first few months of the year, commercial applications now appeared to present lucrative business opportunities. Like in the 19th century gold rush, investors scrambled to buy tech stocks that looked set to benefit from the use of language-based artificial intelligence. The price performance of the computer chip manufacturer Nvidia, which makes micro-processors ideally suited for the use of AI, was particularly impressive. The company's share price tripled in the first eight months and the price/earnings ratio climbed from 58 at the end of 2022 to 140 in late summer.

Review of 2023 – 2nd Semester



Source: Factset

The gains made on the US equity market were primarily driven by companies benefiting from the AI boom. Put another way: without the AI rally over the summer, the US equity market would probably have flatlined like the Swiss market.

"It proved to be the challenging year expected for our investments."

Tuesday, 4 April 2023: Finland joins NATO
While our attention is focused on the performance of the financial markets for our customers, the dreadful events in Ukraine cannot be overlooked in the annual review. Russia's war of aggression on Ukraine, which has been going on since 2022, meant people in the eastern part of Europe continued to face untold suffering in 2023 too. However, there's little sign of military progress to date. A political solution to the conflict is not in sight either.

Politically, though, the war has changed the situation in terms of military strategy – and on a long-term basis. In May 2022, Finland and Sweden applied for NATO membership. In early April 2023, Finland then actually joined. Sweden's accession continues to be impeded by Turkey. This shows just how great the emerging markets' geopolitical ambitions to make their mark on global politics are.

As the most serious bottlenecks in Europe's natural gas supply now appears to be over, European natural gas prices have constantly fallen over the course of the year. The price of crude oil also remained below the previous year's figures for much of the year, which caused inflation rates to fall continually in Europe and the USA. Business sentiment was slightly more upbeat in the summer months, triggering another rise in capital market interest rates outside of Switzerland. This was due to concerns that the US Federal Reserve would have to raise interest rates again in light of improved growth forecasts. We took this opportunity to further scale back our real estate positions and to allocate a lower weighting to fixed income in Switzerland. We then saw bonds suffer further losses globally, while the equity markets continued to perform strongly until the autumn.

Wednesday, 26 July 2023: the Fed's last interest rate hike in this cycle?
In all probability, the Federal Reserve raised interest rates for the last time in this cycle at the end of July. However, as news on the US economy remained positive over the summer, that did not prevent capital market interest rates from rising again. Interest on 10-year US government bonds didn't peak until October, reaching 5 percent. The global equity market responded with a significant correction of over 10 percent.

That meant price gains over the summer on the Swiss market were almost completely wiped out again. This is all the more remarkable given that long-term Swiss interest rates did not follow the rise in interest rates internationally. The level of yields on Swiss government bonds is still relatively low, given elevated inflation of almost 2 percent. In our view, this suggests Swiss bond and real estate investments are likely to fall further. Given high money market interest rates, we reduced our Swiss fixed income position in favour of money market investments.

Global economic data 2023

	Real GDP-Growth		Potential growth [2]	Inflation		Unemployment		Prime rate	Public debth (in % of GDP)	
	2023 [1]	Ø 10Y	2023	2023 [1]	Ø 10Y	2022	2023 [1]	Dec 2023	2022	2023 [1]
Switzerland	0.5%	1.8%	1.3%	1.9%	0.5%	2.2%	2.0%	1.8%	40.9%	39.5%
USA	2.4%	2.3%	1.6%	4.0%	2.7%	3.6%	3.6%	5.5%	121.3%	123.3%
Eurozone	0.2%	1.5%	1.1%	5.5%	2.2%	6.7%	6.5%	4.5%	91.0%	89.6%
UK	0.2%	1.6%	1.7%	7.0%	2.9%	3.7%	4.0%	5.3%	101.9%	104.1%
Japan	1.8%	0.6%	1.1%	3.0%	1.1%	2.6%	2.6%	–0.1%	260.1%	255.2%
China	4.5%	5.9%	6.3%	0.5%	1.8%	5.6%	5.2%	4.4%	77.0%	83.0%
India	6.3%	5.8%	6.1%	5.3%	5.1%	7.6%	8.2%	6.5%	81.0%	81.9%
Brazil	3.0%	0.6%	1.5%	5.0%	6.1%	9.5%	8.1%	11.8%	85.3%	88.1%

[1] Forecast
[2] Potential growth: Long-term change in gross domestic product with sustainable capacity utilization.

Source: Factset

Performance of asset classes

		Performance 2023 In Local currency	Performance 2023 in CHF	Performance 5Y [1] in CHF	Performance 10Y [1] in CHF
Currencies	EUR	–	–6.1%	–3.8%	–2.7%
	USD	–	–9.0%	–3.0%	–0.6%
	JPY	–	–15.4%	–7.8%	–3.5%
Fixed income	Switzerland	7.4%	7.4%	–0.7%	0.6%
	World	5.7%	–3.8%	–3.4%	–0.2%
	Emerding Markets	10.8%	0.8%	–1.4%	2.5%
Equities	Switzerland	6.1%	6.1%	8.2%	6.4%
	World	24.0%	12.8%	9.4%	8.1%
	USA	26.5%	15.1%	11.7%	10.7%
	Eurozone	18.8%	11.5%	5.4%	3.4%
	United Kingdom	7.7%	3.1%	3.6%	1.9%
	Japan	28.6%	8.7%	3.6%	4.4%
	Emerging Markets	9.8%	0.0%	0.5%	2.1%
Alternative Investments	Swiss real estate	5.0%	5.0%	5.0%	5.1%
	Gold	13.1%	2.9%	6.6%	4.9%

[1] Average yearly performance

Data as 31.12.2023
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Saturday, 7 October 2023: Hamas attack on Israel
The tragic political event of the year was the Iran-backed attack on Israel by the Hamas terrorist group. The terror attack and Israel's military response had a major impact on international politics and domestic political debate in the western world. There was little indication of much-heightened international tension on the financial markets.

We took advantage of the continuing rise in capital market interest rates for our customers by investing in inflation-linked bonds, neutralizing our fixed income position. We also reduced our real estate fund allocation again.

However, given the significant deterioration in sentiment among consumers and companies, the rise in interest rates was limited. The dreadful images from the Middle East, but also the reaction of most major emerging markets, which was incomprehensible from a western perspective, weighed once again on the future expectations of consumers and companies. This led to a deterioration in the growth outlook for the global economy and the rising sense of optimism in the summer soon evaporated.

In summary
A year has passed in which the economic situation hasn't really improved. China has remained in recession, Europe could slip into one this winter and the USA is increasingly losing momentum. Even darker clouds have emerged geopolitically. It proved to be the challenging year expected for our investments. As a result of our defensive positioning, we've avoided major risks and performed well compared with our competitors.

Review of 2023 in figures

3.1%

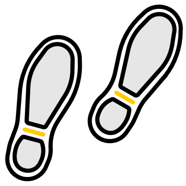
US inflation in November

6.8%	7.1%
2021	2022

Source: US Bureau of Labor Statistics

30.51

Refugees worldwide in millions



21.33	29.43
2021	2022

Source: UNHCR

298

Cyber Week online sales worldwide in billion US dollars

275	281
2021	2022

Source: Salesforce

4.1

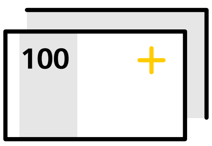
Private households in Switzerland in millions

3.5	3.7
2013	2018

Source: Swiss Federal Statistical Office

45

Gas price in Europe in EUR/MWH

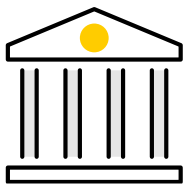


20	300
2021 (summer)	2022 (autumn)

Source: LSEG

4.0%

Yield on US government bonds



1.5%	3.0%
2021	2022

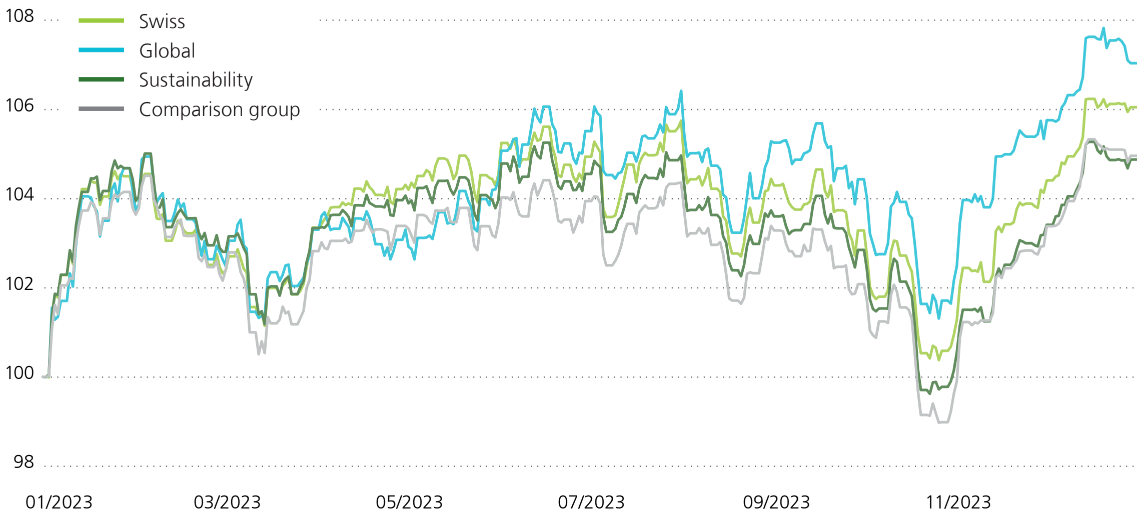
Source: LSEG

E-asset management

Our portfolios in 2023

Last year our portfolios experienced sharp fluctuations, heavily influenced by the central banks' decision-making on monetary policy. However, they closed the year with an exceptionally strong performance thanks to the year-end rally.

Performance in CHF, Risk strategy "Balanced"
01.2023 = 100



Source: PostFinance, Bloomberg

2023 was a year of highs and lows on the stock exchange, with the markets making up plenty of ground towards year-end. The central banks played a significant role.

Our portfolios initially entered the new year in optimistic mood. Substantial declines in capital market interest rates and China's apparent reawakening from its COVID-19-induced slumber triggered a new year rally on the equity markets. However, the decision by central banks in western industrial nations to raise policy rates again in the spring brought the rally to an abrupt end and sparked a crisis in the US banking sector, which also impacted our portfolios. The recovery on the financial markets shortly afterwards ensured that the portfolios recouped their losses from the spring.

Sluggish summer months with strong year-end rally

Momentum on the financial markets slowed significantly over the summer months. The US and European central banks announced they would continue with their restrictive monetary policy for a longer period. This resulted in a rise in capital market interest rates and a substantial downturn on the equity markets. At times, the autumn months of September and October were the worst of the year for our portfolios. Yet the prospect of an imminent relaxation of monetary policy in the USA led to an impressive year-end rally.

AI boom and strong Swiss franc

By year-end, almost all asset classes achieved very positive returns despite a volatile investment year. On the stock markets, the boom in artificial intelligence made a major contribution to strong returns, which mainly benefited the global portfolio. In contrast, the trend barely helped the Swiss stock market, which was one of the year's poorest-performing equity markets. This had an adverse impact on both the sustainable and Swiss portfolios. The strong Swiss franc meant our portfolios only benefited to a limited extent from the performance of securities in foreign currencies. Nevertheless, our balanced portfolios ended the year with an excellent annual performance of around 5 to 7 percent.

PostFinance has the right investment solutions for you

We'll help you to build up your assets with our investment solutions. You have the choice of delegating the management of your assets to us, obtaining advice or conducting your investment transactions independently.

Why now is the right time to invest

Don't want to miss out on opportunities to generate returns? Then you should start investing now. Want to keep your investment goals on track? Then continue investing now.

Invest now because time is on your side There are always turbulent conditions on the global stock markets from time to time. So what's the best investment approach? It's generally advisable to stick with the investment strategy selected. A long-term horizon pays off when investing. Time helps to even out fluctuations in value.

Sustainability and investment

Whether you wish to delegate asset management to us, get support for your investment decisions or invest independently:

Our investment solutions take account of ESG and sustainability criteria. For example, you can opt for the e-asset management and investment consulting plus investment solutions with the "sustainability focus" or choose our ESG and sustainability funds with "fund consulting basic" and fund self-service.

postfinance.ch/investing

Award

Best Wealth Managers

Every year, Bilanz honours the best asset managers in Switzerland. PostFinance made the top 5 directly in the "moderately dynamic" strategy over 24 months.

Delegation

E-asset management

Would you prefer to invest according to your chosen strategy without having to worry about it?

With e-asset management, we invest your money according to your individual investment strategy. We monitor your portfolio on an ongoing basis and make any adjustments if required – you don't have to worry about anything.

postfinance.ch/assetmanagement

Consulting

Investment consulting plus

Do you want to be kept in the loop about your investments at all times and to benefit from personalized, ongoing and comprehensive advice?

With investment consulting plus, you receive advice and support from your personal investment advisor. You're kept informed about relevant market developments and notified of any deviations to your investment strategy.

postfinance.ch/investmentconsulting

Consulting
Fund consulting basic

Want to take care of everything yourself, but still benefit from advice?

Fund consulting basic offers a straightforward range of PostFinance Fonds and third-party funds that are tailored to your needs. You can receive investment proposals either directly online or in a personal consultation. You can then make changes based on your own personal preferences. You also have the option of investing regularly in a funds saving plan.

postfinance.ch/fundconsulting

Independent
Fund self-service

Are you an investment expert who wishes to invest in funds independently without any advice?

With fund self-service, you choose independently from our straightforward range of PostFinance Fonds and third-party funds, all tailored to your needs. The third-party funds provide a choice of various countries, sectors and themes, such as food or sustainability. You also have the option of investing regularly in a funds saving plan.

postfinance.ch/funds

Independently or with advice
Retirement funds

Want to build up assets while focusing on returns to maintain your standard of living during retirement?

PostFinance offers retirement funds in which you can invest retirement capital from your retirement savings account 3a or vested benefits account. The funds have different allocations of shares and bonds. Our retirement funds can be transferred to an ordinary custody account with PostFinance after retirement and held, avoiding the risk of having to sell at an unfavourable time.

postfinance.ch/retirementfunds

Consulting
Investing sustainably

It is possible to do good by investing sustainably without having to curb your prospects of making a return.

Via e-trading, PostFinance's intuitive, modern trading platform, you can carry out your stock exchange transactions online, anytime and anywhere – and at extremely attractive conditions.

postfinance.ch/e-trading

We would be happy to advise you

Our highly experienced and professional advisors will answer any questions you may have – so that you make the right decisions for your portfolio over the long term.

We look forward to hearing from you.
postfinance.ch/advice

PostFinance is all about investment expertise
PostFinance has been offering successful investment solutions for more than 25 years – giving you the opportunity to grow your personal assets in a targeted manner. We will be pleased to share our expertise.

Find out how our Chief Investment Officer (CIO) and investment experts view financial market developments – in the investment compass, CIO video, podcast and investment navigator. **postfinance.ch/market-view**

Want to acquire investment expertise? Our blog regularly provides valuable advice and information.
postfinance.ch/investment-knowledge

Prospects 2024

Waiting for the turning point

We enter 2024 facing many challenges. Inflation rates are still too high in many countries, while the economy remains weak. However, once the downturn has bottomed out, attractive opportunities will open up for investors.

Since the end of 2021, we've been advising our customers to adopt a cautious approach towards investment decision-making and to hold fewer equities and more liquidity in their portfolios than the long-term average. Our cautious approach, which we'll continue to adopt at the start of the new year, was originally based on two key observations.

Firstly, the major imbalance between interest rates and inflation. While inflation rates spiralled out of control in many countries during the COVID-19 pandemic due to extreme fiscal measures and geopolitical events, interest rates only rose gradually and stood well below inflation for most of the past two years. We've continually underlined – based on well-founded economic theory and historical experience – just how important keeping policy rates well above inflation rates is to reining inflation in. A sharp rise in the level of interest rates – which has had a negative impact on the equity markets in the past – seemed unavoidable.

Secondly, the recommendation was based on the very real risk of a major slowdown in the global economy. The fallout of the COVID-19 pandemic, which principally included a decline in demand for goods and the expiry of fiscal support measures, the expected rise in interest rates and much gloomier sentiment among consumers and industrial companies led us to adopt this cautious approach. During periods of economic weakness, company revenues and profits tend to decline, which, in turn, has an adverse impact on their valuations.

Interest rate correction now behind us

Much has happened in the meantime. The central banks' policy rates and interest rates on the capital markets have increased sharply in the industrial nations and stand just above the core inflation rate in the USA. In Europe, policy rates are above core inflation, but long-term interest rates have risen less sharply and remain well below it. Much of the expected interest rate correction nevertheless now appears to be behind us.

Events coming up in 2024 – January to June

January | February | March | April | May | June

1 January: Expansion of BRICS alliance

Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates will join BRICS to form BRICS plus, a bloc that aims to position itself as a counterbalance to the Western nations.

5 March: Super Tuesday

14 US states, including the two heavily populated states of California and Texas, will select their official presidential nominees on this date.

17 March: Presidential elections in Russia

Vladimir Putin will be standing for election once again. Due to a constitutional reform in 2020, he is permitted to run for a sixth consecutive term in office.

31 March: Presidential elections in Ukraine

It is still unclear whether the presidential elections will go ahead next year in spite of the Russian invasion.

This is due not least to the fact that inflation has fallen significantly over recent months. Energy prices have made a significant contribution to this fall. They are much lower than a year ago when the threat of an energy shortage loomed in Europe after the start of Russia's war of aggression on Ukraine. The downward inflation trend led to a surge of optimism on the financial markets towards the end of 2023. Many market participants no longer see inflation as a problem and the first policy rate cuts are expected this spring.

Inflation rates remain high

In our view, these expectations are overly optimistic for two reasons. Firstly, core inflation, which excludes volatile energy and food prices that cannot be influenced by the central banks, has also dropped significantly, but far less sharply than the overall rate of inflation. It means core inflation is still well above central bank targets in most countries. Secondly, price pressure remains high. Wage growth is currently strong in many countries, even significantly exceeding inflation rates. This should support household budgets temporarily and ensure continued strong consumption. This means inflation rates are likely to remain high during 2024.

Economic weakness continues

There was a considerable slowdown in economic growth last year. China is in recession and economic growth in Europe and Switzerland has ground to a halt. Only the USA avoided the downturn for much of last year. However, the world's biggest economy is showing growing signs of weakness, too.

The economy does not appear to have bottomed out yet. One indication of that is the strong wage growth rates we're seeing in many countries. The rise in pay is only really offsetting higher price levels seen over recent years, but should support private household consumption in the short term. However, wage growth will increase labour costs over the medium term, and may result in a fall in companies' demand for staff. That, in turn, would have an adverse effect on the spending of the households affected.

> "The phase of economic weakness looks set to continue until at least the first half of the new year."

The high level of interest rates will continue to curb economic growth. The sharp rise in interest rates will put a brake on construction and capital investments, reducing overall economic demand. The phase of economic weakness looks set to continue – at least for the first six months of 2024.

Many leading sentiment indicators on economic development point to that, too. Industrial companies, in particular, expect very weak business activity over the coming months due to low order intake. Consumer sentiment is very downbeat. It's still being hit by high inflation and concerns over people's personal financial situation. In Switzerland, for example, consumer sentiment has only ever been worse in the survey period during the COVID-19 pandemic.

Events coming up in 2024 – July to December

17 August: New Indonesian capital city

The largest island state in the world is moving its capital city from Jakarta to Nusantara on Borneo due to traffic congestion and air pollution.

18 November: G20 Summit in Rio de Janeiro

The first world summit to be held in Brazil will focus on sustainability and the fight against famine.

26 July – 11 August: Olympic Games in Paris

The French capital will host the Summer Games for the third time, marking the 100th anniversary of the Paris 1924 Summer Olympics.

5 November: Presidential elections in the USA

Another showdown between Donald Trump and Joe Biden could be on the cards.

Positive side-effects of weak economy

The expected economic slowdown may have some positive side-effects this year. Firstly, weak economic growth generally puts pressure on the business activities of companies, reducing leeway over pricing. Price rises can no longer be fully passed on and inflation is falling slightly – albeit not as sharply nor as soon as market participants currently expect. Secondly, phases of economic downturn often present attractive opportunities for increasing the risk in investor portfolios. In previous recessions, the stock markets often began to recover and perform well once the low point was reached. That means this year could be extremely rewarding and has the potential to prove a really good one for investors once the worst is over.

Prospects 2024

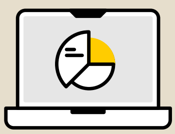
Why are investors holding back their money?

Three reasons preventing over 50 percent of adults in Switzerland – the land of banking – from investing:

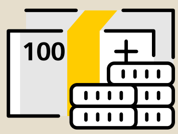
1. **70 percent feel they don't know enough about it**
   → Arrange a consultation
2. **66 percent think they don't have enough money**
   → You can invest from as little as 20 francs a month
3. **63 percent are afraid of making a mistake**
   → Take a look at our key advice below to avoid mistakes

Key advice on successful investment:

Suitable risk profile
Risk capacity and your investment horizon are key factors in determining the investment strategy. They account for 90 percent of investment success. Taking the time needed is strongly advised and doesn't require any specialist knowledge.



Broad diversification
By investing in companies from various industries, you minimize individual and stock-specific risks as well as company and sector-specific risks, reducing overall risk long-term.



Long investment horizon
Making and holding onto your investments pays off. The investment horizon is more important than when you decide to start investing. However, a staggered approach can even out price fluctuations after investment.

Your question

Rising interest rates are weighing on the financial markets. Do we face more interest rate hikes in 2024?

Our answer

The central banks are using money market interest rates to control inflation. If inflation continues to drop this year, interest rates are unlikely to be raised again. They may even be cut if there's a major recession.

Interest on bonds is different. That's mainly determined freely on the market. If inflation forecasts increase and growth rates continue to climb, interest could also rise here too. In the next upturn, we can expect much higher bond yields than at present, especially for the Swiss franc.

Opportunities and risks

The big issues for 2024

Last year was marked by geopolitical conflicts, rising interest rates and a global economic slowdown. Despite the many current challenges, it is still important to look ahead and prepare for medium and long-term trends. That's why we're highlighting four key themes for 2024 and beyond.

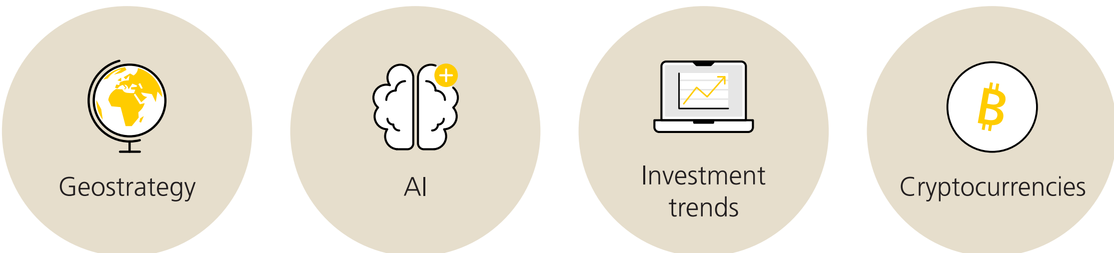
A challenging year lies behind us – not least in terms of investment. The weak global economy and recession in China and parts of Europe mean a cautious investment approach was the order of the day. That's why we advised our customers to assume less risk and to hold more liquid positions compared with the long-term average. However, phases of economic downturn always present attractive buy-in opportunities as they accelerate structural change and are often followed by a strong upturn on the equity markets. 2024 may provide the first such opportunities.

Artificial intelligence (AI) may play a key role in the next upswing and boost innovation. AI caused a big stir last year, attracting the interest of the wider population thanks to easily accessible applications. While the development of AI is still in its early stages, it looks set to have a significant impact and to change everyday life over the next few years.

We also face big changes over the coming years in terms of geopolitical power structures. The growth of large emerging markets, such as China and India, are likely to cause a major shift in the balance of power, with the USA losing its predominant role. For a small, open economy like Switzerland, participation in international politics and global economic growth will become increasingly difficult.

> "Periods of economic downturn always present attractive buy-in opportunities."

Cryptocurrencies are also likely to feature more heavily in investment portfolios in the coming years. The blockchain technology they rely on will be used in other areas and become more significant. Cryptocurrencies may also play a greater role in portfolio risk diversification.

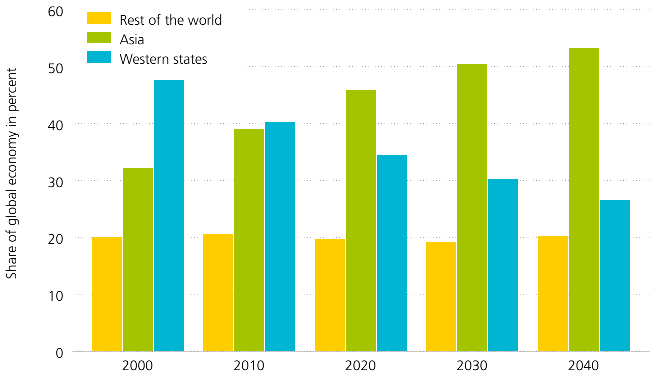


What will happen to the world order?

The global economy is changing due to the rise of large emerging markets, which is also causing a shift in the balance of political power. The rules-based world order is in decline.

The world is in a state of constant change. That presents opportunities, but also entails risks. At global level, a shift in the balance of power is occurring to an extent not seen since the end of the Cold War. The USA's dominance is constantly being eroded, while the major emerging markets with large populations are playing a much more significant role.

Western countries are losing importance
Estimated shares of the global economy over time



Source: Factset

The ascent of China and India

China is usually at the centre of current debate about this topic. The Chinese economy has achieved much faster growth over recent decades than most other countries. China's economic power looks set to match that of the USA within this decade, and will then outstrip it. With greater economic power comes more ambitious geopolitical aspirations. China's Silk Road initiative is just one example of China's growing ambitions, which will also be expressed militarily in medium-term. China already has one and a half times as many troops as the USA, just as many tanks and an air force half the size.

However, reducing the shift in the balance of geopolitical power to a contest for global hegemony between China and the USA would be fundamentally misguided. India's increasingly self-assured foreign policy has been very apparent at the last two G20 summits. With growth rates well above China's, India is catching up relatively quickly. Countries such as Indonesia, Nigeria and Mexico belong in a similar category.

"Western values are increasingly losing ther significance."

USA and Russia – waning powers

Besides the USA, there are a number of other major losers. Of these countries, Russia is high on the list. While the Russian economy was still around half the size of China's at the turn of the millennium, forecasts indicate that its economic output will be a tenth of China's by 2040 and a sixth of India's. The decline is economic prowess also means less capability to exert power externally. The war of aggression on Ukraine has provided a clear indication of the level of Russia's military power. China and India will dominate the nuclear power of Russia in future.

At the moment, the common goal of the major emerging markets appears to be overturning the international world order dominated by the USA since the Second World War. This means rules-based coexistence, which aims to ensure universal human rights and democracy, will be more difficult to achieve in the years ahead. Central organizations, such as the UN, already reflect this today to some extent. We will increasingly see changing coalitions of states, which will attempt to tilt the world order in their favour, whereby the strongest will prevail. For a small, open economy like Switzerland, international politics will become more complex and participation in the growth of the emerging hubs of the global economy in Asia will become increasingly difficult.

Artificial intelligence – what lies ahead?

AI

Artificial intelligence (AI) had a greater impact on the equity markets last year than anything else. Aside from the opportunities it presents, the growing influence of the new technology raises questions and challenges about using AI in the right way.

Artificial intelligence (AI) has created a big stir recently, attracting the interest of the wider public thanks to easily accessible applications, such as ChatGPT. AI is already used in schools, universities and many professions and is being applied to write and optimize texts, for example. AI is omnipresent on less obvious applications too, such as personalized suggestions on streaming platforms.

AI is also widely used on the equity markets. Last year, companies involved in the development of AI or that are part of its value chain achieved considerable gains. For example, the share price of Nvidia, a US manufacturer of special chips used for the application of AI, has risen more than three-fold over the past 12 months.

Huge potential for productivity

Despite its already significant influence, AI is still only in the early stages of its development. Progress over the coming years will have a huge impact on everyday life. AI will enable many processes to be simplified and automated – from routine tasks, such as the production of shift plans, to the development of customized products. Not only will this boost labour productivity, but also improve quality by making errors easier to identify and rectify. AI can also help to improve safety by automating movement and dangerous work tasks.

"Progress on the development of AI over the coming years will have a huge impact on everyday life."

The downsides of AI

As is usually the case with disruptive technologies, AI won't just present opportunities, but will also entail many risks and challenges. The processing of vast amounts of data could lead to a sharp rise in data misuse and theft. It will also become harder to identify distorted content or false information. Effective regulation governing the development and use of AI may prove decisive, but will be extremely challenging too.

The job losses this may cause is a growing concern too. However, AI performance of tasks previously carried out by humans doesn't necessarily means job losses, but rather changes to roles. It will allow employees to focus on other, more complex tasks. The training and development of qualified staff will be a key factor.

AI boom on the stock market

The performance of Nvidia's share price over the last 5 years

Source: Factset

Impact on the financial markets

The financial markets will undoubtedly keep a close eye on the huge potential and great uncertainty associated with the development of AI over the coming years. Growth opportunities will open up for companies that achieve progress on AI development as well as for those that successfully implement AI applications. However, it's difficult to predict which companies those will be. For this reason, portfolio diversification with broad-based equity funds and ETFs is a good way of benefiting from the earnings of individual companies, while minimizing risk.

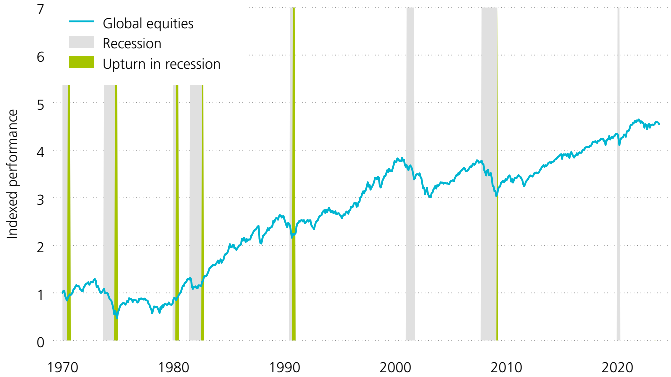
When will investment opportunities arise?

The weak global economy means caution over investment is advised. However, phases of economic downturn are often followed by strong gains on the equity markets, providing attractive opportunities to increase the risk in investors' portfolios at the right time.

The global economic situation remains fraught. China is still in recession, while also facing the challenges of a persistent real estate crisis caused by the government's aggressive growth policy. The European economy has been stagnating for a year and is also at risk of entering recession owing to Germany's weak performance. Switzerland – which is being hard hit by the downturn in Germany and China, its two main trading partners – is also at risk of sliding into recession.

Only the USA continues to post steady growth figures. However, leading indicators also point to a significant slowdown in the world's largest economy. The investment activity of companies and private households is being increasingly hit by high interest rates and the labour market is showing the first signs of weakness.

Recessions as a turning point on the stock markets
The development of global stock markets over the last 50 years



Source: Factset

Setbacks during recession

In view of the challenging economic situation, we advise our customers to remain cautious over investment decisions and to stick with the investment strategy decided upon. During periods of economic weakness, company revenues and profits tend to decline, which, in turn, has an adverse impact on their valuation.

These correlations are very apparent when we look back at earnings on the global equity market since 970. There is a continual upward earnings trend, but with sharp declines during periods of recession, sometimes falling well into negative territory. These declines were especially sharp at the start of the new millennium and during the financial crisis, when total earnings slumped by 40 and 25 percent respectively.

> "Recessions accelerate structural change, paving the way for the next upturn."

Downturns are followed by upturns

Phases of economic downturn nevertheless often open up attractive buy-in opportunities for increasing the equity allocation. During recessions, companies are often forced to improve efficiency and drive forward innovation to remain competitive. Recessions also strip out overcapacity and provide attractive takeover opportunities. They often accelerate structural change, paving the way for the next upturn.

Historically, recessions have often been followed by new phases of economic upturn, leading to an upswing on the equity markets. In many cases, post-recession periods often see the best performance on the equity markets. In almost all recessions, the subsequent upturn on the equity markets began before the recession ended. Only during the 2001 recession did the downturn on the equity markets last much longer with sustained recovery only beginning a year and a half later.

Taking full advantage of the next upturn will require the courage and willingness to invest at the right time. In our view, exciting opportunities may open up as early as 2024. We'd be pleased to advise you on the optimal buy-in time.

Investing in cryptocurrencies – opportunities and risks for private investors

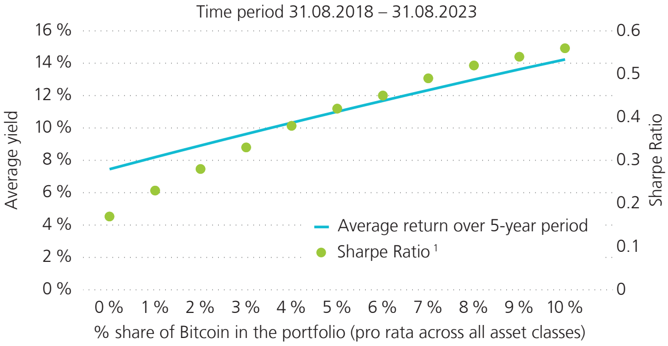
New technologies, such as artificial intelligence (AI), machine learning and particularly blockchain technology, will change the world over the coming decades. This technological progress has seen cryptocurrencies become an attractive asset class, which has recently been included in the investment decision-making of financial institutions. Especially for private investors, cryptocurrencies can be a good way of diversifying their portfolio and boosting returns.

Beyond the hype: cryptocurrencies as a technological innovation
Cryptocurrencies are much more than simply digital money. They're based on blockchain technology, which provides a decentralized and secure method for data storage and transfer. What's groundbreaking is that blockchain technology enables the direct peer-to-peer transfer of assets without any counterparty risk. It's being used ever more widely in various sectors. One example is the use of blockchain in supply chain monitoring to promote transparency and efficiency in the logistics sector. Investors who opt for cryptocurrencies are focusing on future technological developments, and not necessarily volatile prices.

"Cryptocurrency investors are also focusing on future technological developments."

Diversification as the key to success
A well-balanced and diversified portfolio is vitally important, especially in times of uncertainty. Cryptocurrencies are an ideal means of diversification thanks to their historically low correlation with other asset classes, such as equities. It's important to remember that investors who add a cryptocurrency like Bitcoin to their portfolio do so with the long-term picture in mind. A cryptocurrency's short-term correlation with equities can increase, which was the case with Bitcoin in 2020 during the COVID-19 pandemic, for example. Cryptocurrencies are highly volatile and present huge opportunity to generate returns, but entail risks too. Past returns are no guarantee of future performance here either. However, cryptocurrencies can be used as "satellites" as an instrument for boosting returns.

Adding bitcoins to a model portfolio
Greater bitcoin allocation led to higher Sharpe ratio



Source: Galaxy Digital, "The Impact and Opportunity of Bitcoin in a Portfolio". Basic portfolio of 55 percent equities (S&P 500 Index), 35 percent fixed-income securities (Bloomberg US Aggregate Bond Index) and 10 percent commodities (Bloomberg Commodities Index)

Various studies have shown that historically an allocation in cryptocurrencies of 1 percent to a maximum of 5 percent provides an attractive risk-return profile for the average investor. The graphic above shows the effects of adding Bitcoin to a model portfolio over the past five years.

Security takes precedence
We advise evaluating individual cryptocurrencies carefully before investing in them. Secure custody and purchase via trustworthy parties is extremely important with cryptocurrencies. Sending a transaction to a false address or misplacing log-in details to your wallet can result in an irreversible loss of assets. Especially for less tech-savvy investors, using your own bank for this service is advisable. From spring 2024, PostFinance will also provide its customers with services for the purchase, sale and custody of cryptocurrencies.

[1] The Sharpe ratio indicates the additional returns compared with a risk-free investment in relation to the risk assumed.

Closing remarks

When it gets really dark, you need to be wide awake

A clear strategy and cool head help when investing. You also need to be tenacious and not deterred by market volatility. What's vital is being alert when everything looks dark, and catching the upturn at just the right time.

Philipp Merkt
Chief Investment Officer

PostFinance market view: Publications and videos

We are happy to share our expertise with you in our periodic publications and videos, which provide you with easy-to-understand answers to your investment questions.

"Investing with foresight" short video

Investment compass

PostFinance consumption indicator

Find out more:
postfinance.ch/market-view

Legal information

This document and the information and statements it contains are for information purposes only and do not constitute either an invitation to tender, a solicitation, an offer or a recommendation to buy, sell or conclude transactions for any securities, other financial instruments or services or to perform other transactions or to conclude any kind of legal transaction.

This document and the information it contains is intended solely for persons domiciled in Switzerland.

The investment analyses from Investment Research are produced and published by PostFinance. PostFinance selects the information and opinions published in this document carefully and includes sources deemed reliable and credible. However, PostFinance cannot guarantee that this information is accurate, reliable, current or complete and, to the extent permitted by law, does not assume any liability for it. In particular, PostFinance rejects any liability for losses resulting from investment performance based on information contained in this document. The content of this document is based on various assumptions. Differing assumptions can result in significantly different outcomes. The opinions expressed in this document may differ from or contradict the views of other PostFinance business units, as they are based on the use of different assumptions and/or criteria. The content of this document is specific to a particular date. This means that it is only current at the time of creation and may change at any time. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when purchasing units or of the service fee. The price, value and return of investments may fluctuate. Investment in financial instruments is subject to certain risks and does not guarantee the retention of the capital invested or an increase in value. The analyst or group of analysts who produced this report may interact with employees from marketing and sales or other groups for the purposes of collecting, compiling and interpreting market information. PostFinance has no obligation to update information or opinions, to specify that information is no longer up to date, or to remove such information.

No advice (investment, legal or tax advice, etc.) is provided through this document. This information does not take into consideration the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. This means the information and opinions are not a suitable basis for investment decisions. We recommend that you consult your financial or tax advisor before every investment. Downloading, copying or printing this information is permitted for private use only, provided that the copyright notice or other legally protected names or symbols are not removed. Complete or partial reproduction, communication (electronic or otherwise), modification, linking or use of the newsletter for public or commercial purposes and non-commercial distribution to third parties is prohibited without prior written consent from PostFinance. PostFinance accepts no liability for claims or legal action by third parties based on the use of this information. Further information is available on request.

Important information on sustainable investment strategies
PostFinance may include sustainable investments when selecting instruments for the model portfolio. This means that environmental, social and governance (ESG) criteria are taken into account in investment decisions. If ESG criteria are implemented, certain investment opportunities may not be pursued which would otherwise be compatible with the investment goal and other general investment strategies. Taking account of sustainability criteria can result in the exclusion of certain investments. As a result, investors may not pursue the same opportunities or market trends as investors who do not apply such criteria.

PostFinance Ltd
Mingerstrasse 20
3030 Bern
Switzerland

Phone +41 848 888 900
www.postfinance.ch

Data as of 31 December 2023
Editorial deadline: 3 January 2024

461.40 en (pf.ch/dok.pf) 01.2024 PF | Advertising from PostFinance Ltd