PostFinance investment compass
March 2024

Editorial Early spring

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Slightly improved sentiment data from industry suggests that the worst of the downturn in China and Europe is now over. Even though inflation in the industrial nations still hasn't dropped to within the target range, the economic outlook has improved, which is why we recommend bulking up the equity allocation again.

Philipp Merkt
Chief Investment Officer

Fortunately, the markets made a very promising start to the new year. The price performance of the portfolios entrusted to us is positive across the board. The portfolios with a global focus are top performers compared with the competition thanks to strong market development in the USA and in the eurozone. The weakening of the Swiss franc since the start of the year has also helped.

"A moderate increase in equity investments in the less expensive markets appears well advised."

Such positive financial markets at this point in the cycle are unusual. After all, major countries, such as China and Germany, are currently still in recession. Economic momentum in the USA is also on a downward rather than an upward trajectory. What's more, inflation in many countries still isn't within the target range defined by central banks. However, the financial markets believe interest rates will fall again over the coming months and that the economy will stabilize.

This phenomenon of strong growth and falling interest rates is known as a Goldilocks scenario. The term comes from the fairytale "Goldilocks and the Three Bears". The "bears" part is not usually mentioned in stock market circles, as the bear symbolizes the belief that equity prices will fall.

However, there are stock market participants who are sceptical. Otherwise, how could you explain the surge in gold and Bitcoin prices to all-time highs at the start of the month? In relation to gold, there's another factor besides general scepticism over the recent outstanding performance of the financial markets. An increasing number of emerging markets are allowing their central banks to bulk up gold reserves, because persistent geopolitical tensions are leading to a growing threat of sanctions – including against central banks. And who wants frozen accounts in the USA or Europe?

Despite all the concern about the global political situation, we believe that the economic outlook has improved. The first signs of stabilization in industry are evident, and the global goods recession appears to be coming to an end. This could also pave the way for China and Germany to claw their way out of recession. Provided the US economy remains robust, which looks likely, this means a much improved outlook for the economy.

In response, we've added to our equity allocation slightly. We're increasing investment in emerging markets once again, because this allows us to build up our equity quota with good diversification in markets that are attractively valued by historic comparison. At the same time, we remain cautious about the USA. The boom in tech stocks has led to inflated company valuation figures. In Europe, we still favour Switzerland over the eurozone. Overall, this brings our equity allocation into line with the targeted long-term average.

Positioning

Turning point

Economic sentiment continues to improve. In light of the emergent turning point, we are adopting a neutral equity position. We are also hedging against depreciation of the US dollar and buying Swiss real estate funds.

Sentiment in global industry improved again last month, confirming the trend that indicates the goods economy has bottomed out. This improvement and strong results posted by US companies last quarter contributed to a positive mood on the financial markets. The prospect of the central banks cutting policy rates in the near future may also have lifted optimism amongst market participants. This means that the Goldilocks scenario now appears to have taken hold on the financial markets, with a strong economy and low interest rates.

"The worst of the economic downturn now appears to be behind us."

Neutral equity positioning

In our view, these positive developments confirm that the worst of the economic downturn – particularly in Europe and China – may now be behind us. We are using this turning point as an opportunity to close our underweighted equity position. Emerging market equities appear a very attractive option in this respect. The US dollar's overvaluation has increased significantly since year-opening. Divergence of this kind has proven unsustainable historically. We expect the US dollar to depreciate in the near future. This has boosted emerging market equities significantly in the past. The gradual recovery of the Chinese economy should also lend positive impetus to equity markets in the emerging economies. As the world's biggest manufacturer of goods, China looks set to benefit greatly from the emergent bottoming-out in global industry. Emerging market equities are also very attractive in terms of valuation. By historic comparison, the current premium is well below the average level compared to the global equity market. In particular, Chinese equities are relatively inexpensive at the moment. That's why we are acquiring emerging market equities.

Performance of asset classes

Asset class		**1M in CHF**	**YTD[1] in CHF**	**1M in LCY[2]**	**YTD[1] in LCY[2]**
Currencies	EUR	2.8%	3.5%	2.8%	3.5%
	USD	1.4%	4.8%	1.4%	4.8%
	JPY	0.4%	–1.1%	0.4%	–1.1%
Fixed Income	Switzerland	1.3%	0.3%	1.3%	0.3%
	World	2.1%	3.0%	0.7%	–1.7%
	Emerging markets	3.6%	5.8%	2.2%	0.7%
Equities	Switzerland	2.1%	3.0%	2.1%	3.0%
	World	5.1%	11.5%	3.6%	6.1%
	USA	4.7%	12.6%	3.2%	7.1%
	Eurozone	6.7%	10.1%	3.8%	6.4%
	United Kingdom	3.0%	4.8%	0.5%	0.0%
	Japan	8.9%	16.0%	8.5%	17.0%
	Emerging markets	4.4%	5.7%	3.0%	0.6%
Alternative Investments	Swiss real estate	1.4%	4.1%	1.4%	4.1%
	Gold	7.0%	8.1%	5.5%	3.1%

1 Year-to-date: Since year start
2 Local currency

Data as of 6.3.2024
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Hedging against potential weakening of the US dollar

The weakening of the US dollar, which has spurred on emerging market equities historically, has not always been positive for Swiss investors in the past. A weak US dollar often coincides with sharp currency losses in Swiss portfolios. For example, the Swiss franc gained by 9 percent against the US dollar last year. As a result, Swiss investors lost out on around a third of the US equity market's performance and almost the entire performance of emerging market equities in their portfolios. To protect against any weakening of the dollar, we are hedging our gold positions against currency fluctuations.

Demand for Swiss real estate funds remains strong

The exchange-listed real estate funds in Switzerland continued their upward trend observed since November 2023. This may be due to the cut in capital market interest rates in Switzerland, which occurred against a backdrop of falling inflation rates. However, sustained strong demand may also have contributed to this development. Positive net immigration and lower construction activity may additionally have played a significant role. In light of strong demand for Swiss real estate, we are closing our underweighted position in Swiss real estate funds.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3] −−	underweighted[3] −	neutral[3]	overweighted[3] +	overweighted[3] ++
Liquidity	**Total**	**9.0%**	**7.0%**				■	
	CHF	1.0%	1.0%				■	
	Money market CHF	8.0%	6.0%				■	
Fixed Income	**Total**	**31.0%**	**31.0%**		■			
	Switzerland	15.0%	15.0%		■			
	World[2]	10.0%	10.0%			■		
	Emerging markets[2]	6.0%	6.0%			■		
Equities	**Total**	**49.0%**	**50.0%**			■		
	Switzerland	25.0%	25.0%				■	
	USA	8.0%	8.0%		■			
	Eurozone	3.0%	3.0%		■			
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets	9.0%	10.0%				■	
Alternative Investments	**Total**	**11.0%**	**12.0%**			■		
	Swiss real estate	6.0%	7.0%			■		
	Gold	5.0%	5.0%			■		

1 Tactical Asset Allocation: short to mid-term orientation
2 Currency hedge to CHF
3 Positioning relative to our long-term asset allocation

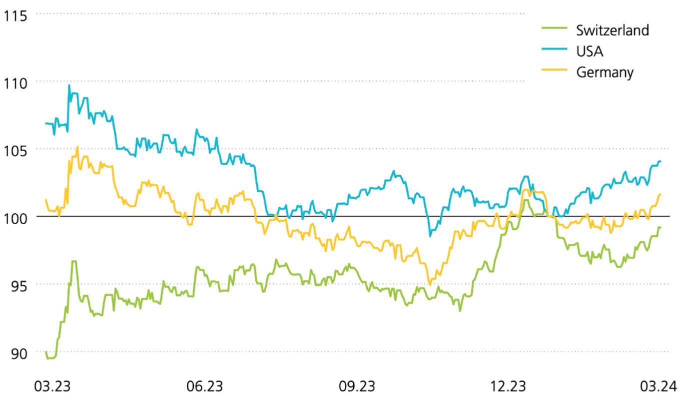
— Adjustment compared to last month

Market overview

Fixed income

The markets are still confident that the central banks will relax monetary policy significantly this year. However, there are still major challenges to overcome in light of faltering efforts to cut inflation, particularly in the USA.

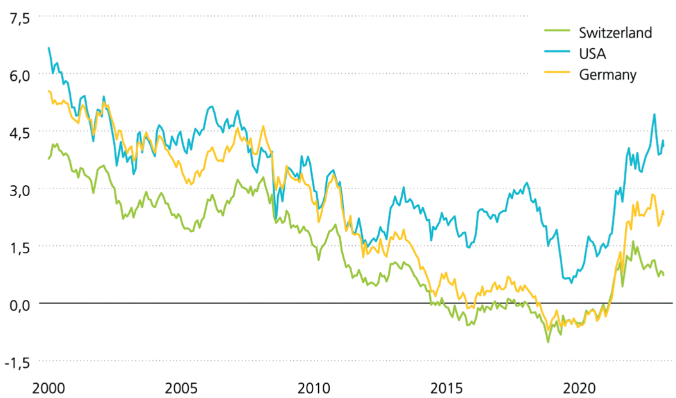
Indexed performance of government bonds in Swiss francs
100 = 01.01.2024



At the end of 2023, market expectations over the central banks' future monetary policy were extremely optimistic. Cuts to policy rates of up to 1.5 percentage points were being forecast until the end of 2023. This optimistic outlook has been tempered slightly in the meantime. The markets now anticipate that policy rates will fall by around 0.75 percentage points by the end of the year. However, even these projections seem too optimistic. In the USA in particular, making further progress on reining in inflation appears challenging, as the economy continues to perform robustly. However, this has not deterred the bond markets. Government bonds generally trended sideways month-on-month. However, foreign bonds made a positive contribution to Swiss investors' portfolios due to the weak Swiss franc.

Source: SIX, Bloomberg Barclays

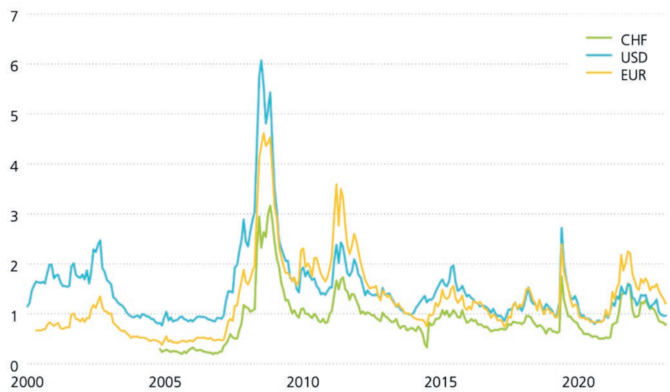
Trend in 10-year yields to maturity
In percent



There was little overall change to long-term interest rates last month. In February, 10-year yields to maturity on government bonds were still trending upwards, but they fell again in early March. Interest rates still stand at 4.1 percent in the USA. In contrast, yields to maturity on 10-year Swiss government bonds fell considerably. After climbing to over 0.8 percent in early February, they now stand at slightly over 0.6 percent.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



The credit spreads on corporate bonds narrowed again last month. Low-quality corporate bonds fell most sharply. This means that risk premiums remain at a low level. There is little sign of an impending recession.

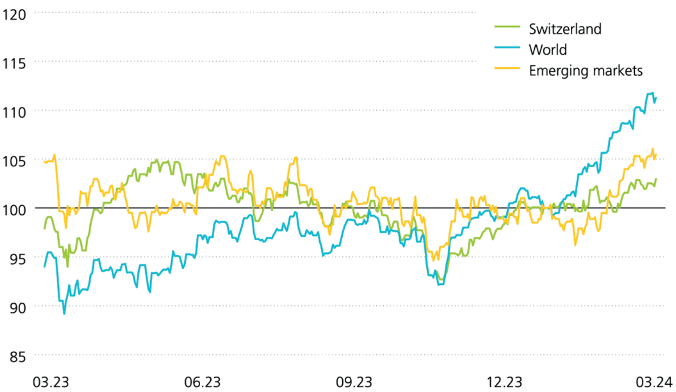
Source: Bloomberg Barclays

Market overview

Equities

Thanks to the persisting boom in artificial intelligence and the strong reporting season, most equity markets made gains. Fears of recession in the eurozone and ongoing concerns over inflation in the USA were largely pushed aside.

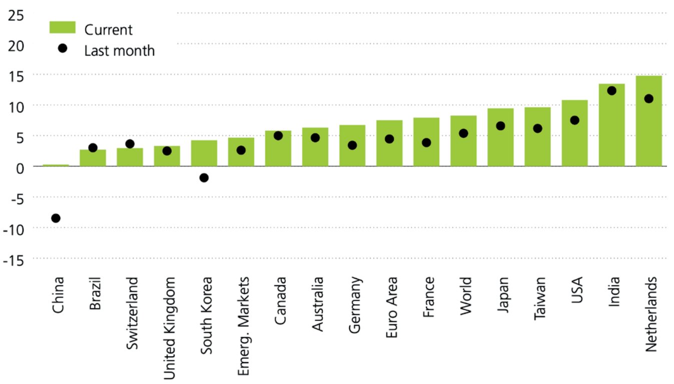
Indexed stock market performance in Swiss francs
100 = 01.01.2024



The equity markets continued their upward trend last month. Equity prices actually hit new all-time highs in the USA. The last quarter's strong reporting season and tech prices boosted by the boom in artificial intelligence made a major contribution. The Japanese equity market performed extremely strongly again last month and is up by over 16 percent since year-opening. The weak Japanese yen is a key factor in this, enabling Japan's export-oriented economy to benefit from a weak domestic currency. By contrast, the Swiss market performed weakly again and was set back by the poor performance of Nestlé, the index heavyweight. The food group's share price fell by over 6 percent last month, weighing on the price performance of the entire Swiss equity market.

Source: SIX, MSCI

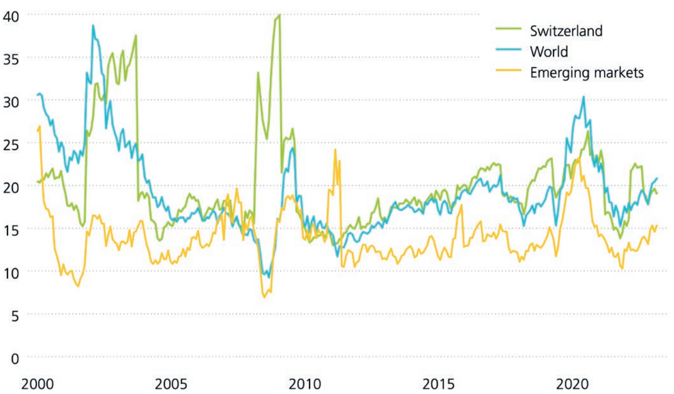
Momentum of individual markets
In percent



The general rise in equity prices also boosted momentum on most equity markets, which now lies in positive territory almost across the board. Upward impetus remains strong on the tech-heavy stock markets, such as the Netherlands, USA and Taiwan. Momentum on the Chinese equity market returned to positive territory recently. However, this may be a momentary development rather than a lasting trend.

Source: MSCI

Price/earnings ratio
P/E ratio



The price/earnings (P/E) ratio on the equity markets rose again on a broad front last month. Above all, the P/E ratio improved in the USA and emerging markets, while Switzerland saw a more moderate rise. This development mainly reflects the price trend. Equity prices in the USA and emerging markets climbed much more sharply than in Switzerland last month.

Source: SIX, MSCI

Market overview

Swiss real estate investments

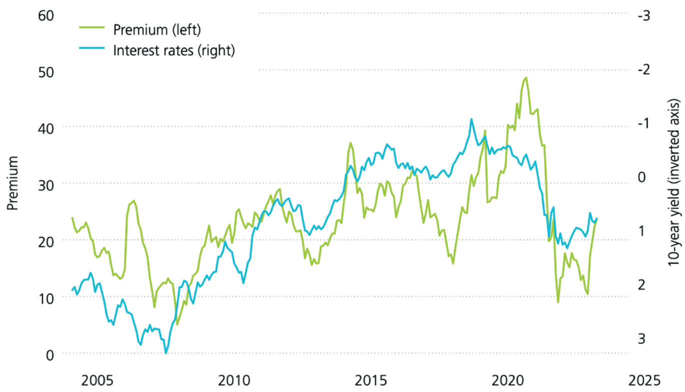
The upturn in Swiss real estate investments continued last month. In addition to lower capital market interest rates in Switzerland, impetus has also been provided over recent months in particular by greater leeway for rent rises, which was permitted by a higher reference interest rate.

Indexed performance of Swiss real estate funds
100 = 01.01.2024

Exchange-listed Swiss real estate funds gained again last month, continuing their upward trend that has lasted since November 2023. The strong growth in value was achieved against a backdrop of a sharp drop in capital market interest rates. Yields to maturity on 10-year Swiss federal bonds fell sharply in February and now stand at just over 0.6 percent. The additional leeway for raising rent provided by the increase in the reference interest rate is having a positive effect on yield prospects. This may also have spurred on price performance.

Source: SIX

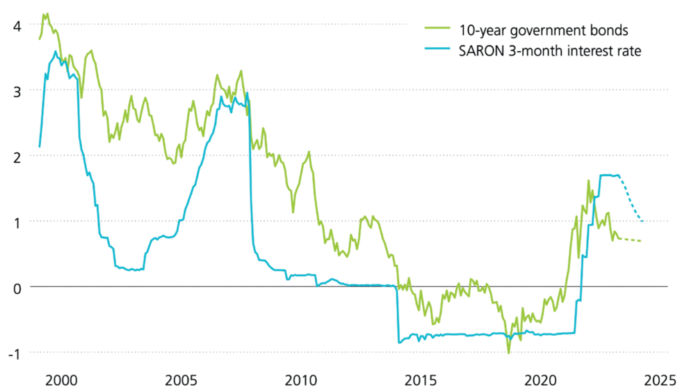
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



The premium paid by investors on exchange-listed real estate funds compared with the properties' net asset value has risen considerably over recent months and now stands at around 25 percent. As the NAV of many properties has barely changed over recent months and years, despite a much higher level of interest than in the period 2015 to 2021, the recent increase is mainly due to the rise in the value of the real estate funds.

Source: SIX

3-month SARON and 10-year yields to maturity
In percent



The yields to maturity on 10-year Swiss government bonds decreased again last month and are now well below the 1-percent mark again. This means the extraordinary negative difference between the long-term and short-term interest rate level has widened again. However, in light of the low rate of inflation and weak economy in Switzerland, many market participants expect the Swiss National Bank (SNB) to cut its policy rate soon. The futures market is factoring in a much lower short-term interest rate until the end of the year.

Find out more in our interest rate forecast for mortgages

Source: SIX

Market overview

Currencies and cryptocurrencies

The Swiss franc's phase of weakness observed since year-opening is continuing. However, in view of much lower inflation by international comparison, the Swiss franc may return to its appreciation trend over the medium and long term.

After a strong end to 2023, the Swiss franc has weakened over the first few months of the new year. Since January, it has fallen by almost 3 percent against the euro and by 4.5 percent against the US dollar. In February, the Swiss franc was the worst performing G10 currency. However, this weakening may not represent a lasting trend. Much lower inflation by international comparison is likely to see the Swiss currency strengthen again in the near future.
The US dollar has performed much more robustly so far in the new year. The US currency has gained by around 2.5 percent on a trade-weighted basis since early January.

Currency pair	Price	PPP [1]	Neutral area [2]	Valuation
EUR/CHF	0.96	0.89	0.82 – 0.96	Euro neutral
USD/CHF	0.88	0.79	0.69 – 0.89	USD neutral
GBP/CHF	1.12	1.21	1.04 – 1.37	Pound neutral
JPY/CHF	0.59	0.92	0.76 – 1.07	Yen undervalued
SEK/CHF	8.56	9.78	8.77 – 10.78	Krona undervalued
NOK/CHF	8.40	10.60	9.41 – 11.78	Krona undervalued
EUR/USD	1.08	1.13	0.98 – 1.27	Euro neutral
USD/JPY	150.12	86.61	67.73 – 105.49	Yen undervalued
USD/CNY	7.20	6.04	5.61 – 6.46	Renmimbi undervalued

Cryptocurrency	USD rate	YTD [3]	Annual high	Annual low
Bitcoin	66’120	57.11%	68’359	39’528
Ethereum	3812.46	66.01%	3812.46	2207.26

1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Year-to-date: Since year start

Source: Web Financial Group, Coin Metrics Inc.

Gold

The precious metal is on an upward trend and close to a new all-time high. Several central banks in emerging markets also appear to be playing a key role in this.

Indexed performance of gold in Swiss francs
100 = 01.01.2024

The gold price was extremely stable in the first two months of 2024, before seeing a sharp upturn in early March. The price per troy ounce now stands at just short of its record high of 2,135 US dollars. Various reasons explain the precious metal's popularity. In addition to various geopolitical conflicts, which have led more people to seek secure investments, efforts by several central banks in emerging markets to make their monetary policy more independent of the US dollar have also led to strong demand.

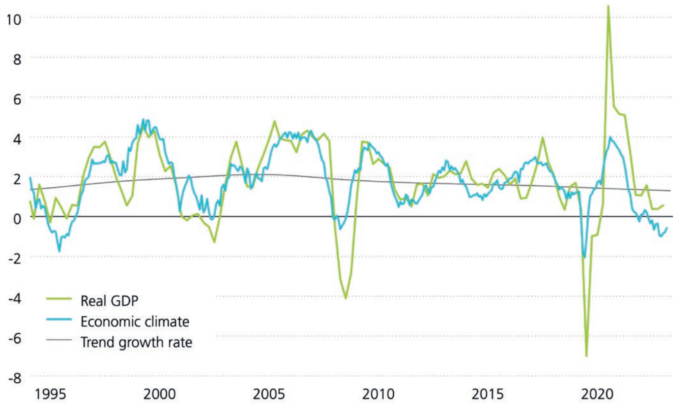
Source: Web Financial Group

Inflation remains a challenge

Inflation has differed regionally in recent months. In the eurozone, the weak economy enabled the core rate to be reduced significantly once again to 3.1 percent. By contrast, the fall in inflation in the USA has slowed considerably due to strong economic growth. The US core rate only dropped from 4.0 to 3.8 percent from October 2023 to February 2024. There is a risk that US inflation may stabilize at a high level if the economy remains strong. The situation is now more favourable in the eurozone. However, high pay growth rates and stubborn services inflation mean caution is advisable there, too. A major exception is Switzerland, where inflation recently fell to 1.2 percent.

Switzerland

Growth, sentiment and trend
In percent

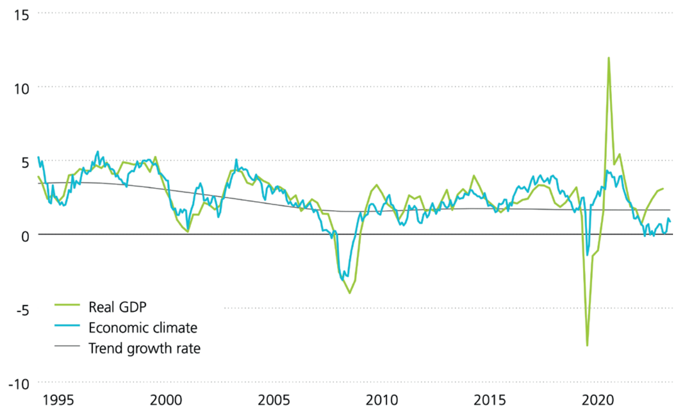


Source: Bloomberg

The figures on the Swiss economy published recently by the State Secretariat for Economic Affairs (SECO) show slight growth once again of 0.3 percent for the fourth quarter of 2023. Investment activity by companies remains alarmingly weak. Equipment investment fell significantly for the third time in a row and is now 6 percent lower than in the prior-year quarter. Only companies' increase in inventory and the sharp rise in state consumption had a supportive effect in the last quarter. For once, foreign trade did not make a positive contribution. In particular, the otherwise robust chemical and pharmaceutical sector suffered a decline in value creation. However, the recovery in tourism led to strong growth in the hospitality sector. The development of Swiss inflation remains encouraging at the moment. In February, overall inflation fell slightly again and stands at 1.2 percent. In light of the weak economy, the risk of another surge in inflation is low.

USA

Growth, sentiment and trend
In percent

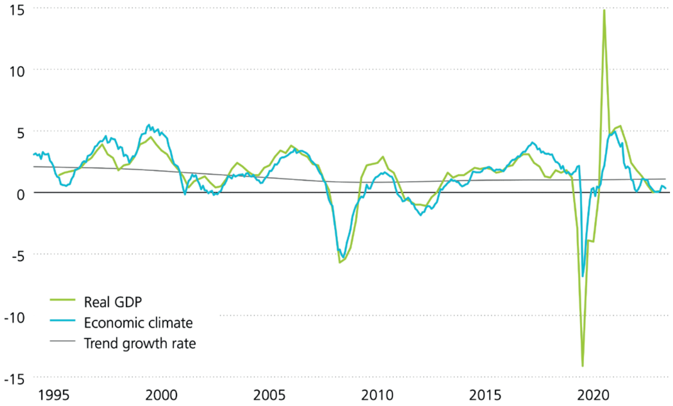


Source: Bloomberg

The economic data on the USA was mixed at the start of the year. After improving considerably in January, there was a clear downturn in business sentiment in February. The significant decline in the growth of income and spending among private households came as a surprise. The US Federal Reserve's short-term forecast on economic growth in the first quarter was revised downwards considerably in light of this situation. However, current growth continued to exceed the long-term trend level. The level of capacity utilization on the labour market is still very high. In this climate, significant progress on tackling inflation is not expected over the coming months. Core inflation has stagnated at 3.9 percent over recent months, which is double the US Federal Reserve's inflation target.

Eurozone

Growth, sentiment and trend
In percent

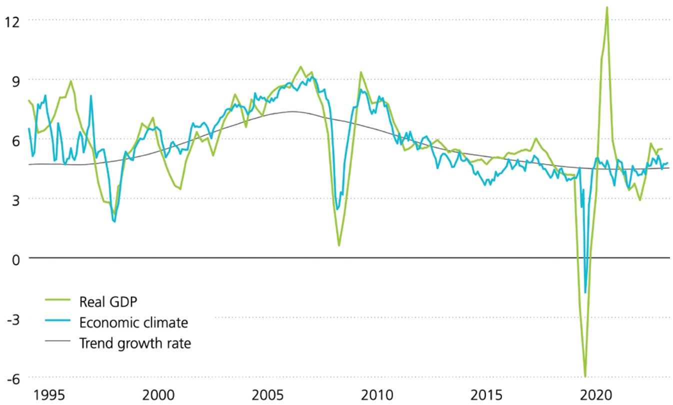


Source: Bloomberg

At the start of the year, there was widespread improvement in sentiment amongst European industrial companies for the first time since the recession in the manufacturing sector began. This trend continued in February. This means there are growing signs that the situation has bottomed out in the European industrial sector. The only exceptions were the German-speaking countries of Germany and Austria. In Germany in particular, industrial companies' assessment of their own business activities deteriorated significantly again. This suggests the recession in the eurozone's biggest economy may continue for the time being. A positive effect of the sluggish European economy is the weakening of inflation. The core rate of inflation has continually fallen over recent months and now stands at 3.1 percent. Even though persistent high inflation in the services sector and strong wage growth rates mean a note of caution is still advised, the situation has become much more favourable for the European Central Bank (ECB). However, it still has not reached its target.

Emerging markets

Growth, sentiment and trend
In percent



Source: Bloomberg

China's economy, the biggest amongst the emerging markets and the second largest in the world, remains weak. This is clearly illustrated by the inflation rate, which is strongly tied with economic performance. The inflation rate fell again in January and now stands at –0.8 percent. At 0.4 percent, the core rate is at an extremely low level. The targets recently published by the National People's Congress, which aim to achieve growth of 5 percent with inflation of 3 percent, appear overly optimistic given the situation. These goals may be achievable only with strong fiscal or monetary policy stimulation. In contrast, India's economy provided a positive surprise. The world's fifth largest economy has grown strongly by 8.4 percent over the past four quarters.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y [1] 2023Q3	0.4%	2.9%	0.1%	0.2%	1.7%	8.1%	2.0%	4.9%
GDP Y/Y [1] 2023Q4	0.6%	3.1%	0.1%	–0.2%	1.0%	8.4%	2.1%	5.2%
Economic climate [2]	↘	↘	→	↗	↗	↘	↘	↗
Trend growth [3]	1.3%	1.6%	0.8%	1.7%	1.1%	5.2%	1.6%	3.8%
Inflation	1.2%	3.2%	2.6%	4.0%	2.2%	5.1%	4.5%	0.7%
Key rates	1.75%	5.5%	4.5% [4]	5.25%	–0.1%	6.5%	11.25%	4.0%

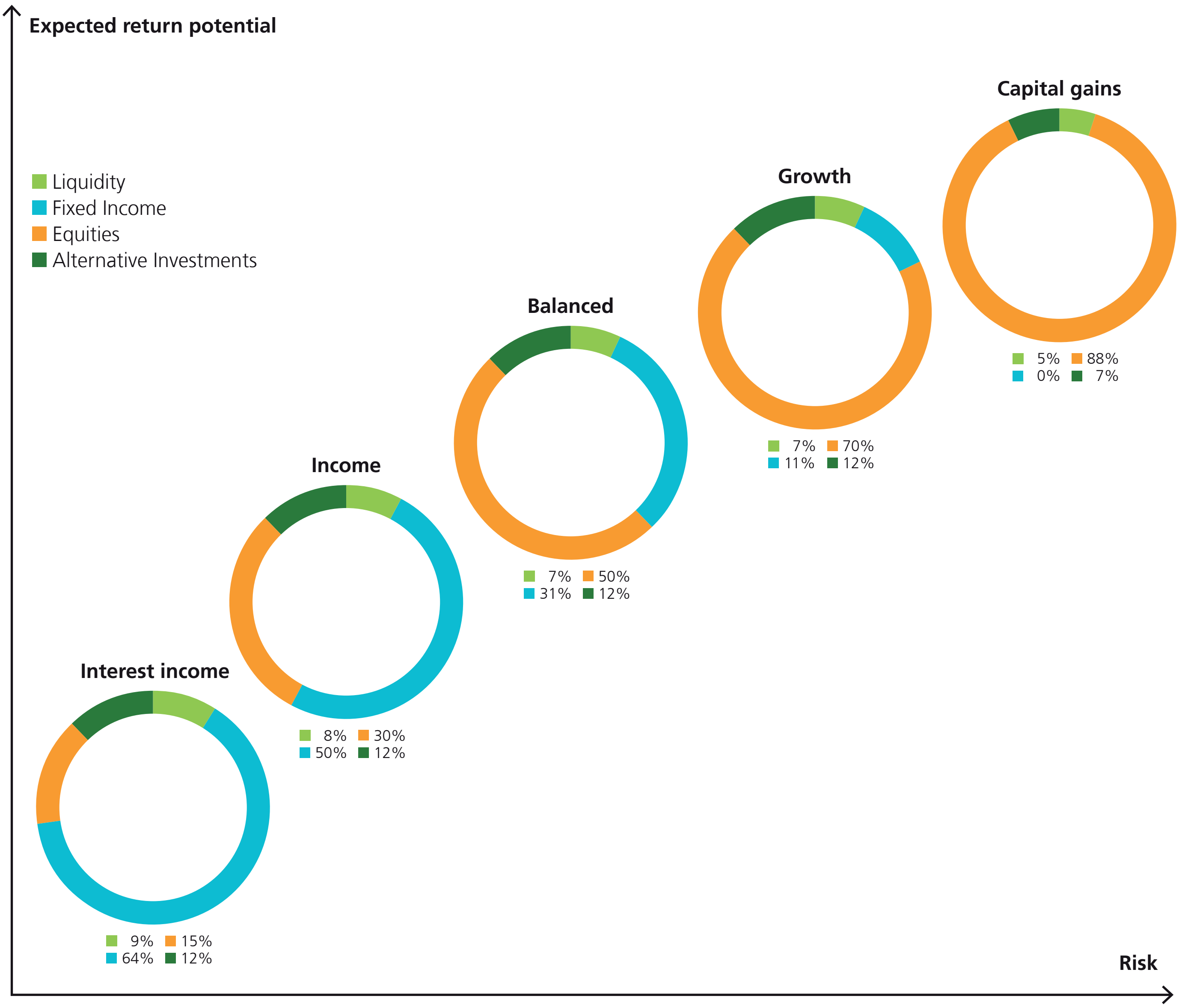
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 This is the ECB's main refinancing rate, the deposit rate is 0.5 percentage points lower.

Source: Bloomberg

Model portfolios Swiss focus

Increase

We are taking advantage of the emerging bottom in the global goods economy and are taking a neutral position in equities. We are doing this by buying emerging market equities because the overvaluation of the US dollar has increased since the beginning of the year and such deviations are not sustainable. In the past, emerging market equities have benefited in particular from a weakening US dollar. In addition, the Chinese economy, as the strongest driver of the emerging markets, should benefit from a recovery in the global goods economy and thus provide positive impetus for the equity markets. We are also protecting ourselves against a potential devaluation of the US dollar by hedging our existing gold positions against currency fluctuations. We are also closing our underweight position in Swiss property funds, as demand for Swiss real estate remains high.



Source: PostFinance Ltd

Legal information

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

Phone +41 848 888 900

www.postfinance.ch

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