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Review of Financial Markets Q3 2023

Financial markets delivered an unsatisfactory performance in the third quarter. Both bond and equity markets ended the quarter with negative returns. Although there has been progress on the inflation front, central banks remained on a restrictive course: the ECB raised the key interest rate again in two steps by a total of 0.5%, the US Federal Reserve by 0.25%. The Swiss National Bank left the key interest rate unchanged, as core inflation has moved within the targeted range. However, the statements of the central banks, especially the Fed, to raise interest rates further if necessary and, even more important, not to expect any easing in the near future, forced markets to readjust their views. With the US economy remaining surprisingly resilient despite fears of recession, markets gradually adapted towards a scenario of sustained high interest rates. While equity markets are still up for the year, bond market gains have evaporated for 2023.

The Bloomberg commodity index rose by around 3%, which can be explained primarily by the increase in oil prices. Saudi Arabia and Russia decided to continue their temporary production cuts until the end of the year, which led to a strong price reaction of almost 30%, despite doubtful economic prospects (China). Gold and silver lost value in the face of a strengthening dollar. The USD gained around 3% in trade-weighted terms and 2.2% against the Swiss franc. Although the SNB did not follow the ECB's interest rate hikes, the CHF gained almost 1% against the euro.

Most equity indices lost between 3% and 5% in the third quarter. Energy shares stood out positively with a plus of 11% in the wake of rising energy prices. Shares in the interest-sensitive utilities sector lost the most with 9%. Among the heavyweights, Microsoft and Apple lost more than average, while high-flyer Nvidia kept rising further.

Development trend until the end of the year
The long-awaited recession in the USA will not materialize this year. This has a lot to do with the consumer's ability and willingness to continue spending. Whether this change in consumer behavior as a result of the pandemic experience will last remains to be seen. In Europe, the economic situation is worse, but a severe recession seems unlikely at this point. The recently weak indicators for the manufacturing sector have improved. China has so far done little to combat an economic downturn. In any case, it would be surprising if growth were to pick up notably in the second half of the year.
Inflation trends are positive, although neither the US, the Eurozone, Japan nor the UK have reached their targets. In view of the suprisingly low economic

damage caused by interest rate policies in the West so far, key interest rates are likely to remain at or near current levels. With further progress on the inflation front, the situation on capital markets should ease somewhat, so that bond investments are expected to bring a positive investment result.

Equity markets appear to be fairly valued, but this does not necessarily apply to individual stocks. Earnings development and lower capital market interest rates should support the markets going forward. Seasonal patterns also indicate that the last months of the year show the best performances. The conditions are in place for an improving performance in the last quarter.

Wangs, October 2023

Chart 1: Performance Q3 2023 in USD for different asset classes (in %)

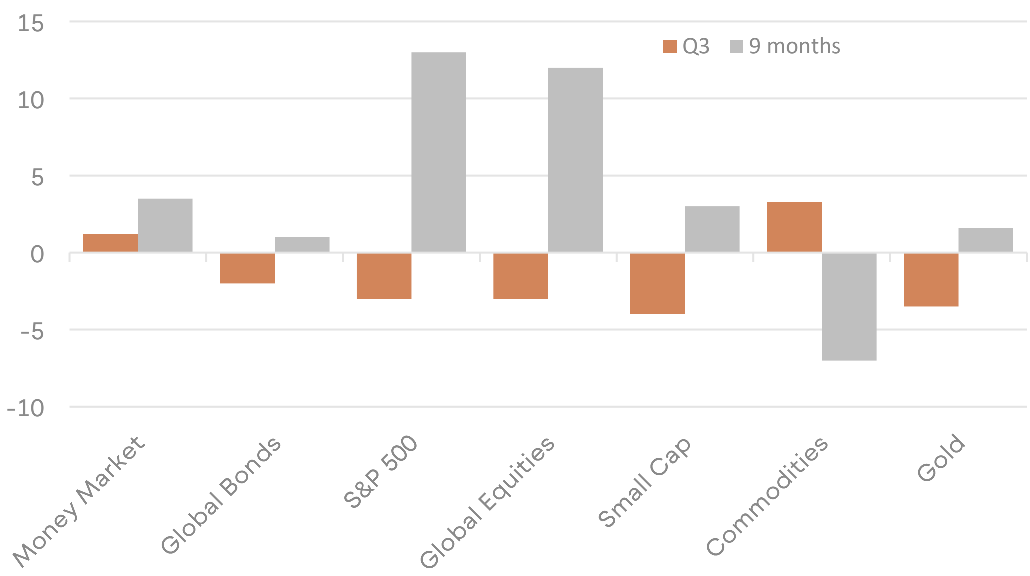

Chart 2: Performance Q3 2023 in local currency for selected stock indices (in %)