WYSS & PARTNER

Annual Review 2023 W&P Dynamic USD

During the first half of the year, financial markets were surprised by the resilience of the US economy despite an ongoing sea change in monetary policy. The second half of 2023 can be split into two distinct episodes: Major stock indices corrected by double digits from their highs and yields continued to rise well into October. Subsequently, November and December turned out to be very strong months, with both equity and bond markets rallying to close the year. The fund posted an overall strong year with a net performance of +13.67%

Chart 1: Performance W&P Dynamic USD (02.06.2020 – 31.12.2023*)

*From 02.06.2020 to 26.03.2021, the product was implemented through an actively managed certificate, issued by the Helvetic Bank, with the same rules and restrictions applying. The actively managed certificate was transferred into the fund on 26.03.2021 and subsequently terminated. Past performance is no reliable indicator or guarantee for future performance.

Central banks already reduced the pace of interest rate hikes to start the year, and short-term rates appear to have reached their peak during the second half. Inflation continued to cool down in western economies, although remaining well above central banks' targets. Meanwhile, labor markets remain fairly tight, with only isolated hints of a weaker job market being observed. Economic growth in the US was supported by a seemingly never-tiring consumer, spending what were likely to be the last savings stemming from the pandemic's extraordinary distributions. Across the Atlantic, Europe saw growth stagnating, with especially the German and British economies struggling, with only few bright spots elsewhere. The renewed escalation of violence in the middle east has returned focus to another geopolitical battleground, besides the ongoing war in Ukraine and other conflicts that have sprung up, such as in the Red Sea or between Venezuela and Guyana.

- To start the second half of 2023, stocks gave back some of the performance of the first half, with major indices correcting by double digits until the end of October. With markets being heavily oversold, equities rallied back, with mostly familiar names from the extended technology sector leading the rebound into year-end. 2023 has been a year of extraordinary divergence in terms of sector performances. While the technology sector and related companies posted gains well in excess of 40% for the year, others saw flat or negative performances (consumer staples, energy, health care, utilities). The overall theme for the year was undeniably the euphoria around artificial intelligence, turbocharging certain stocks to new highs. The fund was well positioned to profit from this trend with holdings in Nvidia, Microsoft or Alphabet. Other strong contributors include Cadence Design Systems, Lennar, or Chipotle Mexican Grill.

- For the time being, the ECB reached their peak rate in September, while the Fed saw the last increase in July, and the Swiss National Bank has not hiked rates since June. Still, longer-term rates increased significantly to start the second half of the year, with the US benchmark yield for 10 years reaching a 16-year high at 5%. This reversed for November and December, with yields ending the year at similar levels to where they were at half-time. Meanwhile, credit spreads continued to narrow ever so slightly, reflecting confidence in companies' abilities to continue servicing their debts. Overall, the fixed income part increased by mid-single digits over the year, contributing nicely to the overall performance.

- The position in gold performed strongly in 2023, supported by central bank buying as well as ongoing geopolitical uncertainty, despite slightly increasing real yields.

We believe that global economic growth will be below average for 2024, with recession risks most pronounced in the West, while China is battling initial signs of deflation. In Europe and the USA, inflation is likely to continue its path downwards, although the "last mile" of getting towards central banks' targets will turn out to be lengthy and more difficult to achieve. Should the economies in Europe and the US start to show troubling signs of more severe weakness, the focus is likely to shift away from fighting stubborn inflation towards a more balanced view including economic growth aspects. In any case, the long-anticipated peak in short-term interest rates appears to have arrived during the second half of 2023, and rhetoric from central banks increasingly turns towards discussing potential rate cuts – provided that inflation developments allow it.

A majority in financial markets appears to have gradually shifted from a widely anticipated recession towards a soft-landing as the most likely scenario. This is reflected in credit spreads as well as equity valuations and earnings expectations. We acknowledge that the prospects to achieve a soft landing have improved compared to a year ago, but see corporate profits at risk of disappointing investors, especially given valuations are not cheap in the USA. We focus on high quality companies in both equity and bond segments of our portfolio, while emphasizing structural growth segments such as automation, reorganization of supply chains, adoption of artificial intelligence and energy infrastructure.