WYSS & PARTNER

Review of Financial Markets Q1 2024

The stock markets continued their upswing in 2024, which began in November 2023 and has since lifted the global index by around 25%. This was mainly due to an increased risk appetite among investors, which also led to a reduction in risk premiums on bonds. Against the backdrop of slower progress in inflation, interest rate expectations shifted both in terms of magnitude and timing. While the first interest rate cut in the USA was expected in March at the beginning of the year and Fed funds were expected to fall by 150 basis points by the end of the year, the potential for a cut was halved over the course of the quarter.

The Swiss National Bank opened the round of interest rate cuts rather surprisingly and lowered the key interest rate by 25 basis points to 1.5%. Inflation in Switzerland has been developing within the target range for some time and the SNB expects it to remain there. The Swiss franc came under corresponding devaluation pressure, which was not inconvenient given the signs of economic weakness in industry.

The change in interest rate expectations helped the USD to generally strengthen, most noticeably against the yen and the Swiss franc at over 7% each. The isolated interest rate measure in Switzerland had the effect of weakening the euro by around 5%. Despite the strengthening of the dollar, gold and silver prices also trended upwards. Oil prices rose by around 15% for various reasons.

Contrary to expectations, yields on government bonds trended higher after a sharp fall at the end of 2023. The US yield curve shifted upwards by around 40 basis points. As risk premiums fell, the overall return on bond investments was essentially flat. The index for Swiss franc bonds posted a quarterly return of 0.25%.

The European share index rose surprisingly sharply by 13%, in stark contrast to the more muted economic picture for the European continent and the ECB's harsh monetary policy stance. In the USA, the "magnificent seven" continued to drive the narrative, but only three of them were outperforming, namely Nvidia, Meta and Amazon. At 2.4%, emerging markets lagged well behind the global index (9%). However, the increased risk appetite did not reach the world of small and medium-capitalized companies either, where the average increase in value remained at 4.5%. The best performing sectors were information technology (Nvidia, Microsoft) and communication services (Meta, Google), both up 12%. The real estate (Prologis) and utilities (NextEra, Iberdrola) sectors were among the weakest performers in Q1.

Trend - Momentum holds for now, but vulnerability increases

The US Federal Reserve is planning 3 interest rate cuts this year to reduce the key interest rate by a total of 0.75%. Very similar expectations are also being placed on British monetary policy. The interest rate markets expect the ECB to ease interest rates by a full per cent this year and Switzerland should reduce its interest rates again in two further steps of 0.25% each. The belief in a soft landing for the economy has become a widespread consensus. Accordingly, expectations for earnings growth are optimistic.
The economic indicators for China, Japan and the USA have improved recently, which apparently suggest almost ideal conditions for risk investments. However, we are not yet entirely convinced that the USA will survive the monetary policy hiking cycle without economic damage. Consumers are likely to have largely used up their additional savings and will be more cautious in their spending in the future. Conditions for buying residential property are still tense and the market for office property is in the doldrums. It is therefore conceivable that the economic picture could be clouded as the stock markets are no longer exactly cheap on average and the drivers of the recent bull markets in particular have demanding valuations. Consequently, the risk of setbacks will increase. The forthcoming interest rate cuts by the central banks are unlikely to boost the market as they are already largely factored into prices.

After the rise in the first quarter, the current interest rate level of bonds in USD appears to us to be at least as attractive as the equity markets in terms of risk/reward. However, the significantly lower credit risk premiums make a thorough assessment necessary when purchasing bonds.

Chart 1: Gross return Q1 2024 in USD for different asset classes (in %)

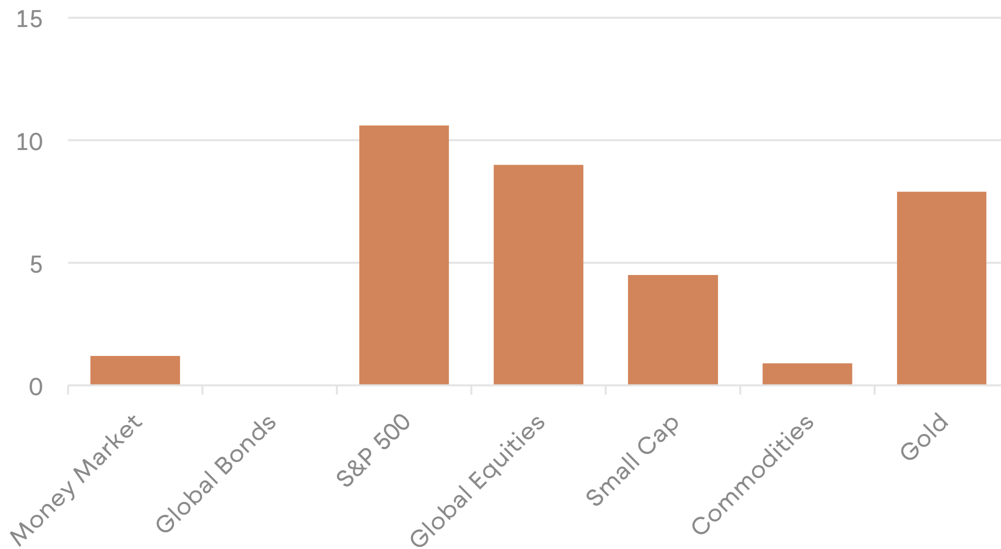
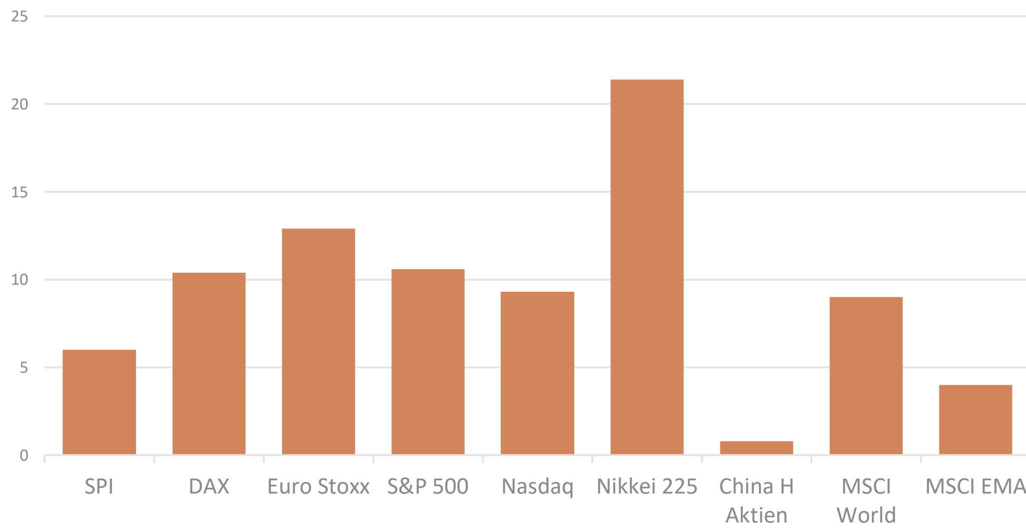


Chart 2: Performance Q1 2024 in local currency for selected stock indices (in %)



Wangs, 3 April 2024