

# Too much euphoria

Market commentary | 2nd Quarter 2023 | Swiss edition



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## Market review

Bank turbulence has not translated into broad financial market uncertainty thanks to the swift intervention of the US Federal Reserve and the last-minute debt ceiling deal. On the contrary, with mixed economic indicators and somewhat declining inflation, the US markets especially are painting a picture of a soft economic landing. In the second quarter, this was reflected in a renewed rise in long-

term interest rates and gains in the equity market. The Swiss equity market delivered slightly positive returns with fluctuations, and local capital market interest rates fell somewhat.

## Positioning

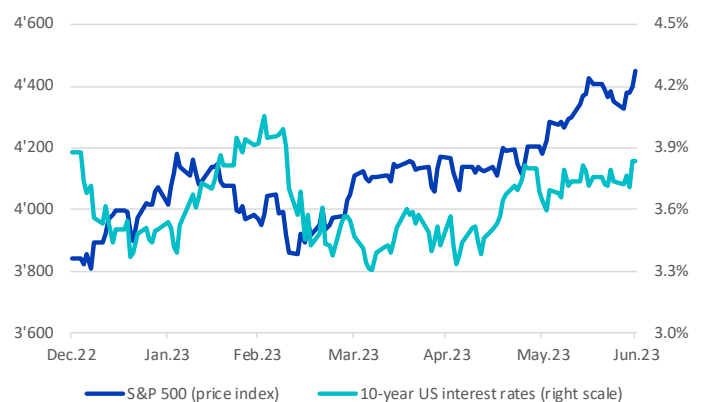
In the second quarter, we maintained our defensive basic positioning with an equity underweight, but made adjustments given the changing market dynamics. These include the regional equity market assessment. After the eurozone started the year brilliantly, rising interest rates, disappointing economic indicators and elevated valuations have diminished the attractiveness of the stock market there. We have therefore reduced our overweight successively. Despite falling headline inflation, the high and in some cases rising core European inflation rate is likely to force the ECB to raise interest rates further. In the meantime, we had profitably invested part of our European equity overweight in the British equity market. At the end of the quarter, we have now realised these profits. The momentum of UK equities has eased and the fresh rise in the core inflation rate is compelling the Bank of England to raise interest rates further. In addition, the strongly represented cyclical sectors of energy

and basic materials are sensitive to recession. In the US, the market-friendly scenario of a break in interest rate hikes also altered slightly with an expected interest rate hike in the third quarter. Further rising interest rates and the diminishing price momentum have prompted us to reduce our overweight in gold. Moreover, we have long benefited from the high premiums in the ILS sector. Given the above-average returns achieved, we have reduced our exposure slightly.

## Outlook

In our view, the current euphoria continues to contradict the anticipated economic deterioration, the massive rise in key interest rates, the further anticipated liquidity shortage and the elevated valuations. Sentiment indicators (pronounced euphoria) and technical indicators (lack of market breadth and depth) are also sending rather cautious signals. We therefore remain defensively positioned and have added consumer staples to our equity portfolio. Within bonds, we also focus on low credit risk and favour government bonds. In addition, we confirm the attractiveness of listed Swiss real estate funds.

## Interest rate and equity markets not yet on course for recession



Source: Zürcher Kantonalbank, Bloomberg

## Review of the financial markets

	31/12/2022	30/06/2023	Performance YTD 2023 in local currency (in %)	Performance YTD 2023 in CHF (in %)	
<b>Yields (in %)</b>	10-year Swiss Confederation bonds / Swiss Bond Index	1.62	0.96	3.6	3.6
	10-year German Federal Bonds / GER Govt Bond Index	2.57	2.39	1.7	0.4
	10-year US Treasuries / US Govt Bond Index	3.87	3.84	1.8	-1.4
<b>Equity markets</b>	Switzerland (SMI)	10,729	11,280	5.1	5.1
	Europe (Euro Stoxx 50)	3,794	4,399	16.0	14.5
	USA (S&P 500)	3,840	4,450	15.9	12.3
	Japan (Nikkei)	26,095	33,189	27.2	12.0
	Emerging Markets (MSCI Emerging Markets)	956	989	3.5	0.4
<b>Currencies</b>	EUR/CHF	0.990	0.977	*	-1.3
	USD/CHF	0.925	0.896	*	-3.1
	GBP/CHF	1.119	1.137	*	1.6
	EUR/USD	1.071	1.091	*	1.9
<b>Commodities/precious metals (in USD)</b>	Crude oil (Brent)	85.91	74.90	-12.8	-15.5
	Gold (per ounce)	1,824	1,919	5.2	1.9

Source: Bloomberg (figures are rounded); Bond performance is based on indices

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