Euphoria has faded away

Market commentary | Third quarter of 2023 | Swiss edition

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Market review

"Too much euphoria" was the title in the previous quarterly report. In the third quarter, this euphoria has now faded away. In a quarterly comparison, both the equity and bond markets recorded a negative performance with rising capital market interest rates. The US dollar and oil gained, while gold lost slightly in this environment. What's more, investors' hopes of imminent interest rate cuts were dashed after the Fed indicated at its recent meeting that interest rates would probably remain at a high level for a longer period of time.

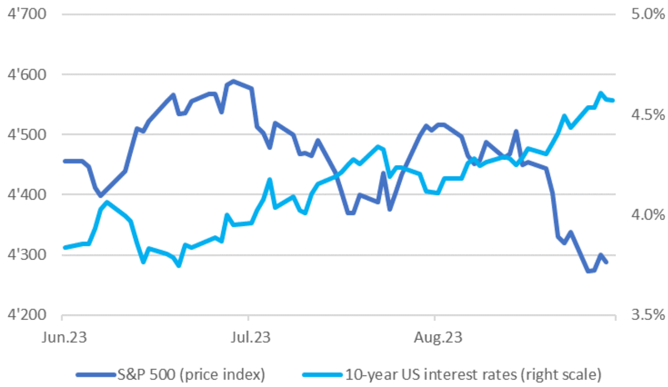
Positioning

In the third quarter, we have still maintained our fundamental defensive position with an underweight in equity. Three of our five main factors clearly showed a negative picture: the unattractive valuation (especially the low-risk premium), the economic outlook and the lack of market breadth. In addition, the monetary policy environment can be considered to be a potentially negative factor, especially after the recent central bank statements. Until now, the market has largely been driven by momentum. The current price correction has put an end to this market trend for the time being, especially as it has fallen below important technical benchmarks. Nevertheless, we have also actively managed our portfolios during the quarter. Given the renewed rise in inflation expectations, we have added inflation-linked bonds to the portfolio. In return, we have reduced our involvement on the equity side in emerging countries. However, emerging market bonds make a significant contribution to bond returns. We were also able to reflect the positive development of the US dollar against the Swiss franc with long USD positions in our portfolios. We now continue to assume that the USD will remain strong but will take a small portion of the gains.

Outlook

We continue to maintain a defensive approach for the start of autumn. None of the scenarios currently being discussed on the market supports equity. If the hoped-for slowdown in growth does not take place, interest rates will still have to be raised substantially. Furthermore, the opposite scenario, where interest rate cuts follow a slowdown in growth, is not currently priced into the markets. We are therefore holding a defensive position and favour money market instruments, government bonds, catastrophe bonds and listed Swiss real estate funds over equity and corporate bonds.

Chart: Losses in the equity and bond markets in the third quarter



Source: Zürcher Kantonalbank, Bloomberg

Review of the financial markets		31/12/2022	30/09/2023	Performance YTD 2023 in local currency	Performance YTD 2023 in CHF
Returns (%)	10-year Swiss Confederation bonds / Swiss Bond Index	1.62	1.10	3.6	3.6
	10-year German Federal Bonds / GER Govt Bond Index	2.57	2.84	-0.7	-2.9
	10-year US Treasuries / US Govt Bond Index	3.87	4.57	-1.3	-2.2
Equity markets	Switzerland (SMI)	10,729	10,964	2.2	2.2
	Europe, Euro Stoxx 50	3,794	4,175	10.0	7.6
	USA (S&P 500)	3,840	4,288	11.7	10.6
	Japan (Nikkei)	26,095	31,858	22.1	6.2
	Emerging Markets (MSCI Emerging Markets)	956	953	-0.4	-1.2
Currencies	EUR/CHF	0.990	0.968	*	-2.2
	USD/CHF	0.925	0.915	*	-1.0
	GBP/CHF	1.119	1.117	*	-0.2
	EUR/USD	1.071	1.057	*	-1.2
Commodities/precious metals	Crude oil (Brent)	85.91	95.31	10.9	9.8
	Gold (per ounce)	1,824	1,849	1.3	0.3

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

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