Zürcher Kantonalbank

A forgiving end to the year

Market commentary | 4th quarter of 2023 | Swiss edition

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Market review

An early year-end rally since November has reconciled the majority of investors in a highly volatile investment year 2023. The financial markets started this year with much euphoria, but lost considerable momentum in the second half of the year. A particular stress factor in the third quarter was the awaited (mild) recession, which would also have opened the doors to lower interest rates. However, with visibly declining inflation rates, the US Federal Reserve has recently raised expectations of interest rate cuts once again and thereby boosted the financial markets. In this environment, bonds and equities recorded significant gains while the US dollar and the euro fell against the Swiss franc.

Positioning

In view of the strong market momentum, we had already eased our fundamentally defensive positioning somewhat as a precaution and acquired further small- and mid-cap equities. At the end of the year, we made investments in NOK in view of the 25% depreciation of the Norwegian krone against the Swiss franc and in return realised profits in the Australian bond market.

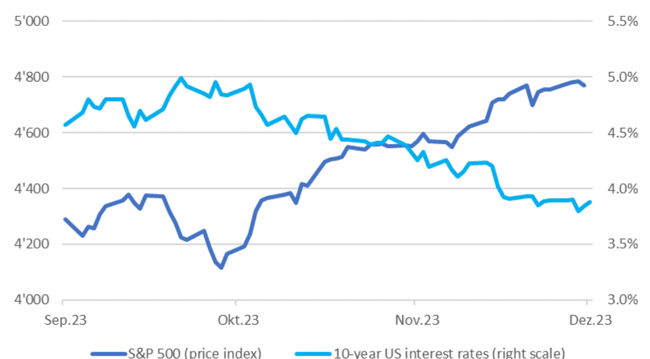
We were able to make positive steps throughout the year, for example, by adding insurance-linked strategies to the portfolios, while the predominantly cautious equity positioning and the selection of securities geared towards quality paid off in August and September in particular, but otherwise had a slowing effect. In the bond sector, we are currently relying more on government bonds that benefit from the current interest rate cut hopes and are not too exposed to the latent economic risk. Our tactical overweight in gold also paid off, supported by a weaker US dollar.

Outlook

The investment year 2024 is also likely to be challenging. In the first months of the new year, we expect a rather difficult market environment in which fears of recession may also materialise. We believe that US consumers in particular are likely to weaken. Decreased demand will then also be reflected in corporate earnings and the prospects for cyclically sensitive investments in both equities and bonds will diminish. However, the declining inflation allows the central banks to intervene to stabilise the economy with falling key interest rates.

In the first months of this year, the portfolios are likely to be characterised by a cautious positioning with an underweight in corporate bonds as well as positions in defensive equities (with a priority on Swiss equities). With falling key interest rates and cyclical rays of hope on the horizon, more risky exposures will once again enter the foreground. In addition to an increase in corporate bonds, this should also be accompanied by a higher equity allocation.

Chart: Encouraging interest rate expectations at the end of the year



Source: Zürcher Kantonalbank, Bloomberg

Review of the financial markets

		31.12.2022	31.12.2023	Performance 2023 in local currency	Performance 2023 in CHF
Returns (%)	10-year Swiss Confederation bonds / Swiss Bond Index	1.62	0.70	7.4	7.4
	10-year German Federal Bonds / GER Govt Bond Index	2.57	2.02	5.6	-0.9
	10-year US Treasuries / US Govt Bond Index	3.87	3.88	4.3	-5.1
Equity markets	Switzerland (SMI)	10'729	11'138	3.8	3.8
	Europe, Euro Stoxx 50	3'794	4'522	19.2	11.9
	USA (S&P 500)	3'840	4'770	24.2	13.1
	Japan (Nikkei)	26'095	33'464	28.2	8.6
	Emerging Markets (MSCI Emerging Markets)	956	1'024	7.0	-2.6
Currencies	EUR/CHF	0.99	0.93	*	-6.1
	USD/CHF	0.92	0.84	*	-9.0
	GBP/CHF	1.12	1.07	*	-4.2
	EUR/USD	1.07	1.10	*	3.1
Commodities/ precious metals (in USD)	Crude oil (Brent)	85.91	77.04	-10.3	-18.4
	Gold (per ounce)	1'824	2'063	13.1	2.9

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

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