

Impressive start to the year

Market Commentary | 1st Quarter 2024 | Switzerland Edition



Dr. Anja Hochberg, Head of
Multi-Asset-Solutions

Market review

The financial markets got off to a strong start in 2024. Global equities rose by over 15% (in CHF), while government bond prices fell slightly. Gold shone with an increase of 15% (in CHF). Currencies such as the euro, US dollar and pound sterling appreciated against the Swiss franc in the first quarter.

Positioning

The bull market that began last October continues. However, the drivers have changed. While at the end of the year it was primarily falling interest rates that ignited the price fireworks, better economic data and tolerable inflation rates lifted the stock market at the start of the year. A large part of the exaggerated interest rate cut fantasies have thus been priced out. It is also pleasing to note that market momentum has broadened thanks to a cyclically supported equity rally and more realistic expectations of interest rate cuts.

Despite ongoing skepticism about the sustainability of the positive economic news from the USA, we saw the possibility of a significant market overshoot at the beginning of the year. Based on this premise, we increased our equity allocation several times and were thus able to benefit from the momentum. Other winners in the portfolio include our gold positions, which are now clearly moving towards our price target of around USD 2,300 per ounce.

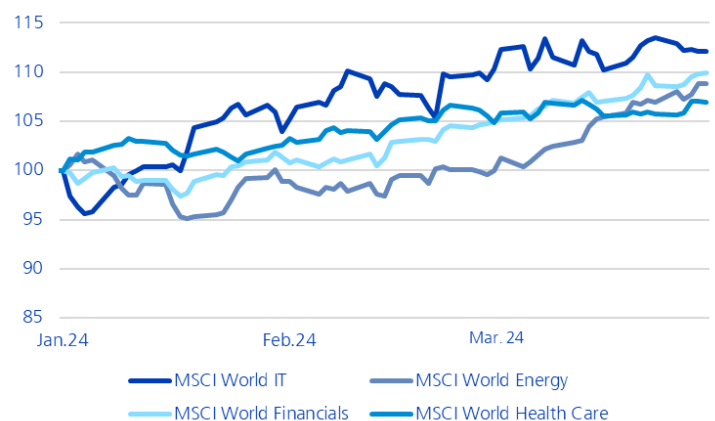
While the potential for interest rate cuts by major central banks diminished in the first quarter due to the improved economic news, the Swiss National Bank seized the opportunity and surprised everyone with a rate cut based on declining inflation

rates. As a result, the Swiss franc weakened noticeably. In principle, however, international government bonds are likely to benefit significantly more from interest rate cuts, albeit with a time lag. We therefore also intensified our exposure here in the first quarter. The regional differences in interest rate dynamics also allowed us to manage our currency exposure even more actively. The first quarter was also once again dominated by emerging market bonds, which scored with a high real interest rate advantage.

Outlook

The impressive rally at the beginning of the year with strong momentum is gradually reaching valuation and sentiment thresholds that call for caution. We are therefore retaining our slight equity overweight, but focusing on momentum strategies. We are also increasingly focusing on emerging markets, which still have catch-up potential. We remain underweight in corporate and Swiss franc bonds. In contrast, we prefer government bonds from Australia and the emerging markets. We are still overweight in alternative investments such as cat bonds, whose interest premium of 7.5% over government bonds is still historically high.

Graphic: Market breadth is increasing



Source: Zürcher Kantonalbank, Bloomberg

Review of the financial markets

		31.12.2023	31.03.2024	Performance Q1 in local currency	Performance Q1 in CHF
Returns (%)	10-year Swiss Confederation bonds / Swiss Bond Index	0.70	0.69	0.5	0.5
	10-year German Federal Bonds / GER Govt Bond Index	2.02	2.30	-1.3	3.4
	10-year US Treasuries / US Govt Bond Index	3.88	4.20	-1.0	6.1
Equity markets	Switzerland, SMI	11'138	11'730	5.3	5.3
	Europe, Euro Stoxx 50	4'521	5'083	12.4	17.8
	USA, S&P 500	4'770	5'254	10.2	18.0
	Japan, Nikkei	33'464	40'369	20.6	20.7
	Emerging Markets, MSCI Emerging Markets	1'024	1'043	1.9	9.5
Currencies	EUR/CHF	0.929	0.973	*	4.8
	USD/CHF	0.841	0.901	*	7.1
	GBP/CHF	1.072	1.137	*	6.1
	EUR/USD	1.104	1.079	*	-2.3
Commodities/precious metals, in USD	Crude oil, Brent	77.04	87.48	13.6	21.6
	Gold, Ounce	2'063	2'230	8.1	15.8

Source: Bloomberg, figures rounded: Performance of the bonds is based on indices

Want to know more? Further interesting articles on current topics as well as information on our extensive range can be found at www.zkb.ch/de/unternehmen/asset-management.

Legal notice

This document is for information and promotional purposes. It does not constitute an offer or a recommendation to acquire, hold or sell financial instruments or to purchase products or services, nor does it form the basis of any contract or obligation of any kind. The products and services described in this document are not available for US persons according to the pertinent regulations (in particular Regulation S of the US Securities Act of 1933). This document is intended for distribution in Switzerland and is not intended for investors in other countries. The document was prepared by Zürcher Kantonalbank with customary due diligence and may contain information from carefully selected third-party sources. However, Zürcher Kantonalbank does not provide any guarantee with regard to the correctness or completeness of the information the document contains and waives any liability for losses arising from its use. The recipient, if need be with the assistance of a consultant, is recommended to assess the information in consideration of their personal situation with regard to legal, regulatory, tax and other consequences that might be invoked. Zürcher Kantonalbank is entitled to change the information contained in this document without prior notice. Please note that any information regarding historical performance is not an indicator for current or future performance and that any performance data presented has been calculated without taking account of the costs and commissions charged at the time of the issue and redemption of fund units. Any estimates of future returns and risks contained in the document are provided solely for information purposes. Zürcher Kantonalbank assumes no guarantee in this respect. Every investment involves risks, especially fluctuations in value and income and possibly exchange rates. In terms of any sustainability information, please note that there is no generally accepted framework or list of factors in Switzerland that has to be considered in order to ensure the sustainability of investments. This document has not been drawn up by the "financial analysis" department as defined in the rules of the "Directives on the Independence of Financial Research" published by the Swiss Bankers Association, hence these rules do not apply to this document. Unless otherwise stated, the information in this document relates to Swisscanto funds domiciled in Switzerland ("Swisscanto (CH)") and/or Luxembourg ("Swisscanto (LU)") and/or investment groups of the Swisscanto Investment Foundations and/or asset management mandates at Zürcher Kantonalbank. The sole binding basis for purchasing Swisscanto funds is the current fund documents (e.g. fund agreements/contractual conditions, prospectuses, key investor information or basic information sheets as well as annual reports), which can be obtained from www.swisscanto.com Swisscanto Fund Management Company Ltd., Bahnhofstrasse 9, 8001 Zurich (also representative of the Luxembourg Swisscanto funds) or from all branch offices of Zürcher Kantonalbank. The paying agent for the Luxembourg Swisscanto funds in Switzerland is Zürcher Kantonalbank, Bahnhofstrasse 9, CH-8001 Zurich. The sole binding basis for investments in investment groups of the Swisscanto Investment Foundations is the statutes, regulations, investment guidelines and any prospectuses of the Swisscanto Investment Foundation or Swisscanto Investment Foundation Avant. These can be obtained from the Swisscanto Investment Foundations, Bahnhofstrasse 9, 8001 Zurich. © 2024 Zürcher Kantonalbank. All rights reserved