

Financial markets still upbeat

Market Commentary | 2nd Quarter 2024 | Switzerland Edition



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Market review

Financial markets continued to be characterised by an optimistic sentiment in the 2nd quarter, which was reflected in positive return contributions from equities and bonds. Commodities and gold also confirmed their earnings strength. After the Swiss franc had depreciated to almost parity against the euro in May, the uncertainty surrounding the French elections led to a renewed appreciation (see graph).

Positioning

The economy, inflation, geopolitics and European politics had a significant impact on financial market activity in the 2nd quarter. Global economic indicators continued their upward trend. Slightly disappointing figures in the US were offset by positive surprises in Europe. Given the persistence of core inflation, rapid interest rate cuts were therefore also priced out during the 2nd quarter. In our view, the market is being too critical here. We certainly see potential for rate cuts and therefore remain overweight in bonds. Our preference is for government bonds. The risk premium on corporate bonds is too low. We are also still overweight in equities. Fundamentally, the market looks well supported by earnings momentum outside the tech sector, although sentiment and positioning data call for caution. Even though we remain slightly overweight in equities, we have opted for a more defensive positioning by selling Nasdaq and momentum strategies and buying Swiss and European equities.

Outlook

In principle, we believe that the equity market has further potential, which should become increasingly evident in other sectors and regions as earnings momentum improves. Switzerland, our home market, is a good example. After significantly underperforming the global equity market, the Swiss market should outperform due to improving relative earnings momentum, lower valuation, attractive sector composition and high dividend yield. We therefore maintain our overweight in equities and bonds, with a focus on more defensive sectors/regions and government bonds. We have realised gains in alternative investments, especially ILS, and are waiting for new entry opportunities, e.g. in gold.

Uncertainty in European politics



Source: Zürcher Kantonalbank, Bloomberg

Review of the financial markets

		31.12.2023	28.06.2024	Performance YtD in local currency	Performance YtD in CHF
Returns (%)	10-year Swiss Confederation bonds / Swiss Bond Index	0.70	0.60	1.7	1.7
	10-year German Federal Bonds / GER Govt Bond Index	2.02	2.50	2.1	1.5
	10-year US Treasuries / US Govt Bond Index	3.88	4.40	0.8	5.9
Equity markets	Switzerland, SMI	11'138	11'994	7.7	7.7
	Europe, Euro Stoxx 50	4'521	4'894	8.2	12.2
	USA, S&P 500	4'770	5'460	14.5	22.3
	Japan, Nikkei	33'464	39'583	18.3	10.9
	Emerging Markets, MSCI Emerging Markets	1'024	1'086	6.1	13.6
Currencies	EUR/CHF	0.93	0.96	*	3.7
	USD/CHF	0.84	0.90	*	6.8
	GBP/CHF	1.07	1.14	*	6.0
	EUR/USD	1.10	1.07	*	3.0
Commodities/precious metals, in USD	Crude oil, Brent	77.04	86.41	12.2	19.8
	Gold, Ounce	2'063	2'327	12.8	20.5

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

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