Market Commentary
1st Quarter 2024

To the Moon?

Market and Economic Developments

Share prices experienced a consistent uptrend, achieving unprecedented levels in the first quarter of 2024. Notably, US indices, the technology sector, European blue-chips, and the Japanese equity market exhibited robust growth, mirroring the performance seen at the close of 2023.

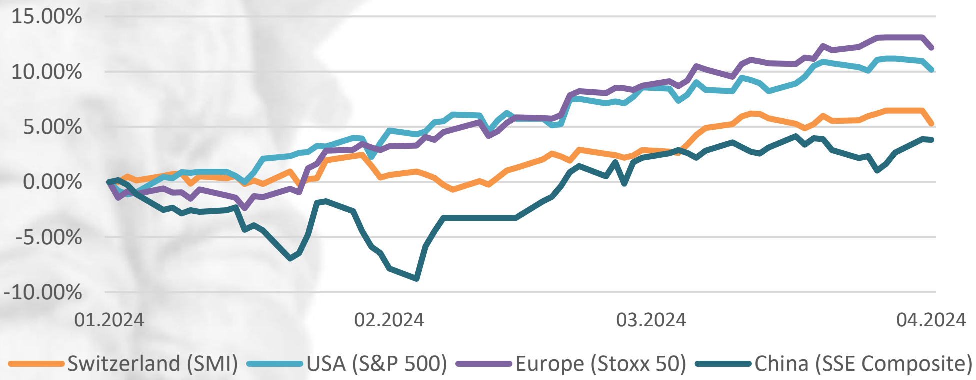
However, at the beginning of the year investors were cautious, as stable unemployment figures and the prospect of persistently high interest rates resulted in sideways trending markets. The Swiss equity market initially demonstrated resilience, but was subsequently overtaken by the US market, which reached new heights in the second half of the quarter despite elevated interest rates.

Positive annual financial statements bolstered share prices and the prevailing optimism among companies, particularly within the technology sector, further fueled the upswing. In the US, manager surveys across manufacturing and service sectors indicated sustained growth through the quarter's end. The situation in Switzerland was similarly positive, although the impact on the index was modest due to the weakening heavyweights Roche and Nestlé. Europe also emitted encouraging signals, despite varied economic conditions across nations. Germany in particular continues to suffer from a weak industry, which is reflected by reductions in production activity, new orders, and employment rates. However, robust domestic demand across Europe led to job creation and underpinned the surge in equity prices.

A look to the Far East also revealed a favorable scenario for investors, as the booming Japanese stock market and the Shanghai stock exchange, despite its previous year's weakness, posted gains in the first quarter of 2024.

The slower than expected decline of inflation meant that the markets also adjusted their interest rate expectations. As the quarter unfolded, a swift reversion to pre-pandemic interest rate levels seemed increasingly improbable. This led to a downward correction of bonds, resulting in losses on previously issued fixed income instruments.

Figure 1: World Indices in Local Currency



Source: Refinitiv, Datastream as of 02.04.2024

Key Takeaways

- Interest rate cuts seem to be within reach for this year, but the Fed and the ECB remain cautious in their statements.
- Due to persistently low inflation figures, the SNB moved ahead and lowered the key interest rate to 1.5%.
- In addition to interest rate cuts, the dominant theme on the investment markets has been artificial intelligence with the quarterly high-flyer Nvidia.
- Gold and Bitcoin hit new highs in the first quarter of 2024

Monetary Policy

In 2023, the financial discourse was dominated by the possibility of a "soft landing", a scenario where inflation drops below the central bank's 2% threshold without a corresponding contraction in economic output.

According to Figure 2, inflation rates in the three regions observed have fallen over the course of the year. In Switzerland, inflation has consistently remained below the Swiss National Bank's (SNB) target, despite counteracting base effects and persistently high real estate costs. Nevertheless, the SNB committee's decision in March to lower the key interest rate by 0.25% to 1.5% came as a surprise. This led to a modest uptick in the Swiss equity indices and a depreciation of the Swiss franc against the euro and the US dollar, reversing the long-standing appreciation trend.

An examination of the European market reveals a significant fall in inflation in recent months, illustrated in Figure 2 using exemplary data from Germany. However, the spectrum varies greatly, with inflation rates ranging from 0.6% in Denmark to 4.8% in Croatia in February 2024. Consequently, the European Central Bank (ECB) has refrained from reducing interest rates this year, signaling a cautious approach with special consideration of the labor market data. This led to a minor increase in yield to maturity for fixed income instruments, reflecting the expectation of prolonged higher interest rates.

In the US, inflation figures have not yet fallen below the 3% mark, as depicted in Figure 2. Housing expenses in particular continue to exert substantial pressure on personal budgets, while other economic sectors have also witnessed price increases exceeding 2%. Despite the current inflation stagnation, the significant decline from the peak of over 9% in June 2022 should not be overlooked. Nevertheless, the Federal Reserve (Fed) perceives the inflation level as too high, maintaining the key interest rate at 5.25 - 5.5%.

The first quarter also brought historic news from Japan, where the central bank raised interest rates for the first time in 17 years in March 2024. Japan has been grappling with the aftermath of the 1990s real estate bubble, an aging population, and deflationary pressures from inexpensive foreign imports. However, in 2023 the Japanese economy expanded, reflected in increased foreign investments and resulting in higher inflation rates. This signifies a significant shift in Japan's economic policy.

Market Data

Equity Markets Perf.	2024
SPI	4.78%
DAX	9.14%
Euro Stoxx 50	12.02%
S&P 500	9.54%
Nasdaq Composite	8.19%

Yield to Maturity of Government Bonds	in %
10Y Swiss Federal Bond	0.73%
10Y German Federal Bond	2.41%
10Y US Treasury	4.36%

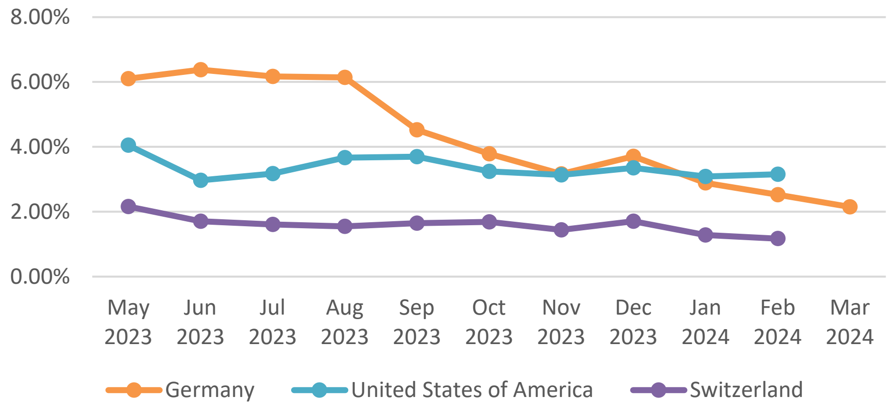
Gold (oz.) Perf.	2024
in CHF	17.76%
in EUR	12.22%
in USD	9.37%

Commodities Perf.	2024
Oil Brent	10.92%

Year-to-Date (YTD) performance in local currency, as of 02.04.2024

Source: Refinitiv, Datastream

Figure 2: Inflation rates over time (annualized rates)



Source: Refinitiv, Datastream as of 02.04.2024

Financial and Capital Markets

Equity markets stagnated at the beginning of the year, but the quarterly financial reports from tech firms were able to mobilize the market in the first Quarter of 2024. Nvidia, a California-based firm that specializes in the production of chips for training AI models, is particularly noteworthy. After a share price appreciation of over 200% in 2023, Nvidia sustained its growth trajectory into the first quarter of 2024. In January, the company first unveiled a new graphics chip, followed by the announcement of the "Blackwell" chip in March, projected to retail at up to USD 50'000 per unit. These product launches enabled Nvidia, under the leadership of Jensen Huang, to surpass the already high expectations for the annual report published in February 2024. This led to a rise in the share price, which lifted the entire American market. Despite the enthusiasm surrounding AI's potential across sectors, skepticism persists regarding Nvidia's elevated valuation, reinforced by intensifying competition in the chip market. Nevertheless, Nvidia's share price ascended to record levels, positioning it as the world's third most valuable company, trailing only Microsoft and Apple.

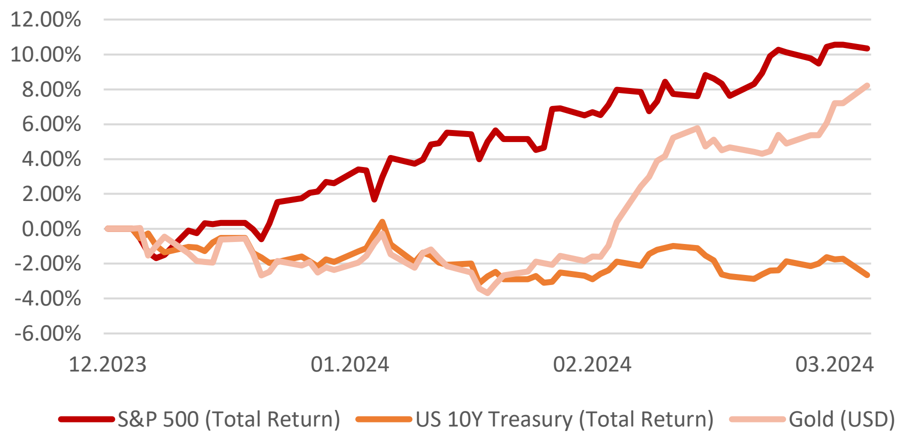
On the other side, Tesla, once highly praised, is now grappling with a falling stock price, attributable to a multitude of challenges. These include the disruption in the supply chains in the Red Sea and the interruption of production in Germany by environmental activists. Furthermore, the car manufacturer is experiencing the impact of heightened competition from traditional car manufacturers and emerging electric vehicle suppliers from Asia.

The Swiss stock market also posted gains in the first quarter of 2024, reflecting the positive sentiment captured in purchasing manager index, which remained in expansionary territory throughout the quarter. Cyclical stocks benefited in particular, partly due to the raise in new orders. By contrast, SMI heavyweights Roche and Nestlé experienced a share price decline in Q1 2024.

The rise in gold was also historic, repeatedly reaching new all-time highs over several days. This was partly driven by heightened demand from China, both from the National Bank and individuals purchasing the precious metal amidst a weakening domestic real estate sector. Despite the euphoria surrounding the new all-time high, risks should not be overlooked, as the price is heavily reliant on demand from a limited number of state buyers.

Alongside gold, Bitcoin also surpassed its all-time high. The cryptocurrency, which was made accessible to a broader public with the approval of the first ETF on the digital asset, surpassed the USD 70'000 threshold for the first time in March.

Figure 3: Total Return of the S&P 500, 10Y Treasury and Gold for the year 2024 (YTD)



Asset Allocation

Asset Class	Positioning
Cash	Overweight
Fixed Income	Underweight
Equity	Neutral
Gold	Strong Overweight

- We continue to hold liquidity, e.g. in money market funds, in order to be able to act dynamically in the event of corrections.
- The strong overweight in gold enabled us to strongly benefit from the price increase in the first quarter.
- The stronger dollar played into the hands of EUR and CHF investors who held foreign currency positions.
- Our position in equities is now at neutral, which allowed us to participate in the stock market upswing.
- Bonds remain interesting, but are underweighted in favor of liquidity.

Quelle: Refinitiv, Datastream as of 02.04.2024

Current Asset Allocation

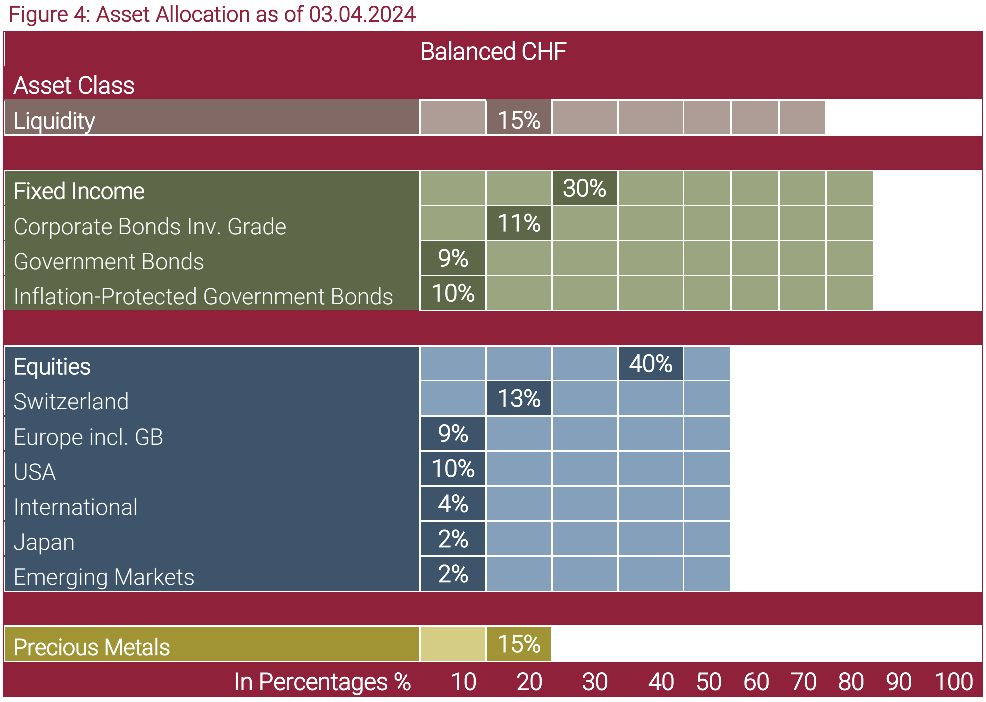
In the dynamic first quarter of 2024, the unwavering element has been our asset management allocation, grounded in time-tested methodologies and targeting long-term gains rather than chasing short-term market trends. We adhered to our allocation, rebalancing only certain over-weighted positions due to price surges. However, we intervened only in the face of significant deviations, temporarily tolerating slightly elevated weightings in certain asset classes like equities to maintain portfolio momentum. Consequently, we currently have a de facto neutral weighting in equities. By temporarily allowing a passive neutral weight while concurrently rebalancing selectively, we were able to strike an optimal balance between defensive positioning and profit maximization.

Despite a 10% lower neutral equity allocation compared to our competitors (40% in the balanced mandate versus the typical 50% at most other banks), we managed to keep pace in a strong bull market in the first quarter. This was primarily attributable to our emphasis on gold, which has seen substantial appreciation this year. At the same time, we benefited from the diversified exposure of our equity portfolio, which also enabled us to participate in the technology hype, as well as careful stock selection across our investment regions.

An examination of the various mandates reveals that the appreciation of the euro and the US dollar against the Swiss franc, partly due to the Swiss National Bank's monetary policy measures, particularly advantaged mandates managed in Swiss francs. As a result, the already substantial gains in the Europe and USA regions were further amplified by currency effects. While such currency effects were absent in USD and EUR mandates, they still benefited from a robust equity selection and a strong performance in gold.

Despite our more conservative approach, we successfully navigated the market uncertainties in the first quarter of 2024 and maintain a cautiously optimistic outlook for the remainder of the year, while preserving a healthy skepticism due to the elevated market valuations and the potential for associated price corrections.

Figure 4: Asset Allocation as of 03.04.2024



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