BELVÉDÈRE
Asset Management

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RISK-ON

MARKET INSIGHTS

RISK-ON

What a successful start! Investors can look back on a good first quarter with gains in most asset classes. This kind of performance was not generally expected, as there were a number of risks such as possible recessions, weakening economy in China, inflation that was still too high and – last but not least – equity valuations in the US that were already quite ambitious. However, market participants chose to ignore those and a risk-on attitude prevailed increasingly throughout the quarter. This was supported by the economy, which once again proved to be more robust than expected, particularly in the US. However, this also meant that inflation subsided only insignificantly. As a result, interest rates rose slightly, making bonds the only asset class to record losses in the first quarter.

Equities were among the big winners over the past three months. Several trends favoured the positive development. Firstly, the fantasy surrounding artificial intelligence continued, with US technology stocks scooping up most of the benefits. Secondly, the high demand for fat reduction pills led to significant gains for Eli Lilly (+33.7%) and Novo Nordisk (+27.2%). In the wake of this trend, Swiss pharmaceutical suppliers Lonza and Bachem moved significantly higher. Thirdly, many companies reported good results for 2023 and presented a confident outlook for 2024, often underpinned by announcing dividend increases. In Switzerland, these companies included Holcim, Schindler and Swissquote. Overall, the SPI gained 5.7%, while the S&P 500 and the Euro Stoxx rose by 10.4% and 10.1%, respectively.

For once, Swiss investors benefited from an additional tailwind for their foreign investments from currency exchange rates. Following a strengthening tendency throughout 2023, the Swiss franc started to depreciate at the turn of the year, which was further accelerated by the Swiss National Bank's unexpected interest rate cut on 21st March.

The gold rally in March was also unforeseen, notably given the higher interest rates. Purchases from China were cited as the reason for the surge. In addition to the Chinese central bank, there is also growing demand from private investors for the precious metal as a hedge. During the first quarter, the price of gold rose by 6.4%.

Our outlook: We generally assume that the environment for equity investments will remain positive, as historical data shows that if the S&P 500 rises by at least 8% in the first quarter of the year, there is a 94% probability for the market to continue, with price gains averaging 10% over the subsequent three quarters. Election years are no exception. Since 1950, the stock market rose in 83% of all cases.

Giorgio Saraco
CEO, Belvédère Asset Management

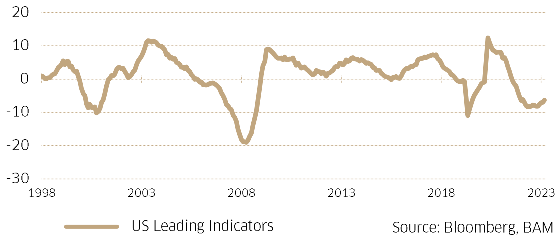
ECONOMY

There is currently a debate between optimists and pessimists regarding the US economy. While the former are already predicting a new upturn, the latter are still expecting to see a recession. In our view, the signs are pointing rather towards a new upturn. Banks are easing lending conditions and the index of leading economic indicators has turned upwards (see chart). This means there is a reasonable chance of GDP growth exceeding 2% in 2024.

The economy in the eurozone stagnated in the fourth quarter of last year. Yet, we hold on to our positive medium-term assessment for the eurozone. The increase in car sales of over 10% in both January and February, the slightly better purchasing managers' index in March (49.9 compared to 49.2 in February) and the rising Ifo economic index support this scenario.

The Chinese government has set a growth target of 5% for this year, which is generally deemed rather optimistic. As part of its industrial policy, China will be promoting the sectors where its core strengths are. The electric car industry is one example. In addition, welfare is to be expanded in the hope that this will bring down savings rates and release funds for private consumption. The important property market is still in a crisis, which means that the Chinese economy is unlikely to really gain momentum in the coming months.

USA: Turnaround of leading indicator index
(in % versus previous year)



Source: Bloomberg, BAM

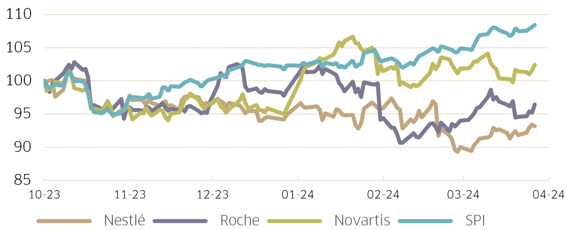
EQUITIES

Equity markets continued their upward trend in March at an undiminished pace. The SPI gained 3.7%, the Euro Stoxx 4.5% and the S&P 500 3.1%. The bull market is all the more surprising as it materialised despite the absence of falling interest rates.

A "buy the dip" mentality prevails in the market. This has benefited not only a few large technology stocks, but a wide range of companies and sectors. For example, more than half of the companies in the S&P 500 reached a new 52-week high. In Switzerland, the two heavyweights Roche (+1.8%) and Novartis (+0.5%) slowed down in March. However, Nestlé shares, which had fallen below CHF 92 by the end of February, regained some ground and rose 4.6% in the meantime. Some analysts believe that the organic growth target of 4% stated in the outlook might be conservative.

In principle, the environment should remain favourable for equity investments over the coming months. Nevertheless, sectors such as IT, where the movement is taking on speculative traits, are not immune to a correction. However, the market overall does not necessarily need to suffer, as there could be a sector rotation, with lagging value stocks benefiting, industrials for instance. At country level, the Swiss market has further potential to catch up, with the help of a weaker Swiss franc.

SPI and Swiss heavyweights
(Total return, indexed)



Source: Bloomberg, BAM

INTEREST RATES

The SNB's decision to cut the interest rate by 25 basis points was the highlight and biggest surprise in March. Thomas Jordan, who will be stepping down as SNB's chairman in autumn, beat the European Central Bank and the Federal Reserve to this step. The fall in inflation to 1.2% gave him the necessary room for manoeuvre. Although price pressure has eased in both the US and the eurozone, interest rate cuts will have to remain off the table as long as inflation is still above the respective target ranges. We do not expect to see a change there before June.

At the long end, interest rates in the US and the eurozone moved sideways. In Switzerland, 10-year interest rates fell by 10 basis points to 0.7%, which means that the lows of last December will soon be reached again. Elsewhere – notably in the US – things are not moving quite so fast. Given the decline in recession risks and the high budget deficits, investors might think of demanding a risk premium for holding long-term treasury bonds, which would lead to higher interest rates.

Asset class	Assessment	Comment
Bonds		
Government bonds		Inflation is still too high in the EU and the US, which means that interest rate cuts will not be an option before June at the earliest.
Corporate bonds		
Equities		
Switzerland		Equity markets closed the first quarter with a very positive performance. In our view, the green lights remain on. The improving economy will support earnings growth. Swiss and EU equities in particular are not yet too expensive.
Eurozone		
Great Britain		
US		
Emerging markets		
Real Estate		The environment for property investments remains good. Vacancy rates and debt levels are moderate and lower interest rates are an additional prop.
Switzerland		
Commodities		
Oil		The oil price is being supported by the fairly sound economy. After the sharp rise, the gold price might consolidate over the coming weeks.
Gold		

unattractive attractive Current assessment

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Imprint

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