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BODMER CETTIER

Zurich, 5.12.2023

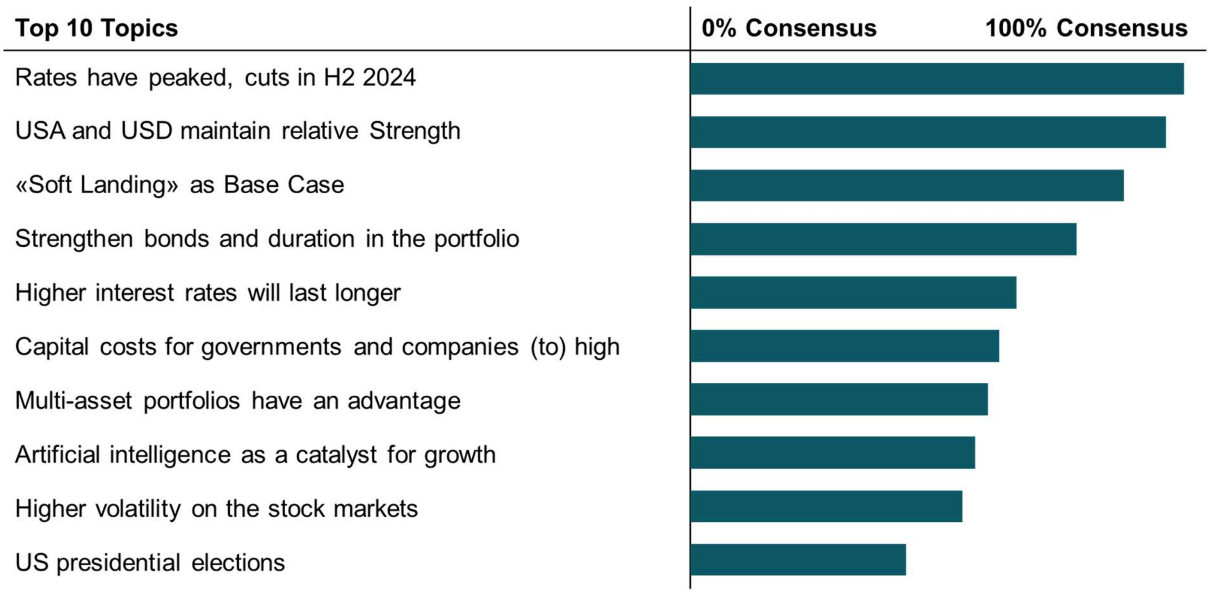
IC No. 35 – Outlook of the outlooks 2024

Every year, we summarise the annual outlooks of selected financial institutions and give our clients and partners what they can't buy: Time. In our IC No. 35 - "Outlook of the outlooks 2024", the topics shown graphically according to frequency and importance indicate the market consensus.

A consensus that has consolidated in recent months is that the central banks have reached the end of their interest rate hike cycle and that the probability of interest rate cuts in 2024 has increased significantly. The reaction of the markets in November reflects this. In addition, the US economy is also forecast to grow faster than the European economy in 2024 (2.2% vs. 1.0%). The consensus also sees the resilience of the US economy as the main reason for a "soft landing" of the US economy and the continued strength of the USD. It is also generally expected that the interest rate environment will remain elevated, keeping the cost of capital for governments, companies and private individuals at a higher level. However, the prevailing interest rate level is seen as healthy and stabilising without leading to major distortions.

In terms of asset allocation, a mix of bonds and equities is considered a robust strategy for different scenarios in 2024. Overall, the investment environment is settling at a level that prevailed before the negative interest rate phase - a normalisation that hardly anyone would have thought possible.

One question we ask ourselves every year when compiling the "Outlook of outlooks" is the following: If the consensus of market participants is as described above, are investors acting cyclically by positioning themselves in the same way? We believe that the reaction of the markets in November has already anticipated part of the development ("soft landing" as the base scenario, interest rates at their peak). Multi-asset portfolios are seen as favourable due to the flexible allocation options and diversification across asset classes. The topics that continue to dominate the technology sector are artificial intelligence and the associated potential applications. These topics are also familiar to the market but could continue to have a positive impact.

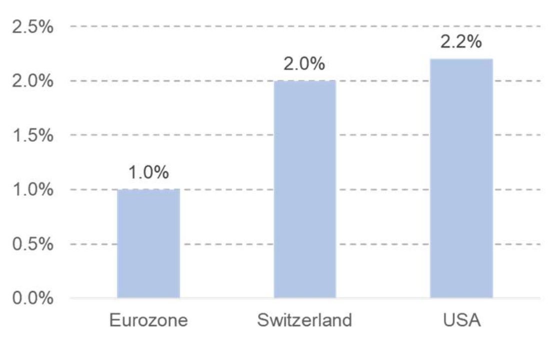


Soft Landing

The hotly debated question in investor circles in recent months has been whether the central banks can orchestrate a so-called "soft landing". For a long time, this was doubted, but in the meantime market participants increasingly agree that this could succeed. This applies in particular to the USA, where the economy is likely to continue to run "smoothly" at +2.2% in 2024 thanks to full employment and strong consumer spending. Switzerland also appears to be on the right track with growth of +2%. The problem child among the major economic areas is once again Europe: structural problems and a regionally incomprehensible energy policy (Germany) are contributing to uncertainty on the continent.

Running smoothly

Expected real GDP-Growth 2024

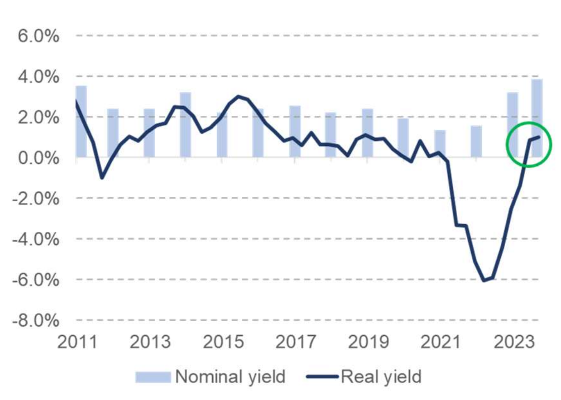


Source: Prio Partners, Bloomberg

The effects of the emerging trend reversal in relation to the interest rate cycle can be seen particularly clearly in the real yield on long-term bonds. The chart below shows the real yield on 30-year US government bonds. The trend reversal in 2023 can hardly be overlooked.

There is also something left on the long end

Nominal and real yield on 30-year US-Treasuries



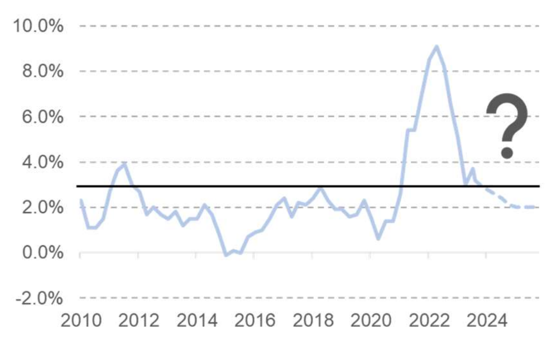
Source: Prio Partners, Bloomberg

Critical Thought

The most closely monitored factor on the financial markets is the development of inflation in the USA. It is currently expected to return to the long-term average. A deviation from this consensus (in the area of the question mark shown below) would send shockwaves through the financial system and hit equities and bonds. Accordingly, much depends on the further development of inflation figures.

Inflation on track?

Development of US-Inflation 2010 – 2025

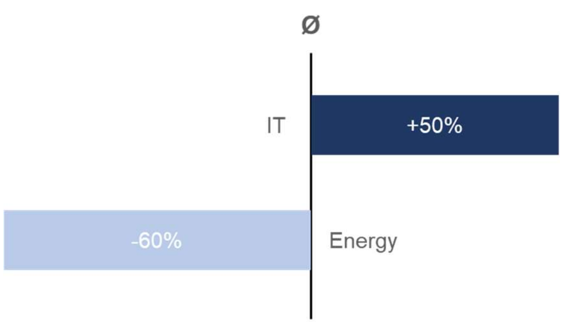


Source: Prio Partners, Bloomberg

If we want to estimate possible extreme points at sector level, we focus on two sectors in particular: the information technology sector is trading around 50% above the historical average of the last 13 years in terms of the price/earnings ratio (35 vs. 23), while the energy sector is trading around 60% below (8 vs. 21).

Valuation discrepancy at sector level

Deviation of sector P/E ratio from historical average



Source: Prio Partners, Bloomberg

In addition to sector allocation, as active investors we consider the specific selection of good companies to be crucial. The question of a company's strategic competitive advantages is particularly important. However, this goes without saying.

We wish you and your family a happy and relaxing festive season and peace for the world. Stay healthy, positive and invested.

Dr. Patrick Cettier