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.

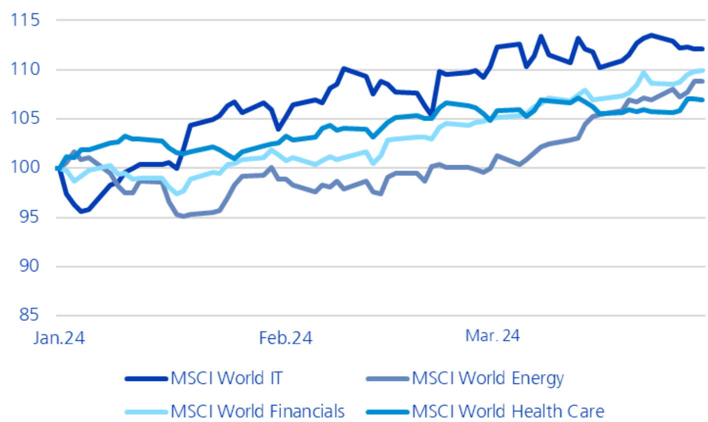
Despite ongoing skepticism about the sustainability of the positive economic news from the USA, we saw the possibility of a significant market overshoot at the beginning of the year. Based on this premise, we increased our equity allocation several times and were thus able to benefit from the momentum. 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.