PostFinance investment compass January 2025

Subdued start to the new year on the stock markets

Positioning Opportunities in Swiss real estate funds
Market overview Financial markets face headwinds
Economy The global economy remains divided
Model portfolios Modest start

PostFinance

Editorial

Subdued start to the new year on the stock markets

Stubbornly high inflation abroad, interest rate concerns, a mixed economic picture and growing political uncertainty have weighed on the financial markets in recent weeks. We continue to believe that with a good strategy and a little caution, investment in 2025 offers favourable prospects.

Philipp Merkt
Chief Investment Officer

A crisp, cold winter, plenty of snow, well-groomed pistes, panoramic views and sunshine in the mountains – what more could a skier's heart desire? Sometimes there are days that simply couldn't be better.

Things feel similar on the financial markets at the moment. Following the excellent performance of the last two years, our portfolios are in very good shape. In the early days of this new year, we can look forward to it with confidence. However, it's unsurprising that the markets are currently finding it difficult to move seamlessly on from last year's strong performance. Doing so would require already favourable expectations for the economy, corporate earnings, inflation and interest rates to actually be exceeded.

This isn't a complete surprise. We've been pointing out for months that there are clearly identifiable risks for the financial markets. For example, inflation in most industrial nations has barely declined in recent months. In the eurozone, core inflation – i.e. excluding the volatile components of food and energy – has been stagnant since last April. In the USA, too, inflation has been trending only sideways since the summer.

The stock markets' expectations of repeated further interest rate cuts by central banks, which were almost euphoric at times, have gone up in smoke. In turn, inflation expectations have risen around the world and capital market interest rates are also significantly higher than last autumn. It means any further major price rises on the equity markets look to be limited for the time being.

The political situation has also added to a growing sense of caution. Germany's election campaign is now under way and it's becoming increasingly clear that there's little chance of any major change in policy after the new elections at the end of February. And looming over everything is Donald Trump's inauguration on 20 January.

In short, the proverbial new year rally on the stock markets has failed to materialize up to now and a repeat of last year's strong returns seems quite unlikely at the moment. So where can we still find investment opportunities?

> "2024 was an exceptional year on the equity markets, so a cautious start to the new year is nothing unusual."

Given the extremely low returns on bonds, real estate investments have started to look more interesting again to us. With a distribution yield of 2 to 3 percent, their "interest" is significantly higher than the level of Swiss bonds. As the population grows and construction activity fails to keep pace, demand for living space appears almost impossible to satisfy, which is likely to limit any fall in prices as a result of interest rates rising again at some point. And ultimately, Swiss investments should actually benefit from the increased international risks. A stronger franc would lead to continued low interest rates, and, in turn, to high real estate valuations.

Positioning

Opportunities in Swiss real estate funds

High interest rates, inflation and uncertainties are weighing on the financial markets. We remain cautious and see opportunities in Swiss real estate funds.

The new year rally has yet to materialize. Instead, as the year begins, the uncertainties of 2024 continue to weigh on the markets. The focus here is primarily on inflation trends abroad, which are still extremely persistent. For several months, the decline in core inflation rates has been stagnating in both the eurozone and the USA. Nor does the latest data show any improvement: core rates are still well above the central banks' targets, currently standing at 2.7 percent in the eurozone and 3.3 percent in the USA.

"The rally to start the year off has yet to materialize. Rising interest rates, persistently high inflation and economic and political uncertainties are weighing on the financial markets. We remain cautious and see opportunities in Swiss real estate funds."

Rising capital market interest rates produce headwinds

Given this environment, it is hardly surprising that in December, the US Federal Reserve (Fed) dampened monetary policy expectations for 2025 despite a further cut in the policy rate. Nevertheless, many market participants were surprised by this move and significantly adjusted their expectations of further monetary easing. At the same time, capital market interest rates in the USA rose significantly. This increase was fuelled by the recent unexpectedly strong US labour market figures. Yields to maturity on 10-year US government bonds rose by over 30 basis points last month and currently stand at almost 4.8 percent. Interest rates also rose sharply in other western industrial nations and are now significantly higher than a month ago. This interest rate trend also produced headwinds on the stock markets.

Performance of asset classes

Asset class		**1M in CHF**	**YTD[1] in CHF**	**1M in LCY[2]**	**YTD[1] in LCY[2]**
Currencies	EUR	1.3%	0.0%	1.3%	0.0%
	USD	3.7%	0.4%	3.7%	0.4%
	JPY	–1.8%	–0.2%	–1.8%	–0.2%
Fixed Income	Switzerland	–1.0%	–0.8%	–1.0%	–0.8%
	World	0.4%	–0.4%	–3.1%	–0.8%
	Emerging markets	0.9%	0.1%	–2.7%	–0.3%
Equities	Switzerland	0.9%	2.3%	0.9%	2.3%
	World	0.4%	1.1%	–3.1%	0.7%
	USA	0.6%	1.1%	–3.0%	0.7%
	Eurozone	1.3%	1.7%	0.1%	1.7%
	United Kingdom	0.1%	0.2%	–0.5%	1.0%
	Japan	0.1%	–0.5%	2.0%	–0.3%
	Emerging markets	0.7%	0.0%	–2.9%	–0.4%
Alternative Investments	Swiss real estate	0.1%	0.0%	0.1%	0.0%
	Gold	4.6%	2.4%	0.8%	1.9%

[1] Year-to-date: Since year start
[2] Local currency

Data as of 8.1.2025
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Challenging conditions for the financial markets

Overall, the financial markets are facing a difficult situation as this year begins. Whether they're able to continue the strong performance of the last two years remains to be seen. Corporate earnings expectations are extremely high. At the same time, the economic outlook remains subdued: in Europe and China, economic recovery continues to stall, while the USA is likely to have passed its peak in the current economic cycle. And then there are growing political uncertainties. In the USA, the new government signals a change in policy, although it's unclear which direction it might take. At the same time, Europe's two biggest economies are struggling with political challenges. Against this backdrop, we remain cautious overall and favour defensive equity markets such as the Swiss stock market and value stocks over the equity markets in Europe and the USA.

Opportunity in Swiss real estate funds

We see opportunities only in exchange-listed Swiss real estate funds. Despite recent rises, interest rates in Switzerland remain extremely low. While the yield to maturity on 10-year Swiss government bonds is just 0.4 percent, real estate funds offer an attractive alternative with distribution yields of 2 to 3 percent. We also believe that given sustained high demand, the potential for setbacks in this asset class is limited, even if capital market interest rates rise. For this reason, we are slightly overweighted towards Swiss real estate funds.

Positioning relative to long term strategy: Swiss focus

Asset class		**TAA[1] old**	**TAA[1] new**	**underweighted[3]**		**neutral[3]**	**overweighted[3]**	
				– –	–		+	++
Liquidity	**Total**	**5.0%**	**4.0%**		■			
	CHF	1.0%	1.0%			■		
	Money market CHF	2.0%	1.0%	■				
	Money market JPY	2.0%	2.0%				■	
Fixed Income	**Total**	**33.0%**	**33.0%**			■		
	Switzerland	15.0%	15.0%		■			
	World[2]	10.0%	10.0%			■		
	Emerging markets[2]	6.0%	6.0%			■		
	US government bonds[2]	2.0%	2.0%				■	
Equities	**Total**	**50.0%**	**50.0%**			■		
	Switzerland	25.0%	25.0%				■	
	USA	10.0%	10.0%		■			
	Eurozone	2.0%	2.0%		■			
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets ex China	5.0%	5.0%			■		
	China	2.0%	2.0%			■		
	World Value	2.0%	2.0%				■	
Alternative Investments	**Total**	**12.0%**	**13.0%**				■	
	Swiss real estate	7.0%	8.0%				■	
	Gold[2]	5.0%	5.0%			■		

[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation
▭ Adjustment compared to last month

Fixed income

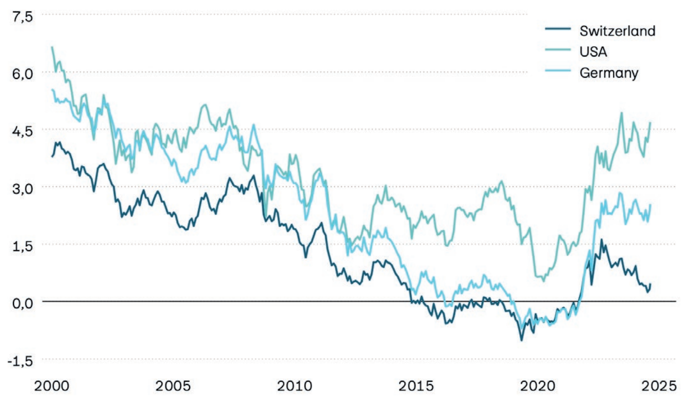
Following a significant easing in global long-term interest rates in November, a turnaround took place in December. The strongest rise was in yields to maturity on US government bonds, which are now back above 4.6 percentage points.

Indexed performance of government bonds in local currency
100 = 01.01.2025

Last month, government bonds worldwide gave back most of their November price gains – despite further policy rate cuts in the eurozone, Switzerland and the USA. The increase is probably mainly due to the interest rate decision taken by the US Federal Reserve (Fed). In mid-December, the Fed dampened expectations of any monetary easing until 2025, which is likely to have led to the significant losses on the bond markets.

Source: SIX, Bloomberg Barclays

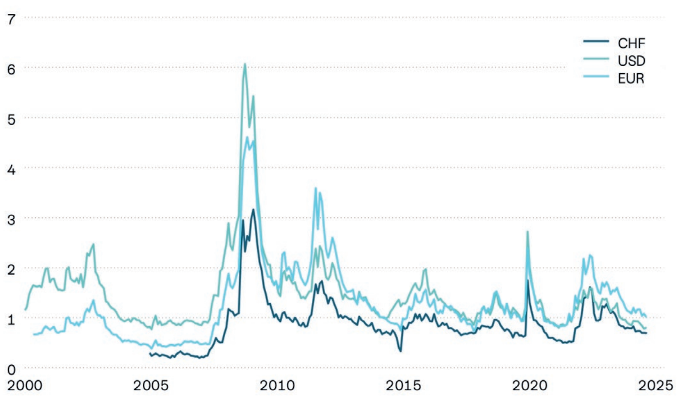
Trend in 10-year yields to maturity
In percent



After falling significantly since November, a turnaround in yields to maturity on government bonds began in mid-December. In particular, the US Federal Reserve's subdued expectations regarding monetary easing for 2025 are likely to have played a key role here. While 10-year yields to maturity in the USA were still at just under 4.2 percentage points at the beginning of December, they have now risen to over 4.6 percentage points. Yields to maturity on Swiss government bonds also rose significantly. These yields were still at around 20 basis points at the beginning of December, but have since recovered significantly, and, at around 40 basis points, are back at the level before the slump at the end of November.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



Credit spreads on corporate bonds remain low, and in some cases have fallen further. In particular, the increase in credit spreads on European corporate bonds last month proved to be only temporary. These remarkably low levels continue to suggest that fears of recession are currently not playing a role in the corporate bond market.

Source: Bloomberg Barclays

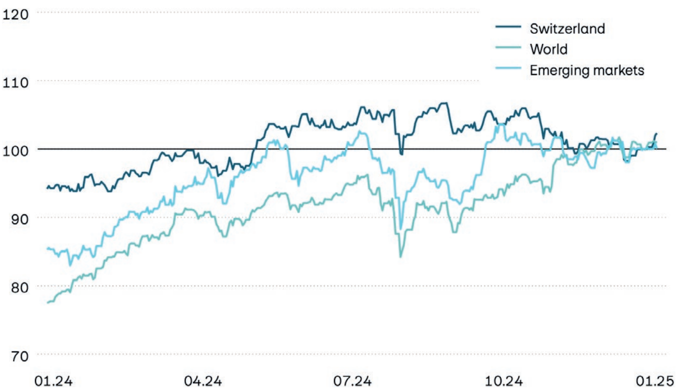
Market overview

Equities

Equity markets around the world faltered last month, with the US stock markets, in particular, showing weakness. Fears of inflation and diminishing expectations of interest rate cuts are likely to have contributed significantly to this trend.

Indexed stock market performance in Swiss francs

100 = 01.01.2025

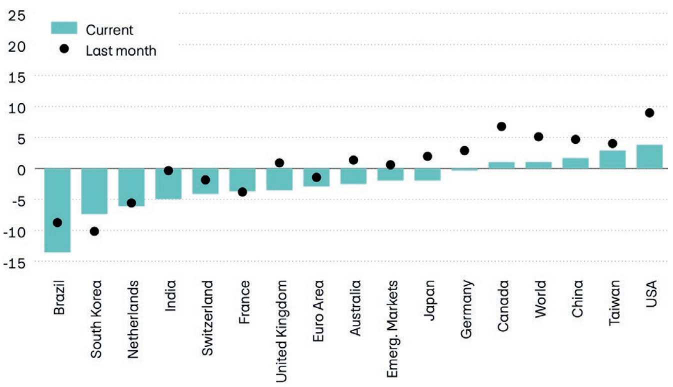


The US stock markets failed to maintain their positive mood following Donald Trump's election victory last month, and actually declined. At the beginning of December, US and global equity markets largely trended sideways, but came under substantial pressure in mid-December, in particular after the US Federal Reserve sharply reduced its outlook for interest rate cuts for 2025. The Swiss stock market, by contrast, was one of the few equity markets to buck this trend. Over the year as a whole, and despite some significant periods of weakness, the global equity markets still performed strongly last year.

Source: SIX, MSCI

Momentum of individual markets

In percent

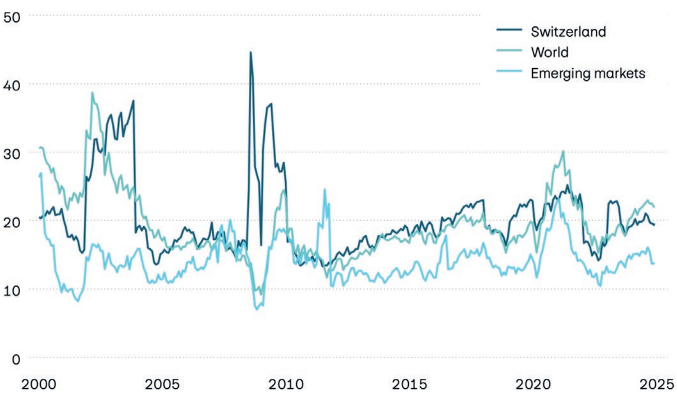


The loss of momentum on the stock markets last month was reflected in their performance, with almost all of them tailing off considerably. The only stock markets still showing positive momentum are the American or AI-driven markets such as Taiwan. By contrast, the clearly negative momentum on the Dutch equity market remains striking, with the share price of index heavyweight and semiconductor equipment manufacturer ASML falling by almost 30 percent in the second half of the year. Here, a decline in demand and concerns about the escalating chip dispute between the US and China are likely to have played a significant role.

Source: MSCI

Price/earnings ratio

P/E ratio



Price/earnings ratios (P/E ratios) fell slightly last month, likely primarily due to declining share prices. Most of the world's stock markets came under some pressure last month. In Switzerland, however, P/E ratios rose slightly on the back of the increase in share prices.

Source: SIX, MSCI

Market overview

Swiss real estate investments

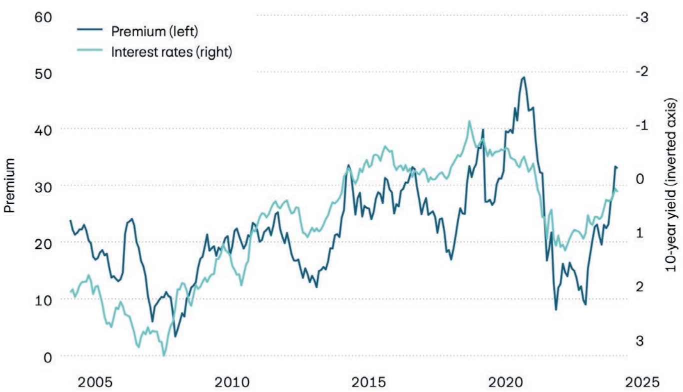
Following the sharp rise at the beginning of December, Swiss real estate funds trended sideways over the rest of the month.

Indexed performance of Swiss real estate funds
100 = 01.01.2025

In response to falling interest rates on the Swiss capital market, Swiss real estate funds performed particularly strongly at the end of November and beginning of December, but this trend has not continued since then. Since the beginning of December, Swiss real estate funds have trended sideways. The recovery in interest rates on the Swiss capital market is likely to have taken the wind out of the sails of the positive trend. In terms of the past year, however, a return of over 17 percent on real estate funds is still very impressive.

Source: SIX

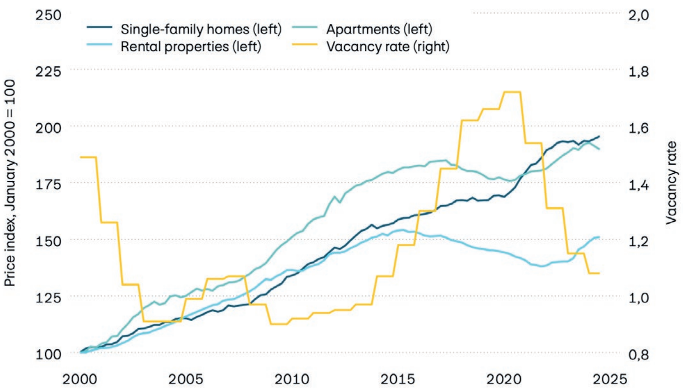
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



Due to the moderate performance of real estate funds, the premium that investors usually have to pay on the stock exchange versus the actual net asset value (NAV) of properties has hardly changed. By historical standards, these premiums are still high. Higher premiums have only been seen during periods of negative capital market interest rates.

Source: SIX

Vacancy rate and real estate prices
100 = January 2000 (left) and in percent (right)



Source: SNB, FSO

Prices for rental apartments continued to rise in the past quarter, although only slightly. By contrast, prices for single-family homes again saw a significant increase. This was likely fostered in part by the decline in long-term capital market interest rates and continued tight supply. Prices for owner-occupied apartments, on the other hand, continue to fall. This is probably still due to a wait-and-see attitude on the part of potential buyers, who are waiting for financing costs to fall further in response to expected monetary easing, and are therefore hesitant to buy. The latest vacancy rate figures, on the other hand, show an unchanged situation.

Find out more in our interest rate forecast for mortgages.

Currencies and cryptocurrencies

The US dollar posted further gains versus its most important trading partners. The Japanese yen, by contrast, reversed the previous month's upward trend.

The US dollar continued its upward trend against its most important trading partners last month. Market participants will likely have seen the statements of Fed Chairman Powell, pointing to stubborn US inflation and Trump's potentially inflationary policies at the year's last meeting, as being supportive of the US dollar. Over the course of the year, the US dollar, in turn, appreciated by 7 percent against both the euro and the Swiss franc.

The Japanese yen, by contrast, proved unable to continue its upward trend from November, losing over 4 percent against the US dollar over the course of the month. The yen is again currently trading above 158 to the US dollar, its lowest level since July 2024.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	0.94	0.91	0.84 – 0.98	Euro neutral
USD/CHF	0.91	0.79	0.69 – 0.90	USD neutral
GBP/CHF	1.13	1.20	1.04 – 1.37	Pound neutral
JPY/CHF	0.58	0.88	0.72 – 1.04	Yen undervalued
SEK/CHF	8.17	10.04	8.98 – 11.10	Krona undervalued
NOK/CHF	7.99	10.54	9.31 – 11.77	Krona undervalued
EUR/USD	1.03	1.15	1.00 – 1.30	Euro neutral
USD/JPY	158.36	90.49	69.68 – 111.30	Yen undervalued
USD/CNY	7.33	6.21	5.74 – 6.67	Renmimbi undervalued

Cryptocurrency	USD rate	YTD in USD[3]	Annual high	Annual low
Bitcoin	95'065	2%	102'280	93'381
Ethereum	3'330	0%	3'685	3'330

1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Year-to-date: Since year start

Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

The gold price, measured in Swiss francs, returned to its annual highs at the end of the year.

Indexed performance of gold in Swiss francs
100 = 01.01.2025

After a slight correction of the gold price in Swiss francs in mid-December, it recovered to a high of 2,400 francs per troy ounce by the end of the year. The weakness of the Swiss franc against the US dollar is likely to have been a key factor behind the monthly return of over 3 percent. The gold price in US dollars remained unchanged over the course of the month. The annual return on gold, measured in Swiss francs, therefore stands at over 38 percent.

Source: Allfunds Tech Solutions

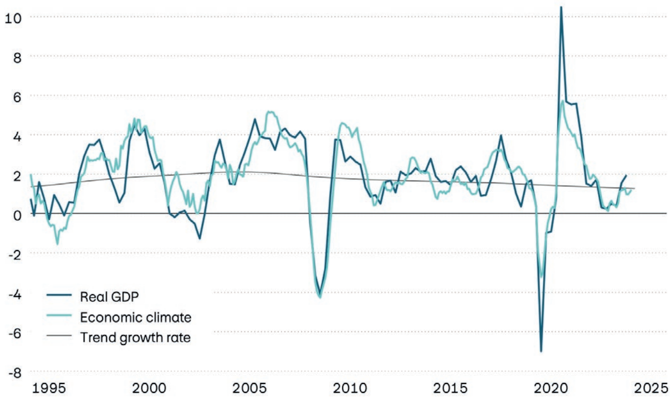
Economy

The global economy remains divided

The global economy remains divided. Whereas the USA is posting declining, yet still good growth numbers, China remains in recession despite slightly better figures, and Europe is facing the prospect of further stagnation. The latter is mainly due to Germany and its weak economy, which is also having a negative impact on Switzerland. At the same time, the decline in inflation over the past two years appears to have come to a halt. Inflation in the USA, Europe, the UK and Japan, is in some cases well above the targets set by the respective central banks.

Switzerland

Growth, sentiment and trend
In percent

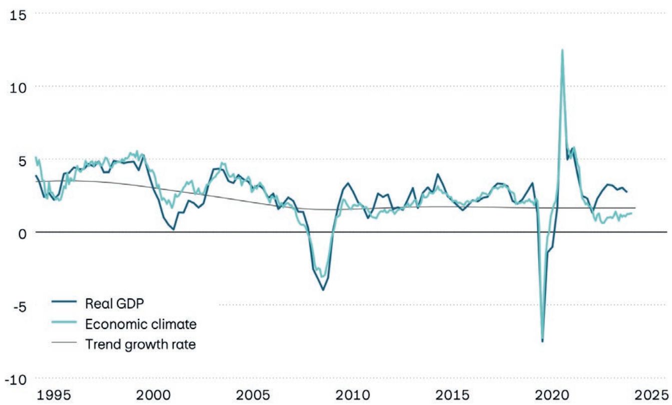


The economic situation in Switzerland continues to be shaped by major contrasts. While industry continues to suffer from weak global demand for goods and building construction is making little if any headway, providers in the retail and food services sectors are reporting positive numbers. The only important exception within industry remains the pharma sector, which continues to account for a significant share of Swiss growth. As regards inflation, Switzerland is one of the few industrial nations blessed with price stability. Whereas domestic inflation remains above 1 percent, prices for imported goods in particular are pushing the overall rate of inflation well below 1 percent. Given the moderate economic situation, this seems low, which helps explain the SNB's unusually sharp interest rate cut of half a percentage point in December.

Source: Bloomberg

USA

Growth, sentiment and trend
In percent

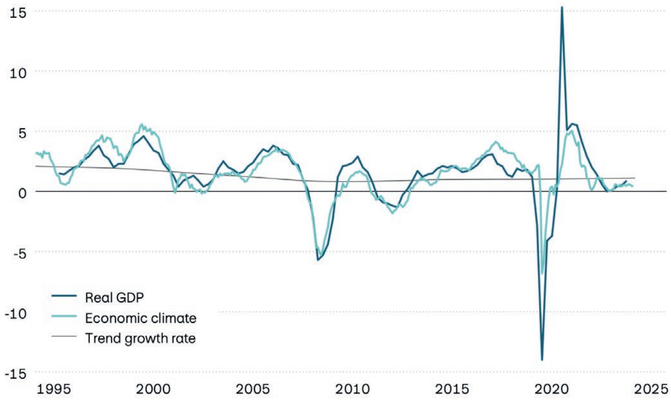


The US economy continues to be the real engine of growth in the global economy. The main driver of the economy is still private consumption. The mood among companies also improved again somewhat last month. However, in the USA as elsewhere, industry is lagging behind the general economic trend. The inflation trend, on the other hand, is disappointing. Hovering around 3.2 percent, core inflation in the US has been trending sideways for months now. Inflation therefore remains well above the target set by the US Federal Reserve (Fed). Given that wages – the most important cost factor for companies – are currently rising faster than inflation, there is a risk that overly high inflation will set in.

Source: Bloomberg

Eurozone

Growth, sentiment and trend
In percent

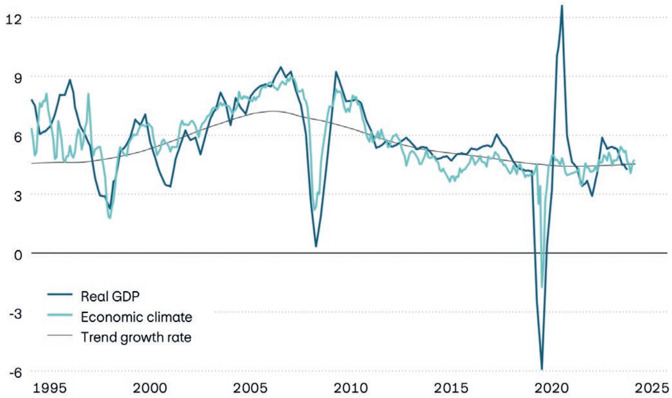


Europe continues to be disappointing in economic terms. The mood among companies and consumers has again deteriorated. Industry in particular is suffering from the twin burden of a weak global goods cycle and structurally higher energy prices. At the same time, the political situation is fraught, with new elections in Germany and an ongoing crisis in French politics. Nor was there any good news on inflation last month. For the fourth time in a row, core inflation stood at 2.7 percent, while the overall rate of inflation actually rose. In light of these developments, the credibility of the European Central Bank (ECB) with its latest announcement of interest rate changes is gradually beginning to suffer.

Source: Bloomberg

Emerging markets

Growth, sentiment and trend
In percent



Among the major emerging markets, there has been a general trend towards a weakening economy in recent quarters. If we combine the national leading indicators into an overall index, last month saw the first signs of a reversal in this trend. This is undoubtedly due in part to a continued moderate improvement in Chinese data in December. China still faces major problems, with its real estate market and construction investments in particular continuing to be a cause for concern. However, a slight recovery in core inflation, now at 0.4 percent, does suggest that consumption has also stabilized. It remains to be seen how US President Trump's first official acts will affect the mood and economy in the People's Republic.

Source: Bloomberg

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2024Q2	1.5%	3.0%	0.5%	0.7%	–0.9%	6.7%	2.8%	4.7%
GDP Y/Y[1] 2024Q3	2.0%	2.7%	1.0%	0.9%	0.5%	5.4%	3.5%	4.6%
Economic climate[2]	↘	↘	→	↘	↗	↗	↘	↗
Trend growth[3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.2%	1.7%	3.7%
Inflation	0.6%	2.9%	2.4%	2.5%	2.9%	5.2%	4.9%	0.1%
Key rates	0.5%	4.5%	3.15%[4]	4.75%	0.25%	6.5%	12.25%	3.1%

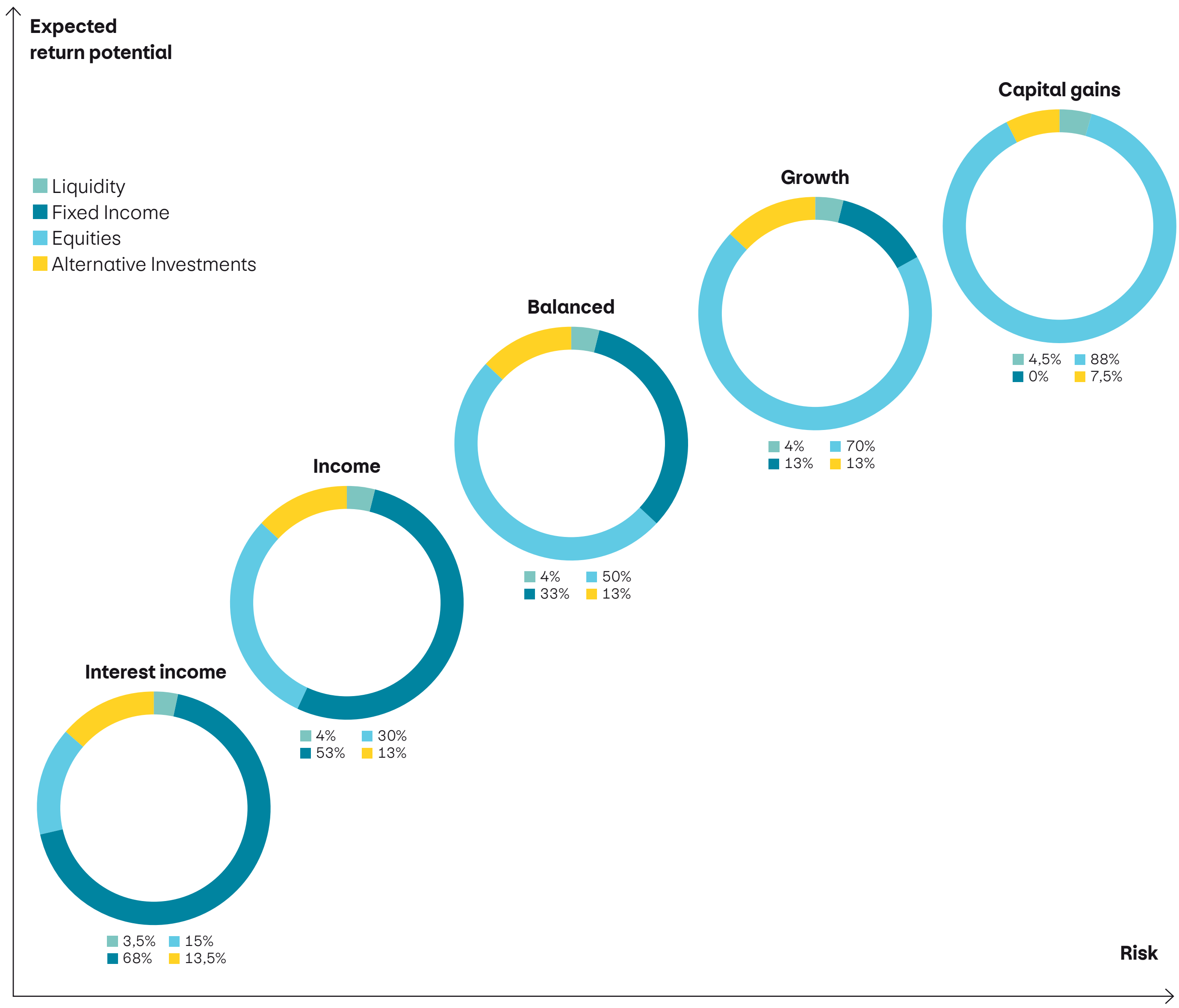
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 This is the ECB's main refinancing rate, the deposit rate is 0.15 percentage points lower.

Source: Bloomberg

Model portfolios Swiss focus

Modest start

The year got off to a modest start overall. Persistently high inflation rates abroad, concerns about interest rate developments, ongoing uneven economic prospects and political uncertainties weighed on the financial markets. We therefore remain cautious. We currently see opportunities primarily in listed Swiss real estate funds. With a dividend yield of 2% to 3%, these are attractive in view of the very low capital market rates in Switzerland. Furthermore, the persistently high demand for real estate should limit the risk of a setback. We are therefore slightly overweight in Swiss real estate funds.



Source: PostFinance Ltd

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