PostFinance investment compass November 2024

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PostFinance

Editorial

Keeping a sense of perspective

With the election of Donald Trump, optimism has returned to the US stock market. While harnessing the positive momentum, we're keeping a close eye on the medium and long-term risks.

Philipp Merkt
Chief Investment Officer

"The fog's hangin' over the runway" ("U dr Näbu chläbt über dr Startbahn"). Could there be a more apt description of the dreary weather that's gripped large parts of Switzerland for weeks now than the familiar line from Patent Ochsner's song? According to official statistics, there was less sunshine this October than there has been for ten years. If you're looking to escape the drab monotony, the only thing left is to flee to the mountains or, as the hit song "Bälpmoos" has it, to faraway places and the beckoning sun.

The feeling of being trapped in a diffuse grey with no clear contours is not only pervading our everyday lives, it also reflects the current global political situation. For many, Donald Trump's election as US President has contributed significantly to this in recent weeks. For the financial markets, the most important question is which of his numerous economic policy plans will he actually implement, and to what extent. No doubt some have been put together more as a threat, with a view to getting a good deal.

Trump's list of promises to voters couldn't be much longer. It includes lower taxes, less regulation, less bureaucracy, a smaller state, less inflation and lower interest rates. In return, he wants more entrepreneurship, more growth and more "America".

These ideas sound promising and were welcomed by the US stock markets. The leading US stock indices rose by several percentage points after the election. These gains have since declined somewhat, but performance since the election is still clearly positive.

It does look likely that Trump's promises, particularly on deregulation and massive tax cuts, will bolster high growth, not only for the US economy but also the stock market. We can assume this as the signs of US economic weakness have not intensified in recent months. We're building up our allocation to the US market to benefit from this brighter short-term economic outlook and positive market momentum.

> "Trump's economic policy plans aim to achieve short-term success, but entail higher long-term risks."

But we're still fully aware of the numerous contradictions and risks in Trump's election programme. There are few spending cuts to offset the tax cuts mentioned. This is set to massively increase government debt in the coming years and is also likely to have an impact on the US stock market. Capital market interest rates have already risen significantly in the past two weeks.

Meanwhile, there's no sign of any sustained fall in inflation given the huge fiscal policy stimulus measures and comprehensive trade tariffs announced, which will massively increase the cost of imports. And the isolation of the US economy from international competition is hardly likely to boost competitiveness and productivity.

It means we remain cautious about the US market despite the slight increase in the allocation to US equities and are keeping our allocation slightly below the long-term average. We'll also continue to closely analyse market dynamics and adjust our risk appetite once the fog begins to clear.

Positioning

Skyrocketing prices

The positive trend on the US stock markets may continue in the short term. We are therefore reducing our underweighted position in US equities.

The surprisingly clear re-election of Donald Trump as US President energized the financial markets, which had been quite subdued since October. In fact, prices on the US stock markets actually skyrocketed. Sectors and companies that especially stand to benefit from the tax cuts and deregulation announced by Trump during the election campaign made strong gains. They included financial stocks and businesses owned by Trump confidant Elon Musk. By contrast, there was little joy on the stock exchanges in Europe and China. Trump's expected protectionist economic policy, in particular, with its trade and punitive tariffs, appeared to dampen sentiment, bringing both the European and Chinese stock markets down significantly month-on-month.

Momentum on the US equity market is likely to continue in the short term

The positive momentum on the US equity market may continue for the time being. The tax cuts for companies announced by Trump and the continuation of the tax cuts for private households introduced during his term of office look set to keep the US economy ticking over in the short term. We are therefore reducing our underweighted position in the US equity market.

However, there is a considerable risk that price pressure on goods and services under Trump will take longer to disappear than some voters are hoping. Excluding volatile components such as energy and food prices, inflation currently stands at 3.3 percent. The overall inflation rate rose recently to 2.6 percent. Against this backdrop, it will probably take far longer for inflation to fall back below the target of 2 percent.

«US stock markets reacted to Donald Trump's re-election as US President with skyrocketing prices. This positive momentum may continue for the time being. We are therefore reducing our underweighted position in US equities.»

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	–0.2%	0.8%	–0.2%	0.8%
	USD	3.3%	5.3%	3.3%	5.3%
	JPY	–0.9%	–4.5%	–0.9%	–4.5%
Fixed Income	Switzerland	1.1%	4.3%	1.1%	4.3%
	World	0.9%	4.2%	–2.3%	–1.0%
	Emerging markets	2.6%	12.4%	–0.7%	6.8%
Equities	Switzerland	–3.9%	6.9%	–3.9%	6.9%
	World	4.4%	26.7%	1.0%	20.4%
	USA	6.7%	33.3%	3.3%	26.6%
	Eurozone	–4.6%	7.3%	–4.4%	6.5%
	United Kingdom	–2.2%	12.6%	–2.7%	7.1%
	Japan	–0.9%	11.8%	0.0%	17.1%
	Emerging markets	–2.6%	14.9%	–5.7%	9.1%
Alternative Investments	Swiss real estate	1.3%	11.4%	1.3%	11.4%
	Gold	1.4%	31.6%	–1.9%	25.0%

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

Data as of 13.11.2024
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

US capital market interest rates at a higher level

US capital market interest rates have already reacted to this trend. Following the US elections, yields to maturity on 10-year US government bonds rose to over 4.4 percent. In mid-September, yields to maturity were still at around 3.6 percent. Expectations regarding further policy rate cuts in the US have also declined sharply, with market participants currently expecting a policy rate of 4 percent for summer 2025. In mid-September, the figure was still 3 percent. The financial markets are therefore assuming that monetary easing will be carried out far more slowly. This view was reinforced by the comments made in mid-November by US Federal Reserve Chairman Jay Powell, who stressed that the Fed was in no hurry to reduce policy rates. It means long-term capital market interest rates are also likely to remain higher for the time being.

US government bonds with attractive yields

With a current yield to maturity on 10-year US government bonds of over 4.4 percent, government bonds remain very attractive. Before the tightening of monetary policy in spring 2022, interest rates at these levels were last seen before the financial crisis. We are therefore maintaining our overweighted position in US government bonds at the expense of bonds in Swiss francs. At the same time, long-term capital market interest rates, which are significantly higher than in mid-September, are likely to limit the performance of the US equity market in the medium and long term. So far, both share prices and long-term interest rates in the US have risen. However, higher interest rates mean that companies' future cash flows are worth less today, which indicates that sooner or later, share prices will come under pressure. It means we're keeping a very close eye on developments, particularly in the US.

Positioning relative to long term strategy: Swiss focus

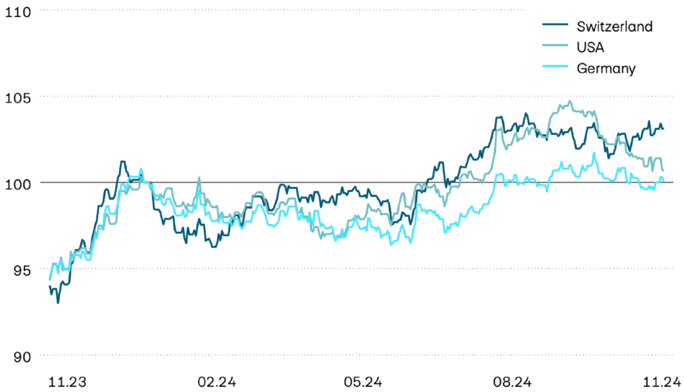
Asset class		**TAA[1] old**	**TAA[1] new**	**underweighted[3]** −−	−	**neutral[3]**	**overweighted[3]** +	++
Liquidity	**Total**	**5.0%**	**3.0%**		■			
	CHF	1.0%	1.0%			■		
	Money market CHF	2.0%	0.0%	■				
	Money market JPY	2.0%	2.0%				■	
Fixed Income	**Total**	**33.0%**	**33.0%**			■		
	Switzerland	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%**	**52.0%**				■	
	Switzerland	25.0%	25.0%				■	
	USA	8.0%	10.0%		■			
	Eurozone	2.0%	2.0%		■			
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets ex China	7.0%	7.0%				■	
	China	2.0%	2.0%			■		
	World Value	2.0%	2.0%				■	
Alternative Investments	**Total**	**12.0%**	**12.0%**			■		
	Swiss real estate	7.0%	7.0%			■		
	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

The upward trend in long-term interest rates continued last month, particularly in the USA, where the economic policy measures anticipated from Trump were likely to have been a factor. In Switzerland, capital market interest rates fell further from their already low level.

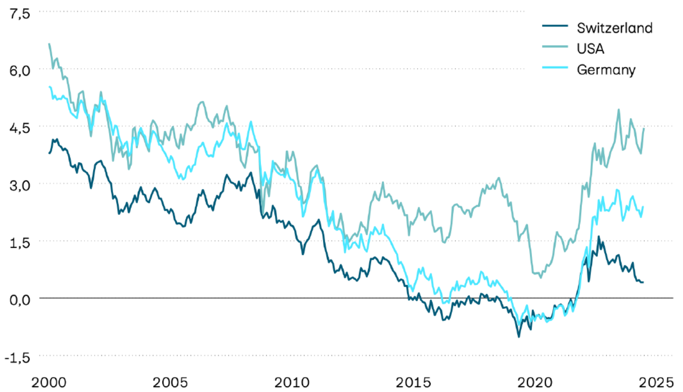
Indexed performance of government bonds in local currency
100 = 01.01.2024



The persistent downward trend in government bonds that began in mid-September continued last month in both the USA and the eurozone. Following Donald Trump's clear election victory, losses were particularly heavy in the USA. The second policy rate cut of 25 basis points in the US, which came the day after the election, failed to halt this trend. Under Trump's new presidency, market participants look set to expect a further rise in inflation and a significant increase in debt. By contrast, Swiss bonds recorded price gains due to falling capital market interest rates.

Source: SIX, Bloomberg Barclays

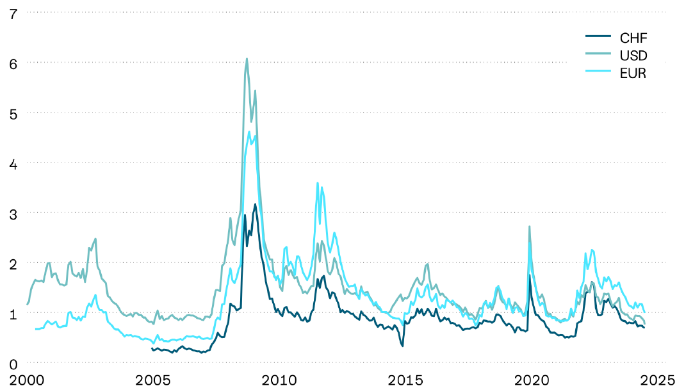
Trend in 10-year yields to maturity
In percent



The rise in long-term interest rates observed since mid-September continued last month in both the USA and the eurozone. In the United States, yields to maturity on 10-year government bonds rose particularly sharply after the election of Donald Trump, by around 20 basis points to over 4.4 percent. Month-on-month, US yields to maturity ultimately rose almost twice as much as in Germany, for example. 10-year yields to maturity on Swiss government bonds, by contrast, continued to fall and currently stand at just over 0.3 percent.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



The decline in risk premiums on corporate bonds continued last month, particularly in the US and on low-quality corporate bonds. In the US, spreads have been at historic lows since 2000. They were only lower before the financial crisis. This means the US corporate bond market is showing no concerns of recession at the moment, and there are also few signs of them in Switzerland and the eurozone.

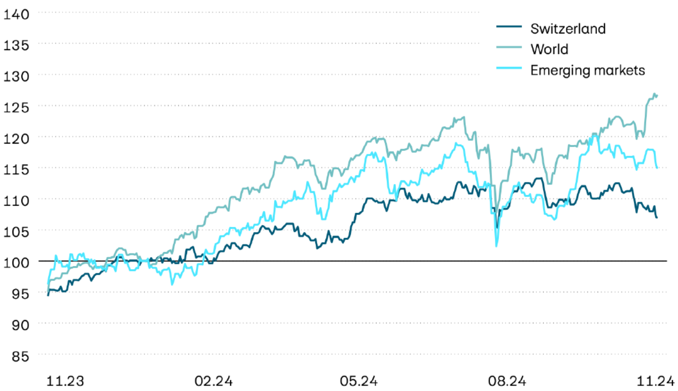
Source: Bloomberg Barclays

Market overview

Equities

The US stock markets reacted to the Republicans' clear election victory in the United States with significant price gains. In Europe and Switzerland, on the other hand, the stock markets are likely to have suffered on fears of an expected protectionist US economic policy.

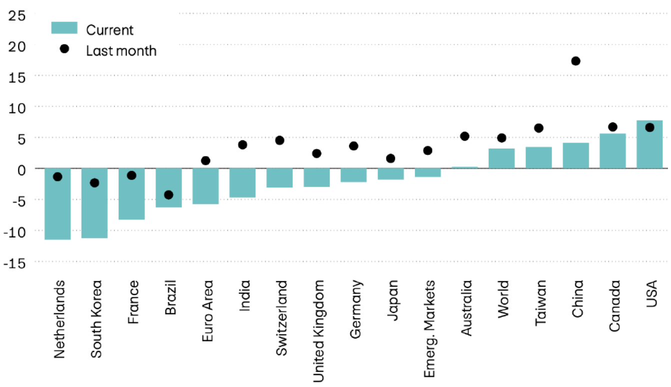
Indexed stock market performance in Swiss francs
100 = 01.01.2024



Donald Trump's return as the 47th President of the United States was greeted with skyrocketing prices on the American stock markets. On election day itself, they rose by over 4 percentage points, contributing significantly to a positive monthly performance. Market participants are evidently hoping for an economic boost from the measures announced by Trump. By contrast, equity markets outside the US mostly declined, likely weighed down in particular by concerns about protectionist measures expected from the new president.

Source: SIX, MSCI

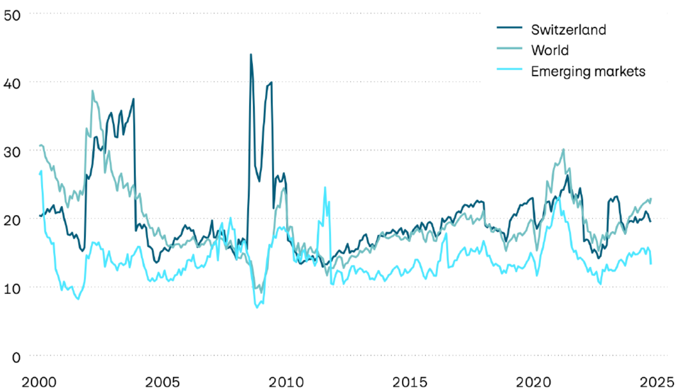
Momentum of individual markets
In percent



Momentum on the equity markets suffered another setback last month. The decline was particularly pronounced on the Chinese stock market, which had soared in September following the announcement of an economic stimulus package, rising by almost 25 percentage points. In October, however, there was an increasing sense of disillusionment on concerns that truly tangible fiscal support measures will come to nothing for the time being. As a result, the Chinese equity market again lost some of its gains, leading to a significant decline in momentum, although it remains in positive territory. The most positive momentum is currently in the US, in particular due to the strong price gains of the past month.

Source: MSCI

Price/earnings ratio
P/E ratio



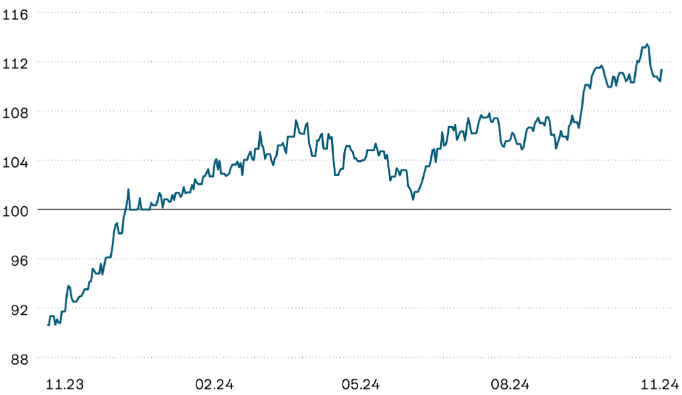
Last month, price/earnings ratios (P/E ratios) rose only in the US, while they fell significantly in both Switzerland and in emerging markets. This is likely mainly due to the differing performance of the equity markets. Share prices in the US have risen significantly, while they have fallen appreciably in Switzerland and emerging markets, especially China.

Source: SIX, MSCI

Swiss real estate investments

Most Swiss real estate funds trended sideways last month, maintaining their high increases in value so far this year.

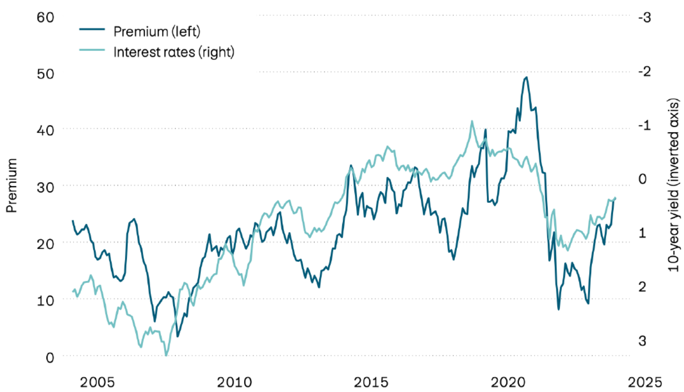
Indexed performance of Swiss real estate funds
100 = 01.01.2024



Exchange-listed Swiss real estate funds saw no major changes in value last month. They remained at the high level they had reached at the end of September following the announcement by the Swiss National Bank (SNB) that it would cut its policy rate for the third time in a row. The small changes in recent weeks are likely due to Swiss capital market interest rates stagnating at a low level, and, unlike US capital market interest rates, not being susceptible to any increase. Annual performance of Swiss real estate investments therefore remains above 10 percent.

Source: SIX

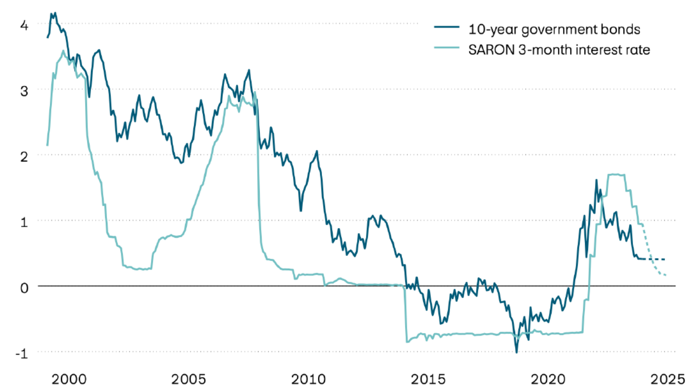
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



Due to the moderate change in the value of real estate funds, the premium that investors usually have to pay on the stock exchange compared to the actual net asset value (NAV) of properties has hardly moved. These premiums remain high by historical standards. Higher premiums have only been seen during periods of negative capital market interest rates. However, no such period is expected at present.

Source: SIX

3-month SARON and 10-year yields to maturity
In percent



The unusual situation in which long-term interest rates are lower than short-term money market rates persists in Switzerland, as in many other European countries and the USA. Under normal circumstances, the opposite would be expected, as investors usually demand higher compensation for long-term lending of capital and the higher risk that this lending entails compared to short-term lending. However, market participants are working on the assumption that the Swiss National Bank (SNB) will again cut key policy rates significantly over the course of next year, which would push short-term money market rates back below the current level of long-term capital market interest rates.

Source: SIX

Market overview

Currencies and cryptocurrencies

The US dollar gained significantly in value following Donald Trump's election to the presidency and is now more than 3 percent up on a trade-weighted basis. The Japanese yen, on the other hand, remained weak.

As in the previous month, the US dollar gained significantly in value. Following Trump's re-election in particular, the dollar strengthened by over 3 percent on a trade-weighted basis. This is likely to be due in particular to expectations that Trump's economic policy might favour the dollar. The dollar remained strong even after the US Federal Reserve (Fed) cut its policy rate by a quarter of a percentage point. The Swiss franc also lost value against the US dollar, but remained stable against the euro.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	0.94	0.93	0.86 – 1.00	Euro neutral
USD/CHF	0.89	0.80	0.70 – 0.90	USD neutral
GBP/CHF	1.13	1.22	1.05 – 1.38	Pound neutral
JPY/CHF	0.57	0.89	0.73 – 1.05	Yen undervalued
SEK/CHF	8.06	9.82	8.79 – 10.84	Krona undervalued
NOK/CHF	7.95	10.60	9.38 – 11.82	Krona undervalued
EUR/USD	1.06	1.16	1.01 – 1.32	Euro neutral
USD/JPY	155.46	89.79	69.35 – 110.24	Yen undervalued
USD/CNY	7.22	6.17	5.71 – 6.63	Renmimbi undervalued

Cryptocurrency	USD rate	YTD in USD[3]	Annual high	Annual low
Bitcoin	90'521	115%	90'521	39'528
Ethereum	3'196	39%	4'073	2'207

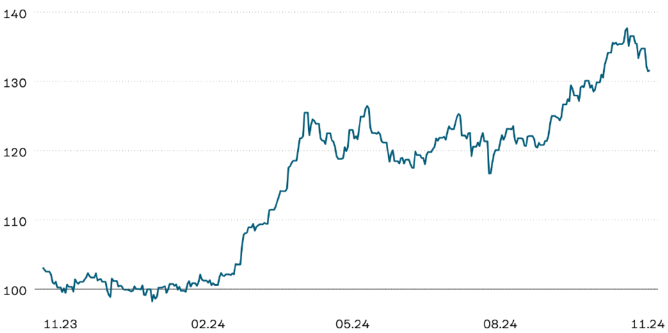
1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Year-to-date: Since year start

Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

Gold reached a new all-time high of just under 2,800 US dollars per troy ounce at the end of October, but then fell significantly.

Indexed performance of gold in Swiss francs
100 = 01.01.2024



At almost 2,800 US dollars per troy ounce, the price of gold reached a new all-time high at the end of October. The price then fell significantly by over 7 percent. The reasons for this are likely to be both the strong US dollar and higher interest rate expectations, which are again increasing the opportunity cost of holding gold. Gold traded in Swiss francs also declined in value after the recent highs, but still made gains compared to the previous month due to the weakness of the Swiss franc.

Source: Allfunds Tech Solutions

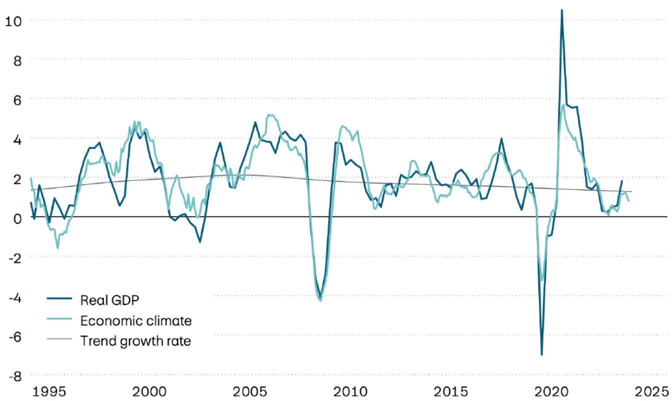
Global economy faces turbulent political environment

The past month's political events have had a major impact on the economic outlook. While strong growth in the US economy might well continue thanks to the tax breaks for households and companies planned by President Trump, the breakdown of the ruling coalition and the government's limited ability to act threatens to prolong economic stagnation in Germany. Meanwhile in China, the announcement of the economic stimulus package was met with disappointment and raised few new hopes of any rapid recovery.

Switzerland

Growth, sentiment and trend

In percent



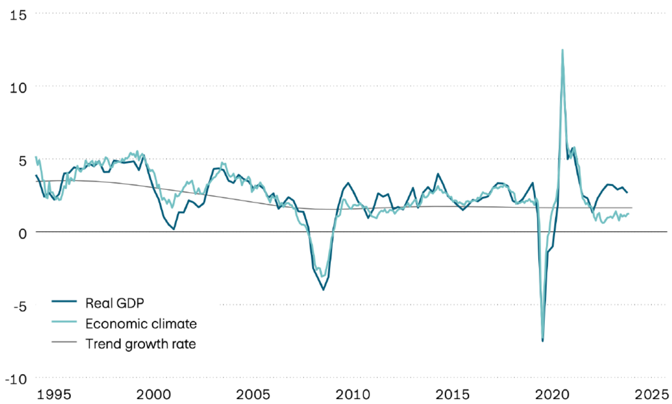
Whereas the Swiss economy benefited from a sharp increase in exports and enjoyed strong growth in the second quarter, foreign trade momentum has weakened considerably in recent months. In September, export volumes were down around 9 percent year-on-year. In particular, declining demand for Swiss watches in overseas markets such as China made itself felt. However, there are more positive signals from domestic demand. Retail sales, for example, have returned to a solid growth path, while Swiss service providers are also reporting a good business climate. There is still a question mark over consumer confidence, which has continued to deteriorate recently and is at a level normally seen during periods of pronounced weakness.

Source: Bloomberg

USA

Growth, sentiment and trend

In percent



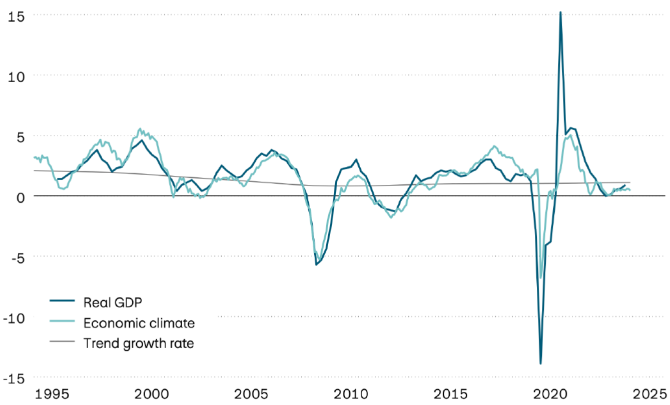
The US economy appears to be maintaining its strong growth for the time being. Expanding by 0.7 percent in the third quarter, it was again above its long-term trend, and the economic indicators also point to robust growth at the start of the fourth quarter. One striking aspect is that American households' willingness to consume remains high, despite the fact that income growth has weakened significantly over the course of the year. However, industry and the construction sector remain the economy's Achilles' heel, with companies in both sectors continuing to anticipate a significant decline in business activity. On top of that, there was again no progress in efforts to tackle inflation. Core inflation also remained at 3.3 percent in October.

Source: Bloomberg

Eurozone

Growth, sentiment and trend

In percent



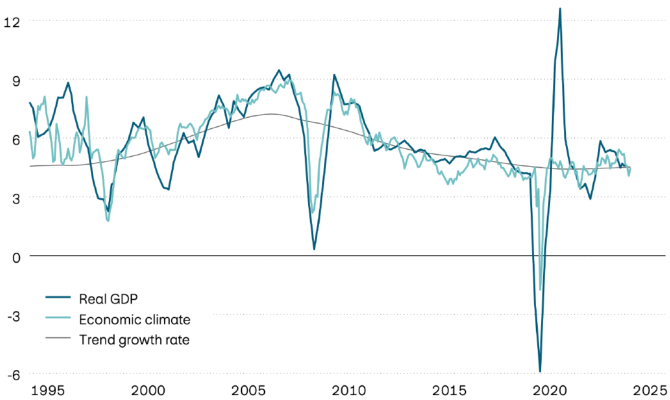
The eurozone economies grew by an average of 0.4 percent in the third quarter, slightly more strongly than expected. However, given the ongoing stagnation in Germany, Europe's largest economy, there is no sustained overall economic recovery in sight, particularly as the German government's current political crisis is unlikely to accelerate any upturn. That said, economic sectors geared towards domestic demand have shown a slight improvement recently. Retail sales grew significantly in September, and consumer confidence is also seeing a gradual increase. October's policy rate cut by the European Central Bank (ECB), its third this year, is expected to provide further relief and bolster overall economic demand.

Source: Bloomberg

Emerging markets

Growth, sentiment and trend

In percent



China, the emerging markets' biggest economy and the world's second-largest market, appears to have stalled. Sentiment among companies and consumers continues to fluctuate within the usual range, with no indication of any clear recovery. Industrial production remains at a low level, and, at 0.3 percent, inflation is still only just above zero. In addition, the monetary and fiscal policy measures announced to date are unlikely to be enough to trigger any broad-based upturn. The interest rate cuts are too small and fiscal policy measures are more reminiscent of a debt restructuring from regional to national level than any major effort to stimulate demand. On a positive note, however, retail sales have again stabilized somewhat recently.

Source: Bloomberg

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2024Q2	1.9%	3.0%	0.6%	0.7%	−1.1%	6.7%	3.3%	4.7%
GDP Y/Y[1] 2024Q3	n.a.[5]	2.7%	0.9%	1.0%	0.3%	n.a.[5]	n.a.[5]	4.6%
Economic climate[2]	↘	↘	→	→	↗	↗	↘	↗
Trend growth[3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.2%	1.7%	3.8%
Inflation	0.6%	2.6%	2.0%	2.3%	2.5%	6.2%	4.8%	0.3%
Key rates	1.00%	4.75%	3.4%[4]	4.75%	0.25%	6.5%	11.25%	3.10%

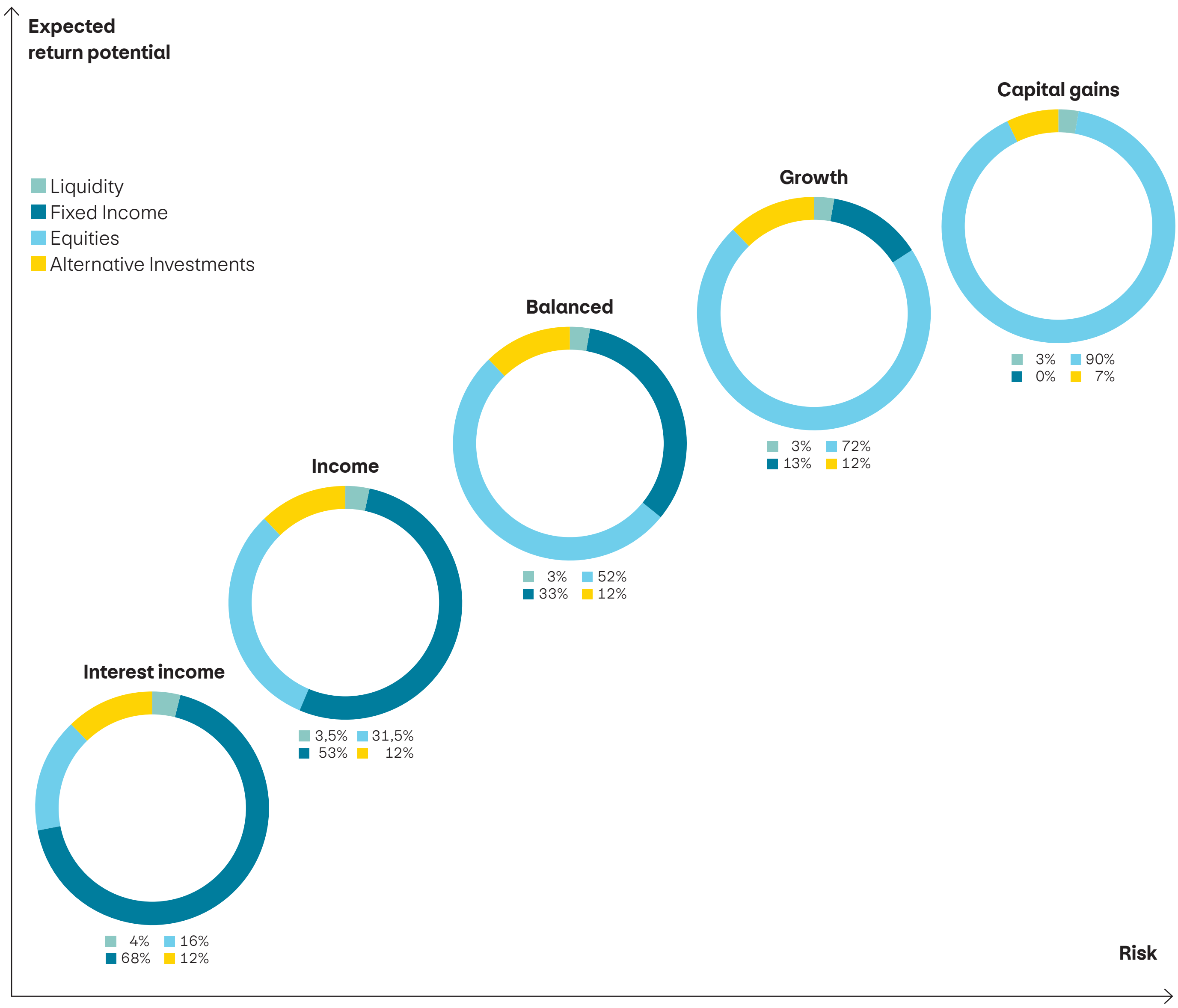
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 This is the ECB's main refinancing rate, the deposit rate is 0.15 percentage points lower.
5 No data available

Source: Bloomberg

Model portfolios Swiss focus

Momentum

The financial markets were dominated by US politics last month. Following the election of Donald Trump as the next US president, the US stock markets soared. In particular, companies that are likely to benefit from Trump's promised tax cuts and deregulation, such as the financial sector, made strong gains. It seems quite possible that the momentum on the US equity markets will continue in the short term. We are therefore reducing our underweight in US equities at the expense of liquidity.



Source: PostFinance Ltd

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