MAERKI BAUMANN & CO. AG

PRIVATBANK

Interest rate cut by the Swiss central bank supports Swiss bonds and stocks

Investment Policy, April 2024

Within the financial markets, it was the equity markets, in particular, that benefited from stronger economic data in the US than in Europe and global economic growth that generally proved quite robust. This should actually come as no surprise. In terms of consumer price trends, Switzerland stood out with a marked decline in both headline and core inflation (excluding food and energy), providing a considerable boost to Swiss bonds during the year to date relative to their global counterparts. Lower-than-expected inflation in Switzerland recently of 1.2% has prompted the Swiss National Bank (SNB) to cut its key interest rate by 0.25% to 1.5%, a move that surprised many as regards its timing. The SNB has now also lowered its inflation forecast for 2024 from 1.9% to 1.4% and for 2025 from 1.6% to 1.2%, meaning that further interest rate cuts are to be anticipated in the quarters ahead. This supports our asset allocation with its overweight position in Swiss bonds.

Swiss inflation not only remains the lowest of all industrialised countries and OECD (Organisation for Economic Co-operation and Development) member states, but has rather also fallen more sharply than inflation in other nations and now stands well below the SNB's target. On the other side of the Atlantic, US economic growth has delivered a positive surprise, exceeding market expectations and also far outstripping Swiss economic growth in the process. This is one of the reasons why US equities have outperformed Swiss stocks on the equity markets during the year to date. In the bond space, by contrast, Swiss bonds clearly outshone both US and global bonds in the first three months of the year.

Equities

The global equity markets have held up well so far in 2024. This is despite the fact that the financial markets have in recent months moved to reassess the expected interest rate cuts of the US Federal Reserve (Fed) and the European Central Bank (ECB). The positive performance of the most important equity markets is linked to much better-than-expected corporate results in both the US and Europe. Earnings estimates for the world's biggest and most important equity market, namely the US, have been revised upwards, as have the price targets of the US equity market and the key and most highly capitalised US firms. The equities of industrialised countries therefore fared better in relative terms than their emerging market counterparts in the first quarter. As interest rates remain quite high by historical standards and in light of changed expectations in terms of interest rates, it still makes sense to focus on quality in the equity space. We are therefore maintaining our overweight position in high-quality stocks, i.e. the equities of companies that exhibit an above-average level of profitability and below-average debt.

> "The equity markets are receiving support from higher earnings estimates in the world's most important equity market, the US."
>
> Gérard Piasko, Chief Investment Officer

Bonds

Economic data that came out better than had been expected by the market consensus, especially in the US, the world's biggest economy, generally led to higher bond yields during the first quarter without, however, diminishing the long-term attractiveness of this asset class. The good US economic data also led to a reduction in the additional yield on corporate bonds relative to government bonds, with this being especially true in the high-yield segment. This has led to a decline in the risk compensation for corporate bonds with a lower credit rating. We therefore continue to prefer bonds denominated in Swiss francs that are of above-average quality and have a good credit rating and still favour investment-grade bonds over their high-yield counterparts. The SNB's interest rate cut, which came as a surprise to the market consensus in terms of its timing, helps our overweighting of Swiss bonds in the asset allocation, as the SNB's lowered inflation forecasts for 2024 and 2025 pave the way for further reductions.

Currencies
The fluctuation range for key currency pairs, such as the euro against the US dollar or the US dollar against the Swiss franc, has recently narrowed again relative to historical fluctuations. This comes against the backdrop of the fact that both the ECB and the Fed are still holding off on cutting interest rates. The SNB, by contrast, has more room for manoeuvre due to Switzerland’s significantly lower rate of inflation and has now already exploited this by lowering its key interest rate from 1.75% to 1.5%, a move which came as a surprise to the market consensus with respect to its timing.

Commodities
Gold is benefiting from purchases by central banks in emerging markets. China, in particular, has massively increased its demand for gold in recent quarters. As is often the case, commodities as a whole have recently been subject to much more marked fluctuations than currencies or bonds. Viewed historically, commodities as an asset class have exhibited greater volatility than equities, bonds and currencies. The oil price remains particularly susceptible to fluctuations, as it is not certain whether the extended production cuts of the Organization of the Petroleum Producing Countries and Russia (together OPEC+) will continue for very long. Global demand could likewise be influenced by changes in economic growth. The US and Chinese economies, in particular, are important for the development of commodities. Over recent quarters, they have not developed in the same direction, with the US economy posting stronger growth than expected, while the Chinese economy has been less strong. This situation may change if, for example, the US economy were to grow less dynamically or if the Chinese government were to boost economic growth with clearer stimulus through government spending or other measures, as it has in the past. Whatever happens, it can be assumed that commodities will continue to fluctuate considerably.

Gérard Piasko

Gérard Piasko is CIO and head of the investment committee of private bank Maerki Baumann & Co. AG.
Before he was for many years CIO of Julius Baer, Sal. Oppenheim and Deutsche Bank.

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*Please note that due to German regulatory requirements we are unable to provide the crypto service (Crypto focus module) named in this brochure to our clients domiciled in Germany.

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