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Quarterly Pulse – January 9th 2024

Economic Outlook

The global markets experienced a variety of surprises and shocks in 2023, including increased inflation, subdued growth a banking crisis and the continuation of the sharpest monetary tightening in a long time. Looking ahead to 2024, we expect continued uncertainty and below-average growth in all of the world's growth forecast. While the path to a soft landing seems feasible, where growth slows but does not collapse, the effects of monetary tightening are not yet clear. In addition, escalating geopolitical tensions and macroeconomic headwinds will continue to weigh on the national economies. 2024 is likely to be a year of change, with many factors complicating the global recovery.

Tactical Asset Allocation

Liquidity	Neutral
Rates	Overweight
Credit	Neutral
Equities	Neutral
Alternative Investments	Neutral

Macroeconomics

After experiencing robust growth in numerous economies throughout 2023, a deceleration in 2024 is anticipated. This shall be categorized as a mid-cycle adjustment rather than the conclusion of an economic cycle. Inflation has notably decreased in most regions, primarily due to adjustments in energy, food, and consumer goods prices. Core prices have been slower to decline, and while most regions are expected to witness ongoing disinflation throughout 2024, reaching the target is projected to occur in 2025. Central banks, for the most part, seem to have reached the pinnacle of policy tightening. There is uncertainty regarding the timing and extent of future easing, but rate cuts in 2024 are anticipated, if only to manage the rise in real rates. The year 2024 holds political significance, with approximately two billion voters participating in elections. The US Presidential Elections in November are likely to have the most global consequences.

Despite a robust U.S. GDP growth of 4.9% in the third quarter, a possible expansion in consumer spending might occur. In general the expectations remain with some growth in consumption, coupled with a substantial deceleration in consumer spending, projected to persist into the next year. Anticipated is a decline in real disposable income, as labor income growth outpaces the slowing inflation, along with an augmented impact on disposable income growth due to increased tax contributions. The savings rate was estimated at 3.4% in September and is expected to rise in the coming quarters. A slowdown in consumer spending from Q4 onwards is forecasted, which is likely to continue until the first half of 2024 before improving. There are risks to this outlook; the management of the savings surplus is uncertain.

At the same time, Eurozone GDP growth experienced a slight contraction in Q3, reflecting persistent weakness in business surveys since spring. The economy appears to be stuck in low gear, raising the possibility of a technical recession in the second half of 2023. Nevertheless, a notable decline in inflation might be the outcome, leading to substantial real purchasing power gains in Q4, surpassing 2% above pre-Ukraine conflict levels (Q4 2021), thereby supporting private consumption. Overall projection for Eurozone GDP is to expand by 0.5% in 2023.

Private consumption is expected to serve as the primary growth driver for the Eurozone in the next couple of years, driven by anticipated gains in real purchasing power. While nominal negotiated wage growth is projected to gradually decelerate from this year's high plateau (averaging 4.5% year-on-year), it should still remain decent, with averages of 4.0% and 2.8% in 2024 and 2025, respectively. Coupled with a mild labor market cooling, this is anticipated to fuel additional real income gains as inflation continues to decelerate. Consumers, having maintained higher savings post-pandemic, prompt us to adopt a cautious stance, projecting 1.1% and 1.2% growth in private consumption over the next two years.

Given the backdrop of recession-avoiding low growth, with fading but still present supply constraints, and inflation resistant to a fall to 2%, the ECB's hawkish tone is likely to continue. The ECB's deposit rate has likely peaked at 4% but shall remain unchanged until next summer.

Anticipating the initiation of rate-cutting cycles by central banks in 2024, we believe that government bond markets are currently overestimating the likelihood of persistently high interest rates becoming the norm. There is expected for yields to decline in 2024.

Regarding inflation and rates returning to normal, one observes progress toward central bank targets in 2023, and anticipates this trend to persist in 2024. In a base case scenario, US and Eurozone core consumer price inflation shall conclude 2024 within the 2–2.5% range. Key factors include diminishing homeowner-related inflation, reduced consumer demand, and slower wage growth. With lower growth and inflation in mind, interest rate cuts in 2024 must be anticipated. Despite the likelihood of inflation remaining above the 2% target for most, if not all, of the upcoming year, policymakers are expected to gain confidence by midyear in a sustained decline toward the

target. The base case scenario predicts the ECB and Bank of England each cutting rates by 75 basis points in 2024, while the Fed and Swiss National Bank shall be easing by 50 basis points in 2024

With expectations of slower economic growth in 2024 influencing interest rate forecasts, both in the short and long term, we project the 10-year US Treasury yield to decline to 3.5% by the end of 2024.

Politics shall exert a significant influence in 2024. Factors such as the U.S. presidential election, the ongoing conflicts between Israel and Hamas, and Russia and Ukraine, along with the escalating rivalry between the U.S. and China, have the potential to impact global markets. Investors should be ready for episodes of volatility driven by political events and consider implementing hedges.

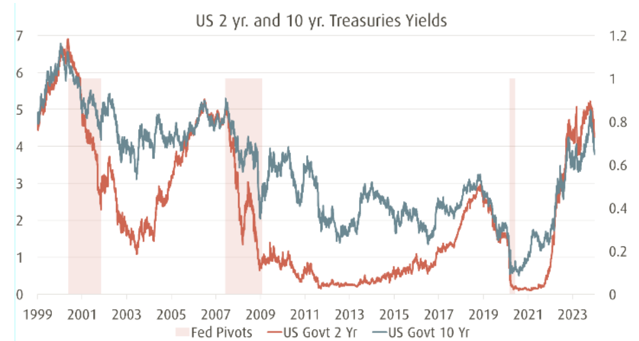
Fixed Income

In 2023 fixed income markets have delivered what was promised at the same time last year. But the way to this excellent performance was bumpy. Strong labor markets and persistently high inflation data have repeatedly brought markets back to reality. It was only in Q4 2023 that it became clear that interest rates have peaked. Throughout 2023, 10-years Treasury yields fluctuated in a wide range of 170 bps (3.30% – 5%).

The huge rally in Q4 was driven by the Fed, when they dropped their biggest hint yet, that it could start unravelling its series of rate rises as soon as next spring. While the developments are supportive for our view for lower yields, we think the rally in 10-years from 5% to 3.8% went a bit too far. The "higher-for-longer" is not completely off the table yet, despite a more dovish Fed. Sovereign bond supply is set to increase further as budget deficits swell across the globe.

The current level (4.00%) is similar to last year at the same time but the economic outlook seems to be clearer today. A hard landing in 2024 seems less likely than last year, and therefore there is limited scope for aggressive rate cuts until there is evidence of easing labour market pressure with a potential recession following.

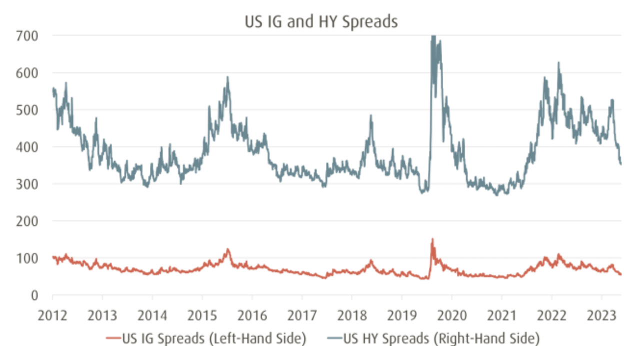
Future markets are showing investors are looking for five quarter-point rate cuts in 2024. With a soft-landing scenario, which is our base case, we doubt that this is going to happen. Especially not that early in the year. We agree that rates have to come down, but the longer the current rally in 10-years lasts, to more cautious we turn. A near term-correction has already started while writing this Pulse. 10-year yields above 4.25% we would use to build up more positions.



Source: Bloomberg, Clarus Capital

For credit we remain constructive, although spreads are tight. With the overall yield level still elevated, we don't think that there is a major source of risk. Investment-grade corporate bonds are supported by strong balance sheets and low refinancing needs. In a modest growth environment, investors could earn the coupon without too much downside risk. If the economy slows and rates rally (see above), the sector's longer duration segment will be able to offset any spread widening.

For HY we are more cautious as we don't think it's worth the risk you are taking. Higher default rates, refinancing fears and a cooling equity market might dampen investor's risk appetite. Historically seen, HY spreads are tight with 350 bps. We only would add the segment through well diversified fund solutions.



Source: Bloomberg, Clarus Capital

For Emerging Markets, it sounds similar, although there might be a bit more potential in the down beaten Frontier/EM-HY segment. Only the very high-risk segment with long maturities looks cheap, but we are not willing to take such a risk ahead of a cooling economy.

Overall, the outlook for Fixed Income looks similar to last year, as current yield levels remained elevated. Good quality bonds in the 5-7 years maturity range, with yields of 4-4.5% still offer good value. The October-2023-rally might lose its steam and will offer better entry-points at the longer end.

Overall, we believe that returns will be in the high single-digit area.

Equities

The global equity markets continued to rise in December. This was mainly due to a further decline in inflation rates and the US Federal Reserve's (Fed) dot plot, which suggested several interest rate cuts in 2024 for the first time. Confidence in a soft landing for the US economy also increased. Accordingly, cyclical sectors were also among the main winners of the last month. However, the frontrunner was the real estate sector, which benefited from the significant fall in bond yields.

Equity Indicators

Valuation	Neutral
Momentum	Positive
Seasonality	Positive
Macro-Economics	Negative

Our stock market favorites are currently in the industrialized countries, i.e. the United States. There is a lot to suggest that U.S. equities will continue to benefit from their structural advantages in 2024. Demographic trends, which determine the supply of labor, are much better in the U.S. than in more ageing societies such as Japan or Europe. In addition, employee productivity in the U.S. is very high and could be further increased in the future through the increased use of artificial intelligence. This also applies to employees in other regions of the world. However, as the USA is currently playing a pioneering role in AI research, the corresponding productivity gains should also be realized more quickly there. The foundation for the above-average earnings growth over the past few years therefore remains intact, which also explains the valuation premium to a large extent. Based on this solid foundation, analysts assume that the mild recession they expect in the USA will leave somewhat deeper traces on the other equity markets, which are more sensitive to the economic cycle in terms of their sector structure.

Somewhat surprisingly, the Japanese stock market was also among the winners in 2023 - but only in local currency. This reflects the strong exchange rate sensitivity of the earnings performance of internationally operating companies. Analysts expect the opposite trend in 2024. According to their forecasts, the JPY could be one of the strongest currencies, which would normally result in below-average equity market performance. Converted into CHF, however, this could result in an above-average performance. Irrespective of this, however, analysts expect a structural tailwind for the market. This is because the Tokyo Stock Exchange operator has given companies an ultimatum to bring their corporate governance in line with international standards by the end of February 2025. Failure to do so could result in delisting. The companies have already responded to this, and further improvements are likely to follow in 2024.

A comparison of the development in 2023 with that of 2022 shows that it is a mirror image for most investment styles. The losers of the previous year were the winners in 2023 and vice versa. The only style we looked at that outperformed the global index in both years was large caps. This is notable because the heavyweights of the IT and communications sector suffered significant losses in 2022. However, shares in this category are actually a less risky investment on average, which is an important factor in uncertain times. In this respect, they could also be among the winners in 2024.

After the mild recessions expected by analysts in the USA and the Eurozone, they anticipate only a weak recovery. In our view, global monetary policy is likely to become less restrictive and refinancing costs would therefore fall on average. Both would point to a dynamic catch-up race for small caps. Regarding the style pairs of value and growth as well as defensive and cyclicals, we believe that the environment continues to favor the latter two from the second quarter onwards. However, their valuations are now high, meaning that a greater fluctuation range can be expected.

All in all, and in short, we do expect the global stocks, and particularly the U.S. equities, do to continue to perform well this quarter. One valid rationale for this is that there is almost USD 6 trillion of cash sitting on the sidelines in global money-market funds, with the potential for some portion of it to be reallocated into carefully selected risk assets. Additionally, with borrowing costs now likely close to their peaks and set to possibly fall, this will reduce the attractiveness of holding cash. It would not surprise us should a portion of it be allocated into equites which could push indices higher in the short-term.

Alternative Investments

Commodities were one of the few asset classes to deliver a negative total return in 2023. The spot prices of the broad Bloomberg Commodity Index fell by 10%. Precious metals were the only commodity sector to make gains. In addition to the slowdown in global growth, an improvement on the supply side weighed on prices in particular. The supply of crude oil outside OPEC+ has developed more strongly than expected. And after the supply shock in 2022, triggered by the war in Ukraine, the ongoing realignment of sales channels contributed to a sustained easing. However, the asset class remains exposed to geopolitical risks, as demonstrated by the war in the Middle East and the recent attack by Houthi rebels on ships in the Red Sea.

Industrial metal prices have lacked a clear direction over 2H 2023. This year, the sector is facing an uncompelling top-down

narrative, in analysts view, which they believe will keep prices largely rangebound for now. Their supply and demand estimates across the metals point toward largely balanced fundamentals. In order of preference, investors should look at copper and aluminum over zinc and lead, while they should avoid nickel for now.

In early December, gold set an intra-day record high of USD 2135/oz, eclipsing the previous record close of USD 2070/oz (August 2020), and again proving the metal's worth as a long-term portfolio diversifier. We are still confident that gold will move higher, recognizing that market positioning is light versus previous times that prices tested these levels. Central banks buying has been supportive—at the current pace, this could hit 1,180 metric tons for 2023 (a new high). So, to see even higher prices from this high base and a weakening of the USD, investment demand needs to increase in the form of greater ETF purchases as a tactical play only.

Foreign Exchange

After multiple attempts by markets to predict the Federal Reserve's (Fed) last hike in this policy cycle, it appears that we have now reached that point. In its recent meeting, the Fed maintained policy rates at 5.25% - 5.50%, and although the Fed is hesitant to declare a peak, we are of the opinion that it has reached one. While the strength of the US dollar (USD) in 2023 has been influenced by rising US rates, historical patterns, especially from the high inflation periods of the 1970s and early 1980s, do not conclusively suggest a decline in the USD is inevitable once rates cease to rise.

Despite softening U.S. inflation that has yet to return to the target, neither the economy nor the labor market has experienced a significant deceleration. The impact of a tighter policy appears slow, and as long as the market delays expectations of rate cuts, the USD is likely to remain well-supported.

Although the greenback is unquestionably not inexpensive, there are valid reasons for its valuation. It has emerged as the highest-yielding currency within the G10, even when compared to the renminbi (RMB). Moreover, the U.S. is exhibiting greater resilience against global monetary policy tightening, delaying the point where it might be overshadowed by foreign yields. Stable yield differentials may imply USD stability rather than strength, but the market currently anticipates other central banks to mostly align with, rather than surpass, the Fed's pace of cuts.

Conversely, the euro (EUR) is firmly positioned in the expensive category. Analyzing the real effective exchange rate reveals that it has experienced the most appreciation among the G10. Not only did it depreciate less against the USD than most currencies, but it also endured a higher Producer Price Index (PPI)-based inflation trend over a seven-year horizon—criteria deemed statistically relevant and focusing on more tradable items.

There are fewer justifications for such a valuation. The Eurozone economy has slowed more than the U.S., inflation is decreasing at a faster pace, and European Central Bank (ECB) policy seems more vulnerable than current Fed pricing. Additionally, higher EUR rates could heighten concerns about Italian sovereign debt. Unlike in November 2022, when the optimism of China reopening boosted global growth forecasts, the potential rebound on this front now seems more gradual. Consequently, we anticipate a growing growth differential with the US and a renewed focus on ECB balance sheet policy to drive the EUR/USD back towards parity in H2 2024.

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Market Overview as of Friday, 29 December 2023, COB

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ 2023
USD Overnight	5.06	0.00	0.25	0.74
USD 1y Swap	4.80	-0.22	-0.59	0.03
USD 3y Swap	3.87	-0.21	-0.78 -	0.08
USD 5y Swap	3.65	-0.20	-0.81 -	0.06
USD 10y Swap	3.59	-0.21	-0.83 -	0.10
EUR Overnight	3.99	0.02	0.04	2.01
EUR 1y Swap	3.57	-0.12	-0.52	0.19
EUR 3y Swap	2.73	-0.17	-0.73 -	0.68
EUR 5y Swap	2.60	-0.14	-0.71 -	0.69
EUR 10y Swap	2.64	-0.11	-0.71 -	0.57
CDX Xover 5y	3.59%	-0.42%	-1.34%	-25.45%
iTraxx Xover 5y	3.35%	-0.34%	-1.26%	-32.79%

	Δ 1m	Δ 3m	Δ 6m	Δ 2023
USD Deposit 1m	-1.6%	-0.3%	1.6%	18.7%
USD Aggregate 1-3y	1.0%	2.6%	3.4%	4.6%
USD Aggregate 3-5y	1.5%	4.6%	4.2%	5.3%
USD Aggregate 5-7y	1.8%	6.4%	4.3%	5.5%
USD Aggregate 7-10y	2.3%	8.2%	3.9%	5.4%
EUR Overnight	0.3%	1.0%	2.0%	3.4%
EUR Aggregate 1-3y	0.5%	2.0%	3.0%	4.0%
EUR Aggregate 3-5y	0.9%	3.6%	4.7%	6.1%
EUR Aggregate 5-7y	1.1%	5.2%	5.6%	7.8%
EUR Aggregate 7-10y	1.4%	7.0%	6.5%	9.2%
US Corp. HY	2.2%	7.6%	7.4%	13.4%
EUR HY	1.4%	5.4%	6.6%	11.8%

Equity

	Price	P/E	D. Yield	FCF yield
MSCI World	9,838	18.9	2.0%	4.0%
S&P 500	4,764	22.1	1.5%	3.5%
NASDAQ	16,650	29.6	0.8%	2.9%
Euro Stoxx 50	4,475	12.7	3.4%	5.7%
SMI	11,252	18.7	3.1%	5.0%
FTSE 100	7,707	11.3	4.1%	7.9%
DAX	16,711	12.3	3.3%	5.9%
MSCI Asia Pacific	165	15.3	2.8%	4.4%
FTSE China A50	11,072	10.3	3.3%	7.2%
MSCI Emerging Market	997	13.7	3.1%	5.6%
PH Semiconductor	4,062	32.2	1.2%	1.6%

	Δ 1m	Δ 3m	Δ 6m	Δ 2023
MSCI World	3.6%	10.6%	8.6%	23.8%
S&P 500	3.5%	9.9%	8.3%	26.3%
NASDAQ	3.5%	10.7%	10.7%	55.1%
Euro Stoxx 50	-1.1%	8.8%	5.6%	23.2%
SMI	1.6%	4.0%	3.5%	7.1%
FTSE 100	2.0%	2.9%	6.2%	7.7%
DAX	-0.3%	10.5%	7.1%	20.3%
MSCI Asia Pacific	2.5%	6.6%	2.1%	11.9%
FTSE China A50	-2.6%	-10.1%	-11.0%	-8.9%
MSCI Emerging Market	2.2%	6.6%	1.6%	10.1%
PH Semiconductor	7.6%	17.2%	13.5%	67.0%

Commodity

	Price	FCST 24	FCST 25	Δ Future
Gold	2,037	1997	2070	0.2%
Silver	23.33	24	25.28	0.7%
Platinum	956	998.75	1225	1.0%
Palladium	992	1,130	1130	2.3%
Crude Oil	71.29	80	80	0.8%
Brent Oil	76.75	84	84.195	-1.1%

	Δ 1m	Δ 3m	Δ 6m	Δ 2023
Gold	1.9%	10.1%	5.4%	13.1%
Silver	0.2%	4.8%	-2.6%	-4.4%
Platinum	3.0%	6.5%	2.3%	-8.8%
Palladium	4.2%	-13.1%	-21.8%	-40.1%
Crude Oil	-0.2%	-12.7%	-0.8%	-6.1%
Brent Oil	1.0%	-9.0%	1.0%	-4.1%

Foreign Exchange

	Price	FCST Q4	FCST 25	Δ Spot
EUR/USD	1.0945	1.07	1.12	2.3%
GBP/USD	1.2734	1.23	1.3	2.1%
USD/CHF	0.8498	0.9	0.88	3.5%
USD/JPY	144.02	149	135	-6.5%
EUR/CHF	0.9301	0.96	0.99	6.2%

	Δ 1m	Δ 3m	Δ 6m	Δ 2023
EUR/USD	1.7%	3.6%	-0.5%	3.5%
GBP/USD	1.4%	4.1%	-1.0%	5.7%
USD/CHF	3.4%	6.7%	4.2%	-9.2%
USD/JPY	1.5%	3.1%	-1.9%	7.8%
EUR/CHF	1.7%	3.0%	4.7%	-5.8%

Source: Clarus Capital Group, Bloomberg

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