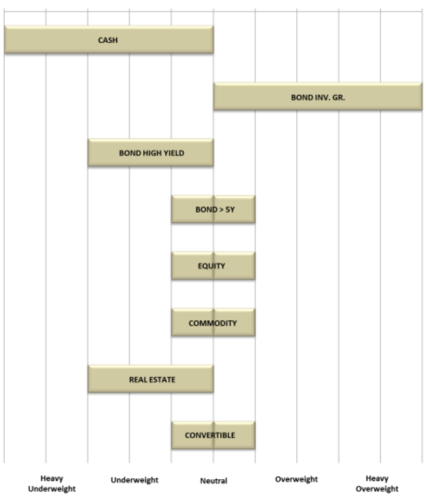
Return to stability for interest rates

We took advantage of the autumn market downturns, driven by rises in interest rates, making ourselves neutral in equity holdings and more exposed to the interest-rate risk (with duration still partly underweighted), thus benefiting from the year-end rally in equities and bonds. But now we need to understand where the global economy is headed. The signs appear to be pointing to a slowdown, which should benefit bonds, but we remain alert to possible trend reversals.

ASSET ALLOCATION



- We keep the proportion of **CASH** in the accounts low, having invested portfolios in short-term bonds or money-market funds.
- The interest-rate rises implemented by the Central Banks in the last two years have made investing in **GOVERNMENT** and **CORPORATE INVESTMENT-GRADE BONDS** very attractive. However, we remain moderately underweight on duration.
- The **HIGH-YIELD BONDS** sector offers attractive returns, but, given the uncertain macro context, we prefer to avoid significant exposures.
- On **SHARES**, we used the weaknesses of the past few months to increase our exposure and are now neutral.
- **COMMODITIES** are supported by the positive cycle of public and private investments, aimed at fostering the energy transition, and geopolitical factors. However, given a still uncertain macroeconomic context, we remain neutral.
- We are partially negative on **REAL ESTATE** because the current level of interest rates increases the fragility of the sector, which is characterized by high debt.
- **CONVERTIBLE BONDS** remain a valid means of exposure to the equities market, with greater downside protection.

MACRO VIEW

In the United States, economic growth is slowing, although it remains positive. We expect that it could become negative during 2024, but not in the first months of the year, during which the drop in interest rates of the end of 2023 should help marginally revive important sectors such as real estate. Fortunately, inflation also continues to slow, and therefore interest rates should show less volatility than in the last two years.
China is trying to gradually revive its economy. We think it will be able to keep it fairly stable in 2024, although we are concerned about the lack of sensitivity to stimuli shown by the real-estate sector, and more generally by the entire economy.
Europe, including Switzerland, remains a geographical area that is partly problematic due to weak exports. However, the domestic economy should benefit from a positive effect due to the decline in inflation and maintain a decent growth rate.

FIXED INCOME

Between September and October 2023, with the sharp rise in rates, we increased the durations of the portfolios, also gaining exposure to the American curve, which can prove particularly defensive in the event of an economic slowdown, given the Fed's proactivity. In the last two months of 2023, we benefited from the resulting decline in rates. From now on, we remain well invested in the sector, which we expect to be more stable than in the last two years now that strong inflationary pressures, both upwards and downwards, appear to have passed.

FX VIEW

The US dollar remains caught between the positive interest-rate differential and the deteriorating American economic fundamentals, mainly the result of years of aggressive fiscal policies that have greatly widened the federal government's deficit.

The Swiss franc is well supported by the well-known economic and political stability of the Confederation as well as the SNB's ability to use the currency and its reserves for monetary policy purposes. The euro is expected to remain generally weak due to the weakness of its economy and sharply declining inflation. The Japanese yen could recover ground in 2024, although we do not believe this will happen in the first few months of the year.

EQUITY MARKETS

After the rally at the end of the year, the prospects for the equity markets for the first months of 2024 are moderate, by virtue of the inflation trend (downwards) and the new attitude of the central banks, factors that are positive but also already discounted by investors.

We could therefore see a lateral trend in stock-market indices, while instances of high volatility on individual stocks cannot be ruled out, as already seen in recent months, if the outlook for a sector or company deteriorates more than expected. For the remainder of 2024, it will be necessary to understand whether the economic slowdown will prevail, which could drag markets downwards, or whether controlled inflation and stable rates will allow an economic revival that would favour equities.

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