bcp Wealth Management

Outlook 2024
Wealth Management.

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Foreword.

Marco Grilli
Head of Wealth Management

Welcome to our BCP Wealth Management Outlook 2024

As we approach 2024, it is essential to anticipate the economic trends that are likely to impact your investments.

The year 2023 was dominated by high inflation rates across the world and pivotal decisions by major central banks to raise interest rates. Geopolitical tensions amplified, with the war in Ukraine showing no signs of resolution and a new conflict emerging in the Levant region.

As 2024 unfolds, a new macroeconomic landscape will take shape, the likes of which have never been seen before. A new regime is playing out, with higher interest rates, stagnant economic activity and an inflationary environment. Against a backdrop of tragic headlines, we know many investors are entering 2024 with questions about the future of global markets. These factors collectively contribute to a climate of uncertainty.

In this context, we recommend adding diversity to your investments. We believe investing across asset classes and regions should be the first hedge against market turbulence. We prefer to invest in quality for both equities and bonds in the year ahead. In equities, we will focus on quality companies with strong balance sheets and high profitability. In fixed income, quality bonds continue to offer attractive yields and, if interest rates decline as we expect, should deliver capital appreciation. Cash balances may be less attractive, as we expect interest rates to decrease in 2024, reducing the return of cash and increasing reinvestment risks.

Understanding how to thrive in this demanding environment is essential for your success. At BCP it will be a challenge and a privilege to guide you in your investment decisions. Our investment experts are here to provide independent advice using our 'open architecture' framework, an unbiased approach to managing your assets.

We hope that this BCP Wealth Management Outlook 2024 will provide you with perspectives, ideas and insights to approach the new year with serenity.

We appreciate your trust and look forward to assisting you in achieving your financial goals.

Ready to tackle The Challenges of 2024.

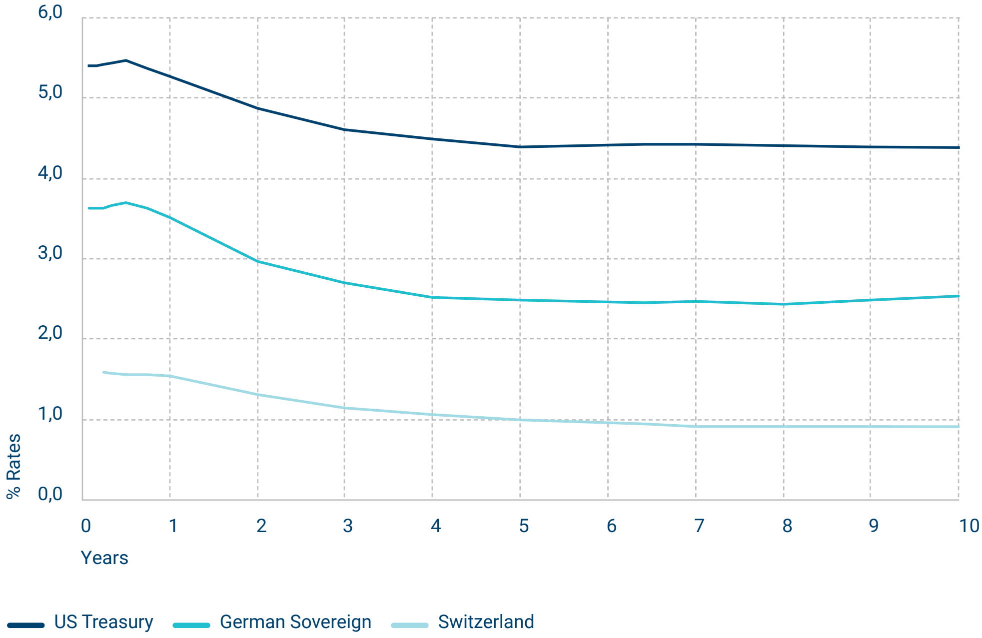
The financial year of 2023 will be remembered for an unprecedented increase in central bank interest rates, particularly by the United States' Federal Reserve.

This move was driven by concerns about uncontained inflation and, notably, the looming possibility of an economic recession in both the United States and Europe. The bond market had anticipated this shift since September of the previous year, resulting in short-term rates surpassing long-term rates. However, the extent of this change seems more moderate than expected, as yield curves in the United States and European markets seem to be gradually normalizing by flattening. Macroeconomists now expect central banks to initiate interest rate reductions in the middle of next year.

American and European stock markets seem more resilient than anticipated and continued to deliver positive performances all year. American companies have shown to be more robust than their European counterparts; these suffered from higher inflation levels, expectations of weaker economic growth, higher energy prices and an underlying theme of conflict on their borders. Breaking down the gains from these past months reveals that these gains were achieved at the outset of year, and a negative trend has emerged since the summer. The Swiss market exhibited weakness earlier in the year due to a strong franc acting as a safe-haven currency in a world grappling with inflation and increasing uncertainties.

Christian Couyoumtzelis, Ph.D.
Head of Asset Management and Advisory

> **Figure 1: US Treasury, German Sovereign, Switzerland rates**
Bloomberg Data, 28/11/2023



At BCP, the Asset Management & Advisory Team is tasked with understanding and analysing the markets which then translates into investment ideas, implemented across targeted communication channels.

BCP Wealth Management defines and communicates its investment policy through its Strategic Investment Committee, which convenes monthly. The Asset Management & Advisory Team actively participates as a full member and contributes understanding, analysis, and market synthesis. Their expertise in a range of financial tools helps shape expertly tailored solutions for clients with either discretionary portfolios or advisory mandates.

The Asset Management & Advisory Team relies on its own investment universe built on in-house quantitative and qualitative methodology. It comprises bonds, equities, investment funds and structured products. It is periodically reviewed and monitored by the team based on the decisions and recommendations of the Strategic Investment Committee.

The team communicates its market views on a weekly basis in a meeting followed by a publication incorporating market levels and investment ideas. As an example, in April, the Asset Management & Advisory Team reduced the equities exposure in discretionary portfolios by just under 5%. Profits from long-term maturity bonds were captured, and available cash was invested in short-term maturity bonds, which proved to be a wise strategy.

At the start of 2024, cash proceeds from bond repayments will be reinvested in securities with longer maturities, capped at seven years. The USD equity portion will see a 5% increase in defensive sectors during periods of weakness. Caution will be maintained regarding European and Swiss markets. The selection of securities will encompass direct bond holdings, equities, funds or structured products that take advantage of market volatility. For clients with advisory mandates, these proposals will be directly discussed with customers.

All our professionalism, expertise and full transparency is leveraged within both discretionary and advisory mandates to assist each investor in constructing a portfolio that meets their needs.

> **Table 1: World Index Performances**
28/11/2023 - Bloomberg

Name	Value	% Year To Date
Americas		
DOW JONES INDUS. AVG	35 340	6,62
S&P 500 INDEX	4 550	18,52
NASDAQ COMPOSITE	14 235	36,00
S&P/TSX COMPOSITE INDEX	20 033	3,34
S&P/BMV IPC	52 220	7,75
BRAZIL IBOVESPA INDEX	125 512	14,38
EMEA		
Euro Stoxx 50 Pr	4 334	14,24
FTSE 100 INDEX	7 437	-0,20
CAC 40 INDEX	7 222	11,55
DAX INDEX	15 947	14,53
IBEX 35 INDEX	9 982	21,30
FTSE MIB INDEX	29 248	23,37
OMX STOCKHOLM 30 INDEX	2 215	8,38
SWISS MARKET INDEX	10 729	-0,01
Asia/Pacific		
NIKKEI 225	33 408	28,03
HANG SENG INDEX	17 354	-12,27
CSI 300 INDEX	3 519	-9,12
S&P/ASX 200 INDEX	7 015	-0,33
Global		
BBG World Lrg/Mid Cap PR	1 608	13,63

Macro Environment and Global Outlook.

Francois Nordhof, CEFA
Investment Advisor

Review of 2023

After a robust economic rebound in 2021 and 2022 and following the COVID lockdown, the current year posed more challenges. In the US, inflation has steadied at 3.2%. The Federal Reserve appears to have reached the peak of a hawkish interest rate policy, now leaning towards a possible decrease next summer. The US equity market, displaying strong year-to-date performance, found reassurance in the recent earnings season, particularly with better-than-expected results in the consumer discretionary sector. A low unemployment rate instils confidence in a surge in personal consumption supporting the equity market. Germany is struggling to avoid slipping into recession by year-end. Germany's nominal gross domestic product in USD terms is anticipated to surpass Japan's GDP in 2023, driven by the weak yen. Despite grappling with the ongoing technological revolution in the automotive sector, Germany is poised to secure the position of the world's third-largest economy in 2023. Globally, sustained strength in private household consumption since 2021, fueled by a robust labour market and private savings channeled into spending, contrasts with a near-flat trajectory in investments for durable goods by year-end. This stagnation is influenced by a restrictive monetary policy.

Sovereign fixed income in developed markets is barely breakeven as hawkish central bank policies have led to the depreciation of security prices. Corporate debt issuances are also experiencing low single-digit performances and remain below time-deposit yields. This trend also holds true for emerging sovereign and corporate debt. For equities, the picture looks more favourable with the US and Japanese markets boasting double-digit performances in their respective currencies. The UK and Switzerland have been adversely affected by the appreciation of their home currency.

> Table 2: World GPD figures
Source: IMF October 2023

	GDP (YoY, in %)	
	2023	2024
Advanced Economies	1,5	1,4
USA	2,1	1,5
Euro-zone	0,7	1,2
Germany	-0,5	0,9
UK	0,5	0,6
Japan	2,0	1,0
Switzerland	0,9	1,8
Emerging-Asia	5,2	4,8

A soft landing or a soft crashing for the USA in 2024?

The world's largest economy is heading for a slowdown in 2024. The question is how strong it will be after the impressive COVID-lockdown recovery? Bear in mind that the principal contributor to GDP growth is private household consumption, highly correlated to the labour market, which has recently showed some weakness. Moreover, savings deaccumulation will be less pronounced and different governmental aids will be reduced, such as mandatory loan repayments for students. The end of restocking of inventories will impact non-residential investments. Companies will cut down on capital expenditures, especially those more-costly to finance,

in response to the hawkish policy by the Federal Reserve, aimed at averting the risk of a "price-wage spiral". Inflation could be significantly influenced by the labour market, currently at a historically low 3.5%. Productivity gains are expected to temper the impact of negotiated increases in average hourly earnings by workers' unions.

However, the US economy has yet to reach full capacity and is currently operating at 79.6% as opposed to its defined level of 83.0%. Despite this, there is no shortage of human capital, with the labour participation rate remaining below 80%, influenced by factors such as remote work and part-time engagements. Monthly non-farm payroll figures have returned to pre-COVID levels, and initial jobless claims appear to be stabilizing above 200,000. Currently, each unemployed person in the US faces only 1.5 job vacancies compared to the two vacancies at the beginning of 2023. This trend is expected to persist into 2024 and will alleviate labour market pressure on inflation figures.

All these elements contribute to a soft-landing scenario within a disinflationary environment.

Potential for the Eurozone to economically rebound towards the end of 2024

The current inflation levels in Europe can be attributed to several factors including high energy prices, external shocks such as geopolitical events, structural constraints, such as the indexing of salaries/rents and labour market flexibility. Governmental interventionism, particularly in the energy sector, is expected to persist, providing continued support and boosting private household consumption. Additionally, European private consumption may also be supported by the beginning of a dissaving trend.

The trajectory of public expenses hinges on the willingness of European governments to further contribute to military efforts to protect their borders and eastern neighbours. European central banks will continue to reduce repurchasing programmes for sovereign debt, with the goal of limiting political excesses.

As for non-residential investments, there is considerable leeway for further increases within the corporate sector, as indicated by the upward revision of the order backlog. This catch up in capital expenditures and inventory is expected to be especially pronounced in Germany, where the manufacturing sector has been heavily impacted by the ongoing mobility transformation.

Financial market implications

Once inflation appears to be under control, the next consideration is when capital markets can expect to access additional liquidity from monetary authorities. Markets are anticipating an initial dovish signal – a potential 25 basis points from the European Central Bank in June, followed by a simultaneous move from the Federal Reserve. To prevent potential forex turbulence resulting from unsynchronized monetary easing, some central banks may seek coordination to avoid any new shocks.

Fixed income investors will benefit from a pause in rising target rates by gradually accumulating longer-maturing bonds with an emphasis on investment-grade corporate bonds. Equity investors on the other hand,

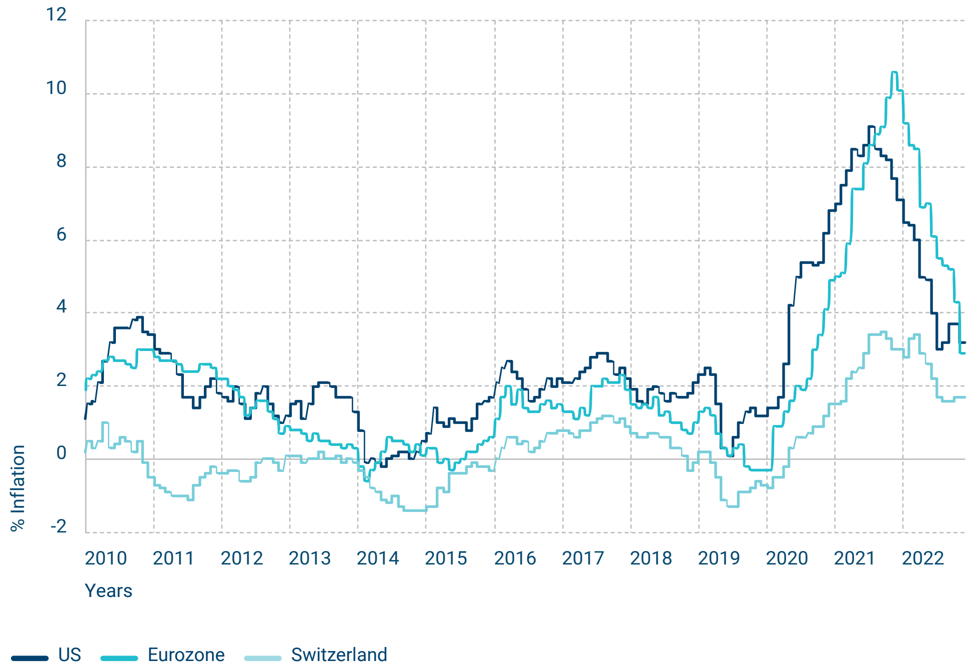
should invest in very defensive stocks such as consumer staples and growth stocks associated with the IT industry, during times of weakness.

For ideal asset allocation, alternative investments should be added. This includes cat bonds (catastrophe bonds – high-yield insurance-backed securities), asset-backed securities and commodities. These investments are decorrelated to traditional asset classes and improve the risk-return of a portfolio.

The upcoming American presidential election will be very challenging and could lead to some surprises. During the primary campaigns, most candidates are likely to make promises which could result in an unwelcome overshooting of the US budget deficit, which has deteriorated over the last two decades.

> **Figure 2: Inflation in the US, Eurozone and Switzerland**

Bloomberg Data, 28/11/2023



Asset Class Insights.

Which Central Banks will make cuts in 2024?

Foreign Exchange & Gold

Marc Maeder
Head of trading & sales

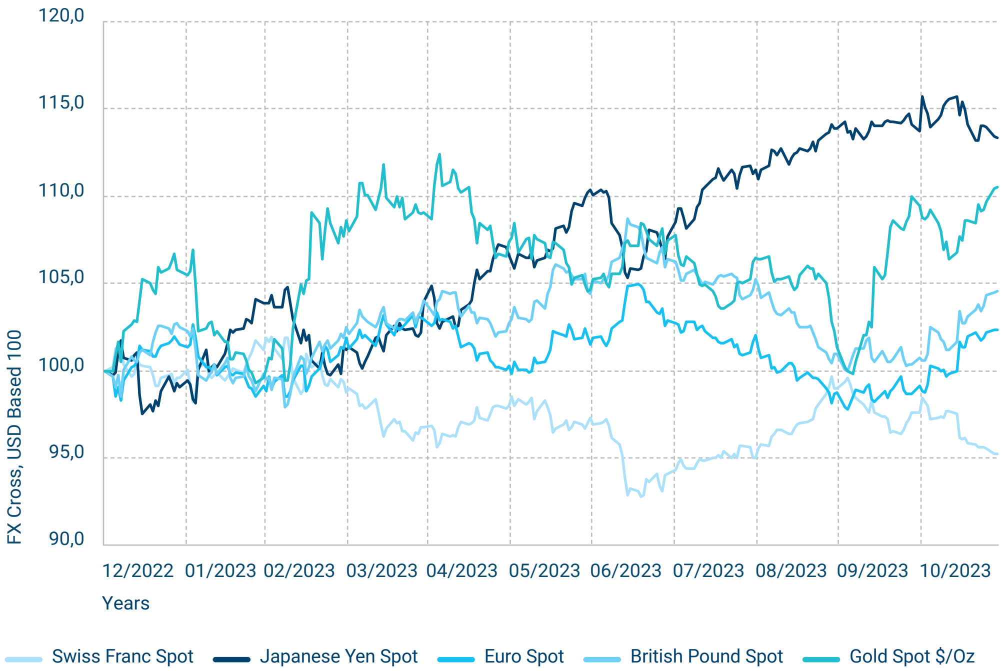
European recession vs US resilience

While the US economy appears robust, signals from the Eurozone paint a less optimistic picture. From a slowdown in the manufacturing and service sectors, a restrictive monetary policy and lower earnings to a prolonged energy crisis heading into winter, our expectations for the European economy in 2024 are not optimistic. The current geopolitical situation is adding further pressure in the Eurozone and careful monitoring is essential. Further deterioration in the Middle East could also have major effects on the energy sector. We therefore see a higher risk of recession in the Eurozone during the first half of 2024.

On the flip side of the coin, the US economy is in relatively good shape, despite a slowdown. Indeed, unlike Europe, the US has successfully sustained domestic consumption within a high-inflation environment. This resilience has helped the dollar to appreciate in the second half of 2023 against most major currencies.

One crucial determinant of the 2024 outlook is the geopolitical situation in the Middle East and its potential impact on the global economy. Central banks face the challenge of managing new complexities in this evolving equation. As we near the peak of high interest rates and estimate the timing of future rate cuts, the foreign exchange (FX) market will be braced for volatile times during this period.

> **Figure 3: USD evolution versus main currencies**
Bloomberg Data, 28/11/2023



The Swiss franc and gold become safe-haven currencies

The Swiss franc is poised to sustain its appeal as a safe-haven currency. The Swiss National Bank is anticipated to maintain a consistent stance in 2024, expressing ongoing concerns over inflation. A strong Swiss franc, partially supported by the central bank, will play a role in containing inflation.

The projected range for EUR/CHF for 2024 is expected to fluctuate between 0.9200 to 0.9700.

With both the US dollar and the Swiss franc holding their status in a risk-off environment, we expect the USD/CHF currency pair to remain within a defined range of 0.8800 to 0.9200 until either central bank initiates adjustments to their respective interest rates.

Gold, another safe-haven currency, will also be in focus. However, it may face headwinds initially due to continued strong US economic data supporting the dollar early in the year. We expect gold to eventually reach $2,100 by mid-2024 and plan to seize any downside opportunities to buy around the $1,850 levels.

EUR/USD under pressure in first quarter of 2024

There is a growing likelihood in 2024 that the European Central Bank will start cutting rates before the Federal Reserve. Current pressure on the Eurozone will persist and a risk of recession will push the ECB to start lowering rates in the first half of 2024 to boost the European economy. Initial anticipation of rate cuts in Europe will push the Euro towards parity with the dollar. At the same time, the Federal Reserve is likely to keep its monetary policy on pause slightly longer than expected due to continued strong data, and will only start cutting rates in the second half of 2024. We therefore expect the EUR/USD exchange rate to trade at a more equitable value of 1.0250 and to trend higher to 1.1200 by end of 2024.

USD/JPY road to normalization

The USD/JPY pair has consistently shown a tight correlation with the 10-year yield spread in recent years. The prevailing 'higher for longer' narrative from the Federal Reserve has bolstered the dollar and kept the lower-yielding yen under negative pressure. However, sustaining levels above 150 has proven challenging, as the market expects the Bank of Japan to offset a higher Consumer Price Index (CPI) projection for 2024. The central bank could still adjust its yield curve control programme, and any further tweaks to yield curve control (YCC) are likely to positively impact the yen, contributing to an expected normalization of rates to 0.0% We expect USD/JPY to range from 152 early in 2024, down to 142 in the second half of the year.

GBP/USD continued low economic growth

The outlook for the United Kingdom economy remains grim and the British pound is unlikely to find support from UK data. Stagnation appears to be the most plausible scenario going into 2024, as real interest rates have become increasingly restrictive. Following the trend observed with most major central banks, it is possible that the Bank of England may have implemented its last interest rate hike in this cycle. The GDP projection for 2024 is at 0.3% and the risk of a recession in the UK could increase in the second half of 2024. Nevertheless, we expect GBP/USD to trade around 1.20 in the first half of 2024 with a potential upward movement by end of year, mainly driven by lower dollar expectations.

Diversification of Duration and Focus on Quality.

Fixed Income

Charles Winkler
Investment Advisor

Diversification of duration exposure and a focus on investment-grade bonds

While 2022 was tough for all asset classes, with negative performance prevailing, 2023 did not provide much relief either, especially for the fixed-income market. Long-dated US treasury bonds are set for a record third consecutive year of losses for the first time in US financial history.

In recent weeks, the 10-year US treasury yield trend has remained to the upside, even as inflation continued to drop. Currently, the inflation level sits well below the 10-year treasury yield, which is trading around 4.57% at the time of writing. At the same time, a cooling market with a solid economic backdrop supports the case for policy rates to remain at their current high level for longer. Recent increases in consumer inflation expectations prevent the US Federal Reserve from declaring outright victory, even as the situation has shown improvement. Nevertheless, higher long-term interest rates have already led to a tightening of overall financial conditions.

For the remainder of this year and 2024, the Federal Reserve will continue to maintain a fully data-dependent approach, refraining from providing explicit guidance on the trajectory of interest rates. Jerome Powell, the Chair of the Federal Reserve and his colleagues are poised to open the door to further interventions; these are contingent on the evolving figures related to the health of the US economy in the coming months.

As mentioned above, the path for interest rates has been exceptionally turbulent around the world during the last three years, becoming even more unpredictable since the beginning of last year. Fixed-income portfolios in particular have suffered. During these years of financial repression, ultra-loose monetary policies, including quantitative easing, have made it challenging to correctly allocate fixed income assets – too much risk for too little yield.

The recent return to a more normal cost of money has had an interesting cleansing effect. While we don't claim to accurately 'time' the next intervention by the US Federal Reserve, it is reasonable to consider that a significant portion of the move is complete, given that real rates now surpass the inflation level. Looking ahead for the next two years, there appears to be an attractive value to be found in bond markets as they stand today.

In terms of fixed-income allocation and with an inverted US yield curve (short-term rates higher than longer-term rates), investors could consider not keeping 'all their eggs in one basket', i.e. only investing in the very short part of the curve. Note that doing so brings a clear reinvestment risk for the near future, when short term rates are expected to decline – this is in line with projections for a normalization of the US yield curve in the coming months.

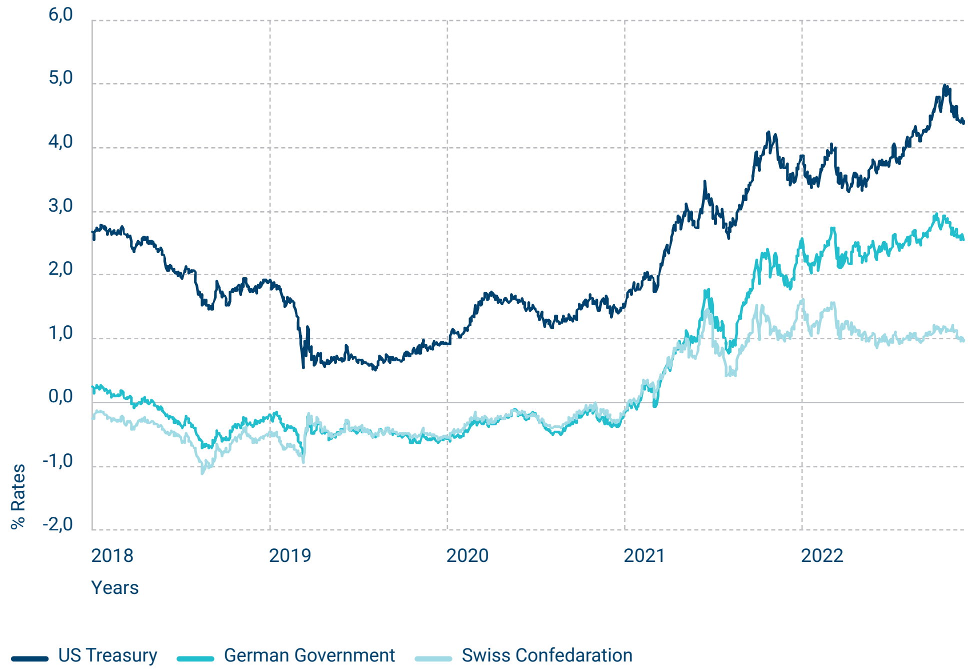
Short-term deposits offering around 5.5% in US dollars remain very attractive today (similar attractiveness exists for other currencies). We would also advise, starting today, to build exposure to longer-dated bonds to lock in attractive yields on the longer part of the curve for 2024. Such high levels on short-term rates will not last indefinitely. On the credit side,

we remain cautious on the high-yield segment and would advise to keep adding exposure to low investment-grade debt. Highly leveraged companies face challenges with the rising real cost of capital and may encounter difficulties in the coming months when they need to refinance their debt.

Interest rates have started to rise, adding to the wall of worries for the last 18 months. The era of free money has ended, not without its share of pain. For 2024, we recommend a mixed allocation of shorter-dated bonds and longer-dated ones, simply to have better diversification in term of duration risk. We also favour the low investment-grade segment in our clients' portfolios.

> Figure 4: USD, EUR and CHF 10-year yield evolution

Bloomberg Data, 28/11/2023



Bumps on the Road Ahead.

Equities

Erman Mendirek, CFA
Investment Advisor

US equities

A stock market rally, fuelled by an Artificial Intelligence frenzy triggered a strong recovery in US benchmark indices for most of 2023. However, with global interest rates at decade highs, the Federal Reserve holding a “higher for longer” stance and pronounced geopolitical divisions and flashpoints around the world, are we about to face a reality check in equity portfolios?

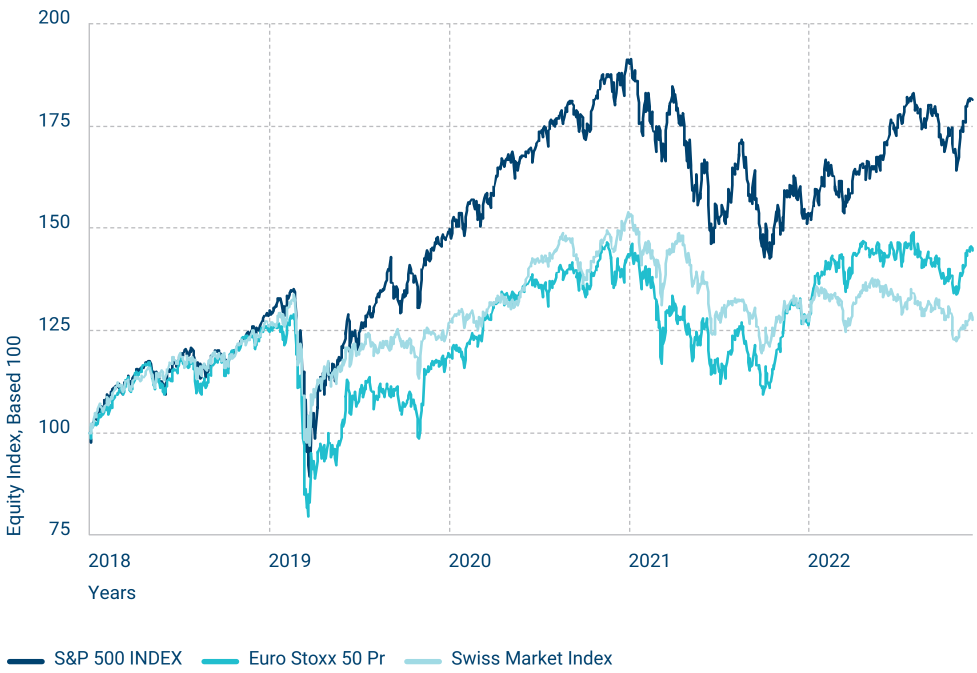
After rising 20% from January to July, the S&P500 pared half of its gains. Flat earnings were supported by expanding valuation multiples which reached the highest levels since the start of latest Federal Reserve hiking cycle. Additionally, 75% of index components traded below their 200-day average prices, signalling further weakness for most stocks. As we reiterated many times during discussions with our clients, a few tech and discretionary stocks were in fact pulling US indices up, such as Nvidia, Meta or Tesla.

With third-quarter GDP growth still at 4.9%, inflation gradually coming under control and other economic data still pointing to an expansion, it is more difficult to bet on a US recession for the upcoming year. However, with USD interest rates at their highest levels since 2007, an economic slowdown may be unavoidable in a couple of quarters. Ultimately, the strength of the US economy and resilience of American consumers may dictate equity returns.

Regarding sectoral allocations, investors should be mindful of economic cycle theory. A late-cycle positioning, with peak interest

> **Figure 5: Evolution of S&P500, EuroStoxx50 and SMI index**

Bloomberg Data, 28/11/2023



rates and slowing economic activity, should prioritize defensive quality names in utilities, healthcare, and consumer staples, such as Nextera Energy, UnitedHealth and Coca Cola. Additionally, a reasonable exposure in energy stocks, such as Marathon Petroleum and Schlumberger, may remain in portfolios amid global supply issues.

European equities

Ongoing European economic weakness, coupled with a Chinese slowdown continues to exert pressure on European equities. Fourth-quarter data on European manufacturing, services, and lending activities indicate a true malaise in the region and an eventual recession ahead. On the other hand, the European Central Bank has, by many accounts, reached the peak in its hiking cycle. The latest EU Banks' Lending Survey also suggests additional tightening in financial conditions as lending standards increase and loan demand decreases.

European equities clearly followed this economic narrative, posting sluggish returns and a 10% correction since July. Anything related to luxury, discretionary spending, IT and Chinese exposure has been repriced and relinquished any gains accumulated since October 2022. If this economic weakness continues into the next couple of quarters, investors should remain cautious and possibly accumulate positions in European stocks for a potential recovery trade in the second half of 2024.

In this mixed picture, energy and utilities may warrant overallocation considering the region's problematic energy situation. Reasonably priced with dividend cash flows, these will maintain a defensive stance amid an economic slowdown. Conversely, European financials, which were the clear winners of the ECB's hiking cycle with stellar returns, will now be in the spotlight: Will they be able to hold on to their performance?

Swiss equities

In 2023, the Swiss Market Index underperformed its European peers by 10% as of October. Notably, declines in four heavyweight stocks – Nestlé, Novartis, Roche and Richemont – have dragged down the SMI since its early May peak. These companies comprise almost 60% of the Index, and their retreats contributed more than 90% of the benchmark's pullback in this period, despite most of the remaining 16 stocks being up for the year. Additionally, a strong Swiss franc has diminished competitive profiles while creating translation issues.

However, heading into 2024, Swiss equities will remain attractive for several reasons. Firstly, Switzerland is often regarded as one of world's most innovative economies. It boasts highly productive and agile small and mid-cap companies with global exposure, due to the country's limited domestic market. Highly competitive, these companies often align with high growth rates, technological advances and a clear over-performance compared to their European peers since the 1990s. Investors with long horizons should keep an allocation in the SMI Mid Cap Index.

Furthermore, investors looking for defensive growth strategies can maintain their allocations in SMI heavyweights, which offer a solid alternative, with projected 10–12% earnings growth for 2024–2025 and globally diversified portfolios.

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