Vontobel

Investors' Outlook

Seeking stability

November 2023

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Seeking stability

—
Dan Scott
Head of Vontobel Multi Asset,
Vontobel

Dear readers,

In early October, the latest violent conflagration in the Middle East captured the world's attention, along with growing concern over the escalating human toll and the conflict spreading to the wider region.

As a result, investors increasingly turned to safe-haven assets, such as gold or the US dollar, and the financial community is keeping a sharp eye on oil prices and a possible flareup in inflation. We take that position as well and believe it's best to remain cautious in our positioning and carefully monitor not only the geopolitical situation but also what kind of economic damage the currently tight financial conditions bring before making any moves.

We also need to consider the broader economic backdrop. Investors trying to gauge the state of the US economy have faced conflicting signals. It's clearly going strong, resisting a downturn so far.

Some companies, particularly consumer-related ones, have been beating expectations and raising their forecasts. On the other side of the coin, both corporate defaults and consumer-loan delinquencies are starting to spike higher. The job market and consumers have seemingly shrugged off the rate hikes, while the housing market is feeling their sharp sting. And every data point that underlines the ongoing strength of the US economy puts off the idea of rate cuts, keeping Treasury yields as high as they are.

The mixed signals have investors puzzled and torn. Some are more bullish, expecting a short and shallow recession that could potentially present pricing opportunities. Others are waiting for the other shoe to drop, as they feel we're currently in the eye of the storm and things will still go south. We reiterate our recession scenario and believe that either way, it's too early to step in and make changes to our portfolio.

As we approach the final stretch of the year, it's worth mentioning that bond markets have had to endure yet another painful year, but the question now is whether yields have peaked. Billionaire investors Bill Ackman and Bill Gross both recently closed out their bearish bond views, citing a slowing economy and an anticipated recession, respectively.

In this Investors' Outlook, you can find an analysis of the conflict in the Middle East and a look at the implications for investors, an examination of quality investing as an investment philosophy, and our views on gold.

We remain vigilant and are ready to adapt our portfolio to changing market dynamics in the face of economic and geopolitical challenges.

⟶ Webcast
To view our webcast on recent market developments, click **here.**

—
Frank Häusler
Chief Investment Strategist,
Vontobel

Good news, bad news, worse news

The month of October could be summed up as having consisted of "good news" that came with negative implications, such as the much better-than-expected US jobs report or ISM manufacturing index approaching growth territory, which fueled fears that the US Federal Reserve might have to keep interest rates high for longer—or, in fact, push them even higher—as well as outright bad news, with the surprise outbreak of the conflict in Israel.

Let's start with the good news that translated into bad news. As a result of the positive economic data, yields on 10-year US Treasury bonds rose to more than 5 percent, as did the yields on 30-year Treasury bonds, the highest level since the global financial crisis. This may soon become a problem as rising bond yields translate into higher borrowing costs for companies and governments. Something usually breaks along the way. Past examples include the 1987 stock market crash, the dot-com bubble burst in 2000, or the 2013 taper tantrum as the Fed slowly scaled back its quantitative easing program. The issue: it is hard to predict what will break—and when.

Fed members seem to be acutely aware of this. Chairman Jerome Powell has pointed to "a range of uncertainties, both old and new," that "complicate" the Fed's job. After the Fed kept rates steady at its November meeting, we believe it will start to cut as soon as economic growth slows, likely in the first half of 2024.

On the energy side, investors had already been grappling with supply fears amid oil output cuts when the conflict in the Middle East erupted, exacerbating fears of an oil shock akin to that in the 1970s. If it stays contained, we expect the oil price impact to be moderate. If the conflict spreads, a major oil shock cannot be ruled out.

See the details of our asset allocation on page 5.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity			→			We stay neutral on cash for now but are monitoring the market consolidation that has been occurring since late July. We are ready to act once opportunities emerge.
2 Bonds			→			We are neutral on fixed income and reiterate all sub-asset class views. The bond market sell-off, which had been simmering for some time, gained momentum in early October. Most of it was driven by "good news" being considered "bad news", such as a strong monthly US jobs report and retail sales. We expect the Fed to implement first rate cuts in the first half of 2024. In a decelerating economy, inflation should take a step back—and investors will soon see the current rates as too high. We reaffirm our positive outlook for high-grade fixed income and maintain a defensive stance on overall credit allocation, with a neutral and underweight position on investment-grade bonds and high-yield, respectively.
3 Equities			→			We remain neutral on equities. Unattractive equity risk premiums on fairly full valuations, along with liquidity being drained from the system by central banks, are not usually supportive of stocks. We also believe analysts' expectations are a bit too optimistic, especially for Eurozone equities, where we stay double underweight. The third-quarter reporting season has so far been worse for European companies than for their peers in the US or Japan. The Eurozone may become a candidate for upgrades once a recession priced in. We stay overweight for US and Swiss equities, two defensive and resilient markets with earnings predictability.
4 Gold				→		We maintain a slightly positive view on gold. The tragic events in the Middle East that started to unfold early October and the resulting volatility underline its importance in the portfolio. Gold has likely also benefited from the selloff in government bonds, which may make it a more appealing haven to some investors. It helps to hedge against still elevated geopolitical risk and the risk of inflation rising more than expected.
5 Commodities			→			Within commodities, the energy complex commanded the most attention this month amid the conflict in the Middle East. Going forward, a lot depends on whether the conflict expands further into the larger region. Aside from the oil price, we don't find the outlook for other parts of the commodity complex that appealing. Take industrial metals, which continue to be weighed down by the weak global manufacturing industry and the Chinese property sector. This, paired with our economic baseline scenario of a recession, argues for a neutral view on commodities.
6 Alternative strategies			→			We reiterate our negative view on alternative funds i.e., a modest underweight in hedge funds and neutral view on real estate. This results in a neutral view on alternative investments, unchanged from last month.

Changes month-on-month: same → higher ↗ lower ↘

A close eye on the Middle East

The Israel-Hamas conflict has dominated headlines since early October. In view of the immense humanitarian implications, it seems out of place to examine the conflict from an investor's perspective. However, we believe that analysis is necessary to make informed investment decisions, even in turbulent times. With many investors wondering whether the conflict will spread or escalate, we consider the main factors at play.

—
Stefan Eppenberger
Head Multi Asset Strategy,
Vontobel

—
Michaela Huber
Cross-Asset Strategist,
Vontobel

As investors initially tried to assess the situation and get an overview of the market reaction, it was oil that received the greatest attention. While investors feared higher oil prices, Brent crude has dropped to levels seen before the start of the conflict. Israel accounts for less than 1 percent of global petroleum production, according to the US Energy Information Administration (compared with 20 percent for the US or 11 percent for Saudi Arabia), a look at the Strait of Hormuz shows why investors are worried about the conflict spreading. It connects the Persian Gulf with the Gulf of Oman and the Arabian Sea and separates Iran (north) from the Arabian Peninsula (south). Nearly a fifth of the world's oil supply passes through it every day. A spillover into other regions and even a temporary block of the Strait would have a significant impact on global oil supplies.

Investors are also closely watching Iran, which is considered a supporter of Hamas and has ties to Hezbollah in Lebanon.[1] At the beginning of the conflict, Iran limited itself to calling on Israel to stop its military action. But the country's foreign minister's tone has become harsher, with direct comments to the US and a warning that multiple fronts would open. It has also called on fellow members of the Organization of Islamic Cooperation to impose an oil embargo and other sanctions on Israel.

Saudi Arabia, which has been seeking to diversify its domestic economy and attract foreign investors for some time now, suspended talks on normalizing relations with Israel as it called on the country to cease its military action. While it is unlikely to have much interest in an escalating conflict, it also didn't directly condemn the attack on Israel.

What argues against escalation?

It is difficult to predict how things will evolve (as there are many different stakeholders with sometimes conflicting agendas involved), but there is hope that the conflict will remain regionally contained. Unlike in the 1970s, when Arab members of the Organization of the Petroleum Exporting Countries (OPEC) imposed an oil embargo against the US (see chart 1), today's leaders are staying on the sidelines—at least for now.

Another factor is that an escalation is not in the US's political interest, as an oil price shock could hurt President Joe Biden's approval numbers ahead of the upcoming presidential elections (see chart 2).

How could tensions mount?

Israel has declared war and has mobilized some 360,000 reservists. Along with the active troops, this totals 5.4 percent of Israel's population, which is significantly higher than during the 1982 Lebanon War (1.9 percent), the first Intifada starting in 1987 (1.8 percent), the second Intifada starting in 2000 (2.8 percent), the 2006 Lebanon War (0.4 percent), or the 2011 Gaza War (2.3 percent)[2]. This may signal that Israel is preparing for a larger-scale, longer-term operation.

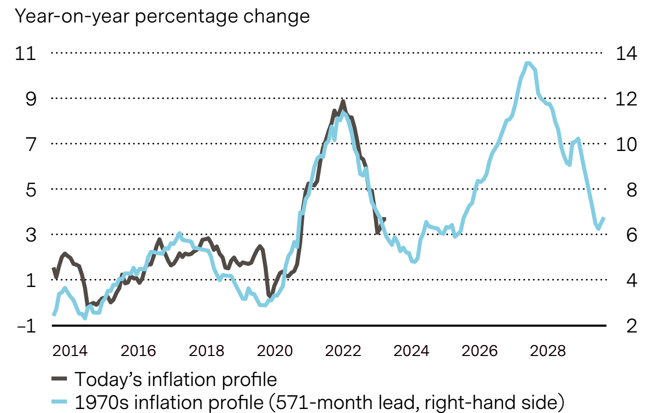
An additional element is Russia's interest. While it is not an OPEC member in the strict sense, it participates in OPEC meetings and has supported decisions such as the oil production cuts of the past months. In our view, there is a risk that Russia will further curb its oil production, i.e., further tighten supply.

Implications for investors

1. In the current environment, we believe one should remain defensively positioned. The current situation makes a recession even more likely than it already is (see chart 3). A recession remains our baseline scenario.
2. For investors looking to hedge against the current situation, oil-related investments such as energy company stocks could make sense.
3. Those seeking refuge in safe havens should consider investing in gold rather than the US dollar. When conflicts in the Middle East push up oil prices, this usually weighs on the US dollar (oil and the dollar tend to have an inverse relationship).

Chart 1: Roughly 50 years ago, the Arab oil embargo triggered a painful episode in US history

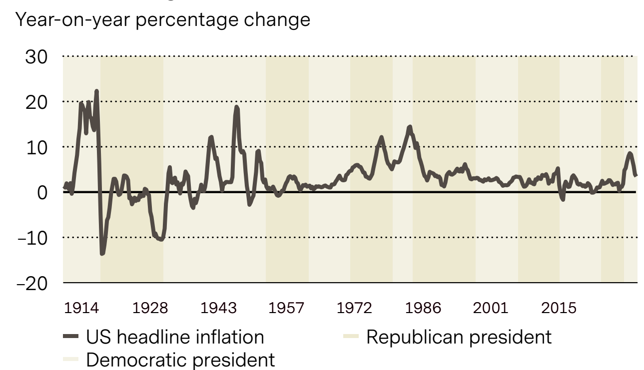
Year-on-year percentage change



Source: LSEG, Vontobel

Chart 2: Rising inflation is the best way to lose elections

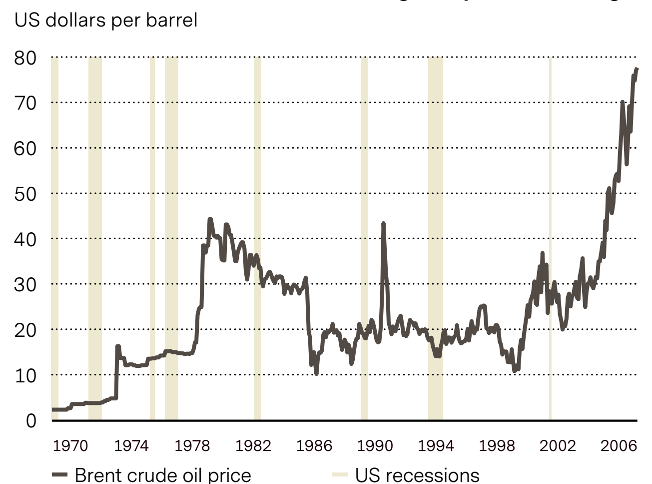
Year-on-year percentage change



Source: LSEG, Vontobel

Chart 3: The world can't tolerate high oil prices for long

US dollars per barrel



Source: LSEG, Vontobel

[1] Iran has denied involvement in the attacks on Israel; according to US Secretary of State Antony Blinken, there is "no evidence" of Iranian involvement.

[2] Sources: World Bank, Jewish Virtual Library, Israel Central Bureau of Statistics, International Institute for Strategic Studies, Six Days of War: June 1967 and the Making of the Modern Middle East (Michael Oren), The Yom Kippur War (Abraham Rabinovich).

The quality compass

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." Warren Buffet's famous words in a 1989 letter to shareholders encapsulate the essence of quality investing, a strategy that seeks to identify high-quality, profitable companies with strong financial fundamentals, sustainable competitive advantages, and the potential for consistent growth.

—
JP Britz
Portfolio Manager,
Multi-Asset Strategy,
Vontobel

After a decade of robust growth, the world finds itself in an economic environment that is vulnerable to inflation and geopolitical risks, as seen during and in the aftermath of the Covid-19 pandemic, the war in Ukraine, and the recent conflict in the Middle East. As we believe the uncertain market conditions are likely to linger, we believe the golden era for quality investing has just begun.

The fallout of such economic uncertainties can take time to trickle through to companies' earnings. And once they do, that's when the stability and resilience of quality investing may come to the fore, providing a chance to mitigate the risk of losses and benefit from the long-term value that fundamentally strong businesses create. By focusing on firms with stable balance sheets, reliable earnings, and robust cash flows, quality investors aim to build resilient portfolios capable of navigating market cycles and delivering attractive risk-adjusted returns.

But what exactly is quality investing, and how does it differ from growth and value styles?

Quality vs. value vs. growth[1]
While picking quality companies seems intuitive and indispensable to investors' success, this particular investment style isn't as popular and doesn't garner the same attention as growth and value styles. And yet, quality investing has outperformed both value and growth in global markets for decades. On top of that, when considering the risk-return ratio, quality has also historically delivered higher annualized returns and a lower annualized standard deviation than value and growth, as well as the broader market (see chart 1).

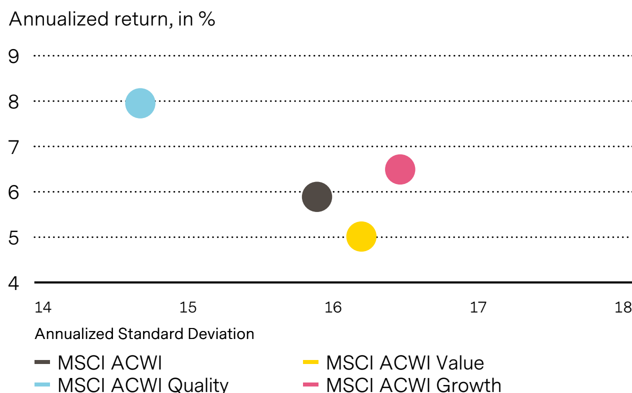
So, the obvious question is, why the benchwarmer status? The answer boils down to investors' differing, often subjective, views on which elements in quality investing really drive returns over the long term. The MSCI Quality Indexes that follow this investment strategy, for instance, consider three single factors linked to financial productivity, low leverage, and stability. We use a broader quality scoring system, which examines additional factors that we believe are underrepresented or excluded from MSCI's methodology.

What we look for

- ***Earnings quality:*** High-quality firms should exhibit consistent and sustainable earnings growth, driven by their competitive positions, effective management, and ability to adapt to evolving market conditions. They should have a track record of generating stable profits and be less susceptible to earnings volatility.
- ***Financial productivity:*** A company's ability to efficiently utilize capital and consistently produce above-average returns on shareholder equity often indicates a competitive advantage over its peers. The longevity of this advantage can sometimes be underestimated by the market, and this creates opportunities. Historically, companies with higher returns on equity and on invested capital have outperformed their peers (see chart 2).
- ***Financial stability:*** Healthy balance sheets with low debt levels tend to reduce a firms' vulnerability to economic downturns and allow them to pursue growth opportunities.
- ***Free cash flow generation:*** Robust and consistent free cash flows enable companies to reinvest in their businesses, pay dividends, and capitalize on strategic opportunities. This characteristic typically provides stability and enhances their capacity to navigate market uncertainties.
- ***Competitive advantage (high margins):*** Companies with strong brand recognition, intellectual property, or unique business models potentially have durable competitive advantages, which gives them the ability to maintain or increase their high profit margins due to the barriers of entry.

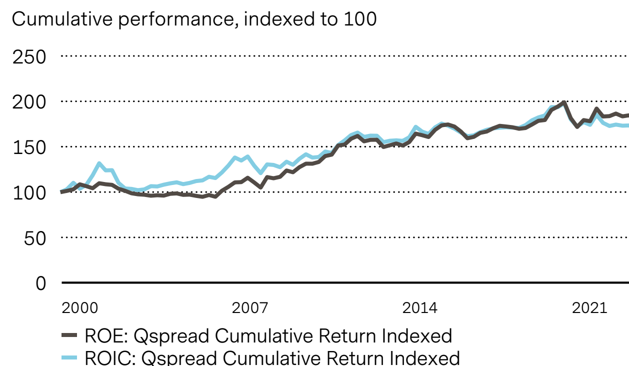
[1] The value factor includes securities whose prices appear low compared to their intrinsic value, while the growth factor includes securities whose prices are believed to be driven by outsized sales and earnings growth.

Chart 1: Historically, higher-quality companies have outperformed with lower volatility



Source: Bloomberg, MSCI, Vontobel. Data for January 1, 2001 to June 30, 2023

Chart 2: A closer look at cumulative returns



Note: Qspread is the difference in performance between the top (Q¹) and the bottom (Q⁴) quartiles. These returns are then indexed on a 100 base.

Source: Bloomberg, MSCI, Vontobel. Top quartile vs. bottom quartile, quarterly rebalanced. Data for January 1, 2001 to March 30, 2023

Favorable characteristics …
If history is any guide, quality companies tend to exhibit resilience during economic downturns. Their strong financial stability, sustainable earnings, and robust cash flows can enable them to weather challenging market conditions. That usually makes them better equipped to navigate through economic contractions, and hence reduces the risk of losses for investors (see chart 3).

Quality investing typically offers lower volatility compared to other investment styles. Quality companies often have less fluctuations in earnings, resulting in smoother stock price movements. This stability can provide investors with a sense of security and help mitigate the stress associated with volatile market swings and resist the temptation to make impulsive and reactionary investment decisions based on short-term market volatility. The focus on firms exhibiting stable earnings and strong fundamentals can instill confidence and encourages a long-term perspective.

The stable and predictable free cash flow quality companies generate alongside their lower volatility can lead to lower risk premiums, which in turn leads to lower cost of capital. As a result, these firms may have higher valuations.

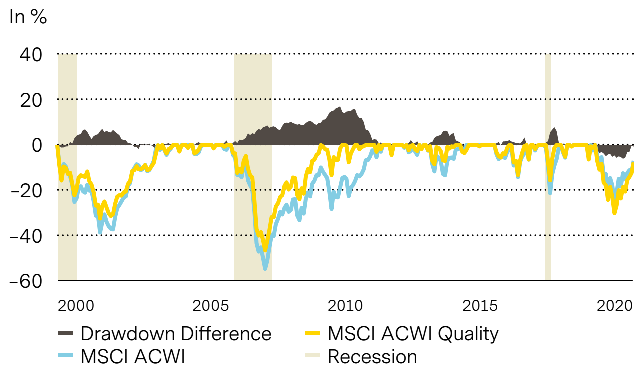
In addition, their competitive advantages and ability to generate robust free cash flow enable them to invest in research and development, expand into new markets, and pursue long-term growth opportunities. Over shorter time frames, quality companies' market leadership is often not as pronounced; however, the longer the rolling period, the more frequently they outperform.

… And the tradeoff
Of course, there are exceptions. It's important to note that no investment style is guaranteed to outperform consistently over every business cycle. Different market conditions may call for other investment styles to perform better. Investors should consider their own risk tolerance, investment goals, and time horizon when selecting an investment style or strategy.

Rapidly rising interest rate expectations, for example, weigh more on quality companies than on lower-quality firms. Since quality companies usually have higher visibility on longer-term earnings, future cash flows make up a bigger share of their valuation. When interest rates rise, the so-called discount factor increases, which means these future cash flows are discounted back at a higher rate to determine the fair valuation of a company.

Chart 3: Quality companies have seen smaller drawdowns than the broader market during economic downturns

In %



Source: Bloomberg, MSCI, Vontobel. Data for January 1, 2001 to June 30, 2023

And, while quality investing can bring longer-term benefits, it's important to keep in mind that investing in any kind of equity strategy is accompanied by risk as stocks are particularly sensitive to geopolitical events as well as economic and financial developments that can directly affect market conditions, regardless of which investment philosophy one picks.

Performance in different market regimes

In bull markets, quality companies can keep pace with the market due to their above-average profitability, consistent growth prospects, and the potential for better-than-expected earnings.

In bear markets, quality investing shines as investors flock to quality companies as they typically experience smaller drawdowns due to stable earnings and strong balance sheets. In turn, they are more likely to recover quickly when the market rebounds, as they can capitalize on lower cost of capital than their competitors to gain market share and grow faster than their lower-quality peers.

In inflationary environments, quality companies can possess enough pricing power to pass on cost increases to customers, which helps soften the impact of inflation on their profitability. Their strong competitive positions and customer loyalty allow them to maintain margins and protect their earnings.

Quality investing, centered on selecting high-quality companies with strong financial fundamentals and sustainable competitive advantages, is an investment strategy that may offer the potential for consistent, improved risk-adjusted returns. It can perform well during economic downturns, provide stability during market exuberance, and offer a hedge against inflation. While valuation and interest rate fluctuations may impact short-term performance, the long-term focus on financial stability and sustainable growth positions quality investing as an attractive approach for investors seeking resilient portfolios.

Significant shifts

—
Christopher Koslowski
Senior Fixed Income & FX Strategist,
Vontobel

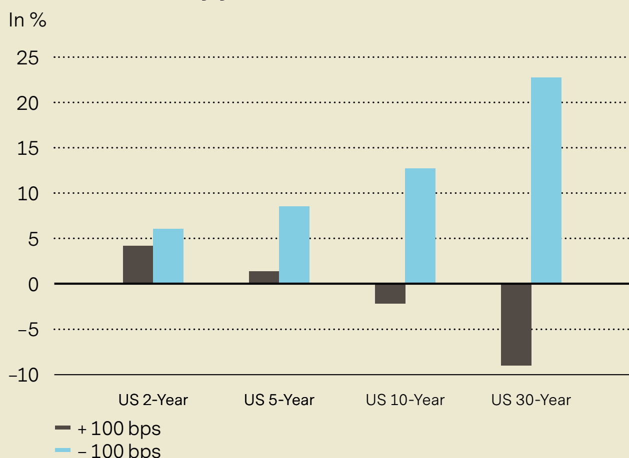
The bond market experienced a historic selloff in the past few weeks. Yields on 10-year Treasuries soared above 5 percent, the highest level since the global financial crisis. But the precise reason for this move remains uncertain and is a topic of much debate. Investors are looking at everything, from the Fed's perspective on interest rates to the increasing Treasury supply due to the widening deficit, along with more nebulous aspects such as the term premium.

We believe multiple factors are simultaneously influencing the situation. The initial phase of the shift was undeniably linked to the strengthening of the US economy and its underlying macro fundamentals. The market's perspective moved from anticipating a recession to expecting above-trend growth. Regarding the deficit and supply, there hasn't been any recent notable new information that wasn't already known a few months ago. With the rise in yields (see chart 1), expectations for interest expenses at the federal level probably also increased, which might be contributing to the upward pressure in yields as well.

There has been a significant shift in the Fed's language. The October Federal Open Market Committee meeting struck a rather hawkish tone. The predictions from the Fed indicated a further rate increase this year, with an expectation for the policy rate to be sustained at higher levels for an extended period. The sharp rise in bond yields and the overall tightening in financial conditions, though, appear to have led to a change in the Fed's thinking. Fed Vice Chair Philip Jefferson's key lines were: "We are watching the tightening of financial conditions and the sharp increase in long-term real yields, and these developments are doing some of the hard work for us, and as such, we believe we have reached that fabled sufficiently restrictive level." Chair Jerome Powell told journalists after the November meeting that slowing down gives policymakers the chance to gauge "how much more we need to do, if we need to do more." These comments are likely the nearest Fed officials can come to indicating that they think the tightening phase is over (see chart 2).

The excess return outlook is poor given the weakening credit quality
We consider high-yield corporate bonds unattractive at current valuations, as rising debt service costs will erode interest-rate coverage further and thus credit quality. Default rates are on the rise amid tighter bank lending standards. We continue to suggest that bond investors should pay attention to deteriorating credit fundamentals and restrictive monetary policy.

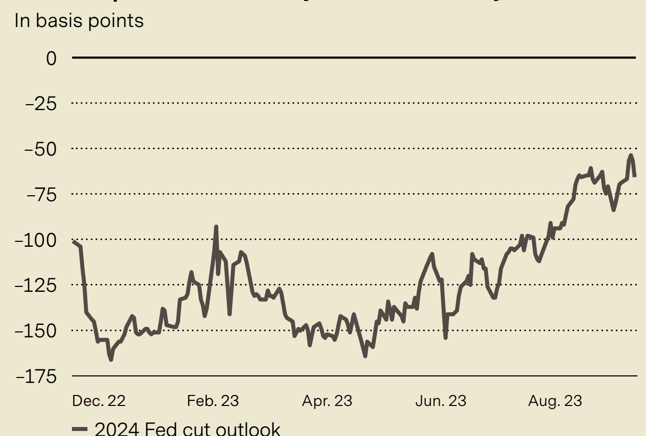
Chart 1: Return for various tenors over a one-year horizon if Treasury yields were to move 1 %*
In %



* Assuming a parallel yield curve shift

Source: Bloomberg, Vontobel

Chart 2: Markets price in two and a half rate cuts of 25 basis points each next year as most likely outcome
In basis points



Source: Bloomberg, Vontobel

When the going gets tough, the tough get going

—
Mario Montagnani
Senior Investment Strategist,
Vontobel

The month of October was not pretty for equity markets. Rising geopolitical instability exacerbated volatility and yields rallied. Only a few sectors—among which the largest US megacaps—are still able to defy gravity (see chart 1). What is our take?

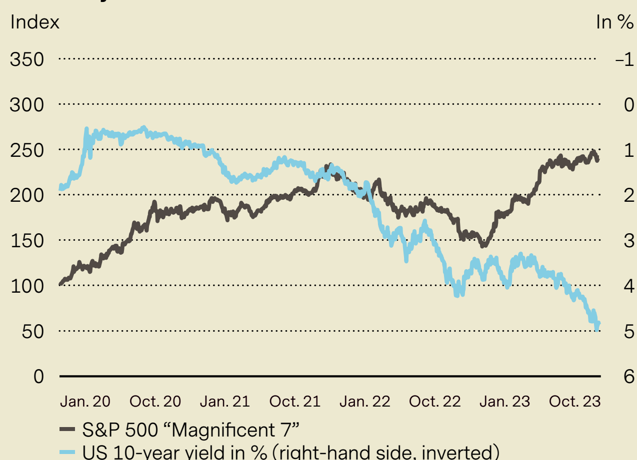
Investors' sentiment further deteriorated, and equity markets continued to slide in October. Among the several factors, US September inflation edged higher, now for a third consecutive month. This abruptly reinforced the Fed's "higher for longer" mantra, which it has been repeating for months, and potentially, the need for more hikes. At its November meeting, the Fed signaled the most aggressive rate hikes in four decades may be over.

Oil prices continued to wobble amid increasing geopolitical instability, triggering speculations about a further inflation wave. Yields on US 10-year Treasuries jumped to levels not seen since the global financial crisis. Rising yields have rarely supported equity markets, and current high yield levels imply lower equity risk premiums. This is particularly true in the US, where, in nominal terms, we are close to zero. This leaves investors with very little incentive to invest in equities vs. Treasuries.

The ongoing reporting season comes as a massive reality check for stock valuations. These have been rising since Q4 2022 and companies are now expected to deliver. It all comes down to the question of how realistic growth estimates are for 2024-25, which on average are expected to be close to 10 percent globally, despite a looming recession.

On this front, we have a mixed picture across regions and sectors. US companies are largely outperforming other markets—above-average cyclical European peers in particular—with solid earnings surprises in line with the last two quarters. The largest US megacap tech stocks—often referred to as the "Magnificent 7", which have been doing the heavy lifting in terms of year-to-date performance, have surprised positively so far, both in terms of earnings and outlook. That bodes well for 2024, as they are expected to deliver the largest portion of estimated 2024 earnings-per-share growth. We maintain our defensive positioning on a regional level. Our neutral stance on equities is supported by the traditionally strong seasonality of the last quarter (see chart 2). More on page 5.

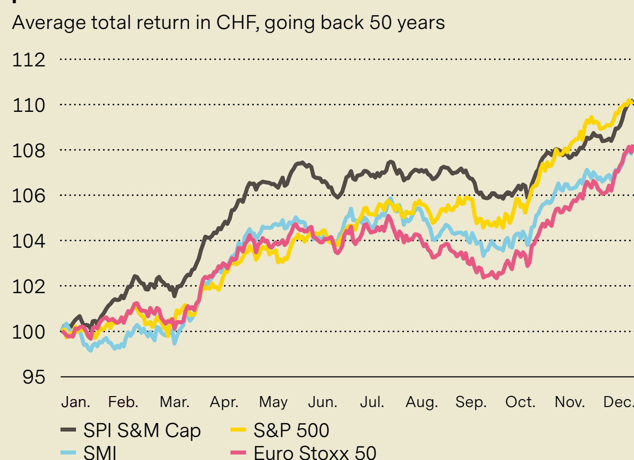
Chart 1: "Magnificent 7"* defy gravity despite the surge in bond yields



* "Magnificent 7": Microsoft, Apple, Meta, Tesla, Alphabet, Amazon, Nvidia

Source: LSEG, Vontobel

Chart 2: Seasonality has played in favor of stock-price performance



Source: LSEG, Vontobel

Gold shines again

—
Michaela Huber
Cross-Asset Strategist,
Vontobel

In the second half of September, the price of gold knew only one direction: down. In view of stubborn inflation and a still robust US economy, markets began to brace for continued restrictive monetary policy in the world's largest economy. This would clearly be negative for a non-interest-bearing asset like gold. However, in early October, gold demonstrated why it deserves a permanent place in the portfolio.

When markets reopened after the Hamas attacks on October 7, gold set off on a remarkable rally. While gold had been trading at around 1,818 US dollars per ounce before the attacks, it rose to a five-month high of over 1,990 US dollars in mid-October (see chart 1).

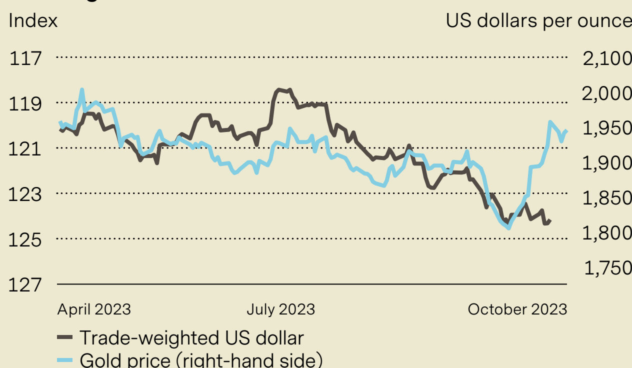
Gold probably also benefited from the misery in the bond market. In the past, investors liked to fall back on government bonds of high-quality debtors in troubled times. However, given the massive selloff in the bond market, many investors seem to view gold as a more reliable safe haven. Towards the end of the month, investors' focus returned to the US economy and the direction of future US monetary policy. According to an estimate by the Bureau of Economic Analysis, US gross domestic product grew by 4.9 percent in the third quarter, more than expected. Orders for durable goods were also better than expected. At the same time, the Fed's preferred core inflation measure—the core index of personal consumption expenditures—ticked up again.

All this caused a small setback in the gold price. But in the current environment, only a decline in geopolitical risks, and thus weakening demand for safe havens, is likely to lead to a significant selloff in gold.

For euro-based investors, a gold investment has paid off even more in the course of the year than for dollar- or franc-based investors. Given the risks of stagflation in the Eurozone and lower (regional) real yields, this trend could continue.

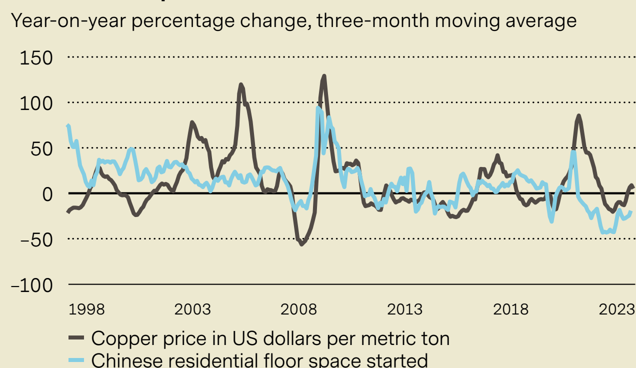
Industrial metals such as copper have had a much harder time. As copper is used in a wide range of industries, be it construction, automotive, or renewable energy, it is often seen as a leading economic indicator. With global manufacturing still weak and the Chinese property crisis simmering, it is no wonder that copper prices have recently fallen to an eleven-month low (see chart 2). Further headwinds came in the form of a persistently strong US dollar, which made the red metal more expensive in other currencies.

Chart 1: When push comes to shove, headwinds such as a strong US dollar don't matter



Source: LSEG, Vontobel

Chart 2: Copper weighed down by Chinese property sector developments



Source: LSEG, Vontobel

Gazing into the currency crystal ball

—
Christopher Koslowski
Senior Fixed Income & FX Strategist, Vontobel

The US dollar has defied expectations with unyielding strength. Headlines promoting a strong US dollar have been prevalent, leaving those with a bearish stance on it—us included—disappointed.

The prevailing optimism surrounding the US dollar's strength has mainly been fueled by robust economic data, which has led to upward revisions in US growth forecasts with hawkish consequences. Despite our bearish outlook, which is based on the anticipated weakening of the US economy, the US dollar has continued to defy our expectations. We maintain our belief in a recession unfolding into 2024, which should prompt renewed the currency's weakness.

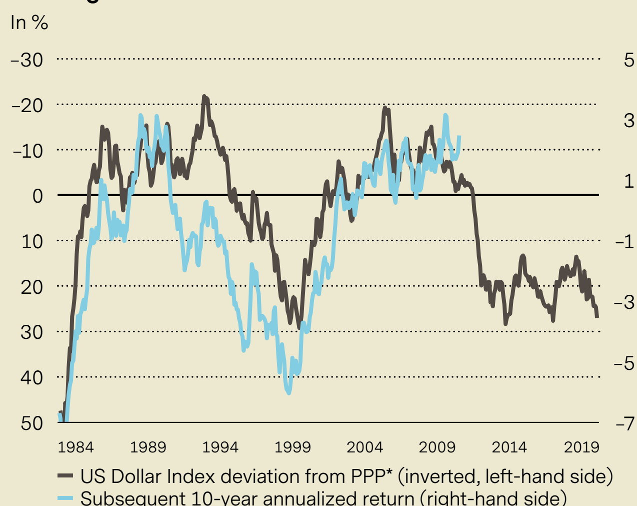
Further out, the US dollar remains structurally overvalued. Chart 1 indicates that if the US dollar continues its historical trend and aligns with other developed-market currencies based on purchasing power parity, its long-term growth rate is expected to decline in coming years.

Swiss franc's bullish shine dims: future not as crystal clear as before

The Swiss National Bank's perspective on the franc's exchange rate shifted last year and into this year. This adjustment was logical, as worries about rising inflation took precedence over previous deflation concerns. For a small, open economy such as Switzerland's, a weaker currency is beneficial when deflation is the primary macroeconomic concern. However, a strong franc has provided beneficial deflationary effects, arguably assisting in reducing inflation below target faster than in other developed countries.

Following over 10 years of purchasing foreign currencies to manage the strength of the franc, the SNB altered its approach last year due to the worldwide inflation spike (see chart 2). In part due to those measures, the franc has seen a significant surge since then. As inflation worries diminish and the threat of recession becomes more prominent, the benefits of the franc's continued strength become more questionable from a monetary policy standpoint.

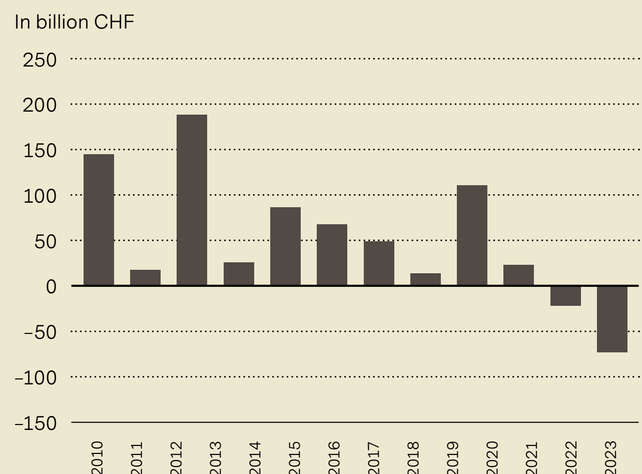
Chart 1: Valuations point towards dollar weakness over the long haul



* Purchasing power parity

Source: Bloomberg, Vontobel

Chart 2: SNB interventions



Source: SNB, Bloomberg, Vontobel

Economy and financial markets 2021 – 2024

The following list shows the actual values, exchange rates and prices from 2021 to 2022 and consensus forecasts for 2023 and 2024 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates, and commodities.

GDP (IN %)	2021	2022	CURRENT[1]	2023 CONSENSUS	2024 CONSENSUS
Global (G20)	5.6	2.6	3.3	2.5	2.1
Eurozone	5.3	3.5	0.5	0.5	0.8
USA	5.9	2.1	2.9	2.2	1.0
Japan	2.3	1.1	1.6	1.8	1.0
UK	8.5	4.0	0.6	0.4	0.4
Switzerland	4.3	2.0	0.6	0.8	1.1
Australia	5.3	3.6	2.1	1.7	1.5
China	8.4	3.0	4.9	5.0	4.5

INFLATION	2021	2022	CURRENT[2]	2023 CONSENSUS	2024 CONSENSUS
Global (G20)	3.5	7.3	4.1	5.5	4.6
Eurozone	2.6	8.4	4.3	5.6	2.7
USA	4.7	8.0	3.7	4.2	2.7
Japan	–0.3	2.5	3.0	3.1	1.9
UK	2.6	9.1	6.7	7.4	3.1
Switzerland	0.6	2.9	1.7	2.2	1.6
Australia	2.9	6.6	5.4	5.6	3.4
China	0.9	2.0	0.0	0.5	1.8

KEY INTEREST RATES (IN %)	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR	–0.50	2.00	4.00	3.98	3.30
USD	0.25	4.50	5.50	5.50	4.45
JPY	–0.10	–0.10	–0.10	–0.08	–0.03
GBP	0.25	3.50	5.25	5.30	4.55
CHF	–0.75	1.00	1.75	1.77	1.47
AUD	0.10	3.10	4.10	4.35	3.80
CNY	3.80	3.65	4.35	4.25	4.25

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	–0.2	2.6	2.85	2.51	2.28
USD	1.5	3.9	4.87	4.3	3.77
JPY	0.1	0.4	0.88	0.79	0.83
GBP	1.0	3.7	4.57	3.96	3.6
CHF	–0.1	1.6	1.14	1.11	1.02
AUD	1.7	4.1	4.81	4.26	3.88

FOREIGN EXCHANGE RATES	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	1.04	0.99	0.95	0.97	1.00
CHF per USD	0.91	0.94	0.90	0.90	0.89
CHF per 100 JPY	0.79	0.72	0.60	0.64	0.67
CHF per GBP	1.23	1.12	1.09	1.12	1.14
USD per EUR	1.14	1.06	1.06	1.08	1.12
JPY per USD	115.00	130.00	150.00	140.00	133.00
USD per AUD	0.73	0.67	0.63	0.66	0.70
GBP per EUR	0.84	0.88	0.87	0.87	0.88
CNY per USD	6.37	6.91	7.32	7.20	6.93

COMMODITIES	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	79	86	90	88	86
Gold, USD per troy ounce	1,829	1,824	1,986	1,950	1,995
Copper, USD per metric ton	9,720	8,372	7,986	8,515	9,000

[1] Latest available quarter
[2] Latest available month, G20 data only quarterly
Source: Vontobel, respective statistical offices and central banks; as of October 27, 2023

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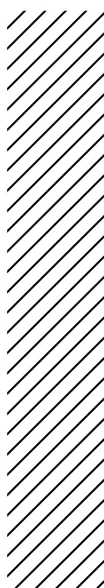

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