

Investors' Outlook

Cut! That's a wrap



February 2024

2 Content



3 Editorial

4 Investment strategy

The mise-en-scene of 2024

6 Market highlights

Will US consumers continue to be the economy's supporting actors?

8 Viewpoint

Shining a spotlight on Latin America's digital revolution taking shape

12 Asset classes in focus

16 Forecasts

Imprint

Publishing by
Bank Vontobel AG
Gotthardstrasse 43
8022 Zurich

Editors
Corinne Gretler,
Senior Investment Writer,
Vontobel
Investment Content Team,
Vontobel

Authors*
Anthony Corrigan,
Client Portfolio Manager mtx,
Vontobel
Stefan Eppenberger,
Head Multi Asset Strategy,
Vontobel
Frank Häusler,
Chief Investment Strategist,
Vontobel
Michaela Huber,
Cross-Asset Strategist,
Vontobel
Christopher Koslowski,
Senior Fixed Income and FX Strategist,
Vontobel
Mario Montagnani,
Senior Investment Strategist,
Vontobel
Dan Scott,
Head of Vontobel Multi Asset,
Vontobel

Frequency
Ten times per year
(next issue March 2024)

Concept
MetaDesign AG

Creation & Realization
Vontobel

Images
Gettyimages,
Vontobel

Input deadline for this edition
January 26, 2024

Remarks
* See "Analyst confirmation" in
"Legal information" on page 13

Cut! That's a wrap



—
Dan Scott
 Head of Vontobel Multi Asset,
 Vontobel

Dear readers,

“The year of the bond,” “The year of rate cuts,” “The year of the recession”: 2024 has already been given many monikers. Whichever label investors choose, what’s increasingly clear is that the page has finally been turned on the most aggressive interest-rate hikes in four decades, and the dust is now settling. The new episode has already begun.

Markets see rate cuts as a given, with many investors convinced that the US Federal Reserve has managed to tame inflation without destroying the economy. We continue to believe a recession is coming; the effects of the rapid rate increases are still gnawing their way into the real economy. But we also acknowledge that that window is slowly closing. For one, we’d need to see the US labor market weaken in the next few months. Otherwise, the soft landing scenario becomes more probable.

This also means we’re now moving back to the basics. The days of zero interest-rate policy are long gone. Rates are high enough that there actually is cost of capital, and inflation is higher than zero—so we’ll settle more into a traditional environment where rates may trend lower but there is still a risk-free rate. Economic growth is likely to be more modest, and the expectation for asset prices may be dialed down somewhat. We believe it’s best to stay invested, but stick to defensive and quality names for now. A more cyclical stance may be more appropriate later in the year.

We’re keeping an eye on US commercial real estate as one risk factor that has the potential for a domino effect on capital markets were things to go south. Private market turmoil and geopolitics also remain topics that could spoil the mood, with the risk of the US being drawn deeper into the renewed tension in the Red Sea.

It is also a historical election year, with nearly half of the world’s population casting their votes for their respective country leaders. We’re focusing on the US and what is widely expected to be a rematch between President Joe Biden and Donald Trump, though we wouldn’t say that’s a foregone conclusion just yet, as Republican candidate Nikki Haley may still hold her own and there may be a surprise on the Democrat side too.

In this Investors’ Outlook, you’ll find a deep dive into whether US consumers can continue to provide their forceful boost to the world’s largest economy, our take on what the tensions in the Red Sea may mean for oil, and an analysis by our colleagues in the Conviction Equities Boutique of what Latin America’s catch-up in the digital revolution means for the various industries in the region.

This year is poised to be an eventful one. As an active manager, we always observe the important topics from a bird's eye and a close-up view to guide our decisions and are ready to reposition our camera amid any plot twists 2024 may throw at the world.

→ **Webcast**

To view our webcast on recent market developments, click [here](#).

4 Investment strategy



—
Frank Häusler
Chief Investment Strategist,
Vontobel

The mise-en-scene of 2024

Things don't always turn out as expected, and 2023 served as yet another reminder of that. Among the events that caught investors off guard were the shock-waves rippling through financial markets, triggered by inconspicuous names such as Silvergate Capital and Silicon Valley Bank, and the ensuing collapse of an iconic Swiss bank, or the downgrade of the US sovereign rating and Hamas attacks in Israel, followed by tensions in the Red Sea. So, what may 2024 have in store?

We reiterate our economic baseline scenario for the time being, which still pencils in a US recession. There's a plethora of reasons for this out-of-consensus call: Monetary policy works with long and variable lags, and the impact of higher interest rates has yet to fully seep into the economy. Consumers and businesses alike face tight lending standards, and, unlike last year, fiscal stimulus is unlikely to come to the rescue given a deeply divided US Congress and the upcoming presidential elections. We don't foresee a significant growth impulse out of China

that would support global growth. And companies' cautious stance on capital expenditure also indicates weakness ahead.

On a positive note, we don't expect inflation to be too much of a burden. While pushing inflation back to the Fed's 2 percent target may be challenging, a flare-up in form of a strong second wave is unlikely. Global goods shortages have eased, many companies have built up significant inventories, and China is even exporting deflation into the world. US core inflation data (excluding food and energy prices)—a key input for the Fed—is now also quickly moving towards target.

2024 may well throw the world the occasional curveball. One key factor to watch is the US labor market, which has started to soften but remains astonishingly resilient. In our view, the absence of job cuts in the next few months would make a soft landing increasingly feasible. Turn to page 5 for details of our asset allocation.

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	significantly	
1 Liquidity		→				For a nine- to 12-month investment horizon, we expect returns from asset classes to outpace those from cash, which remains underweight.
2 Bonds			→			We stick to our neutral view on fixed income, with a defensive tilt at a sub-asset class level and a preference for government and emerging-market (EM) bonds. Government bonds offer an asymmetric payout at current levels while providing protection, i.e., the upside potential is greater than the downside risk. EM debt is more attractive to us than the high-yield segment, where we remain underweight. Also, EM debt should benefit from a weaker US dollar going forward when the Fed turns dovish. Our neutral stance on investment-grade credit stems from the overall segment's very low spreads and downgrades and rising defaults.
3 Equities			→			We stay neutral on equities and hold a defensive position on a regional level. The asset class is between a rock and a hard place, particularly after the year-end rally, which was one of the strongest in decades, mostly propelled by the anticipation that central banks are done with rate hikes amid abating inflation, paving the way to possible rate cuts as early as the first half of 2024. Overbought markets argue for caution, like the prospect of a recession and shrinking central bank balance sheets. This should make investors even more selective. We expect quality style to outperform, which is best reflected in US and Swiss stocks, where we remain overweight. Defensive Swiss equities are poised to benefit from lower bond yields and slower economic growth. We consider European equities vulnerable amid their higher revenue exposure to a struggling Chinese economy as well as the dominance of cyclical sectors, which makes them prone to the risk of earnings revisions. We stay neutral for Japanese and EM stocks.
4 Gold				→		We maintain a slightly positive view on gold, which was one of the top-performing asset classes in 2023 and ended the year roughly 14 percent higher (in US dollars). It benefited from expectations of an imminent change in Fed policy, strong demand from central banks, solid demand from key retail markets, and geopolitical risks. We expect the US dollar and real yields to weaken, which usually boosts gold.
5 Commodities			→			One of the few asset classes to post negative returns last year, commodities' main driver remains the global growth trajectory. Oversupply in many pockets of the commodity complex didn't help the situation. Record-high US oil production helped cushion the blow of repeated output cuts by the OPEC+ cartel, and an unusually mild winter led to high natural gas inventories. The asset class may receive some support from geopolitics (take the tensions in the Middle East) and our expectation of a weaker US dollar (commodities usually benefit when the greenback weakens). We hence stay neutral for commodities.
6 Alternative strategies			→			We remain neutral on alternative funds and real estate. Within alternative funds, we like insurance-linked securities. They tend to have a low correlation with traditional financial markets as their performance is linked to specific insurance events and can therefore help to reduce overall portfolio risk.

Will US consumers continue to be the economy's supporting actors?

Investors kept a keen eye on the world's largest economy last year, with many anticipating a recession. One of the reasons it didn't come knocking in 2023 was the continued resilience of US consumers. They kept on spending—in part boosted by accumulated pandemic savings and a strong labor market—and helped the economy stave off a recession. But for how much longer?



Stefan Eppenberger
Head Multi Asset Strategy,
Vontobel



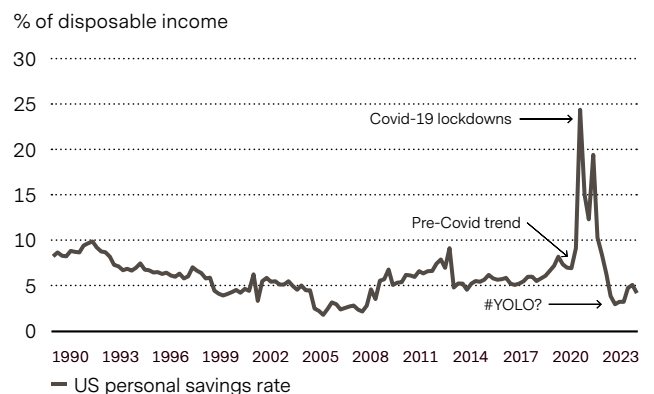
Michaela Huber
Cross-Asset Strategist,
Vontobel

Consumers are tightening their belts in many parts of the world. In Europe, private consumption collapsed almost at the same time as the European energy crisis in 2022 and has still not recovered. Chinese consumers started to exercise restraint much earlier—namely since the outbreak of the Covid-19 pandemic.

But the situation in the US is different. Consumer spending, which accounts for around 70 percent of US gross domestic product, has—seemingly unperturbed—continued its pre-pandemic trend.

This strong consumption data is quite surprising. One would expect consumers to curb their spending amid high interest rates, a weakening economy, and the fact that real income (i.e., nominal income adjusted for inflation) has been stagnating for some time. Instead, true to the motto “you only live once” (colloquially known as #YOLO), they are spending even more than before (see chart 1).

Chart 1: Consumers have been saving less since the end of lockdowns



Source: LSEG, Vontobel; as of January 11, 2024

Broken dreams of home ownership, solid asset growth, strong labor market

There are several reasons for consumers being in a spending mood. First, they seem to be playing catch-up after the restrictions imposed by the Covid-19 pandemic (in the form of the much-cited “revenge spending”).

Second, the tight housing market is discouraging many consumers from saving. A typical US family no longer has enough income to qualify for a mortgage on a median-priced home, according to the National Association of Realtors’ Housing Affordability Index. At the same time, interest rates for a 30-year fixed mortgage remain quite high, at just under 7 percent. This means that what is arguably the biggest item of expenditure is becoming a more distant prospect, so many may ask why they should put money aside.

Third, consumers are increasingly lulled into a false sense of security. In past recessions, consumers could count on the government to come to the rescue with generous stimulus packages. Many seem to believe that this will be the case again.

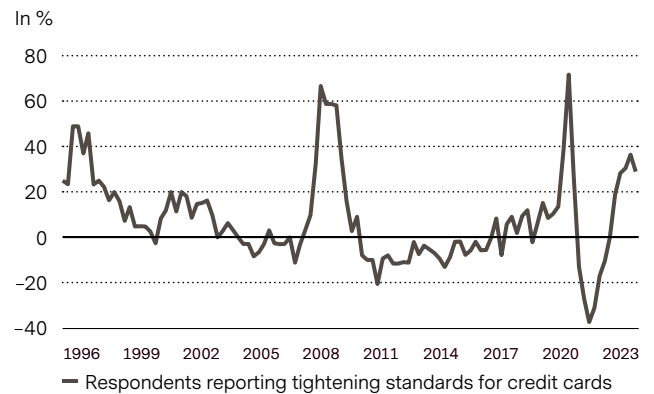
So-called excess savings are another important reason. The data here can be very difficult to interpret as it’s prone to rather substantial revisions. However, it can be assumed that consumers have more savings than originally thought. There are other positive wealth effects as well. Anyone who has invested in equities or property over the past five years has seen substantial gains. This is likely to have boosted spending. However, switching to a new mortgage still comes with high financing costs, and most owners are holding on to their existing properties. The bulk of these assets, therefore, remain illiquid.

US households are also in a better position today than they were in the past. The debt service coverage ratio of private households was around 5.8 percent in the third quarter of 2023, in line with the pre-pandemic level. Here, it is important to highlight that many consumers locked in favorable financing conditions during the era of low interest rates and their exposure to the consequences of higher rates is limited.

#YOYO vs. #YOLO

However, there are some indications that #YOLO could soon be replaced by #YOYO (“you’re on your own”). Consumers are struggling with persistently strict credit conditions (see chart 2). In addition, the cost of taking on new debt is high. The average credit card interest rate in the fourth quarter of 2023 was over 21 percent. Also, we doubt that the government will provide much fiscal stimulus in 2024. In view of the upcoming US elections on November 5, it is unlikely that the divided Congress will pass significant additional spending. Neither the Democrats nor the Republicans are likely to have any incentive to make concessions to each other.

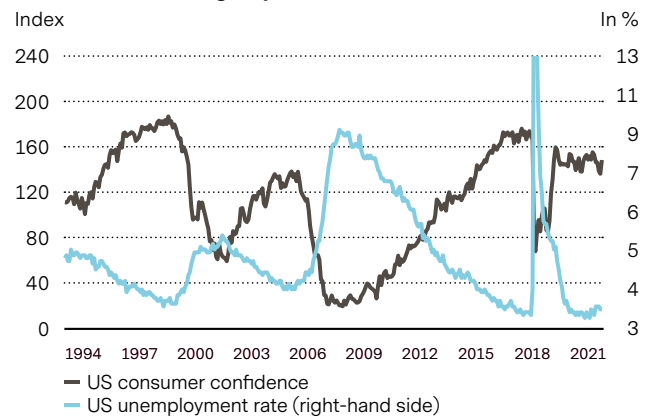
Chart 2: Facing tight credit conditions from banks



Source: LSEG, Vontobel; as of January 11, 2024

The most important reason is and remains the labor market, which continues to be strong by historical standards (see chart 3). If it does not weaken noticeably, a slump in consumption, and thus a slump in economic growth, is unlikely. In our base scenario, however, we assume that the labor market will weaken. Companies have now slowly but surely begun to scale back their capital expenditure plans, cut open job positions, and reduce prices. Higher unemployment and lower consumption are likely to follow.

Chart 3: Everything depends on the labor market



Source: LSEG, Vontobel; as of January 11, 2024



Shining a spotlight on Latin America's digital revolution taking shape

“Cash is king” is a well-known phrase throughout the world, and there are not many regions where it is more relevant than in Latin America (LatAm). With an estimated population of approximately 650 million people¹, the LatAm region has significantly lagged most parts of the world when it comes to access to banking and financial services (see chart 1).



—
Anthony Corrigan
 Client Portfolio Manager mtx,
 Vontobel

Indeed, according to figures from the World Bank, an astonishing 120 million people in the region (26 percent of the population aged 15 and above) are “unbanked” i.e., they do not own an account at a financial institution or a mobile money service provider. Add to this the percentage of the population that is underbanked and it is unsurprising that a significant amount of transactions continues to be made in cash, with a Forbes article² in 2022 putting an estimate for this to be as high as 58 percent of point-of-sale purchases.

A more granular breakdown of the figures reveals that there is a wide range of disparities among individual countries in the region. With the second-largest population of almost 128 million people, Mexico is a laggard in access to banking services (though we recognize the data is somewhat stale for Mexico and the gap to other LatAm countries may have closed somewhat). While the problem is not as acute in Brazil, the region’s biggest country with a population of 215 million people, there is still substantial room for improvement when compared to major developed economies such as the US, France, and Germany.

Problem and opportunity

In short, this type of situation creates serious socioeconomic issues and is a major headwind to one of the priorities of the United Nations Sustainable Development Goals (SDGs), which aim to ensure that all have equal rights to economic resources, including financial services (Goal 1: No Poverty). Indeed, the problems associated with a large proportion of the population having inadequate access to financial services are vast and varied, such as millions having no access to consumer credit (e.g., credit cards, personal loans), having no savings or investments as they approach retirement, the inability to access goods and services online, the security of transactions, driving without any or inadequate car insurance, and the collection of taxes.

While the obvious solution to the problem lies with the region’s banks, we note that in countries such as Brazil, the banks have traditionally focused on the wealthiest parts of society. Instead, there is a growing FinTech movement within the LatAm region, which could serve as a major catalyst for closing the gap between the region and the rest of the world. While there would be multiple winners should the percentage of unbanked within the population decline (including consumers, lenders, and locally based merchants), we believe there is one group of companies that could be set to benefit substantially.

The rise of e-commerce

Given the significant level of transactions that are still made in cash, it is no surprise that the penetration rate for e-commerce in LatAm lags the rest of the world. Estimates included in the Goldman Sachs eCommerce Handbook³ (see chart 2) put online penetration in the region at around 19 percent in 2022, which trails the average for Global ex China of approximately 25 percent.

However, the Covid-19 pandemic in early 2020 meant that many people in the region were forced to move online, with an article by Latin America Reports⁴ estimating that 13 million people across LatAm made an online transaction for the very first time at the beginning of the pandemic. With this shift in mindset for so many people in the region, e-commerce penetration in LatAm is predicted to enjoy healthy annual growth from its current levels (see chart 3).

Winner takes it all?

Not exactly, but the e-commerce market in LatAm is quite concentrated, with three of the top players enjoying an estimated 42 percent market share in 2022. Within Brazil, which is responsible for the lion’s share of the e-commerce market in LatAm (approximately 41 percent, according to Goldman Sachs research), the dominance of these market leaders is even more significant, with an

¹ Source: [World Bank](#), data as of 2022

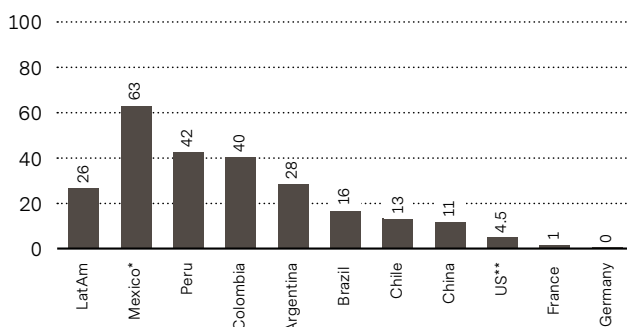
² Source: Forbes article “[FinTech Is Driving Financial Inclusion In Latin America](#)”, published July 18, 2022

³ Source: 2023 Global eCommerce Handbook: [Navigating the Sector in a Changing Environment](#), Goldman Sachs Global Investment Research, April 10, 2023

⁴ Source: Latin America Reports article “[The Importance of FinTech for the Future of Latin America](#)”, published December 12, 2022

Chart 1: LatAm lags most parts of the world in access to banking and financial services

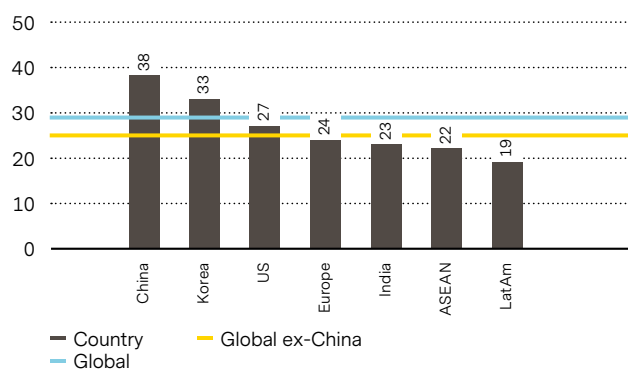
In % of population without access to banking and financial services



Source: The World Bank and Federal Deposit Insurance Corporation, data as of end of 2021, except for Mexico. * Figure quoted as of 2017. ** Percentage of US households

Chart 2: LatAm is lagging when it comes to online penetration rates

E-commerce penetration rates by region (2022E), in %



Source: 2023 Global eCommerce Handbook: Navigating the Sector in a Changing Environment, Goldman Sachs Global Investment Research, April 10, 2023

estimated market share of 59 percent. This dominance is not easily replicated, and companies wishing to usurp the incumbents would need to invest significant sums to try and take a foothold in the market.

These companies are in a unique position to offer short-term credit facilities to their customers and take more people out of the unbanked category, as unlike the banks, their focus is not on the wealthiest elements of society. Their large market shares and unique access to customer data enable them to do this in a sensible way as it pertains to underwriting credit facilities, which is naturally important from a return perspective. By expanding credit facilities, they also further embed customers within their ecosystems, which is vital to maintaining customer loyalty and can enable them to drive further growth and increase operating profitability.

Aside from e-commerce, other industries in LatAm can also benefit from plugging the “unbanked” gap by offering important financial services and protection products. Take insurance companies, for example. While everyone in Brazil is covered by public health care, statistics show that less than a quarter of Brazilians have access to private health care, which tends to have more sophisticated facilities and, of course, shorter waiting times, which can be vital when faced with life-threatening conditions such as cancer. Many of the larger insurance companies in the

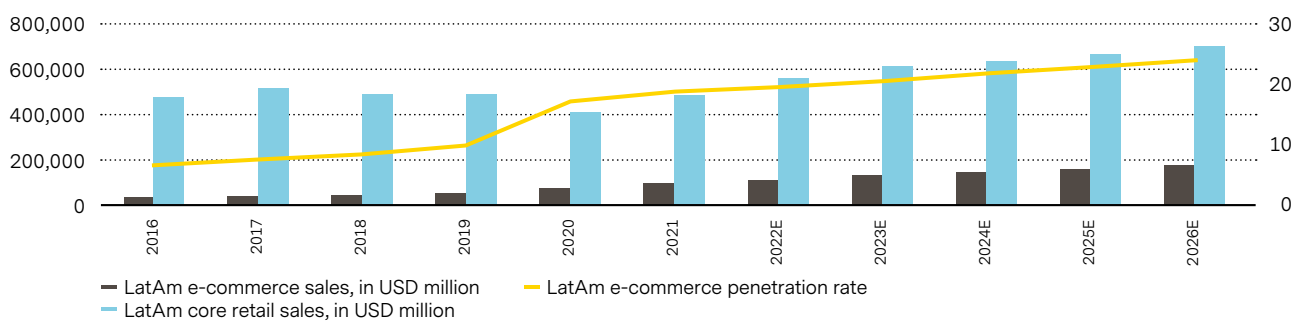
region often offer an extensive list of protection products (such as savings, life, and car insurance products) and provide consumer credit and educational loans. These businesses can also enjoy healthy growth, particularly as more consumers fall out of the unbanked category and are more open to exploring the different types of financial and protection products available to them and the various avenues available for purchasing them.

What are the key risks?

As with all investments, there is no certainty about outcomes, and there are risks that need to be seriously considered. These include increased levels of competition and a failure by the companies involved to execute their strategies successfully. Increased regulation is another risk we should not take lightly considering what we have seen in other parts of the world where the authorities have stepped in to limit the influence of e-commerce giants when it comes to financial services (such as Alibaba and Ant Group in China). While large countries such as Brazil and Argentina are regularly reviewing their policies related to personal finance and credit card loans, the threat of very restrictive regulation is not seen as imminent in LatAm. This is because there is a high demand for credit facilities and other financial products in these countries, meaning any legislation that would limit access would be deemed unpopular and damaging to consumption and economic growth.

Chart 3: E-commerce penetration is estimated to reach 24 % of sales in LatAm by 2026

LatAm e-commerce market and core retail sales evolution, in million USD



Source: 2023 Global eCommerce Handbook: Navigating the Sector in a Changing Environment, Goldman Sachs Global Investment Research, April 10, 2023

Brighter future?

It appears that LatAm is on a good path when it comes to access to banking and financial services, which is very positive from a societal perspective. In some respects, the Covid-19 pandemic accelerated a movement that was bound to take place at some point, and strong growth in online transactions is expected over the coming years. This growth creates attractive opportunities for companies that have the ability to help those who are yet to cross over into the “banked” category, and as discussed throughout, the biggest beneficiaries could be the e-commerce and insurance industries. We recognize attractive industry dynamics at play here that have the potential to lead to higher future levels of profitability, which is exactly the type of outcome we seek for our clients.

A rollercoaster year for the 10-year Treasury bond



—
Christopher Koslowski
Senior Fixed Income & FX Strategist,
Vontobel

Hopes for rate cuts, easing inflation, and historic yield dynamics: The 10-year US Treasury bond went through a remarkable journey in 2023.

Initially, during the turbulent banking crisis in March, it plummeted to a low of 3.3 percent and roared back to 5 percent in October. On the final trading day of 2023, the yield settled just shy of 3.9 percent. Reflecting on the entire year, this closing figure represented an overall change of just 1 basis point (bp). In terms of total return, the 10-year Treasury bond effectively dodged a third successive year of negative total returns, avoiding an unparalleled series in its historical performance (see chart 1).

Inflation is evidently easing, and the Fed appears ready to begin cutting rates this year. At the time of writing, Fed funds futures have factored in six rate cuts for 2024, aiming for a target policy range of 3.75 percent to 4 percent. The Fed’s Summary of Economic Projections in December indicated that the average policymaker anticipates three rate cuts to 4.75 percent, while the typical forecaster surveyed by Bloomberg expects about four.

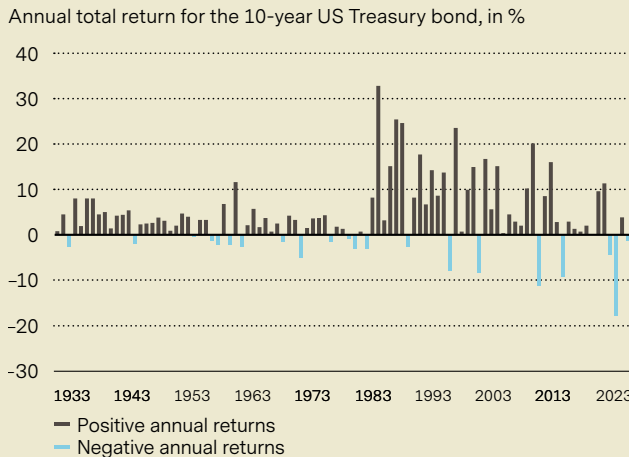
So, what explains this inconsistency?

Some market participants continue to expect, or protect against, a possible hard landing where the US economy enters a recession. The Secured Overnight Financing Rate options market suggests roughly a 25 percent chance of the Fed funds rate falling to 3 percent or lower by December. The most probable outcome, however, is for three to four rate cuts this year.

Looking at the end of hiking cycles since the beginning of the 1980s, we might get a sense of what is in store for the 10-year Treasury bond yield. The last hike occurred on July 26, 2023—more than 170 days ago. The yield on the 10-year Treasury bond stood at 3.9 percent, not far from where we are today. In all previous cycles, yields declined after the last rate hike. If history is any guide, then the yield on the 10-year Treasury bond could be 100 bps lower by the end of this year (see chart 2).

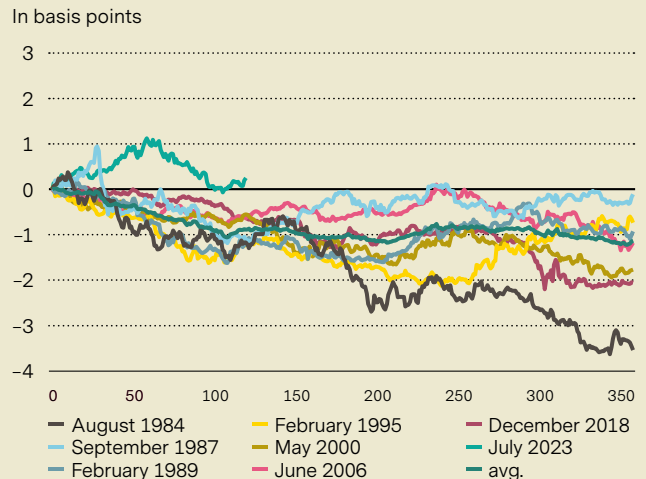
Risk assets, especially high-yield bonds, have had an exceptional performance over the past year, although they have shown signs of losing momentum more recently. The expected excess return looks vulnerable to any bout of spread widening. The current 12-month break-even spread—which indicates the margin of safety for corporate bonds—is unattractive in our view: if the yield premium rises to this level, high-yield bonds will no longer offer any additional return over 12 months compared to government bonds with the same maturity.

Chart 1: The 10-year Treasury bond's remarkable escape from a third year of losses



Source: Bloomberg, Vontobel, Laurens Swinkels; data as of January 16, 2024

Chart 2: Will the 10-year US bond yield follow historical trends post-hike?



Source: Bloomberg, Vontobel; data as of January 16, 2024
Note: The chart depicts the 10-year US Treasury bond's path following the halt to the Fed's interest-rate hikes since August 1984.

A memorable year for equities



—
Mario Montagnani
Senior Investment Strategist,
Vontobel

Stock investors can look back on a remarkable year. Against all odds, equities ended up delivering the best absolute return, pulling through a year in which many expected a recession, a possible second wave of inflation, and the bond market outperforming stocks. Global equities capped the year near their record highs, and about 20 percent above strategists' estimates on average.

Stocks' solid performance that began in late October 2023 continued in December, albeit at a slower pace than in November. Cooling inflation and the expectation of an approaching Fed pivot were powerful catalysts, resulting in an impressive comeback and creating an almost perfect reversal from what transpired in 2022 (see chart 1).

The S&P 500 Index rose more than 26 percent, while the Euro Stoxx 50 Index climbed nearly 20 percent last year. We have previously pointed to this growth being driven by few sectors, such as technology stocks, boosted by the rise of artificial intelligence. The Magnificent 7—Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta Platforms, and Tesla—delivered more than 100 percent

of absolute return. Excluding technology stocks, the return was 8 percent. The same is true for the Eurozone, where technology and financials accounted for about 50 percent of the absolute performance.

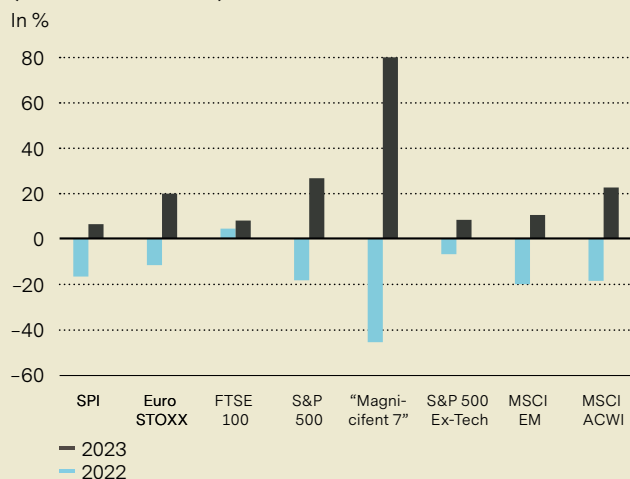
How are we positioned for 2024?

We remain neutrally positioned on equities as we reiterate our recession scenario for 2024. However, a pause in rate hikes has historically been followed by positive market reactions in the following 12 months. Valuations are rich but remain below their peak levels, particularly when one considers that only a few sectors moved markets last year. Forward earnings estimates moved about 15 percent lower on average over the last 12 months.

Estimated real 2023 year-on-year earnings-per-share growth is now in negative territory in most markets, implying an easy comparison base for 2024. Additionally, Producer Price Indexes across developed markets have been trailing the Consumer Price Index for more than a year now. Historically, this boosted margins for manufacturing industries (see chart 2), which could eventually lead to positive earnings surprises and mitigate the impact of a recession.

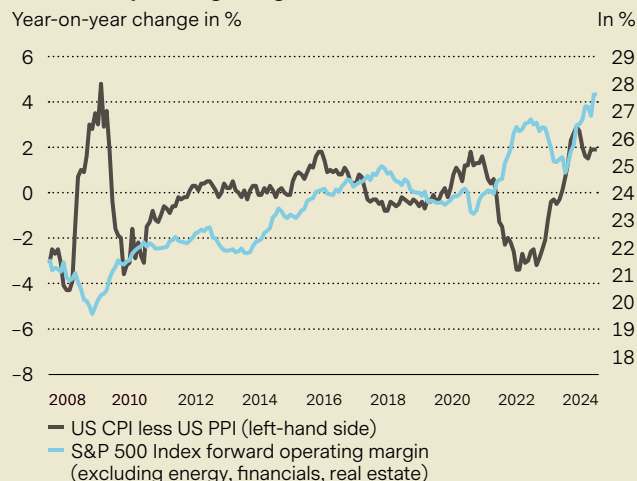
Finally, central bank pivots will be a major driver. We remain regionally diversified in our tactical allocation and continue to favor quality, high profitability, and earnings predictability, which investors can mostly find in Swiss and US equities.

Chart 1: Comparing 2022 and 2023 absolute returns (in local currencies)



Source: Bloomberg, Vontobel; data as of January 18, 2024

Chart 2: Consumer Price Index spread to Producer Price Index vs. operating margins



Source: Bloomberg, Vontobel; data as of January 18, 2024

Red-hot tensions in the Red Sea



—
Michaela Huber
Cross-Asset Strategist,
Vontobel

In 2023, oil prices were whipsawed by fears over slowing economic growth, the output policy of the Organization of the Petroleum Exporting Countries and its allies (OPEC+), and the tensions in the Middle East.

Too much supply meets okay-ish demand. The problem at the moment is not that demand is outright terrible. While there are some pockets of weakness, global oil consumption is back to pre-Covid levels. The problem is that there is simply too much supply. In view of the OPEC+ cartel's repeated production cuts, non-OPEC+ members have ramped up their own production (see chart 1). Some OPEC+ members, such as Iran and Russia, have also surprised markets with larger-than-expected output.

Closed waterways as a tail risk

Investors' attention has returned to the Middle East in recent weeks, where Houthi rebels' attacks on shipping vessels in the Red Sea sparked fears of an escalating conflict and disrupted trade flows. Of particular concern is the Bab el-Mandeb Strait, which serves as a vital link between the African and Arabian Peninsulas.

Some 8.2 million barrels of liquids were transported via the Red Sea each day in the January–November 2023 period, according to data by analytics firm Vortexa. Breaking that down, 2.9 million barrels were northbound (Europe), 3.9 million were southbound (Asia), and the remainder were imports or exports within the region. Roughly 70 percent of southbound shipments were of Russian origin, according to Vortexa.

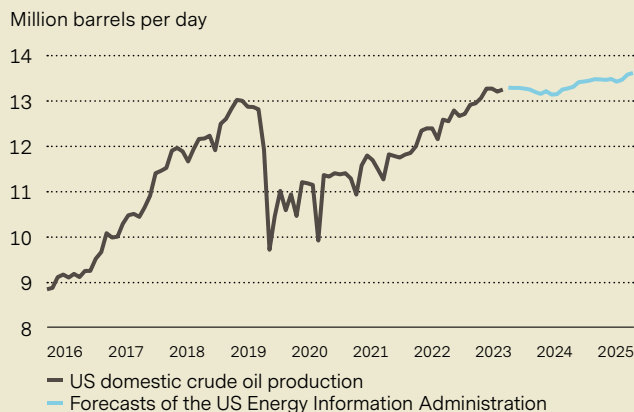
At present, southbound shipments have largely been spared. While tankers carrying Russian oil continue to sail through the Red Sea, others are rerouting around the Cape of Good Hope. This results in longer journeys (a trip from Singapore to Rotterdam now takes roughly 10 days longer) and higher costs (see chart 2).

What about the Strait of Hormuz?

It is dubbed the world's most important oil chokepoint, as more than 20 percent of global petroleum liquids for consumption flow through it. Fears have risen that Iran, which secured strategically important islands in the Strait some five decades ago, might try to limit or block access to the Strait.

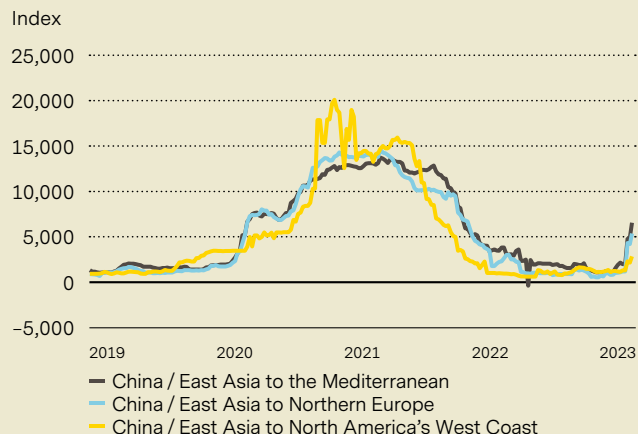
While such an escalation could push prices significantly higher, it is not our base case. Iran has repeatedly threatened to close the Strait in the past but has not followed through (its own economy depends on the Strait as well). Even during the 1980–1988 Tanker War, when Iran and Iraq (notably both OPEC members) engaged in attacks on each other's ships, passage was still possible. Iran is likely also going to be mindful of its key trading partners, particularly China. In the absence of such a shock, oil should trade in the range of USD 70 to 85.

Chart 1: OPEC+ cuts as an involuntary lifeline for the US oil industry



Source: LSEG, Vontobel; data as of January 19, 2024

Chart 2: Shipping costs have picked up



Source: LSEG, Vontobel; data as of January 19, 2024

US dollar and the Swiss franc: Currency crossroads



—
Christopher Koslowski
Senior Fixed Income & FX Strategist,
Vontobel

In 2023, the US Dollar Index (DXY) experienced its first annual decline in three years as the Fed indicated the conclusion of its tightening cycle. This shift led to market expectations for interest-rate reductions, potentially starting as early as March.

In all, the DXY pulled back from its high in October 2023 and closed the year 2.1 percent lower (see chart 1). At the onset of the new year, the US dollar is gathering strength after somewhat stronger data fueled expectations that the Fed won't be rushing to lower interest rates.

As the US economy shows signs of slowing down in the coming quarters, the US dollar's dominant position, which it has maintained over the past three years, is expected to gradually diminish. The more rapid decrease in inflation in the US compared to G10 countries will likely prompt a more dovish shift by the Fed, potentially reducing the US dollar's interest rate edge more significantly than anticipated.

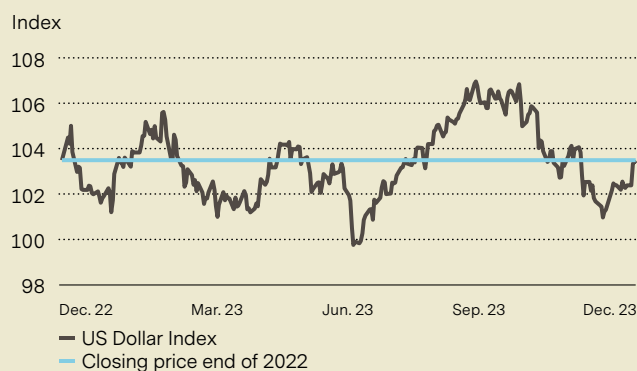
Ambitions for the strong Swiss franc vs. economic realities

Over the past two years, the Swiss National Bank's (SNB) desire for a stronger Swiss franc has had a major positive impact on the currency, but as inflation starts to subside and the economy decelerates, this goal may become increasingly questionable. The SNB's total intervention amounted to CHF 22 billion in 2022 and ballooned to CHF 110 billion by the end of the third quarter of 2023 (see chart 2).

In the third quarter, the SNB marginally decreased its foreign exchange sales as the Swiss franc neared its current peaks against the euro and the US dollar. During the period from July to September, Switzerland's central bank engaged in the sale of foreign currencies totaling CHF 37.6 billion, a reduction from the CHF 40.3 billion sold in the preceding quarter.

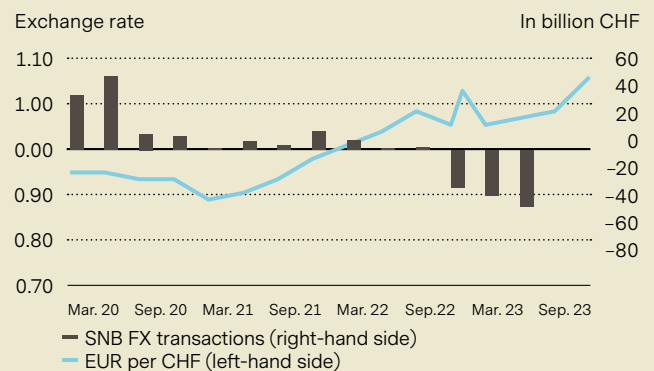
By purchasing its own currency and offloading foreign exchange reserves, the SNB bolsters the exchange rate while simultaneously shrinking its substantial balance sheet. This approach has been instrumental in safeguarding Switzerland from the global surge in inflation. SNB Chairman Thomas Jordan has raised concerns about the appreciating Swiss franc. Speaking at the World Economic Forum in Davos at the end of January, he highlighted the possible effects of this trend on the SNB's capability to sustain inflation above zero within the country's economy. This led to speculation that policymakers might begin cutting interest rates sooner than other central banks, or they could even take steps to limit the currency's appreciation.

Chart 1: US dollar ended 2023 lower



Source: Bloomberg, Vontobel; data as of January 18, 2024

Chart 2: SNB continues to sell foreign currencies



Source: Bloomberg, Vontobel; data as of January 18, 2024

Economy and financial markets 2022 – 2025

The following list shows the actual values, exchange rates and prices from 2022 to 2023 and consensus forecasts for 2024 and 2025 for gross domestic product (GDP), inflation/inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates, and commodities.

GDP (IN %)	2022	2023	CURRENT¹	2024 CONSENSUS	2025 CONSENSUS
Global (G20)	2.9	2.7	3.4	2.2	2.5
Eurozone	3.4	0.5	0.0	0.6	1.4
USA	1.9	2.4	2.9	1.3	1.7
Japan	1.0	2.0	1.5	0.8	1.0
UK	4.5	0.4	0.3	0.4	1.2
Switzerland	2.7	0.8	0.4	1.2	1.5
Australia	3.8	1.9	2.1	1.5	2.3
China	3.0	5.2	5.2	4.5	4.3

INFLATION	2022	2023	CURRENT¹	2024 CONSENSUS	2025 CONSENSUS
Global (G20)	7.5	4.4	3.6	5.0	3.20
Eurozone	8.4	5.5	2.9	2.3	2.10
USA	8.0	4.1	3.4	2.6	2.30
Japan	2.5	3.2	2.6	2.3	1.70
UK	9.1	7.4	4.0	2.8	2.10
Switzerland	2.8	2.2	1.7	1.6	1.40
Australia	6.6	5.7	5.4	3.6	2.90
China	2.0	0.3	-0.3	1.4	1.75

KEY INTEREST RATES (IN %)	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR	2.50	4.50	4.50	4.20	3.35
USD	4.50	5.50	5.50	5.15	3.90
JPY	-0.10	-0.10	-0.10	-0.02	0.05
GBP	3.50	5.25	5.25	5.05	3.85
CHF	1.00	1.75	1.75	1.61	1.15
AUD	3.10	4.35	4.35	4.40	3.75
CNY	3.65	3.45	4.35	4.25	-

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	2.56	2.02	2.34	2.20	2.24
USD	3.88	3.88	4.16	3.94	3.68
JPY	0.42	0.60	0.67	0.85	0.95
GBP	3.66	3.53	3.92	3.81	3.59
CHF	1.58	0.65	0.90	0.89	0.97
AUD	4.05	3.96	4.29	4.20	3.80

FOREIGN EXCHANGE RATES	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	0.99	0.93	0.95	0.97	-
CHF per USD	0.94	0.84	0.87	0.88	-
CHF per 100 JPY	0.72	0.60	0.59	0.63	-
CHF per GBP	1.12	1.07	1.10	1.11	-
USD per EUR	1.06	1.10	1.09	1.11	-
JPY per USD	130.00	141.00	148.00	140.00	-
USD per AUD	0.67	0.68	0.66	0.68	-
GBP per EUR	0.88	0.87	0.86	0.88	-
CNY per USD	6.91	7.10	7.19	7.10	-

COMMODITIES	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	86	77	79	82.5	83
Gold, USD per troy ounce	1,824	2,063	2,028	2,033	2,100
Copper, USD per metric ton	8,372	8,559	8,310	8,450	9,000

¹ Latest available quarter

² Latest available month, G20 data only quarterly

Source: Vontobel, respective statistical offices and central banks; as of January 19, 2024

Disclosure notice and disclaimer

1. Analyst confirmation

The financial analysis contained in this Vontobel Report was prepared by the organisational unit responsible for financial analysis (Group Investment Strategy, Global Equity Research and Global Trend Research, Buy-Side Analysis divisions) of Bank Vontobel AG, Gotthardstrasse 43, CH-8022 Zurich, Tel +41 (0)58 283 71 11 (www.vontobel.com), or Vontobel Asset Management AG, Genferstrasse 27, CH-8022 Zürich, Tel +41 (0)58 283 71 50 (www.vontobel.com/am). Bank Vontobel AG is subject to supervision by the Swiss Financial Market Supervisory Authority FINMA, Einsteinstrasse 2, 3003 Bern (www.finma.ch/e/). The authors listed on page 1 of the study confirm that this study gives a complete and accurate reflection of their opinion of the financial instruments and issuers analysed, and that they have neither directly nor indirectly received any compensation for the specific assessments or opinions held by them in this financial analysis. The compensation of the authors of this financial analysis is not directly related to the investment-banking business-volume generated between Vontobel and the issuers analysed. The authors of this financial analysis do not own any equity securities in the companies analysed. The financial analysis was not made available to the analysed issuers prior to distribution or publication. Individual separate contributions contain no direct or indirect reference to specific financial instruments or issuers, and do not represent a financial analysis. Such contributions may therefore also have been compiled by authors outside the areas responsible for financial analysis. The latter are not subject to the restrictions applicable to financial analysis and are thus not covered by the above confirmation either, and are accordingly not mentioned in the list of financial analysts on page 2 of this document.

Investors' Outlook also regularly contains information on in-house Vontobel fund products. The Bank takes into account any risk of conflict of interest arising due to existing economic interests by having the AM/GIS MACI/Funds Research and Investments unit make the selections of the respective in-house products based on the best-in-class principle. This unit is organisationally and informationally independent of the Bank's sales units and is monitored by the Bank's Compliance department.

The prices used in this financial analysis are the last available closing prices on the indicated cut-off date. Any deviations from this rule will be disclosed. The underlying figures and calculations of any company valuation are based on the latest financial information, in particular the profit and loss statement, cash-flow statement and balance sheet, published by the analysed issuers. As the information comes from external sources, reliance on the information is subject to risks for which Bank Vontobel AG accepts no liability. The calculations and assessments made for the analysis may change at any time and without notice when other valuation methods are used and/or they are based on other differing models, assumptions, interpretations and/or estimates. The use of valuation methods does not rule out the risk of fair values not being achieved within the anticipated forecast period. A vast number of factors influence price performance. Unforeseen changes may arise, for example, due to the emergence of competitive pressure, a change in demand for the products of an issuer, technological developments, macroeconomic activity, exchange rate fluctuations or even a shift in the moral concepts of society. Changes in regulatory or tax laws may likewise have unforeseen and serious consequences. This discussion of valuation methods and risk factors does not claim to be complete. For more remarks/information on the methodological approaches used in our financial analysis and the rating system, see www.vontobel.com/CH/EN/Companies-institutions-research-equity-research.

Basis of valuation and valuation methods

The Vontobel financial analysts use a variety of valuation methods (e.g. the DCF and EVA model, sum of the parts valuation, breakup and event-related analysis, key figure comparisons of peer groups and market) to prepare their own financial forecasts for the companies covered by them.

2. Disclaimer and sources

Although Vontobel believes that the information in this document is based on reliable sources, it cannot accept any responsibility for the quality, accuracy, timeliness or completeness of any of the information contained in this document. This research report is for information purposes only and does not constitute either an offer or a solicitation to buy, sell or subscribe, nor does it constitute investment advice or any advice with respect to tax consequences. The research report was written without regard to the financial circumstances of individual recipients. The producer reserves the right to change and/or retract any opinion expressed in this research report at any time. The producer further points out that the statements contained in this research report are under no circumstances to be construed as advice on tax, accounting, legal or investment matters. The producer neither guarantees that the financial instruments discussed in this research report are accessible to the recipients nor that they are suitable for the recipients. It is recommended that recipients of this report seek advice from an asset manager, investment advisor or other relevant advisor with respect to compatibility with the recipient's own circumstances and with respect to the legal, regulatory, tax and other consequences prior to making any investment decision. The producer does not regard any recipients of this report as clients if there are no other business or contractual relations. Any use of this report, in particular its reproduction in whole or in part, or its distribution to third parties, is only permitted with prior written consent from Bank Vontobel AG and full acknowledgement of sources. Bank Vontobel AG has taken internal organisational measures to prevent any potential conflicts of interest and, if there are any such potential conflicts of interest and they are unavoidable, to disclose them. For more details on handling conflicts of interest and maintaining the independence of the financial analysis department as well as disclosures relative to the financial recommendations of Bank Vontobel AG, see www.vontobel.com/CH/EN/MiFID-Switzerland. Details on how we handle your data can be found in our current data protection policy (www.vontobel.com/privacy-policy) and on our data protection website (www.vontobel.com/gdpr). This publication is deemed to be marketing material within the meaning of Article 68 of the Swiss Financial Services Act and is provided for informational purposes only. If you do not wish to receive any further Investors' Outlook from us, please contact us at wealthmanagement@vontobel.com.

3. Country-specific guidelines and information

The distribution and publication of this document and the investments described in it may be subject to restrictions in some jurisdictions due to local laws and regulations. This document and the information contained in it may only be distributed in countries in which the producer or the distributor holds the applicable licences. If there is no mention to the contrary in this document, it may not be assumed that the producer or distributor holds the applicable licences in any specific country. Please note the following country-specific information must be strictly observed. With the exception of the following distribution-channels, this research report shall be deemed to be distributed by the company indicated on its cover page.

18 Legal information

Additional information for US institutional clients

In the United States of America, this publication is being distributed solely to persons that qualify as major US institutional investors under SEC Rule 15a-6. Vontobel Securities, Inc. accepts responsibility for the content of reports prepared by its non-US affiliate when distributed to US institutional investors. US investors who wish to effect any transaction in securities mentioned in this report should do so with Vontobel Securities, Inc. at the address hereafter and not with Bank Vontobel AG: Vontobel Securities, Inc., 1540 Broadway, 38th Floor, New York, NY 10036, Tel 1 212 792 5820, Fax 1 212 792 5832, e-mail: vonsec@vusa.com. Vontobel Securities Inc. New York, with headquarters at Vontobel Securities AG, Gotthardstrasse 43, CH-8022 Zurich, Tel +41 58 283 76 17, Fax +41 58 283 76 49, is a broker-dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers. Bank Vontobel Zurich is a foreign broker dealer which is not delivering services into the USA except for those allowed under the exemption of SEC Rule 15a-6.

Additional information for UK clients

Bank Vontobel AG is a company limited by shares with a Swiss Banking license which has no permanent place of business in the UK and which is not regulated under the Financial Services and Markets Act 2000. The protections provided by the UK regulatory system will not be applicable to the recipients of any information or documentation provided by Bank Vontobel AG and compensation under the Financial Services Compensation Scheme will not be available. Past performance is not indicative of future performance. The price of securities may go down as well as up and as a result investors may not get back the amount originally invested. Changes in the exchange rates may cause the value of investments to go down or up. Any literature, documentation or information provided is directed solely at persons we reasonably believe to be investment professionals. All such communications and the activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be engaged in with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications. Any contact with analysts, brokers or other employees of Bank Vontobel AG must be conducted with Bank Vontobel AG directly and not through offices or employees of Vontobel affiliates in London/UK.

Information for Italian investors

This research document prepared by Bank Vontobel AG is distributed according to EU rule 2016/958 by Vontobel Wealth Management SIM S.p.A, Milano authorized and regulated by Consob, via G.B. Martini, 3 – Roma.

Information for HK clients

The fund is not authorized by the Securities and Futures Commission in Hong Kong. It may only be offered to those investors qualifying as professional investors under the Securities and Futures Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution and if you are in doubt about any of the contents of this document, you should obtain independent professional advice. This document was approved by Vontobel (Hong Kong) Ltd., which is licensed by the Securities and Futures Commission of Hong Kong and provides services only to professional investors as defined under the Securities and Futures Ordinance (Cap. 571) of Hong Kong and has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen's Road Central, Hong Kong. This advertisement has not been reviewed by the Securities and Futures Commission.

Information for SG clients

The fund and its sub-funds are not available to retail investors in Singapore. Selected sub-funds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These sub-funds may only be offered to certain prescribed persons on certain conditions as provided in the "Securities and Futures Act", Chapter 289 of Singapore. This document was approved by Vontobel Pte. Ltd., which is licensed with the Monetary Authority of Singapore as a Capital Markets Services Licensee and Exempt Financial Adviser and has its registered office at 8 Marina Boulevard, Marina Bay Financial Centre (Tower 1), Level 04-03, Singapore 018981. This advertisement has not been reviewed by the Monetary Authority of Singapore.

Bank Vontobel AG
Gotthardstrasse 43
8022 Zurich
Switzerland
vontobel.com

