Moraine hill in the morning light near the Oelegg, with Säntis and Speer in the background (Photo: Andreas Busslinger)

Cooling and acceleration

The global economy is currently experiencing a phase of cooling and simultaneous acceleration elsewhere. In North America, the key interest rate hikes are gradually taking full effect and providing the much-desired slowdown. At 4.9%, economic growth in the third quarter was much stronger than expected. There were fears of further interest rate hikes.

For the US Federal Reserve (Fed), the optimal monetary policy course remains a balancing act. In doing so, it will be helped by the encouraging trend in inflation rates and the increasingly balanced forces on the labor market. We continue to believe that key interest rates have peaked. The tighter financial conditions, the high cost of capital for mortgage and student loans, declining savings and the tangible slowdown on the labor markets are currently leading to a significant slowdown in growth.

For interest rates, this means that they are likely to remain at their current level until the middle of next year. A recession with faster interest rate cut scenarios has now been priced out of the yield curve. Instead, the markets are likely to see a gradual slowdown and then a flattening into the 3% to 4% range. Finally, as far as growth in China and India is concerned, it is characterized by an acceleration, as in the entire Asian region. This should also have a positive impact on Western Europe again from the first quarter of 2024.

Disappointing October

The conflict in the Middle East has spooked equity investors. The performance of the largest and most liquid country index, the US S&P 500 Index, was -2.7% and that of the broad Stoxx Europe 600 -4.2%. The return on the Swiss real estate fund index was also disappointing (-4.3%), but the Swiss Market Index (SMI) was even worse at -5.2% in October.

Bonds remained more stable than equities, although prices were also lower. At -1.0% (hedged in Swiss francs), the world bond index lost slightly more than we were able to observe with the bond solutions we use. On the equity markets, on the other hand, the monthly return was deeply in the red: the loss on the SMI was so great that Swiss equities fell below their level at the start of the year. Even though we expect further fluctuations in the short and medium term, valuations have fallen to an interesting level from a long-term perspective. This is because the bond yields on long-term Swiss bonds or the interest on fixed-term deposits cannot hide the fact that they are not even able to compensate for inflation. Much more is possible with real assets.

In October, the solutions with the lowest proportion of equities achieved the lowest relative losses in value. This was lowest in risk class 1 (Revo1 -1.3% respectively R1 -1.8%). In the «balanced» risk class 3 and risk class 4, the monthly performance was -3.0%.

Measured against the equity losses in the SMI, the dividend-oriented strategy solutions (e.g. RevoDividends -4.1%, R Dividends -3.6%) recorded a slightly better performance in relative terms. However, this is no consolation for a disappointing October.

Nevertheless, the markets have been on the rise again since the end of October. November got off to a very good start. We expect higher prices for equities and bonds at the end of the year.

Strategies mainly based on individual titles	Strategy performance*	
	October 2023	YTD 2023
Zugerberg Finanz R1	−1.8% ↘	+0.5% ↗
Zugerberg Finanz R2	−2.7% ↘	+1.9% ↗
Zugerberg Finanz R3	−3.3% ↘	+2.4% ↗
Zugerberg Finanz R4	−3.8% ↘	+3.4% ↗
Zugerberg Finanz R5	−2.9% ↘	+3.2% ↗
Zugerberg Finanz RDividends	−3.6% ↘	+6.2% ↗
Zugerberg Finanz Revo1	−1.3% ↘	+1.3% ↗
Zugerberg Finanz Revo2	−2.5% ↘	+2.8% ↗
Zugerberg Finanz Revo3	−3.0% ↘	+3.1% ↗
Zugerberg Finanz Revo4	−3.5% ↘	+3.8% ↗
Zugerberg Finanz Revo5	−4.1% ↘	+4.3% ↗
Zugerberg Finanz RevoDividends	−4.0% ↘	+6.8% ↗
Zugerberg Finanz DecarbRevo3	−4.7% ↘	−9.9% ↘
Zugerberg Finanz DecarbRevo4	−6.4% ↘	−14.1% ↘
Zugerberg Finanz DecarbRevo5	−8.0% ↘	−17.8% ↘

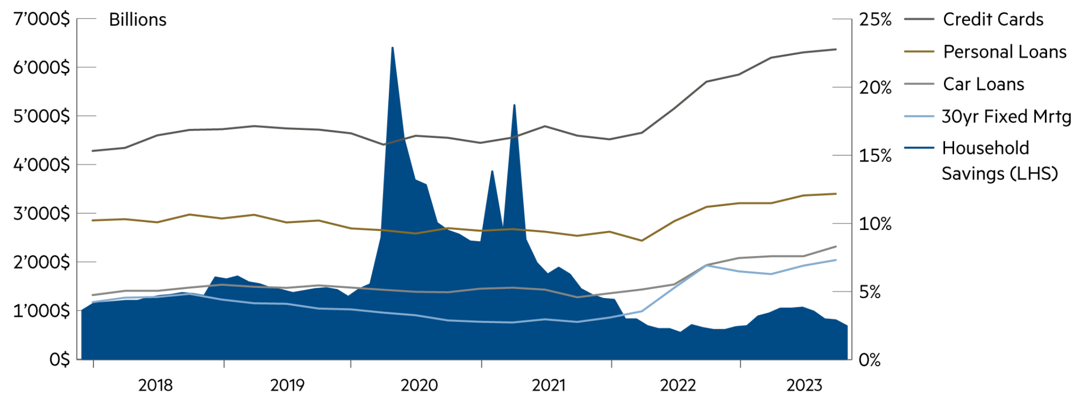
Zugerberg Finanz Vested benefits	Strategy performance*	
	October 2023	YTD 2023
Zugerberg Finanz Vested benefits R0.5	−1.1% ↘	−0.4% ↘
Zugerberg Finanz Vested benefits R1	−1.1% ↘	+0.6% ↗
Zugerberg Finanz Vested benefits R2	−1.7% ↘	+1.6% ↗
Zugerberg Finanz Vested benefits R3	−1.9% ↘	+2.0% ↗
Zugerberg Finanz Vested benefits R4	−2.1% ↘	+2.4% ↗

Zugerberg Finanz 3a pension solution	Strategy performance*	
	October 2023	YTD 2023
Zugerberg Finanz 3a Revo1	−1.3% ↘	+1.3% ↗
Zugerberg Finanz 3a Revo2	−2.5% ↘	+2.8% ↗
Zugerberg Finanz 3a Revo3	−3.0% ↘	+3.1% ↗
Zugerberg Finanz 3a Revo4	−3.5% ↘	+3.8% ↗
Zugerberg Finanz 3a Revo5	−4.1% ↘	+4.3% ↗
Zugerberg Finanz 3a RevoDividends	−4.0% ↘	+6.8% ↗
Zugerberg Finanz 3a DecarbRevo3	−4.7% ↘	−9.9% ↘
Zugerberg Finanz 3a DecarbRevo4	−6.4% ↘	−14.1% ↘
Zugerberg Finanz 3a DecarbRevo5	−8.0% ↘	−17.8% ↘

* The stated performance is net, after deduction of all running costs, excluding contract conclusion costs

Macroeconomics

Economic slowdown in the USA



Average Borrowing Rates for US Consumers in the last 5 years (Source: FED Consumer Credit Report, Freddie Max Primary Mortgage Market Surveys | Graphic: Zugerberg Finanz)

After the US economy grew well above its growth trend in the third quarter, the desired slowdown is emerging in the fourth quarter. This is being caused in particular by higher interest rates on loans. A typical mortgage loan already costs significantly more than 7%, car leasing costs more than 8%, consumer credit costs 12% and credit card overdrafts a high 23%.

In the US, there is a temporary slowdown in growth because financing conditions have tightened significantly throughout the economy. In this economic cycle, the restrictive monetary policy has an above-average transmission period in terms of its effects, as resilient consumers have been able to draw on the lavish savings surpluses from the pandemic period for longer than expected. However, the fast food chain McDonald's recently achieved above-average sales, while expensive steakhouse chains suffered from the fact that consumer behavior is gradually changing.

However, an economic slump is not to be expected. In economic terms, wage income has risen (higher wages, more people in employment), as has productivity. As inflation is still on a downward trend, the higher nominal wages also correspond to an increase in real wages. In most OECD countries, the higher interest rate level is also dampening growth, but not leading to a recessionary shock. The tightening of monetary policy has been completed in the eurozone, and probably also in Switzerland.

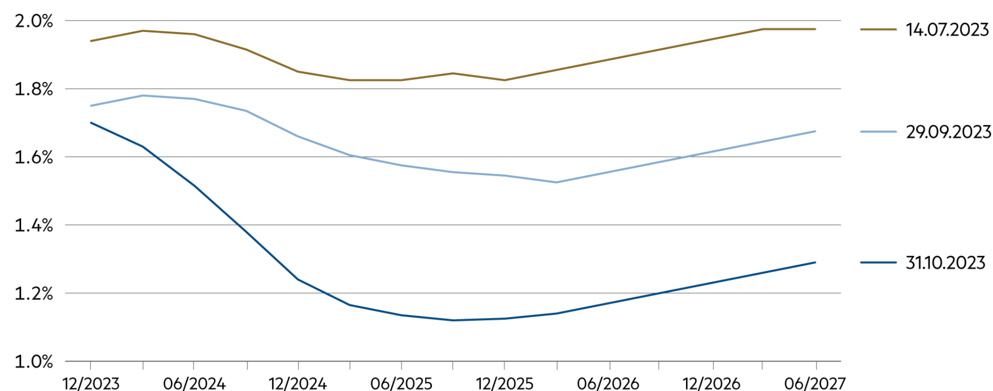
In Europe, the economy is growing little. However, the purchasing managers' index is not proving to be an accurate indicator for the economy as a whole. The third quarter in the USA recently showed just how wrong the median forecast can be. When the quarter was already four weeks old, the forecast was still a modest +0.5%. In the end, the result was real growth of +4.9% (!). The only major institution to correctly assess this growth was the US Federal Reserve with its «GDPnow» forecast. Applied to Germany, it is also interesting to note that the Bundesbank's weekly activity index is in the positive zone. The implied GDP growth rate for the last thirteen weeks to the end of October compared to the previous thirteen weeks is +0.3%. This is not a recession.

In China, the world's second-largest economy, we expect a slight improvement in growth in the fourth quarter as destocking eases, fiscal and monetary easing measures are stepped up and exports stabilize. This results in a GDP growth forecast of around +5% for the next 12 months. In the medium term, challenges such as the ongoing real estate downturn, the unfavorable demographic trend and the implicitly high debt of local authorities remain. However, there was also a clear signal in China that weaker growth will not be tolerated. President Xi Jinping visited the People's Bank of China – the first known visit since he took office a decade ago. This was shortly followed by the announcement that China will issue an additional RMB 1 trillion worth of special government bonds in the fourth quarter, effectively increasing government spending by 0.8% and pushing China's central budget deficit to 3.8% by 2023.

Region	3–6 months	12–24 months	Analysis
Switzerland	↗→	↗	Some dogmatists saw an impending recession within 6-12 months of the start of the yield curve inversion. However, the outlook has improved.
Eurozone, Europe	↗→	↗	The latest ECB assessment assumes positive growth in the coming year, i.e. the current dip will soon be overcome.
USA	↗	↗	In the fourth quarter, GDP growth is likely to be significantly lower than in the third quarter (+4.9%). Inflation is also falling and stabilizing interest rates.
Rest of the world	↗	↗	The technology sector in particular is starting to pick up significantly in Asia. Above-average growth rates can be seen from Mexico to India.

Liquidity, currency

Key interest rate expectations have fallen sharply



Swiss National Bank 3-Month-Futures Rates (Source: Bloomberg Finance LP | Graphic: Zugerberg Finanz)

The three-month Saron future fell significantly in October, even more sharply than the market assessment three months ago. Saron-based mortgage rates have come back. The expectation is that they will fall even further in the coming months. It is therefore currently an unfavorable time to tie up too many mortgages in long-term contracts.

In spring, liquidity in the Swiss financial system was scarce and there was great mistrust among the banks. The stress in the banking sector was palpable. The refinancing situation among the banks has eased considerably since then. Swap rates have fallen since the takeover of Credit Suisse by UBS. Everyone who pays Saron-based interest on loans is now benefiting from this calming of the market. Taking futures prices into account, things could get even better over the next two years. What is needed now is confidence and patience.

In quiet times, swap rates have a low constant premium over the Swiss Confederation bond with the same maturity, for example in the years 2015 to 2021. However, they can also be subject to considerable fluctuations. On the one hand by the Swiss National Bank (SNB), which tightens the refinancing supply among banks through significant interest rate increases (2022/23). This will cause risk premiums – the difference between swap rates and Confederation bonds – to rise in general.

On the other hand, a crisis could change the demand for Confederation bonds to such an extent that yields fall and become decoupled from swap rates. Since the beginning of the year, yields on ten-year Confederation bonds have fallen from 1.5% to 1.0%. This could only be observed in Switzerland as a «safe haven». In all other countries, yields on ten-year government bonds rose, in some cases very significantly.

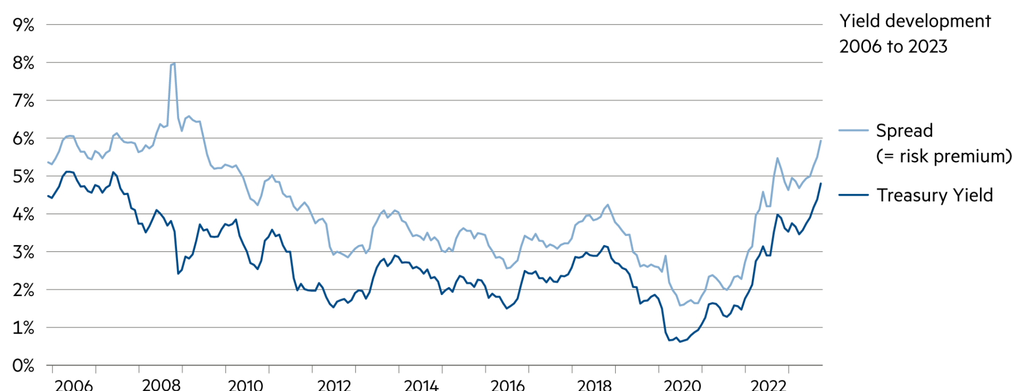
In the meantime, however, the majority view is that bond yields will fall. The high inflation rates have been successfully combated. In the eurozone, they have fallen from 10.6% to 2.9% within a year, the first time they have fallen below 3% since mid-2021. This is more than everyone expected and not far off the ECB's target of 2%. A similar trend can be observed in the USA. Central banks on both sides of the Atlantic are emphasizing that it would be "absolutely premature" to consider cutting key interest rates. The restrictive monetary policy is gradually taking full effect and it is indeed important not to ease up too soon.

However, the sharp fall in inflation naturally increases expectations of interest rate cuts, which are usually already anticipated on the capital market. The markets like this discussion. After all, falling inflation rates, lower interest rates and capital market yields are ultimately the key to higher economic growth in the future. They are also the drivers in the M&A business and stimulate the private markets, especially venture capital and private equity markets. All investors in real assets benefit from this, as do investors in long-term nominal investments.

Asset class	3–6 months	12–24 months	Analysis
Bank account	↗	↗→	Fixed-term deposits remain unattractive compared to the nominal return prospects of securities investments over the next few years.
Euro / Swiss franc	→	→	At a low 0.96, the exchange rate is ensuring that the Swiss economy continues its fitness cure, which has to respond with productivity increases.
US dollar / Swiss franc	→↘	↘	The Swiss franc has recently moved upwards in the wake of the "risk-off". The exchange rate (-0.5% in October) stands at 0.91 and has depreciation potential.
Euro / US dollar	↗	↗	The most important currency pair is at 1.06, hardly changed compared to the beginning of the year - despite lower interest rates in the eurozone.

Bonds

Attractive yield years ahead



U.S. Treasury yield and corporate investment grade credit spread, 2006 to 2023 (Source: Bloomberg Finance LP | Graphic: Zugerberg Finanz)

Attractive yield years lie ahead in the fixed income sector. The period of negative and zero interest rates is over. What remains from this period are bonds whose prices were pushed far below the issue price. A phase of recovery is now imminent, especially as the painful phase of the sharpest interest rate hikes in the last 50 years has come to an end. In view of the cooling inflation rates, bond prices can be expected to rise again.

In the USA, the yield on ten-year treasury bonds is 4.9% at the end of October, with a strong tendency to fall. Anyone investing in corporate bonds with a good "A" rating also receives a risk premium of around 1.2%. This makes long-term government bonds and solid corporate bonds attractive investments.

The last few months have been an enormous challenge for bond investors. Central banks such as the Federal Reserve have insisted in their restrictive monetary policy that there will be no interest rate cuts in the near future. This led to a revaluation of bonds with longer maturities, partly because the risk of recession was «priced out». Within just three months, the yield on a 10-year treasury bond rose temporarily from 4.2% to over 5.0% and that on a 20-year treasury bond from 4.4% to 5.3%. A steepening of the yield curve to this extent is also unusual in view of the economic outlook in the near future.

The yield trend and the potential for bond price increases led to a strong outflow from US equities and an inflow into US treasury bonds in October. However, these yields are also becoming a benchmark for other asset classes. US yielding real estate lost value because the higher «risk-free» yield resulted in higher discount rates. The economy initially remained strong and resilient. The growing labor force, excess savings and moderate wage increases ensured continued consumption and strong economic growth in the US. In particular, there are clear signs that the US labor market is returning to equilibrium. This favors the decline in inflation and eliminates the risk of a wage-price spiral.

Despite this economic resilience, we remain wary of a recession, especially as we invest not only in government bonds, but primarily in corporate bonds in a disciplined manner. The vast majority of companies that have financed themselves with bonds on the capital market in recent years are also able to cope with higher interest rates. We therefore do not fear a wave of insolvencies, especially as the main exposure beyond the Swiss franc area is in the eurozone, where the key interest rate has peaked at around 4% – around 1.5% lower than in the USA. It should not be overlooked that the issue of a bond is a nominal debt. If a company is able to increase sales and gross profit in an inflationary environment simply due to price adjustments, which is to be expected, the bottom line is that more nominal financial strength remains to service the interest and repay the debt.

Asset sub-class	3–6 months	12–24 months	Analysis
Government bonds	↗	↗	The US recession probability has been priced out in the last 3 months. This has caused prices to fall and yields at the longer end to rise sharply.
Corporate bonds	↗	↗	At present, the diversity of macroeconomic conditions in a wide range of countries and markets can be actively exploited for a broad spectrum of future returns.
High-yield, hybrid bonds	↗	↗	The market outlook for hybrid bonds with high grade ratings has improved considerably and allows us to look forward to the coming years with confidence.

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Zugerberg Finanz bond solutions

Improved prospects

Investing in global economic development through corporate bonds – Container port Singapore (Image source: stock.adobe.com)

Over the last twelve months, the way in which bonds were invested played an important role. While the global bond index in Swiss francs experienced a change in value of -2.6%, the Swiss Bond Index gained +3.0%. In the same period, the yields of the Zugerberg Income Fund (+3.2%) and the Credit Opportunities Fund (+2.9%) were at the same level. In these bond solutions, however, the yield to maturity in particular is higher, i.e. the prospects of future returns are better.

In the eurozone, inflation fell to its lowest level for more than two years at +2.9%. This reinforces our view that the ECB is likely to cut key interest rates up to three times in the next twelve months. The main job is done, now it's a matter of fine-tuning. In addition, the economy in the eurozone is cooling without the need for such a restrictive monetary policy. Inflationary pressure is also easing in Switzerland. The same is true in the USA, where the danger of a wage-price spiral has been averted. A lot has happened on the labor market recently. This is practically in equilibrium. Commodity prices (-7.3% since the beginning of the year) also contributed to the rapid decline in high inflation rates. However, the consumer confidence index fell less sharply than expected in October, but still fell to its lowest level since May 2023.

Bonds traded in dollars and euros in particular are promising for those investors who assume that the economic future is rather bleak. Typically, central banks react with interest rate cuts in a phase of moderate inflation (which is increasingly the case at present) and economic dips. These are particularly interesting when the remaining term of the bonds is relatively high. However, this requires solid credit ratings and business models with a strong cash flow.

Specifically, there are redemption yields on long-term bonds from Holcim, for example (e.g. 2033: 4.5% p.a. yield in euros; 2046: 6.9% p.a. yield in dollars), which are particularly interesting in view of the fact that redemption yields in these currencies are likely to fall significantly over the next two years as key interest rates are cut. This will result not only in coupon income, but also in a (income tax-exempt) capital gain on the bond.

The ZIF portfolio was actively improved further with a total of 25 transactions in order to benefit from falling interest rates. The portfolio included long-term bonds from Johnson & Johnson, Roche and Sandoz (healthcare group), the Deutsche Telekom subsidiary T-Mobile (communications), AMAG Leasing (AAA-rated covered bond), the European Stability Fund, the Republic of Austria and the City of Zurich, as well as mortgage bonds from two Swiss banks.

The credit rating and duration of the COF portfolio were also increased through 12 transactions. A bond from T-Mobile and one from the southern German family-owned company Adler Pelzer (automotive supplier in the field of acoustic solutions and thermal efficiency to increase driving comfort) were also included.

	Zugerberg Income Fund	Credit Opportunities Fund
Yield in 2023 (since the beginning of the year)	+0.8%	+0.3%
Yield since the start (annualized)	-13.0% (-2.5%)	+20.2% (+1.7%)
Proportion of months with positive yield	52%	66%
Credit risk premium in basis points (vs. previous month)	249 BP (+10 BP)	744 BP (+91 BP)
Average rating (current)	BBB+	BB

You can find more information in the factsheets on the Zugerberg Income Fund and the Credit Opportunities Fund.

Real estate, infrastructure

Swiss real estate funds remain under pressure

Swiss Real Estate Funds Total Return Index, 01/01/2022 – 10/31/2023 (Source: SXI Real Estate Funds Total Return Index SWIIT | Graphic: Zugerberg Finanz)

The increased interest rates and discount rates for real estate valuations are causing a sustained decline in Swiss real estate funds (SWIIT). As at the end of October 2023, they have remained well in the red since the start of 2022 with a total return of -19.0%. Swiss real estate funds were also unable to keep pace with the total return of -14.4% of the leading Swiss stock index SMI.

People generally invest in real estate funds in order to achieve a diversification effect and to have a supporting pillar in a crisis. However, the supposed crisis stabilizer has recently failed. Real estate investments, which were once regarded as crisis-resistant, were unable to withstand higher interest rates and correspondingly higher discount rates. Nevertheless, it is worth noting that the Swiss share index of medium-sized and smaller companies (SPIEX Index) lost significantly more than the SWIIT Index in the corresponding comparison period at -25.4%.

Most of the fall in value occurred in 2022. In the current year, the real estate index was "only" an additional -4.3%, i.e. after the sharp correction, there appear to be signs of stabilization at a level around 20% lower than at the end of 2021. For a sustained recovery, interest rates would have to fall and thus substantially reduce the discount factor again.

At present, the chances of appreciation remain low. This is particularly true in the institutional real estate business. The ETF, which has fully tracked the Swiss Real Estate Index with a replication strategy for 14 years, has an annual expense ratio of 0.98%. At 2.6%, the return remains rather modest and has stagnated over the past five years. Taking into account the fall in prices, Swiss real estate funds have at best preserved capital over the past four years: with a net return of -0.4% on the index, excluding the costs of the ETF.

In the private real estate sector for residential purposes, borrowers are benefiting from the fact that mortgage interest rates fell to a new annual low in October. The benchmark rate for a two-year period is 2.4%, although more favorable offers than a margin of 0.9% can also be found. The swap curve for 2- and 3-year interest rates is around 0.5% lower than at the end of March 2023 (1.5% instead of 2.0%) and fell by 28 basis points in October alone.

Fixed-rate mortgages have therefore become attractive again – and not just because of the planning security they offer. It is by no means the case that Saron-based mortgage loans will have to become cheaper again in the future. Anyone taking out a fixed-rate mortgage at 2.4% has a tax-adjusted interest burden of around 1.6% – without quarterly fluctuations. This corresponds to financing conditions that are at the level of the expected inflation rate. This is therefore a very attractive level in the longer term, especially for those who expect their property to increase in value in real terms over the long term.

Asset sub-class	3–6 months	12–24 months	Analysis
Residential properties CH	→	↗→	Saron-based mortgages may soon become cheaper again. Those who want planning security are currently taking advantage of favorable fixed-rate mortgages.
Office and retail properties CH	→↘	→	Well-positioned real estate companies still have solid premiums. Companies with discounts (as a market signal!) should still be avoided.
Real Estate Fund CH	→	↗→	Selected funds remain attractive, but around two thirds of the funds still have lower valuations to come. The NAV has recently been pushed too high.
Infrastructure Equity / Fund	↗	↗	The infrastructure performance in October was illustrated by the example of Engie and RWE (+3% each). Many others, e.g. Zurich Airport (-3%), have great potential.

Equity

Profits are increasing

After reporting on the third quarter of 2023, we can state that company profits have once again increased significantly compared to the previous year. The earnings estimates of these companies with a view to 2024 have also been raised in the last three months. This means that no major changes will be made for the time being, as the earnings performance of the companies in our portfolios is well above the market average.

Equity indices around the world suffered massive losses in October. The Swiss SMI, which is better known for being defensive, was particularly negative at -5.2%. European stock markets suffered price losses of around -4.2% (Stoxx Europe 600). The decline was somewhat less in the USA with the broad-based S&P 500 Index (-2.7%).

However, it should be noted that the markets react particularly strongly to external factors in the short and medium term. We therefore focus less on individual quarterly results and more on medium-term sales, margin and profit trends.

We also see that overall inflation has fallen faster than the markets expected. Admittedly, there is still quite a way to go due to some stubborn components of inflation. And certainly geopolitical tensions such as in the Middle East could make the oil price more volatile in the short term, but such periods of “investor” uncertainty have always been part of the investment environment in the past.

In terms of growth, company results show us that growth has been much better than expected, particularly in the US. Meanwhile, tighter financial conditions, the high cost of capital, declining pandemic savings and cooling labor markets are slowing growth. However, the market leaders on which we place particular emphasis in our portfolios are growing at an above-average rate – also in the coming years and for a variety of reasons.

As interest rates are gradually returning to lower levels, this will also be factored into the discounting model used to value shares in the medium term. This will increase the present value of future company earnings. In view of such prospects, it is currently a very interesting starting position to invest selectively in real assets with above-average characteristics (market position, balance sheet strength, pricing power).

Swiss dividend yields remain attractive: while the yields on ten-year government bonds abroad often far exceed the dividend yields on equities, the opposite is true in Switzerland. The yield on Swiss government bonds is currently 1.0%, even below the inflation rate. The distribution yield alone (dividends and tax-exempt par value repayments) should reach 4.6% in our Revo Dividend Portfolio. It is important to bear in mind that a considerable proportion of the companies’ profits is retained rather than distributed. The earnings yield in Revo Dividends is 8.3%: 3.7% or roughly 45% of company profits are retained and used to finance growth internally, which should lead to higher profits in the medium term and higher dividends in the long term.

This is the crux of the matter. Chicken or egg? If you are not interested in the weight of the chickens, but in the number of eggs that are laid each year, you can sit back and relax: since we set up the dividend portfolio, cash distributions have risen year on year – and significantly more than the SMI average. Dividend strategies remain attractive for Swiss investors, as the difference between dividend yields and the yields on 10-year Swiss bonds has already increased by 70 basis points this year.

Asset sub-class	3–6 months	12–24 months	Analysis
Equity Switzerland	↗→	↗	In October, the biggest SMI outliers were Logitech (+12%), Swiss Re (+5%), Zurich (+3%), Swiss Life (+2%); on the downside, Alcon (-9%) and Lonza (-26%).
Equity Eurozone, Europe	↗→	↗	Following Tesla's poor quarterly results and price pressure in the EV market, the share prices of European car manufacturers also fell substantially.
Equity USA	↗→	↗	The S&P 500 will generate earnings per share of around USD 220 in 2023. The consensus forecast is for USD 240 (+9%) in 2024.
Equity Emerging markets	↗→	↗	Assessments are becoming increasingly easy, as the biggest interest rate cuts in the next two years are coming to the emerging markets.

Alternative investments

Price pressure in the renewable energy sector

European Renewable Energy Stocks Index in the last 5 years (Quelle: Bloomberg Finance | Grafik: Zugerberg Finanz)

There is enormous price pressure in the renewable energy sector. For solar parks, the pressure is coming from China, for wind parks from the current overcapacity in Europe. In addition, higher interest rates, inflationary production costs and selective supply chain problems are creating major challenges. Market growth is immense, but a return to profitability remains necessary in order to attract more capital again.

Despite significant growth and huge progress in public support, clean energy has been underperforming on the stock market recently. The European renewable energy stock index includes the largest and most liquid stocks in the hydro, wind, geothermal, biomass and solar sectors. The index is already 29.1% lower than at the start of the year (the global index is even down -34.1% since the start of the year). It has lost a lot of ground in the last three months in particular. The higher interest rates on loans are eating into margins, and in some places the guaranteed energy purchase prices are not linked to inflation. Added to this are slow approval procedures and a lack of grid capacity to sell and distribute surplus electricity within Europe. In addition to the already challenging industrial environment that has prevailed for years, this resulted in a mixture that many investors did not like. The index fell sharply as a result of increased selling activity in shares related to renewable energy.

The European Commission plans to increase the share of renewable energy in Europe many times over by 2030 in order to achieve the targets. To this end, it has presented a “wind package”. According to this, approval procedures are to be accelerated in conjunction with a stronger expansion of the electricity grids. Wind auctions are to be redesigned, in particular to promote the development of a European supply chain and to once again support the ailing offshore industry. Approval procedures currently take an average of four to seven years, as in Switzerland. This means that the decarbonization targets for 2030 will never be achieved. The EU wants to reduce the maximum duration to 24 months. This would provide a tailwind for developers such as RWE and SSE and would significantly accelerate the smart grid investment projects of Enel, Iberdrola and Endesa.

Even if these are still very ambitious targets and the actual implementation at country level is still 12 to 18 months away, this will provide positive impetus. Faster approvals – and therefore lower execution risks – would accelerate the electrification process in Europe. We therefore see most stocks in the entire renewable energy value chain (developers, manufacturers as well as grid operators and service providers) as long-term beneficiaries of this development.

The DecarbRevo portfolios have been particularly affected by the deterioration in sentiment towards clean energy over the last three months. Since the beginning of the year, 1.1 billion dollars flowed out of the global Clean Energy ETF. In the DecarbRevo portfolios, the decline was never as sharp as in the European Renewable Energy Stocks Index, but it was still painful. The current level is attractive for long-term investors. This is because the fall in interest costs alone should provide a boost in the coming years – both in terms of the net margin and the present value due to the lower discount rate.

Asset sub-class	3–6 months	12–24 months	Analysis
Commodities	→	↗	The wholesale gas price in Amsterdam ended October at 40 €/MWh, i.e. still low but noticeably higher than in the hot summer months.
Gold, precious metals	→	→	At 1,806 CHF/oz., the gold price is an impressive 6.8% higher than a month ago, but only at the average level of the spring.
Insurance Linked Securities	↗	↗	The premium level for CAT bonds has rarely been as attractive as it is today. This also applies to the yields on insurance bonds and their relative attractiveness.
Private equity	→	↗	Confidence is spreading in the industry that the interest rate peak will stimulate more transactions (M&A, IPO) in the market in 2024.

Market data

Asset class		Price (in local currency)	Monthly / YTD / Annual performance (in CHF)				
Equity		**31.10.2023**	**10/2023**	**2023 YTD**	**2022**	**2021**	**2020**
SMI	CHF	10'391.2	−5.2%	−3.2%	−16.7%	+20.3%	+0.8%
SPI	CHF	13'616.2	−5.2%	−0.9%	−16.5%	+23.4%	+3.8%
DAX	EUR	14'810.3	−4.3%	+3.6%	−16.3%	+10.4%	+3.5%
CAC 40	EUR	6'885.7	−4.0%	+3.6%	−13.9%	+23.6%	−7.4%
FTSE MIB	EUR	27'741.9	−2.3%	+14.0%	−17.3%	+17.3%	−5.4%
FTSE 100	GBP	7'321.7	−4.7%	−2.7%	−8.8%	+16.7%	−19.2%
EuroStoxx50	EUR	4'061.1	−3.3%	+4.3%	−16.0%	+16.0%	−5.4%
Dow Jones	USD	33'052.9	−1.9%	−1.6%	−7.7%	+22.2%	−1.8%
S&P 500	USD	4'193.8	−2.7%	+7.8%	−18.5%	+30.6%	+6.5%
Nasdaq Composite	USD	12'851.2	−3.3%	+21.1%	−32.3%	+25.0%	+31.6%
Nikkei 225	JPY	30'858.9	−5.0%	+0.9%	−19.7%	−2.6%	+11.6%
Sensex	INR	63'874.9	−3.7%	+2.9%	−4.8%	+23.2%	+3.4%
MSCI World	USD	2'768.6	−3.5%	+5.0%	−18.5%	+23.7%	+4.5%
MSCI EM	USD	915.2	−4.5%	−5.6%	−21.5%	−1.8%	+6.1%
Bonds (mixed)		**31.10.2023**	**10/2023**	**2023 YTD**	**2022**	**2021**	**2020**
Glob Dev Sov (Hedged CHF)	CHF	147.8	−0.9%	−2.8%	−13.2%	−3.0%	+3.5%
Glob IG Corp (Hedged CHF)	CHF	171.3	−1.4%	−3.2%	−16.7%	−2.0%	+6.4%
Glob HY Corp (Hedged CHF)	CHF	315.2	−1.2%	+0.9%	−13.6%	+1.4%	+3.7%
USD EM Corp (Hedged CHF)	CHF	245.1	−1.6%	−3.5%	−18.2%	−2.7%	+4.3%
Government bonds		**31.10.2023**	**10/2023**	**2023 YTD**	**2022**	**2021**	**2020**
SBI Dom Gov	CHF	168.9	−0.5%	+5.8%	−17.0%	−4.2%	+2.1%
US Treasury (Hedged CHF)	CHF	133.7	−1.5%	−6.1%	−15.0%	−3.5%	+6.3%
Eurozone Sov (Hedged CHF)	CHF	171.0	+0.2%	−1.3%	−18.9%	−3.7%	+4.6%
Corporate bonds		**31.10.2023**	**10/2023**	**2023 YTD**	**2022**	**2021**	**2020**
CHF IG Corp (AAA-BBB)	CHF	178.0	+0.6%	+3.5%	−7.5%	−0.5%	+0.5%
USD IG Corp (Hedged CHF)	CHF	172.2	−2.2%	−5.4%	−18.5%	−2.3%	+8.0%
USD HY Corp (Hedged CHF)	CHF	545.9	−1.5%	+1.0%	−13.7%	+4.1%	+5.1%
EUR IG Corp (Hedged CHF)	CHF	157.4	+0.2%	+1.3%	−14.1%	−1.2%	+2.4%
EUR HY Corp (Hedged CHF)	CHF	272.7	−0.5%	+4.3%	−10.9%	+3.2%	+2.1%
Alternative investments		**31.10.2023**	**10/2023**	**2023 YTD**	**2022**	**2021**	**2020**
Gold Spot CHF/kg	CHF	58'066.9	+7.6%	+4.9%	+1.0%	−0.6%	+14.6%
Commodity Index	USD	104.6	−0.7%	−8.5%	+15.1%	+30.8%	−11.6%
SXI SwissRealEstateFunds TR	CHF	2'119.3	−4.3%	−4.5%	−17.3%	+7.6%	+13.0%
Currencies		**31.10.2023**	**10/2023**	**2023 YTD**	**2022**	**2021**	**2020**
US dollar / Swiss franc	CHF	0.9104	−0.5%	−1.5%	+1.3%	+3.1%	−8.4%
Euro / Swiss franc	CHF	0.9628	−0.5%	−2.7%	−4.6%	−4.0%	−0.4%
100 Japanese yen / Swiss franc	CHF	0.6002	−2.1%	−14.9%	−11.0%	−7.5%	−3.8%
British pound / Swiss franc	CHF	1.1065	−0.9%	−1.1%	−9.3%	+1.9%	−5.7%

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