View from the foot of the Zugerberg (Photo: Alexander M. Ineichen, Zugerberg Finance Economic and Financial Advisory Board)

Lower interest rates brighten the economy

The global economy is expected to grow by around 3% again in 2024. In some places it is losing momentum somewhat, while in others it is gaining. The economic situation is brightening above all in emerging markets, where most of humanity lives, due to the reduced commodity prices and a lower dollar exchange rate. In the highly developed industrialized countries, lower interest rates and reduced financing costs in particular are improving the prospects for both companies and private households.

Prof. Dr. Maurice Pedergnana — The global economy is returning to normal. This does not mean that we are no long envisioning any crises in the future. On the contrary, a crisis-free phase of economic activity would be atypical. Crises do not just bring new challenges: they often actually accelerate transformations and trigger targeted investments. For example, the coronavirus crisis boosted digitization and the Ukraine war stimulated the promotion of alternative energy sources.

Crises are always challenging; for that reason alone, the return to moderate growth, moderate inflation, and moderate unemployment feels good. The post-pandemic inflationary wave is coming to an end. Most of the slow but steady decline in core inflation is due to consumer prices of goods – even more so in the USA than in the euro zone – largely thanks to the resolution of pandemic-related supply chain disruptions. Recently, producer prices have fallen significantly, which is likely to be felt by consumers soon.

There has also been a decline in prices for services. Continued disinflation will allow central banks to begin easing base rates soon. In the USA, for example, the price index for personal consumer expenditure, known as PCE inflation, fell to 2.6%. The six-month increase of 1.9% projected for one year was actually slightly below the target value. This results in a greater scope for interest rate cuts for the Federal Reserve, at a base rate of 5.5%. The initial situation in the euro zone is similar.

However, it remains an exciting year with far-reaching changes. Global supply chains are being fundamentally restructured to reduce dependence on China as a location. India, for example, is benefiting from this: one in four iPhones is likely to be assembled there for Apple this year. Semiconductor production facilities are also relocating. By the time of the pandemic, the small island state of Taiwan was producing around 60% of all semiconductors and 90% of high-end semiconductors. It is important to note that Chinese President Xi Jinping reiterates at every opportunity that Beijing is planning to reunite Taiwan with mainland China.

However, the global economy is not growing synchronously. After strong growth in the USA in 2023, which was due, among other things, to fiscal stimulus and was bought at a great cost with a high budget deficit, a slowdown is likely to occur in the current year. The extent to which this will take place remains uncertain. On the one hand, fiscal policy remains expansionary and both labor markets and consumption remain robust. On the other hand, monetary policy is extremely restrictive, which puts a strain on the capital-intensive transformation towards industrial automation and digitization and the domestic relocation of central production processes ("reshoring"). However, the drastic easing of financial conditions in recent months reinforces our long-held expectation of a soft landing for the US economy.

Asia, now home to 60% of the world's population, is certainly experiencing the strongest growth. In India, the real economy is growing by around 7%. At a significantly higher level, however, the growth rate of around 4% in China is also considerable. The Caixin index, which focuses on SMEs in the Chinese private sector, showed the highest level of incoming orders seen for a year. There are further encouraging signs in this economy, which continues to suffer from the burden of high investment and a relatively low propensity to consume.

The weakest growth is likely to be achieved in Western Europe, which is struggling with internal difficulties (crumbling infrastructure, high regulatory density, slow approval processes, and an excessive tax burden). But strong labor markets and higher real wages ensure sustained consumption. Disinflation supports this development.

Our most important trading partner, Germany, is by no means the sick man of Europe, and Europe is in no way at the end of its rope. The machine and plant construction sector is highly dynamic and innovative. Despite all the challenges, Germany remains an attractive location. The German automotive industry and its (Swiss) suppliers also seem to be productive, competitive, and viable for the future. Incorporating generative artificial intelligence into industrial processes is a strength of European companies. It would be a mistake to focus solely on the technology leaders such as Microsoft, Apple, and Google.

The coming years will show who will glean the most benefit from including generative artificial intelligence in their range of services. Artificial intelligence will generate real productivity gains. Those who use it the right way will be rewarded with increasing company profits. Thanks to automation, robotics, and artificial intelligence, it is now possible to produce goods in Europe almost as cheaply as was previously only possible in Asian countries with low wages. A certain level of reindustrialization is therefore foreseeable in Europe.

In addition, it must be taken into account that a considerable proportion of corresponding service components have long since found their way into the business models of traditional industrial companies. Global leaders such as ABB, Schneider Electric, Siemens, and Dassault Systemes are on the right track, making industrial IT a large part of their business. They work closely with their customers and are generating significant advances in workflows thanks to the increased use of artificial intelligence. In the Siemens "industrial metaverse", for example, mistakes in the construction of factories can be avoided from the outset. This increases the productivity and thus the competitiveness of their customers.

Editorial

Dear ladies and gentlemen,

The year 2023 is now history – and it went down in history as a good year for investors in nearly all asset classes. Equity markets around the globe rose after the abysmal previous year. The SMI was one of the weakest performers (+3.8%). The leading Swiss index suffered from the weak performance of the index heavyweights Nestle (-9%) and Roche (-16%). Many other securities fared much better. Our equity selection generated returns of +17% and contributed the lion's share of the performance achieved, which is convincing both in absolute terms (well above target returns) and in relative terms (e.g. risk class 3: 2.9%). In Germany, the DAX rose by +13.1%in CHF, the EuroStoxx50 with the 50 most important European companies roseby +12.1% (in CHF), while in the USA, the increases in Swiss francs were 13.1% (S&P 500) and 30.6% (Nasdaq 100). Infrastructure, real estate, and private market investments also went up.

The reasons for the pleasing development of tangible assets lie in the continued growth of the global economy. Despite all the gloomy predictions and adversities – high inflation, sharply rising interest rates, geopolitical uncertainties and wars – the global economy did not fall into a recession last year. It has proven to be much more resilient than assumed. Yet the growth actually achieved was below the potential in some places. Nevertheless, there is virtually full employment around the world today and the global wage bill is at the highest level ever reached. This promotes consumption as the most important pillar of the economy. And this consumption benefits the leading companies, whose profits have continued to rise over the past year and are likely to continue to do so in 2024.

The last quarter also saw a rebound in the bond markets after it became clear that interest rates around the globe had peaked and there would be no further rate hikes. Our investment-grade bonds yielded 6.0% last year, while the high-yield portfolio increased by 4.5%. The first step towards recovery has thus been made, but the lion's share is still ahead. We expect bonds to make a substantial contribution to the overall performance in 2024.

The continued economic growth should also give equities further momentum. In addition, the presidential elections in the USA are coming up. The equity markets rose in 13 out of the last 15 election years, with the American S&P 500 growing by an average of 10%. Only two election years saw negative developments: 2008 (the global financial crisis) and 2000 (the bursting of the dot-com bubble). Despite all the positive signs, careful selection is likely to continue to be of crucial importance in the new year, as there are clear differences between the individual industries and sectors, which are likely to be accentuated in 2024.

Our new CIO Cyrill von Burg has got off to a good start in his role: read more on the back of this half-year report. And apart from that, a lot has happened in our company over the past year: we have grown to 65 employees and 3.7 billion Swiss francs' worth of assets under management (AUM). We owe this first and foremost to you, our valued clients.

Thank you for your trust and loyalty.

Cordially,

Timo Dainese
CEO / Founder / Managing Partner

Liquid assets

Although savings are once again earning positive interest, interest rates are already on the decline once more. Anyone seeking sustained returns above the inflation rate in Switzerland should invest excess liquidity in a securities portfolio.

The Swiss franc was the strongest G10 currency last year, appreciating significantly against the dollar and the euro. On an inflation-adjusted basis, the effect of the strong Swiss franc remained within narrow limits until the end of November, meaning that Switzerland's competitiveness did not suffer until then. In December, however, the Swiss franc also rose sharply on an inflation-adjusted basis, which puts pressure on the Swiss National Bank to weaken the franc's attractiveness somewhat by lowering base rates.

Depending on the calculation method, purchasing power parity with the dollar is still around 10% lower than the current level of 0.84, which means that the dollar still has downside potential. The cost of hedging against devaluation is a high 3.7% at the beginning of 2024.

Equities

The Swiss Market Index (SMI) reached its lowest level of the year in October and was still able to recover to some extent. The SMI dropped around 150 points in the second half of 2023 and ended the year with 11.138 points (+3.8% compared to the previous year). The range of performances was wide, spanning from -22% (Lonza) to +49% (Partners Group). The price development of the two most important shares in the SMI was disappointing: Nestlé (-9%) and Roche (-16%). We achieved a total return of around +17% (in Swiss francs) with our selection of shares in general.

We continue to see digitization as a driver of growth. Artificial intelligence (AI) is currently helping to push new boundaries. The ongoing transformation is a great opportunity to successfully cope with the prevailing shortage of skilled workers and the demographic challenges. The combination of tech titles, a dividend-based selection, and a careful selection of winners from the AI movement is particularly attractive to us. We remain confident that the coming years will offer many opportunities to benefit disproportionately from the development of the real economy through a scrupulous selection of equities.

Bonds

The yield on the 10-year Swiss government bond fell from 1.5% to 0.6% in 2023. The yields on ten-year government bonds dropped especially sharply in the fourth quarter of 2023. The low level of 0.6% has a positive impact on equity valuations, corporate bonds, and real estate markets, which has not yet been duly appreciated by the capital markets. In 2023, we generated yields of between +4.5% and +6.0% with our bond solutions. We remain optimistic that we will continue to generate positive returns in 2024.

Real estate and infrastructure

Infrastructure performance in 2023 contributed 1.0% to the total returns in the R3 balanced portfolio. The weighting was around 5% throughout the year and the return was +19.4%. We remain extremely selective in this area. We pay attention to convincing business models, attractive valuations, and the economic environment. Real estate investments are all about the location, the quality of the holdings, and the stability of earnings. Thanks to lower interest rates, investors are once again showing increased interest in the real estate market. 3- to 5-year fixed-rate mortgages have become much more attractive and cheaper than SARON mortgages. Swap rates fell to 1.15% in the final quarter of 2023.

In the infrastructure sector, our shares rose by double digits. But we continue to see potential in this area, even with slightly weaker macroeconomic development. Lower long-term interest rates ensure significantly lower capital costs and thus higher cash flows and improved prospects. In addition, there are various improvements in performance, such as more passengers, increased retail volume, and higher rental income for Zurich Airport.

Alternative investments

In the middle of the year, the price of gold had hardly changed compared to the beginning of the year. The price of one ounce of fine gold fluctuated up and down within a relatively narrow range. At the end of the year, the price stood at 1'732 Swiss francs: +2.6% higher than twelve months ago. The largest buyers of gold worldwide are the central banks of China and Russia. They want to thereby reduce the dominance of the dollar as the largest reserve currency and the leading currency in world trade. Of course, it is also about avoiding potential sanctions by the USA, which the government can only effectively enforce if the dollar is used as a means of payment.

We include "Listed Private Equity" – essentially through a fund – as the most important alternative investment. The broadly diversified fund includes around 30 private market investment companies, which in turn are invested in a total of around 500 portfolio companies. They are selected and supported in their growth by well-known investment companies such as the Canadian Onex (which brought the successful SIG Group to the Swiss stock exchange), the British HgCapital (which has several outstanding IT companies for the European SME market), and the American KKR (which is world-famous for its excellent private market portfolio).

This diversification across a wide range of industries and geographic markets makes this portfolio component very robust. However, because they tend to be structurally small and medium-sized companies with a certain proportion of borrowed capital, the interest rate sensitivity remains significantly higher than with the US corporations that have plentiful cash flows, such as Apple and Microsoft. The outlook for listed private equity in the current year improved sharply due to the trend towards lower interest rates. In addition, the IPO window has reopened and M&A transactions are likely to step up again. In 2023, we outperformed the Swiss Market Index by around 20% thanks to our diversification into the listed private equity sector.

Decarbonization

DecarbRevo gives you the opportunity to finance the transition to a CO_2-free economy. Huge investments must be made, both now and in the near future, in order to become climate-neutral in the foreseeable future. The price of CO_2 is likely to rise. Ultimately, we could live in a world where energy is cheaper than before and where many innovations enable sustainable, CO_2-free production. This will give us a technological advantage and would thus support growth. However, about two-thirds of the shares generated no earnings last year - quite the contrary. The sharp slump in energy prices (crude oil, gas, and electricity) weighed heavily on the valuation of hydro, wind, and solar power plants by the equity markets. Nonetheless, good prospects have emerged lately, in part thanks to the lower long-term interest rates. The bonds, which are strictly used to finance the decarbonization transformation, provided a return of +5.1%. We expect a significantly positive return on bonds in 2024 as well.

Performance

Equities (in CHF)

		31/12/23	since 31/12/22
SMI	CHF	11'137.8	3.8%
SPI	CHF	14'571.2	6.1%
DAX	EUR	16'751.6	13.1%
CAC 40	EUR	7'543.2	9.6%
FTSE MIB	EUR	30'351.6	20.4%
FTSE 100	GBP	7'733.2	−0.3%
EuroStoxx50	EUR	4'521.7	12.1%
Dow Jones	USD	37'689.5	3.5%
S&P 500	USD	4'769.8	13.1%
Nasdaq Composite	USD	15'011.4	30.6%
Nikkei 225	JPY	33'464.2	8.6%
Sensex	INR	72'240.3	7.4%
MSCI World	USD	3'169.2	10.8%
MSCI EM	USD	1'023.7	−2.6%

Government bonds

		31/12/23	since 31/12/22
SBI Dom Gov	CHF	179.5	12.5%
US Treasury (Hedged CHF)	CHF	141.7	−0.5%
Eurozone Sov (Hedged CHF)	CHF	181.6	4.8%

Corporate bonds

		31/12/23	since 31/12/22
CHF IG Corp (AAA–BBB)	CHF	181.7	5.7%
USD IG Corp (Hedged CHF)	CHF	188.5	3.5%
USD HY Corp (Hedged CHF)	CHF	586.4	8.5%
EUR IG Corp (Hedged CHF)	CHF	164.6	5.9%
EUR HY Corp (Hedged CHF)	CHF	287.1	9.8%

Alternative investments (in CHF)

		31/12/23	since 31/12/22
Gold Spot CHF/kg	CHF	55'805.8	0.8%
Commodity Index	USD	98.6	−20.4%
SXI SwissRealEstateFunds TR	CHF	2'339.8	5.4%

Currencies

		31/12/23	since 31/12/22
US–Dollar/CHF	USD/CHF	0.8414	−9.0%
Euro/CHF	EUR/CHF	0.9289	−6.1%
100 Japanese yen/CHF	JPY/CHF	0.5965	−15.4%
British Pound/CHF	GBP/CHF	1.0716	−4.2%

Short-term interest rates

	3 months	12-m. forecast
CHF	1.70%	1.2%–1.3%
EUR	3.91%	3.0%–3.2%
USD	5.33%	4.0%–4.3%

Long-term interest rates

	10 years	12-m. forecast
CHF	0.70%	0.8%–1.1%
EUR	2.03%	2.0%–2.2%
USD	3.88%	3.0%–3.3%

Inflation

	2023	2024P
Switzerland	1.5%	1.3%
Eurozone	2.6%	2.2%
USA	3.0%	2.0%

Economy (real GDP)

	2023	2024P
Switzerland	1.3%	1.6%
Eurozone	1.2%	1.8%
USA	2.6%	2.0%
Global	2.9%	3.0%

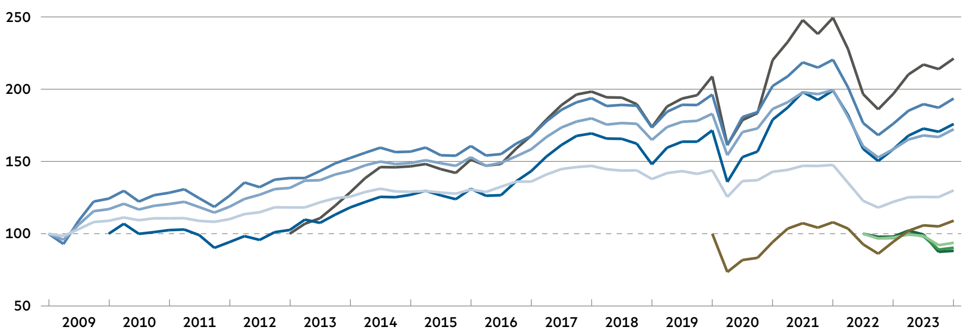
Zugerberg Finanz Revo

Zugerberg Finanz Revo1 to Revo5, RevoDividends, DecarbRevo3 to DecarbRevo5

Suitable for investors with assets from CHF 5'000 (one-off investment) or regular investments of CHF 100 per month (capital generation plan).

Portfolio per 31/12/2023	Revo1	Revo2	Revo3	Revo4	Revo5	RevoDIV	Decarb Revo3	Decarb Revo4	Decarb Revo5
Liquidity	4%	5%	2%	2%	2%	2%	10%	5%	1%
Interest-bearing securities (e.g. bonds)	55%	33%	21%	8%	0%	0%	0%	0%	0%
Interest-bearing securities (increased risk)	20%	18%	17%	16%	11%	–	40%	30%	21%
Real estate equities/funds (incl. infrastr.)	4%	5%	6%	7%	7%	14%	6%	7%	9%
Equities/funds	17%	34%	48%	60%	72%	73%	44%	58%	69%
ILS	–	0%	0%	0%	0%	–	–	–	–
Private Equity	–	5%	6%	7%	8%	11%	–	–	–

Performance net



Year[1]	Revo1	Revo2	Revo3	Revo4	Revo5	RevoDIV	Decarb Revo3	Decarb Revo4	Decarb Revo5
2009	+8.9%	+17.0%	+24.3%						
2010	+1.6%	+3.0%	+3.3%	+2.5%					
2011	−0.5%	−1.6%	−1.6%	−8.1%					
2012	+7.4%	+11.0%	+9.7%	+8.9%					
2013	6.3%	+9.0%	+10.0%	+15.2%	+28.6%				
2014	+2.7%	+3.8%	+2.9%	+7.4%	+14.0%				
2015	+1.2%	+2.7%	+2.5%	+3.3%	+3.2%				
2016	+4.2%	+3.6%	+4.3%	+9.3%	+10.9%				
2017	+8.0%	+13.5%	+15.6%	+18.2%	+18.2%				
2018	−6.2%	−8.3%	−10.5%	−12.6%	−12.4%				
2019	+4.4%	+11.0%	+13.2%	+15.9%	+20.2%				
2020	−0.7%	+1.8%	+3.0%	+4.3%	+5.4%	−5.8%			
2021	+3.3%	+7.0%	+9.0%	+11.3%	+13.3%	+14.6%			
2022	−17.3%	−20.5%	−20.1%	−20.4%	−21.1%	−12.5%	−2.6%	−2.9%	−2.0%
2023	+6.5%	+8.7%	+9.9%	+11.0%	+12.4%	+15.4%	−3.8%	−7.0%	−10.0%

since launch[1] as of 31/12/2023	Revo1	Revo2	Revo3	Revo4	Revo5	RevoDIV	Decarb Revo3	Decarb Revo4	Decarb Revo5
p.a. (average)	+1.8%	+3.7%	+4.5%	+4.1%	+7.5%	–	–	–	–
cumulative	+30.0%	+72.3%	+93.5%	+75.9%	+121.2%	–	–	–	–

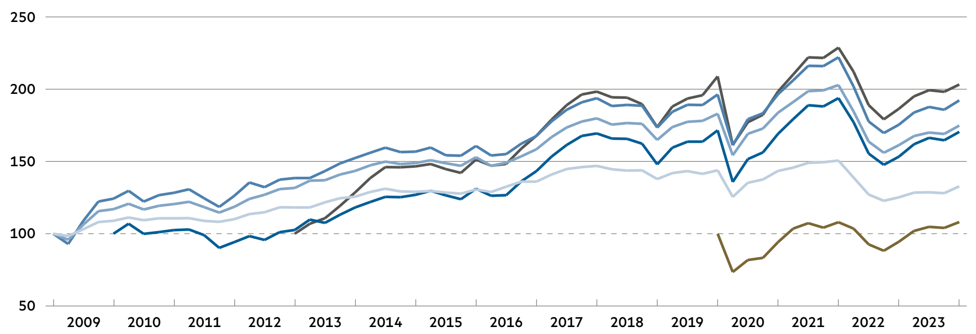
Zugerberg Finanz R

Zugerberg Finanz R1 to R5, RDividends

Suitable for investors with assets of CHF 500'000 and above.

Portfolio per 31/12/2023	R1	R2	R3	R4	R5	RDIV
Liquidity	5%	2%	1%	2%	1%	2%
Interest-bearing securities (e.g. bonds)	55%	37%	21%	8%	0%	–
Interest-bearing securities (increased risk)	18%	17%	21%	17%	17%	–
Real estate equities/funds (incl. infrastr.)	3%	4%	4%	7%	7%	16%
Equities/funds	19%	35%	47%	58%	62%	73%
ILS	–	0%	0%	0%	0%	–
Private Equity	–	5%	6%	8%	13%	9%

Performance net



Year[2]	R1	R2	R3	R4	R5	RDIV
2009	+8.9%	+17.0%	+24.3%			
2010	+1.6%	+3.0%	+3.3%	+2.5%		
2011	−0.5%	−1.6%	−1.6%	−8.1%		
2012	+7.4%	+11.0%	+9.7%	+8.9%		
2013	6.3%	+9.0%	+10.0%	+15.2%	+28.6%	
2014	+2.7%	+3.8%	+2.9%	+7.4%	+14.0%	
2015	+1.2%	+2.7%	+2.5%	+3.3%	+3.2%	
2016	+4.2%	+3.6%	+4.3%	+9.3%	+10.9%	
2017	+8.0%	+13.5%	+15.6%	+18.2%	+18.2%	
2018	−6.2%	−8.3%	−10.5%	−12.6%	−12.4%	
2019	+4.4%	+11.0%	+13.2%	+15.9%	+20.2%	
2020	−0.3%	+0.4%	+0.1%	−1.4%	−5.0%	−5.8%
2021	+5.0%	+10.4%	+13.0%	+14.6%	+15.3%	+14.6%
2022	−16.9%	−20.5%	−21.0%	−20.9%	−18.5%	−12.5%
2023	6.1%	+8.4%	+9.6%	+11.2%	+9.0%	+14.4%

since launch[2] as of 31/12/2023	R1	R2	R3	R4	R5	RDIV
p.a. (average)	+1.9%	+3.8%	+4.4%	+3.9%	+6.6%	–
cumulative	+32.8%	+74.8%	+92.3%	+70.5%	+103.2%	–

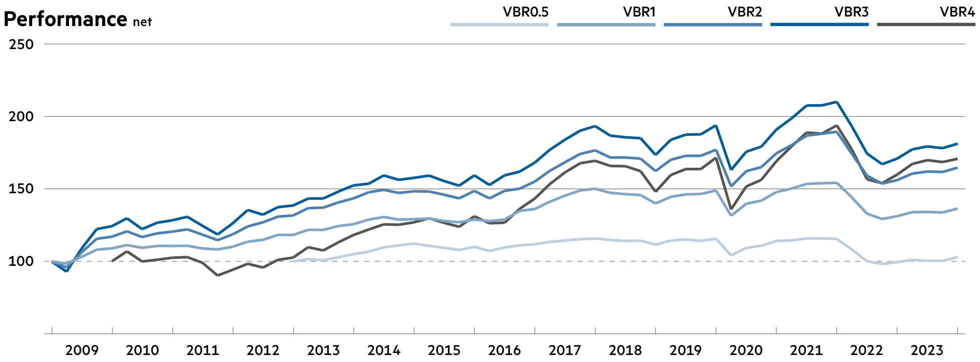
Zugerberg Finanz Vested Benefits

Zugerberg Finanz Vested Benefits R0.5, Vested Benefits R1 to Vested Benefits R4

Suitable for investors with vested pension assets from CHF 5'000.

Portfolio per 31/12/2023	VBR0.5	VBR1	VBR2	VBR3	VBR4
Liquidity	5%	6%	1%	3%	6%
Interest-bearing securities (e.g. bonds)	76%	47%	40%	22%	5%
Interest-bearing securities (increased risk)	10%	11%	14%	19%	18%
Real estate equities/funds (incl. infrastr.)	–	8%	7%	7%	6%
Equities/funds	9%	18%	26%	35%	47%
ILS	–	10%	2%	3%	6%
Private Equity	–	–	10%	11%	12%

Performance net



Year[3]	VBR0.5	VBR1	VBR2	VBR3	VBR4
2009		+8.9%	+17.0%	+24.3%	
2010		+1.6%	+3.0%	+3.3%	+2.5%
2011		−0.5%	−1.6%	−1.6%	−8.1%
2012		+7.4%	11.0%	+9.7%	+8.9%
2013	+5.0%	+6.3%	+9.0%	+10.0%	+15.2%
2014	+6.9%	+2.8%	+3.4%	+3.4%	+7.4%
2015	−2.0%	−0.2%	+0.2%	+1.1%	+3.3%
2016	+1.6%	+5.6%	+4.3%	+5.5%	+9.3%
2017	+3.6%	+10.3%	+13.9%	+15.0%	+18.2%
2018	−3.7%	−6.8%	−8.1%	−10.3%	−12.6%
2019	+3.7%	+6.4%	+9.1%	+11.8%	+15.9%
2020	−1.4%	−0.7%	−1.4%	−1.5%	−1.4%
2021	+1.3%	+4.3%	+8.5%	+10.0%	+14.6%
2022	−13.9%	−14.9%	−17.6%	−18.6%	−17.5%
2023	+3.5%	+4.0%	+5.5%	+6.0%	+6.8%

since launch[3] as of 31/12/2023	VBR0.5	VBR1	VBR2	VBR3	VBR4
p.a. (average)	0.3%	+2.1%	+3.4%	+4.0%	+3.9%
cumulative	+2.9%	+36.4%	+64.6%	+81.2%	+70.8%

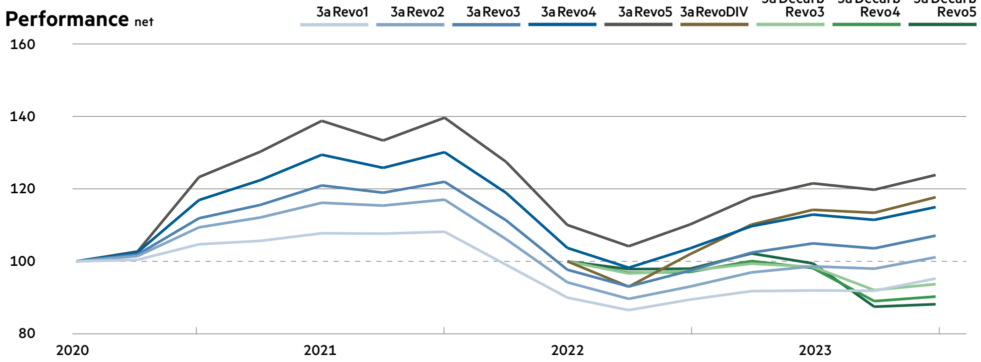
Zugerberg Finanz 3a Revo

Zugerberg Finanz 3a Revo1 to 3a Revo5, 3a RevoDividenden, 3a DecarbRevo3 to 3a DecarbRevo5

Suitable for 3a pension assets with regular investments of CHF 100 per month or one-off investments from CHF 5'000.

Portfolio per 31/12/2023	3a Revo1	3a Revo2	3a Revo3	3a Revo4	3a Revo5	RevoDIV	3aDecarb Revo3	3aDecarb Revo4	3aDecarb Revo5
Liquidity	4%	5%	2%	2%	2%	2%	10%	5%	1%
Interest-bearing securities (e.g. bonds)	55%	33%	21%	8%	0%	0%	0%	0%	0%
Interest-bearing securities (increased risk)	20%	18%	17%	16%	11%	–	40%	30%	21%
Real estate equities/funds (incl. infrastr.)	4%	5%	6%	7%	7%	14%	6%	7%	9%
Equities/funds	17%	34%	48%	60%	72%	73%	44%	58%	69%
ILS	–	0%	0%	0%	0%	–	–	–	–
Private Equity	–	5%	6%	7%	8%	11%	–	–	–

Performance net



Year	3a Revo1	3a Revo2	3a Revo3	3a Revo4	3a Revo5	3a RevoDIV	3aDecarb Revo3	3aDecarb Revo4	3aDecarb Revo5
2020	+4.7%	+9.4%	+11.9%	+16.9%	+23.2%				
2021	+3.3%	+7.0%	+9.0%	+11.3%	+13.3%				
2022	−17.3%	−20.5%	−20.1%	−20.4%	−21.1%	+2.0%	−2.6%	−2.9%	−2.0%
2023	+6.5%	+8.7%	+9.9%	+11.0%	+12.4%	+15.4%	−3.8%	−7.0%	−10.0%

Cyrill von Burg (CIO Zugerberg Finanz) im Interview

Cyrill von Burg, CIO of Zugerberg Finanz

Cyrill von Burg, CFA, Master of Banking and Finance, took over the role of CIO (Chief Investment Officer) at Zugerberg Finanz a year ago. The CIO is responsible for strategic and tactical asset allocation. He relies on support from a diverse, qualified team with many years of investment experience (the CIO Office), as well as the Zugerberg Finanz Economic and Financial Advisory Board.

ZF — Cyrill von Burg, you have now been in the role for a year. What was 2023 like for you?

CvB — The beginning of the year was marked by restraint in the markets and many investors feared a recession. At that point, we considered a soft landing of the economy without a global recession to be the most likely scenario and kept our equity ratio strictly neutral. As a result, we were able to profit from the lack of a recession and achieve 2% to 3% higher returns than the market. After the negative months for equity in August, September, and especially in October, the mood was skeptical for a while, but the central banks once again proved to be far-sighted and ensured a positive mood with a year-end rally. We can thus demonstrate an attractive performance with a corresponding yield advantage for 2023.

ZF — You took over just after a difficult year on the stock market. There was a huge amount of pressure after the bad year in 2022. How did you handle it?

CvB — Yes, the pressure was really enormous, especially because we performed below the market in the challenging trading year in 2022. In my almost 10 years at Zugerberg Finanz, however, I have already been through several challenging situations and know how to deal with them. We also have extensive experience and knowledge as a team, and I can always count on the input of our prestigious economic and financial advisory board.

ZF — What did you do specifically?

CvB — In the fourth quarter of 2022, as well as over the course of 2023, we made various adjustments to the portfolios and remained extremely disciplined afterwards. Our focus was on companies that have established themselves as market leaders in their respective industries. With this strategy, we were already able to achieve a yield advantage in January 2023. But of course, the tension remained high until the end of the year. We are rightfully very satisfied with the returns we ultimately achieved in the 2023 market environment.

ZF — But the tally was reset to zero on 31/12/2023, and now everything is starting all over again.

CvB — This is just the industry standard and it's hard to get out of your mind. You are always measured on an annual basis, even though I do not think this always makes sense, because some fields and business models take longer than 12 months to prove themselves or become established and you can always meet with resistance in the short term. This should always be taken into account. A clearly defined strategy with a healthy dose of short-term tactical adjustments yields good returns in the long term. In my opinion, only optimizing in the short term, without pursuing the long-term scenario, carries too high a risk. I'm also taking about investors' individual investment horizons here. It is important to comply with these, and not to only look at the daily, weekly, or annual developments. Investments in tangible assets in particular are long-term investments.

ZF — What are your predictions for the economic developments in 2024?

CvB — Our baseline economic scenario for 2024 shows no significant changes compared to 2023. We still do not expect a global recession. We expect slightly lower economic growth in 2024 compared to previous years and believe the IMF's forecast of +2.9% is realistic. Growth in the western regions of America and Europe is expected to be slightly below this figure, while the Asian region is expected to achieve somewhat stronger growth. Inflation is likely to continue to move towards the central banks' target ranges, which should allow them to be less restrictive and cut interest rates during the year.

ZF — What does this mean for investments, where do you see the greatest opportunities? Where will you be focusing in 2024? What are the mega-trends that are getting attention?

CvB — Currently, we are for the most part sticking to our strategy of selectively investing in equities and focusing on market leaders in the respective sectors. With slightly lower growth, we believe it is critical to invest in industry leaders. A balanced mix of large and small/mid caps is important here. In the bonds segment, we are concentrating on possible interest rate cuts and therefore, as with equities, are increasingly focusing on quality bonds with slightly higher interest rate risks, i.e. longer durations. We expect a greater potential for interest rate cuts in EUR and USD compared to CHF, so we are investing globally but hedging the foreign currency risks.

ZF — Zugerberg Finanz manages CHF 3.7 billion. It's an enormous responsibility that you and your team have. How do you deal with that?

CvB — Taking responsibility is one of our core corporate values. We consider it a privilege to work on behalf of our valued clients. In addition to regular discussions with our economic and financial advisory board, we have a wide range of expertise and many years of investment experience. We attach great importance to carefully selecting each security and only buying those we really understand. This lets us feel good about our decisions and makes the responsibility easier for us to bear. It should be noted that everything we buy for our clients, we also buy for ourselves.

ZF — Where do you see yourself a year today, on 31/12/2024?

CvB — From a technical investment standpoint, the year 2024 ought to turn out much like 2023. In this environment, we were able to outperform the market thanks to disciplined work and targeted selections. The recovery in bonds is likely to accelerate somewhat.

ZF — And how do you switch off?

CvB — Spending time with my family soon takes my mind of things; my two young children in particular demand different topics than current world events and the capital markets. In addition, I make sure I exercise regularly in order to recover physically from everyday office life. I regularly participate in the Zugerberg Finanz Trophy with my team and on Monday evenings I meet up with a group of friends for men's veterans' indoor football.

ZF — How do you keep on top of everything?

CvB — Successfully juggling with all these demands requires a lot of passion, as well as careful organization and prioritization. I usually manage to successfully overcome these challenges, even if sometimes that means getting a bit less sleep or occasionally dealing with my inner critic (laughs).

Calendar

Information event for private individuals
Thursday, 14 March, 2024 – Lüssihof Zug

Zugerberg Finanz hiking trip
Friday, 3 May, 2024 (alternative date: Friday, 17 May, 2024)

Zugerberg Finanz Economic and Stock Market Outlook
Monday, 17 June, 2024 – KKL Lucerne
Wednesday, 19 June, 2024 – Casino Zug

Zugerberg Finanz tips

Tipp 1: Draw up a power of attorney, a living will or advance directive, and inheritance and marriage contracts
These documents enable you to clearly and unambiguously stipulate what happens in the event that you lose capacity to make decisions or become seriously ill, as well as in the event of a divorce or the death of one or both spouses. Your consultant will be happy to assist you in drawing up the important papers.

Tipp 2: Invest unneeded liquidity
Since the end of the negative or zero-interest-rate period, Swiss bank accounts are now earning interest again. However, appearances can be deceptive; interest rates are often far below inflation rates and thus you risk losing real purchasing power. You should therefore invest liquidity that you will not need for years. It attracts lavish dividends, price gains, and attractive coupons on the capital markets. Prudent liquidity planning and careful evaluation of the risk profile are crucial in this regard. Your financial advisor will be happy to help you with this as well.

Pay into your 3rd pillar now – don't wait until the end of the year!

Many 3a savers leave it to the end of the year to pay into their 3a pillar. Unfortunately, this is a big mistake. Because take note: if you pay in your annual deposit at the beginning of the year, it's worth cash over the long term. Paying in your deposit early gives you a hefty additional return in the long run.

This is because the amount paid in at the beginning of the year will work for you for 1 year longer than the amount paid in at the end of the year. The comparison is impressive: it's thousands of francs' worth of difference! Below we illustrate this with two calculation examples and the current maximum amount of CHF 7'056 per year over a period of 40 years:

Zugerberg Finanz investment strategy:	**3a Revo3**	**3a Revo5**
Annual expected returns (net):	3.25%	4.75%
Total amount paid in:	CHF 282'240	CHF 282'240
Expected capital amount at retirement		
3a paid in at the end of the year:	CHF 563'221	CHF 802'114
3a paid in at the beginning of the year:	CHF 581'525	CHF 840'215
Additional interest after 40 years:	**CHF 18'304**	**CHF 38'101**

Saving with securities leads to significantly higher retirement savings in the long term. It is massively superior to relying on savings accounts. The prerequisite is that you can deal with market fluctuations and accept temporary losses.

By paying in at the beginning of the year, you can optimize your securities savings. It definitely pays off, as the above examples show. CHF 18'000 more retirement savings, just by switching from the end of the year to the beginning of the year – practically for free!

In addition to the strategies used for the calculation example, other strategies that meet your investment needs are also available to you, including a strategy made up entirely of dividend-paying stocks or impact investing with a focus on decarbonization. For more information about the benefits of 3a pensions and our attractive solutions, please contact your consultant.