INVESTMENT COMMENT

April 2024

- **A tale of two continents**

Switzerland was the first major economy to reduce the dramatic post-Covid interest rate increases that started in 2022, having cut rates by 25bps in March to 1.5%. The ECB is widely expected to do the same in June. Across the Atlantic in the U.S., the opposite is happening. Political dysfunction at the national level has not stopped the U.S. economy from powering ahead. Inflation was higher than expected for the first three months this year and the recent core inflation reading of 3.8% has dashed all hopes for a rate cut in June. Some economists are even arguing that the Fed's next move might be a hike rather than a cut.

We are currently expecting one rate cut in the U.S. later this year as the Federal Reserve believes it will take longer to reach its 2% inflation target. The S&P 500 has fallen over 5% from its peak after the latest inflation data and the US dollar has rebounded from a low of 0.84 against the Swiss Franc last December to the current 0.91.

- **Sector Rotation**

This gives further credence to our call for portfolios to be positioned for a "higher (rates) for longer" scenario in the US - but not in Europe. While technology companies benefit from falling rates, energy and commodity players benefit from higher inflation and high interest rates - the likely current environment. We would balance out the two exposures at market inflection points such as where we are now.

- **"Demography, Democracy, Diversity" – a Decade Call on India**

India is now officially the world's largest country by population where 1 out of 3 citizens are considered to be in the middle class. It boasts one of the world's most consistent GDP growth rates over the past twenty years (between 5% and 10% each year with minor exceptions) and a large and growing, young, diverse and tech-savvy population. Since becoming Prime Minister in 2014, Mr. Modi has introduced numerous reforms, incentivized companies and banks to deleverage, invested large sums into public infrastructure and modernized the country's corrupt bureaucracy. India's unique 12-digit ID card (Aadhaar) is considered "the most sophisticated ID program in the world" and has allowed millions of rural and poor citizens to participate in the country's economic life.

It is time to take a closer look at India. SENSEX - its main well diversified equities index - delivered a 23% return in local currencies in the past year, an annualized 15% in the past three years and 13% in the past five years. The Indian Rupee has lost ground against the major currencies during this period, however.

- **Asset Allocation**

We remain slightly overweight in equities and would incorporate the early signs of a shift from a tech environment to an energy/commodity environment. We continue to expect short rates to remain higher for longer as well as yields on the long end to remain at current levels. We would advocate to have some USD exposure.

Despite the recent gold move above $2,400 an ounce, we continue to hold a 5% allocation. Gold stocks remain an attractive way to benefit from higher gold prices and if our call for a gradual shift to an inflationary economy proves right, it would be beneficial to hold commodity exposure. We will keep tail hedges in place to protect against an escalating situation in the Middle East.