INVESTMENT COMMENT March 2024

- **A bullish call on Japan**

For the first time in over 20 years, Uniqlo – the global clothing retailer founded by Japan's wealthiest individual – raised wages by up to 40%. Major Japanese companies are following the lead, raising wages by around 5% this year after an increase of over 3% last year. Finally, Japan has broken its deflationary spiral.

The economy is at an inflection point. In February, the Nikkei reached an all-time high, surpassing the record achieved in December 1989 – after a wait of 12,473 days (more than 34 years). The BOJ will most likely raise rates to +0.5% during its next meeting on March 19th. The Tokyo Stock Exchange has pushed for corporate governance reforms, valuations are still moderate (about one-third of Japanese equities trade below book value), and individual savings accounts encourage Japanese citizens to invest in Japanese equities tax-free up to a certain amount each year. A boost to equity demand will also come from repatriated overseas investments and from international investors looking for an Asian alternative to Chinese equities benefitting from a weak Yen.

- **Investors are unfazed by geopolitical challenges**

Global equity markets keep powering on, not only in Japan. The S&P 500 was up in 16 out of the first 18 weeks in 2024 while the breadth of the rally was expanding, and Germany's DAX reached several new highs this year. Even Hong Kong and China seem to have bottomed out.

At this juncture, market participants are excited about the expected rate cuts later this year and have chosen to ignore the wide spectrum of geopolitical challenges – from Russia/Ukraine to Israel/Gaza to the Red Sea which show no signs of abating. 2024 is an election year in the U.S. which historically has boded well for U.S. equities with the notable exception of 2008. Reasons for the broadening rally include the "fear of missing out" (FOMO), the lack of a trigger to sell and above all, the euphoria surrounding artificial intelligence (AI) suggesting that this time it really *is* different.

- **Beware of "this time it's different"**

Every major investment bubble was preceded by a quantum leap in technology, which convinced enough investors that the latest innovation changes the paradigm rendering basic economic laws as no longer applicable. Nevertheless, history has taught us that economic laws never change. Once valuations become too irrational, markets always correct regardless of the magnitude of the technological change. This time should be no different.

- **Asset Allocation**

We are slightly overweight in equities, U.S., Japanese and Indian equities being our favorites. We also see potential for the laggard Swiss equity market which should benefit from this year's earnings and dividend announcement season.

In addition to expecting short rates to remain higher for longer, we expect yields on the long end to remain at least at current levels. Higher rates make bond investing more attractive again if held until maturity. We are buying investment grade bonds of companies with strong balance sheets in each account's reference currency in order to avoid hedging costs.

We also recommend a 5% allocation to gold and look for an opportunity to invest in industrial metals. Finally, we recommend to keep tail hedges in place to protect against complacency evidenced by current extreme low volatility.