TOP TEN THEMES FOR 2024:

January 2024

1. **Rates will remain in the current ball park:** Economic performance is particularly important during a U.S. election year which is why the Fed will likely remain moderate at least in the first half of 2024. We expect rates in the U.S. and the EU to be lowered moderately and only in the second half of 2024 by 0.5 – 1%. We expect stable or falling jobless claims, which means more people are working, hence not an environment for a recession.

2. **Inflation should be in check**, as long as oil prices do not break out. A stable inflation environment will allow central bankers to lower rates, which allows taking more duration risk.

3. Based on a study by Goldman Sachs, the U.S. equity market has been the best performing market globally in five out of the last six years, realizing a 10-year CAGR of 12% vs. 3-6% for regions outside the U.S. The country's equity market has been driven by large caps, while SMEs were left behind. Following the mean reversion strategy, we expect significant catch-up potential in both **SME and European equities**.

4. Nevertheless, **the "Mag Seven" should be part of every global equity portfolio:** Amazon, Apple, Alphabet, Microsoft, Meta, Nvidia and Tesla largely drove the rally in 2023 and will continue their foray into **AI**. These companies, with a combined market capitalization of roughly USD 12 trillion (larger than the GDP of any country other than the U.S.), dominate their sectors and benefit from virtually unlimited financial resources to expand their technological lead.

5. In terms of equity themes, we favor the following three: **i) Regional bank stocks** historically outperform the S&P 500 during Fed easing cycles and return in excess of 30% on average during the twelve months following the first rate hike. **ii) Energy stocks:** While we expect the renewables such as wind, sun and geothermic to continue to grow, they are not yet able to replace fossils and nuclear. **iii) Defense** theme which includes defense pureplays, ammunition, copper or traditional mining stocks.

6. Mining stocks, especially **gold mining** have reached historically low valuation. The same is true for uranium and many other industrial metals stocks.

7. International investors have given up on **China**, making Chinese equities **an interesting contrarian call** based on extremely low valuations, its sheer size and continuous growth potential. The CSI Index is down more than 40% since its peak in 2021 and its dividend yield is 5.7 percentage points above the Chinese 10-year government debt yield. During the last five stock-bond yield gaps the subsequent equity recovery produced an average return of 57% twelve months later. For this to happen, China needs government support to stabilize the housing market and an improving earnings environment.

8. **Japan** will likely continue its equity market recovery due to attractive valuations, continued shareholder activism and the restructuring of Japan Inc., albeit not at the same pace.

9. Long-term we are bullish on the **Swiss francs.** Materially lower inflation rates and hence smaller rate cuts than in the EU and the US will keep the CHF attractive. In light of global indebtedness, it will keep its safe haven attributes. However short-term, after having reached new cycle highs against both the Euro and the USD, we see room for a short reversal.

10. If we did indeed witness the end of the current rate hike cycle, **gold may be in for another significant leg up**. During the last three cycles, gold appreciated by more than 50% in the wake of a "pause" in rate hikes. This could be supported by investors' appetite for gold during times of geopolitical uncertainty, as well as by the continued de-dollarization of many emerging markets' FX reserves and by strong demand from central banks for physical gold.