Private Client Partners
Family Office Services
Banque Bonhôte & Cie AG

Market review

March 2024

Is inflation coming back?

March continued to be favourable for investors. While interest rates barely moved, the stock markets continued to climb. The latest economic and inflation figures suggest that central bank interest rates are likely to fall soon. Nevertheless, there are still major divergences between the western economic blocs.

Inflation appears to have been beaten in Europe. Economic confidence in the eurozone is also continuing to rise and appears to be moving away from the almost depressive lows. Although the economy in the eurozone is still stagnating, it is slowly recovering. Industry remains a cause for concern, but the expectation of lower interest rates in the near future gives rise to hope here too.

Inflation appears to have been beaten in Europe.

In the USA, we are seeing various trends that are quite contrary to each other. Firstly, there is the expectation that the Fed will lower interest rates. This expectation is primarily politically driven, as debt and therefore the interest burden is increasing at an alarming rate. From an economic perspective, there is no urgent reason for lower interest rates. The economy is doing well and the growth prospects for the end of the year are constantly being revised upwards. Then there is the stubborn inflation, which has barely budged since last June and has not fallen below 3%. Industry is also growing slightly for the first time since September 2022. In addition, there are increasing signs that although the liquidity managed by the central bank is restrictive, more money is nevertheless flowing into the market due to the increased issuance of treasury bills. This means that financial conditions are much looser than the Fed had actually hoped for. The Leading Indicators, a summary of the 10 most important leading indicators, sent out a further signal. These have recently risen again for the first time in two years. It is therefore no wonder that the US economy is gaining momentum, contrary to general expectations.

We have seen in the recent past that an ultimately expansive monetary policy drives inflation. In addition, the price of crude oil, for example, continues to rise unchecked, which could result in a second wave of inflation. Thus, expectations of lower interest rates in the US probably also mean an acceptance of higher inflation rates. Producer prices, which have risen more sharply than expected, are a first warning.

The SNB presented us with a surprise. At its last meeting, the members of the SNB's Governing Board decided to cut the key interest rate by 0.25%, which was not expected by the wider market. As a result, the Swiss franc clearly depreciated, which primarily benefits the export-orientated industry. The interest rate cut can therefore certainly be seen as a help or support for industry.

The SNB presented us with a surprise.

In China, we saw a clear improvement in economic momentum in March and an associated easing of negative sentiment. The upturn in the Far East therefore appears to be continuing for the time being.

Private Client Partners – Limmatquai 26, P.O. Box, 8024 Zurich – T. 043 244 76 00, contact@privateclientpartners.ch **privateclientpartners.ch**

Stock Markets

For once, it was European shares that set the tone and climbed a good 4%. The emerging economic recovery and the imminent interest rate cuts are playing a key role here.

In the USA, technology stocks took a break and rose less strongly than the other sectors. Expectations for the results for the first quarter are correspondingly high, as the US markets seem rather expensive.

In general, the markets are also rising across the board, which is generally seen as a good sign.

Interest rates

While interest rates hardly moved in America, bond yields fell more sharply in Europe and Switzerland.

In Europe, it is considered a foregone conclusion that the ECB will cut interest rates in June due to the economic and inflation-related situation.

Switzerland has already seen its first interest rate cut, as the SNB surprisingly moved ahead at its meeting in March. In addition to pressure from industry, the fact that the SNB only meets once a quarter - in contrast to the monthly meetings of the other central banks - must also be considered.

Currencies and commodities

The price of copper is showing signs of life again after a long break and is up 4%. This is in line with the improved outlook for the Chinese economy.

Crude oil even rose by more than 7%, which could fuel a possible resurgence in inflation. Gold continues to rise and is trading above USD 2,200 per ounce.

The Swiss franc remains weak. This comes as no surprise after the recent interest rate cut, but leaves foreign investors with losses this year.