

Market review

November 2023

Focus on the Middle East - US economy surprises

Since the annual highs of the stock markets in the summer, the indices have been going down steadily in wave movements.

This has not changed in October. Likewise, yields on most bonds have continued to rise, with some interest rates reaching new highs since the financial crisis. This in turn has led to further price losses for bond investors.

The development in the Middle East has also led to additional uncertainty in the markets. Even if this region is considered rather insignificant economically, a spread of the conflict to other countries could certainly have global consequences, because the potential for escalation should not be underestimated in view of the tense relations between the power centres of this world.

The development in the Middle East has also led to additional uncertainty in the markets.

At least the central banks, and thus the key interest rates, seem to have calmed down. Inflation rates continue to fall, so it seems that key interest rates have risen sufficiently. However, there are still very large regional differences in terms of economic growth.

US GDP grew by a staggering 4.9% on an annualised basis in the 3rd quarter. Here, consumers continue to be unimpressed by high interest rates and higher prices. But government spending also continues to rise and support growth.

The figures from China and Europe show a very different picture. In China, economists have further lowered expectations for growth while waiting for further stimulus from the government.

Economic weakness in Europe has spread further, with higher energy prices not helping. In addition, conditions for lending in the EU have tightened further with a simultaneous decline in demand for credit. Combined with the further decline in purchasing managers' indices, this is worrying news for the Eurozone economy.

Economic weakness in Europe has spread further, with higher energy prices not helping.

While the German economy contracted somewhat again in Q3, there is still faint hope for a turn for the better in the Eurozone. Industrial activity seems to be slowly recovering from a very low level, the business climate is visibly improving and inflation is expected to fall again in October. Thus, economists expect economic activity to improve in Q4 2023.

In Switzerland, the pace of economic slowdown has slowed significantly. It appears that the Swiss economy will continue to grow at a very moderate pace. The presentations of the company results for the 3rd quarter are in full swing. It is noticeable that even the smallest disappointments have a massive impact on share prices.

Stock markets



A combination of disappointing earnings from mega-caps in the technology sector, weaker corporate forecasts and higher bond yields has weighed on equities.

What is striking during the current reporting season is that disappointments are punished much more than positive surprises are rewarded.

This was clearly demonstrated to investors in the SMI, for example, as the results of the index heavyweights were rather mixed. As a result, the SMI showed the weakest performance in October compared to other major stock exchanges.

Interest rates



Interest rates on longer-dated bonds continue to rise. In some cases, yields of over 5% were paid for 10-year US government bonds, a level not seen since the financial crisis.

Thanks to higher yields at the long end, yield curves are continuing to normalise, thus scaring away the spectre of an immediate recession.

Higher interest rates at the short end are no longer an issue. According to economists, there is no room for interest rate cuts until the summer of 2024.

However, general economic growth and inflation play a role that should not be underestimated.

Currencies and commodities



Due to the events in the Middle East, gold recovered strongly and is trading significantly higher.

The Swiss franc also benefited slightly and is trading somewhat stronger against the EUR and USD.

At the same time, commodities lost some ground. Uncertainty about Chinese economic growth played a major role here.

Bitcoin continues to be strong and rose by 28%. In addition to the usual speculation, purchases due to the various political trouble spots also helped. Bitcoin, similar to gold, has a role as a safe haven.

This document is provided for your information only. It has been compiled from information collected from sources believed to be reliable and up to date, with no warranty as to its accuracy or completeness. By their very nature, markets and financial products are subject to the risk of substantial losses which may be incompatible with your risk tolerance. Any past performance that may be reflected in this document is not a reliable indicator of future results. Nothing contained in this document should be construed as professional or investment advice. This document is not an offer to you to sell or a solicitation of an offer to buy any securities or any other financial product of any nature, and the Bank assumes no liability whatsoever in respect of this document. The Bank reserves the right, where necessary, to depart from the opinions expressed in this document, particularly in connection with the management of its clients' mandates and the management of certain collective investments. The Bank is a Swiss bank subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not authorised or supervised by any foreign regulator. Consequently, the publication of this document outside Switzerland, and the sale of certain products to investors resident or domiciled outside Switzerland may be subject to restrictions or prohibitions under foreign law. It is your responsibility to seek information regarding your status in this respect and to comply with all applicable laws and regulations. We strongly advise you to seek independent legal and financial advice from qualified professional advisers before taking any decision based on the contents of this publication.