



“Strong, stronger, Swiss franc”

Our Opinion
May 2024

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Dear Readers

The article “Strong, stronger, Swiss franc” discusses why the Swiss franc has appreciated consistently against the major currencies since the beginning of the millennium.

Looking for advice and support on financial matters? Our investment advisors look forward to hearing from you and will be happy to talk to you personally.

We wish you a pleasant read.
Your Advisory Team

“Strong, stronger, Swiss franc”

Currencies

Since the beginning of the new millennium, all major currencies have lost significant value against the Swiss franc. Both the euro and the US dollar have lost around 40%. The Japanese yen and the British pound have fallen even more, each with losses of more than 50%. But why is the franc so strong in the first place? Switzerland has a strong economy with a large current account surplus. Since 2000, the Swiss current account surplus has amounted to at least 5% of gross domestic product in 20 out of 23 years. Switzerland also has a very high level of monetary and political stability, which gives the Swiss franc the status of a safe haven. For years, the Swiss National Bank (SNB) has even tried to alleviate the upward pressure on the franc by buying foreign currency. By the fourth quarter of 2021, the SNB had accumulated foreign currencies worth almost one trillion Swiss francs. Since then, interest rates abroad have risen significantly more than in Switzerland, and the SNB has been able to reduce its foreign currency holdings by more than CHF 200 billion again. Overall, the Swiss franc is a veritable hard currency. It is currently going through a weak phase, however. This is due to the SNB’s surprising interest rate cut, which has widened the interest rate differential against other currencies. This means that the interest rates in many other currency areas are significantly more attractive, which has weakened the franc, at least temporarily. Since the beginning of the year, the Swiss franc has lost about 5% against the euro and 8% against the US dollar. Such countermovements are normal and have occurred repeatedly in the past. If nothing changes in the overall conditions mentioned above, the CHF’s trend as a strong currency will continue. Weak phases such as the current one can be used by foreign investors to build up a position in Swiss francs for diversification purposes.

Neue Bank traffic light

-  strongly bearish
-  bearish
-  neutral
-  slightly bullish
-  bullish
-  strongly bullish

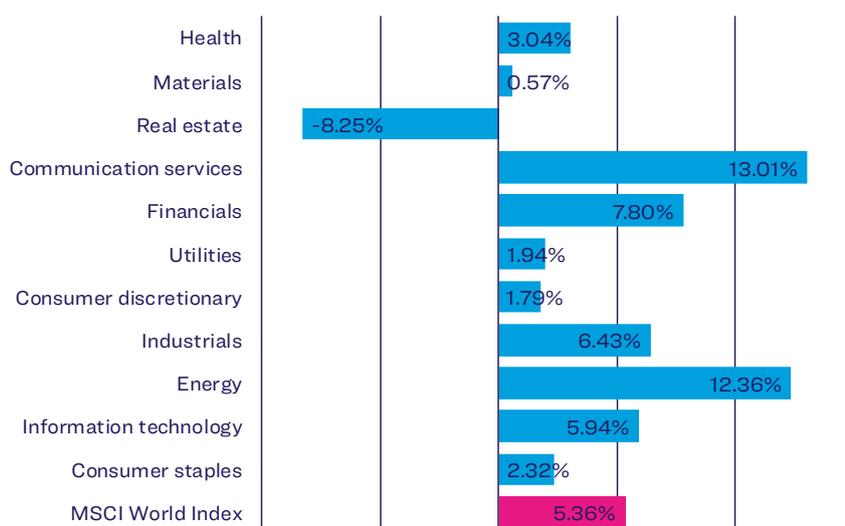
Economy

According to the Purchasing Managers' Indices (PMI), sentiment among companies in the Eurozone has continued to improve. The PMI Composite, which tracks the manufacturing and service sectors, is at 51.4, slightly above the growth threshold of 50, and signalling further economic stabilisation. In the United States as well, the soft landing scenario is also still intact. The PMI levels are just above 50, consumers are still spending, and the labour market is hardly showing any weakness. These are all prerequisites for moderate economic growth. The only cautionary note is the renewed rise in US inflation, which has been higher than expected already for the fourth time in a row. This makes an imminent interest rate cut by the US Federal Reserve less likely, so that interest rates could remain high for longer than expected. This in turn could slow economic growth. The economic outlook therefore remains fragile.

Equities

There are currently signs of a sector rotation in equities. In the MSCI World Index, some of the winners of the first quarter have lost ground in recent weeks. The high-flyer of the first quarter – the information technology sector – is down by more than 6%. Equities in the energy sector performed very strongly. This is because the price of oil has risen significantly again since the beginning of the year due to geopolitical tensions, which has improved the margins of oil companies.

Performance of MSCI World sectors since 1 January 2024



Source: Bloomberg and Neue Bank AG

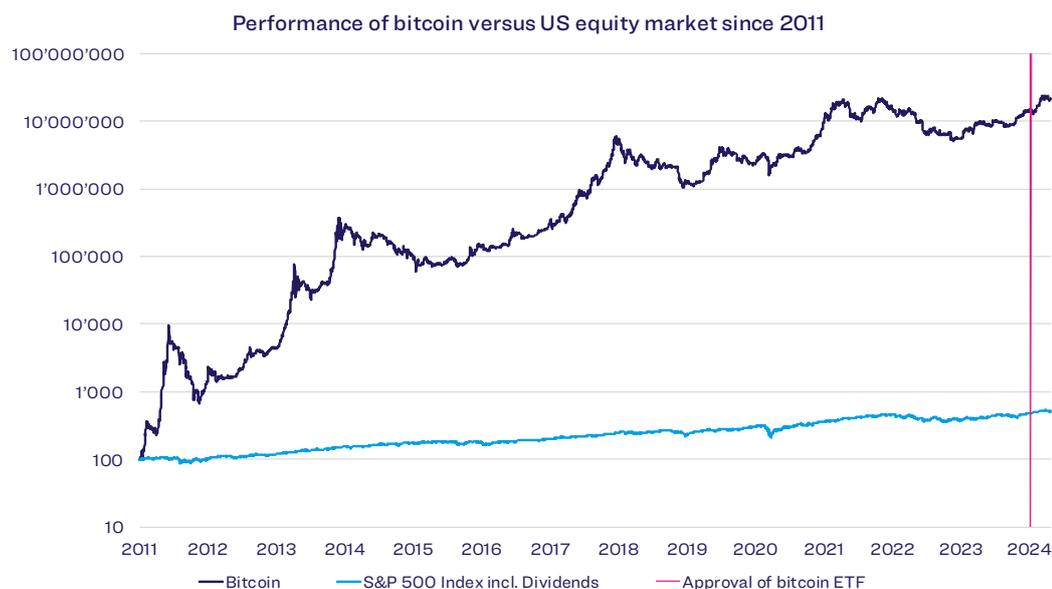
Should investors follow such a short-term trend and undertake sector reallocations? We believe that it is not the sector that is decisive, but rather the quality of the company, independently of the sector. Anyone pursuing a long-term investment strategy should not try to beat the market with the help of a rotation roulette. Rotation stories serve at best as material for market commentary. Moreover, short-term changes in market direction are hardly meaningful. Looking at sector developments over the longer term, clear trends can be identified. For example, the information technology sector has achieved a cumulative return of more than 450% over the last ten years, while the energy sector performed the worst of all sectors at just 30%.

Bonds

Bond yields have risen again since the beginning of the year, in some cases significantly. The yield on 10-year US government bonds has risen from 3.9% to 4.7%. But what is currently driving yields up? Solid economic growth and a strong labour market, combined with rising inflation figures, have caused the US Federal Reserve to postpone its expectations for interest rate cuts. In the United States, there is now even talk of possible further interest rate hikes. The central banks' credo in this phase of the cycle is clearly to reduce inflation. As long as the inflation target has not been reached, there will hardly be any interest rate cuts. Because of this, yields are not expected to fall significantly for now. But this also means that at the current level, there are interesting entry opportunities for investors.

Alternative investments

Bitcoin has finally arrived in the mainstream. The US Securities and Exchange Commission (SEC) approved the first spot bitcoin exchange-traded funds (ETFs) on the US market at the beginning of the year. This greatly simplifies access to a bitcoin investment. Investors now no longer have to concern themselves with the technical aspects of crypto trading, but instead can easily participate one-to-one in the price development of bitcoin using an ETF. This simplified access has attracted new institutional and private investors and lifted the price of bitcoin to new highs. Since authorisation, the price has risen by about 50%. The long-term price trend has been almost surreal. Since 2011, USD 100 would have grown to more than USD 21 million. By comparison, an investment in the S&P 500 would have meant an increase from USD 100 to "only" USD 515.



Despite the approval by the SEC and the enormous price increase, this asset class remains highly speculative. Anyone who still wants to invest in bitcoin should do so with caution and be aware that the price is subject to extreme fluctuations. Price drops of 10% or more in a very short period of time are common and not an exception.

PRIMUS–ETHICS

With the PRIMUS-ETHICS asset management mandate, we give investors the opportunity to incorporate environmental and social considerations into their investment decisions alongside financial aspects. We invest your assets in ethically and morally sound companies and apply professional approaches to their implementation. Scientific studies prove the positive effects of sustainability on economic success. Neue Bank AG's client advisors will be happy to show you the special features of this asset management solution in a personal meeting.

Key Performance Indicator in CHF¹

		30.04.2024	2023	2022	2021	2020	2019
PRIMUS-ETHICS Equities World	%	11.37%	-30.09%	32.10%	11.50%	30.07%	
Benchmark	%	7.24%	-22.63%	21.89%	12.09%	24.76%	

¹ Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: www.neuebankag.li S.E.&O.

Market data

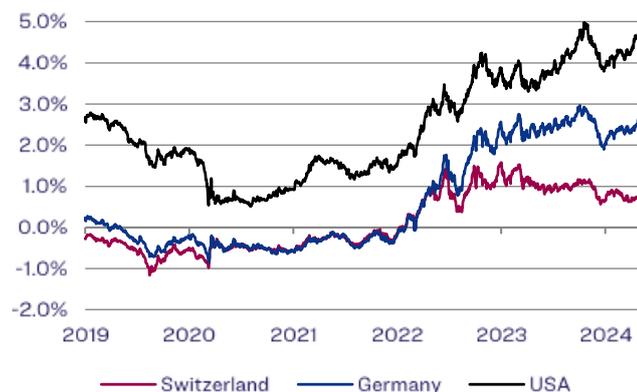
Stock market (indexed)



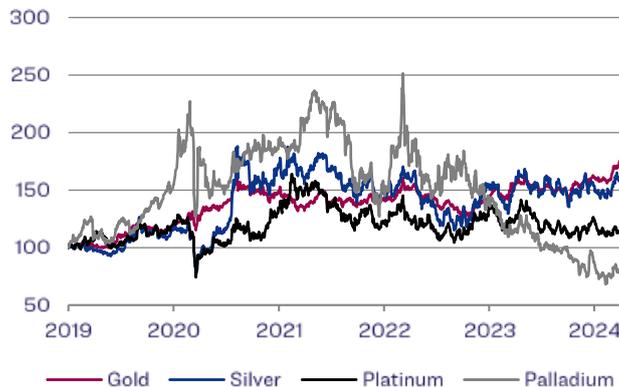
EUR/CHF and USD/CHF



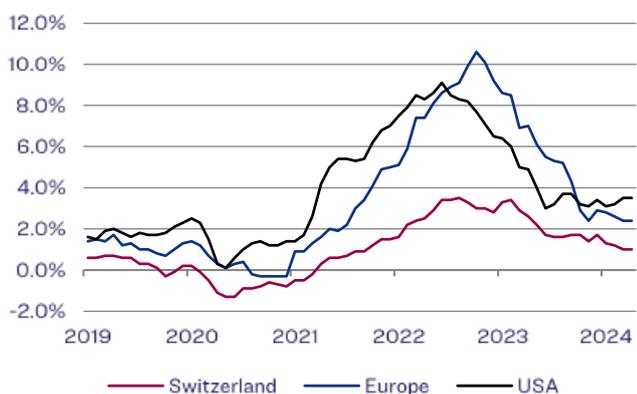
10-year government bond yield



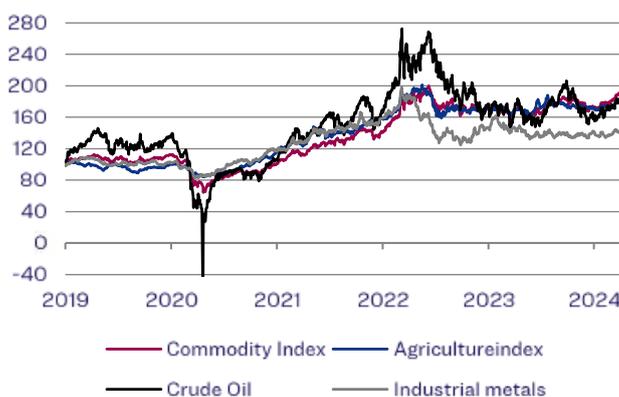
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

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