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# Briefing from the ARVEST Investment Committee

The investment year 2024 ended with an impressive performance for risk assets. The world equity index returned 19.2% in US dollar terms. Gold rose by around 28%, a very rare combination. Swiss investors, who did not hedge their currency risks, gained a further 7.8% in US dollar terms against the Swiss franc.

The more defensive Swiss Market Index (SMI), which includes heavyweights from the food and healthcare sectors, was unable to keep pace, rising 7.5%. By contrast, the global equity market benefited enormously from the performance of US growth stocks for the second year in a row. Last year, the eight largest technology stocks[1] alone, with a performance of just under 10%, contributed more than half of the total return of the global equity index of around 1,400 stocks. These eight companies have delivered very strong financial results. However, their outstanding share price performance is mainly due to the increase in their valuations, as they have all benefited greatly from the general AI hype. For example, their average price-to-earnings ratio has risen to a high of around 62, having already reached a very elevated level of 45 at the end of 2023. This means that very high expectations for future business growth are priced in for many years to come. Their performance will therefore continue to be crucial for any passive investment strategy.

Do the geopolitical situation and the economic outlook justify investors' euphoria for US equities? And what about the rather subdued performance of bond markets over the past year, which are often seen as the "grown-ups" of the financial markets?

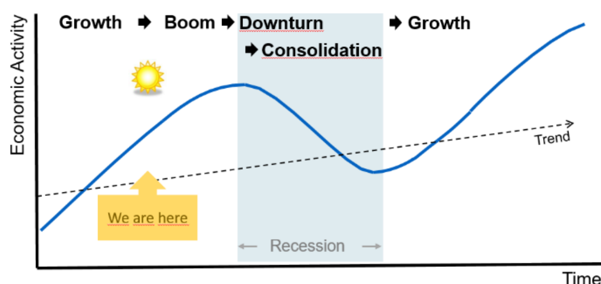
### Future Prospects

Investor attention has shifted from the outcome of the US election to its implementation. The clear election victory of the Republicans has allayed the worst fears of civil war-like conditions in the US. Nevertheless, the implementation of President Trump's

[1] Apple, Nvidia, Microsoft, Amazon, Meta, Tesla, Alphabet (Google), Broadcom

sometimes radical agenda is likely to face considerable domestic and international political resistance, not to mention the implementation risks and opportunities that his policies entail.

The election result has boosted US equity markets, as less regulation, low taxes and cheap energy are good for many US companies and also tend to push down inflation. Bond markets, on the other hand, are more concerned about the inflationary impact of planned tariff increases and the shift of manufacturing from China to the US. As a result, long-term US dollar yields have risen back to almost 5% and only one interest rate cut of 0.25% is priced in by the end of 2025. The rise in interest rate expectations and the associated appreciation of the US dollar have so far weighed more heavily on the equity markets outside the US. On the one hand, the proportion of companies with more interest-sensitive business models is higher there than in the US indices, which include many technology companies with low levels of debt. Second, many investors expect little international resistance to the planned tariff policy, which could hurt exporters more than help them. It remains to be seen how much action will follow the rhetoric. As a result, there is a great deal of uncertainty about future economic and market developments.




The ARVEST Investment Committee sees the global economy in a growth phase. The soft landing in the US that began in 2022 is behind us. Parts of the US economy have already started to resemble a boom again in the last quarter. Belief in the future of artificial intelligence dominated investor sentiment. Many companies preferred to fill their warehouses sooner rather than later, also in face of looming tariffs. As a result, economic growth is expected to slow in 2025 compared to 2024. Although no economist expects another recession, it cannot be ruled out. The influence of politics is growing and is no longer limited to creating a stable environment. This can lead to unusually short business cycles. The main problem with another recession would be the high level of debt in many developed countries since the pandemic. Their ability to cushion the impact is therefore limited. Central banks would certainly intervene again with bond purchases and interest rate cuts. However, these measures are less effective and sustainable in service-oriented economies, especially as they raise fears of structurally higher inflation in the long run.

We expect the financial markets to become more volatile in 2025. For investors who can bear the currency risk against the US dollar or the euro, the environment for low-risk bonds is relatively favourably. For risk-oriented investors in Swiss francs, we remain positive on Swiss equities and real estate as well as on geographically broadly diversified equities without hidden cluster risks despite the uncertainties.

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On behalf of the Investment Committee
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