MARKET OUTLOOK

The start of a new cycle – 2024

Marketing material
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Please find important legal information at the end of this document.
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Julius Bär

Editorial

Dear Reader,

Our outlook for 2023 was that it would be the year of the cool-down. Whilst this took a while to come to fruition, we did eventually see both growth and inflation rates slowing as expected. Now that we have entered 2024, the talk is all about when we will finally see the major central banks start to loosen their monetary policy. Until the timing of this becomes apparent, there may be some nervousness in the markets. However, as inflation cools off further, we expect to finally embark on a new, more familiar economic cycle. Barring any wild-card events, we expect both equities and bonds to benefit.

At the start of the year, it pays to remain invested in quality growth and defensive stocks, as well as quality bonds. However, as the markets get the first scent of the new, lower interest rate environment, investors will benefit from adding cyclicals to their portfolios too.

When it comes to overarching themes, the power of the Magnificent 7 and the ability of artificial intelligence to impact all sectors should not be ignored. Furthermore, as always, alternative investments provide another option for increasing the diversification of a portfolio.

The market rally that we saw at the end of 2023 demonstrates the power of remaining invested. Julius Baer looks forward to helping you navigate your way through your investment decisions in 2024 by maximising the opportunities that the new cycle is expected to bring. As always, we thank you for your trust in us and wish you a very successful year ahead.

Yours faithfully,

Yves Bonzon
Group Chief Investment Officer
Member of the Executive Board

Christian Gattiker
Head of Research

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A brief review

2023 turned out much better than many investors had expected. Most asset classes ended the year in positive territory, with many equity indices posting double-digit gains. However, the year was not without setbacks along the way. The sharp rise in yields to levels not seen since the onset of the Global Financial Crisis was difficult to digest for both equity and bond investors. Fixed income investors, in particular, had to hold their nerve. However, a stronger-than-expected decline in inflation rates and markets increasingly pricing in the start of a rate-cutting cycle in 2024 pushed yields lower, so the year ended on a positive note for bond investors as well.

Market review

2023 will be remembered as the year when artificial intelligence (AI) went mainstream and risk assets defied higher policy rates. However, following the largest interest rate increases in decades, growth will remain under pressure. We expect 2024 to be the year in which central banks start their rate-cutting cycles, thus paving the way for a new economic cycle into 2025 and beyond.

Equity regions

	2019	2020	2021	2022	2023	5-year annualised
Switzerland	29.98%	1.07%	19.51%	-17.50%	2.94%	7.21%
Eurozone	26.05%	-3.32%	21.54%	-9.94%	16.85%	9.54%
USA	30.88%	19.70%	25.75%	-20.31%	27.04%	15.14%
Japan	18.48%	10.23%	12.93%	-6.45%	30.04%	12.77%
UK	16.37%	-13.93%	15.13%	5.33%	6.15%	6.83%
China	24.34%	29.49%	-19.30%	-21.43%	-11.20%	-2.80%
Emerging markets ex. China	16.23%	12.55%	7.87%	-19.65%	20.07%	6.88%

The best

Japan posted the biggest gains of 2023 – mainly driven by a weak yen, sustained regulatory reforms, and a loose monetary policy. Investors' focus was, however, on US equities, which were not far behind thanks to the region's high exposure to the year's winning theme: AI.

The worst

Only one major equity region ended 2023 in the red – China. The country suffered from the downturn in its property sector and from fiscal and monetary stimulus measures that market participants considered insufficient. Switzerland ended the year only slightly positive, mainly due to its defensive sector composition, which could not benefit from 2023's improved risk sentiment.

Equity styles

	2019	2020	2021	2022	2023	5-year annualised
Quality	36.08%	22.20%	23.24%	-22.16%	32.22%	16.57%
Value	21.75%	-1.16%	18.42%	-6.62%	11.29%	8.87%
Growth	33.68%	33.83%	19.33%	-29.56%	36.79%	16.02%
Large cap	27.73%	15.94%	20.04%	-18.31%	25.04%	13.30%
Small cap	26.18%	15.96%	12.09%	-19.07%	15.53%	9.76%
Cyclicals	31.54%	19.30%	25.80%	-22.40%	33.60%	15.40%
Defensives	21.69%	1.60%	21.70%	4.20%	2.20%	9.80%
High dividend	23.15%	-0.03%	12.07%	-4.76%	8.97%	8.19%

The best

Quality, growth, and cyclical stocks were 2023's outperformers, as they benefited from the improved equity-market risk sentiment and a better-than-expected economic backdrop. We expect the stellar performance of the growth segment to continue in 2024 as bond yields potentially continue to fall.

The worst

Defensive stocks were the worst-performing equity style in relative terms over the year, with only a slightly positive return in 2023. The style became increasingly unpopular among investors, who became bolder towards the end of the year. High dividend was another style which, although solidly in the green, was less in favour in the high-yielding environment of 2023.

Equity sectors

	2019	2020	2021	2022	2023	5-year annualised
Information technology	47.55%	43.77%	28.21%	-31.26%	53.11%	23.92%
Materials	23.35%	19.93%	12.19%	-9.97%	14.40%	12.01%
Oil & gas	11.45%	-31.46%	37.71%	43.77%	2.23%	9.88%
Industrials	27.77%	11.68%	14.10%	-12.79%	22.83%	12.20%
Communications	27.39%	22.98%	13.02%	-37.17%	45.41%	10.46%
Healthcare	23.24%	13.52%	15.52%	-4.54%	3.68%	10.47%
Financials	25.51%	-2.84%	24.80%	-10.62%	15.94%	10.22%
Consumer cyclical	26.57%	36.62%	15.67%	-34.61%	34.58%	12.91%
Consumer defensive	22.80%	7.79%	9.85%	-6.13%	2.24%	7.52%
Real estate	22.96%	-4.99%	24.11%	-24.50%	-9.59%	0.38%
Utilities	22.53%	4.76%	6.09%	-4.11%	-0.02%	6.15%

The best

AI was the dominant theme in financial markets in 2023. Thus, it is unsurprising that information technology was not only the best-performing sector over the year but also closed the year spectacularly – up more than 50%. Communications also performed well – up more than 40%.

The worst

Real estate was the only sector to end 2023 really in the red – down almost 10%. Elevated yield levels put pressure on this highly interest-rate-sensitive sector. Defensive sectors also showed lacklustre performance, with utilities changing little from the start of the year and consumer defensives and healthcare ending up only slightly in the green.

Fixed income

Developed markets	2019	2020	2021	2022	2023	5-year annualised
US government bonds	6.86%	8.00%	-2.32%	-11.65%	3.70%	0.50%
US TIPS	8.43%	10.99%	5.96%	-11.38%	3.81%	3.14%
USD IG corporates	14.54%	9.89%	-1.04%	-15.76%	8.15%	2.59%
USD high yield	14.32%	7.11%	5.28%	-11.19%	12.87%	5.36%
USD floating-rate notes	4.28%	1.38%	0.52%	1.33%	6.66%	2.82%

Emerging markets	2019	2020	2021	2022	2023	5-year annualised
EM hard currency	12.13%	7.02%	-2.48%	-16.24%	9.53%	1.37%
EM local currency	9.47%	5.29%	-2.53%	-8.23%	6.57%	2.09%

The best

Despite being a very difficult year, all fixed income segments ended 2023 on a positive note. A better-than-feared US economy led to excess returns in risky bonds. The best-performing segments were US high yield (which, despite increased default rates, moved up more than 12%) and emerging market hard-currency bonds, due not only to tightening credit spreads but also to the high carry of these instruments.

The worst

Safety did not pay off in relative terms in 2023, with US government bonds and US Treasury inflation-protected securities (TIPS) ranking among the weakest performers. The longer duration of these sub-asset classes was a drag on performance for most of 2023 but helped their recovery in the last two months of the year. However, with the easing cycle potentially set to begin in 2024 and economies likely to continue to face growth constraints, we prefer medium-to-longer-duration high-quality bonds in order to mitigate reinvestment risks.

Commodities

	2019	2020	2021	2022	2023	5-year annualised
Brent crude oil	22.68%	-21.52%	43.61%	10.45%	-10.32%	7.45%
US natural gas	-25.54%	15.99%	49.43%	19.97%	-43.82%	-3.08%
Gold	18.87%	24.42%	-5.74%	-0.13%	13.45%	10.09%
Silver	15.32%	47.38%	-15.61%	2.95%	0.19%	9.16%
Platinum	22.05%	10.71%	-14.02%	11.33%	-7.33%	4.57%
Aluminium	-1.84%	10.61%	34.93%	-16.18%	0.08%	5.23%
Copper	3.32%	25.97%	25.65%	-14.10%	1.38%	7.33%
Iron ore	28.70%	70.26%	-27.81%	-1.08%	22.55%	13.91%

The best

It has been a difficult year for commodity markets, which have had a very mixed performance. Nevertheless, gold ended the year above USD 2,000 per ounce for the first time in history, as prices were pushed up by excessive expectations of interest rate cuts. Iron ore shrugged off the weakness in China's property market, reflecting hopes of stimulus measures, while copper outperformed all industrial metals due to looming structural supply shortages.

The worst

Energy prices were the worst performing segment within the commodity complex. Oil was down despite geopolitical tensions, and ample supplies of natural gas pushed prices below pre-energy-crisis levels. China's weak growth backdrop put the prices of industrial metals under pressure amid surging supplies.

Hedge funds

	2019	2020	2021	2022	2023*	5-year annualised
Equity long/short	13.71%	17.89%	11.67%	-10.13%	6.57%	7.47%
Event-driven	7.49%	9.26%	12.41%	-4.83%	6.00%	5.90%
Relative value	7.42%	3.38%	7.59%	-0.68%	5.59%	4.61%
Trading	6.50%	5.38%	7.72%	8.98%	-1.19%	5.42%
Credit/income	6.47%	6.26%	7.95%	-2.62%	5.81%	4.70%
Multi-strategy	10.45%	11.83%	10.16%	-4.14%	4.87%	6.47%

The best

There were positive returns for the broad equity long/short index on the back of the attractive environment for long-biased managers who captured the positive market return. However, outperforming the markets was more difficult as volatility came down over the course of the year, and, except for the Magnificent 7, most stocks moved very little. This meant that more market-neutral managers struggled throughout the year. Nevertheless, their chance to shine came in the August-to-October period, when markets sold off and volatility was high.

The worst

After a very strong 2022, global macro-related 'discretionary trading' strategies lagged in 2023. Many managers were caught on the wrong foot and were short-squeezed in March when bond yields dropped like a stone following the US banking crisis while many were expecting higher yields. This led to a broad de-risking, and many managers were underinvested in H2, when fixed income, equities, and currencies exhibited some strong directional moves.

Source: Bloomberg Finance L.P., Julius Baer Investment Writing
Note: Please see the 'Further Information' section of this publication for more details on the indices used. Annual performance numbers are in USD, except for equity regions that are calculated in local currency. EM = emerging markets, ex. = excluding, IG = investment grade. * As at the end of November 2023.

Past performance is not a reliable indicator of future results. Returns reflect all ongoing charges excluding transaction fees. All investments have inherent risks, and investors may not recover their initial investment.

Macroeconomy and strategy

Following a turbulent year, softer inflation and strong seasonality effects supported markets into a year-end rally in 2023. So what is in store for 2024, and how should investors position their portfolios at the beginning of this year? When it comes to economic growth, we expect neither a boom nor a bust. However, we do envisage a transition from the current cycle into a new cycle. In equities, we would start the year with exposure to quality growth and defensive stocks. In fixed income, investors should take advantage of the current interest rate environment and lock in attractive yields with quality bonds. Regarding currencies, we expect the US dollar to remain range-bound, and within commodities, we still like copper.

Approaching a new cycle

With inflation expectations falling, as was confirmed by Q4 2023 data releases, the prospect of central banks cutting interest rates is very real. We expect the first rate cuts to happen in Q2 of this year, which would mark the beginning of a new cycle. In anticipation of this, market sentiment should improve after a possibly nervous start to the year.

Rate cuts are on the cards

Many factors have influenced the current cycle. Geopolitical events, including but not limited to the tragic wars in Ukraine and the Middle East, have had to be digested by financial markets. Prior to this, the enormous external shock of the Covid-19 pandemic led to the biggest policy support packages in history, which ultimately caused economies to overheat, triggering record inflation levels across the globe. Central banks responded by raising rates at an unprecedented speed and scale.

Economic growth in the first half of 2024 is set to be constrained, in our view, since we expect to see monetary policy on hold – most likely until sometime in the second quarter. Thereafter, we expect the current cycle to come to an end when the first rate cuts are implemented by central banks, marking the beginning of a new cycle. This end-of-cycle environment could, however, result in some nervousness in the first few months of the year, because there are still a number of uncertainties, not least regarding the timing and extent of future rate cuts. Therefore, we would not be surprised to see a shaky start to 2024, but we expect that confidence will return as investors digest a positive outlook for 2025 and beyond.

Approaching a new, more normal economic cycle

Source: Julius Baer Investment & Wealth Management Solutions

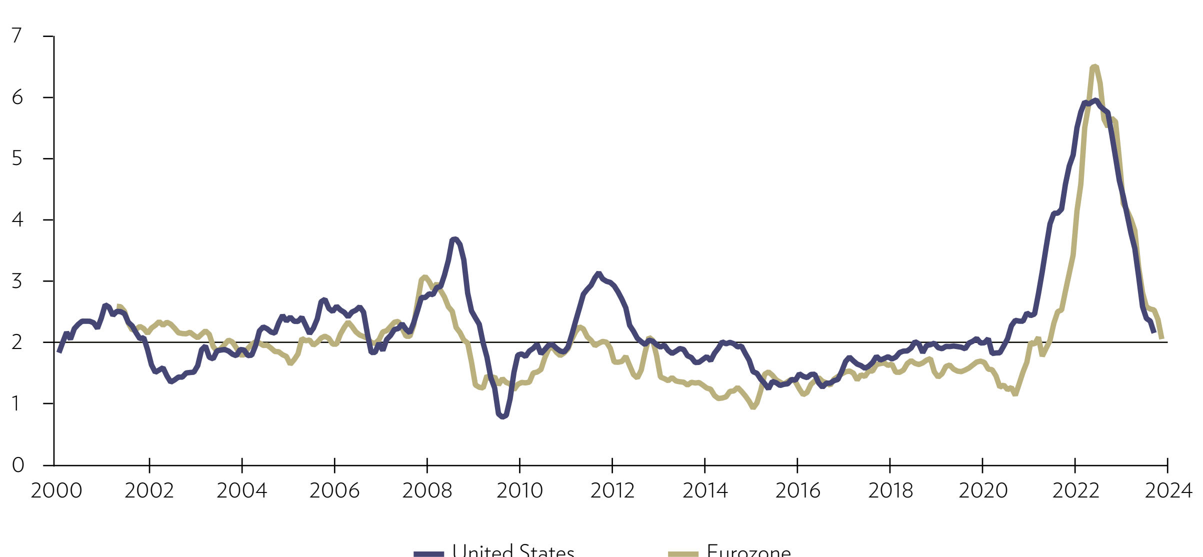
Where will inflation settle?

Inflation usually lags growth, i.e. there is generally a delay in terms of when inflation is visible in an economy. However, in the current cycle, the effects have been immediate and enormous. Looking ahead, inflation should continue to fall closer to the comfort zone of central banks. The question now is when will inflation bottom? The risk is that overly restrictive policies for a longer period of time could hamper the recovery of economies. Thus, we believe that Western governments and central banks will choose to accept slightly higher inflation of around 3%. The reasons for this include the post-crisis normalisation of demand and, more importantly, supply-side factors, e.g. geopolitical tensions have led to a change in global supply chains, and demographic pressures in the workforce in the West and in China could limit the labour supply going forward and put upward pressure on wages.

Research Focus

Want to find out more about the key macro trends, as well as our views across asset classes for 2024 and beyond? Take a look at our Research publication.

Inflation is coming down further – but how far?



Source: Macrobond, Julius Baer Research
Note: Underlying inflation is based on various measures of inflation from which common fluctuations have been removed using dynamic models. Underlying inflation can be regarded as a leading indicator for headline inflation.

What does this all mean for investors?

In our base-case scenario of a peak in long-term yields, as well as a soft landing of the US economy in 2024, we see the year as a good one for developed-market equities overall, with the best returns potentially materialising in the second half of the year when monetary policy becomes less restrictive. To start the year, we prefer to keep exposure to quality growth and defensive stocks, as economic activity is likely to slow down in the first few months of 2024. In the quality growth space, we like information technology and communication stocks, and within defensives, we like the healthcare sector, Swiss equities, and European utilities. Then, at some point during the first half of 2024, investors should start to anticipate the transition from the old cycle to the new one and accordingly shift the focus of their portfolio to more cyclical stocks. In emerging markets, companies are expected to experience a significant reversal in the current decline of earnings growth, which has historically been a key driver of stock market returns. We thus maintain an Overweight rating on Brazil[1], India, South Korea[2], and Taiwan[3].

In the fixed income space, there is still an opportunity to lock in the current attractive yields with quality bonds, since the quality segment compensates investors comfortably above expected inflation levels. We therefore believe that the safer the issuer, the better. We particularly like Swiss-franc-denominated bonds, where investors could benefit from their safe-haven features.

Turning to currencies, the US dollar, which is the global reserve currency and a safe haven in times of crises, has been appreciating for 14 years. Thus, many are expecting an end to its upward trajectory. However, among other factors, the US dollar has been supported by a very resilient US economy, as well as the fact that the US has become self-sufficient in terms of energy supply and is a leader with regard to technology in many industries. In 2024, we expect the US dollar to remain rangebound, i.e. it will continue to trade within a relatively tight price range.

Regarding commodities, the shock waves unleashed up to 2022 by the pandemic, overheated manufacturing sectors, adverse weather, and geopolitics diminished in 2023, and we believe that this ‘supercharged’ cycle should continue to deflate in 2024. Generally, we expect that commodity prices will fall at first and then trade rangebound. In the copper market, however, rising demand on the back of growth in electric vehicle production and supply constraints in the years ahead could provide a boost to prices.

[1] Brazil: For local residents, the investments into the local market are bound by legal restrictions.
[2] South Korea: For local residents, investments into the local market are bound by legal restrictions. The same regulation may also apply to foreign residents.
[3] Taiwan: The services offered by Julius Baer in local markets are restricted.

> ‘The start of a new cycle in 2024 should open up many opportunities.’

Christian Gattiker
Head of Research

Special

What if things do not go according to plan?

As always, the world is complicated, and there are many moving parts. A number of different scenarios might change the market environment, underlining our preference for starting the year with exposure to the quality segments. Let us now take a look at a few of the possible 'setback' scenarios.

US recession jitters

While our base-case scenario does not involve a recession in the US, there is a scenario where potential cracks in the labour market could develop and growth could slip into negative territory. If the US were to fall into a recession, this would most likely also impact growth elsewhere.

China fails to stimulate its economy sufficiently in H1 2024

China is another source of concern, as the economy faces a number of structural headwinds due to very adverse demographic and economic developments. In fact, China is still the biggest uncertainty in terms of growth and inflation in 2024. All measures implemented by the government thus far have not been sufficient for the country to avert growth headwinds. Crucially, what happens in China also has knock-on effects on the rest of the world, especially those

economies that have become heavily tied to the Chinese economy. It remains to be seen what stimulus measures the Chinese authorities will put in place and how effective they will turn out to be.

US election turmoil

All eyes will be on the US presidential election that will take place in November of this year. Recent polls suggest that it will be a close call between the return of President Trump and the re-election of President Biden. In terms of the potential economic impact, a shift back to Trump would likely result in more policy uncertainty, particularly in foreign policy matters. However, the overall confrontational stance of the current government towards China would likely not change significantly. If Biden were to be re-elected and have sufficient backing by Congress, there is a risk that fiscal policy would remain highly expansive, which might mean more financial stability risks and also a weakening of the US dollar.

Geopolitical risks

Finally, geopolitical events are among the other potential wild cards that we could foresee. Geopolitical rivalries have returned with a vengeance in the last few years, extending well beyond the strategic confrontation between the US and China. Thus, the new geopolitical landscape is complex and fragile.

Fixed income

Our key message in fixed income is simple: now could be the time to lock in the higher yields of high-quality issuers in order to benefit from them in the future. In line with this, we reiterate our call for Swiss franc bonds, especially (but not only) for investors who have a different reference currency. For those seeking additional income from emerging market hard-currency bonds, we point to Latin America, the Middle East, and investment-grade Asian corporate issuers. Finally, despite some hiccups, we believe investors should take a closer look at the complex world of subordinated bank debt and corporate hybrid bonds.

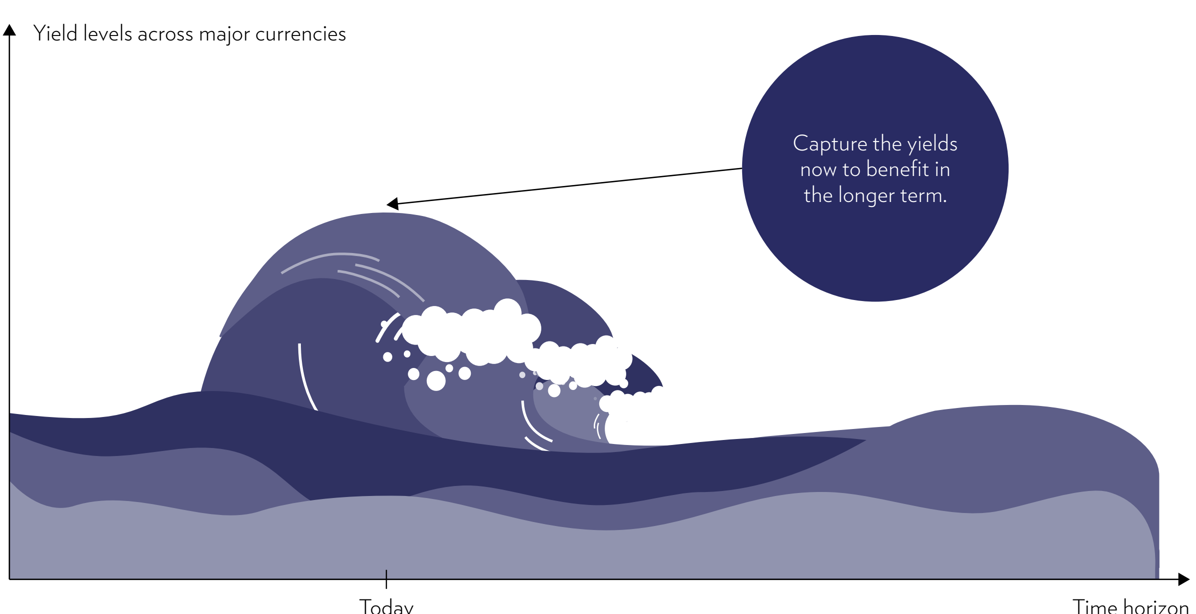
Locking in the higher yields of quality bonds for longer

Investors may need to consider a new approach to fixed income in 2024. Bond yields are at levels that investors only dreamed of two years ago, and across developed markets, they now offer more income than inflation is likely to eat up again. As disinflation continues and nominal yield levels are attractive, now could be the time to consider locking in quality returns in traditional bond portfolios.

Harvesting rather than hunting yields

For years, central banks, particularly in developed markets, kept interest rates low through 'quantitative easing' strategies. Thus, the dominant strategy for fixed income investors was the pursuit of extra yield by chasing risky bonds. Now that yields have returned to normal levels and monetary policy tightening in developed markets has peaked as disinflation is setting in, the tide is turning. The key task for fixed income investors now is to secure a high income and manage reinvestment risk as opposed to focusing solely on interest rate risk. The likelihood of government bond yields rising substantially from current levels has diminished significantly, which provides a cushion for bond investors.

Quality bonds offer comparably attractive yields again



Source: Julius Baer Investment & Wealth Management Solutions
Note: Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Focus on maturity management

We expect the yields of medium-to-longer maturities to remain rangebound, while those of shorter maturities will likely decline over the course of 2024. Therefore, the focus is no longer primarily on squeezing out that extra bit of yield by investing in risky bonds but rather on ensuring that portfolios benefit from today's higher yields over the long term as well. Crucially, investors require a balanced approach to managing the credit and maturity profiles of bond portfolios.

High-quality bonds to become a major performance contributor in 2024

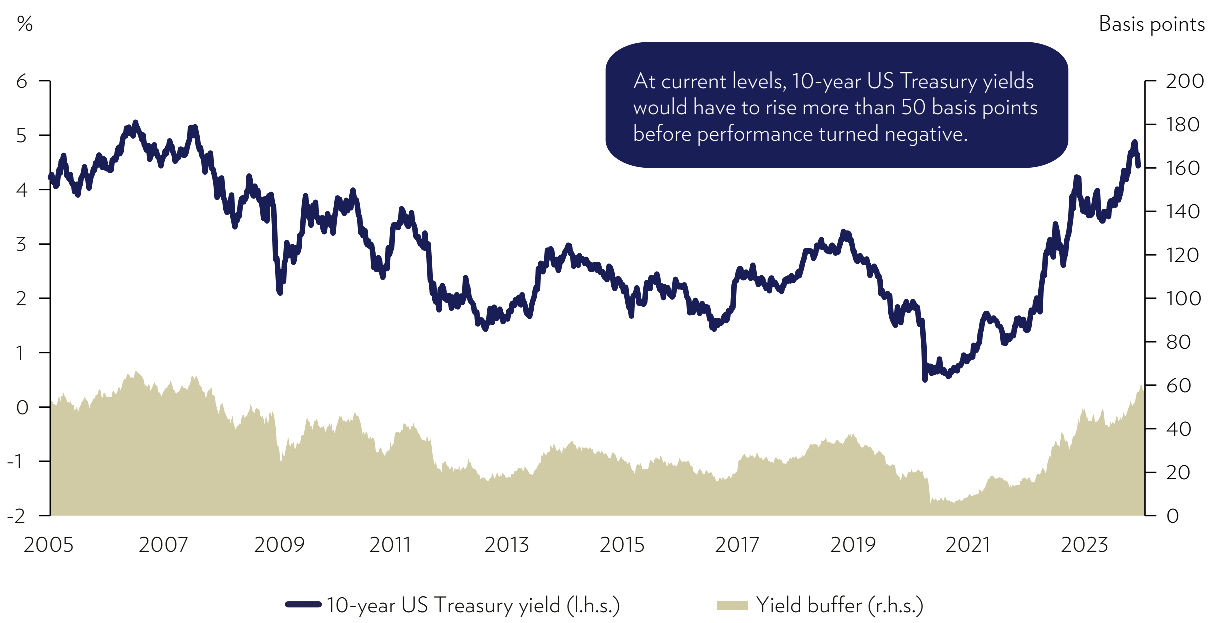
While we believe that a global recession is unlikely to hit the world economy over the next 12 months, potential risks (e.g. an accelerating slowdown in China, political turbulence as a result of the US presidential race, or rising geopolitical tensions) underline the uncertainties in our macroeconomic outlook. Coupled with a review of valuations across asset classes, with risk premiums generally tight, we believe that a significant fixed income exposure will be a strong contributor to the performance of diversified portfolios in 2024. Given the macroeconomic backdrop, and at current valuations, we would not recommend tactically increasing exposure to the riskiest fixed income segments at this time. The focus should rather be on prudent diversification and holding high-quality bonds of varying maturities.

Sleeping better with high-quality bonds

There is another argument in favour of maintaining exposure to high-quality bonds. After the substantial rise in yields over the last two years, these bonds now not only offer a good yield but also a buffer against any further rise in yields. If yields were to rise again this year, they would have to increase quite significantly before investors would experience a loss over a 12-month investment horizon. Thus, the current yields provide somewhat of a safety layer. That said, the scenario of yields rising significantly again is not our base case, even if the probability is not negligible.

Nonetheless, this suggests that, unlike three to four years ago when we faced a low-yield environment and any rise in yield levels could have nearly irreversible negative effects on portfolio performance, the timing of fixed income investments is less of a concern for investors today.

Yields offer carry and buffer against further yield rises



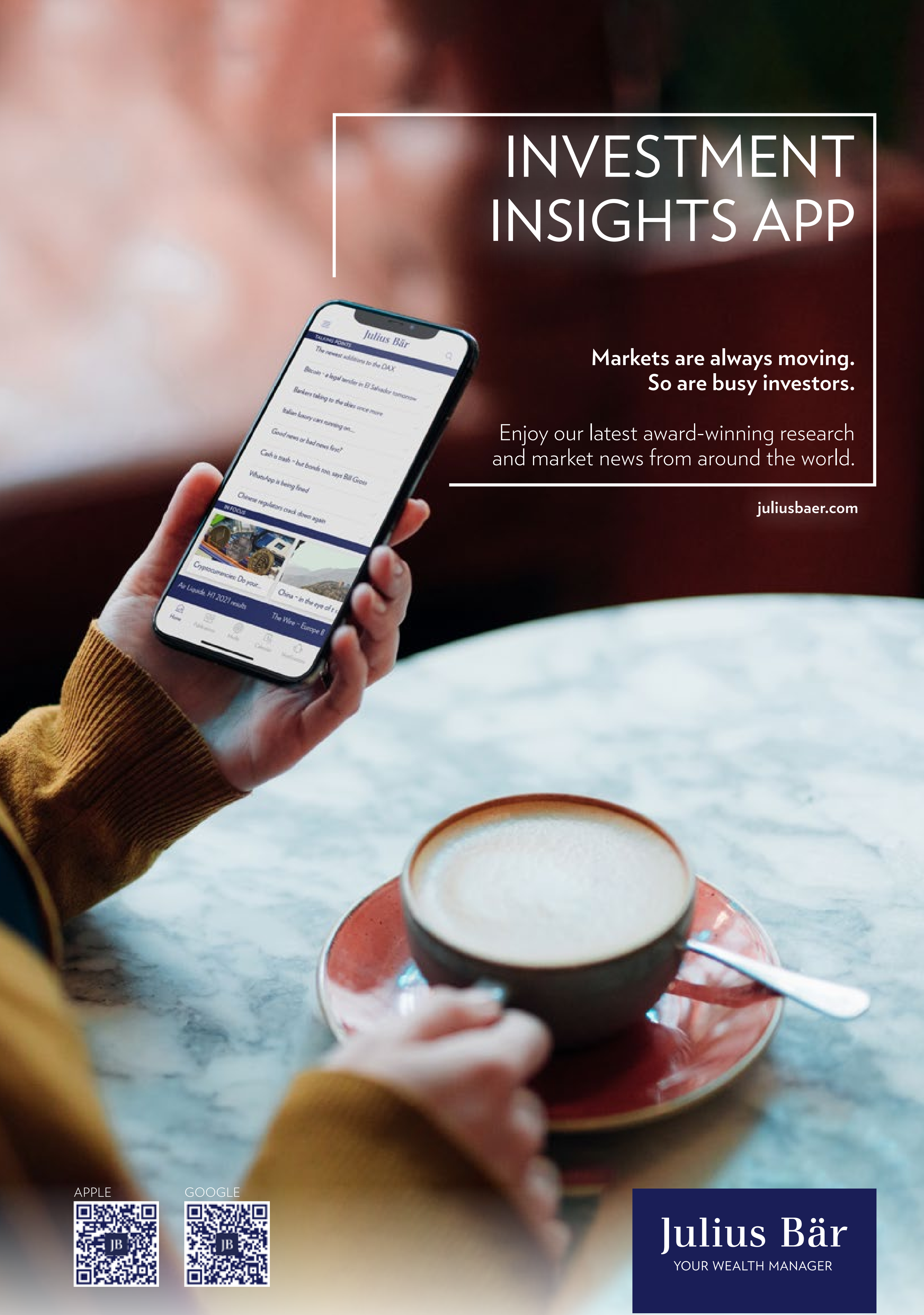
Source: Macrobond, Julius Baer Research
Note: Total return calculation simplified by neglecting roll down and convexity. The yield buffer reflects the difference between the current yield and the 12-month-ahead break-even yield, i.e. the yield change that would equal coupon income. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Swiss-franc-denominated bonds – a store of value

Switzerland benefits from a politically stable environment, strong economic policies, and a well-developed legal system. Furthermore, the country boasts healthy government finances, which are characterised by low debt levels, a large trading surplus, and extensive currency reserves. These strengths have made the Swiss franc one of the most resilient currencies over the last decades. If you then add in Switzerland's robust fundamentals and sound economic climate, coupled with lower inflation, you get an appealing investment case for fixed income investors. To quote our Chief Investment Officer Yves Bonzon: 'Each portfolio should have an allocation to Swiss assets.' This is even more true if the investors' base currency is not Swiss francs, despite the fact that Switzerland's nominal yields are lower than in many other countries.

CIO Monthly

Switzerland is home to one of the strongest equity markets, having outperformed global equities and gold through both inflationary and disinflationary periods. We highlight why Swiss assets deserve an allocation in every portfolio.



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Subordinated bank debt – in regulatory conundrums

Within a bank's capital structure, there are mainly two types of subordinated debt, called tier-2 (T2) and additional tier-1 (AT1, also known as contingent convertibles [CoCos]). The latter are perpetual bonds (i.e. they have no maturity date), and they rank below dated T2 debt. Furthermore, both forms of subordinated debt rank below other (senior) bonds in the event of a bank's liquidation or bankruptcy, but they rank above a bank's equity – at least in theory. In times of extreme financial stress, some regulators have the power to write off certain types of deeply subordinated bank debt, starting with AT1 debt, while allowing shareholders to retain their equity investments. This situation has caused some controversy in the past. It is therefore crucial for investors to understand the terms and regulatory situation of each such bond before investing. Given the potential pitfalls of such bonds, it is not surprising that the UK regulator, one of the strictest in the world, considers AT1 instruments to be unsuitable for retail investors.

Nevertheless, investors would be well advised not to ignore the highly complex world of subordinated bank bonds and, for that matter, corporate hybrid (or equity-linked) bonds, as this type of debt offers higher yields and welcome diversification. While constant vigilance and an informed perspective are essential to navigate the complexities of this segment, it could be an attractive addition to a portfolio, especially as long as issuers' profitability and capital ratios remain favourable.

Research Focus

We take a closer look at subordinated bank debt and highlight what investors need to know about the segment.

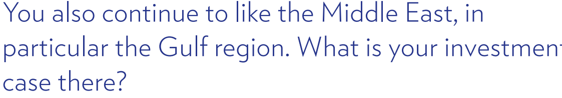
Interview

Emerging market hard-currency bonds

In this interview, Eirini Tsekeridou, from Fixed Income Research, talks about why emerging market hard-currency bonds look promising now and which areas we find the most appealing.

You recently upgraded emerging market hard-currency bonds to Overweight. Can you please elaborate on the rationale behind this decision?
We consider bonds issued in stable global currencies (e.g. US dollars or euros) by emerging market issuers as an attractive diversifier for portfolios that include high-quality bonds from various developed markets. We have become more optimistic about the segment, because we believe that the monetary easing cycles in most emerging markets will continue this year. Our Overweight rating stems from our conviction that there are pockets of value in Latin America, the Middle East, and investment-grade Asian corporate debt. This is also supported by our overall constructive macroeconomic view for 2024.

So of the three regions you just mentioned, Latin America is the most recent one that you have upgraded to Overweight. Why do you like it?
There are several reasons why we find Latin America attractive. We expect easing inflationary pressures and rising export revenues to improve the region's financial health this year, leading to a modest recovery in growth. Other favourable factors include our expectation of a stable US dollar and that the US will avoid a recession. In addition, we expect a decrease in political risk in the region this year, whilst geopolitical conflicts are likely to remain concentrated in other parts of the world. Finally, we consider current bond valuations in the region to be attractive.



You also continue to like the Middle East, in particular the Gulf region. What is your investment case there?
We see some key advantages for the region this year, which, altogether, make it an attractive investment prospect for 2024. Firstly, the Middle East is projected to continue to grow at a solid pace, which, combined with low rates of inflation, makes for a robust economy. Secondly, there is the subject of fiscal break-even oil prices, which are currently lower than actual oil price levels. Fiscal break-even oil prices refer to the minimum oil prices per barrel that countries need to meet their planned spending levels while maintaining a balanced budget. So the

fact that break-even prices are lower than current levels means that these countries achieve a budget surplus. Thirdly, the region's large sovereign wealth funds adequately cover external debt and provide an important stability factor.

And finally, for investors looking to invest in Asia, what would be your preference?

In Asia, we prefer high-quality, investment-grade corporate bonds. Although the valuations are tight and borrowing costs are likely to remain elevated, the overall fundamentals are improving. Thus, in our view, the spreads for quality issuers have some further compression potential. With regard to the riskier parts of the region's bond universe, China's troubled property sector is likely to remain a drag.

Research Focus

This year will offer many opportunities for fixed income investors. Take a closer look at the segments our analysts like best.

‘New and positive drivers emerge across emerging economies.’

Eirini Tsekeridou
Fixed Income Research

Special

Four key takeaways for 2024

Our Head of Fixed Income, Markus Allenspach, discusses four pivotal factors that had a significant impact on the fixed income world in 2023, and he shares what insights we can derive from them.

1. The resilience of the US economy

At the end of 2022, the bond market had been positioned for a weak US economy and an anticipated series of interest rate cuts. However, incoming data soon pointed to very robust domestic demand, mainly fuelled by increased social benefits from the US government and an unexpectedly strong private investment response to the government's initiatives for energy transition and self-sufficiency in the semiconductor sector. Hence, rather than rate cuts, there were four rate hikes in 2023 – in February, March, May, and July – which pushed bond yields higher. For 2024, budget constraints are tightly set, which points towards a likely fiscal withdrawal instead of a further fiscal impetus. More importantly, the slowing of US inflation is no longer an optimistic projection but rather an economic reality. Consequently, the probability of the US Federal Reserve cutting rates is considerably higher for 2024.

2. The slowdown of the Chinese economy

In contrast to the US, China did not live up to the market's high expectations. The rapid reopening of the economy following the complete removal of Covid-19 restrictions in late 2022 did not revive domestic demand nor the property sector the way the market had expected, and this had negative implications for the global commodities market. The prospects for China remain bleak, and we believe that the world's second-largest economy will expand below potential in 2024, with the property market remaining depressed. That said, while the authorities have so far shown little appetite for an additional large-scale stimulus, it is reassuring to know that they still have ample room for a proactive stimulus, which could help protect the economy from a meaningful downside in the future.

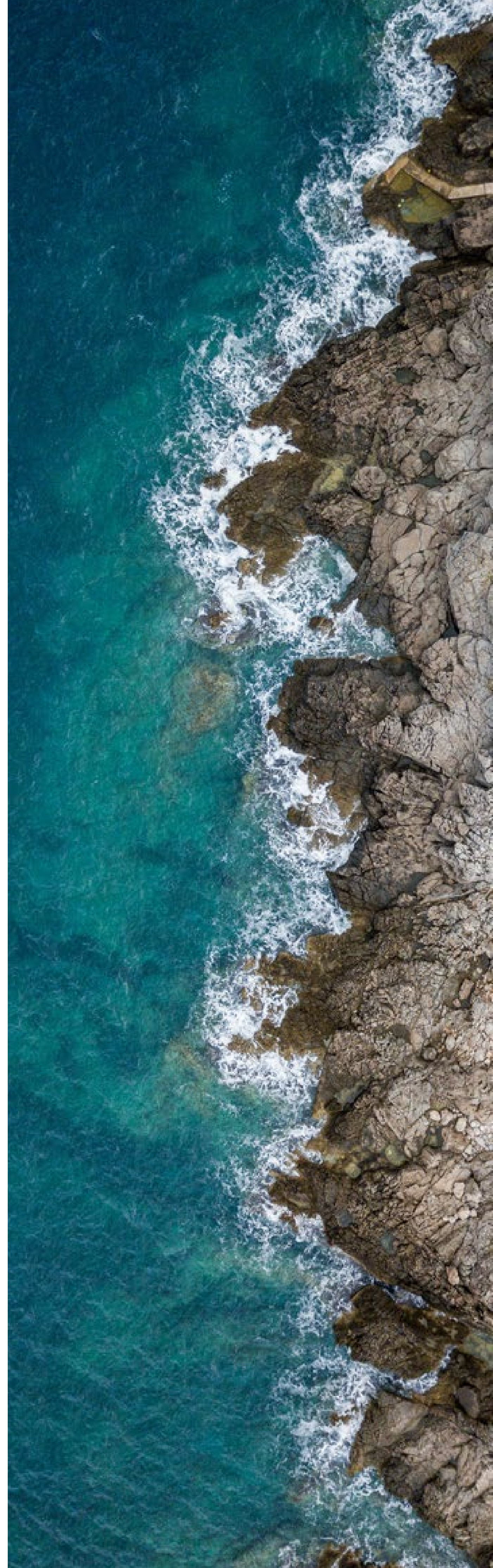
3. The demise of several banks

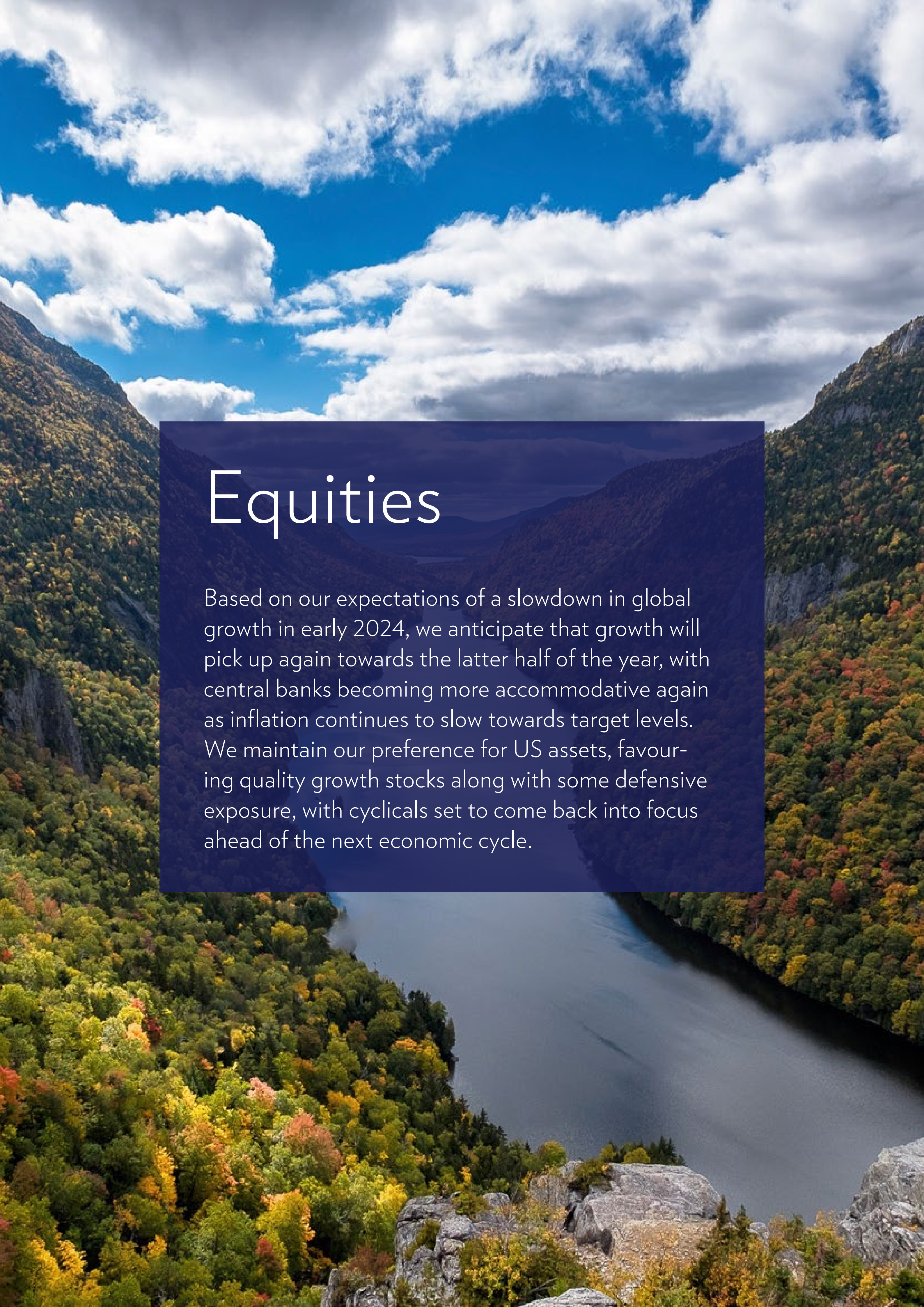
There were a number of bank failures and bailouts in the spring of 2023 for very different reasons. Fears of a broadening systemic crisis, however, did not materialise thanks to the swift intervention of regulators and central banks. Nonetheless, the events sent shockwaves throughout the financial system. We regard the collapse of the affected banks as idiosyncratic events and are not anticipating a systemic crisis that would necessitate a shift to a more defensive stance in 2024.

4. The reversal of quantitative easing

For years, Western central banks kept interest rates low and bought substantial amounts of government bonds, basically crowding out private investors. The lack of safe assets was viewed as a significant challenge for institutional investors. Surprisingly, rather than praising the return of the government bond supply, the market struggled to take on the influx of government bonds. This was due to still elevated government revenue shortfalls and the balance sheet reductions by central banks in the US, the UK, and the eurozone. We expect the supply of these bonds to remain significant throughout 2024, even as government deficits decline in real terms.

The fiscal push in the first half of 2023 brought more economic resilience and ultimately additional US interest rate hikes. The combination of the four factors described above has resulted in significantly higher bond yields, and we believe that now is the time to lock in these yields and enjoy a higher income in the future.





Equities

Based on our expectations of a slowdown in global growth in early 2024, we anticipate that growth will pick up again towards the latter half of the year, with central banks becoming more accommodative again as inflation continues to slow towards target levels. We maintain our preference for US assets, favouring quality growth stocks along with some defensive exposure, with cyclicals set to come back into focus ahead of the next economic cycle.

A broadening opportunity set

In line with our view that the US economy will expand in 2024, albeit at a slower pace, the backdrop for mega-cap information-technology stocks remains positive, while defensive and cyclical stocks also warrant a mention. We spoke to Mathieu Racheter, Head of Equity Strategy, who outlines his key calls in the context of the changing economic cycle below.

We expect a soft landing for the economy in 2024. What does this mean in terms of your equity strategy?

As we enter the new year, we expect neither a boom nor a bust when it comes to economic growth. After last year's almost unprecedented rise in US Treasury yields, our expectation is for a Goldilocks scenario of a soft landing in the US, shaped by stable growth and stable interest rates. This would allow bond yields to continue to fall and equity prices to rise further, which would be an environment favourable for growth stocks. Accordingly, we are generally constructive on equities, and within equities we maintain a clear preference for US stocks with a quality growth bias.

Following the strong performance of US stocks in 2023, do you still see them in pole position in 2024?

Our clear regional preference for US over European equities is supported by the fundamentally constructive backdrop for US equities. The US equity market has seen broad-based improvements in recent months, as corporate earnings growth is now back in positive territory and risk appetite has recovered strongly from the shock sequel of events that included inflation spikes, a rate frenzy, geopolitics, and recession fears. The resulting resumption of a secular bull market in US equities could mark the start of a new attempt to push above their highs of 2021. In addition to our fundamental view, the technical picture speaks in favour of US equities relative to their European counterparts. Furthermore, the relative performance of US equities versus safe-haven assets, such as gold and government bonds, continues to strengthen, which is a sign that investor sentiment is improving. As for the US dollar, we expect the greenback to remain rangebound in 2024.

‘The relative performance of US equities versus safe-haven assets continues to strengthen, which is a sign that investor sentiment is improving.’

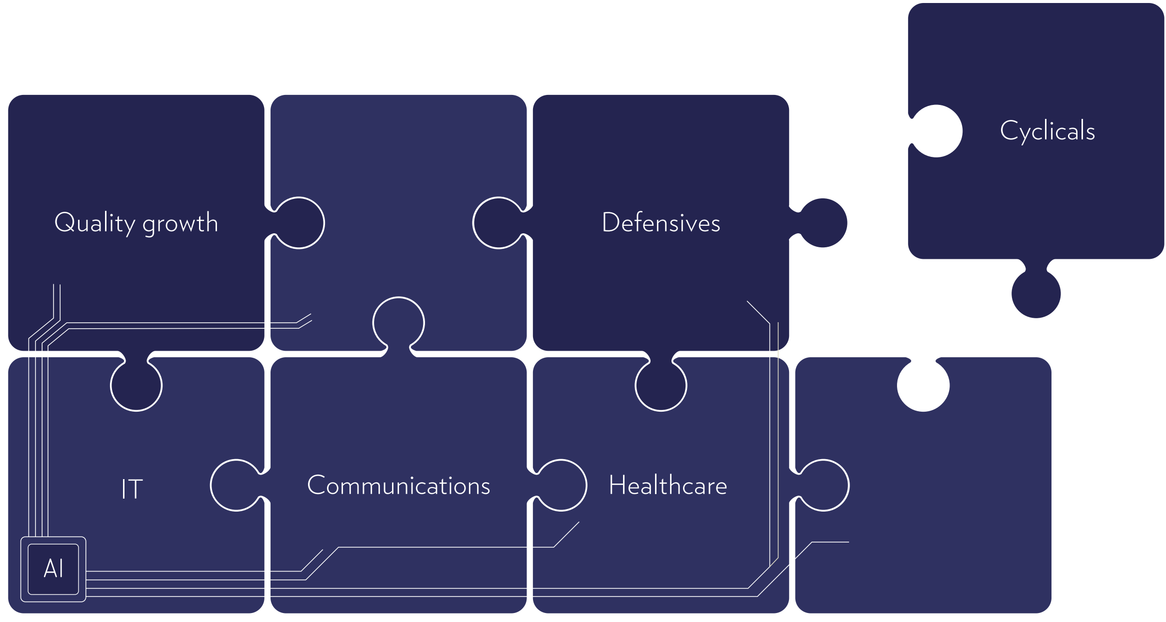
Mathieu Racheter, Head of Equity Strategy

Artificial intelligence stole the show in 2023, and the Magnificent 7 proved themselves worthy of the name. Does this mean that you will maintain your quality growth preference in 2024?

In terms of styles, we like quality growth, with a particular focus on information technology (IT) and communications companies, which make up approximately 40% of the S&P 500, due to their superior earnings momentum relative to other sectors. At the same time, they benefit from stable or lower yields due to their relatively longer duration profile. The current super cycle of growth and innovation in artificial-intelligence (AI) technology has important implications for asset allocations given that, in the past, it has led to significant shareholder value creation among those companies at the forefront of the movement. Now that we have moved into 2024, it appears as though there will be a continuation of the bull market in the US IT sector, as AI continues to establish itself in industries as diverse as healthcare, automobiles, advertising, and education.

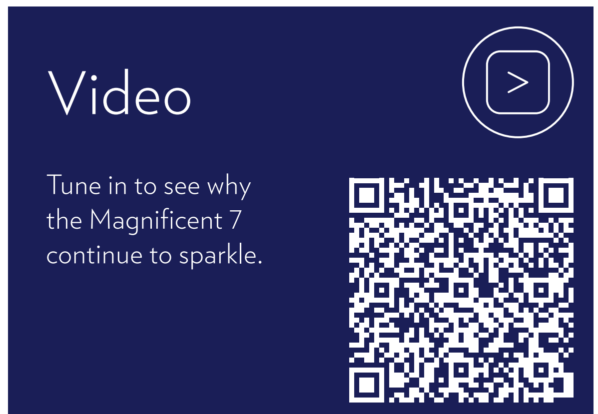
AI has also been the driver of the rise in the Magnificent 7 stocks. This was demonstrated by their phenomenal rally in the first seven months of

Piecing together our key equity calls for 2024



Source: Julius Baer Equity Strategy Research

2023, when they dominated market returns as their bottom-up fundamentals continued to improve. Given their outsized impact on US stock market performance and their prevalence in many investment portfolios, their prospects are of particular importance. We still like last year's winners and see any possible corrections as an opportunity to increase exposure to the group. Their continued strong free-cash-flow generation, coupled with their leading positions in key growth markets, means that they remain front and centre when it comes to value creation.

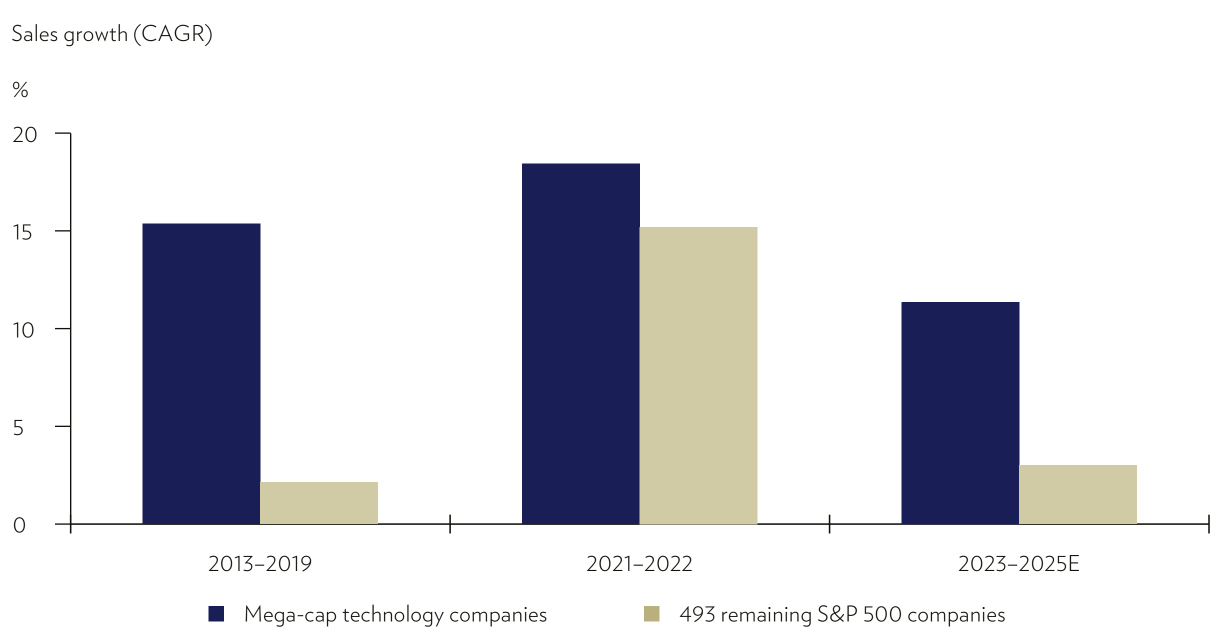


Given the dominance and outperformance of the IT and communications sectors, many defensive markets were left behind in 2023. Is the outlook for defensives now more attractive?

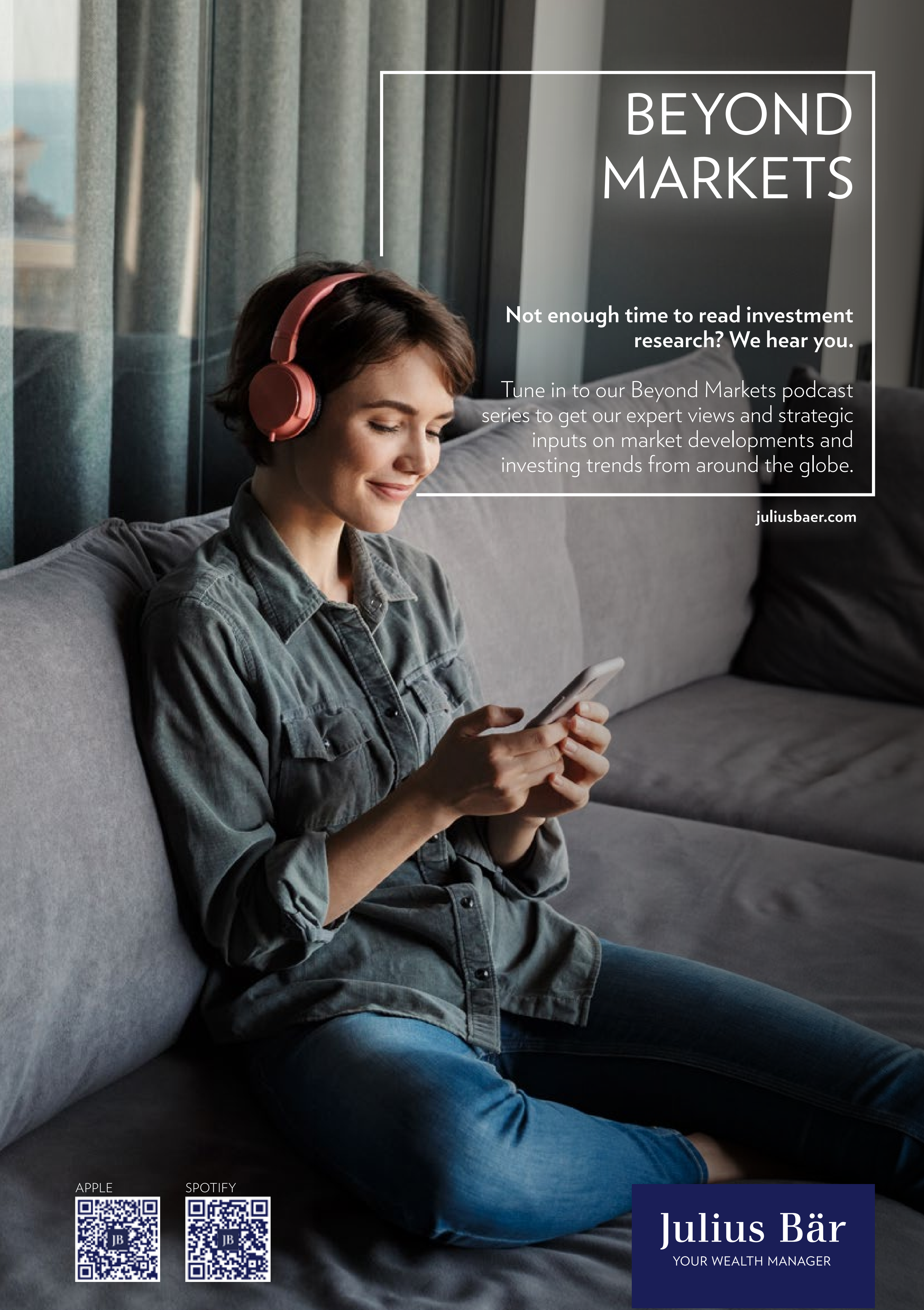
Absolutely. The more appealing valuations of defensives now offer an attractive entry point. For investors keen to add a little robustness to portfolios, we advocate building up some defensive exposure, where we see opportunities in the areas of healthcare, Swiss equities, and European utilities.

With specific regard to the healthcare sector, we like it due to its inherent defensive characteristics and see opportunities in large-cap biopharmaceutical stocks, in particular. For example, companies offering drugs to combat obesity have been in the news lately, as the demand for their weight-loss treatments far outstrips the supply. As a longstanding outperformer, we believe the healthcare sector

Magnificent 7: Continued growth at an attractive price



Source: FactSet, Julius Baer Research
Note: Magnificent 7 mega-cap technology companies = Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla; revenue-weighted. CAGR = compound annual growth rate; E= consensus estimate. 2020 figures are not included due to the pandemic-related special effects. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.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YOUR WEALTH MANAGER

offers the best long-term growth prospects among its peers. We also see further value creation potential in the health insurance space, along with attractive investment opportunities in the area of MedTech, as higher costs for more orthopaedic and cardiovascular procedures validate the case for positive MedTech momentum.

The Swiss equity market should also not be overlooked, since it represents one of the most defensive markets within the equity universe. Investors in Swiss stocks not only benefit from exposure to stable and growing companies but also from currency appreciation. The Swiss franc is among the world's strongest currencies and typically provides a hedge against global growth and geopolitical risks. In the longer term, we expect the Swiss equity market to remain a store of value, offering investors a comparably high degree of stability coupled with the prospect of long-term growth.

As the year progresses and the new economic cycle emerges, will that finally be the moment when cyclicals make a comeback?

After a potentially shaky start to 2024, confidence is expected to bounce back later in the year. Once the economy has reached its trough, the prospects for 2025 and beyond should be priced in by the second half of the year. Thereafter, we expect market participation to broaden and would advocate tactically adding cyclical exposure in anticipation of a new economic cycle. Investors eager to increase their exposure to cyclical markets may wish to consider some of our preferred subsectors, which include automotives, semiconductors, machinery and equipment, and transportation.

Podcast

Everybody is talking about the new weight-loss drugs. Hear what our experts have to say.

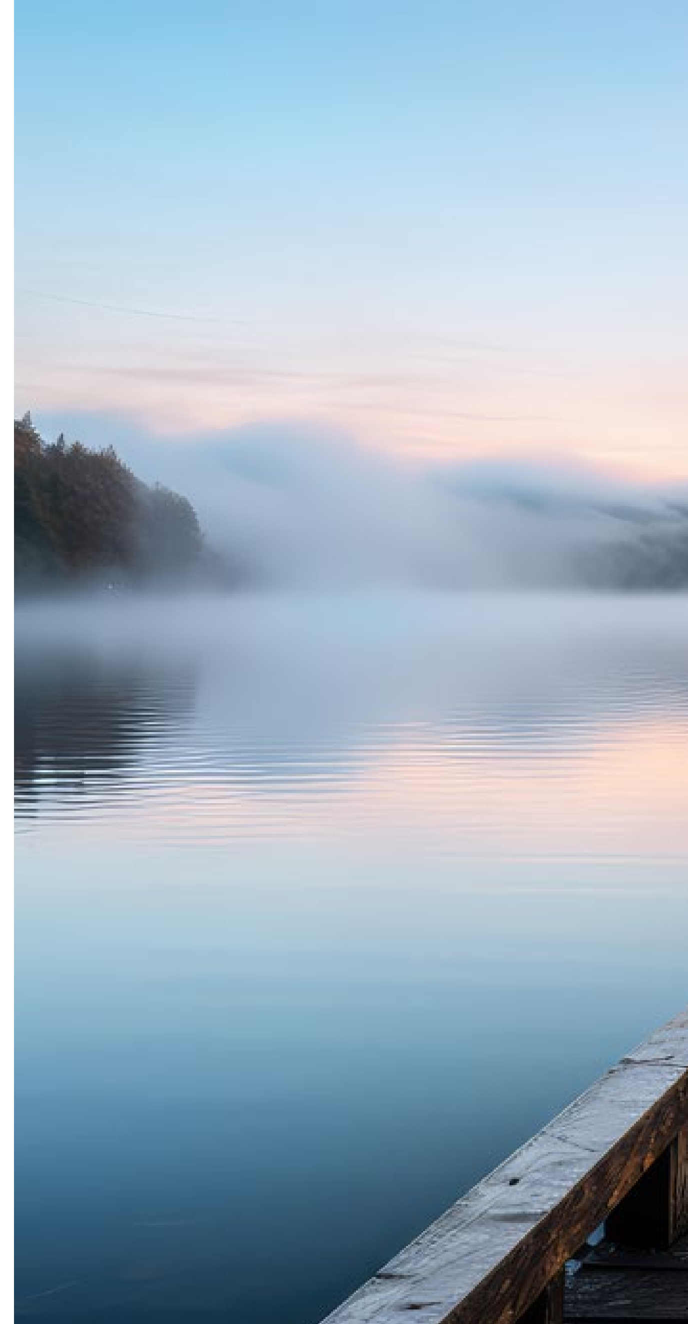
Next Generation

AI front and centre

Next Generation themes have been challenged lately due to fears of a global economic slowdown, which have led to downward revisions in their earnings forecasts. This is a reminder that while thematic investing typically addresses secular structural trends, it remains susceptible to short-term cyclical shifts, with the notable exception of artificial intelligence (AI).

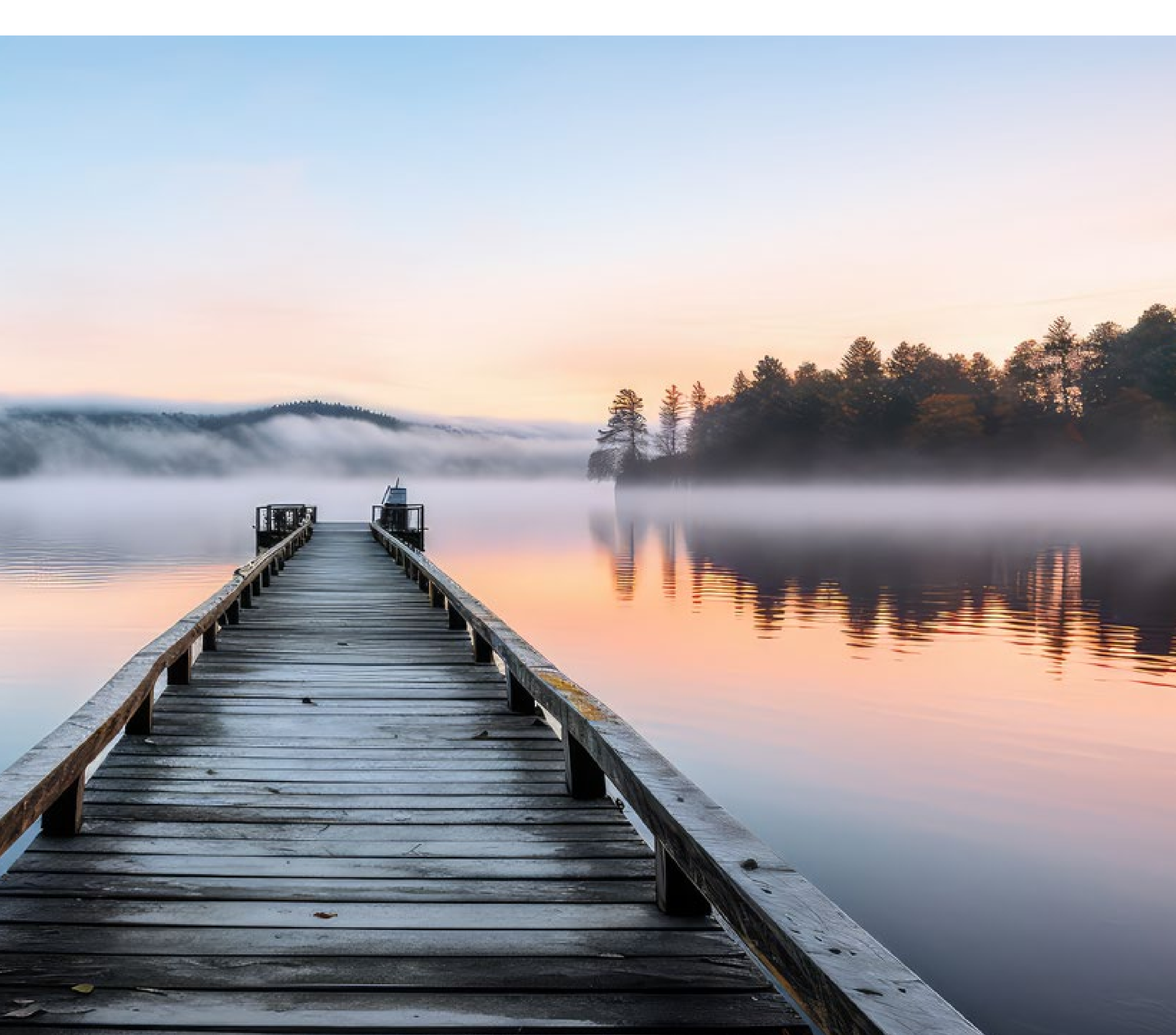
With most valuation metrics below their multi-year averages, we believe 2024 may provide investors with opportunities to capitalise on these attractive valuations, and they could consider investing in our most preferred themes. For example, Cloud Computing & AI was, by far, the most successful theme of 2023 – not only because of the groundbreaking technological advancements in AI but also due to its impressive market performance. While AI will retain its role as an efficiency-enhancing technology, over the coming years its applications will be rolled out across almost every conceivable industry. The recent interest in generative AI (GenAI) technology, in particular, has provided the next leg up in equity markets, driven by mega-cap technology stocks. We have seen a pickup in the pace of innovation and the number of new product announcements in this area and have observed the ever-expanding ability of GenAI to solve increasingly complex problems. Furthermore, the monetisation potential for developments in AI makes it very appealing and gives us confidence about the theme's long-term investment opportunity. Going forward, we expect the performance of AI stocks to be driven by fundamentals and monetisation capabilities rather than merely by hype around the technology. Our view is that the AI race has only just started and that it will last for many years, in line with its ability to solve increasingly complex problems.

Beyond AI, we see further opportunities in a number of other Next Generation themes. In Future Mobility, we note that competition among car companies has intensified, raw material costs have come down,



and sentiment has deteriorated much more than justified amid still soundly growing electric vehicle sales in the world's key markets. Within our Future Cities theme, we see a strong fundamental backdrop for the building technology and efficiency segment, e.g. in relation to the rapid ageing of buildings in Europe, three-quarters of which are no longer energy efficient. Moreover, our Extended Longevity theme explores how our ageing global population presents investment opportunities due to the rise of chronic diseases, changing consumer preferences for improving one's longevity and healthspan, and an increased demand for financial planning.

Looking ahead, we remain confident about the potential of the structural trends that are driving our investment themes. The start of a new economic cycle in 2024 should open up many more opportunities and, after a potentially bumpy start, reward those willing to take risks – especially those who choose to be invested from the very start. Last year's high-flyer theme of Cloud Computing & AI remains attractive given the strong structural and cyclical support, and valuations remain reasonable against this backdrop. Existing investors should maintain their positions, while new investors should use temporary setbacks to build up their exposure.



Deep dive

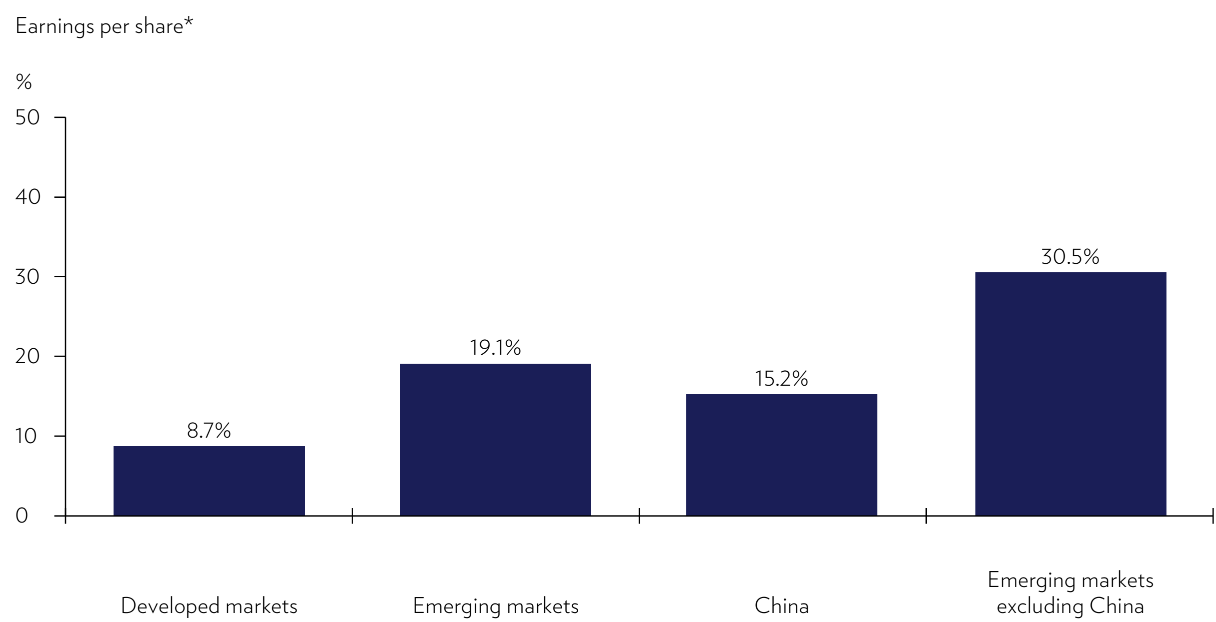
A closer look at emerging markets and Asia

Improving market dynamics in Asia, excluding China, should provide attractive opportunities for emerging market equities in the second half of the year. We focus on India, while the winds of change in Japan are making its equity market look attractive again. Looking beyond Asia, Brazil, in particular, offers value on the back of an improving economic backdrop.

Emerging markets offer compelling growth prospects

Last year, emerging market equities fell short of investors' expectations, delivering flat returns and significantly underperforming developed markets due to weaker growth in China, a sharp rise in US Treasury yields, and geopolitical uncertainties. As we start 2024, our outlook for emerging market equities (excluding China) is more optimistic given the better growth prospects for emerging market economies in terms of both gross domestic product and corporate earnings relative to their developed market counterparts.

Bullish on emerging markets excluding China



Source: Bloomberg Finance L.P., Julius Baer Research
Note: * Expected annual growth over the next two years. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Digging deeper, our highest-conviction pick in emerging markets for 2024 is the Indian market. India's structural transformation and growth trend remain intact, fuelled by a rising consumer market, a large youth population, and ongoing urbanisation, which is helping to boost household spending. This positive outlook is further reinforced by weakening investor confidence in China, which puts India in a favourable position as a viable alternative to China in the eyes of global investors.

Despite showing signs of gradual progress, China, the world's economic powerhouse, remains beset by problems, not least within its real estate sector. We thus remain on the sidelines, especially in the absence of any major game-changing economic stimulus.

Outside of Asia, we see potential in Brazilian equities, which currently offer a good entry opportunity at highly compelling valuations. We believe that the benefits afforded by the lower interest rate environment have not fully kicked in yet.

Video

As India is Asia's sweet spot, we delve deeper into why it makes such a compelling investment case.

Japan: A shift in monetary policy should boost stocks

With hopes that this year will mark the turning point in Japanese monetary policy, market dynamics in Japan appear to be changing for the better. We see a number of opportunities in Japanese equities, which, beyond their cyclical nature, are now supported by the winds of change in the corporate landscape. This should lead to higher profitability and better value after significant stagnation in capital returns and should be a magnet for further inflows from domestic and international investors alike who are in search of alternatives to Chinese assets.

We have upgraded Japanese equities to Overweight due to several factors. We believe that the recent shift from deflation to inflation should benefit corporates and the broader economy. Furthermore, the Tokyo Stock Exchange has implemented several important reforms, which should result in improved governance, greater efficiencies, and more attractive corporate valuations. Lastly, improved fund flows from both foreign and domestic investors should provide a welcome tailwind for asset prices.

Alternative investments

In this chapter, we provide a brief overview, as well as our outlook, on our favourite hedge fund strategies. 'Relative value' strategies and investment styles were our preference in 2023 and remain a top choice for 2024 as we transition to a new macroeconomic cycle that is accompanied by sharply diverging views in the markets. Among other strategies that we like, we think the time is also ripe for 'stressed/distressed credit' (a substrategy of 'event-driven') on the back of some weaker companies coming under intense pressure due to high financing costs.

Reaping the benefits of diversification

The diverse nature of the hedge fund universe means that suitable strategies, many well-aligned with our market outlook view, are available all along the investment cycle. These offer sources of potential return that are not available to traditional strategies, thus adding diversification benefits to traditional portfolios.

Our strategy focus in 2024

We continue to favour 'relative value' strategies and investment styles, which, among others, exploit mispricings in financial markets for comparable or correlated financial instruments. The factors behind a mispricing can be macroeconomic in nature or related to financial market dynamics; they can also be corporate events or short-term supply and demand imbalances. Investment managers using these strategies take long positions in assets that are deemed to be undervalued and short positions in those considered as overvalued in anticipation of a price convergence. As a result, profitability may be achieved irrespective of market direction, and a trade is frequently motivated by expectations of mean reversion. 'Relative value' strategies may generate attractive and relatively stable returns, but they are not infallible, since unforeseen events and instances of illiquidity can make them fragile, with leverage having the potential to amplify losses. 'Equity long/short' strategies with a market-neutral focus are also well placed to potentially benefit amid growth jitters, irrespective of the broader market moves.

Other effective strategies at present that are somewhat more correlated to the market (i.e. directional) are 'trading' strategies, especially 'discretionary trading', as the markets continue to experience significant macroeconomic changes. Moreover, in terms of 'event-driven' strategies, the 'distressed credit' substrategy is expected to benefit from the growing number of high-yield companies that are weighed down by the rise in financing costs. While the substrategy includes the term 'distressed', in reality it means hedge funds investing in both stressed (i.e. still performing but challenged) and distressed (i.e. non-performing/bankrupt) companies.

In the subsequent sections, we will delve more deeply into our preferred strategies, highlighting recent market developments and our outlook for 2024.

> 'Investing in the right hedge fund in this market environment could translate into steady and consistent returns that are not driven by the mood in equity and fixed income markets.'
>
> Adrienne Jaersvall, Head of Fund Advisory

'Relative value' strategies and investment styles

Benefiting from higher volatility and rates

In this section, we look at our favoured 'relative value' strategies and investment styles, which are mostly market neutral. Their strategy approach means that they often run with plenty of cash on their balance sheet, which can now be invested at attractive higher short-term rates.

Monetising the start of a new cycle

After over two years of increasing interest rates to lower inflation, central banks are expected to change direction in 2024 and begin to lower rates to encourage economic growth. Based on past experience, there may be instability in certain areas of the market as central banks transition from one monetary policy stage to another.

One reason for this potential instability is that there is considerable uncertainty about the level of change in US interest rates, which is a crucial factor for financial markets. Currently, the federal funds target range stands at 5.25%–5.50%. However, expectations for the end of 2024 vary considerably – from moving it only slightly lower to as low as 3% based on inflation and growth forecasts for 2024, as at the time of writing. From an investment perspective, this means a rapid and massive repositioning of many portfolios over the course of the year, as it becomes

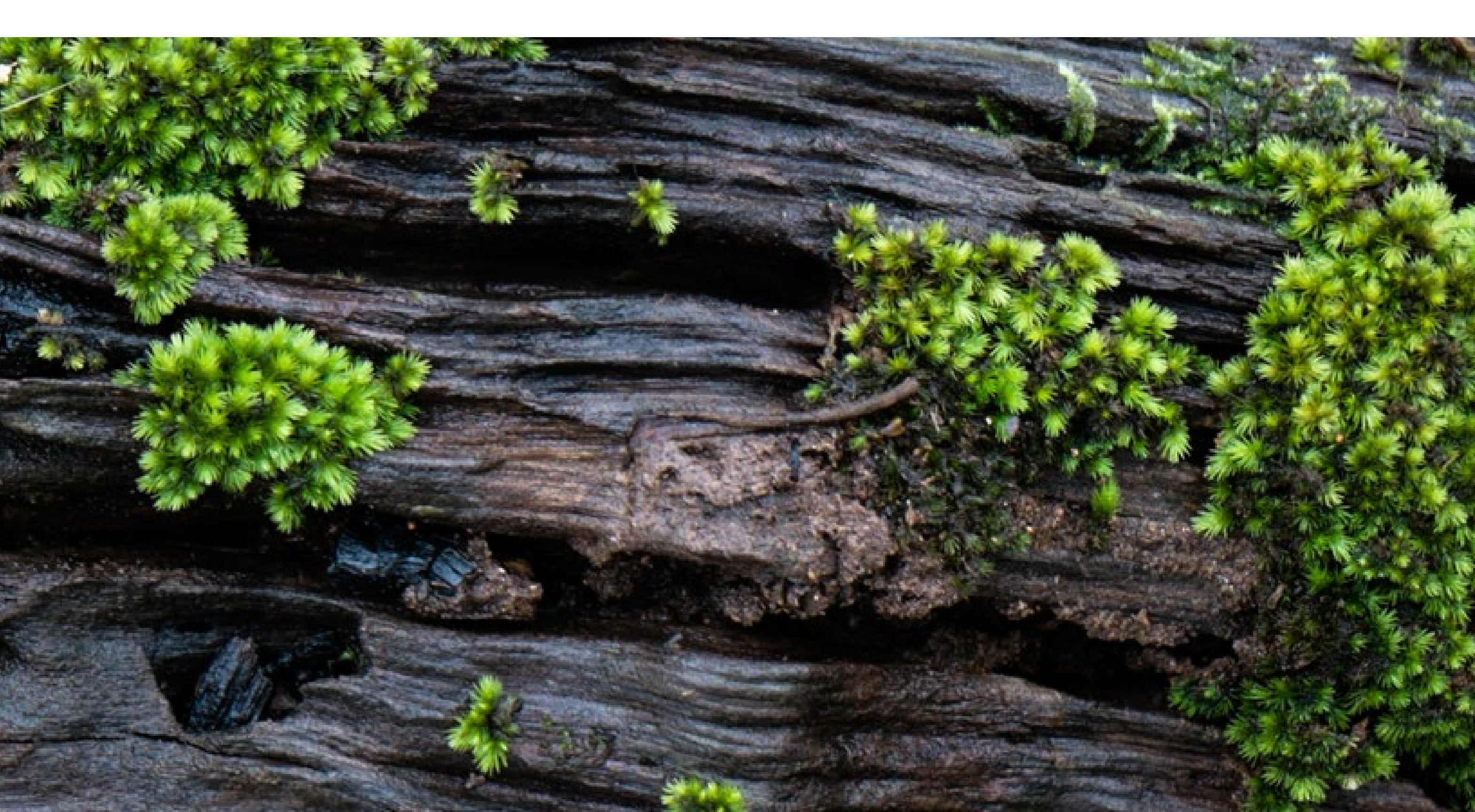
clearer what action the US Federal Reserve will ultimately take. When portfolios are repositioned, some securities are sold and others are bought without much consideration for price, which opens up 'relative value' opportunities across the asset class spectrum.

The 'relative value' substrategies that are best positioned in this situation are 'fixed income relative value' and cross-asset 'volatility arbitrage'. There may also be some opportunities for macro-related 'discretionary trading' managers who accurately predict significant asset class movements in 2024.
Relevant strategies: 'Relative value' and 'Trading – discretionary trading' (macro-related)

'Higher volatility and interest rates offer a great hunting ground for "relative value" strategies.'

Ivan Iliev, Julius Baer hedge fund expert

Equity market neutral amid growth jitters
Within the 'equity long/short' strategy, we prefer those managers who have a market-neutral focus. They are often found within multi-manager platforms. This investment approach includes active trading (both long and short) in individual stocks. The objective is to identify stock-specific catalysts that will result in the stock rising (long) or falling (short), while also hedging non-stock-specific risks at the market, sector, industry, and style levels. The strategy thrives in a more volatile environment. Considering that we expect a jittery start to the year amid a growth slowdown, including some recession concerns at times, market-neutral equity strategies could well be in the sweet spot, at least in the first half of the year. Furthermore, given that 2023 returns were, for most of the year, heavily skewed towards a relatively small number of stocks, more stocks should contribute to positive returns in 2024, which should also help the strategy to perform.
Relevant strategy: 'Equity long/short – opportunistic trading'



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Nature, politics, and economics driving commodities in 2024 too

Commodities can be a fertile asset class for directional and, at times, even for non-directional 'relative value'-type strategies. This is mainly because a sharp change in price, either positive or negative, is sooner or later followed by a countermovement driven by fundamentals. For example, as prices rise, supply enters the market, and assuming that demand remains unchanged, prices subsequently fall again. Furthermore, commodities are, and will always be, subject to the vagaries of global tensions, and we have seen more of these in recent years. Weather-related phenomena, such as El Niño, can also lead to disruptions. Lastly, 2024 looks set to be one of the busiest ever in the emerging market electoral calendar, with elections taking place in major commodity-importing and commodity-producing countries, which can lead to market uncertainties. As commodities experience bouts of volatility and sometimes sharp moves, hedge funds that trade commodities should be well positioned to take advantage of opportunities that arise throughout the year.
Relevant strategy: 'Trading – commodities'

Higher short-term rates equal higher strategy returns

'Event-driven – merger arbitrage' is an example of a strategy that directly benefits from higher rates. Its aim is to profit from the price difference between a target company's trading value following a takeover announcement and the acquirer's offering price at deal completion. The stock of the firm being acquired is expected to trade at a level that implies a return which exceeds that of short-term deposit rates, otherwise there is no value-added return for the hedge fund. Thus, higher short-term rates translate into a higher return for the strategy.

Furthermore, trading opportunities arise when the likelihood of a deal's success changes, such as when regulators signal potential obstacles that could jeopardise the takeover. This would then lead to the stock moving further away from the announced takeover price in the short term. Correctly assessing these situations, for example in Microsoft's acquisition of Activision last year, could yield even higher expected returns.

Going forward, deal activity is expected to be supported by ample resources in private equity, sovereign wealth funds, and financially strong corporations. Sectors like biotechnology may see increased merger and acquisition deals due to lower valuations, with large-cap biopharmaceutical companies seeking new drug pipelines for future growth driving this anticipated uptick in activity.
Relevant strategy: 'Event-driven – merger arbitrage'

Directional credit strategies

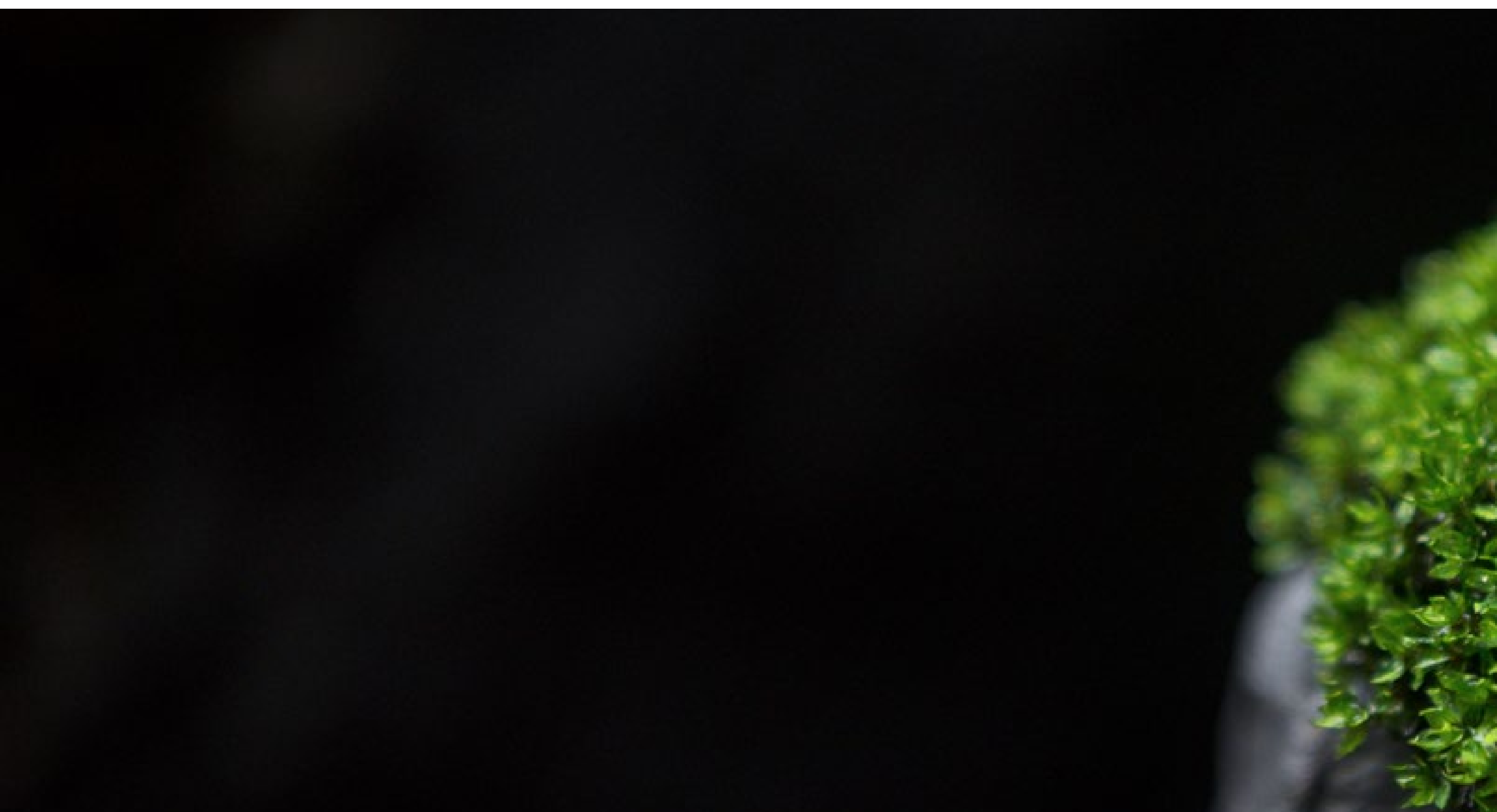
Stressed and distressed situations

In this section, we explain why directional credit strategies in stressed and distressed corporate situations are at the beginning of an attractive investment cycle for hedge funds.

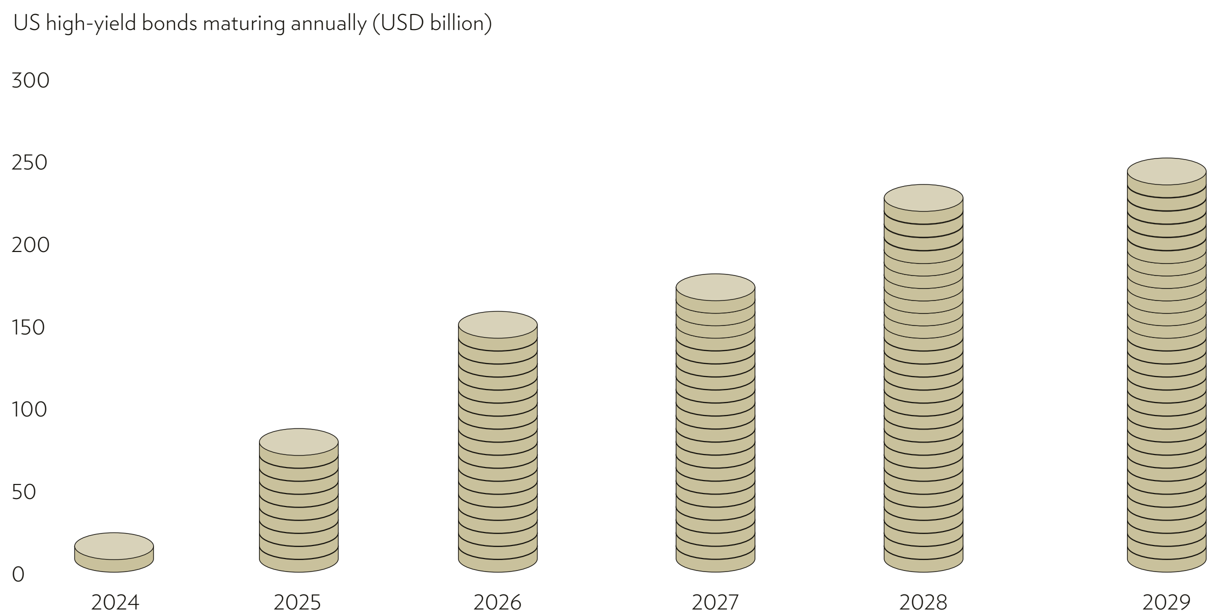
Investment opportunities due to higher refinancing costs

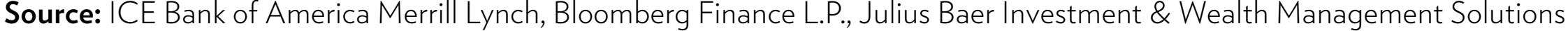
Our fixed income analysts suggest avoiding high-yield debt for now due to relatively low spreads, the anticipation of rising default rates, and the fact that many companies cannot cover their cost of capital. In this environment, the opportunity set for 'event-driven' hedge funds that invest in stressed and distressed situations is expected to increase. Some companies with floating-rate debt have already seen their funding costs rise, and others will have to refinance at much higher rates than they are likely to be able to sustain. Indeed, it is estimated that around USD 1 trillion in debt from companies with poor credit ratings will need to be refinanced over the next five years. 'Event-driven' hedge funds seek to monetise such situations by investing in stressed (i.e. still performing but challenged) and distressed (i.e. non-performing/bankrupt) companies. This may involve acquiring the debt of a bankrupt company at a discount, converting some of that debt into equity ('loan-to-own'), restructuring the company, and finally selling it or listing it on a stock exchange.

Relevant strategy: 'Event-driven – distressed/stressed credit'



‘Event-driven’ hedge funds could benefit from the rising maturity wall





Source: ICE Bank of America Merrill Lynch, Bloomberg Finance L.P., Julius Baer Investment & Wealth Management Solutions

Special

The six core hedge fund strategies

The table below provides a brief explanation of the six core hedge fund strategies and our specialists’ view on them.

Strategy and its variations	Our specialists’ view	What it is
Equity long/short		**Invests in both long and short positions in equity securities.**
Fundamental	Underweight	Seeks to take a long position in underpriced stocks while short-selling overpriced stocks.
Opportunistic trading	Overweight	Seeks to profit from inefficiencies and dislocations in financial markets at a macroeconomic, market-sector, single-stock, factor, or foreign-exchange level.
Event-driven		**Invests in companies undergoing corporate events such as mergers, spin-offs, and bankruptcies.**
Activism	Neutral	Seeks to exploit pricing inefficiencies that may occur before or after a corporate or news event.
Distressed credit	Overweight	Seeks to identify credit securities where there is a near-to-medium-term event, such as an asset sale, refinancing, or merger, or where an operational or financial turnaround is anticipated.
Merger arbitrage	Overweight	Seeks to exploit market inefficiencies before or after a merger or acquisition.
Special situations	Neutral	Seeks to exploit opportunities that arise throughout a company’s life as a result of extraordinary, or special, corporate events.

Strategy and its variations	Our specialists' view	What it is
Relative value		**Invests in securities from the same or a highly comparable issuer that are mispriced relative to each other.**
Capital structure arbitrage	Overweight	Seeks to profit from the relative mispricing across different security classes from the same company's capital structure.
Convertible arbitrage	Neutral	Seeks to profit from a pricing discrepancy between a company's convertible bonds and its underlying stock.
Fixed income relative value	Overweight	Seeks to profit from relative value dispersions of credit instruments with the same or similar risk profile.
Volatility arbitrage	Overweight	Seeks to profit from the difference between the forecasted future price volatility of an asset and the actual price paid.
Quantitative equity	Overweight	Also known as 'data-driven investing', seeks to identify pricing (mean-reversion) relationships and capitalise on them.
Trading		**Invests in both long and short positions in financial markets based on a top-down view of global markets.**
Commodities	Overweight	Seeks to generate returns in commodity markets using technical analysis and fundamentals. It is a non-benchmark-based approach.
Discretionary	Overweight	Seeks to generate returns across asset classes using technical analysis and fundamentals. It is a non-benchmark-based approach.
Systematic	Neutral	Seeks to generate returns using algorithmic trading programmes, also known as 'methodical trading'.
Credit/income		**Invests in debt securities and other income-producing assets to generate income and capital appreciation.**
Credit long/short	Neutral	Seeks to generate profit from combining straight bonds and hedge overlays (mainly hedging credit risk and interest rate risk).
Structured credit	Neutral	Seeks to create value from pools of various (illiquid) loans.
Reinsurance/insurance-linked securities	Neutral	Seeks to earn returns from exposure to reinsurance catastrophe risks.
Multi-strategy		**Multi-strategy-oriented hedge funds seek to generate income by mixing some or all of the main hedge fund investment styles.**

Source: Julius Baer Fund Offering, Julius Baer Investment Writing

Further information

Further information

Please find below further information on benchmarks and indices used in the review section of this publication.

Market review

Equity regions

Region	Index
Emerging markets excluding China	MSCI Emerging Markets excluding China Net TR USD
Switzerland	MSCI Switzerland NR CHF
Eurozone	MSCI EMU Net TR EUR
China	MSCI China Net TR USD
USA	MSCI USA Net TR USD
Japan	MSCI Japan NR JPY
UK	MSCI United Kingdom NR GBP

Equity styles

Style	Index
Quality	MSCI World Quality Net TR USD
Value	MSCI World Value Net TR USD
Growth	MSCI World Growth Net TR USD
High dividends	MSCI World High Dividend Yield Net TR
Cyclicals	MSCI World Cyclical Sectors TR USD
Defensives	MSCI World Defensive Sectors TR USD
Small caps	MSCI World Small Cap Net TR USD
Large caps	MSCI World Large Cap Net TR USD

Equity sectors

Sector	Index
Information technology	MSCI World Information Technology Net TR USD
Materials	MSCI World Materials Net TR USD
Oil & gas	MSCI World Energy Net TR USD
Industrials	MSCI World Industrials Net TR USD
Communications	MSCI World Communication Services Net TR USD
Healthcare	MSCI World Health Care Net TR USD
Financials	MSCI World Financials Net TR USD
Consumer cyclical	MSCI World Consumer Discretionary Net TR USD
Consumer defensive	MSCI World Consumer Staples Net TR USD
Real estate	MSCI World Real Estate Net TR USD
Utilities	MSCI World Utilities Net TR USD

Note: EMU = European Monetary Union, NR = net return, TR = total return

Fixed income

Segment	Index
US government bonds	Bloomberg US Treasury Total Return Unhedged USD
US TIPS	Bloomberg US Treasury Inflation Notes TR Index Value Unhedged USD
USD investment-grade corporate bonds	Bloomberg US Corporate Total Return Value Unhedged USD
USD high-yield bonds	Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD
USD floating-rate notes	Bloomberg US Floating Rate Notes TR Index Value Unhedged USD
EM hard-currency bonds	Bloomberg Barclays EM Hard Currency Aggregate TR Value Unhedged USD
EM local-currency bonds	Bloomberg Barclays EM Local Currency Government TR Unhedged USD

Commodities

Commodity	Future
Brent crude oil	Generic 1st 'CO' Future, ICE Futures Europe Commodities
US natural gas	Generic 1st 'NG' Future, New York Mercantile Exchange
Gold	Generic 1st 'GC' Future, Commodity Exchange, Inc.
Silver	Generic 1st 'SI' Future, Commodity Exchange, Inc.
Platinum	Generic 1st 'PL' Future, New York Mercantile Exchange
Aluminium	Generic 1st 'LA' Future, London Metal Exchange
Copper	Generic 1st 'LP' Future, London Metal Exchange
Iron ore	Generic 1st 'SCO' Future, Singapore Exchange

Hedge funds

Strategy	Hedge fund index
Equity long/short	HFRI Equity Hedge Total Index
Event-driven	HFRI Event-Driven Total Index
Relative value	HFRI Relative Value Total Index
Trading	HFRI Macro Total Index
Credit/income	HFRI Credit Index
Multi-strategy	HFRI Fund Weighted Composite Index

Note: 1st = front-month futures contract, EM = emerging markets, HFRI = Hedge Fund Research Index, NR = net return, TIPS = Treasury inflation-protected securities, TR = total return

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Imprint

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