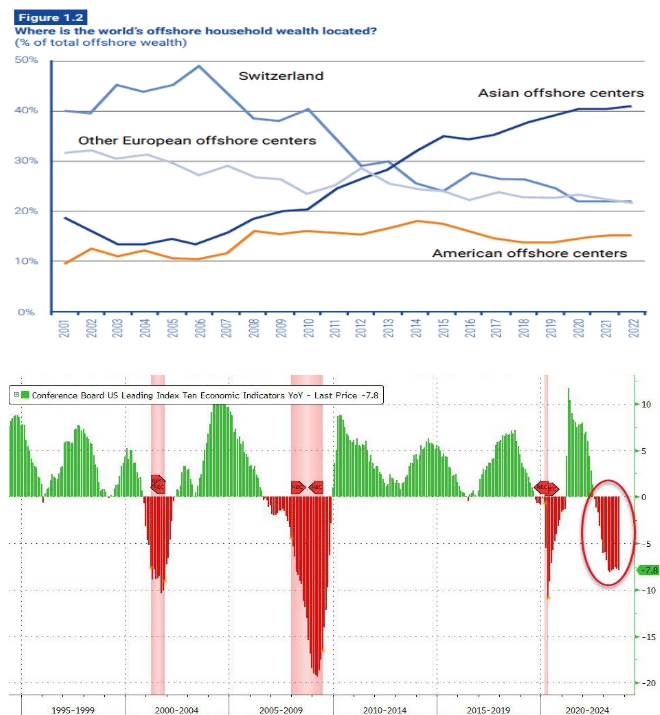
Market Report

November, 2023

The underlying infrastructure propping up the world's financial markets, which are heavily reliant on collateral to enable trillions in derivatives and leveraged trading, is exhibiting stress fractures, placing added risk to derivative assets. Recent events are furthering de-dollarization and paving the way for changes in the global financial structure. Decreased shipping is indicating continued global slow-down, while an upcoming increase in transit fees at the Suez Canal may adversely affect global inflation. Finally, war breaking out between Israel and Hamas is creating a bigger wedge between the traditional Western spheres and the Global South and East.

Highlights



An estimated $12T of financial assets are held offshore, according to a new report. Prior to the 2008 crisis, Switzerland managed nearly 50% of offshore assets, which has since declined to about 20%. Before the 2010 Foreign Account Tax Compliance Act, 85-95% of US accounts and over 90% of European assets held by UBS and Credit Suisse went unreported to tax authorities. Much offshore wealth has since migrated to Asia, particularly Singapore and Hong Kong, as Switzerland cracked down on tax evasion.

The Conference Board's leading economic indicators index declined for the 18th straight month in September, falling 0.7% compared to expectations of a 0.4% decrease. While fewer unemployment insurance claims contributed positively, declines in nine other components overwhelmed that gain. This ongoing contraction points to increased risk of a recession in the first half of 2024 as rate hikes slow the economy despite current resilience.

Precious Metals & Commodities

Precious metals indicate, albeit with an intermezzo, an ongoing upward trajectory. Copper and agriculture are expected to remain flat mid-term, but, along with oil which is expected to see a short-term rise, remain bullish long-term.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	↗	↗	→	↗	↗
Outlook	↗	↗	→	→	→
Trend	↗	↗	↗	↗	↗

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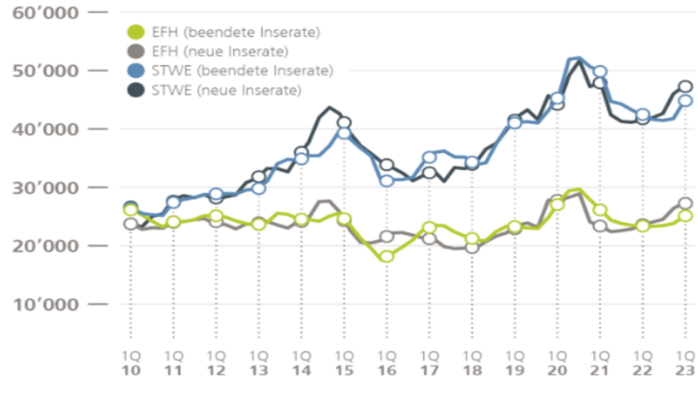
Spot on Switzerland

The Swiss real estate market continues to develop positively with a slight increase in prices, despite a challenging environment with sharply increased construction and financing costs and headwinds. The supply on the online portals has increased again in recent quarters, which indicates a healthy development. However, if one looks at the project pipeline of submitted building applications, the supply could become increasingly scarce in the future, especially with continued immigration, and drive prices up accordingly. Despite the slight shift in parliament, the political situation and legislation are not very construction-friendly. Thus, despite higher interest rates, prices can hardly be expected to fall. Due to the increased construction costs, younger, already-existing properties are particularly interesting.

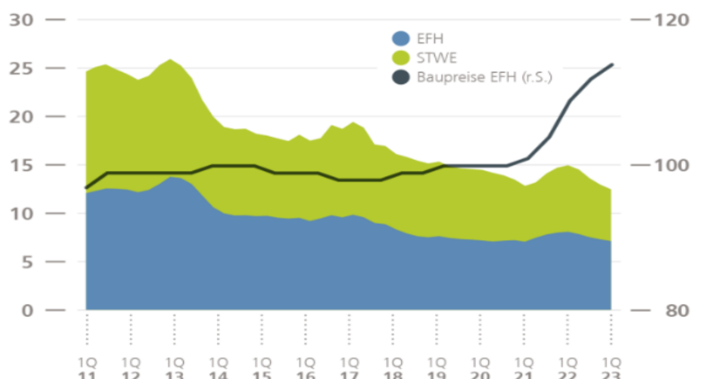
Flüssigeres Angebot

Anzahl Inserate auf Onlineportalen (EFH und STWE)

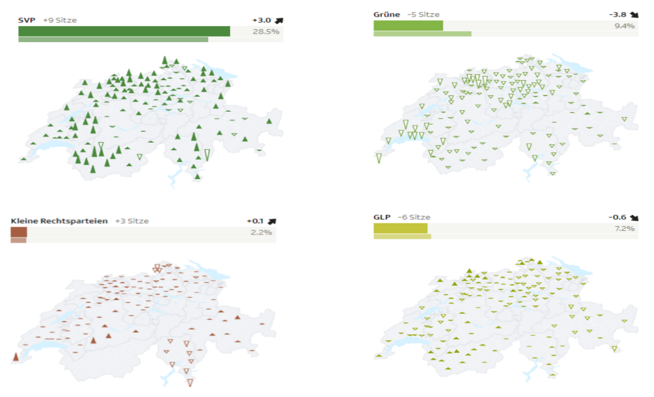


Dünne Projektpipeline

Anzahl Wohnungen in eingereichten Baugesuchen für EFH und STWE; Baupreise, indexiert, Oktober 2020 = 100

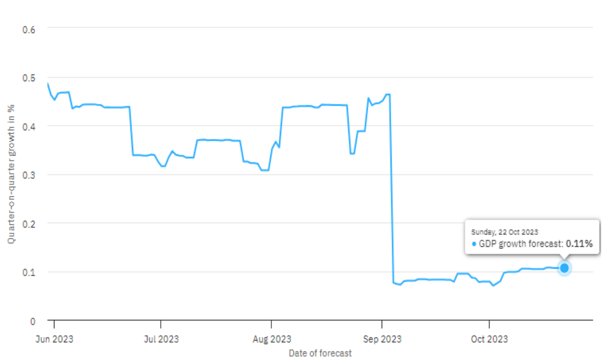


Swiss Highlights



The parties have now received feedback for their political work. The more state-critical and pro-freedom wing gained 12 seats, while the Greens lost 11 seats with their policy of intensifying state influence. The population has increasing difficulty with political proposals, such as a cost-driving CO_2 tax, when real wage development is negative and housing is becoming more expensive, partly due to ongoing migration pressure. Despite the shift, the economic-liberal bloc does not have an absolute majority in parliament and, accordingly, it can be assumed that the economic environment will not change much, especially given the statements of the losing parties that they will only minimally adapt their positions to voter behavior. Thus, it can be assumed that efforts will continue to make Swiss law subject to international law, as has been done, for example, with the ordinance on climate reporting. In the long term, this could result in Switzerland losing competitive advantages and correspondingly increasing its dependence on the global economy.

Forecast History for Swiss GDP Growth Q3 2023



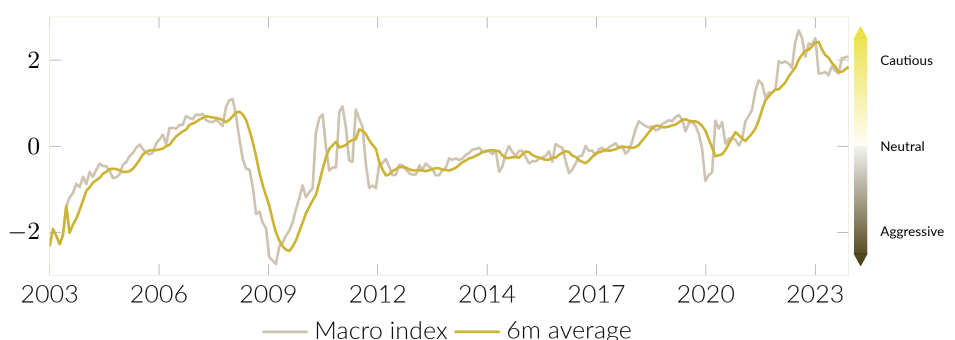
According to the daily forecast on Swiss GDP development, September saw a sharp drop from an already rather low level. Strong exchange rates are often cited as an obstacle to economic activity, although the decline in the money supply due to the interest rate situation currently offers a greater explanation. Overall, the Swiss economy is in the late phase of an economic cycle and could remain in a consolidation phase in the coming quarters.

Switzerland

Switzerland's inflation rates have leveled out after dropping in early 2023. Monetary uncertainty remains high, amidst a plunge in money supply. Unemployment rates could rise, however profit margins have rebounded. Treasury yields have fallen over the year, while dividend yields have shown fairly stable growth, possibly supported by lowering volatility.

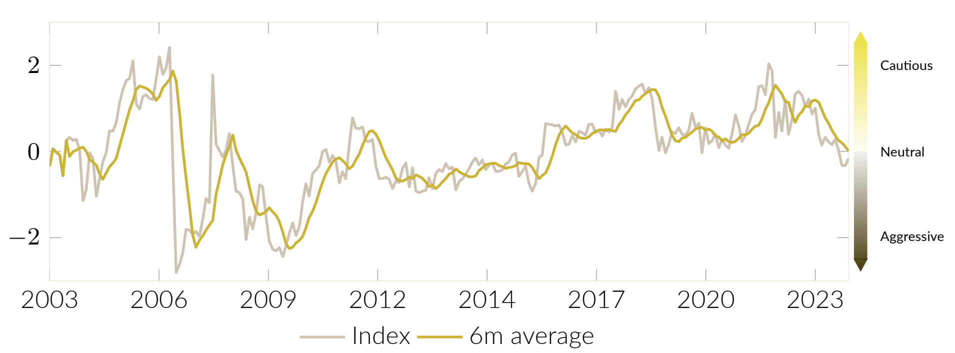
RISK: HIGH

Business Cycle

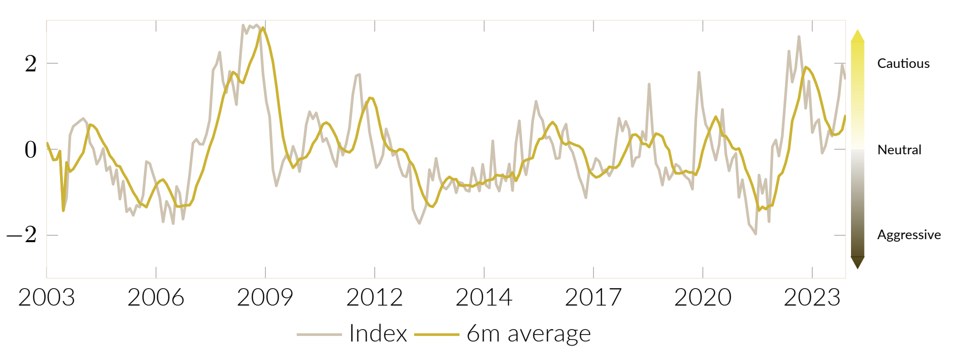


Key Macro Statistics

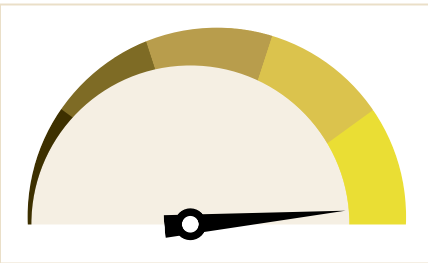
Investment Environment



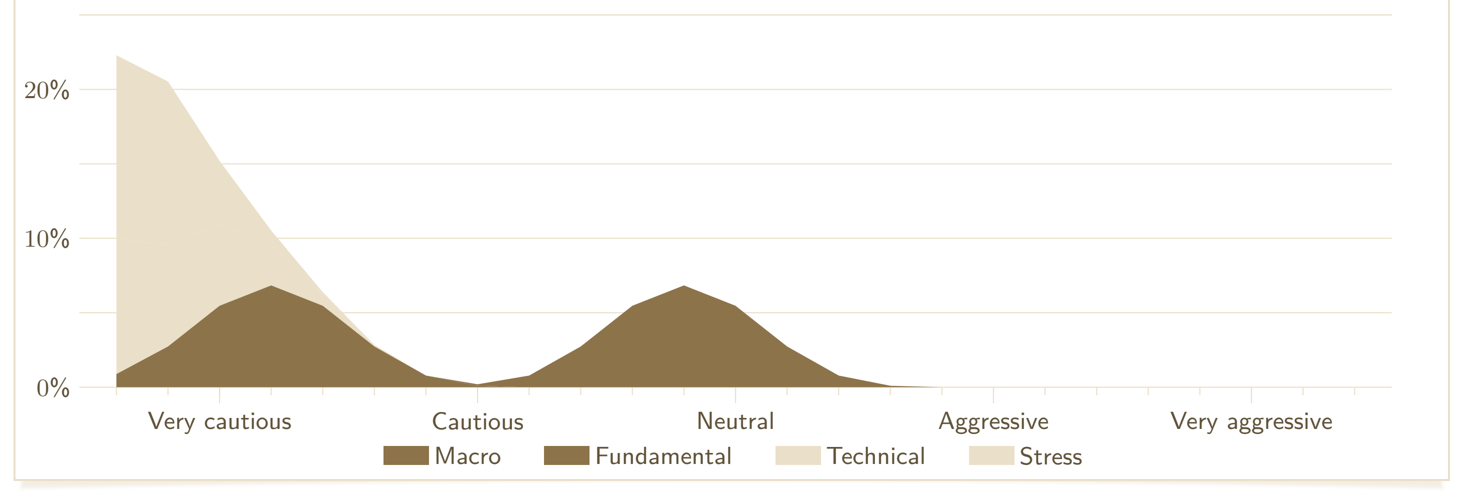
Market Behaviour



Monetary Stability



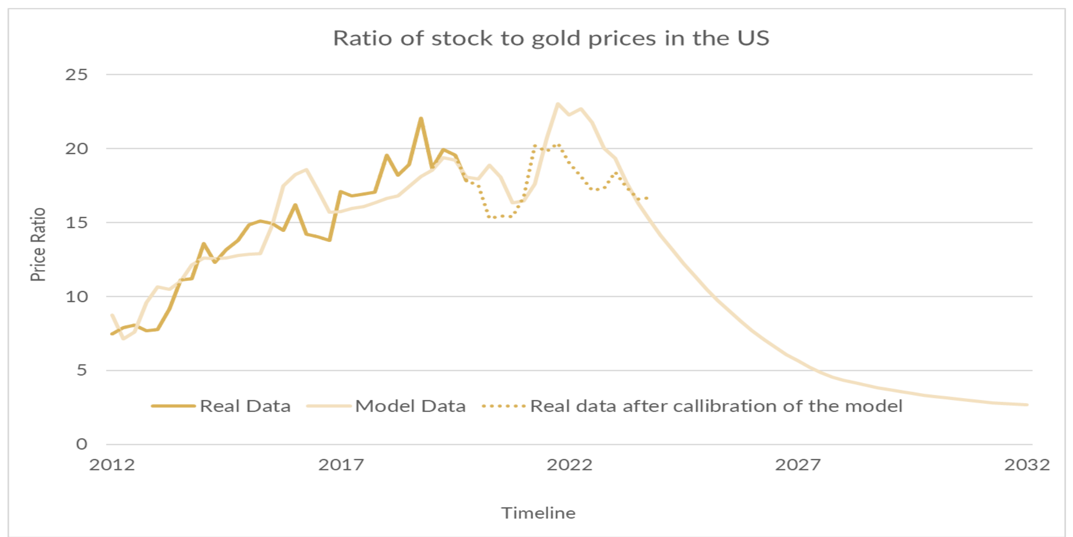
CH Market Risk Signal



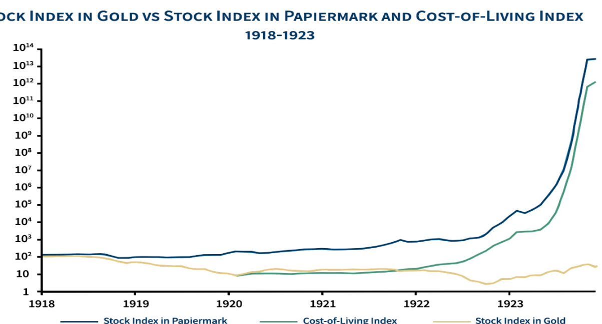
Prediction Model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities. The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model was calibrated in 2019, and has not since been adjusted for new input data.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.



Gold Feature



According to Austrian economics, artificially inflating the money supply through central bank actions leads to lower interest rates, (mis)leading investors into projects that are ultimately unprofitable. As credit flows, asset and consumer prices rise, giving the illusion of strong growth. However, distortions emerge as unprofitable ventures and malinvestments accumulate, causing an artificial boom-bust cycle. If credit expansion continues, the distortions spread throughout the economy causing "zombification". When debt becomes hard to repay, governments often try to intervene through bailouts or more credit easing, which only delays dealing with the underlying imbalance. Prolonged to an extreme, this can result in a "crack-up boom" where monetary breakdown induces a collapse of the entire economic system.

In Weimar Germany, the Reichsbank relentlessly printed money in response to rising prices, allowing reckless credit expansion. By 1922, postwar reparations combined with money printing drove the Reichsmark exchange rate against the dollar to 1/1000 of its pre-war value. Inflation surged with consumer prices seeing daily highs. Asset prices skyrocketed to absurd levels, as seen with the German equity index rising from 100 in 1918 to over 26 trillion by the end of 1923. Financing seized up as interest rates far exceeded productive investment levels, while supply disruptions emerged as intermediate goods grew scarce. Rapid price volatility and currency distrust led to the Reichsmark being replaced by bartering. By late 1923, with hyperinflation and prices doubling every few days, Germany experienced a textbook monetary collapse. The currency completely deteriorated to where 4.2 billion Reichsmarks were needed to buy a single dollar.

While current inflation well is below hyperinflation levels, monetary friction is apparent and challenges loom. History shows that if artificial booms are allowed to distort economies for too long, ultimately a collapse is on the horizon.