



# “Are carefree markets dangerous?”

Our Opinion  
December 2023

**3** Our Opinion  
**“Are carefree markets  
dangerous?”**

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**8** Market data

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Dear Readers

The article “Are carefree markets dangerous?” shows how equity markets have behaved in the past when the volatility index – or the “fear gauge” – was low.

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

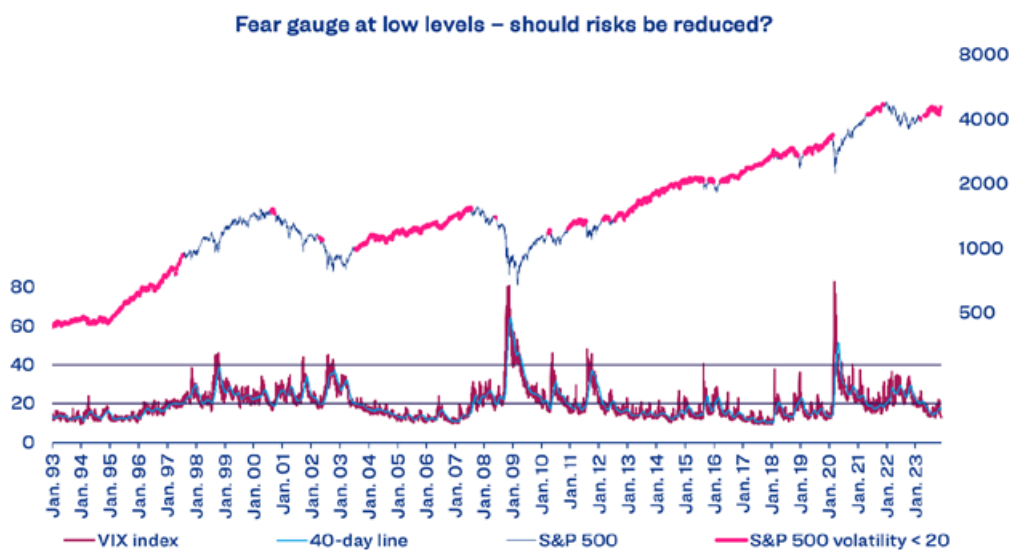
# “Are carefree markets dangerous?”

## Neue Bank traffic light

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

### Equities

The volatility index (VIX, which measures price fluctuations but is also used to calculate option prices) has long been a notorious fear gauge. If volatility is low, the markets are seen to be carefree; if volatility is high, this supposedly indicates the end of a bear market. But does it really make sense to feather your nest as soon as volatility is low and, conversely, to increase risks when the range of fluctuation has risen sharply? We'll take a closer look using the chart below:



Source: Bloomberg, Neue Bank AG

The right scale shows the S&P 500 index level over the past 30 years. Where the line is bright red, this means that the VIX index (including the 40-day moving average, see left scale) is below 20 – the level at which some market participants would note a certain carefreeness on the markets and accordingly a higher risk of setbacks.

A glance at the chart on page 3 shows, however, that this lack of “fear” can last for years without any major corrections occurring. It is therefore not advisable as a general matter to hold no equities during such phases. Because analysts simply do not know exactly what the future holds, many annual outlooks warn of increasing volatility. The financial press will be reporting on this incessantly over the next few weeks. These gloomy predictions can of course be accurate, but a look at the past shows that they regularly fail to materialise. Accordingly, we caution against refraining from equity investments simply on the basis of such forecasts.

But what happens when the fluctuation measure rises above 40 and the gauge effectively signals fear on the equity market? As a look at the chart shows, these events generally do not last very long, and they coincide with the lows on the equity markets. To minimise entry risks, it is advisable to wait until volatility (or its moving average) falls below 40 again. However, the risk measure does not rise above 40 every time there is a setback and – as was the case in 2001 – a buy signal can also occur in a bear market (bull trap).

In short, volatility can certainly provide valuable input on how to behave on the markets. But this kind of information should always be combined with other indicators. This is exactly what we do with the Neue Bank traffic light, which is still light green (slightly bullish).

## **Economy**

The economies we focus on – Switzerland, Europe, and the United States – are currently sending completely different signals. In the CHF zone, inflation has already fallen below the price stability target of 2% per year, but the Purchasing Managers' Index is below the growth threshold of 50. In the Eurozone, inflation is still above target, despite significant declines, and the leading economic indicators imply a recession. In the United States, the rise in consumer prices is also still above average, but a soft landing of the economy (weaker growth rates, but not negative) is largely expected.

## Bonds

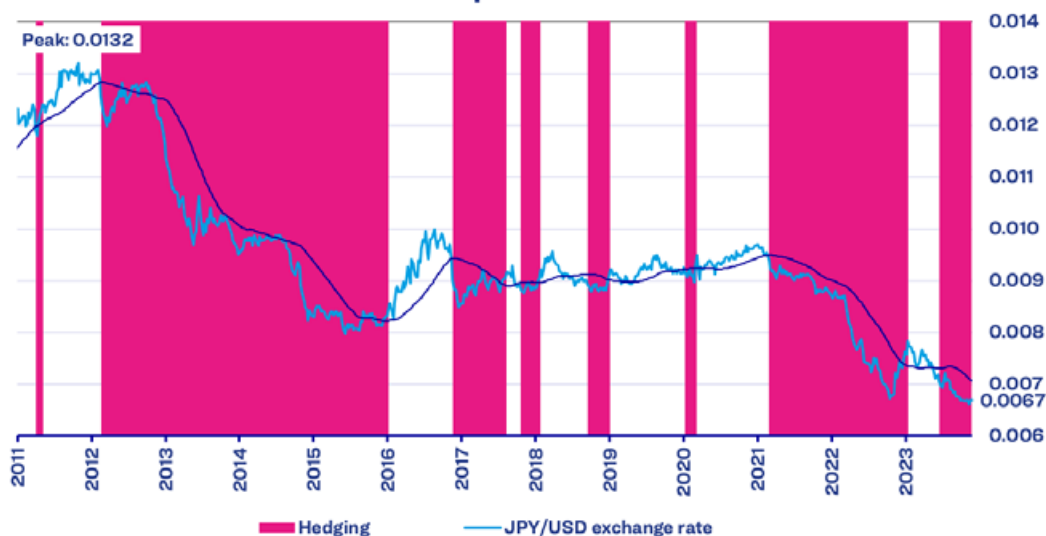
These different preconditions are leading to similar interest rate expectations in the respective currency areas, however. The rhetoric of the Swiss National Bank (SNB) is still restrictive, pointing in particular to possible rent increases. Market participants do not share this assessment and are already firmly expecting easing in autumn 2024. Citing the weak economy, the European Central Bank (ECB) is signalling that it will at least no longer raise key rates. Here as well, interest rate cuts have already been factored into market prices (summer 2024). In the US, no further interest rate hikes are expected either. The financial markets are assuming a first cut in June 2024, even though the communications by the US Federal Reserve (Fed) are also far more restrained. Yields have also recently fallen significantly from their highs in all three currencies. In the US, however, the issue is increasingly coming to the fore of whether government borrowing can continue to be absorbed by the market without any difficulties, following the sharp rise in government debt. If this is not the case, the Fed might step in as a buyer (quantitative easing), although it is questionable whether it would be prepared to do so as long as inflation remains above target. If the Fed does not step in, the government could be forced to offer higher yields, which would place an additional burden on public finances. It cannot be ruled out that a political decision will be made and that Fed Chairman Powell will come to the aid of his predecessor Yellen, who is now Secretary of the Treasury.

## Currencies

The JPY is at a 30-year low against the USD. Since its peak, the exchange rate has fallen by about 50%. Investing in the Japanese equity market without currency hedging can have a very strong impact on performance.

Already years ago, this fact prompted us to actively manage our equity positions. Our currency indicator signalled the two significant setbacks (2012–2015 and 2021–2022). Also in the current phase, we are hedging JPY equity positions in our USD mandates.

### Price development and trends



Source: Bloomberg, Neue Bank AG

### Alternative investments

The hurricane season is coming to an end without any major losses this year. Accordingly, there were no defaults on catastrophe bonds (cat bonds). Due to the rise in short-term interest rates, yields on cat bonds have risen significantly. Given that collateral is invested in 3-month UST bills, the duration risk is very low. Even if up to a third of the risks are invested in possible storm damage in Florida, these risks can still be diversified very well, given that a single hurricane causes damage primarily where it hits the mainland and not across the entire state. We therefore remain invested in this asset class.

# PRIMUS–ETHICS

With the PRIMUS-ETHIK 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.

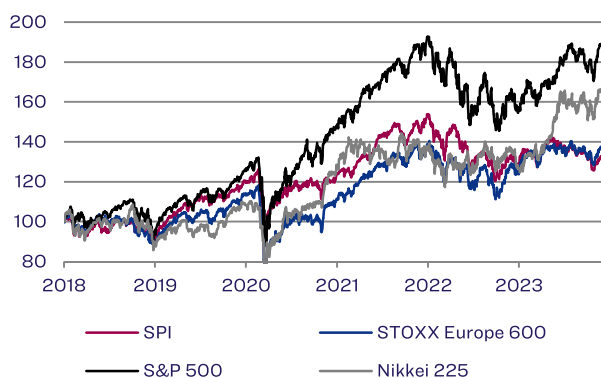
## Key Performance Indicator in USD<sup>1</sup>

	30.11.2023	2022	2021	2020	2019	2018
<b>PRIMUS-ETHICS Equities World</b>	23.54%	-28.69%	31.27%	23.34%	31.89%	-4.76%
<b>Benchmark</b>	15.96%	-23.66%	17.85%	22.56%	26.63%	-9.71%

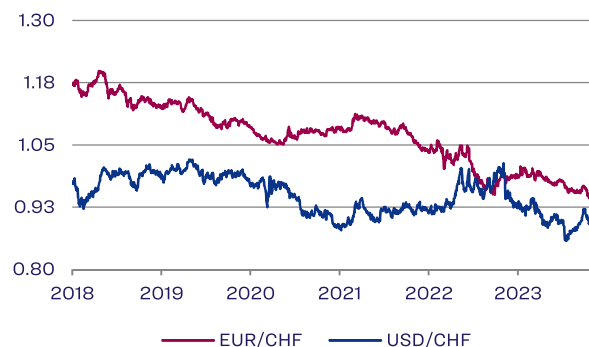
<sup>1</sup> Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our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

# Market data

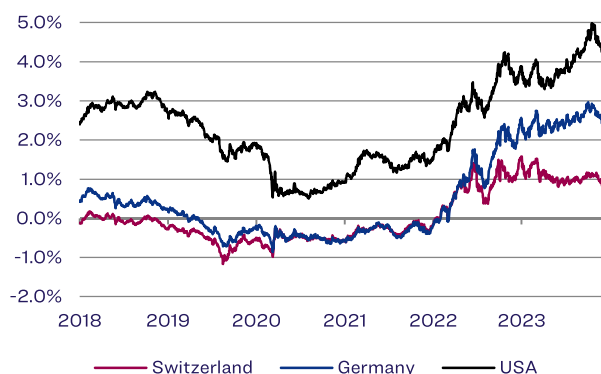
### Stock market (indexed)



### EUR/CHF and USD/CHF



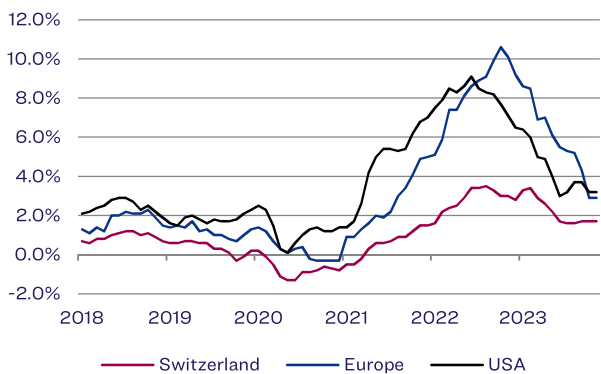
### 10-year government bond yield



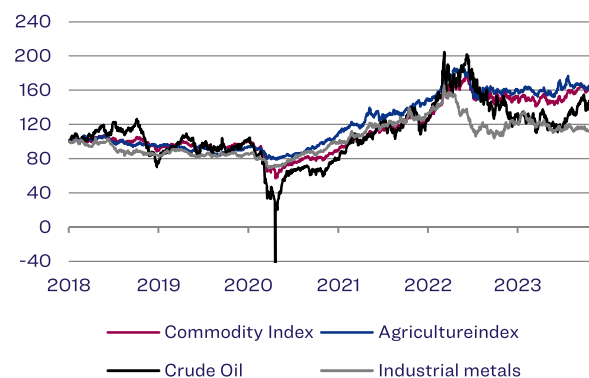
### Precious metals (indexed)



### Inflation rate



### Raw materials (indexed)



The price developments are shown over 5 years.



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