



# “Permavucalution”

Our Opinion  
March 2024

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Dear Readers

The article “Permavucalution” discusses how the world is in a permanent crisis and how investors should react.

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We wish you a pleasant read.  
Your Advisory Team

# “Permavucalution”

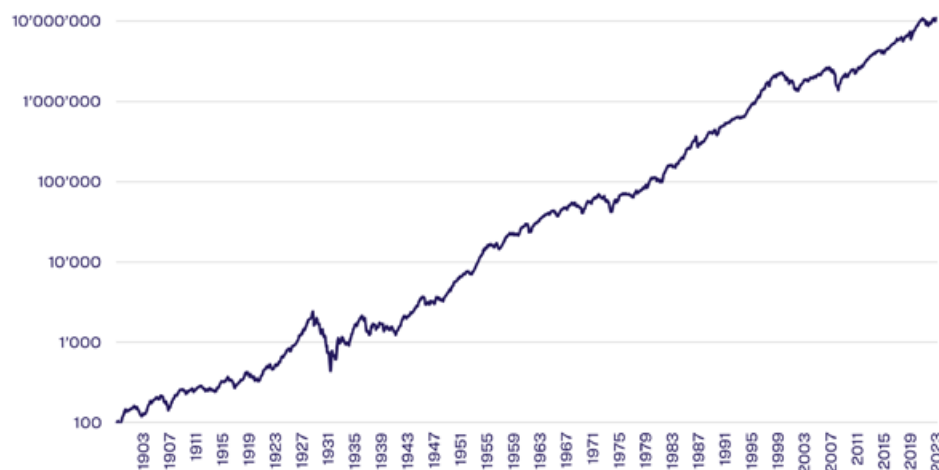
## Equities

“Permavucalution” is a word coined by the business magazine The Economist, made up of “permacrisis” (permanent crisis) and “VUCA”, the abbreviation for volatility, uncertainty, complexity, and ambiguity. In other words: There is no longer any certainty, and there is always a crisis somewhere. In fact, the world has been moving from one state of emergency to the next for four years, and 2024 is highly unlikely to see any easing on the crisis front. “Permavucalution” is a dilemma for every investor, since the permanent crisis mode means that a stock market crash could happen anytime. But because the future is uncertain, no one can predict when this will actually be the case. This is where the investor’s psyche comes into play. Various studies have shown that losses cause investors much more pain than gains cause them joy. This often leads some investors to overreact on the stock market. Out of fear of possible losses, positions are sold at the worst possible time, and some investors then end up staying away from the financial markets altogether. What can be done about this chronic fear of losses? A look at the long-term price trend can help. The following chart (log. scaling) shows an example of what an investment of USD 100 in the US equity market would have achieved since 1900.

## Neue Bank traffic light

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

Performance of S&P 500 index incl. dividends since 1900



Source: officialdata.org and Bloomberg

Stock market crashes are perceived as dramatic events when they occur. But the longer the period of time considered, the less dramatic they seem. This is why time is the decisive factor when investing money: If you want to invest in equities, you should ideally be able to do without the money you invest for ten years or more. As we explained in the last issue of Our Opinion: the longer the investment horizon, the higher the chance of a positive return. Our recommendation is therefore: Be patient, don't look at prices every day, and ignore the hectic stock market drama.

## **Economy**

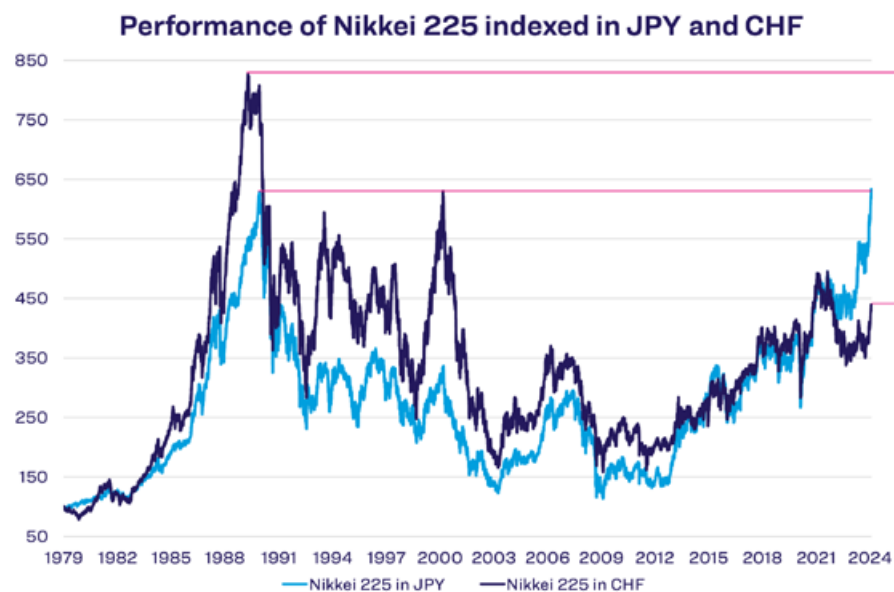
According to the Purchasing Managers' Indices (PMI), sentiment among companies in the Eurozone improved slightly at the start of the year. The PMI Composite rose from 47.9 to 48.9 points – although this is still below the growth threshold of 50. This points to economic stabilisation, but not yet an imminent upturn. Especially Europe's locomotive – Germany – continues to stutter and is the strongest brake on growth in the Eurozone. The PMI for German manufacturing has even fallen from 45.5 to 42.3 points. The barometer therefore does not give much hope that the largest member of the Eurozone will escape its weak growth anytime soon. For the current year, growth of only 0.2% of GDP over the previous year is expected, which would mean another year of stagnation.

## **Bonds**

Even still at the end of 2023, investors were expecting seven interest rate cuts for 2024, measured by US interest rate futures, with the first cut coming as early as March 2024 at 0.25%. But then Jerome Powell, Chair of the US Federal Reserve, began to dampen expectations. This was compounded by disappointing inflation data on consumer and producer prices, which had not fallen as much as investors had expected. Especially in the services sector, inflation is still significantly above the Fed's target of 2%. This shows that the monetary authorities have not yet achieved their goal of price stability and that the last few metres could be difficult. As a result, the market reacted with a substantial correction of interest rate cut expectations. Now, only four steps are expected, starting in June 2024. For this reason, long-term interest rates have risen again since the beginning of the year. Yields on ten-year US Treasuries have risen from 3.9% to 4.3%. If inflation data disappoints again, this could lead to a further adjustment of expectations, which in turn would result in falling bond prices and rising yields.

## Currencies

It has taken 34 years for the Japanese Nikkei 225 stock market index to reach a new peak after its record high in 1989. Back then, the market was in a bubble with extremely high valuations (average P/E ratio of 70). The current situation is different, despite the all-time high. The Japanese equity market is moderately valued with an estimated P/E ratio of 15.2. This is because, in parallel with the higher share prices, companies' earnings expectations have also developed positively. The current upward trend is also favoured by monetary policy, which remains very loose despite tightening. For investors here, however, the Japanese equity market has a downside. Depending on the development of the JPY/CHF exchange rate, Swiss investors have had to accept currency losses or gains. During the boom phase in the 1980s and at the end of the 1990s, CHF investors were able to benefit significantly from the strength of the JPY. Since 2000, however, there has been a structural weakness of the yen, leading to a significant currency loss against the CHF (about 60%). In Swiss francs, the Nikkei would still have to gain about 90% to reach its 1989 high (see chart).



For this reason, active currency management is worthwhile when making equity investments in yen. We actively implement this in our asset management mandates using our currency indicator. Since the end of 2019, we have permanently hedged the JPY in the CHF portfolios, which has paid off to date. We will remain hedged.

## **Alternative investments**

After the start of the war in Ukraine in February 2022, the price of European natural gas skyrocketed, reaching a peak of more than EUR 300 per megawatt hour in August 2022. There was panic, especially in Germany, that gas could run out in the winter and people would have to freeze in their homes. The fear of blackouts was also spread in the media. These horror scenarios did not materialise; on the contrary, politicians were able to fill the gas storage facilities in time for the winter of 2022/23. Since the peak, the price of gas has fallen by more than 90% to about EUR 25 per megawatt hour and is now back at its 2019 level. In addition, demand for gas has fallen significantly since the outbreak of the war. The main reason for this is the extremely mild temperatures, both last winter and this winter. In addition, gas storage facilities in Europe are now fuller than they have ever been in February. Experts expect demand to remain below average, which is likely to keep the price of gas low.

# PRIMUS–ETHICS

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

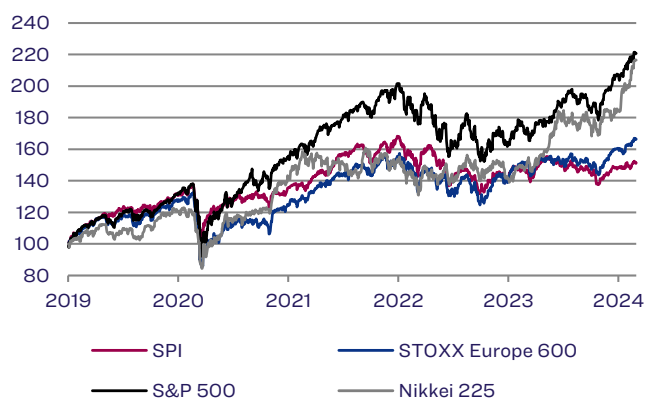
## Key Performance Indicator in CHF<sup>1</sup>

	29.02.2024	2023	2022	2021	2020	2019
<b>PRIMUS-ETHICS Equities World</b>	17.01%	11.37%	-30.09%	32.10%	11.50%	30.07%
<b>Benchmark</b>	9.57%	7.24%	-22.63%	21.89%	12.09%	24.76%

<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

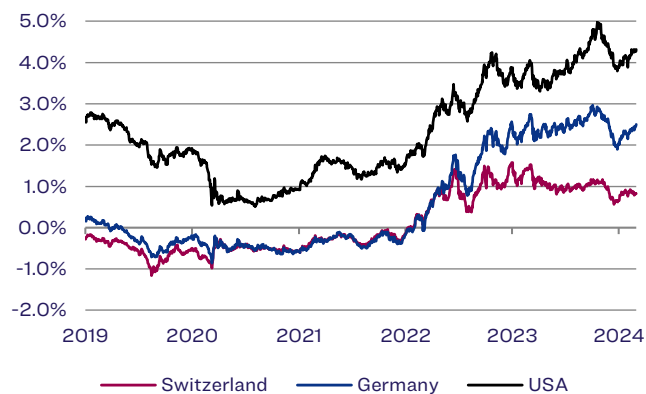
### Stock market (indexed)



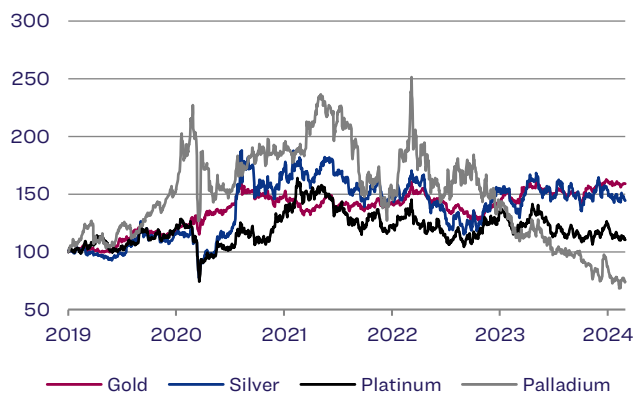
### EUR/CHF and USD/CHF



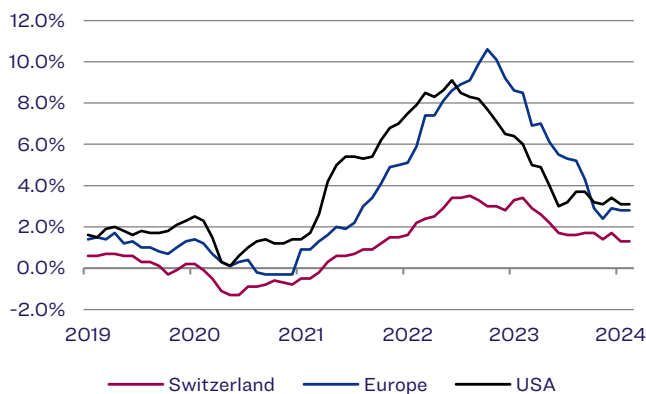
### 10-year government bond yield



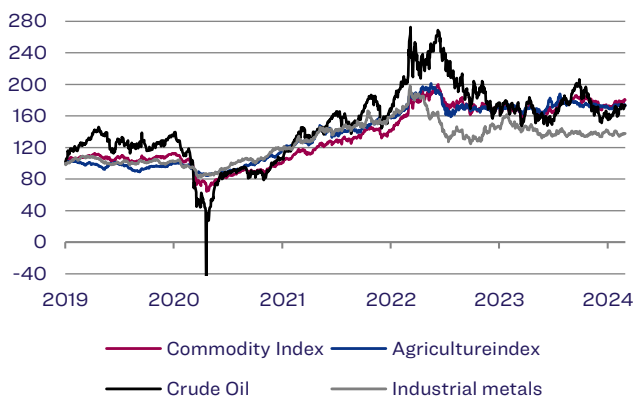
### Precious metals (indexed)



### Inflation rate



### Raw materials (indexed)



The price developments are shown over 5 years.



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