

## Review & Outlook January 2025

Review and Outlook

Mission Statement

Contact

Disclaimer

### Quarterly review

Reviewing the performance of portfolios and indices in 2024, we are forced to acknowledge that the annual performance originates exclusively from risk assets: equities and, to a lesser extent, credit. The "pure" fixed income component, expressed by the US aggregate index, exhibits a return of only 1.25% for 2024. US bond yields have marched higher in recent months as investor rethink the path of central bank policy ahead. Breaking down the yield into its components indicates that while investors remain broadly confident in the ability of the Federal Reserve to control inflation in the long run, they are however taking note of the resilience of US growth and are reacting by increasing the required real yields.



US Treasury 10-year yield in 2024, source MarketMap FIS®  
Source: MarketMap FIS

Hyposwiss Advisors SA

[www.HyposwissAdvisors.ch](http://www.HyposwissAdvisors.ch)

Adding to the concerns over the annual 2024 performance, the 3-year and 5-year cumulative total return are negative (at respectively -7.05% and -1.62%).

There is no doubt that the adjustment from the zero-interest rate policy adopted during the Covid pandemic has been longer and more painful for investors than expected. This has led some to question the role of bonds in portfolios. We look at this question in this quarterly comment.



Our first observation is that diversified portfolios are more efficient than concentrated portfolios, for the same level of risk. Conservative investors would have been better served over the past 3 or 5 years with an approach targeting a risk level and using multi asset portfolios rather than allocating only to perceived "conservative" assets such as bonds. For example, an S&P target risk conservative index returned a positive 5.02% in 2024 and has achieved a positive return of 0.42% annualized over the last 5 years. This return is admittedly

not impressive, but better than the negative return on pure USD fixed income.

The second observation is the complete divergence between the performance of duration and the performance of credit. 10-year real yields on inflation linked securities stand at 2.30%, which is 15 years high (real yields have not been higher since the 2008 financial crisis). Conversely, credit spreads are near post global financial crisis lows. Spreads are helped by supportive technical, but also by very favorable fundamentals in terms of default experience.

The third observation is that active management in fixed income has in general been able to add value versus passive exposure. This stands in sharp contrast to the situation in equities markets. In the universe we follow, we note that active managers have in general been able to add value through duration management, allocation to credit and to other spread assets.

Where does that leave us in terms of outlook for fixed income as we enter 2025?

We find it most useful to separate the answer to this question in two steps, first reflecting on the fundamentals for fixed income assets themselves, then on the role of fixed income instruments in portfolio construction.

In terms of the fundamentals of the asset class itself, the risk reward appears strategically tilted towards owning bonds, but investors must recognize the many uncertainties ahead:

- Current short rates (fed funds at 4.50%) have been described as restrictive by the Federal Reserve. To us, this means that they can be maintained in a strong economy and that the risk of further tightening from here (which would be a reversal of policy after 0.75 points of easing in this cycle) would materialize only if the US central bank was

concerned about a revival in inflation. This risk is currently remote, because nonmarket price-based inflation components (such as shelter) are still in the process of adjusting downwards.

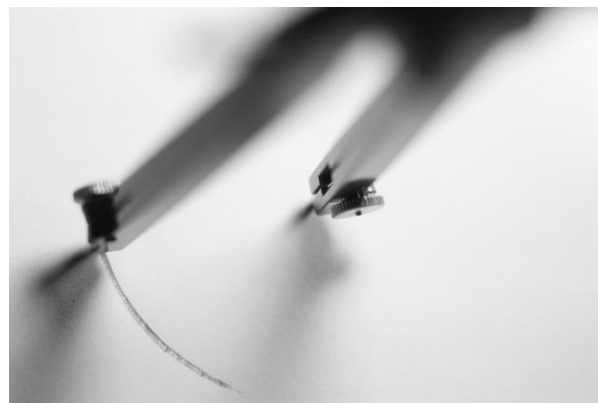
- The resilience of US economic activity to higher rates has been one of the major surprises of the current cycle. We have not seen signs of higher rates slowing significantly economic activity, even at current elevated real yields. It remains therefore difficult to call a top in longer term yields.

- The high yield segments of the bond market and sectors with structural subordination (such as additional tier 1 bank bonds and EUR denominated corporate hybrids) have performed strongly in 2024.

This leaves us with a neutral view on bonds versus cash. We also think that performance is more likely to come in a steepening curve environment, leading us to favor the intermediate part of the curve for duration exposure. We continue to see value in credit spreads but are inclined to take some profits on the pure credit segments (such as high yield) in favor of sectors with structural subordination (such as additional tier 1 bank bonds and EUR denominated corporate hybrids). We also see value in US agency guaranteed mortgage bond and recommend accessing them through specialized funds.

Given the macro fundamentals, bonds probably represent fair value, but it is difficult to make an investment case in which they would significantly outperform cash on a 12-month view. Despite this we are holding our allocation to bonds unchanged in diversified portfolios. We do this because, at current yield levels, bonds represent a valuable hedge against unexpected weakness in US economic activity. Diversified

portfolios hold significant allocation to equities which would suffer in case of unexpected economic weakness. Bonds are likely to rally if this weakness occurs, achieving some risk mitigation.



As we enter 2025 our investment views can be summarized as follows:

- We hold a full allocation to equities, with an emphasis on the US market. We recognize that valuations are somewhat expensive historically but expect this to be offset by earnings growth over an 18–24-months horizon. In addition to growth assets, we are exposed to more cyclically sensitive companies and deregulation beneficiaries.
- Our allocation to bonds is centered on the US market, as we see no benefits in diversifying to emerging or non-US markets.
- We are constructive on the outlook for the USD given the structural growth differential between the US and the rest of the world.
- We expect gold to continue to benefit from reserve diversification but recognize that high real yields and a strong USD might temper the advance of the precious metal.

**Daniel Jakobovits**  
Head of Investments

---

“Luck shouldn’t  
be part of your  
portfolio.”

**HYPOSWISS**  
A D V I S O R S

---

Expect the expected

## Mission Statement

- Hyposwiss Advisors' mission is to offer personalized wealth management services and financial advice to high-net-worth individuals and families, with the overriding objective of capital preservation and asset growth, performance oriented.

## Contact

Hyposwiss Advisors SA

[www.HyposwissAdvisors.ch](http://www.HyposwissAdvisors.ch)  
[info@advisors.hyposwiss.ch](mailto:info@advisors.hyposwiss.ch)

### Head Office

Office address: Rue Bovy-Lysberg 10  
Mailing address: Bd du Théâtre 10  
1204 Geneva - Switzerland

Tel.: +41 22 310 76 40



## Disclaimer

All the contents of publications of Hyposwiss Advisors SA or its affiliates are for information purpose only. Information contained herein does not constitute a solicitation or offer or recommendation to buy or sell any investment instruments, to effect transactions or to conclude any legal transaction of any kind whatsoever.

The information contained and the opinions expressed herein by Hyposwiss Advisors SA are subject to change without notice. No guarantee or undertaking is offered regarding completeness, reliability or accuracy of the information given. Financial instruments and securities or any other investments mentioned in this document may involve significant risks including the possible loss of principal. No assurance is given that the investment objective of any product will be achieved. Past performance should not be taken as an indicator or guarantee of future performance. Hyposwiss Advisors SA or any of its affiliates may or may not at any time hold a position in or with respect to the investments which could be mentioned herein.

This document may not be reproduced, distributed or published without the prior written consent from Hyposwiss Advisors SA.

Access to the information may be restricted by laws or regulations to which the individual user is subject. As a consequence, this document is not directed at, or intended for distribution to or access by any person or entity who is a citizen or a resident of any jurisdiction where the information in question would be prohibited by law or regulations.

Hyposwiss Advisors SA does not render tax, legal or accounting advice. Clients are encouraged to seek their own competent independent professional legal, tax and accounting advice.

Registrations with the US Securities and Exchange Commission and exemption status in Canada do not imply a certain level of competence, education, skill or training. The protections of the US and Canadian rules and regulations are only available to residents of the respective country, province or territory.

■ ■ ■ ■ ■

© 27 January 2025 – All rights reserved.

