Remaco-Report | 2024 Q3

Survey of Capital Market Assumptions in Swiss Francs

A Remaco study based on institutional capital market assumptions

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Content

In this study

1. The expected returns of bonds and equities continue to fall. They are at 2.4 % for bonds (Δ12M: -1.0 %) and 6.4 % for equities (Δ12M: -1.3 %). Alternative investments are more stable and show a smaller decline with an expected return of 3.5 % (Δ12M: -0.3 %). The expected return for private market investments is also falling and now stands at 6.6 % in Swiss francs (Δ12M: -0.7 %).

2. The expected returns on risky investments are falling more sharply than the returns on risk-free investments. As a result, risk premiums on the capital markets are also falling.

3. The expected volatility of risky investments falls. This observation indicates that the decline in risk premiums is primarily due to a more favourable assessment of macroeconomic risk.

In our quarterly study **"Survey of Capital Market Assumptions in Swiss Francs",** we collect and analyse all publicly available capital market assumptions published by institutional financial market experts from around the world (asset managers and consultants). We standardise these, convert them into Swiss francs and aggregate them into consolidated capital market assumptions. Our analysis is carried out from the perspective of a Swiss francs investor, with the result that any differences in returns and interest rates are taken into account accordingly. A detailed description of the methodology can be found in our first study Q1 2024. In this publication, we have updated the capital market assumptions in Swiss francs as of 30 June 2024 and take into account the expectations of a total of 24 institutional financial market experts.[1]

This and future studies on capital market assumptions can be found at:
https://remaco.com/research-notes/

Are you an institutional asset manager or consultant with "in-house" capital market assumptions and would like to be part of our survey?
Prof. Dr. Tim Kröncke (tim.kroencke@remaco.com) would be glad to hear from you.

[1] 24 global asset managers and consultants such as BlackRock.

1. Survey of Capital Market Assumptions

	Expected Return, p. a.	Expected Risk, p. a.	Change on Previous Year		Range, E(R)	
Asset Class	**E(R)**	**σ**	**ΔE(R)**	**Δσ**	**Min.**	**Max.**
Swiss Government Bonds	0.75	3.66	-1.07	-1.84	0.12	0.99
Corporate Bonds Global, hedged	2.32	6.02	-0.64	-0.18	0.25	3.87
High Yield Global, hedged	4.12	9.95	-1.20	-0.55	2.60	5.82
ø Bond Markets	**2.40**	**6.54**	**-0.97**	**-0.86**		
Equities US	4.87	15.65	-1.64	-1.35	0.70	8.87
Equities Europe ex Switzerland	6.04	17.02	-0.86	-0.47	3.72	10.90
Equities Switzerland	7.73	13.73	-0.28	-0.06	6.33	9.36
Equities Japan	5.19	16.87	-2.54	-1.33	3.02	12.68
Equities Pacific ex Japan	7.23	18.09	-1.11	-1.71	5.43	8.82
Equities Emerging Markets	7.56	20.78	-1.44	-2.02	5.02	9.31
ø Equity Markets	**6.44**	**17.02**	**-1.31**	**-1.16**		
REITs Global	6.34	19.00	1.37	-0.30	3.72	9.86
Inflation-linked Bonds, hedged	2.08	5.80	-0.58	-0.40	1.02	3.47
Commodities	3.68	16.05	-0.15	-0.95	1.14	4.98
Gold	2.03	14.81	2.58	0.35	-2.60	4.74
ø Alternative Assets	**3.53**	**13.92**	**0.81**	**-0.33**		
Equities Global	5.10	15.94	-1.24	-1.16	2.20	9.32
Equities Developed Markets	5.20	15.82	-0.56	-0.15	3.62	9.57
Private Equity	8.32	21.30	-1.68	-2.90	4.24	13.99
Private Credit	6.03	11.10	-0.72	-2.28	3.20	10.81
Real Estate Global	5.46	12.85	0.21	-0.20	3.22	7.17
ø Private Markets	**6.60**	**15.08**	**-0.73**	**-1.79**		
Cash, CHF	**1.02**		**-0.25**			

Table 1: Consolidated capital market assumptions in Swiss francs, 2024 | Q3.
Consolidated capital market assumptions are based on the median of up to 24 individual expectations of globally active institutional financial market experts (asset managers and consultants). Numbers are in % per annum, expressed in Swiss francs, and for an investment horizon of 10 years. The expected return is arithmetic. "Change on previous year" refers to 30 June 2023. The column labelled "Range" lists the highest and lowest expected return in the cross-section of institutional capital market assumptions for each asset class. The cut-off date for the survey is 30.6.2024.

As in our last report, we are observing a further decline in expected returns for bonds and equities this quarter. In **Table 1,** the consensus capital market assumption of institutional financial market experts for the long-term return on Swiss government bonds is 0.75 %, which corresponds to a decline of 1.07 % compared to the previous year. The expected return for corporate bonds (2.32 %) and high-yield bonds (4.12 %) are also continuing to decline (-0.64 % and -1.20 % respectively). In contrast, the expected return on cash investments declined by only 0.25 % to 1.02 %. We are therefore observing a reduction in risk premiums on the bond markets.

The picture is similar for the equities. The expected return is declining for all six regional equity markets, falling by an average of 1.31 % to 6.44 %. The US and Japanese markets (4.87 % and 5.19 %) exhibit the lowest expected returns, while Switzerland and the Emerging Markets (7.56 % and 7.73 %) are seen as the most attractive – practically the reverse pattern of the realised performance of recent months.

By contrast, the expected returns for (traded) alternative assets are more stable. Compared to June 30, 2023, we observe higher expected returns for REITs and gold but only slightly lower returns for inflation-linked bonds and commodity investments.

For private markets, we observe a trend for private equity and private debt that is comparable to the decline in expected returns on the public equity and bond markets.
The expected return for real estate investments is falling almost one for one with the risk-free rate and, thus, the risk premium remains virtually unchanged.

Overall, we observe not only a decline in returns for the risk-free rate on the capital markets, but also a decline in risk premiums for risky investments. Risk premiums are determined by two factors in particular: Risk appetite of investors and macroeconomic risk, whereby the latter is reflected in the expected volatility. As a decline in volatility can be observed for almost all asset classes in **Table 1,** we conjecture that the decline in risk premiums is due entirely, or at least to a large extent, to a more favourable assessment of macroeconomic risk.

Benchmark	Sharpe Ratio "Cash"	Excess return, % "Home-Bias"	Beta "Home-Bias"	Information Ratio "Home-Bias"	Information Ratio "World"
Swiss Government Bonds	-0.07	-0.72	0.14	-0.20	-0.13
Corporate Bonds Global, hedged	0.22	0.17	0.35	0.03	0.11
High Yield Global, hedged	0.31	0.42	0.83	0.05	0.21
Equities US	0.25	-1.11	1.54	-0.10	0.08
Equities Europe ex Switzerland	0.29	-1.31	1.97	-0.14	0.18
Equities Switzerland	0.49	0.72	1.86	0.20	0.48
Equities Japan	0.25	-0.51	1.45	-0.04	0.11
Equities Pacific ex Japan	0.34	0.48	1.78	0.04	0.26
Equities Emerging Markets	0.31	1.11	1.69	0.07	0.21
REITs Global	0.28	0.12	1.62	0.01	0.16
Inflation-linked Bonds, hedged	0.18	0.16	0.28	0.03	0.11
Commodities	0.17	0.96	0.53	0.06	0.07
Gold	0.07	0.82	0.06	0.06	0.04
Private Equity	0.34	2.44	1.51	0.13	0.25
Private Credit	0.45	2.45	0.79	0.26	0.39
Real Estate Global	0.35	1.60	0.88	0.14	0.26

Table 2: Performance indicators based on consolidated capital market assumptions, 2024 | Q3.
All reported performance indicators are based on consolidated capital market assumptions and are forward-looking. Sharpe ratio is the expected return minus the return for an investment in cash, divided by the expected risk (standard deviation). The other performance indicators are calculated against a benchmark portfolio. The "home bias" benchmark consists of 50 % Swiss government bonds and 50 % Swiss equities. The "world" benchmark consists of 50 % Swiss government bonds and 50 % global equities. The excess return is the expected return of the consolidated capital market assumptions less the risk-adjusted return based to the benchmark. Beta measures the systematic risk of an asset class relative to the benchmark. The Information ratio is the excess return divided by the tracking error calculated against a benchmark. The cut-off date for the survey is 30.6.2024.

2. An Optimised Global Market Portfolio

Consolidated capital market assumptions are suitable for optimising an existing asset allocation, for determining the expected long-term performance or even for assessing the relative attractiveness of private markets investments. In our first report **"Survey of Capital Market Assumptions in Swiss francs 2024, Q1"**, we presented possible applications in detail. In this section, we summarise our most recent findings and their implications for an optimised global market portfolio.

In **Table 2,** we show forward-looking performance indicators, which we calculate based on consolidated capital market assumptions. The expected Sharpe ratio is calculated as the expected return minus the return on a risk-free investment divided by the expected volatility. To assess the diversification potential, however, the correlation to a given benchmark must also be taken into account. To this end, we calculate the expected Information ratio of the different asset classes with respect to two alternative benchmark portfolios. The first benchmark consists of 50 % Swiss government bonds and 50 % Swiss equities ("home bias portfolio"). The second benchmark invests the equity portion globally ("simple world portfolio"). If the expected Information ratio is positive, increasing the weighting of the asset class relative to the benchmark would increase the expected Sharpe ratio of the portfolio. For an investor who is invested in the benchmark, possible diversification benefits become visible.

Asset Class	Initial portfolio	Min.	Max.	Remaco global market
Swiss Government Bonds	15.0	10.0	20.0	10.0
Corporate Bonds Global, hedged	10.0	5.0	15.0	9.3
High Yield Global, hedged	5.0	2.0	10.0	10.0
Bonds	**30.0**			**29.3**
Equities US	30.0	22.0	39.0	22.8
Equities Europe ex Switzerland	7.5	4.0	12.0	4.1
Equities Switzerland	5.0	2.0	12.0	5.1
Equities Japan	2.5	1.2	6.0	1.2
Equities Pacific ex Japan	2.5	1.2	6.0	4.0
Equities Emerging Markets	2.5	1.2	6.0	4.1
Equities	**50.0**			**41.4**
REITs Global	5.0	2.0	10.0	10.0
Inflation-linked Bonds, hedged	5.0	2.0	10.0	10.0
Commodities	5.0	2.0	10.0	7.3
Gold	5.0	2.0	10.0	2.0
Alternative Assets	**20.0**			**29.3**
Total	**100.0**			**100.0**

Tabelle 3: Remaco global market portfolio, 2024 | Q3.
Starting with an initial portfolio, we use the consolidated capital market assumptions to optimise the weighting of the individual asset classes ("Remaco global market"). The optimisation approach is based on Treynor and Black (1973) and Black and Litterman (1992) and takes into account the dispersion in the expectations of financial market experts. Minimum and maximum portfolio weights are taken into account during the optimisation. The beta of the Remaco world portfolio to the initial portfolio is 1.0 and the maximum permitted tracking error is 5 %. The cut-off date for the survey used to find the Remaco global market portfolio is 30.6.2024.

Indeed, an additional investment in most asset classes increases the expected return of the benchmark portfolio. For the home bias portfolio, only the Information ratios for Swiss government bonds and equities US and Europe ex Switzerland are negative. A global portfolio thus almost inevitably leads to an improvement in the expected risk / return profile. Except for Swiss government bonds, we also observe consistently positive expected Information ratios for the simple global portfolio. In particular, investments in Pacific ex Japan equities, Emerging Market equities, corporate bonds and high-yield bonds are expected to offer further diversification benefits.

Our Remaco global market portfolio is a rule-based approach to obtain an optimised global market portfolio that utilizes consensus capital market assumptions. We start from an initial portfolio (**"Initial portfolio"** column in **Table 3**) and use a capital market model to rule-based overweight attractive asset classes and underweight unattractive asset classes (**"Remaco global market"** column in **Table 3**). The approach is a conservative optimisation that ensures that the Remaco global market portfolio has a similar overall risk to the initial portfolio.

An alternative rule-based global market portfolio weights the investments with fixed weights, such as our initial portfolio. However, such a portfolio cannot adapt to changing conditions on the financial markets, as we observe in **Table 1.** Discretionary portfolios are typically based on the assessment of a small number of financial market experts and are more likely to reflect a more extreme assessment of the capital markets (see **"Range"** column in **Table 1**), which often leads to unsatisfactory results.

Time period	Remaco global market (in %)	*Home bias portfolio* (50:50) (in %)	Simple global portfolio (50:50) (in %)
2016	6.6	0.0	3.6
2017	11.5	9.1	8.2
2018	-6.8	-3.4	-4.6
2019	17.4	15.6	12.6
2020	9.8	2.5	6.9
2021	11.8	9.7	8.5
2022	-15.3	-15.2	-16.3
2023	9.3	7.7	12.8
2024, YTD 28.6.	4.8	5.3	7.1
Q3 2023	-2.4	-2.2	-2.2
Q4 2023	5.8	2.6	5.4
Q1 2024	3.7	3.5	5.4
Q2 2024	1.1	1.8	1.6
geometric average, p. a.	5.2	3.3	4.1
cumulative performance, 2016–2024, YTD 28.6.	54.8	31.9	41.0

Table 4: Historical performance in Swiss francs, 1.1.2016 to 28.6.2024.
The historical performance of the Remaco global market portfolio and alternative global portfolios is determined using a hypothetical realisation with ETFs. The respective return is calculated over a calendar year (in the case of 2024 until 28 June) or a quarter. The cumulative performance indicates how much a CHF 100 investment on 1 January 2016 would have risen by 28 June 2024.
Remaco global market: Rule-based approach based on consolidated capital market assumptions. 2016–2023: Performance in the backtest. From 2024: Performance of the optimised global market portfolio published in this series.
Home bias portfolio: Portfolio consisting of 50 % Swiss government bonds and 50 % Swiss equities.
Simple global portfolio: Portfolio consisting of 50 % Swiss government bonds and 50 % global equities.
Past performance is not necessarily a guide to future performance.

3. Historical Performance

In **Table 3** and **Figure 1,** we update the historical performance comparison of the Remaco global market portfolio with the home bias portfolio and the simple global portfolio. Over the previous quarter (Q2 2024), the Remaco global market portfolio achieved a return of +1.1 %, which therefore falls slightly short of both the home bias portfolio (+1.8 %) and the simple global portfolio (+1.6 %). In a long-term comparison from 2016 to Q2 2024, we continue to see an outperformance of the Remaco global market portfolio (cumulative return of 54.8 %) compared to the two benchmark portfolios (31.9 % and 41.0 %). The benefits of a broadly diversified portfolio and an evidence-based investment approach are clearly evident in the historical data and over long observation periods.

Backtest

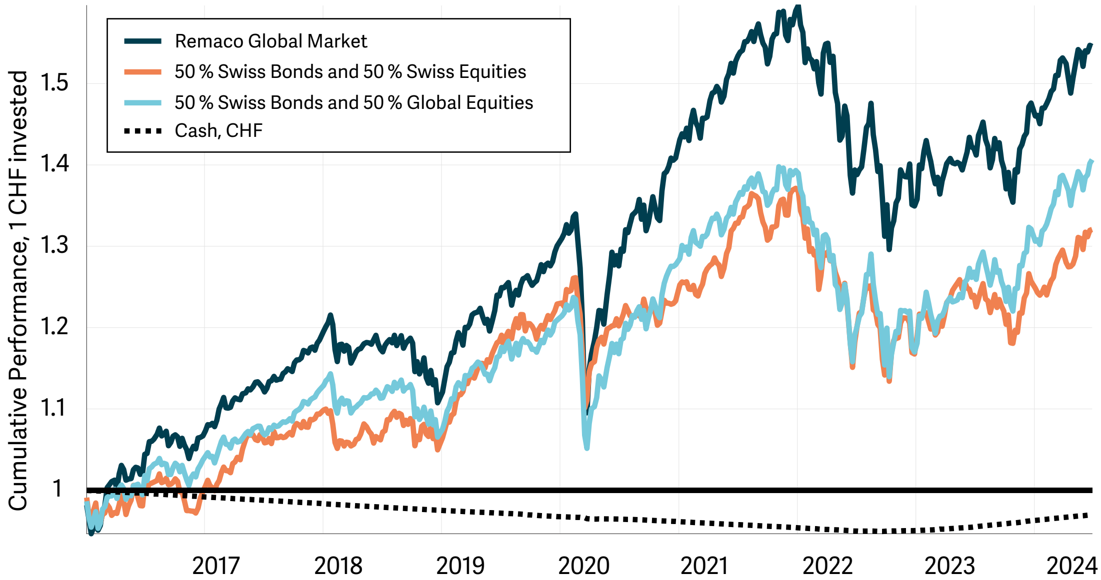

Figure 1: Remaco global market portfolio and alternatives.
Cumulative performance of an investment of one Swiss franc invested on 1 January 2016 through 28 June 2024. Past performance is not necessarily a guide to future performance.

Get in touch with us to find out more about evidence-based portfolio management at Remaco.

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