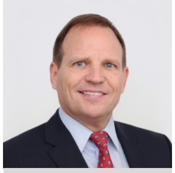
Outlook 2024

When the US stock market threatened to run out of steam in October 2023 and the S&P 500 was trading at 4'100, the US central bank Fed announced interest rate cuts in 2024 and the next hype began. Within three months, the leading index rose by +20% and is now trading at almost 4'900 points. This corresponds to a price/earnings ratio of 23 times and is around 40% above the long-term historical average of 16 times. In 2023, prices were largely driven by technology stocks and progress in artificial intelligence was the big topic there.

Source: Game of Trades

We believe that a lot of euphoria, be it in terms of increasing efficiency through artificial intelligence or in winning the battle against inflation and the expected interest rate cuts, is priced in and there is correspondingly large room for disappointment. Price increases that are too rapid have always led to corrections in the past and this time will be no different.



Stefan Steiner

As in 2021, we recommended taking profits and diversifying the portfolio with strategies that have little or no dependence on the development of traditional capital markets. We prefer strategies that are very likely to produce a positive spread above the risk-free rate or strategies with a maximum diversification effect. The first category includes, for example, stock trading strategies that follow a market-neutral approach or credit strategies that have a very low net exposure. The second category includes commodity strategies or investments in digital assets. Commodities consolidated somewhat last year after a strong 2022, but we expect a double-digit returns again in 2024. The market for digital assets has evolved and many projects are now proving profitable, which is increasingly giving a boost to the demand side with the entry of the world's largest asset managers. You can read more about this topic on page 2 of this newsletter.

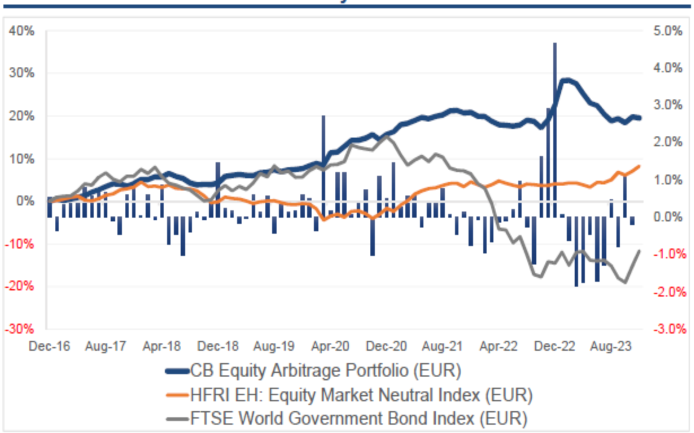
For more information please contact Stefan Steiner at ss@cb-partners.com.

In the spotlight

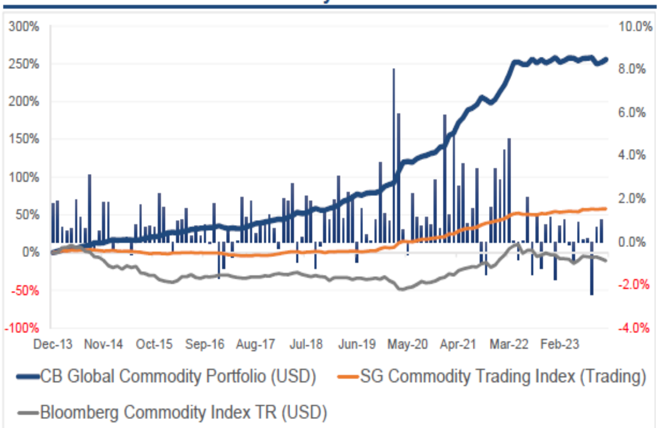
Equity arbitrage strategies attempt to generate a constant positive alpha without directional market exposure. Due to the high equity market valuation, we recommend switching to this market-neutral strategy, which is currently experiencing tailwinds. Important performance drivers are an attractive risk-free interest rate, market volatility and dispersion among stocks. This environment currently exists and we expect a return of +10% in 2024. The CB Equity Arbitrage Portfolio (EUR) offers access to this strategy and is invested in extremely interesting managers. The liquidity of the certificate is biweekly with 15 days' notice.

Commodity markets corrected last year after the strong rally caused by Russia's war of aggression in Ukraine. The CB Global Commodity Portfolio (USD) held up despite the difficult market environment and generated a slightly positive return. We see many interesting opportunities in the commodity markets for 2024 and expect an attractive return for the certificate. In addition, this investment is well suited as insurance in the event of an escalation in the conflict areas, which could lead to a renewed increase in the price of oil and gas and fuel inflation again. The commodity certificate has monthly liquidity with 45 days' notice.

Cumulative returns since January 2017



Cumulative returns since January 2014



Newsletter January 2024
News from our Fund Managers

Update on digital assets

Digital assets enjoyed a strong year in 2023, with Bitcoin up +157% and altcoins +106% (CCi30 Index). Q1 2023 was already strong, as digital assets rebounded from the 2022 lows, and BTC in particular surged in March amid the US banking crisis, thanks to its store of value and P2P payment properties. After muted Q2 and Q3 returns, BTC and altcoins surged in Q4, mainly driven by expectations on spot BTC ETF approvals by the SEC, but also on a more favorable outlook for risk assets on speculation that the Fed had completed its rates hiking cycle.

Spot Bitcoin ETFs

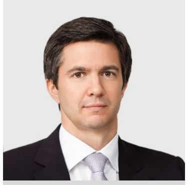
Physically backed Bitcoin ETFs have been around since 2021 (and physically backed ETCs since 2020), but are incorporated in countries such as Canada, Germany, Jersey – and of course Switzerland. But no such product was available in the US, as the SEC had rejected such plans for years, hence prohibiting the largest market to access direct BTC exposure (futures based BTC ETFs are available in the US, though).

But on January 10, 2024 the SEC finally approved 11 spot Bitcoin ETFs, and among the approved managers are some of the largest names in the financial industry: BlackRock, Fidelity, Franklin Templeton, VanEck, WisdomTree. Although some Bitcoin maximalists could argue that ETFs are contradictory to Bitcoin's decentralized nature, those ETFs establish the acceptance of Bitcoin as an investable asset for traditional investors and could drive significant inflows into BTC.

After one week of trading, those new ETFs attracted over USD 3 bn in inflows, with Blackrock and Fidelity attracting the most assets. But part of those inflows consisted of outflows out of Grayscale Bitcoin ETF, which launched with USD 28 bn (!), as Grayscale converted its existing Bitcoin Trust into an ETF, but charging higher fees than all other ETF providers.

Digital asset hedge funds

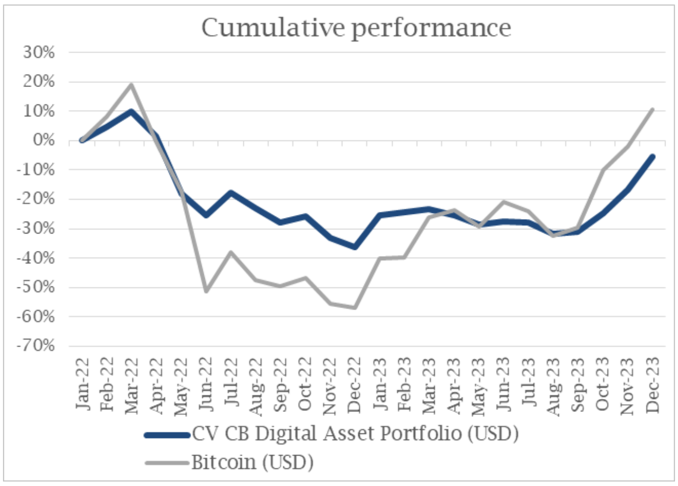
BTC outperformed most altcoins during Q1-Q3 2023, while many of the largest altcoins outperformed BTC in Q4. It is typical for Bitcoin to outperform in the first part of a new bull cycle, and then to see altcoins strongly outperform Bitcoin, a phase which could have started in Q4. Prospects for Bitcoin remain strong with the next halving expected to take place in April, but many altcoins could see further strong price increase based on their solid fundamentals (e.g. real revenues, increasing adoption).



David Friche

Although Bitcoin also outperformed most digital asset dedicated hedge funds in 2023, we believe that over the long-term active management and strategy diversification, from fundamental altcoin picking to market neutral strategies, is the optimal combination to gain exposure to the broad universe of digital assets.

This approach not only provides exposure to digital asset specialists across various strategies, but also provides a less volatile exposure to the space, quite an attractive feature as Bitcoin and altcoins can have annualized volatility in the 50-80% range (if not more).



The above graph compares the CV CB Digital Asset Portfolio (advised by Crossbow, available in certificate format) with Bitcoin. The Portfolio had much less downside in 2022 thanks to its non-directional strategy bucket, while it did still capture a significant part of the upside in 2023 from the strong performance of its allocation to directional strategies. Those directional funds are well positioned to outperform Bitcoin should the crypto bull market continue.

Digital assets are still highly inefficient and thus offer rich opportunities to active, specialized managers. A portfolio of such managers, diversified across strategies, provide a less volatile exposure to digital assets, for which the outlook is currently much more positive than a few months ago.

For more information please contact David Friche at df@cb-partners.com.

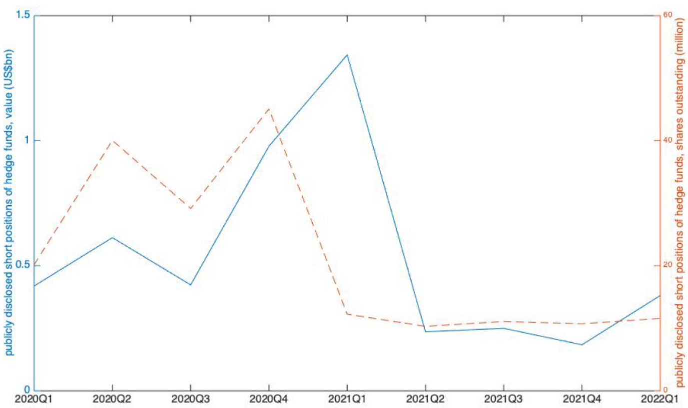
Top-performing pension funds accept higher costs

The Swisscanto pension fund study from last autumn comes to the following conclusions:

- Since 2020, asset management costs have increased by a total of eight basis points - on a five-year average they are 0.48% p.a.
- In 2022, the lowest and highest asset management costs will differ widely at 0.14% and 1.23% - the spread of asset management costs has increased significantly.
- Top performing funds achieve a 3.5% better net return annually, but have an average cost base that is 27 basis points higher.

Did the Game Stop for Hedge Funds?

Jun Chen, Byoung-Hyoun Hwang and Melvyn Teo from the Singapore Management University are looking at the following question: Can retail investors on social media platforms effectively target hedge fund short positions?



Publicly disclosed short positions of hedge funds in mn of shares outstanding (solid blue line) and in bn USD (dashed brown line)

Armin Vogel

They show that the disclosure of hedge fund short positions drives social media activity on WallStreetBets. Social media activity in turn precipitates price increases for heavily shorted stocks. The resultant short squeezes hurt hedge funds, which respond by shorting less aggressively, leading to prolonged overpricing in the stock market. In line with a causal interpretation, the impact of social media on stock returns manifests around the publication dates for short sales, but not around the settlement dates, and attenuates during trading restrictions imposed by Robinhood.

Agecroft Top Hedge Fund Industry Trends for 2024

This year's top trends published by Agecroft for the year 2024:

1. The hedge fund industry reaches maturity.
2. 2024 will be a strong fundraising environment for top managers and strategies in high demand: Long/short equity managers, particularly those focusing on small/mid-capitalization or value stocks, private lending and specialty financing, reinsurance, market-neutral long/short equity managers.
3. Evolution in hedge fund fee structures for large institutional allocations.
4. Smaller managers expected to continue outperforming.
5. Pension funds are reducing the average size of managers to whom they allocate.
6. Virtual work and meetings for investors are here to stay.
7. Increased demand for managed accounts.
8. Lower expected returns from private equity.
9. Quality marketing plays a pivotal role in asset growth.

If you would like to receive the above mentioned papers, please contact Armin Vogel at av@cb-partners.com.