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Economico Flash ⚡ #24

Investment strategy: Equity allocation - How much home bias?

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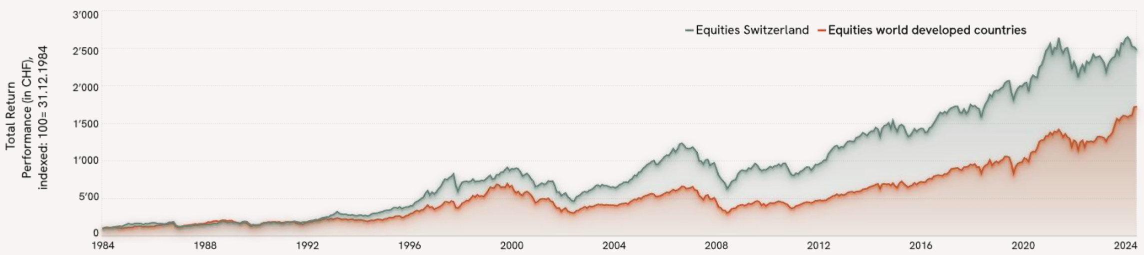
Chart of the week: Performance and valuation comparison of Swiss equities versus global equities



Asset Class	Performance (annualized returns)						Risk			P/E
	1yr	3yr	5yr	10yr	20yr	40yr	10yr	20yr	40yr	
Equities Switzerland	6.18%	-2.01%	3.80%	5.74%	6.69%	8.37%	12.15%	12.47%	15.48%	17.75
Equities world developed countries	28.34%	6.66%	10.23%	9.51%	7.32%	7.38%	14.61%	14.92%	16.89%	23.04

Source: Market data from Refinitiv as at 31.12.2024; equity segments are represented by MSCI World Dev. Countries and MSCI Switzerland.

How high should the share of the domestic equity market be in the equity portfolio? A tricky question to which there is no clear answer.

Over the course of the last year at the latest, there has been an increasing number of voices in the business press advocating a restriction or abandonment of a home bias for Swiss investors in view of the erratic performance of the US equity market. Their main arguments:

- With the credo "Diversification is the only free lunch!", the global market capitalization ratios are adopted for the equity allocation. This means that the Swiss equity market accounts for just 2.1%.
- The Swiss equity market is characterized by sector concentration (pharmaceuticals & financials) and cluster risks: Nestle, Roche and Novartis account for around 50% of the market capitalization of the Swiss equity market.
- The Swiss equity market is saturated and there is a lack of companies in innovative growth sectors. This argument has found a growing following in view of the dizzying share price performance of the "magnificent 7" - despite a countermovement in the first quarter of 2025.

Despite the tailwind that opponents of the "home bias" are experiencing due to the outperformance of the global equity market in the last decade, the overweighting of the home market persists in many Swiss investor portfolios - including those of large pension funds. There are also good reasons for this:

- The currency risk can be better controlled despite the international orientation of many Swiss Group companies.
- The lower price fluctuations and long-term returns speak in favor of the Swiss equity market.
- Value investors take note: In terms of the price/earnings ratio, Swiss equities are considerably cheaper than global equities.
- For taxable private investors, this results in additional dividend taxation, even when implemented in a tax-optimized manner. In 2024, this will still amount to 0.23%.

As part of our advisory activities for institutional investors, we consider a home bias - depending on the weighting of the arguments - in the range of 0% to 50% to be justifiable. In the composition of the Economico standard portfolios, we have set ourselves a home bias of 40%, whereby investors with an affinity for the domestic market also have the option of "clicking away" the foreign segments.

Takeaways

- The question of "how much home bias" in equities allows various answers.
- Warren Buffet's contribution to the topic: Also look at the valuation ratio.