MONITOR

Third quarter of 2024

Market data

as at 30.06.2024

Equity markets		**since 31.12.2023**
SMI CHF	11,993.83	7.69 %
S&P 500 USD	5,460.48	14.48 %
EURO STOXX 50 EUR	4,894.02	8.24 %
FTSE 100 GBP	8,164.12	5.57 %
MSCI Emerging Markets USD	573.79	7.49 %
NIKKEI 225 JPY	39,583.08	18.28 %
MSCI All Country World Local	429.754	13.17 %

Bond markets		**since 31.12.2023**
Swiss Eidgenossen (10y)	0.53 %	-12.3 bps
US Treasury (10y)	4.40 %	51.7 bps
German Bund (10y)	2.50 %	47.6 bps
SBI AAA-BBB 3-5 TR	127.17	1.83 %

Interest rates (3-month key rate)		**since 31.12.2023**
CHF (SARON)	1.22 %	-47.9 bps
USD (SOFR)	5.34 %	-4.0 bps
EUR (ESTR)	3.66 %	-22.6 bps

Exchange rates		**since 31.12.2023**
EUR/CHF	0.963	3.65 %
USD/CHF	0.899	6.82 %
EUR/USD	1.071	-2.95 %

Alternative investments		**since 31.12.2023**
Real estate (UNGL)	2,046.59	-5.29 %
Gold (USD/ounce)	2,326.75	12.79 %
US crude oil (USD/bbl)	86.41	12.16 %
Hedge funds (HFRXGL)	1,451.07	2.89 %
Bitcoin (XBT)	60,118.16	41.43 %

Market review

The first half of the year is now behind us and there is confidence in the financial markets. Although the momentum in the equity markets was not as strong in the second quarter as it was in the first, expectations for future corporate earnings have grown. The global economic situation is overall improving. In recent weeks, however, good economic data has increasingly been met with negative reactions – since good news is bad news. If the economy performs well, there could be a resurgence in inflation that keeps rates higher for longer.

Political risks are currently rated as high. The results of the European elections held at the beginning of June show that right-wing populist parties in Germany and France are gaining ground. Further, French President Macron's announcement of new National Assembly elections has increased the likelihood of a change in the political and economic agenda. Until the second round of elections, French credit risk premiums are likely to remain higher compared to early June. Due to the increase in France's interest rates, concerns are particularly high, given that the budget deficit stands at 5% and the debt burden at over 110% of GDP. In the USA, the Fed in its latest Financial Stability Report noted the domestic and foreign policy risks associated with the US elections.

In spite of the many uncertainties, we are for maintaining a high investment level. And despite the historically weaker performance during the summer months, we see a constructive environment and believe there is further upside potential for risky assets.

Author
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Macroeconomic environment

The global economy grew moderately between April and June. Economists revised their forecasts for global economic growth for 2024 further upwards to, on average, +3.0%. While the US economy cooled somewhat, Europe and China surprised the markets with positive data.

Having narrowly avoided recession in 2023, the eurozone has had positive momentum since the beginning of the year, with slight growth in the first quarter being followed by a similar upswing in the second quarter. Leading indicators suggest that sentiment among European investors is cautiously optimistic. Consumer sentiment is also continuing to improve as the impact of higher real wages is being felt and falling interest rates have become a reality since the middle of June. Germany is lagging slightly behind the European average, as inventory corrections have not yet been completed and German industry is focused on highly cyclical goods. The German economy should, however, pick up a little as the year progresses. Still on the radar in this context is the dispute between the EU and China over import tariffs for various goods (electric vehicles, pork, etc.).

Although the US economy did not quite meet expectations in the first quarter, it is likely to have remained robust in the second quarter. Inflation is moving sideways, prompting the "higher for longer" rates narrative again among market participants. The labour market, by contrast, is showing the first signs of cooling. US consumers are also spending less. This is evidenced by the latest retail sales figures and a greater reluctance to spend money on big-ticket items. Pandemic savings are likely to be exhausted this year. The low- and middle-income segments are facing higher interest charges for consumer credit and car loans. Delinquency rates on debt are rising but still far from worrying levels. But today there is hardly anyone talking about recession anymore.

Traditional investments

Currencies
The weakness of the Swiss franc against both the US dollar and the euro since the beginning of the year continued up to May. The trend, however, reversed when Switzerland released its GDP figures for the first quarter. GDP growth of +0.5% compared to the previous quarter was a positive surprise for the market. Over the quarter, the Swiss franc appreciated by 1.1% against the euro and by 0.3% against the US dollar.

Interest rate differentials in the relevant currency areas kept any further appreciation of the Swiss franc in check. Further, the Swiss National Bank (SNB) is ready to intervene in the foreign exchange market if necessary to limit imported inflation. We continue to expect volatile sideways movements.

Bonds
In June, the European Central Bank (ECB) and the SNB both lowered their key interest rates by 0.25%. The markets were well prepared by the ECB for this, the first interest rate cut since 2019, even though the latest wage and inflation figures were not as low as hoped. Switzerland has already made its second interest rate cut this year. The Fed remains hawkish, with futures markets pricing in at most two interest rate cuts by year's end.

The yield on 10-year US Treasuries is currently at 4.4%, only slightly higher than at the end of March, after having temporarily risen to 4.7%. In contrast, the yield on 10-year Swiss Confederation ("Eidgenossen") bonds has decreased, ending the quarter at 0.5%. The Swiss yield curve – i.e. the spread between long-term and short-term interest rates – remains inverted, but less steeply than at the end of March. The consensus expects yields on 10-year Swiss government bonds to be at +0.75% by year's end. For this reason, we continue to prefer bonds with shorter maturities.

Equities
In April, global equity markets consolidated after US inflation figures came in stronger than expected and interest rate forecasts had to be adjusted. Equity markets then rose again over the next two months, with the World Equity Index closing the quarter up +13.2%. In Swiss franc terms, equity investments in this quarter were among the most profitable above all in the USA (+3.6%), the United Kingdom (+2.5%), Switzerland (+2.3%) and Hong Kong (+7.0%). Including dividend payments, Switzerland has outperformed the other Western countries in the second quarter with a performance of +4.0%.
With the very rapid development in the AI field, it is hardly surprising that technology stocks are in high demand worldwide and have continued to gain in value since the end of March. In Europe, the commodities and healthcare sectors recorded positive returns. Cyclical stocks in the transport, automotive and travel sectors, on the other hand, performed less well. In Switzerland, SMI heavyweights ABB, Roche and Novartis racked up solid gains on the back of good news, whereas Lonza and Partners Group lost ground.

Large-cap and growth-focused companies extended their lead over small-caps and undervalued companies (so-called value stocks) during the quarter. If the global economy maintains its positive trajectory, there should be good opportunities beneath the surface for small and medium-sized companies, being not only cheap but also able to benefit from greater M&A activity and inflows into equity strategies.
Upward earnings revisions in recent weeks have led to good investor sentiment and created high expectations for the coming reporting season. This could limit the upside potential in the short term.

Alternative investments

The price of gold has risen further over the past three months. Given that there is continued demand from Asia and holders of physical gold are unwilling to sell, no major price setbacks are expected in the medium term. The current high level of political and geopolitical uncertainty is also supporting the price of this precious metal. We continue to see gold as a good diversifier in a portfolio.

Swiss real estate funds lost slightly in value in the second quarter, but their performance since the beginning of the year has been positive. The premium has slightly decreased. At +2.7%, the average payout ratio for Swiss real estate funds is still significantly higher than the yield on 10-year government bonds.

Bitcoin and other cryptocurrencies saw profit-taking after the halving event in April. There is less willingness to buy digital assets now even though more ETFs have been authorized in the USA.

Private market investments

The secondary private market saw a continuation of the trend towards higher transactions volumes in the second quarter. Discounts to the net asset value have narrowed slightly, reflecting an improved market environment and greater demand for high-quality assets. This development indicates that the secondary market is maturing and is perceived as an attractive liquidity solution.

Private market investments are becoming more popular after a couple of tough years, though the number of exits has not yet picked up significantly. Players might return to the market as the economic situation improves and interest rates fall further.

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