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OF BULLS AND BEARS

MARKET INSIGHTS

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Bulls are investors who are optimistic about the stock markets, betting on an upswing. They are "bullish". Bears, on the other hand, are pessimistic, expecting markets to fall. They are "bearish". The current market environment offers both camps arguments for their respective views. While this may often be the case, it seems particularly true right now. To end the article on a positive note, let's start with the negative factors.

Equity markets were to be expected to bounce back after the poor performance in 2022. Only, the actual extent is surprising, with many indices up by double digits, and significantly more so since markets bottomed out last September. This is despite the fact that earnings growth is slowing or – as in the US – corporate profits are falling and the ongoing economic slowdown is hardly supportive of corporate earnings. The bull market in the US is largely driven by five stocks: Microsoft, Apple, Meta, Alphabet and last week's high-flyer, Nvidia, have been the key drivers of the S&P 500's upward move this year. It may not be of any particular concern for the investors in the index, but the lack of market breadth is usually not such a good sign. Furthermore, the situation in the US banking sector is not over yet, even if it has calmed down somewhat recently. These critical factors come on top of an equity market which is anything but underpriced in absolute terms and even highly priced relative to bonds. However, investors seem to be comparatively relaxed about this, which can be concluded, for example, from the "greed" measured by the "CNN Fear & Greed Index" or from the low volatility. Let's not forget, though, that both of these are rather contrary indicators – if the mood is too good or carefree, it is not at all indicative of a further rise.

At least – and this takes us into the bulls' camp – the debt ceiling dispute in the US seems to be over now, which is one thing less to worry about. What is more, according to surveys, many investors are still underweight in equities and hold substantial cash balances – a potential booster that could flow into the markets anytime. Another positive factor is that most of the originally anticipated interest rate cuts in the US have been priced out again lately, and this without weighing on the markets as the bears feared. Optimists argue that interest rates are not expected to weigh further on the markets, neither from the short end nor from the long one. Should real interest rates (nominal interest rates, minus inflation) turn positive, even fantasies of interest rate cuts could come back into play and add some lift to the markets. In addition to the recent stabilization of earnings expectations, an evaluation by the Carson Group shores up confidence: After a gain of over 8% in the first 100 trading days (2023: +8.9%), the S&P 500 then continued to rise by year-end in 86% of the cases.

Ultimately, it is a question of weighing the positive against the negative factors that determine the market assessment and thus positioning in the portfolios. We are still sticking to our neutral equity weighting. And you, do you feel rather "bullish" or "bearish"?

Thomas Heller
CIO, Belvédère Asset Management

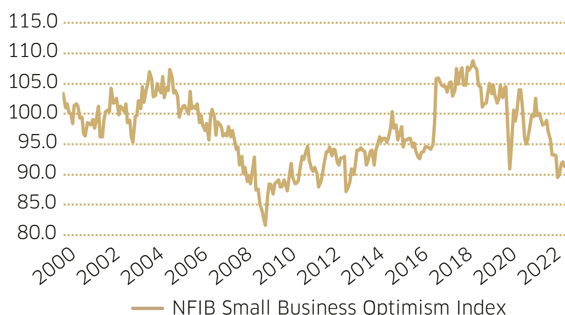
ECONOMY

The US economy has so far remained unimpressed by the regional bank turbulence. Large companies are benefiting from price increases and can still refinance themselves relatively cheaply on the capital market. However, small companies, which deliver almost half of the economic output, are beginning to feel the effects, for instance in the form of higher interest rates. Optimism among small firms has faded sharply (see chart) – not a good sign for the further economic outlook.

In Europe, the economy continues to benefit from pent-up demand for services. Meanwhile, things look less bright for manufacturing. This is reflected in the significant decline in German May Ifo business confidence index.

The Chinese economy has experienced a recovery in recent months as a result of the reopening, although the momentum slowed in April. Robust credit growth and the fact that the worst is over in the property market are supportive. Should the economy weaken, contrary to expectations, the central bank would have the leeway to cut interest rates, with barely any inflation at all.

US: Small companies are feeling more gloomy about the future



Source: Bloomberg, BAM

EQUITIES

Last month, the equity markets were caught between encouraging company figures for the first quarter and the slow progress of negotiations to raise the debt ceiling in the USA. Overall, equity markets, captured by the MSCI World, moved sideways in May. One exception was the Nasdaq, which continued its recovery. The technology-heavy index benefited, among other things, from an outlook by chip developer Nvidia (up more than 40% in May), which exceeded all expectations (see chart). With its chips, Nvidia is considered the main beneficiary of the emerging boom in artificial intelligence.

Good company results have led to a stabilisation of earnings expectations for the next twelve months. The trend of falling earnings estimates that has prevailed for about a year seems to have been broken. This factor should support equity markets over the coming months. The cautious positioning of many investors is also supporting prices. The longer stock markets keep moving up, the stronger the pressure on these investors to increase their equity exposure. However, some risks remain. The biggest, in our view, is stubborn inflation, which could force central banks to keep interest rates high for longer than anticipated. Moreover, valuations are not favourable, especially in the US, and risk premiums are unattractive compared to bonds or money market investments. As long as the future monetary policy is uncertain, the chances of a sustainable upward trend for equities are not very great.

Nvidia hits new all-time high (price in USD)

Source: Bloomberg, BAM

INTEREST RATES

As expected, the US Federal Reserve raised its key interest rates by 25 basis points to 5% to 5.25% at the beginning of May. We expect the Fed to stop raising rates over the summer and then reassess the situation in September. Markets have already made a U-turn and are now expecting one last hike followed by only two rate cuts instead of four by January 2024. Market consensus is thus moving essentially in the direction we expected.

After three rate hikes of 50 basis points each, the European Central Bank lowered its pace to 25 basis points in May, but according to Christine Lagarde, monetary policy is still not restrictive enough, which means that more hikes might follow. The Swiss National Bank is expected to raise rates by 25 basis points each in June and September. In our view, there may even be just a single and final step of 50 basis points in June.

Long-term interest rates are likely to continue their volatile sideways trend.

Asset class	Appraisal	Commentary
Bonds		The market has priced out a total of three rate cuts in the US. At the long end, we expect the volatile sideways trend to continue.
Government bonds		
Corporate bonds		
Equities		Having started the year on a strong note, equity markets might now enter a consolidation phase. The economic outlook is still uncertain and higher interest rates are a real alternative to highly priced equities.
Switzerland		
Euro zone		
United Kingdom		
US		
Emerging markets		
Real Estate		Further interest rate hikes are holding back price increases. However, valuations are still comparatively interesting by historical standards.
Switzerland		
Commodities		The oil price is currently too low and a recovery is possible in the short term. Gold is lacking a driving force.
Oil		
Gold		

unattractive — attractive ■ Current asset class assessment

Imprint
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