BELVÉDÈRE
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DE-GLOBALISATION?

MARKET INSIGHTS

DE-GLOBALISATION?

Starting in the 1990s, the world experienced a surge in globalisation. The fall of the Iron Curtain opened up new markets, the World Trade Organisation (WTO) was founded in 1995 and China, the world's most populous country, joined the WTO in 2001. Global exports in relation to global economic output – a metric for the extent of globalisation – rose from just under 15% to 25% between 1990 and 2008.

The international division of labour has been one of the strongest drivers of prosperity of the past 200 years. The model of comparative advantage – each country produces the goods that it can manufacture more favourably than other countries – is one of the most recognised principles of economics. However, the corona pandemic has also shown how this division of labour creates dependencies and that this can turn into a real problem once value chains are interrupted. Consequently, the thinking goes that this could lead to adjustments in corporate work processes, such as the repatriation of production or increased warehousing. In addition, China and the US have imposed trade restrictions on each other, and China has declared it is aiming for more independence. The conventional wisdom is that a phase of de-globalisation may well follow.

Almost four years after the outbreak of the corona pandemic, no such trend is (yet) reflected in the figures. Globalisation has not increased any further since the financial crisis. But nor has it decreased. While the export quota (based on the value of the goods) has been fluctuating sideways since 2008, the number of tonne-kilometres transported (the distance freight has travelled multiplied by its weight) has actually continued to increase steadily, and significantly more than the economic output. Although it is harder to assess, the cross-border trade in services – such as financial services, tourism, telecommunications – has also increased.

A form of political de-globalisation could result from increased government-imposed repatriation, for example of critical goods such as food, healthcare or energy supply. However, some of the changes in global trade are also economically induced. There are shifts in production in individual sectors and countries – such as Mexico or Vietnam – that benefit from this. The aim is pointing at near- or reshoring, which means to bring suppliers closer to the buyers and thus reduce cross-border dependency, specifically on China. The direction is mapped out and there will be a certain degree of de-globalisation. Will it be substantial and sustainable, though? That is doubtful, to say the least. Global competition is still very much alive. In the long term, efficiency in the manufacturing and distribution of goods – low-cost primary products, optimised warehousing, etc. – will gradually regain relevance and break the economic de-globalisation trend.

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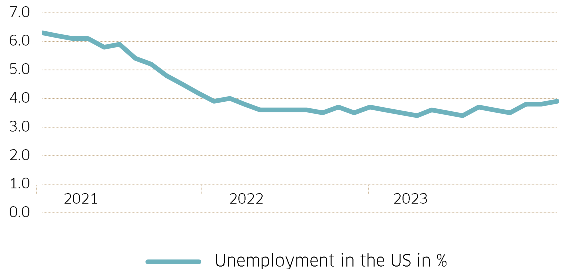
ECONOMY

Following the extraordinarily high growth of 5.2% (annualised, compared to the previous quarter) in the third quarter, the US economy is increasingly showing signs of fatigue. The Purchasing Managers' Index for industry fell to 46.7 points in October, which is tantamount to a contraction. Job growth is also slowing, and the unemployment rate reached its highest level since January 2022 at 3.9%. In the euro zone, GDP weakened slightly in the third quarter, with a decline in both the services sector and manufacturing. A rare glimpse of hope came from the Ifo economic index in Germany, which improved slightly in November.

In China, the economy remains tense. On the one hand, consumption has improved, and car sales were surprisingly strong in October. On the other hand, the property market is not making any headway. There are too may unsold units and the government support measures are too modest.

Prospects still look the best for the US where a soft landing remains the most likely scenario. The euro zone is likely to slide into a technical recession with chances of a recovery in the spring. Risks remain the highest in China. It is becoming increasingly apparent that the problems on the real estate market cannot be solved so quickly. However, the measures taken, including the latest deficit increase, should at least stabilise the situation.

US: Unemployment on the rise



Source: Bloomberg, BAM

EQUITIES

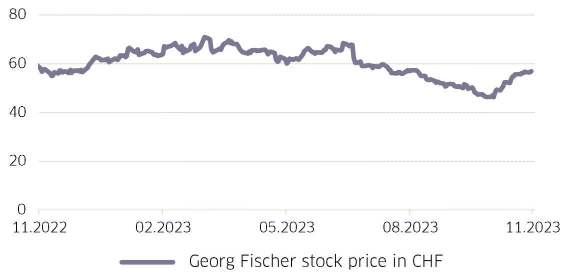
After three difficult months, the stock markets staged a recovery in November, bringing investors price gains of 4.0% (SMI) to 8.5% (S&P 500). Particularly shares of small and medium-sized companies, which had come under severe pressure, were back in demand. Examples include Georg Fischer and Barry Callebaut. The recovery was primarily due to the easing of upward pressure on interest rates at the long end. The lower oil price was also helpful.

So, what are the chances that this stock market rally has legs? On the macroeconomic side, we expect some tailwind from a continued decline in inflation and an economic upturn in the euro zone in the first half of the next year. Additional momentum is to be expected from seasonal effects, meaning that the months up to March are generally profitable for equity markets.

The necessary liquidity is certainly available: US investors have parked USD 5,700 billion in money market instruments, which are ready to flow back into equities once short-term interest rates begin to ease.

In a nutshell, we are cautiously optimistic about future equity market performance and expect a slight increase in prices. For an even more optimistic stance, sentiment in China would need to brighten up.

Georg Fischer on the rebound



Source: Bloomberg, BAM

INTEREST RATES

Last month, bond markets were essentially under the spell of two key events. Firstly, the US Treasury took the volume of new debt issues down a notch, which had a reassuring effect on market participants. Secondly, inflation went for a favourable surprise in October with an annualised rate of 3.2%. As a result, yields on 10-year US government bonds fell from 5% to 4.3% at the end of the month. Interest rates may well continue to decline in the coming months, among other things due to an expected weakening of the economy.

We believe it is safe to assume that central banks have completed their interest rate hike cycle. In the US, inflation is currently coming down faster than the US Federal Reserve expected. Against this backdrop and given the still high real interest rates, we should not be surprised if in its outlook in December the Fed were to give an indication of interest rate cuts for next year. The European Central Bank and the Swiss National Bank are likely to be more cautious here and wait for the Fed to do the first move before cutting their own key interest rates.

Asset class	Assessment	Comment
Bonds		The Fed could soon give indications of interest rate cuts for next year. The downward trend in interest rates at the long end may well continue.
Government bonds		
Corporate bonds		
Equities		Equity markets made a strong upward move in November. The inflation outlook, seasonal effects and a lot of liquidity parked on the sidelines make us cautiously optimistic about the equity market developments ahead.
Switzerland		
Euro zone		
Great Britain		
US		
Emerging markets		
Real Estate		Lower interest rates drove up the prices of property investments in November. Valuations are still attractive.
Switzerland		
Commodities		Gold benefited from lower interest rates and the weaker US dollar. Oil is regaining its appeal at lower price levels.
Oil		
Gold		

unattractive — attractive | Current assessment

Imprint
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