BELVÉDÈRE
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BIDEN OR TRUMP?

MARKET INSIGHTS

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The next presidential election in the US will take place on 5th November 2024. In this editorial, we shall examine the key factors that might impact the election, and we shall close this analysis by making a bold prediction. Before we delve into the matter, let us note that public interest in this election is not particularly high by historical comparison. This might also be due to the fact that, according to a survey conducted by the Pew Research Center – an American think tank – around half of all voters would actually like it best if they had other candidates to choose from.

The economy is among the key topics that will determine who will win this election. On the surface, the figures look fine: GDP growth is over 2%, unemployment is low with rising wages, and correspondingly record-breaking stock markets. However, for the majority of voters, these are not the parameters by which they assess the economic situation. What matters to them are their household costs and inflation. Although the latter is subsiding, the overall price level is more than 20% higher than it was before the pandemic. And that is a real concern, because it puts an excessive strain on the budget of the average household. This also explains the outcome of a recent CNN poll where only 39% of voters believe Biden has done a good job. By contrast, 55% of voters rate Trump's performance during his presidency as very good.

Immigration is another key topic that will affect the election outcome – notably illegal immigration. Biden made a severe mistake criticising Trump's tough rule and advocating a liberal immigration policy right from the beginning of his term in office. While the resulting surge in employable foreigners by over three million since July 2022 has undoubtedly boosted economic growth, voters are primarily concerned about the perceived "chaos" at the southern border and demand stricter rules.

Ethical and moral values: Again, according to a Pew Research Center poll, only 26% of voters believe Trump can act ethically as president, compared to 34% for Biden. This issue also relates to the hush money trial against Trump. Will the guilty verdict hurt him? The vast majority of his supporters will not see this as a major problem. Moreover, Trump is very likely to appeal if convicted.

In a nutshell, Donald Trump has an advantage over Biden on the two key tangible issues – economy and immigration. Joe Biden, on the other hand, can score points for owning the ethical and moral high ground. As things stand today, Trump probably has the better chance of being elected US president once again. However, a lot can still change between now and 5th November. The race is likely to be tight and it will ultimately be won by the candidate who manages to convince most of the undecided voters. The outcome is anything but certain.

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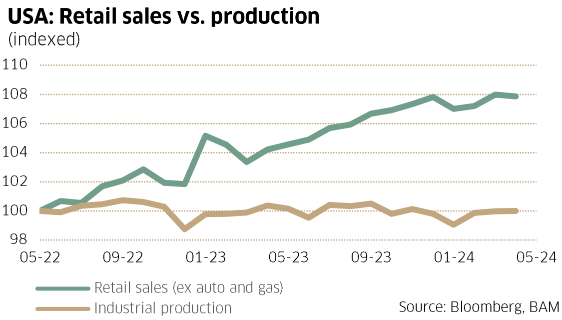
ECONOMY

The US economy continues to perform better than expected and the risk of a recession remains low. However, the labour market is showing signs of cooling, as the number of new jobs created in April was lower than in March. Industrial production has also been stagnating for several months. Consequently, the main growth drivers remain private consumption and support from the fiscal side with high budget deficits.

In the eurozone, the picture brightened up as expected and economic growth improved to 0.3% in the first quarter of 2024 from -0.1% in the prior quarter. The small upturn is broad-based and even Germany posted a slight economic growth again of 0.2%. We expect the moderate growth in the eurozone to continue. The main reason for this is the improved real income with a robust labour market and correspondingly higher wages (+4.7%).

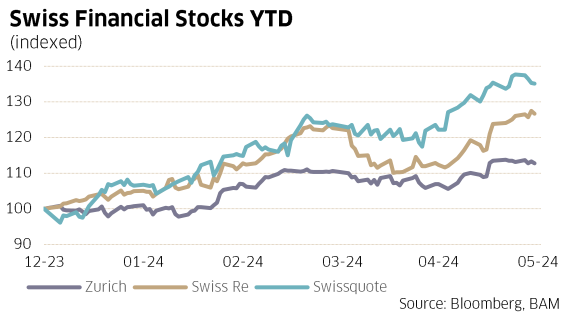
China is still struggling with the real estate crisis. The core issue is the high number of unsold houses on the market – i.e. the real estate inventory. The state's latest countermeasure consists of encouraging local governments to buy up such houses directly and use them as social housing, for example. On the downside, this measure comes at a high cost. One economic bright spot are exports, which rose by 1.5% in April year on year.



EQUITIES

Investors who followed the familiar stock market rule "sell in May and go away" were proved wrong in the last month. Equity markets quickly made up for the setback in April and good results followed in May. The SPI gained 5.1%, the S&P 500 4.1% and the Euro Stoxx rose by 3.1%. Of the three Swiss heavyweights, Roche (+3.5%) finally showed some signs of recovery after the company delivered promising data on its fat-reducing drug Adipositas. Financials Swiss Re (+12.4%), Zurich (+5.6%) and Swissquote (+11.2%) were also among the winners in May. The drivers were good corporate earnings. This also applies to the US, where first-quarter profits of the companies represented in the S&P 500 rose by 10% compared to the prior quarter, far more than the expected 4%. The major technology companies even posted a massive 40% increase in profits.

What is the outlook for equity markets in the coming months? One important positive factor is the growth in profits as a result of economic growth. The widening market breadth and, for Swiss-based companies, the weakness of the Swiss franc are also encouraging. In addition, the market has almost completely priced out the fantasy of interest rate cuts, which has now opened up some room for surprises. Long-term interest rates remain the greatest risk. Should the upward pressure continue – especially if the 5% mark is tested again in the US – this could seriously jeopardise the bull market for equities.



INTEREST RATES

After the sharp rise in interest rates on 10-year government bonds in April, the situation initially calmed down in May. However, when it became clear in the middle of the month that the fight against inflation in the US was making no longer any progress in April, interest rates went up again. At the same time, demand for new issues was subdued. Overall, US interest rates moved sideways. In Germany, they reached their highest level since November 2023 and in Switzerland interest rates rose by 19 basis points to 0.9%.

With regard to central bank policy, matters have generally become more uncertain. For instance, in the US, some members of the Federal Reserve are no longer even ruling out a further interest rate hike. In the eurozone, an interest rate cut on 6th June is almost certain. There is less confidence about the further course of events, partly due to continued wage increases in the past quarter. In Switzerland, higher inflation in April, the weaker franc and Jordan's statement that the neutral interest rate is 1%-1.5% have increased the risk that there will be fewer than two rate cuts.

Asset class	Assessment	Comment
Bonds		Uncertainty regarding central bank policy has increased. Continued upward pressure on long-term interest rates.
Government bonds		
Corporate bonds		
Equities		Equity markets are surprisingly resilient due to good earnings growth. Moreover, topics such as AI are also proving as positive drivers. The Swiss market is gradually benefiting from the weakening Swiss franc.
Switzerland		
Eurozone		
Great Britain		
US		
Emerging markets		
Real Estate		Swiss residential properties remain an interesting alternative, notably to bonds.
Switzerland		
Commodities		The oil price is currently valued fairly at USD 83 per barrel. Gold has entered a consolidation phase, as expected.
Oil		
Gold		

unattractive — attractive ■ current assessment

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