BELVÉDÈRE
Asset Management

July 2024

SWISS STRENGTH

MARKET INSIGHTS

SWISS STRENGTH

Practically all equity markets posted price gains in the first quarter. Then, the environment became more difficult by the middle of the year. Investors began to focus on regional preferences, which put pressure on the previously well-performing Japanese stock market, for instance. In the eurozone, the outcome of the EU parliamentary elections weighed heavily on equity markets, with the Euro Stoxx barely budging over the course of the quarter. However, two stock markets stood out with a favourable performance: the S&P 500 and the SPI.

In the US, the fantasy surrounding artificial intelligence kept driving the S&P 500 (+4.7%) to ever new highs. An interim peak was hit when industry leader Nvidia reached a market capitalisation of over USD 3,300 billion, briefly replacing Microsoft as the most valuable company in the world.

The Swiss equity market, which is known for its defensive nature, put in a very strong performance. The SPI's good performance of 3.2% reminds of the old saying "there's life in the old dog yet". This includes specifically the heavyweight Roche whose share price knew only one direction for two years, namely downwards, and suddenly came back to life in May. Promising test findings for its new fat-reducing drug CT-388 were a key driver, with Roche shares gaining 9.0% over the quarter. Novartis (+9.3%), Givaudan (+8.3%) and Alcon (+7.8%) also contributed to the positive performance of the SPI.

Central bank actions also diverged in the spring. While the Swiss National Bank (SNB) cut its interest rates for the second time, the US Federal Reserve (Fed) continued to wait and see, as inflation in the US remains persistently high. Meanwhile, the European Central Bank (ECB) went for its first interest rate cut at the beginning of June. In some cases, inflation fears initially drove long-term interest rates to new highs for the year during the quarter, before easing towards the end. In Switzerland, interest rates for ten-year government bonds fell to 0.6%, which corresponds to last year's lows. Despite the interest rate cut, the Swiss franc could not stay its weakening course.

Gold also continued its bull run at the start of the quarter and the price reached new highs of more than USD 2,400 per ounce by mid-May. This was driven mainly by purchases from China. However, when they stopped, a consolidation set in promptly, leaving nevertheless a price gain of 4.4%.

We expect volatility to remain in the markets for the next three months. However, in the medium term, the intact fundamental data – i.e. moderate growth coupled with declining inflation and further interest rate cuts – should gain the upper hand. As a result, we expect equity markets to have price potential in the mid-single-digit range.

Giorgio Saraco
Partner

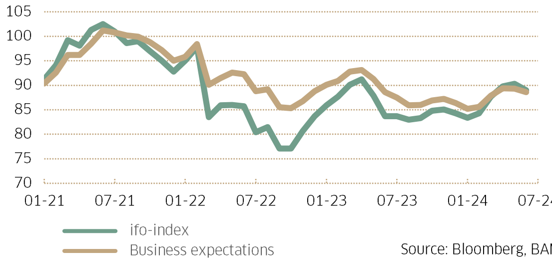
ECONOMY

The US economy continues to give the least cause for concern. Albeit we are seeing a mixed picture in manufacturing and a weakening, though not collapsing, labour market, it continues to benefit from infrastructure projects. The downside is the very high budget deficit of around 6% of GDP. On balance, the economy continues to grow by more than 2% according to calculations by the Atlanta Fed.

The eurozone economy closed the first quarter on a positive note, but the picture is already becoming somewhat gloomier again. The Purchasing Managers' Index for manufacturing fell to its lowest point this year in June and the ifo economic index in Germany was also disappointing. However, inflation is slowly subsiding, which means that consumers are regaining purchasing power thanks to rising incomes. Overall, we are seeing a slight recovery in the economy, but no great leaps are to be expected.

Despite a constant stream of new programmes to support the ailing real estate market, the Chinese government is not succeeding in stabilising the market. This is also putting pressure on private consumption, which is suffering from the weaker labour market as well. On the corporate side, there are new fears of another round in the trade conflict with the US and consequently higher tariffs. In response, companies are holding back their investments or planning to move abroad. Under these circum-stances, the government might find it difficult to achieve its growth target of 5%.

German ifo-index not supportive



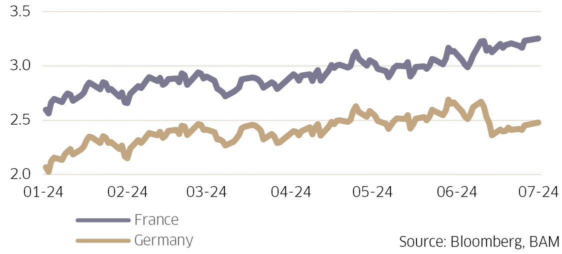
Source: Bloomberg, BAM

INTEREST RATES

In June, yields on ten-year US government bonds fell by 20 basis points to 4.2%. This was due to the May inflation figure, which indicated an easing of the situation with a drop from 3.6% to 3.4% for the core rate. In the eurozone, interest rates moved sideways in countries such as Italy and Spain, while they even declined in Germany. France is quite an exception there with rising interest rates. The reason for this was the election victory of the Front National and the associated fears of a "Frexit". Although such a scenario is hardly realistic, a look at France's debt gives cause for concern. A debt of 110% of GDP with budget deficits of 5% is not sustainable and has already led to a downgrade of the credit rating by S&P.

As far as the central banks are concerned, the SNB is likely to cut interest rates one more time. We expect the ECB to take two interest rate steps this year. The Fed is taking its time as it wants to be quite sure that inflation has been beaten. We expect to see one or possibly two interest rate cuts this year.

Rising divergence: 10-year interest rates France vs. Germany



Source: Bloomberg, BAM

EQUITIES

Equity markets showed a mixed performance in June. Led by technology stocks, US equity markets continued their upward trend, whereas eurozone equities performed weaker. This, too, was triggered by the shift to the right in the EU parliamentary elections, which hit the CAC 40 particularly hard. Because of its defensive nature, the Swiss market performed favourably in this uncertain environment.

Equity markets are likely to remain volatile in the short term. This is due to political risks, the Chinese economy, and new trade disputes. In such an environment, we favour solid Swiss companies with intact business prospects and a strong balance sheet. In the eurozone, we are waiting on the sidelines for the situation to calm down. After that, purchases in well-positioned companies may be considered.

Asset class	Assessment	Comment
Bonds		Government bonds are becoming less attractive on lower yield levels. Narrow spreads on corporate bonds.
Government bonds		
Corporate bonds		
Equities		Equity markets have entered a consolidation phase. Volatility is likely to persist in the short term. However, in the medium term, positive fundamental data will prevail and lead to a rise in equities. Solid stocks with low leverage remained in favour.
Switzerland		
Eurozone		
Great Britain		
US		
Emerging markets		
Real Estate		The environment is still favourable for Swiss real estate, which remains an attractive alternative to Swiss bonds.
Switzerland		
Commodities		Oil is currently trading at fair price levels. China having suspended its purchases, the gold price is lacking its key driver.
Oil		
Gold		

unattractive attractive current assessment

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