BELVÉDÈRE
Asset Management

September 2024

THE TIME HAS COME

MARKET INSIGHTS

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At the eagerly anticipated central bank meeting in Jackson Hole, the head of the US Federal Reserve, Jerome Powell, said that the time had come to change course and ease monetary policy. There has been a shift in risks – inflation has been superseded as the key issue by the weakening labour market. However, Mr Powell did not reveal how soon interest rates would be cut, nor by how much. As in the past, this would depend very much on the upcoming economic data.

What does this change of course imply for the US economy, and also for the Swiss economy?

At 2.8%, the US economy grew more strongly again in the second quarter than in the first, when an increase of just 1.4% was achieved. Another positive aspect is that inflation fell below 3% in July. However, there are some negative points, as well. The Purchasing Managers' Index for manufacturing has been on a steady decline since March and – at 46.8 points – is now below the expansion threshold of 50 points. The labour market keeps weakening. The unemployment rate has now risen to 4.3% and the Bureau of Labor Statistics had to revise the number of new jobs created in the period from April 2023 to March 2024 downwards by no less than 818,000. In other words, the labour market has weakened even more than anticipated. Against this backdrop, the time has come for an easing of monetary policy.

The Swiss economy is currently feeling the effects of the imminent change of course in US monetary policy, mainly in form of a weaker dollar. With the prospect of lower US interest rates, the US currency has softened by more than 8% since the end of April and is back at around the same level where it was at the end of 2023. Moreover, the euro has also weakened during this time. These currency movements affect small and medium-sized companies in Switzerland particularly hard. It is reflected in the Purchasing Managers' Index, which has lingered below the 50-point threshold for 19 months so far. Many companies have caught up on their high order backlogs from the days of the pandemic and are now facing challenging times ahead.

The Swiss National Bank (SNB) is likely to respond to the situation described above with another interest rate cut of 25 basis points to 1% at its next meeting on 26 September. Rates would thus be at a neutral level and there would be no compelling call for any further cuts. However, this does not apply to balance sheet transactions. If the Swiss franc remains strong, the SNB will sooner or later intervene and weaken the franc with currency purchases. That would provide some highly welcome tailwind to Swiss SMEs.

Giorgio Saraco
Partner

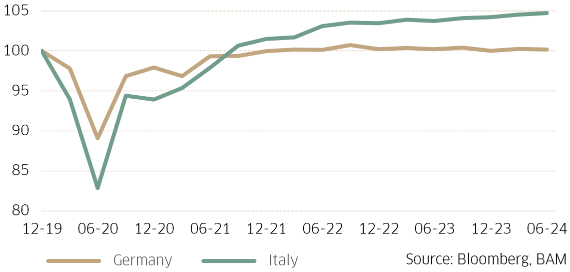
ECONOMY

At the beginning of August, the US surprised markets with some disappointing economic figures, which cast some doubt on the scenario of a soft landing for the economy. Robust retail sales in July and rising consumer confidence then provided some relief. To summarise, the consensus still assumes the economy will weaken, but does not expect a slump.

The manufacturing sector continues to struggle in most euro zone countries. This is due to lower exports and diminishing order backlogs. The service sector performed better, benefiting in France for instance from the Olympic Games. Germany is still not getting off the ground and has been stagnating since the end of 2019, falling behind Italy, for example. The reasons for this are low investments, a lack of reforms and, last but not least, demographics.

In China, economic activity has remained weak during recent weeks. Despite numerous stimulus measures, the property sector in particular is not making any headway. Inventories remain high and sales figures carry on their downward slide. Prices are falling, which is having negative wealth effects. Exports are the only spark of light in all this. In a nutshell, more stimuli will be needed to stabilise the economy as a whole.

GDP Growth: Germany behind Italy (indexed)



Source: Bloomberg, BAM

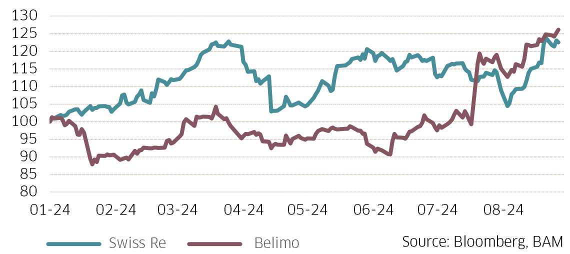
EQUITIES

After a long period of poise and calm, equity markets experienced a surge in volatility at the beginning of August. This was primarily caused by fears of a recession in the US, which led to a correction of almost 10% in the S&P 500. The SPI lost 6.5% during the same period. The decline here was not so much driven by any economic fears, but rather by the strong franc. However, the correction was short-lived and a surprisingly rapid V-shaped recovery set in, fuelled by some brighter economic figures and the prospect of interest rate cuts in the US.

Among the individual stocks, Swiss Re (+7.2% in August) and Belimo (+6.2%) performed well. Swiss Re benefited from higher income from premiums, while Belimo did well in supplying air-cooling solutions, which are increasingly important for data centres.

In August, it became apparent how little it takes to throw the stock markets off their stride. What's more, the months of September and October are generally not easy. However, the prospect of lower interest rates in the US should prevent any major setbacks. To sum it up, a volatile sideways trend seems the most likely scenario for the coming months.

Swiss Re and Belimo are trending higher
(Performance YTD, indexed)



Source: Bloomberg, BAM

INTEREST RATES

Last month, bonds benefited from a flight towards low-risk investments and the prospect of interest rate cuts. In the US, yields on 10-year government bonds fell to 3.8% and are thus at around the same level as at the end of 2023. In the eurozone and Switzerland, there was a sideways movement. Four interest rate cuts are expected in the US by the end of the year, one in Switzerland and two in the eurozone.

After government bonds – against expectations – failed to serve as a viable alternative during times of falling equity prices in 2022, they resumed their customary role in August. Government bond prices rose, offering protection during the stock market correction. For the present, we see only limited potential for a further decline in interest rates on longer-term government bonds.

Asset class	Assessment	Comment
Bonds		Government bonds have regained their role as a hedge against equities. Spreads on corporate bonds remain low.
Government bonds		
Corporate bonds		
Equities		Market volatility is likely to persist. Amid declining interest rates, dividend stocks in defensive sectors are gaining in appeal. Swiss equities would benefit from any interventions the SNB might undertake to weaken the Swiss franc.
Switzerland		
Eurozone		
Great Britain		
US		
Emerging markets		
Real Estate		Commercial real estate is becoming more attractive. Property funds are currently fairly valued.
Switzerland		
Commodities		Oil and gold both remain attractive due to prevailing geopolitical tensions.
Oil		
Gold		

unattractive — attractive — current assessment

Matthias Wullschleger
Senior Investment Analyst

Imprint

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Publisher: Belvédère Asset Management AG
Authors: Giorgio Saraco, Matthias Wullschleger
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