BELVÉDÈRE
Asset Management

December 2024

AMERICA FIRST

MARKET INSIGHTS

AMERICA FIRST

The US economy has developed impressively over the past few decades and has eclipsed the other major economies. In 1990, for example, the US accounted for around 40% of the G7 countries' GDP; today it accounts for more than half. What were the main drivers? The US performs particularly well compared to other countries when it comes to increasing productivity, because no other country invests as much as the US in research and development. Another factor is the shale boom (production of shale oil and gas using fracking), which has made the US self-sufficient and kept prices low. The large, uniform market, relatively sparse regulation and, last but not least, immigration are also supportive.

With the re-election of Donald Trump as US president, the question arises as to whether the successful model is jeopardised. At first glance, his aggressive rhetoric of new tariffs and against immigrants give rise to fears of worst-case scenarios. To make a realistic assessment, one must consider what Donald Trump promised his voters: Lower prices and less immigration. However, the two points are at odds with one another: the US is dependent on low-cost immigrants in the low-wage sector, for example in agriculture or meat processing. Hence, resistance to restrictions is inevitable. Trump is therefore likely to focus primarily on asylum seekers and the deportation of foreign criminals. There are also contradictions when it comes to tariffs: New high tariffs, especially on consumer products, would only fuel inflation, which is diametrically opposed to the election promise. The Trump administration will therefore only introduce high tariffs selectively and use them primarily as a threat to achieve good trade agreements. The tariff gun has been loaded, but whether it will be fired is anything but certain.

Overall, we believe that the US economy will continue to prosper under the Trump presidency. The supporting factors outlined above will remain in place and continue to have a positive impact on business. Companies will adapt to the changes that will certainly come about, just as they did during Trump's first term in office or under other administrations.

Finally, a look at Switzerland: the US is the country's key export market and, therefore, developments there are of particular interest. It cannot be ruled out that individual companies that only produce in Switzerland might come under pressure due to the threat or introduction of tariffs. On the other hand, we identify numerous winners, especially if the intended reindustrialisation in the US takes place. These include Holcim, which plans to spin off its American business and list it on the US stock exchange next year, Lonza, which recently bought a large production facility in California, and Belimo, which has expanded its capacities in the US. Trump's "America First" strategy therefore also offers Swiss companies good opportunities to benefit from economic developments.

Giorgio Saraco
Partner

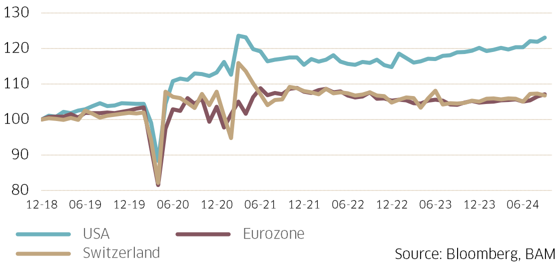
ECONOMY

While the economies in the eurozone and China are not really getting off the ground, the USA is still moving ahead. This is mainly driven by private consumption, which is showing no signs of slowing down. According to calculations by the Atlanta Fed, the US economy is growing at a rate of 2.5% (annualized, compared to the previous quarter). This indicates a slight acceleration in growth rather than a soft landing.

In the eurozone, the November purchasing managers' indices did not paint a positive picture. In addition to the already weak manufacturing index, the services sector index also fell to a 10-month low of 49.2 points. The slight recovery in retail sales in September provided a faint glimmer of hope. Nevertheless, a sluggish economic trend remains the most likely scenario.

In China, the exports remain a bright spot for the economy. Private consumption recovered slightly in October following a spell of weakness during the summer. However, a sustained recovery will depend on a stabilization in the real estate market, which may still be a long time coming. A pressing issue is deflation at the consumer price level, but even more so in producer prices, which fell by 2.9% year-on-year in October.

US consumption: no signs of slowing down (indexed, real prices)



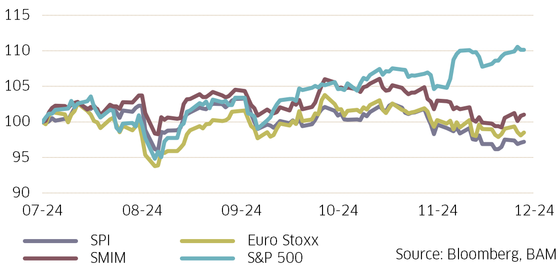
Source: Bloomberg, BAM

EQUITIES

In the wake of Donald Trump's re-election, markets were dominated by headlines about impending new tariffs and nominations of key figures for Trump's administration. While US stock markets benefited from the outlook of an "America First" policy, those in Europe and Asia suffered. With all the headlines, actual fundamentals almost faded into oblivion. And these also speak in favour of the US: earnings growth in the S&P 500 rose by around 8% in the third quarter, while it declined by 7.8% in the eurozone. In addition to the energy sector, cyclical consumption in particular performed poorly, as profits were halved. Accordingly, equity markets performance in November was hardly a surprise: S&P 500 +5.3% and Euro Stoxx -1.2%. The SPI and SMIM were in line with their European counterparts at -1.2% and -0.9%, respectively. Financial stocks such as Swiss Re were among the winners, while Nestlé continued its downward trend.

What can we expect for equities in December? After the good performance, notably in the US, all signs point toward a consolidation. The corporate reporting season is over and the market has already reacted positively to the election of Donald Trump. The focus has now shifted toward central bank policy and Jerome Powell might take more time cutting interest rates than markets would expect given the favourable economic environment.

S&P 500 on a run (indexed)



Source: Bloomberg, BAM

INTEREST RATES

Fears of escalating budget deficits under Trump led to a rise in yields on 10-year government bonds, although the situation calmed down again in the second half of November. Problems with the national budget also weighed on the bond market in France, with Greek government bonds at around 3% yielding for the first time as much as the supposedly safe French bonds. In Switzerland, interest rates fell to 0.3%, their lowest level since March 2022.

The fact that the Swiss National Bank (SNB) could introduce negative interest rates again, if necessary, may well have played a role. The SNB is under pressure in this regard because the euro has weakened further against the Swiss franc. The pressure is not getting any less, as the European Central Bank is likely to cut interest rates aggressively in view of the poor economy. The new SNB Chairman Martin Schlegel is facing a challenging task.

Asset class	Assessment	Comment
Bonds		Budget deficits are becoming an issue for government bonds. Spreads on high-yield and emerging market bonds have risen.
Government bonds		
Corporate bonds		
Equities		Equity markets have exhausted their potential in the short term. The medium-term outlook remains intact: earnings growth will remain high, especially in the US. Europe would need a tailwind from a better economy in China. In Switzerland, small and medium-sized companies remain interesting.
Switzerland		
Eurozone		
Great Britain		
US		
Emerging markets		
Real Estate		Real estate should continue to benefit as an alternative to lower interest rates.
Switzerland		
Commodities		Gold has become more interesting again after the setback. There is little positive impetus for the oil price in the short term.
Oil		
Gold		

unattractive — attractive — current assessment

Imprint

Publisher: Belvédère Asset Management AG
Authors: Giorgio Saraco, Matthias Wullschleger
Stop press: 28.11.2024

Matthias Wullschleger
Senior Investment Analyst