PostFinance investment compass
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PostFinance

Editorial A summer of disappointments

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Over the first six months of 2024, economic news disappointed all those hoping for an upturn during the second half of the year. The financial market environment remains challenging, given the sluggish economy.

Beat Wittmann
Head of Investment Office

It's not just the weather that's been disappointing this summer. Economic news was not generally what most people had hoped for. While an upturn during the second half of 2024 was widely anticipated at the start of the year, it's now clear this recovery will take some time. Europe looks likely to continue stagnating for the time being, China's domestic economy has deteriorated again and the USA looks set for a considerable slowdown in growth, too.

"Central banks look more inclined to accept higher inflation than run the risk of recession."

But there is a glimmer of hope in the global economy: weakness in global demand for goods does seem to have bottomed out. Or at least that's what improved growth rates in Chinese goods manufacturing and a significant rise in momentum in global goods trade are pointing to. In our view, this means countries with strong industrial sectors, such as China, Germany and Switzerland, may pick up momentum again over the coming quarters.

Otherwise, positive signs are few and far between. In Europe, the German economy appears to be stabilizing, but growth in France and Italy is slowing down. Overall, this means our neighbours are enjoying little momentum.

In China, the increasing deterioration in the real estate market and construction activity are a cause for concern. Real estate prices are now falling throughout China and investment in new-build developments remains extremely low. Construction activity has now decreased by two-thirds compared with 2019. This is also hitting consumer confidence, which is already being reflected in retail sales figures. Overall economic growth in the last quarter didn't even reach 3 percent on an annualized basis.

Economic news from the USA was just as downbeat. Not only are consumer confidence and demand for construction faltering, but companies are also more sceptical about the months ahead. Purchasing managers at industrial and services companies currently expect a decline in their business activity. That's something we've otherwise only seen shortly before or during a recession.

Whether the USA will actually enter recession is still unclear at the moment. And with inflation now lower after being tackled for a long period, it's not unreasonable to expect the central banks to increasingly focus on maintaining growth and avoiding recession. This means a cut to interest rates in September looks increasingly likely in the USA.

What does that mean for the equity markets? Weaker growth leads to lower inflation. However, if growth is too weak, there is a risk of falling company profits and recession. We continue to expect a soft landing in the USA, but these factors clearly show why we're still advising a cautious approach to investment.

Positioning

Cognitive dissonance

While the mood on the financial markets remains optimistic due to renewed progress in the fight against inflation, the economic situation looks increasingly challenging. We remain cautiously positioned.

There was a renewed sense of optimism on financial markets again last month. This is based on hopes that inflation in western industrial nations will soon return to normal and that a shift towards monetary easing will take place shortly. The European Central Bank (ECB) took the first step in this direction by cutting its policy rate in June. Shortly afterwards, the Swiss National Bank (SNB) eased its monetary policy for the second time. However, developments in the USA are of even greater relevance to the financial markets. Further progress was made on reining in inflation in June. The overall inflation rate fell to 3 percent, while core inflation dropped to 3.3 percent. It means there's growing confidence on the financial markets that the US Federal Reserve will ease its monetary policy soon, too.

In this context, not only did capital market interest rates fall, generating gains on the bond markets, but equity markets also rose sharply once more. Share prices climbed by over 4 percent in the USA last month. The S&P 500 index hit a new all-time high in July, soon after the announcement of inflation rates for June. European stock markets benefited from this optimism, making strong gains, too.

Inflation hasn't fallen by chance

However, inflation hasn't fallen by chance, but is the result of a wider economic slowdown. This means Europe continues to wait for an upturn, while bottoming-out seems the best scenario in China at the moment. The domestic market in China, the world's second largest economy, continues to struggle. Both import and investment figures remain weak. The fall in prices on the real estate market also appears to be gaining pace. Cautious statements in the run-up to the third plenary session of the Communist Party's 20th

Performance of asset classes

Asset class		1M in CHF	YTD [1] in CHF	1M in LCY [2]	YTD [1] in LCY [2]
Currencies	EUR	1.0%	4.9%	1.0%	4.9%
	USD	0.3%	6.9%	0.3%	6.9%
	JPY	–2.6%	–6.8%	–2.6%	–6.8%
Fixed Income	Switzerland	2.1%	1.5%	2.1%	1.5%
	World	1.4%	4.3%	1.0%	–2.4%
	Emerging markets	1.9%	10.2%	1.5%	3.1%
Equities	Switzerland	0.3%	11.0%	0.3%	11.0%
	World	4.2%	23.0%	3.9%	15.0%
	USA	5.5%	26.4%	5.1%	18.3%
	Eurozone	–0.4%	15.5%	–1.3%	10.1%
	United Kingdom	0.9%	16.7%	–0.3%	8.2%
	Japan	2.7%	17.8%	5.4%	26.4%
	Emerging markets	4.8%	17.9%	4.5%	10.3%
Alternative Investments	Swiss real estate	3.7%	5.7%	3.7%	5.7%
	Gold	3.8%	22.7%	3.5%	14.7%

1 Year-to-date: Since year start
2 Local currency

Data as of 10.7.2024
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Central Committee give little hope of substantial support measures from the Chinese government. And there are growing signs of a slowdown in the US economy, which has been robust up to now. The mood in the services sector, in particular, deteriorated last month, while consumer confidence and sentiment in the construction industry remain subdued.

"The dissonance between financial market performance and economic development currently being observed isn't sustainable."

Dissonance means caution is advised

Although the decline in inflation rates is encouraging, the related dip in economic performance raises a note of caution. Typically, companies only thrive during economically challenging times in exceptional cases. This is shown by earnings performance in the USA. During the period leading up to recession, profits have generally stagnated before falling sharply during the recession itself. The fact that earnings in the USA are currently flat despite the AI boom tallies with the overall picture of an economic slowdown. The upcoming reporting period should offer even more precise information on the economic situation for companies. Overall, the dissonance observed between financial market performance and economic development is not sustainable, and means we continue to adopt a cautious approach. That's why we're still favouring value stocks, the defensive Swiss stock market and emerging market equities over US and European shares.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3]		neutral[3]	overweighted[3]	
				−−	−		+	++
Liquidity	**Total**	**7.0%**	**7.0%**					
	CHF	1.0%	1.0%					
	Money market CHF	6.0%	6.0%					
Fixed Income	**Total**	**31.0%**	**31.0%**					
	Switzerland	15.0%	15.0%					
	World[2]	10.0%	10.0%					
	Emerging markets[2]	6.0%	6.0%					
Equities	**Total**	**50.0%**	**50.0%**					
	Switzerland	25.0%	25.0%					
	USA	6.0%	6.0%					
	Eurozone	3.0%	3.0%					
	United Kingdom	2.0%	2.0%					
	Japan	2.0%	2.0%					
	Emerging markets	10.0%	10.0%					
	World Value	2.0%	2.0%					
Alternative Investments	**Total**	**12.0%**	**12.0%**					
	Swiss real estate	7.0%	7.0%					
	Gold[2]	5.0%	5.0%					

1 Tactical Asset Allocation: short to mid-term orientation
2 Currency hedge to CHF
3 Positioning relative to our long-term asset allocation

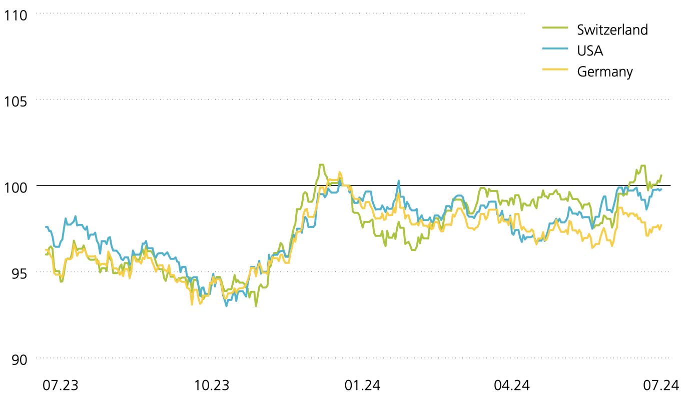
— Adjustment compared to last month

Market overview

Fixed income

Bond markets gained ground, with monetary policy being eased in Europe and increasingly gloomy economic signals coming from the USA.

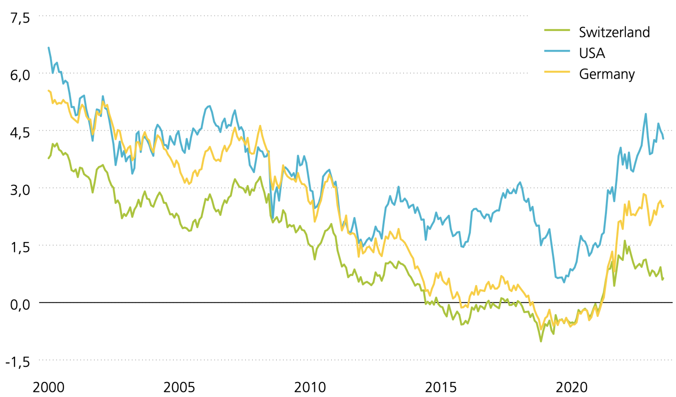
Indexed performance of government bonds in local currency
100 = 01.01.2024



After two volatile months, bond markets made gains last month, especially in Switzerland. The easing of monetary policy in Switzerland and the eurozone was a major factor here. Both the Swiss National Bank (SNB) and the European Central Bank (ECB) cut their policy rates by 25 basis points in June. The still challenging economic environment may also have contributed towards keeping capital market interest rates low.

Source: SIX, Bloomberg Barclays

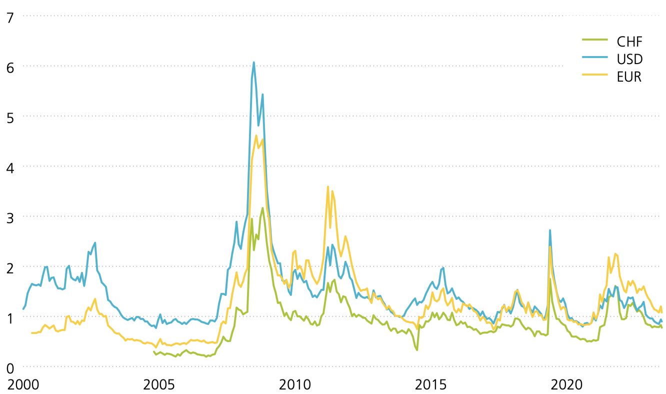
Trend in 10-year yields to maturity
In percent



Capital market interest rates fell in the western industrial nations last month. On the one hand, this was likely to be due to the easing of monetary policy in the eurozone and Switzerland. Europe's persistent economic weakness and weaker economic signals in the USA were also contributory factors. In Switzerland, yields to maturity on 10-year Swiss federal government bonds stood at below 0.6 percent in early July, while those on 10-year US treasury bonds fell below 4.3 percent.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



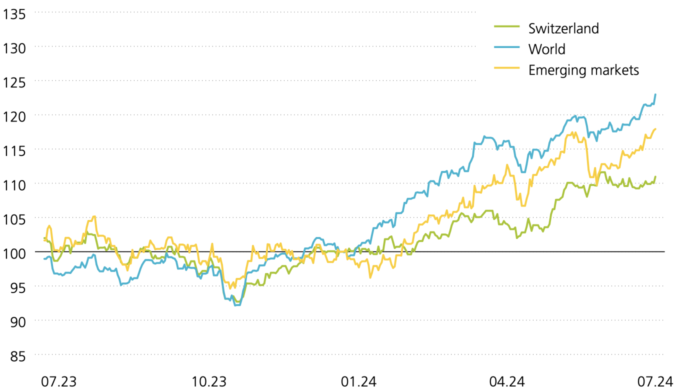
There were no significant changes to credit spreads, which remain at a low level. It is striking that spreads on Swiss corporate bonds have narrowed less significantly since spring 2023 than those in the eurozone and USA. However, risk premiums show little indication of recession in Switzerland, either. That said, the past has shown that the situation can change quickly during an economic slowdown.

Source: Bloomberg Barclays

Market overview
Equities

Tech-heavy equity markets made very strong gains month-on-month, while European stock markets, in particular, came under pressure owing to political uncertainty surrounding European parliamentary elections.

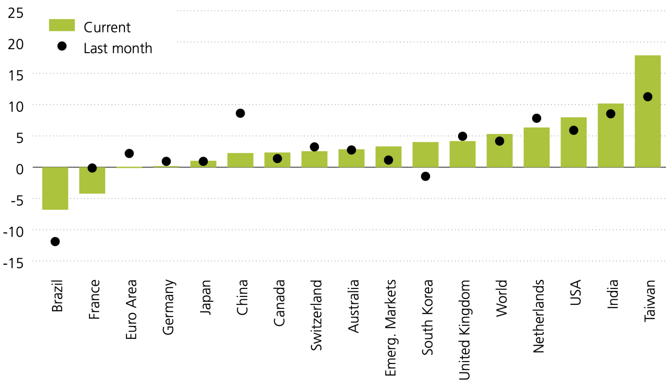
Indexed stock market performance in Swiss francs
100 = 01.01.2024



Equity markets generally produced a positive performance last month. In particular, tech-heavy stock markets, including those in South Korea and Taiwan, made very strong gains. These equity markets are dominated by companies such as Samsung Electronics and TSMC operating in the chip industry, which is key to the AI boom, and reported positive news on business performance last month. By contrast, political uncertainty after European parliamentary elections weighed on the stock markets in Europe.

Source: SIX, MSCI

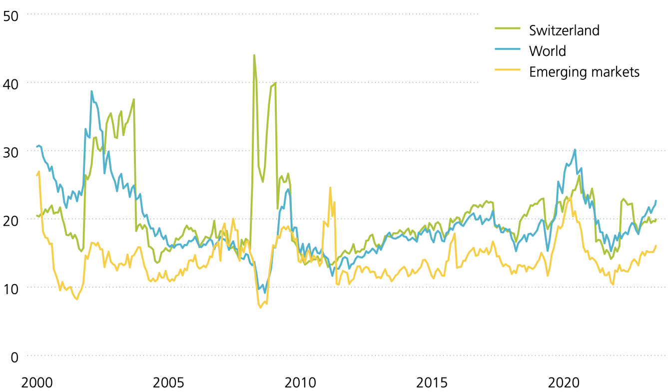
Momentum of individual markets
In percent



Equity markets generally lost momentum last month, especially in Europe. European and French parliamentary elections caused uncertainty, resulting in losses on European stock markets and negative momentum on the French equity market for the first time this year. Momentum on Brazil's stock market remains weak. Concerns over the fiscal situation of Latin America's biggest economy have led to a downward trend on the Brazilian equity market since early May.

Source: MSCI

Price/earnings ratio
P/E ratio



Positive performance on equity markets worldwide and in the emerging markets led to a sharp rise in the price/earnings (P/E) ratio month-on-month. However, the P/E ratio only trended sideways on the Swiss equity market last month due to neutral stock market performance. How the P/E ratios develop is set to become more interesting again as the reporting of half-yearly results approaches.

Source: SIX, MSCI

Market overview

Swiss real estate investments

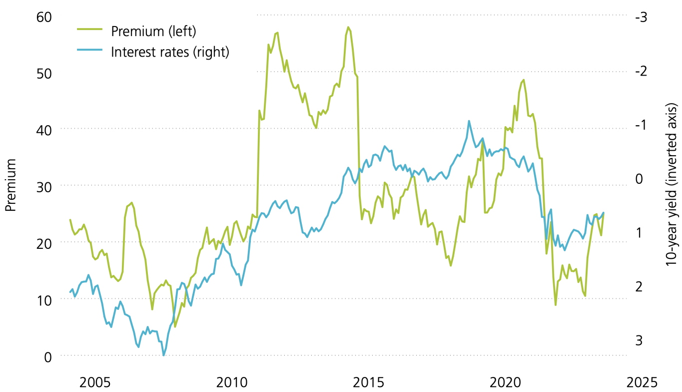
Swiss real estate funds succeeded in reversing the trend last month, making significant gains. This means the performance of Swiss real estate is up by several percentage points again since year-opening.

Indexed performance of Swiss real estate funds
100 = 01.01.2024

Exchange-listed Swiss real estate funds rose sharply in value last month, recovering from their brief setback in April and May. This increase in value was fostered by the substantial fall in Swiss capital market interest rates. Yields to maturity on 10-year Swiss government bonds were still above 0.8 percent in mid-June, before dropping to 0.6 percent by early July. This makes investment in long-term projects and assets such as real estate much more attractive. The recent gains put the year-to-date performance of Swiss real estate funds well into positive territory again.

Source: SIX

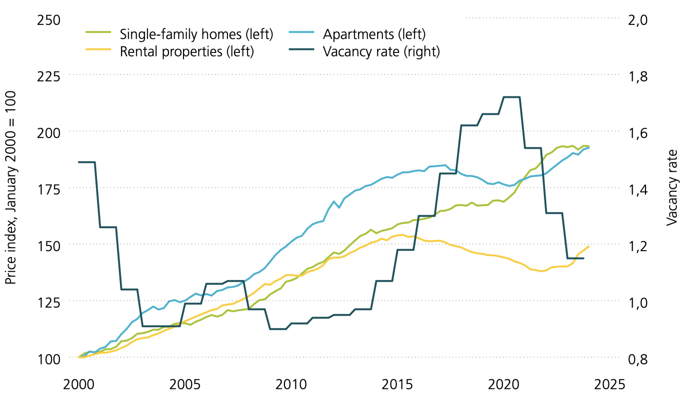
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



Investors in exchange-listed real estate usually have to pay a premium on the net asset value (NAV) of properties. This premium has risen again slightly owing to the increase in the value of exchange-listed funds and now stands at around 25 percent. In the past, higher premiums have usually only been observed during periods when interest rates were much lower than they are at present.

Source: SIX

Vacancy rate and real estate prices
100 = January 2000 (left) and in percent (right)



The prices of owner-occupied and rental apartments continue to climb. A tight supply situation, reflected in the low vacancy rate, and higher rental income, made possible by two reference interest rate rises, appear to have played a major role. The recent rise in prices was also spurred on by the decline in long-term capital market interest rates. However, prices of single-family homes are currently trending sideways at a high level.

Find out more in our interest rate forecast for mortgages

Source: SNB, FSO

Market overview

Currencies and cryptocurrencies

While the Swiss franc continues to weaken, depreciating substantially since year-opening, the US dollar gained again last month and remains one of the strongest currencies.

The Swiss franc had appreciated by almost 2 percent against the euro and by about 1.3 percent against the US dollar by mid-June. However, the Swiss currency had lost these temporary gains again by the end of the month, and stood at a similar level to the end of May. While the Swiss franc's value looks set to rise again longer-term due to low inflation rates, it has depreciated considerably over the first six months of the year.
The US dollar gained again in June. After briefly displaying weakness in May, the US currency was up by around 1.2 percent last month on a trade-weighted basis. This means the US dollar is continuing its upward trend seen since the start of the year.

Currency pair	Price	PPP [1]	Neutral area [2]	Valuation
EUR/CHF	0.97	0.93	0.86 – 1.01	Euro neutral
USD/CHF	0.90	0.79	0.69 – 0.90	USD neutral
GBP/CHF	1.16	1.20	1.04 – 1.36	Pound neutral
JPY/CHF	0.56	0.90	0.74 – 1.06	Yen undervalued
SEK/CHF	8.53	9.83	8.81 – 10.85	Krona undervalued
NOK/CHF	8.40	10.59	9.39 – 11.79	Krona undervalued
EUR/USD	1.08	1.18	1.02 – 1.33	Euro neutral
USD/JPY	161.69	88.61	68.76 – 108.46	Yen undervalued
USD/CNY	7.28	6.12	5.68 – 6.57	Renmimbi undervalued

Cryptocurrency	USD rate	YTD [3]	Annual high	Annual low
Bitcoin	57'733	0.37%	73'121	39'528
Ethereum	3'107	0.35%	4'073	2'207

1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Year-to-date: Since year start

Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

The gold price trended sideways at a high level in June. The US dollar's continued appreciation also had little effect on demand for the precious metal.

Indexed performance of gold in Swiss francs
100 = 01.01.2024

Demand for gold remains strong. The precious metal's price has stabilized at a historical high over the past two months, generally fluctuating between 2,300 and 2,400 US dollars per troy ounce. The US dollar's renewed appreciation in June, which has made buying gold more expensive, did little to subdue demand. Ongoing instability regarding the geopolitical situation, especially in the Middle East, continued to underpin the gold price. A survey conducted by the World Gold Council also indicates that western central banks intend to continue building up their gold reserves over the coming years.

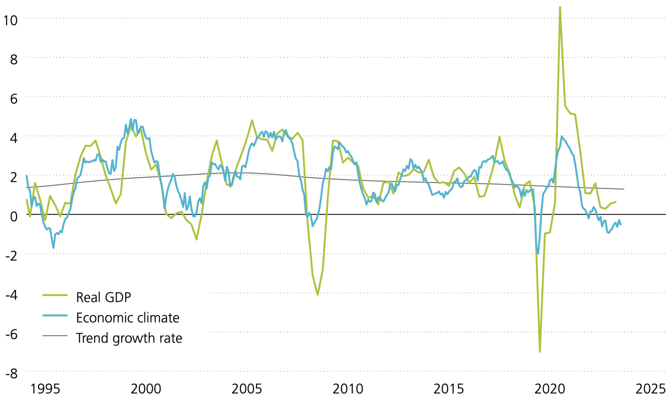
Source: Allfunds Tech Solutions

Increasing uncertainties

Global economic data was weaker last month. Deteriorating business sentiment and a slowdown in construction were particularly evident. While positive economic scenarios – such as a soft landing in the USA and a recovery in Europe – remain intact, the likelihood of disappointment rose again.

Switzerland

Growth, sentiment and trend
In percent

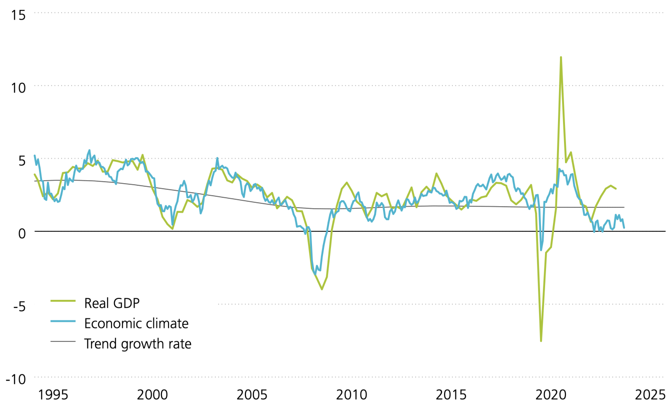


Source: Bloomberg

Swiss economic data remains exceptionally volatile, making it difficult to form a coherent overall picture. However, there are still no clear signs of a recovery in subdued economic performance. Business in the export-led industrial sector remains especially weak. The services sector, driven by domestic consumption, is slightly more stable. Above all, the weak economy is having a positive effect on the inflation trend. With inflation currently standing at 1.3 percent, the Swiss National Bank (SNB) is the only major central bank to have achieved its price stability target. The SNB recently cut its policy rate from 1.5 to 1.25 percent due to the weak economy and low inflation.

USA

Growth, sentiment and trend
In percent

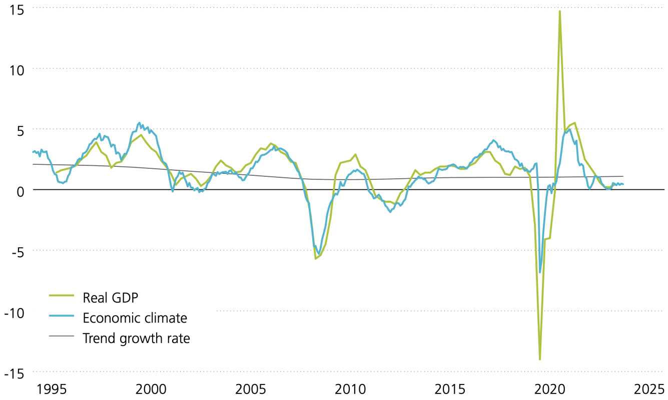


Source: Bloomberg

Economic data from the USA was disappointing again last month, pointing to a substantial slowdown in domestic demand. Falling retail sales and declining activity in the construction sector were particularly evident. The prospects of companies in the services sector have grown much more pessimistic, too. They now anticipate a decline in business activity over the coming months, as their counterparts in industry have done for some time. It means the labour market remains crucial for the US economy. This has also shown growing signs of weakness recently. Far fewer new jobs were created during the second quarter compared to the first, and unemployment has risen. However, utilization of labour market capacity remains solid for the time being.

Eurozone

Growth, sentiment and trend
In percent

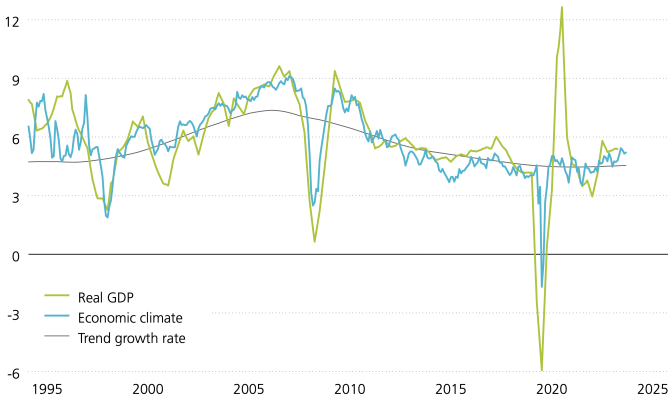


Source: Bloomberg

The European economy has stabilized so far this year and has bottomed out. However, there have been no signs of a strong recovery yet. The situation did not change much last month either. Industry, in particular, remains sluggish. Production in the manufacturing sector fell again recently and the outlook among industrial companies took a negative turn. In contrast, the services sector has returned to a moderate growth trajectory this year, which is encouraging. These sectoral differences are also reflected in the inflation rate. While goods prices barely rose, inflation for services stands at over 4 percent on average. The continued sharp price increases in the services sector may make it difficult for the European Central Bank (ECB) to further ease its monetary policy over the coming months.

Emerging markets

Growth, sentiment and trend
In percent



Source: Bloomberg

China's economy, the biggest among the emerging markets and the world's second-largest, is still failing to make any progress. This applies in particular to the real estate and construction sector, which is facing a severe crisis. The number of new apartments built is now more than 60 percent lower than before the COVID-19 pandemic. The collapse in real estate prices continued last month, too. Recently, services companies have also grown more pessimistic about future prospects. In light of the weak domestic economy, impetus for economic growth is only expected to come from export markets at the moment. There was, at least, a substantial rise in export volumes in May.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y [1] 2023Q4	0.5%	3.1%	0.2%	–0.2%	1.0%	8.6%	2.1%	5.2%
GDP Y/Y [1] 2024Q1	0.6%	2.9%	0.4%	0.3%	–0.7%	7.8%	2.5%	5.3%
Economic climate [2]	↘	↘	→	↗	↗	→	↘	↗
Trend growth [3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.2%	1.6%	3.8%
Inflation	1.3%	3.0%	2.5%	2.0%	2.8%	5.1%	4.2%	0.2%
Key rates	1.25%	5.5%	4.25% [4]	5.25%	0.1%	6.5%	10.50%	3.45%

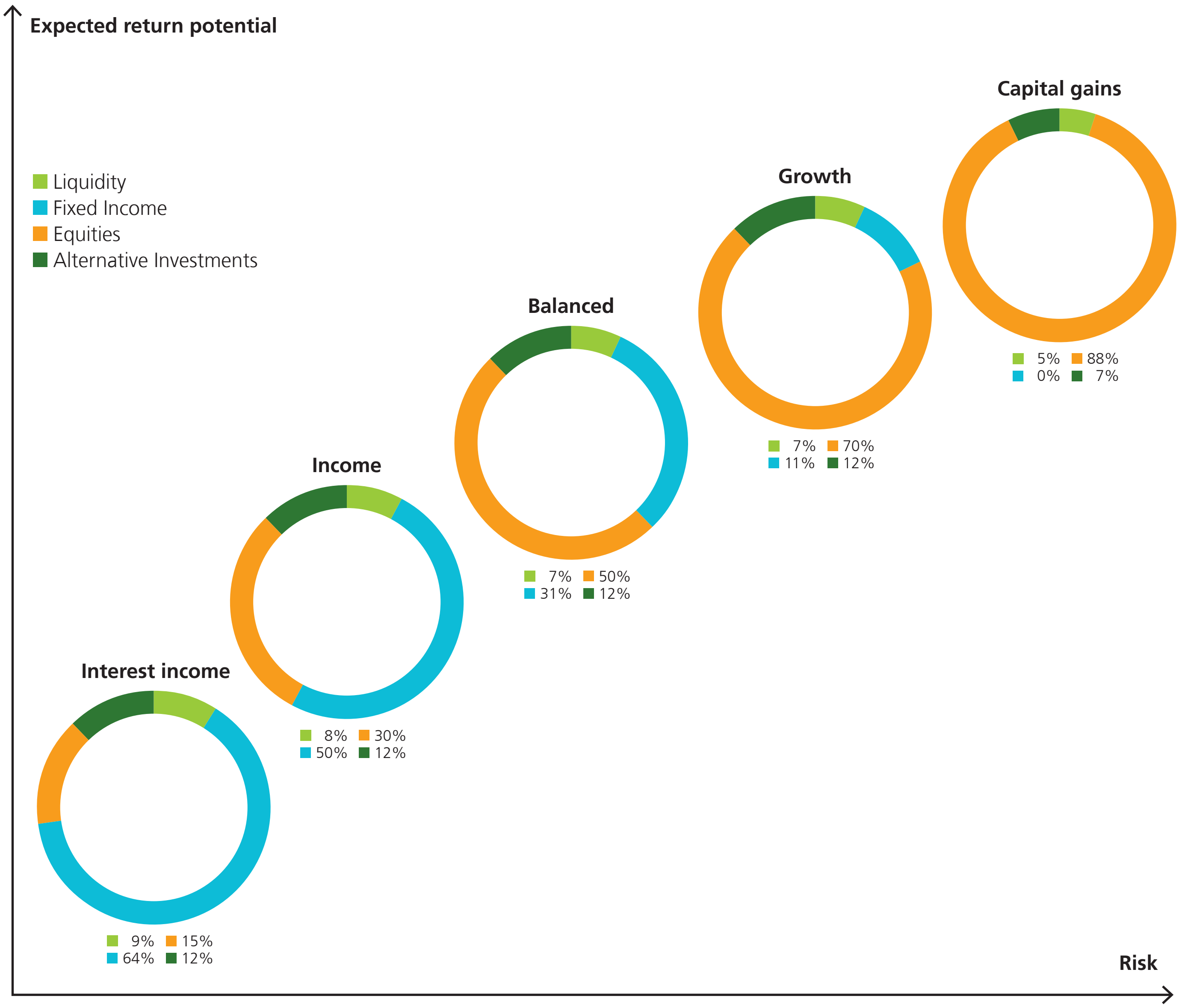
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 This is the ECB's main refinancing rate, the deposit rate is 0.5 percentage points lower.

Source: Bloomberg

Model portfolios Swiss focus

Discrepancy

The financial markets remain optimistic. Both the equity and bond markets rose last month. Meanwhile, the economic outlook is becoming increasingly gloomy. In Europe, the recovery is a long time coming, in China a bottoming out is to be expected at best and in the USA, there are increasing signs of an economic slowdown. This discrepancy between the development of the financial markets and the economy calls for caution. We therefore remain cautiously positioned and continue to favour value stocks, the defensive Swiss equity market and emerging market equities over US and European equities.



Source: PostFinance Ltd

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