June 2024

Market overview and positioning

The attention of the investment community is gradually turning to the US elections. The first TV debate confirmed existing expectations of the quality of the candidates. Away from the cameras, rates of inflation continue to develop constructively. Both equities and bonds have benefited from this development. Swiss investors have experienced something of a headwind given the stronger Swiss franc.

Solid first half

The first six months of 2024 saw equity investments in particular deliver solid returns. US technology stocks were the global leaders in this development. Rising interest rates had a conflicting impact on bond investments. 2024 continues to present intact opportunities for mixed investment portfolios: Equities are benefiting from the persistently robust economy as well as rising corporate earnings. Government bonds offer protection against an economic downturn.

"The SNB has delivered another surprise. But interest rates are likely to come down further in the US and Europe too."

Alex Müller, Chief Investment Officer

Constructive environment for equities

The global economy is likely to grow in the second half of the year too, and this assumption lies at the heart of our forecasts. On the negative side, the US economy is now developing rather less dynamically. However, this should provide support to riskier investments such as equities. Together with declining rates of inflation, a two-fold positive effect is unfolding: on the one hand, the financial markets are expecting an environment with appropriate, moderate growth and low rates of inflation. On the other, capital market interest rates should remain stable or decline slowly, which means bond investments will retain their appeal.

US economy enters choppy waters

In the US, the key growth indicators weakened somewhat at the end of the first quarter. In May the manufacturing industry came under some pressure. The US economy enjoyed less momentum entering the second quarter of 2024 than was the case three months earlier.

The real estate market was held back by persistently high interest rates and a structural undersupply situation in existing housing stock. High prices are putting many households off buying residential property. Little is likely to change in this regard until the Fed cuts interest rates. This pricing pressure continues to feed through noticeably into rates of inflation.

Fed plays waiting game

At its June meeting, the Fed's key decision-making body (FOMC) confirmed its existing monetary policy stance, leaving the key US interest rate at 5.25% for the seventh time in succession. As far as the Fed is concerned, US economic growth is still sufficiently robust, and inflation is gradually coming down towards the target bandwidth ceiling of 2%. The labour market is in rude health. FOMC members are generally now expecting a single rate cut in 2024. Our view remains the same – price pressure is waning, and the Fed is likely to cut interest rates in September.

Market overview and positioning

US elections as turning point?

“Political markets are short-lived” is an old stock market adage. In other words, markets typically recover quickly after dislocations caused by political events. The focus of the market’s attention has already turned to the US presidential election, which could recalibrate the geopolitical priorities of this superpower. The first TV debate broadly lived up to expectations: The incumbent President was unable to hide his advanced age, while challenger Trump remained true to his creative interpretation of the facts. Whether or not the US electorate will have to decide between Donald Trump and Joe Biden is still unclear. But any change in this situation could give rise to considerable turmoil.

Uncertain interest rate expectations

Inflationary developments prompted central banks to act in both the Eurozone and Switzerland. Given the direction of inflation in the Eurozone, an interest rate cut on the part of the European Central Bank (ECB) had long been expected, and before the US. This cut came in June; at the same time, the forecasts for inflation were increased, which was quite the surprise for observers. However, ECB President Christine Lagarde argued that inflationary development was headed in the right direction, even if rates of inflation in the Eurozone were unlikely to fall back below the 2% mark before 2026.

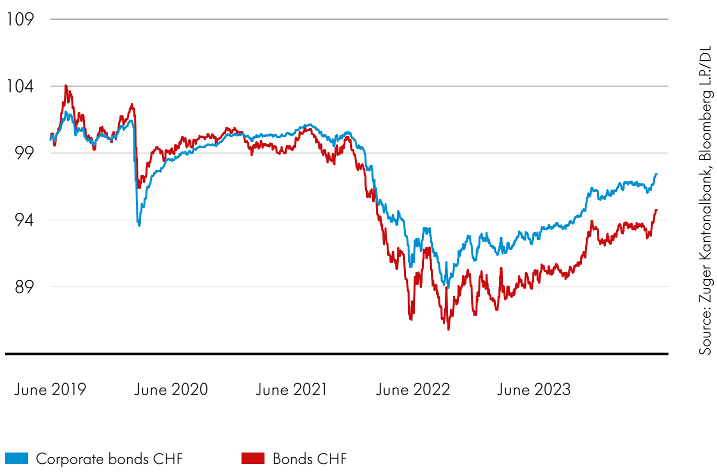
“The acid test awaits in the summer: Will companies once again be able to meet expectations?”

Alex Müller, Chief Investment Officer

SNB cuts rates again

In Switzerland, the inflation rate surprised on the positive side right at the start of 2024. In January it stood at 1.3%, well within the target bandwidth of the Swiss National Bank (SNB). The strong franc had the effect of mitigating inflation imported through higher commodity prices. The SNB reduced its key interest rate by 0.25 percentage points to 1.5% in March. It then pushed through another cut to the current level of 1.25% in June. The reasons cited in both cases was a substantially lower inflation forecast for both 2024 and 2025, namely 1.3% and 1.1% respectively. Simultaneously declining money market interest rates provided support to bonds denominated in Swiss francs (see graph). Investors were able to benefit from the trend of falling interest rates. The SNB is now most likely to adopt a wait-and-see stance, other than in the event of a severe recession.

Price development of overall Swiss bond market and Swiss corporate bonds



Hope for Europe’s economy

Where the European economy is concerned, the lights look to be set to green. Growth may have stagnated for the last five quarters, but the signs of recovery are growing. The leading economic indicators are now back above the growth threshold for the first time in a long while. At the same time, the major source of stimulus for global export activity – China – is faltering. The elections to the European Parliament revealed new political trends, with the waning support for the governments of both Germany and France being particularly striking. Indeed, the after-tremors of the European elections are likely to continue to preoccupy investors this side of the Atlantic.

Signs of life in Germany

Whereas the economies of some European nations have already stabilised, Germany has been lagging behind. However, new glimmers of hope have appeared in recent weeks. The closely-observed Ifo Business Climate Index improved for the third month in succession in April, before then maintaining this level in May. Only in June was there a slight decline. The economic situation continues to improve at a moderate rate. Companies are more satisfied with business development and expectations are brightening. This points to a slight upturn in growth, supported by consumer spending.

What does this mean for investors?

Mixed portfolios have potential

Equity investors were handsomely compensated for the risk they assumed in the first half of the year, despite volatile development at times. By contrast, the environment remained challenging for bonds. The majority of asset classes generated low positive or negative returns after the hedging of exchange rate risks. However, we remain convinced that the environment of declining rates of inflation and subdued growth will be to the advantage of mixed portfolios.

US equities expensive – but supported

We are recommending an overweighting of US equities once again as the second half of the year gets underway: The US stock market is likely to remain popular with investors, even though it doesn't look cheap. The economic environment will support both the mood of investors and consumer spending. Further positive stimuli will come from projects financed by the Inflation Reduction Act and the CHIPS Act. Along with the interest rate cut expected on the part of the Fed, the development of corporate earnings will be the key driver of equity market performance in the second half of the year.

Gradual decline in interest rates

We remain slightly underweight in the area of international government bonds, specifically US paper. These fixed-income investments benefited from falls in inflation rates and the anticipated economic slowdown at the end of 2023. As things stand, their appeal – particularly compared to equity investments – has rather shrunk. However, we remain convinced of the value of government bonds as a diversifying portfolio element.

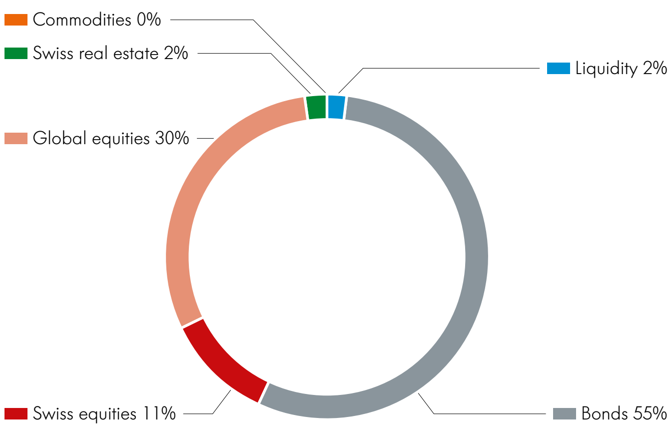
Swiss stock market has upside potential

The Swiss stock market may have risen this year, but it has not come close to the kind of performance levels delivered by its European and American counterparts. This is mainly attributable to the underperformance of the defensive heavyweights of the Swiss market, which have remained out of favour with investors. Nevertheless, the prospects look bright for Swiss equities in the second half of 2024. Sales and earnings expectations for Swiss corporates have risen, and positive economic momentum is building. This tallies with the positively formulated guidances of many companies. What's more, the Swiss equity market is modestly valued, which is a good starting point.

European equities added to portfolio

The performance of European equity markets was very impressive in the first half of the year. Prospects of an economic recovery in Europe, solid corporate results, and the possibility of further interest rate cuts on the part of global central banks put investors in a positive mood. The outlook for the second half of the year remains intact. The rise in economic momentum in Europe and the acceleration of growth in Asia provide grounds for stock market optimism. The market is expecting an increase in corporate earnings. With this in mind, European equities too should be assigned a greater portfolio weighting.

Strategic positioning (based on balanced mandate)



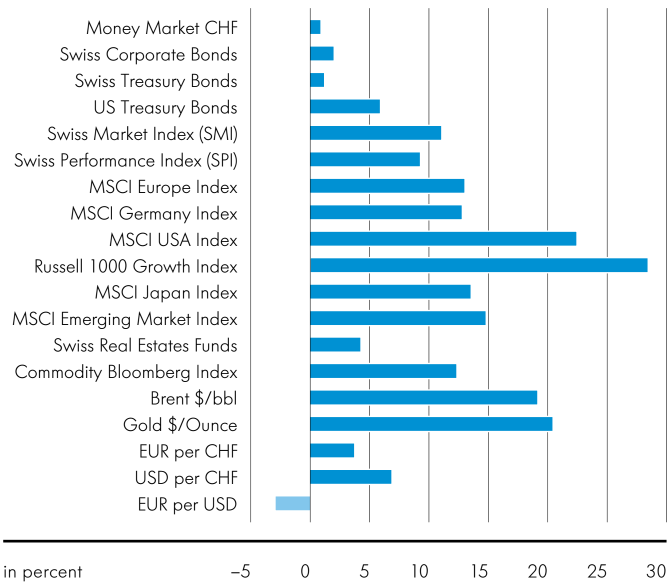
Source: Zuger Kantonalbank

Tactical positioning

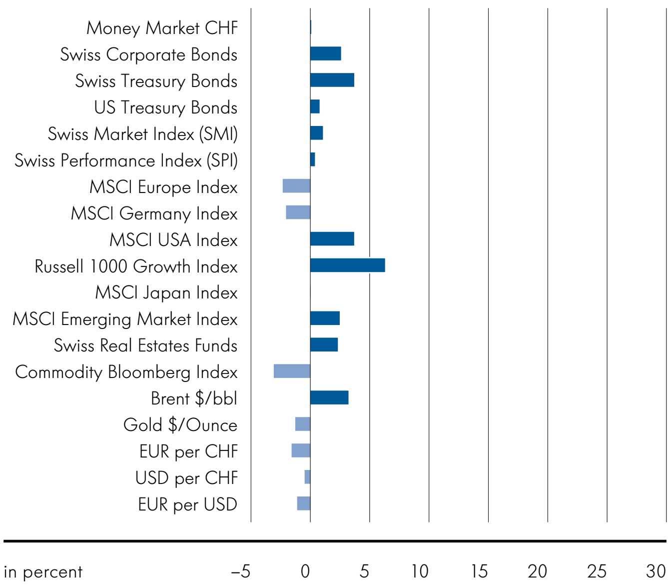
	–	-	=	+	+
Liquidity/money market		■			
Bonds			■		
Swiss bonds			■		
Global Bonds		■			
High-yield bonds and emerging markets			■		
Equities				■	
Swiss equities			■		
Global equities ex Switzerland				■	
Emerging markets equities			■		
Swiss real estate			■		
Commodities			■		

Market data (exchanges & markets)

Asset class returns (in CHF) Since start of year (as at 28.06.2024)



Asset class returns (in CHF) Last month (rolling as at 28.06.2024)



Source: Zuger Kantonalbank, Bloomberg L.P., MSCI, Six Index, Frank Russell Company

Swiss equities SMI (from start of the year to 28.06.2024)

Lonza 39.7% / CHF 490.4	**ABB** 36.6% / CHF 49.92	**Swiss Re** 25.2% / CHF 111.5	**Holcim** 24.9% / CHF 79.62	**Givaudan** 24.3% / CHF 4260
Alcon 22.6% / CHF 80.22	**Richemont** 21.2% / CHF 140.25	**Swiss Life** 19% / CHF 660.6	**Novartis** 17.6% / CHF 96.17	**Zurich** 15.4% / CHF 479.1
Logitech 9% / CHF 86.92	**Roche** 6.3% / CHF 249.5	**Swisscom** 4.1% / CHF 505.5	**UBS** 4% / CHF 26.45	**Sonova** 2.7% / CHF 277.6
Geberit 1% / CHF 530.8	**Partners Group** –1.8% / CHF 1154	**Nestle** –2.9% / CHF 91.72	**Sika** –4.9% / CHF 257.2	**Kühne&Nagel** –7.1% / CHF 258.4

Source: SIX Index, Zuger Kantonalbank

Do you have any questions or thoughts on the current portfolio?

Contact us by email (alex.mueller@zugerkb.ch) or call us on 041 709 11 11.