Zuger Kantonalbank

Portfolio

October 2024

Market overview and positioning

Donald Trump is gaining on Kamala Harris again. In a few days' time, the US electorate will choose who they want to sit in the White House for the next four years, as well as deciding the balance of power in the Senate and the House of Representatives. Tension and volatility look a given here. But investors shouldn't lose their cool in this situation.

Polls indicate Trump catching up

The US electoral battle is now in its heated end phase. Analysis of all the relevant data provides two insights: on the one hand, Kamala Harris seems to be losing significant momentum. This much is apparent from an analysis of all weighted poll averages (see graph). Moreover, Donald Trump has re-established favouritism with the bookmakers. On the other, the gap between the two candidates is not statistically significant, which makes it impossible to make a confident prediction of the outcome. As an additional factor, swing states such as North Carolina and Michigan remain particularly difficult to call. Here the votes of just a small number of inhabitants could decide the result of the entire election. We are therefore expecting a tight electoral battle on 5 November 2024.

Stock markets follow the facts

Global stock markets – particularly the US equity market – have performed handsomely in recent weeks. Our last publication highlighted fears of interest rate cuts not materialising and a very rapid slowdown in the US labour market, but these fears have dissipated. Quite the opposite – the labour market has actually shown signs of strengthening, with the latest data revealing that 254,000 new jobs were created in September outside of the agricultural sector ("non-farm payrolls"). That is significantly more than expected, and the three-month average has accordingly risen to 185,000 jobs, which is broadly in line with average employment growth in the decade prior to the pandemic.

"The US economy is developing well, offering an attractive investment environment. That said, the impending election-day thriller is conducive to heightened volatility."

Alex Müller, Chief Investment Officer

Europe developing at snail's pace

On the other hand, growth in Europe slowed noticeably in the third quarter. The leading economic indicators continue to be weak, above all reflecting the unsatisfactory situation in Germany and France. What's more, the persistent weakness of the manufacturing industry is not just attributable to cyclical factors: There is evidence of structural challenges here. On the other hand, consumer spending is likely to have a supportive effect, as real incomes are rising and less is being saved.

Wir begleiten Sie im Leben.

Market overview and positioning

ECB in supportive mode

As expected, the European Central Bank (ECB) cut key interest rates in mid-October for the third time this year, namely by another 25 basis points to 3.25%. Just like in the US, the downward trajectory of inflation is stuttering somewhat in Europe too. As ECB President Christine Lagarde explained, its decline from now onwards is unlikely to be linear. At the same time, she qualified the significance of the bare figures, thereby sending the signal to the markets that monetary policy was likely to remain supportive. This enabled European equity markets to make further advances, despite the subdued economic environment. Relatively low valuations and hopes of brighter economic horizons stimulated the buying mood.

Low Swiss interest rates

As is so often the case, the situation in Switzerland is different: the Swiss National Bank (SNB) cut key rates once again in September to 1.0%. However, new SNB President Martin Schlegel made it clear that he sees scope for even lower key rates. The strong franc remains a challenge for the guardians of Swiss monetary policy, as the consequences of this are weighing heavily on the export industry. The strong currency is also suppressing import prices, which is maintaining further downward pressure on an inflation rate that is already very low. The rate-cutting cycle in Switzerland is therefore not yet at an end.

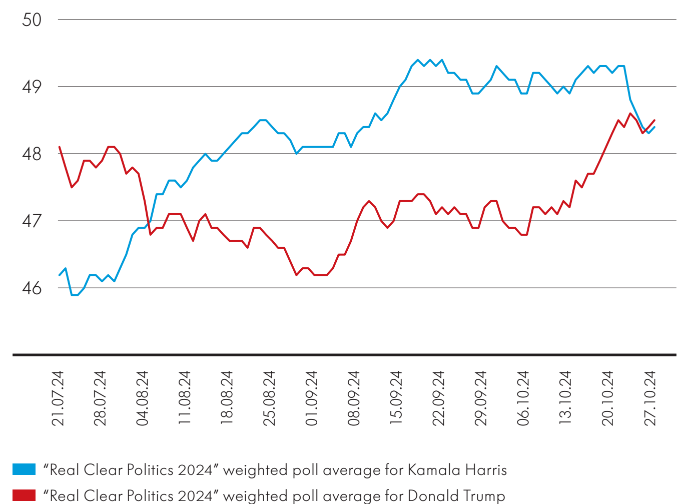
"The global macroeconomic picture remains subdued. The investment tailwind is coming from the initiated global rate-cutting cycle, which is an argument for a fully-invested mixed portfolio."

Alex Müller, Chief Investment Officer

China's confidence problem

In China, growth weakened significantly in both the second and the third quarter. Leading indicators have recently slumped to their lowest level this year. Thanks to a monetary and fiscal stimulus programme, growth can be expected to stabilise at around 4.5% in 2024 and 2025. On the monetary policy side, measures include interest rate cuts, lower minimum reserve requirements for banks, measures to support the equity market, and the recapitalisation of large state banks. The fiscal aspect has yet to be definitively determined. The persistently weak real estate market, the low level of consumer confidence as a result, and surplus capacity in various sectors of industry remain major challenges for this country.

Survey on the US presidential election (as at 27.10.2024)



Source: Bloomberg DL, Zuger KB

Positive effects for securities

However, the global economy will generate growth in the second half of 2024 too, and this forms the core thesis underpinning our forecasts. That said, we are expecting a gradual weakening of US economic momentum. Together with declining or persistently low rates of inflation, this has two positive effects: Firstly, the financial markets are now expecting an environment with moderate growth and low rates of inflation. Secondly, capital market interest rates are likely to remain stable or decline gradually. This continues to make bond investments attractive.

Gold gains greater significance

The last few weeks have brought it home clearly to investors that a fully invested, broadly diversified portfolio is a solid foundation in the current market environment. We continue to recommend a high investment quota. We are adjusting our portfolios to market conditions, and changing the weightings of the most important asset classes. We now recommending the addition of gold to the portfolio. We continue to view the global situation as tense. This environment is conducive to a strong gold price as this precious metal has historically been viewed as a safe haven. Furthermore, a number of central banks are currently diversifying away from the US dollar and into gold, which is providing additional demand.

What does this mean for investors?

US equity markets adopt wait-and-see approach

Ever since the summer, there has been no clear trend in the US stock market at sector level. The environment remains difficult for tech stocks, even if the runaway leader in the field of artificial intelligence, Nvidia, has recorded new highs. But the biggest threat to the performance of this sector would be further restrictions on US trade relations with China. This issue would loom particularly large with Donald Trump in the White House, but Kamala Harris would likewise bring headwinds to the markets, particularly as she is a strong advocate of tax increases and stronger regulation. A waiting game is called for until there is clarity over the outcome of the presidential elections and the likely response of the equity market to the new balance of power in Congress.

Rise in interest rates has consequences

Positive recent data on the development of the US economy has prompted many observers to scrutinise current predictions for further interest rate cuts. As a result, capital market interest rates for the US dollar have risen sharply, and our corresponding underweighting has proved prescient. After an initial "jumbo step", i.e. a rate cut of 50 basis points in September, Fed members are expecting two further rate cuts before the end of the year. The risk premiums for high-yield bonds are now close to their nadir for the last ten years. The likelihood of a correction is considerable. We are therefore adopting a circumspect stance in this investment segment, and are now recommending a neutral position where the bond duration is concerned.

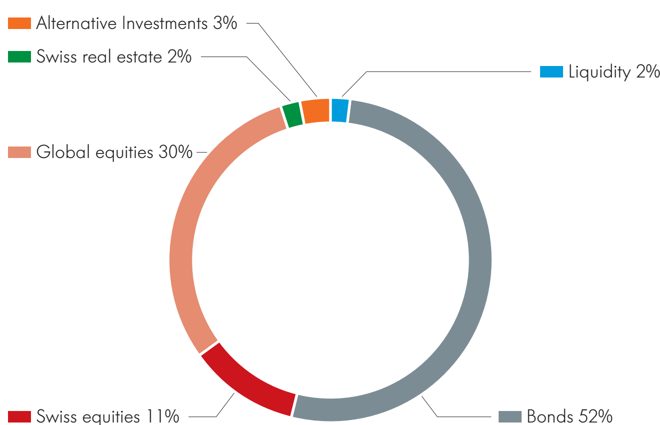
Europe has potential

The economic environment in Europe remains challenging – particularly in Germany. Difficulties in the key industries of automotive construction and chemicals are weighing on economic development. However, stimuli programmes being rolled out in China could improve the situation of the European economy. European equities remain attractively valued and have upside potential. There is also a possibility of positive stimuli in the event of political change in Germany that could bring about a reorientation of the country's economic policy in the medium term.

Partial upturn in Switzerland

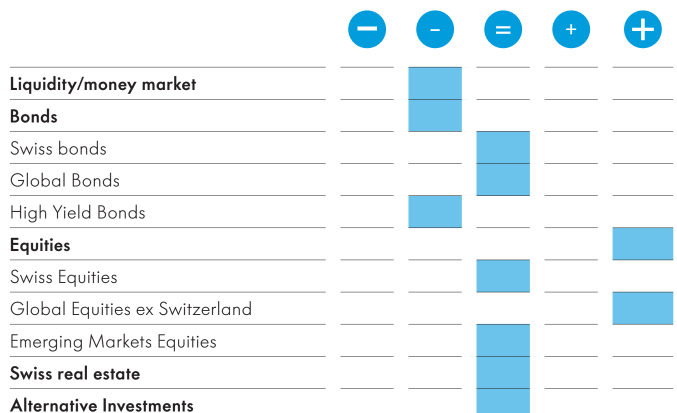
The Swiss corporate reporting season for the third quarter of the year has so far revealed an uneven pattern: investors have had to accept that the expected upturn has not materialised in various areas. This is particularly true for cyclical companies active in the automotive and construction sectors. But in global semiconductor production too, investment is coming later than expected due to the sluggish nature of economic growth. However, despite these partially disappointing outlooks for the fourth quarter, the market is generally expecting a rise in corporate earnings, which is conductive to a positive environment for equities.

Strategic Allocation (Source Balanced Mandate)



Source: Zuger Kantonalbank

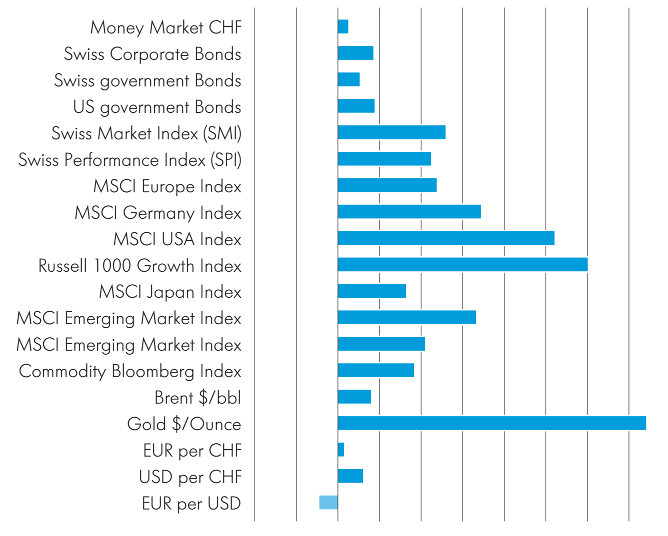
Tactical Allocation



	– –	–	=	+	++
Liquidity/money market		■			
Bonds		■			
Swiss bonds			■		
Global Bonds			■		
High Yield Bonds		■			
Equities					■
Swiss Equities			■		
Global Equities ex Switzerland					■
Emerging Markets Equities			■		
Swiss real estate			■		
Alternative Investments			■		

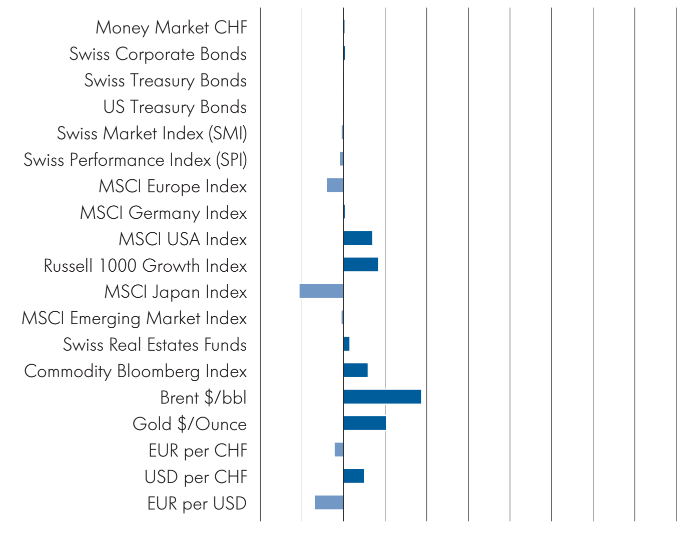
Market data (exchanges & markets)

Asset class returns (in CHF) Since start of year (as at 25.10.2024)



in percent –10 –5 0 5 10 15 20 25 30 35 40

Asset class returns (in CHF) Last month (rolling as at 25.10.2024)



in percent –10 –5 0 5 10 15 20 25 30 35 40

Source: Zuger Kantonalbank, Bloomberg L.P., MSCI Inc., SIX Index AG, Frank Russell Company

Swiss equities SMI (from start of the year to 25.10.2024)

Lonza 58.5% / CHF 556.2	**ABB** 33.4% / CHF 48.75	**Holcim** 30.2% / CHF 83.04	**Swiss Life** 28.2% / CHF 711.6	**Swiss Re** 25.4% / CHF 111.75
Alcon 25.3% / CHF 81.96	**Zurich** 24.9% / CHF 518.8	**Givaudan** 22.4% / CHF 4194	**Novartis** 20.6% / CHF 98.66	**Roche** 19.8% / CHF 281.2
Sonova 15.5% / CHF 312.2	**Swisscom** 15.1% / CHF 559	**Richemont** 13.6% / CHF 128.45	**UBS** 9.6% / CHF 27.87	**Partners Group** 7.2% / CHF 1260.5
Geberit –1.5% / CHF 517.2	**Sika** –8.6% / CHF 247.1	**Logitech** –10.5% / CHF 70.28	**Nestle** –10.5% / CHF 84.54	**Kühne&Nagel** –20.9% / CHF 220

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.

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