Portfolio Update

July 2024

Politics provides surprises

The main topic (artificial intelligence) has once again driven the market upwards. It seems as if this term is a must in every report and at every conference. Key interest rate decisions sometimes take a back seat.

The past month has shown just how influential this topic is. As soon as slight doubts arose about Nvidia shares, causing them to correct slightly, there were virtually no index gains. A correction of 16% seems large, but compared to the volatility of the share, this is within normal bounds. On the other hand, economic concerns have become widespread. On the one hand, China does not seem to be emerging from the property crisis, which is dampening sales of luxury goods in particular. On the other hand, consumers in the USA are running on empty. Nike's figures have shown that US consumers are taking a break in their spending spree. All in all, without the technology sector, the S&P500 would even be in the red for the month.

The fact that the central bank meetings have been pushed into the background is partly due to the lack of action by the Fed so far and partly due to the historically good communication, which is managing expectations. As expected, the Fed did nothing last month and remained true to its credo of "higher for longer". In Europe, on the other hand, the central banks continued to take their foot off the gas. The European ECB carried out its first interest rate cut and thus remains one rate cut behind the Swiss National Bank, which has already put its second rate cut on paper. The current year is likely to remain exciting, as the market expects just under two interest rate cuts in the USA, just over one in Europe and just under one in Switzerland.

Financial markets 2024 total return

Equities	June	2024
S&P 500 (US)	3.6%	15.3%
Dow Jones Industrial Average (US)	1.2%	4.8%
EURO STOXX 600 (EU)	-1.1%	9.5%
DAX (DE)	-1.4%	8.9%
SMI (CH)	0.0%	11.0%
MSCI Emerging Markets (EM) in USD	4.0%	7.6%
Fixed Income	**June**	**2024**
US Corporate Bonds Inv. Grade	0.6%	-0.5%
US Corporate Bonds High Yield	0.9%	2.6%
Pan-European Corporate Bonds Inv. Grade	0.8%	0.7%
Pan-European Corporate Bonds High Yield	0.4%	3.2%
Alternative Investments	**June**	**2024**
Gold	0.0%	12.8%
Oil (brent)	6.8%	11.7%

Source: Bloomberg

But one topic must not be forgotten: the US elections. Although around half of the world's population is voting this year, the US elections are and will remain the top topic worldwide. The first debate between the candidates has led to some voices calling for a candidate other than Biden. On the other side of the pond, Macron surprised with snap elections, which led to a great deal of uncertainty, although this subsided somewhat over the course of the week.

Mandate returns gross

	Euro			Swiss Franc			US Dollar			British Pound		
	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn
2012	6.6%	7.4%	10.5%	4.3%	6.5%	10.9%	5.9%	8.4%	11.8%			
2013	1.5%	6.5%	13.5%	1.9%	8.3%	16.7%	2.9%	9.4%	18.5%			
2014	6.1%	8.0%	10.2%	4.9%	6.5%	9.2%	1.6%	2.2%	3.1%			
2015	2.7%	6.3%	9.9%	-0.8%	0.0%	1.8%	-0.3%	0.0%	1.0%			
2016	2.3%	5.3%	7.1%	1.3%	3.9%	5.7%	2.8%	6.2%	7.2%	4.6%	9.5%	12.1%
2017	3.5%	7.3%	10.8%	4.3%	8.9%	15.0%	7.1%	12.7%	18.1%	4.7%	8.7%	14.2%
2018	-4.3%	-9.0%	-10.5%	-5.6%	-10.1%	-12.1%	-2.5%	-7.9%	-9.8%	-3.3%	-8.6%	-10.4%
2019	9.2%	15.7%	21.6%	8.3%	14.8%	19.6%	11.5%	17.5%	22.0%	9.4%	15.3%	19.8%
2020	3.2%	5.3%	8.6%	2.6%	5.5%	9.0%	6.7%	9.7%	13.6%	4.6%	6.5%	10.3%
2021	5.3%	10.5%	16.5%	4.3%	8.9%	14.2%	4.2%	8.4%	13.9%	4.2%	8.7%	14.4%
2022	-9.6%	-11.7%	-14.7%	-10.7%	-13.2%	-16.4%	-8.8%	-10.8%	-13.6%	-8.3%	-9.5%	-12.2%
2023	9.1%	10.7%	12.3%	6.1%	7.5%	8.6%	11.2%	13.4%	15.1%	10.1%	12.7%	12.8%
Jan 24	0.8%	0.6%	0.8%	0.8%	0.6%	0.8%	0.7%	0.3%	0.5%	0.7%	0.3%	0.5%
Feb 24	0.6%	1.4%	2.4%	0.9%	1.9%	2.9%	0.6%	1.4%	2.5%	0.8%	1.6%	2.6%
Mar 24	1.6%	2.6%	3.4%	1.9%	3.0%	3.8%	1.7%	2.6%	3.4%	1.7%	2.7%	3.4%
Apr 24	-1.5%	-1.8%	-2.1%	-1.5%	-1.8%	-2.1%	-1.5%	-2.0%	-2.3%	-1.3%	-1.8%	-2.1%
May 24	1.2%	1.6%	1.9%	0.9%	1.3%	1.8%	1.5%	2.1%	2.5%	1.2%	1.6%	2.0%
Jun 24	1.5%	1.7%	1.9%	1.2%	1.1%	1.3%	1.5%	1.4%	1.6%	1.5%	1.6%	1.8%
2024	4.3%	6.1%	8.6%	4.2%	6.2%	8.7%	4.5%	5.9%	8.4%	4.8%	6.2%	8.6%

Actual portfolio returns may differ from the values shown above owing to the level of implementation, costs and restrictions on implementation.

TRANSACTIONS IN JUNE

For a detailed overview of the transactions for each strategy, please do not hesitate to contact us.

POSITIONING

Liquidity (neutral)

Conservative	2.0%
Balanced	5.5%
Dynamic	6.5%

- Excess liquidity is invested in money market funds or fiduciary investments where possible.
- In a challenging market environment, an increased cash allocation offers the opportunity to temporarily park surplus liquidity in order to participate in investment opportunities at a later date.

Bonds (overweigt)

Conservative	65.0%
Balanced	42.0%
Dynamic	17.0%

- Against the backdrop of rising debt, preference is given to bonds from issuers with solid balance sheets outside the AAA/AA segment in order to achieve attractive yields to maturity.
- In lower ratings, the focus is on broadly diversified investments in order to act cautiously. Carefully selected active managers can generate added value here.
- Interest rates have become attractive as a result of the central bank moves, although duration remains only slightly underweighted due to the expected interest rate moves. The expected interest rate cuts are already strongly reflected in the curve, meaning that an overweight position is unlikely to offer a favourable risk/return ratio at present. The positioning on the yield curve is likely to have a greater influence than the absolute duration and has therefore been deliberately taken into account.
- Due to the less favourable economic outlook, credit spreads on European bonds are more attractive. A globally more relaxed situation is once again offering opportunities for exposure to bonds with good credit ratings from the emerging markets and Asia.

Equities (overweight)

Conservative	29.0%
Balanced	49.5%
Dynamic	74.0%

- The central banks' fight against inflation appears to be on the home straight, particularly in Europe. The increased cost of capital, changes in consumer spending and heterogeneous growth in the end markets will have a negative impact on earnings growth in individual sectors.
- Within the equity allocation, investments in Europe are slightly favoured over the US. The Swiss equity market remains attractive due to its defensive orientation and the current weakness of the Swiss franc. The subdued growth of the global economy makes investments in emerging markets less attractive, and developed markets are therefore favoured over emerging markets.
- Within the individual sectors, energy, real estate and cyclical consumer goods are considered attractive and are therefore overweighted in the portfolios.
- Financials, technology, industrials, communication services and non-cyclical consumer goods are neutrally weighted.
- The outlook for the utilities, basic materials and healthcare remains negative due to valuation, high interest rates and other macroeconomic factors.

Alternative Investments (underweight)

Conservative	4.0%
Balanced	3.0%
Dynamic	2.5%

- A high level of liquidity (usually UCITS) is the basic prerequisite and determines which strategies are considered.
- The aim is to achieve a positive market return with relative low volatility in a normal market environment.
- At present, a market-uncorrelated Cat Bond fund is intended to participate in the continued attractive premiums.

OUTLOOK

Market Concentration

Stock market returns remain highly concentrated. Since early 2023, 60% of the S&P 500's gains stem from just three companies. Additionally, the magnificent seven stocks now constitute 32% of the index and US companies account for 64% of the global equity market. Despite this concentration, we expect equity market returns to diversify. Current valuation dispersion is extreme, with the top 10 S&P 500 stocks trading at 28x forward earnings, compared to 19x for the rest. This disparity suggests potential earnings upgrades across sectors as AI benefits materialize. Conversely, unmet AI expectations could also lead to a relative decline in mega-cap stocks, reducing the dependence of US equity returns on a few key players either way.

The regional dominance of the U.S. over Europe is also unwarranted, as valuation discounts for Europe relative to the U.S. are near multi-decade highs and can no longer be attributed solely to index composition (less growth and technology exposure). These discounts are now widespread across almost all sectors. With economic momentum now favoring Europe, these valuation gaps appear excessive. Not only do European small caps stand to benefit significantly from potential ECB rate cuts due to their reliance on floating-rate debt, but so do European exporters as a weaker euro, driven by a more dovish ECB, could further boost earnings.

Inflation and Yields

Inflation remains a concern, with US inflation around 3.5% and eurozone and UK core inflation at 4% and 6% respectively. We expect this stickiness to persist without a major reacceleration, provided US growth slows and European growth remains modest. Especially as the labor market, while tight, is no longer overheating and thus reducing wage pressures. Central banks now seem tolerant of continued inflation overshooting in order to maintain low unemployment.

Nevertheless, we expect further rate cuts before the end of the year, framed as normalization rather than easing. However, ultra-low interest rates are unlikely to return any time soon. Market participants have therefore already adjusted their medium-term interest rate expectations upwards. While higher rates increase net interest margins, the resilient economy and labor market should mitigate household repayment risks. As a result, higher rates for longer are expected to support global financial earnings and should therefore be seen as a positive catalyst for equity markets in general.

Risks from Fiscal Burdens and Muted Volatility

Notwithstanding our generally positive market view, we see the upcoming US election as a major uncertainty. For example, while President Trump's 2017 tax cuts were well received, the current fiscal situation is weak and further stimulus could trigger a negative bond market reaction with broad implications for risk assets. This is of particular concern as we are well aware that both presidential candidates do not adhere to fiscal discipline. Similarly, in Europe, the rise of populist parties could lead to fiscal uncertainty, as the UK government's recent experience with investor backlash (sharp rise in yields) has shown.

In addition, the S&P 500 has enjoyed a period of relative stability, going more than a year without a significant decline. Statistically, volatility tends to increase in the second half of the year, especially with a major political election on the horizon. This is another reason why we believe that a focus on lower beta stocks could be beneficial in the coming months.

Conclusion

In summary, while equity markets show significant concentration and regional valuation differences, the outlook for the next 6-12 months points to a broadening of returns. Economic momentum in Europe, persistent inflation and higher interest rates for longer will be key. In addition, geopolitical uncertainties, particularly the U.S. elections, pose notable risks that could impact market stability. Investors should remain vigilant and consider diversification to navigate the expected market dynamics.

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