



“Tiki-Taka” on stock market – not at Euro 2024

- 🌐 **Valuation expansion fuels US stock market – how long will it last?**
- 🌐 **Swiss National Bank (SNB) fires its bullets – currency- not interest rate policy**
- 🌐 **Rightward shift in European elections causes uncertainty**
- 🌐 **Swiss blue chips with surprise potential, just like the Swiss national team**
- 🌐 **Maintain asset allocation**

The recent market development shows a back and forth, an up and down of small movements with rapid adjustments and continuous activity. The leader drives all constituents forward and amplifies the dynamics. Let's go! We are not talking about Pep Guardiola's "Tiki-Taka", as at this year's European Championship, his playing style has been replaced by several distance goals and individual brilliance. We are referring to the development of the US stock market over the past few months. After a brief setback in April 2024, the upward trend continued, and the S&P 500 reached new highs in June. A closer look at the 15% performance since the beginning of the year reveals that roughly 30% is attributed to the semiconductor manufacturer NVIDIA only (Fig. 1). This underscores the seemingly tireless run of semiconductor stocks and shows that the stock market lacks market breadth.

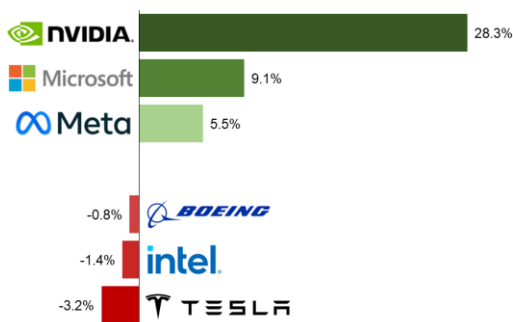


Fig. 1) S&P 500 Performance contribution as of June 26, 24
Data: Bloomberg / Chart Capicura Partners

“The dream of eternal growth”

Even though half of the current year is behind us and the positive momentum continues, it would be wrong to extrapolate the previous development and already call 2024 an excellent year. Everything remains possible, and performance-spoilt investors are advised to prepare themselves for a slightly rougher second half of the year. Valuation expansion in the US stock market has led the S&P 500 to trade at around 20 times expected earnings (Fig. 2).

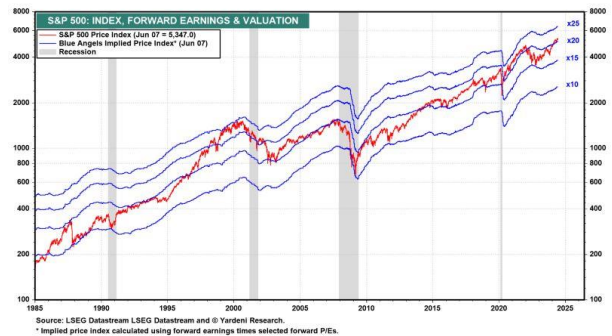


Fig. 2) Historical valuation of S&P 500 Index
Source: Yardeni Research

Except for the dot-com bubble, there has been no period with higher valuations in the last 40 years. Assuming no further P/E expansion towards 25x, a further index increase would have to be based on unexpectedly high earnings. While 80% of the companies in the S&P 500 beat earnings expectations in the first quarter, we need to bear in mind that corporate results for the second quarter are already due in July. Expectations are high, with nearly 9% earnings growth anticipated, and thus the potential for disappointment is significant. Given the high levels of inflation and interest rates, as well as the weakening US economy, a further increase looks difficult and rather unlikely. A downward correction in valuation of up to 10% could easily unfold without the US economy slipping into a recession. This would leave the market trading at 18x earnings.

«Political markets are short-lived»

The super election year 2024 is seen as a factor of uncertainty. The political rightward shift in the European elections points to a "less Europe" stance and has unsettled market participants. Consequently, volatility has increased, and credit spreads of certain EU government bonds have widened against German Bunds (Fig. 3). French government bonds, in particular, have suffered significantly following the announcement of a snap election (June 30 and July 7), weighing on the stock market. We do not expect a resurgence of the Euro crisis as experienced in the early 2010s and anticipate a normalization of credit spreads after the elections. Additionally, it should be noted that the impact of elections on markets is often overestimated and has historically led to fluctuations, but the effects of such events have generally been short-lived.

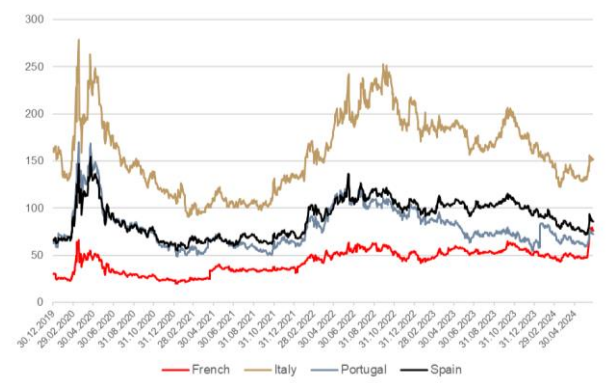


Fig. 3) 10y credit spread over German bund
Data: Bloomberg / Chart: Capicura Partners

«SNB vs. FED – Score 2:0»

The European elections have not only impacted the stock markets but have also driven market participants to place their funds in safe haven investments, such as the Swiss Franc. The strengthening CHF and decreasing inflationary pressure prompted the Swiss National Bank (SNB) to unexpectedly lower the key interest rate by another 0.25 percentage points to 1.25% in June. From our perspective, the SNB is engaging in currency rather than interest rate policy and has thus largely exhausted its maneuvering ammunition. Staying with the Euro 2024 analogy, the score on gameplan and interest rate cuts is SNB 2, US FED nil.

«Heightened pressure on public finances»

The data situation at the FED, however, looks quite different to Switzerland and Europe. The ECB lowered interest rates for the first time by 25 basis points (0.25%) in June, due to lower inflation data. US inflation is only slowly returning to the 2% target, and thus we are still waiting for confirmation of the US interest rate peak. The FED won't be able to delay the first interest rate cut much longer. There are various signs of economic cooling. Among other things, the unemployment rate is rising, and consumption as well as wage growth are weakening. Additionally, the US budget deficit continues to grow, and as long as the FED does not lower interest rates, each maturing government bond will result in higher interest costs upon refinancing. Since 2020, the annual interest burden has more than doubled and now accounts for almost 4% of US GDP. According to estimates, interest costs could account for more than 10% of annual government spending by the end of this decade. Considering that US debt already exceeds 120% of GDP, the question arises as to how much longer the first interest rate cut can be delayed. In light of the US presidential election on November 5, the FED will be cautious not to surprise the market significantly and will try to keep volatility as low as possible.

«Asset allocation unchanged – overweight in Swiss equities remains »

While the European Football Championship is in full swing, we see the first signs of a summer lull in the financial markets. Even this year, Swiss blue chips are lagging their European and American peers. We expect/hope that the Swiss national football team surprises next Saturday against Italy. Equally, we remain positive for Swiss blue chips in the "second half". The second interest rate cut by the SNB has put the ball in play. We remain cautiously optimistic, maintain our overweight in Swiss equities and keep our asset allocation unchanged.

To sum up: HOPP SCHWIIZ!

Asset Allocation	
Cash	6%
Fixed Income	25%
Equities	49%
Alternative Investments	20%

Fig. 4) Suggested asset allocation for a Balanced Portfolio in Q3 2024