MAERKI BAUMANN & CO. AG

PRIVATBANK

Economic data also showing shoots of spring

Investment Policy, May 2024

As temperatures begin to rise and the trees come into bloom, global economic data is also showing shoots of spring. Earnings prospects are improving thanks to better economic data, especially on the other side of the pond, where the US economy appears to be putting in the strongest performance. Nevertheless, with stronger demand from the economy, it should also come as no surprise if US consumer prices are higher than expected by the consensus. It is therefore logical that equities have outperformed bonds globally so far this year. We are maintaining our balanced investment allocation and primarily favour quality companies with good margins and low levels of debt.

The US Federal Reserve (Fed) recently revised its forecasts for US economic growth significantly upwards. For 2024, it is now expecting growth of +2.1% in real US gross domestic product, well in excess of the less impressive +1.4% it was still predicting just four months ago. At the same time, however, the forecast for inflation excluding food and energy prices, referred to as PCE core inflation and measured according to consumer spending, has also been raised from 2.4% to 2.6% for the end of the year. The most recent economic data coming out of the US confirms the Fed's changed stance. Both industrial orders and consumer sentiment improved more than expected by the market consensus. However, the flipside of this considerable increase in demand in the US economy is inflation that is likewise higher than the consensus estimate. Green shoots of spring, so to speak, are also being observed in other countries, with economic data bouncing back after a rather unpleasant winter. Business surveys in both the Eurozone and China reported an improvement in the business situation.

Equities

Stronger-than-expected inflation data in the US has led to a correction in market expectations with respect to potential interest rate cuts by the Fed. It is true that the equity markets are not being supported by the already clear rise in market interest rates. As economic data has continued to improve at the same time, however, the equity markets are likely right in expecting stronger growth in the global economy and also in corporate profits. The outlook for US corporate earnings, in particular, has also recently been revised upwards by analysts. At the same time, a positive change can also be observed in terms of market breadth. Whereas share price advances in the past were driven more by the Magnificent Seven major US tech titans, other sectors, primarily the more cyclical basic materials, industrial and energy companies, have recently also contributed to price rises on the global equity markets. This makes sense, as global economic data has also picked up. Nevertheless, this should not signal a time for euphoria, as the interest rate factor and the outlook of the central banks also remain important. It is for this reason that we are not increasing the equity holding at present, instead maintaining a neutral weighting as part of a long-term strategy allocation and continuing to favour high-quality stocks in particular.

> "Since the beginning of the year, Swiss bonds have fared better than those from the US and the Eurozone."
>
> Gérard Piasko, Chief Investment Officer

Bonds

Bonds have quickly incorporated the higher-than-expected US inflation in recent months into their pricing, which is why bond yields have increased. This has not made bonds any less attractive, especially as the European Central Bank (ECB) continues to indicate an interest rate cut in the summer and is emphasising that it is not dependent on the decisions taken by the Fed. Since the beginning of the year, Swiss bonds have fared better than their Eurozone counterparts, which in turn have performed better than US bonds. This reinforces our decision to overweight bonds in Switzerland over those from the US or the Eurozone. Inflation in Switzerland, which has been falling for months, is currently lending good support to Swiss bonds. As is the case with equities, however, the advances made by corporate bonds across all regions mean that a more selective approach and a focus on quality are the order of the day. This is because the credit spreads of corporate bonds relative to government bonds have increasingly narrowed this year, with this being especially true in the high-yield bond segment. This is why we do not favour high-yield bonds, instead giving preference to bonds from the higher quality investment-grade segment.

Currencies

The US dollar has often been seen as too dominant, with the role of the greenback being exaggerated. At the same time, however, there is no real competition on the horizon. In addition to the vast majority of global trade and the lion's share of financial transactions being conducted in US dollars, commodities, which are often underestimated, are denominated against the greenback, meaning they are traded in US dollars. What is more, following the latest growth revisions by the Fed, it is to be expected that the US will have a growth advantage over the Eurozone for the time being, which should not cause the US dollar to fall significantly against the euro. While the Swiss franc has become more volatile, in terms of inflation-adjusted purchasing power parity it now appears clearly less highly valued than was the case in January, especially due to the marked inflation progress in Switzerland.

Commodities

The commodity markets have recently made considerable advances. Stronger global economic data, especially in the US, has led to expectations of rising demand. Further developments will also depend on trends in the manufacturing industry, particularly production trends in the US and China. A further talking point has been the sharp rise in gold and oil prices. In the case of gold, the massive rise in central bank purchases, especially from China, has been an important factor for many months, as has the yellow metal's role as a safe haven in the event of geopolitical tension. There are various reasons for the rise in oil prices. The Ukrainian attacks on Russian oil refineries and growing political tensions between Israel and Iran have given rise to concern about the possibility of insufficient supply in the future. The new assessment of the OPEC states and Russia with respect to production cuts will thus receive particular attention over the coming months. In light of higher oil prices, it is possible that these production cuts could be reduced in the second half of the year, which would lead to consolidations in the oil price. Commodities, and gold in particular, are once again demonstrating their important diversification function this year.

Gérard Piasko

Gérard Piasko is CIO and head of the investment committee of private bank Maerki Baumann & Co. AG.
Before he was for many years CIO of Julius Baer, Sal. Oppenheim and Deutsche Bank.

Modular investments with Maerki Baumann

The topics of the current investment policy concern following focus modules:

Small & Mid Caps Switzerland	Equities Eurozone	Bonds CHF/EUR/USD	Private Equity
Equities Switzerland	Equities USA	Bonds (ETF) CHF/EUR/USD	Venture Capital
Equities Germany	Equities Global	Crypto*	Commodities

Please contact your client advisor for further information, or visit our website:
www.maerki-baumann.ch/modular-investments

*Please note that due to German regulatory requirements we are unable to provide the crypto service (Crypto focus module) named in this brochure to our clients domiciled in Germany.

Editorial deadline: 1 May 2024

Maerki Baumann & Co. AG
Dreikönigstrasse 6, CH-8002 Zurich
T +41 44 286 25 25, info@maerki-baumann.ch
www.maerki-baumann.ch