

Reuss Private AG

Outlook 2024 – Update Q3



Reuss Private

The Big Picture I

Structural Environment

- High indebtedness + adverse demographic developments + low productivity growth = low global trend growth. Among other things, the high level of indebtedness leads to a more unequal distribution (Gini index). This is one of the reasons for shifts in political constellations (polarization).
- Re-nationalisation of economic and social policies. Stronger focus on distributional effects within countries.
- Supply shortages in labour markets are easing only gradually.
- A de-dollarisation and possible decoupling from the West of an enlarged BRICs group seems possible, but this would result in two newly competing currency systems.
- Geopolitical tensions – in particular the war in Ukraine and Russia's behaviour – remain heightened.
- The polarisation between the "West" and the "Global South" can make it more difficult to finance Western debt in the long term – also due to the confiscation of state assets.

Economy

- Compared to the past decade, macro-economic volatility and nominal growth remain elevated for longer.
- Slow recovery during 2024. The recession probability in the USA is low.
- Inflation rates are falling significantly. However, service inflation is more persistent. Inflation in Europe and the US will not fall below 2% on a sustainable basis, but will remain high on average over the next few years.
- **Due to strong growth in the USA and increased inflation risks in the Eurozone amid the lack of productivity growth, the rate cutting cycles will be weaker than is generally expected.**
- In the longer term, (government-led) investment should increase and support growth.

The Big Picture II

Influencing factors

- Geopolitical risks (Ukraine, Israel, Iran, Taiwan and Turkey) have increased and will remain elevated for a prolonged period. This reinforces the de-globalization trend.
- Fiscal policy will remain expansionary, and no austerity policy is likely to be pursued. The fiscal tightening in Germany is an exception.
- Political risks, with the potential for long-term very adverse outcomes, remain substantial, especially amid the ascent of EU/Euro critical parties in Europe and protectionist measures by the US government. Global risks, and thus the potential for markedly negative long-term scenarios, remain pronounced.
- An escalation of the global trade war – especially between the US and China – will have lasting consequences and will ultimately be a burden for global growth and financial markets.

Market environment

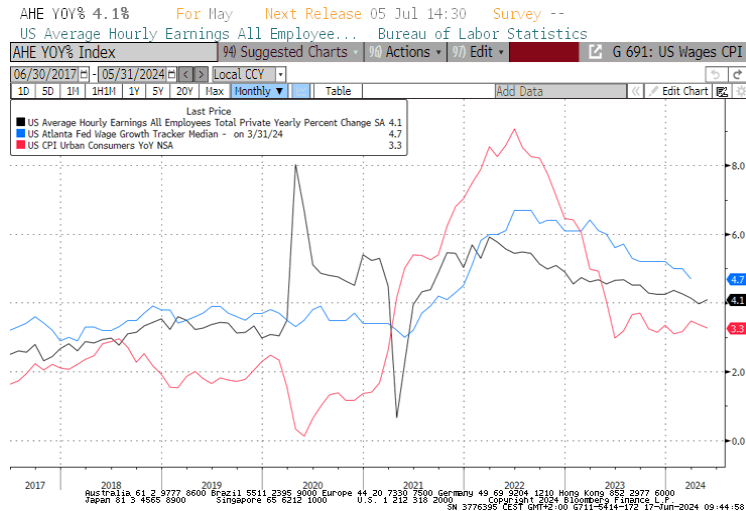
- The outlook for equities is volatile and accompanied by pronounced setbacks but remains fundamentally positive. **Valuations are attractive from a long-term perspective.** Both increasing valuations and rising corporate profits can contribute to a positive performance.
- The trend towards sustainable investments and "green finance" will intensify across all asset classes in the coming years.
- Yields of „safe“ bonds such as German Bunds and US Treasuries will trade sideways on a multi-year horizon.
- With prospects for rate cuts, spread products are attractive. Carry and roll-down remain important for fixed income investors.
- Longer term friendly environment for precious metals.

Positioning

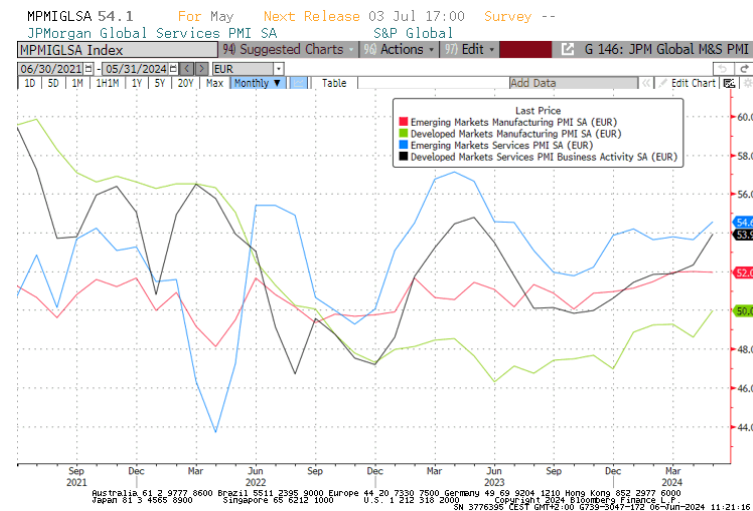
Asset Class	What we like	What we underweight
Liquidity		
Bonds	<ul style="list-style-type: none"> ▪ Short term to medium term investment grade assets (funds) ▪ Corporate bonds 	<ul style="list-style-type: none"> ▪ Long term maturities
Equities	<ul style="list-style-type: none"> ▪ Solid dividend stocks ▪ Sectors: Healthcare, Technology, Materials ▪ EM: India, Vietnam 	
Alternative Investments	<ul style="list-style-type: none"> ▪ Precious Metals, Copper and Uranium 	
Currencies	<ul style="list-style-type: none"> ▪ CHF ▪ JPY 	

Global Economy I

US Inflation & wage growth



Global PMIs

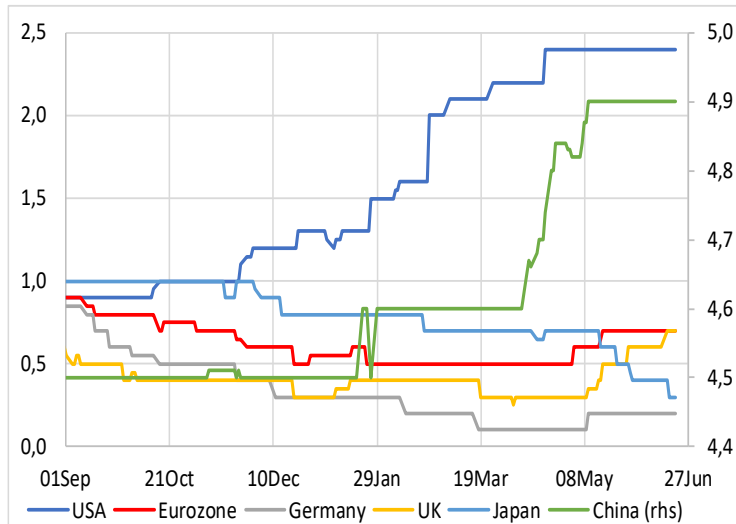


Source: Bloomberg

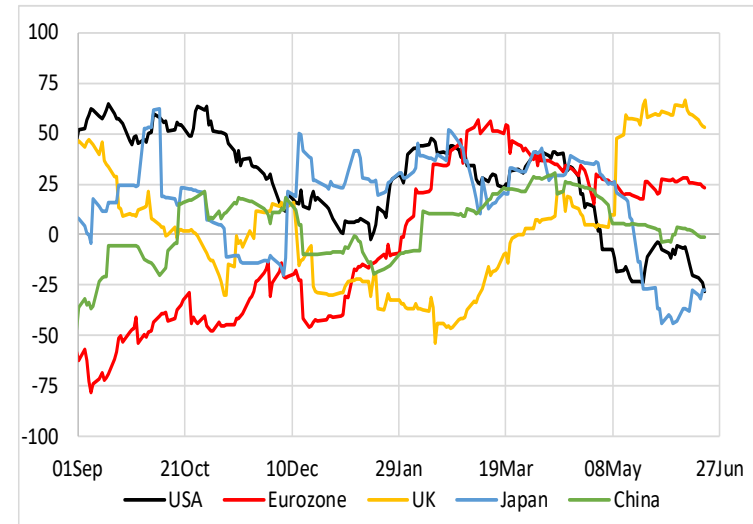
- Global growth has been at a moderate level in recent quarters. The impression that economic momentum is improving now is increasingly confirmed. Inflation rates have fallen considerably due to the easing of energy prices and the declining supply chain disruptions. Against the backdrop of tight labor markets, wage growth is holding up better than expected. As a result, real purchasing power is recovering and demand for goods and services is rising accordingly.
- The headwind for companies by the previously very high energy prices has eased significantly. In addition, the inventory cycle in the global industrial sector is more favourable and can once again provide a positive growth impetus.
- The brightening outlook for the economy is reflected in an increase in the purchasing managers' indices. The PMIs for services in particular have recovered significantly. Most of them are well above the 50 mark, signaling increasing momentum. Although the rise in the PMIs for industry is more subdued – particularly in the developed economies – it is also significant and indicates an end to the industrial recession.

Global Economy II

Growth expectations 2024



Economic surprise indices

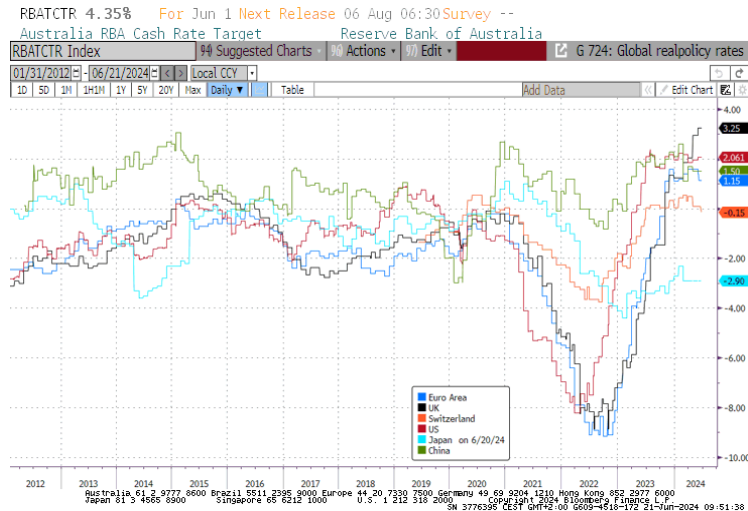


Source: Bloomberg

- US growth expectations have increased markedly since last autumn. In China, they have risen moderately since the beginning of the year. In Europe and Japan, on the other hand, they have fallen and are at low levels. In spring, however, US data was disappointing – probably because the spring revival after a warm winter was only modest. In Europe, on the other hand, most of the data has surprised positively which is why growth expectations have recently been raised slightly.
- The US economy should continue to provide a positive growth impetus. The issue of the weak spring revival should soon be resolved, but Asia and Europe show increasing momentum again. In China, the macro-economic easing measures that have been implemented are having an effect – albeit a muted one – on promoting growth. In Europe too, there are increasing signs that the economic stagnation phase is coming to an end and that growth has started to pick up moderately. As a result, growth momentum is becoming more broadly based regionally, and the global economy should also be more robust.

Global Central Banks

Real policy rates



Share of central banks cutting rates

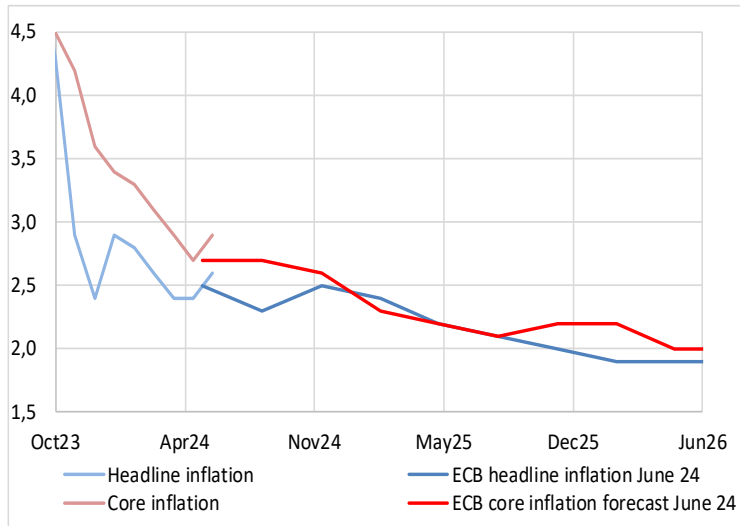


Source: Bloomberg, MacroMicro

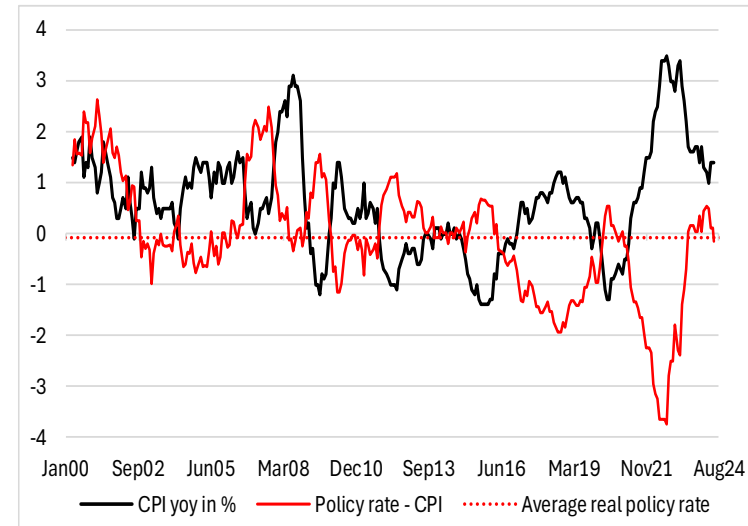
- Due to the combination of strong interest rate hikes by central banks and lower inflation, real policy rates have risen very sharply in the last two years. This puts the central banks in a much better position to cut interest rates even without a recession, albeit to a lesser extent than is priced into money markets today.
- After some emerging countries started to ease monetary policy last year, it is currently the European central banks that are beginning to cut interest rates. For example, the SNB started cutting rates in March, the Swedish Riksbank in May and most recently the ECB. Although the US Fed is still taking its time, it is also moving towards cuts, and it is probably only a matter of months before the first step is taken. In any case, financing conditions have also eased significantly in the USA. This means that the burden of restrictive monetary policy is tending to ease.
- Japan is a significant exception. Real policy rates are very low by international standards, and the BoJ will be able to tighten monetary policy over the next few quarters in an environment in which other central banks are cutting interest rates.

ECB, SNB & US Fed

Eurozone Inflation & ECB forecasts



Switzerland: Inflation & real policy rate

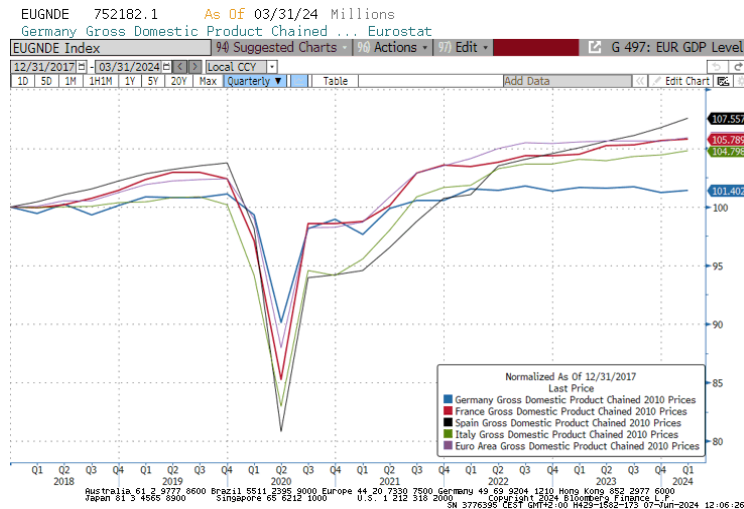


Source: Bloomberg

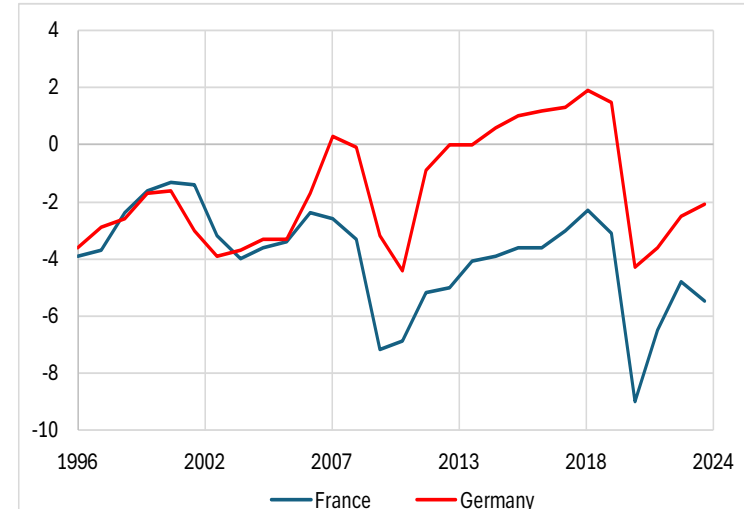
- The ECB has started to cut rates. However, as productivity in the Eurozone is stagnating, there is an increased risk that inflation will become permanent despite the subdued growth environment, and the ECB's forecasts therefore appear too optimistic. Interest rates are likely to be cut only once or twice, by 25bp each time. The risk of rate hikes towards the end of next year should not be overlooked if the monetary policy easing is too pronounced.
- The SNB expects inflation to remain within its target range. The real (inflation-adjusted) policy rate is close to its historical average. The SNB may subsequently cut the key interest rate again, but as things stand today, it will probably only make one further cut to reach the target of 1%.
- In the US, both growth and inflation are currently too high for rate cuts. As a result, the Fed is taking its time to ease monetary policy, with the first move likely to come towards the end of the year. During the upcoming cycle, interest rates are likely to be cut only moderately.

Germany & France

GDP (Q4 2017 = 100)



Budget deficit as a % of GDP

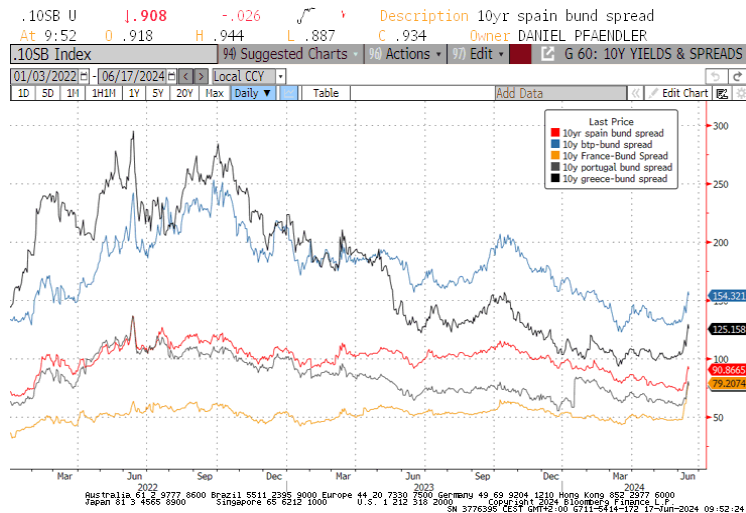


Source: Bloomberg

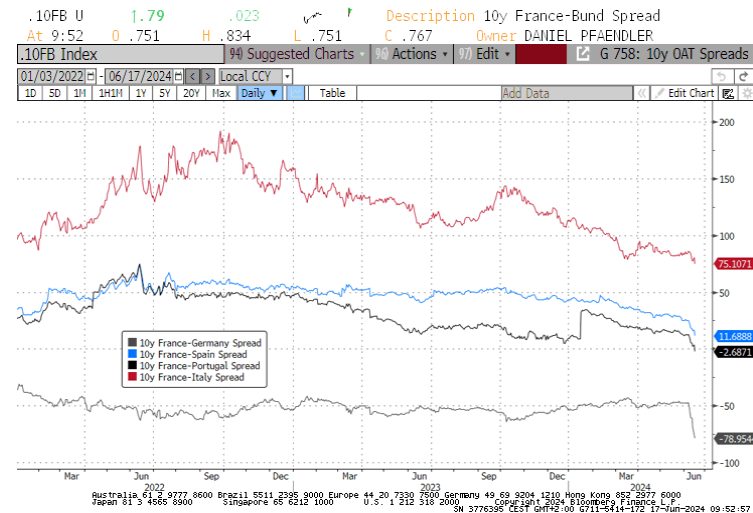
- The German economy has struggled to gain momentum in recent years and has underperformed. Although structural headwinds such as high regulatory density and a questionable energy policy remain, a cyclical recovery is now emerging. Real purchasing power is rising strongly. The negative effects of a restrictive monetary policy are also easing. At the same time, housing affordability has improved, and there are signs of a turnaround in the housing market. The industrial sector stands to benefit from an improving global cycle. The outlook for the German economy is brightening somewhat.
- In France, however, the outlook is darkening. Labour productivity has fallen sharply, and the budget deficit is high. Fiscal policy in its current form is unsustainable and, without significant improvements in productivity, it will be difficult to generate a significant growth impulse. With the early elections, political uncertainty has now increased. At the same time, the likelihood that policymakers will resolve the underlying problems of the French economy and public finances in the coming years has diminished.

Fixed Income

Risk premiums of 10y sovereign bonds vs. Bunds



Yield spreads of 10y sovereign bonds vs. OATs*



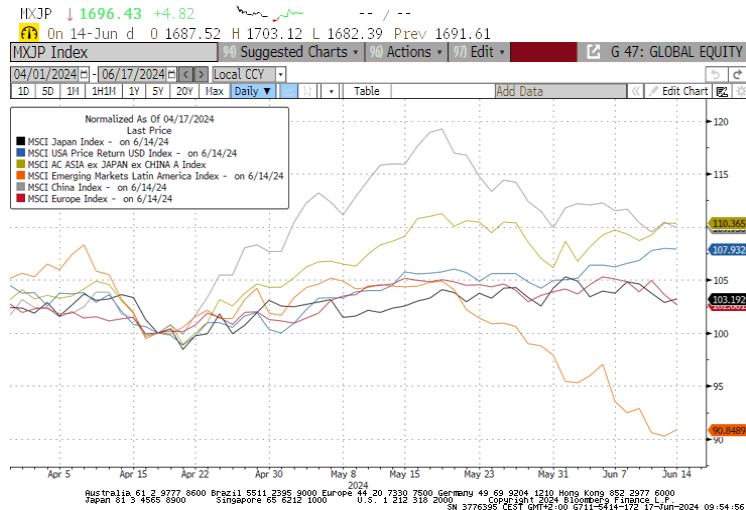
Source: Bloomberg

- The outlook for carry products remains favourable from a long-term perspective. High nominal growth should have a supportive effect as it will make it easier to service existing debt. In the wake of the announcement of early elections in France, uncertainty has increased, and volatility has risen. This has temporarily burdened the environment for carry products and led to higher spreads. Existing positions – with a focus on short and medium-term maturities – can be held, and first additional purchases seem attractive. However, caution should be exercised with long maturities.
- For French bonds, on the other hand, the environment is much more difficult, not only on a tactical basis, but also from a medium and longer-term perspective. In addition to the poor fundamental situation, the investor structure with a large proportion of international investors may also prove to be a disadvantage. Their interest is likely to wane. On the other hand, German bonds can benefit from this as can issuers from outside the Eurozone.

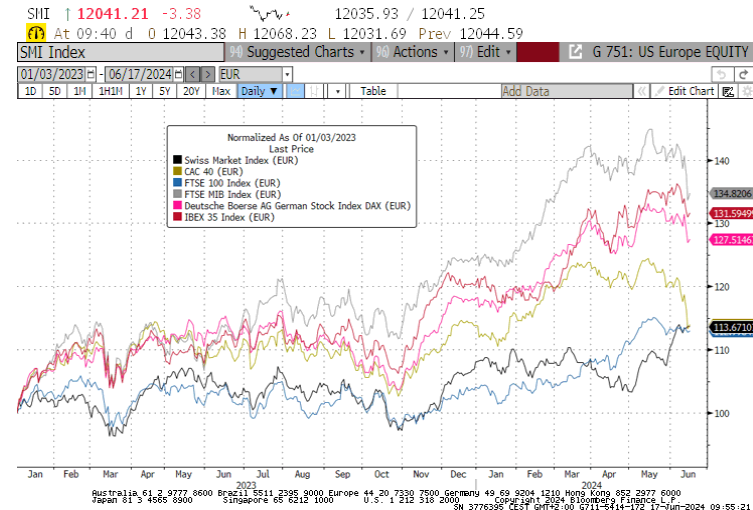
*OATs: French government bonds

Equities

Performance global equity indices Q2 2024



Performance European equity indices since January 2023

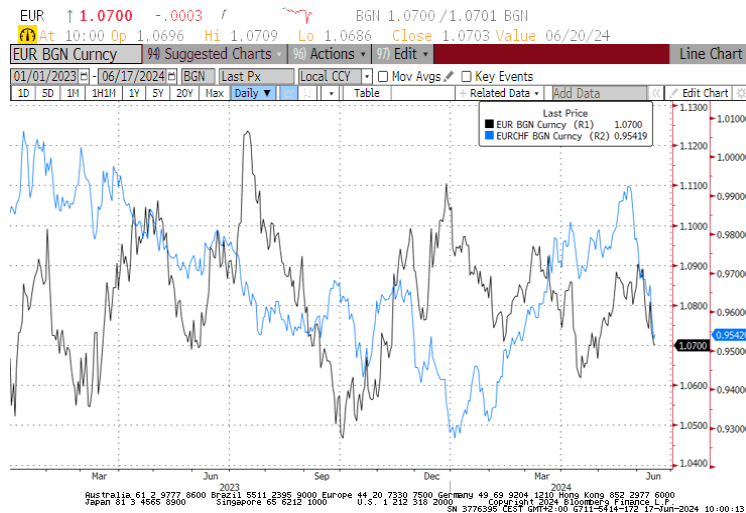


Source: Bloomberg

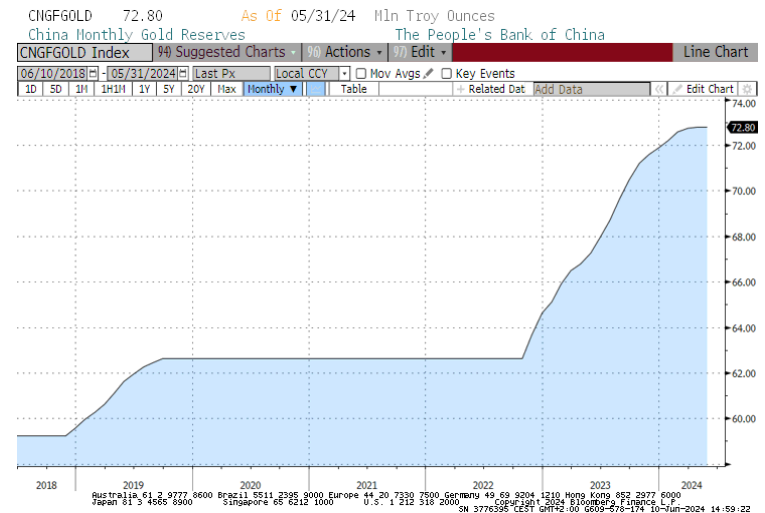
- Global economic momentum is improving. This should be accompanied by higher earnings and earnings expectations. In addition, an increasing number of central banks are cutting interest rates which could lead to a moderate rise in market valuations. An overweight position in equities therefore is still advisable, and major setbacks remain buying opportunities. As global growth has been broadening regionally, Asian markets in particular performed strongly in the second quarter. By contrast, Latin America was weak. Among other things, political developments – especially the election results in Mexico – had a negative impact.
- Eurozone equity markets clearly outperformed Great Britain and Switzerland between November 2023 and the end of the first quarter of this year, but this has reversed in recent weeks. The FTSE100 has the potential to perform strongly on the back of the incipient recovery in the United Kingdom and the index' commodity-dependent composition. The SMI is benefiting from the early monetary easing by the central bank and the high weighting of defensive companies, which is again proving to be an advantage in the wake of the increased uncertainty in the Eurozone.

Euro & Gold

EUR/USD & EUR/CHF



Chinese gold reserve (in mln ounces)



Source: Bloomberg

- The Eurozone growth recovery and the improvement in the trade balance are positive factors for the Euro. However, downside risks remain significant. The ECB has started to lower interest rates, but only slowly. In addition, productivity growth has stalled. Combined with higher wages, this is undermining corporate competitiveness. The Eurozone remains vulnerable to a renewed rise in energy prices, but also to geopolitical developments. There is also heightened political uncertainty in the run-up to the French elections. The upside potential for the Euro is limited, and periods of strength lend themselves as selling opportunities, whether against the US dollar or other European currencies such as the Swiss franc.
- China has significantly increased its gold reserves over the past year and a half, but recently announced that it will not increase them further for the time being. However, geopolitical developments continue to provide support, and central bank holdings will rise even without China. Interest rate cuts by a growing number of central banks are a positive factor. The longer-term outlook for gold remains positive, but the steep upward trend of the past year may level off.

Disclaimer

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