

# Reuss Private AG

## Outlook 2024 – Update Q4

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Reuss Private

# The Big Picture I

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## 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.
- Global growth is recovering slightly. The probability of a recession in the USA is low.
- China's weak domestic demand but growing production capacities are threatening the industrial sectors in the advanced economies.
- Inflation rates have fallen, mainly due to an improved supply situation for energy and goods. Inflation in services is more persistent.
- Due to the strong productivity growth in the USA and the persistently high domestic price pressure in the eurozone, interest rate cuts will be somewhat less pronounced than generally expected.
- In the longer term, (government-led) investment should increase and support growth.

# The Big Picture II

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## Influencing factors

- Geopolitical risks (Ukraine, Israel, Iran, Taiwan and Türkiye) have increased and will remain elevated for a prolonged period. This reinforces the deglobalization 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 in the long term. 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 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.

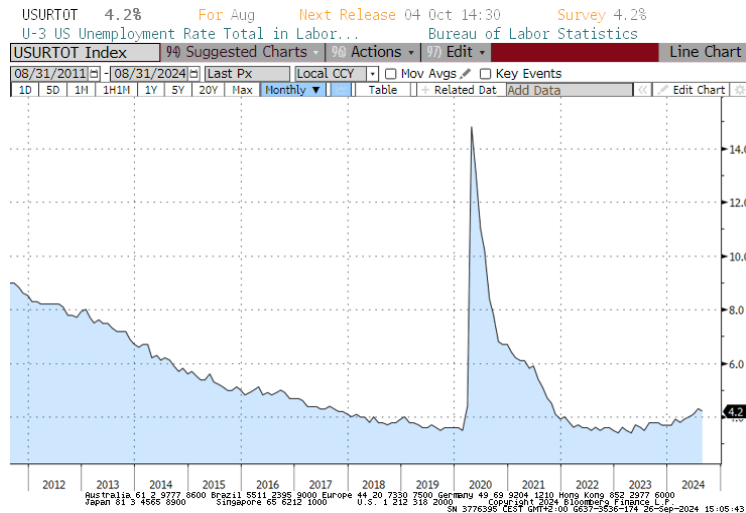
# Positioning

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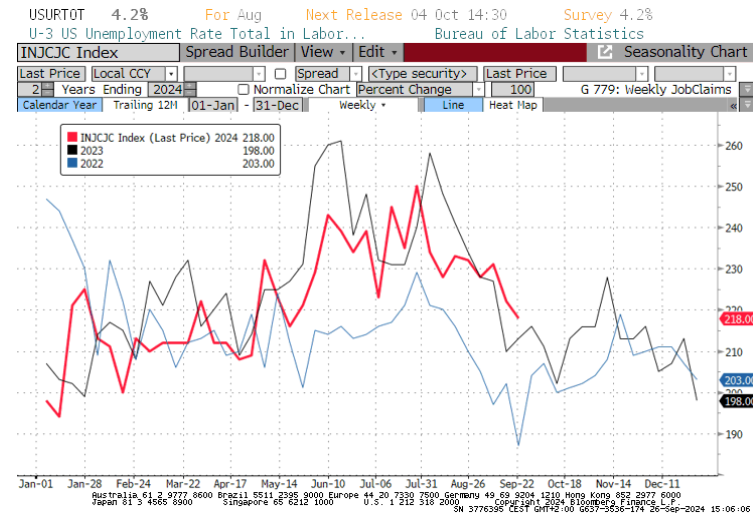
Asset Class	What we like	What we underweight
Liquidity		
Bonds	<ul style="list-style-type: none"> <li>▪ Short term to medium term investment grade assets (funds)</li> <li>▪ Corporate bonds</li> </ul>	<ul style="list-style-type: none"> <li>▪ Long maturity bonds</li> </ul>
Equities	<ul style="list-style-type: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

# USA I

## Unemployment rate



## Weekly jobless claims

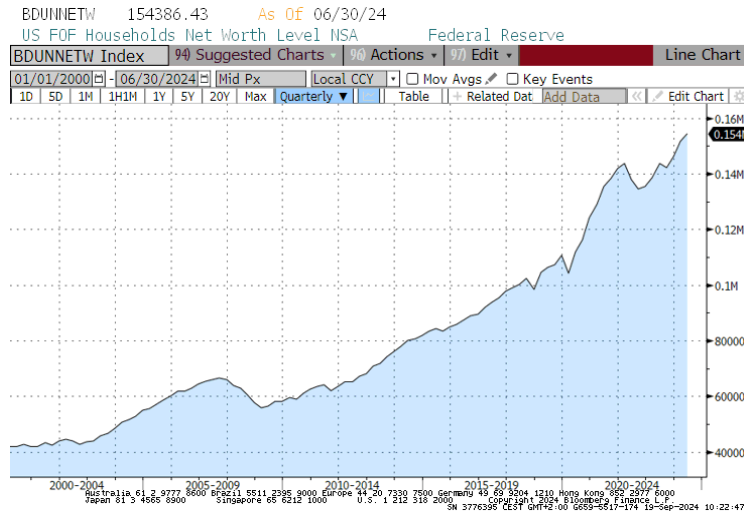


Source: Bloomberg

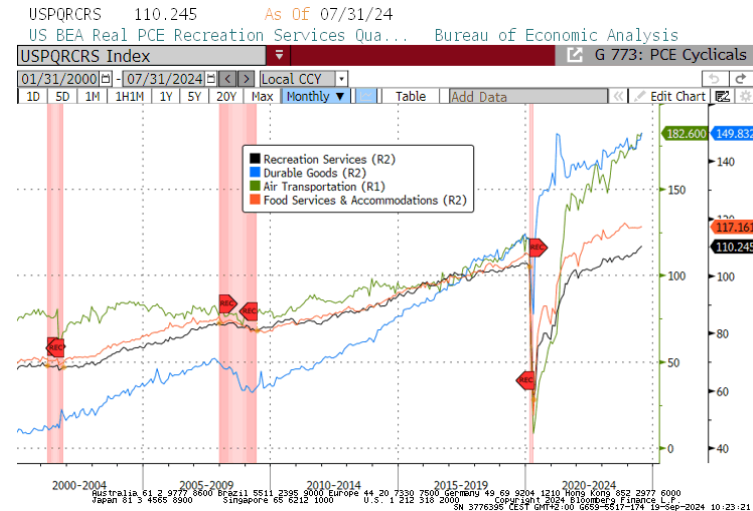
- Job creation has fallen, and the unemployment rate has risen sharply from 3.4% in spring 2023 to 4.1% recently. According to the FOMC, this is close to full employment. The increased unemployment rate has raised concerns that the US economy could slip into recession.
- Part of the higher unemployment is due to a decline in demand for labour. At the same time, the supply of labour has also risen significantly due to high immigration and an increasing participation rate. However, this does not suggest a recession.
- Weekly claims for unemployment benefits have risen steadily since the beginning of the year and reached 250,000 during summer. This also points to a weakening labour market. Hurricane 'Beryl' in July may have been a factor in the rise in unemployment claims. Already last year a similar pattern was observed, with a rise of unemployment in spring and summer followed by a fall during autumn. This means that there may be some residual seasonality in unemployment claims.

# USA II

## Household net worth (in USD bn)



## Cyclically sensitive consumption (Jan 2015 = 100)

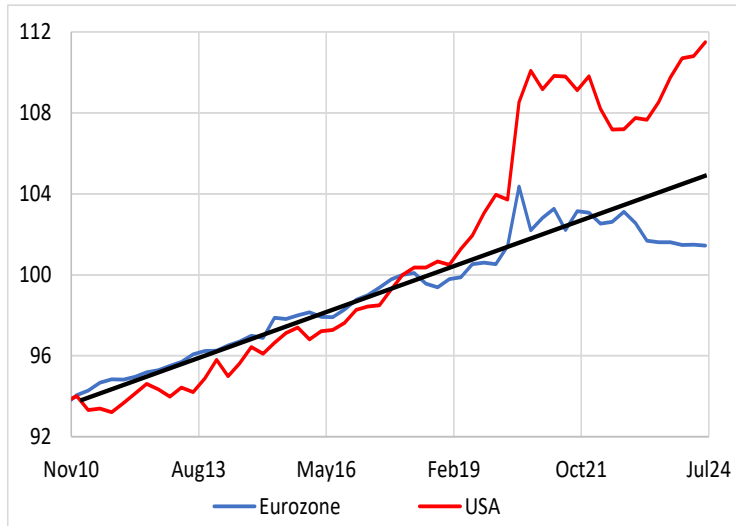


Source: Bloomberg

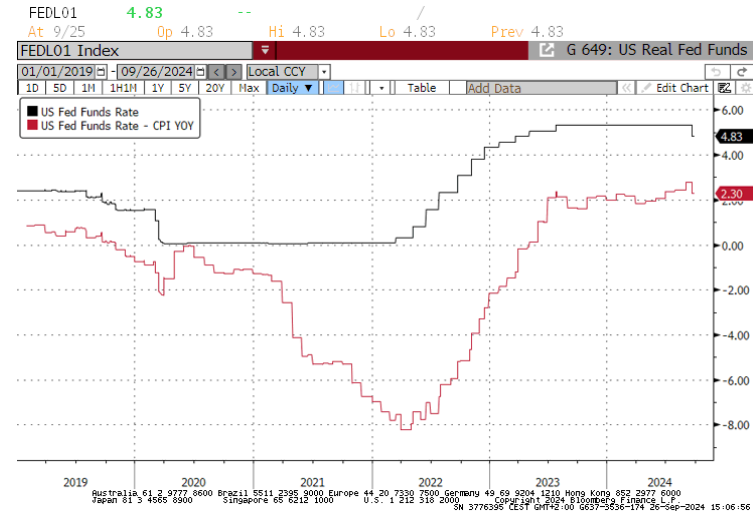
- The restrictive monetary policy environment in the US has led to higher borrowing costs and less lending. As a result, the property market in particular has weakened. However, many borrowers have taken advantage of the previous period of historically very low interest rates and will only be affected by higher rates with a time lag.
- Household incomes and wealth are rising as a result of higher real wages and continued employment growth. This supports consumption and counteracts the tightening of monetary policy. As a result, consumption is not yet indicating a recession. Normally, consumption of durable goods – such as furniture or cars – falls before a recession begins. This is because in times of economic uncertainty, job losses or general financial stress, people tend to put off or postpone purchases of such products. Other cyclically sensitive consumer goods have also not been less in demand.

# USA III

Productivity per hour worked (Q4 2017 = 100)



Nominal & real Fed Funds rate

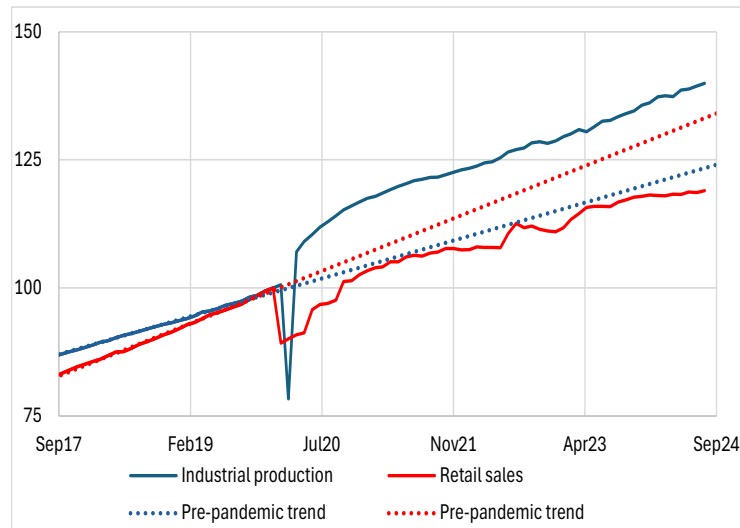


Source: Bloomberg

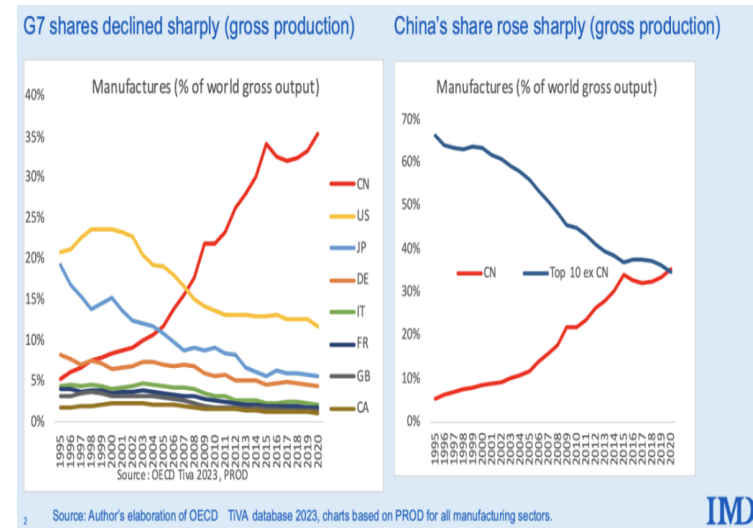
- Monetary policy is restrictive and fiscal policy is no longer accommodative. As a result, economic momentum has been weakening.
- At the same time, trend growth – in stark contrast to the Eurozone – is high due to higher productivity growth and strong immigration. As trend growth is very high and the economy is losing momentum at the same time, spare capacity is increasing noticeably. This is reflected in a rise in unemployment, while at the same time domestic inflationary pressure is easing. Still, a recession remains only a risk scenario.
- The central bank mandate of price stability enables, and the mandate of full employment requires an easing of monetary policy towards a neutral stance. The Fed therefore began to lower the Fed Funds rates at its last meeting. Policy rates may be lowered further at each of the upcoming meetings in steps of 25bp to a level of around 3.75%.

# China Shock I

## Retail sales & industrial production



## Shares of global industrial production



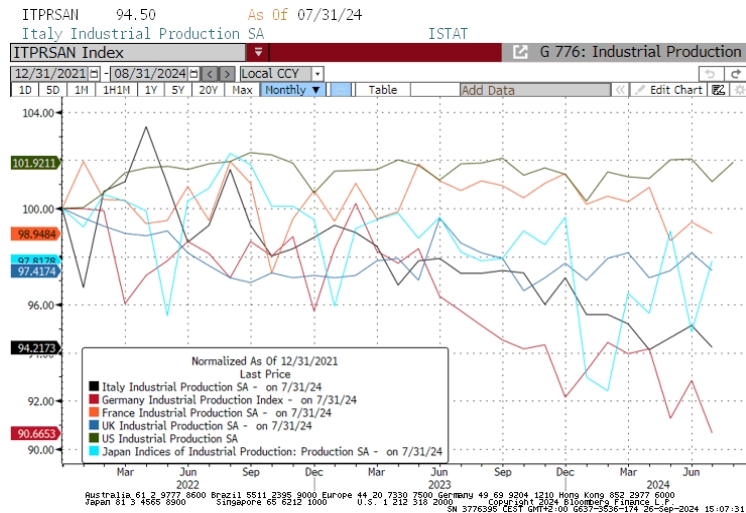
Source: Bloomberg, IMD

- China is suffering from a pronounced disinflationary slowdown in demand. This has been triggered by demographics, the collapse of the property market with very high vacancy rates, and a policy that – increasingly since the pandemic – has supported companies and therefore supply, but not households and respectively demand, unlike in Europe and North America.
- As a result of the pronounced increase in supply and weak demand, China has significant overcapacity. This also promotes a fierce price war with low profit margins. Therefore, Chinese companies are pushing even harder into global markets and are increasing their market share. China's merchandise exports have risen sharply in recent years, while imports have been relatively weak. The trade surplus in goods is now around 2% of the rest of the world's GDP.
- China has a dominant share of global industrial production, which is as large as that of the next 10 largest producing countries combined. This poses increasing problems for the industrial sector in the rest of the world.

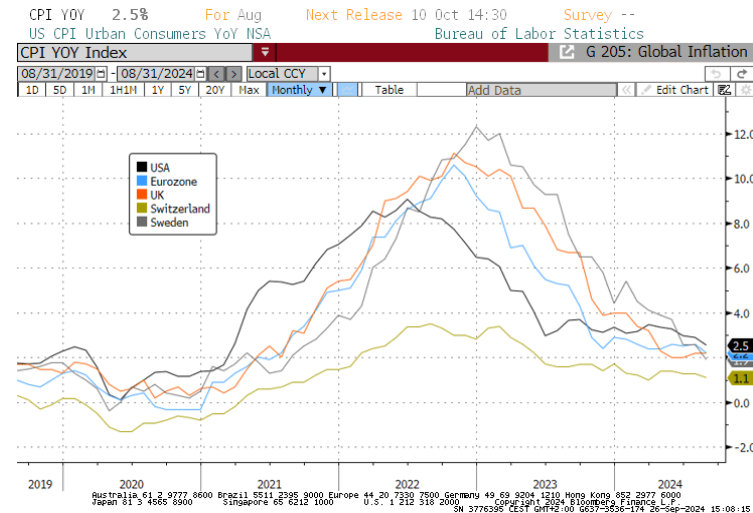


# China Shock II

Industrial production (Dec 2021 = 100)



## Global Inflation rates

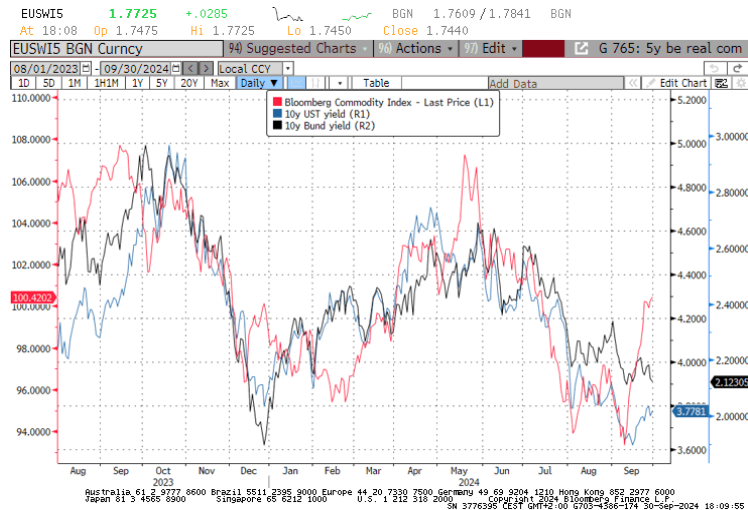


Source: Bloomberg

- The market shares of Chinese producers on the domestic and global markets are increasing. Due to the already outstanding importance of Chinese industry, this has significant negative consequences for the industry in the rest of the world. In addition, Chinese export goods are no longer just textiles, furniture or household goods as they used to be, but increasingly cars, machinery and chemicals.
- While the industrial sector in China has grown strongly in recent years, the manufacturing industry in Western countries has generally not provided any growth impetus. The USA is an exception. Compared to the end of 2021 the industrial production grew slightly by +1.2%, probably due to developments in the oil and gas sector and a generally more business-friendly policy environment.
- With its goods, China also exports its disinflationary pressure of its domestic economy. Due to China's paramount importance for the global economy, this is contributing to a decline in inflation in the rest of the world.

# Fixed Income

## Yields & Commodities



## 10y sovereign bond yields

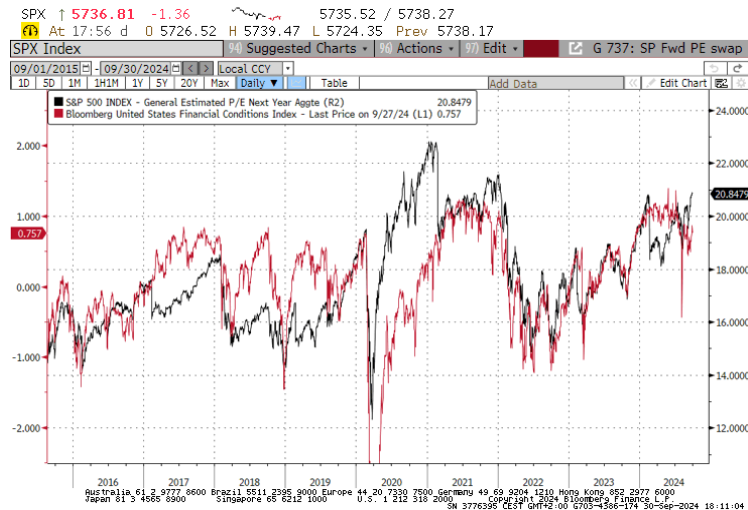


Source: Bloomberg

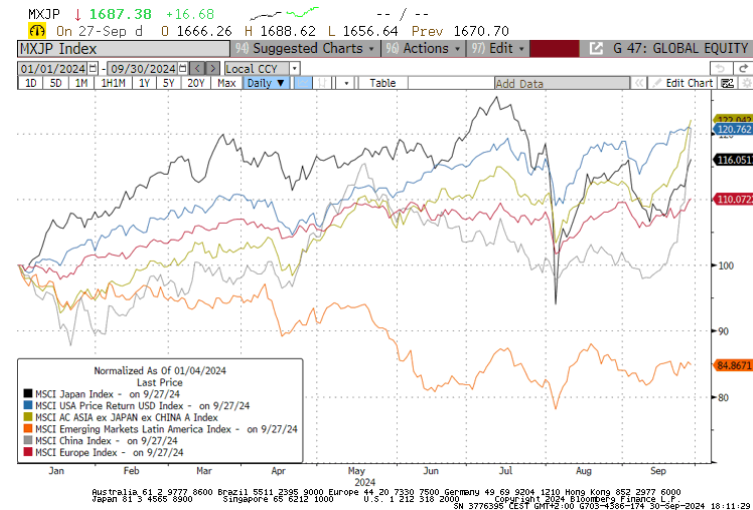
- Safe haven bonds were supported over the summer. On the one hand, more central banks have started to cut policy rates. On the other hand, downside risks to growth – even more so in Europe than the US – increased, while commodity prices fell sharply on weak demand, particularly from China.
- Central bank policy rates in Europe and the USA will likely be lowered less than currently priced in by the markets. The US will likely avoid a recession. At the same time, trend growth remains high. In the Eurozone, the risks of domestic inflation in the medium term are pronounced due to low productivity growth. Both factors limit the potential for interest rate cuts.
- Against the backdrop of quantitative tightening by central banks and high budget deficits, bond supply is high. The environment for "safe" bonds – especially at the long end of the curve – will therefore remain challenging over the longer term, and yields are likely to continue moving sideways into 2025.

# Equities

## Price-earnings ratios & financing conditions



## Performance global equity indices 2024

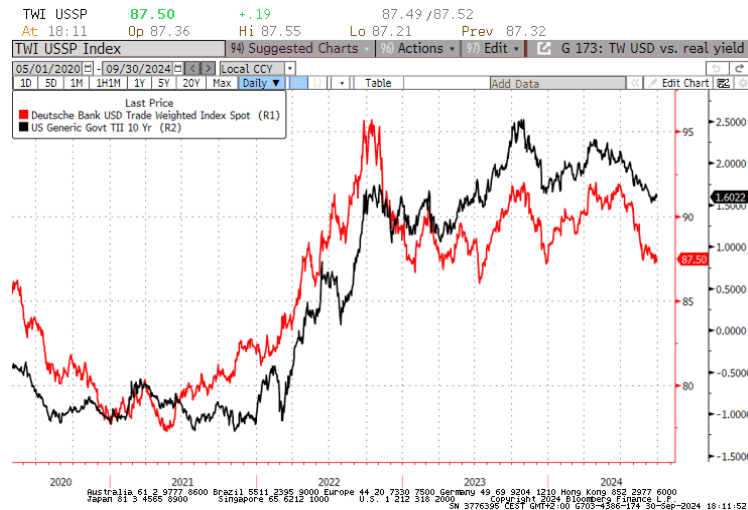


Source: Bloomberg

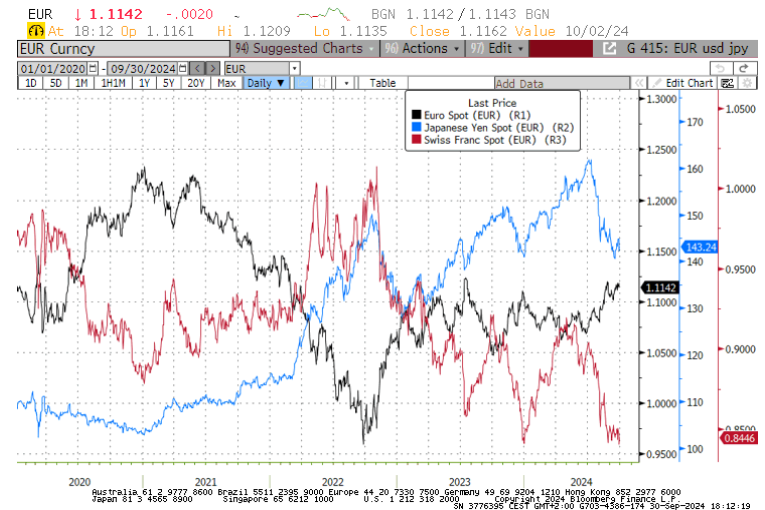
- Global economic momentum is stabilizing, and the US should be able to avoid a recession. Moreover, nominal growth remains higher than in the past decade. This should be accompanied by higher profits and profit expectations.
- After some emerging markets started to ease monetary policy last year, it was the European central bank which started to cut interest rates in spring and summer, followed lately by the US Federal Reserve. This means that the headwinds posed by a restrictive monetary policy are gradually weakening. In addition, an environment of easing financing conditions tends to be associated with higher market valuations (price-earnings ratios).
- From a strategic perspective, higher earnings and rising market valuations can therefore contribute to a positive equity market performance. Accordingly, an overweighting of the equity market quota is still advisable, and major setbacks remain as buying opportunities.

# Currencies

## Trade-weighted US-Dollar & 10y US real yield



## USD/JPY, USD/CHF & EUR/USD



Source: Bloomberg

- The Fed's start of its cutting cycle, political uncertainty with the possibility of less business-friendly policies and the yen's turnaround have been negative factors for the US dollar recently. Cyclically, the US should avoid a recession and in the longer term, the outperformance of the US should continue on the back of higher trend growth. This supports the US dollar on a strategic basis.
- Due to the fall in prices for imported goods such as energy, purchasing power in Europe is improving and growth is stabilising. At the same time, the trade surplus is rising. These are positive factors for European currencies. However, the downside risks remain pronounced in the longer term, especially for the Euro. Productivity growth has stalled and combined with higher wages, are undermining the competitiveness of companies. The Swiss economy and thus the Franc are in a relatively better position. However, the SNB should prevent a too strong appreciation of the Franc against the Euro.
- The Japanese central bank is likely to tighten monetary policy further in the coming quarters, albeit very cautiously. Monetary policy is thus moving in the opposite direction to that in Europe and the US. USD/JPY is likely to move sideways.

# Disclaimer

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