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SoundInsight Nº18

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The ECB and SNB cut interest rates in June

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The coming months are expected to bring transparency regarding growth

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The Fed now anticipates only one rate cut in 2024

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Unchanged weighting in bonds and equities

Half-time 2024: Financial Markets Exceed Expectations

The latest economic data supports the view of robust growth and declining inflation. As we reach the mid-year mark, nearly all asset classes are in positive territory, raising expectations for the second half of 2024.

The Federal Reserve announced its latest sum of economic projections at the June meeting. The report is still indicating a stable economic situation, thereby reducing the need for lower interest rates compared to the last assessment published back in March. Three months ago, the Fed anticipated three rate cuts this year; currently, the central bank expects only one. Higher interest rates for longer - not exactly an ideal scenario for investors and risk assets.

Almost simultaneously with the Fed's communication, the release of consumer and producer prices brought a positive surprise: inflation fell short of economists' expectations for the second consecutive month. This led market participants to anticipate an additional rate cut this year, contrary to the Fed's forecast. This expectation was supported by slightly declining retail sales and a slowing US labor market.

Meanwhile, policymakers in Canada and Europe lowered interest rates for the first time in the current cycle this month. This occurred despite the European Central Bank (ECB) raising its own inflation forecast. However, the biggest surprise in monetary policy came once again from the Swiss National Bank. For the second consecutive time, the SNB unexpectedly cut interest rates by 0.25%. As in March, the decision was justified by lower inflation and a still strong Swiss franc. The Purchasing Managers' Indices (PMI) showed a positive trend in June. Both the manufacturing and service sectors saw small gains. Notably, the global index for manufacturing reached its highest level since July 2022, while the service sector achieved its highest value in the past twelve months. The combination of lower inflation and a positive outlook for both industry and services is definitely favorable for investors.

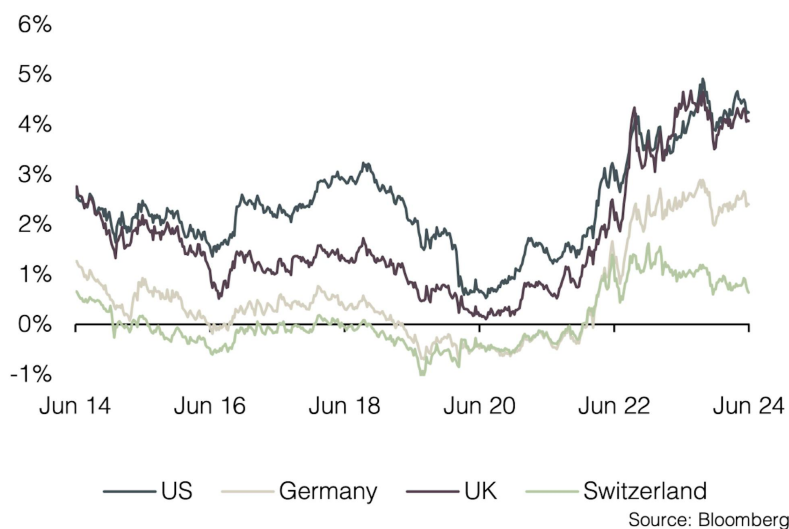
However, the fact that US interest rates are still holding at 5.5% was far from ideal at the beginning of the year. At that time, six rate cuts were predicted for 2024, with the first expected in March. In retrospect, it can be noted that the financial markets have exceeded return expectations in the first half of 2024 despite higher interest rates.

The coming months will reveal whether this trend continues, and the hoped-for market stability persists. Currently, the market is expecting an almost perfect scenario of rising corporate earnings, falling interest

rates, and decreasing inflation. With these prospects, we look forward to the second half of 2024, which will show whether the positive expectations will be met. Over the next weeks, we expect to receive insightful data, particularly from the consumer sector, which will provide greater visibility regarding future growth. A rate cut following the US elections seems quite realistic to us.

With the positive developments of the last month, investor sentiment is gradually moving towards the euphoric range, though it hasn't quite reached that point yet. We maintain a neutral position on equities and remain cautious regarding default risks in bonds.

10-Year Government Bond Yield

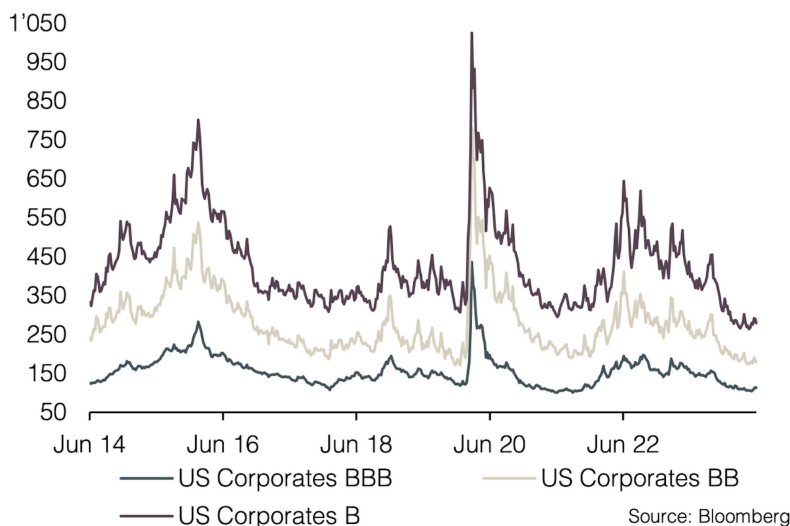


Yields

Due to the unexpected second rate cut by the Swiss National Bank, the interest rate for long-term bonds (10 years) in CHF has fallen to its lowest level since last December. Interest rates in EUR and USD have also declined, but they remain higher than at the beginning of the year, maintaining their attractiveness.



Credit Spread (in bps)

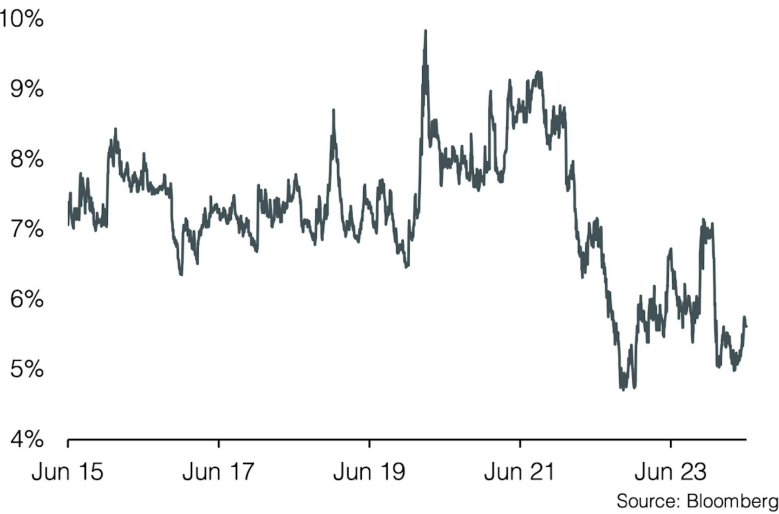


Spreads

Credit spreads have slightly increased over the past month, particularly for high-yield bonds. However, spreads remain unattractive when compared to historical levels.



Equity Risk Premium USA



Equity Risk Premium

With rising forecasts for growth and profit expectations, the expected equity risk premium has also increased. However, the equity risk premium remains at a very low and unattractive level.



Manufacturing PMI

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24
Global	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	48.7	48.6	49.0	49.2	48.8	49.3	49.0	50.0	50.3	50.6	50.3	50.9		
USA ISM	50.8	50.0	48.9	48.1	47.4	47.7	46.5	47.0	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	
Europe	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.6
United Kingdom	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5	45.3	43.0	44.3	44.8	47.2	46.2	47.0	47.5	50.3	49.1	51.2	51.4
Switzerland	56.8	55.4	54.4	54.5	49.3	48.9	47.0	45.3	43.2	44.9	38.5	39.9	44.9	40.6	42.1	43.0	43.1	44.0	45.2	41.4	46.4	
China Local	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	
Japan	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.9	48.0	47.2	48.2	49.6	50.4	50.1

Services PMI

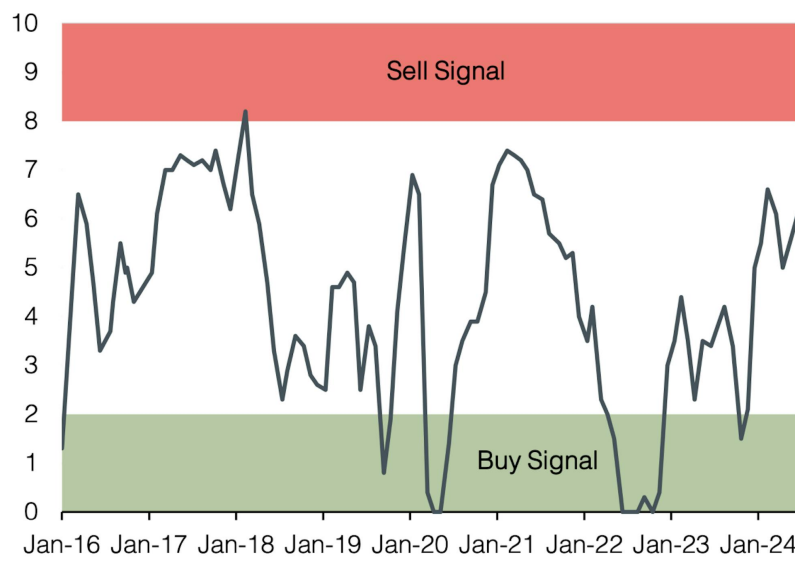
	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24
Global	49.9	49.1	48.1	48.0	50.0	52.6	54.3	55.2	55.3	53.8	52.6	51.0	50.7	50.4	50.7	51.6	52.3	52.4	52.4	52.7	54.1	
USA ISM	55.7	54.7	55.2	49.0	54.7	55.0	51.2	52.3	51.0	53.6	52.8	54.1	53.4	51.9	52.5	50.5	53.4	52.6	51.4	49.4	53.8	
Eurozone	48.8	48.6	48.5	49.8	50.8	52.7	55.0	56.2	55.1	52.0	50.9	47.9	48.7	47.8	48.7	48.8	48.4	50.2	51.5	53.3	53.2	52.6
United Kingdom	50.0	48.8	48.8	49.9	48.7	53.5	52.9	55.9	55.2	53.7	51.5	49.5	49.3	49.5	50.9	53.4	54.3	53.8	53.1	55.0	52.9	51.2
Switzerland	52.8	53.8	53.4	49.5	56.7	55.3	54.2	52.2	52.6	49.6	42.7	50.3	52.8	52.2	53.6	56.9	54.6	53.0	47.6	55.6	48.8	
China Local	48.9	47.0	45.1	39.4	54.0	55.6	56.9	55.1	53.8	52.8	51.5	50.5	50.9	50.1	49.3	49.3	50.1	51.0	52.4	50.3	50.5	
Japan	52.2	53.2	50.3	51.1	52.3	54.0	55.0	55.4	55.9	54.0	53.8	54.3	53.8	51.6	50.8	51.5	53.1	52.9	54.1	54.3	53.8	49.8

Description: The Purchasing Managers' Index (PMI) is a forward-looking economic indicator based on company surveys. A value above 50 indicates an improving economic environment, whereas a value below 50 indicates a worsening environment.

Leading Indicators

The Purchasing Managers' Indices (PMI) continue to show encouraging developments. The trend is upward in both the manufacturing and service space. If this trend persists, the indicator is likely to turn towards a positive assessment.





Risk-Index

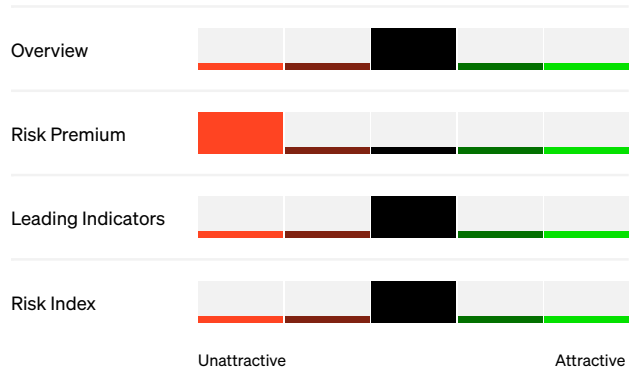
The risk index remains neutral in June but is trending towards a sell signal.



Bonds



Equities



Appendix

Sound Invest is the central tool for our investment allocation. We use it to systematically and consistently assess the aspects that are relevant to the development of the financial markets. As a result, our clients can rely on a rational and anti-cyclical implementation of our investment decisions.

- **Focusing on the essentials** Interest rate level, risk premium, valuation, economic development, investor sentiment and positioning. These are the decisive factors for success on the financial markets, especially in turbulent times when the temptation to react irrationally to the headlines is particularly strong.
- **Comparability over time and place**
The factors mentioned above are equally relevant for all markets and at all times. This is the result of a strict «backtesting» process that continues into the future.
- **Cumulating our investment experience**
Our strength lies in the many years of experience of our partners and principals. It is precisely this experience that we summarize and make it applicable with Sound Invest.
- **Transparency**
Thanks to our monthly publication, our clients always know where we stand in the investment cycle and how we expect the financial markets to develop.

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