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SoundInsight N°16

01

USD rate cut expectations shifted back to November

02

Purchasing managers' indices improve for the third consecutive month

03

Duration of CHF bonds reduced

04

US stock market upgraded to neutral, emerging markets reduced to underweight

Difficult Decisions for the Fed

Last month once again showcased the rapid pace of global financial markets. The latest inflation data has diminished the Fed's confidence in imminent interest rate cuts.

In the last issue of Sound Invest, we covered the Swiss National Bank's unexpected interest rate cut. At the time, we highlighted our perspective that US interest rate policy was still marked by significant uncertainties about upcoming rate cuts. In the past weeks, inflation has continued to trend unfavorably for monetary authorities. Recent inflation data indicates that expectations for an imminent policy shift may have been premature. Despite mid-year interest rate cuts being hinted during the last official Fed meeting, the Fed took a step back and now emphasizes its reliance on more convincing data for future policy decisions.

It appears that last year's playbook of “higher for longer” is repeating itself. Initially, six interest rate cuts by the Fed were anticipated at the beginning of this year, but forecasts have since been revised down to just two, with the first cut rescheduled from June to November. This adjustment was mainly due to higher-than-expected US inflation data, which has temporarily cast doubt on the previously observed downward trend.

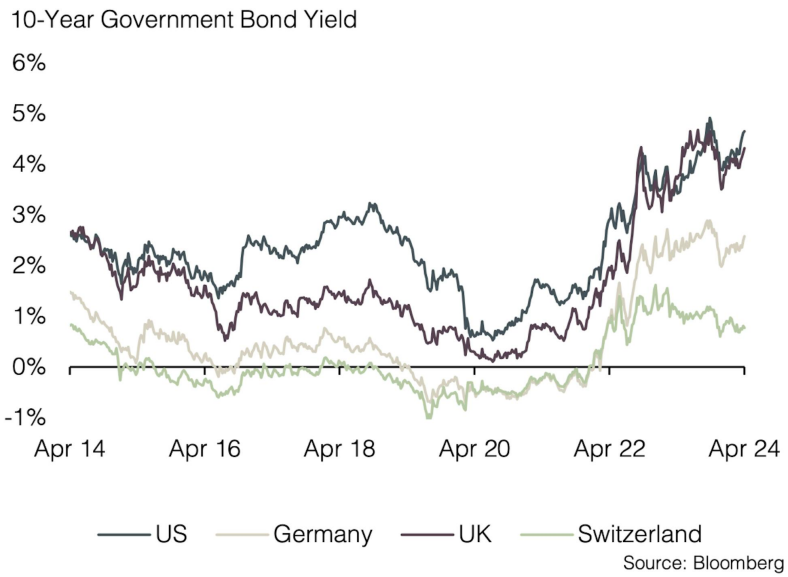
Additionally, the global purchasing managers' indices for both manufacturing and services have shown slight improvements over the past three months, indicating a strengthening economic recovery. This provides the Fed with an additional reason to avoid premature conclusions. In contrast, despite US developments, expectations for the ECB in Europe have shifted only minimally. According to market participants, the first of three anticipated rate cuts is still expected in June. The persistent inflation trajectory combined with a variety of strong economic data releases have significantly increased interest rates across the maturity spectrum, lifting the entire curve by 0.5%. In other words, expectations for two rate cuts were fully eliminated. The move was particularly felt by investors who positioned themselves at the long end of the yield curve.

The US stock market, especially the Nasdaq 100, all reacted negatively. After being up over 10% just a few weeks ago, the Nasdaq 100 nearly wiped out all of its gains for the year, being up only 1.9%. The correction sparked a surge in market volatility which touched a six-month high.

In response to the latest developments, we’ve adjusted our tactical positioning slightly. In the fixed income space, the current conditions present an unfavorable risk-return profile for longer-dated CHF bonds, prompting us to shift towards shorter-dated maturities. However, for USD denominated bonds, we still see attractive real yields that justify a slightly extended duration in our portfolio.

In the equity space, we maintain our preference for high quality. We've upgraded the US stock market from 'Underweight' to 'Neutral,' reflecting a cautiously optimistic stance due to the recent market correction and the consistently high quality observed in corporate earnings released over the last days. On the other hand, we've downgraded emerging markets to 'Underweight' following weaker fundamental data and disappointing corporate results.

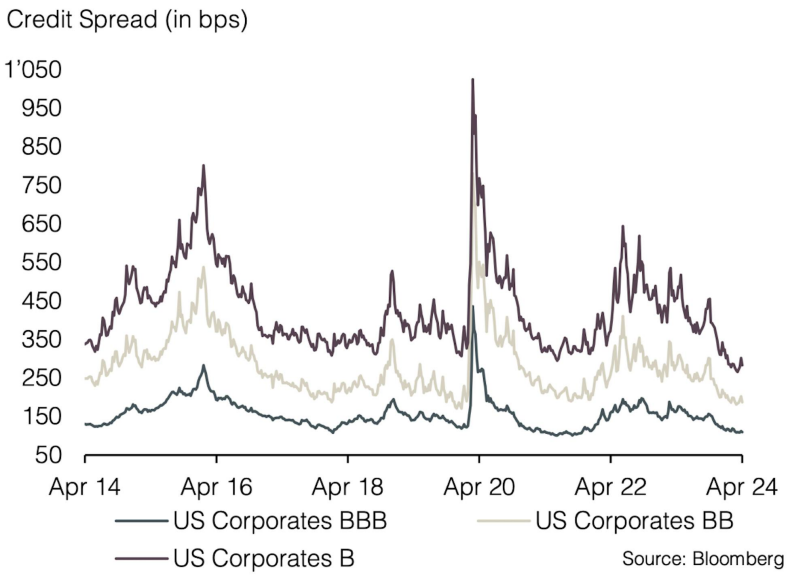
These adjustments also mirror the recent economic developments, which have increased the chances of a 'No-Landing' scenario in the US, meaning the economy is more likely to avoid a downturn despite tight monetary policy.



Yields

Driven by higher-than-expected inflation data, interest rates have jumped significantly across most maturities. This goes hand in hand with increased future inflation expectations. Despite some significant regional differences, both US and German government bond yields experienced an increase. In Switzerland, however, there was nearly no change observed at the longer end of the yield curve.



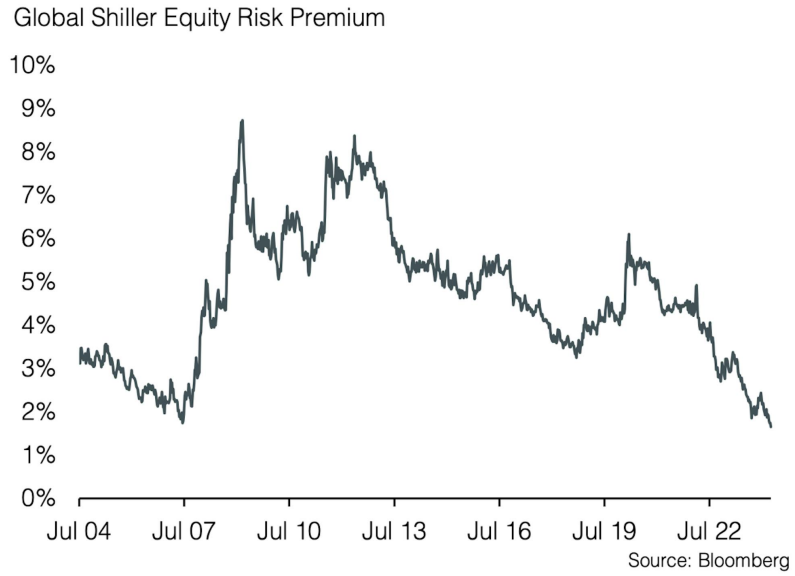


Spreads

Revised expectations in the interest rate market have heightened volatility in bonds and led to a small increase in credit spreads, yet spreads continue to trade at unattractive levels.



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Equity Risk Premium

The stock markets experienced a slight decline last month, no longer trading at record levels. Despite this development, equity risk premiums remain unappealing, partly due to the rise in real interest rates.



Unattractive Attractive

Manufacturing PMI

	Jul 22	Aug 22	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
Global	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.5	48.7	48.6	49.0	49.2	48.8	49.3	49.0	50.0	50.3	50.6	
USA ISM	52.8	52.8	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	
Europe	49.8	49.6	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	45.6
United Kingdom	52.1	47.3	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	48.7
Switzerland	58.0	56.7	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	
China Local	49.0	49.4	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	
Japan	52.1	51.5	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	49.9

Services PMI

	Jul 22	Aug 22	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
Global	51.0	49.2	49.9	49.1	48.1	48.0	50.0	52.6	54.3	55.3	55.3	53.8	52.6	51.0	50.7	50.4	50.6	51.6	52.3	52.4	52.5	
USA ISM	56.4	55.9	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	
Eurozone	51.2	49.8	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	52.9
United Kingdom	52.6	50.9	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	54.9
Switzerland	55.6	56.6	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	
China Local	52.8	51.9	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	
Japan	50.3	49.5	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	54.6

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.

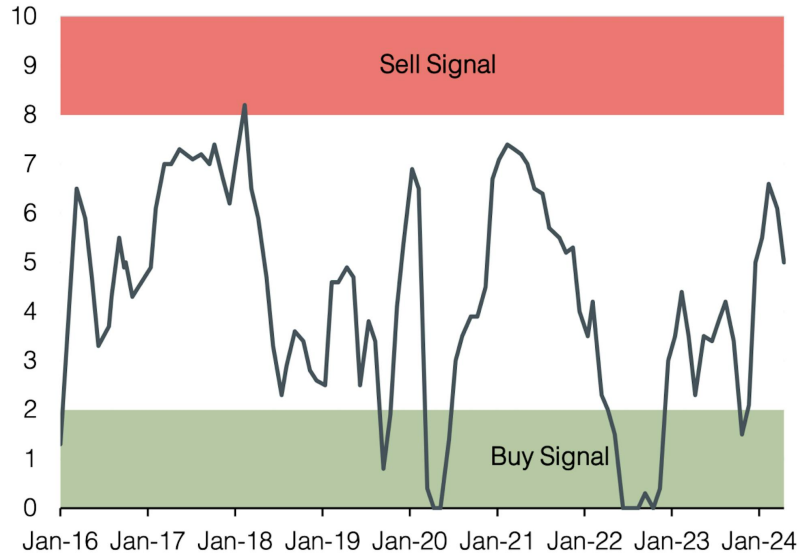
Leading Indicators

For the past three months, global purchasing managers' indices have improved. We continue to observe this trend which is signaling an improving economic outlook. Despite these positive signs, leading indicators have not yet reached an attractive level this month; therefore, we remain neutral.



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Risk-Index

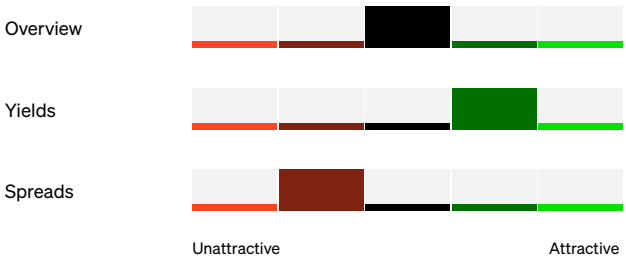
The slight setback in the stock and bond markets has somewhat dampened investors' risk appetite. The risk index continues to signal a neutral stance.



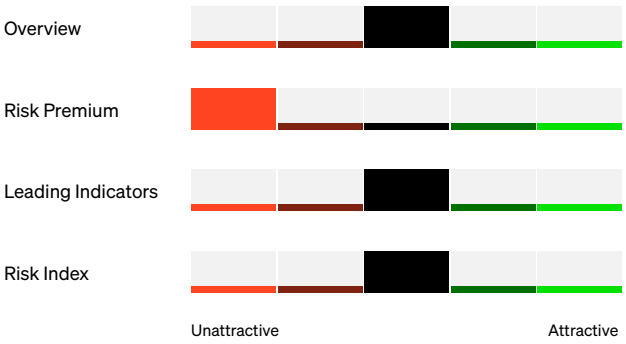
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Bonds



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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