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SoundInsight N°20

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Inflation prints below 3% for the first time in more than 3 years

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Weak US labor market data triggers a sell-off

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The Federal Reserve is under pressure to act

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Current positioning reflects the market environment

Price stability gives way to full employment

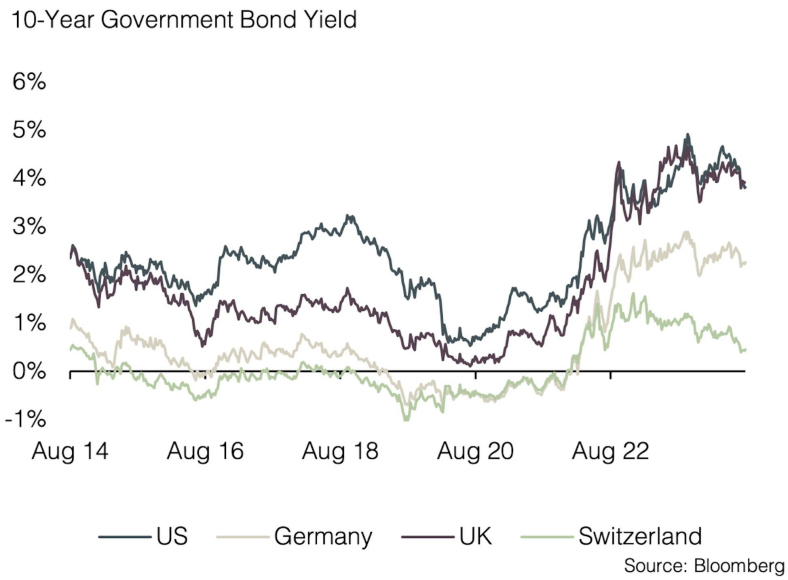
Inflation appears to be under control, entering the Federal Reserve's target range last month. With the economic momentum slowing, the central bank focus shifts to its second mandate: supporting full employment.

The start of August was anything but promising. An unexpectedly weak US jobs report triggered a sell-off in international markets. The message was clear: restrictive monetary policy of recent years is taking effect, albeit with a delay. As a result, markets called for swift action from the Federal Reserve. While one to two rate cuts in November and December this year were considered appropriate as of July, a single labor market data print suddenly led to expectations of five rate cuts in the remaining three meetings of this year.

This caused significant disruption across interest rate markets. In the USD/JPY carry trade, where investors borrow in a low-yielding currency (JPY) and invest in a higher-yielding currency (USD), a wave of mass liquidations occurred. Consequently, the Japanese stock market experienced its largest sell-off since 1987. Global equity markets quickly lost more than half of their yearly gains, and the previously stable market suddenly appeared very fragile. However, a closer look at volatility revealed that the correction also had technical aspects: while short-term volatility spiked to its highest level since the pandemic, expected volatility over six months only increased slightly, reaching just below the average of the last four years. As a result, the recovery was swift. It took less than 10 trading days for the losses to be recovered, and equity markets have already climbed higher since the beginning of August. For those who don't follow markets closely, the recent turbulence may have gone unnoticed. However, from our perspective, these developments send a clear message. In the May edition of "Sound Invest", our headline was "Bad News is Good News." This was accurate in an environment of high inflation, where central banks were striving to rein in economic momentum. But with the macroeconomic data of recent months, the battle against inflation seems to be nearing its end. As a result, the other part of the central banks' dual mandate - full employment - is likely to take center stage.

This also signals a regime shift: bad news may now indeed be interpreted as such. However, the current data does not reflect an economy that would justify the volatility seen at the beginning of the month. While there are clear signs of a slowdown, this is exactly what central banks intended. There is sufficient evidence to suggest that a soft landing for the economy is a realistic scenario. It now seems that the stage is set for gradual rate cuts in the US as well, which would improve the investment environment. Nonetheless, sensitivity to negative macroeconomic surprises is likely to increase, potentially leading to heightened volatility in the coming weeks.

This environment aligns with our current positioning, which we left unchanged in August. We continue to favor longer maturities for issuers with solid credit ratings and avoid high-yield exposure in the bond market. In the equity space, we believe that expensively valued sectors such as technology and communication are more vulnerable to corrections. Accordingly, on a regional basis, we continue to prefer the Swiss stock market, and in terms of sectors, we focus on consumer staples and energy.

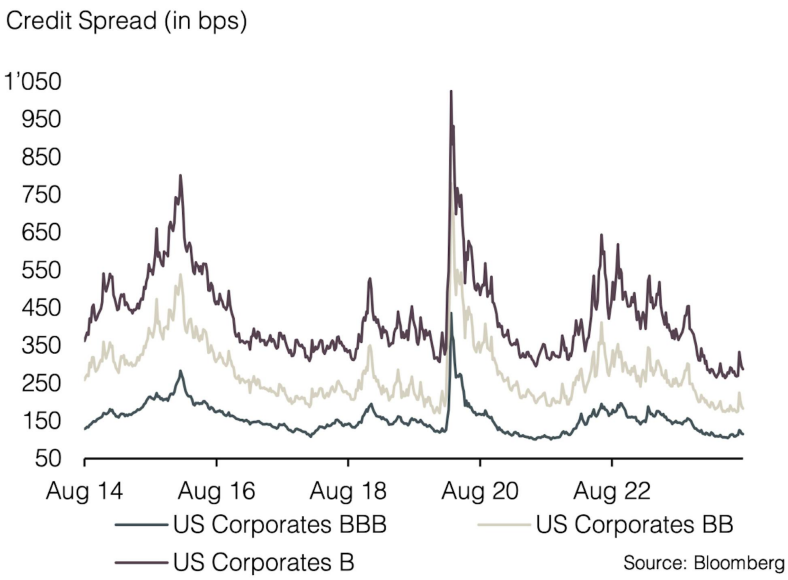


Yields

The interest rate environment has significantly eased in recent weeks. Yields on 10-year US Treasury bonds are now nearly a full percentage point below their peak in April. The decline has been particularly pronounced in shorter maturities, as the market now anticipates more rate cuts. This has led to the temporary unwinding of the yield curve inversion - where 2-year US Treasury yields were higher than 10- year yields - for the first time in over two years. Despite this development, current interest rate levels remain attractive, and we continue to favor longer durations, particularly in USD and GBP.



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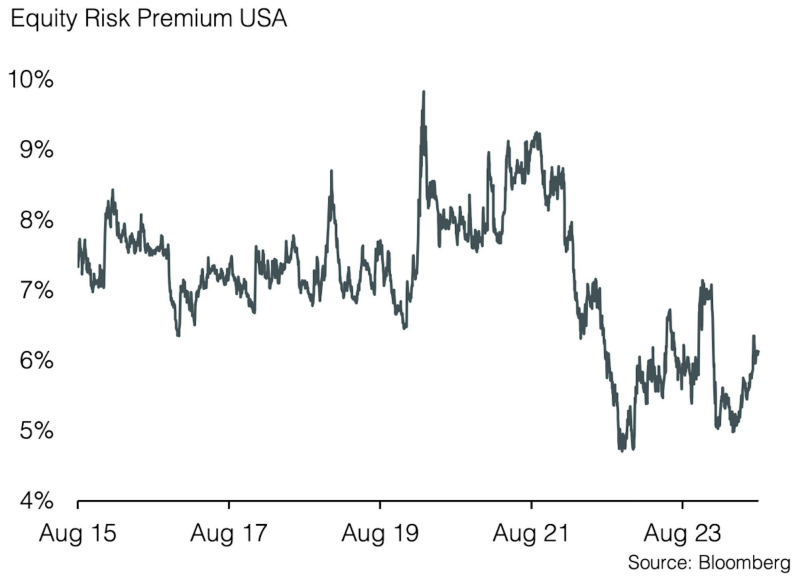
Spreads

Credit spreads increased over the past month, driven by the turbulence at the beginning of the month. However, the rise was not significant enough to bring high-yield bonds to an attractive level. Therefore, we maintain a cautious positioning and continue to avoid taking on elevated credit risks in the bond market.



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Equity Risk Premium

The equity risk premium remains unattractive, despite the turbulence at the beginning of the month, which demonstrated that the environment could change quickly. However, due to the rapid recovery, there have been no significant changes in the current month.



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Manufacturing PMI

	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	Jul 24	Aug 24
Global	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	50.3	51.0	50.8	49.7	
USA ISM	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	48.5	46.8	
Europe	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	45.8	45.8	45.6
United Kingdom	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	50.9	52.1	52.5
Switzerland	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	43.9	43.5	
China Local	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	49.5	49.4	
Japan	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	50.0	49.1	49.5

Services PMI

	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	Jul 24	Aug 24
Global	48.1	48.0	50.0	52.5	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	54.0	53.1	53.3	
USA ISM	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	48.8	51.4	
Eurozone	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	52.8	51.9	53.3
United Kingdom	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	52.1	52.5	53.3
Switzerland	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	52.0	44.7	
China Local	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	50.2	50.0	
Japan	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	49.4	53.7	54.0

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.

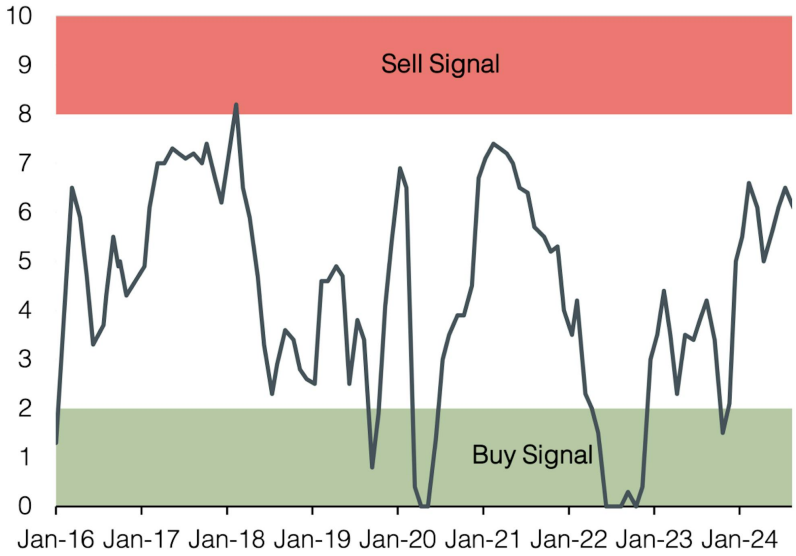
Leading Indicators

Leading indicators are once again presenting a mixed picture. While the manufacturing sector is under pressure globally, the services sector continues to look in better shape. Since manufacturing often serves as a better barometer for the overall state of the economy, the indicators suggest a slightly negative trend. However, the slowdown in momentum is not significant enough to alter our assessment, which remains neutral.



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Risk-Index

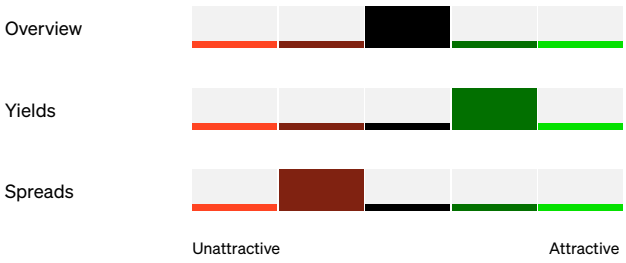
The setback for risk assets at the beginning of the month is also reflected in the risk index. Investors have temporarily reduced their risk appetite, and the index remains neutral in August.



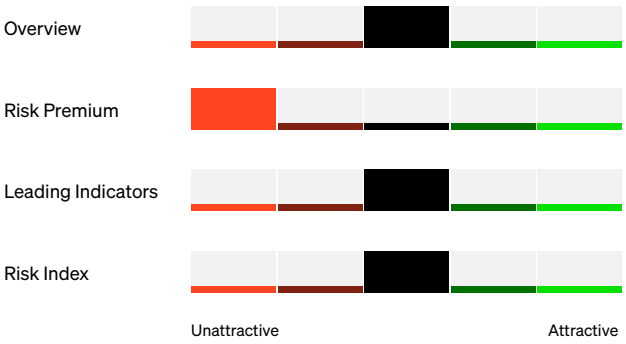
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Bonds



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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