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Posted 3/27/2024 by Christian Luchsinger

SoundInsight N°15

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Swiss national bank cuts rates by 0.25%

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Inflation shows regional differences

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High growth expectations drive US-Equities

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Asset allocation remains unchanged

Tidal changes

The Swiss National Bank unexpectedly lowered benchmark interest rates by 0.25% this month, marking Switzerland as the first G10 nation to initiate the long-awaited interest rate pivot, earlier than anticipated.

Last week proved pivotal regarding future monetary policy. Several central banks announced their interest rate decisions and published forecasts for the upcoming months.

For over a year, investors have been unsuccessfully positioning themselves for a shift in monetary policy. Mainly due to a robust US economy and persistent inflation, rate cuts have not materialized so far. However, with the Swiss National Bank's (SNB) unexpected interest rate cut this month, the long-awaited monetary policy pivot is finally here. The SNB cited reduced inflationary pressures and the appreciation of the Swiss franc as reasons for its decision. Switzerland's inflation has remained below 2% for several months, reaffirming the SNB's course of action.

In Japan, the Bank of Japan (BOJ) became the last nation to end its negative interest rate policy. Despite the first interest rate hike in 17 years, Japan's monetary policy remains very loose by international standards.

In the US, interest rates remained unchanged in March, but the Federal Reserve (Fed) released its highly anticipated "Dot Plot," reflecting the committee's interest rate expectations. During the press conference, Chair Jerome Powell reiterated expectations that US interest rates are likely to decline by mid-year. This marks a significant development for financial markets. Assuming inflation continues to normalize, interest rate cuts from the Fed and the European Central Bank (ECB) are thus highly likely by mid-year. Both central banks are currently anticipated to carry out three interest rate cuts by the end of the year. As expected, equity markets cheered to the looser monetary policy. Consequently, global stocks had their best week of the year, gaining almost 1.8% in USD terms.

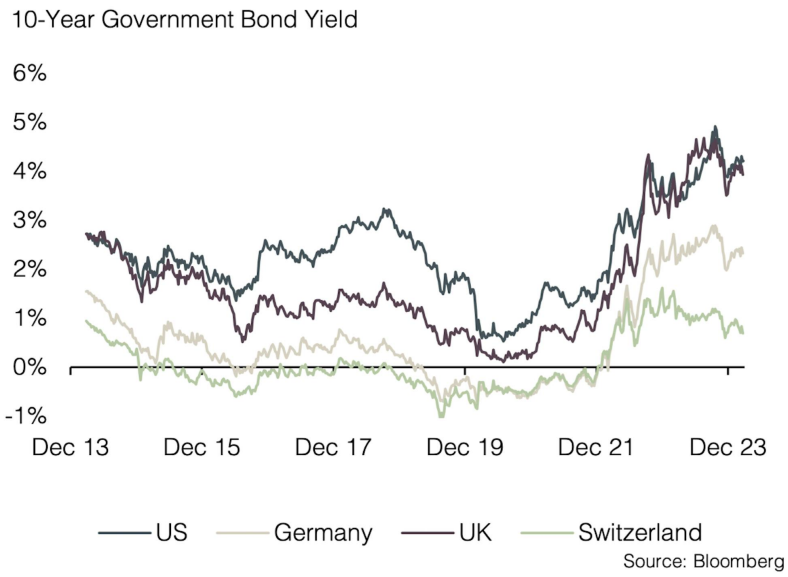
In our view, the Swiss National Bank's interest rate cut, considering inflation and the strong Swiss franc, is justified and reasonable. However, when looking at the United States, doubts persist about whether interest rate cuts can be effectively realized soon.

In the US, inflation measured by personal consumption expenditures excluding energy and food remains well above the Fed's target of 2%. The notable increase in January was particularly striking. According to Bloomberg estimates, February numbers are likely to remain elevated.

At the same time, earnings estimates for US companies still indicate extraordinarily strong economic growth. According to analysts, profits are expected to increase by over 10% this year. These expectations are also driven by a potential surge in productivity expected to be triggered by the use of artificial intelligence.

In our view, a continuously strong economic momentum, coupled with a slight increase in inflation, does not warrant a looser monetary policy by the FED. It remains to be seen whether earnings estimates prove to be too optimistic and if the US economy loses some momentum. Initial signs can be observed in the labor market, which showed rising unemployment alongside declining wage pressures.

The coming months and the upcoming data releases will be crucial to get a better picture of the economic development. We maintain a neutral weighting of stocks and favor a defensive approach in terms of country and sector allocation.

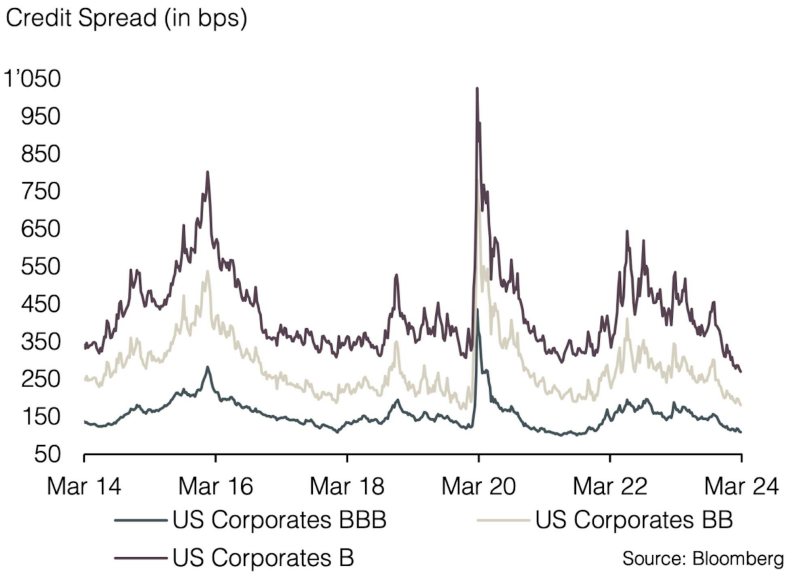


Yields

After 10-year government bond yields surged at the beginning of the month, central bank communication towards the month's end triggered a reversal. In historical context, interest rate levels remain attractive, although regional discrepancies have increased with the SNB's interest rate decision. It is evident that the Swiss franc has lost attractiveness in terms of interest rate differential. Thus, prefer longer maturities across EUR, GBP, and USD bonds.



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Spreads

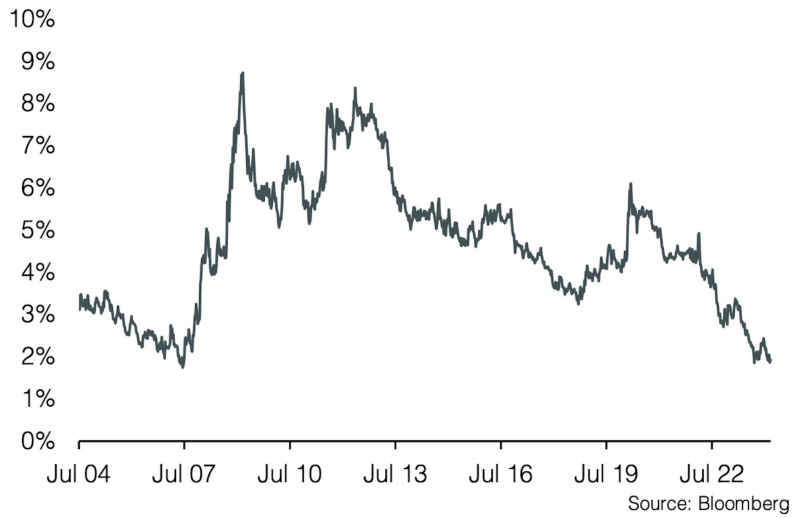
In some areas, credits spreads are approaching their lowest levels since 2007. At current levels, investors are receiving a record-low compensation for the additional risk of holding high yield bonds. Hence, we continue to prefer top-tier government bonds and corporate borrowers.



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Global Shiller Equity Risk Premium



Source: Bloomberg

Equity Risk Premium

Global stock markets are trading around record highs, accompanied by lofty expectations for future earnings. High valuations are already pricing in a broad range of positive factors, which is evident when looking at the very unattractive risk premiums for global equities.



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Manufacturing PMI

	Jun 22	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
Global	52.2	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	
USA ISM	53.4	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	
Europe	52.1	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	45.7
United Kingdom	52.8	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	49.9
Switzerland	59.1	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	
China Local	50.2	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	
Japan	52.7	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

Services PMI

	Jun 22	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
Global	53.7	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	
USA ISM	55.9	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	
Eurozone	53.0	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	51.1
United Kingdom	54.3	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	53.4
Switzerland	58.1	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	
China Local	54.3	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	
Japan	54.0	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	54.9

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.

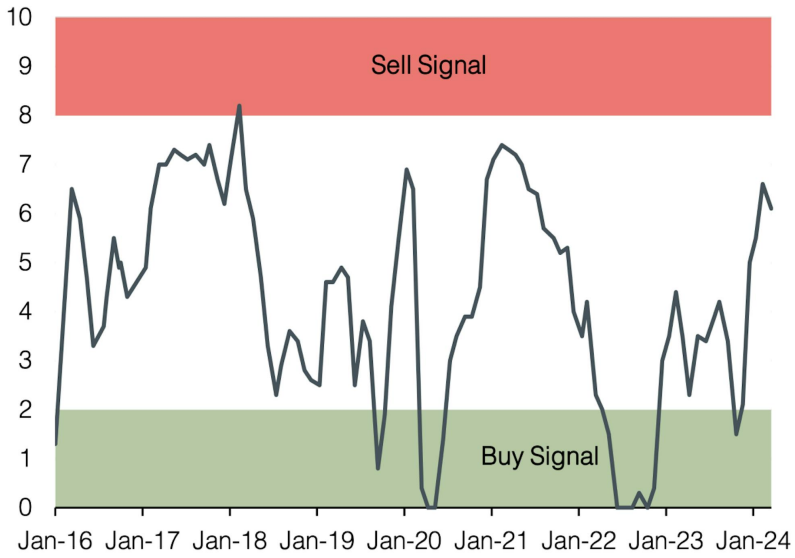
Leading Indicators

The positive momentum of leading indicators slowed somewhat last month. Both the manufacturing and service sectors remain at expansive levels above 50. However, our assessment remains neutral due to a slowing momentum.



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Risk-Index

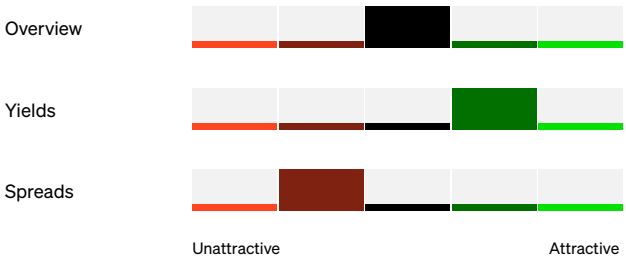
Despite new record highs in the stock market, the risk index ticked lower over the previous month, driven by a slightly lower risk tolerance. Thus, we maintain a neutral assessment.



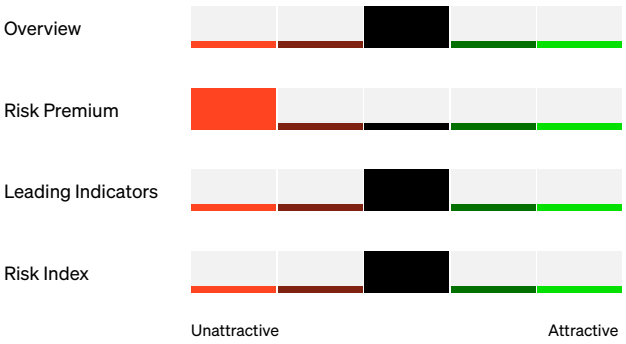
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Bonds



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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