

SoundInsight N°17

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The ECB is scheduled to cut interest rates next month

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Economic data in April supports lower interest rates

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Stocks and commodities touched alltime highs

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Unchanged weighting in bonds and equities

Bad news is good news

Last month offered a glimmer of hope for those anticipating lower interest rates. For the first time this year, a variety of economic indicators fell short of expectations. However, a clear trend remains elusive.

April was marked by surprising economic developments in the US. Inflation rose by 0.3% compared to the previous month, falling short of economists' expectations. It was the first time this year that inflation data printed lower than projected, which can certainly be seen as a positive sign. However, it is still unclear whether economic growth will stabilize sustainably around current levels and if inflationary pressure will trend lower.

Another significant economic indicator, the number of new jobs created, showed its lowest reading since October 2023. This could indicate that the closely watched US labor market is losing momentum. Additionally, retail sales fell short of expectations. Given an almost too hot US economy, this is good news for all major asset classes.

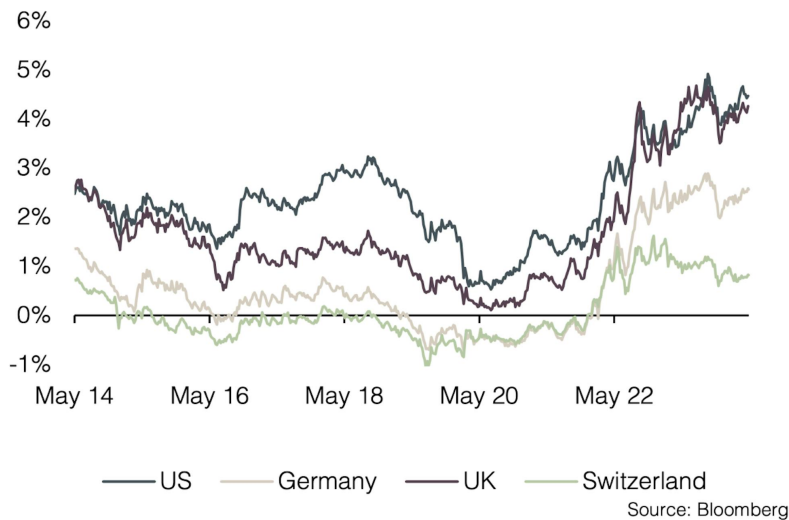
In the current market environment, negative economic surprises paradoxically led to a positive reaction in financial markets. Investors around the globe interpreted the weaker economic data as a sign that central banks, particularly the Federal Reserve, might cut interest rates multiple times this year. The economic trajectory has been continuously fluctuating between positive and negative developments regarding inflation for some time now. While data in the fourth quarter of 2023 fostered expectations for up to six rate cuts for 2024, data of recent months cast doubt on whether US interest rates would be cut at all this year. Now, for the first time this year, April seems to bring a bit of optimism for rate cuts again. Nevertheless, a clear trend with regards to the further path of inflation has yet to emerge. Fixed income benefited from the lowered interest rate expectations and gained globally. Investors responded positively to the possibility of stable or even declining rates. Stock markets were also supported by lower interest rates, reaching new record highs in various regions. The reaction to the latest set of data highlights how strongly markets are currently betting on lower rates and how sensitive they are to economic indicators.

A crucial factor in the coming weeks will be the central bank meetings of the European Central Bank (ECB) and the Federal Reserve (FED) in early June. The ECB is expected to announce its first rate cut since 2016, which would be a significant step in European monetary policy. A rate cut could stimulate economic activity in the Eurozone and weaken the euro, supporting the export industry. On the other hand, the FED is likely to focus on clear communication regarding the further path of monetary policy. Although a rate cut is only expected at the end of the year, the FED's statements will be carefully analyzed for how the policymakers assess the current

situation. In the alternative investment space, the development of commodity prices does not indicate lower inflation from our perspective. In particular, base metals are reaching record levels, increasing production costs in many industries and potentially worsening inflationary trends in the long term. Since commodity cycles run over longer periods, this topic will continue to be discussed in depth in our investment committee.

Over the last month, we made no changes to our asset allocation. Currently, macroeconomic data leaves much room for interpretation. Therefore, we are focusing on our systematic process and prefer longer duration and high quality in bonds. In the equity space, we remain neutrally weighted but note an increasing risk appetite as markets become more expensive.

10-Year Government Bond Yield

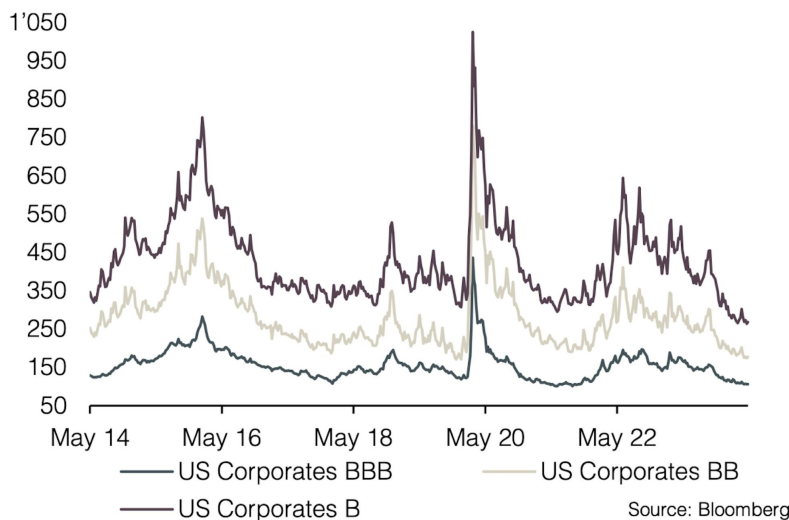


Yields

Long-term interest rates have dropped significantly since their yearly highs in April, particularly in the US. However, since the beginning of the year, rates are still considerably higher and remain attractive for longer maturities, especially in USD and GBP.



Credit Spread (in bps)

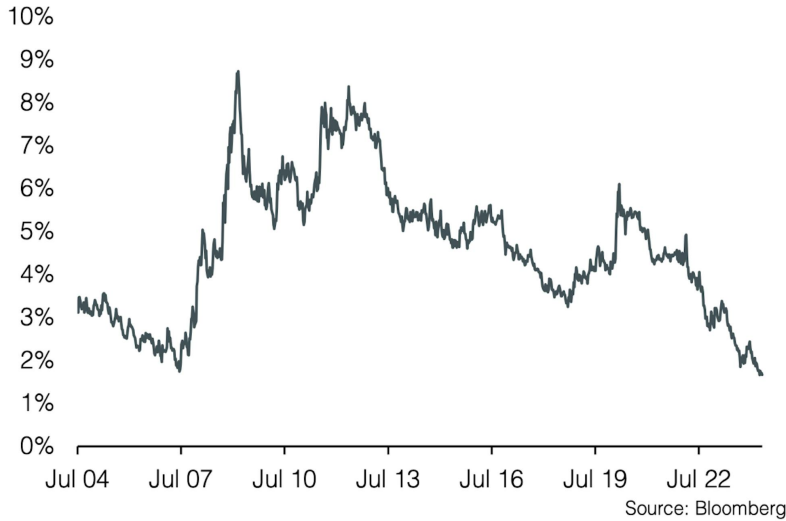


Spreads

Writing about the subject seems somewhat repetitive, but credit spreads have decreased even further. In some segments, levels are being reached that were last seen before the 2008 financial crisis. Hence, credit spreads remain unattractive.



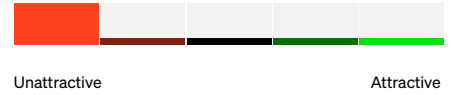
Global Shiller Equity Risk Premium



Equity Risk Premium

Even though corporate earnings in the current reporting season were a positive surprise, stock

prices have appreciated disproportionately. As a result, the market has become even more expensive and remains unattractive in terms of the equity risk premium.



Leading Indicators

The Purchasing Managers' Indices (PMIs) in April were among the negatively surprising economic data. For the first time this year, the steady upward trend seemed somewhat broken. However, initial data for May, which is being released at the time of writing this report, already show an improving trend again. The overall assessment remains neutral.

Manufacturing PMI

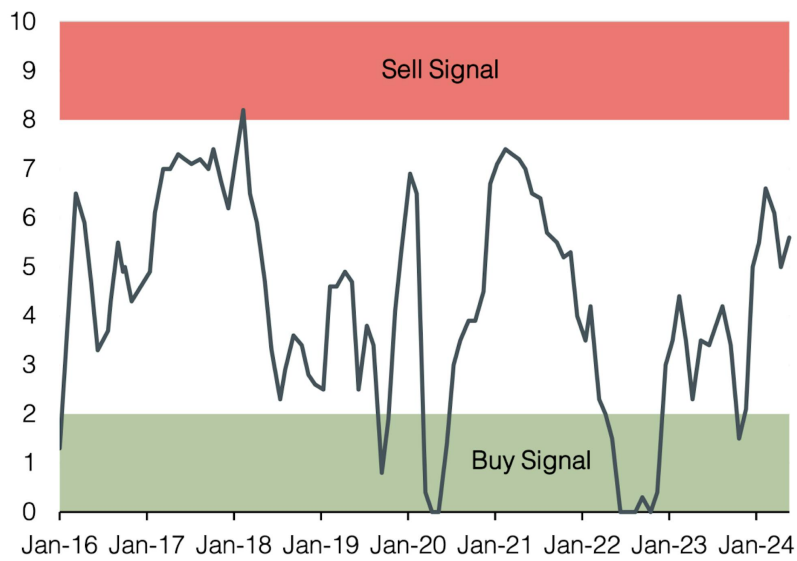
| | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 | May 23 | Jun 23 | Jul 23 | Aug 23 | Sep 23 | Oct 23 | Nov 23 | Dec 23 | Jan 24 | Feb 24 | Mar 24 | Apr 24 | May 24 | |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| Global | 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 | 50.3 | | |
| USA ISM | 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 | 49.2 | | |
| Europe | 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 | 45.7 | 47.4 | |
| United Kingdom | 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 | 49.1 | 51.3 | |
| Switzerland | 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 | 41.4 | | |
| China Local | 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 | 50.4 | | |
| Japan | 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 | 49.6 | 50.5 | |

Services PMI

| | 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 | May 24 | |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| Global | 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 | 52.4 | 52.7 | | |
| USA ISM | 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 | 49.4 | | |
| Eurozone | 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 | 53.3 | 53.3 | |
| United Kingdom | 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 | 55.0 | 52.9 | |
| Switzerland | 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 | 55.6 | | |
| China Local | 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 | 50.3 | | |
| Japan | 49.5 | 52.2 | 53.2 | 50.3 | 61.1 | 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 | 53.6 | |

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.





Risk-Index

Investor risk appetite increased last month. Some areas of the stock market, particularly the so-called "meme stocks", are a clear signal that some parts of the market show irrational behavior. However, additional triggers are needed for a sell signal and the corresponding market euphoria. Thus, the overall indicator remains neutral.



