Investment letter

Monthly review of global financial markets

SWISS CAPITAL IB

August 2024

MACROECONOMICS

This is the 1st time since the start of the year that macroeconomic indicators have shown signs of slowing. Citigroup's economic surprise indices show negative surprises for both economic growth and inflation in July for all the major economic zones (United States, Europe, Japan and China).

In the United States, the ISM services and manufacturing leading indicators came in below expectations. **In US services, the various surveys gave contradictory signals**, with Markit PMI stable and in strong expansion territory, while ISM moved into contraction territory.

Job vacancies (JOLTS report) did not continue to deteriorate in May and stabilised in June. Non-farm payrolls in June came in above economists' expectations but slightly lower than in May.

US inflation showed signs of slowing. The consumer price index fell from 3.3% in May to 3.0% in June, a trend confirmed by the first estimate of the GDP deflator for the second quarter, which came in well below expectations at 2.3%. **As a result, investors quickly adjusted their expectations of a first Fed rate cut in September**.

> AFTER THE DETERIORATION IN JULY, EXPECTATIONS ARE FOR A FED RATE CUT IN SEPTEMBER. THE BANK OF JAPAN HAS RAISED RATES AND ANNOUNCED BOND PURCHASE TAPERING

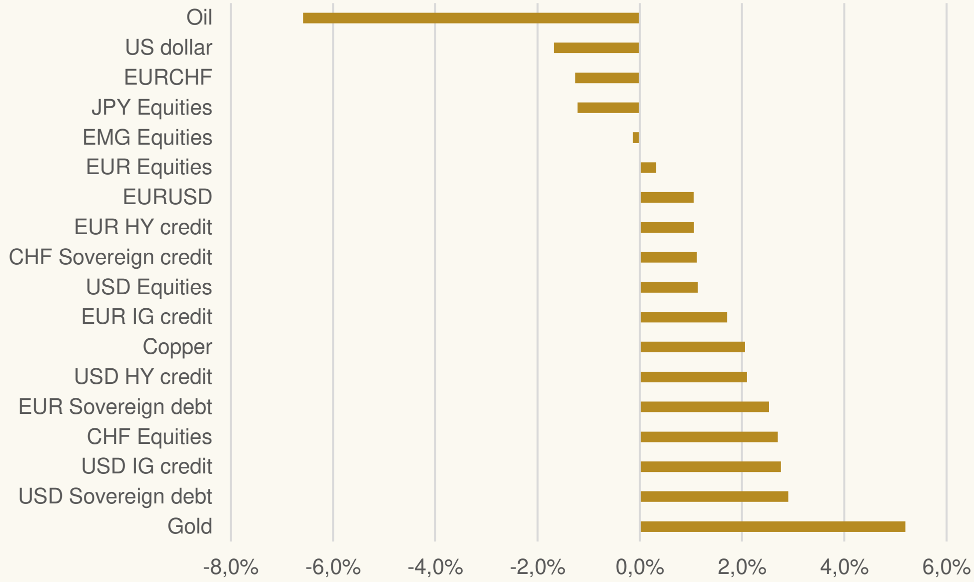
In the eurozone, inflation remained stable at 2.5% in June and 2.6% in July. In terms of economic growth, the preliminary estimate for the second quarter came in slightly above expectations at 0.6%. **The leading indicators show a deterioration in both manufacturing and services in July, with a more marked deterioration in services, which remain in expansionary territory for the time being**. Against this backdrop, the ECB has left its refinancing rate unchanged at 4.25%.

The UK began its rate-cutting cycle by cutting its key rate from 5.25% to 5%. This move comes at a time when inflation is hovering around the 2% target, but core inflation remains high at 3.5%, and inflation is expected to pick up slightly in the coming months. It will probably be some time before the next cut.

There has been no change at the Swiss National Bank, which has already cut rates twice in the first half of the year. Inflation fell slightly in June, from 1.4% to 1.3%, and the KOF leading economic indicator worsened in June.

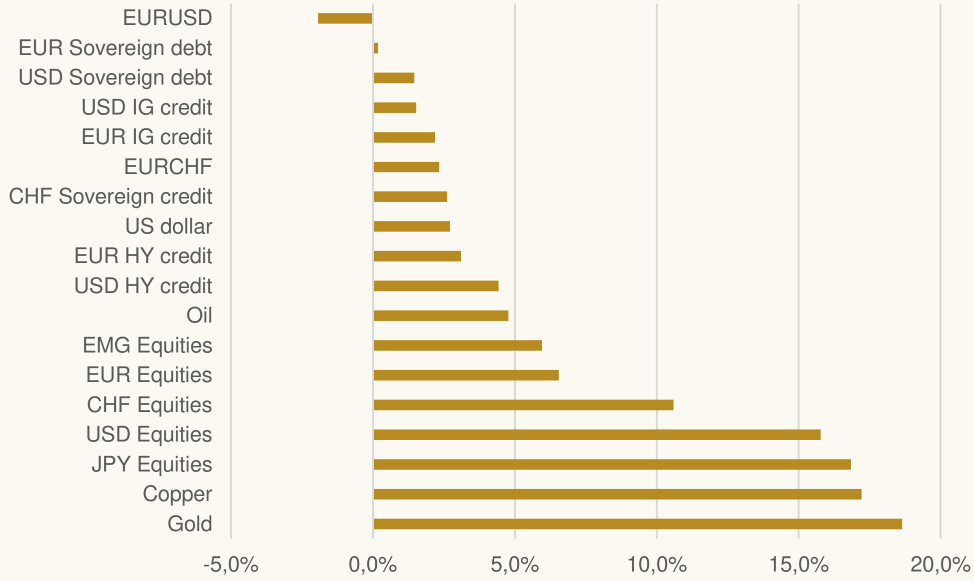
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 31/07/2024

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 31/07/2024
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

The biggest surprise in July came from the Bank of Japan, which not only raised its key rate from 0.1% to 0.25% but also announced the gradual reduction of its program of purchases of Japanese government bonds. Monthly bond redemptions, which have hovered around 6,000 billion yen in recent months, are expected to be halved to 2,900 billion yen by the first quarter of 2026.

China, for its part, remains ever closer to deflation, with inflation at 0.2% in June, compared with 0.3% in April and May. Economic growth slowed to 4.7% in the second quarter, supported mainly by dynamic exports, which rose by 8.6% in June after 7.6% in May.

EQUITY MARKETS

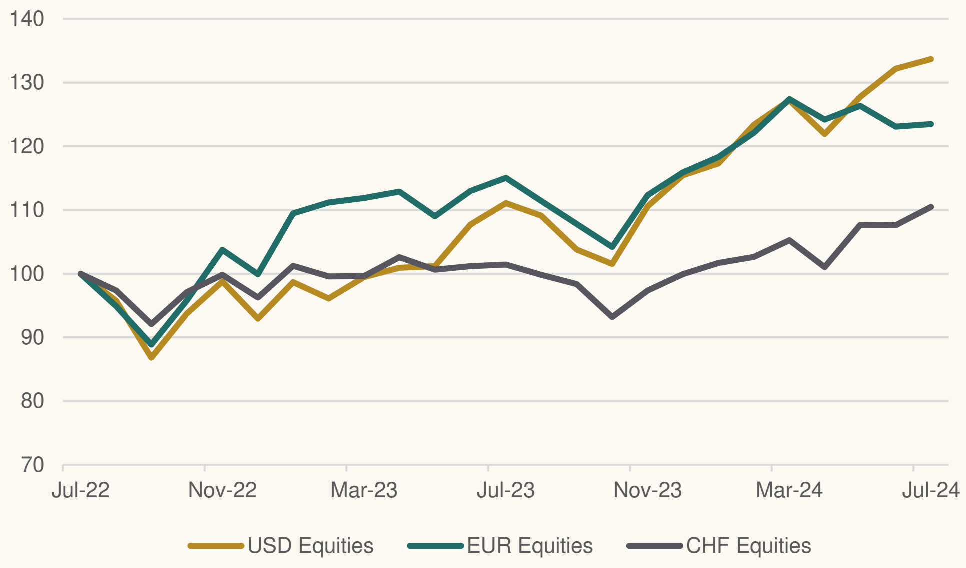
A MONTH OF JULY TURNED UPSIDE DOWN IN EQUITY MARKETS

It wasn't just at the Olympic Games that records were broken in July. Equity markets were not left out in a month of turmoil in the United States (Nasdaq -5.5%, S&P 500 -1.6%) and Europe (Stoxx 600 -1.9%). Among the most noteworthy was the most intense sector rotation the markets have seen in a very long time, with weekly performance gaps between large caps and small caps exceeding 10%. These movements followed a lower-than-expected consumer price index in the USA. Then, after Donald Trump's assassination attempt, his vehement rhetoric on tech, blowing hot and cold, caused the SOXX (semiconductor ETF) to fall by -10% in just a few days. The results have not calmed investors, on the contrary. Earnings figures vary widely from one sector to another, and from one market to another: listed European companies are making one profit warning after another, while American companies are faring better.

In terms of individual sectors, luxury goods are suffering, particularly in China (STOXX 600 Europe Luxury -4.4%), the automotive sector is stalling against a backdrop of slowing global sales (STOXX 600 Europe Automobiles & Parts -4.5%), mass retailing is also in bad shape, particularly in Europe, and software is facing a cyclical slowdown in IT budget growth (STOXX Europe Software & Computer Services -1.8%). The main exceptions to this rather gloomy picture were US banks (S&P 500 Financials +4.7%), while rate-sensitive sectors outperformed (S&P 500 Real Estate +10.0%, S&P Utilities +9.5%, S&P Healthcare +4.3%), with the exception of tech (-8%). The latter sector, in particular its AI-exposed segment, is beating consensus and seeing its EPS momentum intact. However, this does not prevent it from being dragged into the current stock market turmoil. In our view, this scent of panic points to the emergence of buying opportunities.

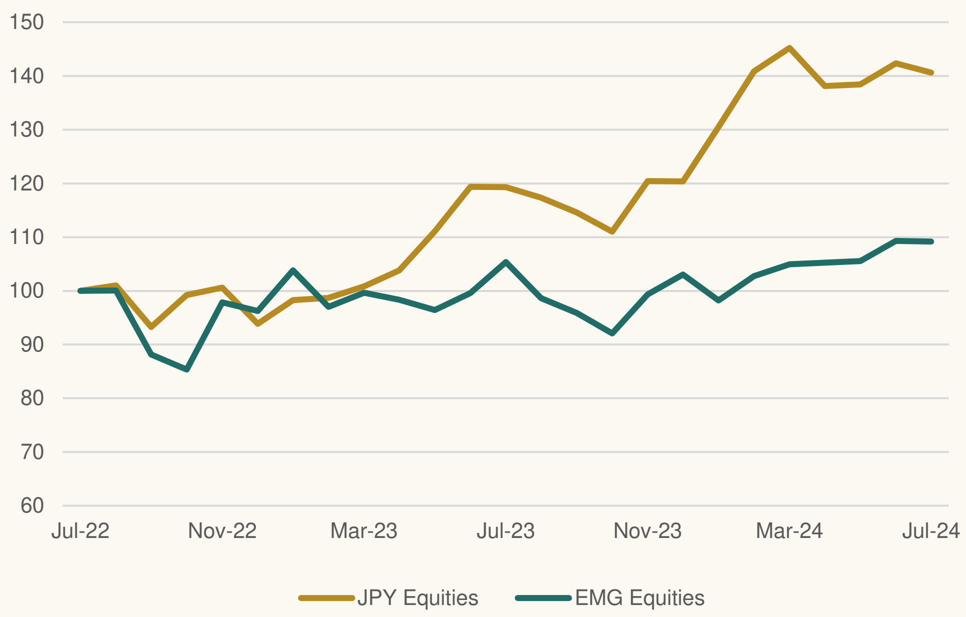
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/07/2024

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/07/2024
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BOND MARKETS

July was an excellent month for bonds, both on the sovereign side, which benefited from expectations of rate cuts by central banks, and for corporate and bank debt, where first-half publications continue to highlight healthy balance sheets.

This good momentum was kick-started at the beginning of the month by lower-than-expected US inflation figures for June (+3.0% for the headline part), which rekindled investors' expectations for Fed Funds rates. As the labor market also returned to normal (normalization after months of tension), the entire US curve benefited from the rate cuts. The UST10y saw its yield fall by 37bp from 4.4% to 4.03%, while the UST2y dropped to 4.25% (-50bp), taking the inversion level of the yield curve down (longest inversion in US history).

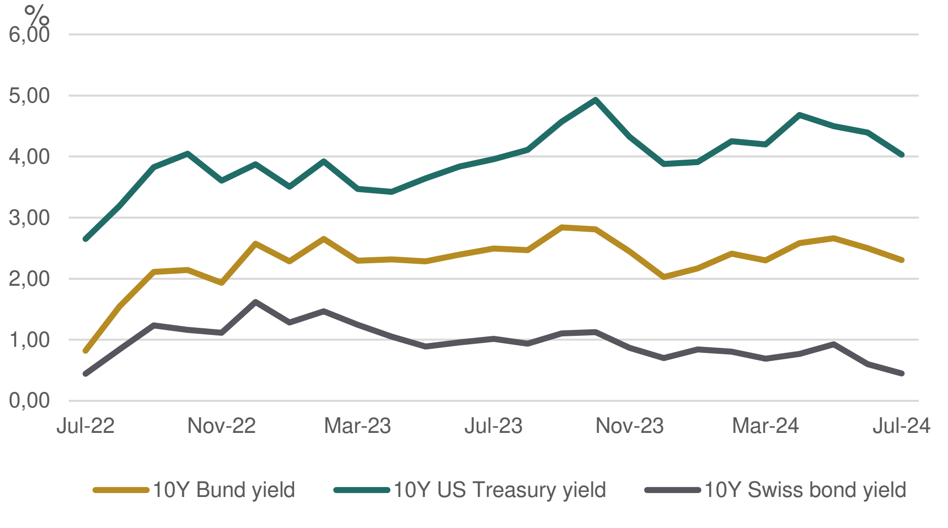
On the European side, sentiment was also positive: even though inflation is stumbling over 2.5% (headline inflation at 2.6% for July), investors still believe that the ECB will cut rates again in September (there's room for improvement), which also helped to weigh positively on the European curve. The yield on the 10-year Bund lost 20bps over the month, with the slope also gradually reversing (-20bp for the 2-10y). Sovereign debt spreads have stabilized in Europe, with the OAT spread at around 70bps and the Italian spread at 135bps.

All in all, July was the best month for sovereign bonds, with the Iboxx Treasuries up 2.2% and the Eurozone sovereign index up 2.4%.

This strong interest-rate momentum obviously supported the credit market, especially those segments with the highest duration. Even though CDS indices were subject to the jolts of the S&P500 (global rising volatility on equity markets), the Itraxx Main Europe still gained 5bp over July, and cash bond indices saw their spreads become very resilient over the month. All in all, this translates into excellent monthly total returns in Europe: EUR IG +1.7%, EUR HY +1.1%, AT1 +2.1%, subordinated insurance debts +2.1%, hybrid corp debts +1.2%. The movement is even more marked in the US for IG, which gained +2.8% in July. Finally, despite the onset of summer, the primary market remained buoyant, particularly in the HY segment, which continued to line up refinancing deals.

"JULY WAS THE BEST MONTH FOR SOVEREIGN BONDS

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 31/07/2024
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CURRENCIES

The US dollar, as measured by the dollar index, gave up 1.7% in July, wiping out half of its appreciation over 2024. For the time being, this does not call into question the dollar's structural strength since 2011, but it is quite rare for the dollar to weaken during a correction in risky assets. The publication of negative economic surprises, even in the United States, both in terms of economic growth and inflation, have fuelled this correction in the greenback. Since the start of 2023, the dollar has been treading water.

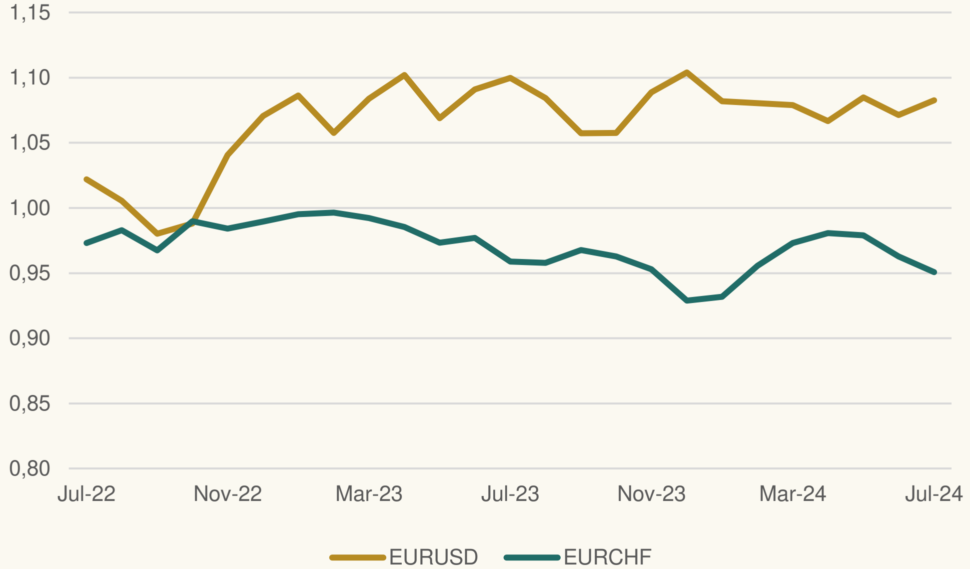
Against this backdrop, **the Swiss franc appreciated by 2% against the US dollar in July and by 1% against the euro , demonstrating once again its status as a safe-haven asset** at a time when political and geopolitical risk has increased further since mid-June and fears of an economic slowdown returned in July.

The biggest change in currencies in July was in the yen, which appreciated by almost 7% against the greenback to return to around 150 against the US dollar from an all-time low of 161. This movement was amplified by the change in the Bank of Japan, which in the last few days of July raised rates and announced the tapering of its buying programme for Japanese government bonds, a turning point in its highly accommodative monetary policy since March 2013.

Despite the euro's appreciation against the US dollar in July, the EUR-USD pair has continued to move in a fairly narrow channel since the beginning of 2023 between 1.05 and 1.12, with the rate at the end of July at 1.08.

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



Source: Bloomberg, 31/07/2024
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COMMODITIES

OIL

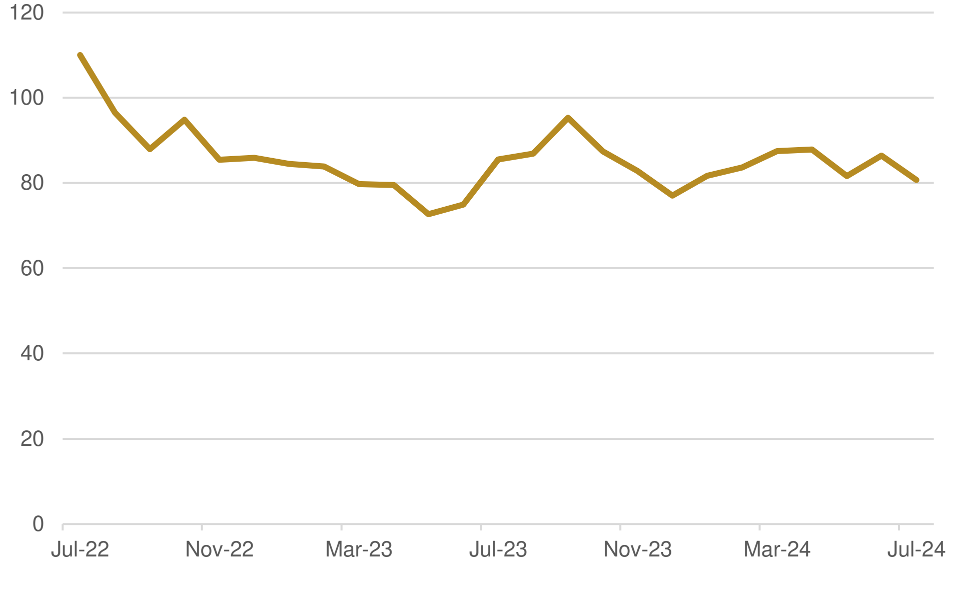
Among commodities, oil suffered the most, shedding 7.3% in July for Brent crude as the economic situation showed signs of slowing.

Since the start of the year, crude oil has wiped out most of its gains, and is suffering more than other commodities such as copper, which has given up much of its 2024 advance but remains in positive territory.

Crude oil prices correction in July.

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



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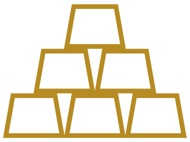
COMMODITIES

GOLD



In this phase of rising risk, precious metals are faring better, with gold posting a 4% rise in July. Silver, for its part, is correcting slightly with a fall of around 3% over the month, but continues to outperform gold over the first seven months of the year. Over the long term, we prefer gold, which benefits from the attraction of central banks, unlike silver. Geopolitical risk remains a factor supporting the price of gold.

Against a backdrop of rising risks, gold continues to appreciate in July.

GOLD

EVOLUTION OVER 2 YEARS

Source: Bloomberg, 31/07/2024
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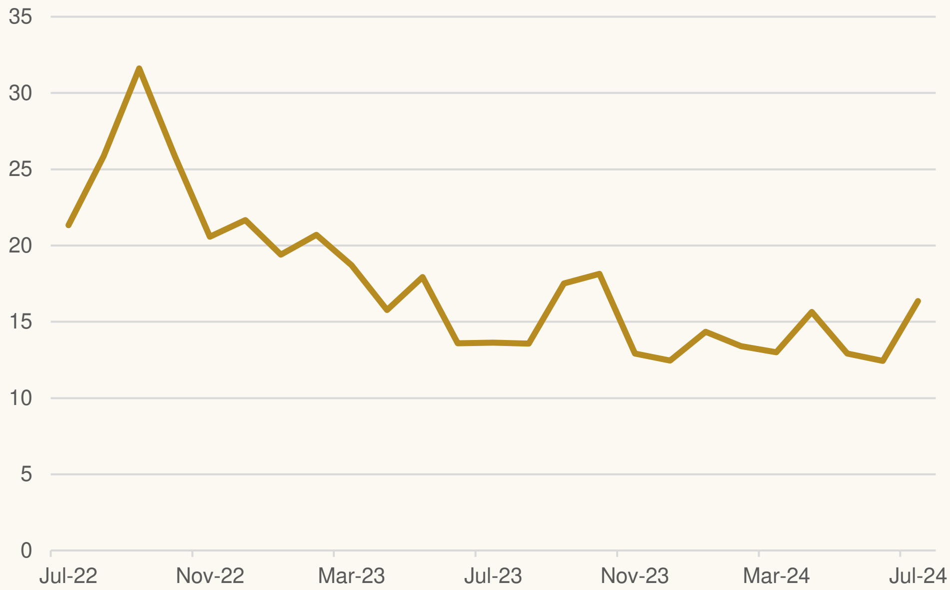
VOLATILITY

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



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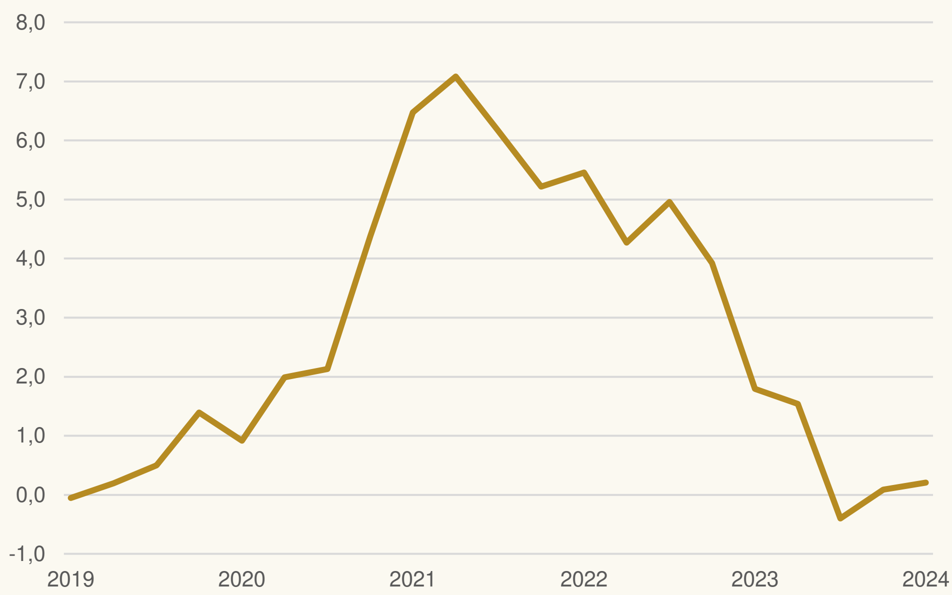
REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



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CALENDAR

Date	Country	Economic Data	Period	Previous
05 August	US	ISM Non-Manufacturing Index	Jul-24	48,8
	Eurozone	Markit Services PMI	Aug-24	51,9
	UK	Markit Services PMI	Aug-24	52,4
06 August	Switzerland	Unemployment Rate (%)	Jul-24	2,4
07 August	China	Exports (YoY)	Jul-24	8,6
	Germany	Industrial Production (MoM)	Jun-24	-2,5
09 August	China	Inflation (YoY)	Jul-24	0,2
	France	Unemployment Rate (%)	Jun-24	7,5
13 August	UK	Unemployment Rate (%)	Jun-24	4,4
14 August	US	Inflation (YoY)	Jul-24	3,0
	Eurozone	Industrial Production (MoM)	Jun-24	-0,6
	Eurozone	Employment (QoQ)	Jun-24	0,3
	Eurozone	Real GDP (QoQ)	Sep-24	0,3
	UK	Inflation (YoY)	Jul-24	2,0
15 August	US	Industrial Production (MoM)	Jul-24	0,6
	US	Philadelphia Fed Business Survey	Aug-24	13,9
	China	Retail Sales (YoY)	Jul-24	2,0
	China	Industrial production (YoY)	Jul-24	6,0
	UK	Real GDP (QoQ)	Jun-24	0,7
	Japan	Industrial Production (MoM)	Jul-24	-3,6
	Japan	Real GDP (QoQ)	Jun-24	-2,9
16 August	US	Consumer Confidence	Aug-24	66,4
21 August	US	Fed minutes	Mar-25	
	Eurozone	Markit Manufacturing PMI	Aug-24	45,8
	UK	Markit Manufacturing PMI	Aug-24	52,1
	Japan	Nikkei Manufacturing PMI	Aug-24	49,1
26 August	Germany	Ifo Business Climate	Aug-24	87,0
27 August	Germany	Real GDP (QoQ)	Sep-24	-0,1
29 August	US	Real GDP (QoQ)	Sep-24	2,8
30 August	Eurozone	Inflation (YoY)	Aug-24	2,6
	Eurozone	Unemployment Rate (%)	Jul-24	6,5
	France	Real GDP (QoQ)	Sep-24	0,3
	Switzerland	KOF Leading Indicator	Aug-24	101,0

LET'S TALK ABOUT IT.

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This article was finalised on 31st July 2024.

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