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PostFinance

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Editorial

Outcome of US election remains uncertain

The US presidential election is almost upon us. The situation is tight: it’s a neck-and-neck race with the final result set to be close. From an economic perspective, it’s difficult to say with any certainty what the election outcome will mean for the United States. Its impact on the financial markets is equally uncertain.

Philipp Merkt
Chief Investment Officer

In just a few days’ time, Americans will elect their head of state. For the country’s foreign policy – so for us too – this is an important choice. The Democratic candidate, Kamala Harris, favours sticking with America’s commitment to NATO and the UN, and, in turn, for continuity and reliability in foreign policy. Under Donald Trump, by contrast, there would be no guarantee of a predictable foreign policy coordinated with allies.

“The financial markets are still largely ignoring the elections. As things stand, it’s not clear at all which candidate would be better for the USA economically.”

Domestically, the Democrat seems to be similar to her predecessor, while Trump has returned to his previous policy stance: Harris stands for a big, strong government, rising taxes for corporations and the rich, and a higher minimum wage. Trump on the other hand wants to cut taxes for corporations again and would like to limit the state to the greatest extent possible. The irony here is that, if allowed by congress, both will produce huge deficits in the national budget, which means that the US debt ratio threatens to rise unchecked whoever becomes president.

The results achieved by Democratic and Republican administrations are actually very similar in relation to the economy. If we look at the data since the Second World War, we can see that Republican presidents have been moderately more successful at fighting inflation. On average, inflation has fallen under their administrations. Meanwhile, Democratic presidents have had a slight edge in terms of growth.

What’s interesting to note is that these slight differences can actually be explained economically. Looking more closely, we can see that Republicans have usually suffered a recession in their second year in office, while Democrats have seen really good growth figures. If we make the clichéd assumption that Republicans have tried to fight inflation and that Democrats tend to go for more redistribution, this is exactly the pattern we should expect.

What the two parties have in common is that just four years after elections, both have generated high levels of growth and employment at an acceptable level of inflation. This in turn is due to the fact that voters give credit to the administration – of whichever party – for a good economic situation. However, it remains to be seen whether, if victorious, Donald Trump will be able to actively combat inflation, or whether Kamala Harris will manage to float major redistribution measures in the face of a Republican majority in congress. So we cannot predict with any certainty which of the two would be better for the US economy.

The same goes for the financial markets – neither side clearly has the upper hand. Particularly because neither Harris’s proposed higher capital gains taxes nor Trump’s announced restrictions on the US Federal Reserve’s independence would be welcomed by the stock markets.

Change of mood

Confidence on the financial markets is rising again. In light of the uncertain economic outlook, however, we remain slightly cautiously positioned.

Compared to the previous two months, last month saw no major market turbulence. The stock markets made further gains and actually hit new all-time highs in the USA. It seems that greater confidence has returned to the financial markets and the rising tensions in the Middle East have done surprisingly little to change this.

Upward pressure on capital market interest rates

The main factor contributing to the financial markets' mood swing was the interest rate turnaround initiated by the US Federal Reserve (Fed). In mid-September, the Fed lowered policy rates for the first time in this economic cycle, by a full 50 basis points. It also held out the prospect of further interest rate cuts this year and next, announcing that it would do everything possible to prevent the US economy from cooling down too much. The concerns about an economic slowdown implied by this announcement had only a temporary impact on market participants.

Elsewhere, economic data published last month suggest continued robust growth in the US economy. And the slowdown on the US labour market has not continued. Against this backdrop, long-term interest rates rose significantly despite the interest rate turnaround. In mid-September, 10-year US government bonds were still yielding 3.7 percent. They are now at over 4.2 percent. This upward pressure spread to capital market interest rates in other industrial nations. At the same time, corporate bond spreads narrowed significantly last month and are at a level that would tend to indicate good economic times. By contrast, the mood among US companies continues to paint a gloomy economic picture. It means long-term interest rates in the USA have a higher downside risk, which is why we continue to favour US government bonds over Swiss bonds.

"In light of the Federal Reserve's interest rate turnaround and the robust US economy, financial markets are growing more confident. However, leading economic indicators remain gloomy, which is why we are maintaining our cautious positioning."

Performance of asset classes

Asset class		1M in CHF	YTD [1] in CHF	1M in LCY [2]	YTD [1] in LCY [2]
Currencies	EUR	0.0%	1.2%	0.0%	1.2%
	USD	2.0%	2.9%	2.0%	2.9%
	JPY	–4.1%	–3.1%	–4.1%	–3.1%
Fixed Income	Switzerland	0.4%	3.9%	0.4%	3.9%
	World	0.0%	4.4%	–1.9%	1.5%
	Emerging markets	2.2%	11.3%	0.2%	8.2%
Equities	Switzerland	1.4%	11.3%	1.4%	11.3%
	World	4.9%	22.7%	2.9%	19.3%
	USA	6.1%	26.7%	4.1%	23.2%
	Eurozone	1.4%	11.5%	1.4%	10.2%
	United Kingdom	1.7%	16.5%	0.9%	11.0%
	Japan	1.4%	12.6%	5.8%	16.2%
	Emerging markets	7.9%	17.5%	5.8%	14.2%
Alternative Investments	Swiss real estate	3.9%	10.1%	3.9%	10.1%
	Gold	5.9%	32.4%	3.9%	28.7%

[1] Year-to-date: Since year start
[2] Local currency

Data as of 16.10.2024
Source: Allfunds Tech Solutions, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Economic situation remains difficult

Meanwhile, the economic situation in Europe and China remains difficult. Growth in Europe continues to be sluggish and sentiment in large parts of the economy remains pessimistic. In China, it is not even clear whether the economy has bottomed out. The domestic economy remains weak, foreign trade lacks impetus and prices on the real estate market continue to fall unchecked. Against this backdrop, the Chinese government is attempting to provide support with monetary policy measures. For now, however, this seems to be mainly supporting the equity market: following the announcement of the support measures, Chinese stock markets posted a significant recovery and have now recorded an annual performance of over 15 percent. It is doubtful how long this development will last though. Given this difficult situation worldwide, we are maintaining our cautious positioning.

Minor changes to strategic positioning

However, there are minor changes in the strategic positioning of our portfolios. We review the strategic portfolio weightings for our customers annually. In the "Sustainable" and "Switzerland" focus areas, there was a need to slightly adjust the regional equity market allocation in favour of the US equity market. We have implemented these changes accordingly in the portfolios.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3] −−	−	neutral[3]	overweighted[3] +	++
Liquidity	**Total**	**5.0%**	**5.0%**			■		
	CHF	1.0%	1.0%			■		
	Money market CHF	2.0%	2.0%		■			
	Money market JPY	2.0%	2.0%				■	
Fixed Income	**Total**	**33.0%**	**33.0%**			■		
	Switzerland	15.0%	15.0%		■			
	World[2]	10.0%	10.0%			■		
	Emerging markets[2]	6.0%	6.0%			■		
	US government bonds[2]	2.0%	2.0%				■	
Equities	**Total**	**50.0%**	**50.0%**			■		
	Switzerland	25.0%	25.0%				■	
	USA	6.0%	8.0%	■				
	Eurozone	3.0%	2.0%		■			
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets	10.0%	9.0%				■	
	World Value	2.0%	2.0%				■	
Alternative Investments	**Total**	**12.0%**	**12.0%**			■		
	Swiss real estate	7.0%	7.0%			■		
	Gold[2]	5.0%	5.0%			■		

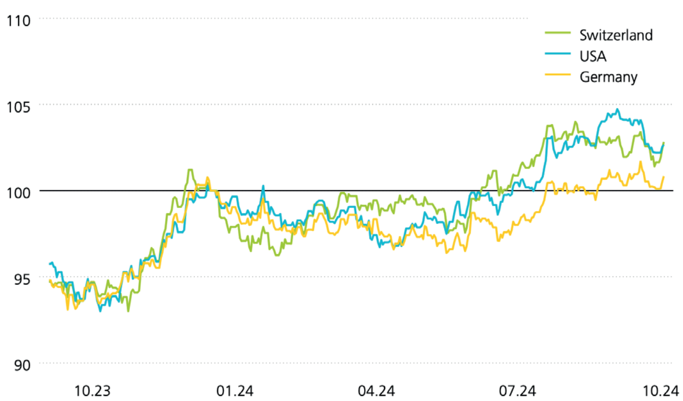
1 Tactical Asset Allocation: short to mid-term orientation
2 Currency hedge to CHF
3 Positioning relative to our long-term asset allocation

Market overview

Fixed income

The US Federal Reserve and a more encouraging labour market report appear to have restored market participants' confidence in the US economy. Against this backdrop, long-term interest rates rose significantly, particularly in the USA.

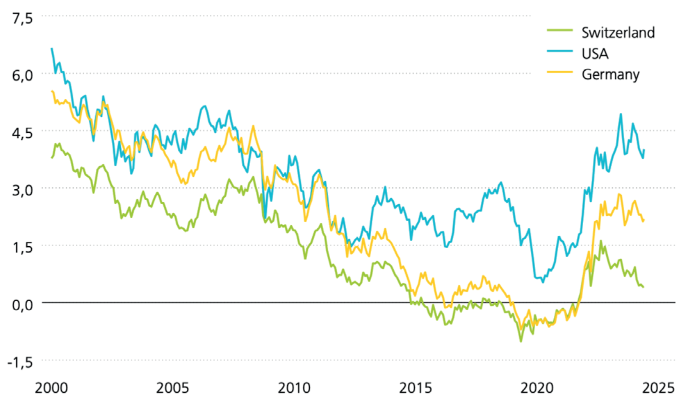
Indexed performance of government bonds in local currency
100 = 01.01.2024



US government bonds recorded significant losses last month, despite the US Federal Reserve (Fed) initiating a turnaround in monetary policy in mid-September with a sharp cut of 50 basis points in the policy rate. Despite the rate cut, capital market interest rates remained stable to begin with, as the Fed signalled its desire to prevent the economy from cooling down too much. Long-term interest rates only began rising again towards the end of September, following positive labour market data and a less pronounced decline in inflation rates. This upward trend also helped to raise capital market interest rates in other industrial nations, albeit more moderately.

Source: SIX, Bloomberg Barclays

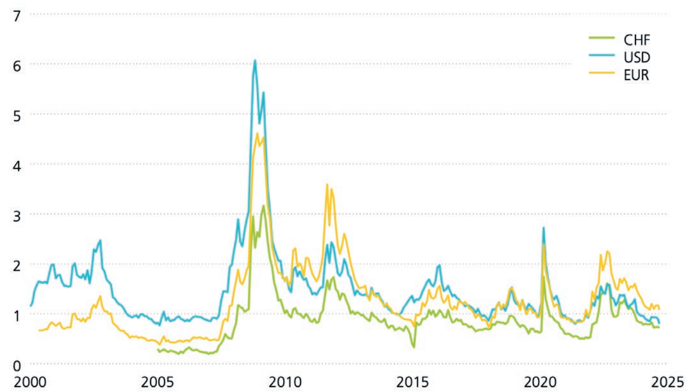
Trend in 10-year yields to maturity
In percent



The continuing decline in long-term interest rates came to a clear end last month, particularly in the USA. 10-year yields to maturity on US government bonds are back above 4 percent, their highest level since July of this year. The rise in Europe was more moderate, likely due, among other things, to expectations of a further interest rate cut by the European Central Bank. In Switzerland, yields to maturity on 10-year Swiss government bonds remained at a low level, still below 0.4 percent.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



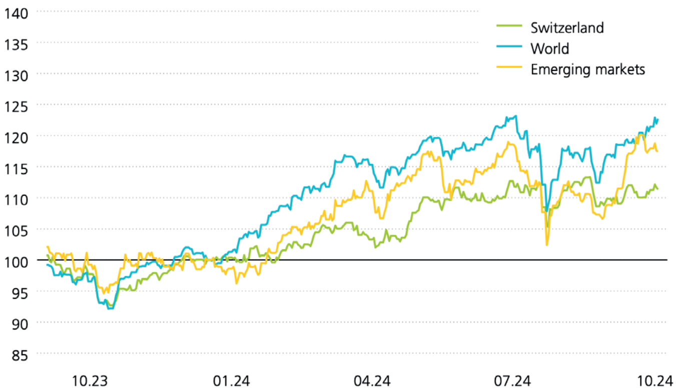
Credit spreads on corporate bonds fell significantly last month, in the USA in particular, with the decline in corporate bonds with a lower credit standing so strong that they saw price gains despite the rise in capital market interest rates. This put paid to the somewhat exaggerated fears of recession which had flared up for a short time.

Source: Bloomberg Barclays

Market overview
Equities

Against the backdrop of increasing confidence that the US economy will not cool down significantly, the equity markets continued to rise last month.

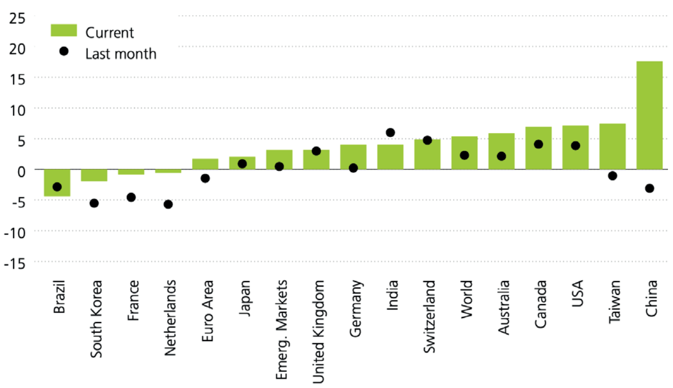
Indexed stock market performance in Swiss francs
100 = 01.01.2024



After two turbulent months, the equity markets were more robust last month. They saw moderate gains worldwide, with the markets in the USA actually reaching new all-time highs. The Chinese equity markets performed particularly strongly. The stimulus package announced by the Chinese central bank to prop up the stock market and the prospect of fiscal policy support measures drove share prices up. Overall, the Chinese equity markets rose by more than 10 percent last month.

Source: SIX, MSCI

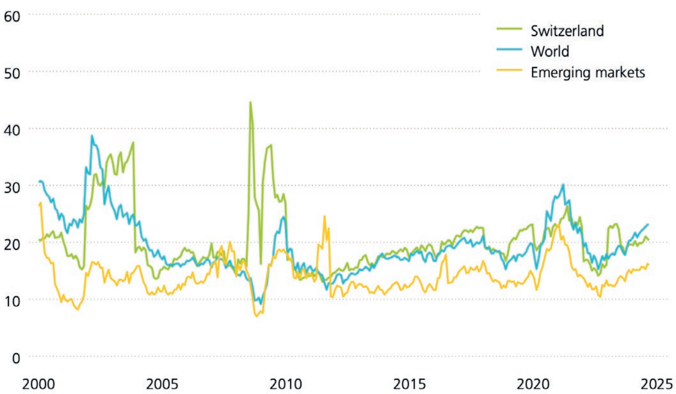
Momentum of individual markets
In percent



The equity markets are again somewhat more dynamic, although their overall upward momentum remains moderate. The markets in China and Taiwan are an exception. Following the skyrocketing prices on the Chinese market last month, the momentum is now clearly positive after several months in negative territory. The performance of the Dutch market is also worthy of note, with significantly increased momentum compared to the previous month. This is an exception due to second index heavyweight Prosus, an investment company that holds shares in the Chinese internet company Tencent and benefited from the rally on the Chinese equity market.

Source: MSCI

Price/earnings ratio
P/E ratio



Price/earnings ratios (P/E ratios) continued to rise over the past month. This is likely mainly due to the positive performance of the equity markets. P/E ratios in emerging markets, for example, will no doubt have seen an appreciable rise as a result of the market rally in China. With the upcoming corporate earnings reports for the third quarter, the P/E ratios should make for even more interesting reading.

Source: SIX, MSCI

Market overview

Swiss real estate investments

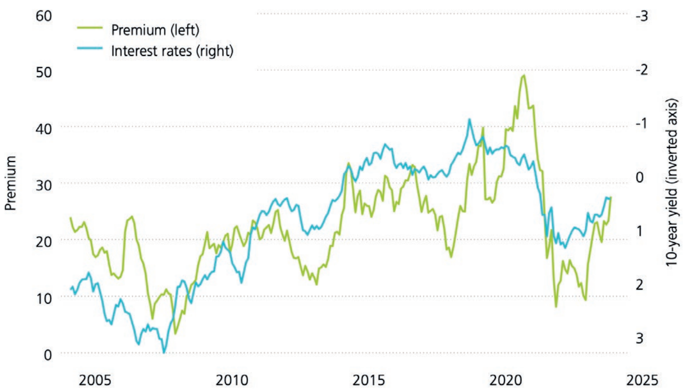
Swiss real estate funds made further gains last month, increasing their value since the beginning of the year to over 10 percent.

Indexed performance of Swiss real estate funds
100 = 01.01.2024

Swiss real estate funds traded on the stock exchange recorded a strong increase in value of several percentage points at the end of September and have since stabilized at their higher level. The sharp rise was mainly due to the announcement by the Swiss National Bank (SNB) that it would cut the policy rate again to 1.0 percent. This leaves the value of Swiss real estate funds up by more than 10 percent since the beginning of the year, equivalent to around twice the historically expected return and comparable to the growth of the Swiss equity market, measured by the SMI benchmark index, in the current year.

Source: SIX

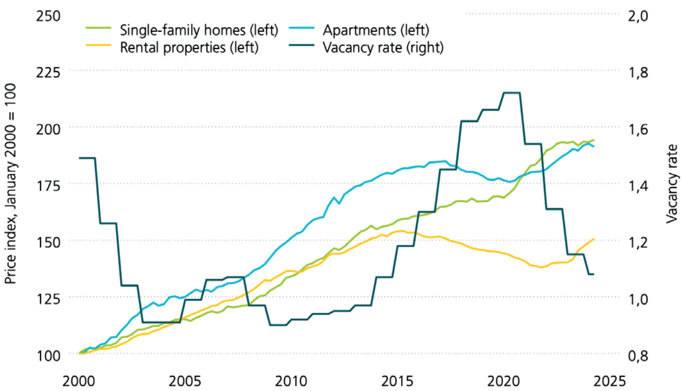
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



On exchange-traded real estate investments, investors usually pay a premium on the actual net asset value of properties (NAV). The continuous increase in the value of real estate funds this year has increased this premium significantly. Given that the premium is already at a high level, the potential for further increases in value appears to be largely exhausted. In the past, higher premiums have only been incurred in times of negative capital market interest rates, a situation which seems rather unlikely to occur in the coming months.

Source: SIX

Vacancy rate and real estate prices
100 = January 2000 (left) and in percent (right)



Prices for rental apartments continued to rise in the last quarter. Single-family homes also saw a slight increase, following a period of stable prices over the last two years. This growth was fostered in part by the decline in long-term capital market interest rates and continued tight supply. The latest vacancy rate figures in fact suggest further tightening of supply. By contrast, prices for owner-occupied apartments remained unaffected by the upward trend. Potential buyers may have been waiting for the Swiss National Bank (SNB) to ease its monetary policy, with a resulting fall in financing costs.

Find out more in our interest rate forecast for mortgages

Source: SNB, FSO

Market overview

Currencies and cryptocurrencies

The US dollar gained significantly in value over the past month, now standing 2.5 percent higher on a trade-weighted basis. The Japanese yen, by contrast, saw a sharp decline.

The US dollar rose significantly last month, largely recouping the losses of recent months. The US dollar was up by just under 3 percent against the euro, and by 2 percent against the Swiss franc. This moved the US dollar back to a level against both currencies similar to the beginning of the year. The Japanese yen by contrast saw an appreciable loss in value last month. The yen lost over 6 percent against the US dollar, leaving it slightly above the 150 US dollar mark last reached in August. The new Prime Minister's comments to the effect that the economy is not ready for further interest rate hikes are likely to have contributed to this loss. Measured by purchasing power parity, it means the Japanese yen remains the most undervalued among the G10 currencies.

Currency pair	Price	PPP [1]	Neutral area [2]	Valuation
EUR/CHF	0.94	0.93	0.85 – 1.00	Euro neutral
USD/CHF	0.86	0.80	0.70 – 0.90	USD neutral
GBP/CHF	1.12	1.21	1.05 – 1.37	Pound neutral
JPY/CHF	0.57	0.89	0.73 – 1.05	Yen undervalued
SEK/CHF	8.27	9.81	8.78 – 10.83	Krona undervalued
NOK/CHF	8.01	10.60	9.38 – 11.81	Krona undervalued
EUR/USD	1.09	1.16	1.01 – 1.31	Euro neutral
USD/JPY	149.15	89.45	69.20 – 109.69	Yen undervalued
USD/CNY	7.07	6.16	5.70 – 6.61	Renmimbi undervalued

Cryptocurrency	USD rate	YTD [3]	Annual high	Annual low
Bitcoin	67'622	0.61	73'121	39'528
Ethereum	2'611	0.14	4'073	2'207

1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Year-to-date: Since year start

Source: Allfunds Tech Solutions, Coin Metrics Inc.

Gold

Gold again reached a new all-time high this month and is now trading at over 2,650 US dollars per troy ounce.

Indexed performance of gold in Swiss francs
100 = 01.01.2024

Gold rose sharply again last month. The price of the precious metal rose by a further 5 percent to over 2,650 US dollars per troy ounce. This puts gold up over 30 percent since the beginning of the year, outperforming the global stock markets. There are likely to be various reasons for the continuing upward trend, including hedging against inflation, geopolitical uncertainties and expected falling interest rates.

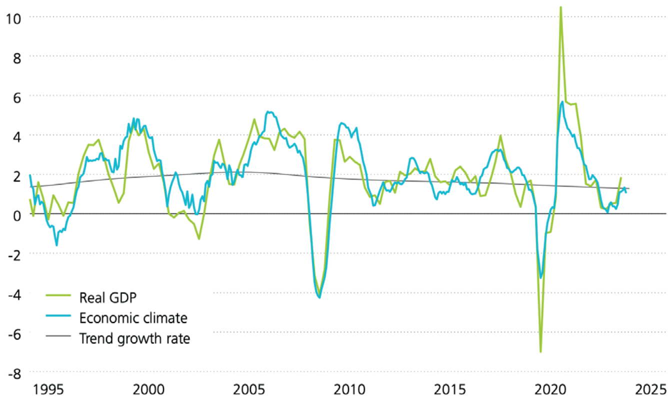
Source: Allfunds Tech Solutions

Concerns hang over the Chinese economy

The asymmetries in the global economic picture remain in place. Despite signs of a slowdown, the US economy continues to post strong growth, while an economic recovery in Europe and China has yet to materialize. The Chinese economy, in particular, continues to give cause for concern, with economic figures deteriorating across the board in recent months. In addition, the collapse in real estate prices has intensified. In the third quarter, however, economic growth increased faster than expected. Without strong fiscal policy support measures, there appears be little short-term prospect of emerging from this period of weakness.

Switzerland

Growth, sentiment and trend
In percent

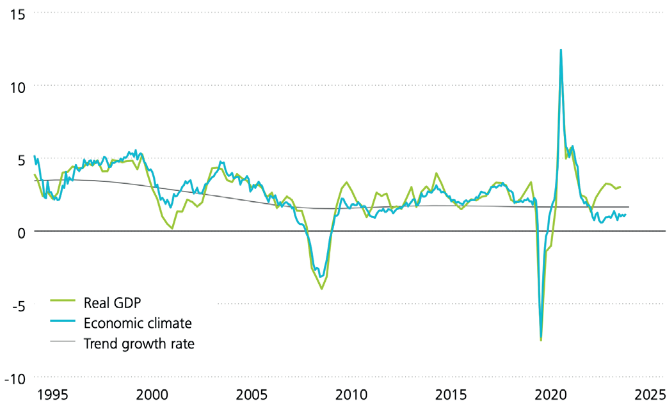


Source: Bloomberg

The Swiss economy remains dominated by the chemical and pharmaceutical sectors, which are seeing further growth thanks to a strong increase in exports. However, other industrial sectors and areas of the economy geared towards domestic demand are struggling, and are stagnating at best. Even so, the recovery in consumer confidence has continued in recent months. Retail sales year-on-year are also back in positive territory. In response to weak domestic economic growth, the Swiss National Bank (SNB) again lowered its policy rate in September, to 1.0 percent. Given the sharp drop in pressure on prices, there is even scope for further monetary easing.

USA

Growth, sentiment and trend
In percent

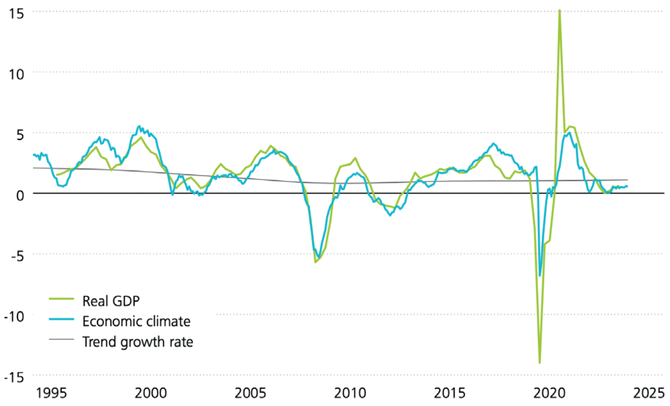


Source: Bloomberg

Although the leading economic indicators have been signalling a slowdown for some time now, US growth remains firm for the time being. According to the latest estimates by the Federal Reserve Bank of Atlanta, the economy seems set to have grown by 0.8 percent in the third quarter of this year, which would again be well above the long-term trend. However, US industrial companies are expecting an appreciable decline in business activity, demand in the construction sector is down on 2021 and 2022, and consumer confidence is also at a level typically seen in periods of recession. Inflation trends also remain uncomfortable. Core inflation, which excludes the volatile components that cannot be controlled by the US Federal Reserve (Fed), rose again slightly in September and, at 3.3 percent, is still well above the target range of 2 percent.

Eurozone

Growth, sentiment and trend
In percent

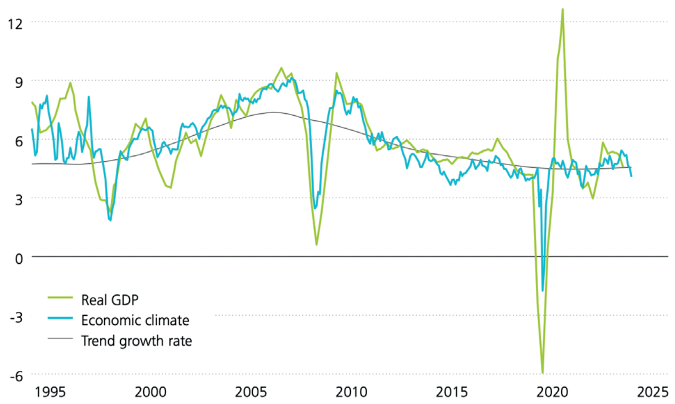


Source: Bloomberg

Economic performance in the eurozone continues to stagnate, with moderate growth in the services sector offset by a declining industrial sector. Due to weak order intake in industry, European industrial companies continue to expect a decline in business activity. The upturn in confidence in the services sector seen in August, largely as a result of the Summer Olympics in Paris, also proved to be only temporary. It means low growth momentum overall is likely to continue. After inflation fell to 1.8 percent in September, the European Central Bank (ECB) cut its policy rate again in October. Nevertheless, core inflation remains particularly sticky at 2.7 percent.

Emerging markets

Growth, sentiment and trend
In percent



Source: Bloomberg

Economic figures from China, by far the largest emerging market economy and the world's second largest economy, were again largely disappointing last month. Although there have been positive signals from consumers and producers recently, the outlook for companies remains gloomy. Export growth has fallen significantly and consumer demand among the Chinese population is also weakening. Price trends, in particular, are a cause for concern. While real estate prices are down around 5 percent on the previous year, putting pressure on many Chinese households' assets, core inflation at just 0.1 percent has now also reached almost zero. The only way out of this period of weakness in the near term appears to be a strong package of fiscal policy stimulus measures. While this has been announced by the Chinese government several times, it has as yet failed to materialize.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y [1] 2024Q1	0.6%	2.9%	0.5%	0.3%	-0.9%	7.8%	2.5%	5.3%
GDP Y/Y [1] 2024Q2	1.9%	3.0%	0.6%	0.7%	-0.8%	6.7%	3.3%	4.7%
Economic climate [2]	↘	↘	→	↗	↗	↗	↘	↗
Trend growth [3]	1.3%	1.6%	0.8%	1.8%	1.1%	5.2%	1.7%	3.8%
Inflation	0.8%	2.4%	1.7%	1.7%	2.5%	5.5%	4.4%	0.4%
Key rates	1.0%	5.0%	3.4% [4]	5.0%	0.25%	6.5%	10.75%	3.1%

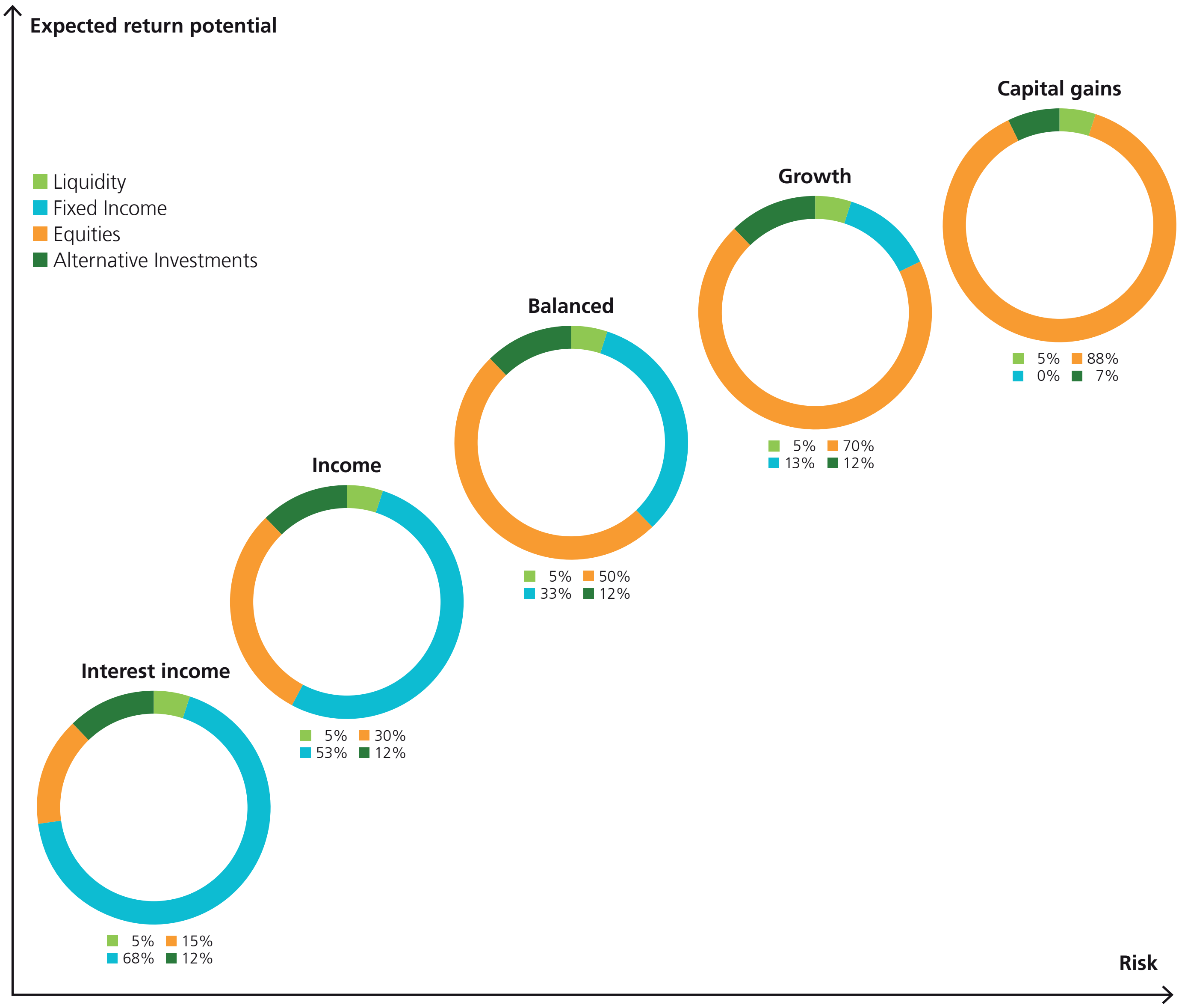
1 Growth compared to year-ago quarter
2 Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. Green arrow indicates an increasing economic growth, red arrow a slowing.
3 Potential growth. Long-term change in gross domestic product with sustainable capacity utilization.
4 This is the ECB's main refinancing rate, the deposit rate is 0.15 percentage points lower.

Source: Bloomberg

Model portfolios Swiss focus

Uneven

The financial markets were spared renewed turbulence last month. Overall, the narrative seems to be dominated by the US Federal Reserve's success in achieving a soft landing. From an economic perspective, however, the picture remains mixed. In Europe, the recovery is faltering, while China is facing major challenges. And although the US economy remains robust and continues to grow, sentiment in large parts of the economy remains pessimistic, pointing to a difficult outlook. Against this backdrop, we remain cautiously positioned.



Source: PostFinance Ltd

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