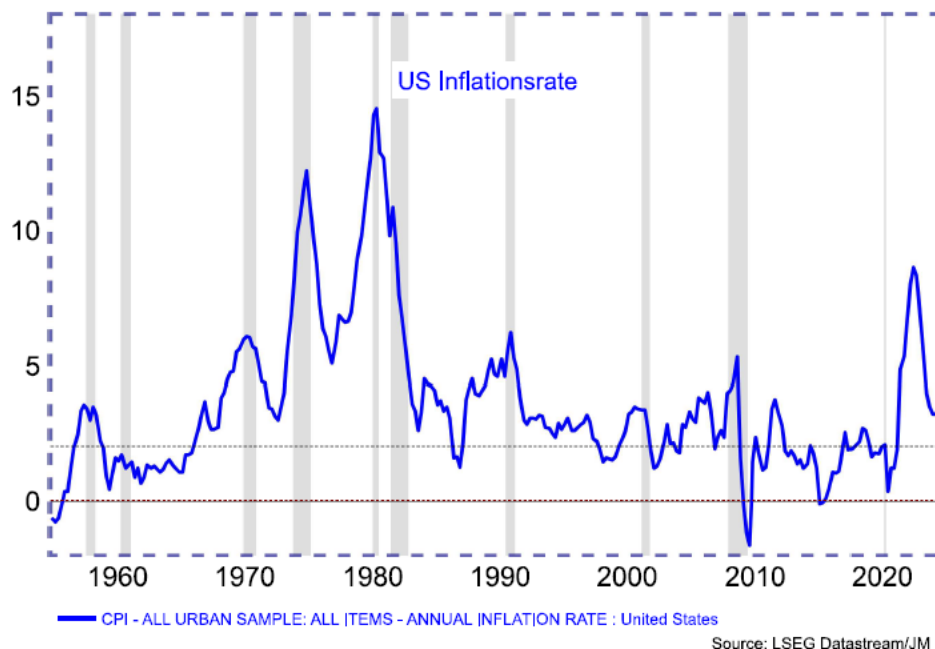


The inflation fighters laid down their weapons in the 3rd quarter

Expectations regarding the central banks' future interest rate policy really collapsed in the third quarter. The money market interest rate expected for the USA at the end of 2025 fell from 4.2% at the beginning of July to 2.8% at the beginning of September. This indicates that the inflation cycle has come to an end.

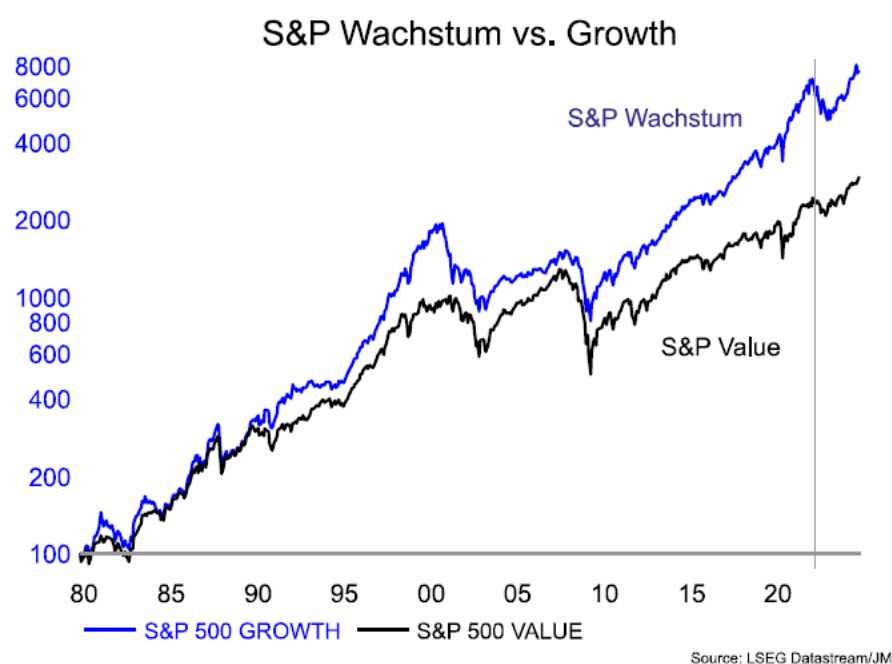
US: Inflationsrate -70 Jahre



It has two special features: Firstly, it is one of the shortest in the post-war period and secondly, it has not been brought to an end by a recession triggered by the central bank. This amicable course has a lot to do with the causes of the price increases. They are primarily attributable to the major real shocks of the last five years, namely the pandemic, the war in Ukraine and the collapse of supply chains. They have led to a slump in global production. Shortages were the result. Virtually all sectors have been affected by the shortages due to the massive disruptions in supply and transportation systems. Most countries have resisted the temptation to distribute scarce goods to the population according to socio-political criteria. No, they have largely let the market play its part. Even in the area of essential goods such as energy and food. The result was that prices shot up across the board. Companies adjusted prices in line with shortages and expected wage increases. However, wage increases were delayed and only partial, meaning that employees around the world were confronted with a loss of purchasing power. The great fear of many opinion leaders and economists of a wage and price spiral, as we experienced in the 1970s, did not materialize. For companies and

This has had an extremely positive impact on shareholders. They were able to record a significant increase in margins, which they used to further expand their offering (shortage of skilled workers). This contributed significantly to the rapid decline in prices. This has very little to do with monetary policy. On average, it takes around 18 months for interest rate hikes to contribute to a slowdown in economic activity and put pressure on prices. However, as the current situation is primarily one of supply inflation and not demand inflation, the market itself is responsible for the additional supply and the loss of purchasing power by consumers is causing prices to fall. The central bank policy activism or even alarmism, as practiced by Powell in particular, could probably have been dispensed with. In view of the special situation, renowned economists have called for a neutral monetary policy. The panic reaction of individual central bank politicians, and Opinion makers who conjured up a wage and price spiral that necessitated a sharp reaction along the lines of Volcker caused considerable damage. Global assets lost over 10% of their value in 2022 and banks had to fear for their equity or even went under. It is hard to imagine if alternative strategies could have been pursued. One person who was aware of this problem was certainly Thomas Jordan. It is therefore not surprising that he heralded the turnaround in interest rates before all the other central bankers. But now the way is clear for better monetary conditions. However, the real sector has also weathered the shocks of recent years well. The extreme price movements have eliminated supply shortages in a short space of time. In addition, new opportunities are opening up with the application of artificial intelligence (AI). It is now likely to diffuse more and more into other sectors. Output and production processes are likely to receive a significant boost. The markets are taking these opportunities into account. The market value of tech stocks in the S&P index has risen from 20% to 50% within eight years. This is higher than the peak value during the tech bubble crisis in 2000, leading many to fear that a similar crash could be imminent. However, analyses show that the two types of future expectations are not comparable. Today's tech companies are undoubtedly highly valued, but they are much better backed by current profits than was the case in the dotcom bubble. There is therefore a much higher probability that the new technologies will be successfully implemented in the wider economy.

Of course, the high increases in value in the tech sector are likely to be a thing of the past. This means that value stocks should gradually experience a renaissance, as was the case after the dotcom bubble. Only this transition is likely to be smoother.



Nevertheless, there is no shortage of risks. The flare-up of the hegemony issue between the USA and China, the weakening of international organizations such as the UN, the Climate Change Conference, the World Trade Organization and the EU. The failure of the Schengen Agreement and the fear of further migration flows have triggered a strong movement towards protecting one's own borders: right-wing parties with nationalist and autocratic tendencies are gaining strong support.

Environmental issues are becoming less important. These are not ideal conditions for companies that have to make long-term decisions. The example of the European car industry shows how a thriving industry can get into difficulties in a short space of time if decisions that have long been made, such as the ban on new fossil-fuel cars, are suddenly put up for discussion. However, fighting instead of cooperation also means that power is increasingly being used instead of law. Subsidies, tariffs and quotas are the tools of war. They distort trade flows and make entrepreneurial activity more difficult.

The high level of international debt remains a risk. It remains at around 100% of GDP; 60% would be desirable. In addition, the military spending of Western countries will have to be permanently increased in the coming years. Distribution battles are foreseeable.

Despite all the risks, there is one constant in Western economies: the struggle for the best framework conditions for their own and potential companies. This largely secures the scope for action of company management.

Overall, monetary and real conditions have improved significantly in the last three months. This makes it sensible to maintain our overweight position in equities. As we assume that long-term interest rates still have room to fall, bonds can also be left overweighted. In the longer term, however, bonds are likely to fall to a less attractive level. At least in Europe. We are taking account of the greater political risks through partial hedging of foreign investments and a broader geographical diversification compared to market capitalization. So much for the big picture.

With best regards

Prof. Dr. Josef Marbacher



Investment Strategy 4th Quarter 2024

sensusPLUS

Meeting of the
investment advisory committee

24.09.2024

		Investment Strategy							
Asset class		Income	+/-	Balanced	+/-	Growth	+/-	Capital gain	+/-
Defensive	Liquidity	8%	0%	7%	0%	5%	0%	5%	0%
	Fixed Income incl. Bond Funds	60%	0%	35%	0%	15%	0%	0%	0%
Offensive	Stocks incl. Stock Funds and ETF	25%	0%	50%	0%	70%	0%	85%	0%
	Others Real Estates, Commodities, Gold, Structured Products, Alternatives	7%	0%	8%	0%	10%	0%	10%	0%
		100%		100%		100%		100%	

Additional parameters

Reference currency CHF

Currency allocation

CHF	min.	50 %
EUR	max.	20 %
USD	max.	20 %
GBP	max.	15 %
Other	max.	20 %
(max 10 % per currency)		

We have a positive outlook for the coming months.

However, it is important to be aware that the global economy is entering a phase with unrealized growth potential, in which downside risks will naturally increase. In addition, geopolitics will continue to cause volatility in light of events in the Middle East and Ukraine, with the risk of potentially abrupt increases in energy prices. Furthermore, the US presidential election is just around the corner and the policies of the winner are likely to have a lasting impact on the financial markets. Finally, there is the risk of instability in the eurozone, with potential implications for the bond markets.

We need to be prepared for higher volatility in the last quarter of 2024 and also in 2025. Although global economic growth is slowing, we do not see this as a negative signal for the equity markets.

Falling inflation and interest rates are positive for quality and growth stocks.

The Swiss franc will maintain its strength against all currencies. The Swiss equity market will remain very conservatively valued due to the sector. With interest rates falling, real estate will continue to be in demand with rents on offer rising.

Against this backdrop, we will maintain our investment strategy

for the 4th quarter and not adjust it.