BRUELLAN
PANORAMA
Q3/2024

QUARTERLY OUTLOOK / JULY / AUGUST / SEPTEMBER 2024

NAVIGATING BETWEEN THE DARKNESS OF RECESSION AND THE FLAMES OF INFLATION

SWITZERLAND
MORE HASTE, LESS SPEED

EUROPE
WILL POLITICS DISRUPT THE FAIRY TALE?

UNITED STATES
THE FED AND THE PERILS OF REARVIEW MIRROR POLICY

ASIA
TURNING A CRISIS INTO AN OPPORTUNITY?

Bruellan

TABLE OF CONTENTS

04 **Editorial**
Navigating between the darkness of recession and the flames of inflation

06 **Markets Performance & Allocation Grids**

10 **Switzerland**
More haste, less speed

12 **Europe**
Will politics disrupt the fairy tale?

14 **United States**
The Fed and the perils of rearview mirror policy

16 **Asia**
Turning a crisis into an opportunity?

18 **Fixed Income**

22 **Disclaimer**

23 **Where to find us**

EDITORIAL

NAVIGATING BETWEEN THE DARKNESS OF RECESSION AND THE FLAMES OF INFLATION

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICE

For several quarters already, we have been proponents of an economic recovery. While this recovery may not be particularly strong, it is characterised by significantly lower inflationary pressures, paving the way for more accommodative monetary policies – a support for equity markets. As we navigate through 2024, we stand by this scenario. That said, looking to 2025, two alternative scenarios also warrant consideration, each implying potentially significant negative outcomes should they materialise.

Our first alternative scenario is a recession, triggered by underestimated monetary tightening impacts. Central banks may indeed have low-balled the effects of their past decisions, that took rates up from 0% to 5.5% and withdrew more than USD 900 bn of liquidity from the system. This scenario is exacerbated by the claim that monetary policy is "data-dependent." In our view, adopting a "data-dependent" stance is akin to driving while looking in the rear-view mirror: it heightens the risk of making errors. Such central bank miscalculations could lead to a severe economic downturn, with reduced consumer spending and an equity bear market.

Our second alternative scenario, though of a lower probability than the first, involves higher-than-expected economic growth fuelling a second wave of inflation. In this scenario, central banks would be forced to hike rates significantly, resulting in a bond bear market.

To complicate matters, each of these scenarios would unfold against a backdrop of geopolitical tensions, a probable Trump election, and unsustainable public debt/deficits.

For the time being though, the global economy continues to show signs of a broadening recovery. Expected 2024 GDP growth has been revised upward during the last few quarters, with projections now standing at 2.4% for the US, 0.7% for the Eurozone, and 5% for Asia ex-Japan. Leading indicators such as the global PMI Manufacturing Index, which spent almost 18 months in contractionary territory, are back above the expansion threshold. As for the services sector, which was already robust, it continues to strengthen. Among the 30 largest economies, the ratio of those experiencing a manufacturing expansion has thus increased from 38% at the beginning of the year to 63%, while participation in the services sector has risen from 71% to 82%.

An analysis of the eight manufacturing cycles that have taken place since the 1990s puts the average duration of such a cycle at ca. 36 months from trough to trough, with the peak occurring roughly 18 months after the onset of a new cycle. Assuming the current cycle, which began in the final quarter of 2023, is true to history, we should not see decelerating forces before June 2025.

Consumer inflation continues to recede, although the services component remains sticky. As mentioned in the last edition of this Panorama, our indicators suggest that wage growth and shelter inflation, which account for most of services inflation, can be expected to move down during the coming months. Overall, significant progress has been made on the inflation front.

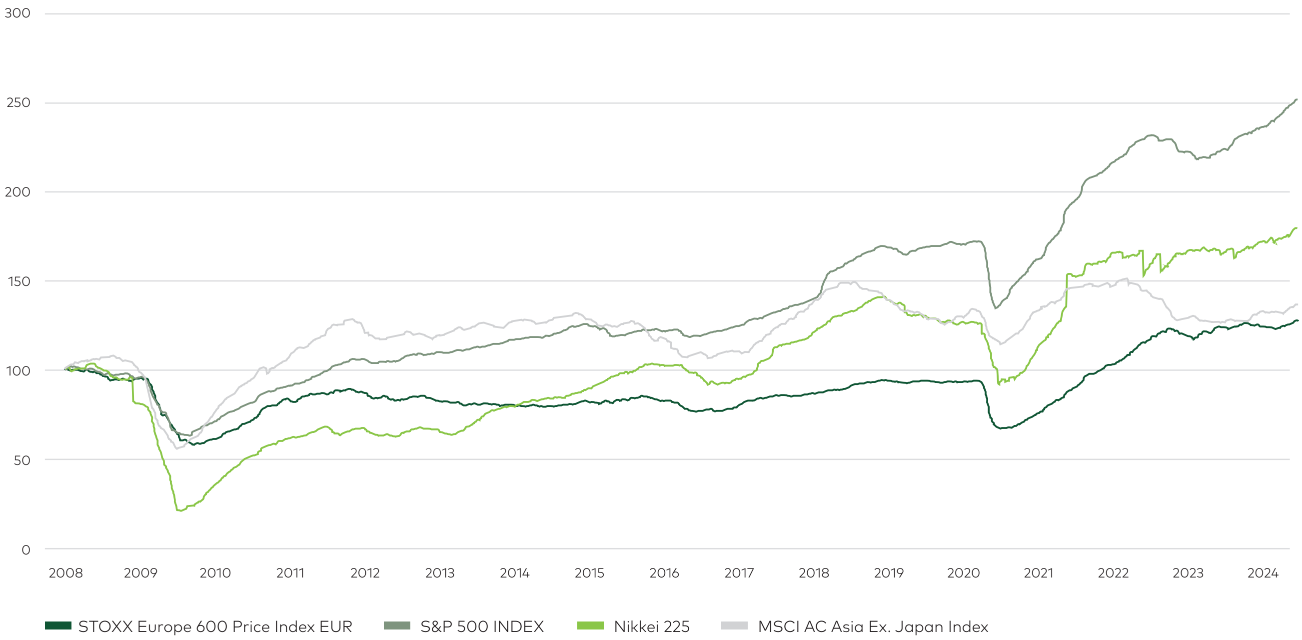
In the US, consumer inflation has decelerated from a peak of 9.1% to 3.3% today. The improvement is even more striking in Europe, where many countries had experienced double-digit inflation rates. The CPI has fallen to 3.6% in Spain, 2.4% in Germany, 2.3% in the UK, 2.2% in France, 1.4% in Switzerland, and 0.8% in Italy. As for Asia, inflation has never been a significant issue there, and China has been exporting disinflation for the past year.

Turning to producer prices, most countries are now in deflationary territory, with the exception of the US, where the PPI is up 2.1%.

In response to lower inflation, central banks are expected to continue to adopt more accommodative monetary policies. Many central banks, including those of Switzerland, the Eurozone, Denmark, Sweden, Mexico, Brazil, Peru and Chile, have in fact already begun to cut rates in 2024. The exception being the Bank of Japan, which has not yet won its battle against inflation.

Equity valuations are not very attractive, particularly in the US and Japan, with the S&P 500 and Nikkei indices both trading at a price/earnings (P/E) ratio of 21x. In contrast, multiples are considerably lower in Europe and Asia ex-Japan, with the Stoxx 600 trading at 14x and the MSCI Asia ex-Japan at 13x. Most of the US overvaluation is attributable to a few mega-cap stocks, known as the "Magnificent Seven." An equal-weighted analysis of the S&P 500 reveals a more reasonable P/E of 16x. That said, the anticipation of stronger economic growth should

Forward 12-month EPS momentum is improving across all regions



continue to support earnings and, consequently, equity markets. 12-month forward EPS estimates reflect an acceleration in momentum across all regions.

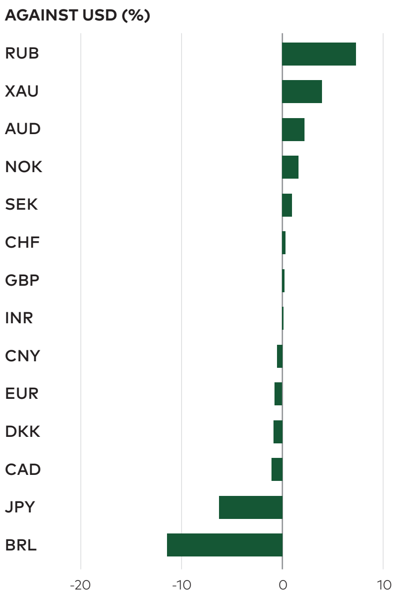
In conclusion, we are keeping a close watch for any early signs of our alternative scenarios, recession or second wave of inflation, although their odds are currently low. Meanwhile, we remain optimistic with regards to the ongoing economic recovery. Together with lower inflationary pressures and supportive central banks, it should sustain earnings growth and equity markets, as evidenced by the acceleration in forward 12-month EPS momentum across all regions. Stock market corrections should thus be viewed as a normal occurrence in a healthy bull market, not the forerunners of a bear market, creating opportunities for strategic investments.

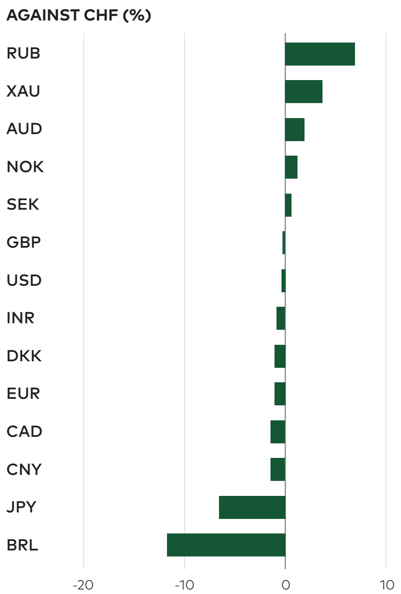
MARKETS PERFORMANCE

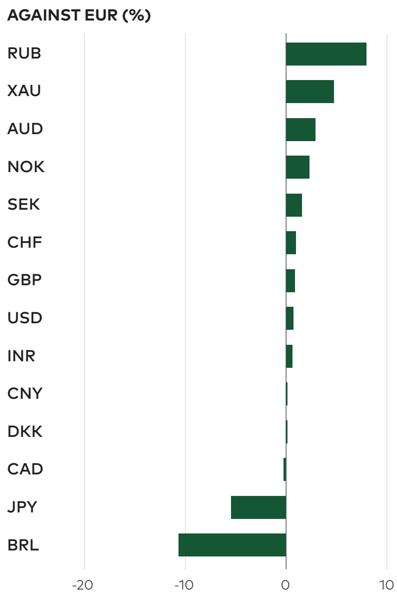
Economic Indicators (from 31.03.2024 to 30.06.2024)

	Real GDP %		Inflation %		PMI	Debt % GDP	Current Account % GDP	Budget % GDP	Unemploy-ment %	Interest rates	
	2023	2024	2023	2024	Current	Current	Current	Current	Current	3 months	10 years
USA	2.5	2.3	4.1	3.1	51.3	97.3	-3.2	-5.9	3.8	5.4%	4.4%
Euro Area	0.5	0.7	5.4	2.4	47.3	88.6	2.2	-3.6	6.5	3.3%	2.6%
Switzerland	0.8	1.3	2.1	1.4	46.4	20.9	7.6	0.5	2.2	1.2%	0.7%
UK	0.1	0.7	7.3	2.6	51.2	101.0	-3.3	-4.5	4.2	5.2%	4.3%
Asia ex Japan	4.9	5.1	1.8	2.1	-	4.1	1.1	-5.8	3.7	4.5%	3.5%
Japan	1.8	0.3	3.3	2.4	50.4	216.3	4.2	-5.3	2.5	-	1.1%
Brazil	2.9	2.1	4.6	4.0	52.1	62.2	-1.5	-9.6	7.3	-	12.3%
Russia	3.6	3.0	6.0	7.0	54.4	23.1	2.7	-3.1	2.8	15.6%	14.4%
India	7.0	7.8	6.6	4.8	57.5	46.5	-0.7	-5.6	8.5	7.3%	7.0%
China	5.2	4.9	0.2	0.6	51.7	354.6	1.2	-4.6	4.0	2.6%	2.3%
World	3.1	3.0	6.0	4.6	-	-	0.6	-	7.1	-	-

Market Performance (from 31.03.2024 to 30.06.2024)
Exchange-Rates







Stock Markets / Total Return & Valuation

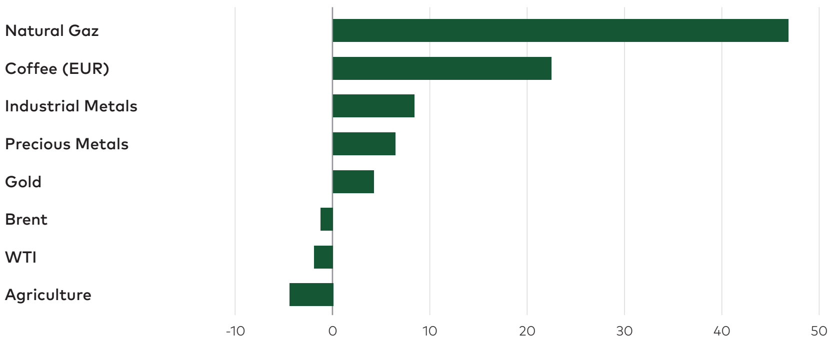
	USD	EUR	CHF	GPB	Leading PE	
					LT Median	Current
S&P 500	4.3%	5.1%	4.0%	4.1%	17.9	22.6
Eurostoxx	-2.8%	-2.1%	-3.1%	-3.0%	14.2	13.8
Swiss Perf. Index	3.4%	4.2%	3.1%	3.3%	19.1	19.1
FTSE 100	3.9%	4.7%	3.6%	3.7%	14.1	11.8
MSCI Asia Ex-Jpn	6.5%	7.3%	6.2%	6.4%	14.7	14.1
Nikkei 225	-7.1%	-6.4%	-7.4%	-7.2%	20.4	22.0
Brazil Bovespa	-13.0%	-12.4%	-13.3%	-13.1%	14.1	7.7
MSCI Russia	-	-	-	-	6.2	-
India SENSEX	10.2%	11.0%	9.9%	10.1%	20.3	22.6
China CSI 300	-1.2%	-0.5%	-1.5%	-1.3%	15.6	12.0
MSCI World	2.7%	3.4%	2.3%	2.5%	17.3	19.8

Bond Market

Sectors / Returns & Valuation (Leading PE)

	USA	Europe	World	USA		Europe		World	
				LT Median	Current	LT Median	Current	LT Median	Current
Cons discr.	0.5%	-8.4%	-2.7%	21.6	26.1	14.8	13.2	18.8	20.7
Cons. Staples	0.5%	-2.0%	-0.6%	19.4	20.3	18.8	16.0	19.3	18.9
Financials	-2.4%	-0.7%	-1.3%	14.3	15.5	11.9	9.4	13.6	13.0
Energy	-3.0%	1.6%	-2.0%	14.5	12.7	10.9	9.0	13.5	11.2
Industrials	-3.2%	-1.1%	-2.6%	18.4	22.6	18.9	20.1	18.3	20.8
Technology	12.8%	5.2%	11.3%	22.5	34.2	25.8	34.9	23.2	34.0
Materials	-5.7%	-1.5%	-4.0%	17.6	20.4	14.7	16.2	16.1	17.3
Utilities	4.1%	-0.8%	2.2%	16.7	16.9	13.8	11.9	16.4	14.5
Health Care	-1.4%	6.5%	0.2%	19.4	20.9	20.4	19.6	20.3	20.6
Telecom	9.2%	0.7%	7.7%	17.7	20.5	16.2	13.8	18.2	19.9
Real Estate	-2.8%	-4.0%	-2.8%	43.9	35.3	23.9	14.3	28.3	26.1

Commodities



ALLOCATION GRIDS

Global Asset Classes

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Equities	●			While this recovery may not be particularly strong, it is characterised by lower inflationary pressures, paving the way for more accommodative monetary policies – a support for equity markets.	Miscalculated monetary tightening, that might trigger a severe economic downturn.
Bonds	●			Global bonds offer attractive yields, as inflation drifts lower. Bonds should retrieve their diversification virtues if economic growth drops more than anticipated.	Stickier-than-usual inflation and very expansive fiscal policies.
Gold		●		Receding real rates support gold prices.	Rising real interest rates.
Cash			●		

Equities

	Overweight	Marketweight	Underweight	Main Drivers	Risks
US		●		The consumer remains resilient. The labour market is tight, consumption spending is relatively strong, and households are still in a fundamentally robust position.	The health of consumers will largely depend on the evolution of inflation and interest rates, which deplete savings and buying power.
Europe		●		The global economic rebound, coupled with an ECB rate cut, supports European companies' earnings growth momentum. Under a prolonged «Goldilocks» scenario, equity valuations have room to expand.	As mentioned last quarter, but with a higher probability, political risks, especially in France, could generate higher volatility.
Switzerland		●		Not only does the level of inventories appear to have returned to normal, but it is even well below average, which could prompt a recovery in manufacturing activity.	If the political turmoil in Europe, and France in particular, were to intensify, this could not only weigh on demand but also put renewed pressure on the Swiss franc and hurt exporters.
Asia Pacific ex-Japan		●		The Chinese economy faces significant challenges, including a sluggish real estate sector, geopolitical tensions, moderating domestic demand and youth unemployment.	Debt and real estate issues, as well as weakening external demand.
Japan		●		Recession has been averted and a modest recovery is continuing to proceed, amid the normalisation of monetary policy.	Inflation that continues to outpace wage gains, hampering purchasing power.

Bonds

	Overweight	Marketweight	Underweight	Main Drivers	Risks
Developed Sovereigns	●			Sovereigns are attractive in these early innings of monetary policy easing by central banks. As inflation recedes, they are once again becoming a safe-haven asset,with positive net-of-inflation yields. Inflation-indexed bonds can provide attractive diversification.	Sticky inflation could further slow Central Bank easing, and expansionary budget deficits could worsen already elevated debt levels.
Corporates (IG)	●			High-quality corporates offer a good mix of yields and spreads with a very low risk of defaults; favour medium-term maturities.	A recession, that pressures credit fundamentals and causes financial stress, would widen credit spreads.
High-Yield			●	Caution is warranted, given the likely rise in defaults and unappealing spread levels. Prefer short-dated high yielding bonds.	High-yield bonds could suffer more during periods of financial turmoil.
Emerging		●		Relative valuations are attractive, with also resilient economic and credit fundamentals, against a backdrop of lower developed market bond yields.	Emerging countries could suffer in the case of a global recession, rising USD or significant fall in commodities.

Currencies

	Overweight	Marketweight	Underweight	
EUR vs USD	●			With the ECB adopting a more accommodative monetary policy relative to the Fed, USD appreciation vs. EUR is expected.
EUR vs CHF			●	Given Switzerland's robust economic fundamentals and safe-haven appeal, the CHF should appreciate against the EUR.
USD vs CHF			●	'The SNB's rate cut reduces the appeal of the CHF vs. USD, but it might be too early to anticipate a shift in trend, especially as the Fed appears poised to adopt a similar approach.
EUR vs GBP	●			The Fed has maintained a tighter monetary policy stance compared to the Bank of England, which has contributed to USD strength vs. GBP. That said, the move now appears to be fully priced in.
EUR vs JPY		●		The significant interest differential between the two countries continues to suggest JPY depreciation.
USD vs GBP	●			The current account deficit and a central bank that has fallen behind the curve argue for further GBP depreciation.

SWITERLAND

MORE HASTE, LESS SPEED

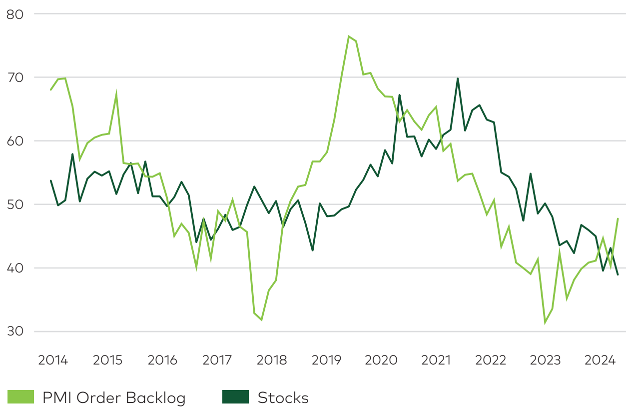
ANICK BAUD / SENIOR FUND MANAGER

The Swiss economic backdrop is slowly improving, even though 2024 growth will likely come in below long-term potential. What we view as particularly positive is the normalisation of inventories, now in some cases even at abnormally low levels, paving the way for a recovery of the more cyclical companies during the latter half of the year. What is surprising, however, is that despite a number of promising and supportive signals, the performance of small- and mid-caps continues to lag significantly.

Below-potential growth:
2024 appears to be a transition year in many regards. The fact that the Swiss economy has held up so far, despite a sluggish economic climate in most of its European partners, owes notably to the resilience of private consumption and a still robust services sector. That said, the latter half of the year could see a return to a positive momentum in exports and the manufacturing sector, after many sluggish months. The reason for this gradual recovery is a slightly more favourable trend in Europe, where the low point finally seems behind, after two weak years. We should, however, not be too quick to rejoice. Although the early innings of a recovery are indeed shaping up, productive capacity will likely remain below its long-term potential in an environment still marked by a number of risks and challenges and by high credit costs, outside of Switzerland at least. In fact, probably buoyed by recent interest rate cuts, and for the first time in almost a year, the Swiss GDP enjoyed a positive boost from capital expenditures during the 1st quarter (+0.8%), evidence that companies are now slightly more optimistic regarding the economic situation in the coming months. The fact remains, however, that 2024 growth will likely fall below the historical average. Expectations stand at ca. +1.2%, excluding positive effects from the Olympic Games and the Euro football competition. And we will have to wait until 2025 to see growth get back to a stronger pace, more in line with potential (above 1.5%).

Inventory normalisation:
May was the 17th consecutive month during which the Purchasing Managers' Index (PMI), a measure of the country's manufacturing activity, printed below the expansion threshold. Never in recent history has a manufacturing recession lasted this long. Adding up the cumulative gaps below the critical 50 threshold shows that only the period of the 2008 Great Financial Crisis exceeded the current period in terms of intensity (120 cumulative gaps vs. 102 today). And yet, upon closer analysis, there are some brighter points amid these lacklustre figures. First, since the July 2023 low, monthly datapoints have progressively improved. Second, when looking at the sub-components, we note that not only are order books picking up, but inventory levels also appear to be particularly low (chart 1). According to the Swiss National Bank (SNB), which conducts a quarterly survey of companies across the country, many industrial firms seem to be indicating that their customers are no longer destocking, which would of course bode very well for future demand. The same goes for the companies we follow, according to whom not only are inventory levels back to normal, but in some cases even well below average, serving to boost activity. Following months of destocking, sanitary products specialist Geberit's 1st quarter figures, for instance, saw a trend reversal at wholesalers, with inventories starting to build up again, from what was seen as an abnormally low level. However, for this positive trend to be confirmed, it will need to be followed by a firm upturn in demand, lest the vicious circle start up again.

Order books are improving, while inventory levels appear particularly low



The SNB does it again:
While most economists did not expect a move before September, the SNB once again surprised the market by cutting rates by 0.25% at its June meeting. The fact that there are virtually no visible second-round inflation effects, outside of an increase in rents (+1% over the past three

Swiss small- and mid-caps react more strongly to US interest rate moves

months and +3.4% year-on-year) that remains manageable, greatly helped the SNB in making this decision. Below long-term potential growth, both in Switzerland and abroad, was a further argument for not leaving rates at a level considered restrictive. But what probably tipped the balance in favour of a move before summer and won the decision, was the sudden sharp appreciation of the Swiss franc over the last four weeks. Against a backdrop of considerable political uncertainty in Europe, the level of the currency in real terms is once again hurting exporters, and more particularly the industrial sector, which has already been weakened by the manufacturing recession of the past several quarters. Given the continuing high degree of uncertainty regarding inflation trends across the globe, the Swiss monetary institution's balancing act is far from over.

All lights are green for small- and mid-caps, and yet…:
A number of key parameters for a recovery in small- and mid-caps have been in place for several months now, but this asset class, both in Switzerland and abroad, continues to underperform the broader market. The correlation between the smallest listed companies and PMI datapoints, for instance, is significant. And even though the latter's current levels still indicate a contraction, the manufacturing situation has improved markedly over the past year, which should in theory support small- and mid-caps. Their valuation premium also stands well below the historical average, which is another important factor for future outperformance. What is more, since the lows of last October, small- and mid-caps have not even rebounded more strongly, despite a 6-year performance delta between their index (SPI Extra) and that of large caps (SMI adjusted for dividends) of more than 50% in favour of the SMI. Never before in the history of the Swiss equity market has there been such a differential in performance to the detriment of secondary stocks. Even the depreciation of the Swiss franc at the onset of this year provided no help, despite the fact that small- and mid-cap earnings are generally more sensitive to currency fluctuations. What is missing for their performance to pick up, if even two rate cuts by the SNB have had no impact? The answer would seem to lie on the other side of the Atlantic, with Swiss small- and mid-caps reacting more strongly to US interest rate moves (chart 2). As long as there are no clearer indications regarding a rate cut by the Federal Reserve (Fed), it is a safe bet that this asset class will not gain investor favour. But beware of a backlash, since expected earnings growth for this year (as well as 2025 and 2026) is much higher for the SPI Extra than for the SMI. In fact, based on 2026 earnings, both indices are trading on the same multiple (P/E of 15x), whereas small- and mid-caps typically command a premium!

EUROPE
WILL POLITICS DISRUPT THE FAIRY TALE?

MALEK DAHMANI / FUND MANAGER

The second quarter saw a perfect economic scenario begin to unfold for European equities, with positive economic surprises fuelling a robust stock market performance. That is, until political events shook up the situation. Enough to derail the fairy tale and prevent a happy ending?

Once upon a time, there lived three bears and a little girl called Goldilocks. One day, the little girl came across a house and went indoors. There was porridge on the table. She tasted the large bowl and exclaimed, "This porridge is too salty!" She tasted the medium bowl and said, "This porridge is too sweet!" Finally, she tasted the small bowl and said, "This porridge is just right." And...the market went up!

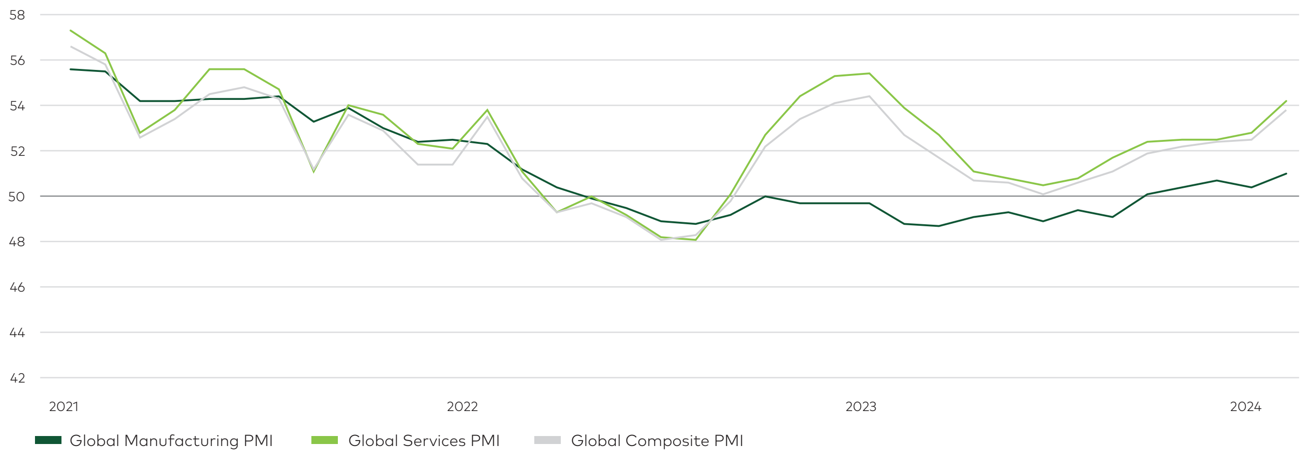
How ironic is it that investor and financial markets' most preferred economic scenario is nothing more than a fairy tale? Over the past quarter, a mix of growth, decelerating inflation and an interest rate cut kept the fairy tale alive for market participants. European equities have rallied almost 4%, pushing year-to-date market performance above 10% and the gain since the September 2022 lows to 35%.

This performance can be reasonably justified. First, European macro indicators have exceeded expectations, as evidenced by the economic surprise index. Additionally, global PMIs are back in expansion territory, benefiting European companies exposed to global trade. As such, earnings growth expectations for European equities have been upgraded by 3% for both this year and next, suggesting that the recent performance is not solely attributable to multiple expansion – and keeping the situation healthy. Finally, as expected, the ECB has delivered its pivot.

Looking forward, are we now nearing the end of the cycle with a potential recession around the corner, or are we in the middle of the economic upmove, with further earnings growth and multiple re-ratings for European equities? The market clearly favours the latter view, with recession probabilities having dropped below 30%. Corporate confidence remains strong, as evidenced by a sharp rebound in M&A volume this year. Such M&A activity typically occurs mid-cycle. Valuations are not stretched, and the impact of AI is not fully priced in, given its likely lesser direct impact on European companies compared to their US counterparts. With possible cash distributions to shareholders thanks to healthy balance sheets, there is clear potential for robust performance if this scenario unfolds.

However, someone, somewhere, might decide that it is too simple, too easy, and that the porridge tastes just too good. In fairy tales, such disruptions often come from a villain – in our case a politician. On 9 June, Emmanuel Macron announced the dissolution of the French National Assembly after having suffered a severe defeat by the extreme right-wing party, Rassemblement national, in the European parliamentary elections. This decision, propelling France into uncharted territory, sparked a sell-off in the French equity market, with the CAC 40 losing more than 6% during the ensuing week. As a ripple effect, given

European companies benefit from the rebound in global activity



The probability of recession in the euro zone has fallen

France's weight in the European equity market, the Stoxx 600 shed 2%. Does this decision, and the broader political shift currently underway in Europe, jeopardise the bullish trend for European equities?

> *"The dissolution of the National Assembly is a test of truth between those who choose to strengthen their own hand and those who choose to strengthen the hand of France."*
> *(Emmanuel Macron, 12 june 2024)*

- First, the outcome of the European elections should not be summarised by the French results. While extreme right-wing parties did gain more seats and the number of green deputies recede, the leading coalition remains the center-right, which led the European Parliament previously. So although there will be some policy shifts (a lesser focus on the green transition?), the overall direction is likely to remain similar.

- Second, even though France and Germany are facing internal political turmoil, the Euro monetary bloc is in better shape than during the debt crisis and, more importantly, is more appreciated by European populations.

- Third, recent events such as the Liz Truss mini-budget crisis in the UK or Giorgia Meloni's rise to power in Italy have shown that market or supranational entity pressure tends to rationalise internal politics, even of a populist nature.

Given the current visibility, the highest probability is for the positive economic scenario to unfold, with increased volatility and uncertainty due to political developments (including upcoming elections, such as the US presidential) offering entry opportunities for investors with a mid- to long-term horizon.

That said, we remind readers that the French constitution is unique. If the extreme right-wing party or the left-wing coalition gain an absolute majority, the level of power seized would be dramatically larger than in neighbouring countries. This could significantly shake the perception of French equities and, by extension, the European index, since France accounts for nearly 40% of the Eurostoxx 50 and 16% of the Stoxx 600. While this outcome is currently the least probable compared to a hung parliament, it should not be entirely dismissed. It is therefore crucial to pick companies exposed to global GDP growth and that have strong leadership positions. This generally favours larger capitalisations, although one can also find mid-caps with such a profile.

To conclude on an optimistic note, let us remember Freddie Mercury's lyrics: "Fairy tales of yesterday grow but never die (...) The show must go on." Goldilocks, right?

UNITED STATES
THE FED AND THE PERILS OF REARVIEW MIRROR POLICY

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICE

For the past two years, market participants have been predicting an imminent recession in the US. Contrary to such predictions, the US economy has demonstrated a remarkable resilience. GDP growth reached 2.5% in 2023, and 2024 forecasts have been consistently revised upwards to 2.4%. Expectations for 2025 remain solid, with a projected growth rate of 1.8%. This robust performance is particularly noteworthy given the Fed's aggressive measures to counter inflation, hiking the short-term interest rate from 0.25% to 5.5% within the space of 15 months. Following such a substantial tightening, the critical question is whether the US economy will begin to decelerate or continue to post healthy growth.

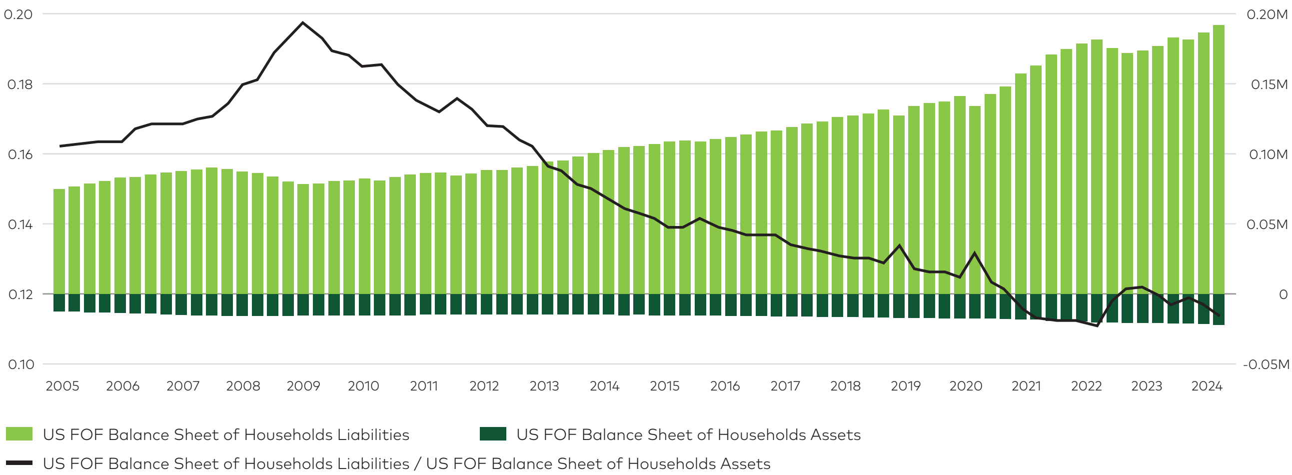
The tide should remain favourable for the economy through at least mid-2025

Leading US economic indicators point to firm growth during the coming quarters. Although the ISM manufacturing index has not yet moved back into expansion territory, it began to show signs of an inflection in the 3rd quarter of 2024 and has been improving since. The services sector continues strong and firmly set in expansion territory. Other indicators, such as the Markit Manufacturing and Services PMIs or the Philadelphia Fed Index, are clearly all in expansion mode. While the latest data on new orders has deteriorated somewhat, it is a volatile series and not enough to alter our positive interpretation. A new economic cycle is underway and, judging by historical experience, momentum should remain positive through at least mid-2025, before potentially inverting.

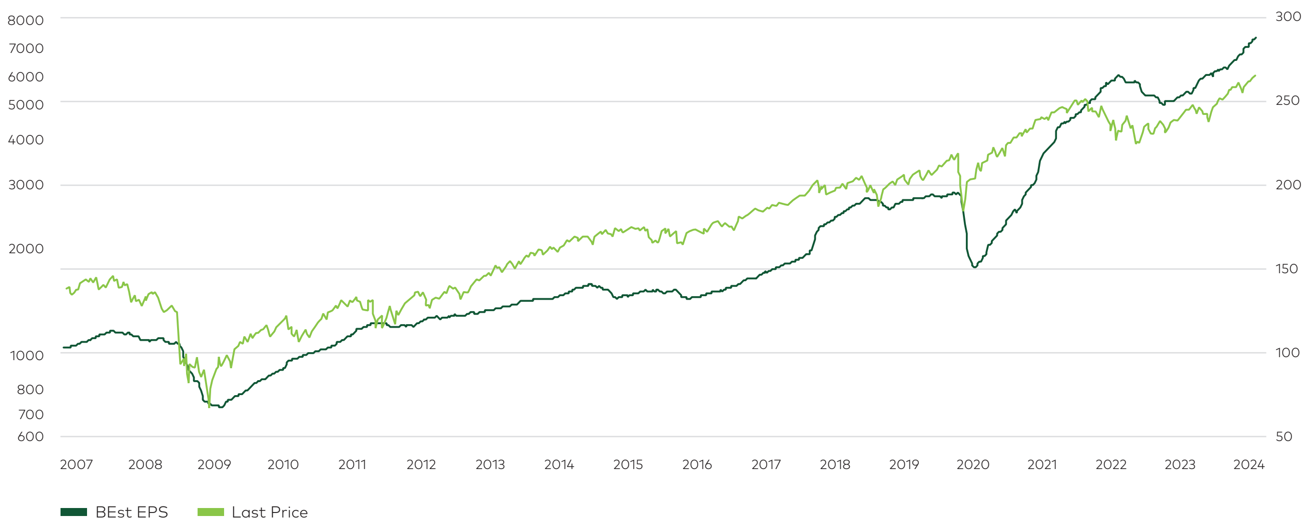
The clock is ticking for consumers, while investment remains very strong

As a key driver of the US economy, consumption, buoyed by excess savings accumulated during the pandemic, is beginning to show some cracks but remains fundamentally robust. The USD 2.1 trillion in excess savings has been fully depleted, inflationary pressures are eroding purchasing power, and rising interest rates are impacting mortgages, consumer loans and credit card debt. This represents a clear deterioration, but consumers nonetheless remains resilient. The labour market is tight, consumer spending is relatively strong, and household deposits as a percentage of GDP indicate still substantial liquidity. Relative to GDP, household cash remains for instance above pre-pandemic levels. Additionally, consumer balance sheets are healthy, with liabilities relative to assets having dropped from nearly 20% during the Great Financial Crisis to 11% today. The debt service ratio, or share of disposable income used to service debt, has declined from 14% to 9.8% over the same period. That said, the future health of consumers will largely depend on the evolution of inflation and interest rates, which deplete savings and buying power. If inflation can be controlled and interest rates stabilise, consumers will continue to drive overall economic growth.

Household balance sheets are still surprisingly strong



The positive EPS growth momentum should continue to support US equities



With a 5.8% public deficit in 2024, that will probably increase to 6% in 2025 with little hope for improvement after the presidential election, investments are flowing into domestic manufacturing, boosting the industrial sectors.

A path towards lower inflation

The US CPI has shown little real progress over the past year, consistently coming in above expectations. However, the core CPI continues its disinflationary trend, with almost all components decelerating, outside of services inflation. The latter, primarily driven by shelter costs and wage growth, remains the most stubborn and lagging component of inflation.

Forward indicators, such as new tenant rent, which is more responsive to current market conditions, show a significant deceleration in shelter inflation. Job openings, which tend to lead wage growth by a few months, also indicate a continued slowdown in wage inflation. We are thus confident that services inflation – and, by extension, overall CPI inflation – should continue to recede during the coming months.

A "data-dependent" Fed will cut rates – too late though?

Our forecast is that the Fed will lower rates this year and next, thereby providing relief to consumers and the economy. However, we are also closely monitoring a less likely alternative scenario. The Fed's "data-dependent" stance, which focuses on lagging indicators, risks delaying rate cuts until after the economy and consumers have already suffered significant damage. This is particularly concerning given the aggressive rate hikes from 0.25% to 5.5%, which could push the economy into recession. While this is not our central scenario, it does remain a potential risk.

Supportive earnings growth

With a forward P/E ratio that stands at 21x for the S&P 500 and 28x for the Nasdaq Composite, the US market is not particularly cheap, but remains below the peak valuations of 2020 and (significantly so) 2000, when the S&P 500 traded at 25x and the Nasdaq at around 175x. US companies, particularly in the IT sector, are currently cash-rich and much less leveraged. Over the past 25 years, the S&P 500's total debt to EBITDA ratio has dropped from 240% to 120%, with profitability becoming less volatile and improving steadily.

The stock market should continue to be supported by robust earnings growth, projected to reach ca. 12% this year and remain in double-digit territory going into 2025. The positive turn in leading indicators should enable a larger number of companies, beyond just the "Magnificent Seven", to contribute to this earnings growth.

Conclusion

We expect the US economy to remain solid, with strong GDP growth, a robust labour market and resilient consumer spending, despite the challenges posed by inflation and higher interest rates. Receding inflationary pressures should allow the Fed to cut rates, providing additional support to consumers and the economy. Firm earnings growth should continue to contribute to a positive outlook for risky assets such as equities.

Still, we continue to watch out for an alternative scenario, in which the Fed's delayed rate cuts, because of its focus on lagging indicators, could result in significant economic damage and potentially tip the economy into recession. Although not our central expectation, it is a potential risk that we are closely monitoring.

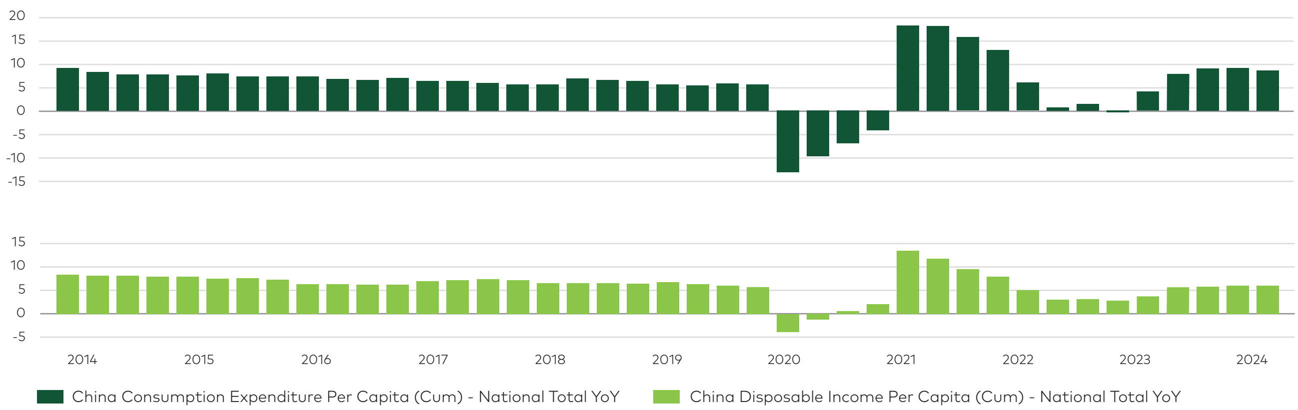
ASIA

TURNING A CRISIS INTO AN OPPORTUNITY?

FLORIAN MARINI, CFA, CMT / CHIEF INVESTMENT OFFICE

China's economy continues to face substantial challenges, including a sluggish real estate sector, ongoing geopolitical tensions, trade wars, moderating domestic demand, youth unemployment, demographics, mounting debt, and deepening public deficits. After a three-year long bear market and a halving of market value, signs of improvement are starting to emerge. They include growing stimulus efforts, a resurgence of exports, higher commodity prices and improving economic growth, all against a backdrop of attractive valuations. Has the worst already been priced in?

Personal Consumption and Disposable Income remain solid



Economic overview

Chinese economic growth expectations for 2024 have been revised upward from 4.5% early in the year to 4.9% currently. The government's 5% target, once considered very ambitious by market participants, now seems more achievable.

Despite this relative improvement, greater dynamism is not to be expected. Coincident and nongovernmental economic indicators such as loan growth, electricity consumption or freight turnover are still stuck in their low growth regime. Leading economic indicators such as the Caixin manufacturing and services indices are now firmly back in expansion territory, but not confirmed by broader indicators such as the PMIs or Chinese credit impulse.

Consumer demand and fixed asset investment

China's long-term goal of transitioning its economy from one that is driven by capex and infrastructure spending to one driven by consumer demand is materialising, although such a transformation will take decades. The share of consumer spending in overall GDP has moved up from 35-40% in the mid-2010s to 54% today.

There are emerging signs of a steady recovery in consumer demand. Notably, personal consumption posted a fourth consecutive quarter of growth in the 1st quarter of 2024, at just over 8%. This growth is supported by solid disposable income, which has been increasing at a pace of slightly more than 6% for the past year.

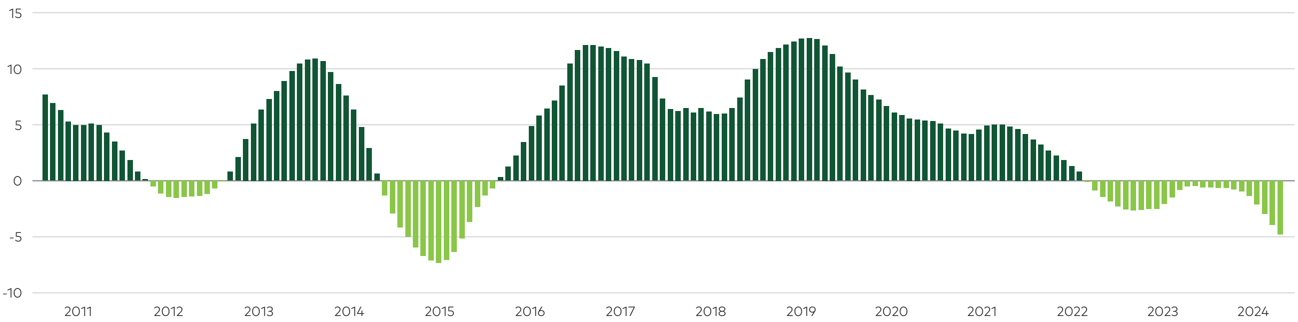
Retail sales, however, lack momentum, with an expected growth of "only" 5.4% in 2024. That said, the e-commerce sector has been posting low double-digit rates since the second quarter of 2023, a firm trend which, according to company managements, should continue this year.

Examples of solid consumer demand are more visible at the corporate level, with Alibaba's 1st quarter 14% revenue increase in its e-commerce segment, Li Ning's 12% sales growth in sportswear, JD.com's 13% revenue growth in online retail and BYD's 15% sales surge in the electric vehicle market.

The other pillar of the economy, **fixed asset investment**, grew by 4.2%, driven largely by government spending on infrastructure. Its pace is expected to increase to 4.7% over the course of the year. Private investment, however, remains subdued amid weak sentiment in the property market.

There are signs that **global trade** is starting to gain momentum, which bodes well for export-driven economies.

China Newly Built Commercial Residential Buildings Prices (YoY)



Cyclical countries that export to mainland China, such as Taiwan and South Korea, are witnessing a return to positive growth in exports after 18 months of contraction.

It will take years for the real estate market to recover

The Chinese real estate sector remains in turmoil, significantly affecting the broader economy. In 2023, property sales fell by 10-15%, with a further decline of ca. 5% expected in 2024. Government efforts to stabilise the sector include easing purchase restrictions and reducing mortgage down payment requirements, though these measures have yet to fully restore confidence. Authorities are now working on a plan to decrease supply. Analysts predict that a full recovery may take four to six years, because of excess supply and a slow recovery in demand, with ongoing impacts on construction, commodities and banking.

Inflation? No, deflation

The domestic CPI index remained flat in the 1st quarter of 2024, at +0.3% year-on-year. Core CPI, which excludes food and energy prices, was up 0.7%. As for the PPI index, it still points to outright deflation (-2.5%), reflecting lower input costs and persistent challenges in the manufacturing sector.

No broad-based stimulus

The government's stimulus efforts have been pivotal in stabilising the economy, particularly the beleaguered real estate market. Actions such as easing purchase restrictions, reducing mortgage down payment requirements and developing plans to reduce housing supply have been central to these efforts. Additionally, the People's Bank of China (PBOC) has played a crucial role by implementing monetary easing measures, including lowering interest rates and reserve requirement ratios to boost liquidity and support lending. The focus on structural reforms to transition the economy from investment-led to consumption-driven growth has led to more targeted and nuanced interventions, rather than broad-based stimulus.

Trade war and US elections

The trade war initiated by Trump and continued by Biden persists, with the upcoming US elections unlikely to ease tensions. Recently, Biden imposed new tariffs on USD 18 bn of Chinese goods, a move seen as a bid to attract Republican voters, although its impact will be limited given the USD 427 billion in overall Chinese exports to the US in 2023. Trump has suggested a 60% tariff increase if he wins the elections, which could reduce China's GDP growth by two points. But despite past US tariffs applied to USD 300 bn of Chinese exports, ranging from 7.5% to 25%, exports out of China have remained strong, highlighting the competitiveness of such products and the widening US trade deficit.

Valuation

With a P/E ratio of 11x for the Shanghai Shenzhen 300 Index and 8.9x for the Hang Seng Index, the Chinese market is very attractively valued in historical terms, near cyclical lows. This is especially compelling relative to the US, where the S&P 500 trades at a P/E of 21x, and even to Europe, where the Stoxx 600 P/E stands at 14x.

Investment strategy implications

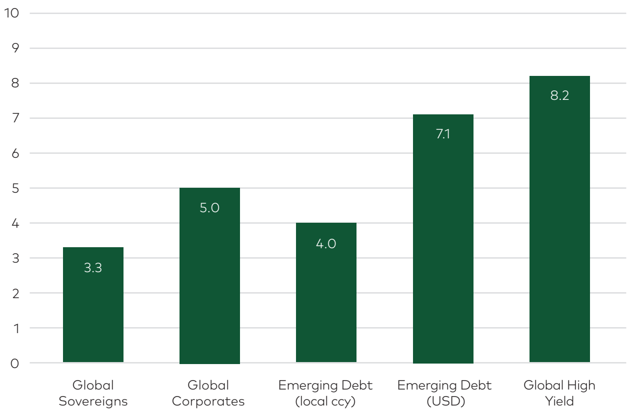
In conclusion, despite facing formidable challenges, the Chinese economy is showing signs of recovery with increased stimulus efforts, firm growth and a resurgence of exports. While broader indicators remain mixed, warranting a cautious overall approach to the equity market, there are significant opportunities, particularly in the consumer and technological sectors, to invest in companies demonstrating strong growth and innovation.

FIXED INCOME

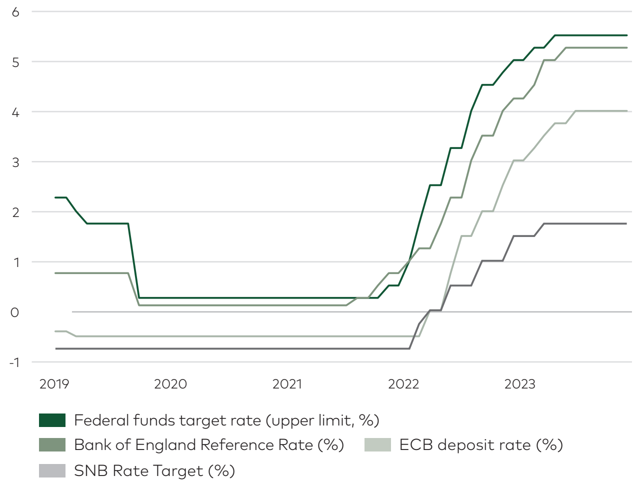
MANUEL STREIFF / ADVISOR

Inflation moderated during the 2nd quarter, and end-of-period data points to a resumption of the downtrend. However, the annual inflation rate is still well above what central banks expected earlier in the year, and economic growth remains resilient.
Investors are already anticipating a larger number of rate cuts than those figuring in the Fed's "dot plot". We expect growth to moderate further, as high interest rates weigh on economic activity.

Yield to maturity per fixed income segments: Sovereigns, Corporates, Emerging debt in local currencies, Emerging debt in USD and High Yield



Key central banks target rates



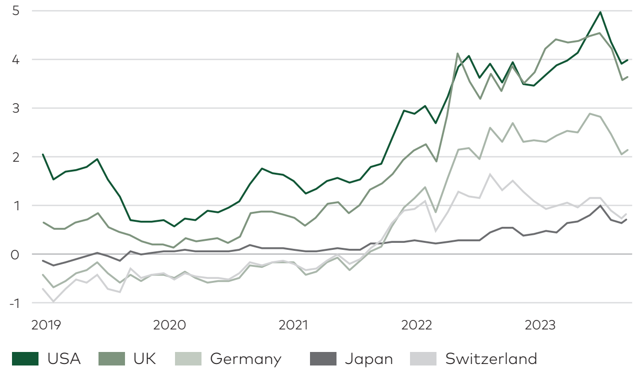
DEVELOPED MARKET SOVEREIGNS

Inverted yield curves, whereby short-term yields exceed those of longer-maturity bonds, dissuade investors from buying developed market bonds until they foresee an imminent decline in yields. Labour markets are showing some signs of weakening, which could encourage the Fed to accelerate the timing and magnitude of monetary easing. Still, it will take a confirmation of weakness in different parts of the economy to tip monetary policymakers into faster rate cuts.

We expect the bond market to remain in a range, but eventually rally as investors price in a more rapid monetary easing cycle.

European bonds are receiving a boost from the European Central Bank (ECB), which recently initiated its easing cycle. This support is expected to lead to a bond rally once

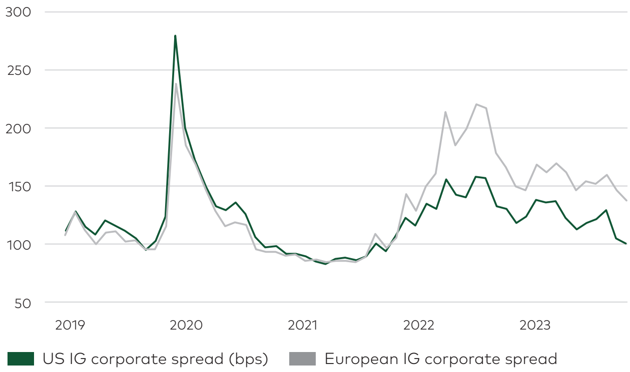
Sovereign yield to maturity (10Y benchmarks)



investors perceive that the ECB is prepared to accelerate its actions. Such a development will, however, likely be a post-summer topic.

The uncertainty around the French elections leads us to keep a defensive stance on French bonds and those of some European peripheral countries.

US and European Corporate Spreads (Investment Grade)



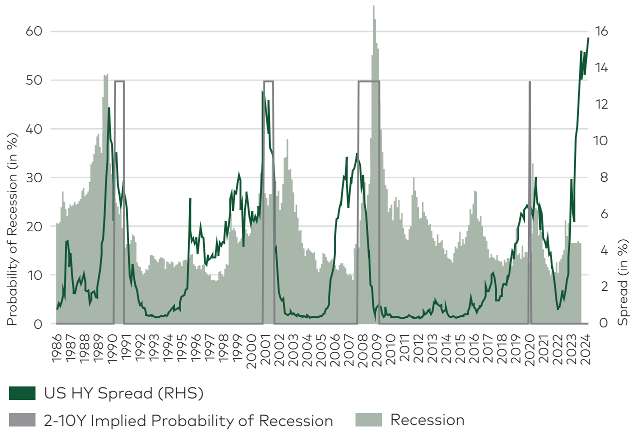
DEVELOPED MARKET CORPORATES

Reduced economic risks and stable government bonds helped developed market corporate bonds perform strongly.

We expect further performance, as the additional yield offered by corporate bonds is particularly attractive in a context of low financial market volatility. Once the summer period ends, the rally could be slowed by corporates increasing their issuance to benefit from the tight credit spreads.

Short-term high-yielding debt issued by companies with manageable financing profiles remains enticing. Even though spreads have narrowed, the front end of the credit curves still offers attractive total yields.

US High Yield spreads and probability of recession, as derived from the yield curve



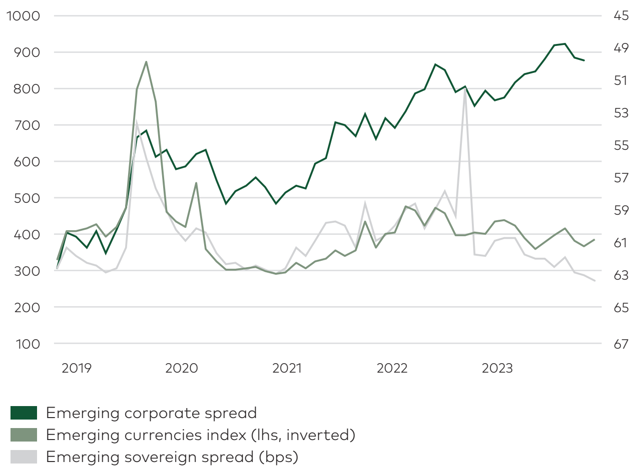
HARD CURRENCY EMERGING MARKET DEBT

The 2nd quarter saw a bifurcation in EM bond performance. Hard currency bonds did very well and should continue to benefit from the gradual rebalancing of growth between regions, as well as robust commodity markets.

With central banks launching a monetary easing cycle, EM hard currency bonds also stand to benefit from greater global liquidity.

In the EM USD corporate market, relatively high yields have encouraged companies to issue bonds in local currency, which will continue to reduce supply.

Emerging Spreads (corporate and sovereign) and emerging currencies index (vs. USD, inverted)



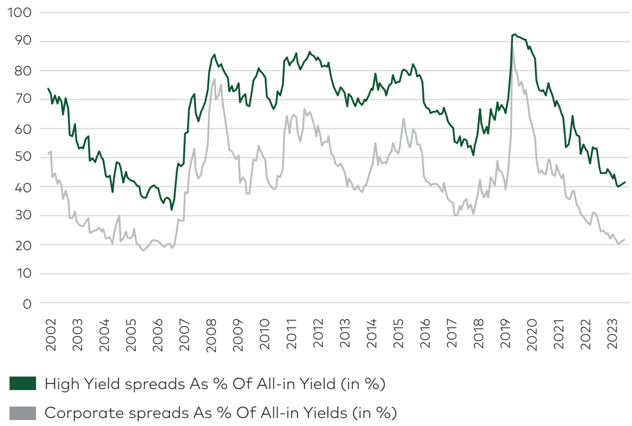
LOCAL CURRENCY EMERGING MARKET DEBT

EM local bonds are more sensitive to US monetary policy. The recent delay regarding the onset of the Fed's rate cutting cycle has been one of the causes of weaker EM local bond and currency performance.

As we get closer to US rate cuts, EM local bonds should resume their rally, but that may take a few more months.

The high level of yields on many EM local bonds keeps us positive, though. Some markets, like India, provide a reasonable yield pickup to US Treasuries with very little currency volatility, while others, such as Turkey, have yields of ca. 39% but with significant currency risk.

Credit Spreads as % of all-in Yields



FIXED INCOME PROJECTION

Segments	Yeld (%)			Return View (12m horizon)
	USD	EUR	CHF	
Cash	5,35	3,34	1,03	↘
Short-Term High-Yielding	6,20	4,34	1,46	→
10y Government Bonds	4,40	2,50	0,60	↗
10y Government Inflation-Linkers	2,11	0,44	n.a.	↗

Segments	Spread over Sovereigns (bps)	Return View (12m horizon)
Developed Corporates	104	↗
Corporate Hybrids	192	↗
Developed High Yield	386	→
Emerging Sovereigns	327	↗
Emerging Corporates	210	↗
Emerging Local-Currency Debt	n.s.	↗

Source: Bloomberg indices hedged in the respective currency

CREDITS
CONTRIBUTORS

REDACTION
Florian Marini, Chief Investment Officer
Anick Baud, Senior Fund Manager
Malek Dahmani, Fund Manager
Manuel Streiff, Advisor

GRAPHIC DESIGN
Yves Ninghetto, LaFabrique Geneva

PROOF READING
Karen Guinand

SOURCE OF GRAPHICS
Bloomberg and Bruellan SA.
Bruellan SA is FINMA regulated.

CONTACTS
WHERE TO FIND US

GENEVA
Bruellan S.A.
Rue Pecolat 1
CH-1201 Genève

Tél +41 22 817 18 55
www.bruellan.ch

VERBIER
Bruellan S.A.
Rue de Médran 16
CH-1936 Verbier

Tél +41 27 775 56 56
www.bruellan.ch

CRANS-MONTANA
Bruellan S.A.
Rue du Pas-de-l'Ours 6
CH-3963 Crans VS

Tél +41 27 486 24 24
www.bruellan.ch

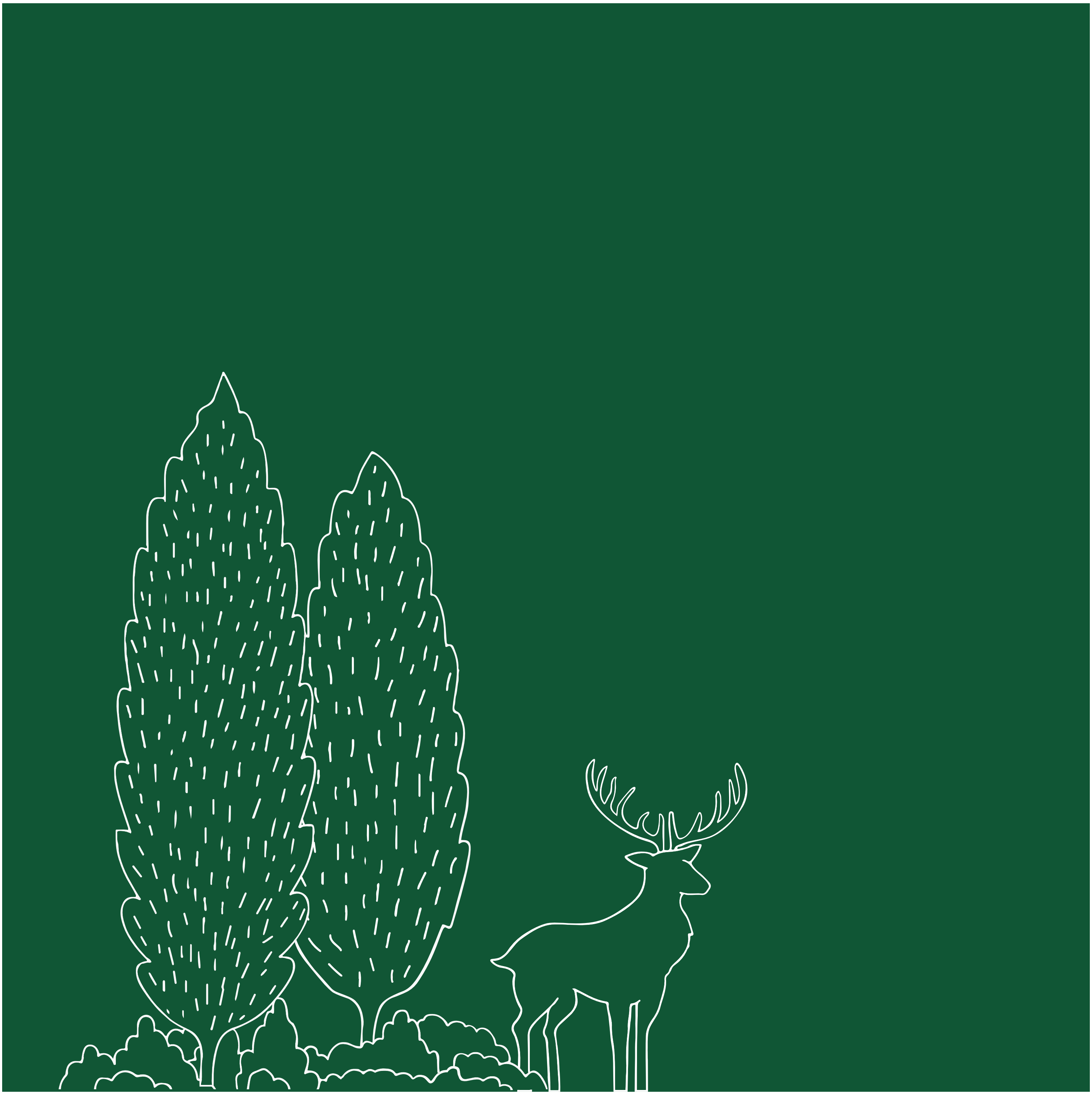
www.bruellan.ch

GSTAAD
Bruellan S.A.
Gstaadstrasse 8
CH-3792 Saanen

www.bruellan.ch

MARTIGNY
Bruellan S.A.
7, Place du Bourg
CH-1920 Martigny

www.bruellan.ch



PANORAMA IS ALSO AVAILABLE ONLINE
WWW.BRUELLAN.CH