Global Investment Strategy

First Quarter 2024

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Overview

Outlook 2024

- World economy: Europe grows modestly at best, though rising real incomes are positive. Slightly less growth in the US after a strong 2023. China’s growth is lower than in the past but remains government supported.

- Structural change and special factors: The rise in interest rates in the past two years is not affecting all households and companies at the same time, which reducing the risks of a pronounced recession.

- Underlying trends point to slightly lower inflation rates.

- Central banks in Europe and the US to lower interest rates in 2024: Positive for bonds, with liquidity supportive of equities.

Consensus estimates: Growth and inflation

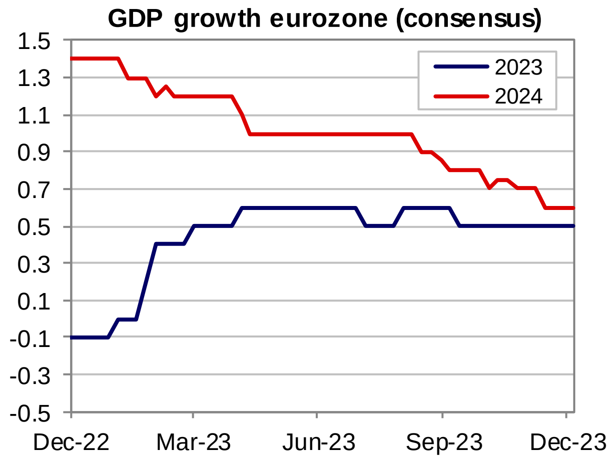
Consensus estimates are calculated as the average forecast of leading forecasters.

Growth expectations for the US for 2023 were raised significantly over the course of the year, and in recent months they have also been raised for 2024.

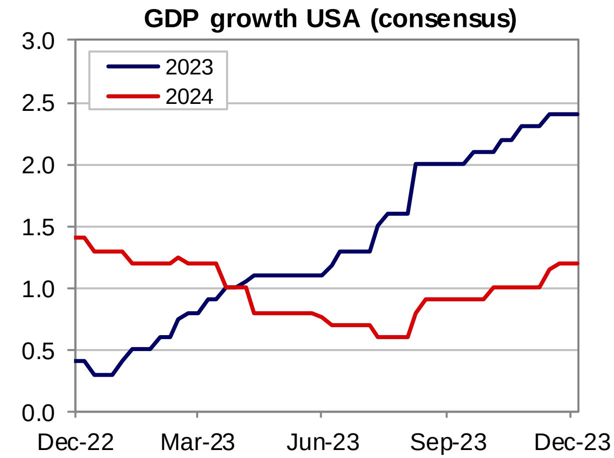
Despite signs of weakness in the data, the GDP growth forecasts for the Eurozone for 2023 have been stable in recent months, though they have declined for 2024.

The economic growth forecast for China in 2024 is at a realistic level, which at around 4.5% should roughly reflect the economy's growth potential.

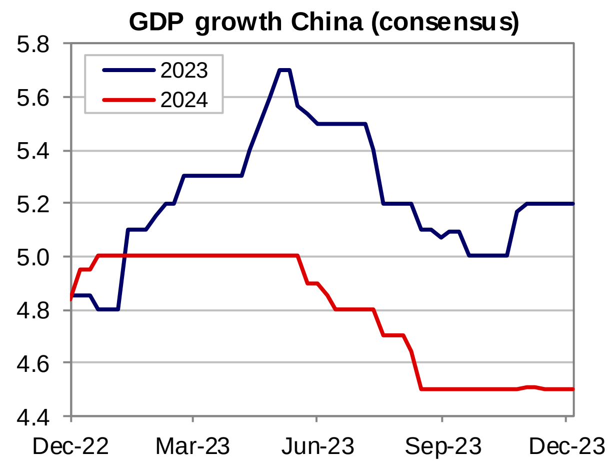
The latest, lower-than-expected inflation figures have led to a reduction in the consensus forecast for inflation.



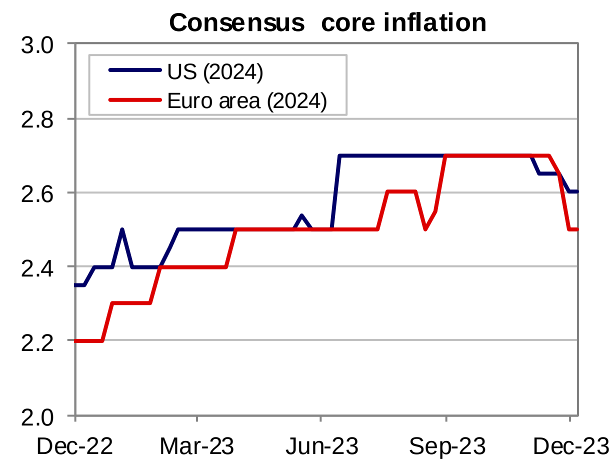
Source: Bloomberg indices



Source: Bloomberg indices



Source: Bloomberg indices



Source: Bloomberg indices

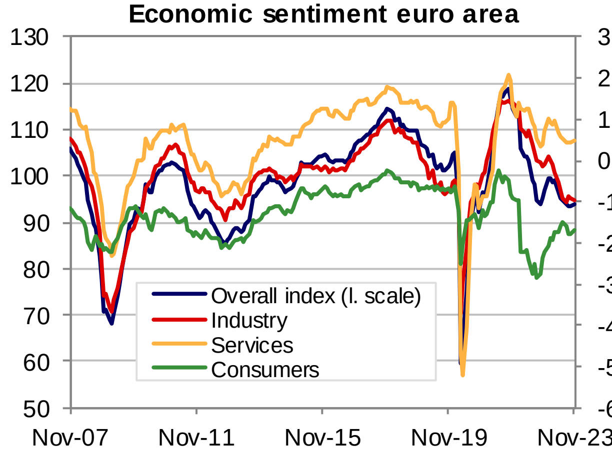
Europe: Signs of stabilisation at a low level

Although the euro area economy contracted slightly in the third quarter, domestic demand increased, driven by private consumption and government spending.

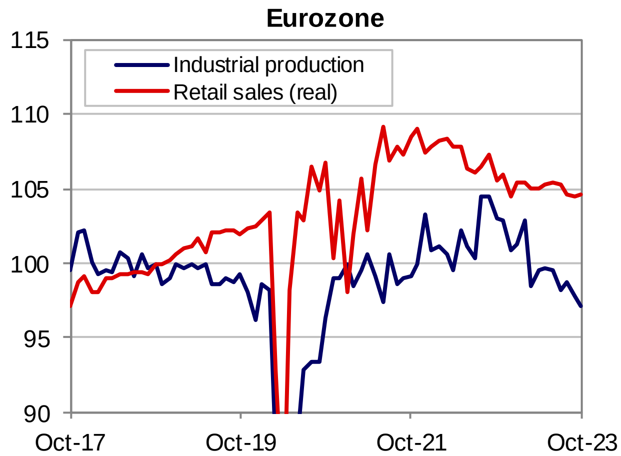
Overall, the economic statistics point to a subdued economy, particularly in the industrial sector. There are, however, no signs of an accelerated downturn, with survey data (sentiment and purchasing managers indices) tentatively pointing to stabilisation.

Eurozone	4Q-2022	1Q-2023	2Q-2023	3Q-2023	Avg.
Pers. consump.	-0.8	0.0	0.0	0.3	-0.1
Gov. consumpt.	0.5	-0.5	0.2	0.3	0.1
Investments	-0.4	0.4	-0.1	0.0	0.0
Domestic dem.	**-0.4**	**0.0**	**0.0**	**0.2**	**0.0**
Exports	-0.3	-0.3	-1.1	-1.1	-0.7
Imports	-1.1	-1.6	0.0	-1.2	-1.0
GDP	**-0.1**	**0.1**	**0.1**	**-0.1**	**0.0**
Net exports	1.6	2.6	-2.3	-0.1	0.5
Inventories	-0.4	-2.2	2.8	-1.3	-0.3

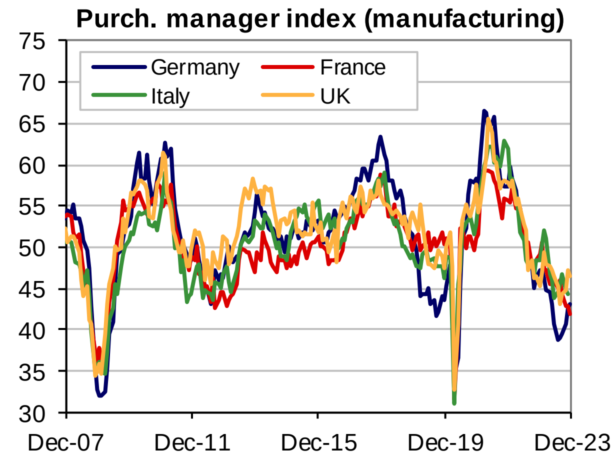
Note: Change in gross domestic product from previous quarter, in %. Source: Eurostat, national statistics, own calculations



Source: European Commission



Source: Eurostat

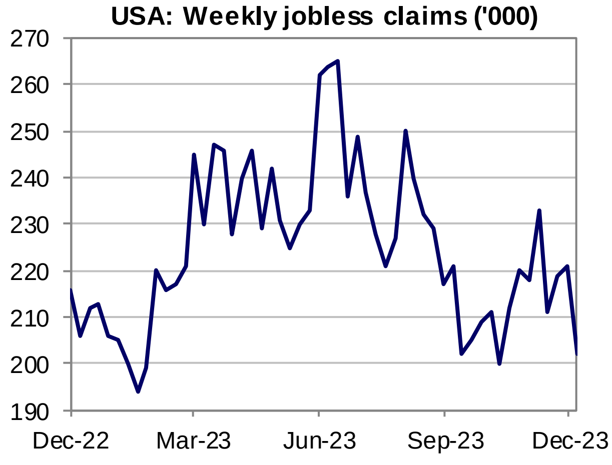


Source: S&P Global

USA: Slowing, though no recession for now

After an enormously strong third quarter, which was associated with a marked decline in initial claims for unemployment benefits, economic growth in the US is likely to slow to a normal level from the final quarter of 2023 onwards. Recessionary tendencies remain unlikely for the time being, with initial jobless claims not showing the very sharp rise that would be expected in a recession.

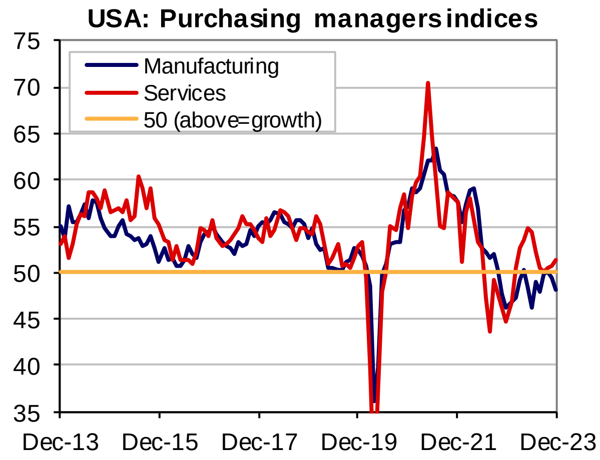
The purchasing managers indices keep pointing to a subdued economy. The working population is currently growing somewhat faster than usual, which helps moderating wage pressure on the labour market.



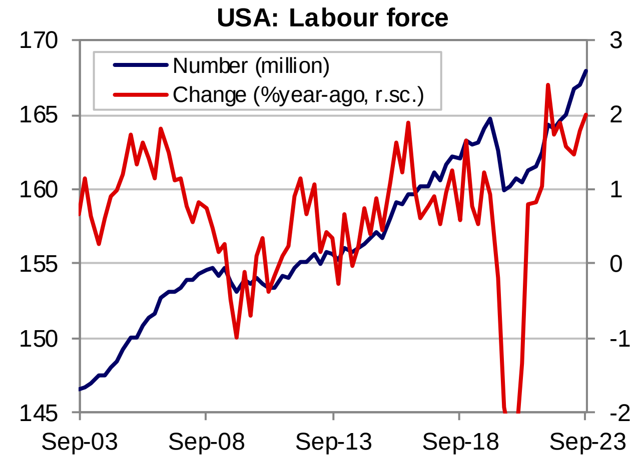
Source: Bureau of Labor Statistics

USA	4Q-2022	1Q-2023	2Q-2023	3Q-2023	Avg.
Pers. consump.	0.3	0.9	0.2	0.9	0.6
Gov. spending	1.3	1.2	0.8	1.3	1.2
Priv. investm.	-1.4	0.8	1.3	0.6	0.3
Domestic dem.	**0.2**	**0.9**	**0.5**	**0.9**	**0.6**
Exports	-0.9	1.7	-2.4	1.5	0.0
Imports	-1.1	0.3	-2.0	1.3	-0.4
GDP	**0.6**	**0.6**	**0.5**	**1.3**	**0.7**
Net exports	0.1	0.1	0.0	0.0	0.1
Inventories	0.4	-0.6	-0.1	0.3	0.0

Note: Change in gross domestic product from previous quarter, NOT annualized, in %. Inventories: Contribution to growth. Source: Bureau of Economic Analysis



Source: S&P Global



Source: Bureau of Labor Statistics

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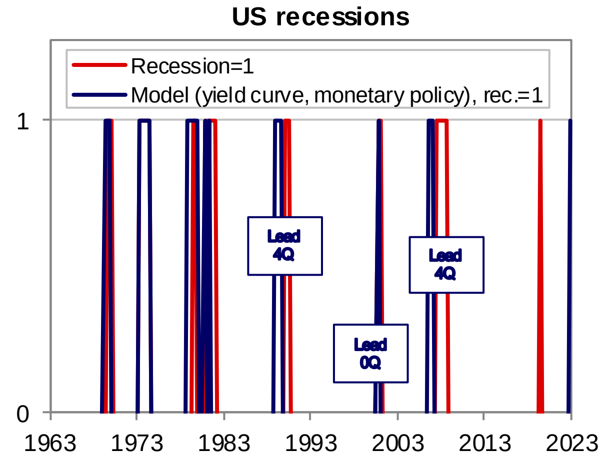
Recession indicators

The charts show US recession indicators (comparable models for Europe are not meaningful).

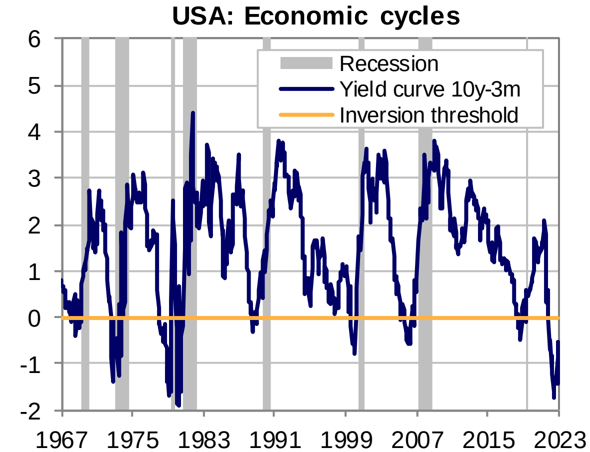
The "US recessions" model is based on the yield curve and the key interest rate (each with a lag of several quarters) and (with the exception of the 2020 lockdown recession) has indicated all recessions since the 1960s (often too early, e.g. the 2008 recession by 4 quarters). The model was in recession mode for the first time in the current cycle at the end of the third quarter 2023.

In the past, the yield curve (10-year yield vs. 3-month yield) inverted before every recession, resulting in a time window for a recession from May 2023 to May 2024 in the current cycle.

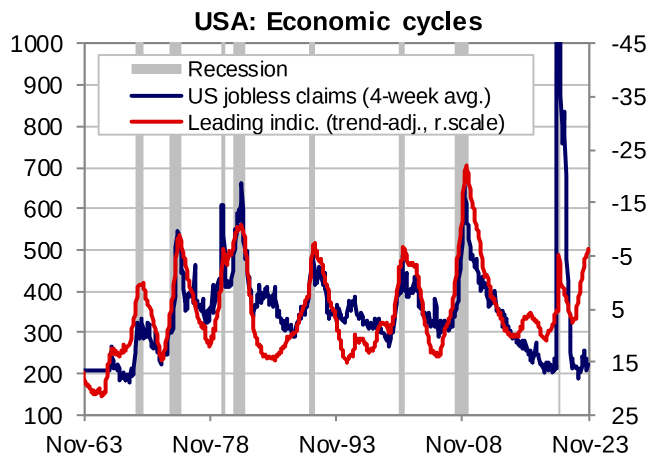
The leading indicators have long been in recession mode, but the economy as a whole is not (see jobless claims).



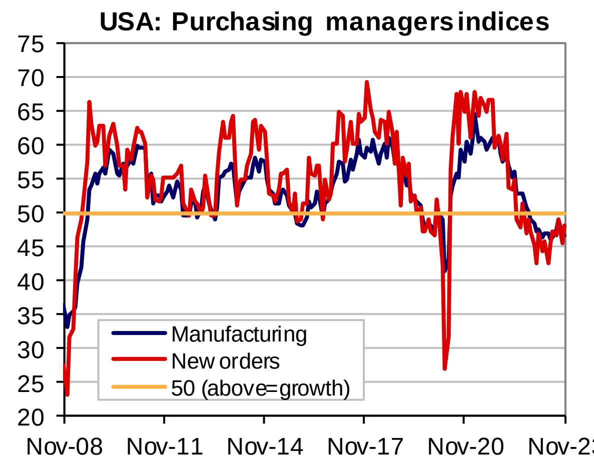
Source: Fed, Bloomberg, own calculations



Source: Bloomberg, own calculations



Source: BLS, Conf. Board



Source: ISM

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Rate hikes and the economy

The table shows episodes of rising key interest rates in the USA. The columns show the change in the fed funds rate and indicators of the economy (inflation and GDP growth) during and after periods of interest rate hikes. In the past, the last interest rate step usually took place when the first signs of a slower pace of the economy were already visible:

- On average, it took three quarters (without the first two episodes in 1972 and 1976 it would have been five quarters) after the last interest rate hike before a recession started. The recessions were generally quite pronounced, except for the one in 2001.
- Soft landings: After monetary policy normalisation in 1983 and 1994.

Episodes of Fed tightening: Economy

Episode		Fed funds rate (%)				Core inflation (%)			GDP growth (%)*			
Start (first rate hike)	**End** (last rate hike)	Start	End	Cum. chg.	Per quart.	Start -12m	Start	End	Start	End	Min. end +10q	Recess. start (quarters)
Mar-1972	May-1974	3.5	13.0	9.5	1.1	5.0	3.7	7.1	4.3	-1.2	-3.2	-2
Dec-1976	Mar-1980	4.8	11.5	6.8	0.5	6.8	5.9	8.9	2.6	-3.4	-5.2	-1
Mar-1983	Aug-1984	8.5	11.0	2.5	0.4	7.0	5.6	4.0	2.8	5.5	2.6	-
Mar-1988	May-1989	6.5	9.8	3.3	0.7	2.8	4.0	4.4	4.6	3.6	-2.8	5
Feb-1994	Feb-1995	3.0	6.0	3.0	0.8	2.8	2.2	2.3	4.8	3.1	1.3	-
Jun-1999	May-2000	4.8	6.5	1.8	0.5	1.0	1.4	1.7	3.6	4.5	-0.3	3
Jun-2004	Jun-2006	1.0	5.3	4.3	0.5	1.5	2.1	2.5	0.0	0.8	-6.5	6
Dec-2015	Dec-2018	0.1	2.4	2.3	0.2	1.4	1.2	2.0	1.2	1.6	-16.7	5
Average		4.0	8.2	4.2	0.6	3.5	3.3	4.1	3.0	1.8	-3.8	3
Mar-2022	Current	0.1	5.4	5.3	0.8	2.3	5.5	-	2.5	-	-	-

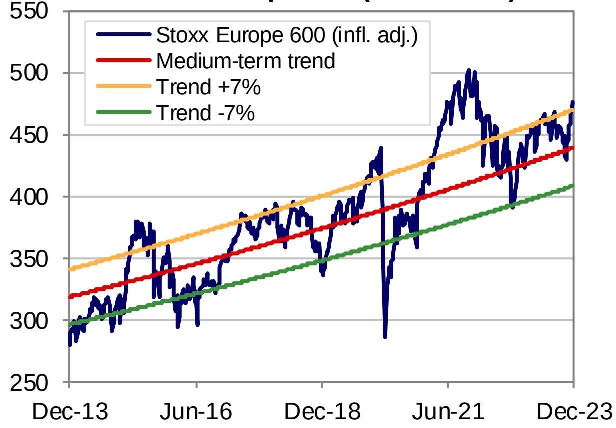
Note: The last row shows the current episode (first hike in March 2022, with 'End' denoting the latest available data point). Inflation = core consumption deflator (PCE). *= quarterly growth, annualized (2-quarter average). 'Minimum end +8q' = lowest growth in period 8 quarters after the last rate hike. 'Recession start (q.)' = how many quarters the recession started after the last rate hike. Source: Federal Reserve, national statistics, own calculations

Trends, volatility and extremes

The broad market indices Stoxx Europe 600 and S&P 500 are within their medium-term trend channels. Equity market volatility (VIX, VDAX) is at low, unsuspicious levels.

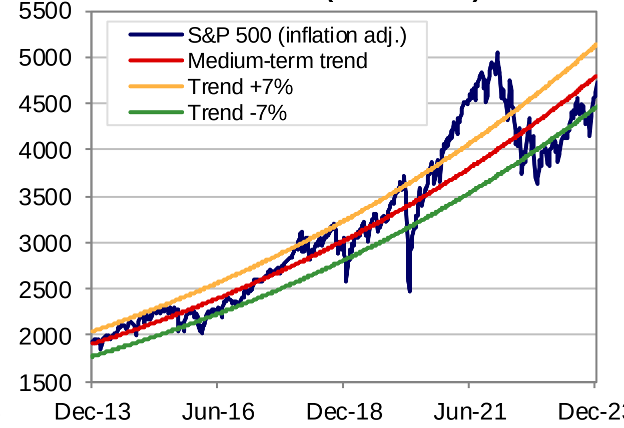
Noteworthy was the exceptional performance of many US technology mega caps and thus the MSCI Technology Index, whose valuation difference to the MSCI World is close to the level ahead of the correction in late 2021.

Stoxx Europe 600 (total return)



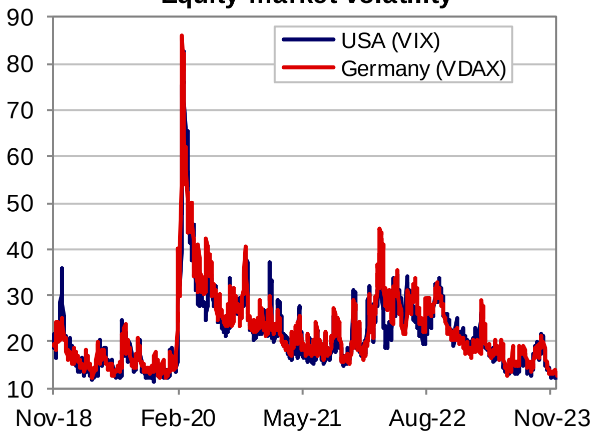
Source: Stoxx, Eurostat, own calc.

S&P 500 (total return)



Source: S&P, BEA, own calc.

Equity market volatility

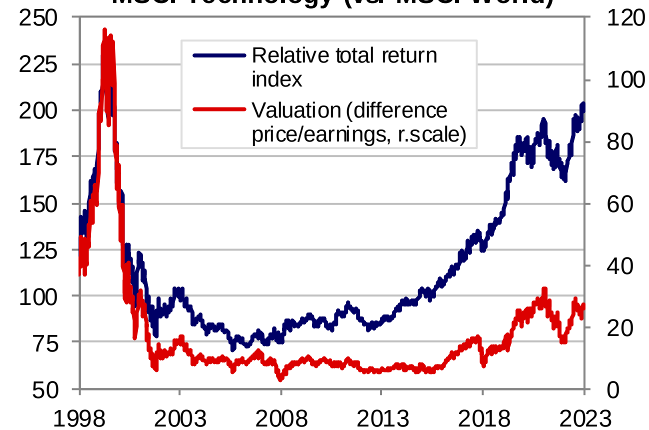


Source: Index provider

Large caps vs. market

Source: S&P, MSCI

MSCI Technology (vs. MSCI World)



Source: MSCI, own calculations

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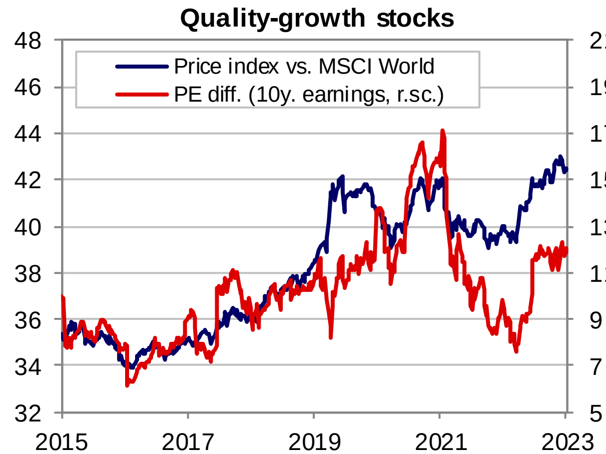
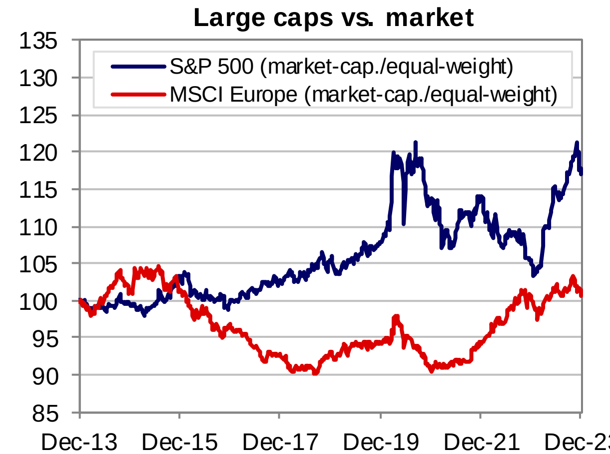
Equity market segments

Growth stocks perform well when growth is scarce (i.e. when the economy is weak), but also when interest rates are falling. Fundamentally, growth is currently supported, but the valuation is high. The outlook for quality growth is easier to justify in terms of valuation.

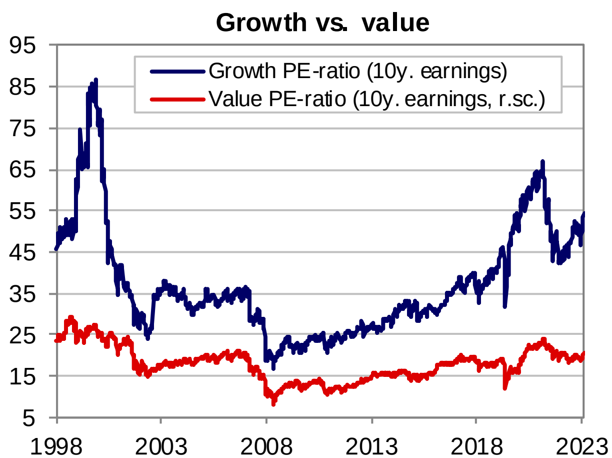
In the US, the mega-caps have probably gone too far compared to the overall market.



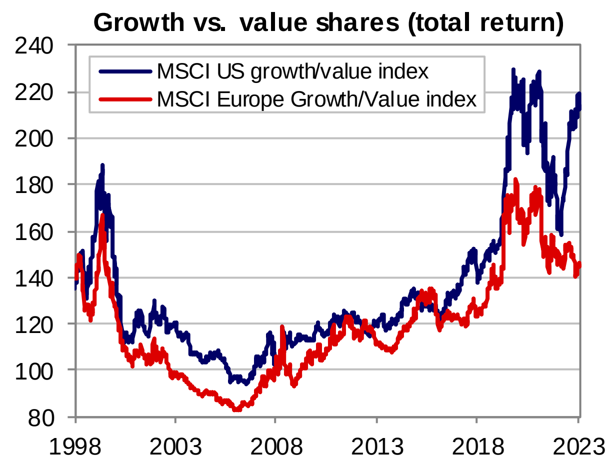
Source: MSCI



Source: S&P, MSCI



Source: MSCI



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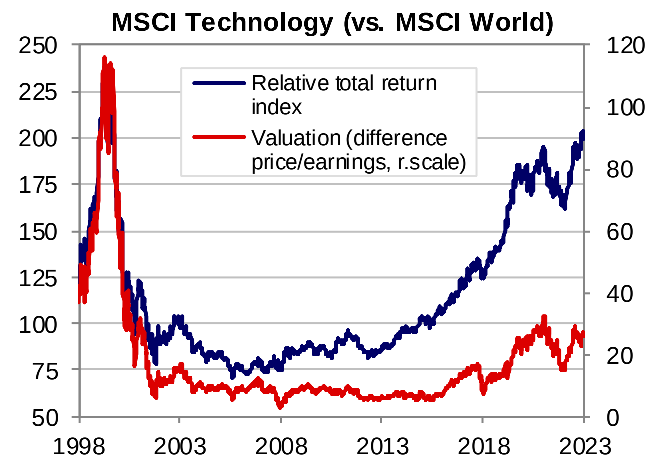

Source: MSCI, own calculations

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