Global Investment Strategy

Fourth Quarter 2024

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Overview

World economy and capital markets

- The world economy is experiencing slow but positive growth overall. In recent months, the industrial sector – an important indicator for the capital markets – has weakened, also in the US. The overall macroeconomic data continue to be slightly better in the US than in Europe. China's economy grows at the lower end of expectations, though policy support likely will prevent more of a slowdown.

- With central banks continuing to cut key rates, interest rate-sensitive areas of western economies will start to benefit.

- Although the decline in inflation towards the central banks' targets in Europe and the US is not complete, it is on track overall.

- The environment for bond investments remains slightly positive, given looser monetary policy.

- For the equity markets, the news flow has been mixed, with some uncertainties regarding the US industrial economy offset by lower central-bank interest rates. Politically, the US elections take centre stage, although their influence on the capital markets should not be overestimated.

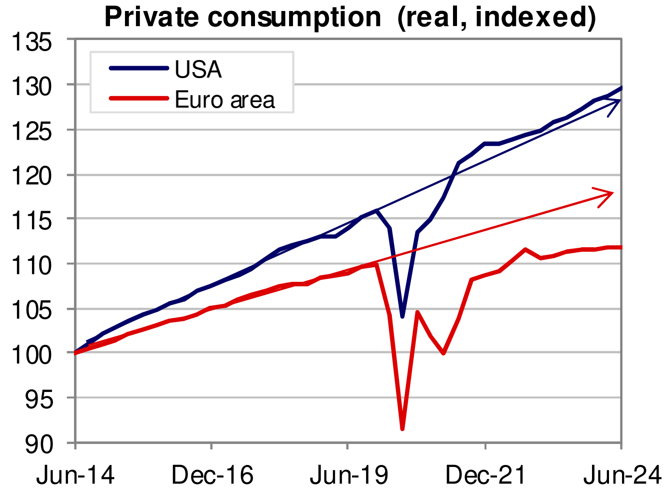
Agenda

Europe and US compared

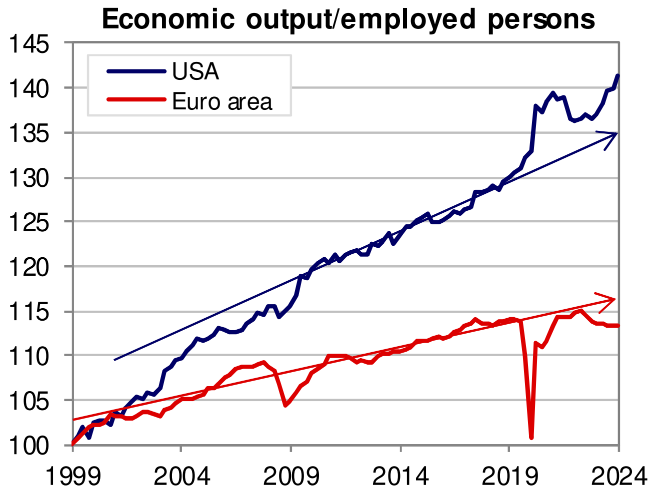
In recent years, the US economy has developed significantly better than the European economy in key aspects.

Private consumption has increased significantly more in the US than Europe. When looking at the trend in consumption, it is worth noting that the US has seen enormous immigration in recent years, adding to spending figures. Industrial output in the US has been stable in recent years, with production in the euro area currently trending lower.

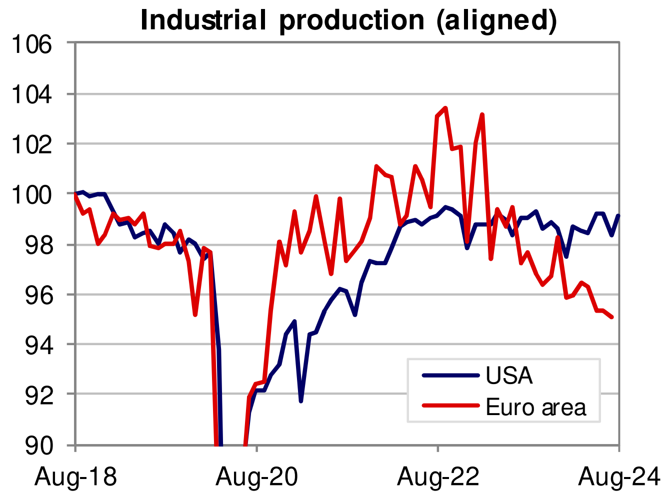
Labour productivity (approximated by economic output per employee) has been on a much steeper growth trajectory in the US than the euro area, especially also during and after the pandemic.



Source: Bureau of Economic Analysis, Eurostat



Source: Bureau of Labor Statistics, Eurostat



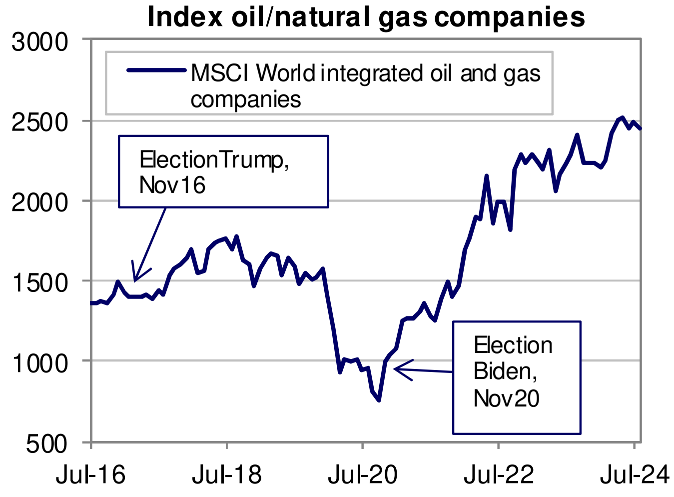
Source: National statistics

Sector performance: US politics not the key driver

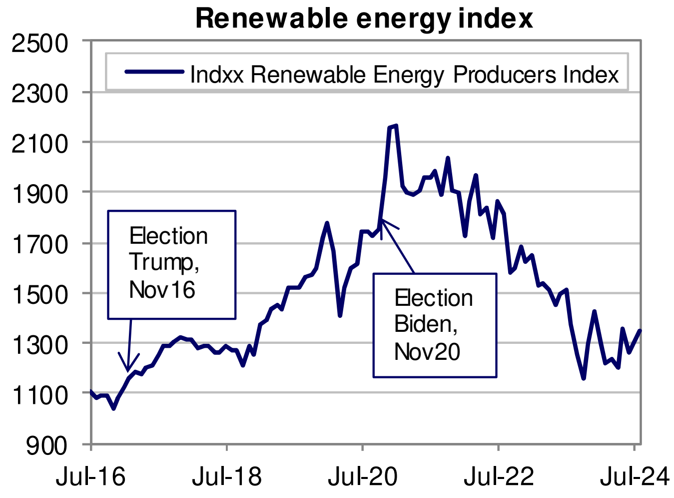
Under Donald Trump, who was elected president in November 2016, the fossil fuel industry experienced an improvement in its competitive position thanks to political support and deregulation. Although the broad “MSCI World Integrated Oil and Gas Index” rose slightly in the aftermath of the Trump victory, the overall increase was more pronounced during Joe Biden's term in office.

Renewable energies, as measured by the “Index Renewable Energy Producers” Index, achieved significant price gains during Donald Trump's presidency, despite a lack of political support. After a brief rise immediately after the election of Joe Biden – a clear supporter of renewables – the index delivered a negative performance in an overall positive market environment for a number of years.

We conclude that a focus on US politics for a global equity sector outlook rarely delivers results that are easy to implement and decisive for performance.



Source: MSCI



Source: Soloactive

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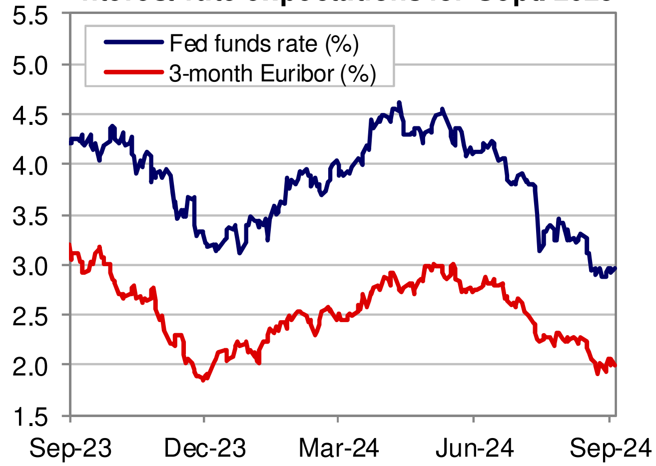
Chapter 3: Central bank policy – Markets expect series of rate cuts

As expected, the leading central banks lowered their key interest rates in September. Further interest rate cuts will follow according to the US Federal Reserve's interest rate forecast, while the ECB is less specific in this regard and will be guided by incoming economic data.

According to market expectations derived from interest rate contracts, key interest rates will fall significantly in the coming twelve months to roughly neutral interest-rate levels (the US Federal Reserve sees the neutral interest rate at 2.75%, with the ECB's neutral rate likely around 2%).

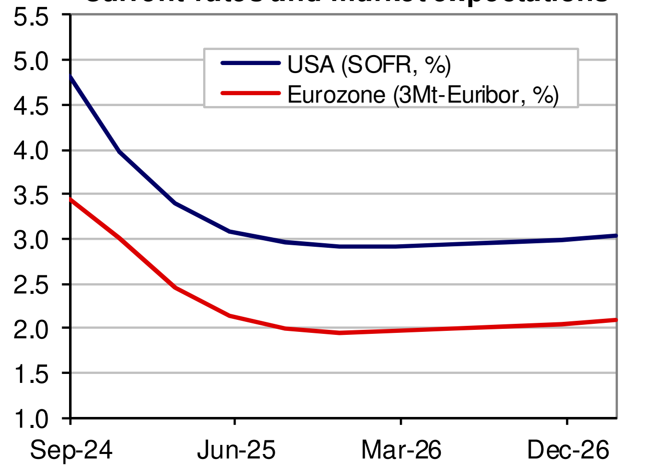


Source: Chicago Board of Trade, Intercontinental Exchange

Central bank policy rates

	Central bank rate			Rate in 12 months		Market price
	Current	Last change		Rate	Direction	Sep. 2025
European Central Bank	3.50	12.09.2024	-0.25	2.50	Easing	2.01
Bank of England	5.00	01.08.2024	-0.25	4.00	Easing	3.45
Swiss National Bank	1.25	20.06.2024	-0.25	0.75	Easing	0.56
Federal Reserve	4.88	18.09.2024	-0.50	3.38	Easing	2.96
Bank of Canada	4.25	04.09.2024	-0.25	3.00	Easing	2.55
Reserve Bank of Australia	4.35	07.11.2023	0.25	3.85	Easing	3.42
Central Bank of Brazil	10.75	18.09.2024	0.25	10.75	Stable	-
Bank of Japan	0.25	31.07.2024	0.15	0.50	Hike	-
People's Bank of China	2.30	25.07.2024	-0.20	2.20	Easing	-
Central Bank of India	6.50	08.02.2023	0.25	6.50	Stable	-

*Data as per 23-Sep-24. Last column: Forw ard rate. Source: Central banks (s. the table), ICE Futures Europe Financials, Chicago Mercantile Exchange, Montreal Exchange, ASX Trade24, ow n forecast



Source: Chicago Board of Trade, Intercontinental Exchange

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Rates cycle and equities

The table shows the stock market development (price change) and the growth of corporate profits before, during and after rate hike episodes in the US. On average, equity returns during these phases are below average but slightly positive. The negative stock market performance in the current rate hike phase is unusual but in line with the weak performance in the inflation-hit of the 1970s.

Interesting is the period "end +12 months", which shows a strong relief rally after the last rate hike. This liquidity rally has also taken place in the most recent rate hike episode (March 2022 to July 2023).

Fed rate hikes: Equities

Episode		**Earnings growth** (year-on-year)				**Price change (S&P 500)**			
Start (first rate hike)	**End** (last rate hike)	Start +12m	End/ start p.a.	End +12m	End+12 to 18m	Start +12m	End/ start p.a.	End +12m	End+12 to 18m
Mar-1972	May-1974	10%	21%	18%	-15%	6%	-6%	-1%	1%
Dec-1976	Mar-1980	14%	16%	5%	-3%	-8%	0%	32%	-10%
Mar-1983	Aug-1984	3%	7%	7%	-8%	4%	5%	14%	20%
Mar-1988	May-1989	43%	42%	-20%	7%	14%	21%	13%	-11%
Feb-1994	Feb-1995	39%	39%	33%	4%	0%	1%	35%	3%
Jun-1999	May-2000	15%	17%	-3%	-15%	11%	5%	-9%	-10%
Jun-2004	Jun-2006	15%	17%	14%	3%	5%	6%	23%	-10%
Dec-2015	Dec-2018	0%	11%	2%	-2%	12%	8%	30%	-3%
Average		17%	21%	7%	-4%	5%	5%	17%	-3%
Mar-2022	Jul-2023	5%	7%	-	-	-7%	5%	19%	5%

Note: The last row shows the current episode (first rate hike in March 2022). Source: Federal Reserve, Standard & Poor's, own calculations

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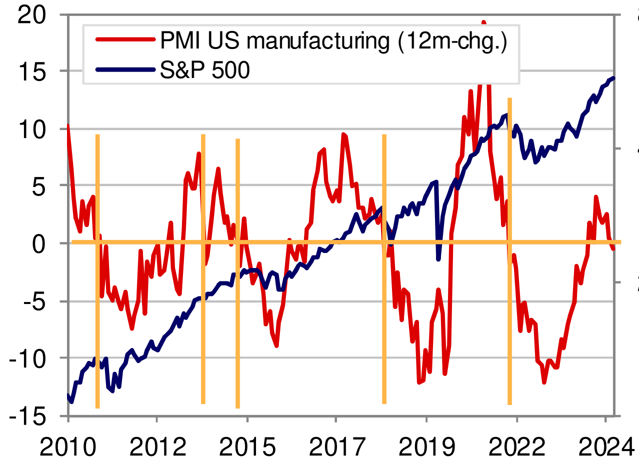
Tactical stock market indicators

Stock market rallies are more likely when market sentiment is gloomy, while the correlation between good market sentiment and corrections is not very strong.

Low volatilities are an indication of low uncertainties, which usually indicates a better performance in the months ahead than when volatilities are high.

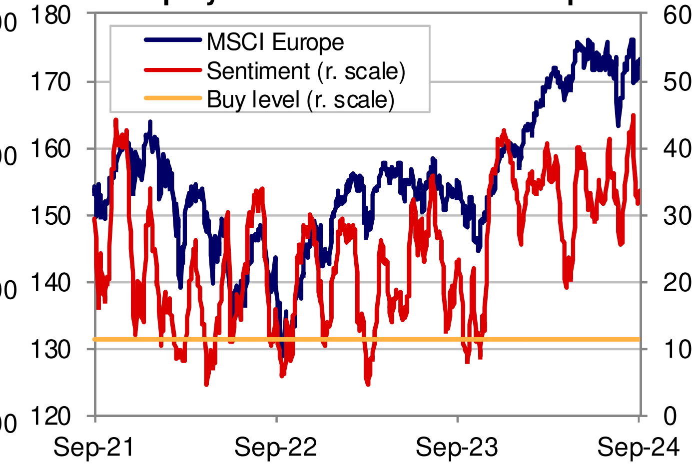
The US manufacturing PMI provides indications of possible corrections and bear markets. If the 12-month change drops from positive values to zero, a negative market outcome is more likely than in other constellations.

S&P 500 and PMI momentum



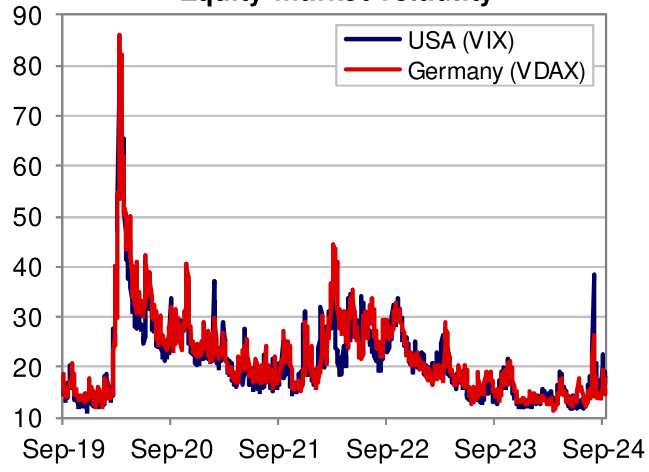
Source: ISM, S&P Global, own calculations

Equity sentiment indicator Europe



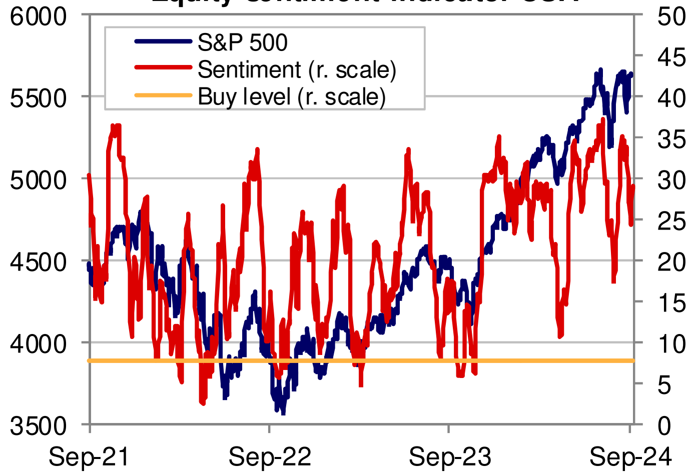
Source: MSCI, Citi, Moody's, Deutsche Boerse, AAII, BB, own calc.

Equity market volatility



Source: Deutsche Boerse, Chicago Board Options Exchange

Equity sentiment indicator USA



Source: Standard & Poor's, own calculations

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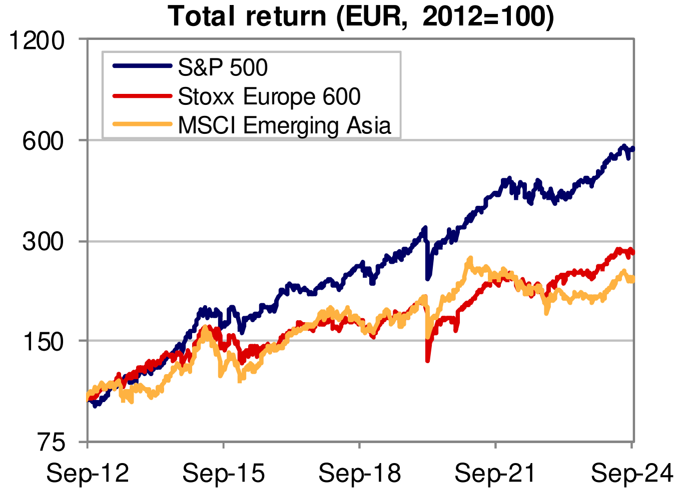
Regional trends: Technology weighting is key

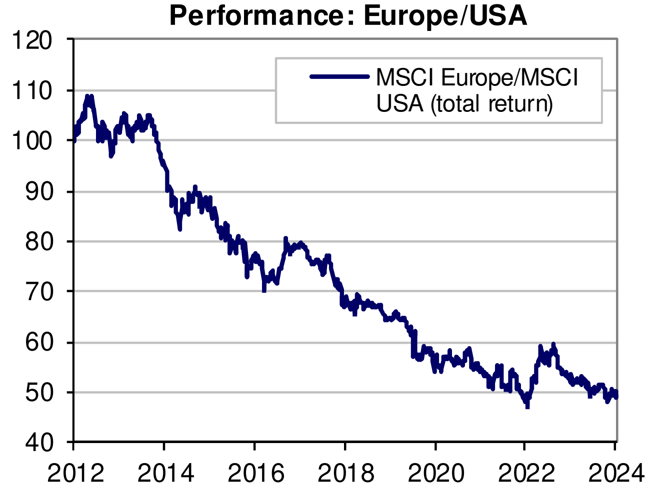
The US stock market (S&P 500) outperforms Europe and the Asian emerging markets in terms of corporate earnings and returns over the long term. The US market is more defensive than Europe (e.g. a lower weighting of financial companies). When technology stocks and technology-related sectors outperform, the US market has a clear advantage (weighting of around 40%, compared to less than 10% in Europe).

The conditions for outperformance in Europe, where value stocks are over-represented, include a good global economy, high bond yields (positive for financials) and rising commodity prices.

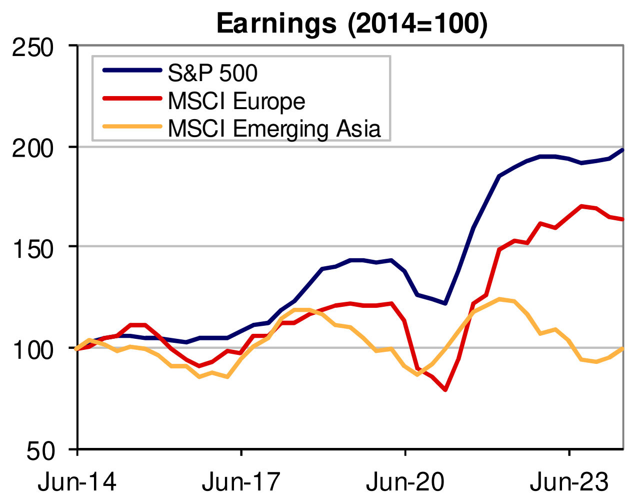
Based on free cash flows, Europe has been valued more favourably than the US since 2022. However, a favourable valuation alone is unlikely to be enough for outperformance.



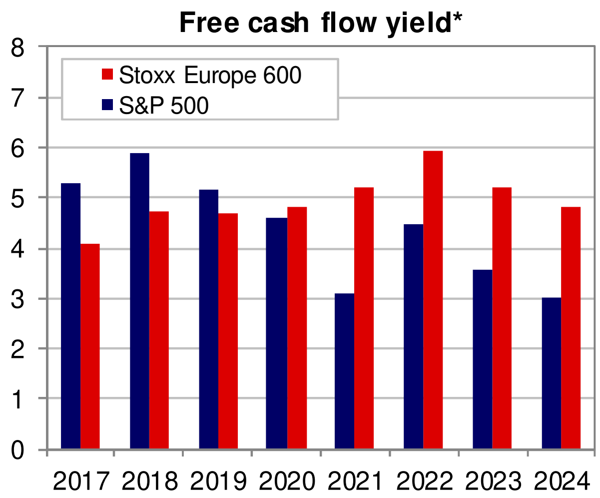
Source: S&P Global, STOXX, MSCI



Source: MSCI



Source: S&P Global, MSCI



*Key sectors. Source: Own calculations

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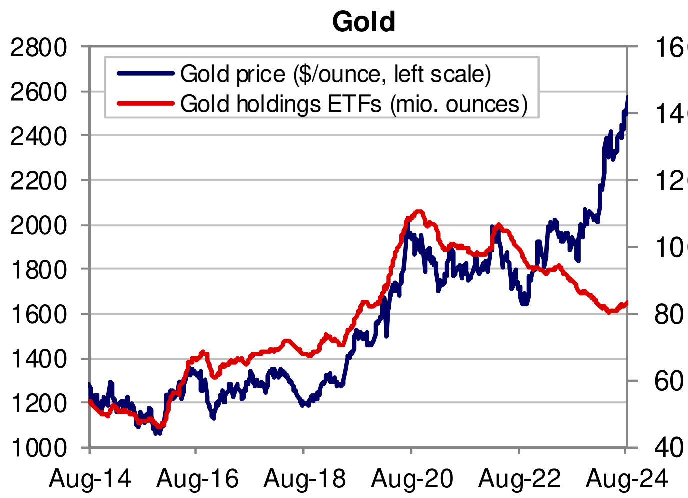
Gold

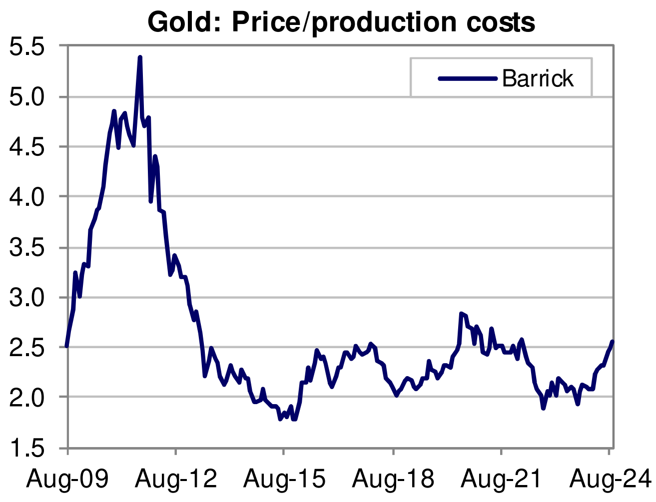
In recent months, gold has mainly benefited from purchases by central banks, especially the Chinese central bank. Financial investors, on the other hand, have not been a driving force (see ETF gold holdings). A weaker US dollar and falling interest rates have recently also contributed to the positive trend in gold.

In relation to cash production costs and full costs, the gold price has moved towards the upper end of established valuation ranges, though the valuation is not excessive (such as during the Eurozone debt crisis in 2010). Rising costs in recent years justify some increase in the price of gold.

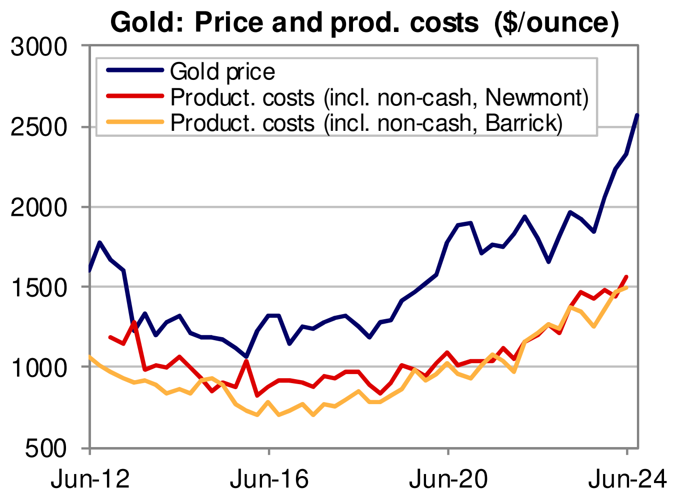
Long-term investors may consider a gold allocation for diversification purposes.



Source: Bloomberg



Source: Companies, Bloomberg BGN, own calculations



Source: Companies, index provider

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