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Quarterly Pulse – September 30th 2024

Economic Outlook

Central banks are shifting toward more accommodative policies, but the global economic outlook remains fragile, particularly in Europe and regions outside the U.S., where growth risks are more pronounced. U.S. equities face challenges from macroeconomic and policy uncertainties, while Europe struggles with a slow recovery.

Sentiment has cooled from highly bullish levels, but with a gradual moderation in economic growth and monetary easing, risk appetite is expected to recover to moderate levels. Policy rates appear to have peaked, and while central banks are easing, aggressive rate cuts are unlikely unless severe growth slumps or financial crises arise.

The current market regime is cautiously optimistic, with an expansionary stance prevailing in the absence of systemic or geopolitical risks. Tighter liquidity has been well-managed, and corporate earnings remain resilient despite a general slowdown in the broader economy.

Tactical Asset Allocation

Liquidity	Neutral
Rates	Overweight
Credit	Neutral
Equities	Neutral
Alternative Investments	Neutral

Macroeconomics

The Federal Reserve's decision to initiate its rate normalization cycle with a larger-than-expected 50 basis point cut marks a cautious shift in policy. While framed as a pre-emptive move rather than a response to immediate economic weakness, the aggressive front-loading of rate cuts raises concerns about underlying vulnerabilities. We expect another 50-basis point cut in November, followed by a series of smaller reductions, ultimately bringing the federal funds target range to 3.25%–3.50% by mid-2025, aligning with our estimate of a neutral policy rate.

Despite the Fed's reassurances that these actions are not a reaction to a deteriorating economy, updated projections paint a more subdued picture. GDP growth forecasts have been revised down to 2%, the unemployment rate is expected to rise to 4.4%, and inflation is projected to stabilize at 2% over the medium term. While the U.S. economy remains relatively robust with current nowcasts suggesting 3% growth this quarter, the extended period of restrictive monetary policy has had a discernible impact on broader economic activity.

The equity market's bullish positioning, led by U.S. outperformance—particularly in the tech sector—faces growing risks as policy uncertainty increases. While strong inflows into U.S. equities, especially technology, persist, the market's skew has widened, with more downside risk being priced in. With U.S. elections approaching and potential corporate tax reforms on the horizon, equity markets may encounter headwinds, particularly as scrutiny over AI-related capital expenditure increases.

Outside the U.S., the outlook is more precarious. European equities remain under pressure due to higher interest rates, manufacturing slowdowns, and structural challenges. Non-U.S. equity allocations have also seen declines, particularly in China. The European Central Bank has been slow to react to weakening data, including declining PMIs and falling employment in Germany. Though inflation has moderated, the ECB's focus on price stability limits its flexibility, constraining growth prospects.

Eurozone growth is expected to stay weak, with 0.2% expansion anticipated in the third and fourth quarters, falling below potential. The industrial sector's struggles are compounded by China's slowdown. While consumer balance sheets remain strong, lower inflation may only provide a temporary boost to spending, and risks in Europe are heightened by political and fiscal constraints in key economies like Germany, the U.K., France, and Italy.

The Swiss National Bank has also acted early, reducing its policy rate by 75 basis points since March 2024. With inflation within target and growth slowing, the SNB's policy rate has reached a neutral level at 1%. However, further cuts are possible if economic prospects worsen, or the Swiss franc strengthens significantly.

US Election Input:

With just over six weeks until Election Day, the US presidential race is highly competitive, with polling margins in key swing states within the statistical margin of error. Prediction markets show mixed odds, with Polymarket giving a slight edge to Harris at 51% versus 47% for Trump. However, these markets are volatile and subject to rapid shifts.

In Congress, the races appear less balanced, with an 85% chance of Republicans taking the Senate and a 65% chance of Democrats controlling the House. A divided Congress could

limit the legislative power of the future president, shifting market focus back to corporate earnings, economic growth, and Federal Reserve policies.

Investors are closely watching the election's potential impact on key policy areas such as trade and taxation.

In summary, while recent actions by central banks signal a shift toward more accommodative policies, the global economic outlook remains precarious, with significant risks to growth, especially outside the US. The optimism surrounding US equities may soon be tested by a range of macroeconomic and policy challenges, while Europe and other regions face a more uncertain and sluggish recovery.

Fixed Income

The third quarter saw a significant rally in U.S. Treasuries, which brought interest rates to lower levels as the market digested a series of economic signals. However, this rally has now paused, with the market consolidating as it awaits new data to provide fresh direction. The 10-year yield reached 3.60%, marking the lowest level of the year, and the yield curve experienced bull steepening, with the 2-year yield falling below the 10-year. Following the Federal Reserve's initial 50-basis point rate cut, which marked the beginning of an easing cycle, the upward momentum in Treasuries halted temporarily.

Looking ahead, the move from 4.40% to 3.60% in 10-year yields suggests that the bulk of the rally has occurred. While current yields around 3.80% offer some potential for further declines, we recommend shifting from a positive to a neutral outlook as we approach a potential target of 3.40%. While this provides a small margin for gains, the broader focus should now shift to the Federal Reserve’s future actions and the trajectory of the easing cycle. The critical questions for fixed income investors revolve around how many rate cuts we can expect, the duration of this cycle, and how these cuts will shape long-term yields.

Unlike past easing cycles that were characterized by emergency rate cuts due to systemic financial risks, the current cycle appears more measured. Private balance sheets remain relatively strong, and there are no immediate signs of economic vulnerabilities. This environment bears resemblance to the soft-landing scenario witnessed in 1995, where the Federal Reserve successfully lowered rates without triggering a dramatic decline in long-term yields. As such, we advise maintaining a neutral duration stance, as short-term positions may lose appeal as the easing cycle progresses. We do not see an immediate need to extend duration significantly at this stage.

In the credit space, we continue to favour Investment Grade bonds, particularly given the tight spreads observed in High Yield and Emerging Market debt. While the current risk-on sentiment has supported these markets, they remain vulnerable to underperformance once economic conditions shift. High Yield and Emerging Markets are typically the first to suffer in a risk-off environment. Nonetheless, we do not believe this moment has arrived yet, and thus we continue to hold positions in these sectors as part of a conservative fixed-income strategy. Emerging Market hard-currency debt remains attractive, especially as monetary policy in developed markets becomes more accommodative.

Equities

Global equities have been on a strong upward trajectory, with major indices nearing all-time highs despite an uptick in volatility. This volatility has been driven by a mix of uncertainties, including concerns over global economic growth, the upcoming U.S. elections, and shifting central bank policies. Over the past quarter, defensive sectors such as utilities and consumer staples have led the gains, while cyclicals have lagged behind. The second-quarter earnings season was constructive, and analysts anticipate further recovery in earnings, with technology continuing to play a central role in driving growth across various sectors.

Equity Indicators

Valuation	Neutral
Momentum	Positive
Seasonality	Positive
Macro-Economics	Neutral

As inflation moderates and global economic growth slows in a controlled manner, central banks have more room to reduce rates further. This should, in turn, support both corporate earnings and equity valuations as we head towards the end of the year. However, the outlook for equities remains mixed, as indicated by various market metrics. Valuations are currently neutral, momentum is positive, and seasonality remains favourable. Meanwhile, macroeconomic indicators are less definitive, suggesting that caution is warranted, especially given the evolving economic landscape.

The U.S. equity market, in particular, has rebounded sharply in recent months, buoyed by strong consumer spending and resilient corporate earnings, even as labour market data has shown signs of cooling. Non-farm payrolls have missed expectations in both July and August, signalling a moderate slowdown in employment growth. Despite this, consumer spending has helped offset concerns about an economic

slowdown, while investors have taken a more cautious stance by favouring defensive sectors over technology and cyclicals.

Looking forward, the Federal Reserve is expected to cut interest rates by up to 100 basis points by year-end, which could provide further tailwinds for equities by easing financial conditions and stimulating demand in key sectors such as housing and automotive. Corporate profit forecasts remain robust, and there is continued enthusiasm around AI-driven investments, which have provided significant support to tech-heavy sectors. However, political uncertainty surrounding the U.S. elections adds an element of caution to the outlook. Kamala Harris's nomination as the Democratic candidate introduces the possibility of a close or uncertain election result, which could heighten volatility in the near term.

With this backdrop in mind, we have decided to reduce our equity exposure to neutral after maintaining an overweight position since January 2023. This allows us to lock in gains while remaining positioned for any further market rallies, particularly as the Federal Reserve's rate cuts come into play and the U.S. political landscape evolves.

Alternative Investments

Gold continues to offer a strong investment case, with prices expected to rally over the next 6 to 12 months. This forecast is underpinned by strong central bank and investor demand, a weaker U.S. dollar, and an ongoing global trend of lower interest rates. Our projections suggest that gold could reach USD 3,000 per ounce by mid-2025, reaffirming its role as a key defensive asset within diversified portfolios. Gold remains an attractive hedge against both inflation and economic uncertainty, particularly as global monetary policies continue to shift toward accommodation.

The outlook for commodities appears more cautious, with potential headwinds on the horizon. While there may be some gains, short-term fluctuations in demand, particularly from China, coupled with global economic uncertainties, could limit upside potential. Oil prices may face pressure from weakening demand and broader economic slowdowns, despite ongoing supply constraints. Over the longer term, factors such as disciplined supply and lower U.S. interest rates might offer some support, but risks remain elevated due to persistent global economic vulnerabilities and potential market volatility.

Bitcoin also presents an intriguing opportunity within the realm of alternative investments. With its supply growth constrained by design, Bitcoin's future trajectory could mirror that of gold as a store of value. Recent regulatory developments, such as the approval of exchange-traded funds (ETFs) focused on digital assets, have strengthened Bitcoin's legitimacy as an asset class. Both U.S. presidential candidates, Kamala Harris and Donald Trump, have expressed support for cryptocurrencies, suggesting a favorable regulatory environment for the sector regardless of the election outcome. As a result, Bitcoin may increasingly be considered by investors seeking long-term exposure to assets with a fixed supply dynamic.

Foreign Exchange

The U.S. dollar (DXY dollar index) has experienced a decline of approximately 5% since its peak in late June, as its interest rate advantage over other currencies has begun to erode. With the Federal Reserve expected to cut rates further in the coming year, the greenback is likely to face continued depreciation. Moreover, fiscal concerns, particularly regarding the U.S. deficit, may weigh on the dollar post-election. For investors with significant U.S. dollar exposure, it may be prudent to consider hedging strategies to mitigate the impact of further dollar weakness.

In contrast, currencies such as the Swiss franc, Euro, British pound, and Australian dollar are positioned to perform better. The Swiss National Bank is approaching the end of its rate-cutting cycle, with one more cut expected, while the euro stands to benefit from the dollar's weakness due to its status as a highly liquid alternative. The British pound is likely to find support against the dollar, as the Bank of England is expected to adopt a less aggressive rate-cutting stance than the Federal Reserve. Meanwhile, the Reserve Bank of Australia is not expected to lower rates until 2025, which should provide some stability for the Australian dollar in the medium term.

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Market Overview as of Monday, 30 September 2024, COB

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	5.06	0.00	0.25	0.74
USD 1y Swap	3.79	-0.46	-1.25	-0.99
USD 3y Swap	3.28	-0.23	-1.02	-0.49
USD 5y Swap	3.23	-0.14	-0.79	-0.31
USD 10y Swap	3.31	-0.09	-0.57	-0.15
EUR Overnight	3.46	-0.27	-0.25	-0.44
EUR 1y Swap	2.67	-0.38	-0.89	-0.79
EUR 3y Swap	2.21	-0.35	-0.87	-0.34
EUR 5y Swap	2.20	-0.31	-0.73	-0.23
EUR 10y Swap	2.32	-0.24	-0.57	-0.17
CDX Xover 5y	3.29%	0.00	-0.12%	-0.27%
iTraxx Xover 5y	3.10%	0.00	0.00%	0.00%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	-6.2%	-9.1%	-9.5%	-8.7%
USD Aggregate 1-3y	0.8%	3.0%	4.1%	4.4%
USD Aggregate 3-5y	1.1%	4.5%	5.3%	4.7%
USD Aggregate 5-7y	1.2%	5.6%	6.1%	4.8%
USD Aggregate 7-10y	1.4%	6.9%	6.9%	4.5%
EUR Overnight	0.3%	0.9%	2.0%	3.0%
EUR Aggregate 1-3y	0.8%	2.3%	2.8%	2.9%
EUR Aggregate 3-5y	1.2%	3.4%	3.2%	2.9%
EUR Aggregate 5-7y	1.4%	4.2%	3.3%	2.9%
EUR Aggregate 7-10y	1.5%	4.9%	3.1%	2.7%
US Corp. HY	1.6%	5.4%	6.7%	8.0%
EUR HY	0.7%	2.7%	4.0%	4.9%

Equity

	Price	P/E	D. Yield	FCF yield
MSCI World	11'750	20.92	1.8%	3.5%
S&P 500	5'762	24.24	1.3%	3.0%
NASDAQ	20'061	31.22	0.8%	2.6%
Euro Stoxx 50	5'000	14.39	3.2%	5.8%
SMI	12'182	18.80	3.0%	6.5%
FTSE 100	8'249	12.43	3.8%	7.0%
DAX	19'385	14.51	2.9%	6.9%
Japan	2'691	14.46	2.4%	4.6%
MSCI Asia Pacific	195	15.52	2.5%	4.1%
FTSE China A50	14'017	12.27	3.2%	5.3%
MSCI Emerging Market	1'171	14.05	2.6%	4.5%
PH Semiconductor	5'173	36.23	0.9%	1.8%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	1.8%	6.1%	9.6%	18.9%
S&P 500	2.0%	5.2%	9.9%	20.8%
NASDAQ	2.5%	1.3%	9.7%	19.2%
Euro Stoxx 50	0.8%	1.4%	-1.6%	10.6%
SMI	-2.0%	1.1%	3.9%	9.4%
FTSE 100	-1.5%	1.0%	3.7%	6.7%
DAX	2.5%	6.0%	4.8%	15.7%
Japan	-0.8%	-4.7%	-1.1%	13.7%
MSCI Asia Pacific	4.6%	8.0%	11.0%	15.1%
FTSE China A50	19.2%	15.7%	14.0%	21.8%
MSCI Emerging Market	6.4%	7.7%	12.4%	14.4%
PH Semiconductor	0.3%	-5.6%	4.3%	23.9%

Alternatives

	Price	FCST 24	FCST 25	Δ Future
Gold	2'641	2345	2563	0.2%
Bitcoin	63'987	n/a	n/a	n/a
Silver	31.66	27.86	31.00	0.7%
Platinum	997	970.50	1120.00	1.0%
Palladium	999	988.00	1055.00	2.3%
Crude Oil	67.69	78.00	75	0.8%
Brent Oil	71.08	82.00	78	-1.1%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	5.4%	12.9%	18.1%	27.4%
Bitcoin	9.0%	1.2%	-8.2%	52.3%
Silver	8.6%	5.4%	22.3%	26.6%
Platinum	6.0%	1.0%	9.4%	-0.5%
Palladium	3.7%	2.5%	-2.1%	-12.2%
Crude Oil	-6.8%	-15.9%	-13.9%	-4.2%
Brent Oil	-6.8%	-15.7%	-13.9%	-5.2%

Foreign Exchange

	Price	FCST 24	FCST 25	Δ Spot
EUR/USD	1.1117	1.11	1.13	1.6%
GBP/USD	1.3341	1.32	1.35	1.2%
USD/CHF	0.8474	0.86	0.88	3.8%
USD/JPY	144.15	142.00	135	-6.6%
EUR/CHF	0.9421	0.95	0.98	3.9%
GBP/EUR	0.83	0.84	0.84	0.8%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	0.5%	3.6%	3.5%	0.7%
GBP/USD	1.5%	5.5%	6.3%	4.8%
USD/CHF	0.5%	6.6%	6.8%	-0.7%
USD/JPY	1.9%	12.0%	5.2%	-2.2%
EUR/CHF	0.0%	2.9%	3.1%	-1.4%
GBP/EUR	1.0%	1.8%	2.7%	4.0%

Source: Clarus Capital Group, Bloomberg

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research@claruscapital.ch, www.claruscapital.ch