Market Commentary
3rd Quarter 2024

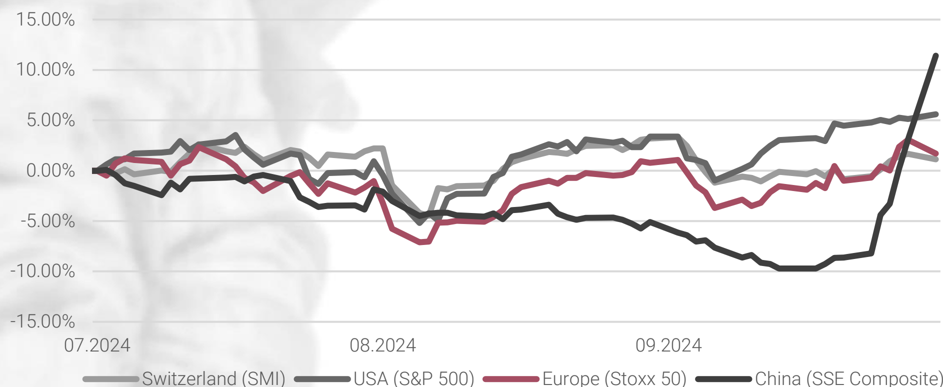
Business Activity and Global Economy

The third quarter of 2024 was a relatively volatile one in financial markets. The stock market losses at the beginning of August indicated that some investors no longer fully trusted the positive sentiment that had prevailed over the previous months. In particular, the momentum among technology companies slowed after they presented their quarterly earnings. Although most of these companies continued to post high profits and growth, their results fell somewhat short of market expectations and, in some cases, also analyst expectations.

At the same time, inflation in the eurozone and the USA fell noticeably, while slightly fewer new jobs were created, indicating a cooling of the economy. The mood among companies in the manufacturing sector also remained gloomy, as can be seen from the purchasing manager surveys, whereas business in the service sector was robust and even reached a multi-month high in the USA. In this difficult environment, the chair of the US Federal Reserve (Fed), Jerome Powell, expressed his optimism about upcoming interest rate cuts at the meeting in Jackson Hole, which caused bond yields to fall further. The US Fed then followed through on its announcements with a double rate cut in September, while the European Central Bank (ECB) decided to cut rates by a quarter of a percent. The Swiss National Bank (SNB) followed suit at the end of the month with an equal reduction of 0.25%.

Headlines in the third quarter were increasingly dominated by extreme political and economic events. Following the attempted assassination of US presidential candidate Donald Trump in July, European car stocks and American tech companies with production facilities outside the US lost ground as the markets deemed a second Trump presidency more likely. This trend was partially reversed with the nomination of Kamala Harris shortly afterwards. The tensions in the Middle East continue to weigh on the global markets, as a further escalation would put additional pressure on supply chains and could also cause the oil price to rise, which in turn would have consequences for inflation and therefore interest rate cuts. The failed update by cybersecurity company Cloudstrike contributed to the prevailing feeling of uncertainty and caused worldwide business disruptions in July.

Figure 1: Stock Indices in Local Currency in the 3rd Quarter



Key Takeaways

- With its interest rate cut of half a percentage point, the US Fed has now also ushered in the turnaround in interest rates in the USA
- The year 2024 continues to be an exceptionally good investment year with high gains on equities, bonds and in particular gold
- In autumn, investors' focus will shift to the speed of interest rate cuts and the overall robustness of the economy
- Investors will keep to be preoccupied with ongoing as well as upcoming geopolitical events such as the presidential elections in the USA

Source: Refinitiv, Datastream as of 30.09.2024

Monetary Policy

The first interest rate cut in the US after a long period of rate hikes was one of the most closely followed events in the third quarter. Interest rates were originally raised after the coronavirus pandemic as a result of high inflation and to combat price increases. While European and Swiss monetary authorities had already lowered interest rates, the Fed held off due to the high inflation and the very robust labor market in the US.

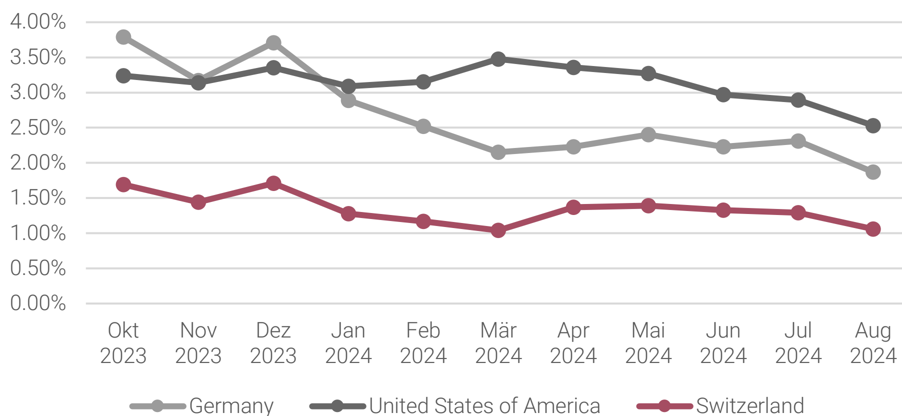
While inflation in the US remained high at the beginning of the first quarter, it fell noticeably in the following months and crossed below the three percent mark for the first time in July. This trend accelerated in August, when inflation came in below the expectations of many analysts at 2.5%. The decline has been supported by the fall in oil prices, which dropped noticeably over the course of the third quarter and reached new lows for the year. However, core inflation, which the Fed pays a lot of attention to, remains high and was still at 3.2% year-over-year in August. The housing sector in particular continued to drive up prices. However, interest rate cuts could even have an inflation-dampening effect there, because the lower interest rates are, the cheaper real estate developers and buyers can refinance themselves and the cheaper it is to build new housing, which could increase supply and hence dampen prices.

Inflation in the eurozone stood at 2.2% in August, which was a noticeable decline versus July. France and Germany even reported figures below 2% for August, while Italy has been within the target range of 0-2% for some time. This means that of the four largest economies in the eurozone, only Spain remained above the target range at 2.4%, although here too the decline compared to the previous month was significant. Accordingly, the ECB felt vindicated in its planned interest rate cut of 25 basis points.

In Switzerland, inflation was already below the level of 2% at the beginning of the quarter and continued to fall as the quarter progressed. The renewed strength of the Swiss franc had a dampening effect on prices, making imported products cheaper and thus reducing the overall price level. However, as in the USA, price increases for housing remained high. In addition, inflation on domestic products was still around 2% and thus higher than the overall inflation rate would suggest.

Elsewhere, the appreciation of the Japanese yen against the US dollar is likely to have caught some currency investors on the wrong foot. Such carry trade investors borrow money in currencies with low interest rates such as the Japanese yen and invest it in a currency with higher interest rates, such as the US dollar. However, if the currency in which those investors have borrowed money falls sharply in value, they record losses on their position. Many market observers cite this as one of the reasons for the price turbulence at the beginning of August. In the meantime, these transactions are likely to have become even less attractive, as the Japanese central bank raised interest rates again in July due to higher inflation before refraining from a further rate hike in September.

Figure 2: Inflation Rates Over Time (Annualized Rates)



Source: Refinitiv, Datastream as of 30.09.2024

Market Data

Equity Markets Perf.	2024*
SPI	11.47%
DAX	15.36%
Euro Stoxx 50	13.86%
S&P 500	22.08%
Nasdaq Composite	21.17%

Yield to Maturity of Government Bonds	in %
10Y Swiss Federal Bond	0.41%
10Y German Federal Bond	2.13%
10Y US Treasury	3.79%

Gold (oz.) Perf.	2024*
in CHF	27.81%
in EUR	26.22%
in USD	27.52%

Commodities Perf.	2024*
Oil Brent	-6.87%

*Year-to-Date (YTD) performance in local currency, as of 30.09.2024

Source: Refinitiv, Datastream

Financial and Capital Markets

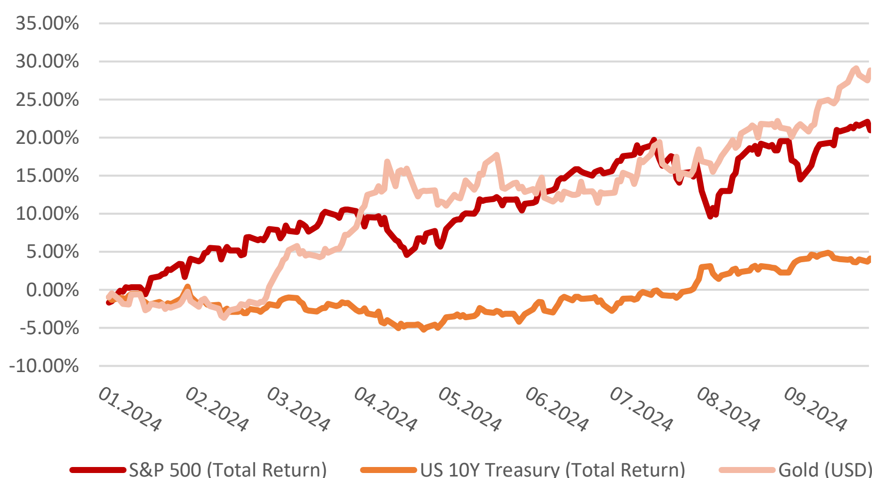
Looking back, it was anything but clear at the start of the second quarter whether the positive mood on the stock markets would prevail, as geopolitical crises weighed on market sentiment. Iran's direct attack on Israel led to uncertainties regarding the already restricted trade routes in the Persian Gulf and in the USA the military aid package for the beleaguered Ukraine was on the brink of collapse. In addition, the high inflation figures in April came as a negative surprise to investors. On the other hand, many companies were able to report good figures for the first quarter, which supported stock markets. From mid-May, inflation seemed to have been under control and investors speculated on significant interest rate cuts in the USA, which gave markets an additional boost.

This sentiment continued into July and poor economic data continued to be interpreted positively by market participants, as it should encourage central banks to cut interest rates. We had been skeptical of this view for some time, also because the majority of experts had already grossly misjudged the number of interest rate cuts in the first half of the year. At the end of July, this interpretation suddenly changed and a worse-than-expected purchasing managers' survey in the USA sparked the fear of a recession again. This resulted in rapid and sharp falls on global stock markets.

Particular attention was also paid to the half-year reports of technology companies, as these had exceeded analysts' expectations in each of the previous quarters and were a major contributor to the good returns over the course of the year. However, this trend did not continue for all of them. Although these companies are still performing well, they have rarely been able to exceed the very high expectations set by analysts. SAP, a German provider of business software, on the other hand, convinced across the board, was able to grow in the important cloud sector and significantly increased its gross profit. The pharmaceutical company Novartis also presented good results, increasing its operating sales compared to the same quarter of the previous year thanks to a new drug for heart disease, among other things. On the losing side were luxury stocks in particular, which suffered from the slump in consumption in the important Chinese market. In the last few days of September, however, these stocks were able to make up some ground after China announced monetary easing, triggering a veritable price rally on the Chinese stock markets.

Ultimately, stock markets trended largely sideways to slightly positive in the third quarter but with relatively high fluctuations. Bonds and gold also recorded further gains in most currencies.

Figure 3: Total Return of the S&P 500, 10Y Treasury and Gold for the year 2024 (YTD)



Asset Allocation

Asset Class	Positioning
Cash	Overweight
Fixed Income	Underweight
Equity	Neutral
Gold	Strong Overweight

- We continue to maintain an elevated liquidity position in order to be able to act dynamically in the event of corrections. Where possible, we place the liquidity in interest-bearing investments
- Bond indices benefitted from falling yield expectations and have recorded substantial gains in most cases
- Despite increasing volatility, equity markets are also still clearly in positive territory this year
- The ongoing rally in gold also had a very positive impact on the returns of our mandates

Quelle: Refinitiv, Datastream as of 30.09.2024

Current Asset Allocation

We kept our asset allocation largely constant throughout the third quarter, which still corresponds to a defensive orientation. Expiring bonds were replaced, but without significantly changing the duration and thus the interest rate risk. As in the second quarter, however, we used market fluctuations to carry out punctual rebalancings. In doing so, we bought securities that we are still convinced of while realizing some of the gains on positions with large profits.

The performance of our asset management mandates this year remains very high. In the third quarter, we were able to benefit from the strengthening of the Swiss franc, which accounts for a significant proportion of the currency allocation in our portfolios, and our significant overweight in gold, while we were to some extent able to escape the heavy fluctuations on the equity markets. Hence, we are convinced that our approach remains the right one also in this challenging environment.

In the fourth quarter, markets will mainly be concerned with the speed at which interest rates will be lowered as well as global consumer sentiment and the general state of the economy. Furthermore, political risks will once again take center stage. Following the elections in France and the UK, which have reshuffled the political balance of power, further landmark decisions have to be made for the coming years, before the US elections are due, which also have the potential to trigger market volatility. In addition, companies must continue to meet high profit and growth expectations in order to justify the current share price levels.

Contact

Bank von Roll AG
Bleicherweg 37
CH-8027 Zürich

Tel. +41 44 233 32 00

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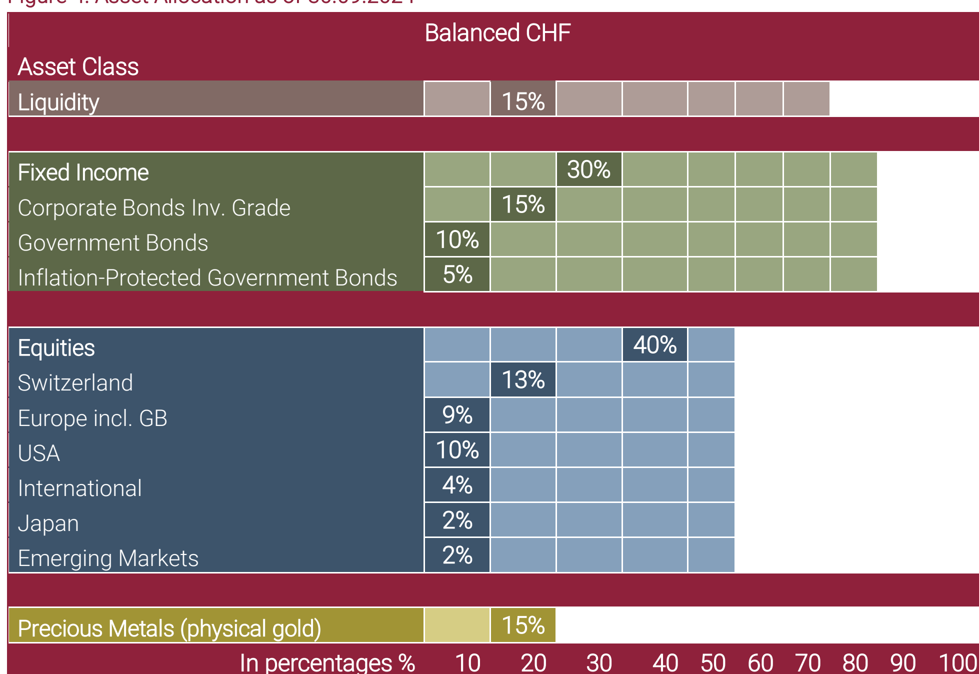
Figure 4: Asset Allocation as of 30.09.2024



Asset Class	Balanced CHF
Liquidity	15%
Fixed Income	30%
Corporate Bonds Inv. Grade	15%
Government Bonds	10%
Inflation-Protected Government Bonds	5%
Equities	40%
Switzerland	13%
Europe incl. GB	9%
USA	10%
International	4%
Japan	2%
Emerging Markets	2%
Precious Metals (physical gold)	15%
In percentages %	10 20 30 40 50 60 70 80 90 100

This report was created on the 1st of October 2024.