Review of Financial Markets Q2 2024

Economic data and indicators published in the second quarter conveyed a picture of a relatively robust global economy, which led to a significant reduction in the likelihood of recessionary developments in the USA and Europe. Unsurprisingly, the progress in bringing inflation further down began to stutter. This prompted the US central bank to stick to a hawkish course and significantly reduce the presumed scope for interest rate cuts for the current year. The market has tended to move closer to this view with expectations of a first interest rate cut of 0.25% in November. In view of the persistently weak economy in large parts of the industrial sector, the ECB dared to make its first interest rate cut in June. At the same time, it was communicated that further interest rate cuts would depend on the data situation. The Swiss National Bank's decision to cut the key interest rate for a second time by 0.25% came as something of a surprise, though it was understandable given the favorable inflation trend in Switzerland and the weak indicators for the industrial sector.

The elections for the European Parliament confirmed a shift to the right, with the center strengthening its dominance and the Greens among the big losers. The results prompted French President Macron to dissolve the parliament and call new elections.

In the USA, the first TV debate between Biden and Trump took place, with Democrats beginning to doubt their election chances afterwards and the media calling for a fitter candidate; an endeavor fraught with uncertainty.

On the financial markets, the positive trend on the stock markets continued, with the topic of artificial intelligence remaining front and center. Except for Switzerland, capital market interest rates trended slightly firmer, meaning that returns on bond investments were extremely modest, especially as risk premiums also tended to rise somewhat. On the commodity markets, industrial and precious metals made gains. Silver was a standout, posting a 17% gain, while energy prices moved sideways in the second quarter.

The most striking movement in currency markets was the further weakening of the yen to a total of 14% against the USD since the beginning of the year. The weakness of the yen reflected the tight US interest rate policy and the hesitant normalization of Japanese monetary policy. The Swiss franc gained around 1% against the euro over the quarter, resulting in a depreciation of just under 4% since the beginning of the year. The trade-weighted USD exchange rate rose slightly.

The positive performance of the global equity index was driven by US equities and certain Asian markets. In Europe, the Euro Stoxx lost around 2%, while the Swiss market gained 3%. Emerging markets performed comparatively well in the second quarter, gaining 5%, while smaller capitalized stocks lost further ground.

Technology and communications stocks were the winners in the sector rankings. The worst performers were real estate and materials.

Second half of the year: disillusionment?

The current sentiment in financial markets is characterized by a great deal of optimism regarding growth and inflation. This assessment is naturally not stable and is constantly being challenged. In fact, the signs of a slowdown in growth in the world's largest economy have not diminished. The question of what consequences the Fed's aggressive interest rate policy will have for the economy has not yet been answered. Historical experience shows that the interval between the first interest rate hike and the start of a recession is very variable and that the current cycle is not out of the ordinary.

It can therefore be assumed that the pressure on the Fed could increase to cut interest rates faster and more significantly than recently planned for economic reasons. This would also have a substantial impact on economic and interest rate expectations for the European markets. In addition to potentially increased economic uncertainty, political developments will also have at least a temporary impact on the stock markets. However, the parliamentary and presidential elections in the USA will have a greater impact on the media than on financial markets. However, this is not to say that the outcome of the elections is irrelevant for financial markets.

The valuation of the equity markets tends to be in the more expensive range, most obviously for the US market. Nevertheless, risk appetite is high among both private and institutional investors. It is foreseeable that disappointing economic developments could trigger a significant market reaction. This could also put a damper on the hype surrounding artificial intelligence.

While the first half of the year was characterized by increasing euphoria, a sobering process could occur in the second half of the year, which should bring the equity markets back to a more reasonable level and help the bond markets to develop positively.

Wangs, July 2024

Chart 1: Performance Q2 2024 in USD for different asset classes (in %)

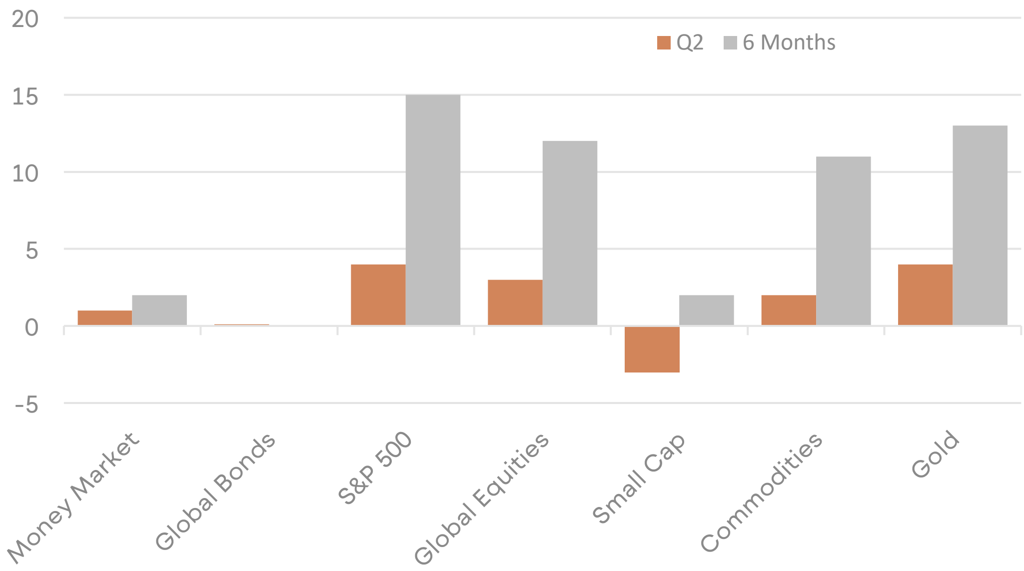

Chart 2: Performance Q2 2024 in local currency for selected stock indices (in %)