Global Investment Strategy

Second Quarter 2024

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Overview

World economy and capital markets

- In recent months, global economic data has shown a slight overall improvement and some broadening of the upturn, with growth remaining very slow in Europe, however.

- The reduction in inflation towards central bank targets is not yet complete, especially not in the services sector. Against this backdrop, the recent slightly higher-than-expected inflation figures in Europe and the US come as no surprise.

- Nevertheless, the outlook for slightly lower central-bank interest rates remains intact, with moderate interest-rate cuts by the ECB and the Federal Reserve due primarily in the second half of the year.

- Capital markets: Bond prices have corrected, with the medium-term outlook remaining positive. After the rally that resumed last October, a lack of fresh catalysts has made stock markets somewhat correction-prone, though the still-positive overall news flow argues against a significant correction.

Agenda

USA: Solid economy, inflation reduction stalled

The economic data for the US point to an intact upswing. Both private consumption and corporate investment have increased significantly in recent quarters.

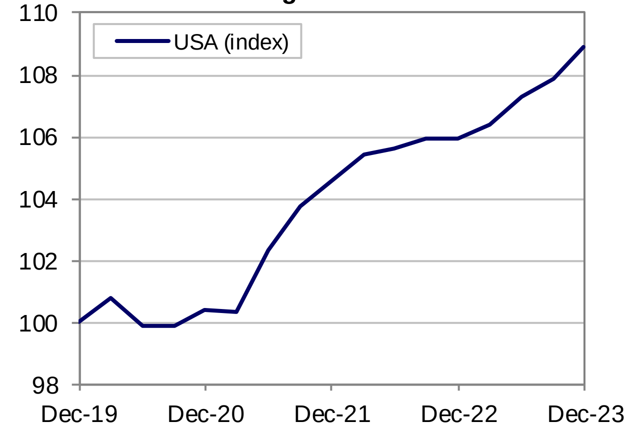
The driving forces of private consumption – rising real wages, excess savings from the pandemic and low mortgage-interest payments following a massive round of refinancing during the pandemic – remain positive. The labour market has remained in good shape (e.g. a low level of initial claims for unemployment benefits).

Inflation is approaching the central bank's target of 2%, although the reduction in inflation has recently slowed visibly.

USA	1Q-2023	2Q-2023	3Q-2023	4Q-2023	Avg.
Pers. consump.	0.9	0.2	0.8	0.7	0.7
Gov. spending	1.2	0.8	1.4	1.0	1.1
Priv. investm.	0.8	1.3	0.6	0.6	0.8
Domestic dem.	**0.9**	**0.5**	**0.9**	**0.8**	**0.8**
Exports	1.7	-2.4	1.3	1.6	0.5
Imports	0.3	-2.0	1.0	0.7	0.0
GDP	**0.6**	**0.5**	**1.2**	**0.8**	**0.8**
Net exports	0.1	0.0	0.0	0.1	0.1
Inventories	-0.6	-0.1	0.3	-0.1	-0.1

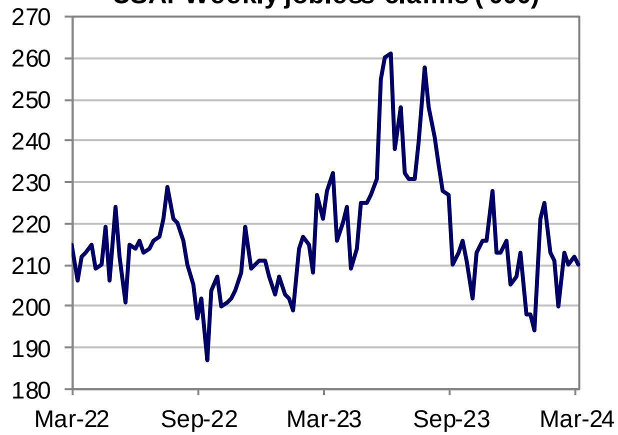
Note: Change in gross domestic product from previous quarter, NOT annualized, in %. Inventories: Contribution to growth. Source: Bureau of Economic Analysis

Real wages and salaries



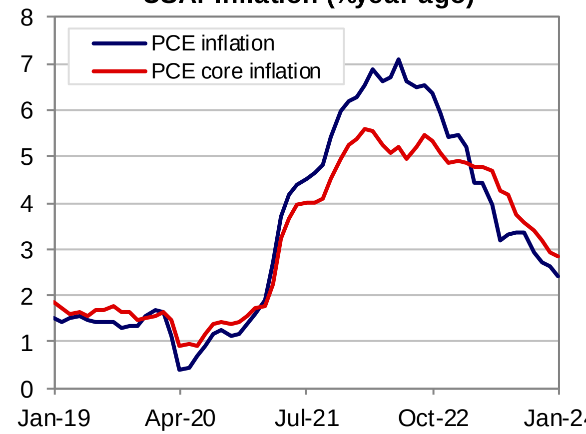
Source: BLS, BEA

USA: Weekly jobless claims ('000)



Source: Bureau of Labor Statistics

USA: Inflation (%year-ago)



Source: Bureau of Economic Analysis

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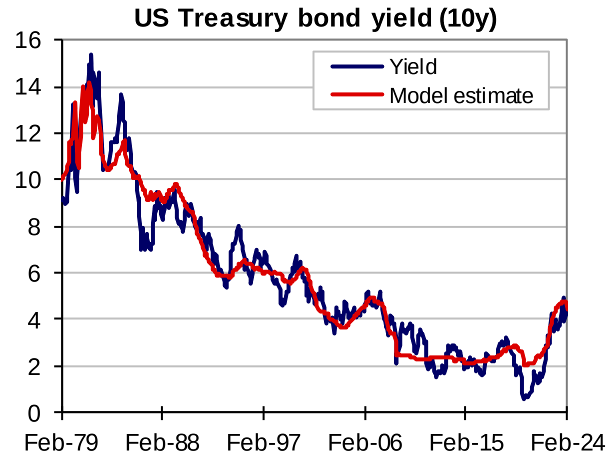
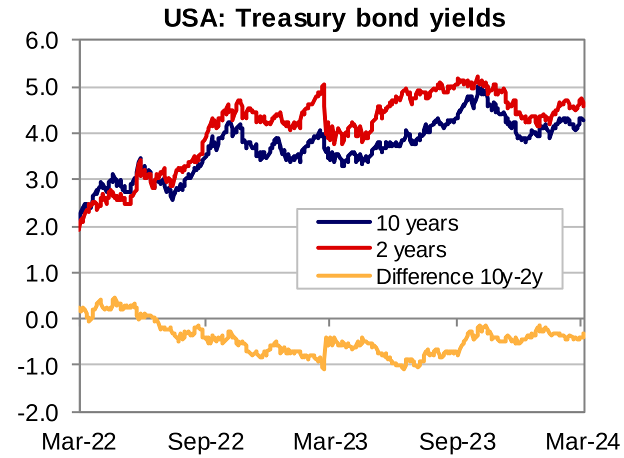
Bond models

Our bond models (calibrated with over 50 years of data for potential growth, inflation and central bank rates) show a fair yield for 10-year US government bonds of about 4%, with the latest estimates declining, and for Germany below 4%. It is worth noting that the fundamental model for Germany has not fully captured the very low yields of the past few years, which means that the model is likely to produce somewhat high estimates.

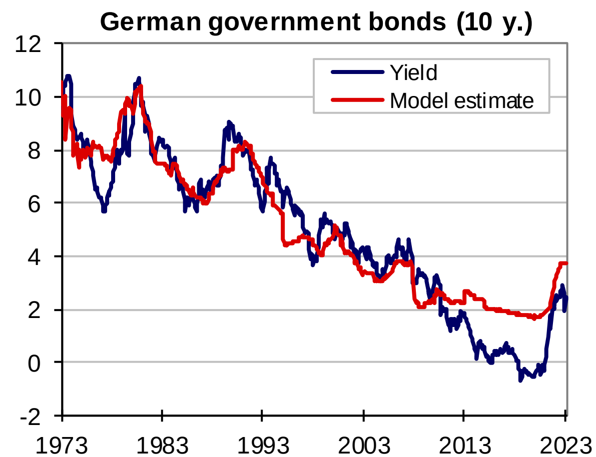
In the medium term, we consider the model estimates for the years before the pandemic to be a reasonable guide for US yields and at the high end of our forecast range for German yields.



Source: Bloomberg, own calc.



Source: Bloomberg



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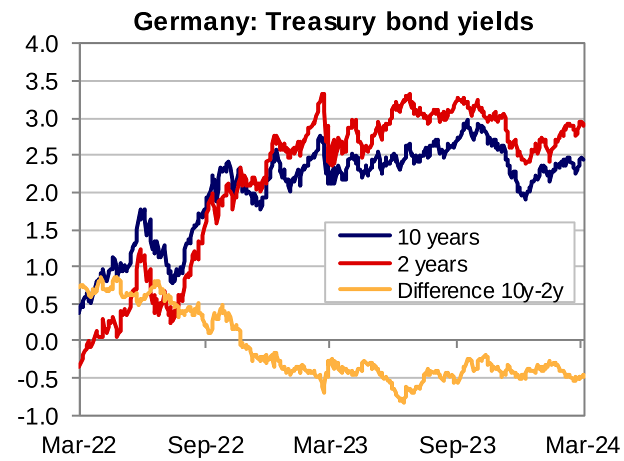

Source: Bloomberg

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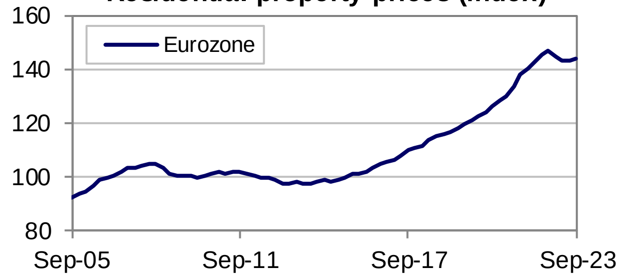
Global residential real estate prices

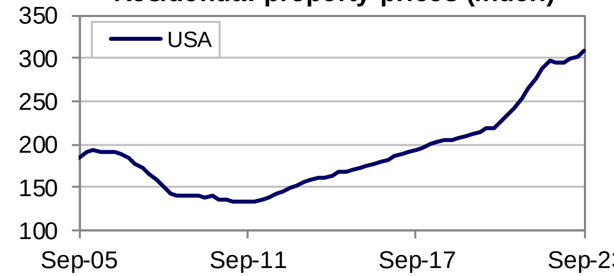
Despite markedly higher interest rates, residential real estate prices in most European countries and the US have so far shown only a lower rate of increase (USA, UK) or a slight decline, respectively.

Residential property prices (index)



Source: BIS

Residential property prices (index)



Source: BIS

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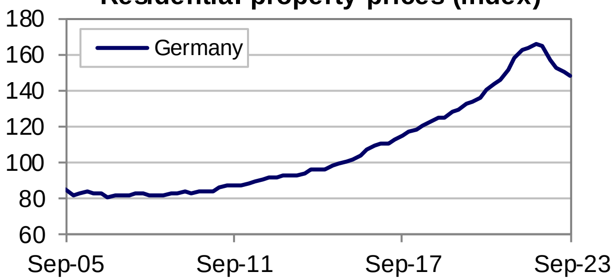

Source: BIS

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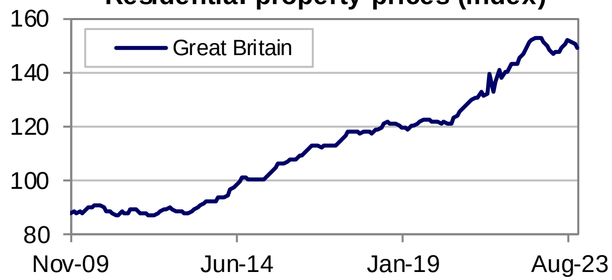

Source: BIS

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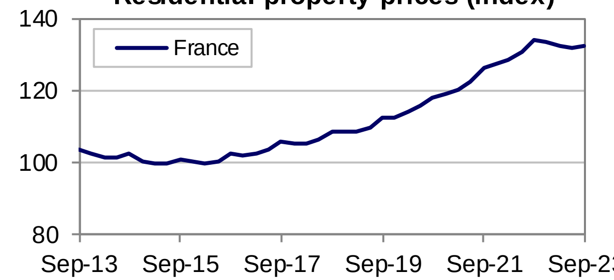

Source: BIS

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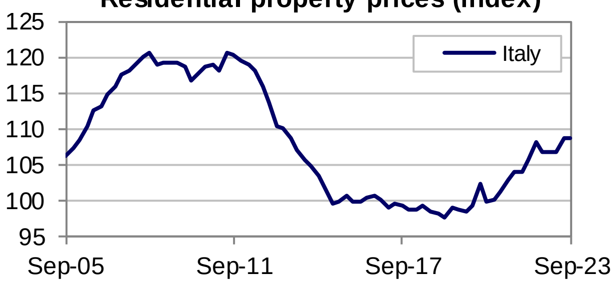

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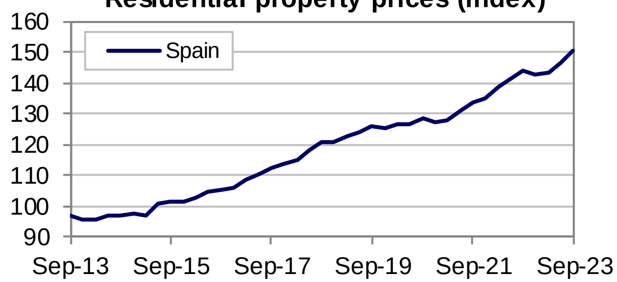

Source: BIS

Residential property prices (index)

Source: BIS

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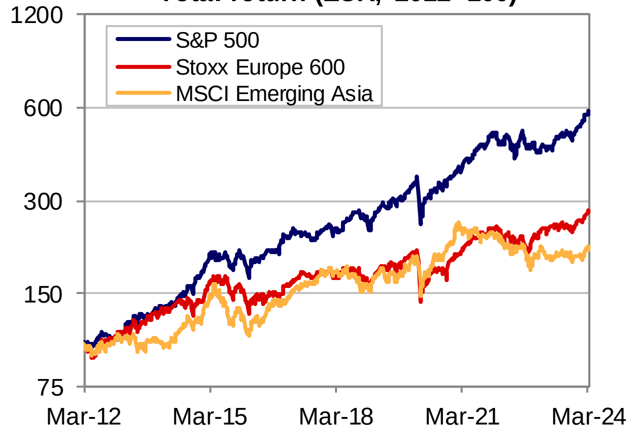
Regional trends: Technology weighting is key

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 perform comparatively well, 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 good commodity markets.

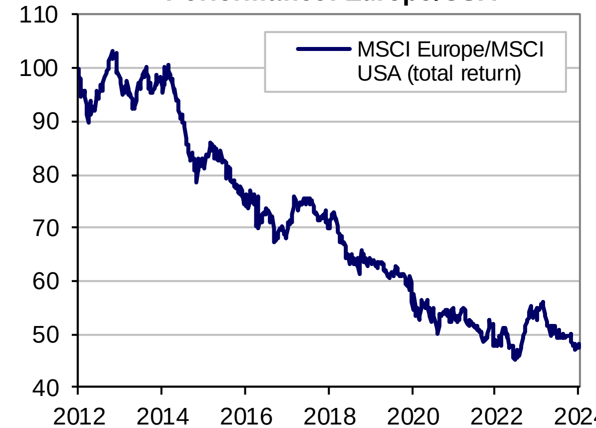
Based on free cash flows, Europe has been valued more favourably than the US since 2022. However, a favourable valuation alone is unlikely to be enough for outperformance.

Total return (EUR, 2012=100)



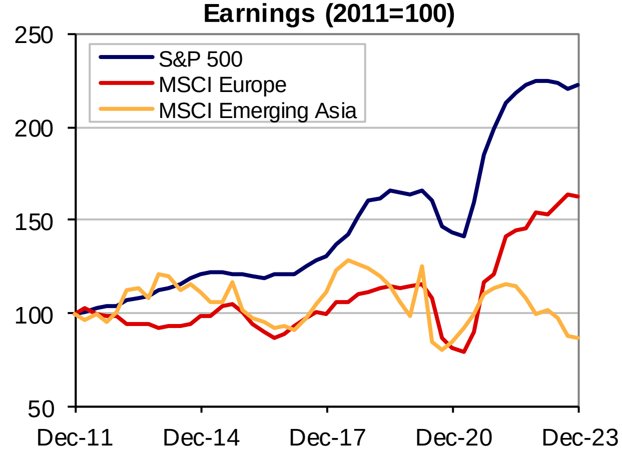
Source: S&P, STOXX, MSCI

Performance: Europe/USA



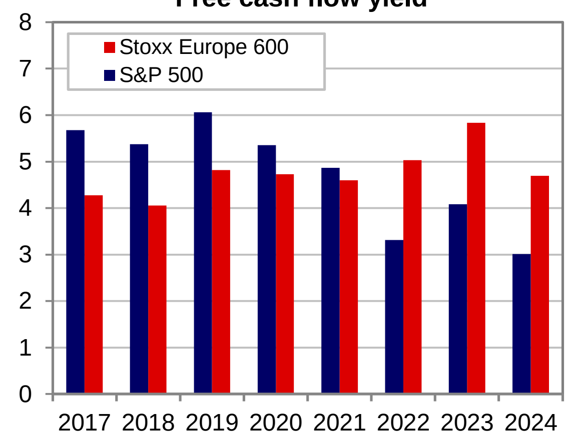
Source: MSCI

Earnings (2011=100)



Source: S&P, MSCI

Free cash flow yield*



*Key sectors. Source: Own calculations

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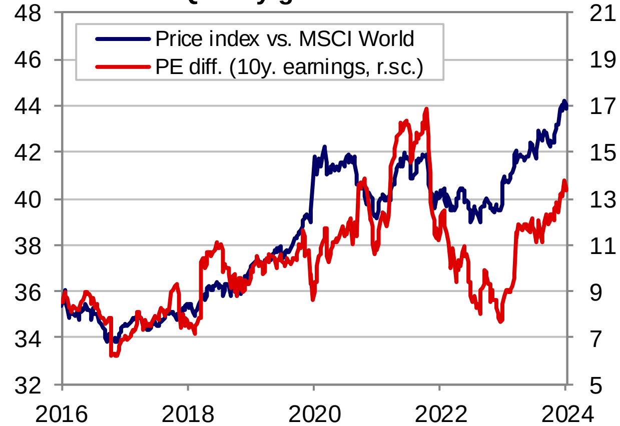
Equity market segments

Quality growth stocks generally benefit when economic growth is comparatively low and bond yields are stable to declining, which continues to argues modestly in favour of this segment.

The MSCI Growth has gained strongly against the MSCI Value Index in the US, but not Europe, in the past 12 months. In the US, the outperformance can be attributed to a number of large technology companies.

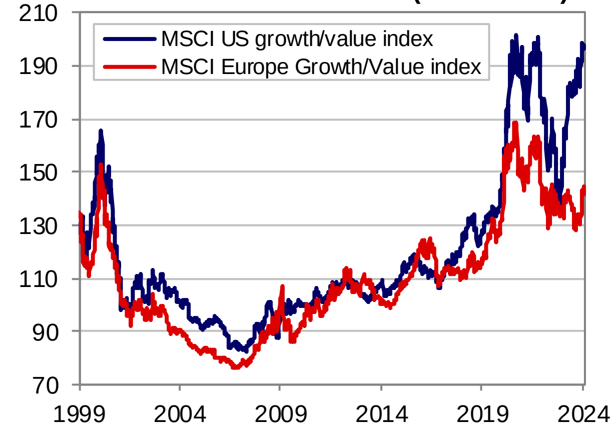
After a strong performance in the past twelve months, technology stocks are once again valued as highly relative to the overall market as they were before the correction two years ago. A key factor in the correction in 2022 was the strong rise in interest rates, which, however, is not currently the case.

Quality-growth stocks



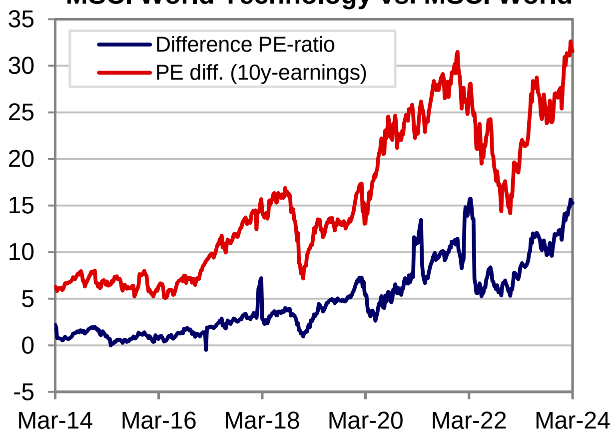
Source: MSCI

Growth vs. value shares (total return)



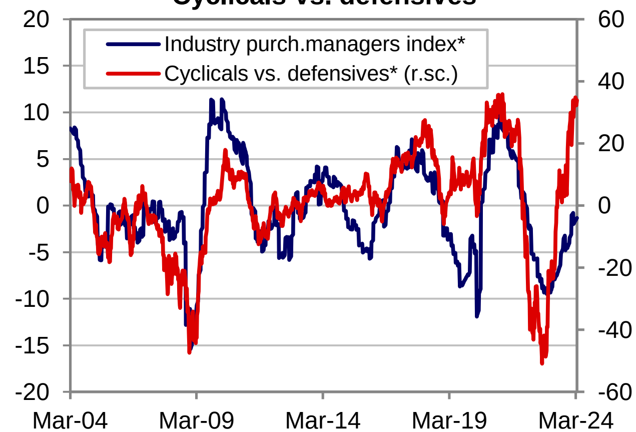
Source: MSCI

MSCI World Technology vs. MSCI World



Source: MSCI, Bloomberg

Cyclicals vs. defensives



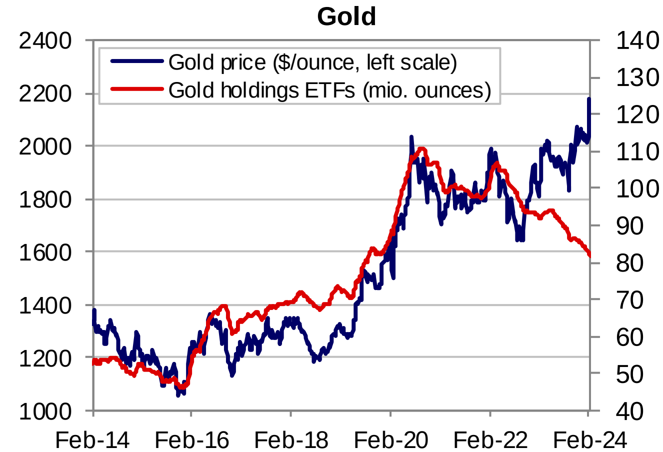
*Deviation 24m-avg. Source: Bloomberg, own calc.

Gold

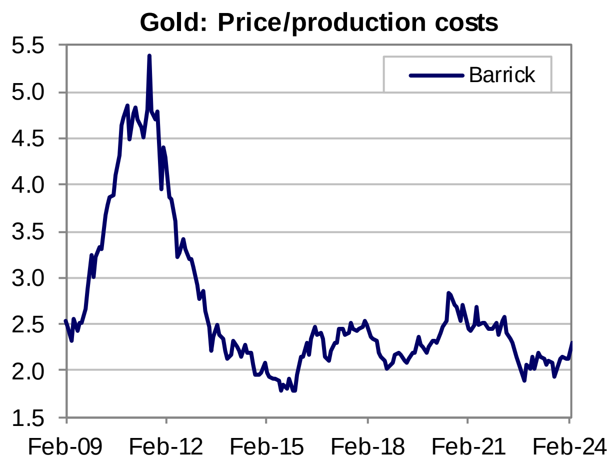
Despite inflation and the war in Ukraine, the price of gold has not risen as much as many expected over the past two years. Gold is also influenced by the trend in bond yields (falling yields are positive) and the dollar.

The gold price is roughly fairly valued in relation to cash production costs and full costs. Rising costs in recent years justify a certain increase in the price of gold.

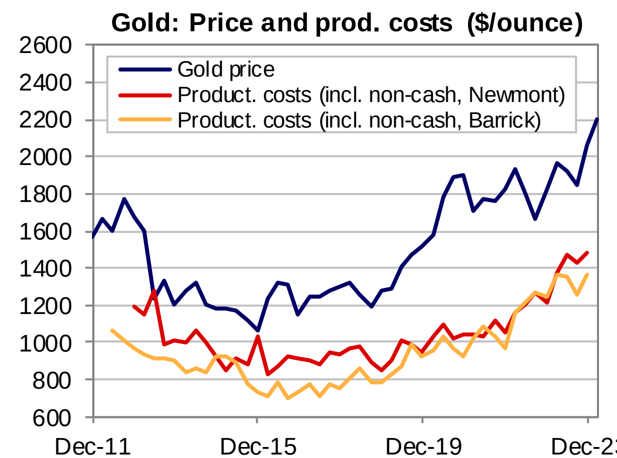
Long-term oriented investors may consider a gold allocation for diversification purposes.



Source: Bloomberg



Source: Companies, Bloomberg BGN, own calculations



Source: Companies, index provider

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