CPIC

Management Report
2nd Quarter 2024

Global equity markets initially headed downwards at the start of the second quarter of 2024. A still-strong US economy and higher-than-expected US inflation data raised doubts among investors that the US Federal Reserve (Fed) would soon change track. But the tide then turned. Earnings for the first quarter lifted investor sentiment. There were also increasing signs that the US economy – and the US labor market in particular – is slowly but surely starting to cool. At the same time, the US economy reported encouraging inflation data at the end of the quarter, giving fresh impetus to investors' hopes of an interest-rate cut.

Speaking of interest-rate cuts, while the Fed kept on the sidelines in the second quarter, other central banks decided they could no longer wait. The European Central Bank (ECB) dropped its key interest rate in June, as it had already widely announced – but without committing itself to the future interest-rate path. The Swiss National Bank (SNB) cut its key interest rate for a second time in the year, while also reducing its inflation forecast. The Bank of Canada and the Swedish Riksbank also lowered borrowing costs in the second quarter.

The MSCI All Country World Index closed the second quarter up 2.8% (in local currency), with the IT and communication services sectors turning in a particularly impressive performance and growing by 11.4% and 8.2% respectively. The real estate sector struggled due to high interest rates, closing the quarter 2.7% lower.

In the US, various technology stocks soared, fueled by the rage for artificial intelligence. As a result, the S&P 500 Index reached a new all-time high of 11,961 in June and ended the quarter up 4.3%. This performance was eclipsed only by the even more technology-heavy Nasdaq (8.5%).

Emerging market equities, which had previously been heavily punished, also ended the period higher. While index heavyweight China continued to struggle with subdued economic data and trade policy headwinds, the MSCI Emerging Markets Index climbed by 5.1% overall.

Euro zone equities experienced a sell-off in June, primarily due to (geo)political factors. These were the shift to the right in the European parliamentary elections, unsettling investors, and trade policy developments weighing on sentiment. The Euro Stoxx 50 ended the quarter 2.4% down, while the DAX lost 2.1%. Swiss equities fared better, advancing 3.3% (SPI).

As we mentioned at the start, the strong economic performance from the start of 2024 remained intact (by and large) in the second quarter. Initially, investors were concerned the US economy was overheating, leading them to lower their expectations of interest-rate cuts by the Fed. As the quarter progressed, however, these concerns eased and hopes for a gentle economic slowdown – i.e., a soft landing – grew. Fed officials have hinted at the possibility of a single rate cut later on this year.

The US government bond market was therefore pretty choppy in the second quarter. Investors were constantly trying to predict when the Fed would begin to cut interest rates. The yield on the 10-year government bond fluctuated markedly, ranging from a high of 4.70% to a low of 4.22% and ending the quarter 20 basis points higher at 4.40%. This equates to a modest positive net return of 0.09% for the quarter. The situation was a bit more positive for high-yield bonds and emerging market bonds in hard currency.

The resilience of the US economy supported the US dollar for much of the second quarter. Between January and the end of May, the Swiss franc fell by around 5% against the euro, influenced by the interest-rate cut by the Swiss National Bank in March. However, since the European Parliament elections at the start of June, which triggered a run-off vote in France, the franc has significantly recovered. In June, the SNB reduced its key interest rate to 1.25% and the Swiss franc weakened against the euro and closed the first half of the year 3.5% down.

Gold is still one of the best performing asset classes this year. The yellow metal had a strong start to the quarter, defying rising US real interest rates and the persistent strength of the US dollar.

Since the beginning of 2024:

the value of the A share increased by 3.42% from EUR 274.28 to EUR 283.66

the value of the B share increased by 2.44% from EUR 161.60 to EUR 165.55

the value of the C share increased by 3.44% from CHF 118.48 to CHF 122.55

This report was prepared by Anton Oberhofer, Vontobel Asset Management, Zurich