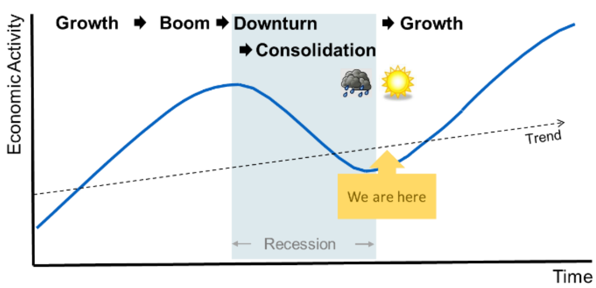
April 2024 | Issue no. 133

Investor Info
Investment Commentary

Briefing from the ARVEST Investment Committee

Global economic data showed a positive trend in the first quarter, underpinned by robust consumer and labour market data, particularly in the US. Despite the negative impact of high interest rates on growth, the data does not currently confirm a downward spiral into recession. The sustainability of these trends increases the likelihood of a soft economic landing, a scenario already priced in by equity and credit markets.

The ARVEST Investment Committee has updated its assessment of the US economic outlook and no longer considers a recession to be the most likely scenario. Although the Committee's preferred recession models still suggest some vulnerability in the US economy, there is now reasonable hope for a soft landing. These models, which are based on averages over the past seven decades, appear to underestimate the sound, long-term financing of household balance sheets and the stabilising influence of government subsidies and industrial policy. Although these policies increase the US budget and trade deficits, they do not have a negative impact on the economy in the short term. Attractively high interest rates and thriving technology companies make it easier for the US to maintain demand for the US dollar as the world's reserve currency. In addition, the geographical location of the US, relatively isolated from the political conflicts in Ukraine and the Middle East, seems to offer economic advantages, especially as a leading producer of oil, natural gas and arms. Finally, we expect the foreseeable recovery in global industrial production to have a positive impact on the US economy as well.



However, the current economic situation in the US continues to be characterized by high inflation rates, particularly in the housing and services sectors.This presents the Federal Reserve with the challenge of how to manage its interest rate policy to combat inflation without slowing economic growth. Interest rate expectations in the money and bond markets have changed over the past quarter. Current prices indicate that the markets expect only three rate cuts by the end of the year, compared with six at the beginning of the year. We think this is a reasonable view. Low inflation in China and the depreciation of the renminbi against the US dollar have allowed Chinese exporters to lower their international prices. This is dampening global inflation. We also expect a slow decline in US inflation.

Future Prospects

We have increased the equity weighting in our portfolios to a neutral level, reflecting our more positive view on the economy. The US equity markets, particularly the large-cap technology sector, posted significant gains in the last quarter. It is quite possible that smaller and international stocks will follow suit in the coming months. In US dollar, euro and sterling terms,safe returns from short-term bonds and money market paper continue to appear attractive to us.. We expect the US dollar to remain strong in the coming months, especially against the Swiss franc.

The upcoming US elections are also likely to have a strong influence on investment markets over the next two quarters, as investors will try to anticipate the impact of various election outcomes. The ARVEST Investment Committee expects a close and competitive election. A clear victory for a party that wins both the presidency and Congress is likely to result in significant industrial policy measures. However, these will benefit very different industries depending on the winner. In contrast, a presidency facing a divided or hostile Congress could lead to a more moderate policy agenda, as it would be more difficult to push through large subsidies.

In our view, the possibility that the new executive will not be able to start work on time is a higher risk than in the past. Should there be legal disputes over the election result, or even more serious events, this could lead to political uncertainty, which could have a very negative impact on the markets depending on its duration and extent.However, we hope that in time the parties involved will return to constructive dialogue and focus on their common strengths, which would provide a positive boost to the markets.

8 April 2024
On behalf of the Investment Committee
Stefan Kimmel
Chief Investment Officer ARVEST Funds AG