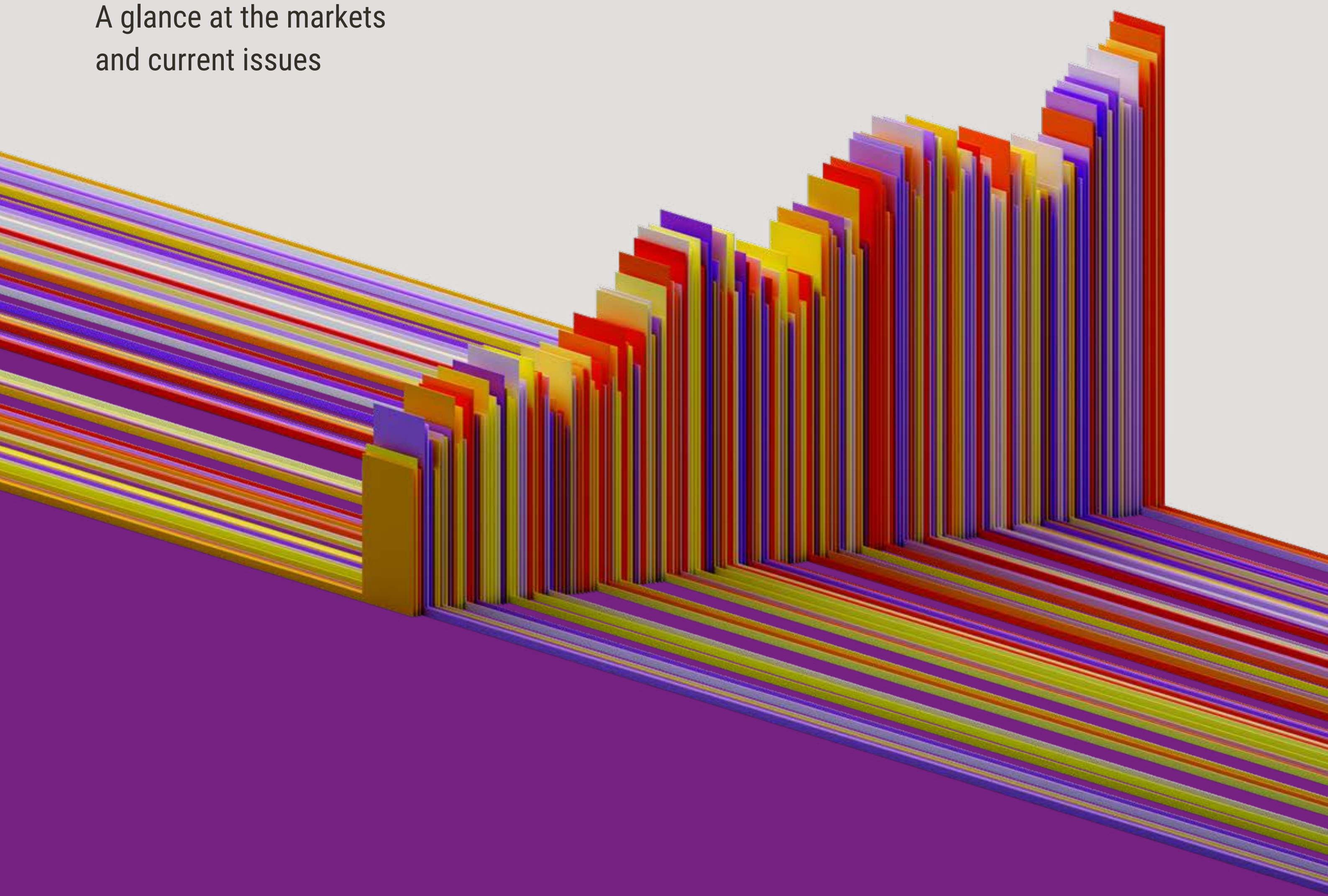
tellco

Market Overview 04 | 2024

A glance at the markets and current issues



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Equities

Solid economic situation in the first quarter

GDP growth in the US cooled in the first quarter of 2024, reaching the slowest pace seen in two years. By contrast, personal consumption expenditure inflation, measured based on the Personal Consumption Expenditures (PCE) price index, was up, unsettling many market participants and fuelling fears of stagflation. The stock market showed a more positive reaction on the last Friday in April than the core PCE price index, the Fed's preferred inflation gauge, which rose by 0.3 % in a month-on-month comparison in March, in line with expectations.

Above-average performance by the Magnificent Seven

Earnings per share in the first three months were 5 % above the consensus level – this applies to around 60 % of the earnings reported in the S&P 500. This means that both earnings per share and revenue growth were above average, with the tech sector and the Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) leading the field (+10 % as against estimates). While the outlook for the second half of the year would appear to suggest a challenging environment, a recovery in demand in the second quarter is likely to help increase margins.

US economy remains solid

Despite a slight slowdown in the first quarter, the US economy continues to stand on firm foundations. GDP growth came in at 1.6 % quarter-on-quarter, lower than expected. The biggest negative impacts came from the retail sector and inventories. These are volatile categories, and any major fluctuations tend to reverse in the following quarters. One development that was more striking for the Fed was the positive surprise in core PCE inflation (+3.7 % quarter-on-quarter). Spending is still on the rise, and consumer demand remains robust.

Increasing divergence on the capital markets

The capital markets have been somewhat unsettled over the last few weeks. Alongside obvious reasons, such as the conflict in the Middle East, there are signs of trends moving in opposite directions in a number of areas. While this does not necessarily suggest that more upheaval is on the cards, it should increase the range of returns in different asset classes and regions. The fact that the world's major central banks are adopting increasingly contrary monetary policy perspectives would seem to be at the centre of certain

divergences. On the one hand, there is the US Federal Reserve: in March, it reaffirmed its intention to implement three interest rate cuts of 25 basis points (bps) in each case this year. After a round of figures showing ongoing increased inflation for March, however, the money market no longer expects the Fed's approach to materialise, and is currently only anticipating around one and a half cuts between now and December. On the other hand, the European Central Bank (ECB) appears likely to cut rates in June. A small number of eurozone central bankers could already have envisaged taking this step at the most recent meeting in April. In comparison with the US, the ECB's rate hikes already appear to have been far more effective in terms of putting the brakes on the economy and prices, even though it is not yet entirely clear whether the wage demands enforced for the future will be compatible with the 2 % inflation target. The situation in Asia is a different one again: The Japanese central bank has only just taken its first tentative step away from ultra-low/negative interest rates. Its main aim in doing so is to ensure that inflation remains high enough to suppress deflation, the prevailing trend for decades. By contrast, China is concerned about the fragile nature of its domestic economic recovery and would be prepared to take further, well-considered steps if need be.

Precious metals prices reap the benefits of high demand

The precious metals sector is back with a bang, driven by central bank purchases, strong demand for gold in Asia and improving sentiment with regard to gold and silver. This is because there are signs that interest rate cuts are drawing closer. Given the changing macroeconomic environment and increasingly tense geopolitical landscape, the outlook for precious and speciality metals is a rosy one.

Fixed Income

Interest rate cuts hanging in the balance again

Yields were on a sharp upward trajectory over the course of the month. While the majority of central banks, and indeed analysts, communicated interest rate cuts, the inflation data and the bond market are signalling the very opposite. So, who is right? Only time will tell. The fact is that the economic data is pointing to stubborn inflation and even to a strong economic recovery, which could force central banks to lift their interest rates. This means that April could mark a surprising turning point if future data confirms the trend.

Strong economy pushing inflation up

Two unexpected events hit bond investors hard: the excellent US labour market data and the shocking increase in inflation. This is because both analysts and central bankers had been touting the opposite theory of falling inflation for months now. Logically, this triggered a pronounced sell-off of bonds, pushing yields up. On the back of the strong US labour market report, investors have started to scale back their expectations of interest rate cuts in the US. At present, Fed funds futures contracts for December are now only pricing in interest rate cuts of 60 bps for 2024, as against around 150 bps at the start of the year. The prospect of a first 25-bps cut by the Fed in June stood at 49 %. This is because consumer price inflation (PCE) in the US was also higher than expected. Headline inflation rose by 3.5 % year on year in March (previously: 3.2 %). This can also be traced back to rising energy and food prices (2.1 % and 2.2 % respectively). If we leave these volatile components out of the equation, prices rose by 3.8 %, also due to sustained high housing inflation. This trend sparked an increase in US bond yields to over 4.5 %.

Interest rate cuts could soon follow in the eurozone

The ECB kept interest rates steady at its April meeting, fuelling hopes of interest rate cuts. While President Lagarde emphasised that the ECB would not pre-commit to a particular rate path, she also said that inflation had dropped back significantly, that most core inflation indicators had also fallen and that wage pressure was also easing. According to Lagarde, if everything goes according to plan, it could soon be time to reduce the current level of “monetary policy restriction”. According to the ECB, consumer inflation expectations for next year have dipped to 3.1 %. Expectations for the next three years remain unchanged at 2.5 %. This downward trend is consistent with the latest price data from France and Italy, which lagged behind expectations, pointing to a possible further moderation in inflationary pressure.

Growth in the US and the EU

While many are still clinging to hopes that inflation and key interest rates will fall, April unveiled a completely different reality, particularly in the US. In actual fact, the problem is that inflation remains stubbornly high, while the labour market and the economy are strong. The US labour market figures for March were stronger than they were at virtually any point last year. The number of people in work outside the agricultural sector rose by 303,000. The unemployment rate fell to 3.8 %, signalling a strong labour market that is driving the US economy. Growth was led by an increase in new hires in the healthcare, leisure, hospitality and construction sectors. But the eurozone can also report positive headline indicators: Preliminary data suggests that in April, economic activity in the EU grew at the fastest rate witnessed in almost a year. The S&P Composite Purchasing Managers' Index, which measures activity in the manufacturing and service sectors, rose from 50.3 to 51.4 points, outstripping expectations (50.7). The service sector fared better than industry. Even German activity grew again (i.e. >50). A number of ECB representatives took the market by surprise by saying that the ECB should be cautious with "post-June" rate cuts. According to Luis de Guindos, an initial June interest rate cut by the ECB is a fait accompli, although it is less clear what will happen thereafter. De Guindos himself describes himself as inclined to be "very cautious" with regard to subsequent moves. He pointed out that the US Fed will be cutting interest rates later than expected and that this will also affect the rest of the world. A growing interest rate differential could have negative implications for the eurozone. The IFO Business Climate Index shows that sentiment in the German economy improved by 1.5 points to 89.4 points in April. This marks the third improvement in a row and could suggest that the economy is on the brink of a turnaround.

Purchasing managers' indices above the 50-point mark

The risk premiums on corporate bonds remain lower than the historical average. This is due to expectations of a strong economic recovery in spite of mounting geopolitical risks. The US manufacturing sector made a very strong recovery, with the latest ISM Report in particular showing an expansion. It points to a change in economic activity in the US manufacturing sector. The ISM index climbed to 50.3, ahead of the forecast of 48.5 – a score greater than 50 is considered expansionary. Demand is in the early recovery stages, with clear signs of conditions improving. Leading indicators are pointing towards an economic recovery in the eurozone as well. The composite PMI has surpassed the growth threshold and, for the first time in 10 months, the eurozone private sector recorded growth in March: the revised data shows an increase in the composite PMI to 50.3. This upswing, highlighted by the increase in the Services PMI to 51.5, compensates for the contraction in the manufacturing sector, where the PMI dropped back to 46.1.

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Consistently low inflation in Switzerland

March inflation in Switzerland was down in a surprising development, and this is seen as an endorsement of the SNB's latest rate cut. Inflation slowed to 1 % in March, marking the lowest level seen in two and a half years. According to the Federal Statistical Office, this development was driven by supplementary accommodation, cars and private means of transport. This rate, which was lower than the expected 1.3 %, marks the continuation of a trend in which inflation has remained within the Swiss National Bank's target range for 10 consecutive months.

Alternative investments

Are Nestlé and Roche set to become the new alternative investments?

Why do (institutional) investors have a special, distinct allocation to "private markets" but no equivalent allocation to "public markets"? Shouldn't it be the other way round? Private equity and private debt make up the lion's share of any long-term allocation, while listed securities are merely a small alternative add-on?

These were the questions posed by Marc Rowan, one of the founders of Apollo, at this year's investor conference of the Norwegian Government Pension Fund in Oslo. Anyone invited to this event organised by the world's largest investor (the Norwegian fund manages assets worth CHF 1.5 trillion) and its CEO Nicolai Tangen jumps at the opportunity to do so; yet again, this year's list of speakers read like a who's who of the investment community. Founders and leaders from Bridgewater, Viking, Wellington, Oaktree, Hellman & Friedman and Stanford University were each allocated 15 to 20 minutes to discuss "How to become a better investor".

How to become a better investor

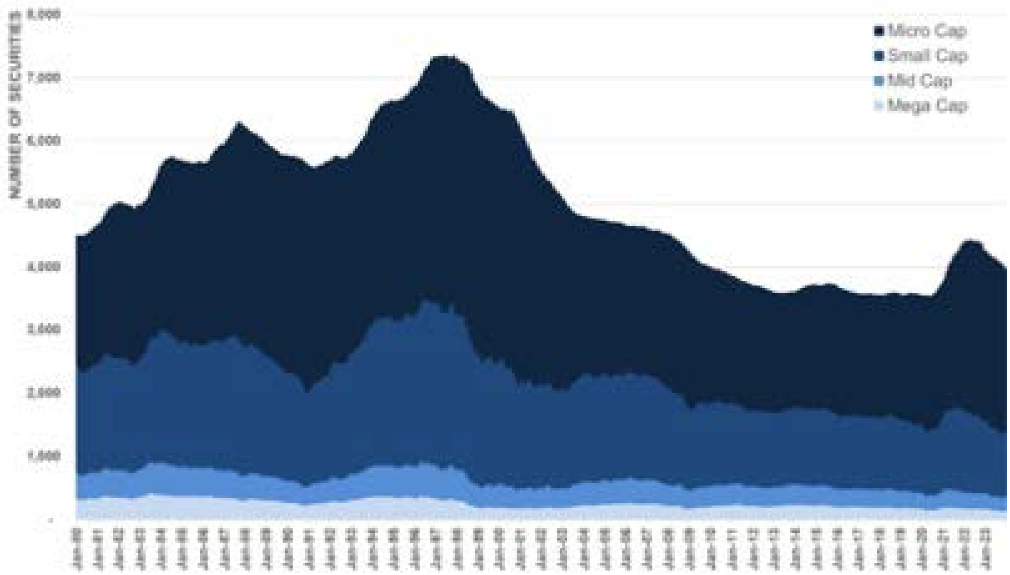
In his talk, Marc Rowan reflected on the importance of continually questioning the status quo. He urged organisations to always remain open to changes in the market environment and other circumstances and not to get stuck in old patterns of thinking simply because they worked for the last 10 to 20 years. He believes that, as well as enjoying a certain degree of luck, which always plays a part, this philosophy is the main reason behind Apollo's ability to increase its assets under management from USD 40 billion in 2008 to over USD 650 billion today.

Only a fraction of companies are listed on the stock market

But what about the questions raised earlier? According to the Statistics of US Businesses (SUSB), the US alone was home, in 2019, to a good 115,000 companies with an impressive size of over 100 employees, and it had 20,000 or so companies with a workforce of more than 500. Only a very small proportion of these companies, however, are listed on a stock exchange, a prerequisite for making them easily accessible as an investment in the first place. According to the Center for Research in Security Prices (CRSP), just shy of 4,000 securities were listed on US stock exchanges at the start of 2023 – a mere fraction of the country's privately held companies.

Photo by Michael Weibel on Unsplash

Number of listed securities in the US over time (source: CRSP)



What's more, the number of exchange-traded securities has been on a steady decline for years now: whereas at the end of the 1990s, there were still just under 8,000 companies listed on a US stock exchange, this figure has been more or less slashed in half over the last 25 years, with few signs of this trend reversing. Last but not least, concentration in the established indices has been rising steadily for years. While the 10 biggest companies in the S&P 500 accounted for between 20 % and 25 % of the total market capitalisation for decades, this figure has risen to a current high of almost 35 % in the last 10 years.

Less choice, greater risks

These are not favourable developments for investors that only focus on the major public markets. Not only are they losing access to an ever larger part of the productive real economy, but their investments are also becoming increasingly concentrated and, as a result, less diversified. Nevertheless, this increasingly smaller part of the economy as a whole (in terms of the number of companies) is still the main component of a large number of institutional investment strategies.

Better chances of a "free lunch"

While "private markets" and "private equity" were in demand in the past primarily due to the additional return potential they offered (illiquidity premium), they should now, and indeed going forward, also become more of a focal point in terms of their ability to ensure adequate diversification. The much greater number of companies in this segment alone considerably increases long-term investors' chances of the only "free lunch" in the financial world. From this angle, it's possible to imagine asset allocations in which Nestlé, Roche, Novo Nordisk or even Apple no longer play a dominant role, but rather act, at best, as an alternative addition to a portfolio of privately held equities.

Sources:
- Norges Bank Investment Management: Investment Conference 2024
- Goldman Sachs Investment Research
- Statistics of US Businesses (SUSB)
- Center for Research in Security Prices (CRSP)

Tellco-Products

Tellco Classic

	ISIN	Tranche	April 30th	% April	% YTB	Web
Tellco Classic II Global Equities**	CH0443816621	V	228.79	−1.34	25.19	More Infos
Tellco Classic Swiss Equities	CH0421075018	V	178.49	−2.61	8.34	More Infos
	CH0421074961	R*				
Tellco Classic Best Idea	CH0442770316	V	100.57	−4.55	23.29	More Infos
	CH0442615701	R	108.52	−4.55	23.29	
Tellco Classic Sustainable Heritage	CH0583763542	V	78.42	−0.32	−3.09	More Infos
	CH0583763534	R	69.36	−0.33	−3.34	
Tellco Classic Bonds CHF	CH0421043669	V	101.94	−0.49	6.12	More Infos
	CH0421043594	R*				
Tellco Classic Bonds in foreign currency	CH0421043768	V	86.53	−0.67	0.62	More Infos
	CH0421043743	R*				
Tellco Classic Bonds in foreign currency hedged	CH0469074956	V	89.36	−1.81	−1.25	More Infos
	CH0469074865	R	84.12	−1.83	−1.26	
Tellco Classic Inflation Protection	CH1101347354	V	96.87	−0.94	−4.81	More Infos

* Not yet launched **available only to swiss pension funds

Tellco Classic Strategy

	ISIN	Tranche	April 30th	% April	% YTB	Web
Tellco Classic Strategy 10	CH0450199770	V	118.30	−1.89	2.06	More Infos
	CH0544445619	R*				
Tellco Classic Strategy 25	CH0450201261	V	128.94	−1.95	5.44	More Infos
	CH0544465658	R*				
Tellco Classic Strategy 45	CH0450201329	V	145.65	−2.27	7.76	More Infos
	CH0544465757	R*				
Tellco Classic Strategy 100	CH0450382632	V	129.64	−1.93	15.92	More Infos
	CH0544465773	R	96.37	−1.93	13.76	

* Not yet launched

The Tellco Top Products

Top-Performer

Tellco Classic Best Idea

The Tellco Classic Best Idea fund aims at a long-term appreciation of invested capital, by investing in listed equities issued by companies whose expected growth is a multiple of global GDP growth, thanks to innovations primarily, and without limitation, in the technology, healthcare and energy fields.

Top-Seller

Tellco Classic Sustainable Heritage

The Tellco Classic Sustainable Energy fund invests in all industries that benefit from a sustainable future. The investment universe includes themes such as renewable energy, energy storage, green and smart transport solutions, water and waste-water treatment, the digitalisation of energy systems and the integration of smart and efficient technologies in cities (smart cities).

Numbers

Equity markets

	April 30th	% April	% YTD
MSCI AC World	406.07	−3.30	27.86
SMI	11,260.91	−4.00	4.95
SPI	15,066.69	−2.44	9.70
DAX	17,932.17	−3.03	28.79
EuroStoxx 50	4,921.22	−3.19	29.72
EuroStoxx 600 Price Index	504.89	−1.52	18.83
FTSE 100	8,144.13	2.41	9.29
DOW Transportation	14,909.51	−8.03	11.33
S&P500	5,035.69	−4.16	31.15
NASDAQ 100	17,440.69	−4.46	59.42
Shenzen-Shanghai CSI300	3,604.39	1.89	−6.90
Emerging Market	1,045.95	0.26	9.37
Nikkei	38,405.66	−4.86	47.18
Volatilität	15.65	20.29	−27.78

Commodities

	April 30th	% April	% YTD
WTI−CrudeOil	81.93	−1.49	2.08
Brent Oil	87.86	0.43	2.27
ThomReuters /JefferiesCRB	291.46	0.40	4.94
Gold	2,286.25	2.53	25.34

LIBOR

	April 30th	% April	% YTD
Saron 6M CHF	1.29	−3.04	5.87
Euribor 6M	3.80	−1.45	40.92
Libor 6M USD	5.74	1.66	11.69

Alternative Investments

	April 30th	% April	% YTD
S&P Leveraged Loan TR Index	3,842.79	0.65	16.83
Swiss RE Cat Bond TR Index	464.29	0.57	25.88
HFRX Global Hedge Fund Index	1,437.93	−0.54	5.12

Numbers

Currencies

	April 30th	% April	% YTD
EUR/USD	1.067	−1.15	−0.36
USD/CHF	0.919	2.00	−0.55
USD/JPY	157.800	4.26	20.35
EUR/CHF	0.981	0.78	−0.90
GBP/CHF	1.149	0.98	2.66
CAD/CHF	0.667	0.24	−2.26
AUD/CHF	0.595	1.26	−5.67
JPY/CHF	0.582	−2.25	−17.44
BRL/CHF	0.177	−1.67	1.14
CNY/CHF	0.127	1.52	−5.22
INR/CHF	0.011	1.19	−1.89
RUB/CHF	0.010	0.82	−21.09
TRY/CHF	0.028	2.05	−42.62
ZAR/CHF	0.049	2.73	−9.76

Countries / GDP

	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	2023	2024	2025
USA	4.90 %	3.30 %	2.20 %	1.70 %	1.30 %	1.50 %	2.50 %	2.40 %	1.70 %
Euro Area	0.10 %	0.10 %	0.20 %	0.30 %	0.70 %	1.10 %	0.50 %	0.60 %	1.40 %
Japan	−2.10 %	−0.40 %	−0.20 %	1.55 %	1.45 %	1.21 %	1.90 %	0.70 %	1.10 %
China	4.90 %	5.20 %	4.50 %	5.30 %	4.70 %	4.70 %	5.20 %	4.82 %	4.47 %
Schweiz	0.40 %	0.65 %	0.60 %	1.10 %	1.25 %	1.35 %	0.80 %	1.20 %	1.50 %

Countries / CPI

	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	2023	2024	2025
USA	3.60 %	3.20 %	3.20 %	3.40 %	3.10 %	2.90 %	4.10 %	3.10 %	2.40 %
Euro Zone	5.00 %	2.70 %	2.60 %	2.50 %	2.10 %	2.20 %	5.40 %	2.30 %	2.10 %
Japan	3.10 %	2.95 %	2.60 %	2.60 %	2.34 %	1.84 %	3.30 %	2.30 %	1.80 %
China	−0.05 %	−0.30 %	0.00 %	0.30 %	0.55 %	1.20 %	0.20 %	0.70 %	1.53 %
Schweiz	1.65 %	1.60 %	1.30 %	1.30 %	1.30 %	1.25 %	2.10 %	1.30 %	1.20 %

Numbers

Rates

	April 30th	in bps April	in bps YTD
10j.USD(Swap)	3.86	38.60	2.30
10j.EUR(Swap)	2.86	28.26	–33.95
10j. UK (Swap)	4.08	41.20	32.90
10j.CHF(Swap)	1.22	7.50	–85.75

Bonds

	April 30th	in bps April	in bps YTD
US Govt 10Y	4.68	47.96	80.42
GER Govt 10Y	2.58	28.57	1.81
Swiss Govt 10Y	0.70	7.38	–88.07
UK Govt 10Y	4.35	41.43	68.12
IT Govt 10Y	3.91	23.68	–78.48
ESP Govt 10Y	3.35	19.28	–29.82

Generic iTRAXX

	April 30th	in bps April	in bps YTD
Europe Main	55.75	1.51	–34.85
Finl Sen	63.48	0.18	–35.81
Finl Sub	116.05	1.95	–56.04
X-Over	317.78	20.75	–156.33