Cham, October 9th 2024

Yearend Outlook 2024

The AI Run as a Mass Phenomenon

A look back at the final quarter of 2024 only makes sense with a review of the past three months: interest rate speculation, consolidation of tech stocks, and the markets in general. The resurrection of the long-dismissed recession discussion, and last but not least, the election campaign in the USA.

As we enter the last three months of this year, the major central banks have cut interest rates: the U.S. Fed, late but decisively, by 0.5%; the ECB for the second time, reducing rates to 3.5% with the declared goal of bringing the prime rate down to 3%. Switzerland's SNB reduced its benchmark rate to 1%, and the Swedish Riksbank is expected to follow suit soon. The positive effects for stock investors can be outlined in three main points:

- Capital-intensive companies with high leverage benefit disproportionately.
- Consumer sentiment is likely to improve.
- Lower interest rates drive liquidity from savers and fixed-income investors more heavily into the stock markets.
- Government budgets are significantly relieved of interest burdens.
- The roughly 600-day interest rate inversion in USD came to an end almost unnoticed and, according to historical precedent, marks the beginning of a prolonged bull market.

The central banks' great achievement has been the successful soft landing, preventing a recession: Powell following in the footsteps of Greenspan.

Germany stands out as an exception, due to unfortunate economic policies. The manufacturing sector, particularly the energy-intensive industries, is already operating in recessionary territory. The government budget is spiralling out of control, due to the costs of the energy transition and the social welfare system, potentially leading to a collapse of the coalition government in the coming weeks. Consumer sentiment and the leading economic indicator, the Purchasing Managers' Index, are extremely negative and make it unlikely that a recession can be averted. Whether a shift in economic policy will have a quick effect is doubtful, as one major driver of inflation is the fear of inflation itself.

The Longtime president of the Swiss National Bank, monetarist Thomas Jordan is stepping down. Under his leadership, the SNB's balance sheet was inflated to around 800 billion Swiss francs in an effort to prevent an excessive rise in the value of the Swiss franc, making the currency's strength more bearable for the domestic industry and tourism sector.

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Globally, the fight against inflation has been surprisingly successful: Switzerland, with 1% core inflation, France now at 1.2%, Spain at 1.5%, and Germany at 1.6%, all reached the target corridor of 2% during the August/September 2024 period. The US is also approaching the 2% target with a core inflation rate of 2.5%. Statements from Federal Reserve members suggest that they know more than they are letting on, and, like the ECB, they are hinting at further interest rate cuts. Inflation data is now back within the desired 20-year range. The chart below illustrates the recent trend:

Overall Inflation
Year-on-year %

																		2024							
		Sep.	Okt.	Nov.	Dez.	Jan.	Feb.	Mrz.	Apr.	Mai	Jun.	Jul.	Aug.	Sep.	Okt.	Nov.	Dez.	Jan.	Feb.	Mrz.	Apr.	Mai	Jun.	Jul.	Aug.
Eurozone	Eurozone	9,9	10,6	10,1	9,2	8,6	8,5	6,9	7,0	6,1	5,5	5,3	5,2	4,3	2,9	2,4	2,9	2,8	2,6	2,4	2,4	2,6	2,5	2,6	2,2
	France	6,2	7,1	7,1	6,7	7,0	7,3	6,7	6,9	6,0	5,3	5,1	5,7	5,7	4,5	3,9	4,1	3,4	3,2	2,4	2,4	2,6	2,5	2,7	2,2
	Germany	10,9	11,6	11,3	9,6	9,2	9,3	7,8	7,6	6,3	6,8	6,5	6,4	4,3	3,0	2,3	3,8	3,1	2,7	2,3	2,4	2,8	2,5	2,6	2,0
	Italy	9,4	12,6	12,6	12,3	10,7	9,8	8,1	8,6	8,0	6,7	6,3	5,5	5,6	1,8	0,6	0,5	0,9	0,8	1,2	0,9	0,8	0,9	1,6	1,3
	Spain	9.0	7.3	6.7	5.5	5.9	6.0	3.1	3.8	2.9	1.6	2.1	2.4	3.3	3.5	3.3	3.3	3.5	2.9	3.3	3.4	3.8	3.6	2.9	2.4
	Greece	12.1	9,5	8,8	7,6	7,3	6,5	5,4	4,5	4,1	2,8	3,5	3,5	2,4	3,8	2,9	3,7	3,2	3,1	3,4	3,2	2,4	2,5	3,0	-
	Ireland	8,6	9,4	9,0	8,2	7,5	8,1	7,0	6,3	5,4	4,8	4,6	4,9	5,0	3,6	2,5	3,2	2,7	2,3	1,7	1,6	2,0	1,5	1,5	-
Industrial Countries	Sweden	10,3	9,8	10,1	10,8	9,6	9,7	8,1	7,7	6,7	6,3	6,3	4,5	3,7	4,0	3,3	1,9	3,4	2,6	2,3	2,4	2,5	1,4	1,7	-
	Switzerland	3,2	2,9	2,9	2,7	3,2	3,2	2,7	2,6	2,2	1,8	2,1	1,9	2,0	2,0	1,6	2,1	1,5	1,2	1,1	1,4	1,5	1,3	1,2	-
	GB	10,1	11,1	10,7	10,5	10,1	10,4	10,1	8,7	8,7	7,9	6,8	6,7	6,7	4,6	3,9	4,0	4,0	3,4	3,2	2,3	2,0	2,0	2,2	-
	USA	8,2	7,7	7,1	6,5	6,4	6,0	5,0	4,9	4,0	3,0	3,2	3,7	3,7	3,2	3,1	3,4	3,1	3,2	3,5	3,4	3,3	3,0	2,9	-
	Japan	3,0	3,7	3,8	4,0	4,3	3,3	3,2	3,5	3,2	3,3	3,3	3,2	3,0	3,3	2,8	2,6	2,2	2,8	2,7	2,5	2,8	2,8	2,8	-
Development Countries	China	2,8	2,1	1,6	1,8	2,1	1,0	0,7	0,1	0,2	0,0	-0,3	0,1	0,0	-0,2	-0,5	-0,3	-0,8	0,7	0,1	0,3	0,3	0,2	0,5	-
	Indonesia	5,9	5,6	5,4	5,4	5,1	5,4	5,0	4,4	4,1	3,5	3,1	3,4	2,3	2,6	3,0	2,8	2,6	2,8	3,0	3,0	2,8	2,5	2,1	2,1
	South Korea	5,5	5,6	5,0	5,0	5,0	4,7	4,2	3,7	3,4	2,7	2,4	3,4	3,7	3,8	3,3	3,2	2,8	3,1	3,1	2,9	2,7	2,4	2,6	-
	Taiwan	2,8	2,7	2,4	2,7	3,1	2,4	2,4	2,3	2,0	1,8	1,9	2,5	2,9	3,0	2,9	2,7	1,8	3,1	2,1	1,9	2,2	2,4	2,5	-
	India	7,4	6,8	5,9	5,7	6,5	6,4	5,7	4,7	4,3	4,9	7,4	6,8	5,0	4,9	5,6	5,7	5,1	5,1	4,9	4,8	4,8	5,1	3,5	-
	Brazil	7,2	6,5	5,9	5,8	5,8	5,6	4,7	4,2	3,9	3,2	4,0	4,6	5,2	4,8	4,7	4,6	4,5	4,5	3,9	3,7	3,9	4,2	4,5	-
	Mexico	8,7	8,4	7,8	7,8	7,9	7,6	6,8	6,3	5,8	5,1	4,8	4,6	4,5	4,3	4,3	4,7	4,9	4,4	4,4	4,7	4,7	5,0	5,6	-
	South Africa	7,5	7,6	7,4	7,2	6,9	7,0	7,1	6,8	6,3	5,4	4,7	4,8	5,4	5,9	5,5	5,1	5,3	5,6	5,3	5,2	5,2	5,1	4,6	-

China stands out in this context, but the reality is that China is experiencing a deflationary downturn both in terms of industrial output and domestic consumption, which in turn threatens global economic growth. To mitigate this threat, in late September, China's central bank injected around USD 200 billion into the financial system, triggering a rally in Chinese stocks. The sharp drop of the PMI (Purchasing Managers' Index) most likely prompted this move. In Europe, luxury sector stocks were among the main beneficiaries, with positive outlooks heading into year-end.

The third quarter provided a breather for stock markets, particularly affecting AI and IT stocks disproportionately. What has been called a correction in many places is technically just a normal consolidation. Short-term market participants caused volatile trading sessions, but the dust has now settled.

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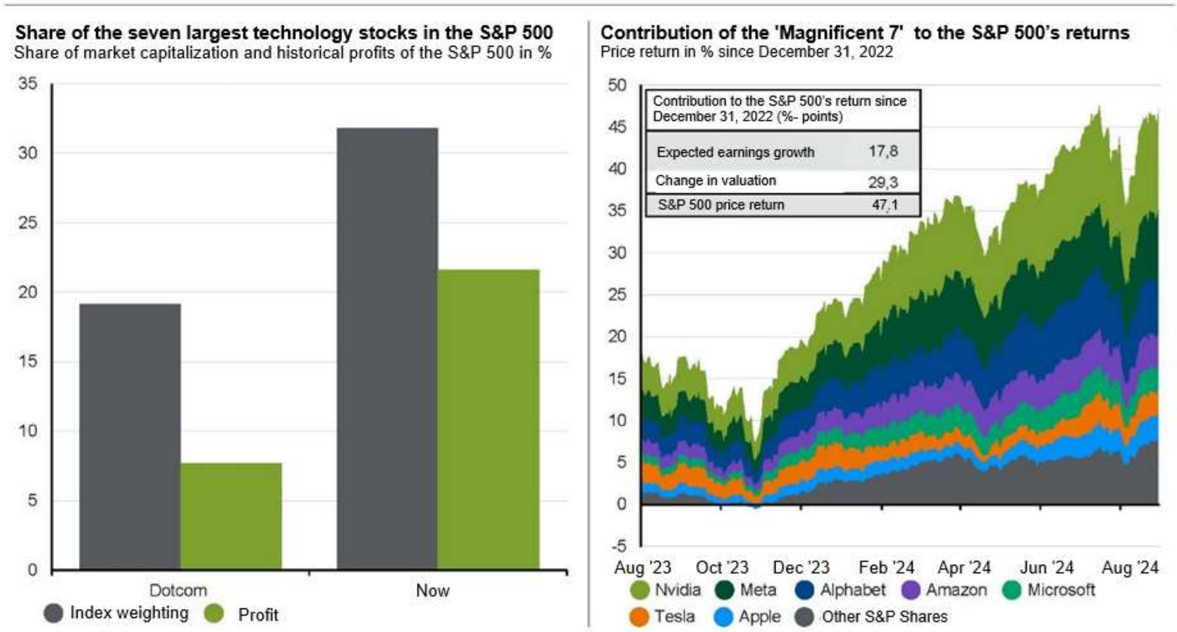
AI stocks, especially Nvidia, have become a popular choice among retail investors. Criticism of high valuations has been overtaken by reality. In contrast to the dotcom bubble of the early 2000s, today's AI and IT champions are generating a disproportionately large share of profits within the S&P 500 index:



Expectations of Consistently Doubling Profits Are Clearly Exaggerated. As a prominent example, the valuation of Nvidia: Long-term investors have little to worry about here. The Blackwell line is coming to market slightly later than expected, but it will generate substantial profits. Better late and flawless.

The growth outlook for Nvidia (NVDA) remains intact at least until 2026, but it's unrealistic to expect quarterly profit increases of 100% from the current already high levels. Nonetheless, Nvidia will continue to dominate the IT sector. This champion archives an outstanding gross-income-margin of nearly 76%.

In general, technical analysis—while secondary for the long-term perspective—clearly signals that the moment to exit the semiconductor segment has not yet arrived. Thus, we recommend staying invested and accepting market volatility as a given. Market sentiment is rightly focused on the future, while balance sheets and quarterly reports reflect the past. Those familiar with the legal and regulatory threats understand the overly cautious communication from corporate leaders. Currently, we are in the early stages of a long-term trend, meaning next-generation products across the entire value chain of the sector. The sector's contribution to the US gross domestic product is currently 4.3% and growing. Not to mention its contribution to the value creation of the world's leading economic power. The beneficiaries of this trend belong in a successful portfolio.

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In One Month, elections will be held for the US Presidency for the next 4 Years. The race is open. The result will surprise. The term "surprise" has become overused in financial media lately. Almost every piece of news is now labelled as a surprise.

The most important data in the coming weeks falls into this category, which will temporarily increase stock market volatility:

- October 4th 2024: U.S. Employment Index plus Purchasing Managers' Index
- October 21st 2024: A wave of earnings reports from the AI sector
- November 1st 2024: U.S. Employment Index plus Purchasing Managers' Index
- November 6th 2024: U.S. Presidential Elections, just 1 month away!

The last quarter will be extremely eventful. For short-term oriented investors, we identify risks for the coming weeks stemming from high volatility, discussions about the ever-looming debt bubble and political events. Further interest rate cuts are likely both in Europe and the USA. The fair-weather phase in the stock markets is expected to continue. A year ago, we were on the positive side with our market forecast, predicting 5,400 points for the S&P 500, which has long been exceeded with S&P 500 reaching 5,700 points. The Dow Jones Index reached a new high of nearly 42,500 points. Using credible data, we are already estimating the S&P 500 level for the next 12 months, and MPM would be surprised if the hurdle of 6,440 points in the S&P 500 were not reached.

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