Cham, July 5th 2024

Outlook into the 3rd Quarter 2024

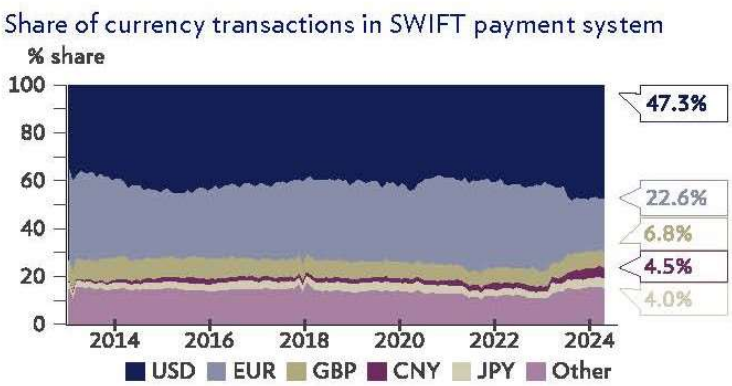
AMERICA FIRST

As we approach the end of 2024, the focus shifts to America First. The US economy stands out with a growth rate approximately 1% higher than that of the EU/Switzerland. Additionally, increased volatility in the financial markets is expected through December due to the heated phase of the US presidential election campaign. As a result, portfolio allocation should significantly overweight US stocks.

In the growth forecasts, the negative signs and the dreaded word "recession" have largely disappeared. The business climate in Western industrialized countries has recovered to an index value near the neutral zone, indicating that it is far from overheating. However, consumer confidence, particularly in Germany, is harmed by problematic politics. We are sticking to our adjusted forecast, an S&P500 of 5700 points at the end of December.

Monetary policy has largely been clarified: the Swiss National Bank (SNB) and the European Central Bank (ECB) have cut interest rates. The deliberately confusing FED communication is causing criticism from the ranks of the financial industry. The high US interest rates are starting to have an effect. Regionally, the weakest growth since the first quarter of 2022 can be observed. However, the global economy can comfortably live with the current level, making it understandable that the Fed is not in a hurry to cut interest rates. The smoke signals from Fed Chief Powell suggest that rates may be cut in late July or at the latest by September. The threats of possible further rate hikes from the Fed committee are likely tactical, intended to prevent the stock markets from overheating.

Two points are key here: lower interest rates primarily benefit debt-laden governments. Additionally, nearly the entire global economy, via the world currency USD, is tied to American monetary policy. After all, almost 70% of global financial flows are conducted in USD or controlled by the USA. A look at the SWIFT transactions illustrates that the often-threatened common currency of an axis of states like China, Russia, Iran, etc., remains illusory:



Source: SWIFT

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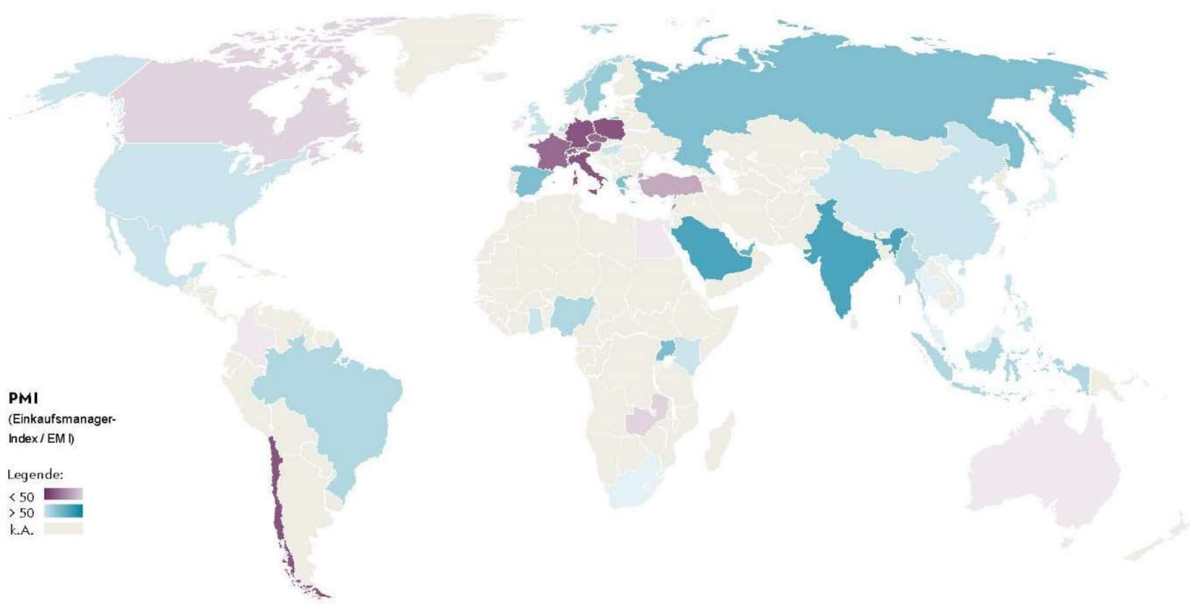
About 50% of global trade is conducted in USD, the Euro accounts for 22%, the GBP for 7%, and China's export powerhouse, the Yuan, for less than 5%. These figures are real because they are based on actual economic transactions, in stark contrast to the volume of Forex speculation.

The USD could suffer in the medium term under a Trump presidency. His program, focusing on domestic policy, will lead to higher government debt. His erratic economic minister-designate, Elon Musk, would add to the turmoil. The recent bumpy Treasury auctions are a wake-up call. A scenario where a US president interferes with the Fed's monetary policy, causing an "Erdoganization," is unlikely. In this scenario, the dollar of a US-heavy portfolio should be hedged by year-end at the latest. The Euro is also under scrutiny. The current elections in France could burden the Euro significantly if the parliament shifts sharply to the right.

The correction of the stock markets, which was very moderate, is over. Despite the confusing multitude of Fed statements, it has become clear: rate cuts are on the way and this is already priced into the stock market. It is noteworthy that around 90% of index values have corrected significantly whilst the stocks we recommend have only oscillated moderately, which speaks for their top quality. MPM's investment strategy is based on a long-term top-down analysis that primarily identifies geographic regions and their business sectors. Quality and security of the customer portfolios is our top priority. That is why we also are very cautious with popular growth ideas such as China or India.

The global economic cycles are moving differently. A look at the geographic regions simplifies this point:



Source Bloomberg

The colouring shows the crucial early indicator of economic development, the PMI, in a simplified manner: in blue over 50%, in red for moderate to weak development: under 50%. In the industrial cycle, Europe lags behind the powerhouse USA by around 1 to 1 ½ years. The raw material economies of Canada, Australia and Chile are particularly noticeable: in these regions and sectors we recommend a high degree of caution anyway.

The importance of geographic allocation for portfolio performance is demonstrated by comparing the major stock indices:

	SMI	*DAX*	*S&P500*	*MSCI World*
YTD, since 1.1.2024	*+7,69%*	*+8,86%*	*+14,35%*	*+10.81%*
10 years	*+83,0%*	*+85,79%*	*+265%*	*+201,5%*

To compare transparently, currency differences must be considered. The MSCI World is quoted in USD, the German DAX is quoted including dividends and we have calculated all the 10-year developments including dividends. These values apply to the equity portion of the portfolios. These values do not only support a long-term globally diversified equity strategy but also make a solid case for an equity portfolio for offsetting perpetual inflation.

There are many opportunities and risks, even with top stocks. For example, Nvidia is currently widely discussed. A serious Taiwan conflict that damages supplier TSMC would be a severe blow to the entire IT and AI sector. We consider China to be a responsible nation with a focus on business first. But the search for a safe haven remains an illusion: there is no such thing!

Finally, a word about our firm: In MPM's founding year 1983, i.e. 40 years ago, the Dow Jones Index was at 1000 points. Today, it is on the verge of reaching the 40,000-point mark, a 40-fold increase! Over time, the various stock market crashes and corrections have been like bumps on an otherwise smooth road. We view 40 years of MPM as a commitment to success.

Your MPM Swiss AG

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