Market review

June 2024

AI – what else?

On the surface, June was a rather quiet month. With few exceptions, European stock indices trended slightly negative. For equity investors in European companies, the saying «sell in May and go away» has certainly proven true so far. From a regional perspective, we saw some major differences.

For example, French equities in particular suffered from heavy selling. French bonds also signalled a little stress, with yields on 10-year government bonds rising by 20 basis points. The reason for this was the European Council elections, which were a debacle for a number of incumbent governments. In France, the opposition won so much support at the ballot box that President Macron called for new elections in the country. In response to the uncertain outlook, investors then sold off their investments in France. In general, fears of political instability and rising government spending are becoming increasingly loud after the European elections, unsettling investors across the board. The latest European economic data was also not helpful. Many data points clouded over in June, threatening to stifle the slight recovery seen in recent months at a low level.

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In contrast, US equities and bonds ended June on a positive note. However, the current equity rally is only being driven by a very small number of stocks. Anything that does not have anything to do with artificial intelligence is falling behind. Furthermore, yields on dollar bonds fell due to rather weaker economic data in the US, which raises hopes of interest rate cuts in the near future. The FED will probably not lower interest rates until autumn, as there are still enough indicators that are too strong to allow fundamentally lower interest rates. Above all, inflation cannot be pushed down, as it stubbornly remains stuck at over 3%. There are more and more signs of weakness in the US economy, which still appears strong. For example, there is the development of retail chains. In the more expensive segment, there is hardly any profit to be made at the moment, while at the lower end, companies like Walmart are doing very well. This means that consumers must be very careful with their spending. In the latest surveys, consumers gave a pessimistic assessment of their personal finances and the general economic situation.

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Professional economic experts also expect the growth of the US economy to slow further towards 1%. This is due, among other things, to high inflation and high interest rates, which are increasingly burdening private households and their willingness to consume. The increase in outstanding loans on US bank balance sheets, which are classified as critical, is also a cause for concern. At the 100 largest public US banks, these loans rose to a 14-year high. At the same time, consumers are increasingly exhausting their credit card limits, which is leading to interest charges of 21% on these debts.

In Switzerland, we continued to see robust service sector data and rather weak industrial data in June. For once, the inflation figures did not come as a negative surprise and are currently at a low 1.4% on an annualised basis. Nevertheless, and to the surprise of many market participants, the SNB cut the key interest rate for the second time this year by 0.25%. The resurgent Swiss franc was apparently too great a threat to a broad-based recovery in industry, so the SNB had to help out a little.

Stock Markets

While the political turmoil weighed on European equities, the Swiss stock market held up well thanks to Roche. Otherwise, the US stock markets are racing from one high to the next, driven almost exclusively by stocks in the AI sector.

Consumer stocks are performing negatively, with some losing 15%–20%. Nike and Walgreens are prime examples of this. In Asia, markets remain positive, with the exception of China. Here, more government stimulus is awaited.

Interest rates

As expected, the ECB cut interest rates at the beginning of June. At the subsequent press conference, Ms Lagarde was cautious about further interest rate cuts. Nevertheless, further cuts are expected due to the weak economy.

The interest rate differential between Germany and France increased sharply after the election debacle of the governing parties in the European elections. While interest rates in Germany fell by 14 basis points, they rose by 20 basis points in France. In the USA, one or two interest rate cuts are expected this year, but not until autumn.

Currencies and commodities

Thanks to the interest rate cut in Switzerland, the CHF weakened by almost 2% against the EUR. The reaction to the USD was somewhat weaker. Bitcoin is losing ground and is 9% lower than in May. Gold is trending sideways, which is not surprising after the Chinese government stopped buying.

Among commodities, oil and gas are particularly striking, rising by up to 6% in June. While petrol prices continue to rise, at least in the USA, the prices of foodstuffs such as wheat and maize are falling.

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