Crafter's Strategy Letter

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Differing challenges lead to divergent paths globally

We are, without doubt, witnessing a time of realignment of global geostrategic partnerships and interests. The current 'Rules Based' Liberal World Order is under constant attack to its core. A wide spectrum of possible outcomes presents. Given the mushrooming political risk, investors must strategize accordingly.

Source: Pixabay

Stock markets have continued their upward trend in Q1. US stock markets, in particular, continue to exhibit a high level of concentration, mainly driven by a few dominant tech heavyweights. This reflects investors' focus on digitisation and artificial intelligence (AI) thematics.

A glance at expected earnings growth for US stocks in 2024 & 2025 based on the S&P 500 Index reveals an interesting picture. Currently, the actual market weighting's expected growth for 2024 is 9.7%. However, when considering the equal weighting instead, the growth is 'only' 5.1%. This difference is due to the strong performance of the heavy weights in the tech sector. However, growth of around 12% is expected under both calculation methods for 2025. It appears that growth is again becoming more broadly distributed and less concentrated.

The German DAX and the French CAC 40 reached new record levels in the first quarter of 2024 too. The Japanese stock market impressively maintained last year's rally, finally surpassing its previous peak in December 1989, after decades in the Doldrums.

Uncertainty over the timing and extent of interest rate cuts increased in the past quarter. At the beginning of the year, there was a high divergence between the market participants and the US Federal Reserve (FED) regarding interest rate expectations. However, this divergence has now decreased significantly.

Central Banks no longer act in synchrony

Currently, investors anticipate the first interest rate cuts in the US and Europe to occur in June. The Swiss National Bank surprisingly made a first interest rate cut in March. The Bank of Japan, on the other hand, has slightly increased interest rates. In China, the political leadership seems no longer willing to extensively print new money to support the economy.

Significant differences in Central Banks' monetary policies are now evident. This comes

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after a decade of globally- and synchronically-coordinated money printing, post the 2008 financial crisis. Diverging monetary paths lead to differing base levels for investors in respective capital markets and to significantly different impacts on respective currencies.

Equities	YTD 2024	Q1 2024
MSCI World AC (USD)	8.2%	8.2%
S&P 500 (USD)	10.2%	10.2%
Eurostoxx 50 (EUR)	12.4%	12.4%
SMI (CHF)	5.3%	5.3%
FTSE 100 (GBP)	2.8%	2.8%
Nikkei (JPY)	20.6%	20.6%
MSCI Emerging(USD)	1.9%	1.9%
Bonds	**YTD 2024**	**Q1 2024**
Bloomberg Global Aggregate	-2.1%	-2.1%
US Treasury 10y	-1.9%	-1.9%
US Corporate	-0.4%	-0.4%
Bund 10y	-2.8%	-2.8%
EU Corporate	0.5%	0.5%
Currencies	**YTD 2024**	**Q1 2024**
USD Index	3.1%	3.1%
EUR/USD	-2.3%	-2.3%
GBP/USD	-0.8%	-0.8%
USD/CHF	7.1%	7.1%
EUR/CHF	4.8%	4.8%
GBP/CHF	6.1%	6.1%
Other	**YTD 2024**	**Q1 2024**
Brent oil	13.6%	13.6%
WTI Crude	16.1%	16.1%
GOLD SPOT $/OZ	8.1%	8.1%
Silver Spot $/Oz	4.9%	4.9%
BBG Commodities Index	0.9%	0.9%
Iron Ore	-24.6%	-24.6%
US REIT	-0.4%	-0.4%

Sticky inflation and sturdy consumption

Given global macroeconomic turbulence and ongoing geopolitical tensions, private consumption in industrialised countries remains remarkably sturdy. Compared to last year, we expect slower growth of the US economy in 2024. Our anticipated 'soft landing' of the US economy should be achievable through several but small interest rate cuts. Subsequently, economic growth should pick up again. In general, we expect inflation to decrease slowly.

The commercial real estate sector in the US remains a weak spot. Several European banks have significant exposure within this sector, which may cause stress in the future.

We expect only a very sluggish economic recovery in China. However, local stock markets are already pricing in a very bleak scenario. The government in Beijing is currently pursuing an economic policy to stimulate industry. Furthermore, they still seem unwilling to support State Intervention into the credit market and real estate sector, deviating from past form.

On our 'risk radar', we see rising middle-term risks in the form of the development of global government debt. The upcoming US elections and their high potential to cause market volatility remain as a risk on our radar too. In Europe, financing needs skyrocket due to structural challenges. Persistent migration pressure, adopted climate policies and the shortfall in defence spending, pose major challenges to the political leadership.

The price of gold as a seismograph for geopolitical realignment?

Despite significantly rising real interest rates and declining inflation rates, the price of gold (measured in practically all currencies) is reaching new all-time highs. Current attempts to explain the cause for the rising price of this precious metal are increasingly reaching their limits.

What can be said with certainty is that Asian countries and central banks continue to buy rising quantities of physical gold. Data also shows that private investors in China are increasingly investing in gold too (a consequence of the troubled real estate market?) and at the COMEX in New York there are progressively more physical deliveries. It is probably no coincidence that gold and Bitcoin are simultaneously climbing

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to all-time highs. Does this suggest a flight from paper currencies? We view it as a plausible explanation when considering massive government debt, a continuous expansion of military and defence budgets, along with the geopolitical realignment of the world.

Bearing this in mind, our conviction, that gold plays a central role in portfolios for security and protection against "exogenous shocks", is strongly reinforced. However, holding gold alone is not enough. We also place great emphasis on not buying fashionable or enticing debt securities from problematic countries/ regions or from ambiguous corporate structures. While returns have risen significantly since the period of zero interest rates, so have political risks. Additionally, currency risks or rather its diversification play a crucial role in long-term wealth creation and preservation.

Finally, critical questioning of the liquidity parameters of all investments observed during normal market phases is central. This has been painfully experienced by numerous Western investors – especially pension funds – during the Russian invasion of Ukraine or the collapse of Chinese real estate companies.

Selection is key for equities. In times of geopolitical uncertainties and lower growth rates, high cash flow generation and strong corporate balance sheets are likely to be crucial. In addition to companies with leading technologies, we are increasingly focusing on overlooked value stocks in the healthcare, consumer, energy and industrial sectors and we see upside potential in the coming quarters due to a broadening market breadth.

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