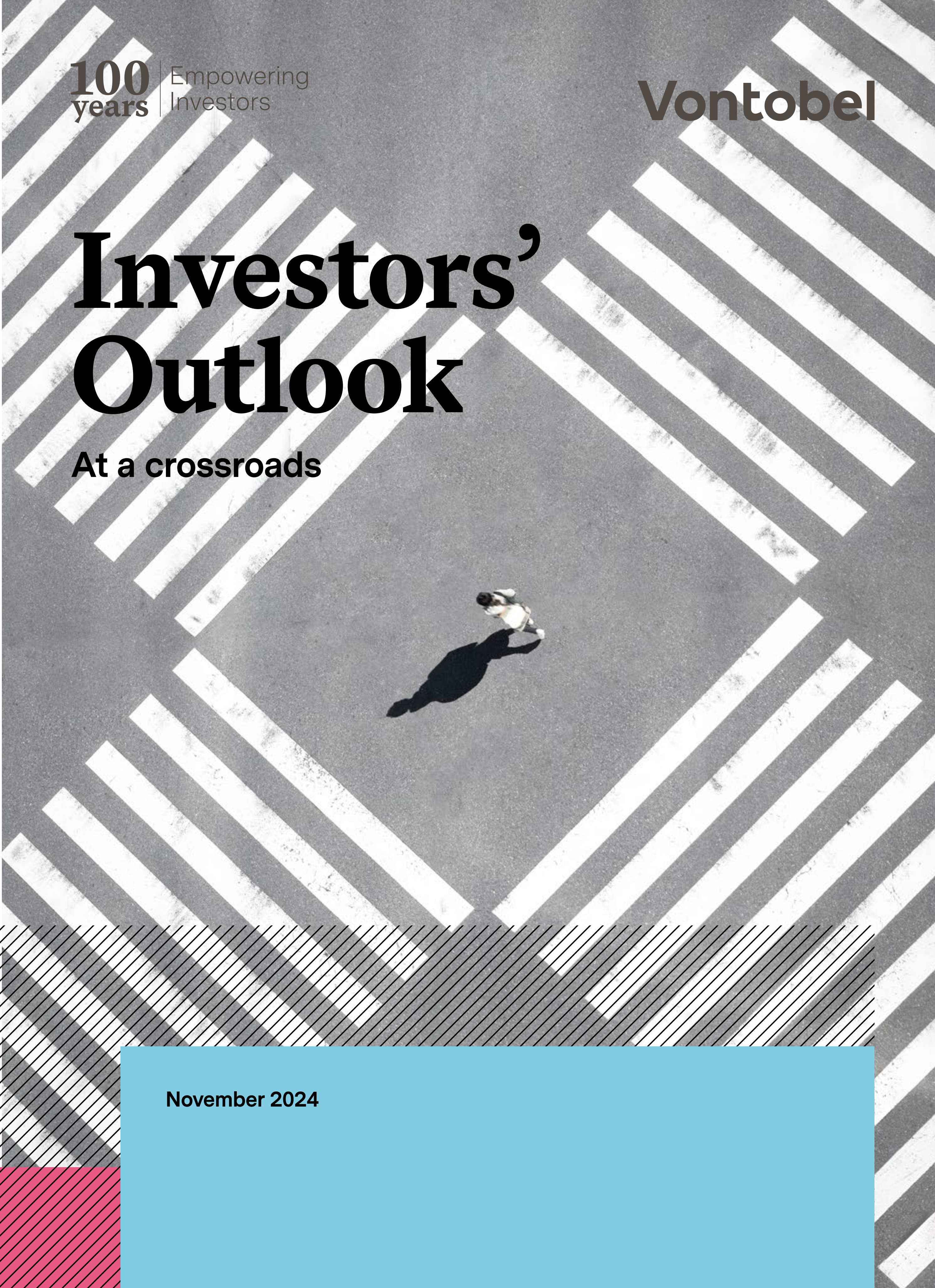

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Vontobel

Investors' Outlook

At a crossroads

November 2024

Content

This document does not express any political views or endorsements, but rather aims to objectively analyze the economic factors and implications. The analysis is based on publicly available information as of October 2024 and is for informational purposes only and should not be construed as investment or political advice.

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At a crossroads

—
Dan Scott
Chief Investment Officer,
Head of Multi Asset, Vontobel

Dear readers,

Anticipation is high as the US presidential election nears its culmination. With Donald Trump and Kamala Harris locked in a tight race, the balance of power in Congress is also at stake. Will there be a Republican sweep in the Senate, and will Democrats retake the House of Representatives? The outcome rests heavily on swing states[1], where the economy has emerged as a decisive issue for voters[2].

Amid declining inflation and signs of a weakening labor market, the US Federal Reserve (Fed) had started to cut interest rates. A stronger-than-expected jobs report in September sparked skepticism over whether the Fed will keep its dovish stance. However, October hiring was the weakest since 2020, with previous months' job gains revised downward. The Fed will start its next policy meeting on November 6, capping an eventful week in the wake of the election.

Regardless of whether the country chooses to return to Trump's familiar terrain or charts a new course under Harris, a significant shift in US-China relations appears unlikely. We believe both candidates are poised to continue a combative stance toward China, and the broader trend of economic containment are likely to persist.

A key issue we're watching is the growing federal deficit, which poses a challenge no matter who takes office. While Harris's approach appears to be less inflationary—favoring more restrained fiscal policies compared to Trump[3]—the trajectory remains toward higher federal debt under both. This poses a risk to the US dollar and highlights the need for diversified investment strategies.

The most immediate market-relevant event may be the sunsetting of Trump-era tax cuts. If phased out, this could impact companies' valuation multiples and cause some market volatility.

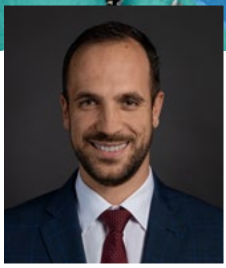
In this Investors' Outlook, we analyze gold's recent rally and dissect what's going on in bond, currency, and stock markets. This shortened edition aims to provide a concise overview, cutting through the pre-election noise. For a deeper analysis of the potential paths ahead, we invite you to our upcoming webinar on Thursday, November 7. I'll be joining our Chief Economist, Reto Cueni, and Stephan Bierling, professor of political science at the University of Regensburg, for an in-depth discussion of the election results.

At this crossroads, it's not just the direction we choose that matters but how we steer the turns. We're happy to take the wheel for you.

After the US elections
Impact on geopolitics and financial markets

Webinar event November 7
9:30 a.m. – 10:15 a.m. CET

[1] See "Glossary and sources" on p. 13.



—
Stefan Eppenberger
Chief Investment Strategist,
Vontobel

Between the lines

The good news first: Inflation continues to moderate, and most major central banks have embarked on a rate-cutting cycle. This generally creates an attractive environment for investors.

However, financial markets are already priced for a soft landing where the economy slows without falling into a recession. But they currently face two main risks: weaker-than-expected economic growth and stimulus news could stoke fears of a slowdown, while stronger data might heighten the risk of a "no-landing" scenario, where the economy continues to expand, but inflation resurges. Neither outcome is ideal, leaving investors cautious.

Better-than-expected labor market and inflation data prompted interesting developments at the Fed. Some officials, like Minneapolis Fed President Neel Kashkari, advocate for "modest" rate cuts, while others, such as San Francisco Fed President Mary Daly, support maintaining a steady pace of reductions[4]. The Fed will continue to normalize its monetary policy and move interest rates back to a neutral stance[5], in our opinion.

Adding to the uncertainty is the tight US presidential race, along with the question of which party will control the two chambers of Congress, which will significantly influence the next president's ability to enact their agenda. Given the elevated political and economic uncertainties, Vontobel's Investment Committee has decided to maintain its current asset allocation. Find the details on page 5.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity			→			We stick to our current positioning, staying neutral on cash while remaining ready to deploy it as opportunities arise.
2 Bonds		→				Bond yields have moved higher this fall, following positive economic surprises and a higher likelihood of reflationary policy with Donald Trump gaining in polls. We continue to think that the Fed will normalize its monetary policy and bring interest rates back to a neutral stance. As such, we see some downside potential for yields from here. However, we acknowledge the higher likelihood of more fiscal stimulus and maintain an overall underweight allocation in fixed income. We are overweight[6] government bonds, viewing Treasuries as one of the best hedges against a potential recession scenario. We prefer them over corporate investment-grade bonds, which offer little additional carry, in our view. High-yield bonds are likely to underperform, as the economic environment remains challenging and more defaults emerge. Bankruptcy filings for larger companies are gradually moving toward stress levels. We keep a small overweight exposure in emerging markets hard currency bonds, where spreads are attractive and US dollar weakness should be beneficial.
3 Equities			→			We were overweight equities from mid-February through September of this year, realizing these gains in September after strong global market performance. Our move to a neutral equity position reflects the high levels of economic and political uncertainty. At the same time, global markets are near all-time highs and some valuations are very high. In addition, we believe that some earnings expectations will be difficult to beat in a relatively weak economic growth environment. Analysts have also begun to lower their earnings forecasts. Falling inflation and continued rate cuts by global central banks argue against adopting a more negative equity stance, while seasonality also favors equities. In this environment, we are regionally diversified without a preference for any single region.
4 Gold				→		We remain overweight on gold. The yellow metal has surged above USD 2,700 per ounce in October (+33 percent year-to-date in US dollar terms). Solid physical demand, the upcoming US presidential election, ongoing geopolitical tensions, and hopes for further Fed rate cuts have been able to offset a stronger US dollar and rising US real yields. While gold's further upside is likely limited, we still deem a slight overweight justified as we expect a lower US dollar, peaking US real yields, and robust central bank demand (especially from emerging markets).
5 Commodities			→			Our commodities allocation remains neutral. There are still many question marks surrounding the global economy, which make it difficult to be bullish on commodities. At the same time, key commodity consumer China is now stepping up its stimulus efforts, the Fed has entered an easing cycle, which could lead to a stronger growth impulse and a weaker US dollar (positive for US dollar-denominated commodities). There are also plenty of geopolitical risks that prevent us from going underweight.
6 Alternative strategies			→			We stay neutral for alternative funds (with a preference for insurance-linked securities), and real estate.

Changes month-on-month: same → higher ↗ lower ↘

Shifting expectations

—
Christopher Koslowski
Senior Fixed Income & FX Strategist,
Vontobel

Recent weeks in the fixed income market have seen rising yields driven by various news events. Just over a month ago, the Fed implemented a 50-basis point reduction in interest rates, typically viewed as positive for bonds. However, strong nonfarm payroll figures highlighted a robust economy, causing yields to spike.

Initially, markets expected further easing, forecasting a total of 100 basis points in cuts by January. However, following strong September employment data, this expectation has shifted to a projected 50 basis points over the next three meetings, with the possibility of holding rates steady at least once. This change aligns with recent Fed communications signaling a move away from aggressive rate cuts.

Political factors are also in play, with markets now indicating a strong likelihood of Trump winning a second term. Such a victory is anticipated to bring further tax cuts, an inherently expansionary policy likely to push rates higher.

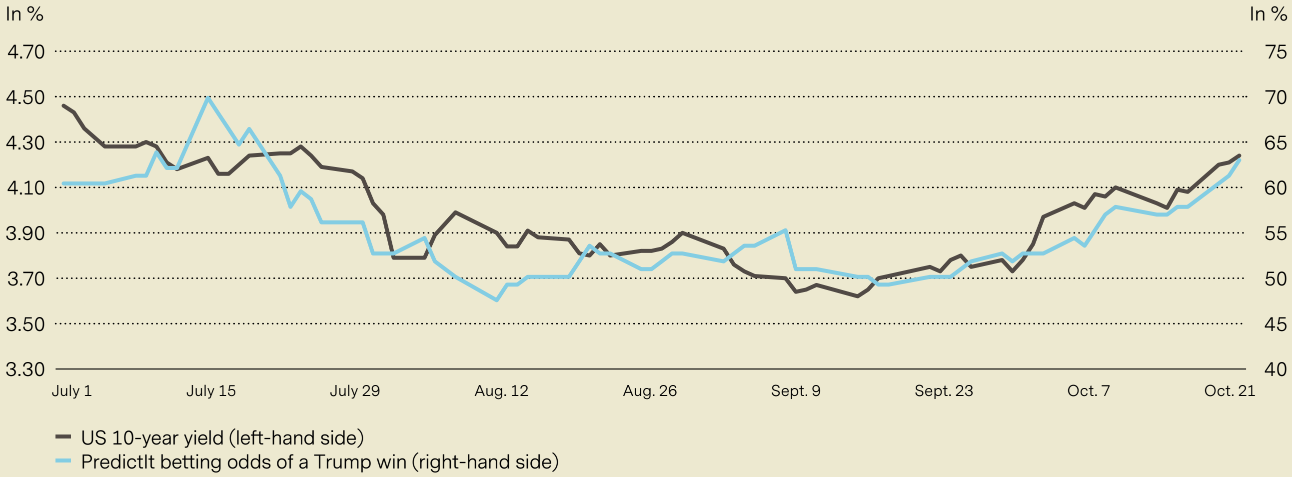
In 2016, PredictIt, an online prediction market, estimated Trump's chances at just 22 percent on election eve; today, that figure is nearly 60 percent[7] (see chart 1). Thus, if Trump wins, market reactions may be more subdued, as his victory would no longer constitute a surprise.

A soft landing for the Fed?

The gap between corporate bond yields and US Treasuries has tightened to its narrowest in nearly two decades, driven by investor optimism about a soft landing of the US economy. The spread dropped to just 79 basis points last week, its lowest since March 2005. This narrowing, a key indicator of perceived default risk, signals confidence that the Fed can curb inflation without triggering a recession that could strain corporate debt payment.

However, caution is warranted, in our opinion. The US corporate bond market may be underestimating ongoing economic risks or potential instability around the November presidential election. In broad terms, the market is fully priced for a soft landing or even better. Over the past 25 years, there have only been 35 trading days where spreads have fallen below 80 basis points. Investors, lured by the prospect of higher overall yields, appear to be overlooking the minimal buffer currently provided against an increase in corporate defaults.

Chart 1: The odds of a second Trump term are rising



Source: Bloomberg, Vontobel; as of October 23, 2024.

Speeding along

—
Mario Montagnani
Senior Investment Strategist,
Vontobel

Global stock markets continue to power ahead, primarily fueled by a few key players in the US. This concentration of performance, coupled with high valuations, demands a strong earnings season, especially from AI-linked giants. In essence, markets are demanding, "show me the money".

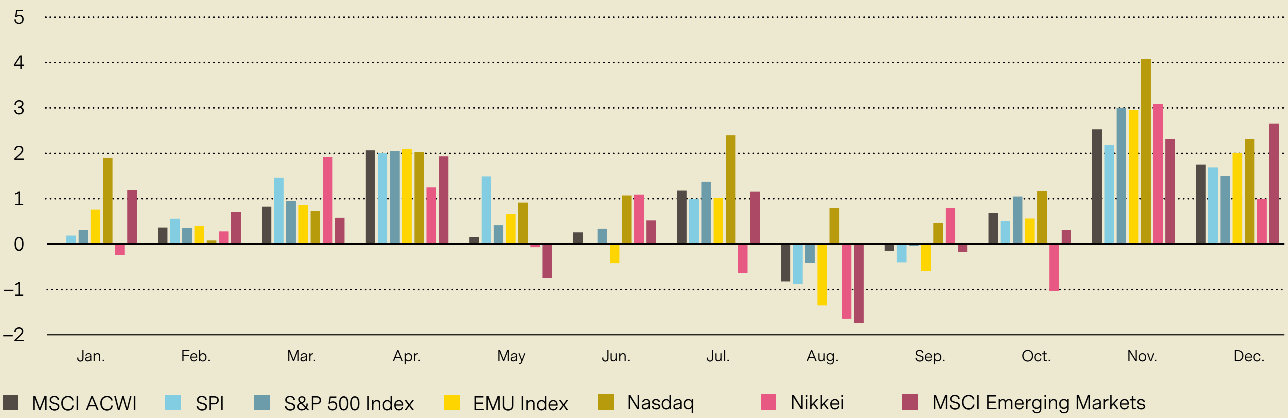
Despite a first Fed rate cut, historically a negative signal for equities, and geopolitical tensions from the escalating conflict in the Middle East, encouraging economic data, the upcoming US presidential election, and prospects of fiscal stimulus have kept global stock markets on track since our last update in early October. However, the US remains the sole outperformer among regions. The S&P 500 Index is currently experiencing one of its best year-to-date performances in 30 years, having achieved 47 all-time highs this year – nearly one per week. This surge is increasingly reliant on a handful of tech and AI-related stocks, with Nvidia emerging as a standout among the "Magnificent 7"[8], while contributions from other stocks have weakened since last summer. Market breadth is also concerning, with only 26 percent of S&P 500 companies hitting new all-time highs in the past three months. Given the forward valuation multiples well above historical averages and modest positive earnings surprises from the current reporting season so far, caution is warranted, in our view.

On the other hand, the rally in emerging-market equities has faltered following China's latest stimulus package, which fell short of expectations. Lackluster economic indicators, including weak Chinese quarterly gross domestic product (GDP) growth and declining house prices, have dampened investor sentiment, indicating that significant improvements are needed to boost consumer confidence in China. The repercussions of China's slowdown are evident in the ongoing reporting season, particularly in Europe, where many sectors, including consumer discretionary, industrials, and technology, are experiencing material impacts, with some companies issuing profit warnings. For example, most European luxury goods firms reported revenue declines of up to 30 percent in the third quarter, a trend mirrored in Swiss watch exports to China, which plummeted 50 percent year-on-year in September.

What's next? While we maintain a constructive view on equities as we approach the typically strong year-end period (see chart 1), we remain tactically neutral.

Chart 1: A closer look at historical monthly seasonality

Average total monthly return in %, in local currencies, over last 50 years



Source: Bloomberg, Vontobel; as of October 24, 2024.

Good, better, precious metals

—
Michaela Huber
Senior Cross-Asset Strategist,
Vontobel

Anyone writing about gold can't help but use superlatives. The yellow metal's impressive run has surpassed even the most bullish forecasts this year, climbing above USD 2,700 per ounce in October, with a year-to-date gain of over 30 percent. Its rise has been outdone only by silver, which surged more than 40 percent.

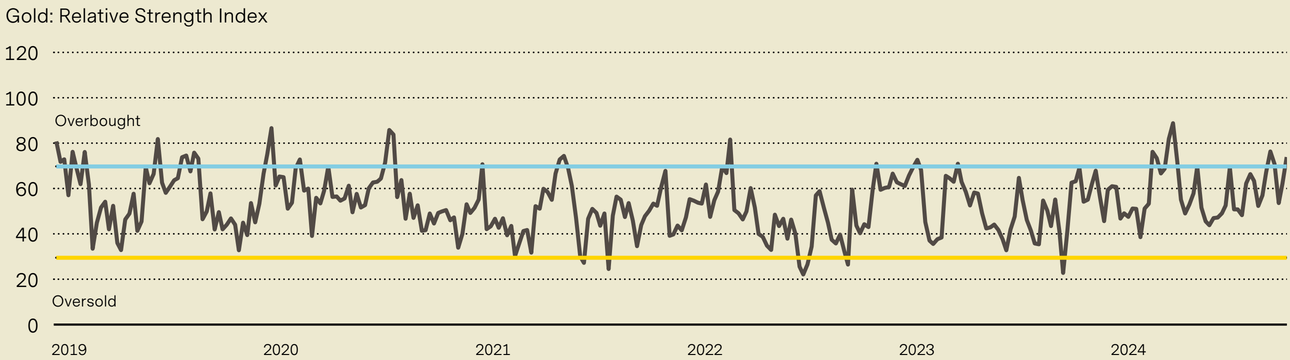
Factors driving gold's rally included uncertainty around the US elections, ongoing tensions in the Middle East, and investors' hopes for further US interest-rate cuts, which make non-yielding assets like gold more appealing. Demand is also slowly but surely picking up on the exchange-traded fund (ETF) side as the Fed has begun its long-awaited policy pivot.

Do the aforementioned factors fully explain gold's relentless march higher, especially with technical indicators suggesting it is in overbought territory (see chart 1)? Probably not. Other forces are likely at play that have helped to compensate for rising US real yields and the fact that the US dollar has reached a three-month high (a stronger dollar makes gold more expensive for holders of other currencies). Once again, the answer may be found on the physical side.

Physical demand remains solid as some central banks continue to buy despite high prices, alongside robust demand in India, where gold is traditionally gifted during the festive season. Another (somewhat speculative) explanation is that BRICS[9] nations may be planning a currency alternative to the US dollar, partially backed by gold[10]. This theory gained traction following the BRICS summit in Kazan, Russia, in late October and comments by European Central Bank President Lagarde, who cited gold as a reason not to take currencies for granted[11].

Silver, often considered gold's "little brother", has also seen significant gains, breaking the USD 34 per ounce level at the end of October for the first time since 2012, as some investors seemed to shift to silver amid gold's high price. Palladium attracted attention as well, with prices temporarily jumping 10 percent after reports that the US urged G7 allies to impose sanctions on Russian palladium[12], which accounts for 38 percent of global supply. It remains to be seen whether the G7 countries will heed the call, as Europe has historically been reluctant to sanction this metal, which is vital to the automotive industry.

Chart 1: Technical indicators: Is the air getting thinner?



The Relative Strength Index (RSI) is a momentum indicator that measures the speed and magnitude of recent price changes. Traditionally, an RSI reading of 70 or above indicates an overbought condition. A reading of 30 or less indicates an oversold condition.

Source: LSEG, Vontobel; as of October 24, 2024.

The dollar at a fork in the road

—
Christopher Koslowski
Senior Fixed Income & FX Strategist,
Vontobel

The upcoming US presidential election presents two divergent economic visions that could shape the US dollar's trajectory. Republican candidate Donald Trump has doubled down on plans for steep import tariffs, while the Democratic candidate Kamala Harris advocates for a more measured approach to trade protectionism. The contrasting trade and fiscal strategies of the two are poised to influence currency markets.

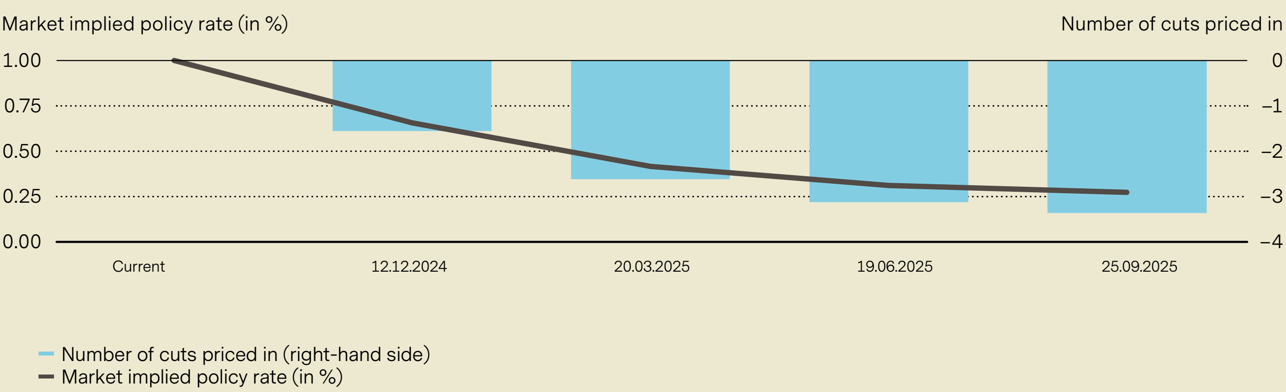
The impact of a potential second Trump term on the dollar is ambiguous. While his aggressive trade policies and growth-oriented agenda might support the cyclical dollar bull case, bears may point to the likelihood of a more dovish Fed post-Chair Jerome Powell, concerns about fiscal sustainability, and the threat that rising protectionism could accelerate could fuel global de-dollarization, reinforcing a bearish outlook for the greenback.

A Harris presidency, in contrast, would likely maintain the status quo on both domestic and international economic policies, with the scope of any changes largely dependent on the balance of power in Congress. Nonetheless, we foresee no significant shifts in the broader policy direction, meaning the yield-driven and cyclical factors underpinning the bearish dollar narrative are expected to remain intact through 2025.

The SNB's rate-cut dilemma
Swiss inflation has fallen to its lowest level in more than three years, raising the odds of further monetary easing by the Swiss National Bank (SNB). Like the Eurozone, Switzerland is caught in a cycle of rate cuts and disinflation. The sharp drop in September's inflation figures has intensified speculation ahead of the SNB's December meeting: will the central bank opt for a 25-or 50-basis-point rate cut?

With inflation slowing more rapidly than expected and the Swiss franc maintaining its strength, the SNB may face limited choices. Unless there is an unexpected reversal in the franc's appreciation—currently an unlikely scenario—the SNB could feel compelled to act more aggressively (see chart 1). A 50-basis-point cut remains a possibility if inflation continues to weaken. The central bank now faces the difficult task of balancing the need to stimulate growth with the risk of sustained deflation.

Chart 1: What's next for the SNB?



Source: Bloomberg, Vontobel; data as of September 19, 2024.

Economy and financial markets 2022 – 2025

The following list shows the actual values, exchange rates and prices from 2022 to 2023 and consensus forecasts for 2024 and 2025 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates, and commodities.

GDP (IN %)	2022	2023	CURRENT[1]	2024 CONSENSUS	2025 CONSENSUS
Global (G20)	2.9	3.0	3.0	2.5	2.6
Eurozone	3.4	0.4	0.6	0.7	1.2
USA	1.9	2.5	3.0	2.6	1.8
Japan	1.0	1.9	–1.0	0.0	1.2
UK	4.5	0.3	0.7	1.0	1.3
Switzerland	2.7	0.7	1.7	1.4	1.4
Australia	3.8	1.9	2.1	1.2	2.1
China	3.0	5.2	4.6	4.8	4.5

INFLATION	2022	2023	CURRENT[2]	2024 CONSENSUS	2025 CONSENSUS
Global (G20)	7.5	4.4	4.8	5.0	3.0
Eurozone	8.4	5.5	1.7	2.4	2.0
USA	8.0	4.1	2.4	2.9	2.2
Japan	2.5	3.3	2.5	2.5	2.0
UK	9.1	7.3	1.7	2.6	2.3
Switzerland	2.8	2.2	0.8	1.2	1.0
Australia	6.6	5.7	3.8	3.4	2.8
China	2.0	0.2	0.4	0.5	1.3

KEY INTEREST RATES (IN %)	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR	2.50	4.50	3.40	2.80	2.30
USD	4.50	5.50	5.00	4.05	3.30
JPY	–0.10	–0.10	0.23	0.51	0.68
GBP	3.50	5.25	5.00	4.40	3.55
CHF	1.00	1.75	1.00	0.60	0.60
AUD	3.10	4.35	4.35	4.15	3.50

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	2.6	2.0	2.28	2.14	2.16
USD	3.9	3.9	4.20	3.69	3.67
JPY	0.4	0.6	0.96	1.13	1.32
GBP	3.7	3.5	4.23	3.81	3.69
CHF	1.6	0.7	0.47	0.53	0.70
AUD	4.1	4.0	4.41	3.91	3.93

FOREIGN EXCHANGE RATES	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	0.99	0.93	0.94	0.96	0.99
CHF per USD	0.94	0.84	0.87	0.87	0.88
CHF per 100 JPY	0.72	0.60	0.57	0.62	0.65
CHF per GBP	1.12	1.07	1.13	1.15	1.19
USD per EUR	1.06	1.10	1.08	1.11	1.13
JPY per USD	130	141	152	140	135
USD per AUD	0.67	0.68	0.66	0.70	0.72
GBP per EUR	0.88	0.87	0.83	0.84	0.85
CNY per USD	6.91	7.10	7.12	7.04	6.93

COMMODITIES	2022	2023	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	86	77	74	78	75
Gold, USD per troy ounce	1,824	2,063	2,719	2,595	2,500
Copper, USD per metric ton	8,372	8,559	9,507	9,800	10,125

[1] Latest available quarter
[2] Latest available month, G20 data only quarterly
Source: Vontobel, respective statistical offices and central banks; as of October 25, 2024

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Glossary and sources

[1] Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, Wisconsin.

[2] Source: CBS article, published April 29, 2024. https://www.cbsnews.com/news/economy-top-issue-voters-presidential-election-2024/

[3] Source: Tax Foundation article, published October 24, 2024. https://taxfoundation.org/blog/largest-tax-increase-harris-trump/

[4] Source: Reuters article, published October 22, 2024. https://www.reuters.com/markets/us/feds-kashkari-any-surprise-job-market-weakness-could-trigger-rethink-rate-cut-2024-10-21/

[5] Source: CME Group's FedWatch Tool. https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

[6] Overweight means the Vontobel Investment Committee has a higher preference for an asset class or sub-asset class.

[7] Source: PredictIt website, as of October 25, 2024. https://www.predictit.org/markets/detail/7456/Who-will-win-the-2024-US-presidential-election

[8] Apple, Microsoft, Amazon, Nvidia, Meta Platforms, Tesla, Alphabet.

[9] Acronym that stands for Brazil, Russia, India, China, and South Africa. It's an intergovernmental organization that also includes Iran, Egypt, Ethiopia, and the United Arab Emirates.

[10] Source: The Economist article, published October 20, 2024. https://www.economist.com/international/2024/10/20/putins-plan-to-dethrone-the-dollar

[11] Source: Atlantic Council conversation with Lagarde, published October 23, 2024. https://www.atlanticcouncil.org/blogs/new-atlanticist/christine-lagarde-on-european-competitiveness-us-tariffs-and-creating-a-digital-euro/ Quotes: "We need to be really attentive to developments around the world (…) China has been buying gold like never before. Russia is supporting gold because it is extracting a lot of gold out of its underground, and there are clearly attempts to push other currencies (…) we follow, you know, in which currency people transact, in which currency they keep reserves at the central banks, in which currency they do trade finance (…) the role of a currency should never be taken for granted."

[12] Source: Bloomberg article, published October 23, 2024. https://www.bloomberg.com/news/articles/2024-10-23/us-asks-g-7-to-consider-sanctions-on-russian-palladium-titanium

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