NG
NAHMANI GRUNDER
WEALTH MANAGEMENT & MULTI-FAMILY OFFICE

NG Market Insights

Market update YTD 2024

Outlook

Executive Summary: The backdrop for financial markets to remain positive

Asset Allocation

- A new global easing cycle is under way, together with improving US growth.
- Better GDP growth and lower policy rates usually lead to solid returns across financial markets.
- The market outlook should remain positive but is tempered by valuations.
- Equities should continue to perform better than Credit.
- IPO market to be wide open by Q1 2025.

Equities

- For developed markets, our base case calls for single-digit returns over next 12 months.
- With valuations back at Covid highs, be ready to act on drawdowns.
- We continue to favor Technology and especially the Mag7, but are also warming up to the Software sub-sector which has underperformed.

Fixed Income

- Focus on USD (up to 5 years) and CHF/EUR (up to 2 years) sovereign bonds.
- Expect the US yield curve to steepen further and the 10-year Treasury rate to remain around 4.0% over the next 12 months.
- Position in global IG credit, notably USD/EUR/CHF low A-to-BBB rated within the 5 years duration bracket.

Commodities

- Copper and Crude Oil (as a geopolitics hedge) remain our favorites, with demand holding up and limited supply growth.
- Gold should remain above $ 2,500/oz., with a hedge against currency debasing in the West and ongoing purchases by BRICS central banks.

Currencies

- We expect USD appreciation against EUR/CHF over next 6 months, with the assumption that the strength of the US economy should support higher US rates versus other markets.
- The BoJ gave up on its unorthodox monetary policy, and increased its policy rate from -0.10% to +0.25% on 31 July. A further increase is possible, capping any JPY weakness from here.

Market update
YTD 2024

Financial market update, year-to-date (YTD) 2024 (as of end-Q3)

- Strong global equity markets, with MSCI World up +17.5% and MSCI Emerging Markets up +14.4% (in USD terms).
- US equity markets outperforming meaningfully, with S&P 500 up +20.8%, driven by Mag7 (Megacap Tech) up +44.1%.
- Barclays Global Credit index (total return) up +5.1% (in USD terms), with even tighter credit spreads.
- Physical Gold shining further up +27.2% so far this year, after +12% in 2023.
- A lot of intra-year volatility in FX pairs so far, with EURUSD and CHFUSD crosses broadly unchanged.

NG RISK RADAR

30/09/2024

GLOBAL EQUITIES	S&P 500	SMI	EuroStoxx 600	MSCI World	MSCI EM
30-Sep-24	5,762.5	12,168.9	522.9	3,723.0	1,170.9
29-Dec-23	4,769.8	11,137.8	479.0	3,169.2	1,023.7
% return, in local currency terms	**20.8%**	**9.3%**	**9.2%**	**17.5%**	**14.4%**
FX impact	*0%*	*-0.5%*	*0.9%*		
in USD terms	**20.8%**	**8.7%**	**10.1%**	**17.5%**	**14.4%**

GLOBAL BONDS	BBG Global Credit TR	US BBB spread	US High Yield spread	10-year Treasury rates	US yield curve 2s/10s
30-Sep-24	280.6	1.22%	3.21%	3.78%	0.14%
29-Dec-23	266.8	1.34%	3.71%	3.88%	-0.37%
% return (USD terms)	**5.1%**				
	10-year US Breakeven	**US Equity Risk Premium**	**10-year US REAL rates**	**US Financial conditions**	**Fed Funds rate, end-24e**
30-Sep-24	2.19%	0.34%	**1.63%**	98.71%	**4.34%**
29-Dec-23	2.17%	0.91%	**1.71%**	99.27%	**3.84%**

CURRENCIES	EURUSD	CHFUSD	GBPUSD	USDJPY	BTCUSD
30-Sep-24	1.1135	1.1826	1.3375	143.63	63,785
29-Dec-23	1.1039	1.1885	1.2731	141.04	41,935
% change	***0.9%***	***-0.5%***	***5.1%***	***1.8%***	***52.1%***

COMMODITIES	Global BBG index	Gold	Copper	Iron ore	WTI Crude Oil
30-Sep-24	100.3	2636.1	9829.0	99.8	68.2
29-Dec-23	98.6	2071.8	8559.0	131.8	71.7
% change	**1.7%**	**27.2%**	**14.8%**	**-24.3%**	**-4.9%**

Source: Bloomberg, Nahmani Grunder.

NG Outlook

A new global easing cycle is under way, together with improving US growth

- In our Market Insights from January, we highlighted that the key central theme in 2024 would continue to be the Growth/Inflation mix, as well as the growing geopolitical tensions during a year of major elections globally. At the time, we also defined our base case macro scenario for 2024 and into 2025 as a soft landing with muted, below-trend real GPD growth but also a bumpier path to further disinflation than experienced in 2023.

- In the mean-time, the case for a soft landing in most major economies has become even stronger, and interest rates are expected to fall until the end of 2025. With inflation increasingly under control, global central banks are now firmly in an easing stance, with 21individual rate cuts experienced in the month of September alone. It is quite likely that this new easing cycle will even reinforce the global growth cycle ahead. However, there are regional differences at play.

- In the US, real GDP growth so far this year has been stronger than we expected and is on track to achieve +2.8% year-on-year (YoY) for 2024, above 2023's level. Disinflation has continued this year but has shown some signs of stalling since June at core CPI level of +3.3% YoY. However, we still see further disinflation to below 3% to materialize in early 2025, paving the way for the FED to gradually normalize its policy rate back to neutral territory around 3.5% over the next 15 months (vs. 4.8% now). FED initiated its easing cycle in September 2024 with a 50bps rate cut, which still allows for further gradual 25bps cuts from here.

- In Europe, contrary to the US, there are abundant signs of economic fragility with an increasing number of corporate profit warnings, factory closures and generally weak sentiment data. Political uncertainty in the two largest economies, Germany and France, with prospects of rising taxation, makes the overall picture even darker. In Germany, the macro data remains recessionary, with the government now expecting a further year of real GDP decline at -0.2% in 2024. Against the backdrop of another year of meager GDP growth of only +0.5% across the eurozone, we can only conclude that the ECB will have to leave its current hesitant mode behind to accelerate the pace of interest rate cuts. It has already executed three 25bps rate cuts in June, September and October. We would note that, unlike the FED in the US with its normalization cuts, ECB's own easing cycle comes against a meaningful growth scare/recession worries, implying much deeper cuts beyond neutral policy.

- In China, the economic recovery has not been taking shape with ongoing weakness in domestic demand and the economy seeing outright deflation in Q3. As a reaction and marking a significant policy pivot, the authorities unleashed a coordinated and large stimulus package on 23 September. The PBoC reduced the 1-year MLF by 30bps to 2.0% (the largest ever cut), while lowering the reserve requirements on banks and mortgage rates on existing loans. We expect the NPC to also unleash a fiscal bazooka in the RMB 1.0 - 2.0 trillion range (up to 2% of GDP), with more details by early November. We now also expect a multi-year fiscal expansion aimed at the property and banking sectors. The goal is to drive stronger real GDP growth of +5.0% in 2025 and reduce the risk that the economy will further sink into a Japanese-style deflationary spiral.

Our market outlook is tempered by starting valuations, despite a positive macro

- Our global macro baseline is positive with healthy US growth and global growth expected to pick up in 2025, aided by global central bank cutting cycles and further disinflation. With the US cutting rates into a potential upswing and China looking to finally stimulate its economy with what looks like a forceful plan, we are now optimistic that global real GDP growth can even accelerate to above +3.0% YoY in 2025, after two straight years at 2.7%.

- Better US/global economic growth and lower policy rates globally have historically coincided with solid returns across financial markets and asset classes. However, this cycle should prove to be slightly different, in our view, due to starting valuations.

- In typical late-stage easing cycles, equities can typically deliver positive returns via both EPS growth and valuation expansion. However, this time around, starting valuations are already quite stretched, moderating upside in equities at the index level from here. The current equity bull market has turned two years old, and the S&P 500 is up 60% since September 2022, mainly driven by Mag7 and the initial GenAI beneficiaries. With potential upgrades to future EPS growth expectations becoming the sole determinant of further upside at the individual stock level, we will continue focus on the AI theme and related second-order derivative plays around the global AI datacenter buildout, nuclear energy and electrification into 2025.

- The equity rally could potentially broaden if GenAI driven productivity gains in the Enterprise lead to better cost efficiency and higher EPS growth among the non-Tech cohort. However, this is still more of a 2026 story, in our view.

- Bond market rates pricing went through a growth scare in the summer which was misplaced. The recent move higher in US rates following resilient data is indicative of the bond market shedding these growth concerns. At the same time, we think longer term rates in the West are unlikely to fall again from current levels given a rebuild of term premium amidst higher government fiscal deficits. Overall credit returns should thus be constrained by already tight credit spreads and potentially rising long-dated rates. Credit spreads already price in a scenario of soft landing with fully normalized policy rates at neutral.

- On currencies, FED's 50bps cut will help the global monetary cycle, with other G10/EM central banks likely to remain in sync and continue with the easing cycle. We continue to think that the strength of the US economy can support higher US rates versus other markets, with recent USD strength to continue especially versus the euro.

- Geopolitics and growing tensions among the global superpowers is a clear worry. In this regard, with clear risks of a regional war in the Middle East, crude oil price could the catalyst to complicate the inflation narrative from here, and possibly call the entire global easing cycle into question. Together with stricter trade policies, this is the biggest risk to our macro base case.

Update on our 2024 NG predictions (I)

1. *"With very tight risk premiums priced into markets and heightened geopolitical tensions only accelerating de-globalization tendencies, 2024 is prone to more volatility than in 2023 during which high rates volatility surprisingly did not translate into larger swings in equity indices."*

We were right to expect ongoing high rates volatility in 2024, with the 10-year Treasury fluctuating in a 3.60% (mid-September) to 4.70% (end-April) range during this year so far. However, as in 2023, we have had rather tame equity markets in 2024 with 47 all-time highs for S&P 500 so far and only one meaningful drawdown with the -8.5% correction in mid-July to early August when the misplaced US growth fears peaked.

2. *"Scenario 1 as our macro base case calls for flattish (-5% to +5%) overall equity and credit market indices for the year. At the same time, the current optimism in markets will surely be challenged during the year with valuations at multi-year highs, presenting better buying opportunities on drawdowns."*

Global equities have easily outperformed global credit so far in 2024 with an overall return of +17.5%, driven by the US market, and especially the Technology sector around the ongoing GenAI infrastructure build-out. Overall index valuation multiples have even expanded further this year, together with stronger EPS growth. Given that we think the GenAI capex story is sustainable and that we are still in the early stages of the GenAI computing paradigm shift, we see room for overall S&P 500 EPS growth to surprise positively into 2025. We currently expect S&P 500 EPS growth of +9.0% YoY in 2025 (driven by Mag7 with +20% growth), versus +7.1% in 2024. Global equities, and especially S&P 500, should continue to do better than credit over the next 6 – 12 months. Given our views on now stretched overall index valuations, stock picking should become even more important to drive returns. S&P 500's P/E valuation reached 24.3x at the end of September 2024, close to the 2020 Covid-era peak.

S&P 500 P/E valuation, 2015a - 2025e

	2015a	2016a	2017a	2018a	2019a	2020a	2021a	2022a	2023a	2024e	2025e
Operating EPS	**118.2**	**119.1**	**133.0**	**162.9**	**164.6**	**144.6**	**212.5**	**220.6**	**221.5**	**237.2**	**258.6**
growth (YoY)	*-0.5%*	*0.7%*	*11.6%*	*22.5%*	*1.0%*	*-12.2%*	*47.0%*	*3.8%*	*0.4%*	*7.1%*	*9.0%*
Price low	1867.6	1829.1	2257.8	2351.0	2447.9	2237.4	3700.7	3577.0	3808.1	4688.7	
Price high	2130.8	2271.7	2690.2	2930.8	3240.0	3756.1	4793.1	4796.6	4783.4	5762.5	
Price close	**2043.9**	**2238.8**	**2673.6**	**2506.9**	**3230.8**	**3756.1**	**4766.2**	**3839.5**	**4769.8**	**5762.5**	
P/E low	15.8	15.4	17.0	14.4	14.9	15.5	17.4	16.2	17.2	19.8	
P/E high	18.0	19.1	20.2	18.0	19.7	26.0	22.6	21.7	21.6	24.3	
P/E close	**17.3**	**18.8**	**20.1**	**15.4**	**19.6**	**26.0**	**22.4**	**17.4**	**21.5**	**24.3**	**22.3**
P/E range	**15.8 - 18.0**	**15.4 - 19.1**	**17.0 - 20.2**	**14.4 - 18.0**	**14.9 - 19.7**	**15.5 - 26.0**	**17.4 - 22.6**	**16.2 - 21.7**	**17.2 - 21.6**	**19.8 - 24.3**	
Revenue growth (YoY)	-3.0%	2.1%	6.9%	7.5%	4.0%	-2.0%	16.1%	10.8%	2.7%	4.9%	5.3%
Profit margin	9.6%	9.4%	10.0%	11.4%	11.1%	9.9%	12.6%	11.8%	11.5%	11.8%	12.2%

Source: Nahmani Grunder.

Update on our 2024 NG predictions (II)

3. "Financial markets have run too far with their assumption that FED cuts will be steep and front-loaded. The FED should cut interest rates by much less than the 5 cuts currently priced into markets for 2024. Moreover, we see any potential cutting cycle to commence by mid-year at the earliest, versus the current market consensus of March 2023. We also think it is likely that the ECB will start reducing rates earlier than the FED, precisely because of major recession concerns in the eurozone, as opposed to the FED performing normalization cuts towards the neutral rate of 3.0% - 3.5%."

This is one of the predictions we were spot on, with markets having had to temper their expectations of the pace and extent of FED easing in 2024. We will most probably get cumulative rate cuts of 100bps this year, following the 50bps cut in September. The recession worries for the eurozone are real, and the ECB started its cutting cycle in June, earlier than the FED. We can now add our belief that interest rate differentials between USD and EUR will widen in this cutting cycle, with steeper cuts expected by the ECB. FED Funds futures are now pricing in a policy rate of 3.35% by end-2025, which seems realistic.

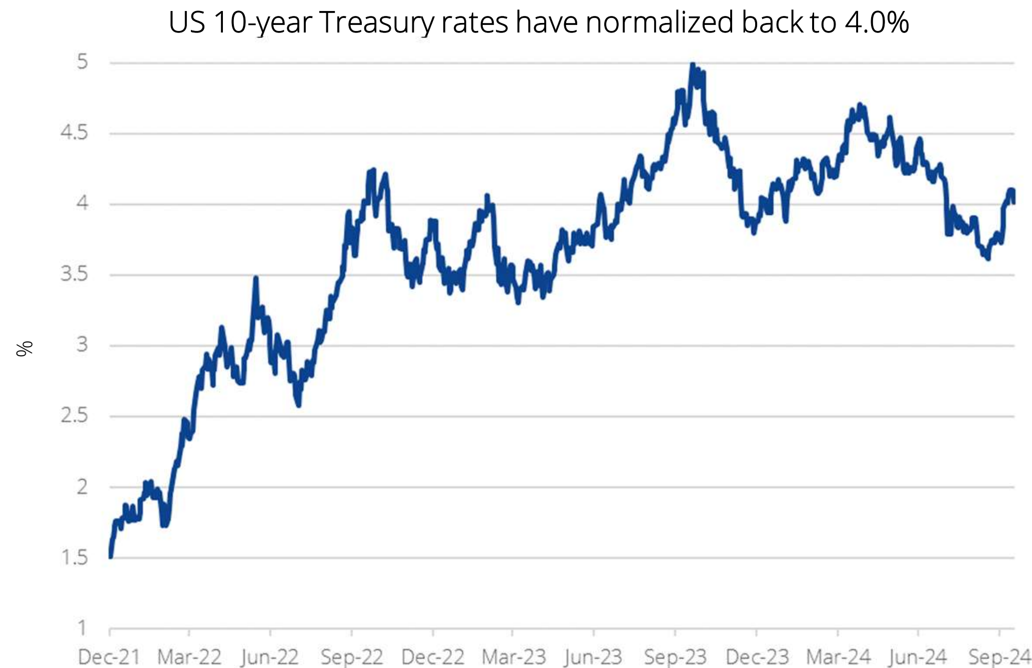
4. "Yield curves remain inverted in the US, Germany and Switzerland. The US 2s10s spread was at -27bps as of 19 January. Yield curves usually steepen before the start of a cutting cycle, especially if rate cuts come after a period of high levels of inflation and aggressive tightening into a soft landing. We see a positively sloped US yield curve by the end of 2024, and US fiscal irresponsibility can only be a further tailwind to a steeper yield curve via higher term premium. German and Swiss yield curves should remain inverted."

The US yield curve at 2s10s is now positively sloped with a spread at +0.14% at the end of Q3 (below). The US yield curve should steepen further over the next 6 – 12 months. The inverted German and Swiss yield curves have flattened to our surprise, despite the ongoing economic worries especially in Germany.

Update on our 2024 NG predictions (III)

5. "We think the 10-year US Treasury rate will be at or above 4.0% by the end of 2024 (versus 3.88% by end-2023), with 10-year real rates remaining between 1.5% - 1.75%, unless the economy does slip into a recession and/or we get a financial accident."

10-year US Treasury was at 4.01% on 16 October, after reaching a low of 3.6% in mid-September, with 10-year real rates at 1.75%. We continue to see US 10-year Treasury rates at or around 4.0% over the next 12 months under our base case of policy rates reaching neutral by the end of 2025. A larger deterioration in the US fiscal position would exert upward pressure on this forecast via higher term premium, with both Presidential candidates posing a real risk in this direction.



6. "In a flattish return scenario for the S&P 500 in 2024, we think Mag7 will outperform the S&P 500, albeit with higher dispersion among themselves. Our focus within Mag7 lies on Alphabet (GOOGL), Nvidia (NVDA), Meta (META) and Microsoft (MSFT) in this order. Stock picking will be even more important than ever during 2024."

Mag7 have had another great year so far in 2024, with a return of +44.1% by the end of Q3 versus S&P 500 at +20.8%. Within Mag7, the return dispersion has indeed been higher with Nvidia at +145% and Meta at +62% being the clear outliers. We expect the Mag-7 outperformance to continue in the near-term into 2025.

Update on our 2024 NG predictions (IV)

7. *"Health care stocks had an annus horribilis in 2023, with US Pharma (XLV) showing the widest underperformance to S&P 500 in the last 30 years. We expect some degree of mean reversion in 2024 with US Health care outperforming the S&P 500. The GLP1-based Obesity segment should still remain a key focus."*

Health care underperformance has continued so far in 2024, despite a rather solid return of +12.9% so far in 2024 (with Eli Lilly at +52%, due to its Obesity drugs Mounjaro and Zepbound). Mag7 now have a weight of close to 30% in the S&P 500 index such that it might be better to compare Health care to the Equal-weighted S&P (SPW) performance (+13.5% YTD 2024). We think Health care should at least perform in line with the SPW index over the next 6 – 9 months.

8. *"Consumer credit card delinquency rates in the US are clearly on the rise. For example, Discovery (DFS US) reported in mid-January that the delinquency rate (30days+) among its customers has risen from 2.5% in Q4 2022 to 3.9% in Q4 2023. As the US consumer balance gets increasingly stretched, there will be increasing bifurcation among the various consumer segments, in our view. High-end, luxury consumer stocks should be relatively isolated from weakening spending patterns, and should continue to perform positively during 2024, also given some of the worries priced into these stocks during H2 2023. Another factor will be whether the Chinese consumer finally awakens after a difficult 2022 and 2023."*

The consumer sector has been a difficult one so far in 2024, and our call that the high-end, luxury space would be shielded has been wrong so far. The EU Luxury goods sector generated a return of only +0.6% so far in 2024, with heavyweights such as LVMH stock even declining for the year. The culprit has been a further deterioration in the all-important Chinese market. We find valuations to be compelling, awaiting a return of the Chinese consumer.

9. *"Within Credit, we continue to focus on the investment grade (IG) space with a duration of up to 5 years."*

With corporate credit spreads at multi-decade lows now after further tightening so far in 2024, future credit returns should be driven by lower rates along the sovereign yield curves. However, as discussed in a previous point, we see longer-dated rates as having largely exhausted the potential for any future declines also due to higher term premiums. As such, we also see further steepening in the US yield curve. We continue to focus on the IG credit space with a duration of up to 5 years.

Update on our 2024 NG predictions (V)

10. *"Commodities had a lackluster 2023, but 2024 should prove to be a better year with demand holding up and supply growth curtailed especially in Copper and Crude Oil. Gold should continue see a rising safe haven premium as well as central bank buying remaining strong into 2024, such that Gold prices should remain easily above $ 2,000 per oz."*

The Bloomberg Commodity index (BCOM) declined by -12.6% in 2023 and is up "only" +1.7% so far in 2024, driven primarily by Gold (+27%) and Copper (+15%). Iron ore (-24%) and WTI Crude Oil (-5%) were clear laggards. Copper should continue to be supported by attractive long-term fundamentals with demand outstripping supply over the next few years. Gold price has been a positive surprise and has been driven by incremental central bank buying which clearly went into overdrive following the start of the war in Ukraine and the resulting Western sanctions against Russia. Since 2022, Gold's inverse relationship with US real rates has weakened with ETF flows and central bank reserves being relatively more important drivers. We continue to hold a core investment in physical Gold, against the ongoing currency debasing taking place in the West through fiscal recklessness.

11. *"There seems to be a strong consensus amongst investors on being short US dollar (USD) into 2024, with the thesis that FED rate cuts assumed by markets start to trickle through into FX pairs. We think this might only work with the USDJPY rate especially as the BoJ exits yield curve control (YCC) and subsequently also its negative interest rate policy with a first rate hike since 2007. On the other hand, we see EURUSD closing 2024 lower than its end-2023 level of 1.1039, as real rate differentials widen to the benefit of the USD."*

The consensus has been wrong one more time, at least for now, with USD appreciating against all major currencies especially during October. As discussed earlier, we continue to think that the strength of the US economy can support higher US rates versus other markets (relative to expectations). EURUSD stood at 1.0831 as of 18 October, and those levels should be easily sustained (the low was 0.97 in Sept. 2022) if the ECB finally accelerate their pace of rate cuts with their next meeting on 12 December. CHFUSD is more difficult, since SNB does not have much buffer left in its policy rate (50bps at most) before real rates go negative again. However, at that point, new additional unorthodox policy around asset purchases would come back on the table, in our view.

Summary Outlook

Asset Class	Positive	Neutral	Negative
Fixed Income & Cash	US Treasuries (up to 5 years) Sov. EUR/CHF (up to 2 years) Global IG Corp (up to 5 years)	US Treasuries (7-to-10 years)	EU Sov. Bonds EU HY Corp US HY Corp
Equities (sectoral view)	Semiconductors Internet Health care High-end consumer Commodities Software	Consumer Staples Financials	Industrials Chemicals Autos
Commodities	Copper Gold	Crude Oil Iron ore Nickel	

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