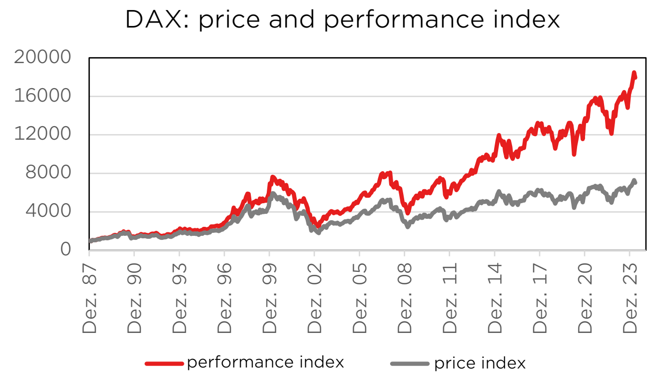
2 May 2024

Stock markets: Necessary breather to refuel

April was characterized by price losses on most stock markets, in many cases it was the first month of losses in six months. In our view, this is a healthy and long overdue correction following the strong price gains since November 2023. We do not expect a sustained trend reversal for the worse, even if it is not yet possible to predict exactly when prices will recover. Our recently raised year-end targets (e.g. DAX: 19,500 points) therefore remain valid.



Source: Refinitiv Datastream

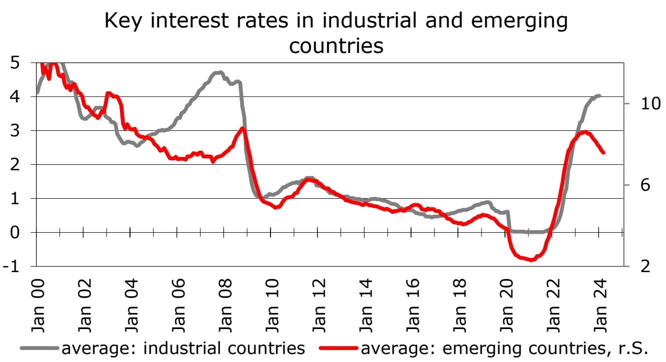
As has often been the case in the last two years, the price losses on the bond markets in particular weighed on share prices. In the USA in particular, yields on government bonds rose significantly, which also had a negative impact on the European bond markets, which generally move in the wake of the USA. This was triggered by the recent disappointing inflation data, which did nothing to boost the US Federal Reserve's confidence that the rate of price increases will approach the two percent target in the foreseeable future. After price pressure had eased considerably last year, market participants were still very confident at the beginning of the year that the Federal Reserve would cut the key interest rate significantly from 5.25 to 5.5 percent to below four percent this year. In the first three months of the year, however, the inflation rate did not fall any further but remained at just over three percent (CPI index) or just under three percent (PCE index), depending on the basket of goods used. As a result, interest rates are currently only expected to fall by 25 basis points this year.

Global downward inflation trend unbroken

Although the decline in US inflation has stalled, it is fortunately an exception in an international comparison of price statistics. In contrast, the global inflation trend remains on a downward trajectory. Of the more than one hundred countries whose monthly inflation trends we track, the vast majority continue to show a slowdown in inflation momentum. The mean value of the inflation rate of these more than one hundred countries fell from 13.3 percent in January 2023 to 8.4 percent in March 2024, while the median fell from 8.4 percent to 3.1 percent in the same period. According to our observations, the international price statistics show a close synchronization; countries that fall off the grid - such as the USA at present - generally do not do so for a long time.

In the Eurozone, the inflation rate in April was 2.4 percent, the same level as in March. As the inflation rate for services declined for the first time in five months, the core inflation rate fell to 2.7 percent. In most euro countries, the inflation rate continued to fall in April, and in five countries it is below the European Central Bank's target of two percent. In the Southeast Asian emerging markets we look at, the rate of price increases in April was 2.4 percent after 2.5 percent in the previous month. In the Latin American countries in our sample, the inflation rate fell from 3.6 percent in March to 3.4 percent in April, and from 4.1 percent to 3.8 percent in Eastern Europe.

The conclusions for international monetary policy are therefore obvious: key interest rates will fall. In the discussion about which central bank could assume the pioneering role for a more expansive monetary policy, it is often argued that the USA determines the global interest rate cycle. However, this conclusion is wrong. In recent years, the US Federal Reserve's monetary policy has become increasingly decoupled from that of the European Central Bank or the Bank of Japan. While the timing of the first interest rate cut is still being discussed in the USA, the Swiss central bank has already taken action and lowered its key interest rate. The ECB is very likely to follow suit on June 6 and also decide to cut interest rates by 25 basis points. This time, however, it is not the central banks of the industrialized countries that are leading the way in the true sense of the word, but those of the emerging markets. This is because monetary policy has already been gradually loosened there since summer 2023. However, as lower key interest rates also lead to falling yields on the capital markets, it is foreseeable that the current headwind for the equity markets from the interest rate side will soon turn into a tailwind.



Source: Refinitiv Datastream

Very good reporting season

Corporate earnings are also providing positive impetus for the stock market. An analysis of the current reporting season shows that in the US, a good 80 percent of the companies in the S&P 500 that have reported so far have exceeded earnings expectations, a better figure than in the previous quarter (75 percent) and better than the long-term average (73 percent). The proportion of positive earnings surprises is particularly high in qualitative terms, as this time there was no significant reduction in earnings expectations by company analysts in the run-up to the reporting season as is usually the case - at least not at the level of the index as a whole. In addition, the good figures have not yet been rewarded by the stock market: the share price reaction after publication of the figures was only positive for 44 percent of companies. However, this muted reaction is not unusual, as many investors use good news to liquidate positions and realize profits. However, as long as the fundamental stock market environment remains positive - as is currently the case - the same shares are often bought back later if no better investment alternative has been found. This often means that positive company news only leads to a positive price reaction after a time lag.

Share buyback programs, which are used by a large number of companies, particularly in the USA, to return profits to shareholders, are also contributing to this. Investors can participate particularly well in this development by looking at which companies are among the biggest profit generators and have launched correspondingly large share buyback programs. In the first quarter of 2024, for example, the Communication Services sector, which includes Alphabet, Meta and Netflix, posted year-on-year earnings growth of over 40 percent, followed by the technology sector with an increase of 22 percent. In other words, the largest technology companies in the world are also the richest. Apple, Amazon, Microsoft, Alphabet and Meta together generated an operating cash flow of a good 570 billion dollars in the past twelve months. That's a lot of money that can be invested in new products, but also in share buybacks. Further share price gains for these companies therefore seem inevitable.

Carsten Klude

Market data

Stock marktes	As of 02.05.2024 17:29	Change versus 25.04.2024 -1 week	01.04.2024 -1 month	01.02.2024 -3 months	01.05.2023 -1 year	29.12.2023 YTD
Dow Jones	38074	0,0%	-3,8%	-1,2%	11,8%	1,0%
S&P 500	5069	0,4%	-3,3%	3,3%	21,6%	6,3%
Nasdaq	15745	0,9%	-4,0%	2,5%	28,9%	4,9%
DAX	17924	0,0%	-3,1%	6,3%	12,6%	7,0%
MDAX	26303	1,0%	-2,7%	1,5%	-5,6%	-3,1%
TecDAX	3246	-0,6%	-6,0%	-3,2%	-0,7%	-2,7%
EuroStoxx 50	4899	-0,8%	-3,6%	5,6%	12,4%	8,4%
Stoxx 50	4374	-0,1%	-1,2%	4,1%	8,0%	6,9%
SMI (Swiss Market Index)	11201	-0,5%	-4,5%	-0,1%	-2,1%	0,6%
Nikkei 225	38236	1,6%	-3,9%	6,2%	31,3%	14,3%
Brasilien BOVESPA	126990	1,9%	0,0%	-1,2%	21,6%	-5,4%
Russland RTS	1177	-0,1%	2,6%	4,7%	13,9%	8,7%
Indien BSE 30	74611	0,4%	0,8%	4,1%	22,1%	3,3%
China CSI 300	3604	2,1%	0,2%	12,0%	-10,5%	5,1%
MSCI Welt	3294	-0,4%	-3,8%	2,1%	16,2%	3,9%
MSCI Emerging Markets	1046	1,6%	0,3%	6,5%	7,0%	2,1%
Bond markets						
Bund-Future	130,08	30	-330	-617	-548	-714
Bobl-Future	116,58	19	-167	-205	-139	-270
Schatz-Future	105,16	-2	-55	-102	-52	-139
3 Monats Euribor	3,83	-8	-7	-8	56	-6
3M Euribor Future, Dec 2024	3,32	2	29	88	46	102
3 Monats $ Libor	5,59	1	3	6	29	0
Fed Funds Future, Dec 2024	5,02	-2	26	107	182	119
10 year US Treasuries	4,61	-9	28	75	101	74
10 year Bunds	2,55	-5	28	45	23	55
10 year JGB	0,90	3	17	21	49	28
10 year Swiss Government	0,74	-4	7	-6	-32	4
US Treas 10Y Performance	573,17	0,6%	-2,0%	-5,0%	-4,6%	-4,6%
Bund 10Y Performance	545,25	0,4%	-2,1%	-3,1%	0,5%	-3,6%
REX Performance Index	439,23	0,1%	-0,8%	-1,3%	0,8%	-1,9%
IBOXX AA, €	3,51	-3	25	36	1	44
IBOXX BBB, €	4,09	-1	26	31	-36	34
ML US High Yield	8,28	-2	32	39	-22	49
Commodities						
MG Base Metal Index	438,77	-0,8%	12,1%	14,5%	8,7%	12,2%
Crude oil Brent	83,27	-5,0%	-4,7%	2,2%	4,7%	7,2%
Gold	2303,79	-1,3%	3,1%	11,8%	16,2%	11,5%
Silver	26,55	-2,8%	6,1%	14,8%	6,3%	9,5%
Aluminium	2553,38	0,6%	11,3%	15,6%	7,8%	8,9%
Copper	9782,43	0,4%	11,6%	16,1%	14,1%	15,6%
Iron ore	117,21	6,9%	14,5%	-11,7%	13,1%	-14,1%
Freight rates Baltic Dry Index	1688	-3,2%	-7,3%	21,6%	7,1%	-19,4%
Currencies						
EUR/ USD	1,0697	-0,2%	-1,1%	-1,1%	-2,6%	-3,2%
EUR/ GBP	0,8559	-0,2%	0,1%	0,3%	-2,4%	-1,2%
EUR/ JPY	164,51	-1,3%	0,6%	3,5%	10,2%	5,2%
EUR/ CHF	0,9760	-0,3%	-0,1%	4,5%	-0,8%	5,4%
USD/ CNY	7,2401	0,0%	0,1%	0,8%	4,4%	1,9%
USD/ JPY	154,49	-0,8%	1,9%	5,5%	12,4%	9,5%
USD/ GBP	0,80	0,0%	0,5%	1,5%	0,2%	2,0%

Source: Refinitiv Datastream

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