INVESTMENT COMMENT

September 2024

- **What's the Message from the August Correction?**

In August, investors rode a wave of emotion, with the VIX spiking to 58 before dropping to the low teens within days. The first few trading sessions in September appear to mirror this volatility. In hindsight, buying the dips during August would have been profitable—but should investors follow this strategy in September?

We believe the bull market isn't over but saw the recent sell-off as a healthy intra-bull market correction and a sign of shifting sentiment. The quick cooling of enthusiasm for the "Magnificent Seven" stocks indicates growing skepticism around AI. Nvidia's sharp pullback after stellar earnings, due to its cautious outlook, underscores this. While aggressive dip-buying muted the August correction, we recommend gradually rotating out of big tech into lagging sectors like industrials, energy, mining, consumer staples, and SMEs.

We remain positive on the market overall but would turn more bearish if a U.S. recession becomes likely. With the Fed funds rates at 5.25%–5.50%, Fed Chair Jerome Powell has room to counter a recession. The Fed will likely wait for more data before deciding whether to cut rates by 0.25% or 0.5%, given August's unemployment rate at 4.2% and a 142,000 rise in non-farm payrolls.

- **The Sick Man of Europe**

Germany is a major concern, especially after far-right gains in recent regional elections. The country's global competitiveness ranking has fallen from sixth to 24th in a decade, due to high taxes, bureaucracy, energy costs, and a shortage in skilled labor. The focus on social spending at the expense of investments has weakened Germany, posing risks to the rest of Europe, as Germany's troubles often spill over to its neighbors.

- **In Gold We Trust**

In August, gold broke the USD 2,500 per ounce barrier for the first time. Despite technical analysis suggesting it may be time to take profits, we believe it's too soon to do so. In a world of bellicose uncertainty, when central banks continue to buy gold, and Chinese investors, lacking viable alternatives due to the country's troubled property and equity markets, gold is the ideal safe haven. Additionally, gold prices are likely to benefit from constrained supply, as years of underinvestment in exploration and mining limit new supply. This, combined with heightened demand—particularly from investors with FOMO (fear of missing out)—makes gold a compelling investment.

- **Asset Allocation**

Equities remain our preferred asset class. While a sector rotation is likely, we recommend holding mini futures as a hedge against a NASDAQ correction. Fixed income can provide stability, and longer-dated U.S. dollar bonds should benefit from lower rates. U.S. dollar cash, yielding 5.25%, is still a good short-term option given the inverted yield curve.

However, with expected lower interest rates, it's time to add investment-grade corporate bonds yielding 5-6% with an average maturity of nine years. As rates fall, we anticipate a weaker U.S. dollar compared to traditional safe-haven currencies such as the Swiss franc and Japanese yen.