June 2024

**INVESTMENT COMMENT**

- **Recession, What Recession?**

As the U.S. economy continues to power along, the Fed is not lowering interest rates yet. The job market has shown unexpected resilience amidst high interest rates with more jobs added than expected. The latest forecast is for only one rate cut this year (down from three cuts back in March).

The name of the game is innovation, AI and government spending. The private sector is funding innovation and AI and the public sector is footing the massive bill around the 3Ds: decarbonization, deglobalization (friend-/near-/on-shoring), and defense.

The 3Ds will dominate the next decade and will cost Western governments and Western taxpayers billions. In such an environment it is difficult to imagine a prolonged recession. Welcome to the "roaring twenties".

- **Valuations are OK**

Equity markets are decently valued and not near bubble territory. During the dot.com bubble, when valuations were based on eyeballs visiting webpages, companies such as Cisco – which provided the backbone of the internet – traded at valuations exceeding 100 times earnings. Today's AI darling, Nvidia, is trading at 70 times while posting strong earnings quarter after quarter. Also contrary to many dot.com companies, current tech giants deliver huge profits that generate piles of cash.

Even though the S&P 500 and the NASDAQ keep reaching new all-time highs, fewer than 8% of index constituents are trading at 52-week highs. So, there is no "irrational exuberance" yet.

Many professional investors are currently under-invested in equities and are waiting for a more attractive buying opportunity. If this opportunity does not come, at some point they may start buying for fear of missing out (FOMO). THIS may push markets into bubble territory.

- **Beware of (Private) Credit**

Fixed income investors are getting complacent given that credit spreads are at their lowest in a decade. Continued high interest rates could pose a challenge for credit markets: actual credit defaults are 5% to 6%, which is much higher than what is officially reported.

- **Asset Allocation**

No change to our asset allocation: we continue to like equities but we hedged some exposure going into the summer. We like commodity stocks, including gold (which is up almost 15% in USD year-to-date), across the value chain. We also expect the U.S. dollar to stay strong given the resilient U.S. economy, a U.S. Fed that will lower rates later than its global counterparts and a potential "clean sweep" at the U.S. elections. The 0.25% rate cut by the Swiss National Bank in June was designed precisely to slow Swiss franc appreciation.