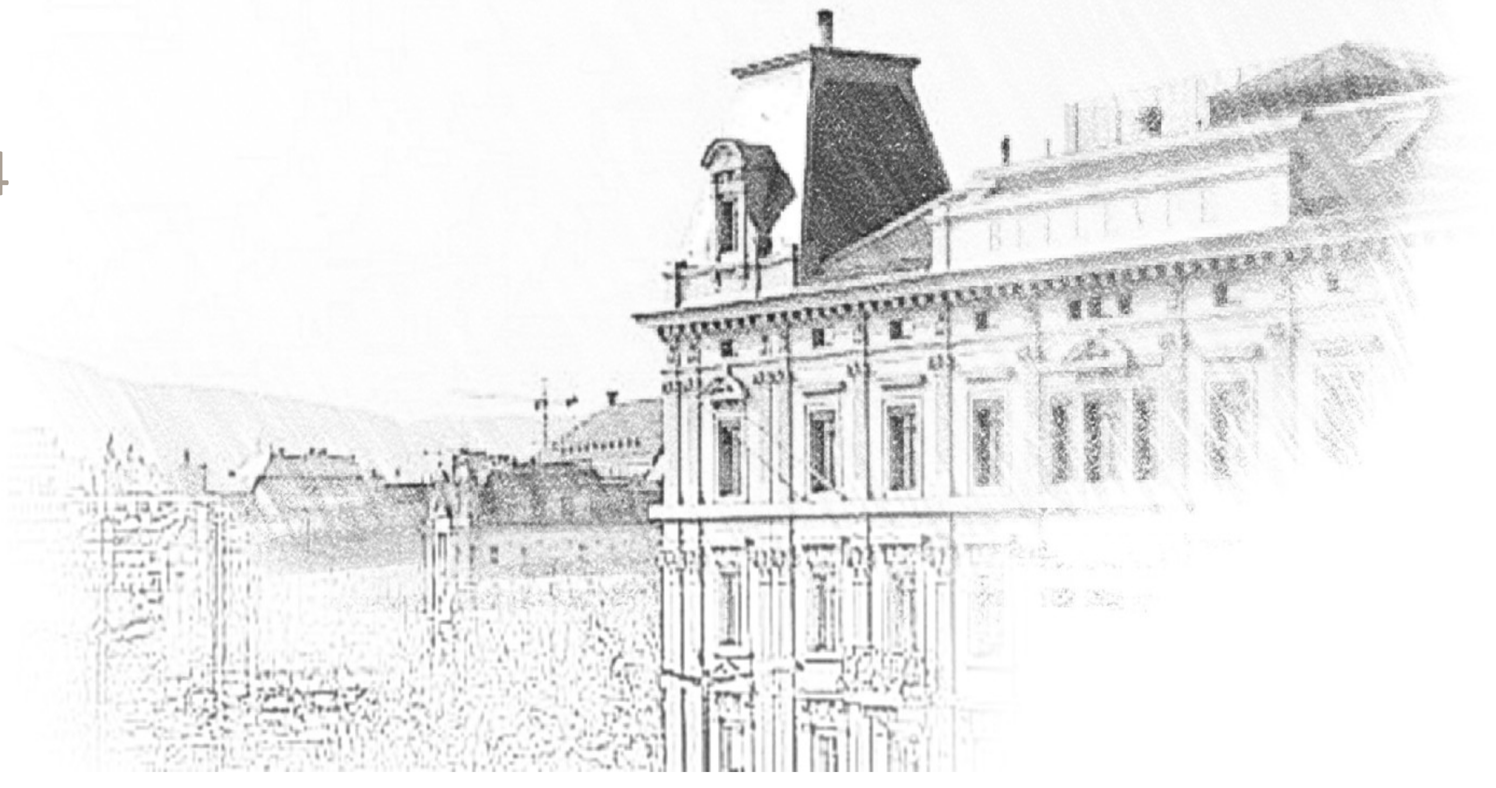
NPB Neue Private Bank AG

Because Private Banking is a People Business

CIO Office

Chartbook Q2 2024



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Content

Chartbook Categories

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“Inflation is like toothpaste. Once it's out, you can hardly get it back in again. So, the best thing is not to squeeze too hard on the tube.”

Karl Otto Pöhl

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CIO Office Outlook Q2 2024

Chartbook Q2 2024

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Executive Summary

- > Risky assets had a strong start into the year, and we expect tailwinds to persist at least into Q4 of this year. However, are we also aware of increasing event risks, mostly in geopolitical relations.
- > The global economy is undeniably strengthening again, which is a tailwind to corporate profits and should translate into higher equity prices.
- > On the other hand, have disinflationary pressures started to slowdown, especially so in the US. This has led to an increase in bond yields, albeit more so in the US than in Europe.
- > This inflationary "imbalance" plus mounting geopolitical risks could start impacting currencies, with upside risk for the USD increasing.
- > We had been expecting a secondary wave of inflation, though if indeed confirmed, it is arriving a bit sooner than we "hoped" for.
- > Given the above, our main change in terms of asset allocation for this quarter is a pronounced reduction of duration risk amongst the fixed income asset class and we closely monitor increasing geopolitical risk on equities.

NPB Investment Committee

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Global Head Asset Management, Advisory & Execution

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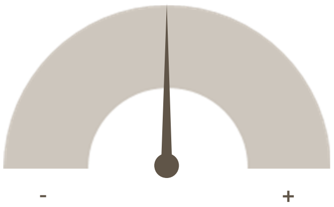
CIO Office Global Scenarios

Geopolitical and macroeconomic assessment

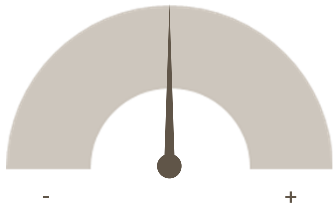
		Base Case	Best Case	Worst Case
Economy	Growth	Not only have recession fears from 2023 receded, but we now see global growth at long-term trend levels	Global growth accelerates above trend growth as lagging economies such as Europe and China surprise to the upside	Lagged impact from tight monetary policies of the past two years finally impacts economies
	Inflation	Inflation continues to fall, albeit at a slower pace (last mile).	Inflation falls below upper end (2%) of central banks' target range	Premature reacceleration of inflation on the back of continued wage pressures and little fiscal discipline
Geopolitics	US-China	Status Quo prevails, at least until after the US election	Diplomats find agreements on key friction points (albeit unlikely before US election)	Saber-rattling increases as both sides intend to 'misuse' the upcoming US elections to their advantage
	Middle East	Tension are clearly on the rise in the region, and our assumption of an Iran attack on Israel proved correct. No retaliation is key now	All parties decide to accept status quo and a cooling off takes place over the coming months	Iran attacks Israel and Israel retaliates, pulling the US even further into the conflict
	Russian War	Russia wins overhand and gets to keep annexed regions in Ukraine	Ceasefire; peac1e talks and territorial agreements	Tactical use of nuclear weapons; NATO involvement
	Election	Over sixty local government/presidential elections around the globe will take place in 2024; with the US elections being the most closely followed, other elections such as those in the UK, India and the European Union could have important market impacts too.		
Technology		AI leads to productivity increase simultaneously exhibiting disinflationary pressures	Rapid AI-adaption leads to a prosperity boom plus advances on the Greentech front lead to a sustainable economic expansion	Not unsimilar to the internet boom, impact of AI may be overestimated on the short-term and underestimated on the long-term
Energy		With an increasingly number of people emerging from poverty, electrification of everything and the most rapid adaption of a new technology ever (AI), energy needs are increasing exponentially. New solutions (e.g. SMRs, hydrogen, etc) must be found respectively adapted		
Probability		*High*	*Highly unlikely*	*Tail risk; low probability*

NPB Global asset allocation views (6-12m outlook)



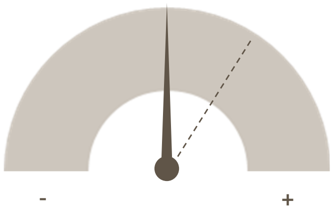
Cash & Money Market

We remain neutral on cash/money market instruments given their still attractive yields and implicit short duration.



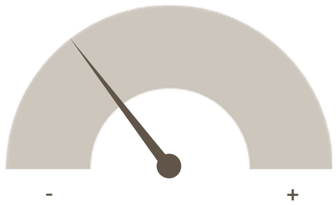
Precious Metals

Gold is sending a message, and we will consider going overweight over the coming weeks, but the current move looks a tad overextended.



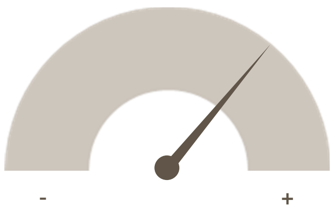
Fixed Income

We downgrade bonds to neutral due to increasing duration risk (which we would even underweight). However, credit risk remains attractive and warrants to position credit portfolios at the shorter end of the curve.



Alternatives

Having merged Alternatives with Commodities into one asset class leaves us with a administrative underweight, plus money market and bond yields remain attractive enough. Please check out the new section on page 7 for details on this asset class.



Equities

We leave equities at a tactical overweight for now but are a bit "itchy" to take some profits over the coming weeks. Most importantly, pay attention to changes in sector leadership (see page 8 for sector allocation)

Current view

Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Equities	View	Commentary
United States		Despite being in top quartile in terms of expensiveness amongst developed markets, US exceptionalism continues to warrant an overweight of this market.
Europe		Valuations are undemanding in relative terms and so far, the aggregate European equity market has been able to keep up with its US cousin. With the ECB likely to cut key policy rates in June, European stocks should continue to enjoy a tailwind.
Switzerland		We upgraded the Swiss stock market in our previous quarterly report, citing an important underperformance in 2023, provoking a relative undervaluation coupled with catch-up potential. With the SNB now the first major Western central bank to have cut rates, our outperform conviction has been reinforced further.
UK		The UK market is a beast of two natures. Large cap stocks (FTSE 100) are mostly international behemoths and have been able to more or less keep up with its continental European peers. Mid- and small cap stocks (FTSE 250) are domestically focused and are struggling with a flat year-to-date performance. Continue to overweight the former but underweight as a whole.
Japan		Japanese stocks had a huge rally over the past year and a half, in local currency and US Dollar terms. Valuations remain undemanding and the optimist in us argues that stocks have gone nowhere for 35 years, and the rally is just getting going.
Emerging Markets		Looking at the long-term chart, it continues to be difficult to be bullish on Emerging Markets as a whole. With the US Dollar possibly moving into a cycle of strength, headwinds could yet once again increase for EMs. Stay selective.
China		Technically, the Chinese equity market (CSI 300) is being rejected at its long-term downtrend line. For those who bottom-fished at the right moment, take some profits now. For those eager to buy, wait for a clear break higher. Everybody else, stay put.
India		The upcoming elections in India seemingly will be a landslide victory for Modi's BJP party, but this is fully-backed into equity prices. Nevertheless, little seems able to derail to multi-year growth success story and the attached equity rally. Only further saber-rattling from the market regulator regarding rampant market speculator as seen in February is a pocket of worry.
GCC Countries		After a nasty 30% correction from 2022 to late 2023, markets in the GCC region have started picking-up again. So far, geopolitical worries have not been able to spread to equity investors, but it is a risk that should be monitored and coupled with still elevated valuations, we downgrade our overweight by one notch.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Fixed Income	View	Commentary
Government	Neutral (● previous: Overweight)	Assuming that Government bonds are principally used on private client portfolios to "steer" duration exposure, we move this sub-asset class to Neutral. Rising geopolitical tensions could put a short-term bid under government bond prices.
Investment Grade	Overweight	Investment Grade risk remains relatively attractive, especially given the ongoing risk-on mood in equity markets and the likely soft/no landing scenario.
High Yield	Neutral	High Yield should continue to do well but may be overdue for a correction over the coming months.
Emerging Markets	Neutral	Emerging markets as a whole are cheap on many accounts, but a stronger US Dollar is a threat to emerging markets. Be selective and don't rush.
Duration	Underweight (● previous: Overweight)	Underweight! Especially US but be aware of inflationary contagion to other regions.

Currencies	View	Commentary
Swiss Franc	Neutral (● previous: Overweight)	The Swiss Franc is approaching key support levels and the nearly ten percent slide versus the Dollar could start slowing. We remain US Dollar bulls, but the CHF was the first to signal the increasing interest rate differential between the US and the rest of the world. Nevertheless, we downgrade to Neutral, recognizing that we are late.
Euro	Neutral	The Euro is approaching the lower end of the 18 months trading range, driven by interest rate differentials. 1.05 will be tested, but don't get to aggressive in either direction, but rather wait for confirmation.
US Dollar	Overweight (● previous: Neutral)	The US Dollar has been rising since most of its peers since the beginning of the year, probably signaling the rising interst rate differential, provoked by different levels of inflation. Now, rising geopolitical risk may add to the Greenback's strength.
British Pound	Underweight	We leave the GBP as underweight, especially versus the US Dollar. Our cycle model calls for a bottom in Q1 of 2025 – little to go now.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

NPB | Neue Privat Bank

Alternatives	View	Commentary
Commodities*		The commodity super-cycle is well and alive. Play it via commodity stocks, which continue to exhibit undemanding valuations. At this rate of geopolitical developments, government spending will refocus on commodity suppliers soon
Hedge Funds		Avoid distress debt, overweight good macro managers and start preparing to replace long only exposure via long/short and equity neutral managers.
Private Equity		The flow to PE is good for now, warranting an overweight.
Private Debt		A bit more cautious on private debt. The flows are enormous, but higher rates in liquid markets are formidable competition.
Real Estate		Underweight, especially CRE. The next wave may be upon us.
Infrastructure		We like the long-term story of infrastructure investments. The most attractive returns are likely in the non-liquid solutions.

*Commodities ex precious metals

Underweight Neutral Overweight ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Equities	View	Commentary
Financials		With Q1 earnings season underway, first results out of the banking sector are confirming the positive trend from previous quarters. Prefer banks over insurers.
Consumer Discretionary		We move the consumer discretionary sector to underweight, expecting further underperformance. Especially the Automobile subsector could be in for another period of consolidation after the recent recovery.
Communications		Given our Consumer Discretionary downgrade, we move communications (i.e. advertising) down to neutral.
Information Technology		The outperformance over the past 18 months is overdue for a breather.
Industrials		With the global economy reaccelerating, industrials stocks will continue to outperform. Given geopolitical risks, do not forget the defense sector, despite massive advances already.
Energy		Still cheap, still good dividend yields, and a rising underlying (crude). What's not to like?
Materials		Commodity prices are on the rise and will continue to lift material stocks. Consider precious and industrial metal miners/producers alike.
Healthcare		Still massive M&A potential. Be selective or chose a capable long/short manager.
Utilities		Given our extreme cautiousness on bond duration, we consequently also continue to underweight utilities
Consumer Staples		Momentum continues to be lousy for Consumer Staple stocks and with inflation on the rise again, price pressures will continue to eat into margins

Underweight | Neutral | Overweight | ● Previous view (if different)

Macroeconomic

Chartbook Q2 2024

Chart of the Quarter

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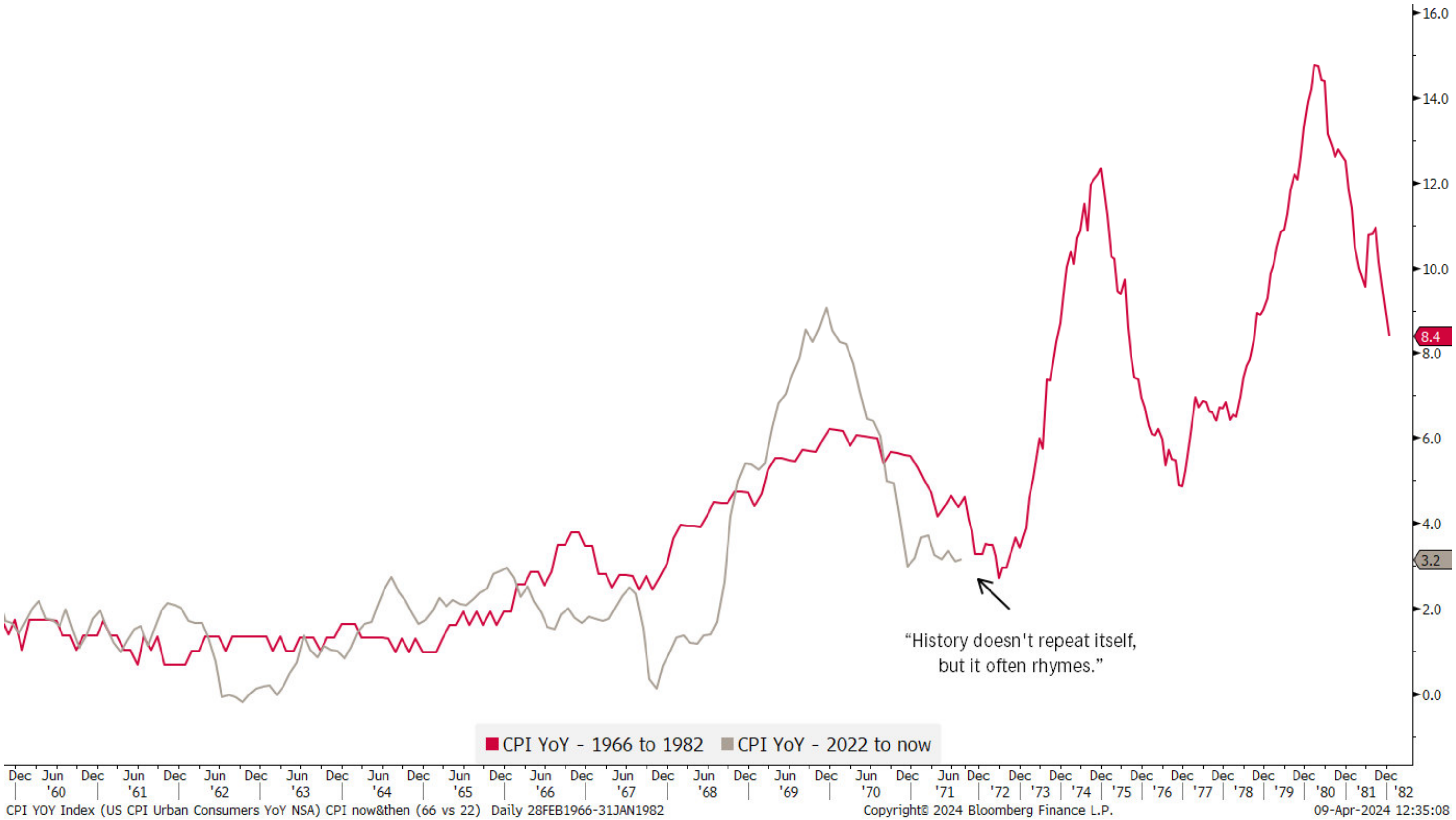
Toothpaste

If our assumption of a second inflationary wave proves to be correct, and recent asset price behaviour has been adding to that theory, we could indeed be at the onset of a next up move for prices.

Don't be fancy regarding the exact timing but start adjusting your asset allocation accordingly now.



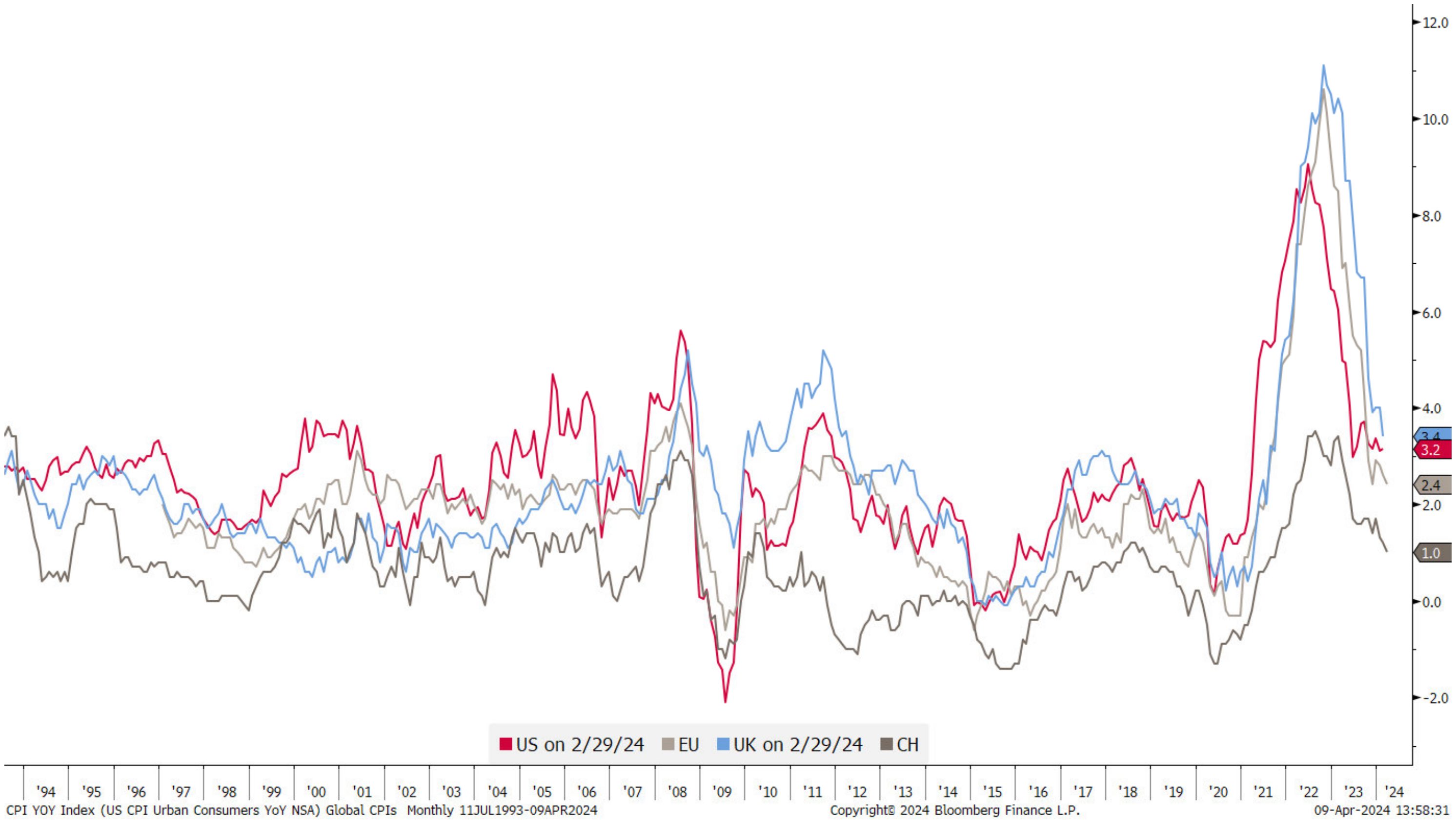
Source: Bloomberg, NPB

Global Inflation Rates

The Last Mile

Inflation rates have dropped back from their late 2022, early 2023 peaks to levels which previously were the tops of multi-decade range.

Will "the last mile" be more difficult to unwind? The US (red) is showing signs of sputtering.



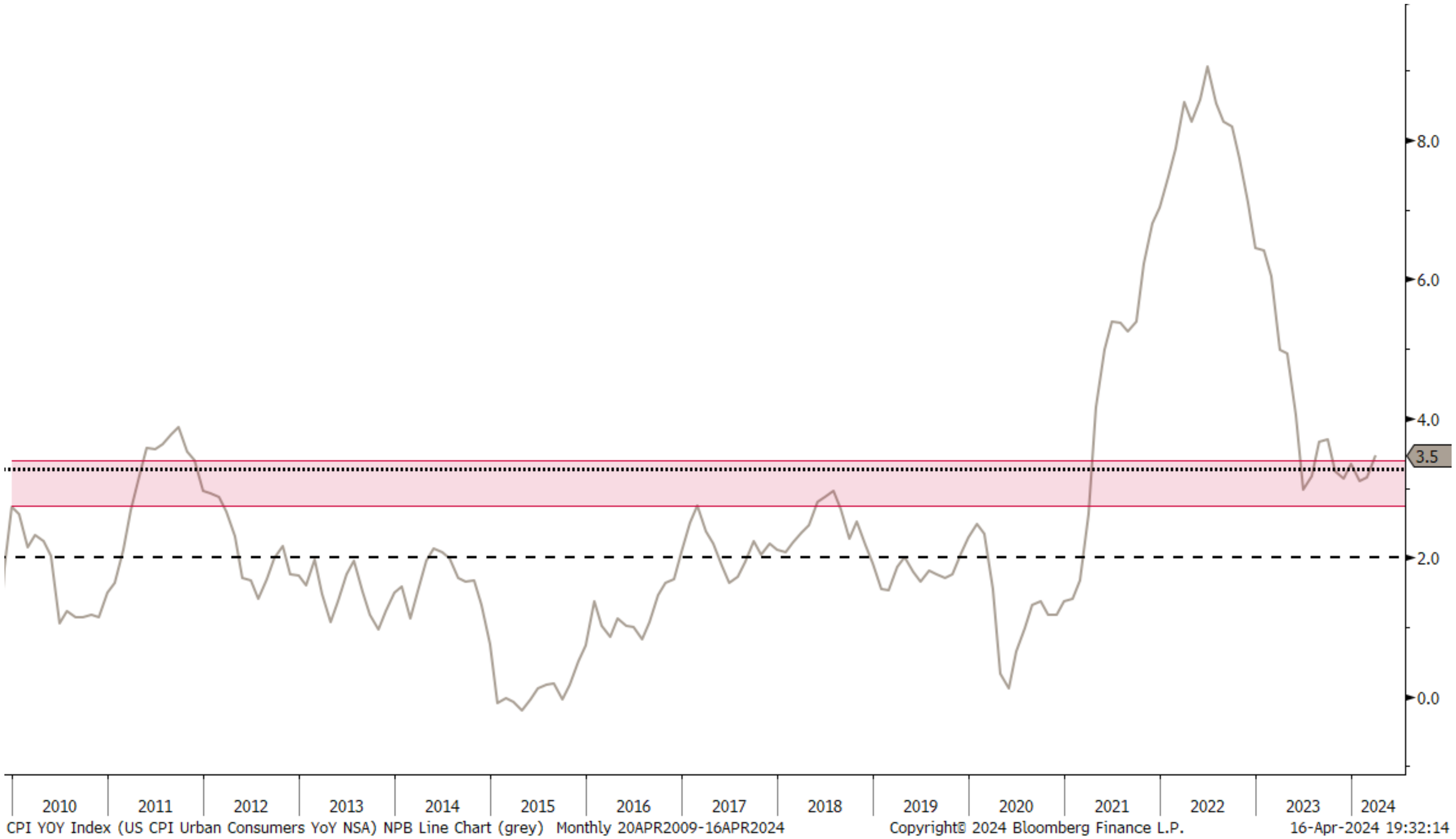
Source: Bloomberg, NPB

High is the New Low?

Evidence of a "bottoming out" of inflation is accumulating

In our previous report (Q1/24) we asked the question whether the previous top to inflation is becoming the new floor (shaded area). For now, the benefit of doubt confirms this theory, and the Fed seems to struggle to bring inflation down to the upper end of its target range (2%; black dashed).

And, by the way, the black dotted line(3.3%) indicates the average inflation number since 1910. Post-World War II inflation average is a bit higher at 3.7%.

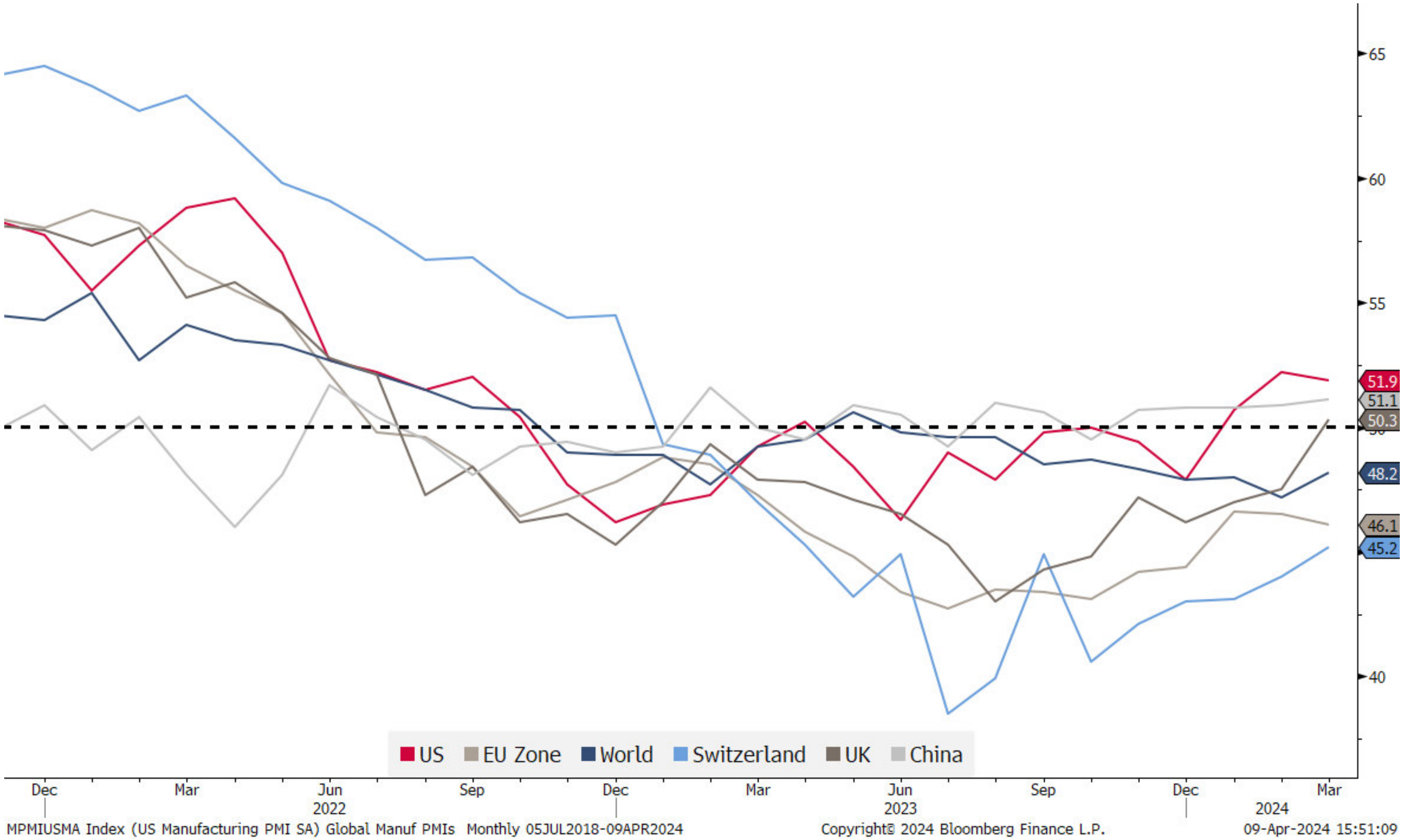


Source: Bloomberg, NPB

Global Manufacturing PMIs

Continued Improvement

(US) Inflation has stopped going down, just as global growth seems to be picking up in a more serious manner as Manufacturing PMIs show.



Source: Bloomberg, NPB

Global Service PMIs

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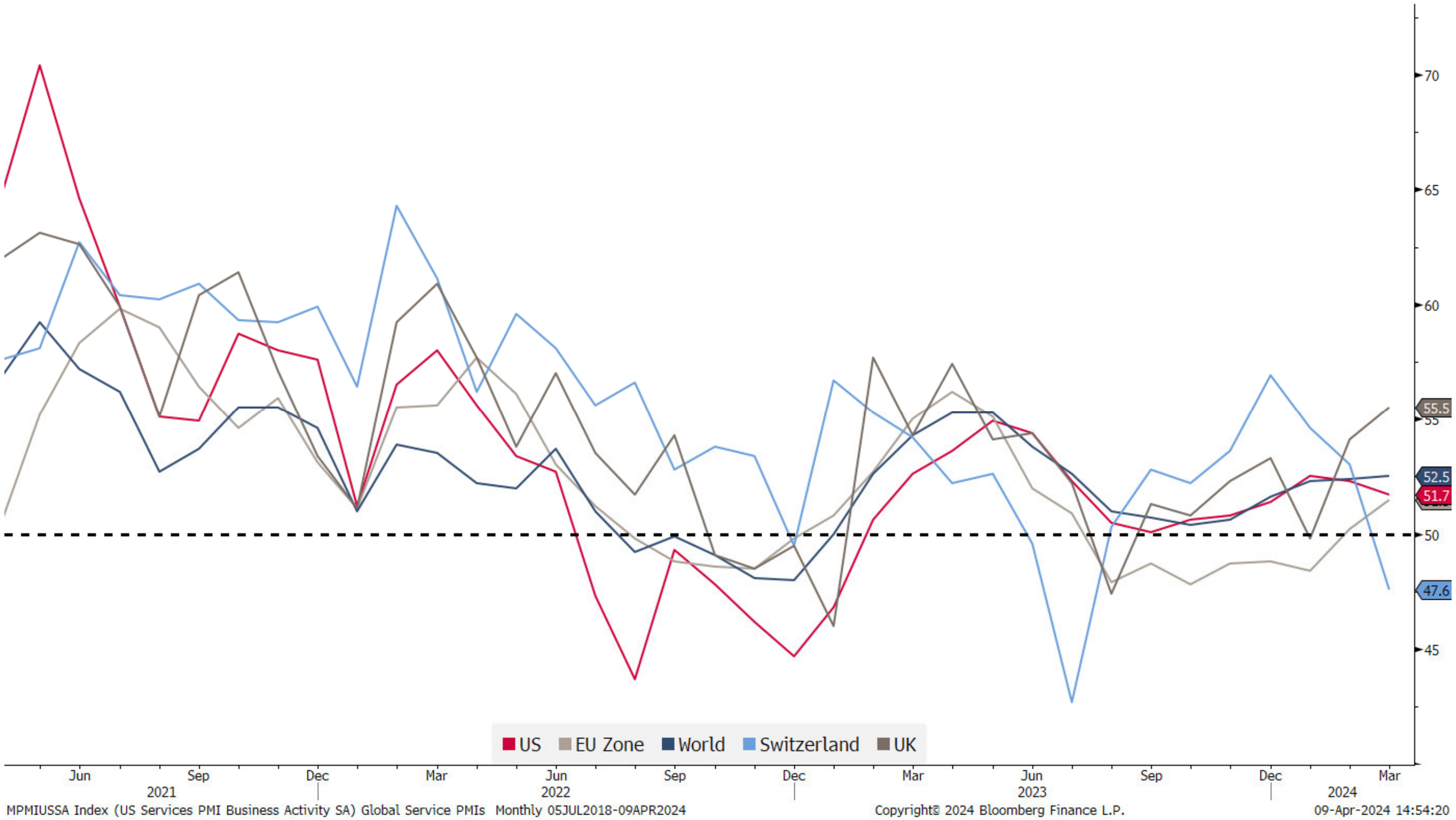
In Expansion

Service PMIs (ex-Switzerland) continue their expansion above 50 and also hint to global growth re-acceleration.



Source: Bloomberg, NPB

Global Growth: Anecdotal Evidence #1

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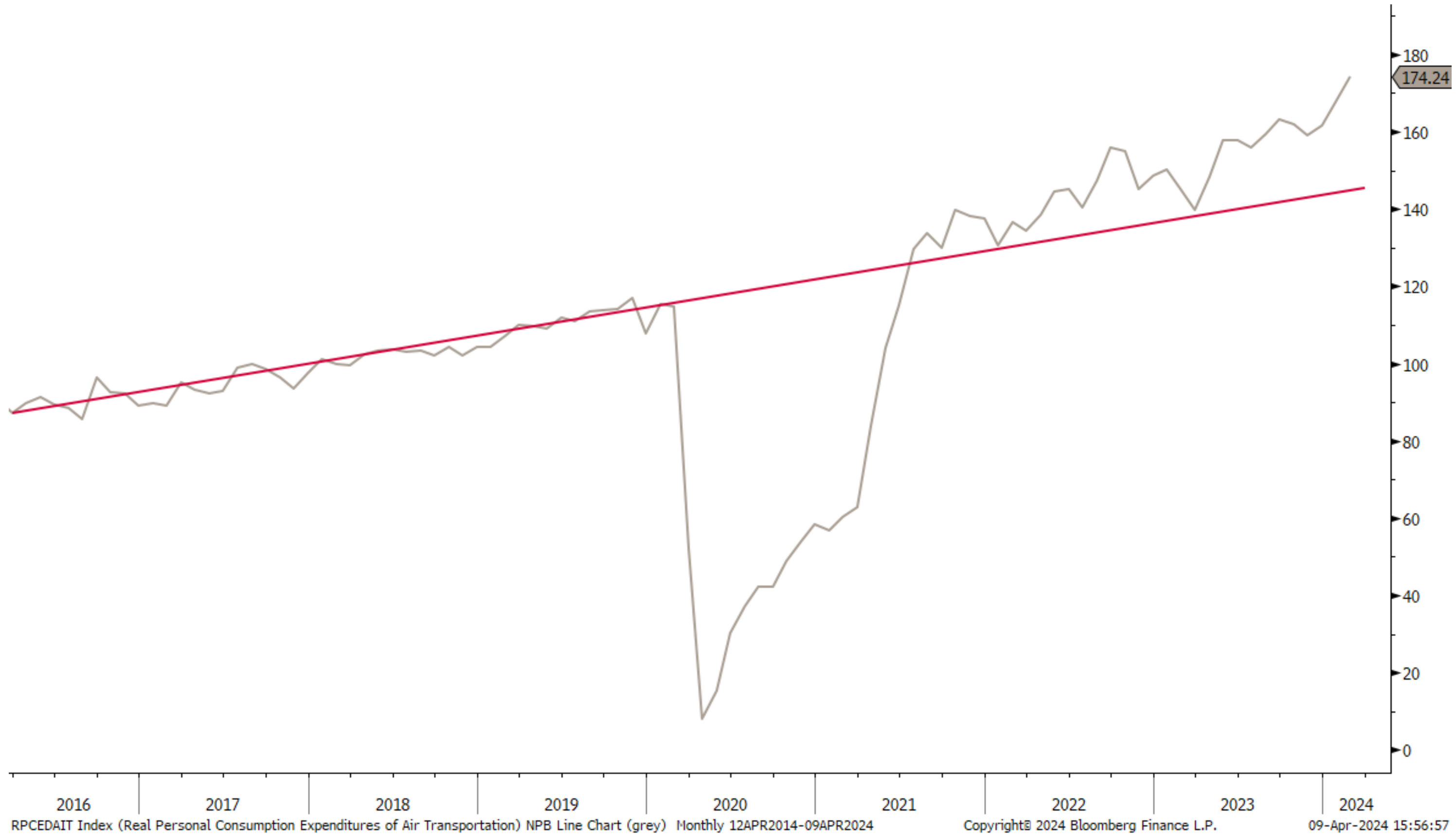
Real Personal Consumption Expenditures – Air Transportation

Air travel has not only recovered from the COVID slump, but is now about 20% above the longer-term trend.



Source: Bloomberg, NPB

Global Growth: Anecdotal Evidence #2

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Dr Copper and Global Manufacturing PMI

Is the recement up move in Copper forecasting a next, meaningful upswing in global growth?

Source: Bloomberg, NPB

Global Growth: Anecdotal Evidence #3

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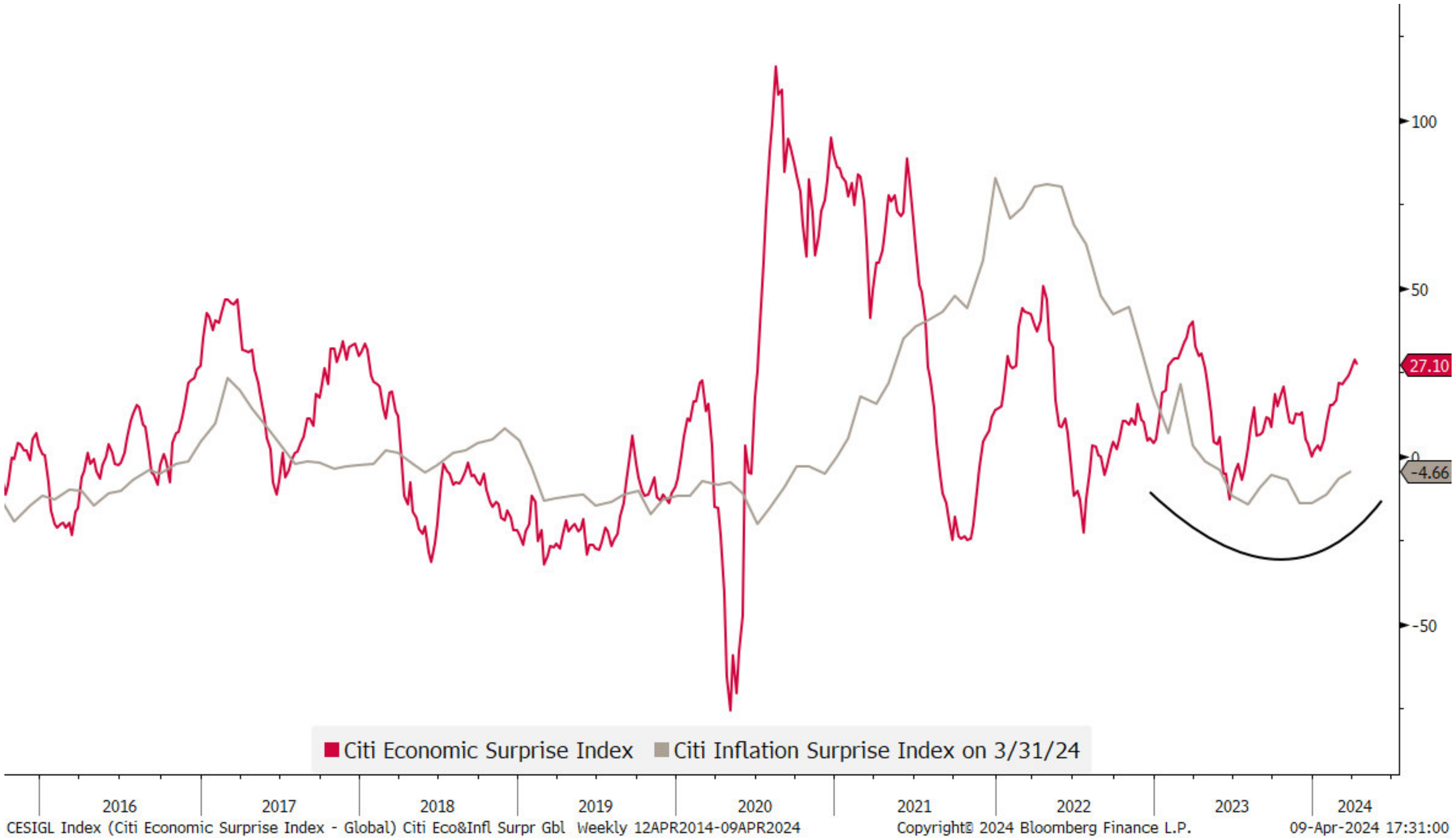
Economic & Inflation Surprise

Economic surprises (red) are happening to the upside and inflation surprises are turning up too.



Source: Bloomberg, NPB

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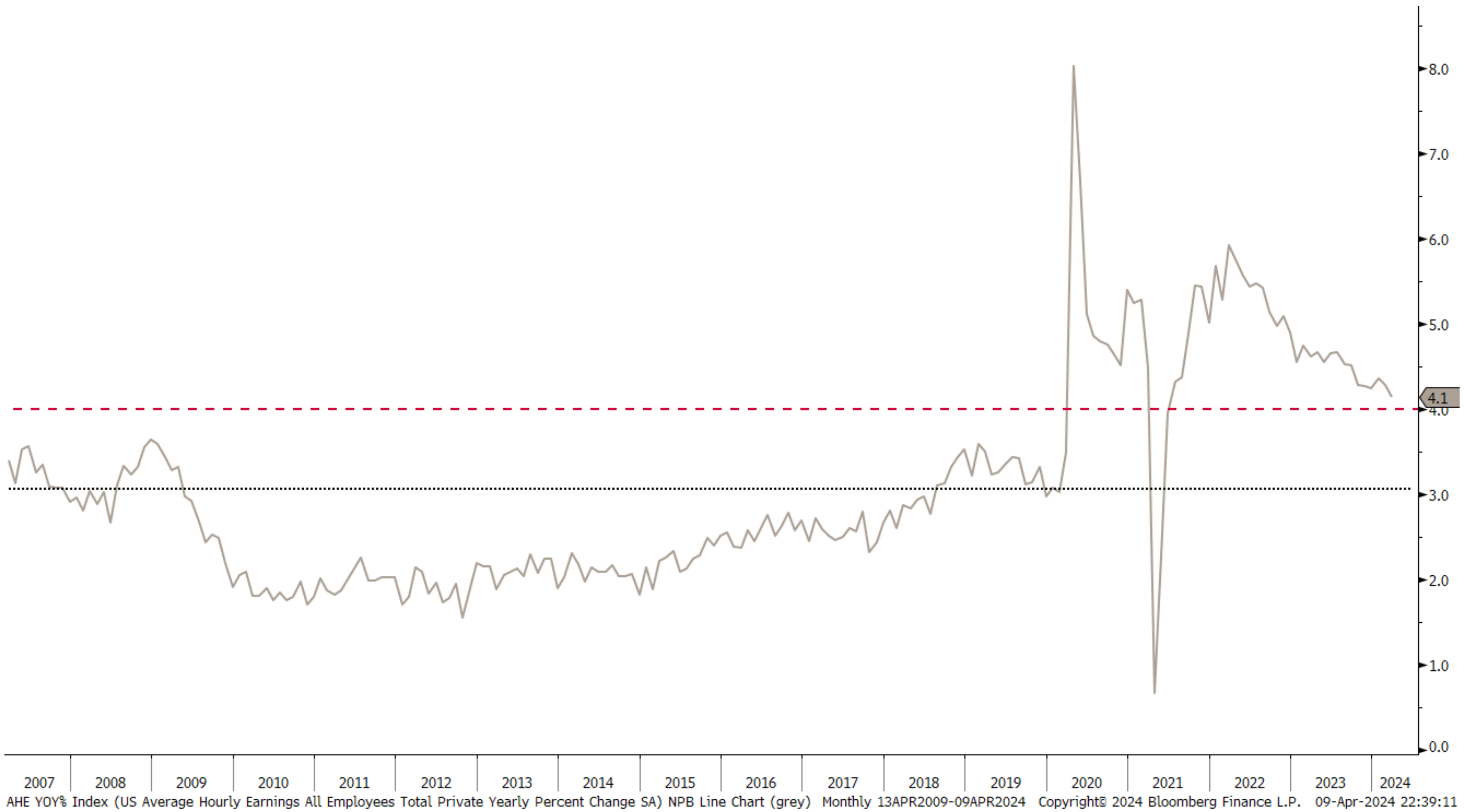
Global Growth: Anecdotal Evidence #4

US Wages remain elevated

The low level of unemployment is keeping upside pressure on wages. Whilst the YoY level has came down to 4.1%, it has been above 4% (red dashed) for 33 consecutive months and is well, well above the long-term average (black dotted).

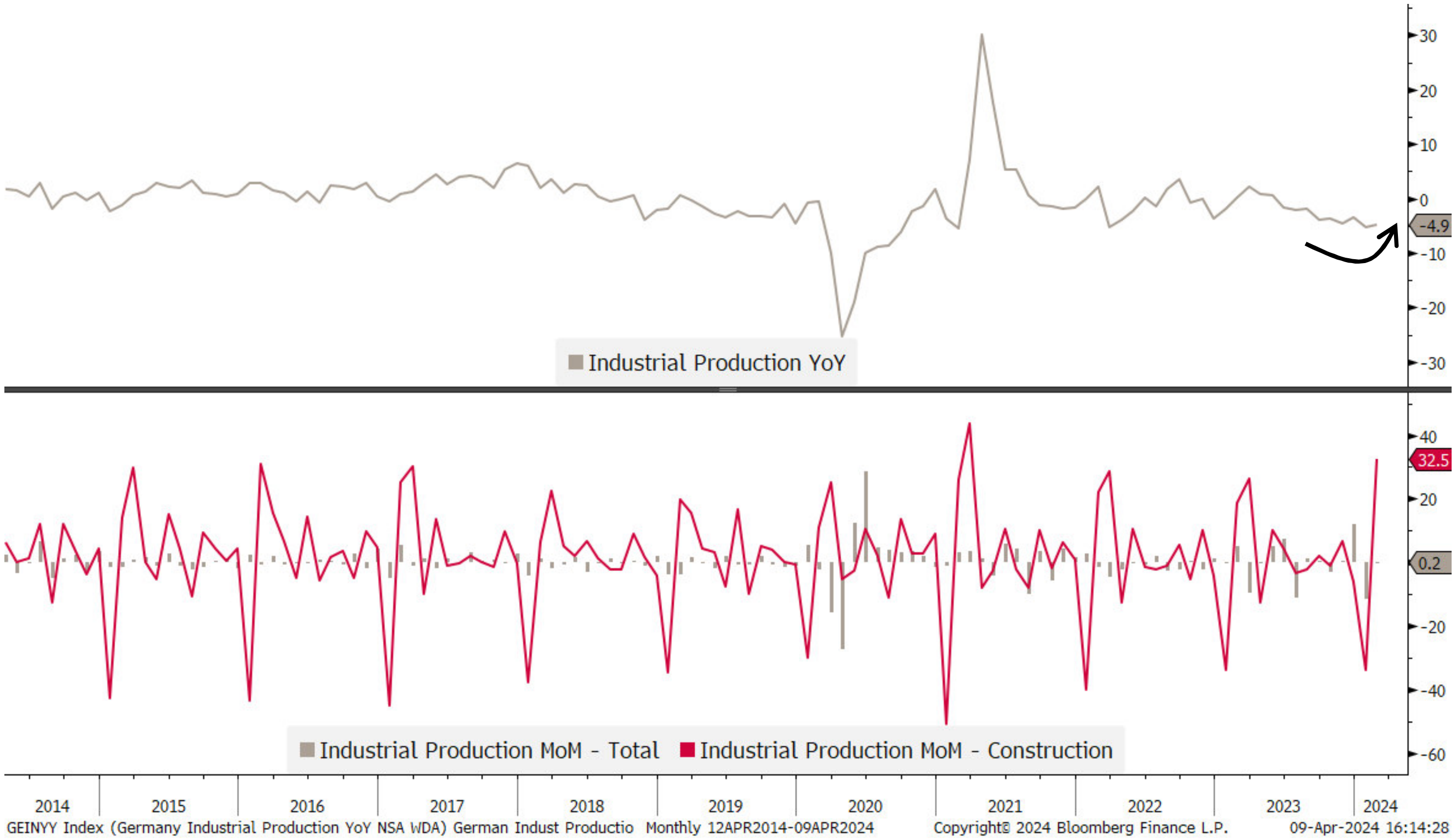


Source: Bloomberg, NPB

Global Growth: Anecdotal Evidence #5

German Industrial Production

German Construction (lower clip, red line) is seeing one of its biggest upswings since early 2021. Will it be enough to lift others sector too and push year-on-year production back into positive territory?



Source: Bloomberg, NPB

Global Growth: Anecdotal Evidence #6

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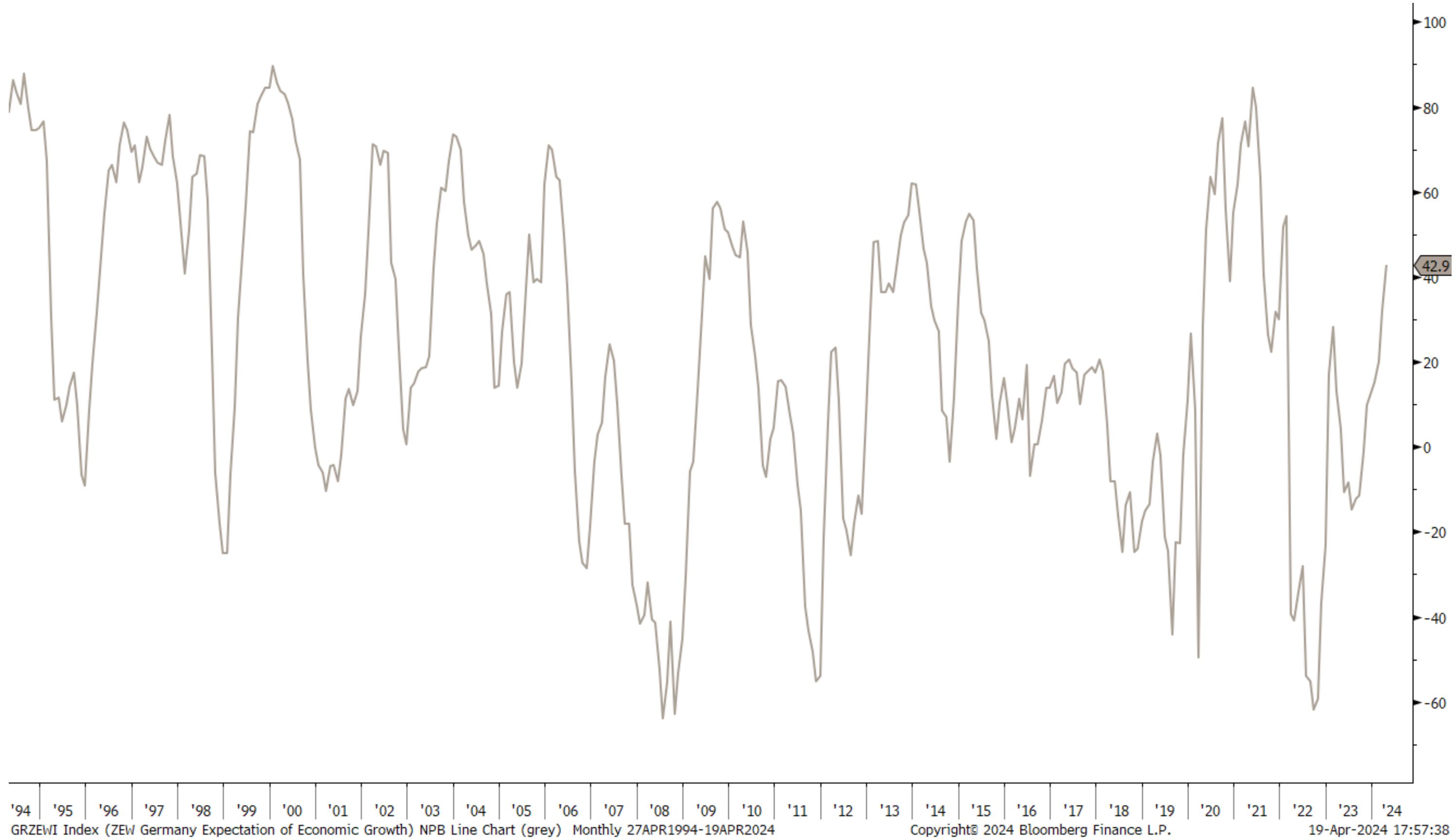
ZEW Survey

Soft data is confirming the current upswing in mood, with ZEW Expectation of Economic Growth at its highest reading (42.9) since February 2022, handsomely beating the expected 35.5

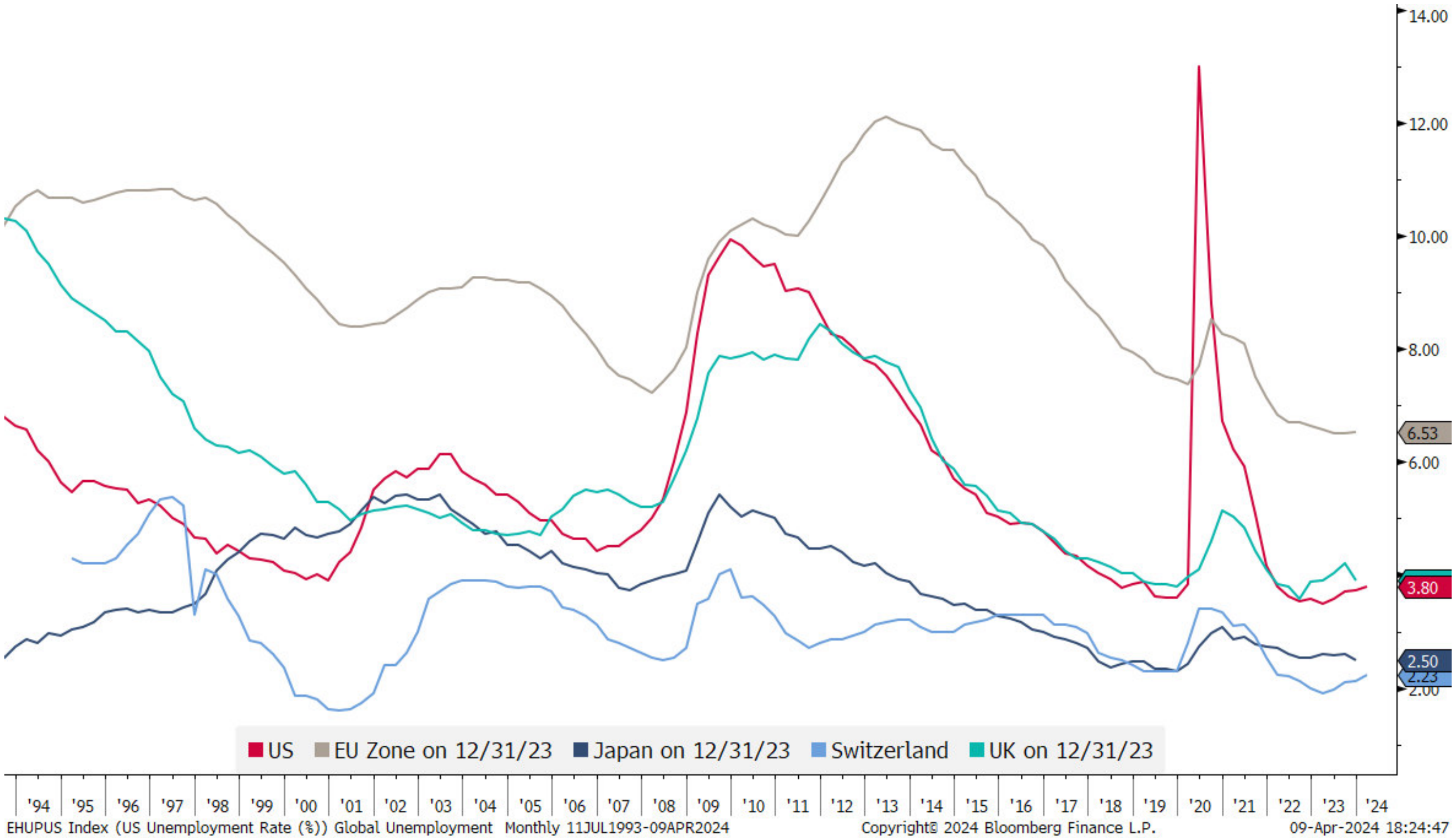


Source: Bloomberg, NPB

Global Unemployment (in%)

(Very) Muted Pick-Up in Unemployment

All these signs of economic reacceleration are happening with unemployment not have picked up meaningfully. This could possibly add additional upside to inflationary pressures via rising wages.



Source: Bloomberg, NPB

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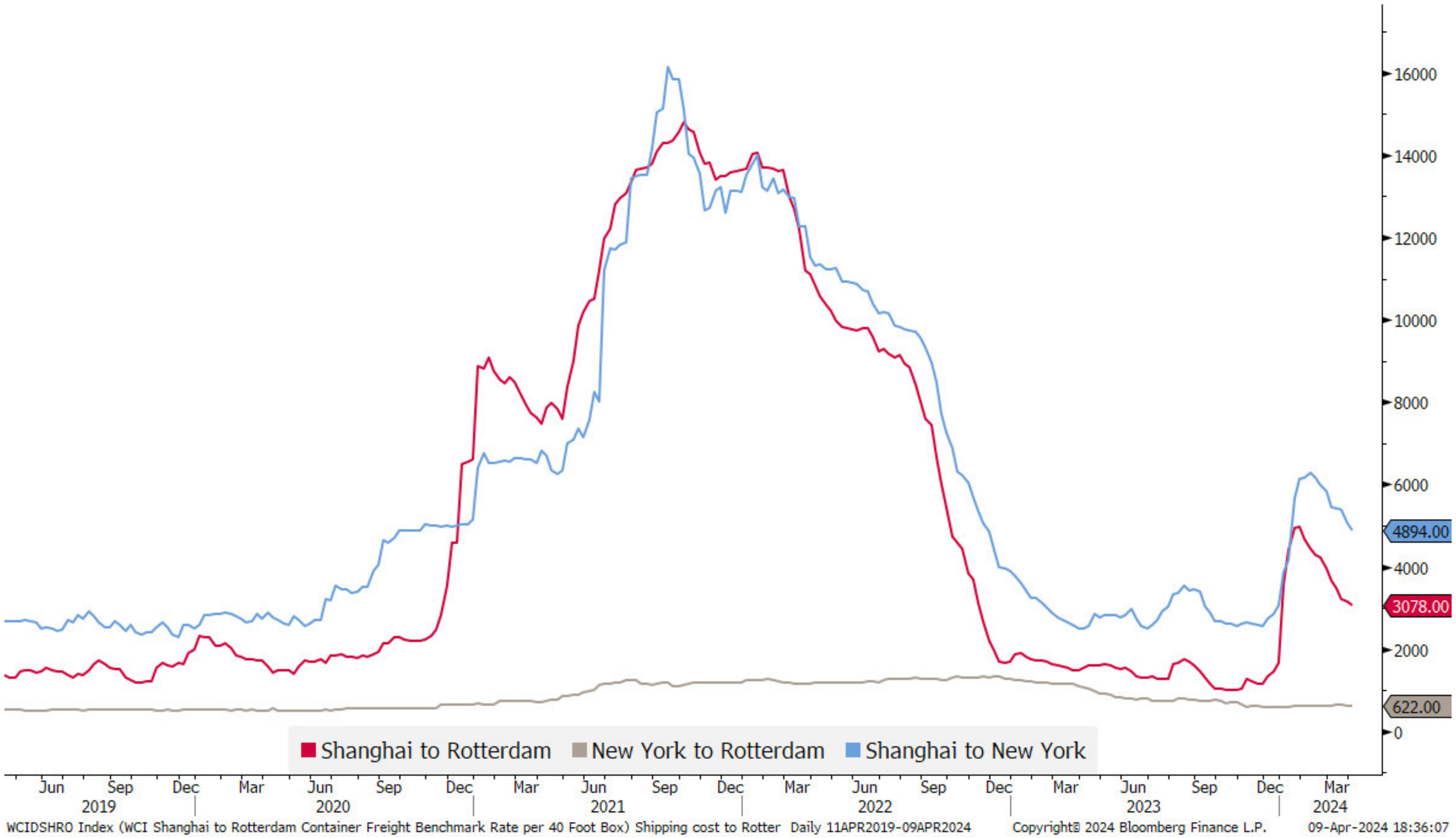
Freight Costs

Container Freight Rate per 40 Foot Box

Speaking of a possible employment/wage bottleneck on the previous slide, the shipping costs through the channels of Panama and Hormuz/Suez have relaxed somewhat since the beginning of the year.

However, no doubt that the situation in the Middle East remains tense … at best+.



Source: Bloomberg, NPB

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Global Growth Outlook

Actual / *Forecasts*

Growth forecast for the US has been revised down lately for 2025 and 2026 but remains in positive territory. European growth on the other hand has seen an upgrade.

	GDP						
	2020	2021	2022	2023	*2024*	*2025*	*2026*
USA	-3.5	5.7	2.1	2.5	2.2	1.7	2.0
Europe	-6.8	5.2	3.5	0.5	0.5	1.4	1.4
Switzerland	-3.3	3.6	2.0	0.8	1.2	1.5	1.6
Germany	-5.3	2.8	1.9	-0.1	0.1	1.1	1.3
UK	-10.1	7.2	4.0	0.3	0.3	1.2	1.5
Japan	-5.1	1.7	1.1	1.9	0.7	1.1	1.0
China	2.3	8.1	3.0	5.2	4.7	4.4	4.1
India	4.2	-7.5	8.7	7.0	7.6	6.6	6.5
GCC	-5.0	2.5	7.4	0.9	2.4	4.0	3.7

Source: Bloomberg, NPB

Global Inflation Outlook

Forecast/*Actual*

Economist continue to see a falling inflating rate for most economies (ex-China and ex-GCC). However, they do also not see inflation falling back below the upper end of the inflation target zone (2%) in the US and Europe, for example.

	CPI						
	2020	2021	2022	2023	*2024*	*2025*	*2026*
USA	1.3	4.7	8.0	4.1	2.9	2.4	2.3
Europe	0.3	2.6	8.4	5.4	2.3	2.1	2.0
Switzerland	-0.7	0.6	2.9	2.1	1.3	1.2	1.0
Germany	0.4	3.2	8.6	6.0	2.4	2.1	1.9
UK	0.9	2.6	9.1	7.3	2.4	2.1	2.0
Japan	0.0	-0.2	2.5	3.3	2.3	1.7	1.7
China	2.5	0.9	2.0	0.2	0.8	1.7	1.9
India	4.8	6.2	5.4	6.6	5.4	4.5	4.5
GCC	1.0	2.1	3.6	2.6	2.1	2.0	2.2

Source: Bloomberg, NPB

Elections

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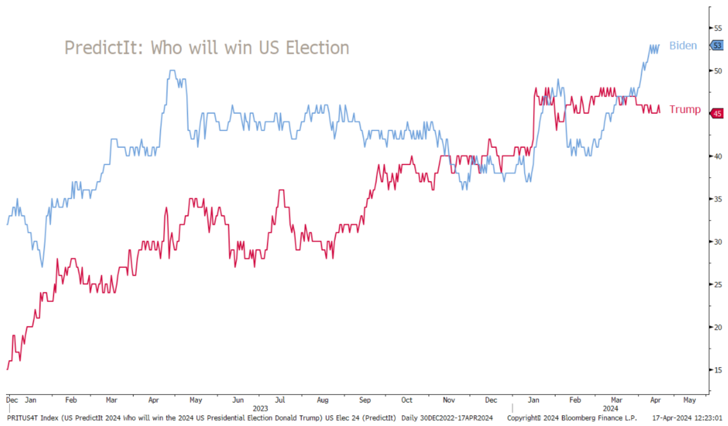
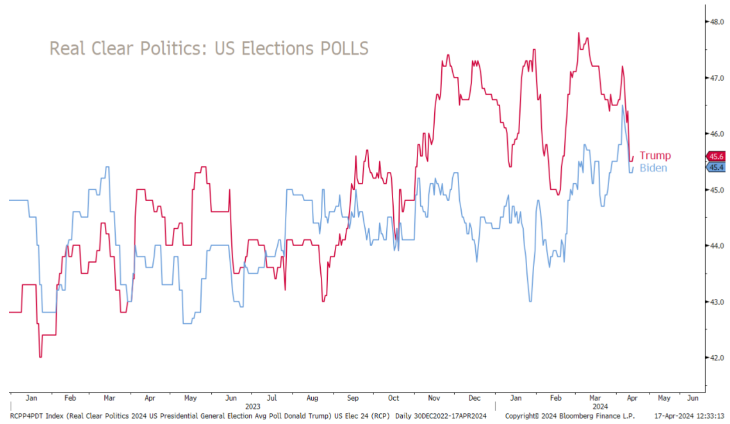
How the Polls are going

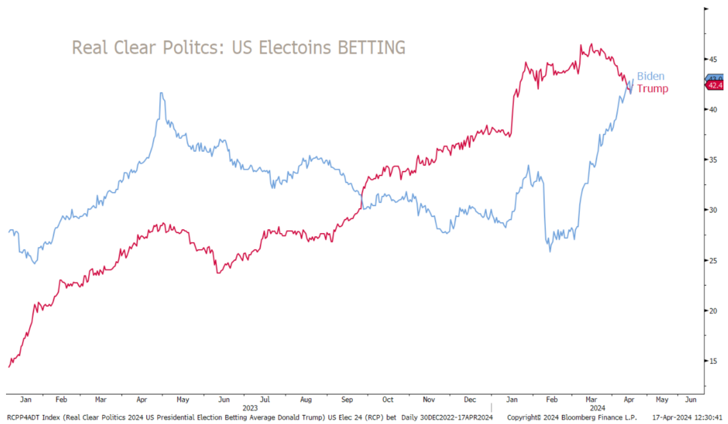
The top two and bottom left graphs show how the 2024 presidential race is going via different polls and betting measures.

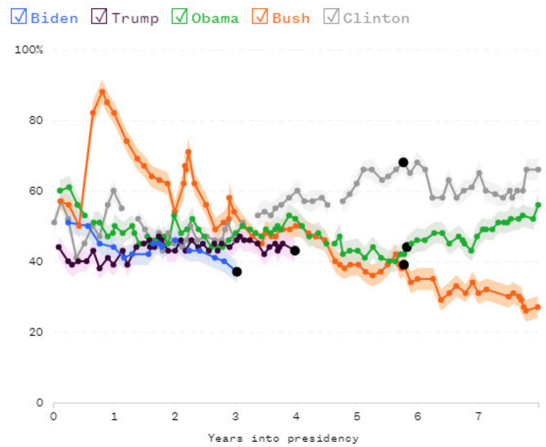
It is a surprisingly close call for now, especially given how little approval the current incumbent as relative to previous presidents.

And then, Trump also 'surprised' Hillary in 2016 …









Source: Bloomberg, NPB

Equity

Chartbook Q2 2024

“Rotation is the lifeblood of every bull market.”

Ralph Acampora

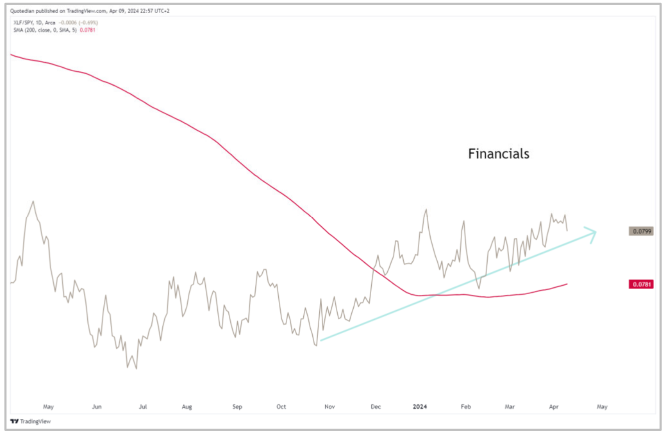
Leadership Rotation

Change of the Guard

Some sectors are emerging as new leaders, taking over from others which are showing some fatigue.

This is an absolutely important element of a bull market, where healthy rotation keeps the uptrend intact.

To the right, some of the new leading sectors (all relative to the S&P 500). Spoiler alert: All of them strongly exposed to the economy.



Source: TradingView, NPB

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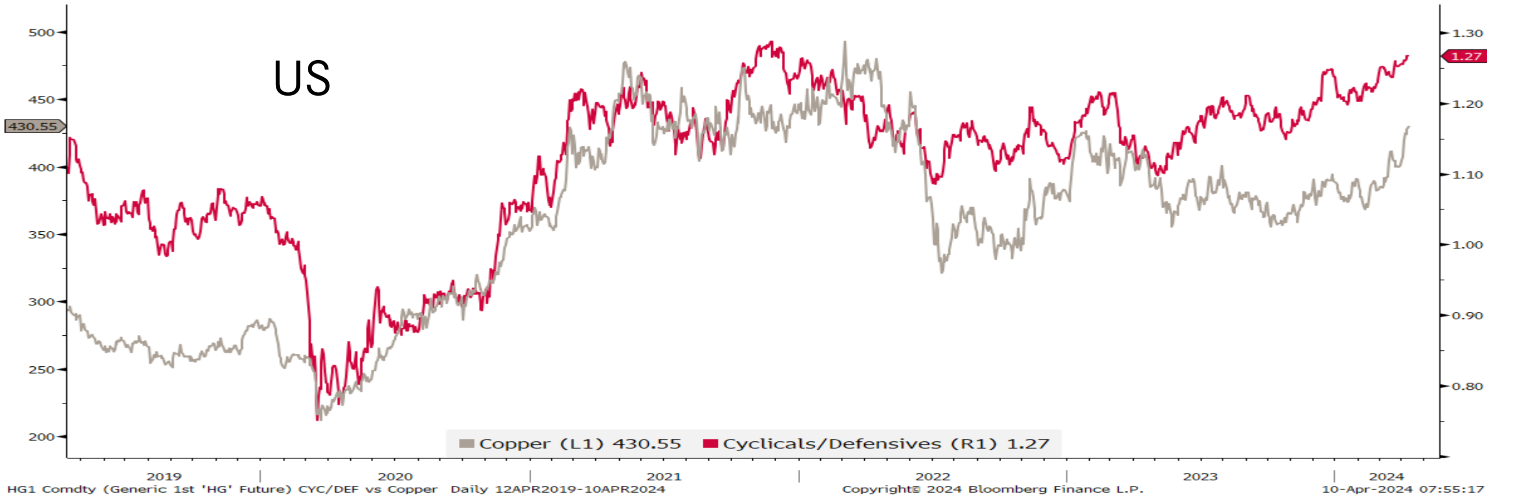
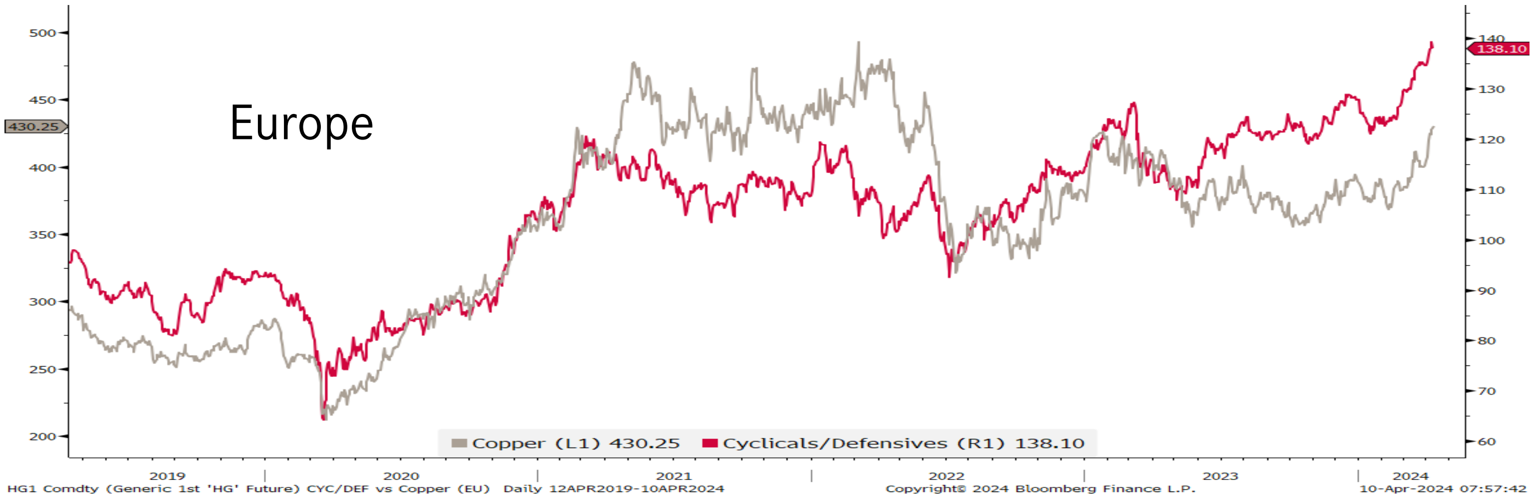
Cyclical vs. Defensive

Firing on all cylinders

After studying the previous chart, it comes as no surprise then that cyclical stocks are outperforming defensive counterparts massively.

Which, to come full circle with chart on page 19, is also the message Dr Copper is conveying.





Source: Bloomberg, NPB

US Equities

S&P 500

As we stated in our Q1 outlook, the weekly close of the S&P 500 at a new all-time high was not bearish, despite a seemingly expensive valuation, and was swiftly followed by a new monthly all-time high close in January.

Whilst a pullback to or just below 5,000 is possible anytime, we continue to believe that such weakness should be used to further build up equity exposure.

Source: TradingView, NPB

Europe

STOXX 600

The broad STOXX 600 Europe index closed at a new all-time high in February. Given that it took over two years to reach that feat, we see more upside ahead, also considering the comparatively low valuations (see page 40).

Source: TradingView, NPB

Switzerland

SMI

Our upgrade of the Swiss market in previous quarter paid off well, despite the market correcting now at the beginning of Q2 as we finish this report.

With the SNB having been the first major Western Central Bank to have cut rates, tailwind should remain strong into year end.

Source: TradingView, NPB

United Kingdom

FTSE 100 (and FTSE All Shares versus World ex-UK inset)

The FTSE 100 is trying to break out to the upside, but admittingly has been trying so for the past few years.

The inset graph illustrates the relative performance of the entire UK market to rest of the world. Top left to bottom right is not good.

No wonder though, as per a 2023 study, UK pension fund managers have reduced their domestic equity allocation from 53% to a mere 6% ...

Source: TradingView, Bloomberg, NPB

Indian Equities (1 of 2)

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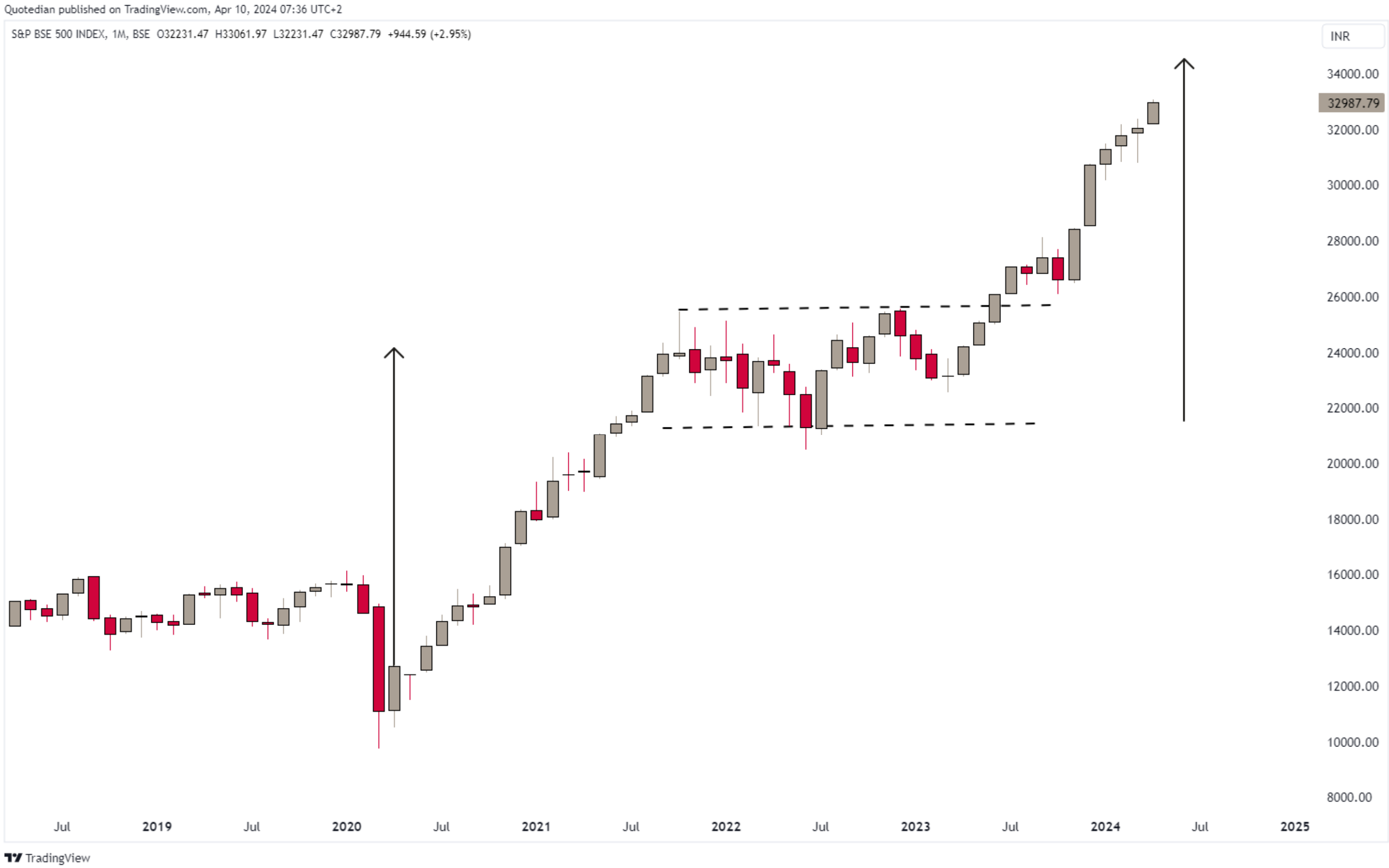
Large Cap - BSE 500

Indian large cap equities continue to move from the bottom left of the screen to the top right.

Despite lofty valuations we see no reason to downgrade this market yet.

With an expected landslide win for Modi and his party in May, we can assume tailwinds will prevails for another term.



Source: TradingView, NPB

Indian Equity (2 of 2)

Small Cap – proxied via iShares MSCI India Small Cap ETF (SMIN)

One possible element that could derail the Indian equity rally is the market regulator himself.

Small cap stocks got a scare in March induced by comments of the market regulator regarding rampant speculation.

Stocks quickly recovered from an intra-month visit down to the 10-month MA (circled) and a classical technical patterns suggest at least 15% more upside.

But keep this angle in mind …

Source: TradingView, NPB

GCC

Proxied via Xtrackers MSCI GCC ETF (XGLF)

The correction starting mid-2022, which took our proxy for the region some 30% lower, seems to have ended. Given the continued flock of money and people into the area, we would remain overweight, however downgrade from strong overweight due to valuation concerns (see page 40).

Source: TradingView, NPB

Valuations

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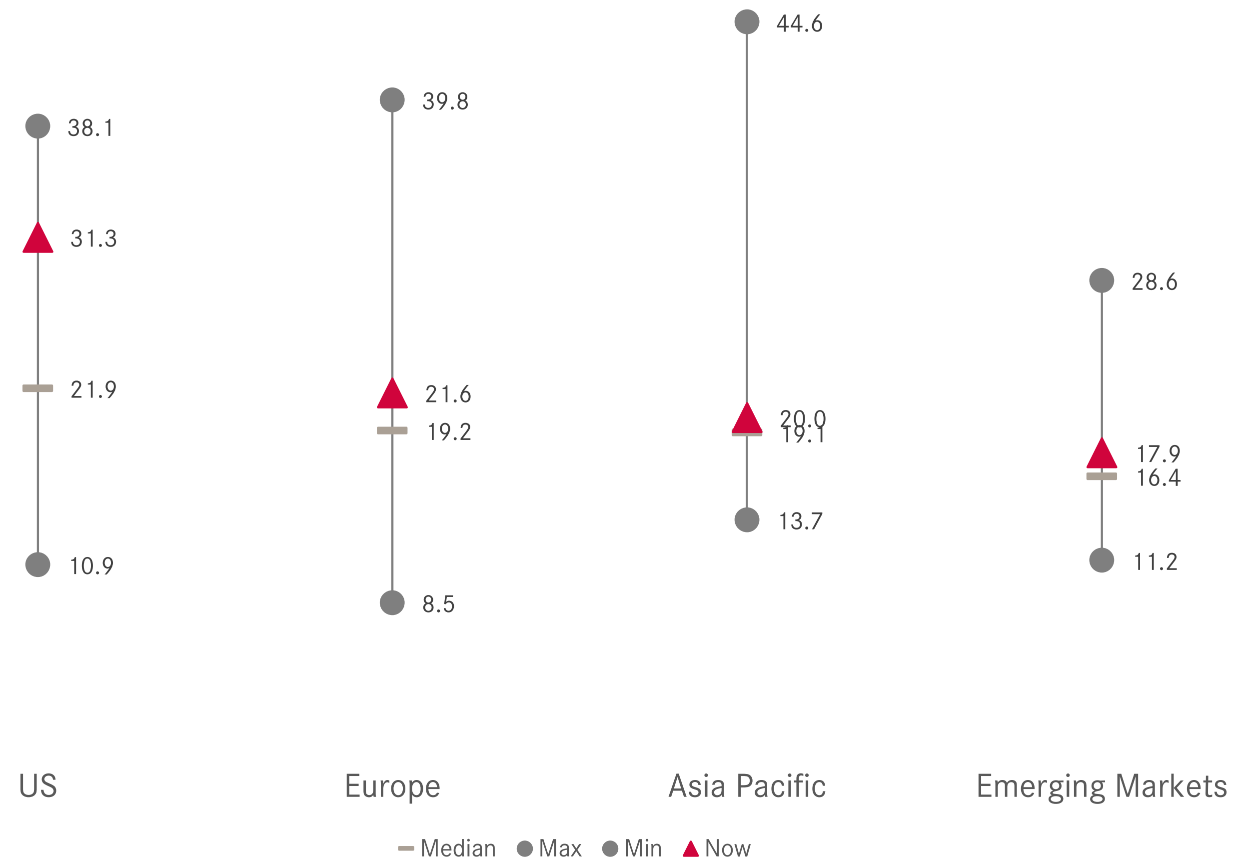
PER comparison across Major Regions

The North American equity market is really the only region trading at a substantial premium to the historic norm – all other markets are trading around their long-term median.



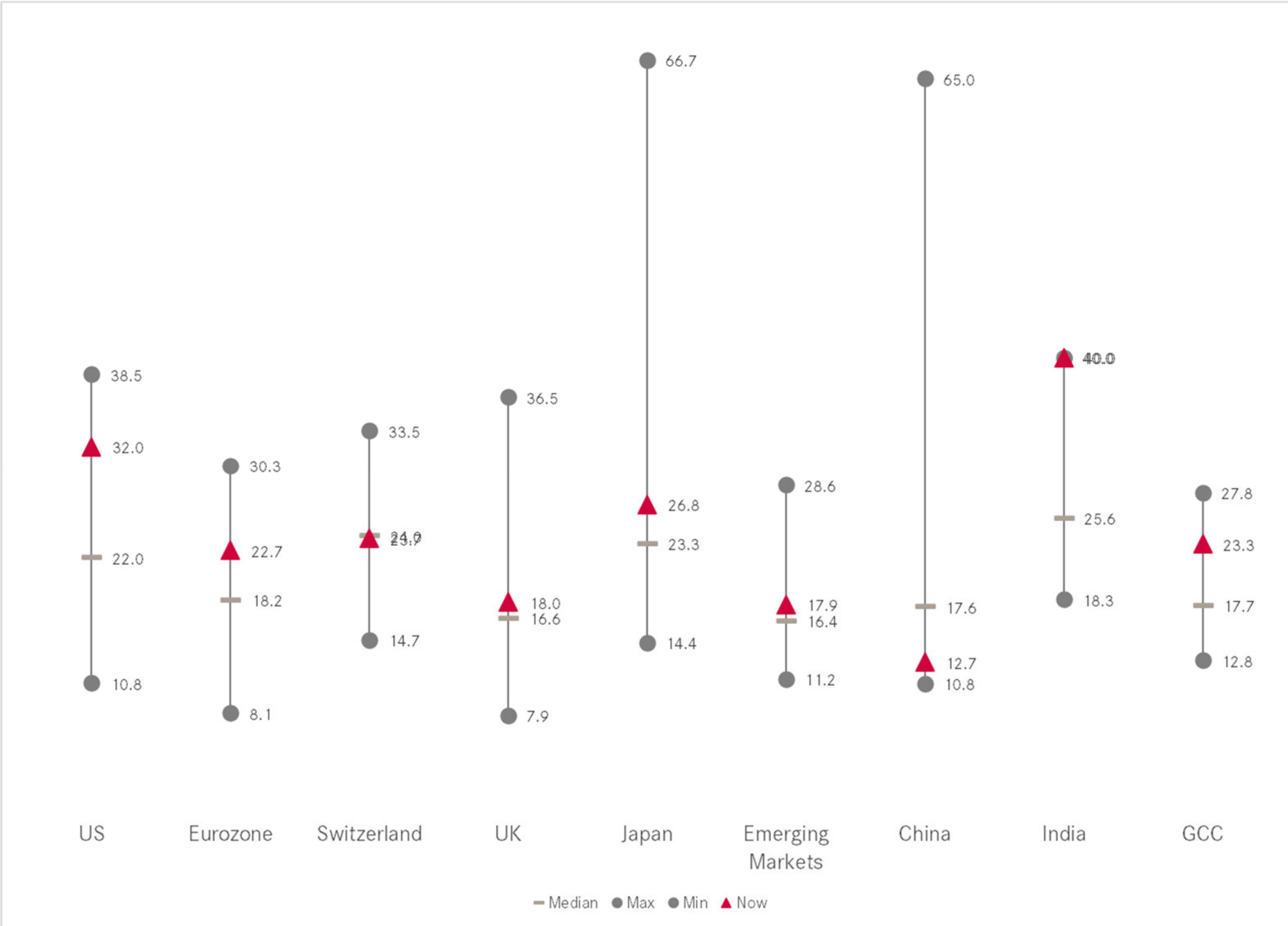
Source: Bloomberg, NPB

Valuations

PER comparison across NPB Focus Markets

India and US stocks carry a pretty hefty price tag, followed by GCC.

Most of our other focus markets are priced reasonably.



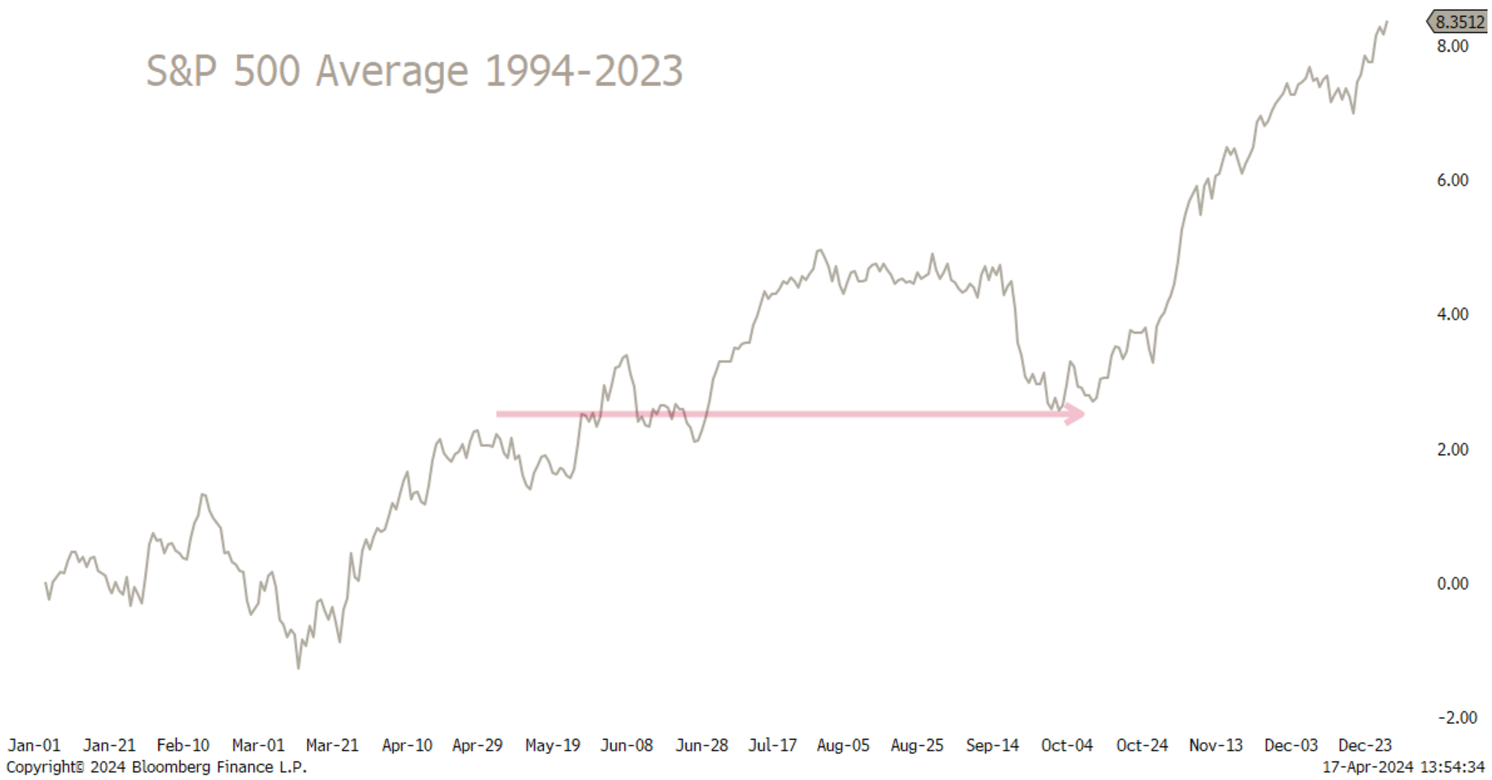
Source: Bloomberg, NPB

Seasonality (1 of 2)

"Sell in May ..." is approaching

We are only about two weeks ago from "Sell in May and go away" (aka Halloween indicator) where returns tend to be flat but more volatile.

However, this year has been pretty "non-complying" in the seasonal aspect, as the mid-February to mid-March weakness never happened.



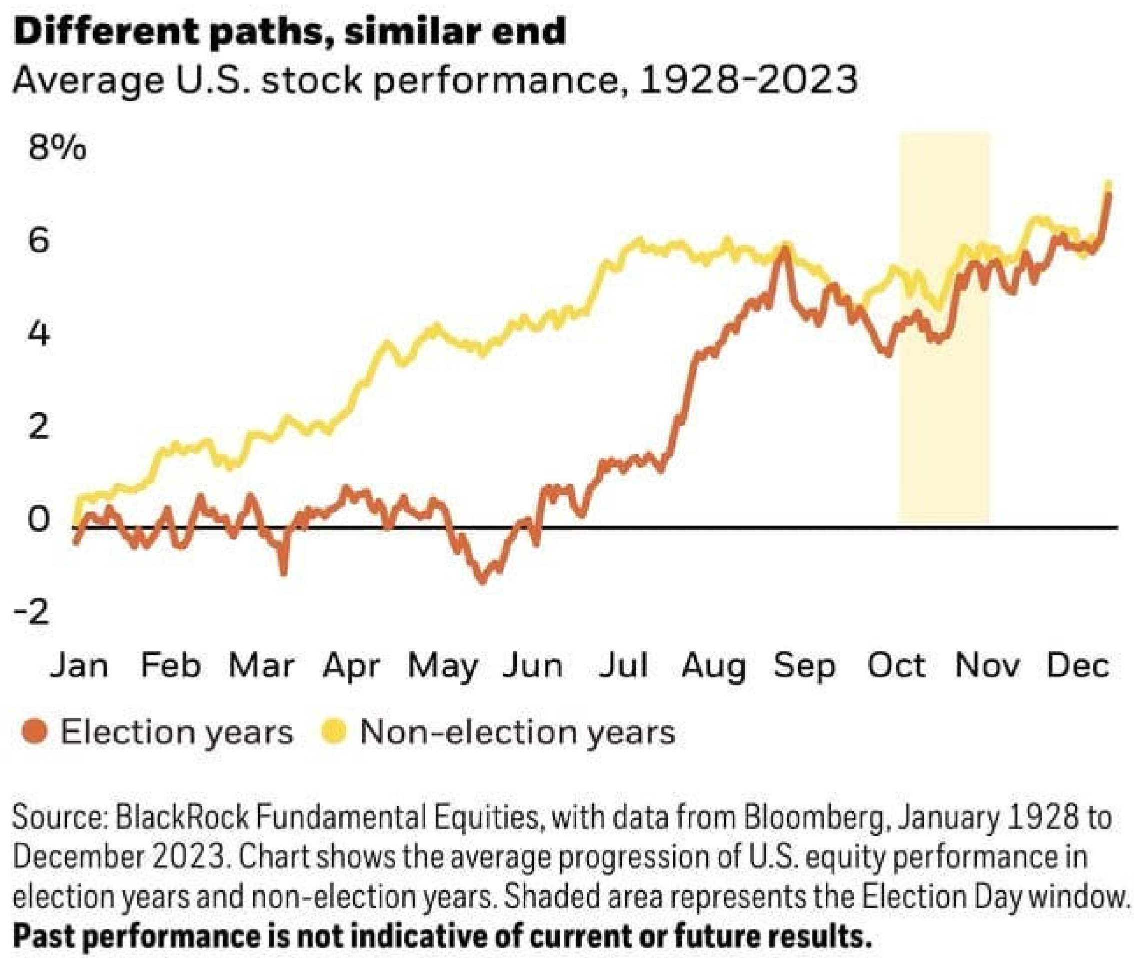
Source: Bloomberg, NPB

Seasonality (2 of 2)

Presidential Cycle

Reconsidering the chart seasonal chart of the 4th year in the presidential cycle, we do note that the spring months tend to be a bit 'bumpy', before a summer rally ensues.

Never rely on seasonals only, yet still an interesting observation.

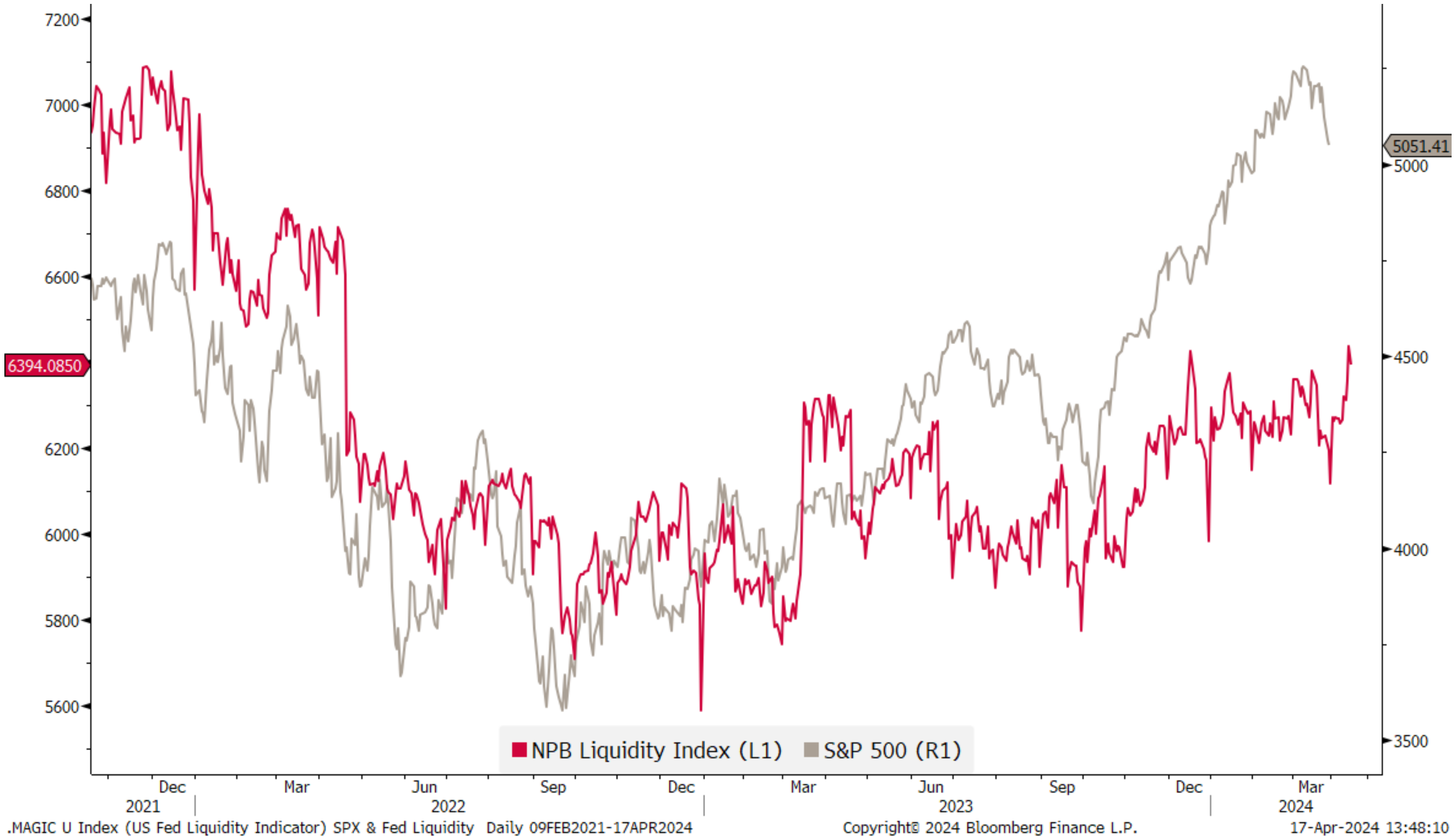


Source: BlacRock

Liquidity

NPB Liquidity Index

Our Liquidity Index would suggest that the current equity "correction" is getting to a close soon.

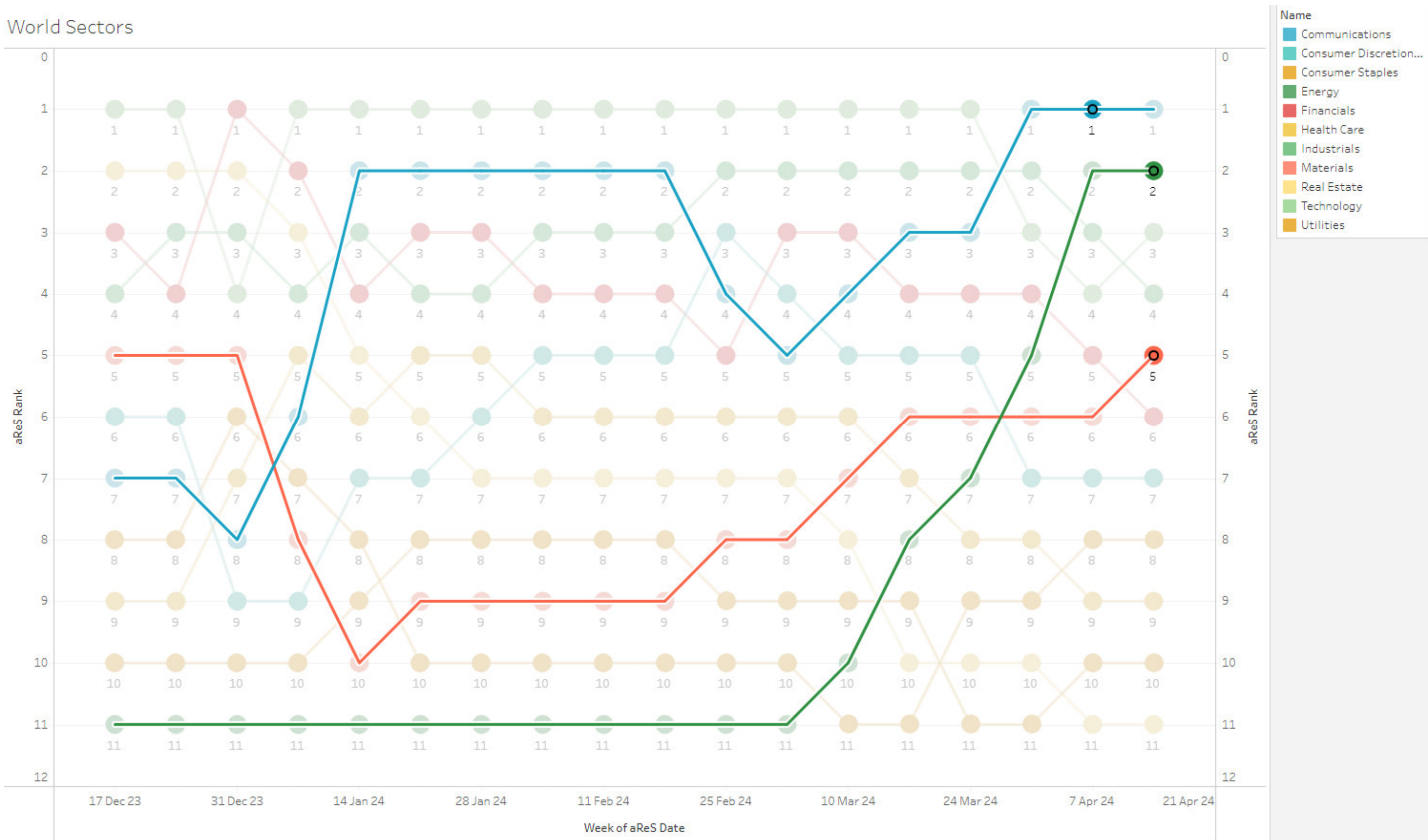


Source: Bloomberg, NPB

Global Sector Analysis

aReS Momentum Model

Our proprietary aReS™ Momentum model suggest that focus should be put on communications, but especially also "real" economy sectors such as materials and industrials.

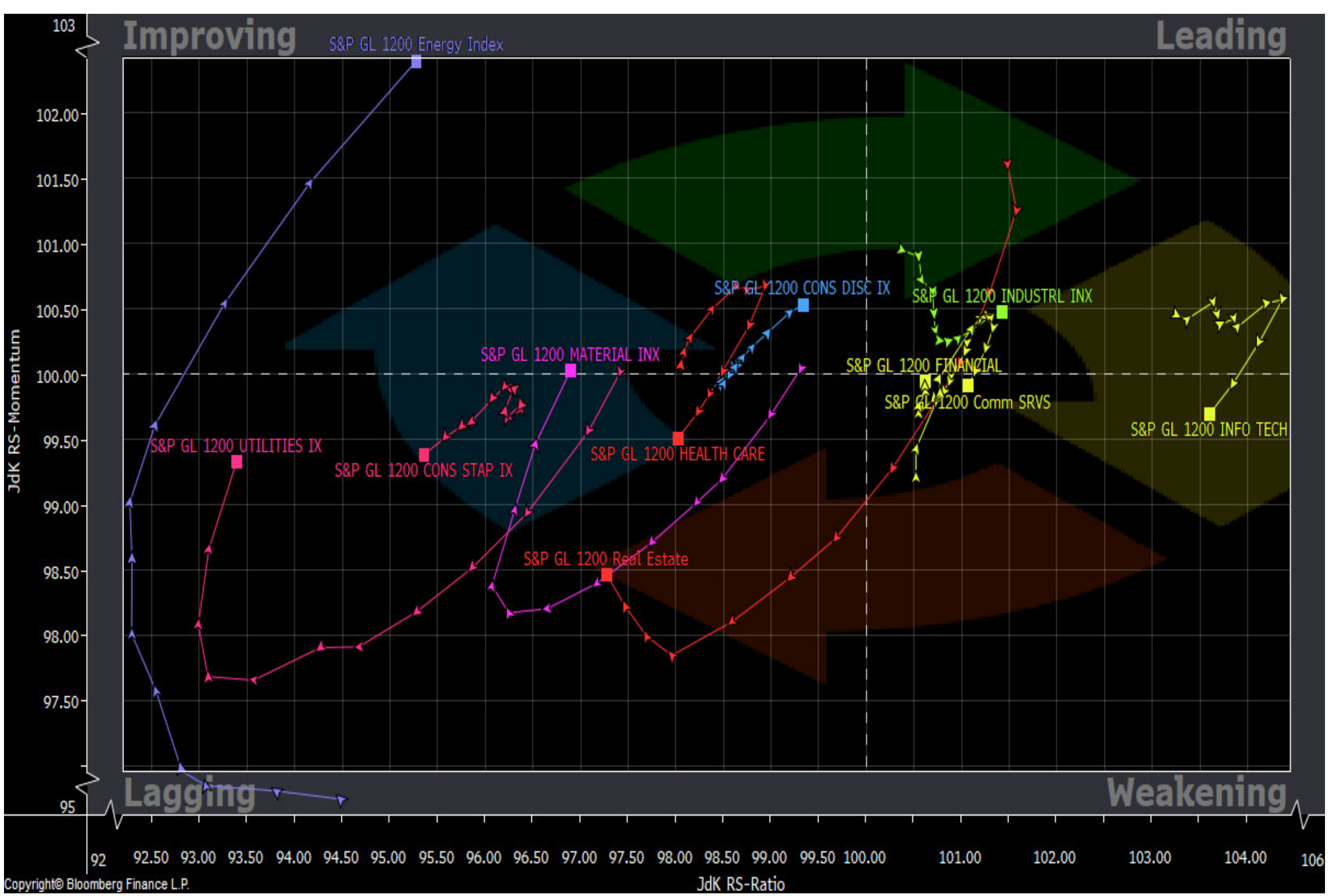


Source: Bloomberg, NPB

Global Sector Analysis

Bloomberg RRG

Bloomberg's RRG function confirms our model. Overweight Energy, Materials, Industrials.



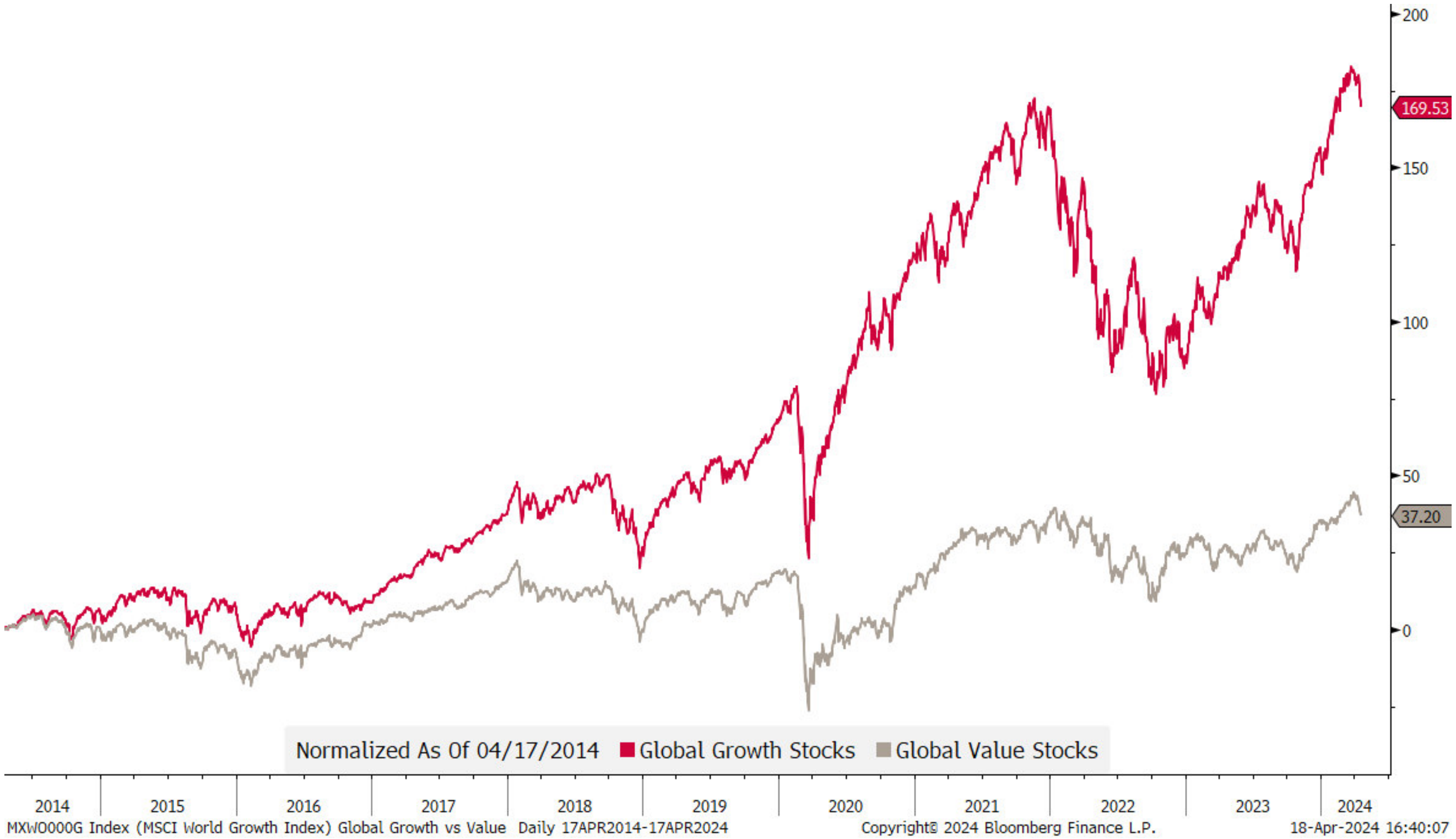
Source: Bloomberg, NPB

Factor/Style Analysis

Value versus Growth (1 of 2)

The chart to the right illustrates the enormous performance difference of two popular factors, such as value (grey) and growth (red) over the past ten years.

It emphasises the importance of factor selection and indirectly of trend following.

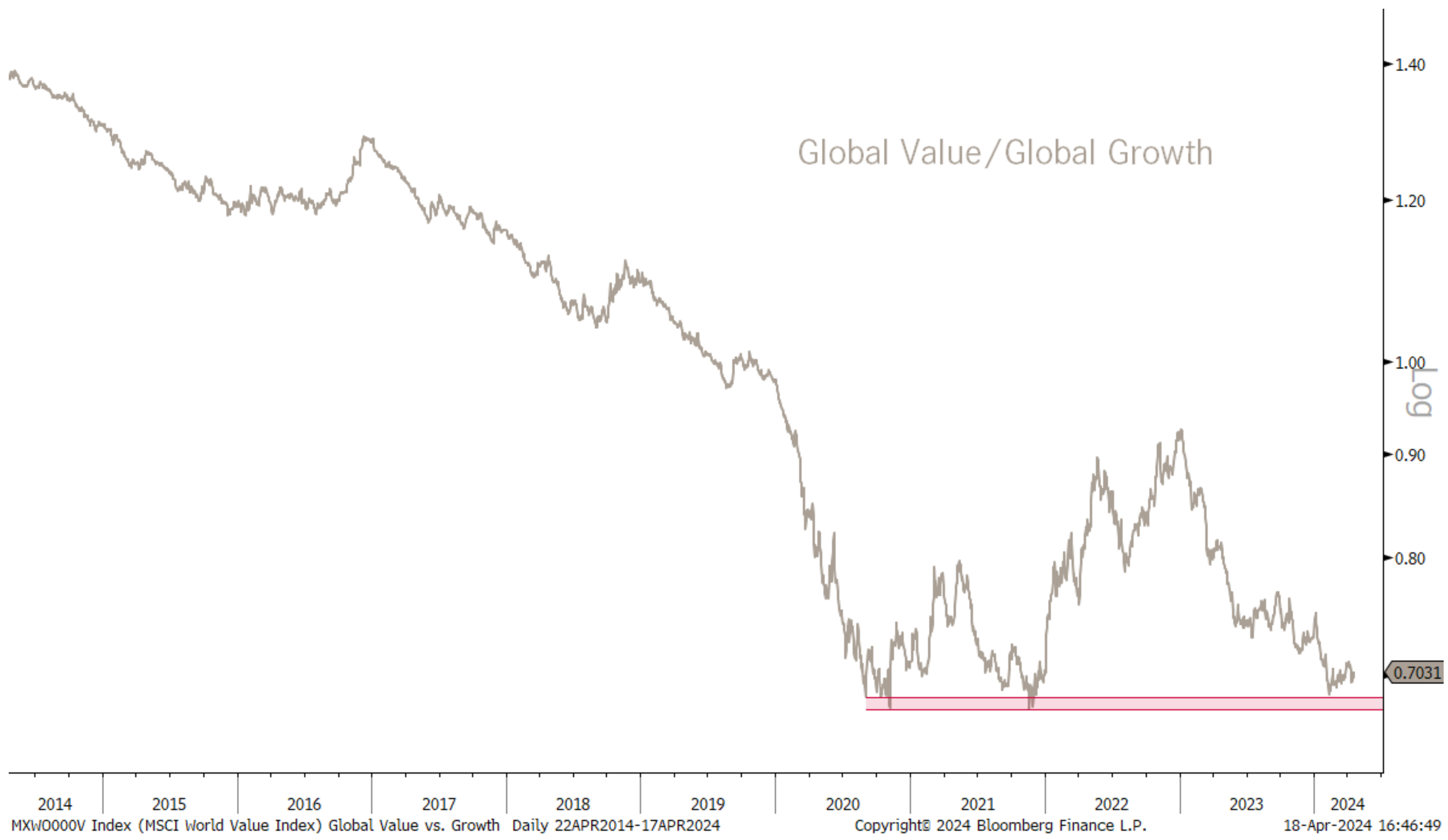


Factor/Style Analysis

Value versus Growth (2 of 2)

Here the chart to the right shows the same two indices again, but as a ratio, i.e. global value stocks divided by global growth stocks.

The best argument that can be made for value stocks is they may have found a technical bottom, which coincides with the fundamental factor of rising rates environment.



Factor/Style Analysis

Market Capitalization

Another popular factors is large cap stocks versus small caps stocks, depicted as a ratio in the chart to the right.

It is clear that small cap stocks have not worked will since 2018, despite a nearly year-long speculative frenzy post COVID shutdown.

The recent break to new all-time highs in the ratio (circled) does not bode well for small cap stocks.

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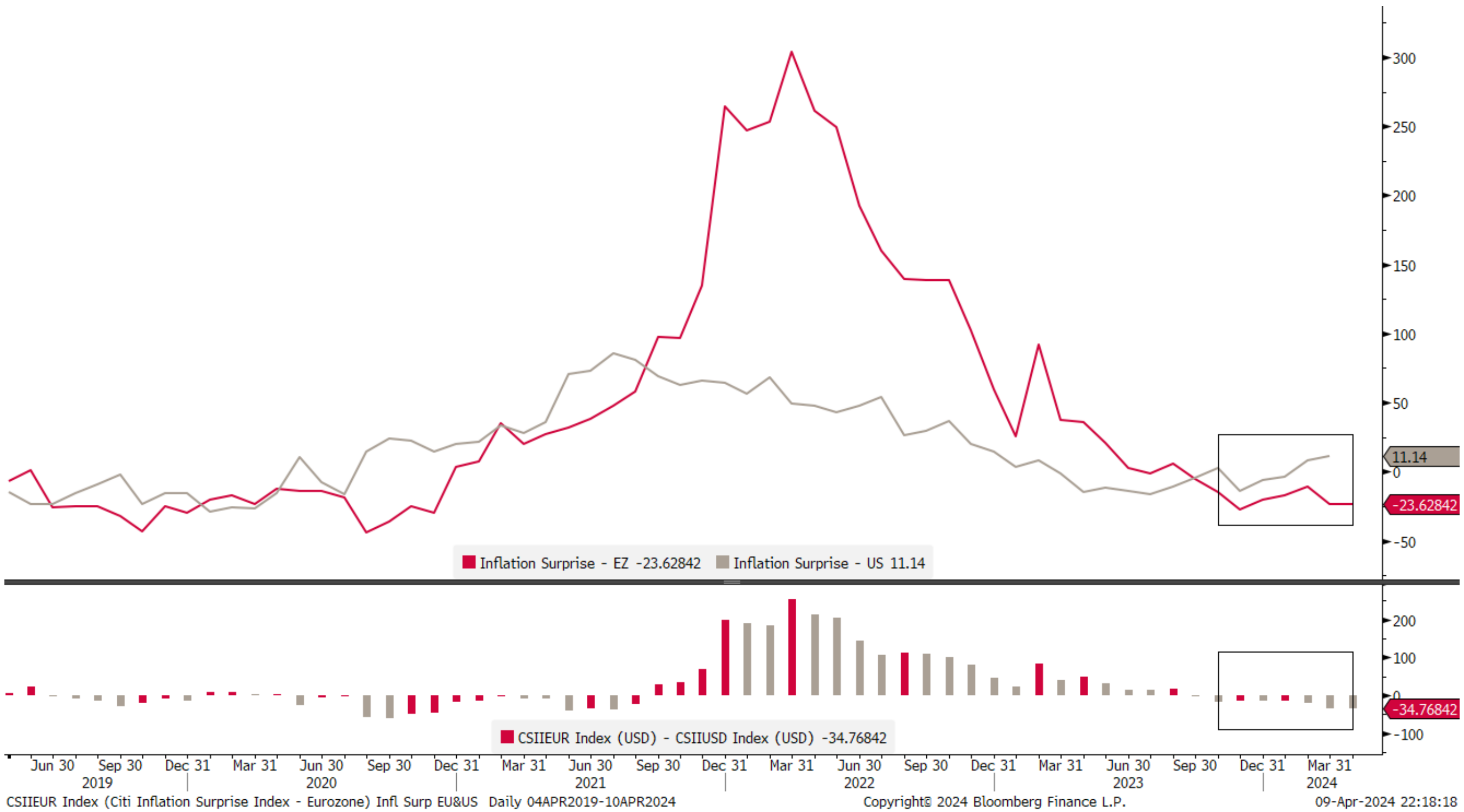
Fixed Income

Chartbook Q2 2024

Economic Growth

Divergence between EZ and US

As we recall from the economy section in previous slides, global growth is reaccelerating. Tough (re)inflation has been more pronounced in the US than in Europe as proxied in the chart to the right via the Inflation Surprise Indices for each region.



Source: Bloomberg, NPB

ECB & FOMC Rate Cuts (1 of 2)

Odds for June '24 Cut

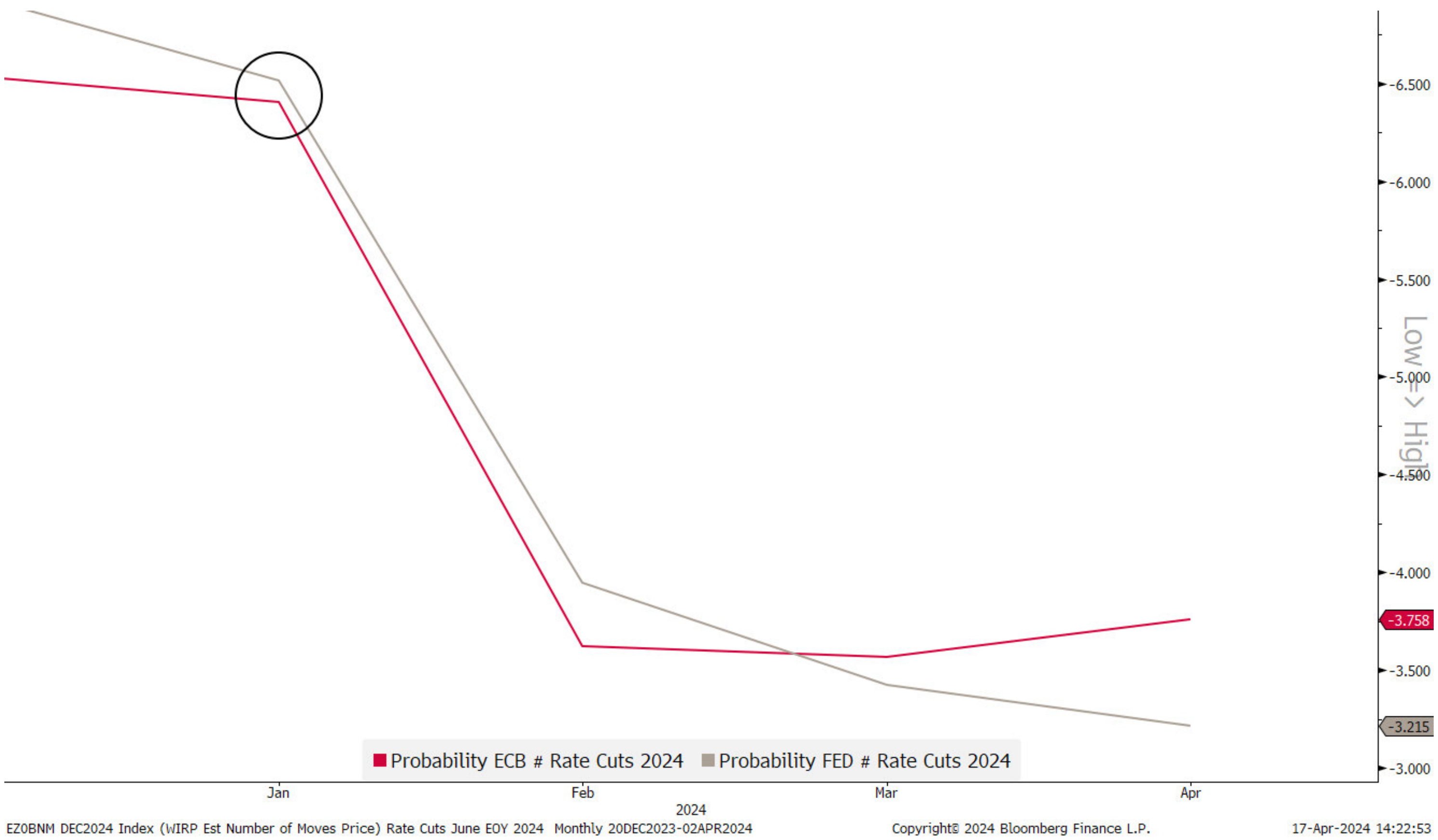
This fore-mentioned divergence in inflation expectations has in the meantime also been confirmed by hard data (US CPI and comments by Powell (Fed) and Lagarde (ECB). Hence, the rate cut probabilities, derived via Futures markets, for a June cut are now at 88% at ECB level, but have dropped to a mere 13% in the US.

Source: Bloomberg, NPB

ECB & FOMC Rate Cuts (2 of 2)

Odds for June '24 Cut

But, on both sides of the Atlantic have the number of expected rate cuts in 2024 dropped from 6 to 7 cuts to 3 to 4 cuts as the economy (global) is reaccelerating and so is inflation (US).



Source: Bloomberg, NPB

US Yields (1 of 4)

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Breakeven 2 Years

The 2-year breakeven yield, derived by subtracting the real yield of inflation-linked bonds from the yield of same maturity nominal Treasury yield, has increased from two to nearly three percent since the beginning of the year, expressing the markets concern about a renewed pick-up of inflation.

Source: Bloomberg, NPB

US Yields (2 of 4)

10-Year Treasury Yields

Yields in the US are accelerating somewhat sooner than we had expected (we were looking at Q4/24 to Q1/25), but at least we got the direction of the next larger move right.

We would not stand in front of this bandwagon right now, quite to the contrary, our largest shift in TAA this quarter is an important duration reduction.

Source: TradingView, NPB

US Yields (3 of 4)

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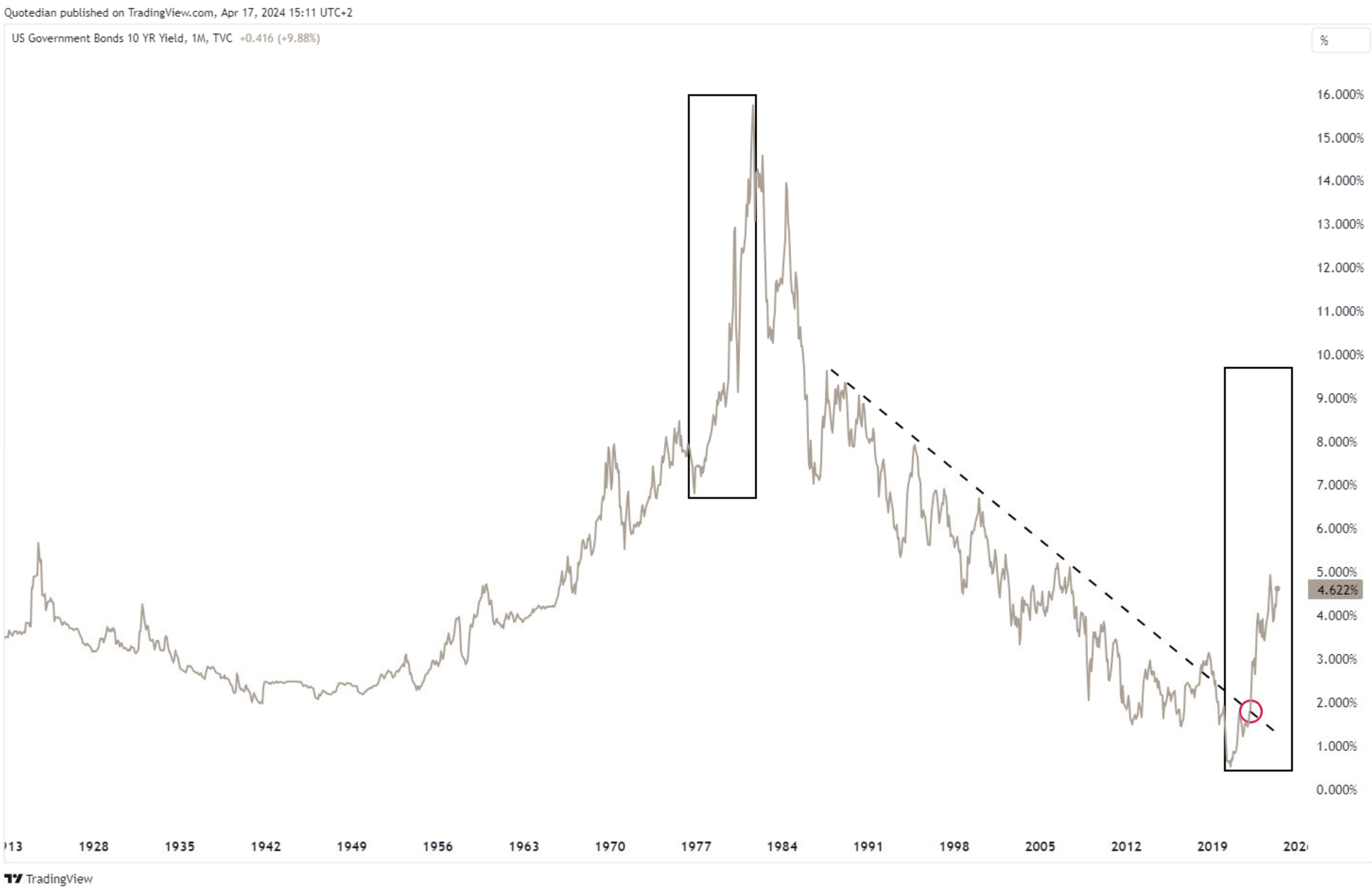
10-Year Treasury Yield – Long-Term Picture

Zooming out on the previous chart once again, let's be reminded how important that trend break was in early 2022.

Maybe the degree of the trend acceleration should make us compare the period from 76-81, rather 65-70 as we have done on previous occasions?



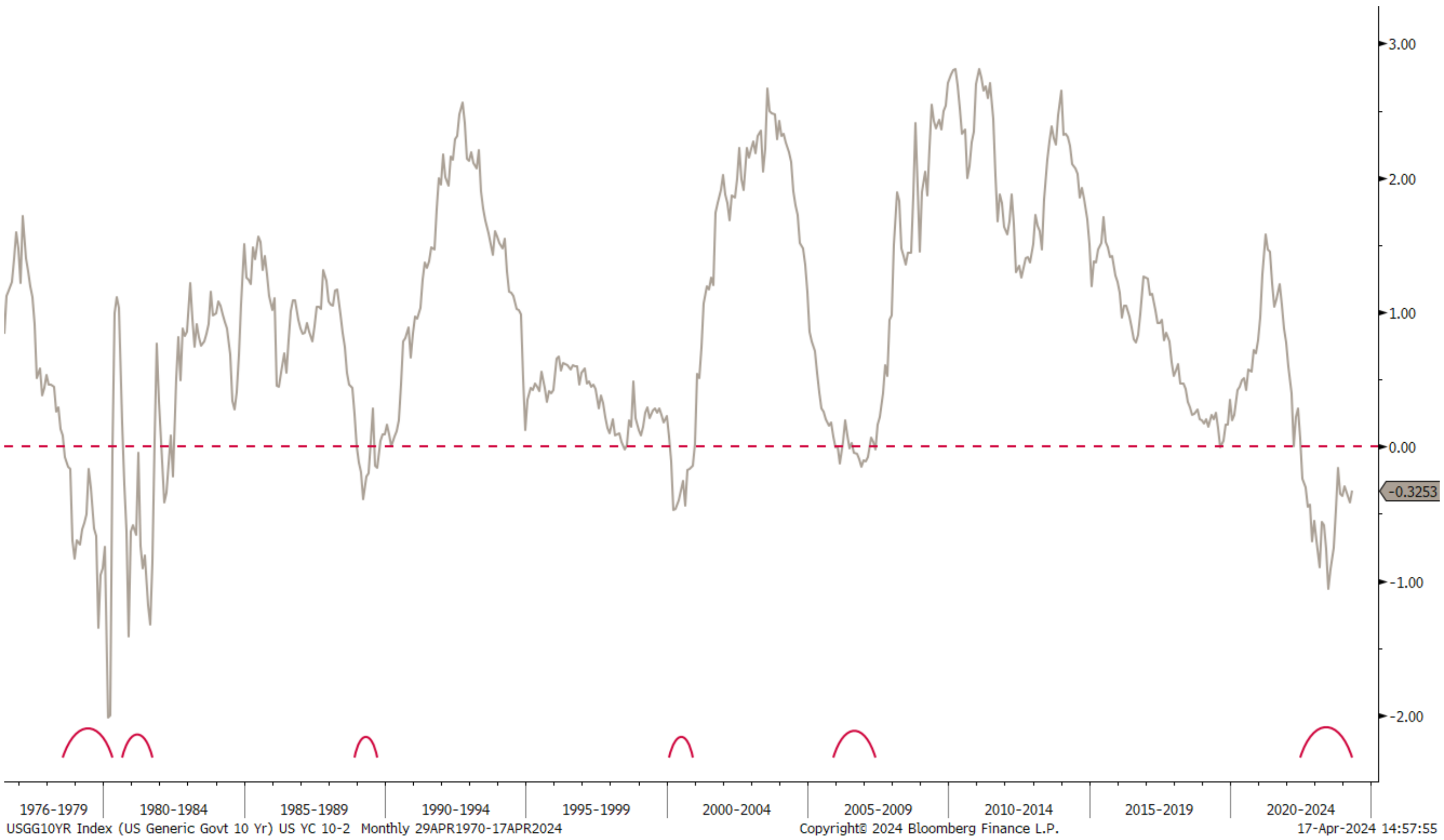
Source: TradingView, NPB

US Yields (4 of 4)

Yield Curve

The yield curve is now in month 22 of inversion, its longest streak since of the past fifty years.

As previous recessions coincided in the past with the curve inversion unwinding, we guess that is "good" news for risky assets for now.



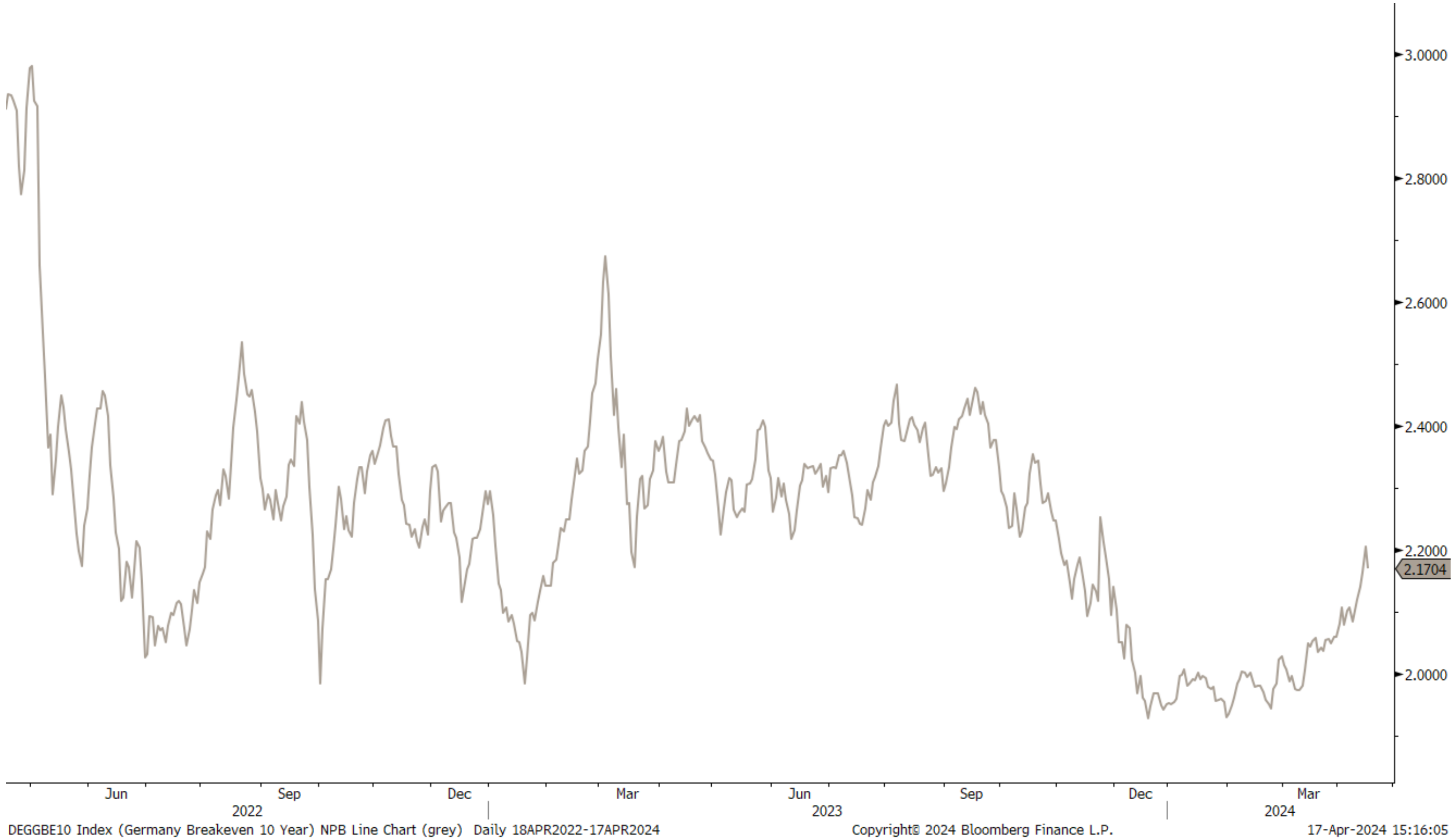
Source: Bloomberg, NPB

Eurozone Yields (1 of 4)

German Breakeven 10 Years

European inflation expectations have also been accelerating, though at a much small pace - 30 bp as compared to nearly 100 bp in the US.

Once again, there seem to be two different inflation regimes at work in Europe and the US.



Source: Bloomberg, NPB

European Yields (2 of 4)

German 10-Year Bund Yield

The rise in German yields, as proxy for the European zone, is less pronounced than for its US cousin. Yet, there still has been a 50bp increase since the December correction lows and Lagarde recently (16.4.) insisted on ECB rate cuts in June. Let's see how that works out.

Source: TradingView, NPB

European Yields (3 of 4)

German 10-Year Bund Yield – Long-term

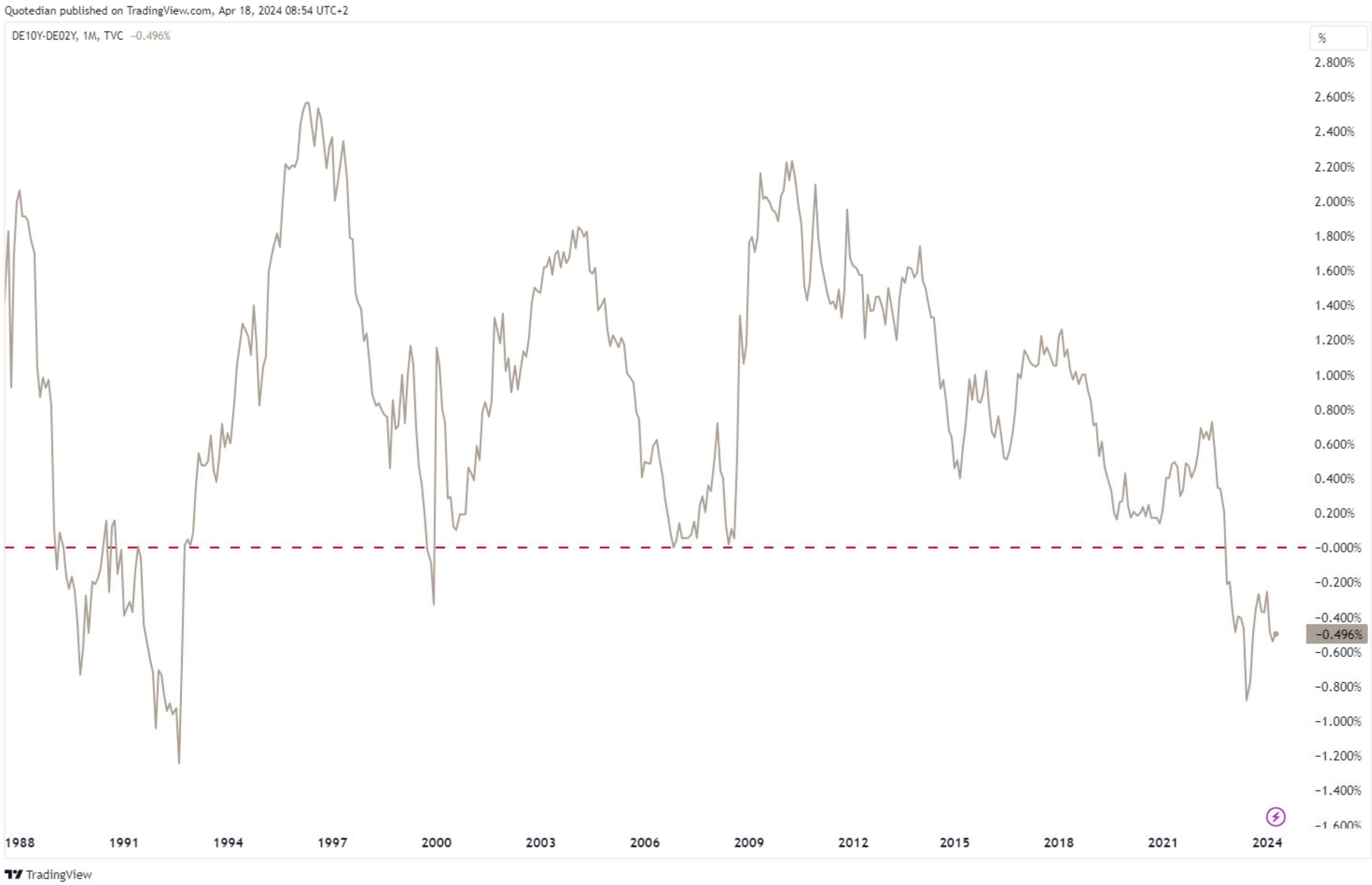
However, the long-term chart here also reiterates the importance of the trend break two years ago.

Source: TradingView, NPB

European Yields (4 of 4)

Yield Curve

The yield curve continues to be inverted too in Europe – here it seems that the unwind could happen via a bull steepener.



Source: TradingView, NPB

Japanese Yields (1 of 2)

Japanese Breakeven 10 Years

Inflation expectations via breakeven rates are at their highest in at least two decades in Japan.

Source: Bloomberg, NPB

Japanese Yields (2 of 2)

Japanese Breakeven 10 Years

Accordingly, nominal yields on JGB's are at multi-decade highs. To the right, the yield of the 40-year Japanese Government Bond.

Source: TradingView, NPB

Indian Yields

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10-Year Government Bond Yields

The very long-term trend for Indian government bond yields is from top right to bottom left, which is what you want to see for an economy that is moving from emerging into developed status. The recent most recent GDP reported (black arrow) surprised markets with being reported at 7.6% versus 7.0% expected, provoking a small rally in yields (sell-off in bonds).

Source: TradingView, NPB

NPB | Neue Privat Bank

Chinese Yields

10-Year Chinese Government Bond Yields

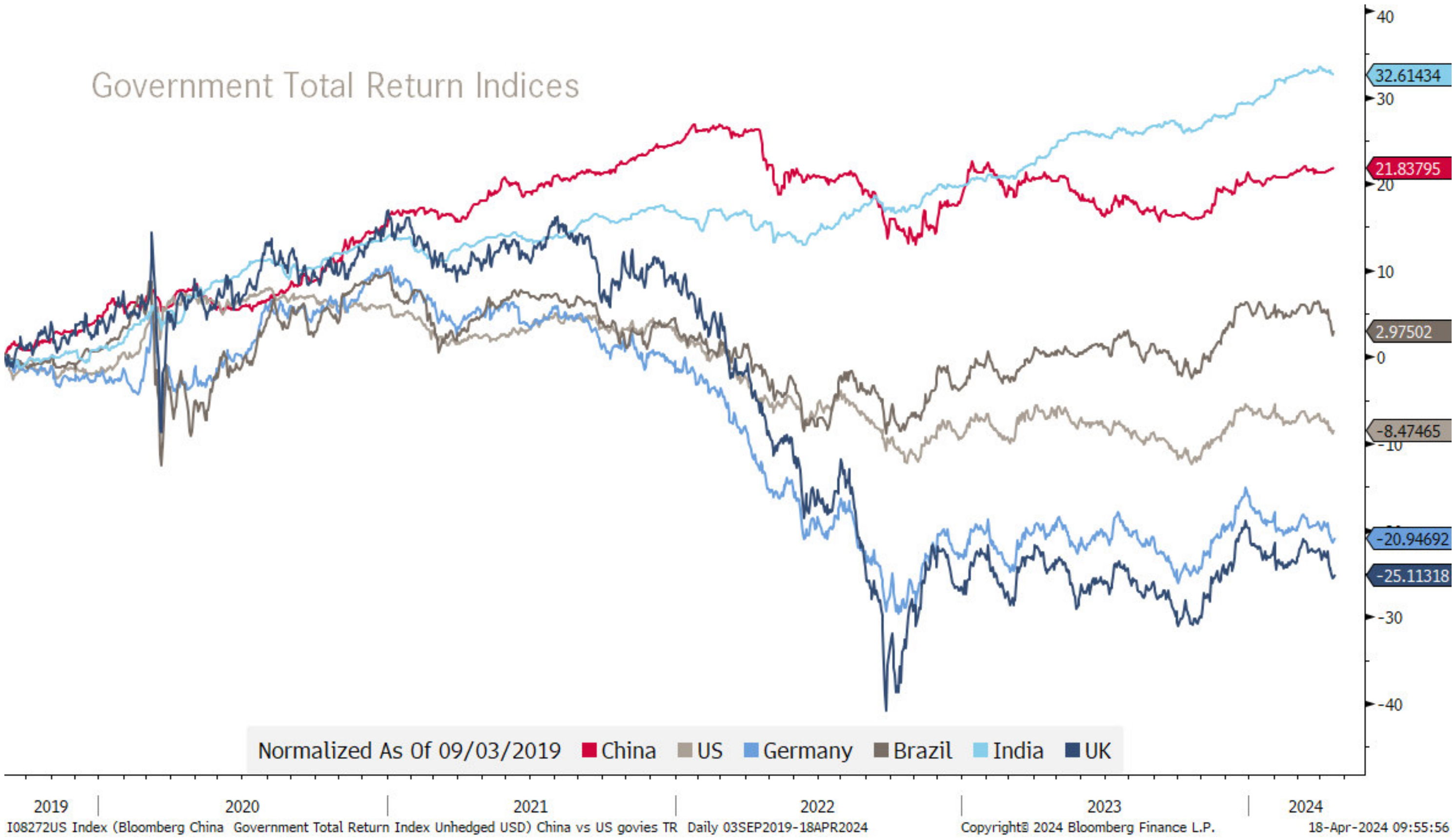
Chinese Government bonds have been one of the best performing government bond markets over the past few years and yields have recently dropped below their lowest level on record.

Source: TradingView, NPB

Government Bonds

Total Return Comparisons

The Chart to the right neatly visualizes how government bonds of selected emerging markets have outperformed those of developed countries.

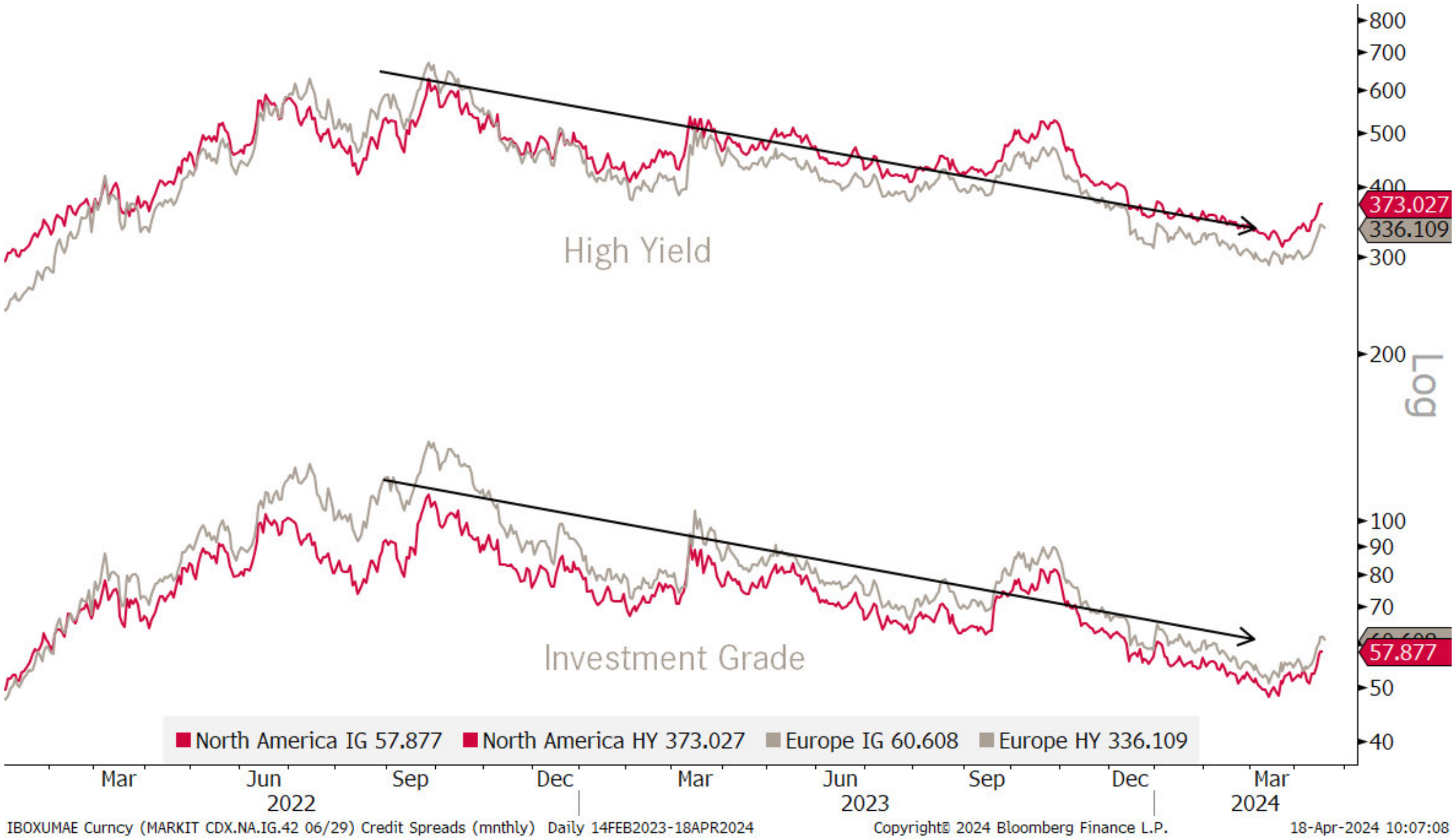


Source: Bloomberg, NPB

Credit Spreads

IG & HY

Credit Spreads have compressing since Q4 2022. The recent uptick (April '24) should be for now considered an equity-related correction, given there are little signs of credit distress right now.



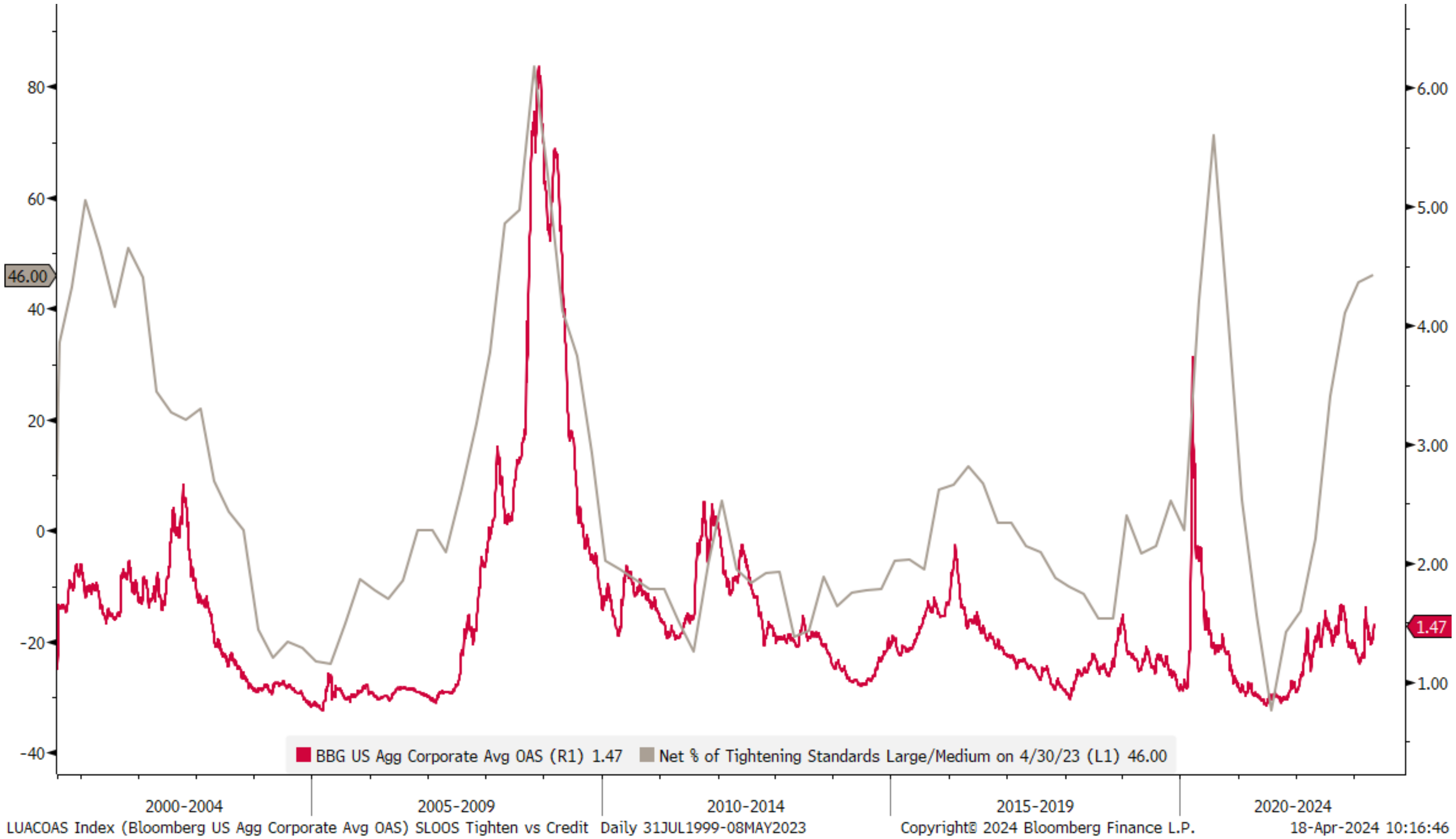
Source: Bloomberg, NPB

SLOOS vs Credit Spreads

Cycle Turning?

As a matter of fact, the percent of credit officer from the SLOOS survey (Senior Loan Officer Opinion Survey) which see credit standards tightening seems to be turning low, indicated a possible end to the tightening cycle.

As an aside remark, we would point out how benign the pickup in credit OAS (red) has been this cycle. A dormant monster hidden in the private credit markets?

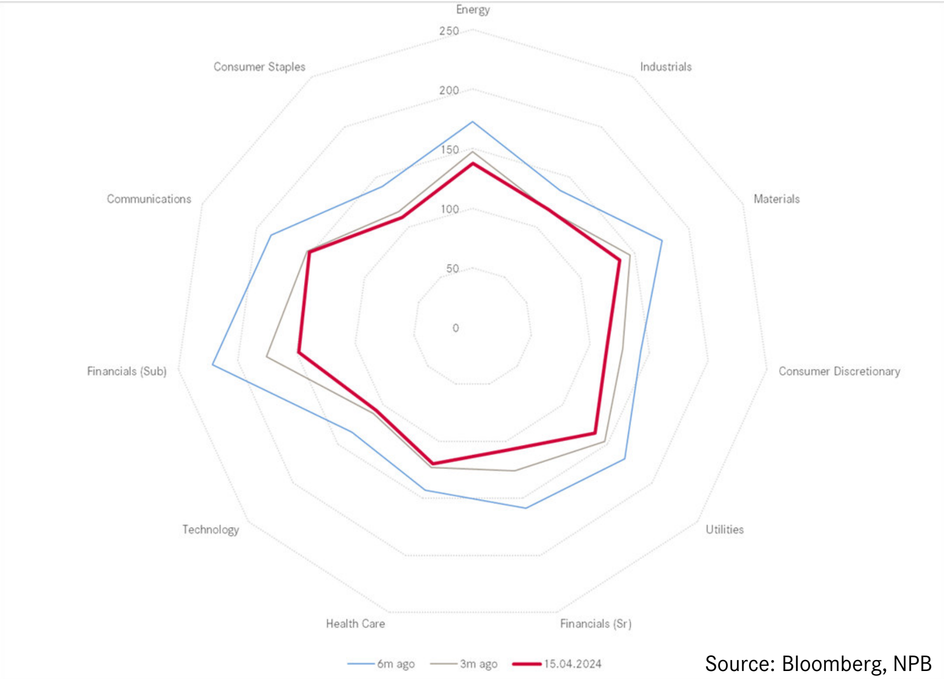


Source: Bloomberg, NPB

Credit Spreads – Sectors (1 of 2)

US Dollar IG & HY

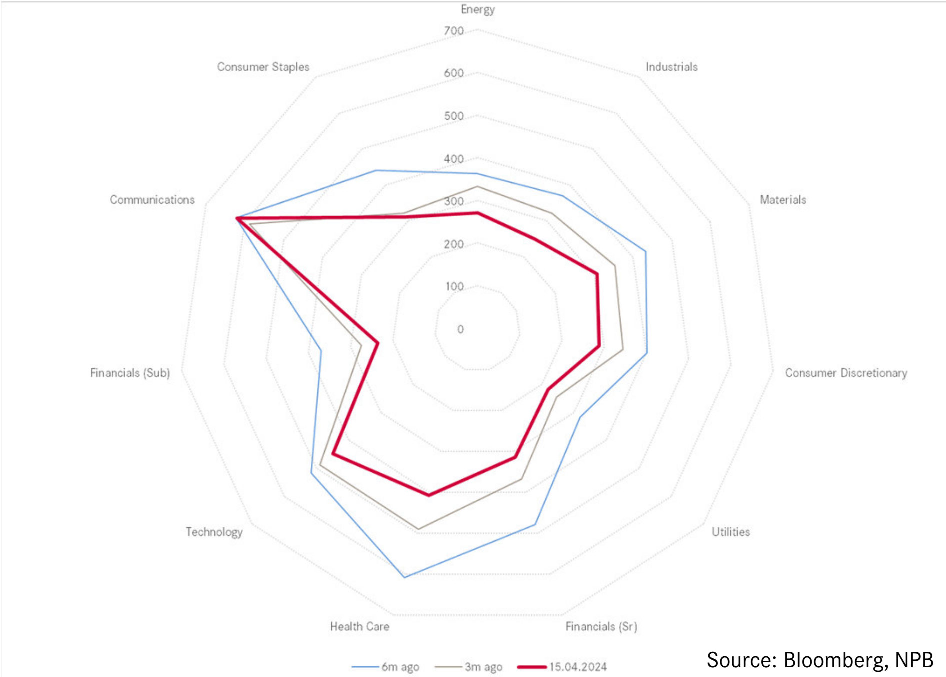
USD Investment Grade



Source: Bloomberg, NPB

Credit spreads are relatively evenly distributed amongst the USD investment grade segment. Note how financials spreads have contracted since last year's crisis.

USD High Yield



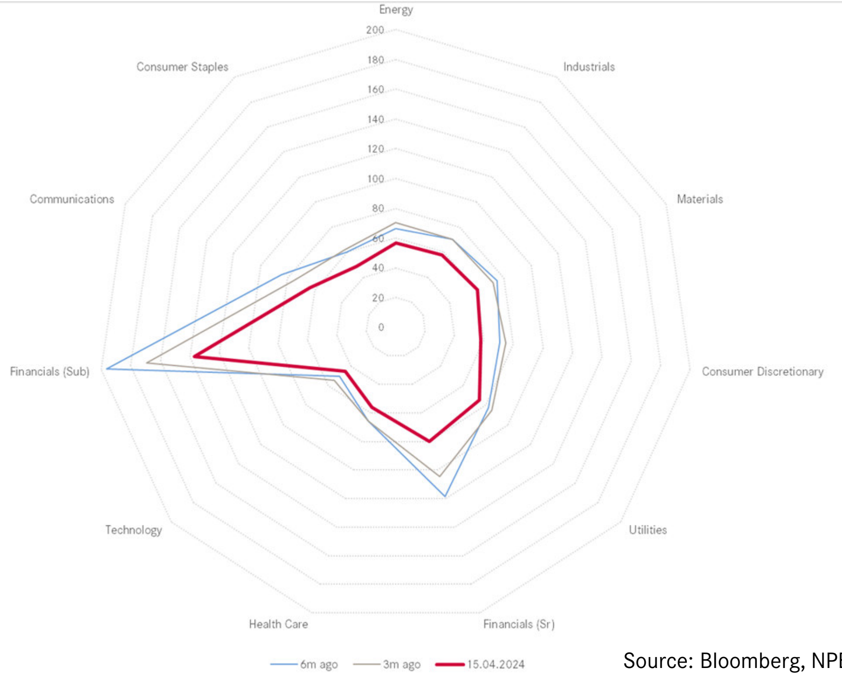
Source: Bloomberg, NPB

Communications has most spread, which is somewhat skewed by issuers such as Altice, Liberty Media or Lumen Technologies amongst others. Energy OAS have compressed rapidly on the back of a rising crude price.

Credit Spreads – Sectors (2 of 2)

Euro IG & HY

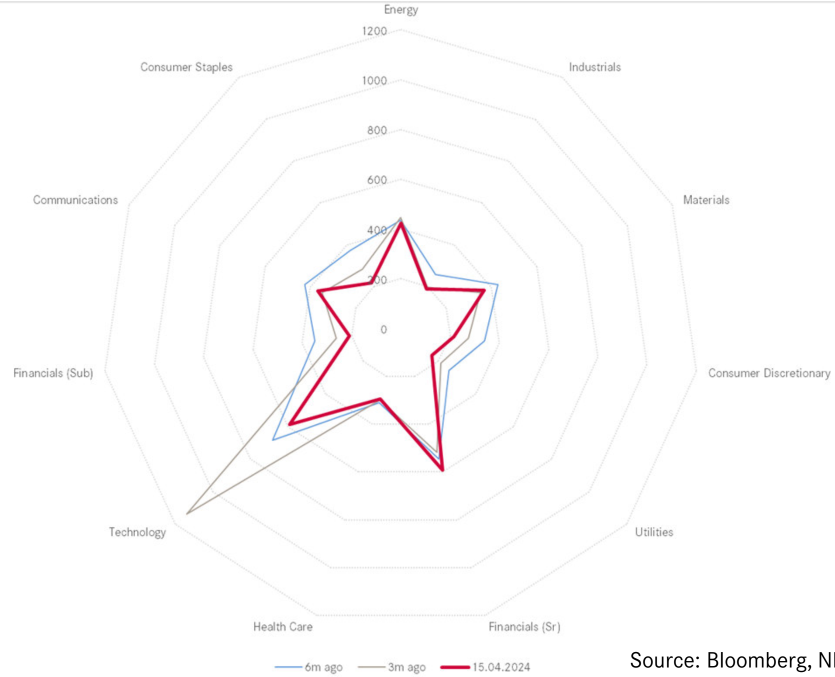
EUR Investment Grade



Source: Bloomberg, NPB

Credit spreads have continued to contract on the back of a strong equity market. Best value in the European investment grade space can be found in financials, especially subordinated issues.

EUR High Yield



Source: Bloomberg, NPB

In European High Yields, technology and financials provide most spread.

FX

Chartbook Q2 2024

US Dollar Index

Finally, a Resolution out of the Triangle!

The Dollar is breaking out of a massive triangle to the upside. Reasons could be stronger economic growth (& higher inflation) plus a certain flight to safety as geopolitical trends are heading in the wrong direction. Stay long USD for now.

Source: TradingView, NPB

US Dollar Index

Close-Up

Switching to a daily chart on the previous DXY monthly chart, the importance of the move out of the apex becomes even more obvious. Hold on to that trend.

Source: TradingView, NPB

EUR/USD

Holding on

The EUR/USD cross rate has not quite dropped out of its 18-months trading range yet, triggering a sell-signal, but everything points to that happening over the coming weeks to months.

Source: TradingView, NPB

USD/CHF

Towards Parity

The Swiss Franc had been signalling the SNB's first mover intention since the beginning of the year. The intrinsic USD strength coupled with an increasing interest rate differential between the Swiss and the US economy, could push the currency pair further towards parity.

The "Safe Haven" aspect of the Swissy may slow that process.

We downgrade the Franc to Neutral

Source: TradingView, NPB

GBP/USD

Triiiiiiiiiangle

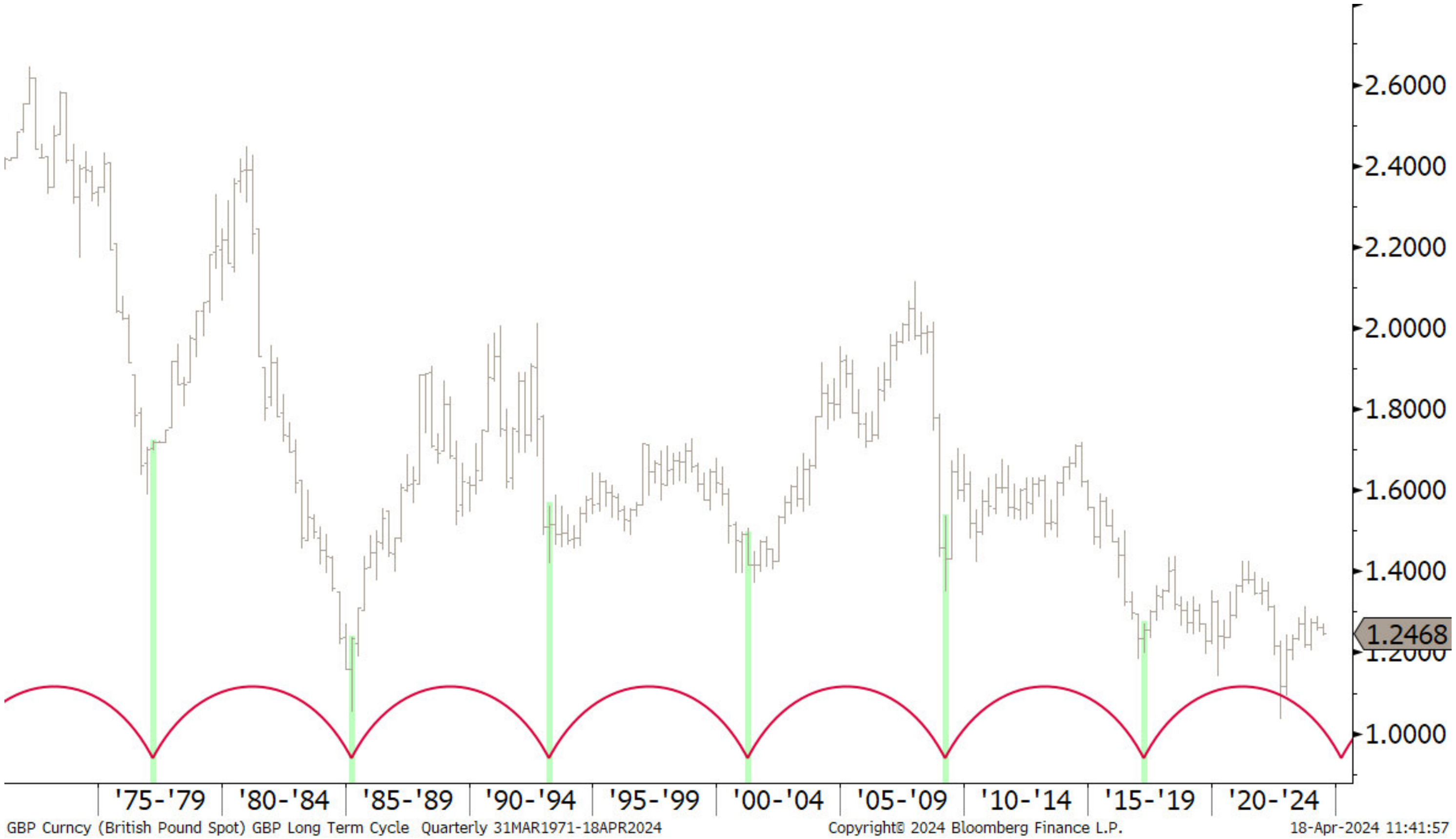
The Sterling, not unsimilar to the Euro, is still holding within a decade long triangle formation, though a break below the support line seems to become more likely again now.

Source: TradingView, NPB

GBP/USD

8-year Cycle Model

Could this drop below support at 1.20 then provoke the final push into the 8-year cycle low due on our model in Q1 of 2025?



Source: Bloomberg, NPB

USD/JPY

Where has all the (JPY) support gone?

152.00 was THE resistance point on the USD/JPY currency pair, which the Bank of Japan (BoJ) had constantly defended via currency interventions – until now …

We are not sure of the intentions of the BoJ but have brought out the popcorn to follow this storyline as it unfolds over the coming weeks to months.

Source: TradingView, NPB

USD/JPY

Technically Speaking

From pure a technical analysis point of view, the break above 152 is ugly. For the Yen that is. A minimum price target lays somewhere between 160 and 170, with a tendency towards the latter.

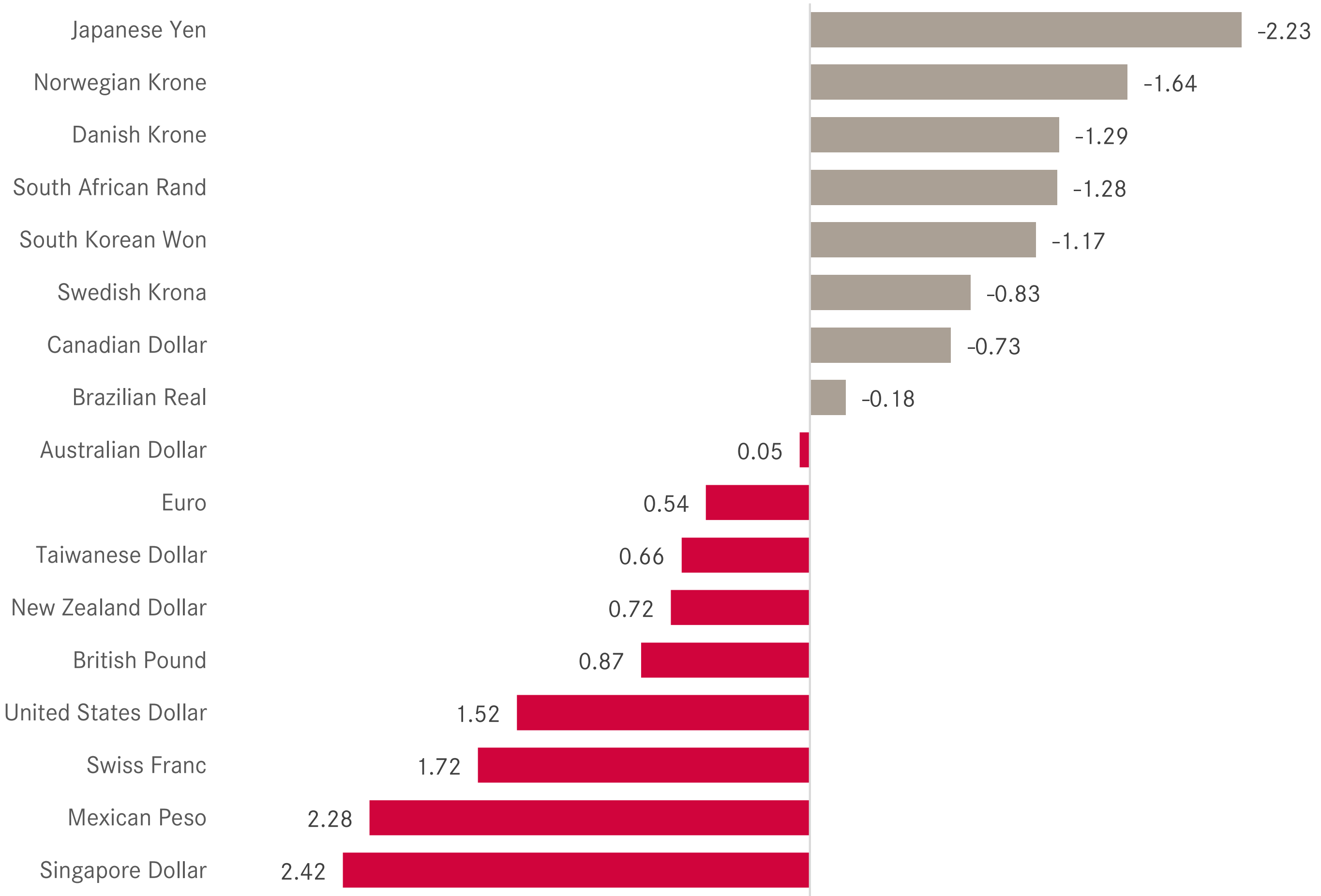
Source: TradingView, NPB

Currency Markets

BIS Z-Scores (cheapest to dearest)

The BIS (Bank for International Settlement) Z-Score should give an indication of how much a currency is over- or undervalued.

Intuitively, the top- and bottom ranked currencies to the right make sense (e.g. CHF or JPY).



Source: Bloomberg, NPB

FX Forecasts

Economists' Currency Forecasts

Forecasters have reduced their bullishness on the EUR/USD currency pair somewhat and see more upside for the USD/CHF.

USD/JPY downside targets have been revised massively to the upside.

Forecasters also still see plenty of upside for the Chinese Yuan versus the Dollar.

	FX Forecasts								
	12-2023	Q2-2024	Q3-2024	Q4-2024	Q1-2025	12-2025	12-2026	12-2027	12-2028
EUR/USD	1.08	1.08	1.09	1.1	1.1	1.12	1.12	1.14	1.15
USD/CHF	0.90	0.91	0.9	0.91	0.9	0.9	0.91	0.92	0.94
EUR/CHF	0.97	0.98	0.99	0.99	1	1.01	1.01	1.04	1.06
GBP/USD	1.26	1.26	1.27	1.28	1.28	1.3	1.3	1.32	1.32
EUR/GBP	0.85	0.86	0.86	0.86	0.87	0.86	0.85	0.86	0.86
USD/JPY	151	148	145	143.5	140	135	130	125.5	123
USD/INR	83.4	83.4	82.6	82.45	82.1	81	80.5	80	85.5
USD/CNH	7.26	7.2	7.16	7.15	7.11	7	7	7	7.05
AUD/USD	0.65	0.66	0.68	0.68	0.69	0.7	0.69	0.71	0.72
USD/CAD	1.35	1.35	1.34	1.33	1.32	1.28	1.29	1.29	1.29
EUR/NOK	11.69	11.42	11.2	11.2	11.09	10.85	10.75	11	9.91
EUR/SEK	11.51	11.36	11.2	11.24	11.1	11	10.85	11	10.52

Source: Bloomberg, NPB

Commodity

Chartbook Q2 2024

Commodities

Commodity Super-Cycle intact!

In the previous issue of the CIO Office Chartbook we highlighted how the commodity-complex, as measured by the Bloomberg Commodity index (BCOM), must hold at its current level (black circle) in order to keep a possible commodity super-cycle intact. And it did!

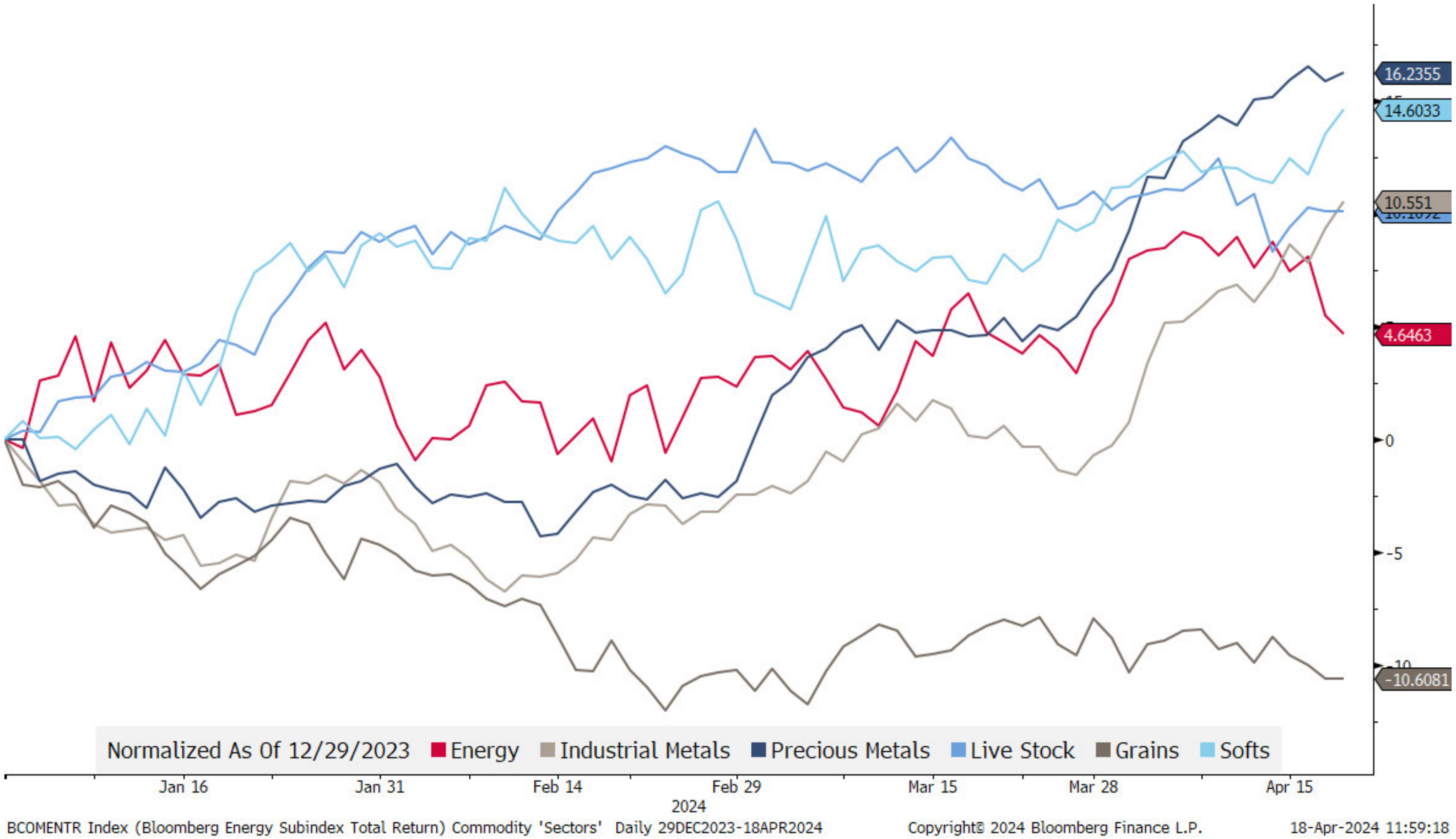
Source: Bloomberg, NPB

Commodity Segments

Strong Start

All commodity 'sectors' (ex-grains) had a strong to very strong start into the year, reigniting the possibility of a commodity Supercycle.

Please note that the Energy segment performance would have been substantially higher when excluding the 30% drop in natural gas prices.



Source: Bloomberg, NPB

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Gold

Benefit of Hindsight

It is always easier looking back, but as a matter of fact, the monthly close at a new all-time high (ATH) in November of last year, was a crystal-clear long-term buy signal for gold. It took another quarter for the yellow metal to take really off, but what is three months amongst friends?

The even bigger question though is: "What is gold trying to tell us?"

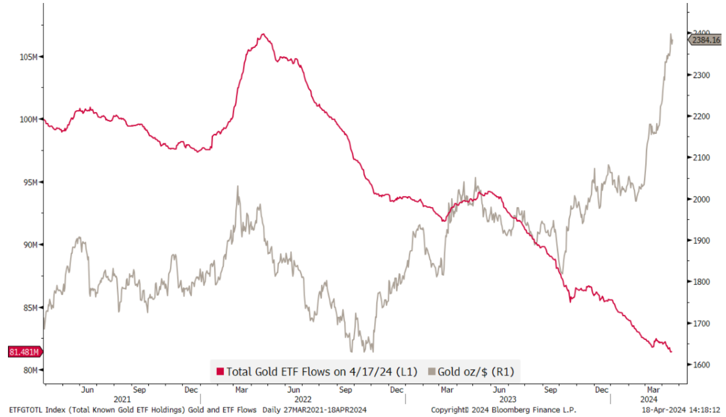
Source: TradingView, NPB

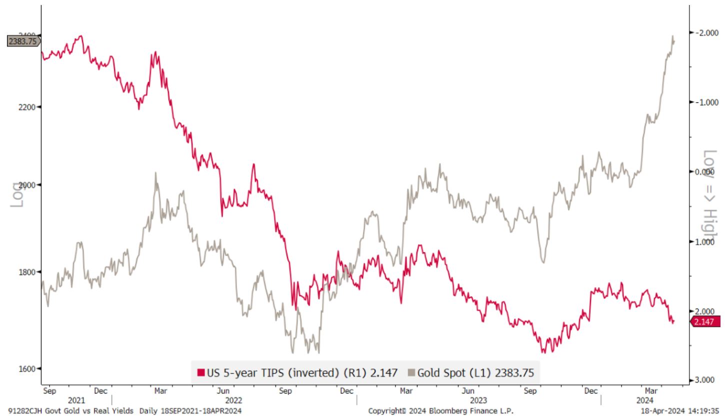
Gold

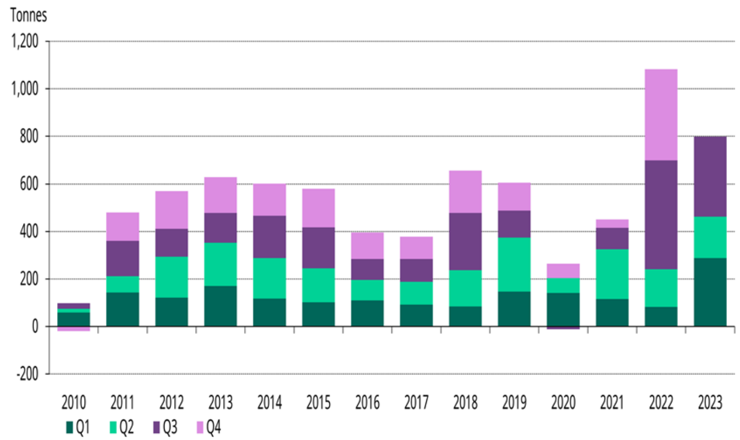
What is driving prices?

As we have discussed on other NPB platforms (www.thequotedian.com / www.quicq.com), it is hard to pinpoint the exact source of the Gold strength, especially in time where the USD Dollar is advancing too (see correlation chart top left, bottom clip). We discussed how ETF flows have been negative (top right; lower clip) and real rates have been anything but supportive to the gold price (bottom left).

Central bank buying (bottom right) explains probably part of the explanation but reported too sporadically to confirm.







Source: Bloomberg, NPB

Crude Oil

ICE Brent Futures

In our last quarterly report, we argued that a breakout of the triangle (see inset graph) on the price of oil was imminent and indeed we got a break in late March.

The monthly candle chart reveals that we need a monthly close above $91 and change to confirm the uptrend, but for now, that probability looks high.

Source: TradingView, NPB

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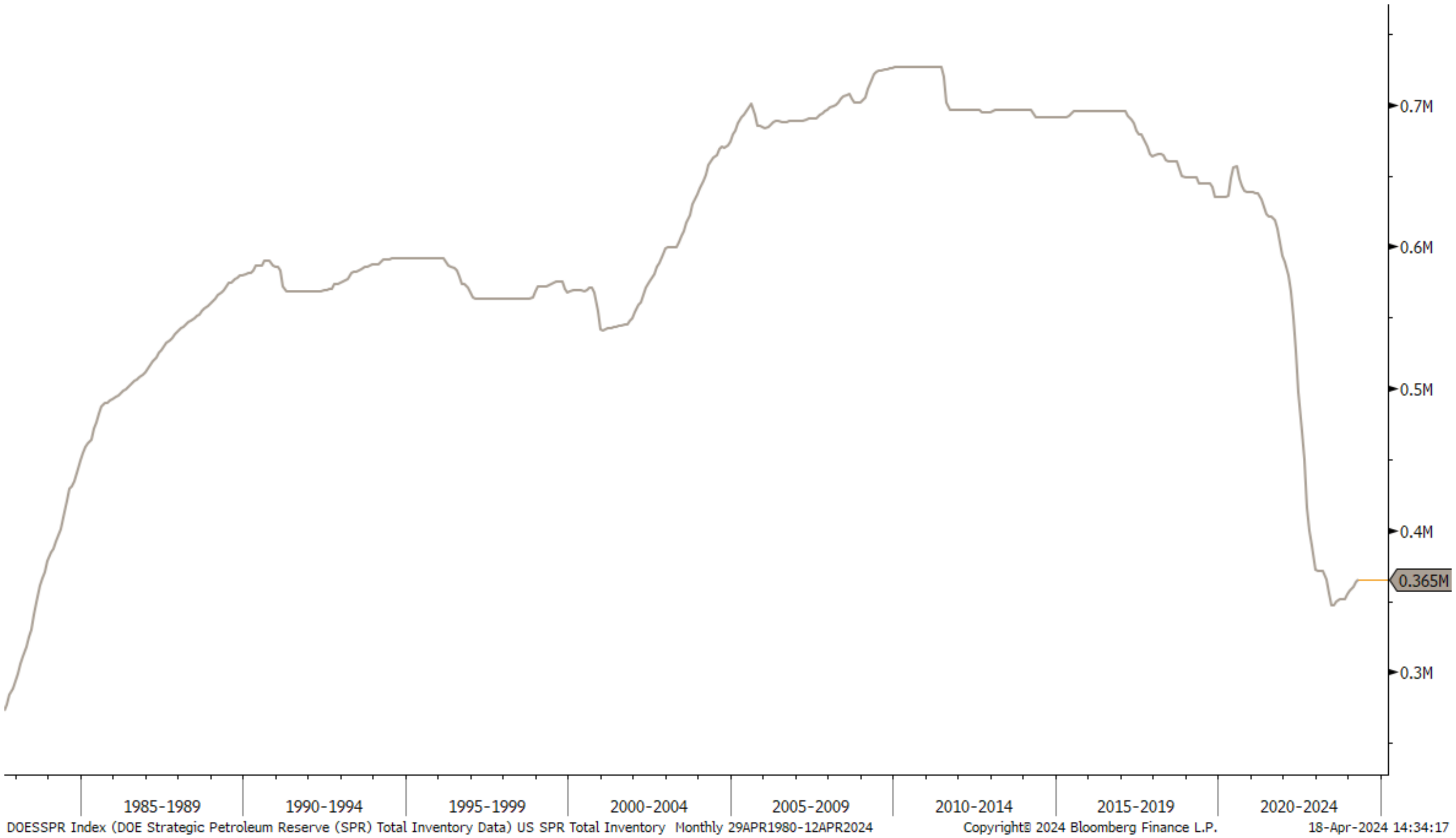
Crude Oil

Strategic Petroleum Reserve

What's driving the oil price higher? Probably not the rebuild of the SPR, which is slooow and levels are still at 40-year lows.

Economic reacceleration and geopolitical risks are our top drivers.



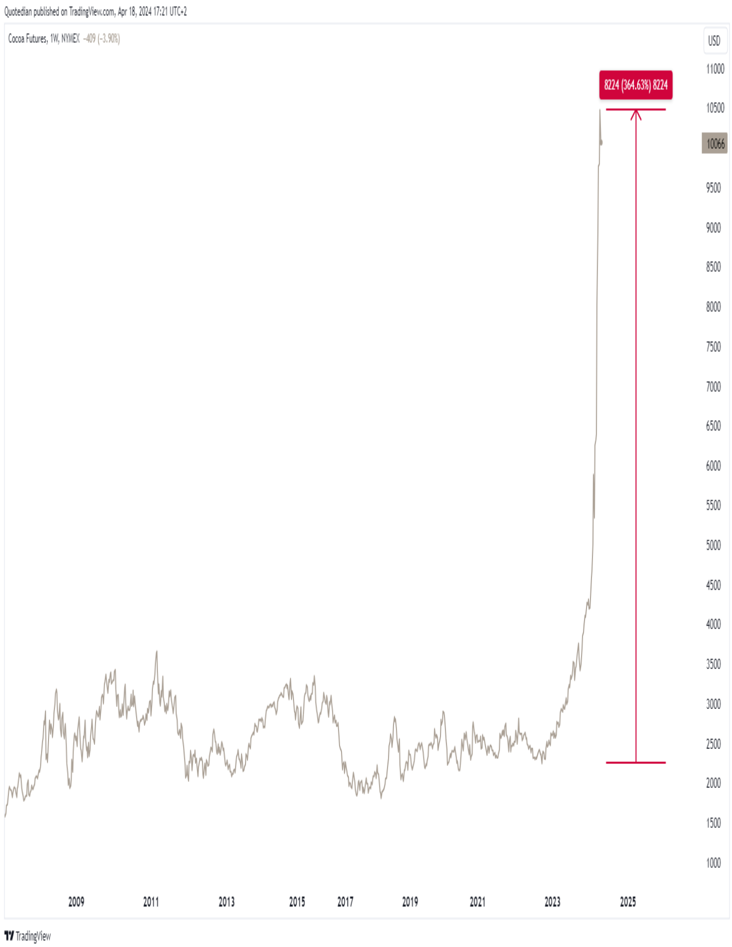
Source: Bloomberg, NPB

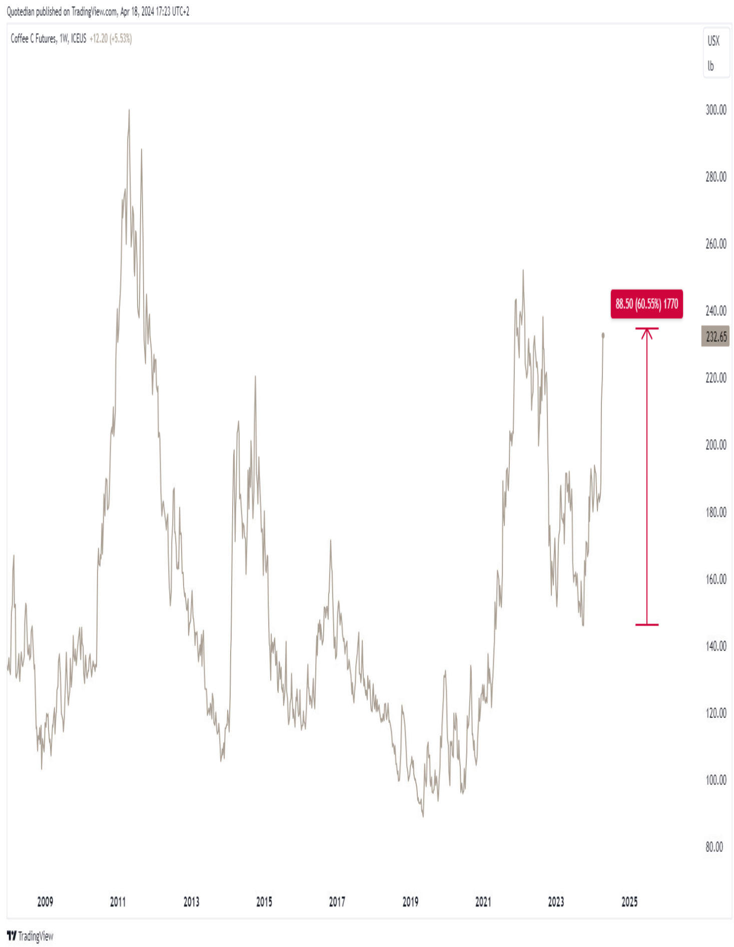
Cocoa and Coffee

Assault on your Breakfast table

Cocoa has nearly quadrupled since early 2023, as new (EU) regulations regarding deforestation coupled with unfavourable weather conditions are creating a supply squeeze.

The 60% rise in Coffee prices over a few weeks rises fears that something similar may be happening there.





Source: TradingView, NPB

Uranium

Buy the weakness

We highlighted the Uranium strength in our previous report and since then got a correction of about 1/3rd of the rally seen since early 2023. Whilst we of course cannot know if a bottom has been seen, we would consider accumulating here and at lower levels

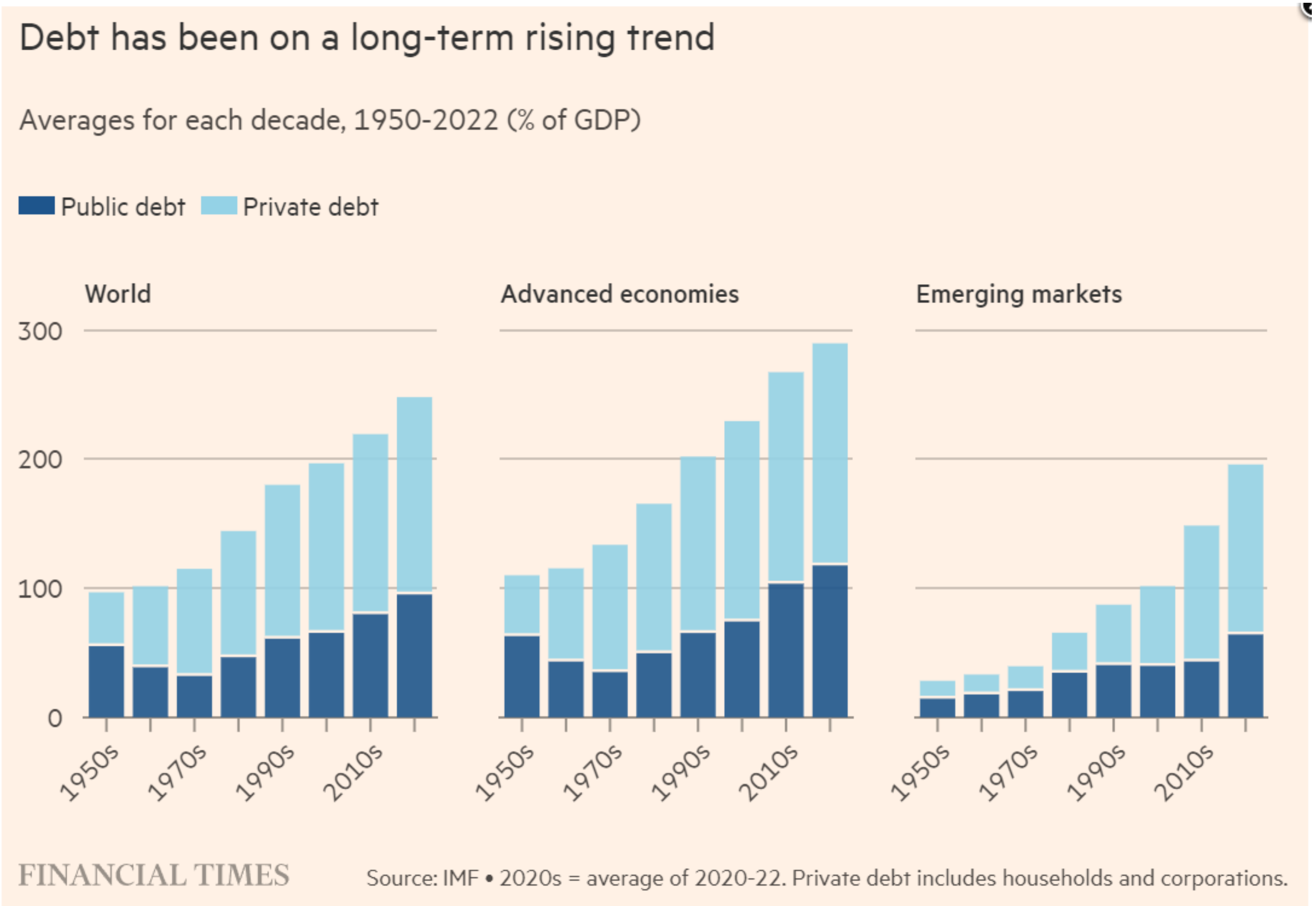
Source: TradingView, NPB

Private Debt

Things that keep us awake at night

As FT's chart to the right shows, has private debt grown from 'sizeable' to 'gargantuan' over the past decades. Acceleration took really place after the GFC, as normal lenders' (banks, credit institutions, etc) collective hands got tied.

This shadow banking monster has grown in our view to dangerous levels and the current higher yields on 'normal' debt make us want to underweight this asset group.



Source: FT.com

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Appendix

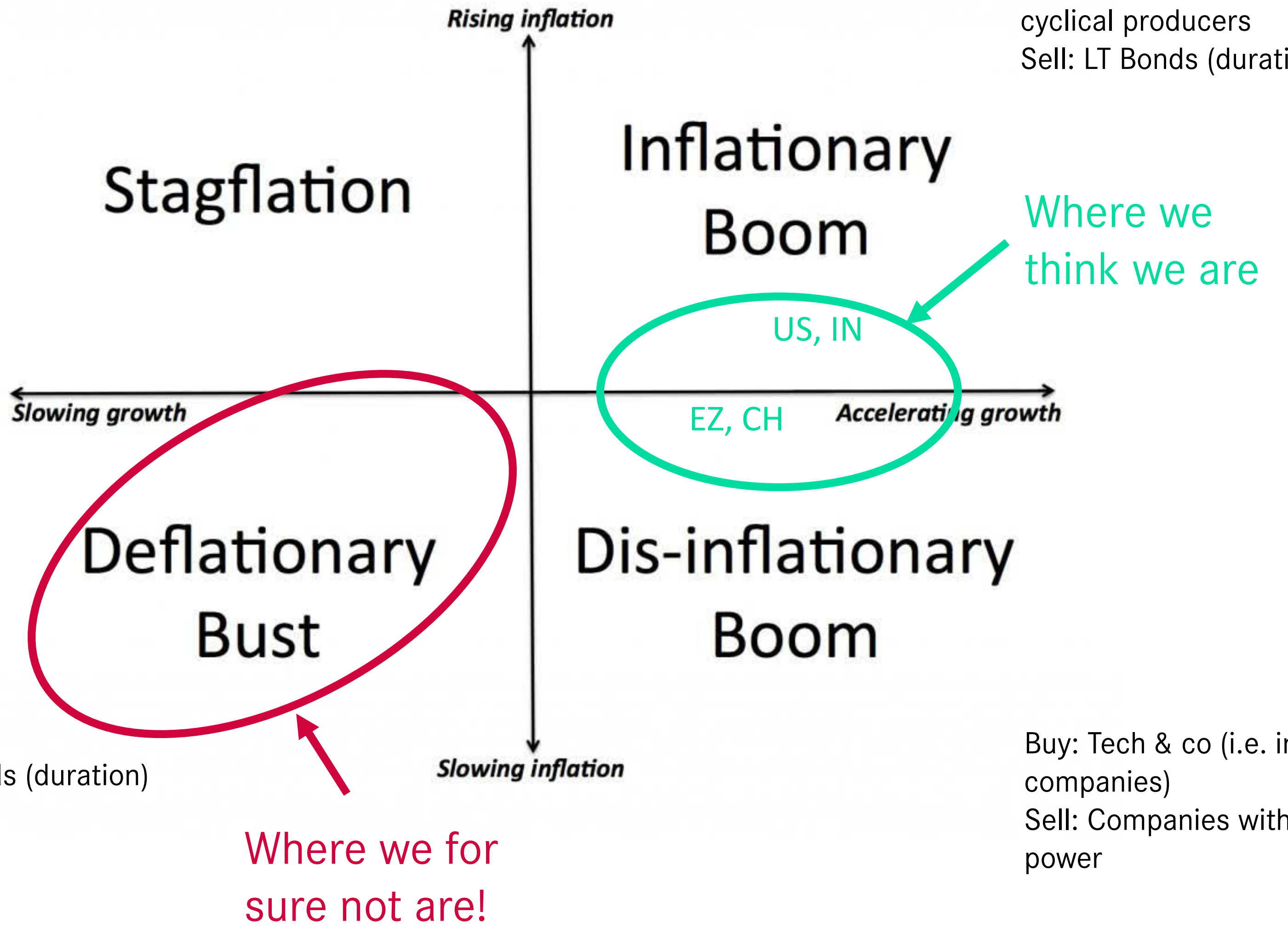
Chartbook Q2 2024

Economic Cycle Clock

Positioning

Buy: Cash
Sell: Financial assets

Buy: Gold, Commodities, cyclical producers
Sell: LT Bonds (duration)



Buy: Government bonds (duration)
Sell: Everything else

Buy: Tech & co (i.e. innovative companies)
Sell: Companies without pricing power

Source: NPB

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