

# » *Fisch View*

*November's topic:  
„Navigation by sight is advisable“*



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## Navigation by sight is advisable

- Various leading indicators for equity and credit markets continue to weaken. So far, however, they have only provided warning signals and not yet actual sell signals.
- The global economic trend is weakening and there are increasing imbalances. But here, too, our indicators are not yet signalling a recession.
- We therefore remain neutral to slightly overweight in terms of risk exposure and duration.

## Overall economic situation

The global economy continues to cool down. However, growth remains solid, particularly in the US, thanks to exceptionally high consumption and despite increasing imbalances. And in Europe, too, there is currently no sign of an imminent slump. Interest rate cuts in the US, the eurozone and China are also counteracting the weakening trend.

## Recent developments: Liquidity flows are critical

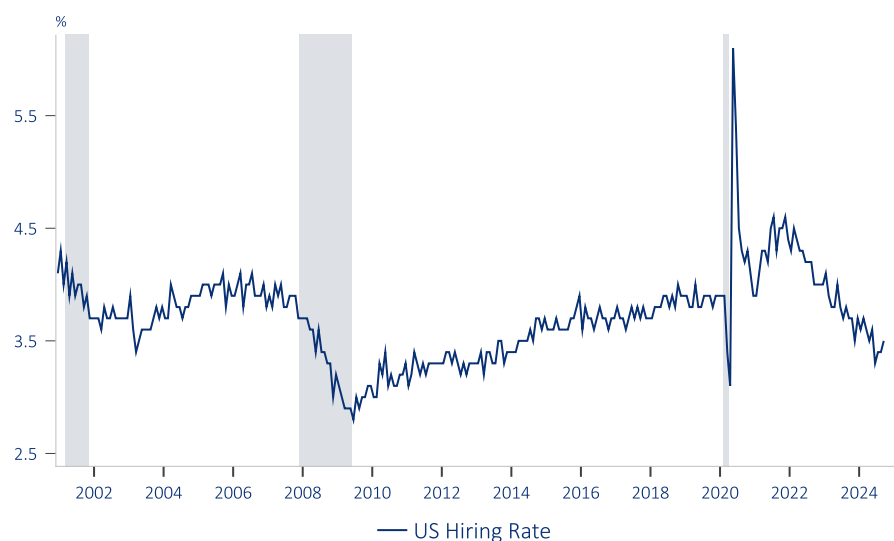
- The robust US economy is not in itself a reason for a further rise in stock and credit markets, as these always run ahead of the economy. A recession can therefore only be expected after a more severe slump on the equity and credit markets.
- Rather, money and liquidity flows generated by the central banks, and private money creation in the banking system play the decisive role. And this is where the first warning signs are emerging: various leading liquidity indicators have been weakening for some time now.
- However, a falling liquidity supply practically always takes effect with a delay of several months. We are therefore approaching the monetary danger zone, but have not quite reached it yet. In addition, the continuing extremely high level of government spending, particularly in the US, is at least partially offsetting the declining supply of liquidity.
- Although the current monetary easing in China due to the threat of a deflationary spiral is also likely to have a supportive effect globally, it is currently still too small to have a lasting impact.

## Overview & outlook: Danger zone is getting closer

- The global economic slowdown is having a dampening effect on interest rates and inflation. However, as there is no recession in sight for the time being, the dampening effect is likely to remain very limited.
- There is a risk that other factors, such as the sharp rise in public debt in many places, rising wages and inflation expectations as well as interest rate cuts by the Fed and ECB will more than offset the interest rate and inflation-dampening factors, at least temporarily.
- The gold price, which has risen to an all-time high (see page 6 'On the radar'), seems to confirm this expectation. In addition to steady gold purchases by the BRICS countries, fears of stubborn inflation and a general loss of confidence in monetary stability and public finances are also likely to have contributed to the massive price increase. An additional exceptional factor in the US is the massive immigration since 2022, which has put upward pressure on both food prices and rents.
- Imbalances continue to increase in the US. Consumption is the main driver of the economy, while manufacturing and SMEs have been under pressure for some time. Overall, this structure is not sustainable. In addition, the labour market is weakening behind the scenes. The number of employees with multiple jobs is rising sharply, which is driving up employment figures. These imbalances are likely to favour recessionary tendencies in the longer term and combine with the aforementioned risks to monetary stability.
- However, the factors mentioned have so far only provided warning signals and not yet sell signals for the equity and credit markets, although the indicators are approaching the danger zone. Problems are emerging for long-term government bond markets, however, and these need to be monitored closely.

» The imbalances in the US are increasing.

**Chart: US companies are hiring fewer and fewer employees**



Sources: BLS, Fisch Asset Management

## Positioning: Neutral to slightly higher risk exposure

» The upward trends are not yet broken.

- At the moment, we are only seeing warning signals, while actual sell signals are being delayed, in particular by the enormously high government spending (which acts like an increase in the money supply) in both the US and Europe. The upward trends have not yet been broken. Nevertheless, the technical market situation is increasingly deteriorating. Significant selling of shares by large investors in the US has been noticeable for some time now (albeit only into rising markets in a market-friendly manner), as has the increasingly positive sentiment among retail investors. The liquidity injections by the Chinese central bank (PBoC) are also not yet sufficient to have a significant positive impact on global financial markets.
- An additional warning signal for the equity market was provided by the recent rise in interest rates for 10-year US government bonds to over 4.30%, and thus above the 80% percentile of yields in the past three months. Historically, this has often led to market corrections (and also to further increases in long-term interest rates). However, there can also be delays in this indicator until markets react.
- Based on all these technical and monetary indicators, and taking into account lag effects, we therefore remain neutral to slightly overweight in equity and credit risk exposure as well as duration at the moment. However, we already recommend swapping direct equity investments in favour of convertible bonds. Convertible bonds offer an optimised risk/reward ratio due to their asymmetrical market participation.
- We view the development of 10-year US government bonds as a special situation. Interest rates may rise temporarily due to increasing government debt and simultaneous government bond sales by the Fed.

Return drivers	US	Europe	Japan	Asia ex-Japan	LatAm	CEEMEA	Key:
Equities	o	o	o	o	o	o	++ Strong positive market
Gov. Bonds	o	+	o				+ Positive market
Credit IG (Spreads)	+	+		-	o	o	o Neutral
Credit HY (Spreads)	+	+		o	+	o	- Negative market
Total return							-- Strong negative market
Convertibles	o	o	-	+			
Credit IG	+	+		o	+	+	
Credit HY	+	+		+	+	+	
Commodities	PrecMet	InduMet	Energy				
	+	o	o				

**Notes regarding the table:** The table summarises the model results for the total return of convertible bonds and credit investment grade and high yield, which are a function of the listed return drivers. Changes from prior month are indicated with ↓ or ↑, i.e. "O ↓" means that the output has weakened from a prior value of + or ++. The methodology for calculating model outputs, and how the various pieces fit together to form the big picture, is explained [here](#). Within government bonds, we take German Bunds into account for Europe.

## Cross asset class preferences

This table combines top-down views with bottom-up analysis at the portfolio level.

	Most preferred	Least preferred
<b>Convertible Bonds</b>	<ul style="list-style-type: none"> <li>– Software (Cybersecurity)</li> <li>– Semiconductor (AI-related)</li> <li>– Healthcare</li> <li>– CBs with high convexity</li> <li>– Bond-like CBs with quality credits and attractive yields</li> <li>– Balanced deep investment grade</li> <li>– Chinese tech with high convexity</li> </ul>	<ul style="list-style-type: none"> <li>– Utilities</li> <li>– Consumer discretionary</li> <li>– Unprofitable, early stage, expensively valued IT and biotech</li> <li>– Weak credit quality and/or liquidity</li> </ul>
<b>Global IG Corporates</b>	<ul style="list-style-type: none"> <li>– Healthcare, financials</li> <li>– 5-10 year maturities</li> </ul>	<ul style="list-style-type: none"> <li>– Capitals goods, transportation</li> <li>– Maturities &gt;10 years</li> </ul>
<b>Global Corporates</b>	<ul style="list-style-type: none"> <li>– Healthcare, financials</li> <li>– Investment grade</li> <li>– Developed markets</li> </ul>	<ul style="list-style-type: none"> <li>– Transportation, technology</li> <li>– Emerging markets</li> </ul>
<b>Global High Yield</b>	<ul style="list-style-type: none"> <li>– Capital goods</li> <li>– Basic industry</li> </ul>	<ul style="list-style-type: none"> <li>– Transportation</li> <li>– Financial services</li> <li>– Technology &amp; electronics</li> </ul>
<b>Emerging Markets - Defensive</b>	<ul style="list-style-type: none"> <li>– LatAm, parts of Asia</li> <li>– Chile, Mexico, Korea</li> <li>– Maturities &lt;7 years</li> </ul>	<ul style="list-style-type: none"> <li>– Asia, Middle East</li> <li>– Israel, Qatar, Saudi Arabia, China</li> <li>– Maturities &gt;7 years</li> </ul>
<b>Emerging Markets - Dynamic / Opportunistic</b>	<ul style="list-style-type: none"> <li>– LatAm (Brazil, Colombia, Mexico)</li> <li>– High yield energy</li> <li>– Short-dated high-yield bonds</li> </ul>	<ul style="list-style-type: none"> <li>– Asia, Middle East</li> <li>– Maturities &gt;10 years</li> <li>– A-rated bonds</li> </ul>

**Note:** Preferred sectors/regions may differ between asset classes owing to respective performance drivers. In particular, equity exposure is the key performance driver for convertible bonds and is not relevant for corporate bonds.

## On the radar: What is the significance of the rising gold price?

One of the reasons for the new all-time high in the gold price is likely to be the steady purchases by the BRICS countries with the aim of creating their own gold-backed currency, and thus breaking away from the global US dollar standard.

» There are good reasons for the rise in the gold price.

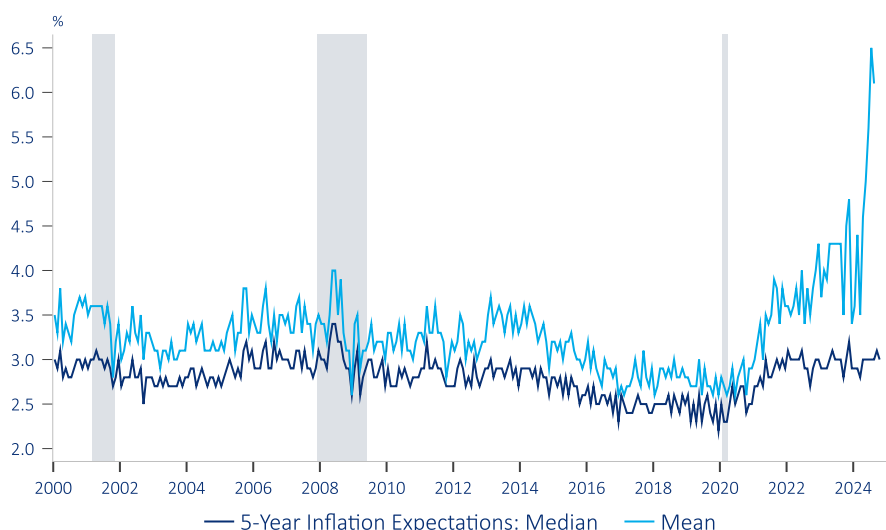
However, there are other reasons for the price acceleration since July this year in particular. The US economy, which is still robust, despite a slight slowdown, likely plays an important role here. Together with interest rate cuts by the Fed and ECB, which tend to drive inflation, and historically high government spending in the US (but also in Europe), inflation is not only being driven directly, but inflation expectations are also being fuelled.

An interesting divergence between the median of long-term inflation expectations at 3% (University of Michigan) and the average at 6.1% indicates a clear change in expectations. The recent explosion in the average shows that a large majority of respondents currently expect higher inflation than just a few months ago (see chart below).

The current sharp rise in the price of gold is therefore likely to be an indicator of an increasing loss of confidence in the stability of monetary values and the sustainability of public finances.

After the recent price gains, however, a consolidation is very likely. Greater downward pressure is not to be expected until the above-mentioned drivers disappear, though.

### Chart: Average inflation expectations are surging



Sources: University of Michigan, Fisch Asset Management

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