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Outlook into the 4th Quarter of 2023

Opportunity Amid Uncertainty

For months, the stock market has been echoing the sentiment that 'good news is bad, and bad news is good.' The predominantly positive surprises of the last quarter's earnings reports solidify the robust underpinnings of the U.S. economy. In a broad sense, companies have reported robust results. However, even the most impressive earnings don't appear to suffice, as investors are positioned in a 'greed mode'. More is now needed to justify the escalating stock market valuations. This has led to significant corrections in share prices since the beginning of August.

Central banks continue to apply relentless pressure to curb inflation, their daily actions often shrouded in ambiguity, creating a cautious atmosphere in the financial system. This deliberate cultivation of latent uncertainty ultimately contributes to the unpredictable swings in stock market volatility. The steadfast rule is simple: never go against the decisions of central banks. But how do they act? They do not rule out a longer period of high interest rates to temper super optimism. The election year 2024 is already lurking in the background of these statements, so there is little reason for the long-term investor to throw the long-term portfolio structure overboard.

For 35 years, September has been considered extremely vulnerable to corrections. In 2023, the most difficult of the difficult months also lived up to its reputation. Republican politicians, with the 2024 election campaign on their minds, triggered the chain of events this time. They called for an increase in the debt ceiling, and in response, the rating agency Fitch reacted as what investors had long suspected: Fitch dropped the AAA rating of the USA and warned of a recession by the end of 2023 - and thus triggered a worldwide stock market correction. To talk about an economic and financial crisis seems absurd. Daily speculators seem to forget that the S&P decided to downgrade US government securities in August 2021. The initial reactions mirrored those of today, yet the year ultimately concluded with record-high values. Wall Street's current fair valuation suggests a positive annual outcome for 2023 as well.

From a market perspective, growth stocks are under special observation. Especially the technology sector and the highly profitable luxury sector offer attractive buying opportunities following a nearly two-month correction phase. Many companies are presently prioritizing margin improvements in their financial statements over sales growth. MPM regularly evaluates the State Street Investor Confidence Index, which shot up by almost 13 points to 103.8 at the end of August 2023. The September values are still pending. But one thing is clear: the stock markets are not overvalued! What is interesting in this context is the politically driven doom-and-gloom mood in Germany. The government has alienated itself from the economy. According to the media, the industry is on the verge of self-destruction that has been conjured up, and at the same time the DAX is reporting new highs, so what is truth? On the

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one hand, business associations are talking about deindustrialisation. On the other hand, the world export champion reports a massive increase in new orders. A similar scenario unfolds in the USA. The US economic data is too robust to suggest a recession. Analysts' consensus paints a positive economic outlook until the end of 2024. And yet, well-rehearsed early warning indicators are confusing. For decades, for example, the copper price has moved in tandem with the S&P 500 index. This benchmark has been decoupled for almost a year. No rule is set in stone

For European investors in particular, one relief comes from the currency front: the US dollar has appreciated significantly against the Swiss franc and the euro over the past two months. Looking ahead, the potential for good news remains intact. However, it's premature to speculate about imminent interest rate cuts. Inflation persists at levels too high to warrant such measures and is not receding rapidly. Switzerland stands out as offering some of the best value, with an inflation rate that's barely worth mentioning. Otherwise the economic effects are making life difficult for the central banks. Those who are currently talking about margin improvements are thinking not only of cost savings but also of price increases. The unions' out-of-this-world wage demands are also damaging efforts to lower inflation rates. Additionally, the oscillation of oil prices between high 80s and 100 dollars per barrel presents another obstacle in the battle against inflation.

A look at Asia reveals a stress test for globalisation. The yellow locomotive of the world economy is threatening to run out of steam. The debt problems of the Chinese real estate giants raise eyebrows. Investment funds should make their exposures more transparent. We have repeatedly pointed out that China is in danger of sliding into the 'Japanese problem'. China's situation is reminiscent of Japan's industrial rise in the 1960s. A comparable success story until the system collapsed in 1989. At that time, the total value of all land was four times that of the US. The collapse of Nippon's real estate market caused trillions of dollars to vanish into thin air, causing global turmoil in the financial system. Since then, Japan has struggled with deflationary tendencies for almost 30 years. Only in a little over a year has Japan returned to a solid footing. It serves as a cautionary tale for China.

Under the leadership of China and Russia, the BRICS group has expanded to include countries like India, Brazil, and Argentina, among others. While some of their intentions may be seen as missed opportunities for fostering peaceful globalization, it's important to remember that global prosperity hinges on the free movement of goods and capital flows. It's not so much about creating a Third World counter-model to Western industrialized nations under the leadership of the 'evil' USA. However, it's crucial to recognize that the contributions of Russia and China are indispensable, as they account for 60% of global metals and rare earth production, and a staggering 80% of the world's demand is also refined by the two countries.

Foreign investors find themselves hampered by harassing conditions in China. Well over 50% of Chinese industry is state-owned. The economic system is socialism in new clothes. In the industrial sector, China operates with hidden subsidies and pressures Western industries through unequal practices. Currently, the car industry is facing a challenge. The introduction of additional EU regulations could potentially place an unbearable burden on the domestic supplier industry in its competition with China. Countermeasures often yield limited results and can tend to fuel confrontations. For instance, China has prohibited the use of iPhones in state institutions, a subtle warning. One foreseeable risk is the potential for further escalation if another Trump presidency materializes.

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What comes after China? India has become the world's most populous power, often underestimated and clearly overestimated. We try to comment briefly on the justified questions of investors as to whether stock market investments are worth consideration: India undoubtedly possesses potential but is crippled with a bureaucratic culture deeply rooted in its colonial past. Transparency is lacking, and the issue of corruption should not be downplayed. India's stock market index moved in alignment with the S&P 500 in 2015, albeit in local currency terms. However, it has experienced a 30% decline since then. At this juncture, we do not perceive the timing as favorable for investing in India.

Money laundering has been a part of the Swiss Criminal Code since 1990. However, in 1998, and especially following the events of November 2001, a wave of regulations has been introduced worldwide to combat terrorism and crime. What was long-standing practice in various European countries is now finding its place in Switzerland as well: lawyers and notaries are to be subjected to stricter money laundering regulations, which inevitably erodes the traditional pillars of professional secrecy and confidentiality. That said, the proposed legislation brings along significant expenses. Globally, the costs of compliance amount to approximately $274 billion annually. This vast compliance industry burdens all of us, while the results, in terms of money confiscated, seem relatively modest in comparison. It's estimated that more than 60% of these cases are linked to corruption, often involving politically exposed individuals and their associates. Consequently, the caution exercised by banks is understandable. Furthermore, the proposed regulations are set to extend controls globally, including the offense of evading sanctions, a move aimed at fostering transparency in industrial and export economies.

Our current outlook serves as food for thought and an invitation for more in-depth discussions. Should you wish to delve further into these current topics, we stand ready to assist. As we approach the final quarter of the year, the financial markets are poised for a challenging period. Today, we are already in procedure to weight opportunities and risks in all client portfolios for the year ahead.

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