Cham, April 5th 2024

# Outlook into the 2nd Quarter 2024

## *Tech stocks in the super cycle*

The stock market benefited from the strongest price gain in two decades in the first quarter of 2024. The end of interest rate hikes and the beginning of a tech super cycle forced the major financial institutions and international organizations to gradually adjust their annual forecasts upwards. In our Outlook for 2024, we as MPM positioned ourselves with a price target for S&P 500 of 5200, i.e. optimistically, and at the top of the global consensus. We were also amazed that this bold forecast was exceeded in the first 3 months. However, around Easter, price volatility hit severe levels. The good news first: We have recalculated our target index target for year-end 2024, and now expect the S&P 500 to reach 5500 to 5700 points, which corresponds to a further increase of 7 to 10%.

The main indices such as the S&P 500, Dow Jones Industrial, DAX and Nikkei are currently oscillating at historic highs and calls for a price setback are becoming louder. Worldwide surveys show that the opinions for and against a correction are balanced with 50% each for and against. Rightly so? However, upon closer examination, we recommend taking a step on the safe side, as we strongly believe that a correction is imminent. The indicators supporting this assertion are growing increasingly robust:

• Price fluctuations are becoming significantly more volatile after disappointments or when even the most positive expectations are not clearly surpassed. The exceptional results of companies like Applied Materials and Crowdstrike serve as blatant examples of speculative behavior.: both cases showed high after-market price gains after the report and disappointed with price losses at the opening of the regular trading session. This represents algorithmic trading without logic, to the detriment of investors, with daily volatilities reaching up to 22%.

• The daily opinions seem suspicious: We are not in a bubble; the AI or IT stocks are not overvalued. It is true that comparisons to the tech bubble of 2000 are flawed: back then, stock prices of many companies that had never turned a profit, collapsed. Today, IT champions are earning billions. However, upon closer examination of the opinion makers, often funds managers with clear interests. Bubble or not, the opinions are not independent.

• The central banks are leaving the question open as to when interest rate cuts will begin. The ECB speaks of June/July 24, in line with our expectations.

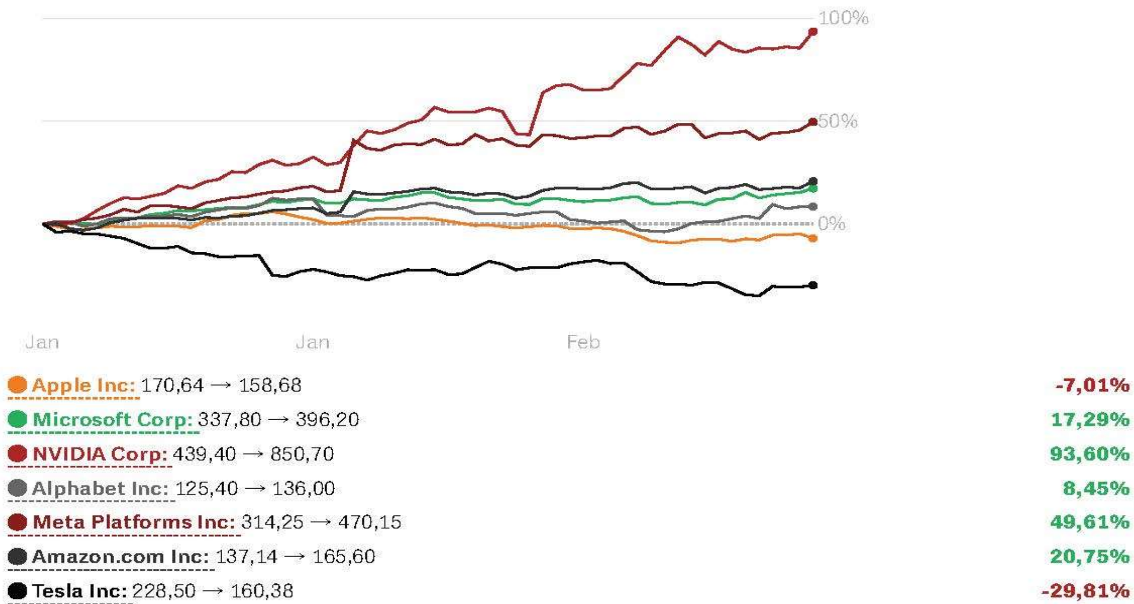
Almost unnoticed, the ECB and the FED have lowered their inflation targets from 3 to 2%, thereby setting higher standards for interest rate cuts. There are bumps on the road ahead: inflation is stubborn and is still falling hesitantly. Powell and Lagarde periodically communicate in a sibylline manner, self-evident in central bank speak. But in extreme cases: What if interest rate cuts will not be necessary due to a booming economy? This idea is not far-fetched.

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Tel. +41 (41) 725·3535 · www.mpmswiss.com

• The key factor here is NVIDIA. Based on NVIDIA's strong performance and market position, it's reasonable to expect a share price of approximately USD 920. Any higher price would make the shares overvalued unless there's a significant increase in profits from the already high levels.

We are observing tendencies towards a 'small investor exchange', the man on the street jumps on the bandwagon and wants to participate afterwards. Some big banks are currently adding NVIDIA to their recommendation list (why not before, why only now?). If NVIDIA disappoints even a little, sharp price drops would not come as a surprise. In such a scenario, the entire AI hype would be pulled into a downward spiral.

The breadth of the bull market now also includes lagging economic sectors. The major weight among the indices, the S&P 500, has split if you take look. 10 years ago the weighting of the top 5 was already 18.4%. Today, 30% of the S&P 500 falls on just 5 companies. And these 5 champions also perform very well, but massively different:




Source: Bloomberg

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Tel. +41 (41) 725-3535 · www.mpmswiss.com

The below chart, which highlights the contrasting price trends of the IT sector compared to the overall economic sector, further underscores this point.

Source: Bloomberg

These data support and validate the dominance of IT stocks in the majority of investment funds as well as in MPM's portfolios. In reality, we currently have a 2-phase economic growth: information technology and services are booming, while the traditional industries are weakening. Undervalued opportunities are only found in small-cap stocks. In this sector with lower trading volumes, a different trading rhythm, with higher risks, dominates.

• The severity of a correction often works as follows: the market does not go up on the elevator and slowly comes back on the stairs. It all happens surprisingly quickly.

• The trigger for a correction can never be predicted precisely. When the time comes, the media will provide the appropriate accompanying music. And the crash prophets will always have known it. After shooting into the wide wall, they will draw rings around the bullet hole and impress their disciples with their aim. Every correction stirs up strong emotions. A good time for experienced asset managers to make long-term successes visible.

Last fall, many companies were still massively undervalued on the stock market. The rapid change from pronounced pessimism to exuberant optimism within just 6 months has never ended without a correction.

We therefore believe that this is the time to take significant profits and build up larger cash reserves. The mood can change at any time, not least for political reasons. With regard to the year-end forecasts, a later re-entry at lower prices can have a profitable effect.

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Tel. +41 (41) 725·3535 · www.mpmswiss.com

What motivates us to adjust the forecast at the end of the year? We suspect that the expected interest rate cuts over the course of the summer have already been priced into share prices. On the other hand, the data on global economic growth has improved all around: the global economy is now expected to grow by 2.7%, compared to the previous estimate of 2.4%. The USA and Brazil are primarily recording outstanding increases; we would not like to comment on China due to a lack of transparency. At first glance, the EU is not seeing any improvement; the sinner here is Germany. The German economy is suffering from excessive bureaucracy that has spread across the country like mildew. With an expected economic growth of only 0.1%, medium-sized businesses are talking about a perceived recession.

In China the problems are obvious. The real estate market is collapsing. The central bank must help the economy get back on its feet with interest gifts. The industry suffers from overcapacity. The yellow giant is thus threatening to export stagflation. The global power blocs are effectively engaged in a cold economic war. This could warm up after the US presidential elections in the fall. Taking these roughly outlined facts into account, we will prepare the new portfolio structure for investors with the overall focus on stable growth stocks in selected markets and economic sectors. Last but not least, election years are good market years.

Your MPM Swiss AG

MPM SWISS AG · RIEDSTRASSE 11 · CH-6330 CHAM, Tel. +41 (41) 725·3535 · www.mpmswiss.com

**Disclaimer**
The content of this publication is for your information only and does not constitute an offer, offer or invitation to make an offer to buy or sell investment or other specific products. The information and opinions contained in this publication have been obtained from sources that we believe to be reliable and credible. Nevertheless, we disclaim any contractual or implied liability for incorrect or incomplete information. International investment products contain risks that are unsuitable for certain investors. Changes of a political, economic or monetary nature can trigger fluctuations in the value of existing investments at any time, which can lead to high to very high losses of capital investments. Private equity exposures are subject to special risks that can lead to total losses. This documentation may not be used as an exclusive basis for decision-making or instead of an independent assessment. The products listed therein may not be suitable for everyone. Therefore, in case of doubt, professional advice should be sought.