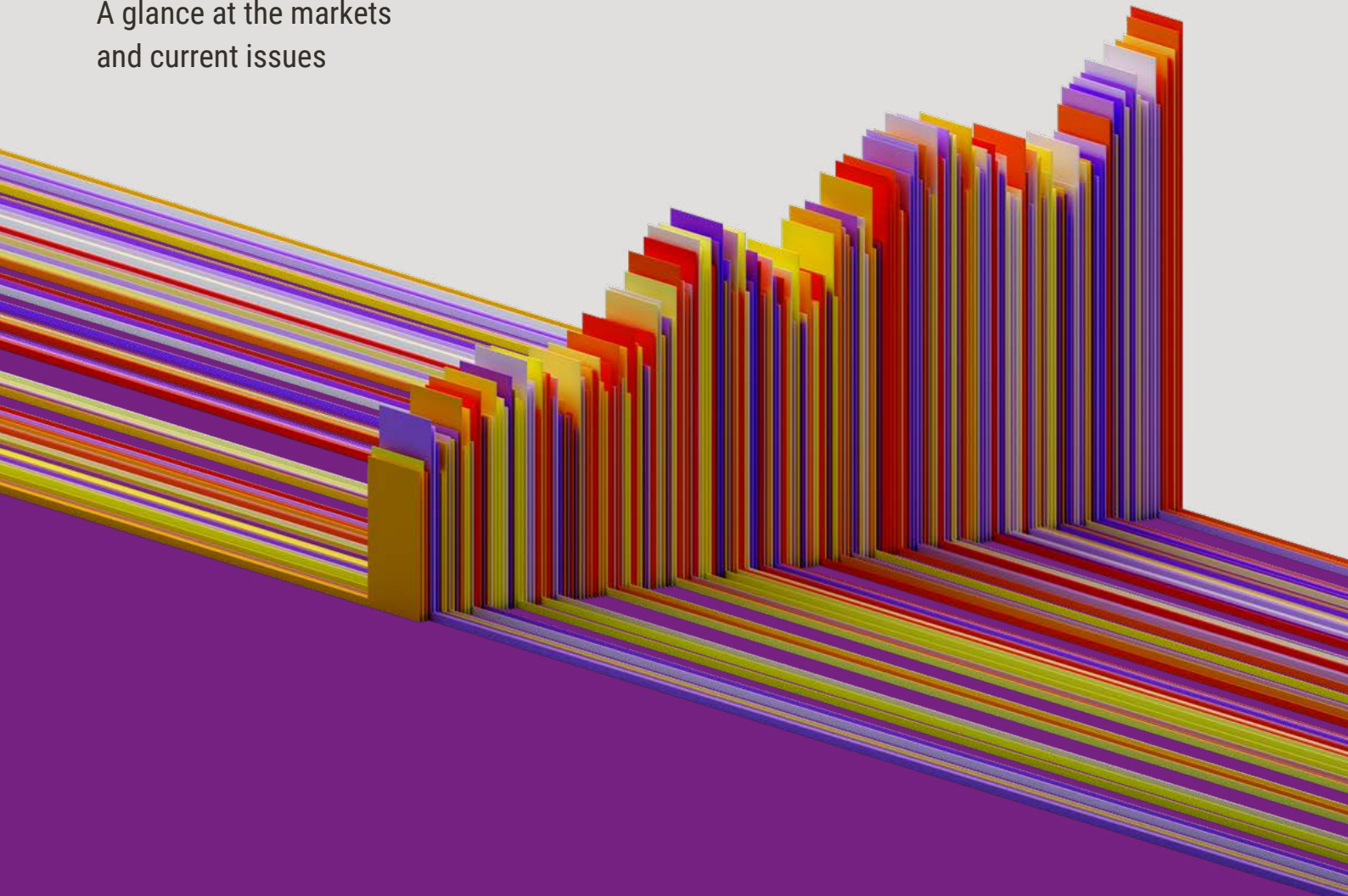


## Market Overview 06 | 2024

A glance at the markets  
and current issues



### **Equities**

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- Magnificent Seven fetch record sums
- Gold and silver benefit from interest rate environment
- Copper and lithium remain in demand

### **Fixed Income**

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- The Fed and ECB send different signals
- Consumer sentiment cools off
- France downgraded

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- Change in fee models in private market funds
- How this affects the behaviour of fund managers
- What potential investors should keep in mind

## Equities

# Concentration of money in the centre

From high to record high: in the last month, the S&P 500 achieved its 31st record in 2024, closing at 5,487 points on 18 June. Meanwhile, the tech index Nasdaq-100 is clawing at the 20,000 mark.

Just six months into the year, the S&P 500 index has climbed by a whopping 15%. This is leading to an additional market capitalisation of 5.5 billion US dollars. In other words, there is a lot happening in US equities – from increasing corporate earnings, cooling inflation and an upcoming cycle of easing by the Fed to historically low market volatility, a likely soft landing and of course the remarkable AI rally.

### **Seven companies produce two-thirds of gains**

It is quite clear that a lot of money is disappearing from the side lines and accumulating in the centre. But will this trend continue? Those who see the risks of concentration in the centre point out the above-average share of mega-caps: were these to decline, the broader market could be dragged down with them. This is a legitimate concern as the Magnificent Seven (Apple, Nvidia, Alphabet, Meta, Amazon, Tesla and Microsoft) account for two-thirds of this year's gains in the S&P 500. However, others draw attention to the successful reasons behind this (namely AI) and the old stock market saying "be greedy when others are fearful". After all, even if these super equities are stretched, many of the other companies in the S&P 500 have some leeway as they have not yet made appreciable gains this year and could therefore maintain the rally. Is a summer slump with reduced risk appetite now on the horizon? Real economic factors such as the interest rate environment, which persists at a high level in the USA, play a role here: the policymakers at the Fed are making no moves to lower interest rates any time soon.

### **Gold and silver still flying high**

The gold sector is booming due to the strong physical demand of central banks and OTC purchases, as well as the prospect of potential interest rate cuts in the coming months. Silver is also benefiting from a combination of different macroeconomic factors, forecast supply deficits and growing demand from photovoltaic production.

### **Electrification driving copper and lithium demand**

Despite a weakening of copper prices in recent weeks, the market continues to face long-term bottlenecks that could exacerbate in the coming years. This is because projections are showing a strong rise in demand, while supply is likely to remain limited. The most important metals for batteries were confronted with mixed conditions over the course of the month. The growth in lithium demand was strong, but not quite as strong as expected, since the sale of electric vehicles in the West was weaker and the market share of hybrid vehicles increased. However, this short-term weakness is not likely to disprove the longer-term positive trend in demand for lithium and other important battery metals: lithium demand is expected to increase by 173% by 2030, which will push the market towards a supply deficit in the coming years. In the meantime, several other promising metals such as uranium also offer positive price opportunities.

## Fixed Income

# Central banks sending different signals

Photo by Vince Kowalski on Unsplash

The month of June was characterised by inflation, the meetings of the Fed and ECB, and the European elections. Although inflation has increased in the euro-zone, the ECB carried out the first interest rate cut this month. By contrast, the Fed opted not to change its rates despite declining inflation in the USA. It is planning just one interest rate cut in 2024.

France's rating downgrade due to an increased public deficit (S&P reduced the rating from AA to AA-), the surprising announcement of elections for the French parliament and the consumption slowdown in the USA led to a decline in yields and a widening of credit spreads on the bond markets. The credit spreads are currently still below the historical averages, but events like the weakening of consumer demand and increasing public deficits in highly indebted countries could result in an expansion of risk premiums sooner or later. In particular, the elections in France are a risk that should not be underestimated, since they could lead to an increase in risk premiums.

### **France's budget deficit becomes too large**

After S&P downgraded France's rating from AA to AA-, the credit watchdog pointed out the government's failure to contain the public deficit since the coronavirus pandemic and the energy crisis expanded the public expenditures. The reforms and an economic recovery should improve the situation. However, according to S&P, the budget gap will still exceed 3 % of gross domestic product in 2027. The timing of the downgrade shortly before the European elections is a heavy blow for President Macron's reputation as an economic reformer.



*The Fed's most recent forecasts assume that interest rate cuts will not begin before December.*

### **Fed not looking to cut rates before December**

The findings in the monthly US labour market report were stronger than anticipated. The number of non-agricultural jobs rose by 272,000 in May, thus clearly exceeding forecasts (185,000). The unemployment rate rose slightly from 3.9 % to 4 %. The robust state of the labour market has put the brakes on the debate regarding an interest rate cut by the Fed. Despite the lower inflation, there are no noteworthy impacts on the economy – this could remain the case for a while according to Fed Chairman Powell. The Fed's most recent forecasts assume that interest rate cuts will not begin before December (i.e. after the US presidential election on 5 November). US inflation declined slightly in May: consumer prices rose by 3.3 % compared to the previous year. This was somewhat lower than in April as well as lower than expected (3.4 %). Lower petrol prices among other factors kept inflation in check. Leaving aside volatile components like energy, prices increased by 3.4 % (the lowest rise since April 2021), which is rather pleasing. The index of personal consumption expenditures (PCE), which serves as the Fed's preferred metric for US inflation, rose by 0.3 % in April compared to the previous month (or 2.7 % compared to the previous year). This was within the range of expectations and in line with the March level. However, in order to bring inflation back towards the Fed's 2 % target, prices can only rise by 0.2 % on a monthly basis.

### **ECB cuts interest rates, but not prepared to commit itself**

According to preliminary data, eurozone inflation increased by 2.6 % in May compared to the previous year. In both of the previous months, it had "only" risen by 2.4 %. The higher-than-expected inflation did not stop the ECB from cutting interest rates. However, it once again ignited the debate regarding a potential pause in July and a generally cautious approach. That is because, following their meeting, the central bankers also appear cautious: according to Executive Board member Isabel Schnabel, the ECB faces uncertainties in terms of the inflation outlook and needs to remain careful with respect to borrowing costs. She pointed out that inflation expectations in the eurozone have returned to near the 2 % target, which in her view led to the latest decision to cut interest rates. Nonetheless, the ECB is not able to commit to a certain course of action, she added.

### **USA: shift in consumer sentiment**

Consumption has long proven to be robust in the USA; however, warning signs are now appearing to show. The most recent decline in demand is considered to be more than an isolated event. The closely observed leading indicator of the University of Michigan has indicated declining US consumer confidence. According to the university, the sentiment of US consumers deteriorated in June as a result of inflation and income concerns. The corresponding index was at 65.6 points, compared to 69.1 in May, and thus below expectations (72). The one-year inflation expectations remained at 3.3 %, while the 5-year

inflation outlook increased slightly to 3.1 % (compared to 3 % in May). Disposable real incomes increased only marginally for the year. Meanwhile, the savings rate is at the lowest level in 16 months and many Americans are increasingly having to resort to credit cards to cover their expenses. Moreover, the manufacturing sector weakened further in May: US manufacturing activity contracted again and the relevant indicator fell by 0.5 points to 48.7 (any value below 50 indicates a decline). Incoming orders fell by 3.7 to 45.4, thereby reaching the lowest level since a year. Companies are demonstrating less willingness to invest, seemingly as a result of current monetary policy.

**Fewer bond purchases by the Bank of Japan**

Of special note is the central bank meeting of the Bank of Japan (BoJ), which prepared the markets for fewer bond purchases. The central bank announced that it will continue to buy government bonds at the current quantity of around 38 billion US dollars per month for the time being. However, details regarding a reduction of bond purchases would be revealed at the July meeting, the central bankers said. The decision to slow down bond purchases had been expected, but the lack of immediate details suggests that the BoJ is in no rush to tighten its monetary policy.



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**Indicative interest rates\* as of July 2024**

	3 Years	2.00 %
<b>Fixed-rate mortgage</b>	5 Years	2.00 %
	7 Years	2.05 %
	10 Years	2.10 %
<b>SARON mortgage**</b>	SARON + 0,70 % Margin	

\* These interest rates represent benchmarks for first-ranking mortgages on owner-occupied residential property. They apply to first-class residential properties and borrowers with impeccable credit ratings.

\*\* The interest rate is at least 0 % , plus the margin

Alternative investments

# Incentives – the most important element in the investment business

“Show me the incentives, and I’ll show you the outcome.” Charlie Munger, who died last year, revealed this insight back in 1995, and it says everything about the importance of incentive structures, which can hardly be overstated. This is especially the case in the financial sector, where incentive structures are the lifeblood that keeps the interplay of companies, employees, funds and investors alive.

Depending on how they are arranged, incentive structures – and the resulting distribution of profits – lay the foundation for optimal returns for the investor or the provider’s full pockets. The importance of incentive structures as well as their impact, which many fail to appreciate, are topics frequently addressed in our market report, for example in the December 2021 issue.

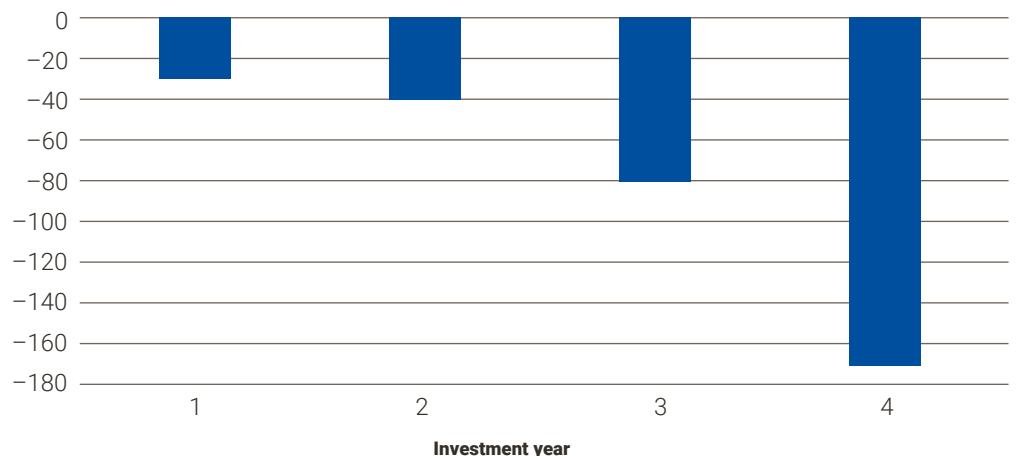
### Incentives when transitioning from the investment to harvesting period

We would now like to examine the impact of a change in the fee models, which is currently occurring in many private market structures. The fees paid in the first phase (investment period often lasting five years) are based on the promised capital commitments, while the fees in the second phase (harvesting period) are based on the effectively invested capital<sup>1</sup>. This change in the calculation basis results in fund managers having a greater incentive to invest as much capital as possible in the time directly preceding a change in the calculation basis. After all, anything that has not been invested by the end of the investment period will not generate any more fees and is therefore lost. One might expect that as a result of this incentive, the hurdle for these investments would be lower than those made in the first few years, leading to more “bad” deals.

### Falling margins towards the end of the investment phase

In order to investigate this hypothesis, Hyeik Kim from the University of Alberta analysed a sample of 5,000 private market deals between 1984 and 2018:

Growth EBITDA margin compared to investments in the 1st year (bps p.a.)



EBITDA growth according to investment year; source: Kim (2024) or Klement (2024)

<sup>1</sup> Today, this is predominantly prevalent in the asset classes of private equity and in some cases infrastructure. In the case of private debt deals, however, the fees are often calculated based on the invested capital over the entire term, which is why the behavioural effect described in the following does not occur in the latter category.

The observed transactions indeed show that the growth of EBITDA margins is better in the case of investments during an early stage of the fund than those made towards the end of the investment period: on average, transactions in the fourth year of a fund have EBITDA margin growth that is 80 bps (p.a.) lower than transactions in the first year of a fund. In the final year before a change in the calculation basis (year five), the effect is much larger with a difference of 170 bps.

### **Consider the distribution of investments over time**

What does this insight mean for potential investors? Unfortunately, the handling of closed-end funds is often severely restricted and the capital commitment cannot be adjusted arbitrarily. Even so, we would like to highlight two points.

1. When analysing the current vintage of a provider, special attention should be paid to how investments are distributed over time. Has the manager successfully spread the investments relatively evenly over the investment period? Or is there a strong concentration in later years? In the latter case, potential investors should take a closer look at the relevant reasons and the results achieved.
2. There is often the possibility during the investment period for an upward adjustment of the capital commitments for a fund. When making this decision, it is crucial to consider how much capital the fund has already invested and how much time the fund has remaining until the end of the investment period.

### **Significant added value for the portfolio**

The results of the above investigation by no means suggest that private market investments are inherently detrimental. To the contrary: when selected and used with care, they can provide significant added value for many portfolios. The findings merely show that potential investors need to be careful when selecting their products and always critically examine the impacts of even broadly accepted practices.

Or as Charlie Munger put it aptly 20 years later: "If you have a dumb incentive system, you get dumb outcomes" (2016).

#### **Sources:**

- Kim, Hyeik: Incentives in Private Equity: The Impact of Fee Structures on Investment Behavior (10 February 2024). Available at SSRN.
- Joachim Klement: Filling the basket (blog post dated 6 June 2024); <https://klementoninvesting.substack.com/p/filling-the-basket>

## Tellco-Products

### Tellco Classic

	ISIN	Tranche	June 28th	% June	% YTB	Web
Tellco Classic II Global Equities**	CH0443816621	V	237.23	2.14	29.81	<a href="#">More Infos</a>
Tellco Classic Swiss Equities	CH0421075018	V	188.33	-0.08	14.31	<a href="#">More Infos</a>
	CH0421074961	R*				
Tellco Classic Best Idea	CH0442770316	V	102.39	5.43	25.52	<a href="#">More Infos</a>
	CH0442615701	R	110.49	5.43	25.53	
Tellco Classic Sustainable Heritage	CH0583763542	V	79.93	-1.65	-1.22	<a href="#">More Infos</a>
	CH0583763534	R	70.67	-1.66	-1.52	
Tellco Classic Bonds CHF	CH0421043669	V	103.54	2.48	7.79	<a href="#">More Infos</a>
	CH0421043594	R*				
Tellco Classic Bonds in foreign currency	CH0421043768	V	85.39	-1.03	-0.71	<a href="#">More Infos</a>
	CH0421043743	R*				
Tellco Classic Bonds in foreign currency hedged	CH0469074956	V	89.45	0.20	-1.15	<a href="#">More Infos</a>
	CH0469074865	R	84.21	0.20	-1.15	
Tellco Classic Inflation Protection	CH1101347354	V	96.21	-0.15	-5.45	<a href="#">More Infos</a>

\* Not yet launched \*\*available only to swiss pension funds

### Tellco Classic Strategy

	ISIN	Tranche	June 28th	% June	% YTB	Web
Tellco Classic Strategy 10	CH0450199770	V	119.88	1.21	3.43	<a href="#">More Infos</a>
	CH0544445619	R*				
Tellco Classic Strategy 25	CH0450201261	V	131.05	1.03	7.16	<a href="#">More Infos</a>
	CH0544446568	R*				
Tellco Classic Strategy 45	CH0450201329	V	149.13	0.99	10.34	<a href="#">More Infos</a>
	CH05444465757	R*				
Tellco Classic Strategy 100	CH0450382632	V	134.77	1.09	20.50	<a href="#">More Infos</a>
	CH05444465773	R	100.18	1.08	18.26	

\* Not yet launched

## The Tellco Top Products

### Top-Performer



#### Tellco Classic Best Idea

The Tellco Classic Best Idea fund aims at a long-term appreciation of invested capital, by investing in listed equities issued by companies whose expected growth is a multiple of global GDP growth, thanks to innovations primarily, and without limitation, in the technology, healthcare and energy fields.

### Top-Seller



#### Tellco Classic Sustainable Heritage

The Tellco Classic Sustainable Energy fund invests in all industries that benefit from a sustainable future. The investment universe includes themes such as renewable energy, energy storage, green and smart transport solutions, water and waste-water treatment, the digitalisation of energy systems and the integration of smart and efficient technologies in cities (smart cities).

## Numbers

### Equity markets

	June 28th	% June	% YTD
MSCI AC World	431.97	2.23	36.01
SMI	11,993.83	-0.06	11.78
SPI	15,919.28	-0.46	15.90
DAX	18,235.45	-1.42	30.97
EuroStoxx 50	4,894.02	-1.80	29.01
EuroStoxx 600 Price Index	511.42	-1.30	20.37
FTSE 100	8,164.12	-1.34	9.56
DOW Transportation	15,415.23	1.16	15.11
S&P500	5,460.48	3.47	42.22
NASDAQ 100	19,682.87	6.18	79.92
Shenzen-Shanghai CSI300	3,461.66	-3.30	-10.59
Emerging Market	1,086.25	3.55	13.58
Nikkei	39,583.08	2.85	51.69
Volatilität	12.44	-3.72	-42.59

### Commodities

	June 28th	% June	% YTD
WTI-CrudeOil	81.54	5.91	1.59
Brent Oil	86.41	5.87	0.58
ThomReuters /JefferiesCRB	290.47	0.11	4.58
Gold	2,326.75	-0.02	27.56

### LIBOR

	June 28th	% June	% YTD
Saron 6M CHF	1.11	-16.76	-9.32
Euribor 6M	3.68	-1.68	36.72
Libor 6M USD	5.68	-1.04	10.59

### Alternative Investments

	June 28th	% June	% YTD
S&P Leveraged Loan TR Index	3,890.47	0.30	18.28
Swiss RE Cat Bond TR Index	467.03	1.12	26.62

## Numbers

### Currencies

	June 28th	% June	% YTD
EUR/USD	1.071	-1.24	0.07
USD/CHF	0.899	-0.39	-2.78
USD/JPY	160.880	2.27	22.70
EUR/CHF	0.963	-1.64	-2.70
GBP/CHF	1.136	-1.23	1.58
CAD/CHF	0.657	-0.79	-3.74
AUD/CHF	0.599	-0.17	-5.06
JPY/CHF	0.558	-2.65	-20.87
BRL/CHF	0.161	-6.40	-8.00
CNY/CHF	0.124	-0.64	-7.69
INR/CHF	0.011	-0.35	-3.33
RUB/CHF	0.010	5.01	-15.96
TRY/CHF	0.027	-2.14	-44.52
ZAR/CHF	0.049	2.92	-9.02

### Countries / GDP

	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	2023	2024	2025
USA	4.90 %	3.30 %	1.60 %	2.00 %	1.60 %	1.60 %	2.50 %	2.30 %	1.80 %
Euro Area	0.10 %	0.10 %	0.40 %	0.50 %	0.80 %	1.30 %	0.50 %	0.70 %	1.40 %
Japan	-2.10 %	-0.40 %	-2.00 %	2.20 %	1.80 %	1.30 %	1.90 %	0.30 %	1.10 %
China	4.90 %	5.20 %	4.90 %	5.30 %	4.73 %	4.70 %	5.20 %	4.97 %	4.50 %
Schweiz	0.40 %	0.65 %	0.70 %	1.25 %	1.50 %	1.45 %	0.80 %	1.30 %	1.50 %

### Countries / CPI

	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	2023	2024	2025
USA	3.60 %	3.20 %	3.20 %	3.30 %	3.00 %	2.90 %	4.10 %	3.10 %	2.40 %
Euro Zone	5.00 %	2.70 %	2.60 %	2.50 %	2.20 %	2.30 %	5.40 %	2.40 %	2.05 %
Japan	3.10 %	2.95 %	2.60 %	2.60 %	2.50 %	2.10 %	3.30 %	2.40 %	1.85 %
China	-0.05 %	-0.30 %	0.00 %	0.30 %	0.53 %	1.20 %	0.20 %	0.60 %	1.50 %
Schweiz	1.65 %	1.60 %	1.20 %	1.40 %	1.30 %	1.40 %	2.10 %	1.40 %	1.10 %

## Numbers

### Rates

	June 28th	in bps June	in bps YTD
10j. EUR (Swap)	2.84	-5.51	-36.49
10j. UK (Swap)	3.88	-14.97	12.85
10j. CHF (Swap)	0.98	-35.00	-109.85

### Bonds

	June 28th	in bps June	in bps YTD
US Govt 10Y	4.40	-10.25	52.04
GER Govt 10Y	2.50	-16.61	-6.75
Swiss Govt 10Y	0.53	-32.58	-104.96
UK Govt 10Y	4.17	-14.58	50.70
IT Govt 10Y	4.07	9.50	-62.77
ESP Govt 10Y	3.42	2.62	-23.23

### Generic iTRAXX

	June 28th	in bps June	in bps YTD
Europe Main	60.94	8.42	-29.66
Finl Sen	71.80	12.67	-27.49
Finl Sub	128.32	22.04	-43.77
X-Over	319.17	23.19	-154.94

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