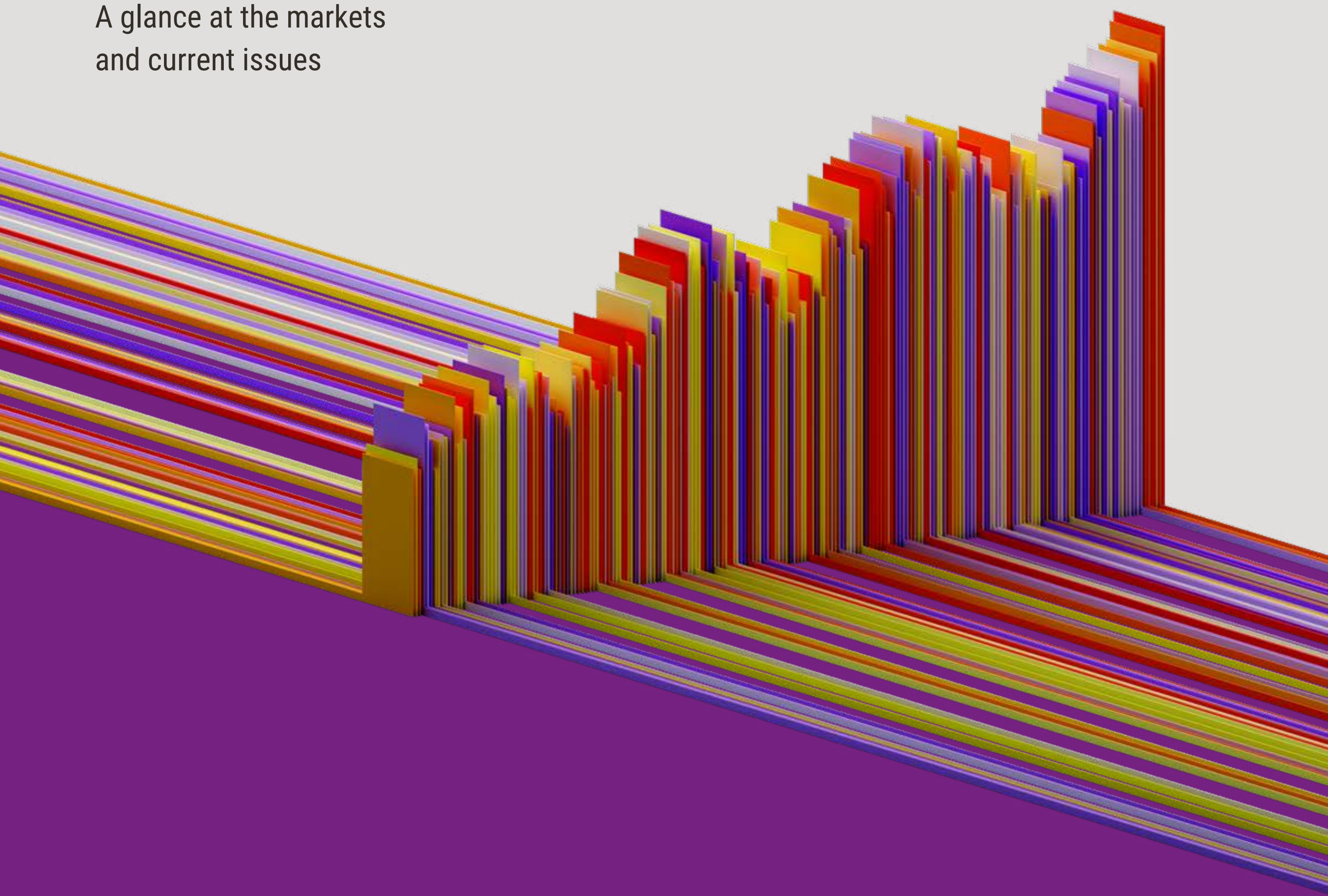
tellco

Market Overview 07 | 2024

A glance at the markets and current issues



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Equities

How long will the AI hype last?

Equities are falling as the reporting season triggers concerns. It is also becoming more likely that US politicians may adopt a tougher stance on China and Taiwan, leading to a decline in technology stock prices around the world.

The most recent US economic data was well-received by investors on Wall Street. Although the revenues of retailers and import prices stagnated in June, analysts consider this a sign that the US economy is not heading towards an imminent recession. Moreover, the data shows that the US central bank could be approaching a cycle of monetary easing.

SMI records below-average gain

The Swiss Market Index (SMI) has gained around 10% since the start of the year – bolstered by the good results of the first quarter, declining inflation and the expectation of further interest rate cuts. As is often the case, however, the defensive composition of the SMI has led to below-average performance compared to other country indices. For instance, the broader US index S&P 500 is 14.5 % higher than it was at the start of the year. The coming weeks will show whether companies' half-yearly figures will provide the necessary impetus to continue this rise.

AI hype drives up indices

The major equity indices were able to make further gains until mid-July, fuelled by the technology corporations that are benefiting most strongly from the artificial intelligence trend: Microsoft, Apple, Alphabet, Amazon, Meta and especially Nvidia. The expectations

of future earnings are meanwhile very high – with a corresponding potential for a fall. The tech sector tends to break swiftly with trends, as the second half of July has shown. Today's winners could be tomorrow's losers. The fast pace of this industry makes it difficult to judge long-term earnings prospects. For this reason, caution should be taken in the knowledge that the equity prices of today's "AI stars" may rise further for a while before possibly coming back down to earth.

Swiss franc loses due to interest rate cuts

After the Swiss National Bank had already cut key interest rates twice this year, by 0.25 % in each case, the Swiss franc lost value. This was due to interest rate differences with other currencies, as major central banks like the Fed, the Royal Bank of Australia and the Bank of England have not yet lowered interest rates. The European Central Bank (ECB) cut its key interest rate by 25 basis points in July. However, not only the dollar but also the euro switched into reverse gear against the Swiss franc: the storm clouds in the eurozone will become substantially darker in September. This is when the decision will be taken on the legal proceedings against France, Italy and five other EU countries for excessive new debt, which were initiated by the EU Commission in mid-June.

Might the gold price soon reach 2,500 dollars?

Driven by growing hopes of an interest rate cut by the Fed in September, the gold price reached a new all-time high. The price for a troy ounce of gold rose to a peak of USD 2,482, its highest level to date. However, this price could only be held briefly as the gold price fell back down to USD 2,400 at the end of July. The price level of USD 2,500 is the next target – and if current dynamics continue, we may see prices well above that by the end of the year, as the attractiveness of zero-yield precious metals increases when interest rates fall.

Fixed Income

Public debt grows beyond measure

Recent inflation data fomented hopes of further interest rate cuts by the ECB. Overall inflation in the eurozone is declining, but service inflation remains persistent. The central bankers' summit in Sintra left behind the impression that inflation is following a downward trend worldwide.

In the USA, Donald Trump has strong prospects of winning the presidential elections in November. He intends to dramatically raise the tariffs on Chinese imports and public spending, which could lead to higher US public debt and structural inflation. In the meantime, US job growth is weaker and unemployment is increasing. The monthly labour market reports reveal that the US economy created 206,000 new jobs in June – more than expected (190,000). Nonetheless, the data for May was corrected significantly downward (from 272,000 to 218,000), and the unemployment rate rose to 4.1 %. The average hourly income rose by 0.3 %, following 0.4 % in May. In addition, the recent inflation data confirmed the downward trend. This could prompt the Fed to consider an interest rate cut. The speech by Jerome Powell before the US Congress likewise roused hopes in this respect. The Fed chair said that the US economy is no longer overheated and that maintaining restrictive monetary policy for too long could unduly weaken economic activity and employment. Moreover, the Fed indicated possible key interest rate cuts during its meeting.

Uncertainty in France dominates ECB meeting

The second round of elections in France has made it difficult to form a stable government. The country currently has very high public debt and could further increase the risk premiums for its government bonds if no clear political leadership emerges from the elections. This, in turn, could result in a rise in risk premiums for heavily indebted countries like France, Italy, Spain and Greece. The ECB highlighted this important point during its meeting, noting that strict fiscal policy should be a priority for these countries. Several

ECB central bankers are indicating a potential cut in key interest rates in the September meeting, including the influential Klaas Knot. The chair of the Dutch central bank suggested that the meeting in September is open again. He seemed pleased with progress in controlling inflation and said that he "completely agreed" with the current course of monetary policy and the current market expectations in terms of future interest rate cuts.

ECB interest rate remains unchanged

The ECB resolved to leave the interest rate unchanged at 3.75 %. Statements regarding further interest rate developments addressed the fact that a range of important economic data is not expected until the coming weeks. Overall inflation in the eurozone is declining, but service inflation remains persistent. Inflation slowed in June to 2.5 % (compared to 2.6 % in May), as prices for energy and unprocessed food receded. This is in line with expectations. However, core inflation remained at 2.9 %, which was primarily due to stubborn service prices (4.1 %). According to ECB President Lagarde, more time is needed to obtain "assurance"; she does not appear to be in any hurry with respect to further easing.

According to Sentix, investors are unsettled by the situation in France and the uncertainty surrounding the upcoming US presidential elections, among other factors.

Subdued sentiment among European investors

Political uncertainty is continuing to weigh on the mood of European investors. Their confidence has fallen considerably in July, bringing an end to eight consecutive months of improvements. The Sentix Index fell to –7.3 points in July (June: 0.3), dropping further than expected. The index of expectations likewise declined, from 10 in June to 1.5 in July. According to Sentix, investors are unsettled by the situation in France and the uncertainty surrounding the upcoming US presidential elections, among other factors. The rating agency Moody's is warning that France may be downgraded. The outlook for the French sovereign rating may be downgraded from stable to negative if the budget and debt results materially deteriorate. In particular, Moody's pointed out that a worsening of debt affordability would push the rating down. This is measured as interest payments in relation to income and GDP compared to other countries with a similar rating.

Strong warnings concerning excessive public debt

The Bank for International Settlements (BIS) has warned that growing public debt in connection with elections (e.g. USA, UK and France) could destabilise the global financial markets. Although the economy is on path towards a "soft landing", the BIS is advising caution. It stated that it was unlikely that interest rates would return to an extremely low level, adding that there were also pressures associated with demographics and climate change. In the same vein, the study by S&P also warns that the USA, France and other major economies will probably not be able to get their growing debts under control in the coming years. The warning came just before the elections in the USA, UK and France, where the governments are currently vying for the favour of the electorate by promising a strong economy, better social welfare and much more.

Alternative investments

Uptrend in royalties: why this asset class is becoming increasingly attractive

Royalties are growing as an asset class and are becoming more and more interesting to investors as they offer the possibility to participate in income from intellectual property such as music, patents and resource rights. This segment can also provide diversification to portfolios, with its low correlation with other asset classes. Royalties are therefore an attractive opportunity for investors to generate constant, steady returns.

The term royalty stems from the history of the British royal family. For centuries, it possessed gold and silver mines that were managed by local companies. These extracted the "royal" metals and in exchange they had to make payments to the crown – or "royalties". This may seem quite similar to the typical lease agreements in agriculture, under which leaseholders receive the right to use a plot of land in exchange for a regular fixed payment. But unlike the lease agreements, royalty payments are tied to the frequency of use or the income generated. This means that the owner of the property or mine earns a return proportional to the income generated by the royalty payer.

Turning intangible assets into money

Nowadays, royalties are usually associated with intangible assets like music or films. They are a proven way of monetising the intellectual property of individuals or companies. This is especially important in the music industry, as writers, band members, singers, producers, labels and other parties are behind every song released. In order for them to receive compensation for their contribution to production, they receive a share of the proceeds commensurate with their contribution.

Patent Ochsner on Spotify

If you listen to the Swiss-German song “W. Nuss vo Bümpliz” by Patent Ochsner on Spotify for example, you indirectly pay a small contribution to the financial success of the band. This is because Spotify pays music royalties funded by your subscription or by advertising. In other words, the more often you listen to “W. Nuss vo Bümpliz”, the greater the positive effect on the band’s income. Yet, Swiss bands hardly become rich through Spotify: according to the online magazine Watson, Spotify pays an average of USD 3.20 per thousand song plays. The popular hit “W. Nuss vo Bümpliz” has 8.6 million plays, generating an income of around USD 30,000.

Advances for artists

It takes money to produce a new song. A studio has to be rented, instruments purchased and wages paid. And all this happens in a relatively brief period compared to the life of the song. For this reason, it is often the case that the steady income generated by the plays of an existing song are not enough to fund the production of a new song. This is precisely where asset managers focusing on royalties come in: they have the necessary liquidity and are also prepared to purchase the rights to (existing) songs that promise them stable returns from the plays. Thus, the band receives the liquidity it urgently needs to continue producing and the managers receive royalties from the songs.

The risks of royalties

This asset class also involves risks, of course. In the case of music royalties, for example, income may plummet if the band or the song are no longer played. To minimise this risk, managers therefore prefer classic hits like Mariah Carey’s “All I Want for Christmas Is You” (1.8 billion plays on Spotify). There are also administrative hurdles. When purchasing royalties, an asset manager not only acquires the right to the generated income, but also the obligation to collect it. This “black box risk” is particularly a problem for globally successful songs, where it is possible to lose track of due payments. A partnership with a company specialised in royalty collection can help address this issue.

The returns of royalties

As mentioned earlier, the return profile of royalties is robust and stable. While the coronavirus crisis demonstrated that consumption behaviour may change substantially as a result of macroeconomic conditions, it also showed that people enjoy listening to music and watching sport events on television even during periods of crisis. Due to the lower risk profile, no double-digit returns can be expected – like those seen in private equity, for example – but return percentages in the high single digits are certainly plausible.

Sources:

- Watson News (https://www.watson.ch/schweiz/leben/280419099-schweizer-musiker-auf-spotify-so-viel-verdienen-sie)

Tellco-Products

Tellco Classic

	ISIN	Tranche	July 31th	% July	% YTB	Web
Tellco Classic II Global Equities**	CH0443816621	V	235.05	−0.92	16.74	More Infos
Tellco Classic Swiss Equities	CH0421075018	V	193.74	2.87	11.83	More Infos
	CH0421074961	R*				
Tellco Classic Best Idea	CH0442770316	V	99.77	−2.56	−0.07	More Infos
	CH0442615701	R	107.67	−2.55	−0.06	
Tellco Classic Sustainable Heritage	CH0583763542	V	79.00	−1.16	10.35	More Infos
	CH0583763534	R	69.83	−1.19	10.21	
Tellco Classic Bonds CHF	CH0421043669	V	104.65	0.00	2.52	More Infos
	CH0421043594	R*				
Tellco Classic Bonds in foreign currency	CH0421043768	V	86.09	0.82	2.87	More Infos
	CH0421043743	R*				
Tellco Classic Bonds in foreign currency hedged	CH0469074956	V	90.95	1.68	−1.42	More Infos
	CH0469074865	R	85.63	1.69	−1.40	
Tellco Classic Inflation Protection	CH1101347354	V	97.12	0.95	−4.67	More Infos

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

Tellco Classic Strategy

	ISIN	Tranche	July 31th	% July	% YTB	Web
Tellco Classic Strategy 10	CH0450199770	V	121.38	1.25	2.09	More Infos
	CH0544445619	R*				
Tellco Classic Strategy 25	CH0450201261	V	131.96	0.69	3.81	More Infos
	CH0544465658	R*				
Tellco Classic Strategy 45	CH0450201329	V	150.39	0.84	5.89	More Infos
	CH0544465757	R*				
Tellco Classic Strategy 100	CH0450382632	V	135.47	0.52	13.07	More Infos
	CH0544465773	R	100.71	0.53	13.11	

* 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

	July 31th	% July	% YTD
MSCI AC World	438.94	1.61	13.10
SMI	12,317.44	2.70	10.59
SPI	16,356.34	2.75	12.25
DAX	18,508.65	1.50	10.49
EuroStoxx 50	4,872.94	−0.43	7.77
EuroStoxx 600 Price Index	518.18	1.32	8.18
FTSE 100	8,367.98	2.50	8.21
DOW Transportation	16,083.86	4.34	1.16
S&P500	5,522.30	1.13	15.78
NASDAQ 100	19,362.43	−1.63	15.07
Shenzen-Shanghai CSI300	3,442.08	−0.57	0.32
Emerging Market	1,084.77	−0.14	5.96
Nikkei	39,101.82	−1.22	16.85
Volatilität	16.36	31.51	31.41

Commodities

	July 31th	% July	% YTD
WTI−CrudeOil	77.91	−4.45	8.74
Brent Oil	80.72	−6.58	4.78
ThomReuters /JefferiesCRB	278.12	−4.25	5.42
Gold	2,447.60	5.19	18.64

LIBOR

	July 31th	% July	% YTD
Saron 6M CHF	1.00	−9.32	−36.42
Euribor 6M	3.58	−2.80	−7.30
Libor 6M USD	5.50	−3.15	−1.47

Alternative Investments

	July 31th	% July	% YTD
S&P Leveraged Loan TR Index	3,918.97	0.73	5.17
ILS Advisers Index	217.52	0.76	4.97
Swiss RE Cat Bond TR Index	474.85	1.67	7.56

Numbers

Currencies

	July 31th	% July	% YTD
EUR/USD	1.083	1.05	−1.93
USD/CHF	0.878	−2.31	4.35
USD/JPY	149.980	−6.78	6.34
EUR/CHF	0.951	−1.26	2.34
GBP/CHF	1.129	−0.67	5.34
CAD/CHF	0.636	−3.24	0.38
AUD/CHF	0.574	−4.12	0.02
JPY/CHF	0.585	4.84	−1.89
BRL/CHF	0.155	−3.73	−10.92
CNY/CHF	0.122	−1.21	3.04
INR/CHF	0.010	−2.80	4.13
RUB/CHF	0.010	−2.58	8.62
TRY/CHF	0.026	−3.69	−7.66
ZAR/CHF	0.048	−2.43	4.78

Countries / GDP

	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	2023	2024	2025
USA	4.90 %	3.30 %	1.60 %	1.90 %	1.50 %	1.50 %	2.50 %	2.30 %	1.70 %
Euro Area	0.10 %	0.10 %	0.40 %	0.50 %	0.80 %	1.20 %	0.50 %	0.70 %	1.40 %
Japan	−2.10 %	−0.40 %	−2.00 %	2.45 %	1.91 %	1.33 %	1.90 %	0.10 %	1.20 %
China	4.90 %	5.20 %	4.90 %	5.00 %	4.70 %	4.70 %	5.20 %	4.90 %	4.50 %
Schweiz	0.40 %	0.65 %	0.70 %	1.40 %	1.60 %	1.50 %	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 %	3.20 %	2.80 %	2.80 %	4.10 %	3.00 %	2.40 %
Euro Zone	5.00 %	2.70 %	2.60 %	2.50 %	2.20 %	2.40 %	5.40 %	2.40 %	2.10 %
Japan	3.10 %	2.95 %	2.60 %	2.70 %	2.60 %	2.10 %	3.30 %	2.40 %	1.90 %
China	−0.05 %	−0.30 %	0.00 %	0.30 %	0.50 %	1.20 %	0.20 %	0.55 %	1.50 %
Schweiz	1.65 %	1.60 %	1.20 %	1.40 %	1.30 %	1.30 %	2.10 %	1.30 %	1.10 %

Numbers

Rates

	July 31th	in bps July	in bps YTD
10j. EUR (Swap)	2.59	−25.24	9.37
10j. UK (Swap)	3.68	−20.25	38.55
10j. CHF (Swap)	0.82	−16.00	−35.05

Bonds

	July 31th	in bps July	in bps YTD
US Govt 10Y	4.03	−36.55	15.15
GER Govt 10Y	2.30	−19.55	28.01
Swiss Govt 10Y	0.41	−11.67	−23.94
UK Govt 10Y	3.97	−20.26	43.93
IT Govt 10Y	3.65	−42.15	−4.14
ESP Govt 10Y	3.11	−30.34	13.21

Generic iTRAXX

	July 31th	in bps July	in bps YTD
Europe Main	54.67	−6.27	−3.54
Finl Sen	61.80	−10.00	−5.22
Finl Sub	111.11	−17.21	−11.54
X-Over	294.68	−24.49	−15.79