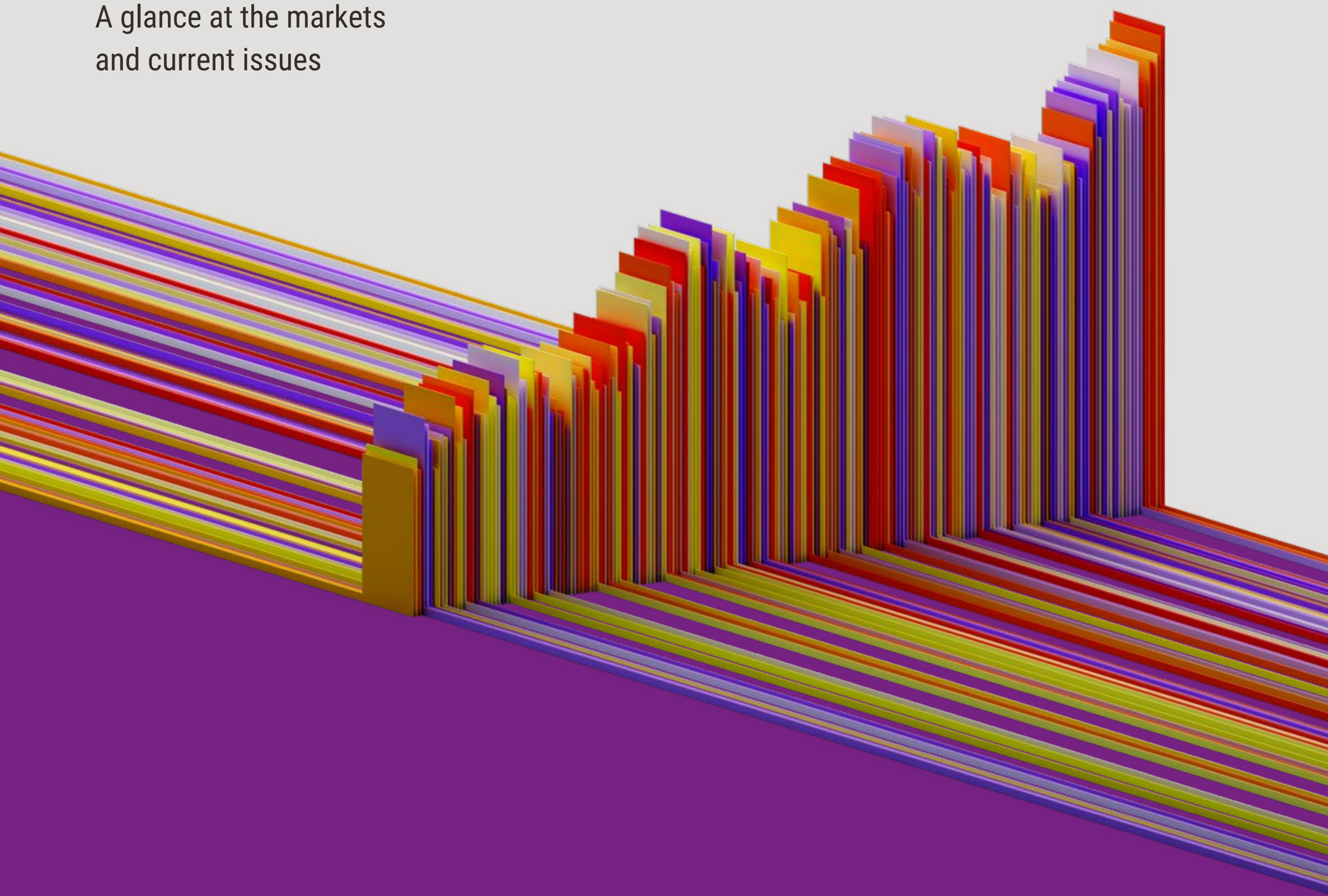
tellco

Market Overview 08 | 2024

A glance at the markets
and current issues



Equities

Nvidia shines bright amid turbulence

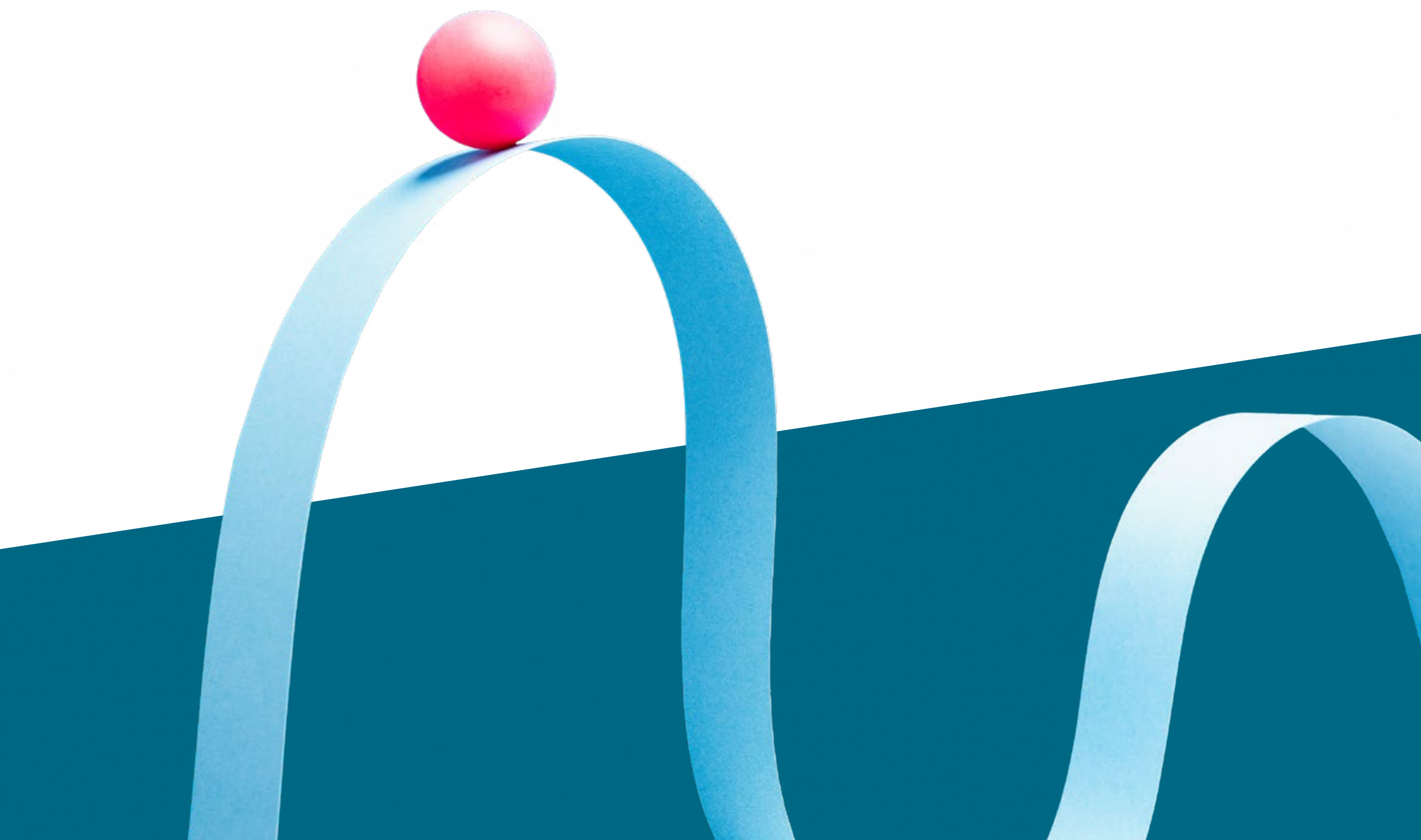
Following the severe market setbacks at the beginning of August, many investors are still rattled. However, they emerged relatively unscathed, as the markets have now been able to recoup nearly all of their losses. Here, bonds were able to once again demonstrate their diversifying role in investment portfolios.

Labour market report as trigger of turbulence

The start of August could scarcely have been more turbulent. Although the situation now appears to have calmed down, the danger has not passed. Many market participants believe the trigger was the weak US labour market report, which showed that the number of nonfarm jobs added by the economy remained well below expectations. This, in turn, fuelled fears of a recession, leading to falling yields along the US yield curve.

Yen carry trades unwound in panic

On the other side of the Pacific, the Japanese central bank raised the key interest rate by 25 basis points a few days ago, leading to an appreciation of the Japanese yen. It appears that the convergence of yield spreads between the USA and Japan, combined with the rapid appreciation of the yen against the US dollar and the decline in global equity prices, led to yen carry trades being unwound in panic, thereby accelerating the sell-off further.



US economy and geopolitics as risks

All told, this market turbulence has highlighted the downside risk for the economic outlook and shown that the Fed could ease monetary policy more than expected. At present, the probability of a recession in the USA (and the associated negative impact on global markets and the world economy) is between 20% and 30%. Moreover, attention should also be paid to geopolitical risks, as they may still result in increased volatility.

Precious metals prices reap the benefits of high demand

The Bloomberg chart below illustrates the Nvidia phenomenon. Since the launch of ChatGPT in November 2022, Nvidia's market capitalisation has increased by more than USD 3 trillion. With the price fluctuations in the summer of 2024, huge sums of money were lost and earned again.

As a result of this impressive rise, the company has a substantial influence on the S&P 500 index, in which it now accounts for more than 6%. Never before has a company gained such importance so quickly. This increases the volatility of the index and has also made Nvidia a key market driver: all events relating to Nvidia are treated almost as a macro event. The eagerly awaited figures for Q2 are expected to be published on 28 August after the close of trading.

Gold remains in demand

The economic outlook in the USA is becoming increasingly uncertain in light of low but persistent inflation and the increasing threat to the labour market. Historically, gold has consistently benefited and reached new highs in times of such volatility, uncertainty and increased geopolitical tensions. Demand for physical gold is now also supported by strong purchases on the part of central banks, which are increasing their gold reserves, as well as retail investors, who are buying bars and coins. We believe that when the Fed begins to cut interest rates, this will boost investment demand again, as was the case in previous cycles. In the past, interest rate cuts have also been extremely positive catalysts for commodity prices, especially for precious metals. This is also evident today, with a number of speciality and precious metals, especially silver, copper and uranium, already facing supply shortages.

Industrial metals under pressure

By contrast, prices for industrial metals such as copper and aluminium weakened over the month due to concerns about economic growth and the subdued outlook for China. Battery metals, including lithium and nickel, have also been under pressure due to the current oversupply and uncertainty about the prospects for global economic growth. The price of iron ore is still more than a quarter lower than it was at the beginning of the year, but there are signs that the market is stabilising.

The price of oil is also falling

The price of oil has fallen over the past few months, temporarily wiping out all profits for the year, as a result of concerns about slowing demand growth in China and about excess supply. OPEC+ has been prepared to sacrifice market share by holding back oil deliveries to support prices. However, the preliminary plan to resume production could now change this stance. Brent crude was most recently trading at around USD 81 per barrel and has averaged around USD 83 this year.

Fixed Income

The signs point to a recession

US growth concerns and the measures taken by the Bank of Japan (BoJ) have led to a rapid decline in yields on the bond markets. This was due, among other things, to weak US labour market data, fuelling fears of recession and hopes of interest rate cuts in the USA. This triggered a sell-off on the equity markets and a flight to «safe havens», along with weak profits from large tech companies.

Imminent interest rate cuts in the USA and Europe

The latest US service prices refuse to budge, even though commodity prices are in deflationary territory. At the Fed's meeting in Jackson Hole, the chairman indicated that the time has come to lower the key interest rate. The aim of this step is to prevent the labour market from slowing further in September. Powell noted that the extent of the interest rate cut will also depend on incoming data. He pointed to the recent drop in inflation and was confident that the 2% target is in reach. A reduction in September has now been fully priced in on the bond markets as well. The ECB may have to react again in September, as growth risks in the eurozone have increased. According to market forecasts, there is a high probability that interest rates will be cut by 25 basis points in September. Moreover, at least one further interest rate cut is expected before the end of the year.

More unemployed in the USA

The US labour market report was significantly weaker than expected over the course of the month. In July, employment growth in the USA remained well below expectations. The unemployment rate rose from 4.1% to 4.3%. According to a report by the Department of Labor, this has stoked concerns about a far-reaching economic downturn. The number of nonfarm jobs increased during the month by only 114,000 – a significant decline from the revised number for June (179,000), and well below the forecast of 185,000.

Industry shows signs of weakness while services provide support

The US ISM Index for the manufacturing sector posted the sharpest decline in eight months. In July, the ISM Index fell to 46.8 from 48.5 in June, thereby falling short of the market expectations of 48.8. This decline is mainly due to lower demand and a reduced need for labour. The decline in new orders and the comments on economic vulnerabilities highlighted in the report indicate that monetary policy measures are increasingly having an impact in the real economy. While industry in the USA and the eurozone continued to show signs of weakness, the strong service sector supported the economy in both regions. The preliminary Purchasing Managers' Indices exceeded even the most optimistic expectations. However, it remains to be seen whether this growth will be sustainable.

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USA: retail surprisingly strong

US consumer prices have risen as expected over the past month, but this does not change market expectations that the Fed will cut interest rates. The consumer price index (CPI) rose by 0.2% in July compared to the previous month, after falling by 0.1% in June. The big surprise came from US retail sales: they rose more strongly than expected in July by 1% after falling by 0.2% in June, according to the Department of Commerce's Census Bureau. The rise, which exceeded economists' forecasts of 0.3%, could somewhat dispel market fears about a significant economic slowdown due to rising unemployment. Nevertheless, the Fed cannot afford to put off monetary easing, otherwise recessionary tendencies could be triggered.

EU: numbers moving in the right direction

After its first interest rate cut in June, the ECB stood pat at 3.75%. There were not enough signs of a decline in still high domestic price pressure that would have justified further cuts so soon. In some cases, new wage agreements for this year remained excessive. However, a more modest increase in salaries offered for new jobs, lower pre-agreed wage increases for next year and declining profit margins are pointing in the desired direction. Yet, as the economic recovery is turning out to be tougher than the ECB expected, we currently believe as before that small interest rate cuts are appropriate over the quarter-year cycle.

China: critical threshold broken

The China Caixin PMI signalled a deterioration in manufacturing. The Caixin/S&P Global Purchasing Managers' Index for manufacturing fell to 49.8 in July, down below the critical threshold of 50 that separates growth from contraction. This was the lowest level since last October and was below analysts' expectations.

Photo by Elijah Hiett on Unsplash

Alternative investments

Looking at ESG criteria

The war in Ukraine has clearly affected the general approach to ESG criteria (Environmental, Social and Governance) in Europe. This is especially true for the environmental component. What does this mean for pension funds, and what trends should be kept in mind?

The focus shifts

Before the Russian invasion, the focus with regard to the three pillars of the energy grid – energy security, energy fairness (access and affordability) and environmental friendliness – was clearly on the latter, and thus on the need to minimise the environmental impact of energy production and use. This includes reducing CO_2 emissions, promoting renewable energy sources and increasing energy efficiency to combat climate change and protect ecosystems. After the Russian invasion, governments and institutions recognised that the other two pillars are just as important and should not be ignored.

EU regulation for greater transparency

Independently of this development, ESG criteria are also becoming more important to institutional investors, especially when it comes to selecting their investments. Interestingly, the three criteria are weighted differently depending on the region. In Australia, for example, modern slavery is an important topic, while in the USA it is diversity. And in Europe, the focus is on climate change and decarbonisation. This is mainly due to the SFDR (Sustainable Finance Disclosure Regulation), an EU regulation introduced in 2021 that is aimed at improving transparency in sustainable investments. The SFDR ensures that financial market participants provide clear, comparable and consistent information about the sustainability of their products. The goal is to prevent greenwashing and to support investors in making sustainable investment decisions. Financial products are thus divided into three categories:

- Article 6: products that do not have any explicit sustainability goals. The sustainability risks must be disclosed here if they are considered relevant.
- Article 8 (Light-green products): products that promote environmental or social goals but are not intended as sustainable investments as their primary objective.
- Article 9 (Dark-green products): products with a clear, sustainable investment objective. They aim to promote sustainable investments.

How is Tellco investing?

When it comes to product selection, ESG criteria have been relevant to Tellco for some time now. Many capital commitments for funds allocated to Articles 8 or 9 have been made in alternative investments in recent years, especially in the case of infrastructure investments. Our portfolio strategy is aligned with sustainability criteria and supports the federal climate targets, including to reduce greenhouse gas emissions to net zero emissions by 2050. But also in the private debt and private equity asset classes, investments have increasingly been made in sustainable products.

A glimpse behind the scenes

We examine the extent to which ESG criteria are integrated in the managers' investment process. The ESG policy is screened and the manager's sustainability profile is assessed on the basis of criteria such as relevant memberships (e.g. UN PRI) or CO_2 targets. After all, managers may sometimes categorise products under Articles 8 or 9 too readily for marketing purposes without the corresponding sustainable characteristics really being present. It is therefore important to us not just to tick off criteria, but to ask the managers many open, qualitative questions that enable us to draw a conclusion on how key ESG criteria are pursued. For example: What were the biggest challenges in these areas, and how were they resolved? The marketing documents of the managers can also be informative: they often provide us with a lot of information inadvertently – such as if ESG is first mentioned on slide 38 of a PowerPoint presentation. The positive trend towards more ESG among managers is definitely true, but there are still many companies, including larger ones, which do not yet provide sufficiently meaningful ESG metrics. This means that a weighted aggregation of key figures for the overall portfolio is still a challenge.

ESG with traditional investments

In the case of traditional investments, our own funds are also managed according to sustainability criteria. Positive screening is conducted with minimum requirements regarding ESG ratings, while coal investments and securities on the SVVK exclusion list are excluded. When selecting listed equities from Switzerland, for example, we attach great importance to above-average ESG performance. Our aim is for at least 80% of companies to have a minimum ESG rating of BBB according to MSCI. This requirement underscores our desire to invest in companies that lead the way in terms of sustainability. Voting rights are also exercised for all Swiss equities in accordance with the climate policy we have adopted.

ESG is necessary

ESG is not just a trend but a necessity for future-oriented companies, managers and pension funds. After all, it is an approach that combines ethical responsibility with long-term success.

Tellco-Products

Tellco Classic

	ISIN	Tranche	August 31st	% August	% YTB	Web
Tellco Classic II Global Equities**	CH0443816621	V	231.96	−1.31	15.20	More Infos
Tellco Classic Swiss Equities	CH0421075018	V	194.90	0.60	12.50	More Infos
	CH0421074961	R*				
Tellco Classic Best Idea	CH0442770316	V	97.15	−2.63	−2.69	More Infos
	CH0442615701	R	104.84	−2.63	−2.69	
Tellco Classic Sustainable Heritage	CH0583763542	V	76.97	−2.57	7.52	More Infos
	CH0583763534	R	68.03	−2.58	7.37	
Tellco Classic Bonds CHF	CH0421043669	V	104.92	0.26	2.78	More Infos
	CH0421043594	R*				
Tellco Classic Bonds in foreign currency	CH0421043768	V	84.94	−1.34	1.49	More Infos
	CH0421043743	R*				
Tellco Classic Bonds in foreign currency hedged	CH0469074956	V	91.08	0.14	−1.28	More Infos
	CH0469074865	R	85.75	0.14	−1.27	
Tellco Classic Inflation Protection	CH1101347354	V	95.25	−1.93	−6.51	More Infos

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

Tellco Classic Strategy

	ISIN	Tranche	August 31st	% August	% YTB	Web
Tellco Classic Strategy 10	CH0450199770	V	121.50	0.10	2.20	More Infos
	CH0544445619	R*				
Tellco Classic Strategy 25	CH0450201261	V	132.50	0.41	4.23	More Infos
	CH0544465658	R*				
Tellco Classic Strategy 45	CH0450201329	V	150.60	0.14	6.03	More Infos
	CH0544465757	R*				
Tellco Classic Strategy 100	CH0450382632	V	135.23	−0.18	12.87	More Infos
	CH0544465773	R	100.53	−0.18	12.90	

* 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 digitali-sation of energy systems and the integration of smart and efficient technologies in cities (smart cities).

Numbers

Equity markets

	August 31st	% August	% YTD
MSCI AC World	450.09	2.54	15.97
SMI	12,436.59	0.97	11.66
SPI	16,504.15	0.90	13.27
DAX	18,906.92	2.15	12.87
EuroStoxx 50	4,957.98	1.75	9.65
EuroStoxx 600 Price Index	525.05	1.33	9.62
FTSE 100	8,376.63	0.10	8.32
DOW Transportation	16,043.85	−0.25	0.91
S&P500	5,648.40	2.28	18.42
NASDAQ 100	19,574.64	1.10	16.34
Shenzen-Shanghai CSI300	3,321.43	−3.51	−3.20
Emerging Market	1,099.92	1.40	7.44
Nikkei	38,647.75	−1.16	15.49
Volatilität	15.00	−8.31	20.48

Commodities

	August 31st	% August	% YTD
WTI−CrudeOil	73.55	−5.60	2.65
Brent Oil	78.80	−2.38	2.28
ThomReuters /JefferiesCRB	277.03	−0.39	5.01
Gold	2,503.39	2.28	21.35

LIBOR

	August 31st	% August	% YTD
Saron 6M CHF	0.83	−17.74	−47.70
Euribor 6M	3.36	−6.12	−12.98
Libor 6M USD	5.14	−6.66	−8.04

Alternative Investments

	August 31st	% August	% YTD
S&P Leveraged Loan TR Index	3,942.85	0.63	5.84
Swiss RE Cat Bond TR Index		0.00	6.41
HFRX Global Hedge Fund Index	485.93	2.33	10.07

Numbers

Currencies

	August 31st	% August	% YTD
EUR/USD	1.1048	2.05	0.08
USD/CHF	0.8496	−3.23	0.97
USD/JPY	146.1700	−2.54	3.64
EUR/CHF	0.9390	−1.22	1.09
GBP/CHF	1.1158	−1.15	4.12
CAD/CHF	0.6296	−0.99	−0.62
AUD/CHF	0.5747	0.07	0.09
JPY/CHF	0.5812	−0.68	−2.56
BRL/CHF	0.1520	−1.94	−12.64
CNY/CHF	0.1199	−1.88	1.10
INR/CHF	0.0101	−3.25	0.75
RUB/CHF	0.0094	−8.03	−0.11
TRY/CHF	0.0249	−5.49	−12.74
ZAR/CHF	0.0477	−1.04	3.70

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 %	1.70 %	1.40 %	2.50 %	2.50 %	1.70 %
Euro Area	0.10 %	0.10 %	0.40 %	0.50 %	0.80 %	1.10 %	0.50 %	0.70 %	1.40 %
Japan	−2.10 %	−0.40 %	−2.00 %	3.10 %	1.70 %	1.20 %	1.90 %	0.10 %	1.20 %
China	4.90 %	5.20 %	4.90 %	4.70 %	4.70 %	4.60 %	5.20 %	4.80 %	4.50 %
Schweiz	0.40 %	0.65 %	0.70 %	1.40 %	1.50 %	1.50 %	0.80 %	1.30 %	1.40 %

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 %	2.70 %	2.60 %	4.10 %	2.90 %	2.30 %
Euro Zone	5.00 %	2.70 %	2.60 %	2.50 %	2.30 %	2.40 %	5.40 %	2.40 %	2.10 %
Japan	3.10 %	2.95 %	2.60 %	2.70 %	2.50 %	2.10 %	3.30 %	2.40 %	1.90 %
China	−0.05 %	−0.30 %	0.00 %	0.30 %	0.50 %	1.00 %	0.20 %	0.50 %	1.50 %
Schweiz	1.65 %	1.60 %	1.20 %	1.40 %	1.30 %	1.40 %	2.10 %	1.30 %	1.10 %

Numbers

Rates

	August 31st	in bps August	in bps YTD
10j.EUR(Swap)	2.54	-4.45	4.92
10j. UK (Swap)	3.69	1.90	40.45
10j.CHF(Swap)	0.75	-6.53	-41.58

Bonds

	August 31st	in bps August	in bps YTD
US Govt 10Y	3.90	-12.71	2.44
GER Govt 10Y	2.30	-0.40	27.61
Swiss Govt 10Y	0.43	1.49	-22.46
UK Govt 10Y	4.01	4.51	48.44
IT Govt 10Y	3.70	5.12	0.98
ESP Govt 10Y	3.13	1.69	14.90

Generic iTRAXX

	August 31st	in bps August	in bps YTD
Europe Main	52.55	-2.12	-5.66
Finl Sen	60.32	-1.48	-6.71
Finl Sub	107.26	-3.85	-15.39
X-Over	288.49	-6.19	-21.99