

No landing in sight?

Imagine you are piloting a plane, and just as you reach your destination, technical features prevent you from touching down. That is probably quite an adequate description of what central bankers are feeling right now, particularly in the US.

While rate hikes, lower energy prices and less stress along the supply chains have caused inflation to come down from its lofty heights, a descent to the **2% target** turns out to be challenging, as we expected.

For the pilots of the economy (aka central bankers), the situation is clearly complex. Investors in equities and high-yield bonds, however, continue to enjoy positive returns and have been able to collect sizeable risk premiums since the beginning of the year. This favourable outcome is largely due to surprisingly **healthy growth** in the US. At the same time, there are more and more signs of a tentative, but steady improvement in

European sentiment indicators. Fears of a “hard landing” of the US economy can probably be put aside for the next few quarters, not least because corporate earnings reports are still healthy as well.

Unless the US economy slows down, the central bank pilots may probably find it difficult or even impossible to steer inflation back to its 2% target. So far, the descent in US inflation has been driven largely by a year-on-year decline in energy prices and sometimes even falling prices for goods. In contrast, housing and services inflation have recently accelerated again.

This suggests that it may be time to step on the brakes once again. Back in December, Jerome Powell, the “Pilot in Command” of the **Federal Reserve** (Fed), indicated that a “soft landing” might be achieved. During the last few weeks, however, the announcements from the cockpit have become more cautious; it seems that the Fed has gone into visual flight rules (VFR) mode. The US money market has reacted accordingly. In mid-January, market participants expected about six rate cuts by 25 basis points each, but now they anticipate only about three rate steps.

All in all, a “**no landing**” scenario has become more likely. Still, as long as growth exceeds expectations, the equity markets can probably cope. In fact, numerous indices even reached **record highs** in the last few weeks. For example, the Japanese Nikkei index rose above its former high from

Publications

→ Renewable energy to regain ground?

Last year’s COP 28 pledge to triple renewable energy capacity globally, and to double the global average annual rate of energy efficiency improvements by 2030, has primed the substantive and speedy further development of energy efficiency and sustainable energy solutions.

→ Dividends: Stability in an era of disruption

Be it deglobalisation, digitalisation, demographics or decarbonisation, disruption is in full swing wherever you look. It is also a long-term, structural phenomenon. These drivers of transformation are also likely to have an impact in 2024. Then there are the current (geo)political, macroeconomic and monetary policy developments. Taken together, this makes the question as to how equities can provide stability in a portfolio all the more pressing. Welcome to our new white paper on dividends.

→ 7 habits of successful investors

Seven simple habits can help to accumulate capital calmly and composedly. After all, your money should be working for you, not the other way around.



Stefan Rondorf
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1989 for the first time, and the US S&P 500 index did not only exceed the threshold of 5000, but also reached a new all-time high.

At the same time, the interest rate and growth path is less predictable in a “no landing” than in a “soft landing” scenario, seeing that the economy may be off to a fresh start after a landing. Still, what is most important is that the pilots avoid a crash.

Wishing you a comfortable cruise in March

Stefan Rondorf

The following tactical allocation for equities and bonds appears plausible in the current environment:

- As long as inflation does not touch down and growth exceeds expectations, the equity markets should be able to cope with the situation and with rate cuts being delayed or not taking place at all. If inflation accelerates again, however, the markets might be in for a setback.
- Many equity indices have recently reached important psychological thresholds or new all-time highs. From a technical vantage point, investors need not worry about “being late to the party”. It is unlikely that the uptrend slows significantly once indices have crossed such thresholds. Since 1928, equity markets have achieved a normal performance on average after having reached new all-time highs. S&P 500 returns have been even higher than usual for example for a six months period after a new high.
- Corporate earnings in the fourth quarter of 2023 were healthy in the US and adequate in Europe and Japan. However, valuations are ambitious, particularly in the US, which means that earnings trends had better remain solid in the future.
- Equity investors appear increasingly complacent, at least in view of the relationship between price/earnings ratios and volatility.
- Market concentration is still high, particularly in the US: market movements are mainly caused by a few heavyweights. Investors obviously continue to focus on future-oriented themes such as digitisation or artificial intelligence.
- The government bond markets have suffered from the lowering of rate cut expectations. As a result, bond and equity market developments have diverged – a fact which has a positive impact on the diversification potential of multi-asset solutions.

- Uncertainty about the timing and size of rate cuts has increased. At the moment, the money markets expect the US Federal Reserve (Fed) and the European Central Bank (ECB) to implement the first rate cuts in June. By now, it even seems possible that the ECB reduces its key rate earlier than the Fed. Such an outcome would support the US dollar.
- Default risk premiums (spreads) for corporate bonds have narrowed as equity prices have risen. By now, they are historically tight, so there is not much room in case that households or companies run into difficulties servicing their loans.

Market overview as of 23.02.2024

Equity Indices		
DAX		17,419
Euro Stoxx 50		4,865
S&P 500		5,089
Nasdaq		15,997
Nikkei 225		39,234
Interest Rates %		
USA	3 Months	5,59
	2 Years	4,70
	10 Years	4,34
Euroland	3 Months	3,95
	2 Years	3,00
	10 Years	2,41
Japan	3 Months	0,10
	2 Years	0,16
	10 Years	0,71
FX		
USD/EUR		1,083
Raw Materials		
Oil (Brent, USD/Barrel)		82,5

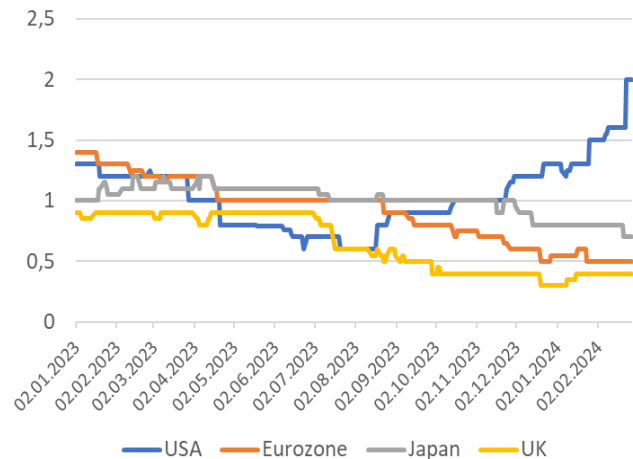
Investment topic:

Dividends – Stability in an era of disruption

- **Deglobalisation, digitisation, demographics** or **decarbonisation** – disruption is all around us. And it is here that dividends have a role to play. Their stabilising effect on the overall performance of an equity portfolio should not be underestimated.
- As our calculations show, dividends have made significant contributions to total equity returns in the past. During the past 40 years, their share in total returns of European equities amounted more than one-third.
- In addition, companies tend to sticking to their dividend policy and to increase rather than to cut dividends even if their corporate earnings grow more slowly.
- In fact, stocks of dividend-paying companies have usually been less volatile than stocks of companies which do not pay dividends.
- As a rule of thumb, equity prices are more volatile than corporate earnings, and corporate earnings are more volatile than dividend payouts

US economy is not landing

Consensus forecasts for 2024 real GDP growth in comparison



Source: Bloomberg, as of 27 February 2024; GDP = Gross Domestic Product.

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

UPCOMING POLITICAL EVENTS 2024

06 March	CA	Bank of Canada meeting
07 March	EZ	ECB Governing Council meeting
17 March	RU	Russian Presidential elections

→ [Overview political events 2024 \(click here\)](#)

Imprint

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If not mentioned otherwise Data and information sources are from LSEG Datastream.

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