



“Is a US recession on the horizon?”

Our Opinion
September 2024

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Dear Readers

The article “Is a US recession on the horizon?” discusses which indicators currently point to a possible US recession.

Looking for advice and support on financial matters? Our investment advisors look forward to hearing from you and will be happy to talk to you personally.

We wish you a pleasant read.
Your Advisory Team

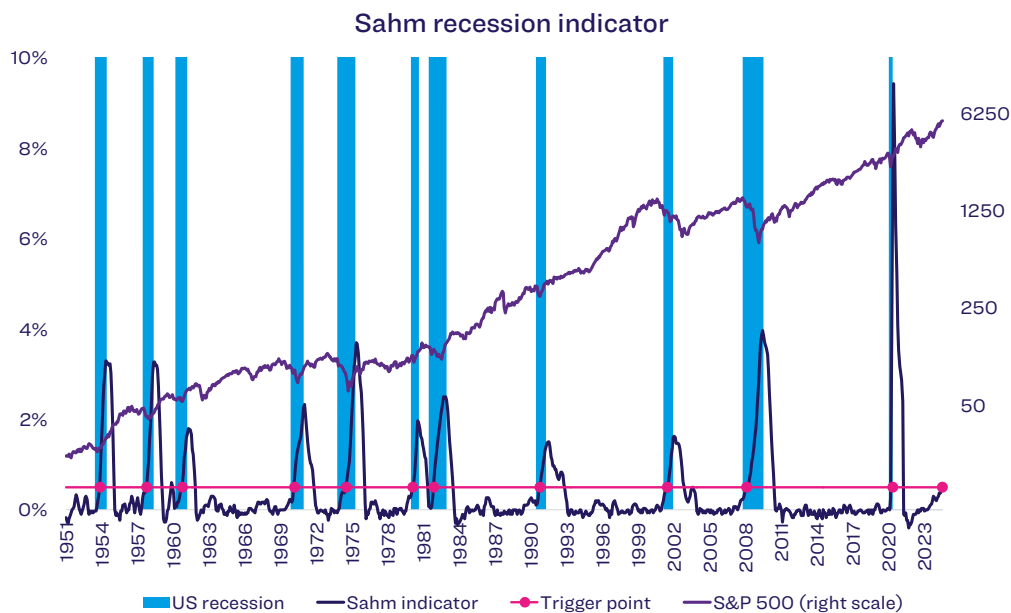


**Neue
Bank**

“Is a US recession on the horizon?”

Economy

The US labour market data at the beginning of August heightened investors' fears that the US economy could be sliding into recession. The unexpected rise in the unemployment rate from 4.1% to 4.3% was particularly concerning, as it triggered the Sahm rule, a historically reliable indicator of the onset of a recession. The rule, developed by economist Claudia Sahm, signals the start of a recession when the three-month average of the unemployment rate is 0.5% or more above its lowest level in the past 12 months.



Source: Bloomberg and Neue Bank AG

The Sahm rule is a lagging economic indicator, suggesting that we should already be in a recession. The chart above illustrates how the Sahm indicator has historically signalled the trigger points after the start of a recession. Given that equity prices tend to anticipate events, we should already be in a correction phase – or at least this has always been the case in the past. But US equity markets are currently near their highs,

which does not suggest that a recession has already begun or is imminent. Nevertheless, our economic indicators, which are reflected in the Neue Bank traffic light, also entered recession territory at the end of August. Since these indicators are leading, they react even before a potential downturn. This increases the probability of an economic contraction in the US. Consequently, we have become more cautious and have reduced risk investments.

Equities

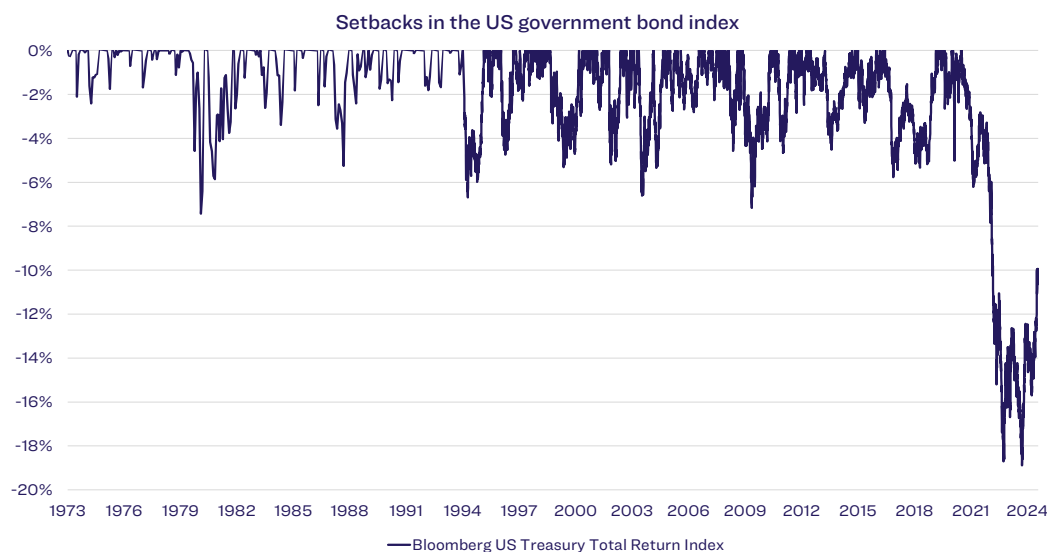
The economic concerns mentioned above, coupled with monetary policy measures, led to a sharp rise in volatility on the equity markets in August. The VIX index – the US volatility index – was at a low 15 at the beginning of August but surged to over 60 within just three days, a level last seen during the coronavirus crisis. This caused some equity markets to correct sharply, with the Japanese Nikkei 225 index losing more than 12% in a single day – a historic extreme for an index. The distortions in Japan were more pronounced compared to other trading venues due to a well-known speculative trading strategy, the carry trade. In this case, investors borrowed in Japanese yen due to the low interest rates and invested the capital in regions with higher yields, such as the United States. However, the Japanese central bank unexpectedly adopted a more restrictive monetary policy and raised interest rates, leading to a significant appreciation of the yen. This made the carry trade untenable for some investors, prompting them to quickly liquidate their positions. In the meantime, the markets have stabilised and are now above or close to their highs. The Neue Bank traffic light generated two signals in August and is now orange, indicating a slightly bearish outlook. The first signal appeared at the beginning of August due to the sharp rise in volatility, and the second at the end of August due to the deterioration in economic data. Consequently, we have reduced our equity positions twice and are now underweight in this asset class.

Neue Bank traffic light

-  strongly bearish
-  bearish
-  neutral
-  slightly bullish
-  bullish
-  strongly bullish

Bonds

Bond funds and government bond ETFs remain significantly below their 2020 peaks. In recent years, bonds have been heavily impacted by the interest rate hikes implemented by central banks to combat high inflation. For instance, the US government bond index lost nearly 19% in value between August 2020 and October 2023. Such a setback is historically unprecedented in terms of both magnitude and duration.



Source: Bloomberg and Neue Bank AG

Until recently, the prevailing market sentiment was “higher for longer”, implying that interest rates would remain elevated for an extended period. Meanwhile, the outlook has shifted somewhat, and leading central banks have already begun reducing interest rates or at least signalled the possibility of doing so. Even the US Federal Reserve, a latecomer in this regard, is expected to implement its first rate cut by the end of September. This shift makes key interest rate reductions across the board more plausible, fundamentally altering the landscape for bonds: when interest rates fall, bond yields also decrease and bond prices rise, leading to price gains. The crucial factor will be the extent of the rate cuts by central banks and whether a recession can be averted. However, safe government bonds would also benefit from an economic downturn, as investors would likely seek refuge in them. In our view, safe government bonds may be appealing at current levels, as they benefit from interest rate cuts and offer protection against a potential recession. Consequently, we increased the allocation to government bonds in our mandates in August and are now overweight in bonds

Currencies

In the wake of recent equity market turbulence, the Swiss franc's unique characteristic has once again come to the forefront: it is regarded as a safe haven in turbulent times. Investors are fleeing to the CHF, as Switzerland is perceived as offering protection during periods of political and economic uncertainty. Consequently, the franc has appreciated significantly against other major currencies since the end of July, with the USD losing approximately 4% of its value against the CHF within a month. Our currency indicator has also responded, signalling that USD positions in portfolios with CHF as the reference currency should be hedged. We implemented this strategy in mid-August, hedging some of the USD positions through forward exchange transactions.

Alternative investments

The price of gold is currently surging, with the value of a standard bar (12.5 kg) now exceeding the USD 1 million mark. This rise is not due to a single clear cause, but rather a combination of various factors. A significant driver is the ongoing high demand for gold, particularly from central banks in emerging markets seeking to reduce their reliance on the US dollar. Gold's role as a crisis currency also plays a part, with investors turning to it for security during economic and geopolitical crises. The unrest in the Middle East, the war in Ukraine, and poor economic data are thus bolstering the gold price. Additionally, the current anticipation of interest rate cuts is favourable for gold, given that lower real interest rates reduce the opportunity cost of holding gold, which does not pay interest or dividends. The current weakness of the US dollar is also supporting the gold price, given the generally negative correlation between gold and the US dollar, meaning they often move in opposite directions. Our momentum indicator has been advising investors to buy gold since the beginning of July, and we have accordingly built up a position in gold since then. Given that the current situation and momentum continue to favour gold, we are maintaining our position.

PRIMUS–ETHICS

With the PRIMUS-ETHIK asset management mandate, we give investors the opportunity to incorporate environmental and social considerations into their investment decisions alongside financial aspects. We invest your assets in ethically and morally sound companies and apply professional approaches to their implementation. Scientific studies prove the positive effects of sustainability on economic success. Neue Bank AG's client advisors will be happy to show you the special features of this asset management solution in a personal meeting.

Key Performance Indicator in Equities World CHF¹

	31.08.2024	2023	2022	2021	2020	2019
PRIMUS-ETHICS Equities World	26.28%	11.37%	-30.09%	32.10%	11.50%	30.07%
Benchmark	14.12%	7.24%	-22.63%	21.89%	12.09%	24.76%

¹ Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: www.neuebankag.li S.E.& O.

Market data

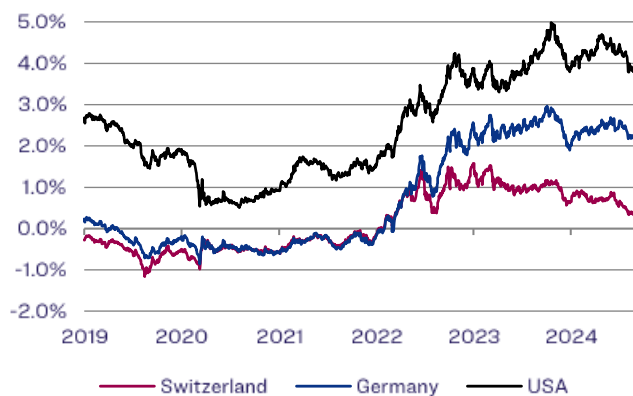
Stock market (indexed)



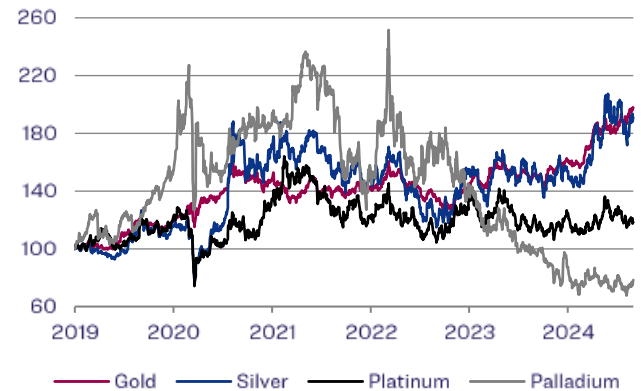
EUR/CHF and USD/CHF



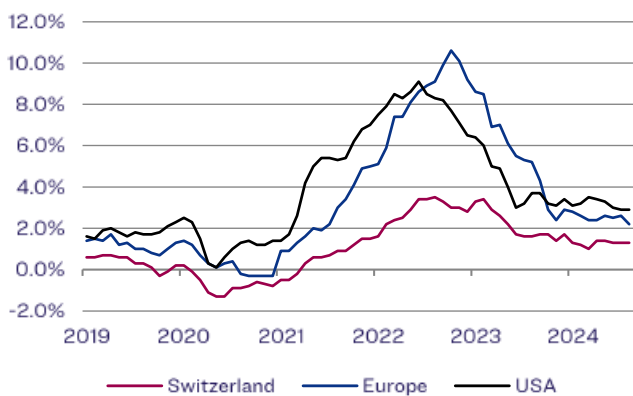
10-year government bond yield



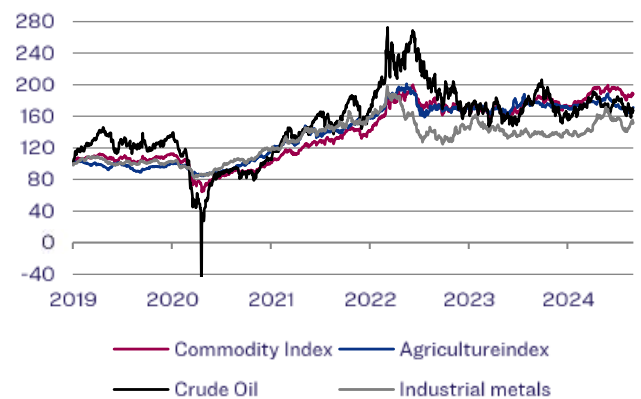
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

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