“Low valuation AND momentum”

Our Opinion
June 2024

Dear Readers

The article “Low valuation AND momentum” includes our discussion of a sector that has only seldom been in the favour of investors in recent years, but is now coming more into focus.

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

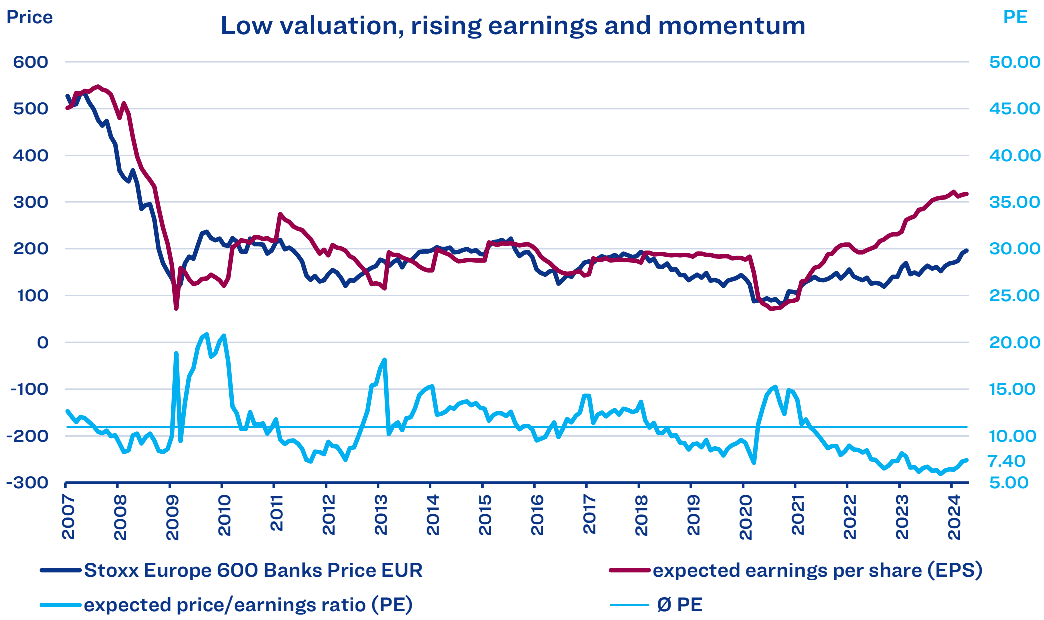
"Low valuation AND momentum"

Neue Bank traffic light

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

Equities

During the financial crisis, the STOXX Europe 600 Banks index suffered a setback of more than 80%, and even 15 years after the lowest point, the price is still about 60% below the peak. In the meantime, however, the index has moved significantly away from the lows and is showing a positive trend.

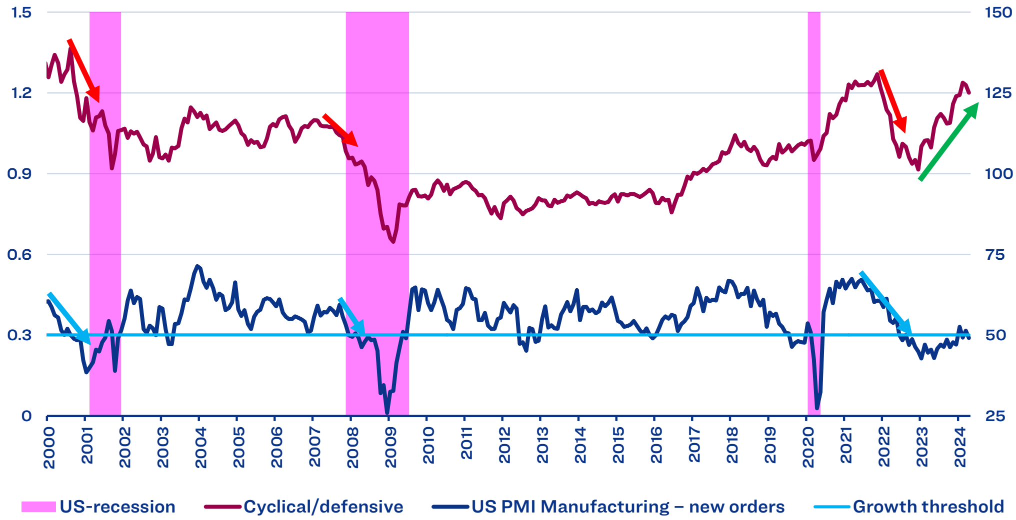


After years in which bank equities were not in demand, the expected price/earnings ratio (PER) is now 7.4 (overall market 15.6). In comparison, the average PER for the sector over the last 18 years was about 10.95 (overall market about 15.5). Expected earnings per share have risen from a low of 6.31 during the pandemic to over 26.5 – the highest level since the financial crisis. Our quantitative analysis now also shows a buy rating for five European bank equities. A total of 30 European equities across all sectors have such a rating. This means that banks account for approximately 17%, given a weighting of roughly 9% for the sector in the index. Investors who are still underweight in financial equities can use the current situation to add bank shares. After all: undervaluation, earnings growth AND positive price momentum are good prerequisites for a successful investment.

Economy

There are different ways to predict the course of the economy. Leading indicators (such as purchasing managers' indices), for example, usually anticipate trend reversals before publication of the gross domestic product (GDP). Equity markets are often even a further step ahead. If cyclical shares (e.g. consumer discretionary, industrials) rise more strongly than defensive sectors (e.g. utilities, health care), this is a sign that the economy will pick up in the near future.

Economic forecasts



Source: Bloomberg, Neue Bank AG

This is exactly what is currently happening (green arrow), giving rise to expectations of a global upturn. However, in light of numerous geopolitical crises and elections worldwide, this does not (yet) seem to be making the big headlines. As the chart shows, this of course also works in the event of setbacks (red and light blue arrows). Before a recession occurs, cyclicals already perform less well than defensives. One exception was the 2020 recession, which was caused by the unforeseeable covid pandemic. Moreover, both of the indicators mentioned above pointed to a recession in 2022, but this did not materialise – at least not in the United States.

Bonds

The decline in the inflation rate has come to a halt in both the United States and Europe in recent months. While the US consumer price index is still growing at over 3% per year, the figure in Europe has recently been around 2.5%. This has prevented the respective central banks from lowering their key rates. While seven interest rate cuts were still being expected in the United States at the beginning of the year, this number has now fallen to merely two. The Fed minutes even indicated that some members of the decision-making committee were prepared to tighten monetary policy further if inflation risks materialised. In this environment, yields on 10-year government bonds on both sides of the Atlantic have risen by about 0.5%.

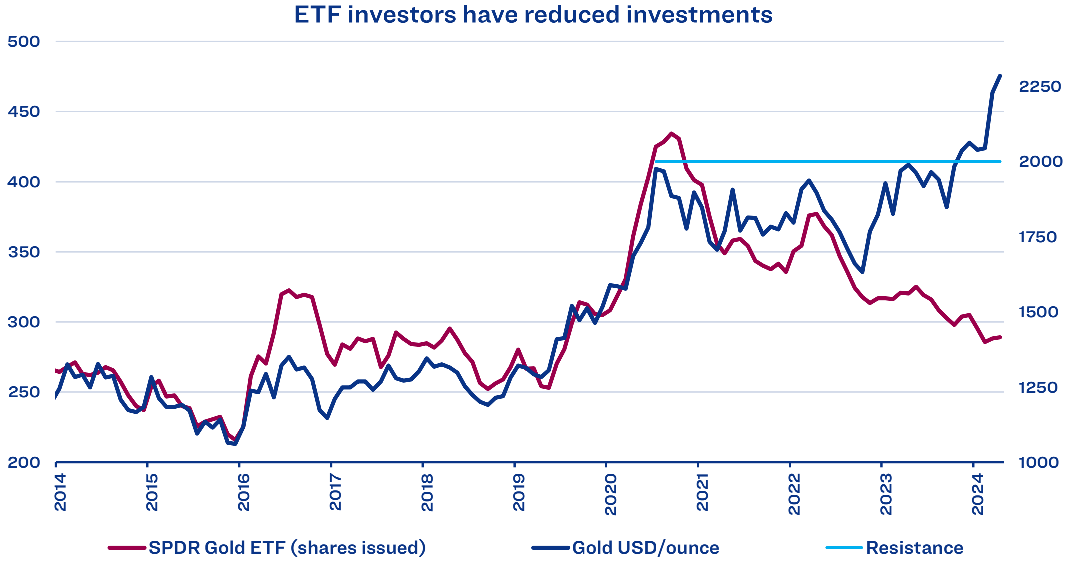
Currencies

The Swiss franc (CHF) is considered a safe haven in which investors like to park their money in uncertain times.

Throughout all of last year (with the brief exception of the GBP/CHF exchange rate), our currency analysis indicated that all currencies of the Western industrialised countries should be hedged against the CHF, given their weakening trend. This has now changed significantly. With the exception of the JPY, all currencies are now showing a positive trend against the CHF. We have adjusted our hedging policy accordingly. This risk-on behaviour largely coincides with the expectations of cyclical equity investors.

Alternative investments

The price of gold has reached new all-time highs this year, after failing to break through the resistance level of USD 2,070/ounce several times. It is interesting to note that ETF investors' holdings have declined (see the chart below for the largest gold ETF).



Source: Bloomberg, Neue Bank AG

This indicates that this group of investors apparently no longer believed that the resistance level would be broken. Other investors were needed for the price to rise this much. These are primarily China and Turkey, but also other authoritarian states that are reallocating their government reserves (e.g. by reducing US government bonds). Can this trend continue? Certainly – on the one hand, the ETF investors who left the market could return, and on the other hand, states could carry out further reallocations. Our trend indicator gave a buy signal last December at a level of USD 2,072.

PRIMUS–PASSIVE

For anyone wishing to make a long-term investment according to strategic principles and be fully invested when the equity markets rise again, can be considered the PRIMUS-PASSIVE asset management mandate. Under this mandate, we use strategic asset allocation to invest the available assets in cost-effective index products. We would be pleased to discuss the special characteristics of this innovative solution with you in person. We look forward to your call.

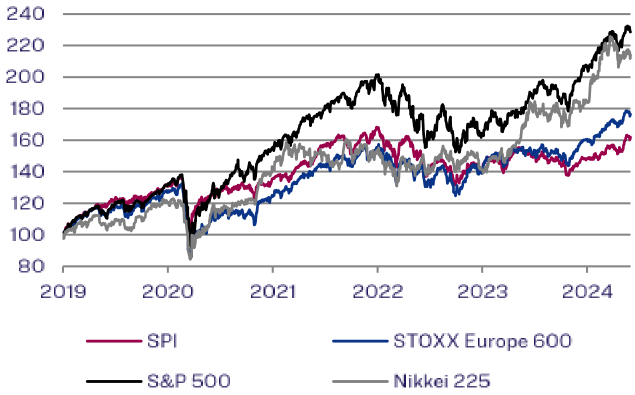
Key Performance Indicator PRIMUS–PASSIVE Balanced EUR[1]

	31.05.2024	2023	2022	2021	2020	2019
PRIMUS-PASSIVE Balanced EUR	4.01%	10.83%	-12.90%	13.76%	1.56%	17.05%
Benchmark	3.96%	10.68%	-12.28%	13.37%	1.63%	15.61%

[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.

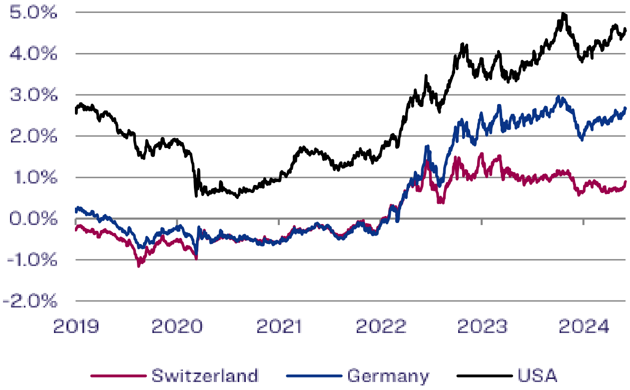
Market data

Stock market (indexed)

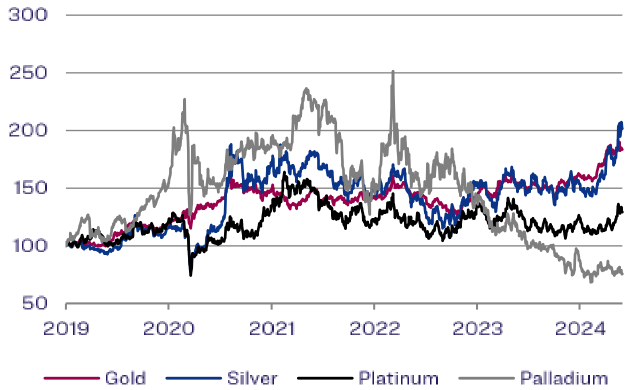


EUR/CHF and USD/CHF

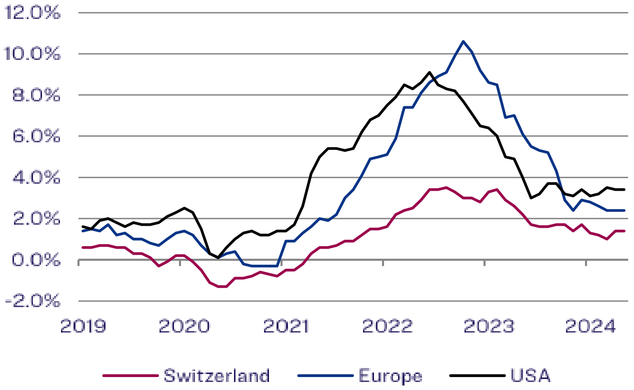
10-year government bond yield



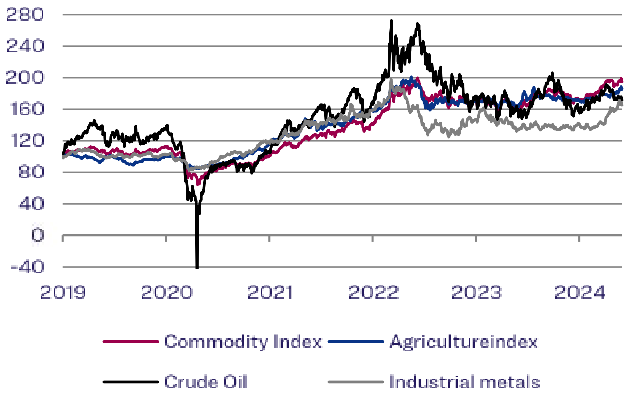
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

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