

Uncertainty in the markets is growing

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Changes on the interest rate front and geopolitical developments are fuelling fears.

Clearly, it has not been an easy year so far on the stock markets. Initially, against all odds, shares held up better than expected in hopes of a rapid fall of the interest rates. Then, despite the improved market environment, profits were taken.

10% RISK PREMIUM

It is nevertheless surprising, and should not be ignored, that corporate earnings growth remains good and consumer sentiment is holding up better than feared.

The geopolitical situation remains fragile, which is also reflected in the oil price trend. From the market's point of view, it now seems decisive whether Iran, Qatar and Saudi Arabia will be involved, in what form and how they will behave. Although the current conflict is (still) limited to a regional level, there is a risk that this could change. The Middle East is the 'oil vein' of the world. Conflicts in the region can have a significant impact on global oil markets.

As a result of the geopolitical situation, the price of oil now probably contains a 10% risk premium. The rise in the price of gold also reflects uncertainty about global politics and gold mining stocks are effectively being dumped on investors.

INTEREST RATES MORE IMPORTANT THAN GEOPOLITICS

Despite all this, we would argue that the markets have so far been more reactive to market developments than to geopolitical happenings.

When American government bonds once again show a yield of 5%, as happened this week in the United States, it cannot go unnoticed by stock prices.

Interest rates are not and will not be the only thing to be high, as Inflation is also far from low in the US, at over 4%.

As always, however, US consumers can be counted on to keep consumer spending high. While sentiment data is rather pessimistic this year, actual production of goods has

remained stable. Consumer demand, particularly from middle-income households, has shifted towards services, but demand for goods has not collapsed.

However, we should not ignore the fact that the Fed and other central banks are tightening the screws on inflation. So far, this does not seem to have had lasting effects on business and consumer sentiment. The question is, however, when the mood will turn.

It is clear that the market was expecting interest rate cuts sooner, and that recent developments are once again fuelling fears of a recession.

TECHNOLOGY STOCKS HOLD UP WELL

In terms of individual sectors, consumer and healthcare stocks traditionally perform well in such an environment, but this has not been the case so far. The technology sector has performed well, despite all the pessimistic forecasts, and the trend in sales and margins continues to argue in favour of these shares.

Indeed, the Swiss equity market is driven by consumer and healthcare stocks - so if we are positive on these two sectors, we should logically be positive on the Swiss equity market too.

On the equity side, we remain neutral and continue to favour quality defensive sectors, as the earnings season has started with better profit and sales growth than in the last two quarters. Nevertheless, we continue to believe that a recession/crisis is very likely in the next 6 to 12 months.