PRIO PARTNERS

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The completion of the first quarter of 2024 marks the end of a strong quarter on the stock markets. The MSCI World Total Return gained +8.9% (in USD), the DAX +10.4% (in EUR) and the SMI +5.3% (in CHF). But how can that be? There is war in the Middle East and Ukraine. China seems ready to attack Taiwan at any moment. The USA is stuck in a culture war and Europe is muddling along as ever. Monetary authorities at the FED, ECB and SNB are sending signals of the all-clear with regard to inflation rates, but in people's everyday lives everything feels more expensive and skilled workers are hard to find. The strikes in Germany are alarming and the high wage settlements are fuelling fears of a wage-price spiral and a reduction in competitiveness.

So once again, how can there be such high optimism on the financial markets? Is the impression that the world is in turmoil, even coming apart at the seams, deceptive? Or should cautious investors take profits now?

These questions are on the minds of many of our customers and partners. That's why we went in search of clues and attempted to answer them in our latest investment commentary.

Search for clues

We would like to begin our thoughts with the question of how the impression is created that the world is coming apart at the seams. This brings us directly to the role of the media, the flood of news and how it is perceived.

The role of the media

In the traditional view, the media are transmitters of information between the source and the recipient. The defining quality feature of reporting is the accuracy of the information, for which various media compete on the market. However, the entertainment value of information transfer is becoming increasingly important.

It can therefore be argued that the media often focus their reporting on entertainment. In addition, the media act as agenda setters by determining priorities and selectively choosing information. Through their reporting, they determine to a considerable extent which topics are perceived by the public at all.[1] In all likelihood, the battle for the public's attention is even fiercer today than in the past and leads to news that is sensational (usually negative) being emphasised and topics being presented in controversial terms.

When it comes to the media and capital markets, the picture becomes even more diffuse. News and conclusions have to be developed as simply as possible from the almost unmanageable number of economic figures and correlations. Commentary is needed on a daily basis - even if there is not always anything to say. In his book "Irrational Exuberance" published in 2000, the well-known US economist and Nobel Prize winner Robert J. Shiller commented on the connection between the media and capital markets as follows:

"*In an attempt to attract audiences, the news media try to present debate about issues on the public mind. This may mean creating a debate on topics that experts would not otherwise consider deserving of such discussion. The resulting media event may convey the impression that there are experts on all sides of the issue, thereby suggesting a lack of expert agreement on the very issues that people are most confused about. (…) There is no shortage of media accounts that try to answer our questions about the market today, but there is a shortage within these accounts of relevant facts or considered interpretations of them. Many news stories in fact seem to have been written under a deadline to produce something—anything—to go along with the numbers from the market.*"[2]

Let's go one step further in our search for clues and look at the hard facts.

[1] See "Influence of media coverage on risk perception: An empirical study of implied risk premiums on the German stock market" by Dr. Patrick Cettier, esp. page 102ff.

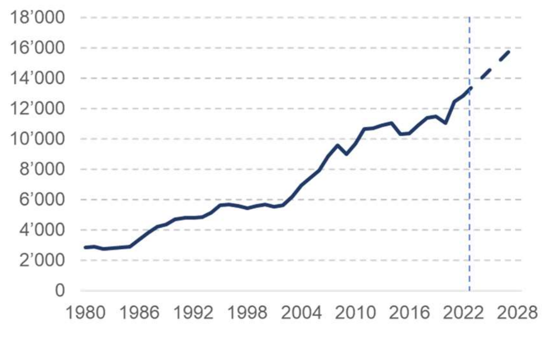
[2] Shiller, Robert J. 2000. Irrational Exuberance. Princeton University Press. Princeton, see page 72ff.

Economic data

One important fact is that the world is growing, becoming more prosperous and companies are becoming more efficient and therefore more profitable as a result of technological progress. We discussed this in our investment commentary AK No. 33 - The rustling of the trees from 27 June 2023. Average per capita income has increased by a factor of five since 1980. In its forecast, the International Monetary Fund expects this positive trend to continue at an average of 4% per year.

Rising prosperity

12-month P/E ratio, total return in local currency



Source: Prio Partners, IWF

As the figures for global gross domestic product are published with a time lag, we use figures up to 2022 below.

In 2022, the global gross domestic product (GDP) amounted to a good 100 trillion US dollars. Of this, 60% was accounted for by economically developed countries and 40% by economically developing countries. The USA accounted for 25.6% of global GDP in 2022. China was in second place with 18.4%. Asia's share of global GDP rose from 25.1% in 1992 to 35.7% in 2022. Europe's share decreased from 35.3% to 21.4%.[3] Europe's weight relative to the rest of the world has fallen by 40% over the last 30 years.

We also see the enormously dynamic development of Asia and the continuing strength of the USA as reasons for optimism. At the same time, Europe's relative loss of importance in the world also reflects to some extent the prevailing negative local sentiment. Anyone who has visited the up-and-coming countries of Asia knows how hungry for success and hard-working the often young population is (with all the advantages and disadvantages, of course). However, the comparison with the situation in Europe is striking and, in our view, needs no further explanation. In fact, innovation and technical progress are our only chance in global competition. Let us hope that this opportunity is seized. In any case, globally positioned companies in particular benefit from global economic growth and are less dependent on the current situation and mood in their home country. Who would have thought, for example, that Bernard Arnault, currently the richest person in the world, comes from France (a country that cannot be said to be actually business-friendly)? As chairman of the luxury goods group LVMH, he benefits from the global economy more than almost anyone else. 93% of LVMH's turnover is generated outside France. The situation is similar for Nestlé. The food group generates 99% outside Switzerland. At Siemens, 84% is generated outside Germany.

The global view is therefore encouraging and is an important reason for investors to be invested in the equity markets. We are not thinking about the daily, monthly or annual fluctuations, but are focusing on the good long-term growth prospects and corresponding returns.

In our search for clues, we are now getting down to the real deal - the returns on the stock markets.

Market data

First, let's take a look at the global equity market, which grew by 8.9% in the first quarter. The MSCI World Index serves as a proxy for this development. If we take a closer look, an interesting picture emerges. The index consists of 1465 companies and covers 23 developed countries around the world.[4] The weighting is derived from the market capitalisation of the companies and markets included. It is interesting to note that the USA accounts for around 71% of the weighting. As before, a large part of the development of the world's stock markets therefore lies in the USA. But it gets even more interesting when we look at the largest individual stocks, which make up 21.47% of the global allocation - these are Microsoft 4.57%, Apple 3.88%, NVIDIA 3.44%, Alphabet 2.58%, Amazon 2.58%, Meta 1.66%, Eli Lilly 0.97%, Broadcom 0.91% and JPMorgan Chase 0.89%.

This makes it clear that a large part of the performance is driven by the US technology sector. It seems clear that the global equity market share of over 20% will be difficult to maintain in the long term. How and when this market dominance will be broken remains to be seen. The development and

[3] https://www.bpb.de/kurz-knapp/zahlen-und-fakten/globalisierung/52655/welt-bruttoinlandsprodukt/

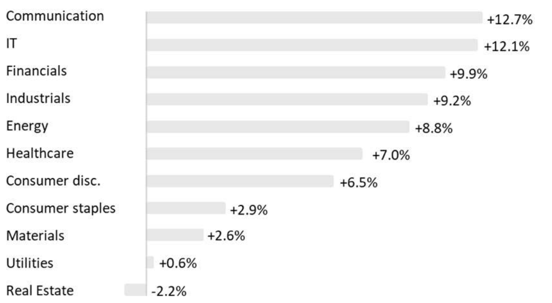
[4] For details, please refer to: https://www.msci.com/documents/10199/178e6643-6ae6-47b9-82be-e1fc565ededb

application of artificial intelligence may be such a turning point, although the large corporations now also dominate this technology. Regulation could be another limiting factor; however, regulators have so far proven to be toothless tigers in the face of the all-dominant global corporations.

Below we have shown the returns in the first quarter for the most important countries and global sectors. The focus on sectors in particular is often lost, although sector allocation has a major influence on overall returns.

The returns at a glance
In %, Q1 24, in local currency, MSCI World universe

World	USA	China	India	Germany	Switzerland
MSCI World 8.9%	S&P 500 10.1%	CSI 300 3.1%	NIFTY 50 2.7%	DAX 10.4%	SMI 5.3%



Source: Prio Partners, Bloomberg

So far, we have been hovering above the clouds in our search for clues. Now we want to focus on the actual stars of our search - the companies whose good work offers products and services that create benefits.

Corporate Level
In the following, we have prepared a selection of US technology companies as well as companies from the SMI and DAX. The idea behind this is to show the differentiation made by the market in terms of price/earnings ratio and returns. In order to increase readability as much as possible, we first show the meaning of the individual quadrants and then categorise the companies. The companies are compared in relation to the average of their competitors. The US technology companies are therefore placed in relation to other technology companies. The same applies to companies from the DAX or SMI. This allows us to show companies from different countries and sectors on one chart.

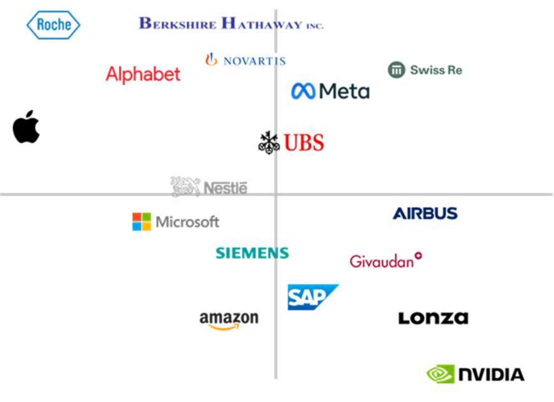
Structure for categorization
12-month P/E ratio, total return in local currency

Relatively **favorably** valued & **lagging behind**	Relatively **favorably** valued & **performed well**
Relatively **expensive** valued & **lagging behind**	Relatively **expensive** valued & **performed well**

Source: Prio Partners

The first quadrant (top left) contains companies that are relatively cheap and whose returns were below average in the first quarter. The second quadrant (top right) contains companies that are relatively cheap and whose returns were above average in the first quarter. The third quadrant (bottom left) contains companies that are relatively expensive and whose returns were below average at the same time. The fourth quadrant (bottom right) contains companies that are relatively expensive and performed particularly well in the first quarter. Even if it is not possible to make a general statement, it is at least worth considering the relatively cheaply valued companies that performed less well in the first quarter. There could be catch up potential here.

Differentiated market view
12-month P/E ratio, total return in local currency



Source: Prio Partners, Bloomberg

In general, it is noticeable that the companies in focus actually fared better on average than in the previous year and that the market took a very differentiated view of stock market performance. US technology companies are at a high level and, with around 20% of global market capitalisation as measured by the MSCI World, it would seem that a relative rebound is required. As in the previous year, the "big three" in the SMI (Nestlé, Roche, Novartis) disappointed. There was potential for active managers to select stocks. Small caps recovered considerably and high-dividend stocks also performed well. The latter may be partly due to increasing risk aversion but also to the prospect of interest rate cuts. These make dividends more attractive. The heavily weighted industrial sector appears to have been the main growth driver for the DAX. Siemens in particular stands out. SAP stands out in the technology sector.

What lies ahead in the coming months

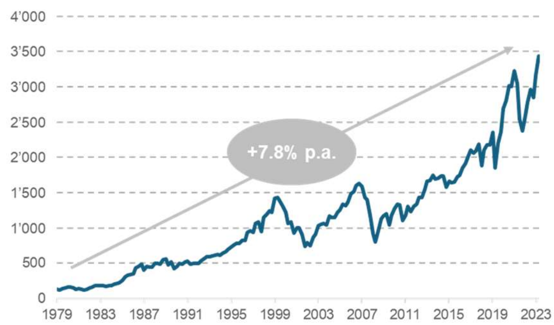
We are in an election year in the USA and the presidential cycle[5] has nearly always produced good stock market returns. Technology companies also appear to be well positioned. We continue to see no serious competition. If we also take the current signals from Asia, the world seems to be on a growth path despite the crises. On average, companies will increase their sales and generate good profits this year despite cost pressure and a shortage of skilled workers.

This brings us full circle to media coverage, which in all likelihood reports too negatively and influences the opinion of market participants. Technically speaking, the risk perception of market participants is potentially too high and would lead to further price rises if it were resolved.

As a cautious investor, it still makes sense to take profits in the short term. In the longer term, a broad allocation to the global equity markets or good and globally positioned companies seems to be the measure of all things. This is also shown by the performance of the global equity market, which has risen by an average of +7.8% per year since the 1980s.

Global and long-term perspective

Price development MSCI World Index, since 1980, in USD



Source: Prio Partners, Bloomberg

It is important - and here we like to repeat ourselves - to stay "with it" and take a long-term perspective. Despite all the short-term challenges, there are enough of reasons for strategic optimism.

Dr Patrick Cettier

[5] https://www.fidelity.com/learning-center/trading-investing/election-market-impact