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The world in upheaval: what does this mean for the capital market?

The current developments in many countries around the world are not for the faint-hearted. In a large number of Western democracies, populist and in some cases even extremist parties are on the rise. It seems as if many democracies are currently experiencing a veritable crisis. This not only applies to the USA - the elections in France also show that forming a government with politicians from the political center seems to be becoming increasingly difficult. Even NATO as a Western defense alliance is going through difficult times. Although the 75th anniversary of NATO has just been celebrated with much pomp and circumstance, this cannot hide the fact that the defense capability of this alliance is seriously in question. At the same time, the Shanghai Cooperation Organization is increasingly developing into an autocratic counterpart to the Western world. China, the core country of the Shanghai Cooperation Organization, has completely reoriented itself geopolitically in recent years. The era of cooperation and unrestricted trade seems to be over.

China is increasingly following the motto of being independent of the world, but making the world dependent on itself. This is not good news for companies that generate a large proportion of their turnover and profits in China. It is to be feared that this realization has not even really dawned on many companies - just like the fact that China is currently reinventing the digital infrastructure of the global South to a certain extent with major projects by Chinese big tech companies, thereby establishing technical standards, business relationships and, in particular, dependencies from which China (and not the Western world) will benefit dramatically in the coming decades.

It would be surprising if these tectonic shifts were to pass by the capital markets more or less silently. On the face of it, one might assume that the increased geopolitical tensions, the war in Ukraine, rising national debt in many countries, the crisis in democratic structures and comparatively high energy prices should be a burden on the capital markets. At first glance, however, this is not the case - various share indices are close to historic highs. This is all the more surprising given that the surprisingly positive development on the equity markets since the end of 2022 has been accompanied by sluggish economic growth and rising interest rates. Not much fits together here if you work with traditional thought patterns. Is the market so hardened that it can no longer process bad news in a meaningful way? Or is the performance telling us a completely different story?

To get to the bottom of this puzzle, it is useful to take a closer look at the performance of Western stock markets since the start of the war in Ukraine on February 24, 2022. After all, the start of the war is likely to be seen as a turning point, even if de facto developments are of course always gradual and there is never a single tipping point from which everything works differently.

However, since such an analysis requires a starting date, the beginning of the war does not seem to be an implausible choice. Since the beginning of the war, an equity portfolio (consisting of 50% S&P 500 and 50% Stoxx 600) has risen by 31%. However, the median performance of the shares in the two indices during this period was only 15%. This is an indication that the market spread is limited.

Stocks with the best performance since the start of the Ukraine war (USA and Europe)

Company	Perf.	Sector
SUPER MICRO COMPUTER	2187%	Computer Hardware
ZEALAND PHARMA	852%	Biotechnology
RHEINMETALL	482%	Defense
NVIDIA	457%	Semiconductors
CONSTELLATION ENERGY	387%	Conv. Electricity
SAAB B	386%	Aerospace
VISTRA	355%	Conv. Electricity
ELI LILLY	297%	Pharmaceuticals
ROLLS-ROYCE HOLDINGS	290%	Aerospace
FRONTLINE	265%	Marine Transportation
LEONARDO	264%	Defense
SUBSEA 7	251%	Oil Equipment & Svs
KONGSBERG GRUPPEN	244%	Divers. Industrials
FIRST SOLAR	228%	Renewable Energy Eq.
MUNTERS GROUP	226%	Bldg: Climate Control
BROADCOM	218%	Semiconductors
DECKERS OUTDOOR	217%	Footwear
FAIR ISAAC	215%	Prof.Business Support
NOVO NORDISK 'B'	207%	Pharmaceuticals
UNICREDIT	199%	Banks
BPER BANCA	195%	Banks
ARISTA NETWORKS	190%	Telecom. Equipment
GE AEROSPACE	185%	Aerospace
INPOST	178%	Delivery Services
FUGRO	166%	Eng. & Contract Svs
ASM INTERNATIONAL	166%	Prod. Tech. Equipment
HEMNET GROUP	164%	Real Estate Services
MYCRONIC	164%	Prod. Tech. Equipment
META PLATFORMS A	158%	Consumer Digital Svs
BE SEMICONDUCTOR INDU	157%	Semiconductors
KLA	151%	Prod. Tech. Equipment
QUANTA SERVICES	151%	Eng. & Contract Svs
NKT	149%	Electrical Components
3I GROUP	145%	Closed End Invest.
IRON MOUNTAIN	141%	Other Specialty REITs
CROWDSTRIKE HOLDINGS A	134%	Software
HOWMET AEROSPACE	134%	Aerospace
CADENCE DESIGN SYS.	134%	Software
UNIPOL GRUPPO FINANZIA	133%	Full Line Insurance
AXON ENTERPRISE	132%	Defense

As can be seen, the above list of stocks with the best performance since the beginning of the war mainly includes stocks from the technology, pharmaceuticals, defense (including aerospace) and some services sectors. Among the top performers, on the other hand, there are virtually no stocks that are cyclically sensitive. A sector analysis with a very granular and therefore very accurate examination of the sectors (146 different sectors) also shows that there are almost no sectors with a cyclical connection among the sectors that have performed well since the start of the war.

This development may also explain why classic approaches based purely on economic data have recently produced suboptimal results if they had been followed by selection and tactical management. It looks a little as if the market has shifted to a different mode and thus, to a certain extent, has undergone a regime change. The capital market thus appears to be possibly anticipating a new world in which the focus is primarily on companies that should benefit from megatrends in the very long term, which are largely detached from short-term distortions. Here, valuations and short-term fluctuations in the degree of capacity utilization of national economies only play a subordinate role.

However, the question of what a company can achieve in terms of sales and profits despite (!) all these multiple crises is becoming much more important. And it comes as no surprise that companies from the technology and software sectors (keyword AI), pharmaceuticals (keyword obesity), defense and aerospace (keyword geopolitical tensions) or electricity production / power grid technology (keyword increasing demand for electricity through electro mobility, heat pumps, hydrogen, etc.) are far ahead. These are precisely the areas that are either hardly affected by domestic political, geopolitical, economic or even monetary policy upheavals or even benefit from them. Seen in this light, the development of the equity markets in recent years, which many observers have often classified as somewhat irrational, may not have been as irrational as assumed.

What can be deduced from this? If we accept the working hypothesis that the (geo)political trend of the last two years will continue for many years to come, then markets will probably continue to function as they have recently. Of course, there will always be new favorites at the level of individual stocks - but from a sectoral perspective, there is a lot to suggest that today's sectoral favorites will also be tomorrow's favorites.

Dr. Christian Jasperneite

Market data

Stock marktes	As of 12.07.2024 08:26	Change versus 05.07.2024 -1 week	11.06.2024 -1 month	11.04.2024 -3 months	11.07.2023 -1 year	29.12.2023 YTD
Dow Jones	39754	1,0%	2,6%	3,4%	16,0%	5,5%
S&P 500	5642	1,3%	5,0%	8,5%	27,1%	18,3%
Nasdaq	18283	-0,4%	5,4%	11,2%	32,9%	21,8%
DAX	18535	0,3%	0,9%	3,2%	17,4%	10,6%
MDAX	25748	0,1%	-2,7%	-3,6%	-5,7%	-5,1%
TecDAX	3395	0,0%	-1,0%	1,2%	8,6%	1,7%
EuroStoxx 50	4976	-0,1%	0,2%	0,2%	16,1%	10,1%
Stoxx 50	4529	0,2%	0,3%	3,7%	16,7%	10,6%
SMI (Swiss Market Index)	12256	2,1%	1,5%	6,9%	11,8%	10,0%
Nikkei 225	41191	0,7%	5,3%	4,4%	27,9%	23,1%
Brasilien BOVESPA	128294	1,6%	5,5%	0,7%	9,1%	-4,4%
Russland RTS	1137	0,0%	1,6%	-2,1%	14,0%	5,0%
Indien BSE 30	80494	0,6%	5,3%	7,3%	22,7%	11,4%
China CSI 300	3476	1,3%	-1,9%	-0,8%	-10,2%	1,3%
MSCI Welt	3606	0,7%	3,6%	6,3%	22,1%	13,8%
MSCI Emerging Markets	1125	1,8%	5,6%	6,6%	13,1%	9,9%
Bond markets						
Bund-Future	132,06	97	190	72	111	-516
Bobl-Future	116,37	27	78	-83	168	-291
Schatz-Future	105,68	13	33	27	104	-87
3 Monats Euribor	3,70	4	-21	-20	3	-18
3M Euribor Future, Dec 2024	3,25	-6	-16	4	-32	95
3 Monats $ Libor	5,57	0	-4	-2	0	-3
Fed Funds Future, Dec 2024	4,85	-8	-19	-13	65	101
10 year US Treasuries	4,21	-7	-19	-36	23	34
10 year Bunds	2,49	-2	-11	3	-16	49
10 year JGB	1,05	1	3	22	61	43
10 year Swiss Government	0,59	-7	-27	-17	-52	-10
US Treas 10Y Performance	597,79	0,6%	1,9%	4,1%	2,1%	-0,5%
Bund 10Y Performance	553,94	0,7%	1,6%	0,9%	4,5%	-2,0%
REX Performance Index	441,98	0,2%	0,9%	0,4%	3,2%	-1,3%
IBOXX AA, €	3,35	-8	-22	-3	-53	28
IBOXX BBB, €	3,87	-9	-24	-7	-89	12
ML US High Yield	7,92	-15	-18	-29	-77	13
Commodities						
MG Base Metal Index	435,47	-1,3%	1,1%	3,8%	13,7%	11,4%
Crude oil Brent	85,85	-2,3%	5,0%	-4,7%	8,0%	10,5%
Gold	2406,55	1,0%	4,1%	2,9%	24,6%	16,5%
Silver	31,42	2,7%	7,9%	12,3%	36,0%	29,6%
Aluminium	2412,84	-2,6%	-2,5%	0,3%	13,6%	2,9%
Copper	9627,95	-1,7%	0,0%	4,5%	15,9%	13,8%
Iron ore	109,58	-1,6%	3,1%	4,7%	0,2%	-19,6%
Freight rates Baltic Dry Index	1947	-1,0%	6,3%	15,2%	88,7%	-7,0%
Currencies						
EUR/ USD	1,0866	0,4%	1,3%	1,3%	-1,1%	-1,7%
EUR/ GBP	0,8415	-0,5%	-0,2%	-1,6%	-1,2%	-2,9%
EUR/ JPY	172,84	-0,7%	2,6%	5,3%	12,0%	10,6%
EUR/ CHF	0,9737	0,1%	1,2%	-0,5%	0,5%	5,2%
USD/ CNY	7,2640	-0,1%	0,1%	0,3%	0,7%	2,3%
USD/ JPY	158,82	-1,2%	1,1%	3,6%	13,1%	12,6%
USD/ GBP	0,77	-0,9%	-1,5%	-3,0%	-0,1%	-1,2%

Source: Refinitiv Datastream

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