



Economic Situation and Strategy

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Stock markets: elections, growth, volatilities

Most stock markets have performed very positively this year. The DAX has risen by almost 15% this year and almost reached our price target of 19,500 points. The Euro Stoxx 50 and the Stoxx 50 are just behind the DAX with gains of just under 14% and around 12% respectively, which is mainly due to the weak performance of French equities. In the USA, shares brought even more joy to investors: the S&P 500 and the Nasdaq technology exchange rose by almost 23% this year. This development surprised many, as there was a lot of bad economic news from Germany and Europe in particular and geopolitical uncertainties have increased further. Is it now time to become more cautious and take profits or could there be a year-end rally, as so often in recent years, which will drive prices up further?

Presidential election in the USA: open race between Harris and Trump

The next presidential election will take place in the USA on November 5. So far, Kamala Harris of the Democrats and Republican Donald Trump are running neck-and-neck. Although Kamala Harris is currently ahead of Donald Trump in most polls, her lead is wafer-thin, so it is questionable whether she will achieve the necessary majority of voters. As most states traditionally vote either Republican or Democrat, regardless of the candidate, it is particularly important to focus on a few contested states where it is not clear from the outset who will win. This year, Pennsylvania, Georgia, North Carolina, Michigan, Arizona, Wisconsin and Nevada are among these “swing states” that could tip the scales. After her nomination,

Ms. Harris initially started with a strong tailwind and overtook Trump in many polls, but the picture has recently changed somewhat and Trump has been able to regain ground. Conclusion: The outcome of the presidential election is like a coin toss, and it is currently impossible to make a serious statement about the winner.

This is probably also the reason why the election campaign is hardly relevant for the stock markets at the moment. This could change once it is clear who will become president; once the votes have been counted, the stock markets could become somewhat more volatile - especially if the result is close and is therefore called into question by political opponents. It is therefore quite conceivable that Donald Trump could call on his supporters to stage a major protest in the event of a narrow defeat. Although this does not necessarily have to lead to a civil war, as some election observers fear, it could further poison the political climate in the USA. Until the inauguration of the new president, which traditionally takes place on January 20, there could therefore be a prolonged period of political uncertainty, which could also have an impact on the stock markets. However, the stock market often reacts much more rationally and less emotionally than politics, as was seen on January 6, 2021 when the Capitol was stormed in Washington.

Growth: Good morning, America - good night, Germany

Economic development on both sides of the Atlantic could hardly be more different: The US economy is growing solidly, with real gross domestic product expected to be 2.5% higher this year than in 2023. Despite very high interest rates in the meantime, the US is heading for

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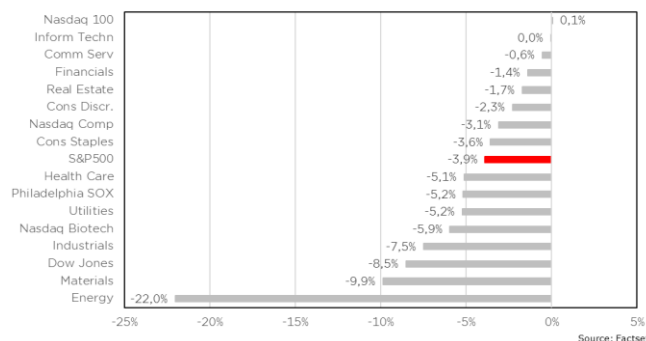
a soft landing, with a low level of political regulation and a high degree of openness to technology and innovation also ensuring growth in 2025. In contrast, the German economy is stagnating, industry is experiencing its third year of recession in a row and there is no real improvement in sight for 2025 either. Politicians are mainly struggling with themselves and their own shortcomings. The disintegration discord in the government is increasing, but initially only ensures that the hopelessness among companies continues to grow and many citizens turn away in disillusionment. There is a lack of a spirit of optimism in the country, which could probably only be brought about by a political change. However, it is questionable whether things will really improve.

It is not surprising that the US stock markets are developing positively in this environment, even if the extent of the rise in share prices this year is surprising. Decent economic growth coupled with declining inflation and falling interest rates are the salt in the stock market soup. We therefore assume that the reporting season for the past third quarter, which will pick up speed in the next few days, will bring predominantly positive results. As usual, corporate analysts have once again revised their earnings forecasts downwards in the run-up to the reporting season, this time even more sharply than in the second quarter. Compared to expectations at the end of June, the expected Q3 quarterly earnings for the S&P 500 have been reduced by almost four percent, meaning that the hurdle for companies is now significantly lower than it was some time ago. This should increase the chances of positive surprises.

The fact that earnings revisions are more negative than in previous quarters is mainly due to the energy sector. Due to the sharp fall in the oil price in the meantime, profit expectations were reduced by more than 20% in the course of the third quarter. However, the forecasts for other commodity companies (materials sector) and for the industrial and utilities sectors have also recently been significantly reduced. In contrast, earnings expectations for most technology stocks remained stable. The two sec-

tors of information technology and communications service providers also have the strongest expected earnings growth with rates of 14.5% and 12.6% respectively.

USA: Change in Q3 earnings expectations since June 30, 2024



Due to these positive fundamental conditions for US equities in general and for US technology stocks in particular, we expect share prices in the US to be higher at the end of the year than they are today. We have therefore raised our price target for the S&P 500 to 6,000 points, and we see even higher prices for 2025. However, we expect another change of favorites at sector level in the final weeks of 2024. In the third quarter, market breadth improved and the price increase was driven by more stocks than before (no longer just the “Magnificent 7”). Among the most successful sectors were utilities, but also industrial and commodity companies, although their earnings prospects have clouded over. However, we expect a renaissance in US technology stocks over the remainder of the fourth quarter. In contrast, we have left our price target for the DAX unchanged. Following a series of profit warnings, particularly from the automotive sector, earnings expectations for the DAX this year have been reduced by around five percent since the summer. Instead of an increase in profits of seven percent, a rise of two percent is now expected this year. We believe that this growth rate is achievable despite the poor economic outlook for Germany, as DAX companies generate almost 25 percent of their sales in the USA. Investors should therefore not throw in the towel, but remain invested.

Carsten Klude

Market data

Stock markets	As of	Change versus				
	11.10.2024 13:59	04.10.2024 -1 week	10.09.2024 -1 month	10.07.2024 -3 months	10.10.2023 -1 year	29.12.2023 YTD
Dow Jones	42454	0,2%	4,2%	6,9%	25,8%	12,6%
S&P 500	5824	1,3%	6,0%	3,4%	33,6%	22,1%
Nasdaq	18282	0,8%	7,4%	-2,0%	34,8%	21,8%
DAX	19244	0,6%	5,4%	4,5%	24,8%	14,9%
MDAX	26806	-0,2%	6,4%	4,7%	3,9%	-1,2%
TecDAX	3363	0,6%	3,6%	0,0%	10,5%	0,8%
EuroStoxx 50	4976	0,4%	4,8%	0,3%	18,3%	10,0%
Stoxx 50	4465	0,7%	2,3%	-1,1%	13,0%	9,1%
SMI (Swiss Market Index)	12087	0,8%	1,0%	-0,5%	9,9%	8,5%
Nikkei 225	39606	2,5%	9,5%	-5,3%	24,8%	18,4%
Brasilien BOVESPA	130353	-1,1%	-3,0%	2,5%	11,7%	-2,9%
Indien BSE 30	81381	-0,4%	-0,7%	1,8%	23,2%	12,7%
China CSI 300	3887	-3,3%	21,6%	13,4%	6,3%	13,3%
MSCI Welt	3711	0,3%	4,5%	2,7%	28,5%	17,1%
MSCI Emerging Markets	1157	-1,9%	8,9%	4,1%	22,5%	13,0%
Bond markets						
Bund-Future	133,29	-63	-148	199	414	-393
Bobl-Future	118,84	-47	-97	273	259	-44
Schatz-Future	106,70	-17	-30	116	149	15
3 Monats Euribor	3,18	-23	-48	-48	-80	-70
3M Euribor Future, Dec 2024	2,92	5	-6	-39	-31	62
3 Monats \$ Libor	4,85	0	-36	-71	-83	-74
Fed Funds Future, Dec 2024	4,52	6	9	-42	-8	68
10 year US Treasuries	4,10	12	46	-18	-55	23
10 year Bunds	2,29	8	21	-20	-45	29
10 year JGB	0,96	11	6	-10	20	34
10 year Swiss Government	0,52	5	8	-8	-60	-17
US Treas 10Y Performance	609,61	-0,7%	-3,0%	2,6%	8,9%	1,4%
Bund 10Y Performance	567,01	-0,3%	-0,7%	2,9%	7,1%	0,3%
REX Performance Index	451,38	-0,7%	-0,7%	2,1%	4,4%	0,8%
IBOXX AA, €	3,04	3	-1	-37	-92	-3
IBOXX BBB, €	3,55	3	-2	-38	-127	-20
ML US High Yield	7,39	12	-12	-60	-174	-40
Commodities						
MG Base Metal Index	432,04	-3,4%	7,8%	-0,6%	16,1%	10,5%
Crude oil Brent	78,73	0,7%	13,2%	-7,9%	-10,3%	1,3%
Gold	2644,31	-0,8%	5,4%	11,2%	42,3%	28,0%
Silver	30,99	-4,6%	9,7%	0,3%	41,6%	27,8%
Aluminium	2575,31	-2,5%	11,1%	6,4%	18,2%	9,8%
Copper	9582,86	-2,2%	7,7%	-1,6%	20,6%	13,2%
Iron ore	105,81	-2,8%	15,9%	-2,7%	-9,9%	-22,4%
Freight rates Baltic Dry Index	1790	-7,2%	-7,8%	-7,7%	-9,7%	-14,5%
Currencies						
EUR/ USD	1,0931	-0,9%	-0,9%	1,0%	3,3%	-1,1%
EUR/ GBP	0,8369	0,0%	-0,8%	-0,8%	-3,2%	-3,4%
EUR/ JPY	162,87	0,7%	3,2%	-6,8%	3,3%	4,2%
EUR/ CHF	0,9372	-0,2%	0,2%	-3,6%	-2,3%	1,2%
USD/ CNY	7,0670	0,1%	-0,8%	-2,9%	-3,2%	-0,5%
USD/ JPY	148,57	-0,1%	4,3%	-8,1%	-0,1%	5,3%
USD/ GBP	0,77	0,4%	0,0%	-1,8%	-6,1%	-2,4%

Source: Refinitiv Datastream

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