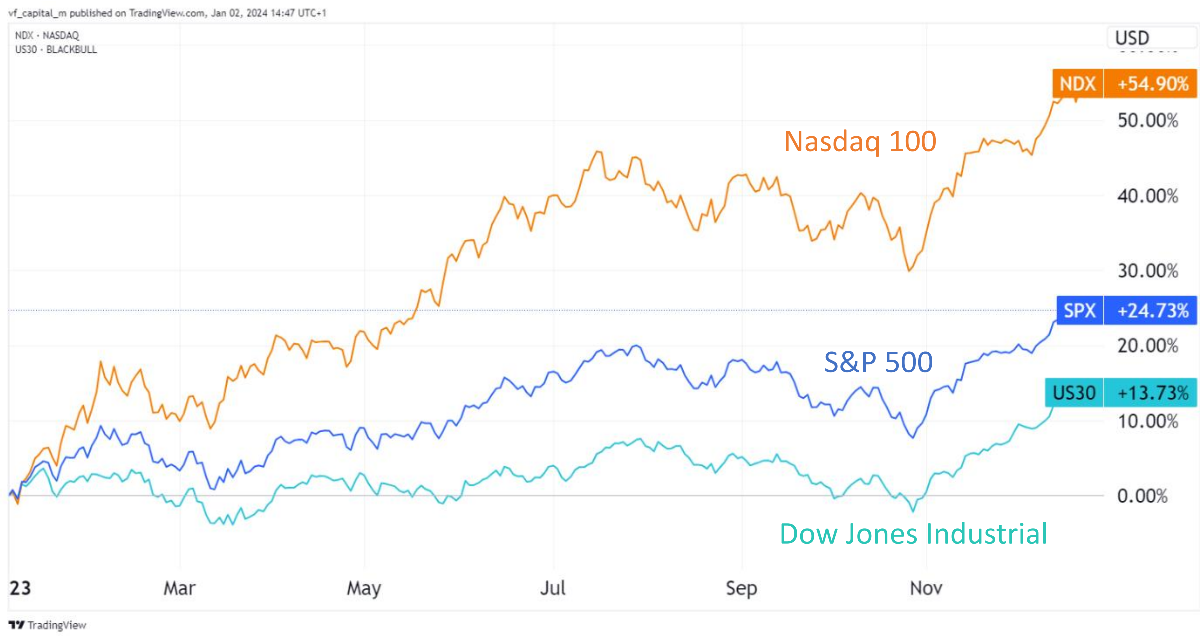
US Stock Market:

More Risks than Opportunities?

Wall Street: Too Fast, Too High?

Economic Weakness Despite Expected Interest Rate Cuts

The Nasdaq 100 technology index in 2023 far outpaced the industrial-heavy Dow Jones Industrial and the broad-based S&P 500. This was primarily due to the strong performance of the "Magnificent 7", namely Apple, Microsoft, Amazon, Nvidia, Meta, Alphabet, and Tesla, which together represent 43 percent of the index weighting. The tech giants benefited from the AI fantasy and the need for a rebound after the Nasdaq 100's poor performance in 2022.Will the tech stocks continue to lift the overall market in 2024 or will there be a downturn?

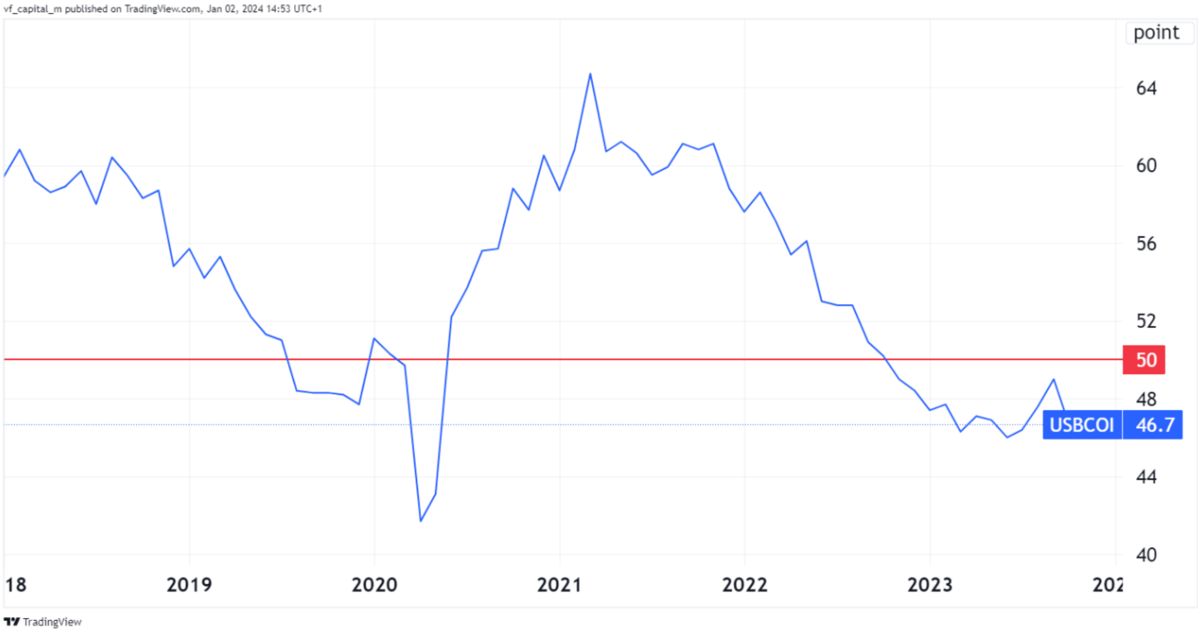


The yield curve remains inverted:

Many are pinning their hopes on the anticipated interest rate turnaround in the US, as lower interest rates are beneficial for growth and company balance sheets. Companies, especially those reliant on external funding, stand to benefit. Yields in the bond market have already significantly declined, as depicted in the graph below. However, yields on the long end have fallen more sharply than those on the short end, maintaining a clear inversion. This means that short-term yields are higher than long-term yields, usually a signal of an impending recession.

However, despite the inverted yield curve since early 2023, contrary to most experts' predictions, the US economy did not slip into a recession. It is unlikely to happen in 2024, at least not over the full year. The beginning of the new year, however, is poised to be challenging, as shown by the recently disappointing economic data. For instance, the ISM index for manufacturing remains below 50 points, continuing to indicate a contractionary phase (see chart on the next page).

ISM-Index:



High Interest Rates Slow Down the Economy Further:

Monetary policy has a delayed impact, especially with interest rate hikes since 2022. This is because the economy is emerging from a long period of low interest rates. Many long-term credit agreements, such as bonds or mortgages, have fixed low-interest rates. Consequently, the rise in the federal funds rate often has not immediately affected the economy. This is changing gradually. Each new or extended credit agreement now includes much worse terms for the borrower than before. The increased interest burden will therefore truly slow down the economy in 2024. Therefore, despite the anticipated interest rate cuts in 2024, monetary policy remains restrictive. In addition, in 2023, US consumers largely financed their consumption using their savings, which are now largely depleted. However, the strong labor market will prevent a sharp decline in demand.

My Conclusion:

Investors' excitement over the anticipated interest rate turnaround seems premature. While the markets have more liquidity available, the economy is currently weakening. There could be disappointments in corporate earnings, presenting potential for a correction in the US stock market. However, the expected ups and downs in the indices offer opportunities to active investors.

Annual Outlook: US Stock Market

S&P 500 Index (10 years):

Fundamental data of the USA:

	2023e	2024e	2025e
GDP growth rate*	+2.4	+1.4	+2.0
Inflation rate*	+4.1	+2.5	2.4
Unemployment rate	5.9%	4.0%	5.6%
Budget balance**	-8.0	-7.5	-7.0

*Percent change from previous period **Percent of GDP

Population	339.665 m
GDP per capita	63,700 USD
Share of world GDP	15.5 %

Positive and negative influences on the S&P 500 index in 2024:

Positive	Negative
The anticipated interest rate turnaround is providing stronger momentum for the US economy than expected. Stocks are becoming more attractive compared to bonds due to declining interest rates.	US stocks are expensive in the context of the economic downturn. The sharply increased interest rates will only fully affect the economy in 2024. The upcoming elections in the US bring additional uncertainty.