

The week in seven charts



Chart #1

The ECB keeps its key rates unchanged.

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Image source: iStock/hallojulie

Deep in the US residential campaign, voters will look at each party's impact on the economy

Semiconductor stocks have started correcting and the Mag7 are engaging in stock buybacks, while US debt produces less GDP per borrowed dollar than it used to. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau

Chief Investment Officer

Chart #1

The ECB keeps its key rates unchanged.

On Thursday, the Governing Council decided to leave the ECB's key interest rates unchanged: 4.25% for the refinancing rate and 3.75% for the benchmark deposit rate.

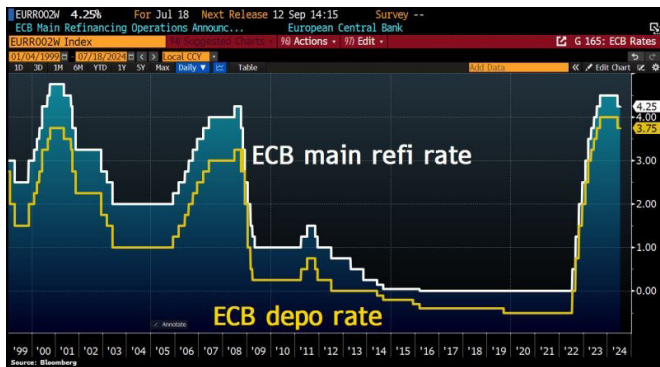
The interest rate guidelines also remain unchanged: no prior commitment to a particular path. The ECB will follow a data-dependent approach, meeting by meeting. Indeed, the European Central Bank has described the possibility of a rate cut in September as 'very open'.

'Monetary policy is maintaining restrictive financing conditions. At the same time, domestic price pressures remain strong, services inflation is high and headline inflation is expected to remain above target well into next year', the ECB Governing Council said in a statement.

Recent data broadly supported its medium-term outlook for inflation convergence at 2%, it added. Headline inflation in the eurozone fell to 2.5% in June, from 2.6% previously, but core inflation - which excludes volatile components such as energy, food, alcohol, and tobacco - exceeded consensus forecasts, holding steady at 2.9%.

Analysts have incorporated the assumption that the central bank will wait for more data on wages, economic growth, and productivity before easing monetary policy further.

The markets are currently anticipating two further rate cuts of 25 basis points this year, in September and December, with a pause at the central bank's October meeting.



Source: Bloomberg, BCE

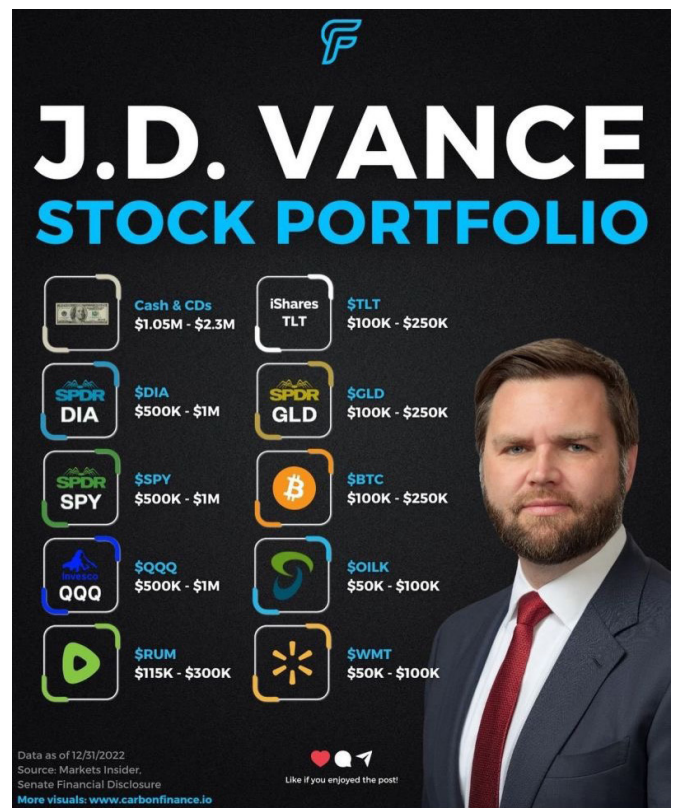
Chart #2

The title portfolio of the Republican vice-presidential candidate

Donald Trump has selected Senator J.D. Vance as his running mate, which could help the former president gain support in key swing states in the industrial Midwest of the United States. Indeed, Vance hails from the "Rust Belt," which includes parts of key states such as Pennsylvania, Michigan, and Wisconsin. He is also a Marine veteran and would be the second youngest vice president—tied with Richard Nixon—if Trump wins in November.

Note that Silicon Valley has welcomed the choice of JD Vance, Senator from Ohio and former venture capitalist, as Donald Trump's running mate. This decision could bring the tech industry closer to Washington if the former president regains the White House in November. Indeed, Vance spent years as a venture capitalist before leaving the sector when he was elected to the U.S. Senate in 2022. After graduating from Yale Law School in 2013, Vance moved to San Francisco, where he was Managing Director at Mithril Capital, a fund co-founded by Peter Thiel and Ajay Royan. In 2017, Vance left Mithril and joined Revolution, Steve Case's firm based in Washington, as General Partner. At Revolution, Vance assisted Case in launching Rise of the Rest, a strategy focused on investing in startups located outside the major tech hubs in the U.S. Elon Musk has even called the decision a "very good choice."

For reference, here is what JD Vance's personal investment portfolio looks like: about one-third of the portfolio is in cash investments. Nearly half of the portfolio is invested in ETFs tracking major U.S. indices: 15% in an S&P 500 ETF (SPY), 15% in a Dow Jones ETF (DIA), and 15% in a Nasdaq 100 ETF (QQQ). JD Vance also holds individual stocks such as Walmart (WMT) and Rumble (RUM), which is an alternative to YouTube. As a staunch Republican, Vance has a position in an oil ETF (OILK). Additionally, there are diversification positions including a long-duration Treasury bond ETF (TLT), a gold ETF (GLD), and... bitcoins with a reported value ranging between \$100,000 and \$250,000.



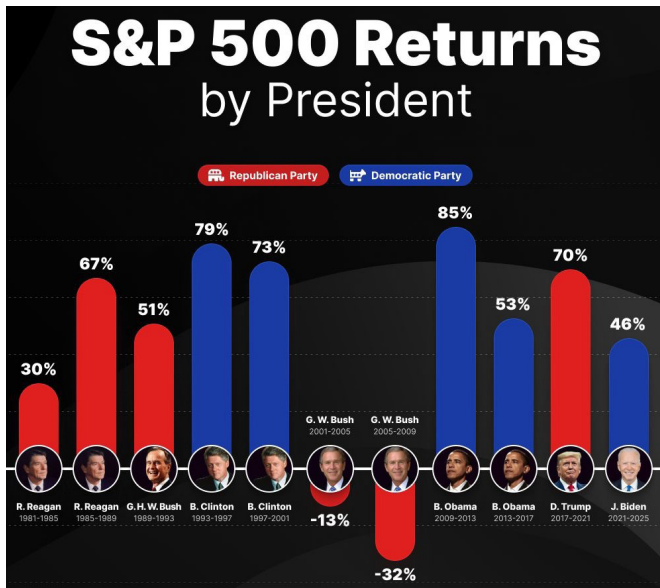
Source: Savvy Trader

Chart #3

Is There a Link Between the Performance of the S&P 500 and the Political Party in Power in Washington?

Since 1957, the S&P 500 index has grown at an average annual rate of 9.8% under Democratic presidents and 6% under Republican presidents. This suggests an advantage for the Democratic Party based on historical averages.

However, median performance figures present a reversed ranking: median returns are 10.2% under Republican presidents and 8.9% under Democrats, showing no significant advantage for either party.



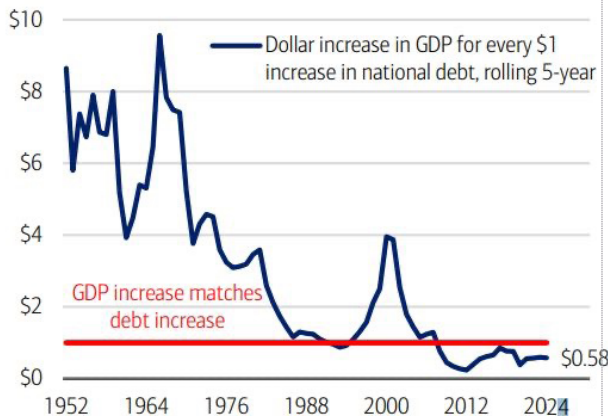
Source: Leverage Shares

Chart #4

Debt is Becoming Less Productive in the United States

As the U.S. national debt approaches nearly \$35 trillion, the Bank of America chart below highlights an interesting phenomenon: debt is becoming less productive. In the 1970s, each dollar of debt generated between \$4 and \$9 of additional GDP. Today, however, each dollar of U.S. debt only generates 58 cents of GDP (5-year moving average).

Exhibit 14: Every new dollar of debt generates just \$0.58 of GDP
5-year change in US nominal GDP vs annual change in national debt



Source: BofA Research Investment Committee, Global Financial Data
Source: Mike Zaccardi, BofA

Chart #5

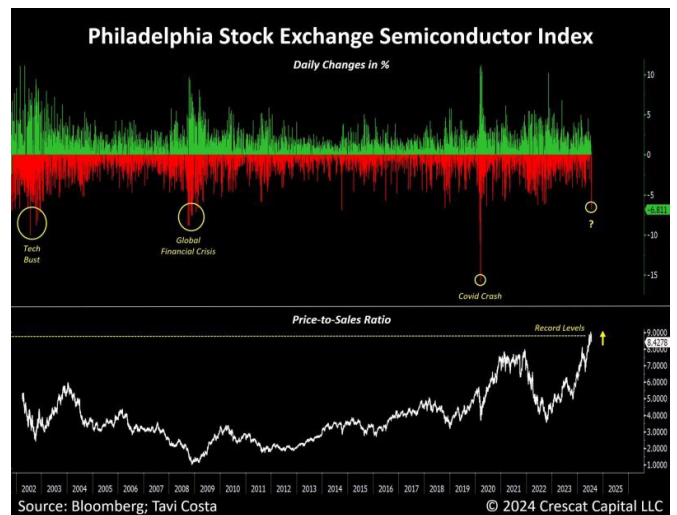
Significant Correction in Semiconductor Stocks

Last Wednesday saw the largest drop in the SOX semiconductor index since the pandemic crash in 2020. This correction comes at a time when sector valuations have reached record levels (as shown in the price-to-sales ratio chart below).

On Wednesday, global semiconductor stocks plummeted amid reports of tightening export restrictions by the U.S. and rising geopolitical tensions fueled by comments from former President Donald Trump.

Shares of ASML, listed in the Netherlands, fell by 11%, while shares of Tokyo Electron in Japan closed down nearly 7.5%. Stocks of Arm, AMD, Marvell, Qualcomm, and Broadcom all closed down more than 7%.

These movements followed Bloomberg's report that the Biden administration is considering a broad rule to crack down on companies exporting critical semiconductor manufacturing equipment to China. The Washington rule on foreign direct products (F DPR) allows the U.S. to impose controls on products made abroad, even if they use only a small portion of American technology, affecting non-American companies.



Source: Bloomberg, Tavi Costa, Crescat Capital

Chart #6

Ongoing Rebalancing within U.S. Stock Indices

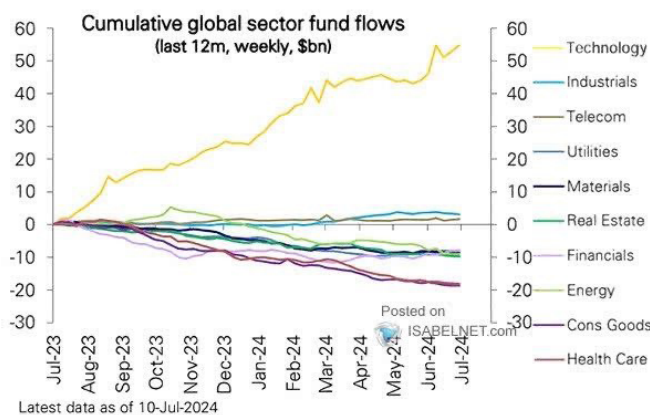
The correction in technology stocks continued last week, with investors reallocating some of their positions in the "Magnificent Seven" (the major tech stocks) in favor of underperforming stocks (small and mid-cap stocks, "value" stocks, etc.).

The reason why the fall in technology stocks has been so spectacular is that the vast majority of investors holding the same positions want to take the exit or at least reduce their positions at the same time.

The fund flows depicted in the chart below highlight the immense enthusiasm investors had for tech stocks over the past 12 months. In recent days, nearly \$1.1 billion has flowed out of the Mag7.

We are currently seeing the beginning of a reversal of this trend.

Figure 88: Sector fund flows



Source : EPFR, Haver Analytics, Deutsche Bank Asset Allocation

Source: EPFR, Deutsche Bank

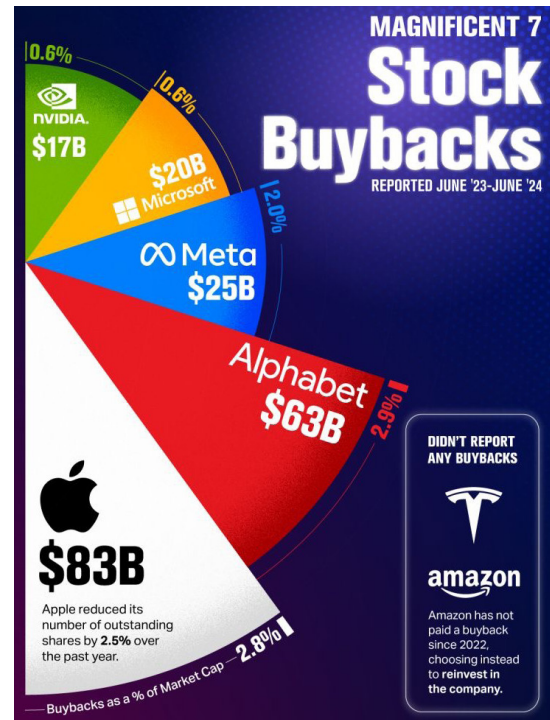
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Chart #7

The Magnificent Seven Engage in Massive Share Buybacks

A favorable trend is expected to continue for some of the major tech stocks: the buyback of their own shares. Most of the Magnificent Seven have significant cash reserves, which they are using to repurchase their own shares. For example, Apple has repurchased \$83 billion of its own stock over the past four quarters, which represents 2.8% of its market capitalization. Alphabet and Meta have also been active in share buybacks, unlike Tesla and Amazon.



Source: Visual Capitalist, Voronoi

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