Monthly Market Review

March 2024

MACRO PICTURE

BANQUE CRAMER

- **Central Banks –** Both Fed and ECB Minutes and several central bank officials called for patience on rate cuts. Most of them expressed cautious optimism about falling inflation and advocated patience until inflation convincingly approaches the 2% target. Therefore, a strong recalibration of expectations occurred over the course of the month, now mirroring the Fed's projected three cuts for 2024. Three cuts are expected by the ECB. The SNB is largely expected to start cutting this year with some analysts expecting the SNB pre-empting the ECB's actions in Q2

- **Geopolitical risk -** Tensions in the Red Sea have continued to impact the global Oil&Gas and commercial shipping markets. Many companies have had to re-evaluate their supply chain strategies due to increased attacks on ships and retaliatory air strikes by the US and UK. According to the Egyptian President, Egypt's Suez Canal has suffered a drop of 40-50% in revenues. Damages on several oil processing and storage facilities targeted by some drone attacks have curtailed Russian fuel exports

- **Real Estate –** According to Jamie Dimon, "the US can avoid a commercial real estate crisis if the economy sticks to a soft landing" and sees no "domino effect" for the entire financial system. German property lenders are not immune of the US crisis in the sector: i) Pfandbriefbank has been hit by an S&P downgrade and has become the centre of attention of big hedge funds, increasing their bets against the stocks and ii) Aareal reported significant loan losses

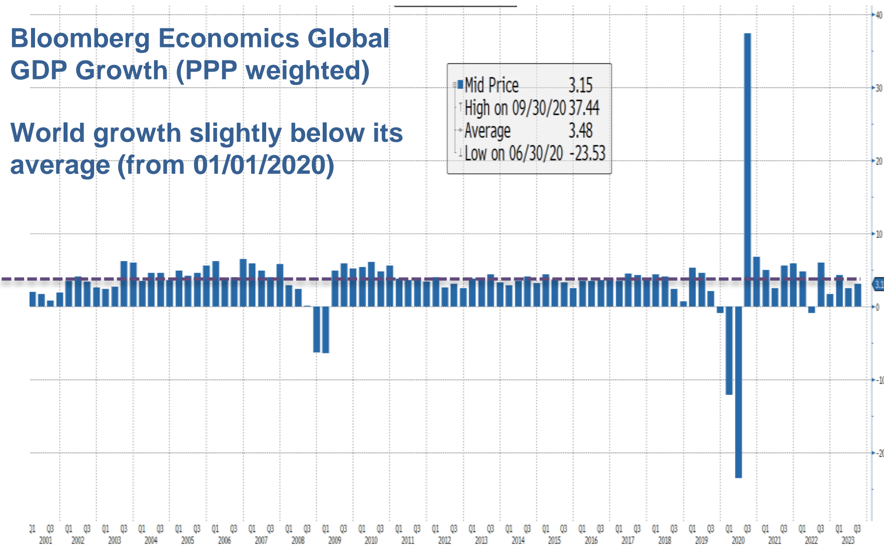
- **China –** Chinese authorities took measures to stabilise the volatility on the Chinese equity markets. The deflationary trend has been confirmed, with a new decline in both producer price and consumer price indices in January. Country's manufacturing activity likely contracted for a fifth straight month in February. Despite the central bank cutting its 5-year loan prime rate to support the housing market, pressures are growing for big policy moves to fix the economy ahead of the National People's Congress session on March 5th.

- **Switzerland –** PMI manufacturing came at 43.1 (contraction area). Inflation decreased at 1.3% YoY (from 1.7% in December), paving the way for higher expectations of an SNB's rate cut as early as March. Producer and import prices came at -2.3% YoY (from -1.1% in December). The Swiss economy unexpectedly grew at +0.3% QoQ (0.6% YoY) in Q4, even as manufacturing continued to weigh on the economy. In 2023, the economy grew by 1.3% from an expectation of 0.7%

- **United State –** Activity slightly decelerated, with the US retail sales slowing in January (-0.8%), likely a normalisation after the strong year-end sales. While the confidence index from small businesses remain low, the Manufacturing PMI index grew at fastest pace since 2022 at 51.5, driven by stronger growth in orders and lower inventories. Services activity slowed. The labour market remains healthy. Non-farm payroll came well ahead of expectations, led by Healthcare, indicating the 37th consecutive months of job growth. The unemployment rate has now been below 4% for 24 straight months. US average hourly earnings came at 4.5% YoY (above expectations of 4.1%). Inflation rose by 0.3% vs December and its underlying component rose by 0.4%, the strongest since May and twice the pace required to return to annual inflation in line with the FED's 2% target. The culprits are Shelter (+6% YoY) and Transportation (+9.5% YoY). Excluding Shelter, inflation stood at 1.5%. Year-on-year, inflation is still benefiting from downward base effects: it fell to 3.1% after 3.4% in December. Despite this, underlying inflation has stagnated at around 3.9% since October. These base effects will disappear around May/June: if prices continue to rise at the same rate as over the last three months, the inflation rate will rise again, just as the markets are considering the first rate cut. The producer price index was higher than expected on the back of rising supply chain headwinds. The PCE price index moved down to 2.4% in January, its lowest level since February 2021 and the Fed's preferred measure of inflation (Core PCE) moved down to 2.85%, lowest since March 2021

- **Eurozone –** Despite a stagnant GDP growth in Q4, the Eurozone avoided the recession in 2023. Moreover, the short-term momentum improved as reflected by the increase in economic surprises index and PMI indices. Nevertheless, Germany is acting as a brake on the area. By sector, manufacturing remained weak. Services ended a 6-month contraction with some signs of higher input costs. Supply delivery times fell in February, indicating that the Red Sea disruptions on Eurozone production appear to be easing. This is also reflected in the inflation picture for goods, which still indicates falling prices. Eurozone annual inflation rate is still above the ECB target at 2.8%. Core inflation fell to its lowest level since March 2022 at 3.3%. Inflation expectations among the ECB consumers survey rose for the year ahead and held steady for three years out, adding to evidence that the final stage of taming price growth may be difficult. Although energy prices are well below expectations and growth is weak, wage growth remains quick and policymakers have repeatedly said they need more comforting labor market data before they can start cutting rates

MACRO PICTURE – GLOBAL



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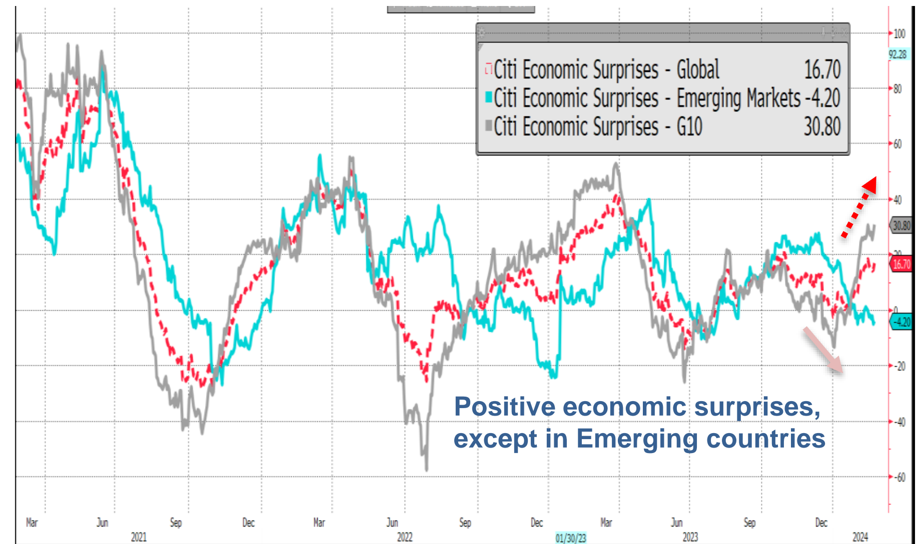

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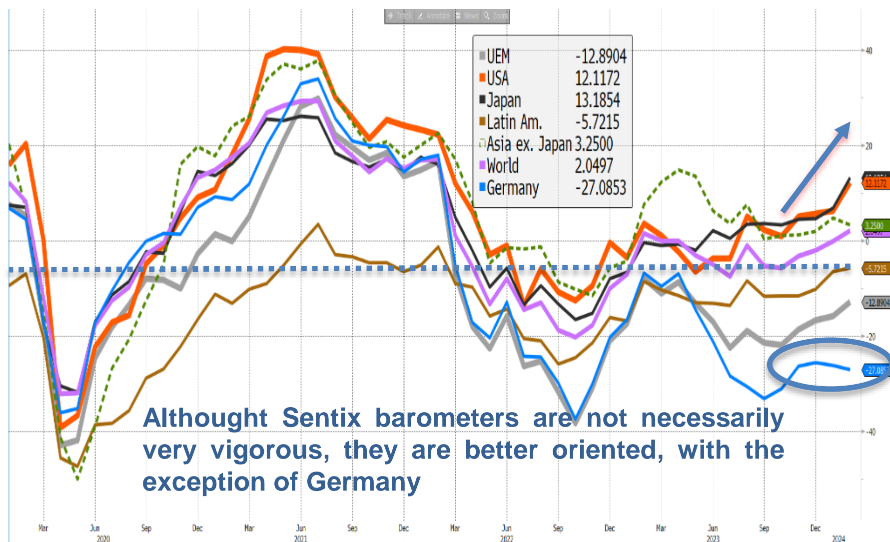

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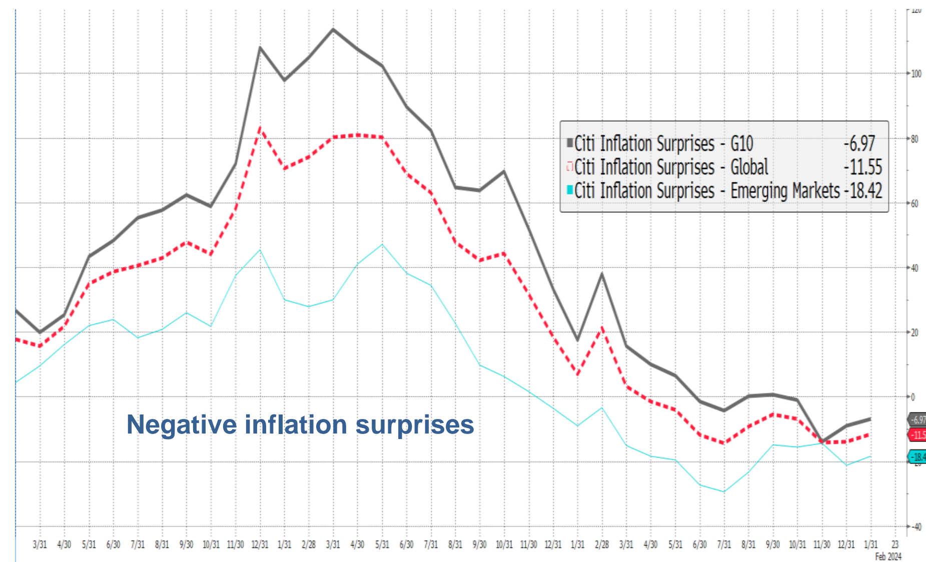

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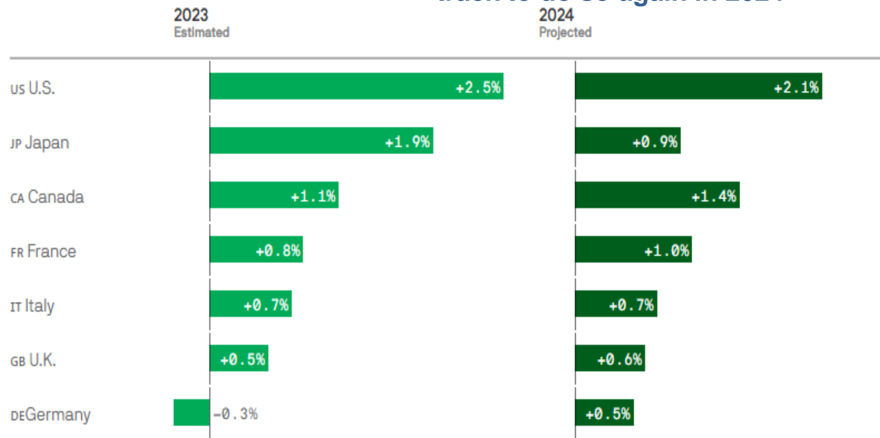
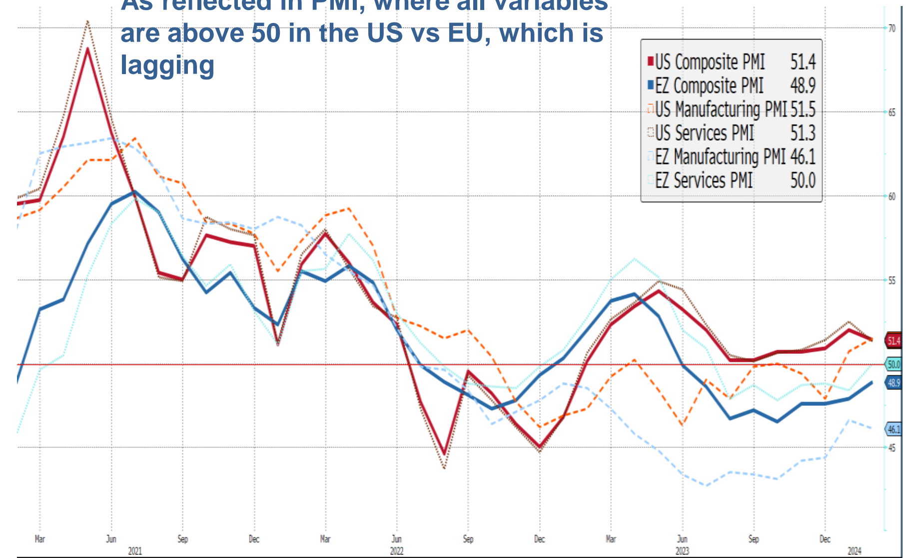
MACRO PICTURE – GLOBAL

The United States economy grew faster than any other large advanced economy last year — by a wide margin — and is on track to do so again in 2024



As reflected in PMI, where all variables are above 50 in the US vs EU, which is lagging



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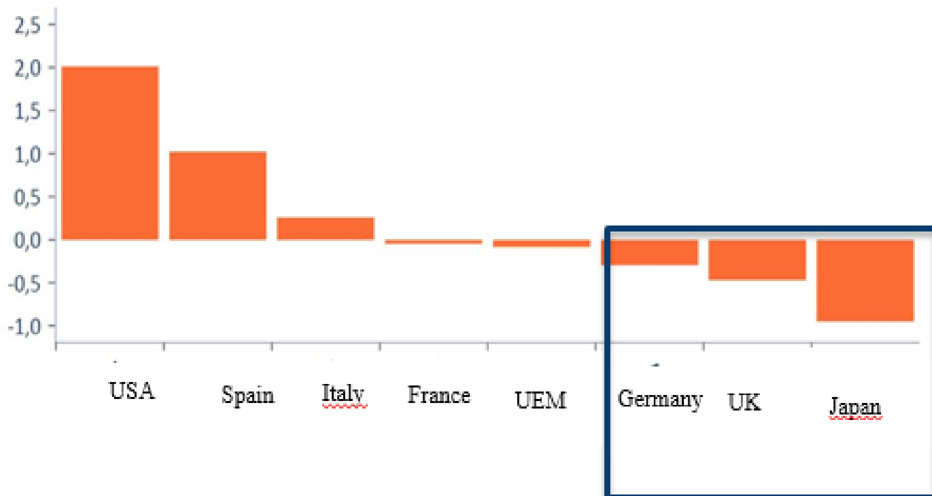
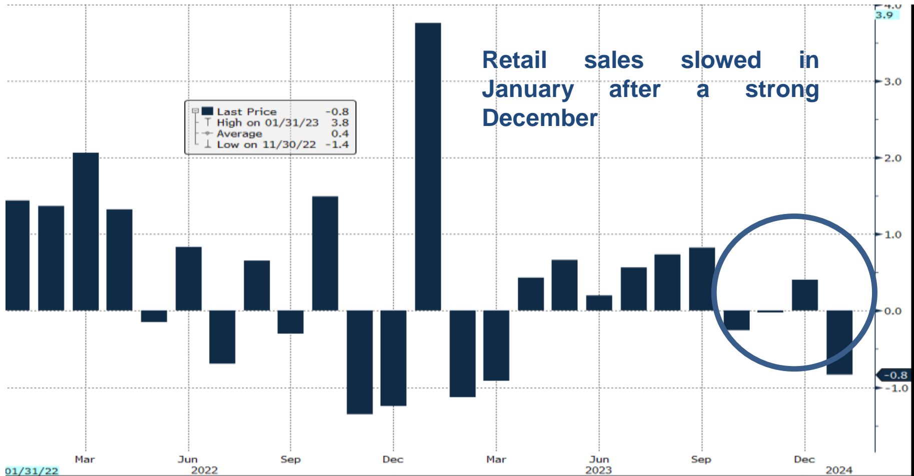


Source: Bloomberg

At the end of 2023, Japan's GDP posted its second quarterly decline, down 0.1% after 0.8% in the third quarter.
British GDP contracted by 0.3% after 0.1%.
Germany is no longer the only country in recession, and the end of last year was complicated for most of the developed world, with the exception of the US.

MACRO PICTURE – US ACTIVITY



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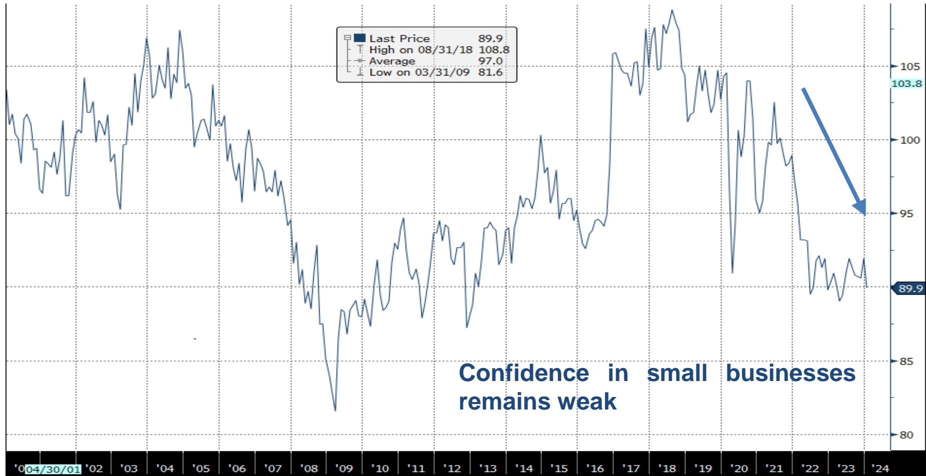

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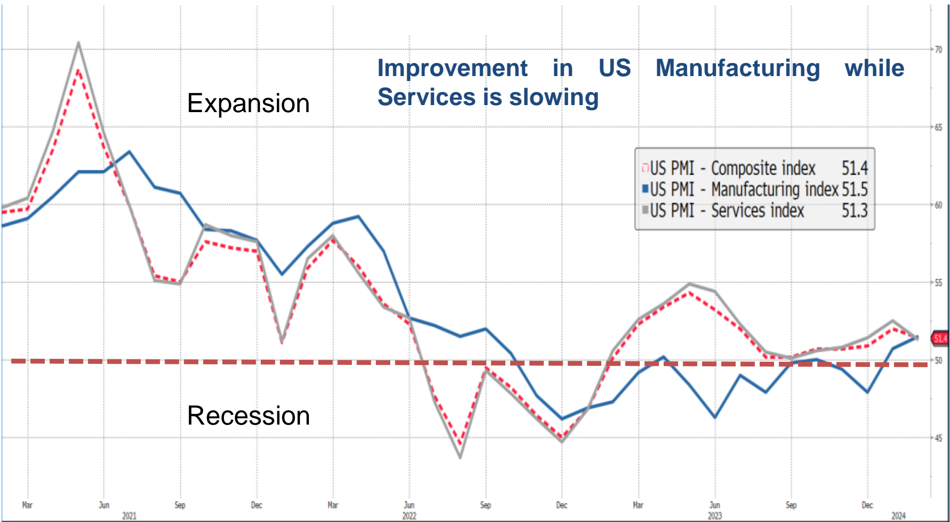

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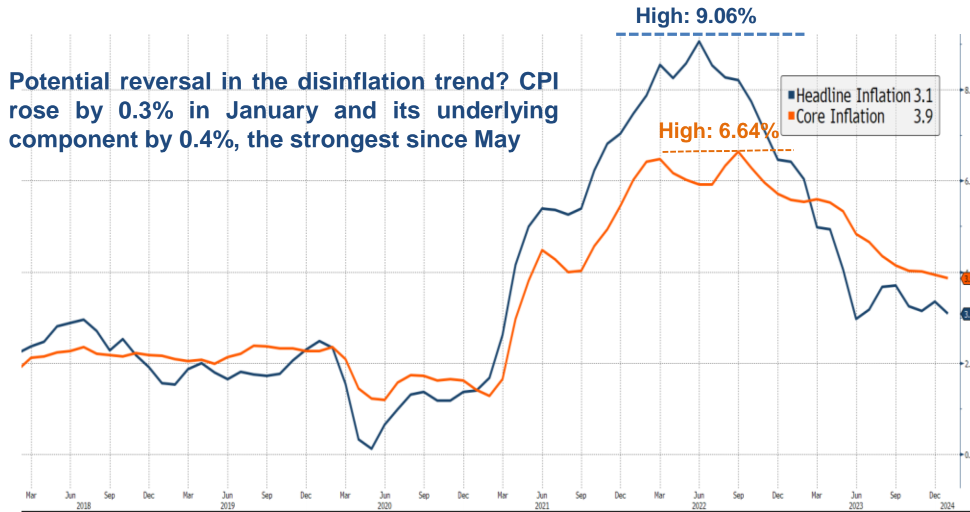
Source: C. Bilello

MACRO PICTURE – US INFLATION



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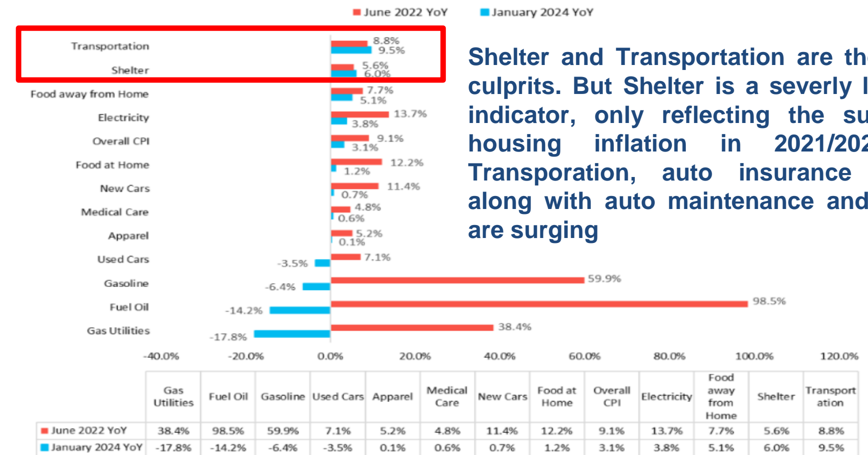
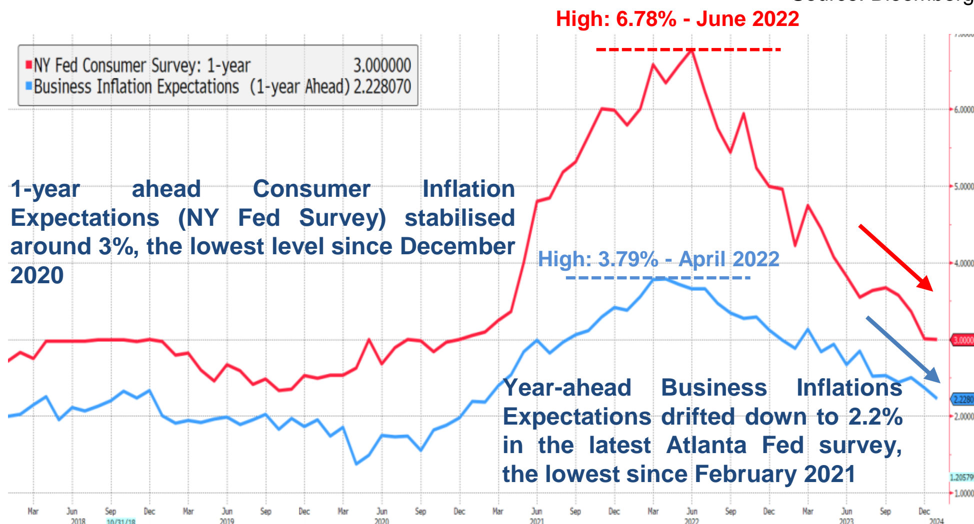


	Gas Utilities	Fuel Oil	Gasoline	Used Cars	Apparel	Medical Care	New Cars	Food at Home	Overall CPI	Electricity	Food away from Home	Shelter	Transportation
June 2022 YoY	38.4%	98.5%	59.9%	7.1%	5.2%	4.8%	11.4%	12.2%	9.1%	13.7%	7.7%	5.6%	8.8%
January 2024 YoY	-17.8%	-14.2%	-6.4%	-3.5%	0.1%	0.6%	0.7%	1.2%	3.1%	3.8%	5.1%	6.0%	9.5%

Source: C. Bilello



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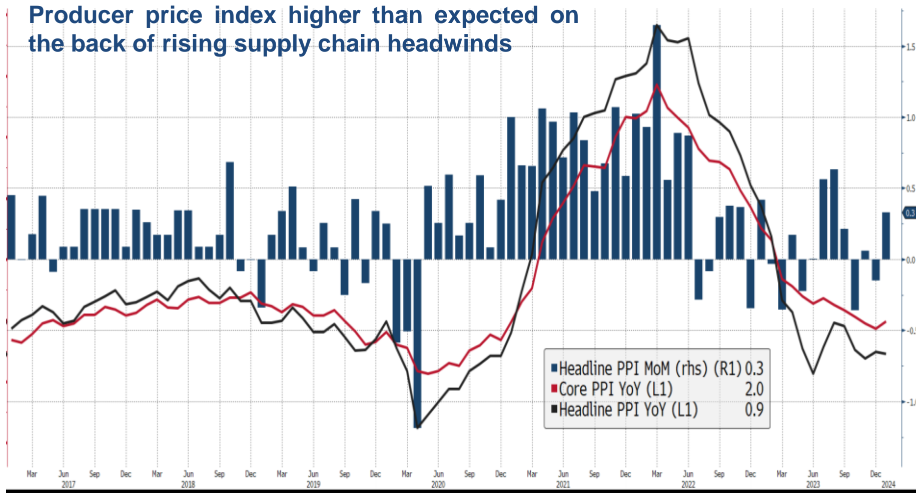
MACRO PICTURE – US INFLATION



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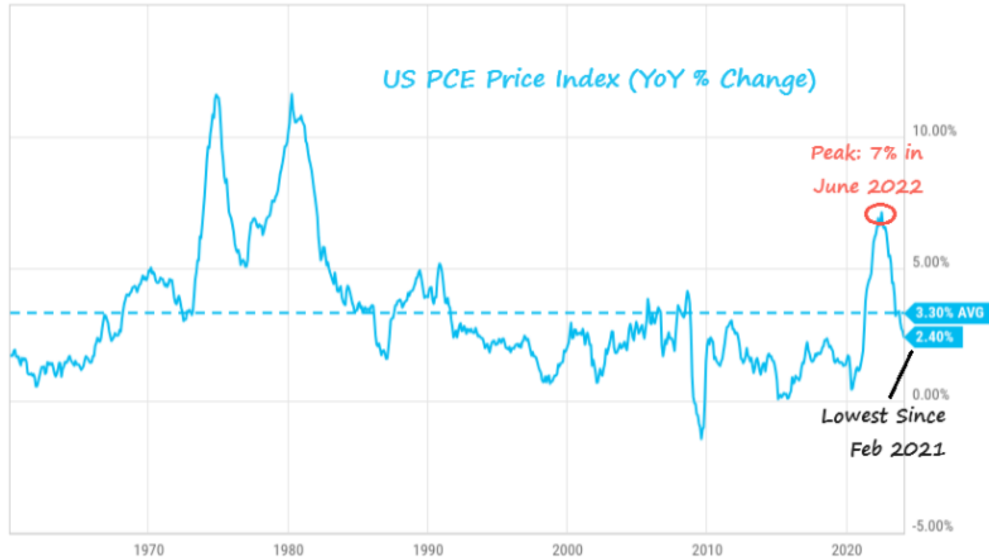

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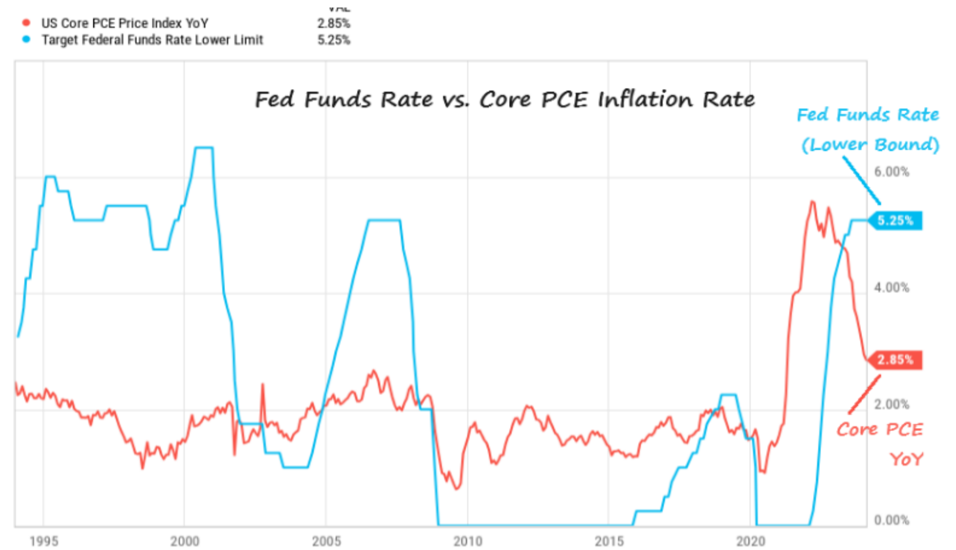

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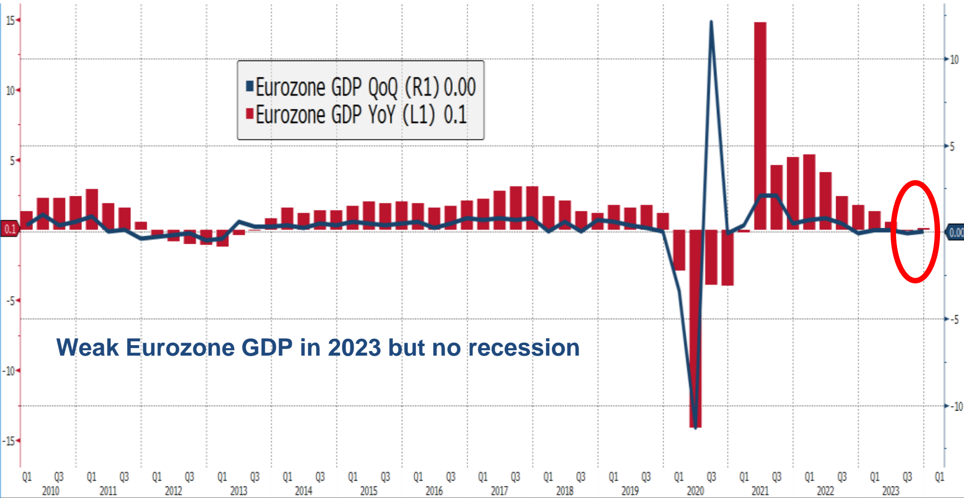
MACRO PICTURE – EUROZONE ACTIVITY



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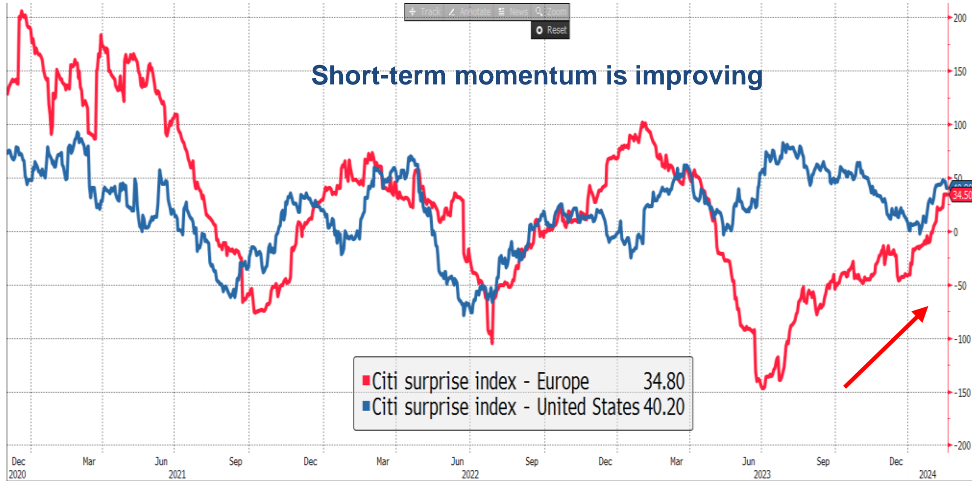

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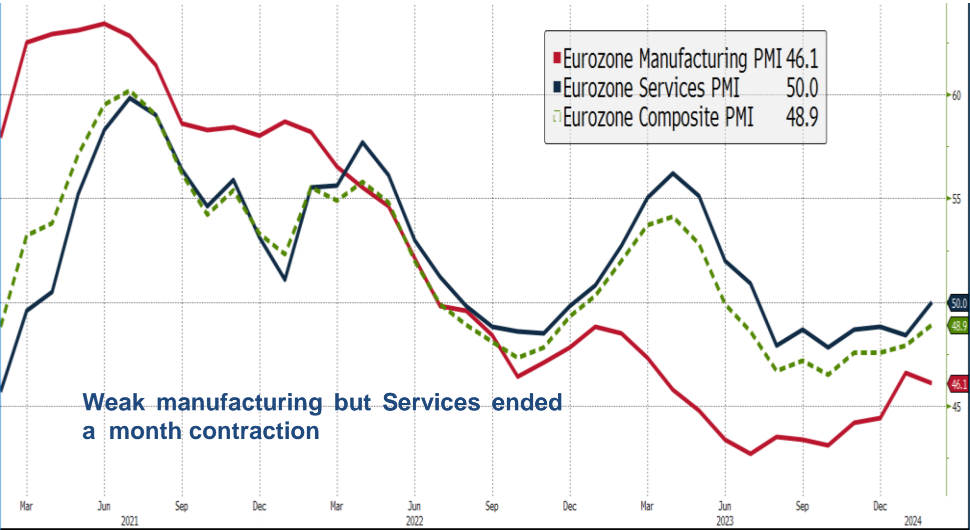

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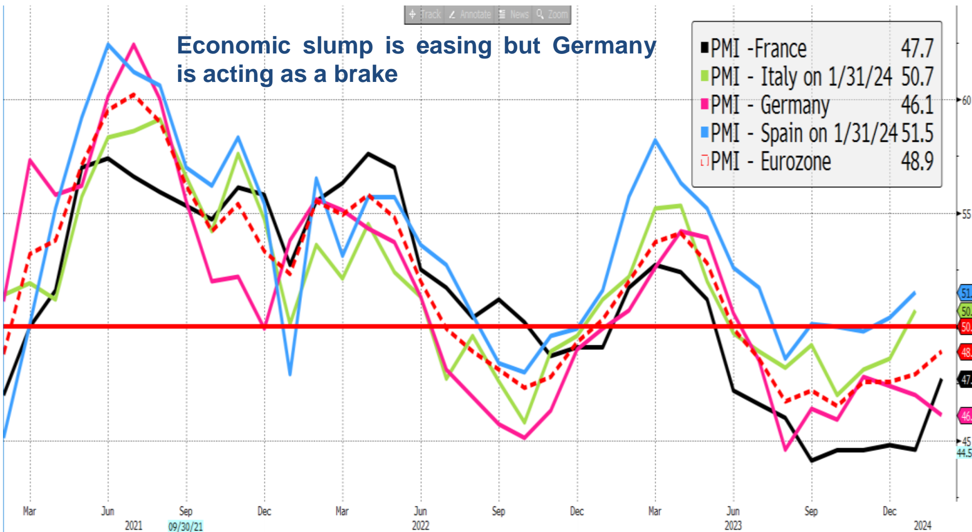
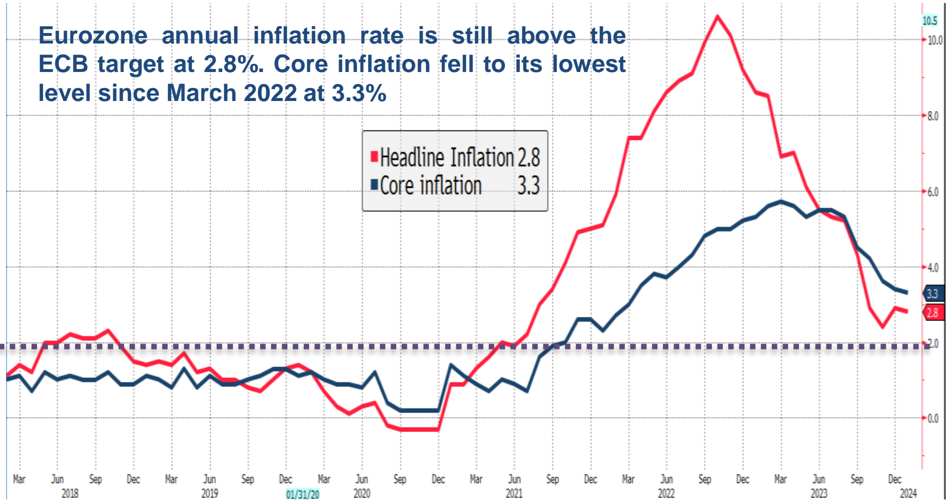


Source: Bloomberg

MACRO PICTURE – EUROZONE INFLATION



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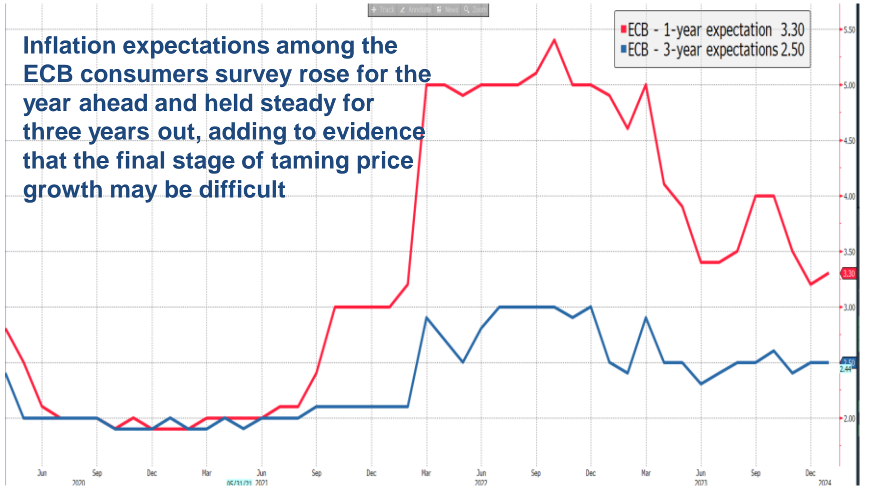

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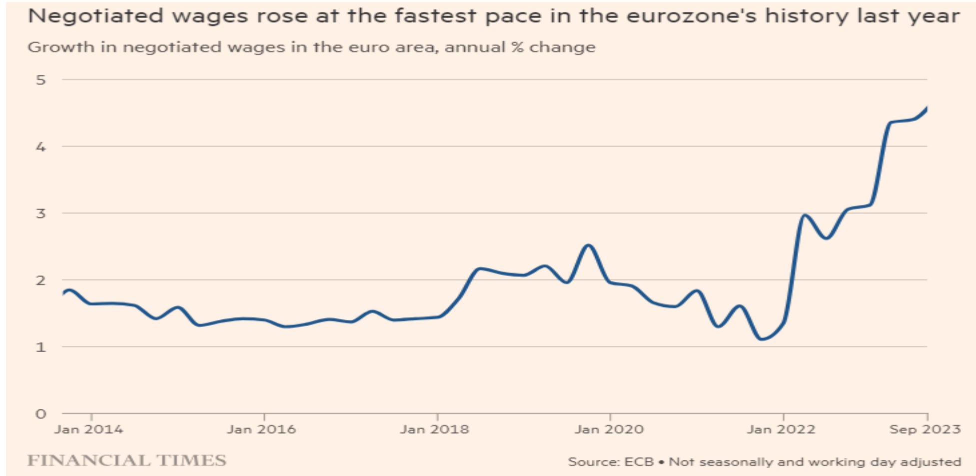
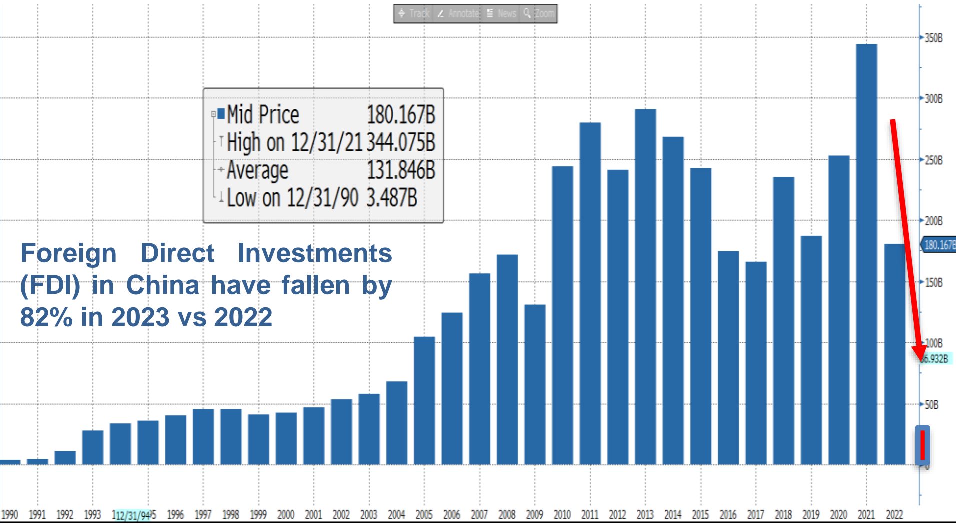


Source: Financial Times

As expressed by Isabel Schnabel, in the battle to bring inflation down to 2%, the "last mile remains a concern"

MACRO PICTURE – CHINA



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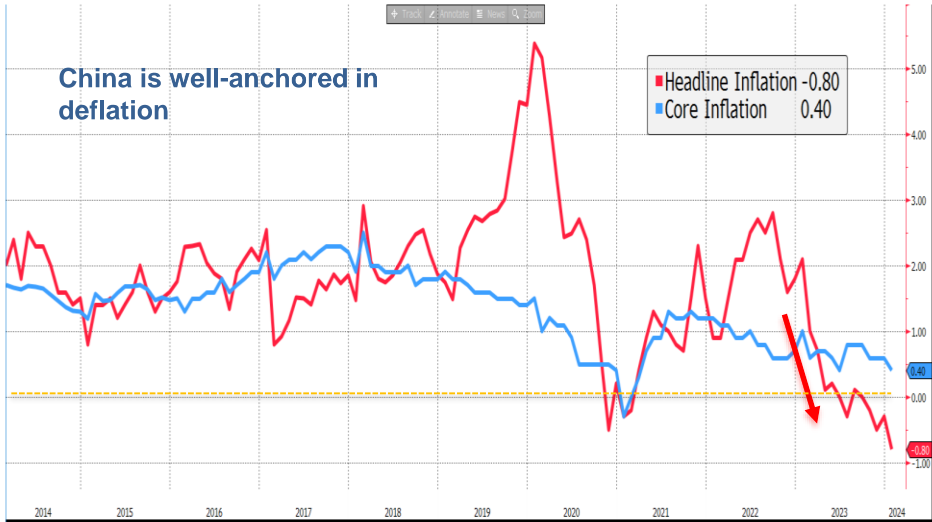

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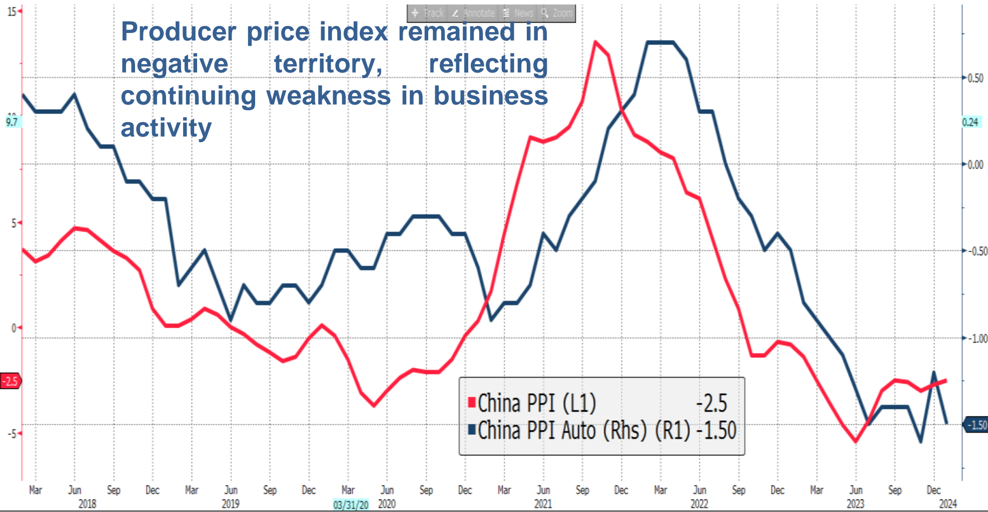

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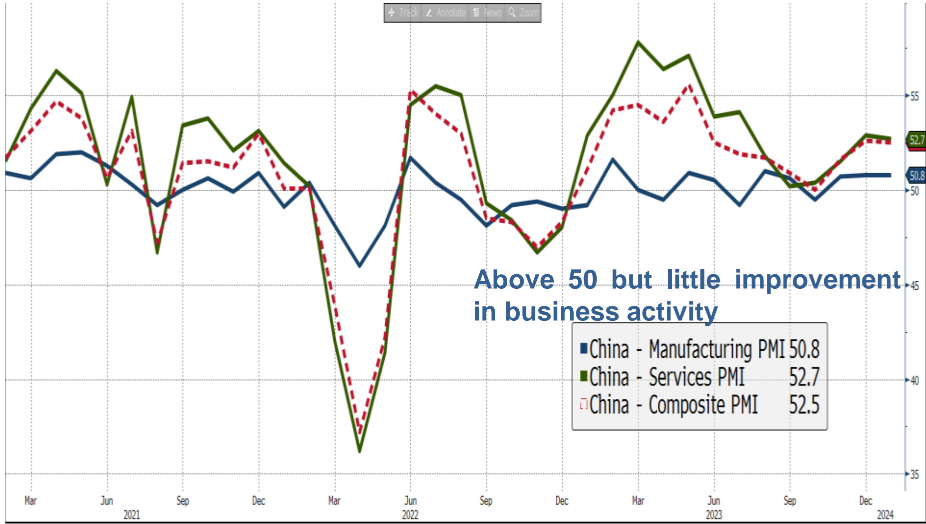

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MACRO PICTURE – CHINA

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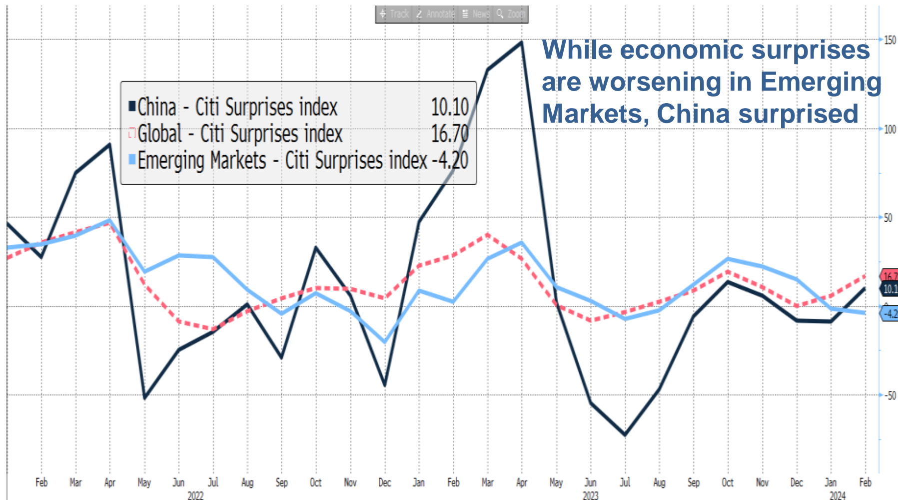

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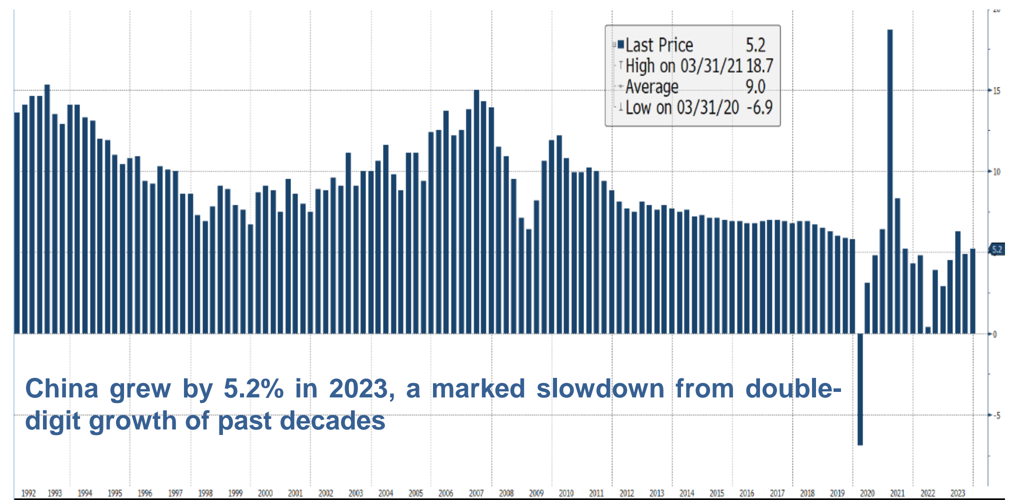

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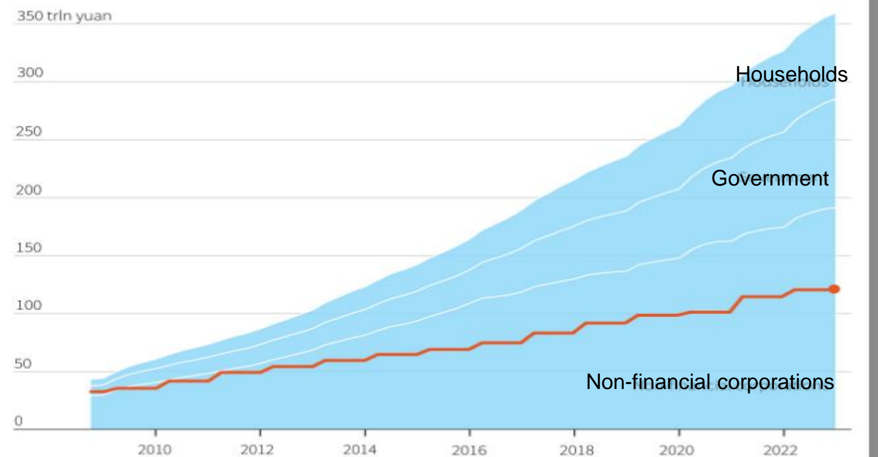

China's debt was 3 times the GDP in 2022

- **Pressure are growing on China for big policy moves to fix economy: the PBoC cuts its 5-year Loan prime rate to 3.95% to support the housing market (the 5-year LPR serves as a reference for mortgage rates).**
- **Nevertheless, the rate has already fallen close to 200bps since late 2021 and housing sales have stayed weak due to several factors (demography, slowing urbanization and mistrust in developers to name a few)**
- **The China's National People's Congress session will begin its annual meeting on March 5: more supportive measures are expecting but, for the time being, there is no indication of a major stimulus package coming**

- **But do not ignore China! The country has become competitive in sophisticated products with high technological value, making the country indispensable in the production processes of other countries (Battery technology). As the US and Europe turn to protectionism, the Chinese authorities are increasing free trade agreements to strengthen China's integration in the global value chain (Belt and Road Initiative) but also by encouraging its companies to settle in other countries, such as Mexico, Thailand, and Europe. China's role in global value chains is expected to continue growing, increasing the world's dependence**

FIXED INCOME

BANQUE CRAMER

- **Better than expected macro figures along with communication of central bankers were the main driver of the market**. Strong growth in the US and, even more so, the inertia of inflation, have reduced expectations of rate cuts. Central bankers have been calling for caution, and their message helped to align market expectations with the FED's projected path, and reduced the likelihood of a rapid move by the ECB. Of note that only two moths ago, markets were expecting the Fed to cut rates 7 times this year, with the first cut starting in March

- **Core sovereign bonds** – In a context of recalibration of rate cut expectations and a more resilient US economy, core yields drifted up across the board. The US 10-year benchmark reached the 4.35% mark before receding to close the month at 4.25% (+34bps). Of note the mixed results in recent bond auctions. Its German peers followed through (+25bps). The 2-10Y steepening on both side of the Atlantic lost momentum. Duration sensitive bonds indices delivered a negative performance. The Bloomberg Global Aggregate index hedged in USD fell by -0.69%, while the same index converted into Euro fell by -0.88%. Of note that US inflation-linked bonds have outperformed nominal bonds year-to-date

- **Developed Credit –** Credit spreads tightened owing to the appetite for corporate bonds and are even more below their 5-year average. In terms of performance, based on ICE indices, high beta credit segments have been emerging as the standout performers in the fixed income universe in 2024. This month again, High Yield outperformed the Investment Grade spectrum, supported by light primary market activity and a positive reception to new issues. This performance has been supported by a tightening in between BBB and BB spreads. US investment grade saw a flurry of new issues, with oversubscribed books and minimal concessions, but low beta bonds suffered from the move higher in yields. While yields remained above their 5-year average, we estimate that spreads are too tight given rising defaults and economic/political risks. Financials continued to offer decent spread premium versus Non-Financials and capital structure from corporates are of interest with decent risk-reward

- **Emerging Debt –** External sovereign debt shown resilience, ending the month with a positive return and recovering from its January setback. Corporate bonds have outperformed in a context of positive development in China. The strength of the US Dollar was a challenge for EM local debt, which also saw a modest recovery in February

TOTAL RETURN (% - Local Currency)

	Jan	Feb
EU Treasuries	-0,53	-1,17
US Treasuries	-0,16	-1,35
EUR Investment Grade	0,10	-0,89
USD Investment Grade	0,16	-1,40
EUR High Yield	0,84	0,35
USD High Yield	0,04	0,30
USD EM External Sovereign Debt	-1,38	0,52
Bloomberg Global Aggregate EUR (Unhedged)	0,29	-0,88
Bloomberg Global Aggregate USD (Hedged)	-0,20	-0,69

OAS Spread Change (Basis Point)

	Jan	Feb
EUR Investment Grade	-6	-9
USD Investment Grade	-2	-2
EUR High Yield	-11	-39
USD High Yield	20	-30
USD EM External Sovereign Debt	15	-30

Valuation – Carry still prevail but buffer is reducing

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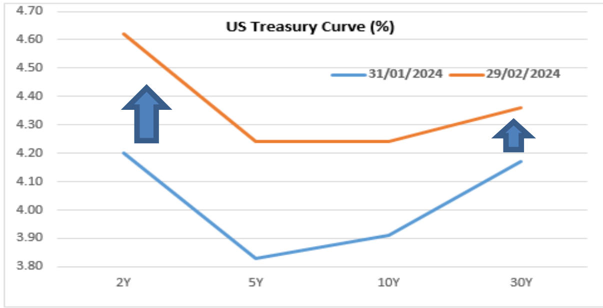
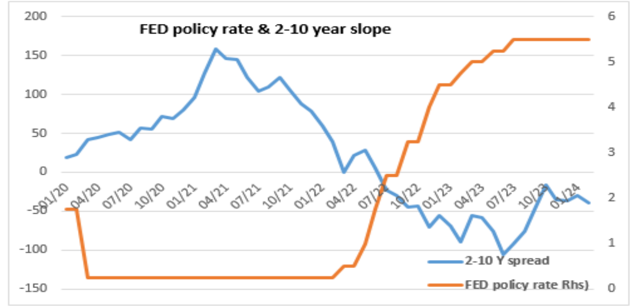
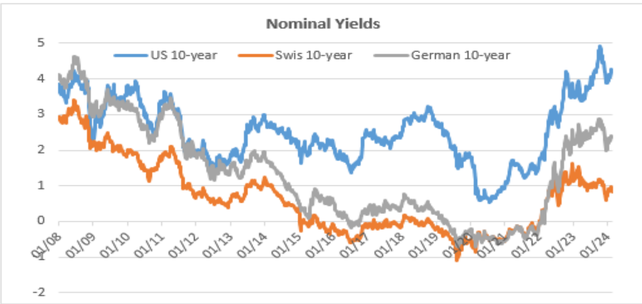
US Treasury yields drifted up, leading to an outperformance of the long part of the curve; The steepening of the curve lost some momentum





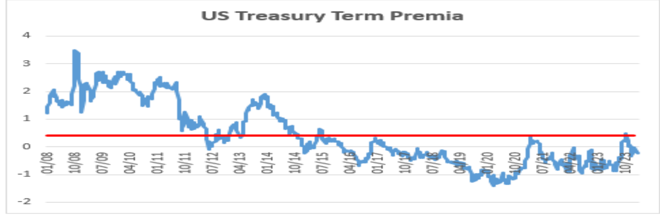
Global sovereign bonds yields have drifted up



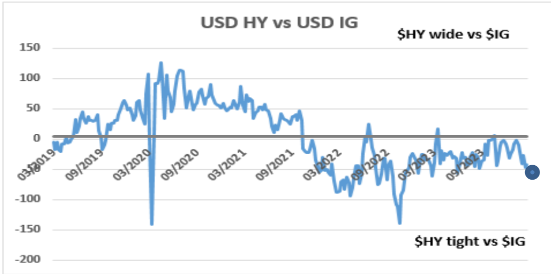
Spreads continued to tighten but duration has been a detractor of performance. High beta outperformed, especially the Euro high yield. Spreads are far below their 5-year average while yields still offer some cushion but less than few months ago

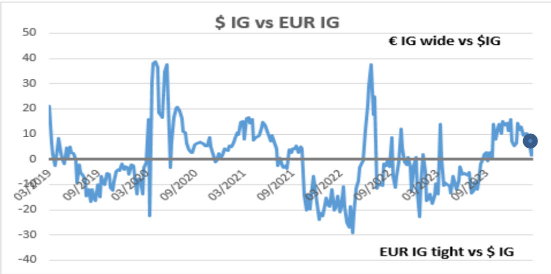
(Ice Bond Indices (February 29th))	Yield (YTW)			Credit Spread (OAS Spread)		
	05,03,2019	29,02,2024	5-year Average	05,03,2019	29,02,2024	5-year Average
EUR Investment Grade	1,03%	3,87%	1,78%	128	121	132
USD Investment Grade	3,98%	5,46%	3,62%	127	100	128
EUR High Yield	3,63%	6,39%	4,76%	391	346	422
USD High Yield	6,59%	7,90%	6,56%	391	329	428

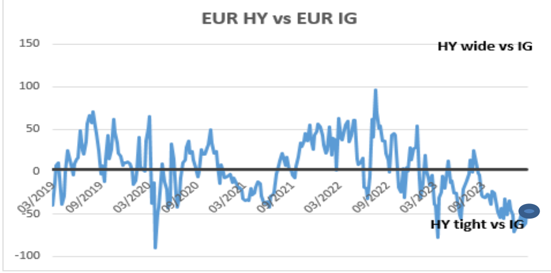
US Treasury Term Premia still offers little compensation

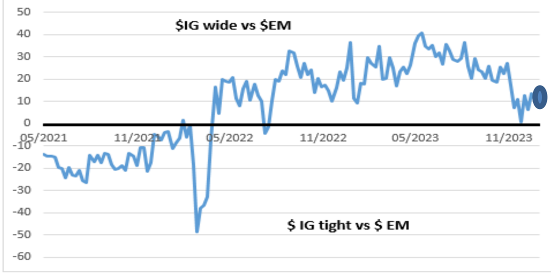


High Yield trades tight versus quality spectrum; In the low beta spectrum, EUR Investment Grade is less expensive than its USD peer.
USD Investment Grade is still attractive versus USD Emerging markets





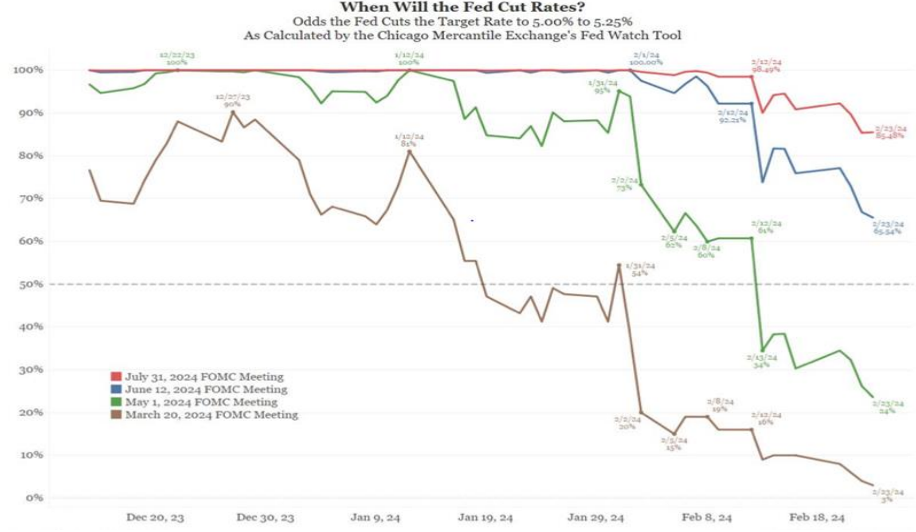




When will the Fed cut Rates?

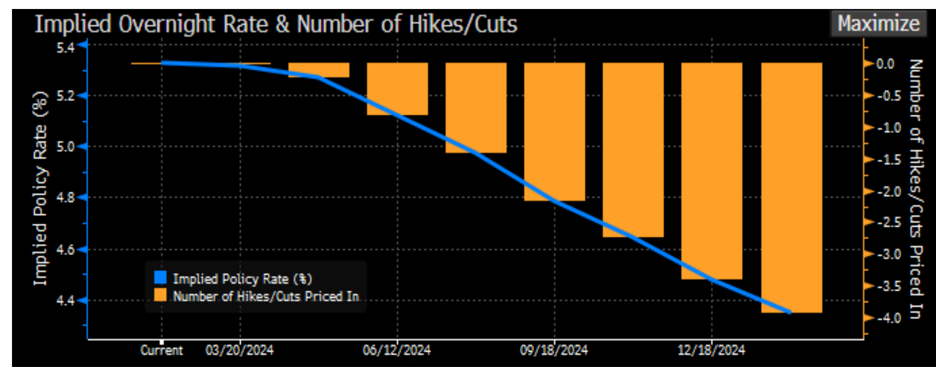
BANQUE CRAMER

- ❑ **Several Fed policymakers warned against cutting interest rates too soon or by too much in the wake of recent data showing inflation stayed unexpectedly high in January, echoing the Minutes of the Fed's last meeting released last week**
- ❑ **Economists have revised their forecasts following the sticky inflation report, with many of them now projecting the FED's first cut will come later in 2024 than they had earlier forecast**
- ❑ **While initially anticipating aggressive rate cuts from the FED, recent adjustments have brought the forecasts into close alignment with the FED**
- ❑ **In the absence of a radical change in the economic and financial environment, the chances of the fed cutting rates anytime soon are becoming increasingly slim. The US10-year is trading at 4.24% and the 2Y in 1Y is at 4.18%**



Source: Bianco

Source: Bloomberg



Source: Bloomberg

Who will cut interest first?

BANQUE CRAMER

- **Central bankers have gained credibility by not bowing to pressure of rapid easing from the market participants**

- **The gap between market-based expectations for rate cuts and central banks' own forecast for 2024 has significantly narrowed. And, more importantly, from a global asset allocation perspective, investors are wondering whether it will be the FED or the ECB that will cut first. Current market pricing reveals it is a close call: 3.14 cuts for the FED in 2024 and 3.10 cuts for the ECB**

- **A shift in the economic cycle is expected in 2024, that will lead central banks to embark on a program of interest rate cuts**

- **The high expectations of capital markets were dampened by stubbornly persistent U.S. inflation data in January, and the Federal Reserve is not expected to make its first interest rate cut until June**

- **Could the ECB pre-empt the Fed and cut rates as early as April? The central bank faces stronger constrains than the FED and C. Lagarde's room for manoeuvre is limited by the Eurozone's economic fragility. The current economic data indicates increasing divergence across both side of the Atlantics, with U.S. data indicating delayed Fed rate cuts and Eurozone data pressuring the ECB for earlier rate reductions, despite slightly improvement**

- **BUT, looking beyond the timing of a first rate cut, the next question is how far and how fast the ECB would go!!!!! the fact that the Eurozone economy is not in recession and risks to inflation and the inflation outlook remain to the upside (be it due to cyclical but also structural drivers) plays an important role**

- **Market participants are betting on a simple reversal of the rate hikes of the last two years. Historically, such a turnaround takes place only when economies fall into a severe recession**

EQUITIES

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- **Despite renewed pressure on core rates, the major indices delivered a fourth month of positive performances,** supported by i/ the resilience of the US economy and ii/ good corporate results, which have beat expectations

- **Global equity markets delivered new positive return for the third consecutive month,** with major indices reaching all-time highs in February again. All markets performed well this month. While the MSCI World gained 4.3% in February, the MSCI Emerging was up 4.8%, supported by positive returns in the Chinese market (+9.35%) on the back of several support measures. The Japanese index enjoyed again a positive return of +8.00%, making it by far the best performer year-to-date

- **US equities slightly outperformed Europe**. The S&P 500 was up 5.3% versus 2% for the Stoxx Europe 600. The SMI delivered a performance of 0.9%, while Japan benefited from the currency's weakness, enabling the Nikkei to deliver a 8% rise in February. While the S&P 500 posted new highs, the growth-sensitive small cap stocks slightly outperformed, with a return of 5.65%. Magnificent 7 continued to skyrocket, posted a return of 12%. Nevertheless, a few of the Mag 7 have started lagging the S&P 500. Investment banks are getting increasingly bullish on the US equity stocks, with BofA raising year-end target for the S&P 500 to 5400 (UBS: 5,400, Barclays: 5,300, Goldman: 5,200, Citi: 5,100, with the only bears left: Morgan Stanley at 4,500 and JPMorgan at 4,200))

- **Sectors wise, returns are positive across the board**. Technology and Communication outperformed in the US**,** despite a strong correction the last few days of January. Within the sector, Semiconductors have continued to lead the way, powered by Nvidia and AMD. The trillion dollar club added a new member with Meta crossing the $1trillion for the first time since September 2021. Netflix's crackdown on password sharing has been a very good success with revenues hitting a record $8.8bn in the last quarter of 2023. According to Bloomberg, Nvidia's capitalisation exceeds the S&P energy sector

TOTAL RETURN (% - Local Currency)

	Jan	Feb
MSCI World	1,23	4,28
MSCI Emerging	-4,64	4,78
Dow Jones	1,31	2,50
S&P 500	1,68	5,34
Nasdaq 100	1,89	5,41
EuroStoxx 50	2,97	5,08
EuroStoxx 600	1,49	2,00
FTSE 100	-1,27	0,45
SMI	1,76	0,93
Nikkei 225	8,44	7,99
CSI 300	-6,29	9,35
EU Banks	2,59	0,66
US Banks	1,97	4,25
EMU Small Caps	-2,50	-0,39
US Small Cap	-3,89	5,65
Bloomberg Manificent 7 Total Return	1,83	12,06
S&P 500 ENERGY INDEX	-0,38	3,18
S&P 500 INFO TECH INDEX	3,95	6,31
S&P 500 CONS DISCRET IDX	-3,53	8,71
S&P 500 REAL ESTATE IDX	-4,74	2,58
S&P 500 COMM SVC	5,02	5,70
S&P 500 INDUSTRIALS IDX	-0,88	7,23
S&P 500 FINANCIALS INDEX	3,04	4,16
S&P 500 HEALTH CARE IDX	3,01	3,22
S&P 500 UTILITIES INDEX	-3,01	1,12
S&P 500 MATERIALS INDEX	-3,91	6,46
S&P 500 CONS STAPLES IDX	1,54	2,32
S&P 500 Banks	1,97	4,25
DJ US Small Caps Bank	-2,72	-1,99

Valuation – All news is good news

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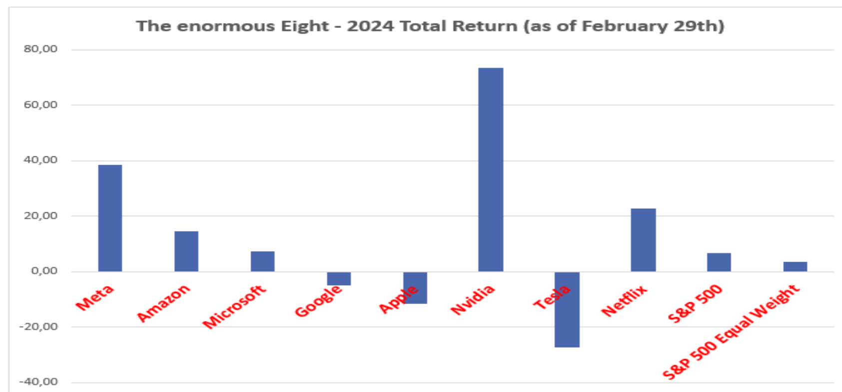
The S&P 500 has closed higher in 16 out of the last 18 weeks

Source: C. Bilello

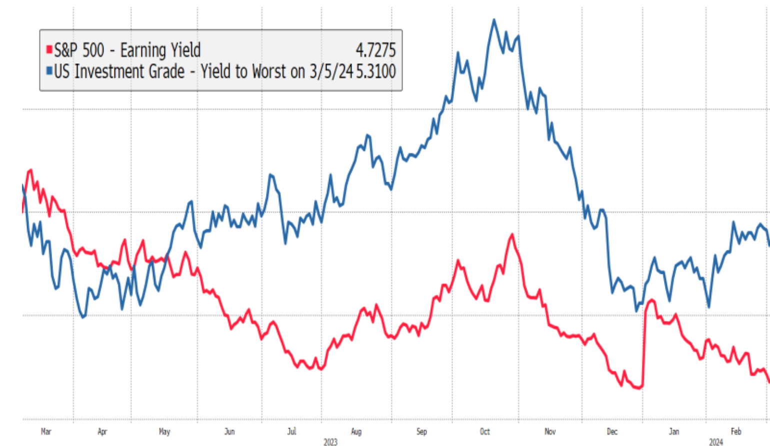


Momentum remains firm on the S&P 500 led by the Tech

Source: Bloomberg

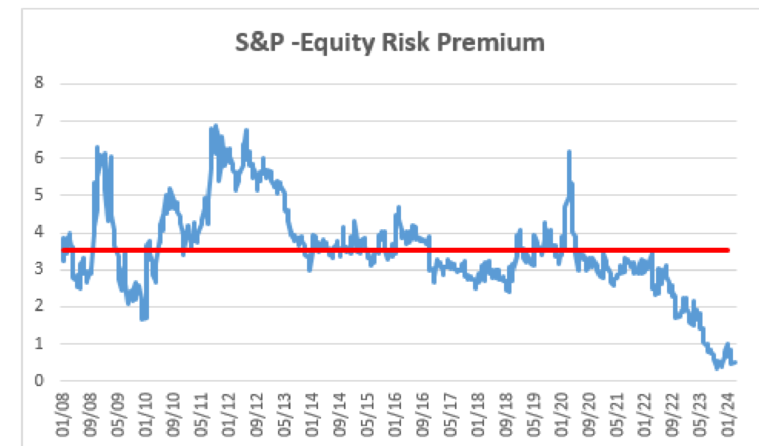
Source: Bloomberg

$ Investment Grade offers premium over US Equities



Source: Bloomberg

The equity risk premium, defined as the spread between the S&P 500 forward earning yield and the US 10 year, continued to offer little compensation.



Source: Bloomberg

4Q23 Earnings – The fourth earnings season has been strong

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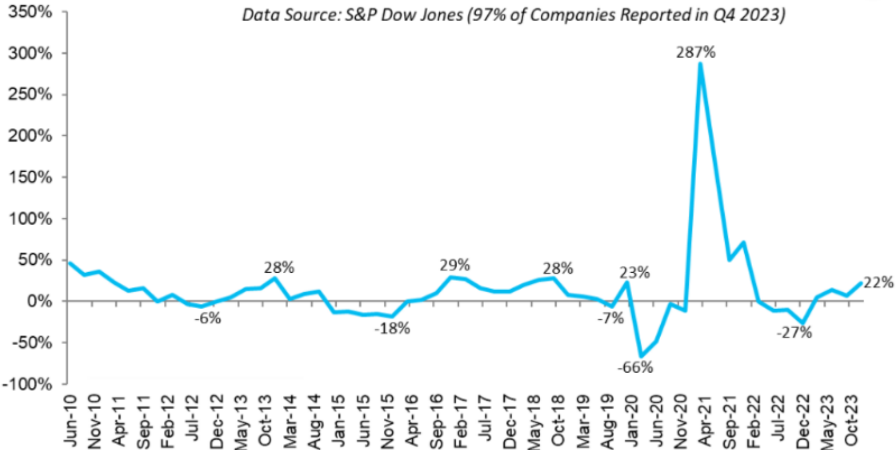
- **The earning seasons provided fundamental support to the rally of the S&P 500, suggesting that a reacceleration is underway**
- **Earnings per share were up 22% over the prior year. This represents the fourth straight quarter of positive year-over-year growth and the highest growth rate since Q4 2021, according to S&P Dow Jones data**
- **Top line growth appears to be moderating, with 4.6% YoY increase in sales being the slowest growth rate since Q4 2020**
- **Nevertheless, it is the twelfth consecutive quarter of positive real sales growth**



Source: C. Bilello

Source: C. Bilello

Source: C. Bilello

CURRENCIES & COMMODITIES

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- **The US Dollar outperformed its currencies basket (+0.85%).** The US currency has continued to rise against the Japanese Yen and the Swiss franc, with a return of +2.08% versus Yen and +2.68% versus the CHF. It has been more stable versus the single currency (-0.12%)

- **Gold slightly edged up** (+0.23%) to close the month at 2044, helped by US inflation measure PCE showing prices increases slowed last month

- **Oil has continued to rally** (c. +2.34%), benefitting from continuing tensions in Red Sea, closing the month at $83.6

- **Natural gas has continued to decline**, with the European continent ending the heating season with record high inventories.

TOTAL RETURN (% - Local Currency)

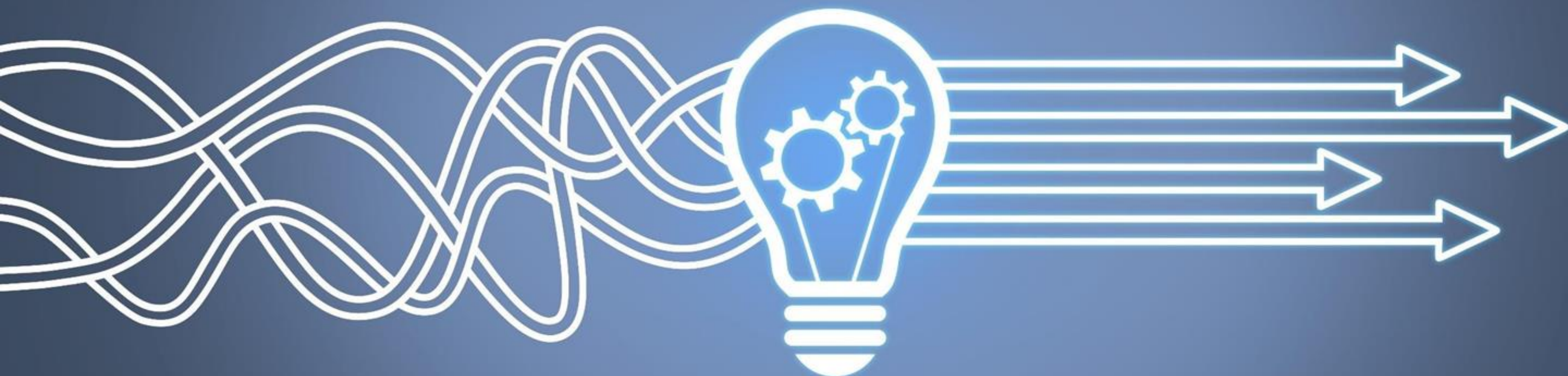
	Jan	Feb
EUR/USD	-2,06	-0,12
GBP/USD	-0,31	-0,50
EUR/CHF	0,16	2,56
USD/JPY	4,28	2,08
USD/CHF	2,46	2,68
DXY	1,05	0,85

TOTAL RETURN (% - Local Currency)

	Jan	Feb
Commodities	-0,09	-1,89
Ind. metals	-2,37	-0,98
Precious metals	-1,76	-0,98
Agriculture	-1,51	-4,76
Energy	2,29	-0,84
WTI	7,77	3,18
Brent	7,67	2,34
Natural Gas	-18,22	-11,43
EU gas 1Mth Fwd	-0,91	-15,38
Gold	-0,94	0,23

Source: C. Bilello

Market scenario & Positioning



WHERE ARE WE IN THE CYCLE?

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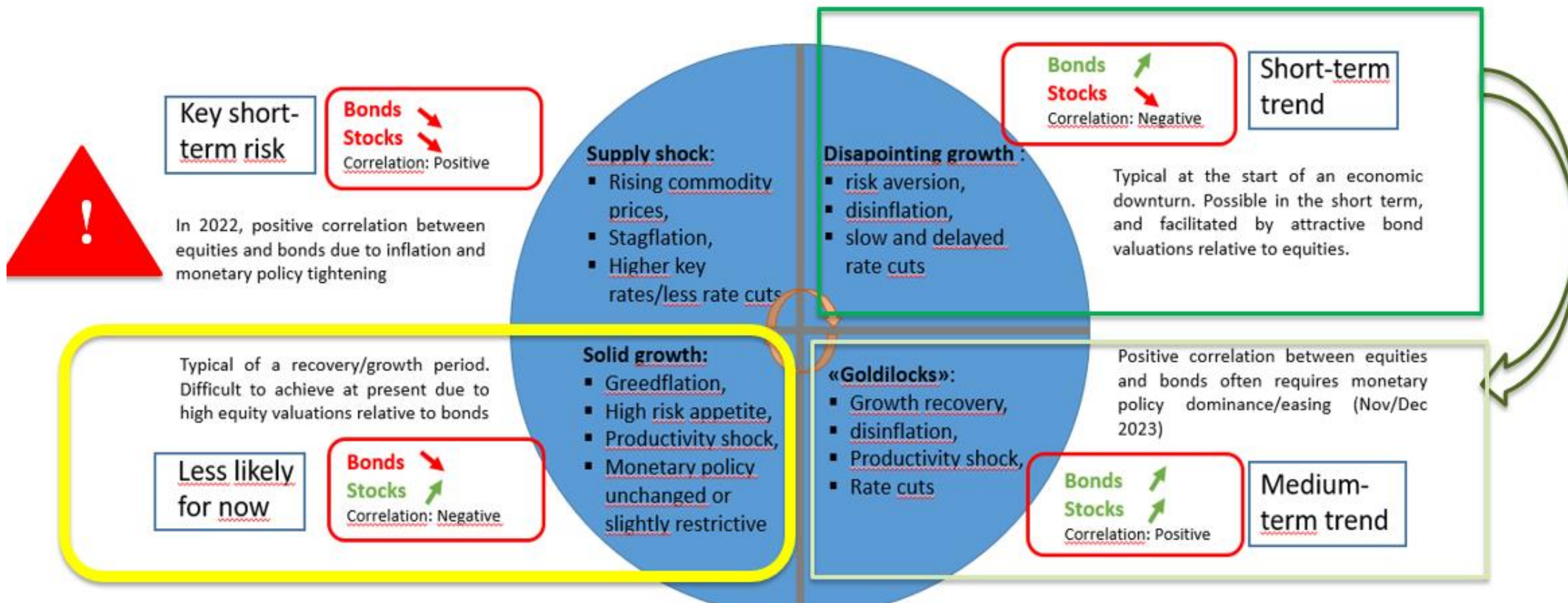

- As expressed last month, the **position in an economic cycle is decisive in determining where to invest**. Where do we stand?
- **This cycle is unusual** and **troubled by structural factors** such as 1/ AI and its impact on productivity and the pace of growth, 2/ the climate, with the Biden plan in the US encouraging business investment or the European Green Deal plan, 3/ a new world order that is causing major upheavals in production chains and shocks to competitiveness
- **While we expected to be somewhere to the right of the chart, we ended up in the situation we thought least likely.** Why? There are two reasons for this: 1/ the persistent resilience of the US economy, which has gradually dampened fears of recession; and 2/ AI/Tech frenzy, fuelled by soaring earnings

Our View – No change in our asset allocation

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- **From a «Soft landing» to a «No landing»: that is the story since the beginning of the year**
- **With a global repricing of the rate cuts' expectations from the main central banks**
- **Few risks anticipated given valuations of risky assets**
- **Excessive valuation when looking at risk premia**
- **More economic downturn to come, with no recession**

→ **Few catalysts for very active positioning in the short-term**

Equity:
-EU equities are cheaper on an historical basis
-US equities are more expensive but not at extremes either, when looking at equally-weighted indices
-Equities are rich versus High Yield, mainly due to the Tech sector

Fixed Income:
-Although yields have sold off since our last committee meeting, core sovereigns may still correct upwards a little
-Tight spreads on the Credit and less attractive yields than a few months ago BUT of interest in a context of rate cuts to come
-Favour Investment Grade over High Yield ; more neutral on Investment Grade between US and EU
-Favour exposure on the belly of the curve
-Financials offer decent spreads versus Non-Financials, even on the senior bonds

Emerging Debt: selective on EM countries and positive on Local currency Debt

	Underweight		Neutral		Overweight
Overall Positioning					
Cash & Equivalents			●		
Fixed Income			●		
Equities			●		
Alternatives			●		
Fixed Income					
Government		●			
Corporate IG				●	
Corporate HY		●			
Emerging Markets HC			●		
Equities					
United States			●		
Europe ex CH		●			
Switzerland			●		
Japan		●			
Other Developed Markets				●	
Emerging Markets			●		
Structured Products					
Alternatives					
Real Estate		●			
Gold			●		
Hedge Funds				●	

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