Monthly Market Outlook

February 2024

BANQUE CRAMER

MACRO PICTURE

- **Central Banks –** Market participants faced some doubts at the beginning of the month, when the FOMC Minutes showed that Fed officials were not in the rush to cut Fed Funds rate. While major central banks kept rate unchanged over the course of the month, they are looking for more evidence that inflation is durably aligning with the 2% target before pivoting.

- **Geopolitical risk -** Tensions in the Red Sea continued, with the US and UK strikes on Houthis following their attacks on shipping. This led to a rise in shipping prices, with traffic re-routing via the drought-hit Panama or Africa, reviving concerns about inflationary pressures and higher oil prices. For most of the economists, this rise should not derail the disinflation expected in 2024. In Taiwan, the ruling party has secured the presidency while losing its parliamentary majority, which cooled down the tensions with China for the time being.

- **Real Estate -** The former Chairman of the FED, and current Treasury Secretary – Janet Yellen – said that the property markets in some US cities are of special concerns and highlighted that many small US banks have commercial property concentration. Of note that the Fed's Bank Term Funding Program will cease making new loans from March 11th. With all the worries surrounding small banks and exposures to commercial real estate, this could add some stress in the market.

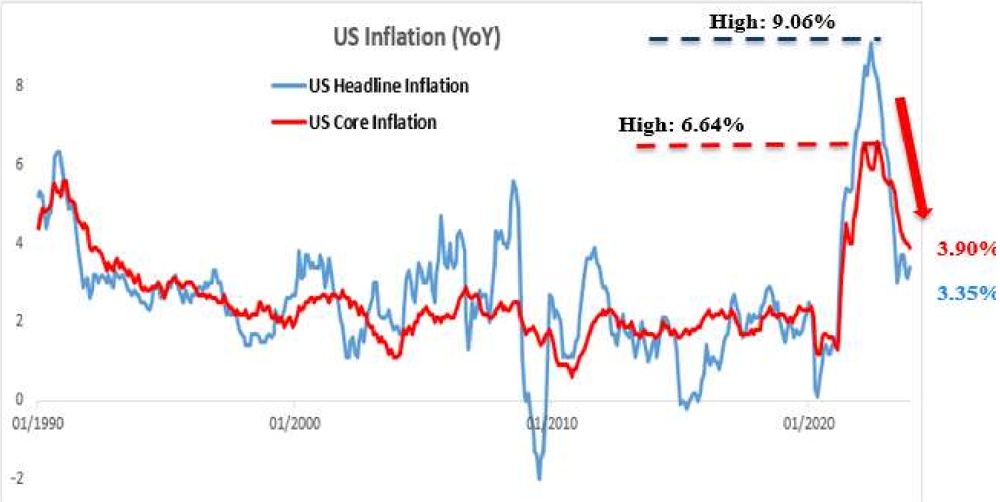
- **China –** While data for December showed the Official Purchasing Manager index (PMI) for the manufacturing sector well established below the 50 threshold (49.0, recession area), declining for the fourth consecutive month, the private Caixin PMI painted a better picture with the index slightly higher for the second consecutive month above 50 (50.8, expansion area). Official non manufacturing PMI came slightly higher at 50.4 and the Caixan Services was even more upbeat at 52.9. Consumer prices fell 0.3% YoY in December and producer prices declined 2.7% YoY. In deflation, the country is implementing measures to support its property market. Nominal GDP grew by 4.2% in 2023, the lowest rate since 1976, excluding the pandemic period.

- **Switzerland –** PMI manufacturing came at 43 (contraction area). Inflation picked up slightly at 1.7% YoY (from 1.4% in November), but stayed well within the SNB target range. Producer and import prices came at -1.1% YoY. Unemployment rate established itself at 2.3%.

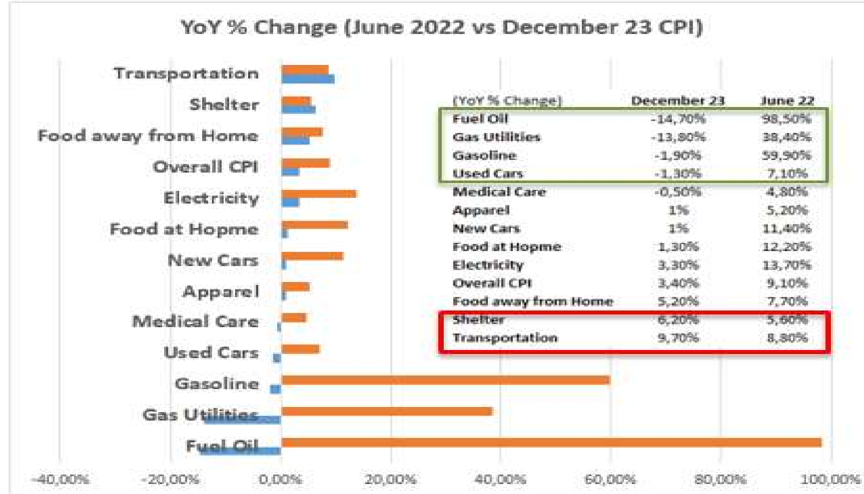
- **United State –** The US activity remained extremely solid in January with a firm labour market and disinflation. While inflation came slightly stronger than expected, with the consumer price index rising 0.3% MoM in December and 3.35% YoY, showing an acceleration from November (0.1% MoM; 3.1%YoY), core inflation slowed at 3.9% YoY from 4%. With the exception of Transportation and Shelter, all other CPI components have a lower rate today than back in June 2022, when we reached a peak at 9.06% YoY. As CPI's largest component (>33%), Shelter has the greatest impact on the direction of CPI index. Excluding Shelter, US CPI rose 1.9% YoY, the 7th consecutive month below 2%. Shelter has moved down from a peak of 8.2% in March to 6.2% today. One of the best news in the CPI report is the strong decrease of food price inflation with 1.3% being the smallest increase we have seen since June 2021. Other signs of cooling inflation about everywhere: Producer price index came in at -0.1% in December and at 1% YoY. The headline personal consumption expenditure (PCE) index dropped to 2.6% YoY in December and the core PCE fell to 2.9%, a three-year low. The strong resilience of the US consumer has been confirmed by the 0.6% MoM increase in US retail sales, as did personal spending (+0.7% MoM in December). GDP came at an annualized 3.3% in Q4, bringing total growth in 2023 at 3.1%. Global PMI index came at 52.3 this month (expansion area), the highest since June

- **Eurozone –** Headline consumer inflation rose at 2.9% YoY in December from 2.4% the previous month. At the opposite, core inflation eased to 3.4% YoY from 3.6%. Largely dragged down by Germany, Euro area industrial production slumped for the third straight month in November. Of note that on a year over year basis, German exports were down by 5% and imports by 12%. The deteriorating trend seems to be reversing as seen in the rebound of flash PMI index of business confidence. European indicators suggest that manufacturing and services activity is weak, but has stabilised over the past three months, helped by rising real incomes. Worth noting that households savings as a share of income are also stable. More broadly, slow growth, coupled with uncertainties over the German economy (which is facing hard competition from China, especially on the auto sector (China becomes the world's number one vehicle exporter, undermining Europe's once-dominant role), and global geopolitical tensions have deeper implications for Europe than the rest of the world.

MACRO PICTURE – US INFLATION



Bloomberg



(YoY % Change)	December 23	June 22
Fuel Oil	-14,70%	98,50%
Gas Utilities	-13,80%	38,40%
Gasoline	-1,90%	59,90%
Used Cars	-1,30%	7,10%
Medical Care	-0,50%	4,80%
Apparel	1%	5,20%
New Cars	1%	11,40%
Food at Hopme	1,30%	12,20%
Electricity	3,30%	13,70%
Overall CPI	3,40%	9,10%
Food away from Home	5,20%	7,70%
Shelter	6,20%	5,60%
Transportation	9,70%	8,80%

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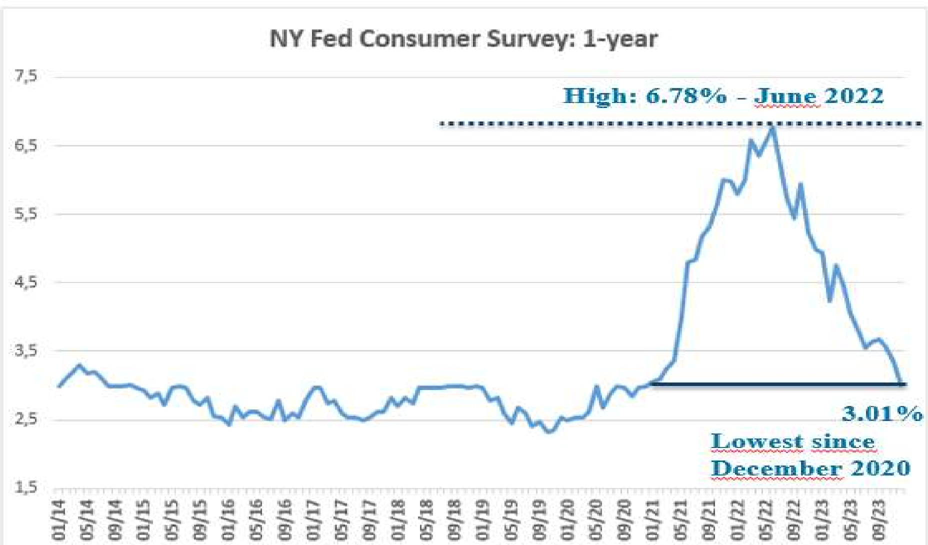

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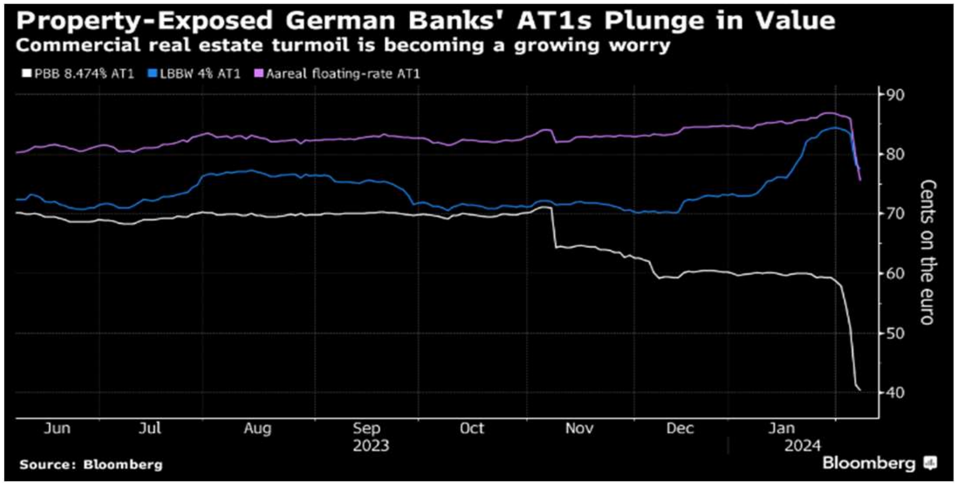
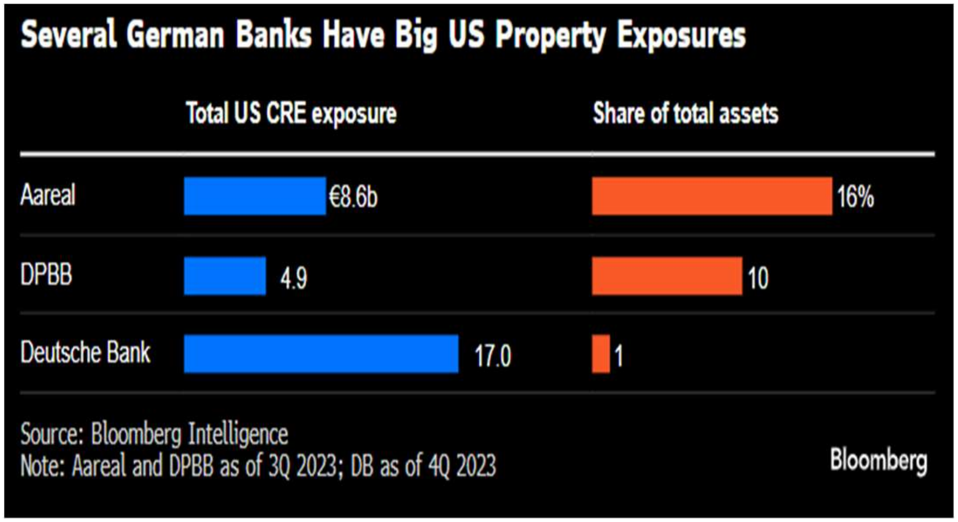
Bloomberg - US commercial real estate contagion is moving to Europe

- According to a Bloomberg report, **the trouble seen in the US CRE property market is moving to Europe**
- The well-known **Deutsche Pfandbriefbank AG has been obliged to issue a statement** declaring the institution has increased provisions in a context of "persistent weakness of the real estate markets". According to a Bloomberg report, the company described the current crisis as the "**greatest real estate crisis since the Global Financial Crisis**"
- **Bafin, the country's banking regulator,** said it is monitoring the CRE turmoil this Wednesday
- Of note that **Germany's central bank warned last year about the risks surrounding commercial real estate**, saying there could be "significant adjustments" that lead to higher defaults and credit losses
- In its results last week, **Deutsche Bank recorded provisions for losses in US CRE that were more than four times bigger than a year ago**, warning that refinancing poses the greatest risk to the struggling sector as asset values suffer
- Julius Bear Group said it would write down significant loans to bankrupt property Signa.





Source: Bloomberg

FIXED INCOME

- **Better than expected macro figures along with communication of central bankers were the main driver of the market**. The year-end rally took a hit at the beginning of the month after the FOMC Minutes showed that Fed officials were in no rush to cut Fed Funds rates. Therefore, market participants pushed back their hopes for early cuts, while continuing to price in larger rate cuts than what has been announced by central bankers at their last meetings: between 5 and 6 rate cuts of 25bps in the US (3 expected by the Fed) and 6 cuts in the Euro area (the ECB has opened the door for a first cut in June)

- **Core sovereign bonds** – Core yields have been volatile in January. Long-term yield drifted up as investors became more and more sceptical that the Fed and the ECB will cut rates in march. The US 10-year benchmark traded close to the 4.20% mark before receding to close the month at 3.91% (+8bps). Its German peers followed through (+14bps). The 2-10Y steepening on both side of the Atlantic lost momentum. Duration sensitive bonds indices delivered a negative performance. The appreciation of the US Dollar over the month had a major impact on non-hedged bond performances

- **Developed Credit –** Primary markets enjoyed a large volume of new issues in January and demand has been strong, with quality credit offering decent room versus global Treasuries and better fundamentals than the so-called safe-haven. Therefore, credit spreads tightened and stood below their 5-year average. In terms of performance, based on ICE indices, EUR High Yield outperformed its US peers. Yields remained far above their 5-year average but are offering less cushion than few months ago. We estimate that spreads are too tight given rising defaults and economic/political risks. The percentage of US and EU High Yield trading at distressed levels is currently 8.6% and 10.3% respectively, according to CreditSights. Financials continued to offer decent spread premium versus Non-Financials

- **Emerging Debt –** External sovereign debt suffered in a context of stronger US dollar and Fed rate cuts pushed back in May. Worth noting that Emerging markets debt issuance in US Dollar hit record in January (Saudi Arabia, Mexico, Indonesia to name a few)

TOTAL RETURN (% - Local Currency)

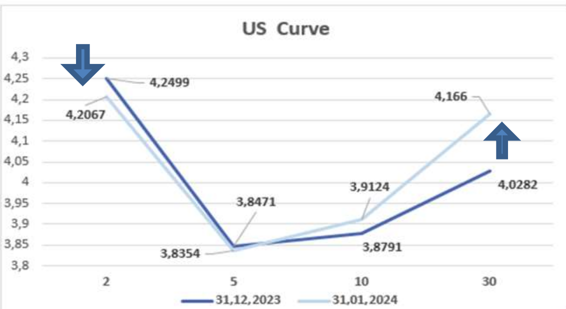
	Jan
EU Treasuries	-0.53
US Treasuries	-0.16
EUR Investment Grade	0.10
USD Investment Grade	0.16
EUR High Yield	0.84
USD High Yield	0.04
USD EM External Sovereign Debt	-1.38
Bloomberg Global Aggregate EUR (Unhedged)	0.29
Bloomberg Global Aggregate USD (Hedged)	-0.20

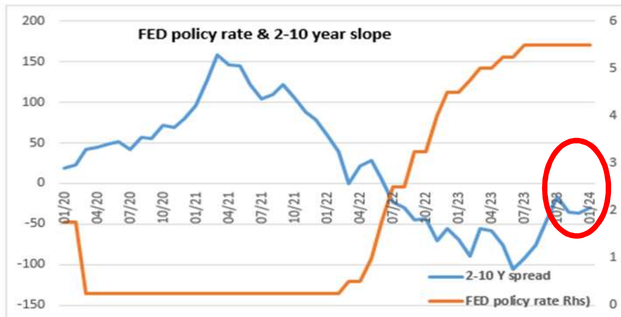
OAS Spread Change (Basis Point)

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

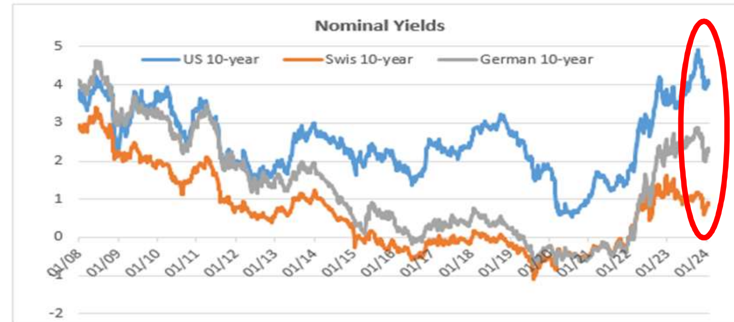
Valuation – Carry still prevail but buffer is reducing

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





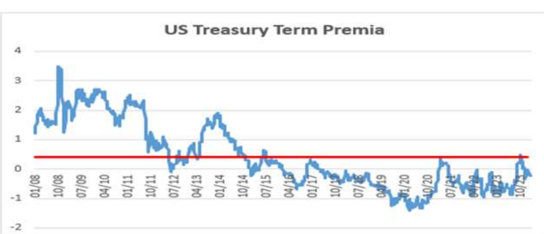
Global sovereign bonds yields have drifted up



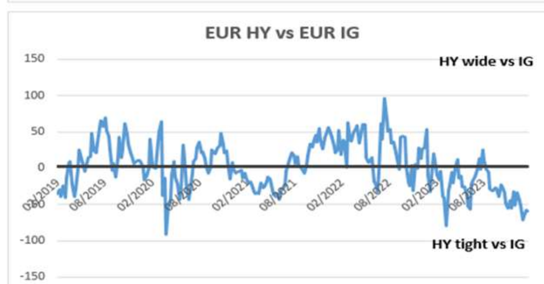
Credit enjoyed slighly positive return in January with EUR High Yield outperforming. Spreads are far below their 5-year average while yields still offer some cushion but less than few months ago

(Ice Bond Indices (January 31h))	Yield (YTW)			Credit Spread (OAS Spread)		
	31,01,2019	31,01,2024	5-year Average	31,01,2019	31,01,2024	5-year Average
EUR Invetsment Grade	1,15%	3,58%	1,73%	144	130	132
USD Investment Grade	3,99%	5,16%	3,60%	138	102	128
EUR High Yield	4,13%	6,29%	4,72%	449	385	423
USD High Yield	6,94%	7,84%	6,54%	437	359	429

US Treasury Term Premia offers little compensation



High Yield trades tight versus quality spectrum; USD Investment Grade trades cheap versus both EUR Investment Grade and USD denominated Emerging



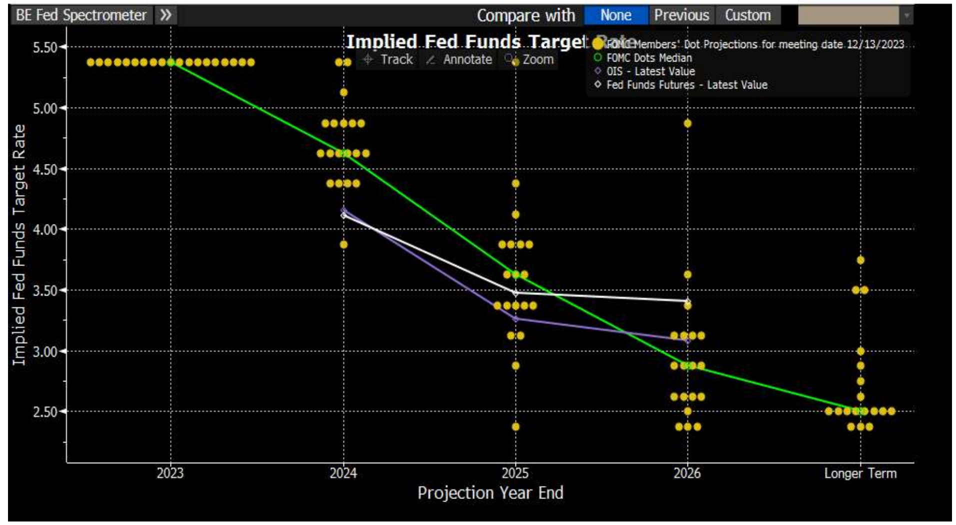
Bye Bye March rate cut!

- The **FOMC held policy steady at 5.25-5.50%** as widely expected. The market had priced in a zero chance of a cut for the January 31st meeting

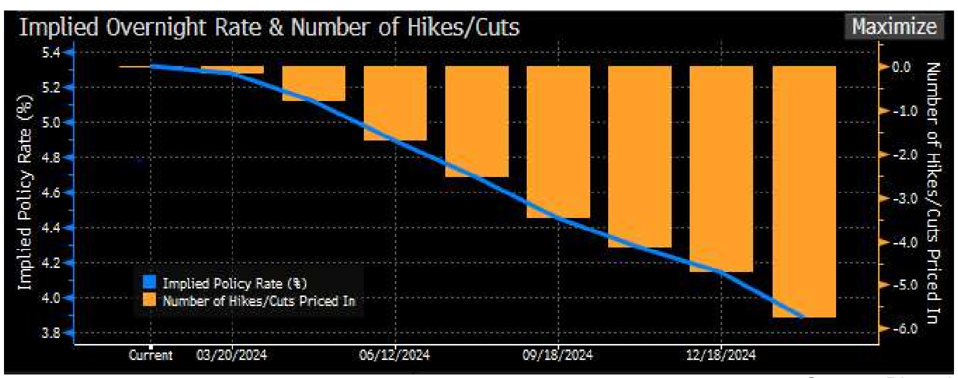
- **Changes to the policy statement were largely balanced**. The US Federal Reserve still estimates the US economy is growing at a solid pace. The risks to reaching the inflation target and employment goal are better balanced. The statement indicates the FED is not considering hiking rates further at this stage but the institution needs to be more confident that the inflation will converge towards the 2% target before cutting rates. Chairman Powell explicitly said a rate cut in March does not seem to be the Committee's base case.

- The **combination of the FOMC Meeting and the stronger-than-expected employment report have pushed back expectations of when the first rate cut will take place**. At the end of December, expectations assigned a 70% probability of a rate cut in March. Today, those same odds are below 20% and the consensus has shifted to May. Entering the year, the markets were pricing in 6 rate cuts with a fed fund at 3.90% at the end of 2024. Today, it has moved to **5 cuts with a year-end rate at 4.12%**

- The FOMC gave **no indication about Quantitative Tightening** and the fact it could end anytime soon. Total assets are now at their lowest since March 2021, following a decrease of $1.3tr from the peak in April 2022



Source: Bloomberg



Source: Bloomberg

Source: Charlie Bilello

EQUITIES

- **The major indices delivered a third month of positive performances,** supported by i/ expectations of interest rate cuts, ii/ the resilience of the US economy and iii/ better than expected results for big names.
- **Global equity markets enjoyed positive return for the third consecutive month,** with major indices reaching all-time highs in January, even in a context of higher long-term yields. While the MSCI World gained 1.14% in January, the MSCI Emerging was down 4.68%, mainly due to the weakness of the Chinese market (-6.29%), and despite announcements of economic and monetary support along with a report that the Authorities were considering ways to stabilise the equity market. The Japanese index benefited from the BoJ leaving its monetary policy unchanged and enjoyed a positive return of +8.44%
- **US equities slightly outperformed Europe**, except for the UK which posted negative return. While the S&P 500 posted new highs, The Russell 2000 Small caps underperformed; in a lesser extend in Europe the picture is quite similar. The Russel 2000 fell by 3.89% compared with +1.68% for the S&P 500.
- Sectors wise, **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. Financials have been a detractor of performance this month following the NY Community Bancorp story.

TOTAL RETURN (% - Local Currency)

	Jan
MSCI World	1.23
MSCI Emerging	-4.64
Dow Jones	1.31
S&P 500	1.68
Nasdaq 100	1.89
EuroStoxx 50	2.97
EuroStoxx 600	1.49
FTSE 100	-1.27
SMI	1.76
Nikkei 225	8.44
CSI 300	-6.29
EU Banks	2.59
US Banks	1.97
EMU Small Caps	-2.50
US Small Cap	-3.89
Bloomberg Manificent 7 Total Return	1.83
S&P 500 ENERGY INDEX	-0.38
S&P 500 INFO TECH INDEX	3.95
S&P 500 CONS DISCRET IDX	-3.53
S&P 500 REAL ESTATE IDX	-4.74
S&P 500 COMM SVC	5.02
S&P 500 INDUSTRIALS IDX	-0.88
S&P 500 FINANCIALS INDEX	3.04
S&P 500 HEALTH CARE IDX	3.01
S&P 500 UTILITIES INDEX	-3.01
S&P 500 MATERIALS INDEX	-3.91
S&P 500 CONS STAPLES IDX	1.54

Valuation – All about big caps

The underperformance of equally-weighted indices show that the largest market cap lead the return

$ Investment Grade offers premium over US Equities

What about risk concentration????

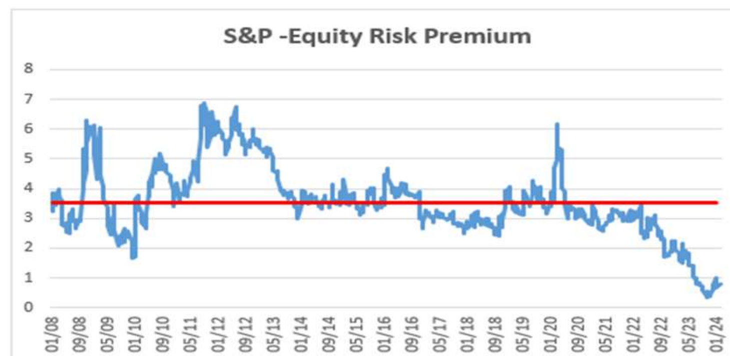
Eurostoxx 50 – Top Holdings

11) ASML Holding NV	10.089%
12) LVMH Moet Hennessy Louis Vuitt	6.107%
13) SAP SE	5.085%
14) TotalEnergies SE	4.321%
15) Siemens AG	3.729%
16) L'Oreal SA	3.345%
17) Schneider Electric SE	3.257%

S&P 500 – Top Holdings

11) Apple Inc	7.017%
12) Microsoft Corp	6.968%
13) Amazon.com Inc	3.445%
14) NVIDIA Corp	3.050%
15) Alphabet Inc	2.061%
16) Meta Platforms Inc	1.959%
17) Alphabet Inc	1.750%
18) Tesla Inc	1.713%

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.



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

4Q23 Earnings – Tech continues to perform

- **Google** revenues increased 13.5% over the last year to a new quarterly high of $86bn. Net income increased 52% YoY to a record $20.7bn. Operating profit margins are up to 27% from 24% a year ago
- **Microsoft**'s revenues increased 17.6% over the last year to a new quarterly high of $62bn. Net income increased 33% YoY to $21.9bn (second highest quarter ever). Operating profit margins are up to 43.6% from 38.7% a year ago
- **Meta**'s revenues increased 25% over the last year to a new quarterly high of $40bn. Net income increased 201% YoY to a record $14bn. Of note: the company paid a quarterly dividend for the first time ($0.50 per share) and increased share buyback to $50bn. Its market cap increased by approx. $200bn after the earnings report, the largest single-day gain for any company in history according to C. Bilello
- **Apple**'s revenues increased 2% over the last year to $119.6bn. Net income increased 13% YoY to $33.9bn

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	285 / 500	1.38%	7.41%
12) > Materials	19 / 28	-0.06%	3.52%
13) > Industrials	53 / 70	1.19%	6.64%
14) > Consumer Staples	18 / 38	0.85%	8.38%
15) > Energy	11 / 25	-2.02%	13.06%
16) > Technology	46 / 80	1.03%	5.00%
17) > Consumer Discretionary	24 / 53	3.12%	13.83%
18) > Communications	13 / 23	2.11%	4.66%
19) > Financials	49 / 59	0.23%	9.06%
20) > Health Care	36 / 64	3.06%	8.72%
21) > Utilities	5 / 30	-8.89%	3.59%
22) > Real Estate	11 / 30	1.84%	3.14%

Source: Bloomberg

Sector (BICS)	Reported	Sales Growth	Earnings Growth
11) All Securities	285 / 500	3.80%	4.21%
12) > Materials	19 / 28	-5.20%	-15.30%
13) > Industrials	53 / 70	2.44%	4.31%
14) > Consumer Staples	18 / 38	3.79%	4.96%
15) > Energy	11 / 25	-10.28%	-28.03%
16) > Technology	46 / 80	4.50%	13.11%
17) > Consumer Discretionary	24 / 53	8.78%	32.81%
18) > Communications	13 / 23	8.21%	46.82%
19) > Financials	49 / 59	5.02%	-2.43%
20) > Health Care	36 / 64	7.42%	-16.59%
21) > Utilities	5 / 30	-5.40%	18.71%
22) > Real Estate	11 / 30	3.22%	2.01%

Source: Bloomberg

Top 10 Biggest Single-Day Market Cap Gains

Meta's post-earnings rally propels stock to top of the leaderboard

	Date	Firm	Biggest single day market cap additions
1	Feb 2, 2024	Meta	$196.8B
2	Nov 10, 2022	Apple	190.9
3	Feb 4, 2022	Amazon	190.8
4	May 25, 2023	Nvidia	184.1
5	Jan 28, 2022	Apple	178.9
6	Jul 31, 2020	Apple	169.0
7	Oct 28, 2022	Apple	150.5
8	Mar 13, 2020	Microsoft	150.4
9	Apr 26, 2023	Microsoft	148.3
10	Jan 3, 2022	Tesla	143.6

Source: Bloomberg, C. Bilello

Q4 **Revenue** Growth, YoY % Change...
Meta $META: +25%
Microsoft $MSFT: +18%
Amazon $AMZN: +14%
Google $GOOGL: +13%
Netflix $NFLX: +12%
AMD $AMD: +10%
S&P 500 $SPY: +5%
Tesla $TSLA: +3%
Apple $AAPL: +2%

Q4 EPS Growth, YoY % Change...
AMD $AMD: +4,000%
Netflix $NFLX: +1,660%
Amazon $AMZN: +274%
Meta $META: +207%
Tesla $TSLA: +110%
Google $GOOGL: +41%
Microsoft $MSFT: +32%
Apple $AAPL: +16%
S&P 500 $SPY: +5%

Source: C. Bilello

CURRENCIES & COMMODITIES

- **US Dollar remained firm against most currencies**, with a return of +4.28% versus Yen and +2.06% versus the EUR, as expectations of rate cuts were pushed back. The Yen suffered from the BoJ leaving its monetary policy unchanged
- **Gold fell slightly** (-0.94%) while remaining above the 50 days moving average
- **Oil enjoyed a decent rally** (c. +7.7%), benefitting from tensions in Red Sea

Global Currencies: 10-Year % Change vs. The US Dollar (G20 Currencies Highlighted)

Currency	Ticker	10-Yr % Ch	Currency	Ticker	10-Yr % Ch	Currency	Ticker	10-Yr % Ch	Currency	Ticker	10-Yr % Ch
Venezuelan Bolivar	VEF	-99.9998%	Mongolian Tughrik	MNT	-49.9%	Bangladeshi Taka	BDT	-29.4%	Honduran Lempira	HNL	-19.4%
Syrian Pound	SYP	-99.1%	Colombian Peso	COP	-49.2%	Romanian Leu	RON	-27.8%	South Korean Won	KRW	-19.2%
Argentine Peso	ARS	-99.1%	Tunisian Dinar	TND	-47.9%	Dominican Peso	DOP	-27.3%	Turkmenistani Manat	TMT	-18.4%
Turkish Lira	TRY	-92.3%	Kenyan Shilling	KES	-47.5%	New Zealand Dollar	NZD	-25.7%	Moroccan Dirham	MAD	-18.2%
Surinamese Dollar	SRD	-91.2%	Rwandan Franc	RWF	-47.0%	Moldovan Leu	MDL	-25.1%	Canadian Dollar	CAD	-17.9%
Angolan Kwanza	AOA	-88.5%	Burundian Franc	BIF	-45.9%	Peruvian Sol	PEN	-25.0%	Chinese Yuan Renminbi	CNY	-15.3%
North Korean Won	KPW	-85.5%	Gambian Dalasi	GMD	-44.2%	Nepalese Rupee	NPR	-24.8%	Icelandic Krona	ISK	-15.3%
Uzbekistani Som	UZS	-82.3%	Uruguayan Peso	UYU	-44.2%	Bhutanese Ngultrum	BTN	-24.5%	Fijian Dollar	FJD	-14.9%
Nigerian Naira	NGN	-82.2%	Kyrgyzstani Som	KGS	-43.3%	Indian Rupee	INR	-24.5%	Vietnamese Dong	VND	-14.6%
Sierra Leonean Leone	SLL	-81.0%	Algerian Dinar	DZD	-42.4%	Australian Dollar	AUD	-24.3%	Yemeni Rial	YER	-14.1%
Ghanaian Cedi	GHS	-80.1%	Namibian Dollar	NAD	-41.4%	Tuvaluan Dollar	TVD	-24.3%	Samoan Tala	WST	-13.4%
Ukrainian Hryvnia	UAH	-77.5%	Basotho Loti	LSL	-41.4%	Polish Zloty	PLN	-24.0%	Solomon Islander Dollar	SBD	-12.8%
Egyptian Pound	EGP	-77.5%	Swazi Lilangeni	SZL	-41.4%	Afghan Afghani	AFN	-23.9%	Czech Koruna	CZK	-12.0%
Malawian Kwacha	MWK	-74.9%	South African Rand	ZAR	-41.4%	Indonesian Rupiah	IDR	-23.2%	Iraqi Dinar	IQD	-11.3%
Libyan Dinar	LYD	-74.4%	Norwegian Krone	NOK	-41.3%	British Pound	GBP	-23.0%	Kuwaiti Dinar	KWD	-8.5%
Haitian Gourde	HTG	-68.0%	Iranian Rial	IRR	-40.5%	Cape Verdean Escudo	CVE	-22.0%	Thai Baht	THB	-8.2%
Congolese Franc	CDF	-66.8%	Chilean Peso	CLP	-39.5%	Mexican Peso	MXN	-21.9%	Trinidadian Dollar	TTD	-6.1%
Ethiopian Birr	ETB	-66.0%	Swedish Krona	SEK	-38.3%	Serbian Dinar	RSD	-21.8%	Israeli Shekel	ILS	-5.6%
Kazakhstani Tenge	KZT	-65.4%	Hungarian Forint	HUF	-37.3%	Guinean Franc	GNF	-21.2%	Singapore Dollar	SGD	-4.7%
Pakistani Rupee	PKR	-62.4%	Paraguayan Guarani	PYG	-36.4%	Tongan Pa'anga	TOP	-21.0%	Bruneian Dollar	BND	-4.7%
Russian Ruble	RUB	-61.3%	Tanzanian Shilling	TZS	-35.8%	Ni-Vanuatu Vatu	VUV	-20.9%	Costa Rican Colon	CRC	-3.1%
Lao Kip	LAK	-61.3%	Ugandan Shilling	UGX	-35.2%	Euro	EUR	-20.8%	Guyanese Dollar	GYD	-1.5%
Sri Lankan Rupee	LKR	-59.0%	Botswana Pula	BWP	-34.1%	Central African CFA Franc	XAF	-20.8%	Armenian Dram	AMD	1.1%
Tajikistani Somoni	TJS	-56.3%	Georgian Lari	GEL	-33.1%	Comorian Franc	KMF	-20.8%	Swiss Franc	CHF	3.1%
Liberian Dollar	LRD	-55.4%	Papua New Guinean Kina	PGK	-32.6%	Bosnian Convertible Mark	BAM	-20.8%			
Azerbaijan Manat	AZN	-53.9%	Mauritian Rupee	MUR	-32.0%	CFP Franc	XPF	-20.8%			
Burmese Kyat	MMK	-53.2%	Jamaican Dollar	JMD	-31.7%	Macedonian Denar	MKD	-20.7%			
Mozambican Metical	MZN	-51.9%	Japanese Yen	JPY	-30.8%	Bulgarian Lev	BGN	-20.7%			
Brazilian Real	BRL	-51.3%	Nicaraguan Cordoba	NIO	-30.8%	Danish Krone	DKK	-20.7%			
Malagasy Ariary	MGA	-50.8%	Malaysian Ringgit	MYR	-29.5%	Philippine Peso	PHP	-19.7%			

Source: C. Bilello

TOTAL RETURN (% - Local Currency)

	Jan
EUR/USD	-2.06
GBP/USD	-0.31
EUR/CHF	0.16
USD/JPY	4.28
DXY	1.05

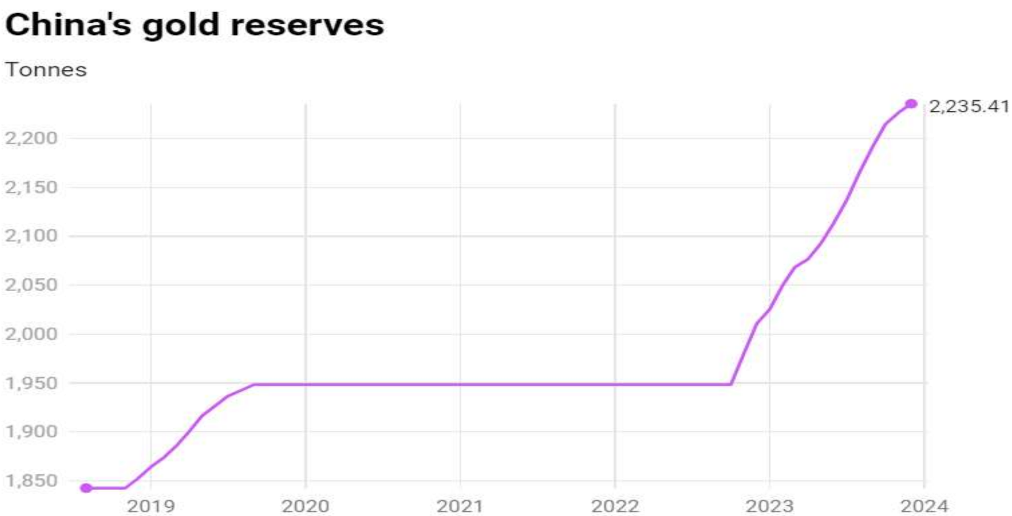
TOTAL RETURN (% - Local Currency)

	Jan
Commodities	-0.09
Ind. metals	-2.37
Precious metals	-1.76
Agriculture	-1.51
Energy	2.29
WTI	7.77
Brent	7.67
Natural Gas	-18.22
EU gas 1Mth Fwd	-0.91
Gold	-0.94

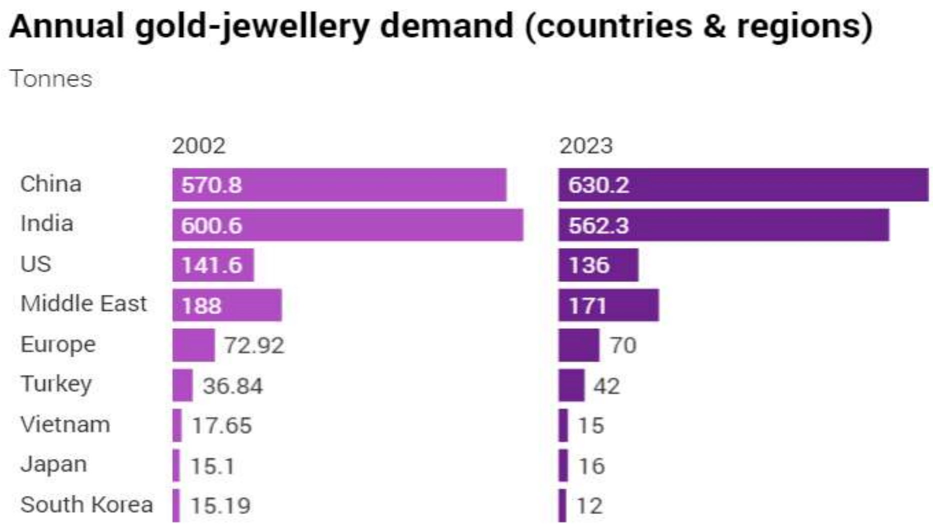
FT - Gold attracts Chinese investors

- Chinese investors and households bought gold as a refuge from local property and stock market, according to the newspaper.
- China is cited as the world's leading contributor to gold jewellery and investment flows in 2023, overtaking India as the world's number 1 consumer of gold jewellery
- According to the World Gold Council, central banks' demand and Chinese demand have been the main triggers of the upward trend in price, breaking its correlation with real rates
- Investment demand for the precious metal in China rose by 28% to 280 tonnes in 2023 and the jewellery consumption in the country rose by 10%
- This rise in demand in the world's largest consumer country shows no signs of abating, according to the director of research at Bullion Vault

Source: FT



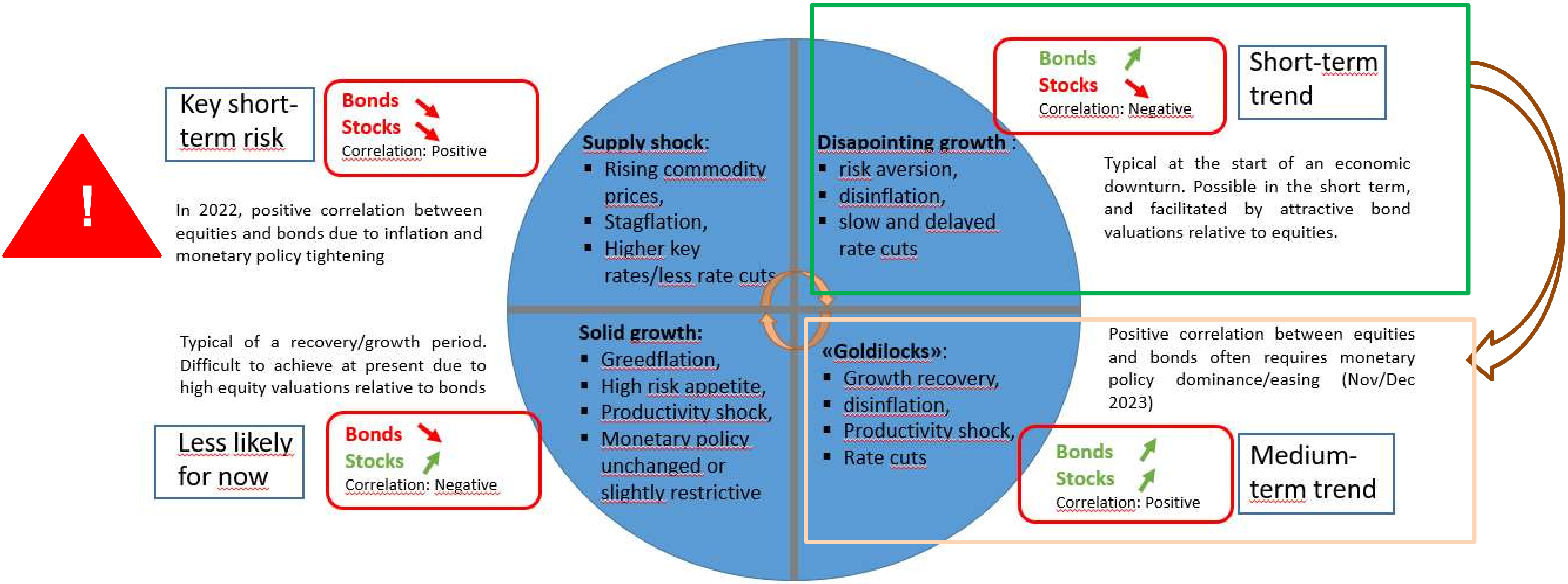
Source: SCMP



Source: SCMP

Market scenario & Positioning

WHERE ARE WE IN THE CYCLE?



- The **position in an economic cycle is decisive in determining where to invest**. Where do we stand?
- **This cycle is unusual**. We had a sharp drop in GDP during the pandemic, with a very sharp but short recession followed by a powerful V-shaped recovery. Therefore, we could say we are in the **middle of the cycle**, but if we look at inflation and the reaction of central banks, we are actually **at the end of the cycle**. Hence the complexity.
- In addition, the **cycle is 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.

Our View

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

  - Too many rate cuts priced in the market
  - Few risks anticipated given valuations of risky assets
  - Excessive valuation when looking at risk premia
  - More economic downturn to come with no major recession

- **Asset classes:**

  - 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:

- Core sovereigns have not sold off enough
- 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 and EUR over USD
- 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		●	
Alternatives			
Real Estate	●		
Gold		●	
Hedge Funds			●

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