Monthly Market Brief

May 2024

MACRO PICTURE

- **Central Banks –** The US Fed kept rates on hold on May 1st at a 23-year high range of 5.25%-5.50%. The FOMC Minutes revealed that some Fed officials were open to further rate rises before recent data pointing to cooling price pressures supported the view that a rise is now out of question. Nevertheless, several Fed governors want to see inflation lower before cutting rates and Fed Chair J. Powell reminded markets that the US central bank is “data dependent”. Market participants are now expecting no rate cut in June or July while the probability of the Fed cutting in September was priced at only around 50%. The Fed rate is expected at 4.96% for end-2024 compared to 3.83% at the beginning of the year. In Europe, there is a large consensus for a cut in June among the ECB’s Governing Council. The outlook is less clear for the following months as some members urged caution about hasty interest rate cuts expectations after June. A cut in June was priced with a probability of 96% at the end of the month with market participants expecting two cuts in 2024. The ECB rate is expected at 3.36% for end-2024 compared to 2.26% at the beginning of the year. It is now certain that the ECB will lower interest rates before the FED

- **Geopolitical risk –** The situation stabilized somewhat and turned more towards a trade war with the US escalation of duties against China (Biden’s tariffs)

- **Global economy** – The global economy continued to show steady momentum, with global Composite PMI at 52.4 in April, accompanied by firming sentiment for both current economic conditions and expectations. Although core inflation continued to decline in many economies, the pace of disinflation has slowed in 2024, with services inflations remaining generally elevated. According to the World Bank, global delivery times continue to improve, with the Global Supply Chain pressure index remaining below its historical average

- **China –** The activity is showing some mixed growth data: a weak domestic demand but some improvements in manufacturing and robust exports. Nevertheless, the rebound could be challenged by potential tariffs measures impacting some sectors. The consumer price index stabilized above zero for the third consecutive month while the producer price index remained in deflation. Meanwhile, the property sector downturn continued, with prices falling further across almost all major cities. The authorities announced further measures aimed at boosting property demand and the economy in general

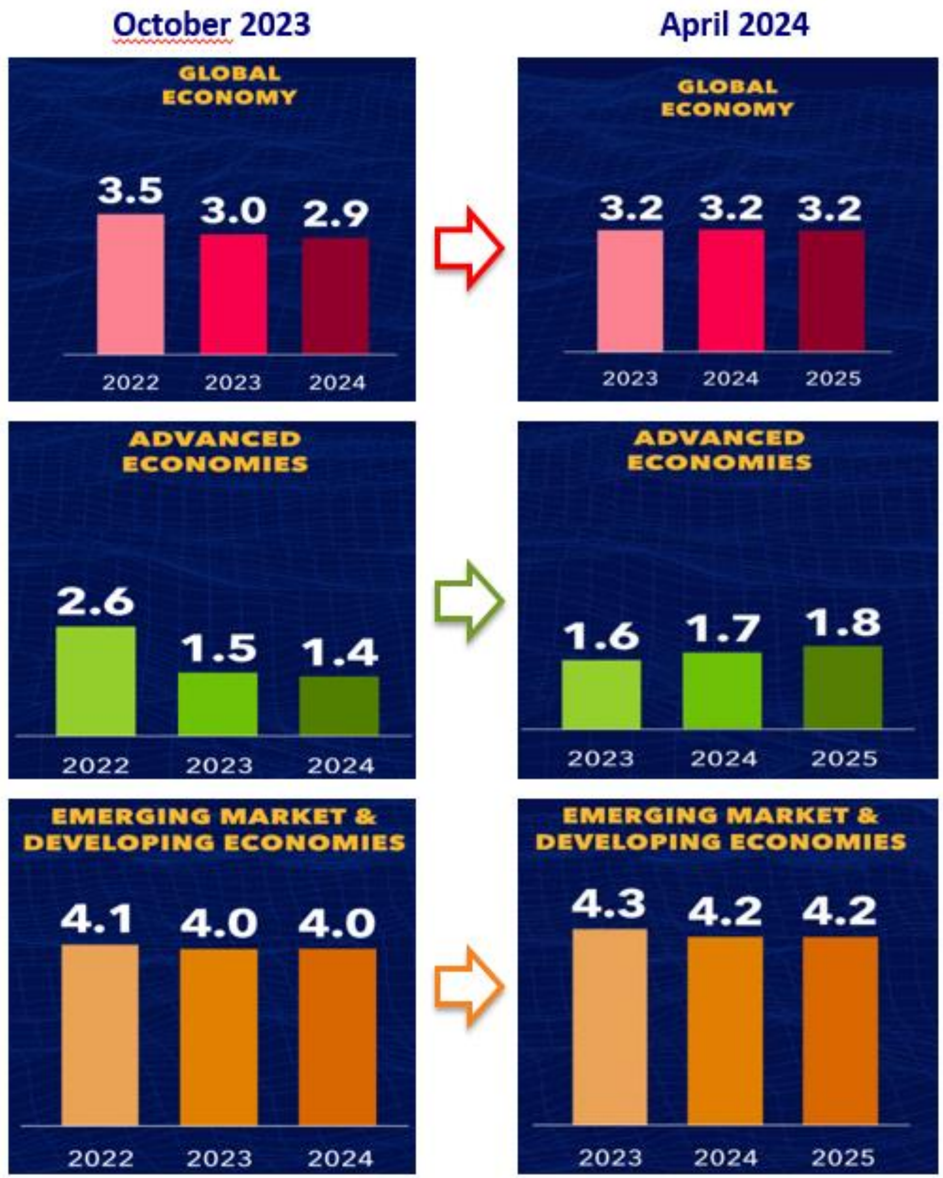
- **United States –** The activity remained largely resilient over May. The macro picture shifted from a “no landing” scenario in April to a “soft landing” scenario in May. While sticky, the deceleration trend in inflation resumed while the slowdown in the economy has been illustrated by falling retail sales, weak industrial production and a cooling job market. The Personal Consumption Expenditure index and the household consumption expenditure data for April sent reassuring signals about disinflation at the end of May

- **Eurozone –** The yearly inflation rate rebounded in May, after being steady in April and March and on an overall declining curve in recent months. This was driven by a one-off event in Germany (a strong fall in transport prices in May 2023, inducing a significant base effects. Industrial production increased and PMI showed an Eurozone's economic recovery gaining momentum. Unemployment rate stabilized at historic low for fifth straight month and negotiated wages increased, boosted by tax-free one-off payments in Germany. The outlook for the region's economy is increasingly benign

- **Switzerland –** While in line with the below-2% target set by the SNB, the inflation rate came higher than expected in April at 1.4%, cooling expectations for a second rate cut in June. The unemployment rate came in at 2.3%, down from the March figure.

MACRO PICTURE – GLOBAL

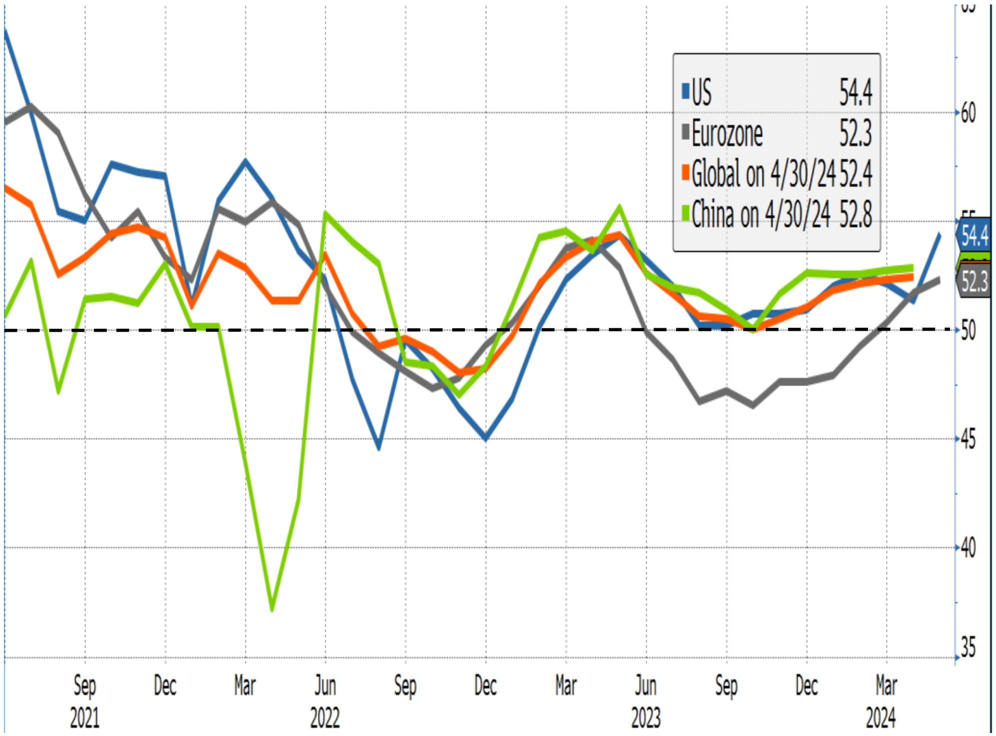
IMF Projections



MACRO PICTURE – GLOBAL

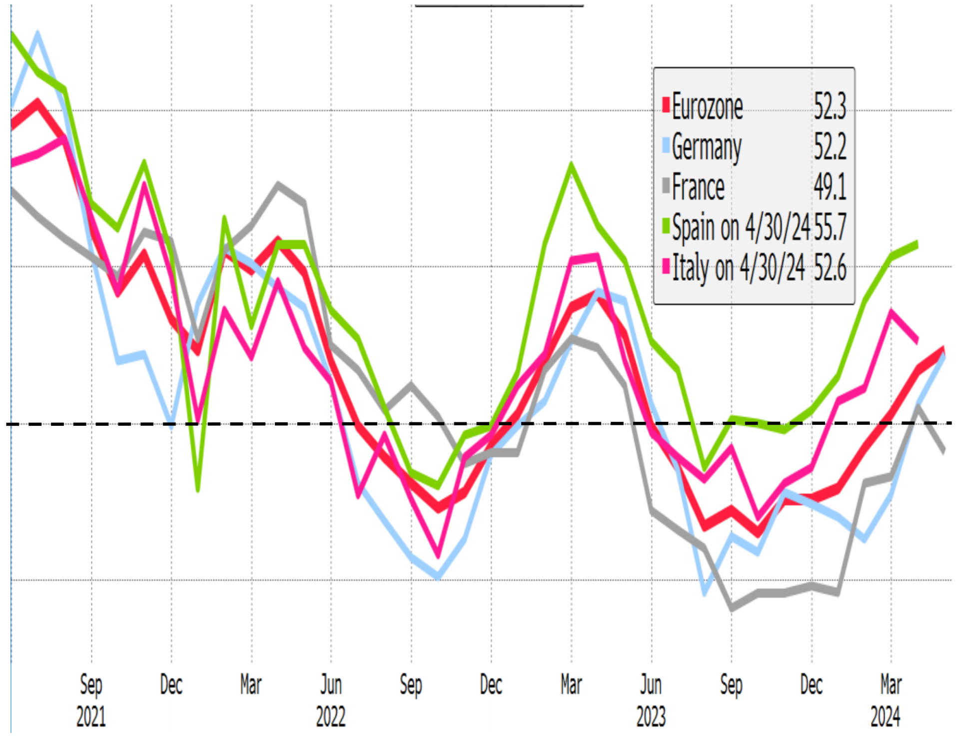
BANQUE CRAMER

Global PMI



Source: Bloomberg

Eurozone PMI



Source: Bloomberg

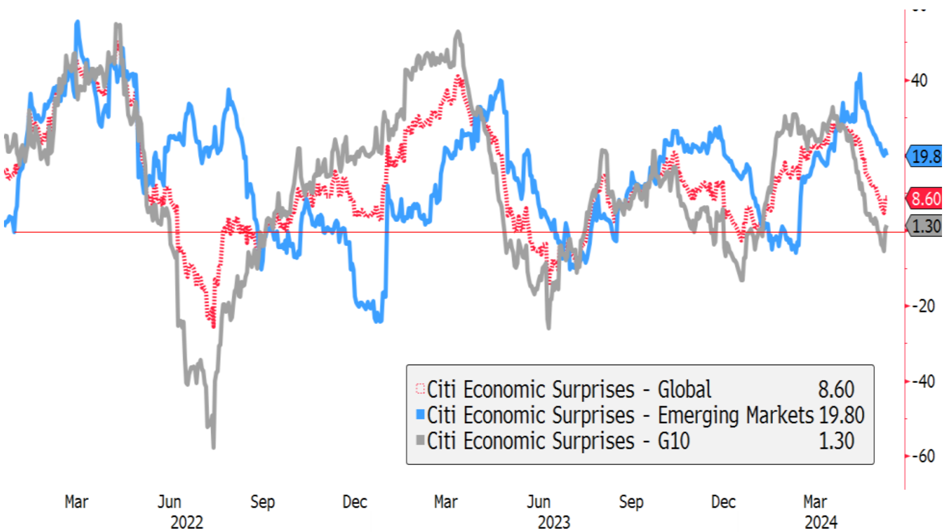
Global PMI are in expansionary territory

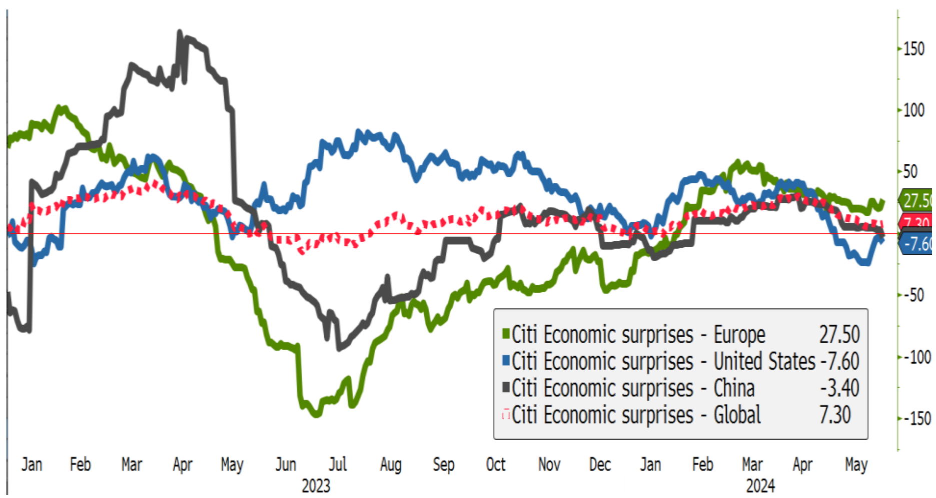
Within the Eurozone, recent HCOB Flash France Composite PMI decreased for the first time in 2024 in May while Germany continued to recover

MACRO PICTURE – GLOBAL

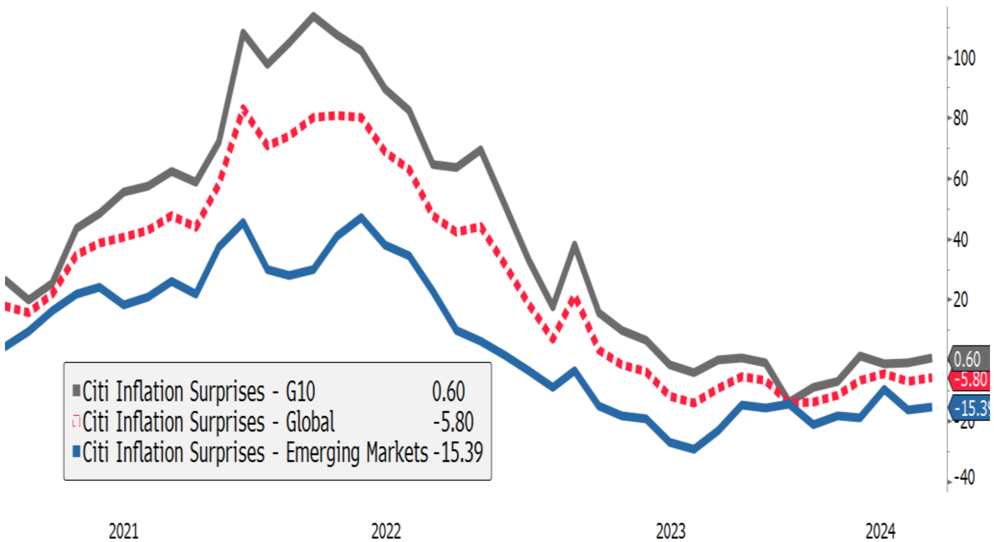
BANQUE CRAMER

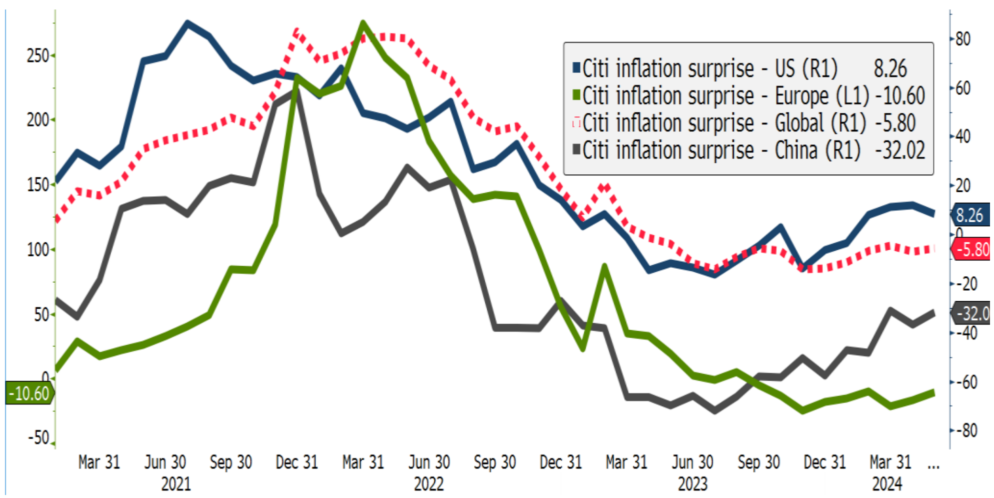
Economic surprises suggests that activity exceeded expectation in May





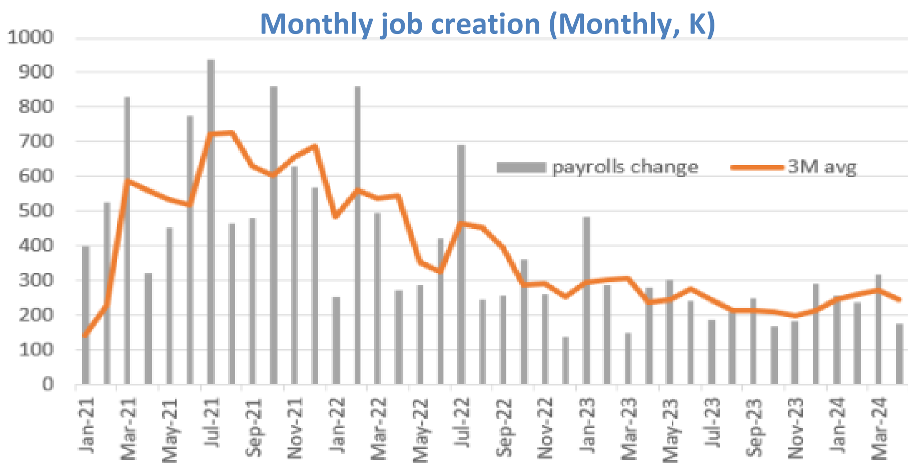
Inflation surprises remain well contained



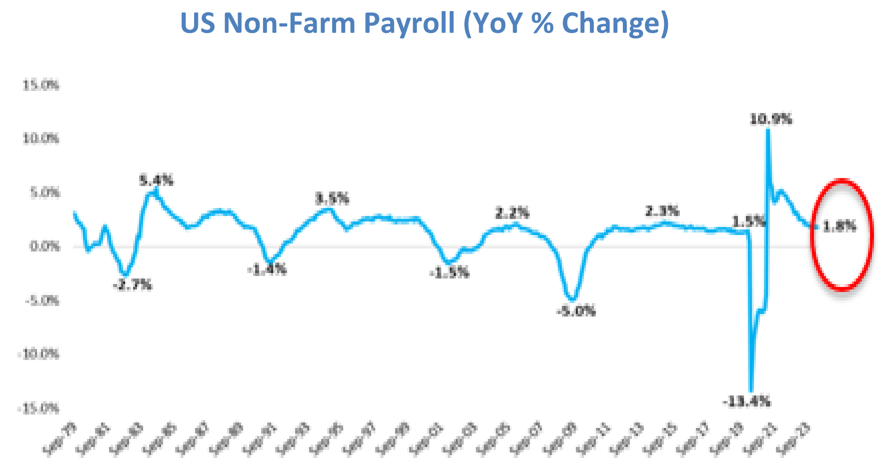


MACRO PICTURE – US ACTIVITY

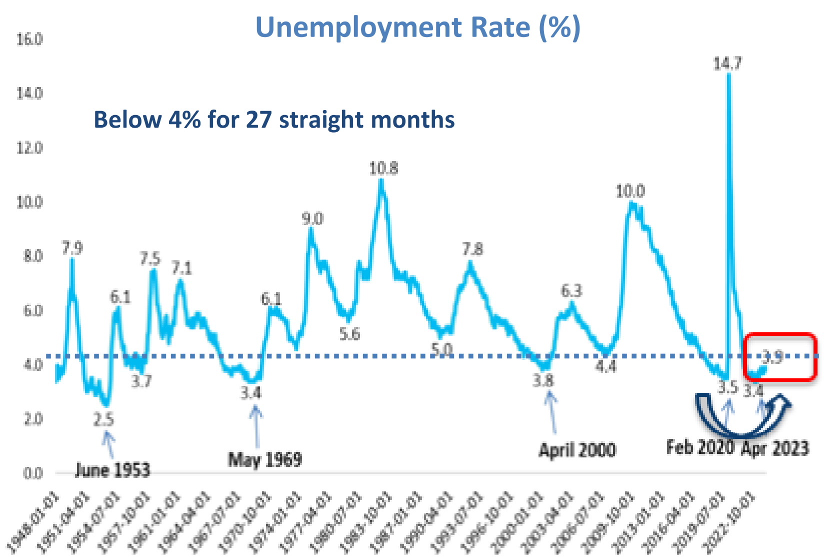
1. The labor market is cooling



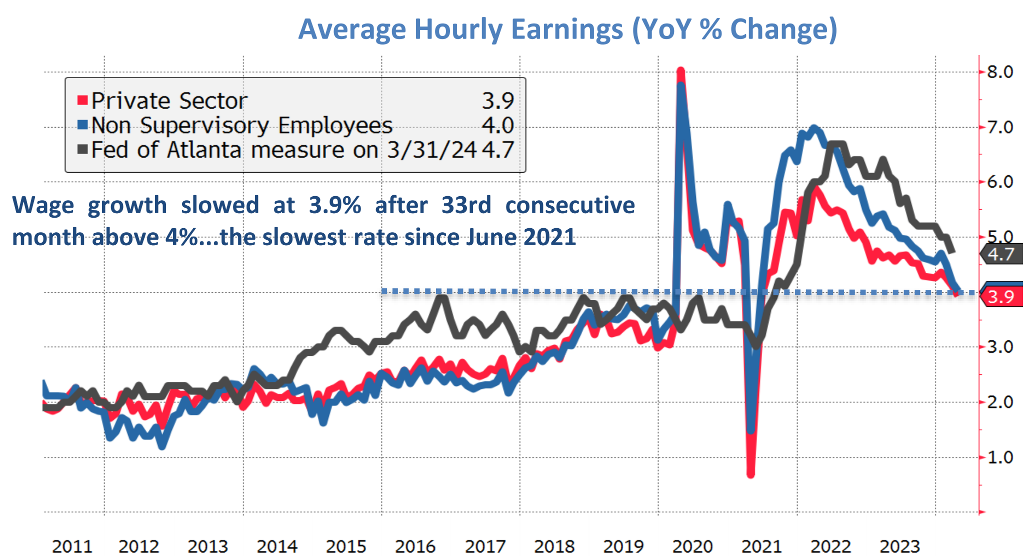
Source: ING



Source: C. Billelo



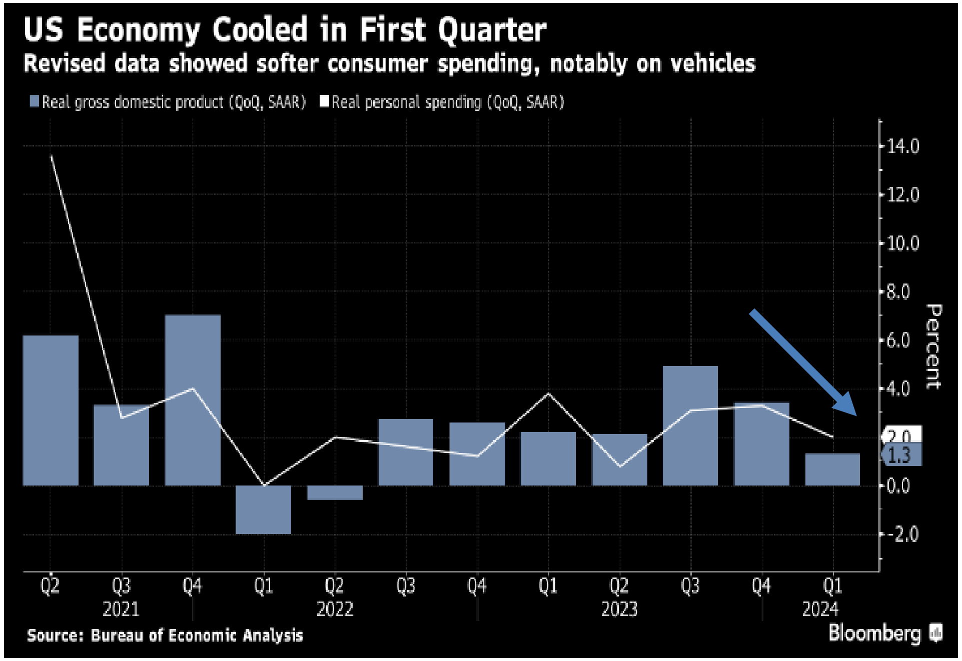
Source: C. Billelo



Source: Bloomberg

MACRO PICTURE – US ACTIVITY

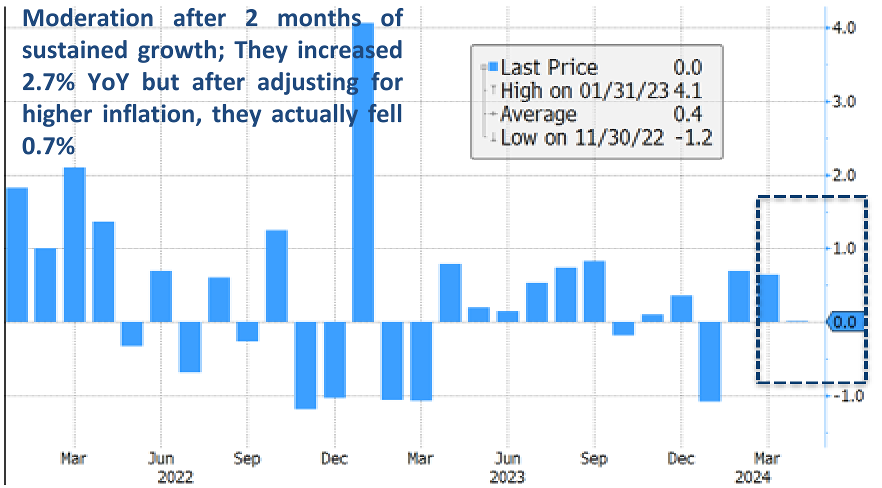
2. A loss of momentum at the start of 2024, with data missing expectations



Source: Bloomberg

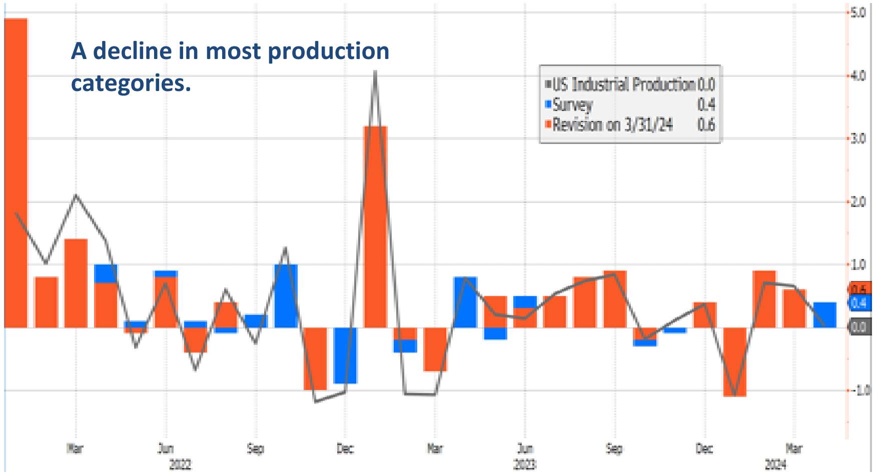
The US economy grew at a slower pace in Q1 than initially reported (1.3% vs a previous estimate of 1.6%). Personal spending, which are the economy's main growth driver, grew by 2% versus a previous estimate of 2.5%. Declining excess household saving, high levels of consumer credit, slowing income growth, high interest rates are some factors weighing on households and consumption

Retail Sales, Monthly change (%)



Source: Bloomberg

Industrial Production, Monthly change (%)

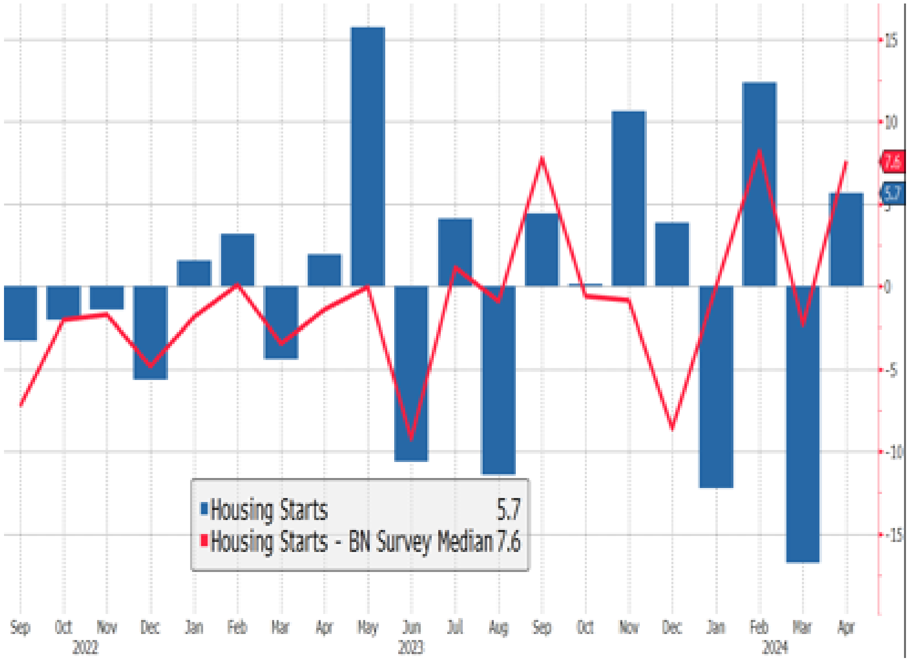


Source: Bloomberg

MACRO PICTURE – US ACTIVITY

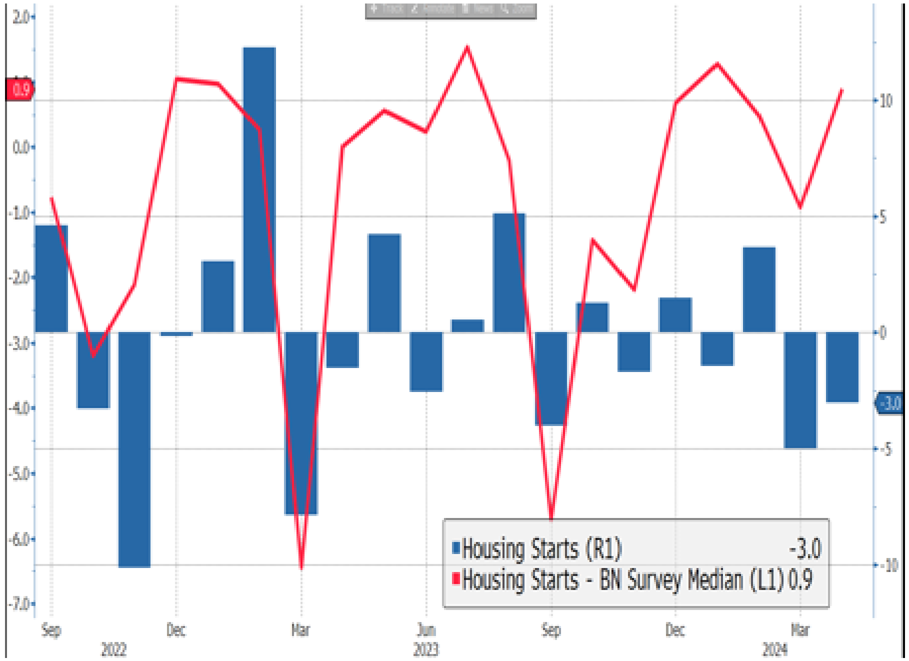
3. Lower results on the construction front

Housing Starts, Monthly change (%)



Source: Bloomberg

Building Permits, Monthly change (%)

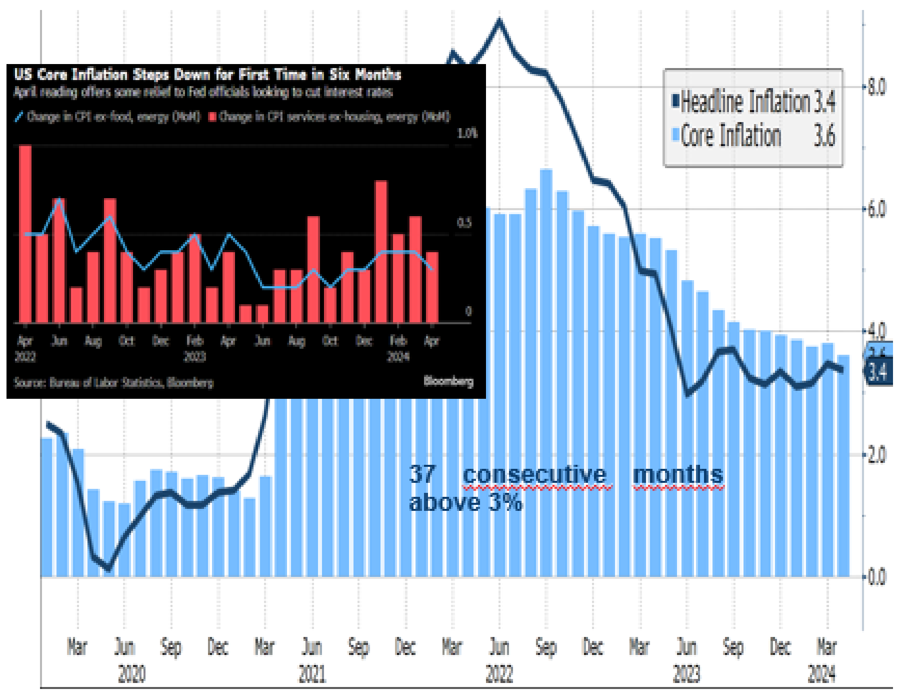


Source: Bloomberg

MACRO PICTURE – US INFLATION

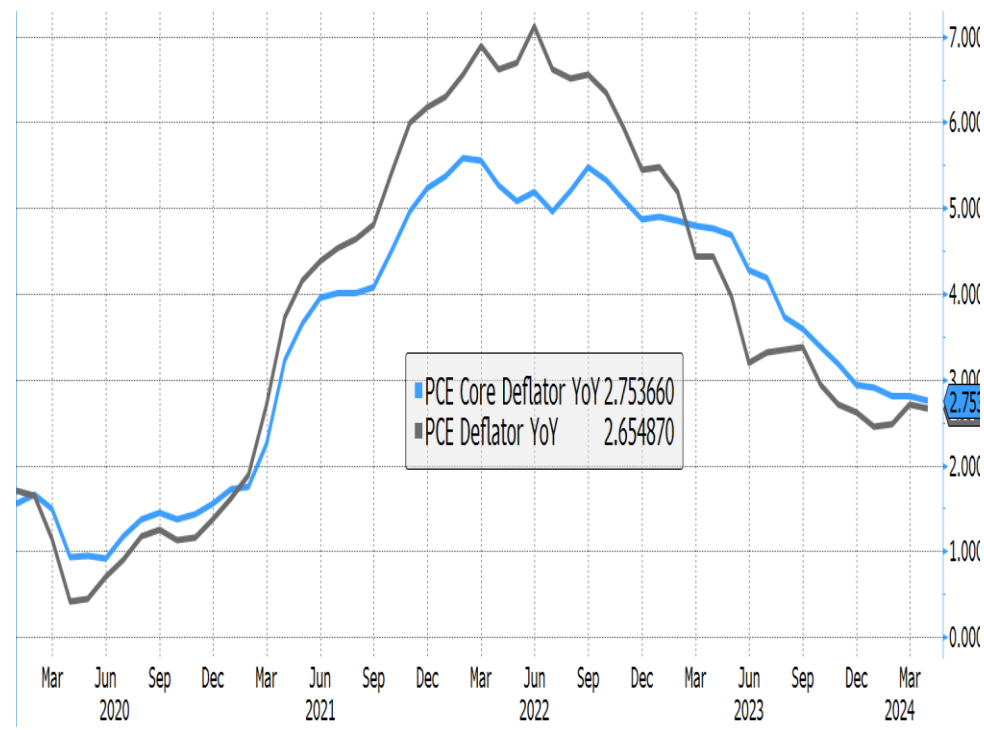
1. Inflation came in cooler than expected but still far from the Fed's target inflation rate of 2%

US CPI (%)



Source: Bloomberg

US PCE (%)



Source: Bloomberg

* After 3 months For the 37th consecutive month, CPI came in above 3%, in line with expectations at 3.4% annually, slightly down compared to 3.5% in March

* Soft core CPI is the lowest yet this year.

*Core CPI continues to trend lower: +3.6% over the past year was the smallest since April 2021

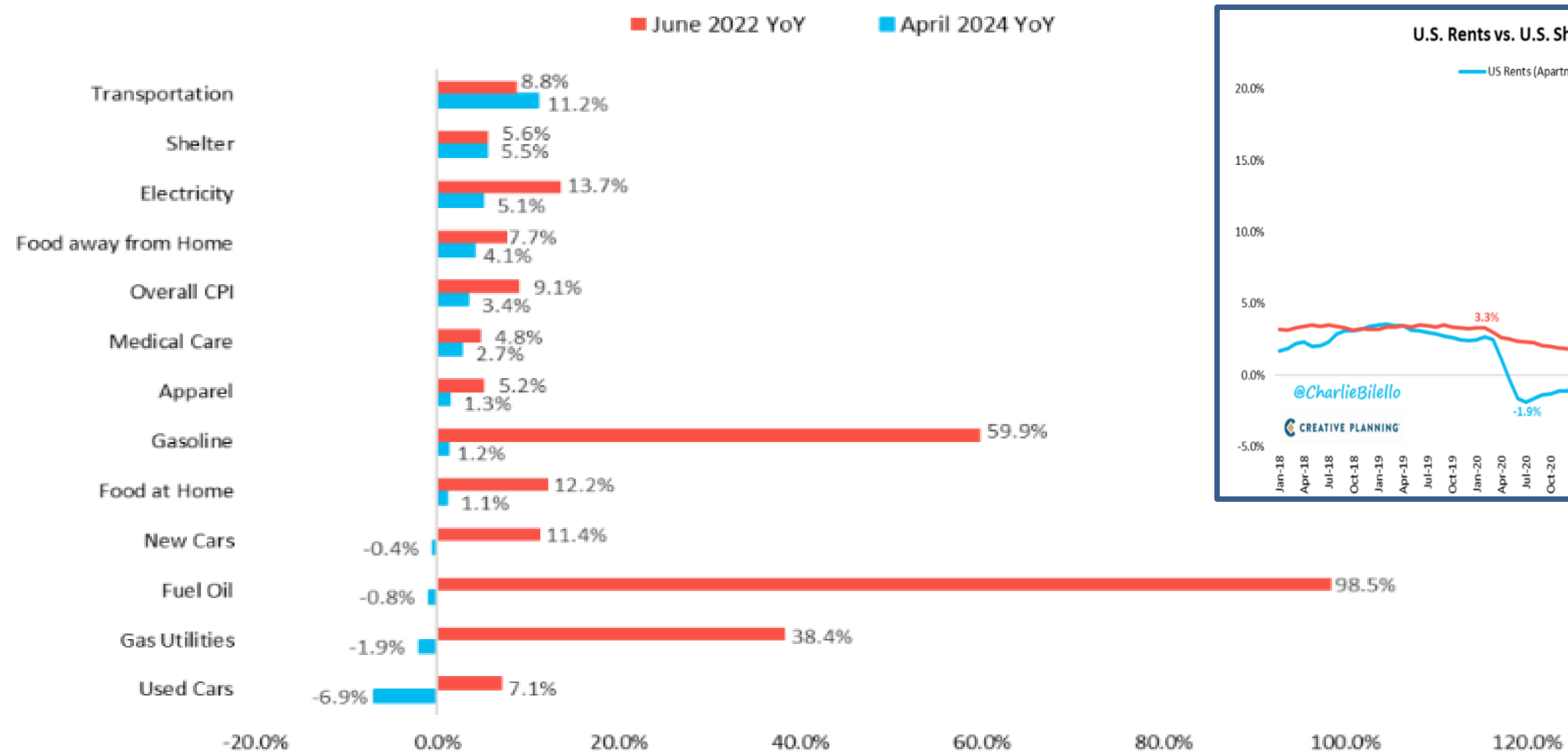
*US PCE data, favorite gauge of the US FED, shows cooling inflation: a 0.3% increase in April, in line with expectations, with the year-over-year headline PCE inflation rate at 2.7%

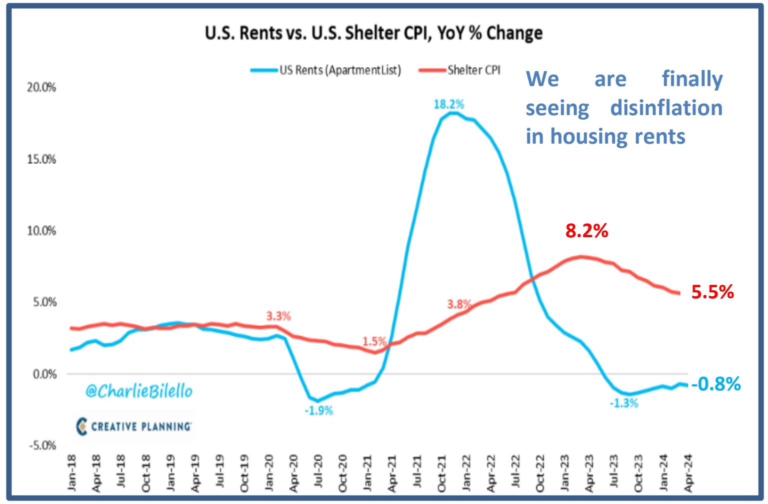
*The core PCE increased by 0.2% in April, a decrease from the previous month's 0.3% rise, suggesting that inflation pressure might be easing. It came at 2.8% on an annualized basis

MACRO PICTURE – US INFLATION

2. The biggest factor driving core prices lower continues to be the Shelter component

YoY % Change (June 2022 vs. April 2024 CPI Reports)





We are finally seeing disinflation in housing rents

Source: C. Billelo

	Used Cars	Gas Utilities	Fuel Oil	New Cars	Food at Home	Gasoline	Apparel	Medical Care	Overall CPI	Food away from Home	Electricity	Shelter	Transportation
June 2022 YoY	7.1%	38.4%	98.5%	11.4%	12.2%	59.9%	5.2%	4.8%	9.1%	7.7%	13.7%	5.6%	8.8%
April 2024 YoY	-6.9%	-1.9%	-0.8%	-0.4%	1.1%	1.2%	1.3%	2.7%	3.4%	4.1%	5.1%	5.5%	11.2%

Source: C. Billelo

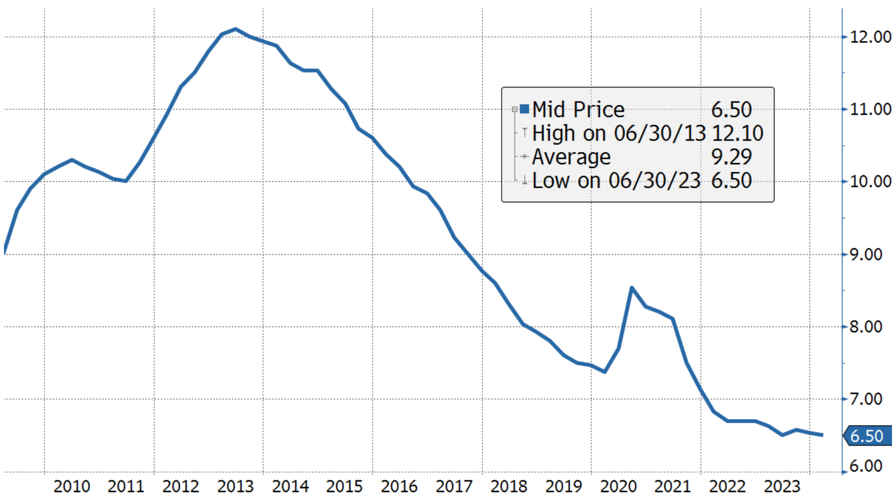
With the exception of Transportation, all of the major CPI components have a lower rate of inflation today

Skyrocketing auto insurance rates:+23% YoY

MACRO PICTURE – EUROZONE ACTIVITY

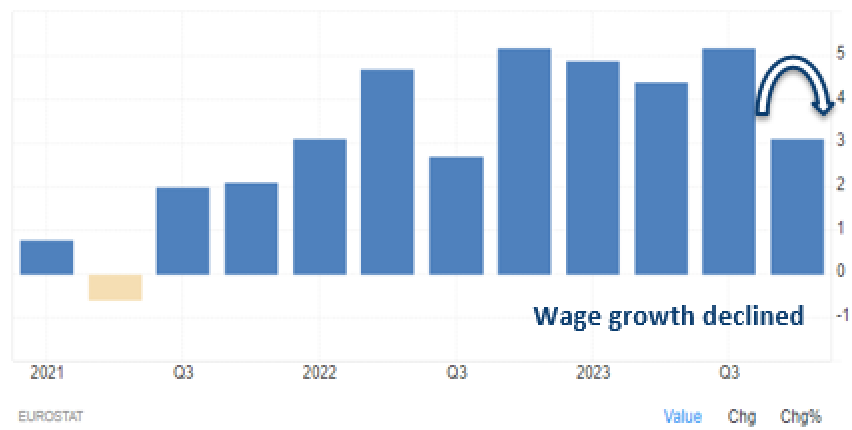
1. Labor market remains tight but some signs of easing should occur

Unemployment rate(%)



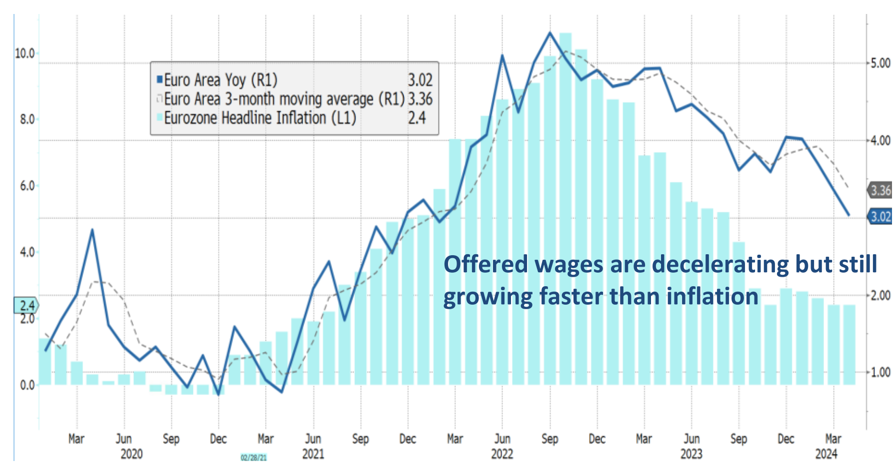
Source: Bloomberg

Wage Growth (%)



Source: Eurostat

Indeed Eurozone wage growth tracker (%) vs Headline CPI (%)



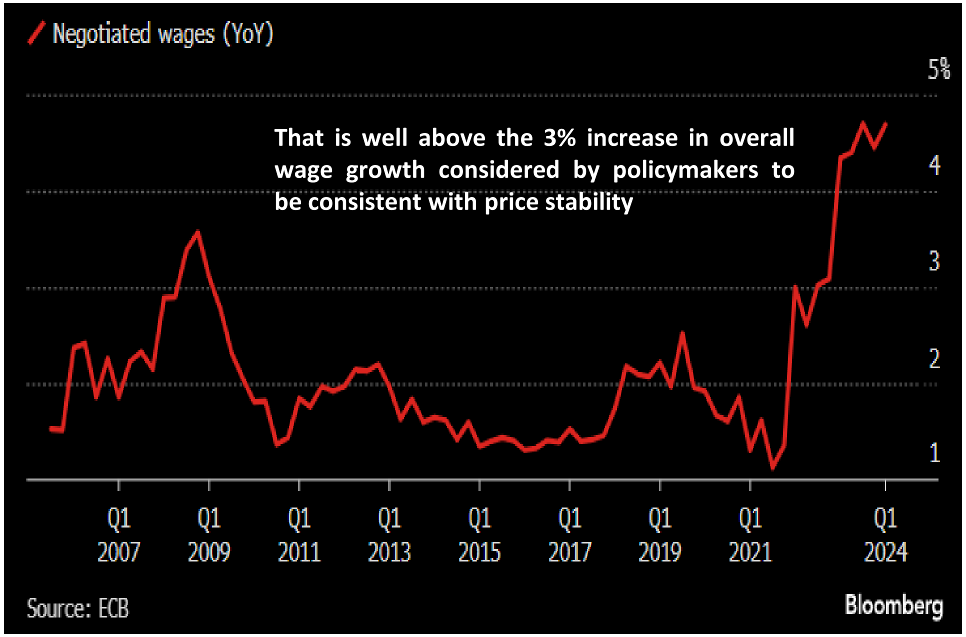
Source: Bloomberg

***The unemployment rate remained at historic low of 6.5% in March.**
***The labor market is influenced by 2 main factors: i/the demographically-induced scarcity of labor and ii/ the subdued economic recovery**
***ECB's Chief Economist Lane: "Labor markets are softening in many ways"**

MACRO PICTURE – EUROZONE ACTIVITY

But wage agreement remains key!

Negotiated Wages YoY (%)



Source: Bloomberg

***While latest figures pointed out a peak in wages growth, negotiated pay growth increased in Q1 from 4.5% to 4.7% YoY, on the back of strong increase in Germany (+6.2% - Germany's high figure reflects exceptional public sector payments like the €1,920 anti-inflation bonus for civil servants in the first quarter of 2024). Wage trends elsewhere in the Eurozone continued to fall back**

***ECB:**

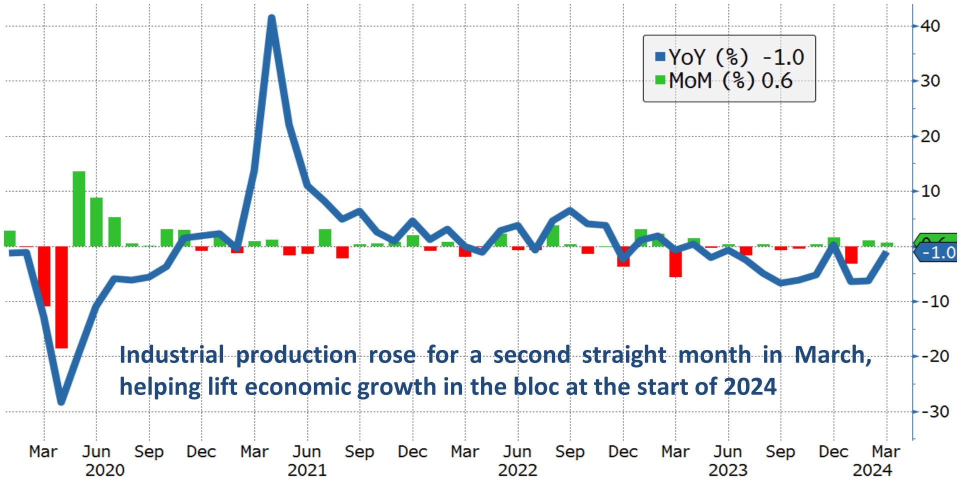
-"Negotiated wage growth is expected to remain elevated in 2024, which is in line with the persistence that has been factored into Euro system staff forecasts and reflects the multi-year adjustment process for wages".

-"However, wage pressures look set to decelerate in 2024. ECB wage-tracker data for the first few months of the year, when most agreements take place, indicate that negotiated wage pressures are moderating."

MACRO PICTURE – EUROZONE ACTIVITY

2. The area is regaining momentum

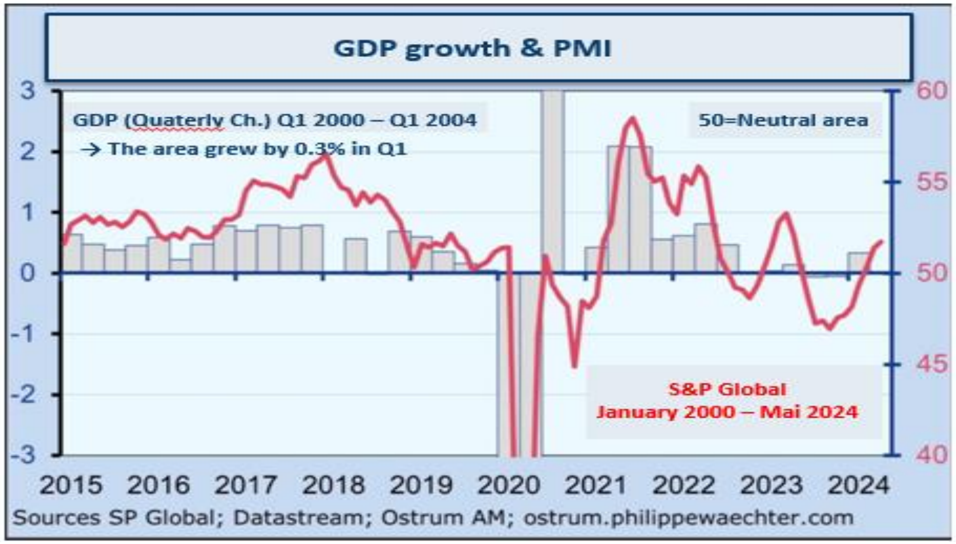
Industrial Production (%)



Source: Bloomberg

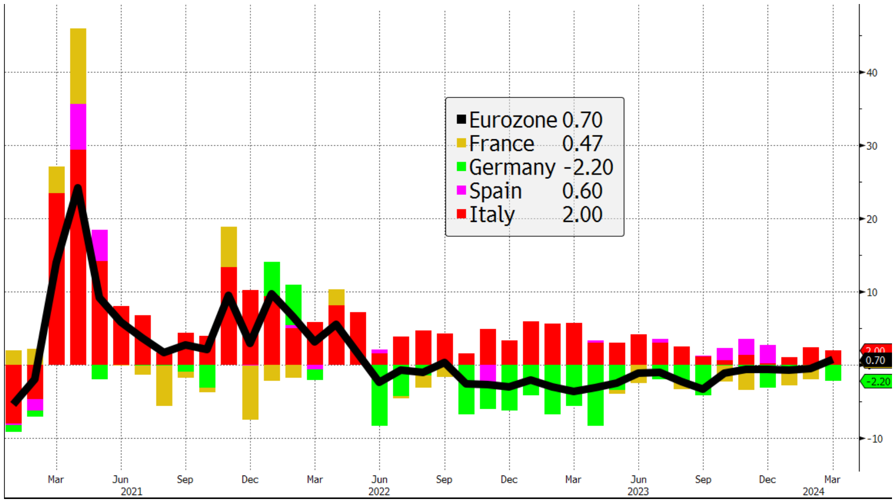
Retail Sales(%)

Source: Bloomberg



Source: P. Waechter

European consumption recovered sharply in March

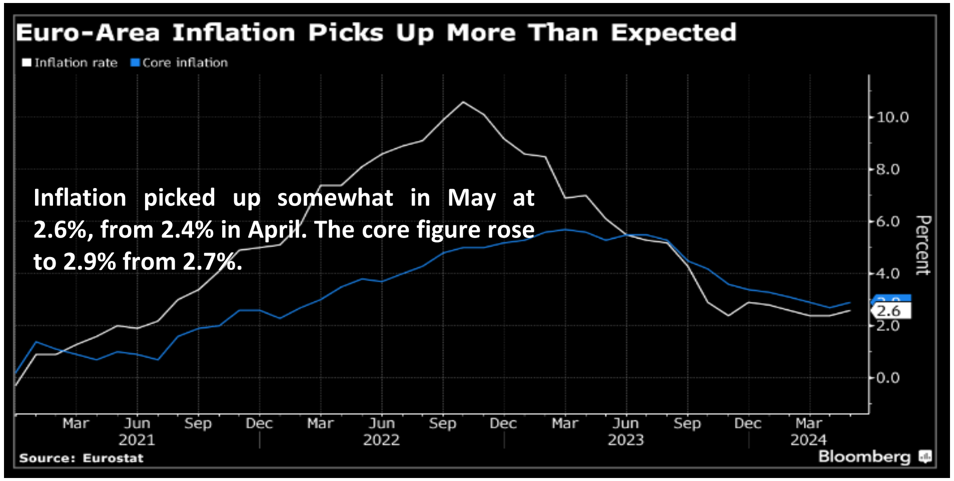


Source: Bloomberg

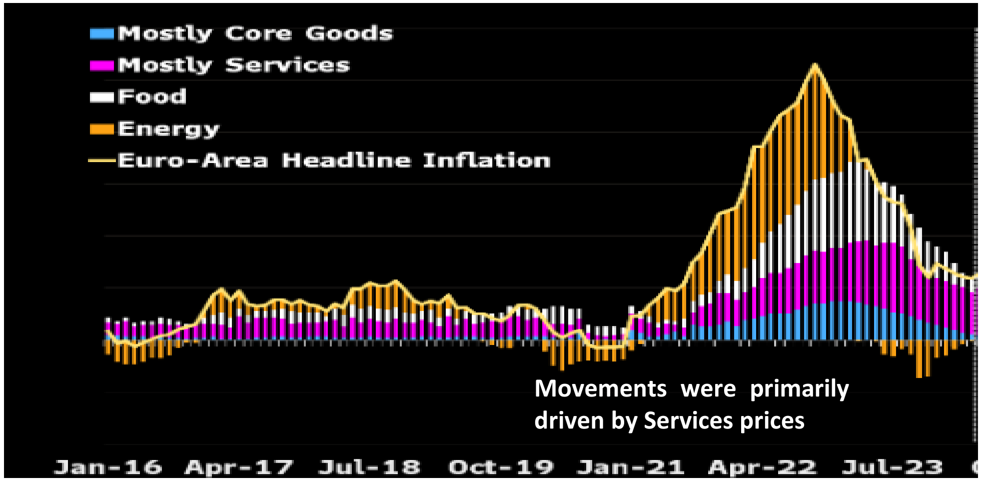
MACRO PICTURE – EUROZONE INFLATION

BANQUE CRAMER

3. The inflation rose more than expected in May before an ECB cut



Source: Bloomberg



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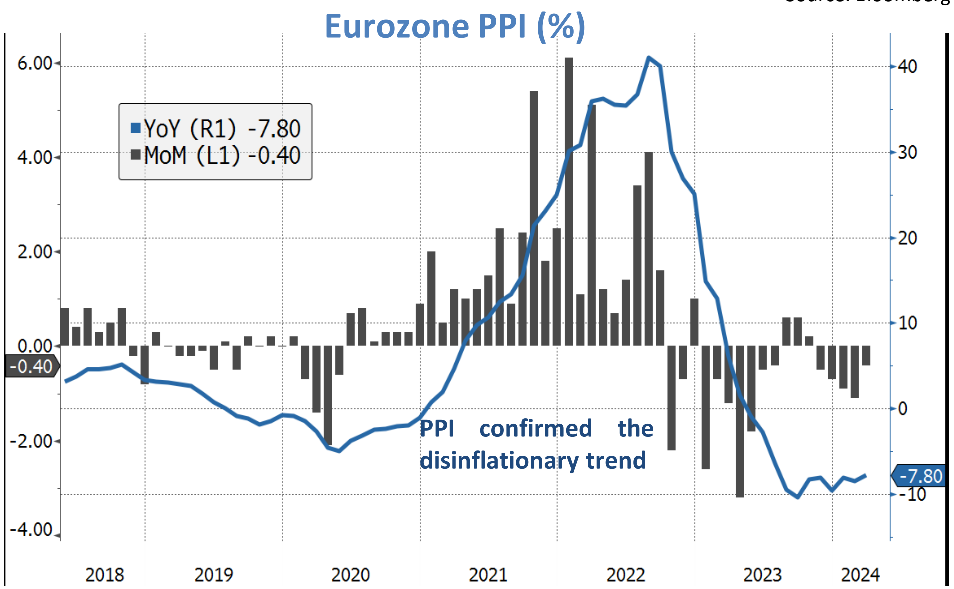
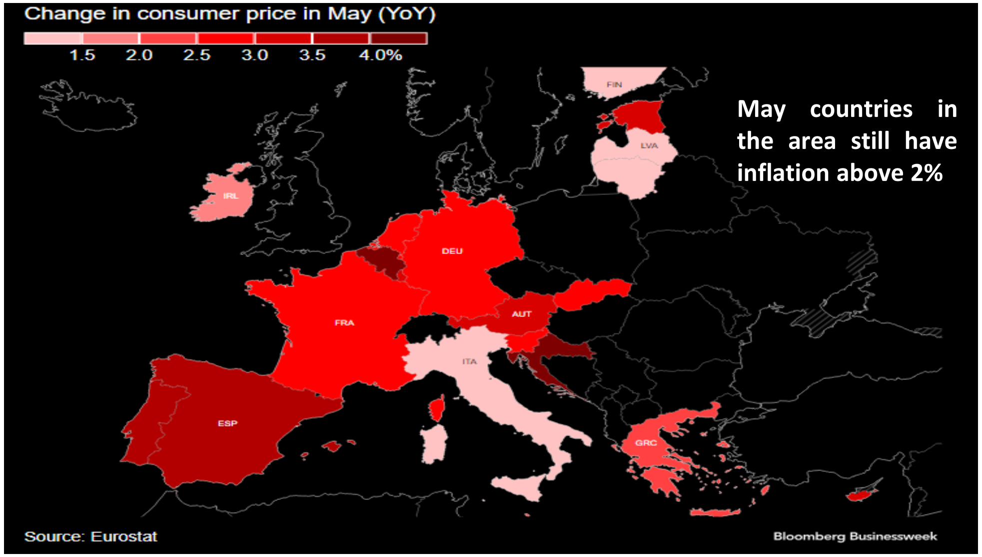


Source: Bloomberg

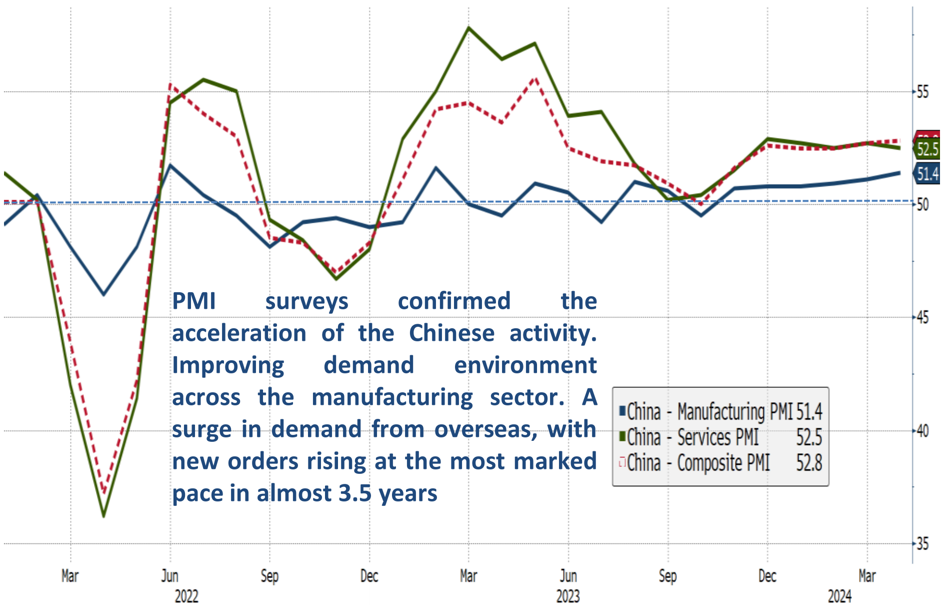


Source: Bloomberg

MACRO PICTURE – CHINA

1. The activity have continued to recover in April

Chinese PMI

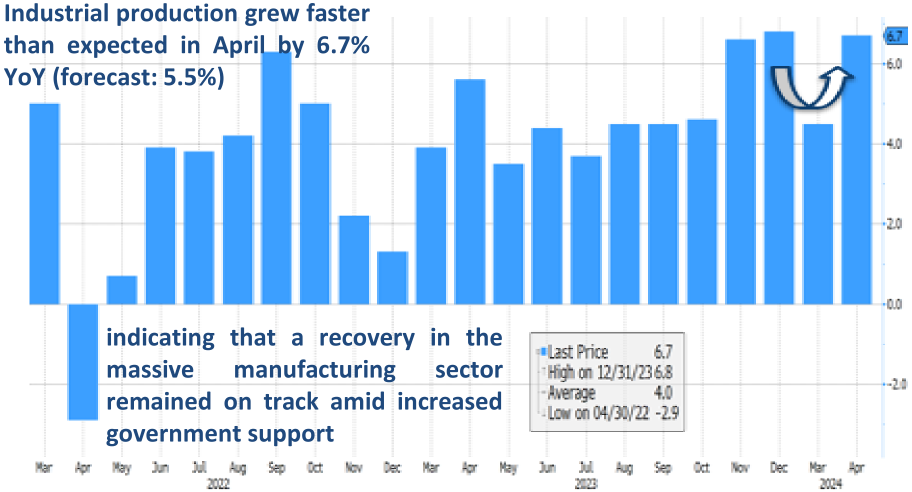


PMI surveys confirmed the acceleration of the Chinese activity. Improving demand environment across the manufacturing sector. A surge in demand from overseas, with new orders rising at the most marked pace in almost 3.5 years

Source: Bloomberg

Industrial Production (%)

Industrial production grew faster than expected in April by 6.7% YoY (forecast: 5.5%)

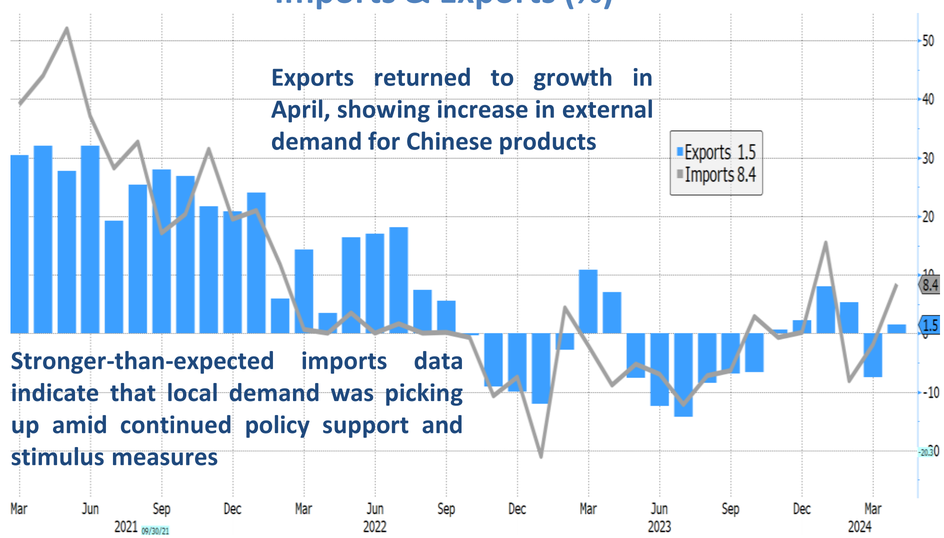


indicating that a recovery in the massive manufacturing sector remained on track amid increased government support

Source: Bloomberg

Imports & Exports (%)

Exports returned to growth in April, showing increase in external demand for Chinese products



Stronger-than-expected imports data indicate that local demand was picking up amid continued policy support and stimulus measures

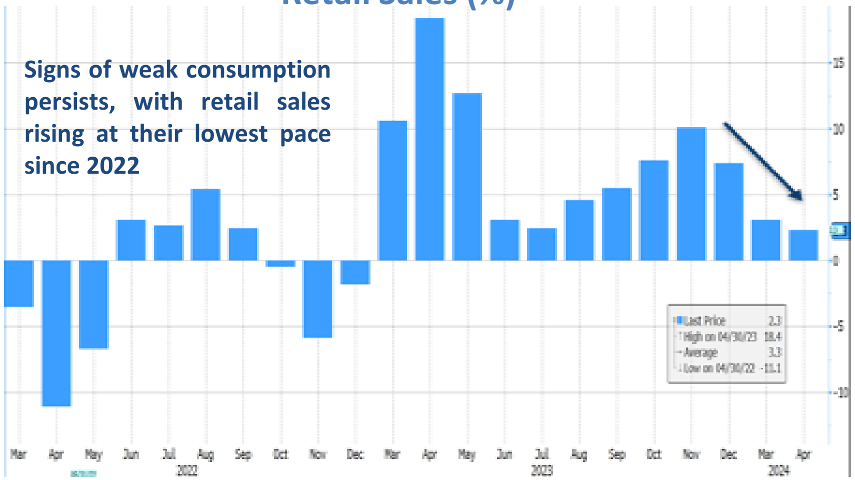
Source: Bloomberg

MACRO PICTURE – CHINA

But other economic releases also presented a mixed outlook of the economy

Retail Sales (%)

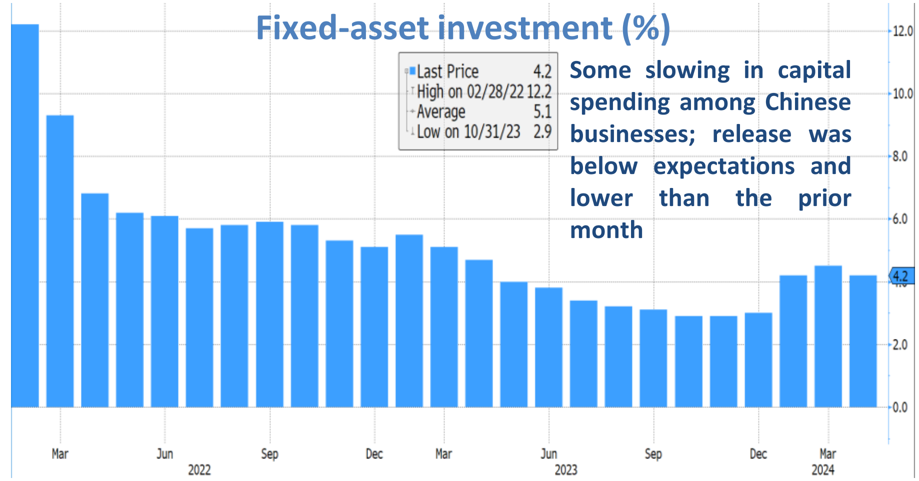
Signs of weak consumption persists, with retail sales rising at their lowest pace since 2022



Source: Bloomberg

Fixed-asset investment (%)

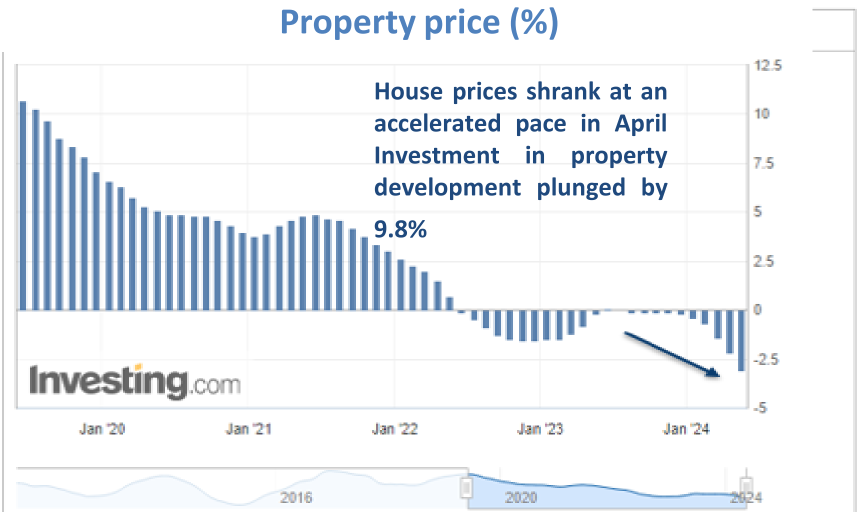
Some slowing in capital spending among Chinese businesses; release was below expectations and lower than the prior month



Source: Bloomberg

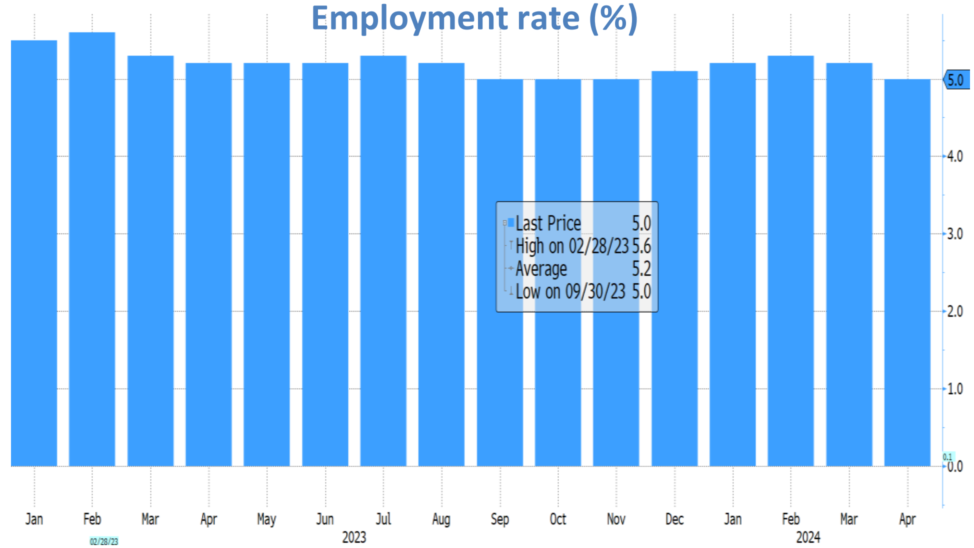
Property price (%)

House prices shrank at an accelerated pace in April Investment in property development plunged by 9.8%



Source: Investing.com

Employment rate (%)

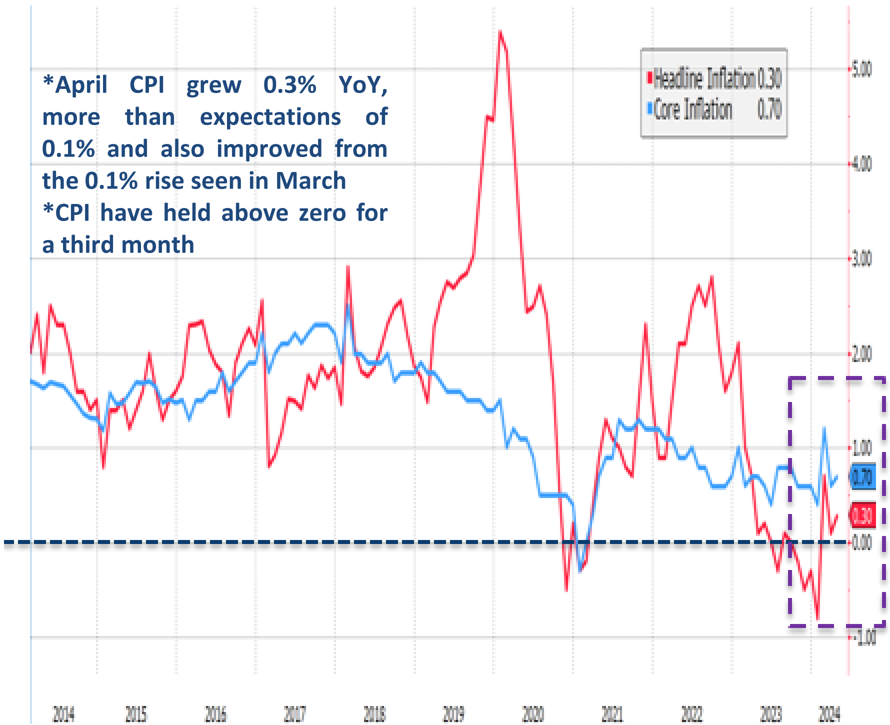


Source: Bloomberg

MACRO PICTURE – CHINA

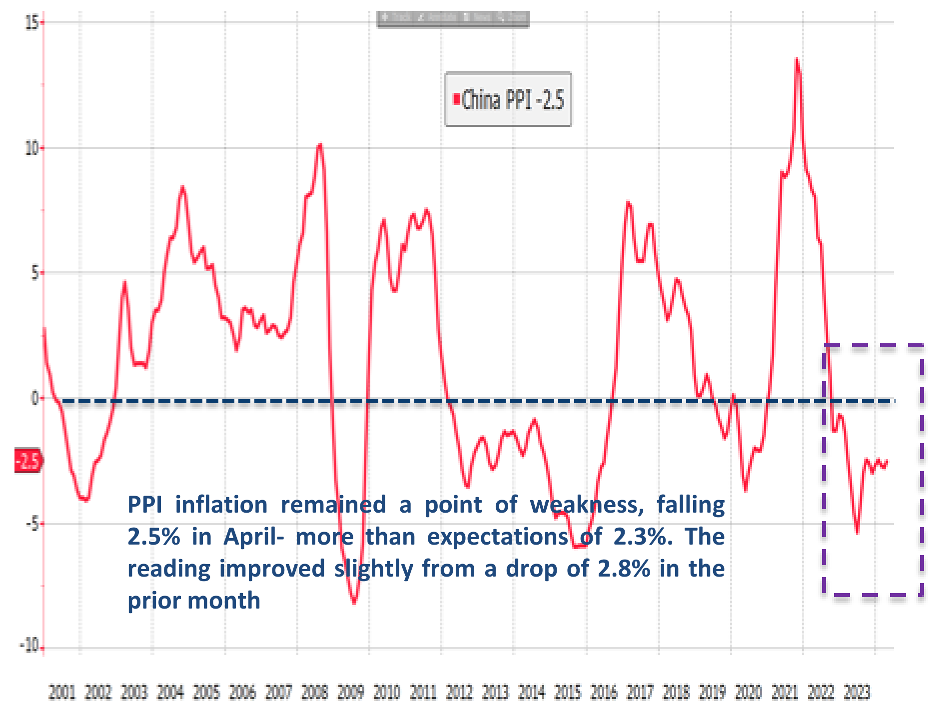
2. After a decrease in March, Chinese CPI rebounded in April. The PPI remains in negative territory, highlighting further deflationary pressure

CPI(%)



Source: Bloomberg

PPI (%)



Source: Bloomberg

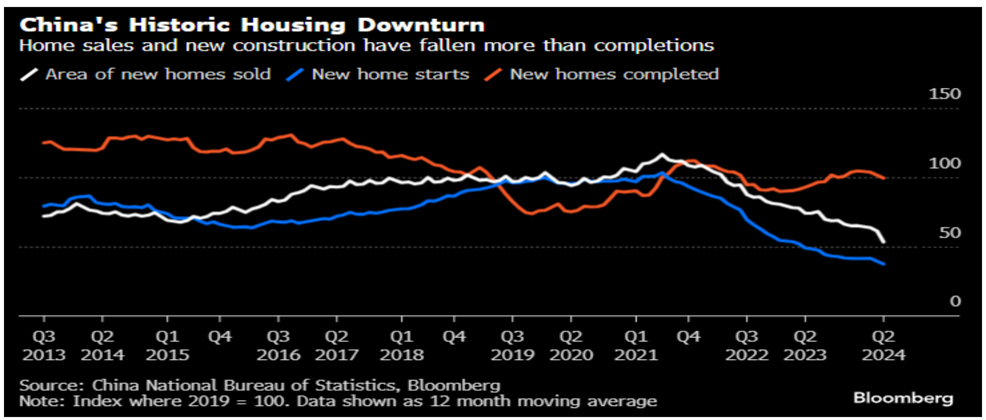
China unveils a vast rescue plan

What is new?

- On may 17th, **a slew of property easing measures** to
i/ boost new home sales,
ii/ digest housing inventories,
iii/ accelerate the delivery of pre-sold but incomplete homes

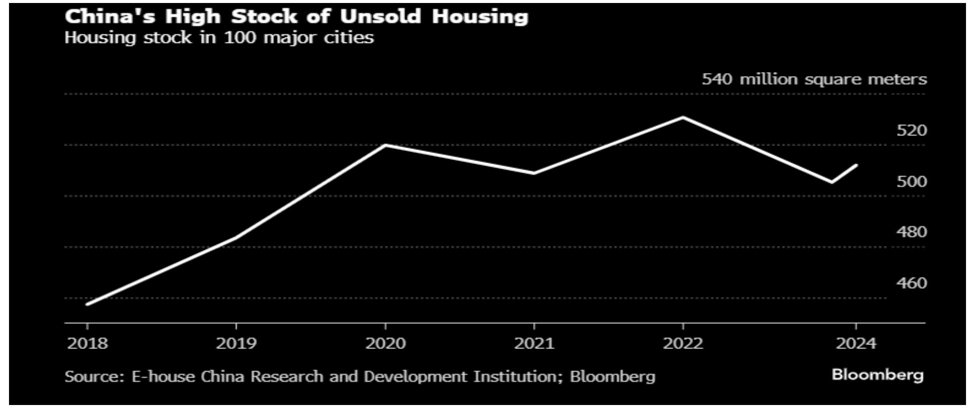
Why now?

- Real estate (20% of China's GDP) is **a drag on the economy**: 391 million sqm of unsold housing (+24% since May 2023)
- While having contained the spillover of property defaults to the broader credit and financial markets, **the property easing measures rolled out over the past 12 months have failed to stop the deep contraction** of home sales, home price decline and property investments
- The **decline in sales of new homes accelerated** in recent months
- **This pushed up the stock of unsold homes and empty land to the highest level in years**, discouraging new construction and threatening more default by developers



What kind of pachage?

- Local government will be encouraged to **buy unsold homes from developers and convert them into social affordable housing**
- A **reduction in mortgage interest rates and down payment ratios** (to15% for first-time buyers and 25% for second homes)
- **300 billion yuan ($41.5 billion) in cheap central bank loans** to fund state purchases of unsold properties



Is this a game-changer?

- It is **not the first time China has tried to prop up demand for houses**. It has already tried lowering interest rates and $162bn credit lines from major state banks unveiled in late 2022
- The measures signal **an « increasing sense of urgency to tackle the biggest domestic drag to the Chinses economy»** (Source: ABN Amro)
- According to BofA, **the use of the relending facility was «probably a disappointment to the market»**
- According to Goldman Sachs, it is **a step in the right direction** for the economy **but the risks for the sector still persist**

↔ It is still **unclear exactly how the government purchases will be implemented and how much is needed to fund the buying**
↔ there is **lack of clarity on where indebted local governments can get the money to pay for it**

The Green Energy War

❑ What are Biden new tariffs on China goods?

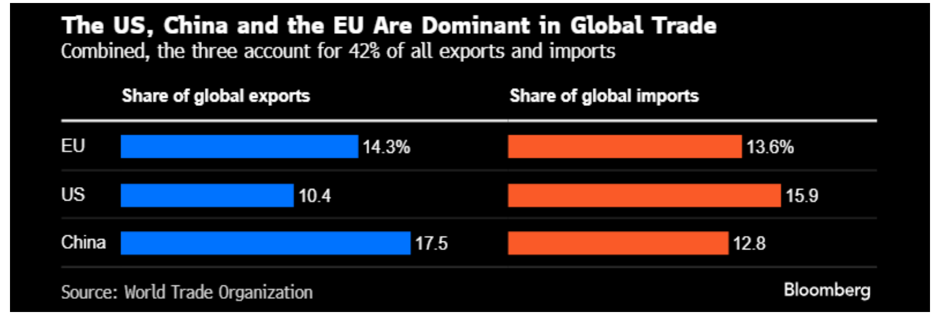
- **Higher tariffs on $18 billion in three strategic Chinese products**: EV from 25% to 100%, lithium-ion batteries from 7.5% to 25%; solar cells and semi-conductors from 25% to 50%; Steel and Aluminum (25%) … while retaining Trump-era tariffs on over $300 billion in goods
- **China signaled it could lead to retaliatory measures (**25% on imported American and European autos)

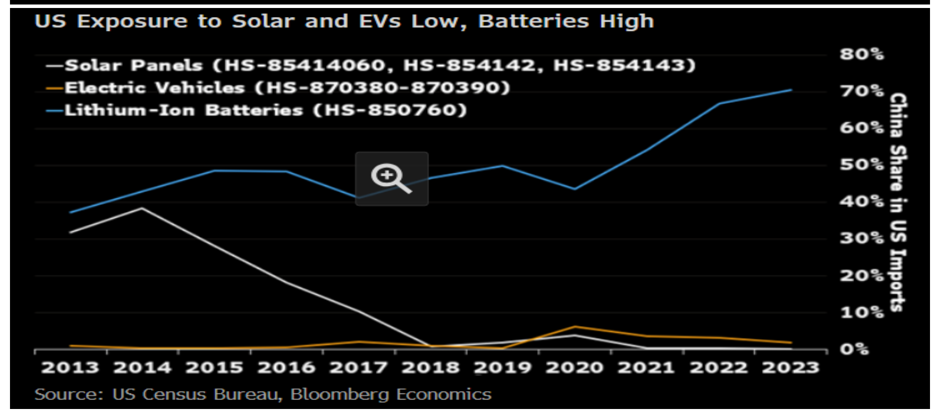
❑ What is problematic?

- China has become a giant in green technology thanks to its globalized and competitive production chains and international demand for sustainable technological solutions
- Between 2019 and 2023, **it have invested $184bn per year in green energy**, ahead of the EU ($154bn) and the US ($97bn)
- Its **real competitive advantage**: EVs; 200 brands have emerged and Chinese manufacturers produce their own batteries, unlike their EU and US competitors, the country dominating the mining/processing of critical minerals
- The concentration of the green technology in the hands of China has raised **economic and national security concerns:** automobile is a strategic sector on both sides of the Atlantic

❑ Limited impact but distortions to be expected

- The **impact of the new US tariffs on China will likely be modest**: it represents only $18bn (out of a Chinese GDP of $18tr) in additional annual imports which will be taxed more heavily (vs $226bn impacted under Trump's tariffs) , i.e. **4.2% of total US imports from China**
- **Limited impact for the US**, especially for EVs and solar panels, which represent a small share of US imports (3%). More important for batteries (70% of total US imports of electric batteries; even greater dependence on lithium storage batteries @ 72%)
- **Bigger risks lie in a wider battle targeting Chinese's innovation**: Trump has proposed 60% tariffs on all imports from the US's third-biggest trading partners (and 10% tariff on all imports from the rest of the world)





Source: Bloomberg

❑ And Europe?

- Sanctions against Huawei already exist and the EU is also preparing to **increase its customs tariffs on Chinese EVs** to 25-35% from current 10%
- **EU= China's largest market**, accounting for 40% of its exports of Evs but China's dominance in the sector threatens German economic interests
- The **ambitious climate goals of EU could not be achieved without Chinese imports**. Vulnerability of EU lies in its lack of capacity in electric battery production
- In trying to protect its manufacturing sector, **EU could penalize other specific sectors with high exposure to China** (food, wine and planes)

FIXED INCOME

- **A rate hike in The US is out of question.** We had confirmation this month from major central banks that the monetary easing is still on course but could be postponed in the US. Several Fed governors expressed the view they want to see a sustainable disinflationary trend before cutting rates. With the latest US inflation figures seen as reassuring, markets are pricing between one and two cuts by the Fed. In Europe, there is a clear consensus for a rate cut in June but some members urged caution against hasty rate cut expectations after June, making the outlook less clear for the following months. The Swiss inflation jumps to four-month high in April, adding some small upside risks to the SNB's latest projections

- **Core sovereign bonds** – Sovereign bonds delivered a positive return in May in both Europe and the US, supported by a move lower in US Treasuries yields over the month. Nevertheless, the higher than expected German inflation weighed on the Euro index despite the prospect of a rate cut to come in June by the ECB (95% probability is expected by market participants). The ICE EU Treasuries index posted a return of -0.37% over May, underperforming its US peer (+0.75%). The Swiss government bonds index reported a negative return of -1.49%. US inflation-linked bonds outperformed Nominal bonds. The Bloomberg Global Aggregate index hedged in US Dollars rose by 0.44% over the month, while the same index in euros was down -0.40%

- **Developed Credit –** Credit spreads remained at record lows, with decent demand driving the compression. Therefore, both Investment Grade and High Yield delivered positive performances, with the high beta spectrum outperforming. The ICE US High Yield index delivered 0.84% compared to 0.96% for its Euro peer. The ICE indices for the highest-rated companies came at 1.03% and 0.13% for the US and EUR respectively. Swiss corporates underperformed (-0.51%). The Yield-to-worst decreased by 21bps on the US Investment Grade index, driven primarily by a drop in US Treasury yield, while the OAS spread fell by 3bps. The yield on the US High Yield fell by 16bps with the OAS spread widening by 2bps. The belly of the curve outperformed over May. Yields on the euro Investment Grade index was little changed in May (+1bp) while the OAS spread tightened by 8bps. A significant spread tightening on the High Yield index (-21bps) pushed all-in yields 17bps lower

- **Emerging Debt –** Bloomberg Emerging debt indices enjoyed positive returns, both in hard (1.15%) and local currency (1.20%), outperforming Developed countries. Local Chinese government bonds have continued to post positive a performance (0.40%). On the corporates front, both high beta (1.80%) and high grade (1.23%) outperformed their US peers

TOTAL RETURN (% - Local Currency)

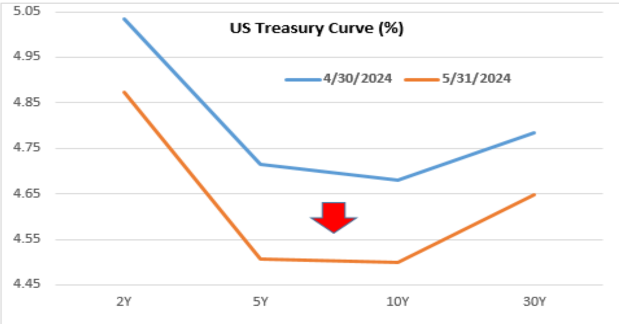
	YtD	Jan	Feb	March	April	May
EU Treasuries	-1.92	-0.54	-1.17	1.04	-1.40	-0.37
US Treasuries	-2.04	-0.18	-1.35	0.60	-2.36	0.75
USD CASH - 3mths Treasury	2.18	0.42	0.42	0.45	0.42	0.42
US TIPS	-0.20	0.38	-1.06	0.71	-1.60	0.93
Swiss Govies	-1.89	-2.47	0.72	1.54	-0.31	-1.49
CHF Corporates	0.29	-0.02	0.19	0.55	-0.02	-0.51
EUR Investment Grade	0.06	0.09	-0.89	1.21	-0.84	0.13
USD Investment Grade	-0.84	0.15	-1.40	1.19	-2.33	1.03
EUR High Yield	2.92	0.83	0.35	0.44	-0.03	0.96
USD High Yield	1.66	0.02	0.30	1.19	-1.00	0.84
USD EM External Sovereign Debt	0.61	-1.39	0.52	1.96	-2.08	1.16
EM Local Debt	-2.39	-1.20	-0.03	-0.56	-2.26	1.53
High Grade EM Corprates	0.54	-0.22	-0.29	0.93	-1.53	1.23
High Yield EM Corporates	5.31	1.06	0.98	1.65	-0.58	1.80
EUR Corporate Hybrids	3.25	1.12	-0.21	1.32	0.02	0.77
EUR Invetsment Grade Contingent Capital	5.02	1.38	0.08	2.27	-0.60	1.52
Bloomberg Global Aggregate EUR (Unhedged)	-1.55	0.14	-0.88	0.75	-1.54	-0.40
Bloomberg Global Aggregate USD (Hedged)	-0.42	0.13	-0.69	0.90	-1.61	0.44
Bloomberg EM USD Sovereign (Unhedged)	1.80	-0.68	0.71	2.33	-1.96	1.15
Bloomberg EM Local currency Gov	0.18	-0.02	0.32	-0.25	-1.28	1.20
Local Chinese Government bonds	2.98	1.24	0.77	0.20	0.34	0.40

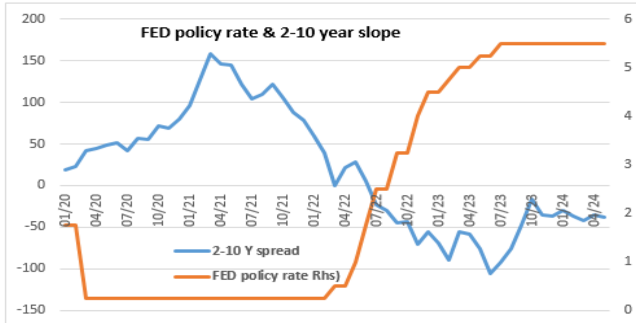
OAS Spread Change (Basis Point)

	YtD	Jan	Feb	March	April	May
EUR Investment Grade	-33	-6	-9	-9	-1	-8
USD Investment Grade	-17	-2	-2	-7	-3	-3
EUR High Yield	-73	-11	-39	6	-8	-21
USD High Yield	-22	20	-30	-17	3	2
USD EM External Sovereign Debt	-33	15	-30	-15	-6	3

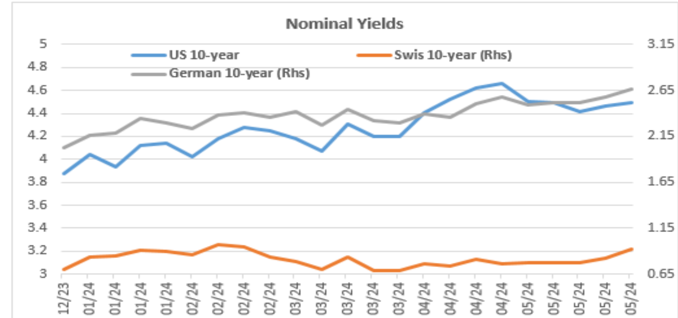
Attractive yields favor quality premium in CrossOver bonds

US Treasury yields closed the month lower, with an outperformance of the belly of the curve, the 5-year yield drifted down by 21 bps; The 2-10 year slope flattened by 2 bps in the US.





US 10-year yield drifted down by 18 bps, its Euro peer was up by 8 bps. The Swiss 10-year increased by 16 bps



Source: BCC, Bloomberg

Spreads have continued to tighten across the complex and are rich on an historical basis; yield pick-up remains of interest

(Ice Bond Indices (May 31th))	Yield (YTW)			Credit Spread (OAS Spread)		
	30,04,2024	31,05,2024	5-year Average	30,04,2024	31,05,2024	5-year Average
EUR Investment Grade	3.92%	3.92%	1.93%	112	107	131
USD Investment Grade	5.77%	5.56%	3.72%	91	88	126
EUR High Yield	6.58%	6.41%	4.91%	350	329	420
USD High Yield	8.20%	8.04%	6.64%	318	320	424
USD EM Inv. Grade	5.79%	5.60%	3.92%	106	104	169
USD EM High Yield	8.94%	8.60%	8.45%	408	390	623

Source: BCC, Bloomberg

US IG & HY Corporates - Yield to Worst

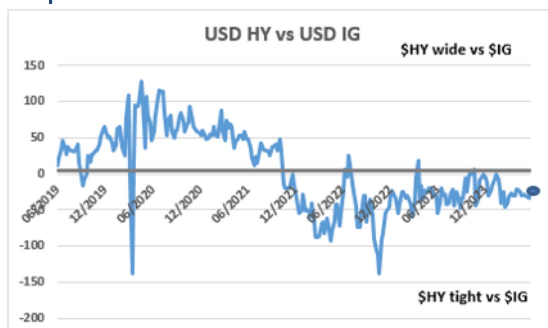
	IG	AAA	AA	A+	A	A-	BBB+	BBB	BBB-	HY	BB+	BB	BB-
3Y	5.44	5.03	5.13	5.27	5.32	5.43	5.50	5.50	5.95	8.26	6.37	6.39	6.51
5Y	5.37	5.09	4.97	5.15	5.21	5.30	5.36	5.44	5.90	8.04	6.46	6.58	7.02
7Y	5.52	4.89	4.97	5.26	5.28	5.43	5.53	5.58	6.02	7.32	6.41	6.48	7.07
10Y	5.56	4.95	5.06	5.31	5.40	5.49	5.66	5.72	5.98	7.01	6.42	6.64	7.38
> 10Y	5.72	5.07	5.34	5.49	5.54	5.59	5.80	5.95	6.49	7.92	6.79	7.21	7.11

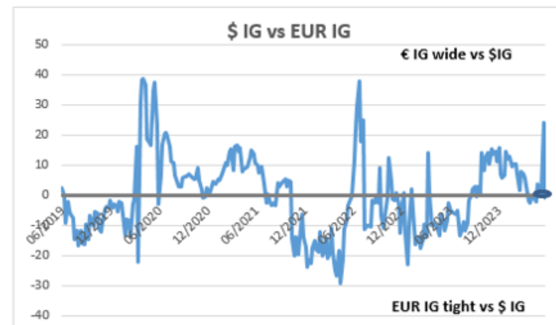
EU IG & HY Corporates - Yield to Worst

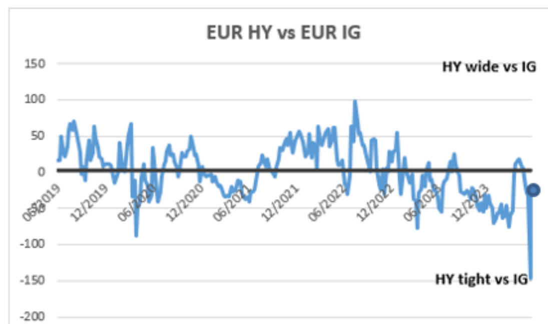
	IG	AAA	AA	A+	A	A-	BBB+	BBB	BBB-	HY	BB+	BB	BB-
3Y	3.92	3.51	3.57	3.75	3.75	3.86	3.92	4.07	4.38	6.55	4.47	5.10	5.48
5Y	3.90	3.32	3.47	3.68	3.76	3.75	3.88	4.11	4.45	6.09	5.18	5.26	5.47
7Y	3.89	3.51	3.45	3.69	3.76	3.82	3.91	4.15	4.40	5.62	5.30	5.46	5.59
10Y	3.93	3.20	3.57	3.80	3.83	3.91	4.00	4.18	4.16	5.56	5.67	5.25	5.40
> 10Y	3.93	3.24	3.72	3.71	3.94	3.90	4.14	4.14	4.32	5.94			

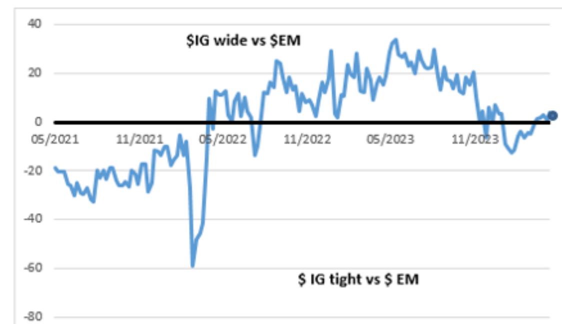
Source: Bloomberg, ICE indices

Based on historical valuations, the picture is neutral on high grade and high beta is globally expensive









Source: BCC, Bloomberg

EQUITIES

- **After an ugly April, equity markets posted positive return in May,** mainly driven by decent corporate results for Q1. In the US, the S&P 500 rebounded sharply, breaking the 5300 mark for the first time, as US companies saw their earnings rise by 7% over one year, leading by the Tech sector: Magnificent 7 posted +50% rise versus -1% for the remaining part of the index. Other major indices recorded new highs, with the Dow Industrials crossing the 40 000 mark for the first time. In Europe, earnings were better than expected, declining by just 5% versus an expectation of -10%.

- **Markets wise, US markets outperformed –** The MSCI World in US Dollar registered a positive performance of 4.04%. The S&P 500 was up 4.73% compared with 2.56% for the EuroStoxx 600. The Swiss market drifted up significantly (5.10%), helped by the fall in the Swiss Franc. Japanese equities ended the month in negative territory (-1.15% for the Nikkei 225). The MSCI Emerging market in US Dollar delivered a positive month (+2.77%) but underperformed developed countries. The Chinese index was supported by the new Chinese plan to support the property market and posted a slightly negative return of -0.09%.

- **European bank continued to outperform their US peers**, with a return of 4.28% and 1.95% respectively. In the US, large banks have been continuing to outperform the small banks.

- **EMU Small Caps have been continuing to outperform their US peers**, with a return of 4.63% and 3.27% respectively

- **Sectors wise, some dispersion could be observed –** Technology, communications and utilities sectors outperformed. Energy, Consumer Discretionary and Industrials posted negative return in May. Magnificent 7 drifted up by 11.42%, outperforming the S&P 500, driven by Nvidia (+32.9%), Netflix (+18.9%), Apple (+11.9%), Microsoft (+10.4%) and Meta (+10.3%). The sole detractor of performance was again Tesla (-3.9%). To make it short, Nvidia reported Q1 earnings: i/ revenues surged to a record $26bn, up 262% over the prior year, ii/ revenue projection for Q2 is $28bn, equivalent to a 107% YoY increase, iii/ net income hit a record high at $14bn for the first quarter, i.e. 628% increase over last year's Q1 net income of $2.04bn. The AI darling's market value is now $2.81tr

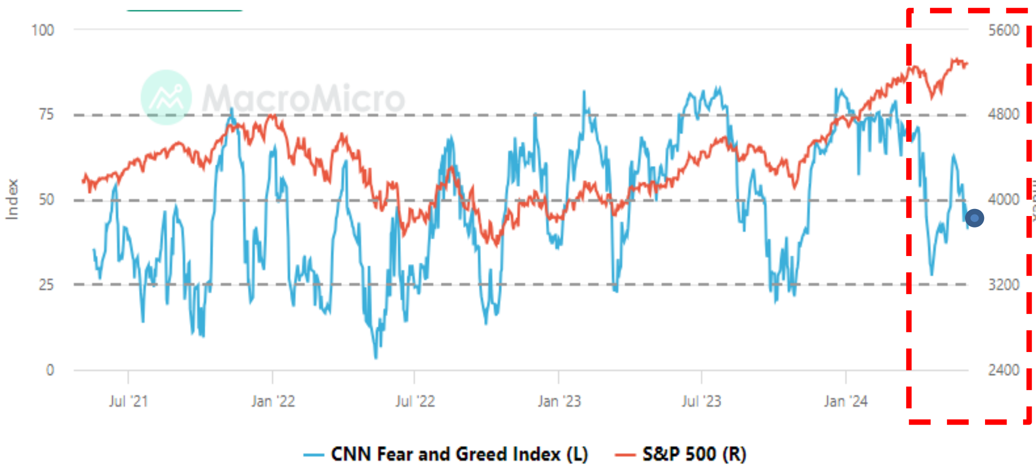
- **Why is Tech continuing to boom?** The sector is supported by the strong development of Artificial Intelligence along with i/ the Biden Acts, such as the CHIPS act, which ensures the US is a global leader in every part of the semi-conductor supply chain and the IRA act, which has been boosting semiconductor usage for clean energy), ii/ cybersecurity, iii/ digitalisation of the global economy and iv/ the global energy transition

TOTAL RETURN (% - Local Currency)

	YtD	Jan	Feb	March	April	May
MSCI World (USD)	9.54	1.23	4.28	3.28	-3.67	4.04
MSCI Emerging (USD)	7.80	-4.64	4.78	2.53	0.43	2.77
MSCI US (USD)	12.23	1.56	5.37	3.18	-3.92	4.65
MSCI EMU (EUR)	13.96	2.22	3.34	4.49	-1.76	2.61
MSCI Japan (JPY)	23.28	8.47	5.46	4.40	-1.08	0.26
MSCI Japan (USD)	11.93	4.62	3.00	3.02	-4.86	0.23
Dow Jones	3.11	1.31	2.50	2.21	-4.34	1.83
S&P 500	11.41	1.68	5.34	3.22	-3.89	4.73
S&P 500 eq. weighted	3.84	-0.82	4.16	4.46	-4.28	1.03
Nasdaq 100	11.87	1.89	5.41	1.23	-4.63	7.52
EuroStoxx 50	12.75	2.97	5.08	4.38	-1.43	1.95
EuroStoxx 600	10.16	1.49	2.00	4.18	-0.01	2.56
FTSE 100	7.14	-1.27	0.45	4.84	2.95	0.87
SMI	10.39	1.76	0.93	3.96	-1.63	5.10
Nikkei 225	15.35	8.44	8.00	3.80	-4.86	-1.15
CSI 300	6.15	-6.29	9.35	0.61	2.01	-0.09
EU Banks	24.82	2.59	0.66	14.97	3.48	4.28
US Banks	14.23	1.97	4.25	8.45	-2.09	1.95
EMU Small Caps	5.54	-2.50	-0.39	4.47	-1.21	4.63
US Small Cap	1.51	-3.89	5.65	3.58	-6.08	3.27
Bloomberg Manificent 7 Total Return	29.35	1.83	12.06	2.66	-2.32	11.42
S&P 500 ENERGY INDEX	5.69	-0.38	3.18	10.60	-1.54	-3.06
S&P 500 INFO TECH INDEX	21.16	3.95	6.31	1.97	-5.64	12.84
S&P 500 CONS DISCRET IDX	1.13	-3.53	8.71	0.10	-3.75	-0.09
S&P 500 REAL ESTATE IDX	-6.18	-4.74	2.58	1.77	-6.85	1.61
S&P 500 COMM SVC	20.32	5.02	5.70	4.34	-3.48	7.11
S&P 500 INDUSTRIALS IDX	6.27	-0.88	7.23	4.41	-2.81	-0.25
S&P 500 FINANCIALS INDEX	8.95	3.04	4.16	4.77	-3.58	1.08
S&P 500 HEALTH CARE IDX	5.94	3.01	3.22	2.38	-4.24	0.89
S&P 500 UTILITIES INDEX	11.69	-3.01	1.12	6.62	2.31	5.64
S&P 500 MATERIALS INDEX	4.87	-3.91	6.46	6.50	-4.34	1.20
S&P 500 CONS STAPLES IDX	8.15	1.54	2.32	3.49	-0.13	0.71
S&P 500 Banks	14.23	1.97	4.25	8.44	-2.09	1.95
DJ US Small Caps Bank	-5.14	-2.72	-1.99	5.79	-4.55	0.36

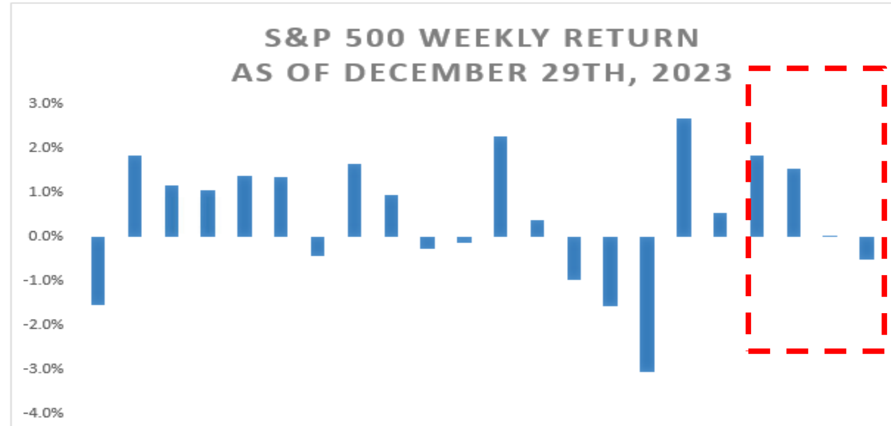
Valuation – Cooling sentiment while global risk pricing is low

CNN Fear & Greed index @ 49

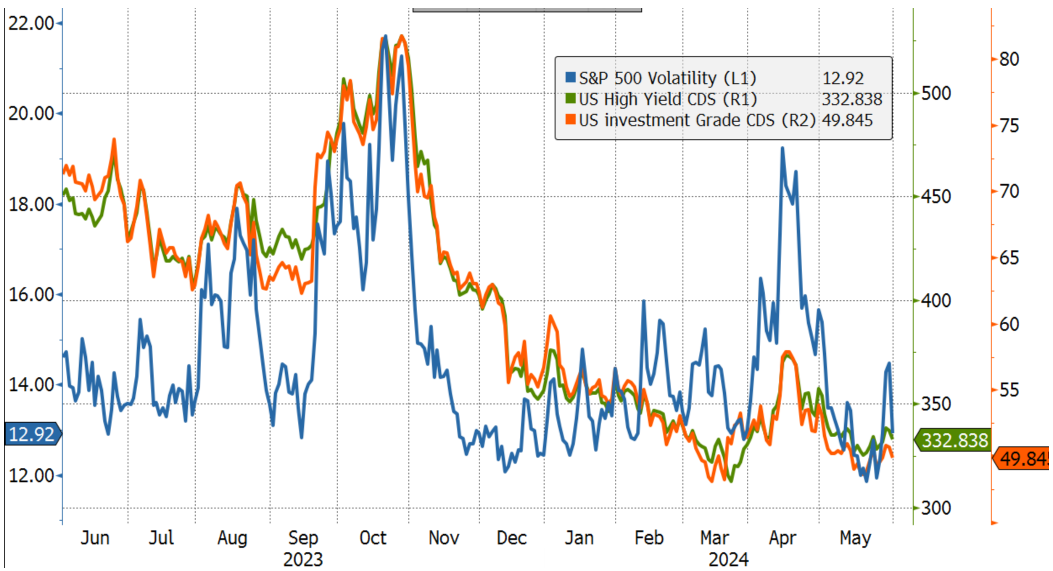


Source: MacroMicro

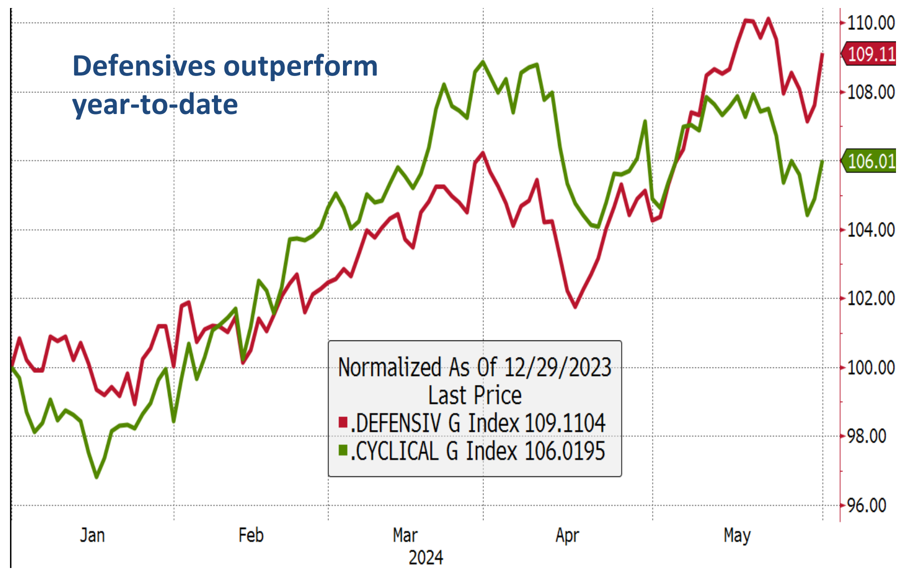
After five weeks of consecutive positive return, the S&P 500 made its first weekly decline at the end of the month



Source: BCC, Bloomberg



Source: Bloomberg



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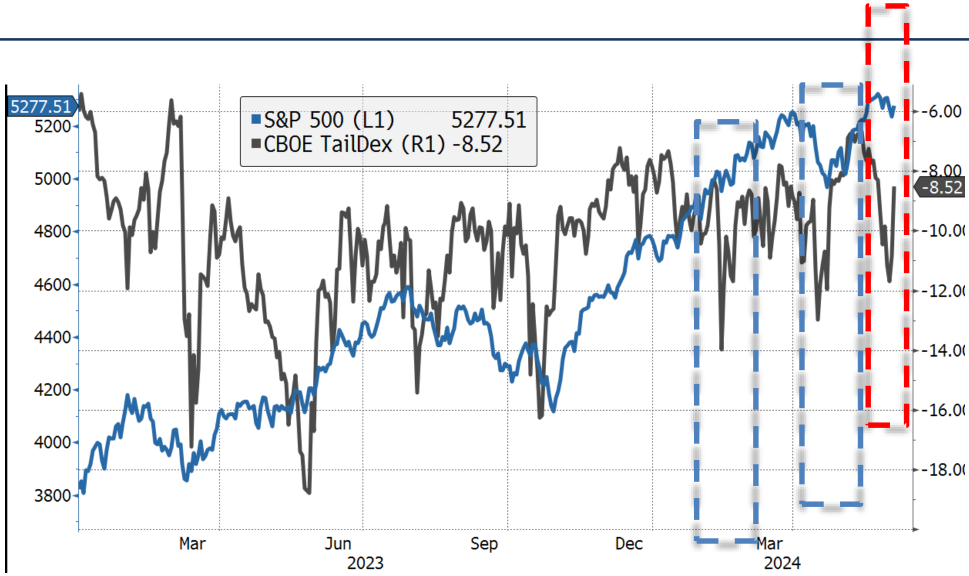

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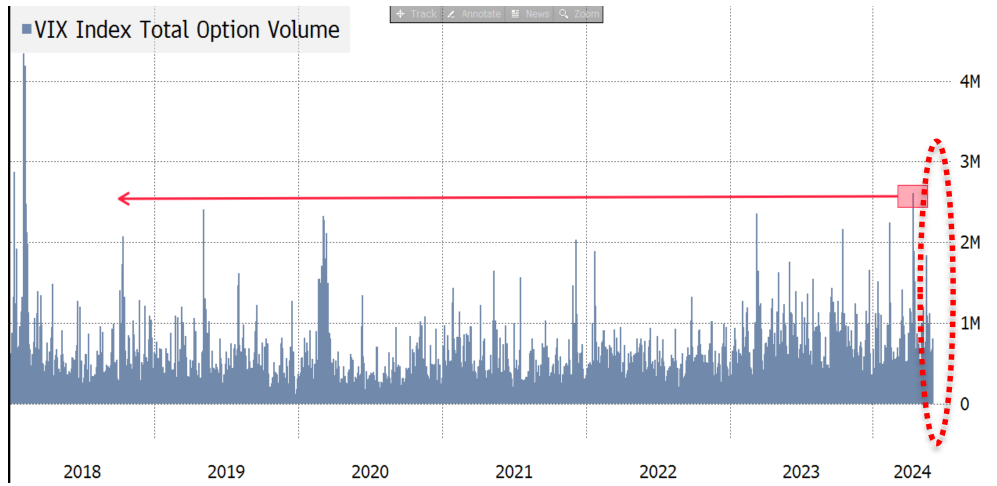
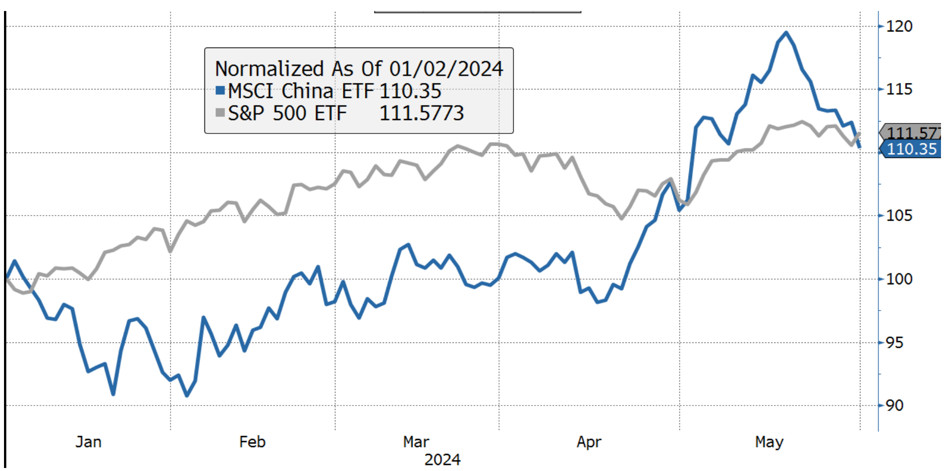
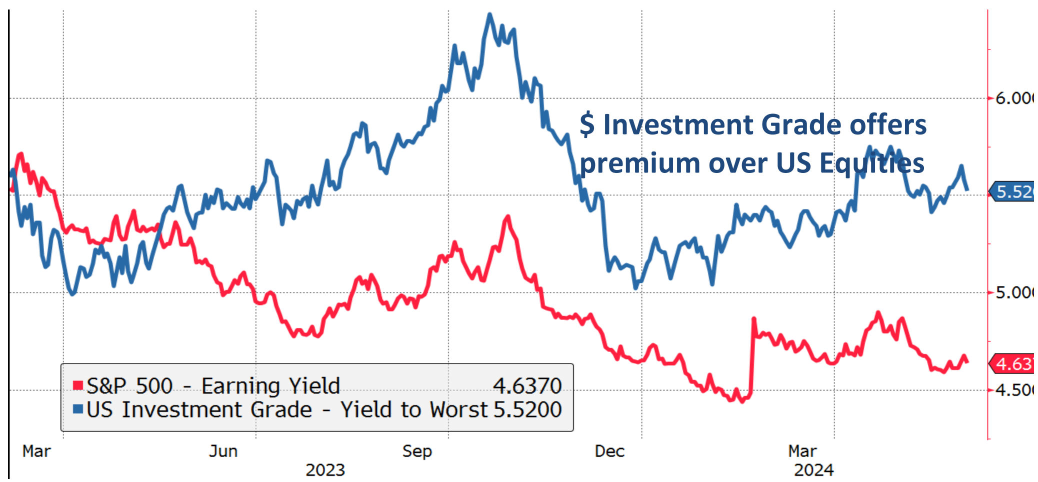


Source: Bloomberg

Hedging activity on the market were visible in April and earlier in the year as shown by the TailDex move, which measures tail risk hedging. The market did not ever blink. We can observed some new exposure but volume is globally low



Source: Bloomberg



Source: Bloomberg

CURRENCIES & COMMODITIES

- **The US Dollar underperformed its currencies basket (-1.0%).** The US currency drifted down against most currencies: -0.6% versus the Japanese Yen, -0.8% versus the Swiss franc and -1.17% against the single currency. The USDJPY remains the most volatile pair despite the Japanese central bank's effort to stabilize it

- **Despite falling for two consecutive weeks, Gold posted a fourth consecutive monthly gain in May(+1.62%),** as geopolitical risks remain in focus. After reaching an all-time high of $2'449.89 on May 20, the precious metal faced downward pressure, likely due to profit-taking or long-liquidation by traders. According to the World Gold Council, net purchase of gold by global central banks rose 33 metric tons in April from a revised net buying of 3 tons in March. This signals continuing strong demand from central banks despite high prices for the metal. Central banks of Turkey, China, India and Kazakhstan are the largest net buyers of gold in 2024

- **Oil fell by 3.54% for the WTI and -5.08% for the Brent,** on worries over weak US gasoline demand and higher for longer US interest rates weighing on economic growth. Oil price drifted to February lows amid physical weakness as US crude stockpiles Cushing swelled to the highest level since last July

- **Natural gas enjoyed a sharp rally in May.** The European overall gas storage broke above 70% for first time since last winter, according to Bloomberg data

- **Global commodities posted positive returns over May.** Nevertheless, some profit-taking accelerated over the month after the strong rally seen across industrial metal: Copper extended its retreat from a record high and Aluminum dropped from a two-year high. Among agricultural commodities, while wheat posted a strong return of 17% over the month, supported by relatively little supply, sugar and cocoa prices (record set in April) sold off by 6,90% and 8.13% respectively over May on profit-taking. Worth noting that prices have more than double this year on cocoa as poor harvests in West Africa left the world facing a significant deficit. Hedge funds have continued to cut net long exposure to Sugar

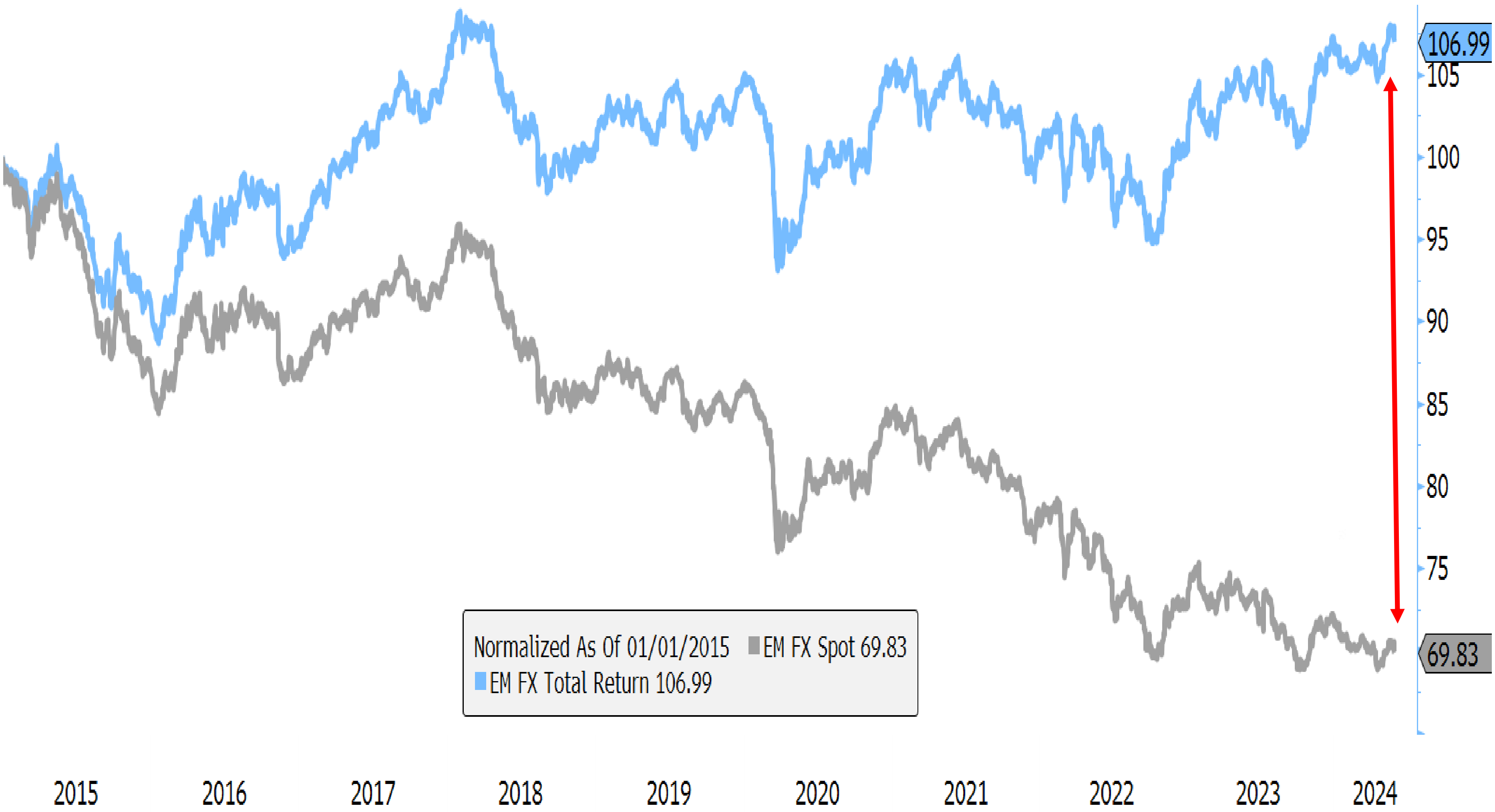
TOTAL RETURN (% - Local Currency)

	YtD	Jan	Feb	March	April	May
EUR/USD	-2.14	-2.06	-0.12	-0.14	-1.15	1.17
GBP/USD	-0.19	-0.31	-0.50	-0.02	-1.04	1.58
EUR/CHF	4.94	0.16	2.56	1.81	0.78	0.35
USD/JPY	9.74	4.28	2.08	0.91	4.26	-0.56
USD/CHF	7.45	2.46	2.68	1.91	2.00	-0.80
DXY	2.54	1.05	0.85	0.32	1.66	-1.00

TOTAL RETURN (% - Local Currency)

	YtD	Jan	Feb	March	April	May
Commodities	4.42	-0.09	-1.89	2.89	1.77	2.96
Ind. metals	13.44	-2.37	-0.98	1.34	12.95	3.55
Precious metals	13.15	-1.76	-0.98	8.12	2.78	4.90
Agriculture	-2.20	-1.51	-4.76	2.09	-1.25	4.70
Energy	0.53	2.29	-0.84	2.01	-1.19	0.54
WTI	5.09	7.77	3.18	6.27	-2.13	-3.54
Brent	3.48	7.67	2.34	4.62	0.50	-5.08
Natural Gas	5.94	-18.22	-11.43	-5.22	8.38	33.55
EU gas 1Mth Fwd	8.13	-7.77	-14.34	10.05	4.68	16.61
Gold	12.04	-0.94	0.23	9.08	1.55	1.62

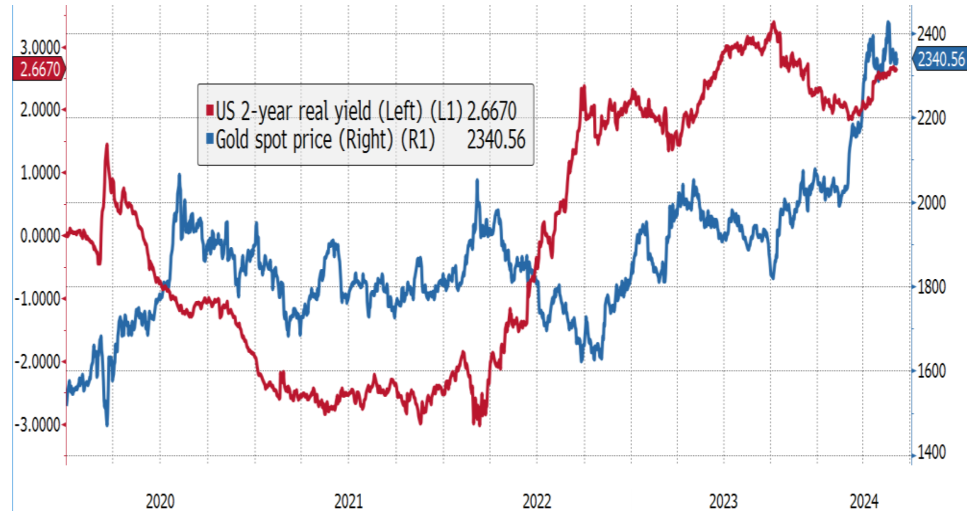
EM FX return has long been supported by carry



Source: Bloomberg

Gold found some resistance

Source: Bloomberg



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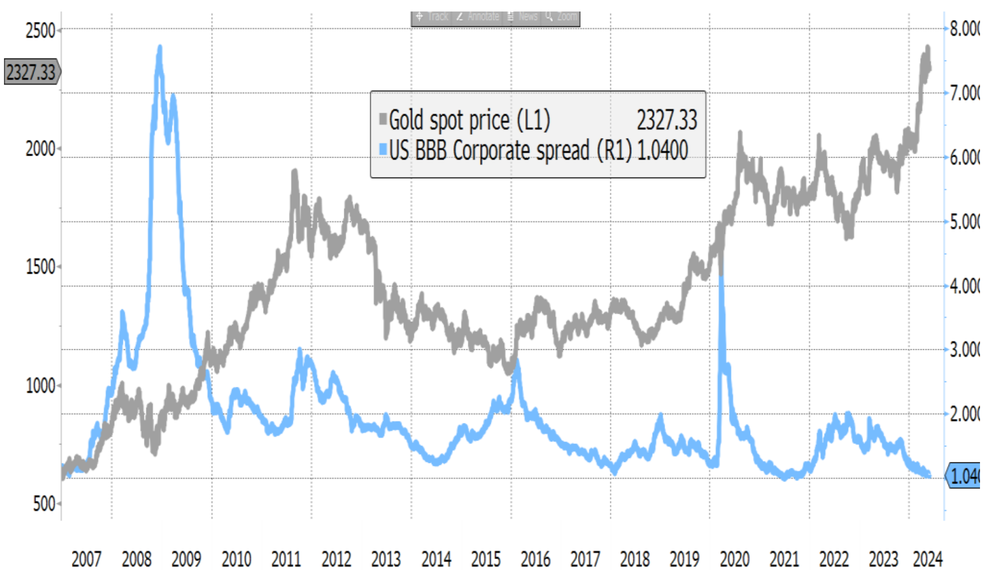

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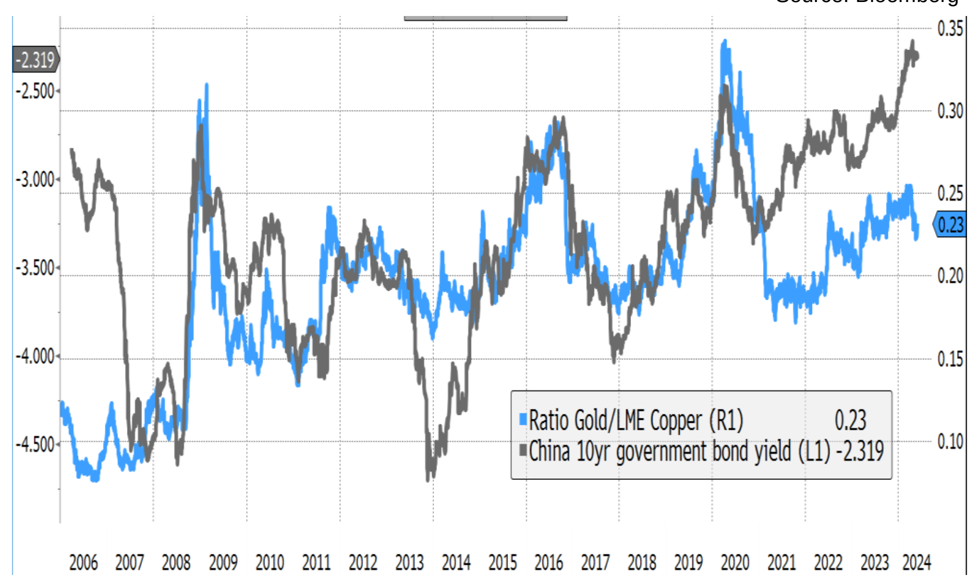

Source: Bloomberg

Market scenario & Positioning

Our View – Asset Allocation

- **Current international relations are becoming increasingly strained, both in terms of trade and geopolitics: Biden's Administration tariffs, Putin visit to Beijing amidst military cooperation between the two countries seems to overshadow the meager gains from Xi's recent trip to Europe**

- **On the macro front, the latest inflation figures for the US and Eurozone have reassured bond markets, leading to declining yields over the month. At the same time, increasing expectations of a soft landing in the US are supporting the view that a rate rise was out of question. We stick with the view that continued disinflation in the US and Europe should enable central banks to ease monetary policy in 2024, with the ECB acting first**

- **Financial market volatility remains low in spread products and stock markets, allowing cheap hedging exposures**

- **Two major conviction: 1/ the further we go with reassuring inflation figures, the more we'll find a way to keep interest rates down: it's worth taking on interest-rate risk through credit; 2/ still positive on the EU and US equity markets; the closer we get to lower interest rates, the more we'll have to diversify into the EMs (interesting story on commodities, especially industrial metals and Latin America)**

- **Cash is still attractive, both in EUR and USD**

- **Sovereign yields are attractive on an historical basis but the debt burden makes corporate balance sheet fundamentally more attractive, while being selective**

- **Valuation on Credit are not cheap but carry is very attractive, with the slope of spreads offsetting the inversion of the yield curve:**
  - **Investment grade, which historically delivered positive returns during soft landing scenarios, are favored in the US on the belly of the curve (5 to 7 years).**
  - **In Europe, Capital structures and CrossOver are offering attractive risk/reward. Worth noting that credit fund inflows support valuations that may appear expensive.**
  - **Emerging market external debt spreads have slightly tightened in May and valuations remain stretched but some regions offer attractive risk/reward**

- **In Equities, markets are not exuberant but remain buoyant ahead of the major central bank's first rate cuts. We expect concerns about the US elections to start negatively impacting equity markets by late summer.**

	SAA	Last TAA	New TAA	Underweight	Neutral	Overweight
Overall Positioning						
Cash & Equivalents	5.0%	4.0%	4.0%		●	
Fixed Income	37.0%	37.5%	37.5%		●	
Equities	45.0%	45.0%	45.0%		●	
Alternatives	13.0%	13.5%	13.5%		●	
Fixed Income	**37.0%**	**37.5%**	**37.5%**			
Government	7.5%	7.0%	7.0%	●		
Corporate IG	20.0%	22.0%	22.0%			●
Corporate HY	5.5%	4.8%	4.8%	●		
Emerging Markets HC	4.0%	3.8%	3.8%		●	
Equities	**45.0%**	**45.0%**	**45.0%**			
United States	27.0%	26.5%	26.5%	●		
Europe ex CH	6.8%	6.3%	6.3%	●		
Switzerland	4.0%	5.0%	5.0%			●
Japan	2.3%	1.3%	1.3%	●		
Other Developed Markets	0.0%	0.8%	0.8%			●
Emerging Markets	5.0%	5.3%	5.3%		●	
Alternatives	**13.0%**	**13.5%**	**13.5%**			
Real Estate	2.0%	1.5%	1.5%	●		
Gold	3.0%	3.0%	3.0%		●	
Hedge Funds	8.0%	9.0%	9.0%			●

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