Monthly Market Brief

September 2024

BANQUE CRAMER

Our View – Asset Allocation

▶ **Where do we stand:**

- ❑ **Strained international relations and US elections** could bring volatility and **uncertainty**
- ❑ **Significant rate cuts** are now priced in western countries
- ❑ Despite some tensions at the beginning of August, **current financial markets volatility is back to low levels** both in spread products and stock markets

▶ **Major conviction:**

- ❑ Continuing **reassuring inflation figures** and **major central bank rate cuts**, and
- ❑ **No recession or hard landing**: global economy is normalizing and companies are delivering earnings and managing their balance sheet

▶ **Positioning: ahead of the US elections and with a lot of rate cuts priced in the markets, selectivity should prevail**

- ❑ The recent rally seen in sovereign yields leaves little room for further downward pressure on yields, making **long-dated government bonds unattractive**
- ❑ With rate cuts on the agenda and growth slowing, the **situation remains favorable for credit market carry strategies** :

i/ Thanks to a an attractive risk-reward, favor quality credit in the US over High Yield, although the tightening in credit spreads has considerably reduced the margin for safety, and

ii/ More value in capital structure than in High Yield in Europe (below BB, too expensive)

- ❑ Despite tight spreads, reducing the margin of safety, **EM debt offers favorable yield pick-up versus US peers** on quality names on both Local and Hard currencies
- ❑ US elections could induce uncertainties short-term. Nevertheless, **global monetary easing, resilient economic growth and decent corporate margins are supportive for global equities**:

i/ Rotation in US stocks would favor Small caps and Value stocks when looking at valuation, and

ii/ European stocks are attractively value and compensate political risk. Switzerland remains a defensive market.

iii/ Emerging Markets are attractively valued and are benefitting from better economic outlook than most of the developed countries

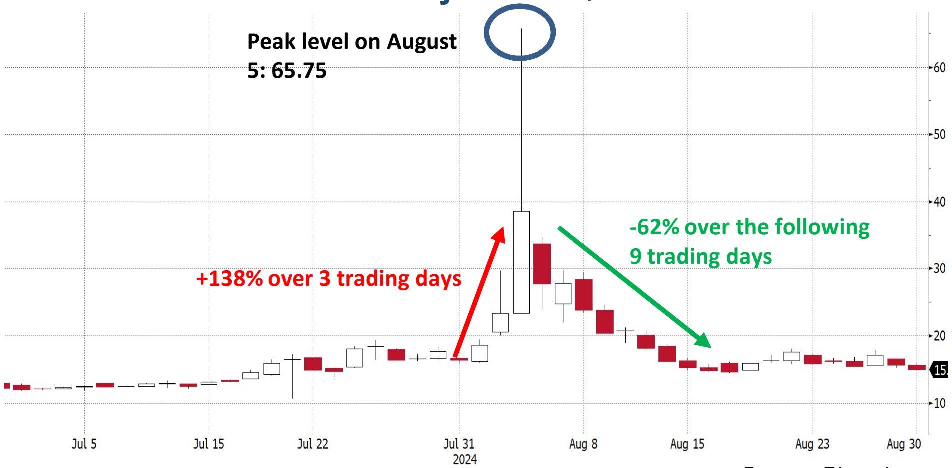
- ❑ **Hold a strategic Gold exposure in portfolios** for diversification purposes as geopolitical risk remains

	SAA	TAA	Underweight		Neutral		Overweight
Overall Positioning							
Cash & Equivalents	5.00%	4.0%			●		
Fixed Income	37.00%	37.5%			●		
Equities	45.00%	45.0%			●		
Alternatives	13.00%	13.5%			●		
Fixed Income	**37.00%**	**37.5%**					
Government	7.50%	6.0%	●				
Corporate IG	20.00%	23.0%					●
Corporate HY	5.50%	4.8%		●			
Emerging Markets HC	4.00%	3.8%			●		
Equities	**45.00%**	**45.0%**					
United States	27.00%	26.5%		●			
Europe ex CH	6.75%	6.3%		●			
Switzerland	4.00%	5.0%				●	
Japan	2.25%	1.3%		●			
Other Developed Markets	0.00%	0.8%				●	
Emerging Markets	5.00%	5.3%			●		
Alternatives	**13.00%**	**13.5%**					
Real Estate	2.00%	1.5%		●			
Gold	3.00%	3.0%			●		
Hedge Funds	8.00%	9.0%				●	

MACRO PICTURE

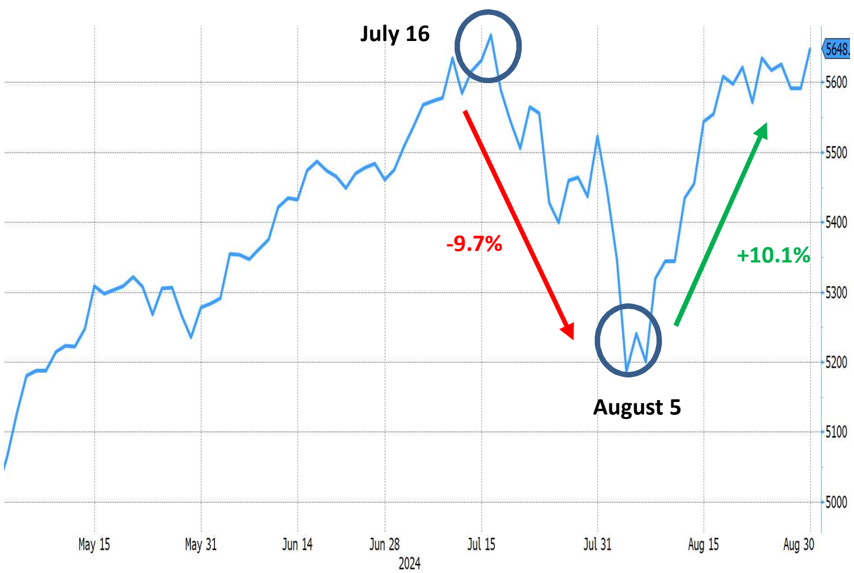
- From panic to euphoria, the beginning of the month was marked by a **rout of volatility:** a slight increase in the unemployment rate, from 4.1% to 4.3%, has triggered the so-called **Sahm rule**, a heuristic measure for assessing the business cycle, suggesting that the US was headed for a recession. Therefore, investors, who had previously displayed considerable optimism about the health of the US economy, changed their mind, triggering a **sharp but short lived downturn in the equity markets** at the beginning of August, and pushing sovereign core yields lower.
- **Why such a panic in the market when employment is only the rear-view mirror of the economy, not a leading indicator?** We closed July with contrasting performance across the US equity markets, with sector rotation being the main topic. Nevertheless, US stocks were certainly not pricing in any recession. But **lower than expected macro releases** pushing Fed rate cuts expectations higher, **the US debt crossing the $35trillion threshold** for the first time in history, the **turbulence in Japan** in a context of central bank's rate hike and Yen carry trade unwind, **high volatility in the earnings publication** with significant price declines for companies disappointing expectations, and **heightened perception of geopolitical and financial risks** were the main triggers of the "flash crash". The shift in narrative was poorly priced in the market and **volatility spiked to level not seen since a while**. When it comes to investing, panic often creates opportunity: investors took advantage of volatility and plummeting markets to add exposure. In a few days, equity markets recovered from their lows and volatility was back to levels seen before the crash
- **Where do we stand?** The macro picture itself was not so bad as the market seemed to think and **recent macro releases in US were reassuring** regarding the risk of recession, keeping alive our core scenario of a soft landing in the US. Global economy is still resilient despite weaknesses in some regions. Decelerating inflation and growth momentum have been paving the way for rate cuts from the major central banks as soon as September.
- In August, **bond indices all delivered positive performances while Equities indices had contrasting returns.**

US Volatility index - $VIX



Source: Bloomberg

S&P 500



Source: Bloomberg

MARKET REVIEW

- **BONDS**

Bond markets delivered a **positive performance both in the US and Europe**, as safe-haven exposures rallied and expectations for rate cuts as soon as September from the FED and the ECB increased. **Year-to-date, bond indices' returns are all back on positive territory**.

From 4.03% at the end of July, the US 10-year yield drifted down sharply, reaching 3.66% during the flash crash, to close the month at 3.90%. **Highly rated debt enjoyed a powerful rally**, underscoring the appeal of bond in an environment where growth is slowing, inflation is falling and major central banks about to cut their main rates soon. This supported **the performance of both sovereign and credit indices**.

In the Eurozone, the Germany 10-year yields closed the month roughly flat at 2.30%, after having reached 2.08% on August 5. The Germany-France 10-year spread ended the month roughly unchanged at 72bps, while peaking around 80bps during the rout of high volatility.

US Treasuries outperformed their euro peers (1.3% and 0.4% respectively).

The **Bloomberg Global Aggregate USD**, which is the benchmark for developed country investment grade bonds, hedged in US Dollar, rose by +1.1% in August, while the same index unhedged in euro posted a return of +0.1%.

On the corporate bond markets, **credit spreads tightened again**, remaining at record lows, and **credit indices posted positive returns**. Based on ICE indices, the $ Investment Grade index posted a return of 1.5% versus 0.3% for the European index. On the high beta front, the $ High Yield index rose by 1.6%, outperforming its euro peer (+1.2%).

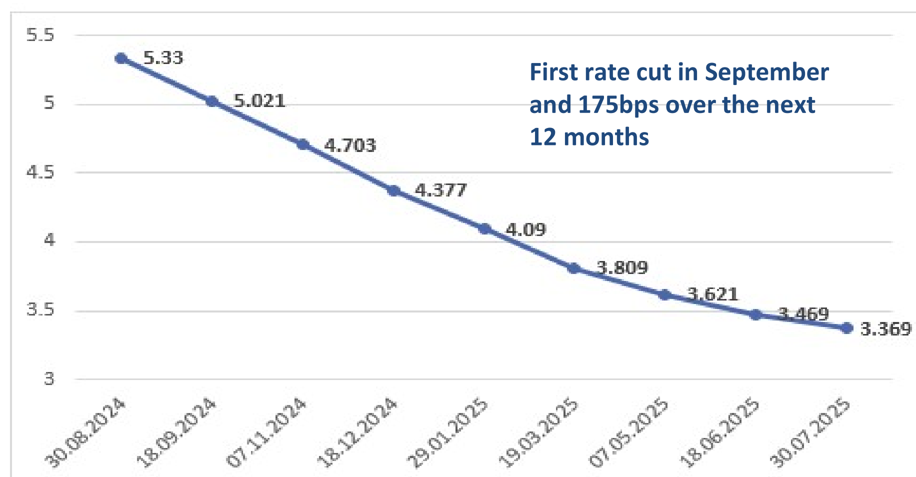
In a context of weaker US Dollar and Fed rate cuts to come, **Emerging debt indices posted decent returns**, **outperforming their US peers:** +2.6% for the $ EM External Debt and +3.2% for the EM local debt.

US High Yield and US denominated Emerging Markets are the best performing segments this year.

US 10-year benchmark (%)

Source: Bloomberg

Market Expectations for Fed Funds Rates(%)



Source: Bloomberg

MARKET REVIEW

- **EQUITIES**

August was a volatile month, with equity indices pulling back at the start of the month, due to a combination of the unwinding carry trade and growth fears sparked by the employment report in the US, before rebounding on reassuring economic data in the US (inflation, retail sales, US Q2 GDP) and a strong signal by the Fed that it was ready to for interest rate cuts (Jackson Hole). It has been a **broad-based advance** with some of them even hitting a new all-time high. **Stocks are globally sure that the economy will avoid a recession** (MSCI World: + 2.68% MtD, +15.97% YtD). Per region, Developed countries outperformed and US outperformed Europe.

In the US, **Small caps underperformed** (-1.50%) despite an increase in rate cuts expectations. The **Nasdaq underperformed the S&P 500** (+1.18% and +2.43% respectively)**, dragged lower in part by the chip giant Nvidia results**: the company has more than doubled quarterly revenues but presented a weaker-than-expected outlook. Among sectors, **Energy and Consumer discretionary** were detractors of performance while **rate sensitive sectors outperformed**. Defensive sectors outperformed Cyclicals (+4.68% and +0.88% respectively) and Large caps Value outperformed Growth (+2.94% and +2.00% respectively) . The Bloomberg Magnificent 7 index posted negative return of -0.41% with large dispersion within the complex.

In the Eurozone, although snubbed by investors since the dissolution, the **CAC 40 made robust return (+1.32%)**, outperforming the EuroStoxx 50 (+1.80%)**. EMU Banks underperformed their US peers** (-0.72% and +2.64% respectively) while **EMU Small Caps outperformed US Small Caps** (+1.70% and -1.50% respectively).

The MSCI Emerging Markets index ended August up 1.64%, underperforming developed countries. Among emerging markets, Mexico has continued to underperform, dropping 20% since the June 2 elections.

Performance over specific periods (%)

	July 31-August 5	August 2 -August 5	August 5 -August 31
Dow Jones	-5.24	-2.60	7.67
S&P 500	-6.07	-2.99	9.05
S&P 500 Equal Weight	-5.12	-2.38	8.03
Nasdaq 100	-7.58	-2.96	9.48
EuroStoxx 50	-6.15	-1.41	8.47
EuroStoxx 600	-5.98	-2.16	8.03
FTSE 100	-4.23	-2.04	5.28
SMI	-6.29	-2.80	7.74
Nikkei 225	-19.55	-12.40	22.94

Source: Bloomberg

MSCI World ex-USA (%)

Source: Bloomberg

MARKET REVIEW

- **CURRENCIES**

The **recent unwind of the long US Dollar-Japanese Yen** had strong implications across several asset classes and within the currencies universe.

Fueled by the prospect of lower interest rates and slower growth, **the Dollar index declined over the month (-2.3%)**, closing August at its lowest level of the year.

The **US Dollar underperformed** the single currency by 2.05%, the British Pound by 2.11%, the Japanese Yen by 2.54% and the Swiss Franc by 3.23%. Even the recent risk-on recovery failed to reverse the dollar-Swiss downward trend in place since late April. The **Swiss currency outperformed** the euro by 1.22%.

Could the continued Swiss Franc strength be a game changer for the SNB? It is a consideration the Swiss central bank cannot ignore. That could boost policy doves but may not be a game changer.

- **COMMODITIES**

Gold closed August at an all-time high, up more than 20% year-to-date and +2.3% month-to-date. Silver has not taken advantage of the situation with a return of -0.49%.

Among Industrial Metals, **supply risk premia has been an insulating force for Aluminum**, which posted a strong return of +8.56% after two negative months. **Copper lagged the performance,** with a month-to-date return of -0.75% after two negative months amidst global growth concerns and the unwinding of overstretched market positions. Due to its recent underperformance, Morgan Stanley believes that Copper is better positioned to benefit from improving market conditions and fundamentals.

US Dollar index (USD)

Source: Bloomberg

Gold (USD)

Source: Bloomberg

MARKET RETURN – Few assets down in August

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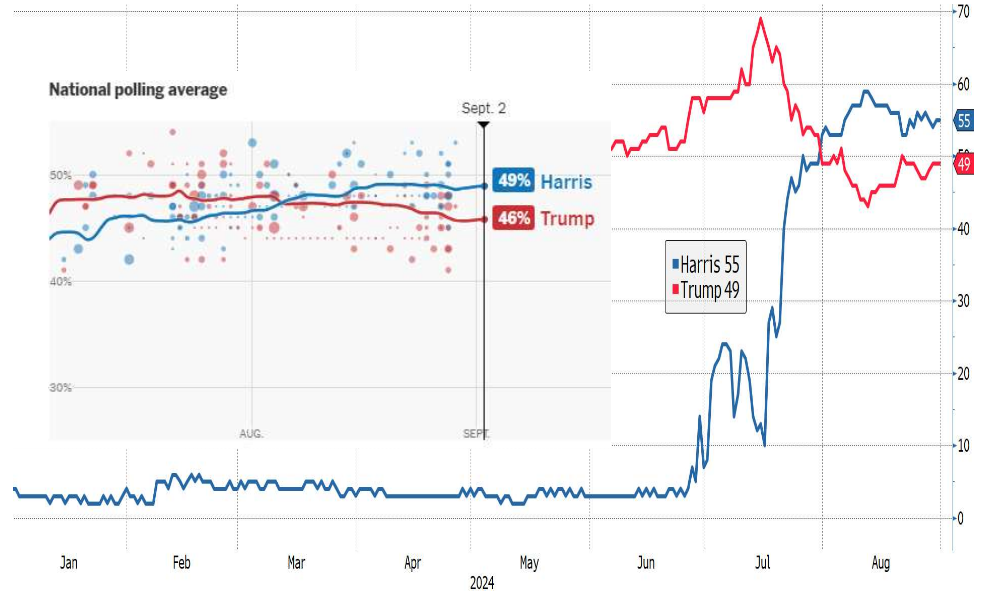
Performances (%) (Local Currency)

	MTD	YTD
Global Equity		
MSCI World	2.7	16.0
MSCI EM	1.6	10.6
Developed Market		
S&P 500	2.4	18.5
Nasdaq	1.2	16.0
Russel 2000	-1.5	11.7
Eurostoxx 50	1.8	12.9
Nikkei	-1.1	15.1
SMI	1.0	14.8
Manificent 7	-0.4	33.4
EMU Small Caps	1.7	2.4
US Small Caps	-1.5	11.7
EU Banks	-0.7	23.8
US Banks	2.6	24.2
Emerging Markets		
MSCI Mexico	-5.2	-18.9
MSCI India	1.3	22.2
MSCI China	0.9	5.7
MSCI Taiwan	0.7	35.5
MSCI Korea	-5.1	1.8
MSCI Brazil	6.8	-9.0
MSCI Indonesia	4.4	7.2

	MTD	YTD
Fixed Income		
EU Treasuries	0.4	0.7
US Treasuries	1.3	2.7
Bloomberg Global Agg. USD	1.1	3.5
Bloomberg Global Agg. EUR	0.1	1.5
US Investment Grade	1.5	4.0
US High Yield	1.6	6.3
EU Investment Grade	0.3	2.6
EU High Yield	1.2	5.6
Swiss Corporates	0.2	3.2
$ EM External Debt	2.6	6.0
EM Local Debt	3.2	1.7
Commodities		
Gold	2.3	20.2
WTI	-5.6	1.5
Industrial Metals	3.0	2.7
Agriculture	0.8	-12.6
Energy	-4.7	-9.0
Currencies		
DXY	-2.3	-0.5
EURUSD	2.1	0.0
EURCHF	-3.2	1.1
USDJPY	-2.5	3.7

HIGHLIGHT – US Elections

- **Where do we stand?**
  - In the most recent polls, according to Bloomberg, Mrs Harris is seen as the favorite vs candidate Trump. She has been mobilizing Democratic support
- **What about their programs?**
  - Democrats: policy continuity and the US Federal Reserves cutting its main rates untill mid-2025
  - Republicans: higher inflation and slightly higher nominal growth, forcing the US Federal reserve to halt its cutting cycle at around 4%
- **What about financial markets?**
  - Democrats: Supportive for bonds, more neutral impact on the US Dollar, Defensive stocks more attractive
  - Republicans: Increase in Sovereign bond yields, outperformance of the US Dollar, Positive for Equities



Source: Bloomberg

DEREGULATION, TAX CUTS, TARIFFS ON US IMPORTS

Banks/Financials: weaker regulation and lower capital requirement for banks

Oil & Gas: US energy dominance through oil and natural gas, domestic drilling and mining will be encouraged and deregulated

Aerospace/Defense: Increase in defense spending

Healthcare: deregulation and market-driven solutions over government intervention, which will promote competition and efficiency

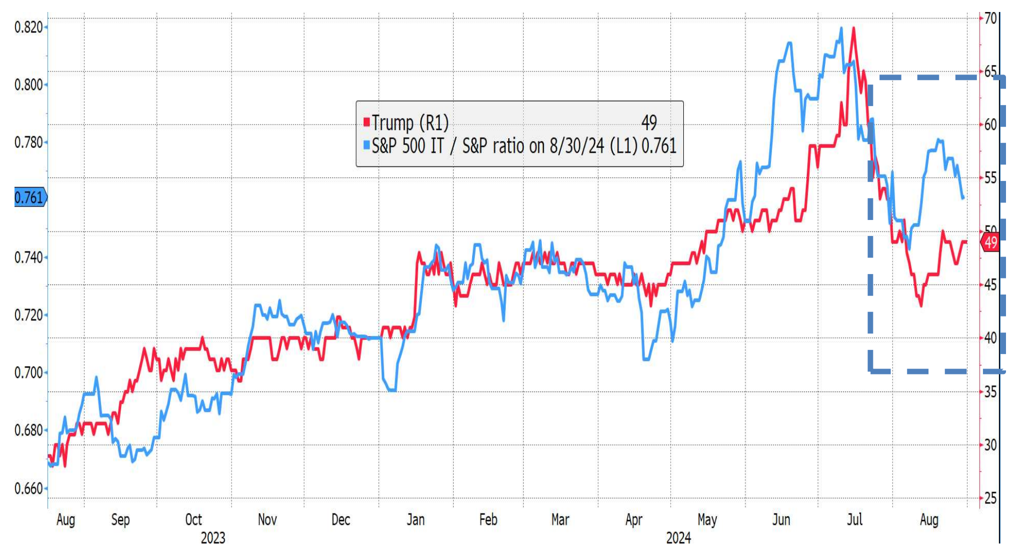
ADDITIONAL FUNDING, SOCIAL SERVICE PROGRAM, GREEN LEADER

Renewable energy & EV: green energy policies, stronger environmental regulations, increased protection of the IRA

Industrials/Homebuilders: immigration will continue to provide a strong labor supply and productivity

Manufacturing/Technology/Infras: continued stimulus support from IRA and CHIPS act

Telecommunication: expansion of broadband funding (American Broadband Act)



Source: Bloomberg

MACRO PICTURE – GLOBAL

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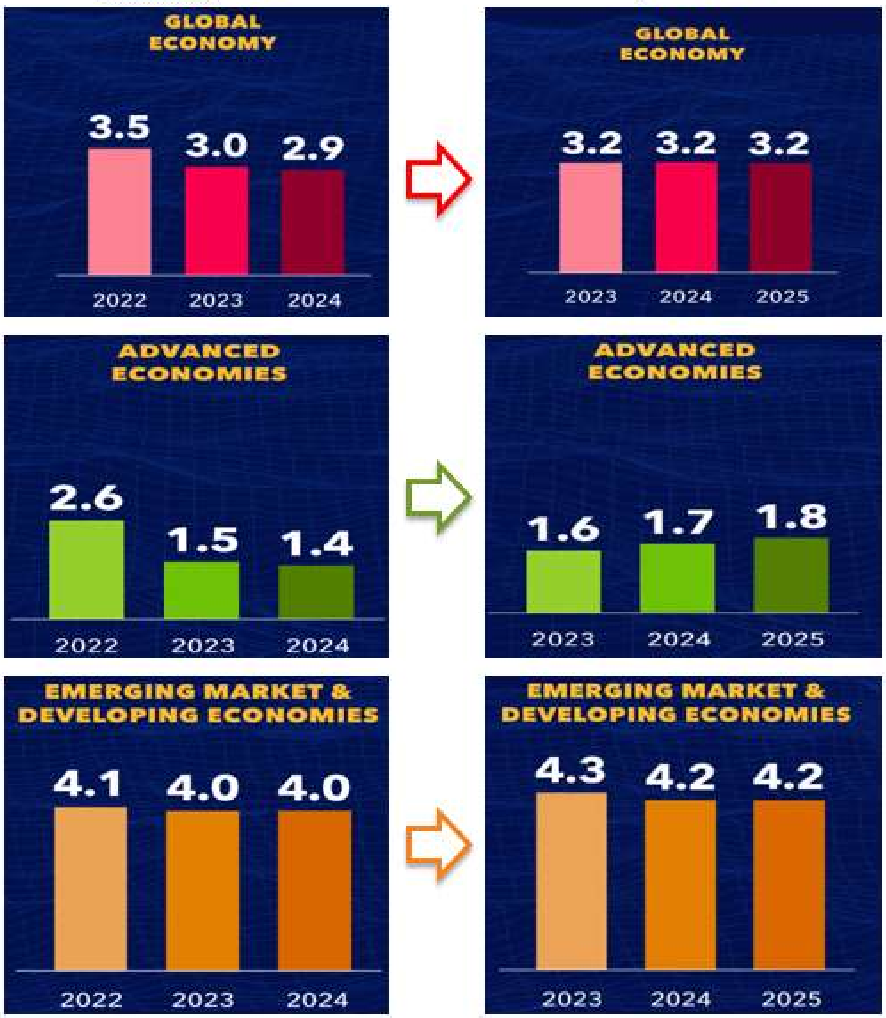
IMF Projections

October 2023 | April 2024



Bloomberg Consensus Forecasts (YoY, %)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP (YoY%)										
US	2,5	3,0	2,5	-2,2	5,8	1,9	2,5	2,3	1,8	2,0
Eurozone	2,6	1,8	1,6	-6,1	5,9	3,4	0,5	0,7	1,4	1,3
UK	2,7	1,4	1,7	-10,4	9,6	4,5	0,1	0,7	1,2	1,4
JP	1,7	0,7	-0,4	-4,2	2,7	1,0	1,9	0,3	1,1	0,9
CH	1,4	2,9	1,2	-2,3	5,5	2,7	0,8	1,2	1,5	1,6
World	3,8	3,6	2,8	-2,7	6,5	3,5	3,2	3,0	3,0	3,1
CPI (YoY%)										
US	2,1	2,5	1,8	1,2	4,7	8,0	4,1	3,1	2,4	2,3
Eurozone	1,5	1,8	1,2	0,3	2,6	8,4	5,5	2,4	2,1	2,0
UK	2,7	2,5	1,8	0,9	2,6	9,1	7,4	2,6	2,2	2,0
JP	0,5	1,0	0,5	0,0	-0,3	2,5	3,3	2,4	1,9	1,8
CH	0,5	0,9	0,4	-0,7	0,6	2,8	2,2	1,4	1,1	1,0
World	3,3	3,6	3,5	3,2	4,7	8,7	6,8	4,6	3,5	3,2
Unemployment (%)										
US	4,4	3,9	3,7	8,1	5,4	3,6	3,6	4,0	4,1	4,0
Eurozone	9,1	8,2	7,6	8,0	7,8	6,8	6,6	6,5	6,5	6,5
UK	4,4	4,1	3,9	4,6	4,7	3,9	4,0	4,4	4,5	4,7
JP	2,8	2,4	2,4	2,8	2,8	2,6	2,6	2,5	2,4	2,3
CH	3,1	2,5	2,3	3,1	3,0	2,1	2,0	2,3	2,3	2,3

Our View:
***Global growth stabilization around 3%, with a deceleration in the US while the rest of the world is gradually recovering**
***While being above the 2% threshold, inflation is expected to decrease**

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