Monthly Market Brief

September 2024

BANQUE CRAMER

Our View – Asset Allocation

▶ **Major convictions**:

❑ Continuing **reassuring inflation figures** and **major central bank rate cuts**,

❑ **No recession or hard landing**: global economy is normalizing and companies are delivering earnings and managing their balance sheet

▶ **Positioning: a tactical reduction of risk due to inflated valuations in select segments**

✓ **Government bonds are unattractive**: Central Banks will continue to cut rates, supporting a normalization of the Treasury curve. Nevertheless, with the strong rally seen over the summer, especially in the US, the short-end and long-end of the curve are expensive: reduce duration and favor the intermediate parts (interesting risk/reward). In Europe, some regional divergence will be observed

✓ **Carry is attractive in credit:** favor Investment Grade (robust balance sheets, better ability to maintain margin in case of slowdown, decent demand, attractive yields) over High Yield (very low cushion), in both US and Europe

✓ Although we continue to be positive on EM debt thanks to a decent carry, **volatility around the US elections makes us cautious on the Forex component** (local debt: favor countries with decent metrics)

✓ Still slightly positive on equities but **tactically reduced exposure on the US** (cautious on expensive names, US growth and large caps; favor an equal weighted approach and US value) **and Emerging Markets** (solid growth but near term pressures from protectionism with the US elections depending on the region). **Europe still offers cheaper valuations.** While the changing macro landscape is bringing more volatility, the fundamentals of Japanese equities remain resilient: **Japan could offer opportunity as a long term play**

✓ Geopolitical tensions and the safe-haven status of Gold induce us to **stay positive on the yellow metal**, which continues to enjoy strong demand

✓ **Lower interest could notably benefit the Swiss Real Estate market** as borrowing costs decrease

Of Note: Money market funds have reached a new record in 2024, which represents potential flows to be invested if the FED continue to cut rates

September	SAA	Last TAA	New TAA	Underweight		Neutral		Overweight
Overall Positioning								
Cash & Equivalents	5.00%	4.0%	4.0%			●		
Fixed Income	37.00%	37.5%	35.5%		●			
Equities	45.00%	45.0%	46.0%			●		
Alternatives	13.00%	13.5%	14.5%				●	
Fixed Income	**37.00%**	**37.5%**	**35.5%**					
Government	7.50%	6.0%	5.0%	●				
Corporate IG	20.00%	23.0%	22.0%					●
Corporate HY	5.50%	4.8%	4.8%		●			
Emerging Markets HC	4.00%	3.8%	3.8%			●		
Equities	**45.00%**	**45.0%**	**46.0%**					
United States	27.00%	26.5%	26.5%		●			
Europe ex CH	6.75%	6.3%	6.3%		●			
Switzerland	4.00%	5.0%	5.0%				●	
Japan	2.25%	1.3%	2.3%			●		
Other Developed Markets	0.00%	0.8%	0.8%				●	
Emerging Markets	5.00%	5.3%	5.3%			●		
Alternatives	**13.00%**	**13.5%**	**14.5%**					
Real Estate	2.00%	1.5%	2.5%				●	
Gold	3.00%	3.0%	3.0%			●		
Hedge Funds	8.00%	9.0%	9.0%				●	

MACRO PICTURE

- **Major economies are showing signs of weakness**

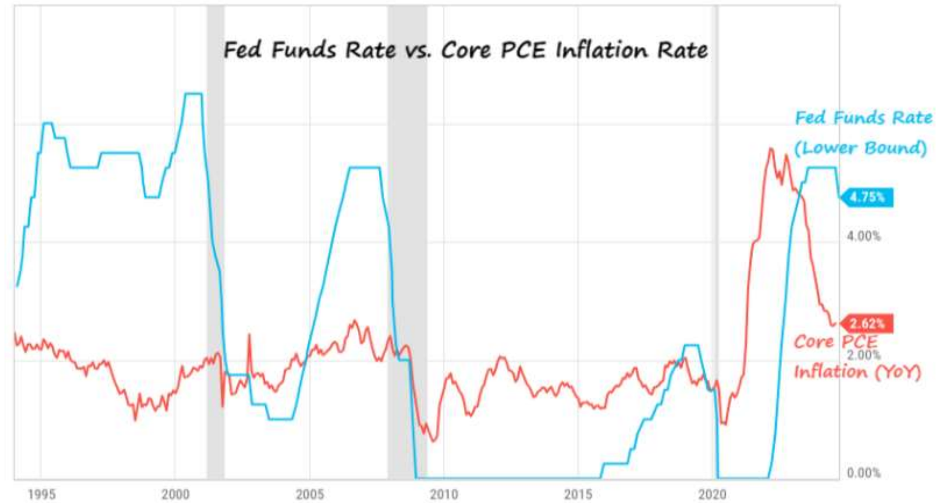
- **A mild US deceleration, not a recession,** with signs of cooling in the labor market. Nevertheless, the US are still realizing job growth, unemployment claims are historically low and the unemployment rate is rising not due to massive lay-offs but due to new entrants into the workforce. Consumers, the major driver of US GDP growth, is showing some signs of pulling back as reflecting in retail sales
- **Vulnerabilities to European growth:** Eurozone outlook is poor and the large economies are in a dire state. Political trend within the area remains a matter of concerns. The appointment of a new government in France did not relieve the negative markets perception about the resolution of the budget issue (Debt/GDP: 112%, 2024 Budget deficit: 5.6% vs 5.1% expected)
- **Difficult recovery in China** with industry suffering from weak demand. The Chinese government launches a stimulus campaign aimed at supporting the economy (reduction in interest rate, a new programme to stimulate the stock market and support the property sector)

- **Disinflation trend confirmed in the US and Europe,** which should alleviate some pressure on households' purchasing power

- **Convergence of trend between central bank with Japan an outlier**: i/ the US Fed started off the easing cycle with 50bps cut perceived as a catching up to where the Fed think it should be and not an effort to head off an adverse economic event, ii/ the ECB cut by 25bps for the second time, highlighting the data-dependency of future decisions , iii/ the SNB cut by 25bps in a context of persistent strength of the franc and downward revision of inflation projection by the Government, iv/ the PBoC cut its reserve requirement ratio by 50bps and reduced its main short-term interest rate by 30bps. The BoJ held its main rate at 0.25% after the hike in July

- In September, **bond and equity indices all delivered positive performances**

The US Easing cycle has begun



Source: C.Bilello

S&P 500

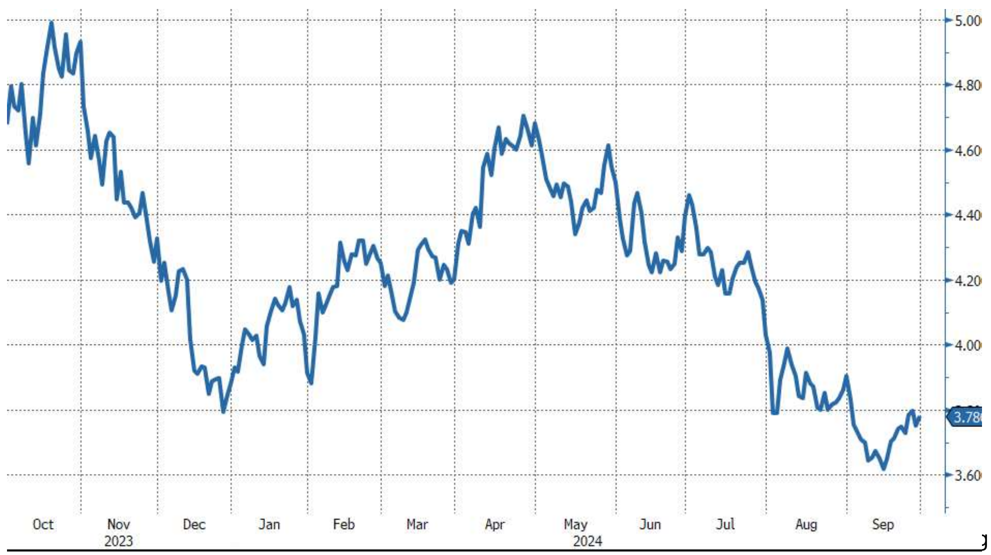
Source: Bloomberg

MARKET REVIEW

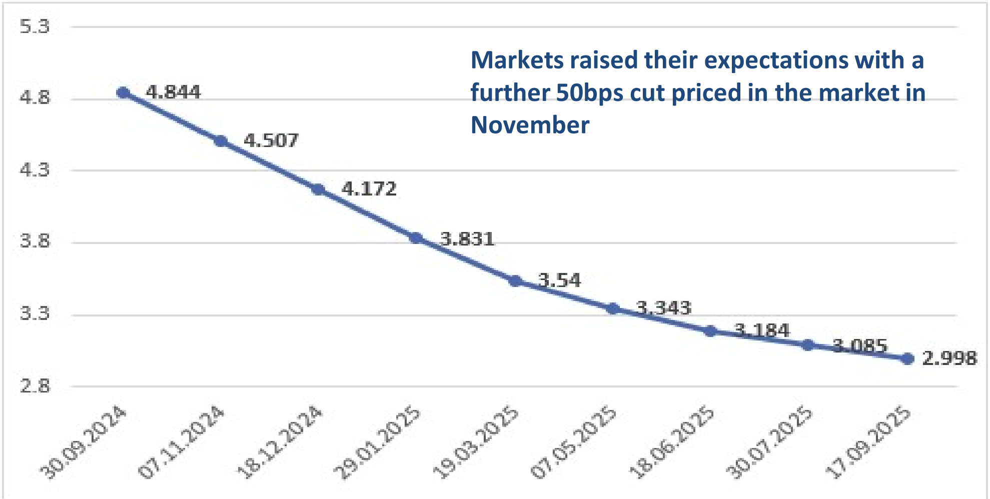
- **BONDS**

In a context of monetary easing from numerous central banks, bond markets as a whole delivered positive returns. Central bankers confirmed that financial conditions would continue to ease, pushing sovereign yields lower.
From 3.9% at the end of August, the US 10-year yield drifted down sharply, reaching 3.60%, to close the month at 3.78%. The US curve has continued to steepen, with the 2-10Y slope reaching +20bps. An environment where growth is slowing, inflation is falling and major central banks are cutting their main rates is positive for bonds and **highly rated debt enjoyed this month again a powerful rally**. This supported **the performance of both sovereign and credit indices**.
In the Eurozone, the Germany 10-year yields closed the month lower at 2.12%. The Germany-France 10-year spread ended the month wider at 80bps, in a context of a larger-than-expected deficit in France.
US and EU Treasuries posted decent return of 1.2% and 1.3% respectively.
The **Bloomberg Global Aggregate USD**, which is the benchmark for developed country investment grade bonds, hedged in US Dollar, rose by +1.2% in September, while the same index unhedged in euro posted a return of 0.9%, highlighting the **underperformance of the US Dollar**.
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 1.7% versus 1.2% for the European index. On the high beta front, the $ High Yield index rose by 1.6%, outperforming its euro peer (+1.0%).
In a context of weaker US Dollar and Fed rate cuts, **Emerging debt indices posted decent returns**, **outperforming their US peers:** +1.8% for the $ EM External Debt and +3.1% for the EM local debt.
US High Yield and US denominated Emerging Markets are the best performing segments this year.

US 10-year benchmark (%)



Market Expectations for Fed Funds Rates(%)



Source: Bloomberg

Yield to Worst by Rating & Tenor – As of September 30, 2024

US IG & HY Corporates - Yield to Worst

	IG	AAA	AA	A+	A	A-	BBB+	BBB	BBB-	HY	BB+	BB	BB-
3Y	4.35	3.90	4.01	4.16	4.20	4.35	4.42	4.44	4.94	7.26	5.42	5.56	5.58
5Y	4.47	3.95	4.06	4.21	4.27	4.37	4.46	4.54	5.11	7.02	5.52	5.78	6.05
7Y	4.71	4.17	4.20	4.46	4.50	4.65	4.72	4.80	5.27	6.50	5.57	5.67	6.08
10Y	4.85	4.21	4.39	4.57	4.65	4.76	4.90	5.00	5.41	6.23	5.85	5.94	6.85
> 10Y	5.20	4.52	4.83	4.98	5.00	5.06	5.28	5.44	6.09	7.37	6.42	6.90	6.84

US IG & HY Corporates - Yield changes

	IG	AAA	AA	A+	A	A-	BBB+	BBB	BBB-	HY	BB+	BB	BB-
3Y	-0.29	-0.28	-0.29	-0.29	-0.31	-0.30	-0.31	-0.28	-0.25	-0.32	-0.32	-0.08	-0.37
5Y	-0.20	-0.22	-0.20	-0.21	-0.22	-0.23	-0.22	-0.20	-0.14	-0.27	-0.16	-0.20	-0.16
7Y	-0.21	-0.04	-0.18	-0.21	-0.22	-0.22	-0.23	-0.22	-0.13	-0.13	-0.20	-0.11	-0.07
10Y	-0.19	-0.17	-0.19	-0.20	-0.20	-0.21	-0.23	-0.20	-0.13	-0.20	-0.14	-0.19	0.06
> 10Y	-0.18	-0.14	-0.14	-0.17	-0.20	-0.18	-0.17	-0.20	-0.08	-0.20	-0.26	0.03	-0.13

EU IG & HY Corporates - Yield to Worst

	IG	AAA	AA	A+	A	A-	BBB+	BBB	BBB-	HY	BB+	BB	BB-
3Y	3.06	2.54	2.69	2.87	2.91	3.00	3.06	3.26	3.44	6.07	4.02	4.49	4.84
5Y	3.20	2.60	2.75	2.98	3.07	3.10	3.20	3.38	3.73	5.59	4.62	4.98	5.22
7Y	3.32	2.84	2.88	3.13	3.27	3.13	3.37	3.62	3.79	4.96	3.94	5.40	5.04
10Y	3.42	2.81	3.08	3.27	3.25	3.44	3.49	3.66	3.85	4.48	4.57		
> 10Y	3.63	3.26	3.41	3.45	3.60	3.65	3.82	3.72	3.87	5.25			

EU IG & HY Corporates - Yield changes

	IG	AAA	AA	A+	A	A-	BBB+	BBB	BBB-	HY	BB+	BB	BB-
3Y	-0.32	-0.34	-0.36	-0.32	-0.33	-0.34	-0.33	-0.27	-0.33	-0.28	-0.21	-0.21	-0.19
5Y	-0.30	-0.32	-0.31	-0.34	-0.29	-0.29	-0.30	-0.28	-0.29	-0.12	-0.05	-0.13	-0.17
7Y	-0.26	-0.27	-0.26	-0.26	-0.23	-0.35	-0.23	-0.23	-0.24	-0.15	-0.40	0.10	-0.16
10Y	-0.26	-0.21	-0.25	-0.24	-0.34	-0.24	-0.25	-0.26	-0.22	-0.24	-0.25		
> 10Y	-0.17	-0.16	-0.16	-0.17	-0.16	-0.15	-0.17	-0.24	-0.23	-0.11			

Source: ICE indices, CreditSights

MARKET REVIEW

- **EQUITIES**

The Fed cut has been a positive catalyst for equity markets as did the Chinese package to support the economy.

September began with a sharp correction following poor US employment data. Nevertheless, encouraging comments from J. Powell about rate cuts to come to support the US economy and especially the labor market helped US equities to close the month in positive territory.

The **MSCI World posted a return of 1.9%** in September, the fifth consecutive monthly rise.

The **MSCI Emerging Markets outperformed developed country equities, with a return of 6.7%**, the 8th consecutive month in positive territory, supported by the Chinese stimulus (MSCI China: + 23.4%).

US equities outperformed Europe, with the S&P 500 up 2.1% versus 0.9% for the Euro Stoxx 50.

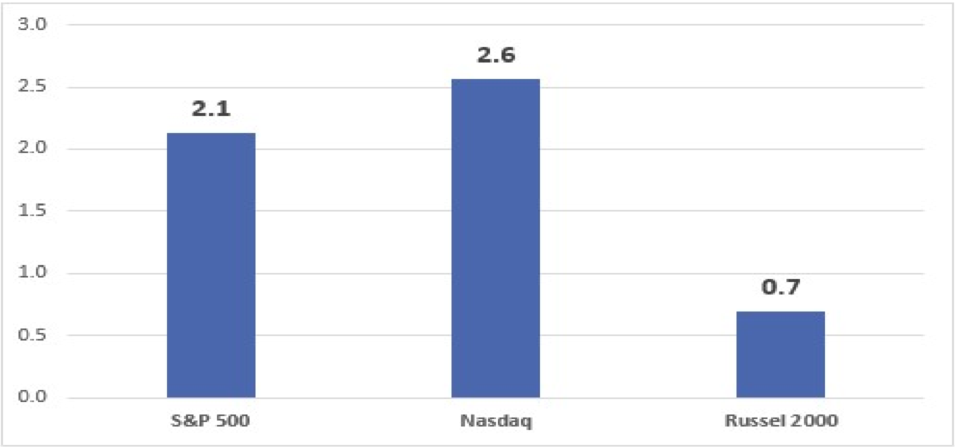
The **Swiss index (SMI) posted negative return of -2% despite the SNB cut,** and the **Japanese Nikkei lost -1.3%** in a context of appreciation of the Japanese currency

In the US, the Nasdaq outperformed (+2.6%) while the small caps index posted a slightly positive return of +0.7%. The S&P 500 enjoyed a positive return of +2.1%. Magnificent 7 closed September with a year-to-date return of +42%.

By sectors, **Energy (-2.7%) and Healthcare (-1.7%) were the detractors of performance,** while Consumer Discretionary (+7.1%) and Utilities (+6.6%) outperformed.

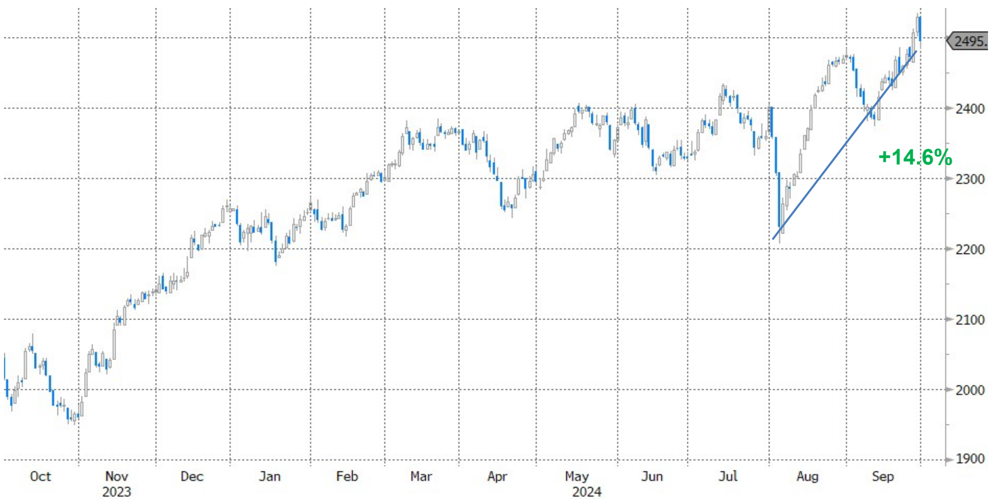
The **US banks index posted a negative return of -3.5%** versus +1.4% for its euro peer.

US Equities(%)



Source: Bloomberg

MSCI World ex-USA (%)



Source: Bloomberg

MARKET REVIEW

- **CURRENCIES**

The **US Dollar underperformed its currencies basket for its 3rd consecutive month, declining by 0.9% in September**. Large rate cuts' expectations by the Fed by the end of 2025 weighted on the US Dollar.
With only 6 cuts by the ECB priced by market participants, the **euro appreciated by 0.8% versus the US Dollar.**
The Japanese Yen appreciated by 1.7% versus the US Dollar and the Swiss France by 0.5%

- **COMMODITIES**

Gold closed September higher, breaking the $ 2600 per ounce threshold, up 26.5% year-to-date and +5.2% month-to-date. Silver posted a return of 7.95%.
Oil prices were under pressure, with the WTI reaching $65, level not seen since March 2023, before recovering to close the month at $68.
The Bloomberg Commodity index closed September up by 4.4%, led by agricultural (+7.2%) and industrial metals (+6.4%). The Precious metals index posted a return of +5.9% while the Energy index closed the month slightly positive at +0.06%.

US Dollar index (USD)

Source: Bloomberg

Gold (USD)

Source: Bloomberg

MARKET RETURN – As of September 30, 2024

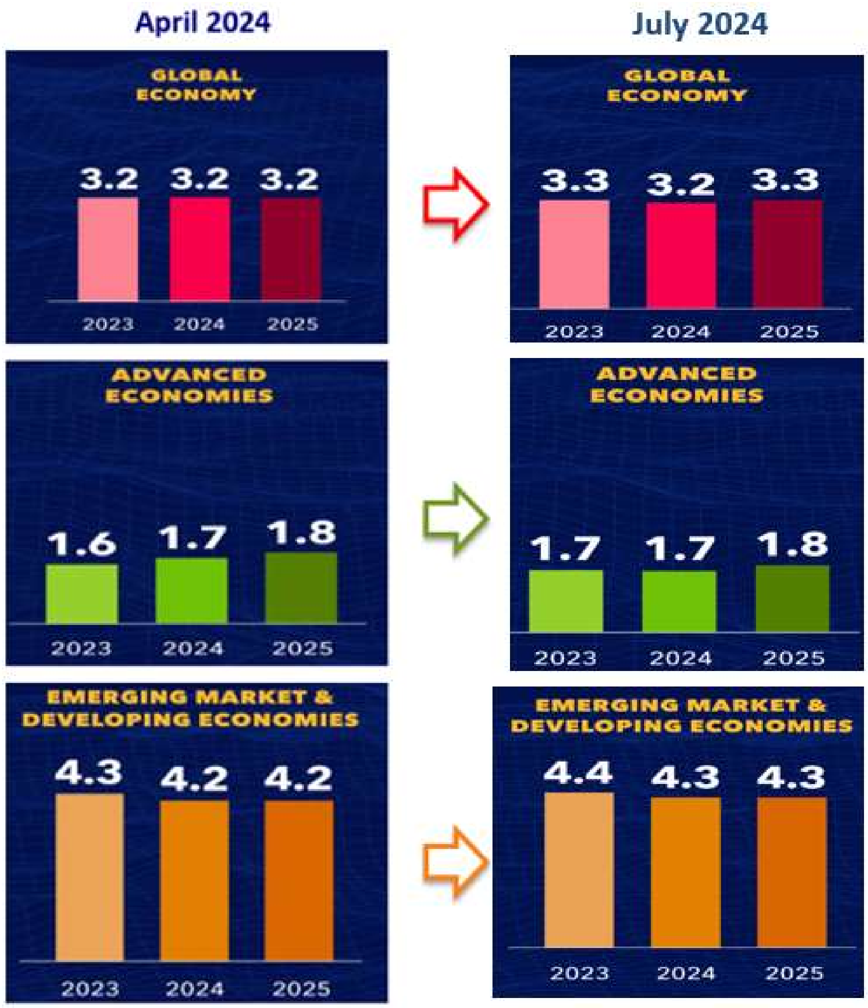
Performances (%) (Local Currency)

	MTD	Q1	Q2	Q3	YTD
Global Equity					
MSCI World (USD)	1.9	9.0	2.2	6.9	18.1
MSCI EM (USD)	6.7	2.5	6.1	9.4	18.0
MSCI US (USD)	2.2	10.4	3.9	6.5	20.8
MSCI EMU (EUR)	1.0	10.4	-1.4	2.8	11.7
MSCI Japan (JPY)	-2.3	19.4	0.0	-7.7	11.7
MSCI Japan (USD)	-0.6	11.0	-6.1	6.0	10.9
Developed Market					
S&P 500	2.1	10.6	4.0	6.4	21.0
Nasdaq	2.6	8.7	8.5	1.7	18.9
Russel 2000	0.7	5.2	-3.1	10.4	12.5
Eurostoxx 50	0.9	12.9	-0.9	1.9	13.9
Nikkei	-1.3	21.6	-3.6	-4.3	13.6
SMI	-2.0	6.8	4.4	1.2	12.4
Manificent 7	6.5	17.1	20.3	4.6	42.0
EMU Small Caps	1.0	1.5	-2.8	4.8	3.5
US Small Caps	0.7	5.2	-3.1	10.4	12.5
EU Banks	1.4	18.7	2.5	4.3	25.6
US Banks	-3.5	15.3	0.3	4.2	19.8
Emerging Markets					
MSCI Mexico	1.2	0.5	-15.5	-3.0	-17.9
MSCI India	2.1	6.4	9.9	8.4	24.7
MSCI China	23.4	-2.0	8.2	24.2	30.4
MSCI Taiwan	0.5	17.3	21.7	-2.8	36.2
MSCI Korea	-5.3	6.8	1.3	-11.7	-3.6
MSCI Brazil	-0.8	-5.5	-10.4	6.1	-9.7
MSCI Indonesia	-1.0	8.7	-8.5	6.0	6.2

	MTD	Q1	Q2	Q3	YTD
Fixed Income					
EU Treasuries	1.3	-0.7	-1.3	3.9	2.0
US Treasuries	1.2	-0.9	0.1	4.8	4.0
Bloomberg Global Agg. USD	1.2	0.3	0.1	4.3	4.7
Bloomberg Global Agg. EUR	0.9	0.0	-0.3	2.7	2.4
US Investment Grade	1.7	-0.1	0.1	5.7	5.8
US High Yield	1.6	1.5	1.1	5.4	8.0
EU Investment Grade	1.2	0.4	0.1	3.3	3.8
EU High Yield	1.0	1.6	1.5	3.6	6.7
Swiss Corporates	0.6	-0.5	0.6	4.2	3.8
$ EM External Debt	1.8	1.1	0.3	6.5	7.9
EM Local Debt	3.1	-1.8	-1.6	8.2	4.8
Commodities					
Gold	5.2	8.3	3.6	14.5	26.5
WTI	-7.3	18.2	-3.1	-21.0	-5.9
Industrial Metals	6.4	-2.0	9.6	1.7	9.3
Agriculture	7.2	-4.2	-3.5	1.5	-6.3
Energy	0.1	3.5	1.0	-13.4	-8.9
Currencies					
DXY	-0.9	2.2	1.3	-5.0	-1.4
EURUSD	0.8	-2.3	-0.4	3.5	0.8
EURCHF	-0.5	7.2	-0.4	-6.3	0.6
USDJPY	-1.7	7.4	6.7	-12.2	1.9
USDCHF	-0.5	7.2	-0.4	-6.3	0.6

MACRO PICTURE – GLOBAL

IMF Projections



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	2.5	1.7	2.0
Eurozone	2.6	1.8	1.6	-6.1	6.2	3.3	0.4	0.7	1.3	1.4
UK	2.7	1.4	1.7	-10.4	9.6	4.5	0.1	1.1	1.4	1.5
JP	1.7	0.7	-0.4	-4.2	2.7	1.2	1.7	0.0	1.2	0.9
China	6.9	6.7	6.0	2.2	8.4	3.0	5.2	4.8	4.5	4.2
Switzerland	1.4	2.9	1.2	-2.3	5.5	3.2	0.8	1.3	1.4	1.5
World	3.8	3.6	2.8	-2.7	6.5	3.5	3.2	3.1	3.1	3.1
CPI (YoY%)										
US	2.1	2.5	1.8	1.2	4.7	8.0	4.1	2.9	2.3	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	2.3	2.0
JP	0.5	1.0	0.5	0.0	-0.3	2.5	3.3	2.5	2.0	1.6
China	1.6	2.1	2.9	2.5	0.9	2.0	0.2	0.5	1.5	1.8
Switzerland	0.5	0.9	0.4	-0.7	0.6	2.8	2.2	1.3	1.1	1.1
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	4.1	4.3	4.2
Eurozone	9.1	8.2	7.6	8.0	7.8	6.7	6.6	6.5	6.5	6.4
UK	4.4	4.1	3.9	4.6	4.7	3.9	4.0	4.3	4.5	4.5
JP	2.8	2.4	2.4	2.8	2.8	2.6	2.6	2.5	2.5	2.3
China		4.9	5.2	5.2	5.1	5.5	5.2	5.1	5.1	5.0
Switzerland	3.1	2.5	2.3	3.1	3.0	2.2	2.0	2.3	2.3	2.2

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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