



BANQUE
ERIC STURDZA

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SOMMAIRE

JUNE 2024

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1. EDITORIAL

CYCLE AND SEASONAL EFFECTS

Despite a few bumps at the end of the month, May ended on a solid note for many asset classes. Equity markets soared to new highs, led by the major US indices; the S&P500 and Nasdaq100. Chinese equities, which have long been forgotten by the current bull market, look as if they are finally waking up. Commodities, most of which came under severe pressure in 2023, are not to be missed, and are experiencing a major rebound this year. Fixed Income markets, still disappointing this year, are nonetheless enjoying a slight upturn as long-term rates stabilise.

While these performances are encouraging, they should not obscure the areas of weakness that have also become more obvious in recent months. Indeed, while US economic figures had surprised on the upside at the start of the year, and led many to believe in the pursuit of US exceptionalism, the latest sequence is more mixed: ISM at half-mast, negative contributions from external trade and inventories dragging down Q1 US GDP, and a lesser surprise effect, whereas most market participants have become accustomed to seeing the US economy surprise for the better. This contrasts with Europe and China, where expectations were very low and that are benefiting from the opposite effect. The latest US macro data finally lends credence to the soft landing scenario that no-one seemed to believe in any more.

Against this backdrop of an economic slowdown, the rebound in equity markets may come as a surprise. A quick glance at the level of risk premiums shows that valuations in the US remain high, and sometimes complacent. The same observation about valuations does not apply to Europe, let alone China, but we

are well aware of the US's leadership in many areas, particularly when it comes to stock market trends.

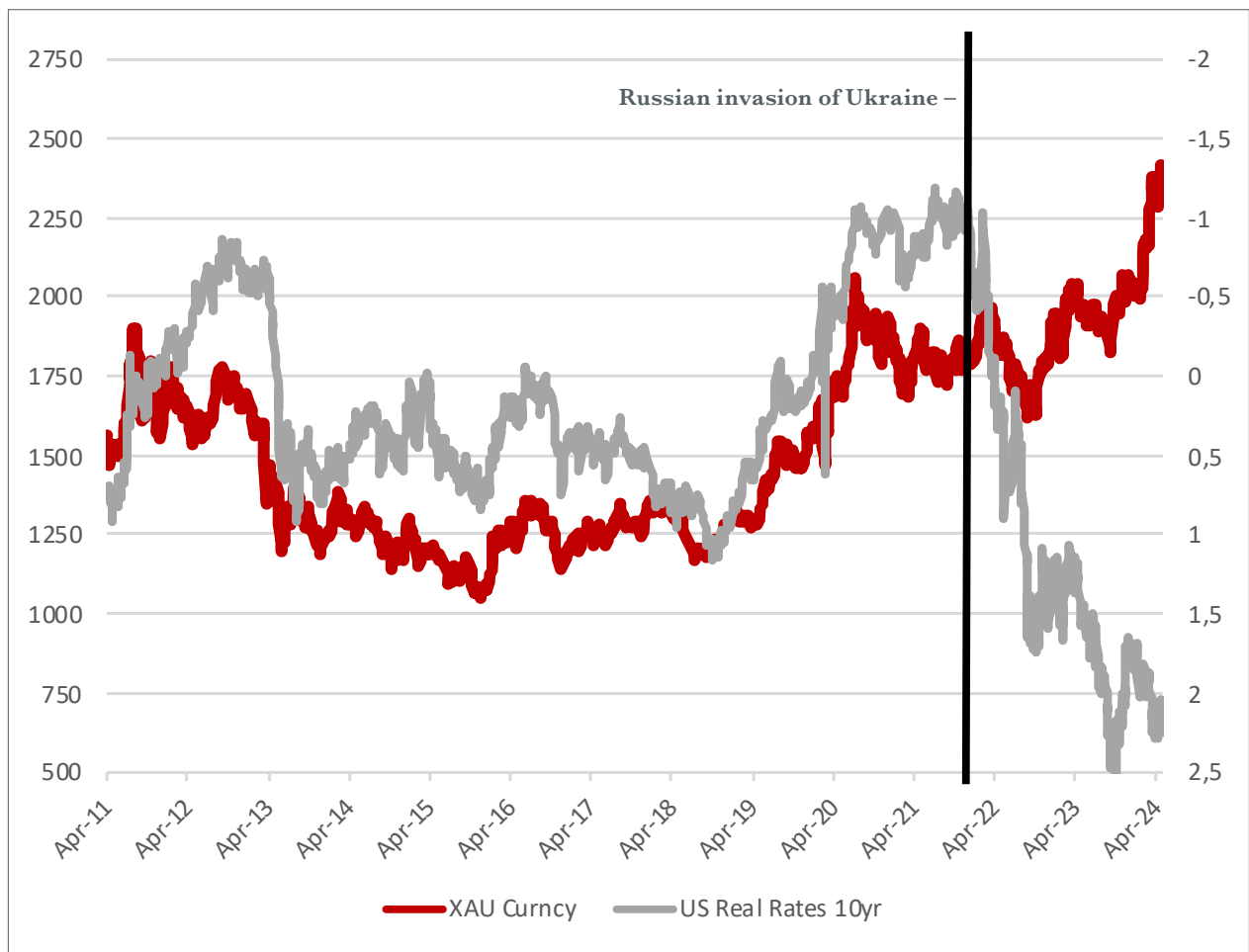
The concentration risk on a handful of US stocks in major indices also makes us uncomfortable. This risk culminated this month with the quarterly results of Nvidia, the Artificial Intelligence champion and the single stock within the “Magnificent Seven” that is driving a significant portion of US equity gains. With a market capitalisation of USD 2.7 trillion, Nvidia now weighs more than the entire German market!

Recent stock manipulation/erratic moves of over 80%, such as those seen again on Gamestop, are also a sign of excessive enthusiasm on the part of investors.

Another source of questioning remains the performance of commodities, particularly cyclical ones such as copper, in a context where the economy is showing some signs of weakness. After severe destocking and years of under-investment, it has to be said that production is struggling to keep pace with a still robust demand, particularly as the AI development requires the build-up of new data-centres for which copper remains a critical metal given their electricity needs. Gold is also showing remarkable health, particularly considering the evolution of real rates, which until now has been THE main driver explaining the rise and fall of gold price. Since February 2022, this has changed and the main supporting factor seems to be the appetite of emerging central banks wanting to “de-dollarise” their FX reserves. In the short run, the increased interest of Asian households (Indian, but also Japanese and Chinese) also played a role. All these factors argue for a constructive view of commodities in the long term, but a more cautious one in the short term.

So “sell in May and go away”? Although tempting on paper, this strategy rarely paid off, as it involves getting both exit and re-investment timing right. As often reminded, missing one or more of the year’s best sessions is particularly detrimental to compound performance over the long term. In a world of rising inflationary pressures, it is worth considering that equities and commodities remain the most effective long-term weapons to shelter returns from inflation, provided good diversification and picking strategies within these asset classes.

G1 : GOLD PRICE (RED LHS) VS US REAL RATES BASED ON US 10YR (GRAY, RHS INVERSED)



Source : Bloomberg, Banque Eric Sturdza, Avril 2011 - Mai 2024

2. FIXED-INCOME

FEDERAL RESERVE: THE JUNE RATE CUT IS CONFIRMED!

A rather dovish FOMC

In Europe, markets are waiting for the ECB's first monetary easing on 6 June and confirmation that a second cut is scheduled for 12 September. In the US, investors have finally given up and are now expecting a single rate cut towards the end of the year. As a matter of fact, there will be a US 'rate cut' in June. Jerome Powell confirmed that the tapering of Quantitative Tightening will start next month, but the scale at which the tapering is happening turned out to be greater than expected – USD 35 billion per month instead of the expected USD 30 billion. As a result, the size of the central bank's balance sheet will continue to shrink, but at a much slower pace. At the end of the year, this will make a difference of USD 245 billion, quite a significant amount which is akin to a "disguised" rate cut.

If we had to sum up Jerome Powell's comments in one word, it would be 'relief'. The Fed admits that the trajectory taken by inflation is not as expected, but asks us for a little patience and less worry. The downturn will come, and a rate cut is still on the cards. In the current context, fewer rate cuts in 2024 will probably mean more rate cuts in 2025. The US economy may have peaked in the first quarter and now seems to be running out of steam. A situation that has yet to be confirmed.

The US 10-year in no-man's-land

Credit is expensive, as spreads may no longer always justify risk-taking in relation to government bonds. In our view, the most interesting opportunity remains the hybrid corporate debt market. They share many advantages with high-yield debt, one of which is its significant carry. Coupons are so high compared with those of Investment Grade senior debt that duration jolts are mitigated. Hybrids obviously can experience downturns, but as soon as the markets calm down, the carry effect quickly puts them back in the black.

There will be a US "rate cut" in June. Indeed Jerome Powell confirmed that the tapering will start next month.

Are expensive credit spreads a further sign that we need to lengthen maturities by buying long Treasuries again? Today, at around 4.50% yield, the US 10-year is in a kind of in-between position. If long rates were to rise again, it would be tempting to lengthen duration towards level equivalent to 4.80%. If we were to switch to a fixed income bull market, we'd still be waiting for a confirmation of some 4.20%. Today, it is incongruous and premature to talk of a return to the fixed income bull market in US long rates. We're not very enthusiastic about this 'no-no' approach, as it's not in our nature to hide behind neutral exposures. But in the current situation, it seems important not to adopt overly aggressive strategies.

3. EQUITIES

BUY IN MAY?

After a brief break in April, the S&P500 once again hit record highs in May, breaching the 5,300-point barrier. This rise was once again accompanied by a multiple expansion that sent the S&P to levels of over 23 times earnings, well over its historical average.

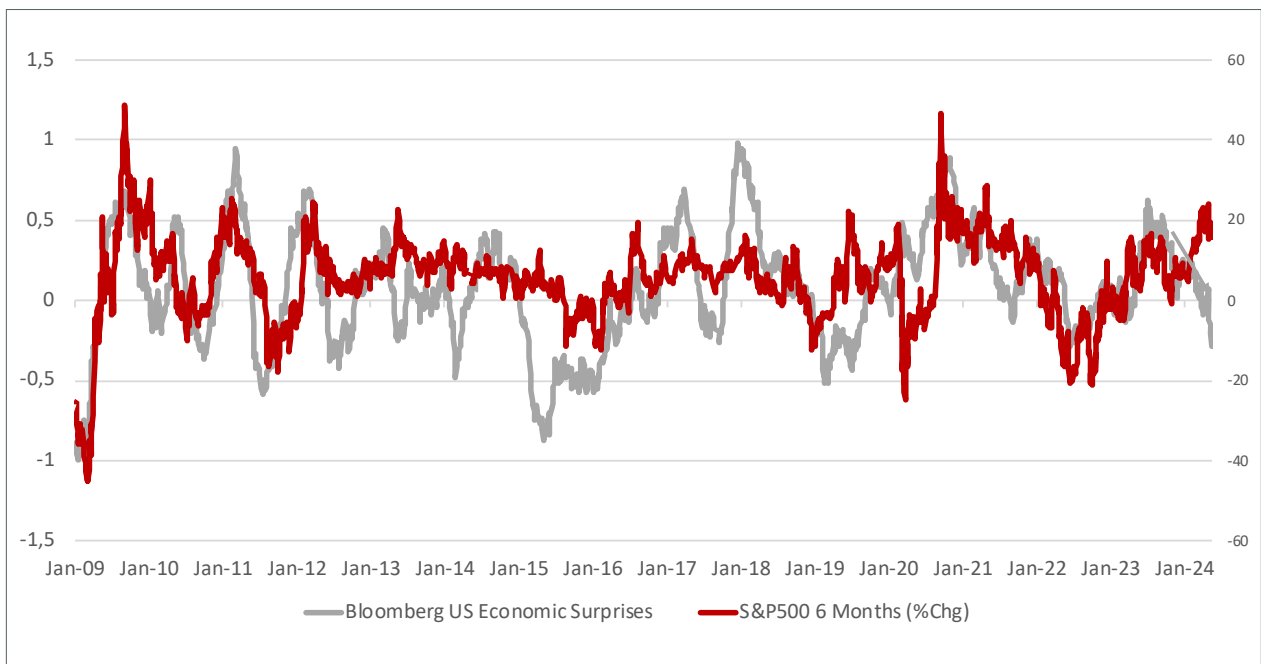
However, this must be nuanced by the fact that the index concentration in a handful of technology stocks is having a greater impact than ever, and conceal a less buoyant reality that is highlighted in the S&P500 Equal Weight performance, whose YTD return is now half the one of the S&P500 (5% versus 12%).

What's more, in recent weeks we've seen a number of daily trading sessions almost exclusively driven by one or two stocks. For instance, when Nvidia released

its results, handily beating lofty expectations with circa USD 6 of quarterly earnings per share (to compare with USD 5.6 expected and USD 0.874 over the same period last year), the stock was up 10% the next day performance, offsetting some of the other stocks losses and enabling the S&P500 to close on that day at -0.74% . Without Nvidia, the S&P 500's performance that day would have been twice as bad!

It's no surprise that active managers' performance is increasingly called into question. Their weak or lack of relative performance is becoming very difficult to justify. However, history shows that such phenomena may prove temporary, and that acute investors should not forget the harsh economic and accounting realities that always act as a reminder when the tide goes out.

G2: ECONOMIC SURPRISES INDEX (LEFT SCALE) VS. S&P500 PERFORMANCE 6M CHG % (RIGHT SCALE)



Source: Bloomberg, Banque Eric Sturdza, Jan. 2009 - May 2024

In Europe, market performances were also positive in May, after closing in negative territory in April. Like its big brother on the other side of the Atlantic, the broad European index reached an all-time high this month. The economic momentum seems more favourable (admittedly from a low base and limited expectations), supporting a market that remains largely discounted vs. the US one (PE at 14.3x versus 23.2x for the S&P500).

In Asia, the International Monetary Fund has just revised its growth expectations for China in 2024 to 5% from 4.6% a few weeks ago, reflecting the good momentum the Chinese economy enjoyed since the start of 2024 and additional support expected from the government. This upward revision gives ground to our favourable positioning on the region. This is despite existing trade tensions with Western economies and the desire to 'de-dollarise' their economy, as shown by the 17% surge in their gold reserves since December 2022 (Sino-Arab Cooperation Forum).

The recent upturn in inflation in Europe and the US is already having an impact on rates and causing uncertainties with regards to central banks' future decisions and their timing. For the time being, however, the market does not seem to be overly worried by it, as evidenced by still depressed volatility indicators. So far, May has neither confirmed the adage 'sell in May & Go Away,' but nor it has completely reassured equity investors.

5. PERFORMANCES

EQUITIES	29.05.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3 430	3,8%	2,8%	13,4%	8,2%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5 175	6,4%	3,8%	17,2%	12,3%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3 510	1,1%	1,7%	9,6%	4,1%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	38 442	1,7%	-1,4%	6,9%	2,0%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	5 267	4,6%	3,3%	15,3%	10,4%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	6 593	0,9%	0,0%	9,8%	3,0%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	18 737	7,4%	3,8%	17,5%	11,4%	55,1%	-32,4%	27,5%	48,9%	39,5%
	RUSSELL 2000	2 036	3,2%	-0,9%	12,6%	0,4%	16,9%	-20,5%	14,8%	19,9%	25,5%
EUROPE	STOXX 600	513	1,7%	3,8%	11,2%	7,2%	16,6%	-9,9%	25,8%	-1,4%	27,9%
	FTSE 100	8 183	0,5%	7,2%	9,8%	5,8%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	7 935	-0,6%	0,1%	8,5%	5,2%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	18 473	3,0%	4,5%	13,9%	10,3%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	11 145	2,7%	11,4%	10,8%	10,3%	28,1%	-2,0%	10,5%	-12,7%	16,5%
ASIA	SPI SWISS	15 742	4,5%	6,0%	10,6%	8,0%	6,1%	-16,5%	23,4%	3,8%	30,6%
	MSCI EM	1 072	2,5%	5,0%	8,6%	4,7%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2 742	-0,1%	2,5%	15,4%	15,9%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	18 477	4,0%	11,9%	8,4%	8,4%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
FX & COMMODITIES	29.05.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
CURRENCIES	EUR-USD	1,080	1,3%	0,0%	-0,8%	-2,2%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,986	0,6%	3,2%	3,5%	6,2%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,913	-0,7%	3,2%	4,3%	8,5%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD-JPY	157,640	-0,1%	5,1%	6,4%	11,8%	10,5%	13,9%	11,5%	-4,9%	-1,0%
	USD INDEX	105,12	-1,0%	0,9%	1,6%	3,7%	-2,1%	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2338,12	2,3%	14,4%	14,8%	13,3%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	31,98	21,6%	41,0%	26,5%	34,4%	-0,8%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	79,23	-3,3%	1,2%	4,3%	10,6%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	2,49	25,2%	34,0%	-11,0%	-0,8%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	10326,27	4,4%	22,9%	23,1%	22,0%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	29.05.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
RATES	US 10 year gvt	4,61	(0,07)	0,36	0,29	0,73	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,69	0,11	0,28	0,24	0,67	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	554,6	0,4%	-0,3%	2,0%	-1,2%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2219,0	0,7%	-1,0%	0,7%	-2,6%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US IG Corporates	3157,8	1,0%	-0,3%	2,3%	-2,0%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2514,2	0,9%	1,1%	5,2%	1,4%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	233,0	-0,3%	-0,7%	1,2%	-2,3%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	245,7	0,1%	0,5%	2,5%	-0,2%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	451,1	1,0%	1,4%	5,7%	2,8%	12,8%	-11,1%	4,2%	1,8%	12,3%
	EM USD Aggregate	1184,2	1,3%	1,3%	5,4%	1,1%	9,1%	-15,3%	-1,7%	6,5%	13,1%

Source: Bloomberg, 29/05/24

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