



BANQUE
ERIC STURDZA

QUARTERLY OUTLOOK
2ND QUARTER 2024

CONTENTS

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1. Editorial

Time to question US exceptionalism?

2. Macro focus

A soft landing with a fake air of no landing

3. Equities

A record-breaking quarter!

4. Focus on commodities

Are industrial metals poised to join the ‘everything rally’?

5. Asset allocation

Reserved for Banque Eric Sturdza’s clients

6. Performances

1. EDITORIAL

TIME TO QUESTION US EXCEPTIONALISM?

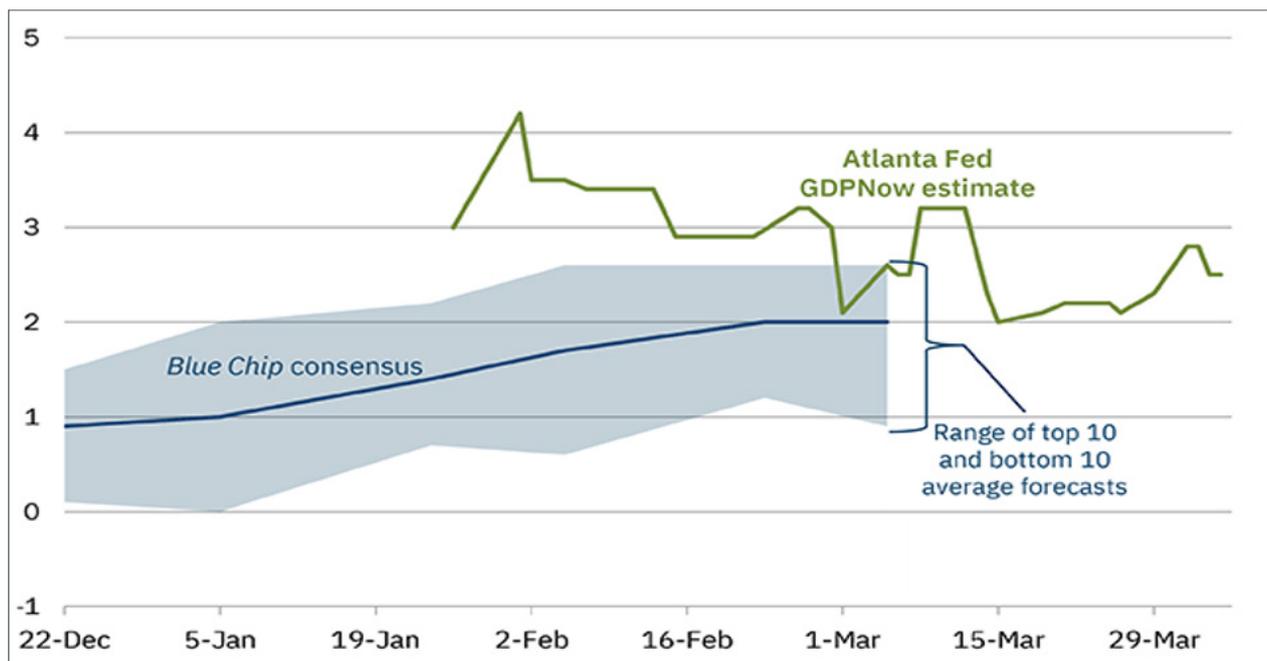
This political theme, inspired by the theory of manifest destiny, starts from the premise that the United States, because of its history and its democracy, has a special role to play in the Concert of Nations. Rarely has this set of ideas seemed so topical.

First, this theme seems most clearly expressed in geopolitical terms. US arms deliveries and financial support for Ukraine are blocked in Congress because of electoral horse-trading between Republicans and Democrats, reversing the balance of power in the Russian-Ukrainian conflict. Despite Europeans' proximity, a well-understood strategic interest and substantial material efforts, their voice seems to count for little in the face of American exceptionalism. And what can we say about American democracy, one of the youngest and most vibrant in the world that will be represented by its oldest candidates in the next presidential election?

These are all subjects we examined in detail recently with our partner Herminius, an economic intelligence firm from whom we commissioned a report on these themes.

We should also mention America's economic exceptionalism. Last year, despite one of the most rapid phases of monetary tightening in the post-war period, and a regional banking crisis, the US economy not only avoided recession but also posted robust GDP growth of 2.5%. Such performance seemed hard to repeat, yet again this year, American exceptionalism seems to be triumphing once again. The Federal Reserve (Fed) has revised its growth projection to 2.1%, a figure given credibility by the Q1 Nowcast (see G1) and which contrasts with the modest rise (1.4%) expected by markets at the start of 2024. This projection also lends more weight to the "no landing" scenario, but could also give the Fed a hard choice. With economic activity more

G1: US Q1 GDP NOWCAST YOY



Source: Reserve Federale Atlanta

robust than expected and, above all, inflation plateauing, a cut in short-term rates could prove difficult to justify. The timing of such cuts could prove tight this year, with the Fed normally preferring to limit its interventions in the run-up to major elections, so as not to be accused of playing one side off against the other. It could therefore be faced with a Cornelian choice: lower interest rates when the economy has not slowed enough and run the risk of seeing inflation pick up again or do nothing and run the risk of triggering a recession and, incidentally, dashing the hopes of the financial markets.

Finally, it is difficult to talk about American exceptionalism without mentioning the US equity market. The first point to emphasise is the weight of US stocks in global market capitalisation: with almost two-thirds of global capitalisation, US stocks hold the top positions (nine of the world's 10 largest companies are American) and the weight of the US is almost ten times greater than that of Japan, the next largest country. The second, of course, is the concentration of the US market in a handful of stocks, the famous 'Magnificent Seven', which account for almost a third of US market capitalisation. This is an extreme level of concentration that also explains the exceptional performance of the US market. So much for that.

And yet March has proved rather encouraging, with the market's performance broadening. What can we say about the sudden acceleration in the price of gold, torn between emerging central banks' buying, and fears of inflation that could tarnish the 'Goldilocks' scenario (that has benefited the equity markets in recent months)? First, far from clichés, it has to be said that the prize for the biggest gain in local currency terms this year does not go to the US market but to the Japanese one. Indeed, the Japanese market continues to benefit from the end of deflation and, above all, from a still very weak yen, despite the Bank of Japan's historic decision to end almost two decades of negative interest rates. We could also mention cyclical stocks, which are finally waking up, buoyed by the beginnings of a rebound in commodity prices, (and helping European markets in the process). In the US too, markets are becoming less one-track minded. The equal-weight version of the flagship S&P500 index slightly outperformed its cap-weighted equivalent.

Above all, although the Magnificent Seven still make a significant contribution to the performance of the S&P500 index, the stocks in the group no longer behave uniformly, but each stock rather reflects different dynamics. These factors are all reasons to hope for a slightly more balanced macroeconomic scenario and broader participation across asset classes, geographical zones and styles.

2. FIXED INCOME

A SOFT LANDING WITH A FAKE AIR OF NO LANDING

The devil is in the detail

On 20 March, the FOMC (Federal Open Market Committee) revised its 2024 growth projection from 1.4% to 2.1%. Jerome Powell gave us all the arguments in favour of a no landing but continues to regard it as a soft landing! The FOMC finally approved the target of three rate cuts in 2024. However, the number of central bankers advocating three or more rate cuts has risen to ten, while the number of those in favour of fewer than three cuts has risen to nine. The three cuts in the ‘dot plots’ are therefore hanging by a thread. There is still no word on QT (Quantitative Tightening) and if the Fed respects a sort of truce during the presidential campaign, there will be just three opportunities to cut rates: 12 June, 31 July and 18 December. We would not be surprised if the Fed started tapering its QT during the electoral period. However, in our view, the most important day in March for the Fed was the 11th and not the 20th, since the BTFP (Bank Term Funding Program) was officially closed after a year. This means that the Fed considers the risk of a CRE (Commercial Real Estate) loan crisis to be negligible.

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The ECB’s “dovhawks”

While the Bank of Japan has finally abandoned its negative interest rate policy, the Swiss National Bank decided to cut rates before the Fed and the ECB. Markets are now waiting impatiently for the ECB to follow in the footsteps of its Swiss counterpart. ECB President Christine Lagarde said that the central bank was revising its 2024 inflation projection from 2.7% to 2.3%, adding that the 2% target would be reached in 2025, but that ECB members were “not sufficiently confident” in these forecasts. The eurozone, in a state of near-recession (and already so in some regions), will see its inflation rate fall over this year. The door is therefore open for an initial monetary easing on 6 June, six days before a crucial FOMC meeting.

Real rates and nominal rates

In theory, we should be long Bund and short the 10-year note. Indeed, the German 10-year Bund, despite its low level of 2.35%, compared with 4.25% for the US 10-year, has more potential for easing than the latter. The US yield curve is likely to start the second quarter with a fierce determination to return to a normal curve because of the bullish steepening that seems logical in this market. This is why we prefer the 5-year US curve. A nominal rate of 4.20% is attractive, but what about a real rate of 1.9%? Among all US Treasury issues, the 5-year TIPS has all the qualities needed to compete for the title of bond of the year.

3. EQUITIES

A RECORD-BREAKING QUARTER!

The first quarter of the year is already behind us and “so far so good”.

Equity markets continue their upward trend, with the S&P 500 at over 5,200 points, up 10% since the start of the year. The Nasdaq followed suit with a performance of 8.5%. Europe has nothing to be ashamed of, with the Eurostoxx 50 up 12%, driven in particular by the automotive (+16%) and financial (+18%) sectors. China, meanwhile, is still struggling, while the Japanese market (Nikkei 225) recorded a spectacular surge of +22% in the first three months of the year alone.

These performances come in a market with very low volatility, unlike the fixed-income market, supported by reassuring corporate results and positive economic surprises on both sides of the Atlantic.

Inflation appears to be under control for the time being, reaching a plateau in both Europe and the US. Purchasing Managers' Index (PMI) readings are improving, with a clear upturn in the manufacturing sector keeping the composite index above 50 (the pivot point for economic contraction/expansion) in the US, and rising rapidly towards 50 in Europe. The tertiary sector is not to be outdone, with figures in expansion for both economies.

The market is expecting the ECB to cut rates by 25 basis points at the start of the summer and a further two or three cuts between now and the end of the year. In the US, futures contracts reflect expectations of a first cut in July and two more by the end of the year.

The surprise came, for once, from Switzerland, where the SNB congratulated itself on having won its inflation battle and, as with its upward intervention last year, surprised everyone by cutting its key rate even before the ECB. The decision created a welcome windfall for exporting companies, which have a strong presence on the domestic market, and coincided with a marked fall in the CHF.

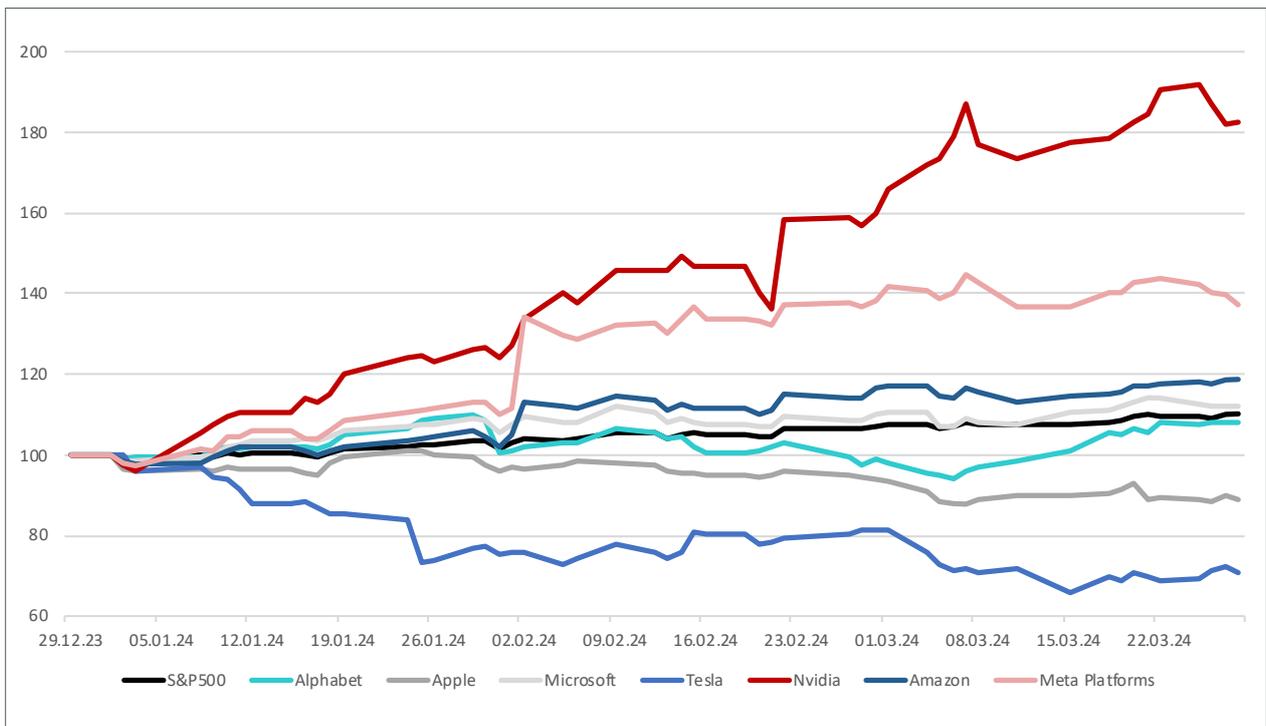
We are also seeing a resumption of the rise in some commodity prices. Gold is beating record after record, despite a growing divergence between the price of an ounce of gold and the level of real interest rates, two historically highly correlated factors. At last, mining companies are benefiting from the rebound in commodity prices and are redirecting their rise. On a greedier note, the price of cocoa is soaring, trading at around \$10,000 per tonne. This came as chocolate consumption peaked around Easter's celebrations.

Financial multiples and ratios continue to rise. Prices relative to earnings, particularly on the US market, are approaching all-time highs, partly justified by expectations of earnings growth for this year, which average 9% for S&P 500 companies. However, there is a wide disparity in the figures that make up this average - hence the importance of continuing to favour active management. This disparity is also beginning to be reflected in the varied fortunes of the Magnificent Seven, the stocks that account for almost a third of US market capitalisation. Far from the uniform behaviour of the group last year, the performance of its constituent stocks reflect different fundamentals and growth dynamics. Since the start of the year, Tesla and Apple have been in the red, Alphabet and Microsoft have more or less made up the index and only Nvidia and Meta Platforms have performed exceptionally well.

We are taking advantage of these movements thanks to our long equity bias, particularly in certain geographical areas (Japan, Vietnam, and European blue chips), and are taking advantage of the low volatility and high-interest rate environment to build asymmetrical investment solutions that provide some upside participation while offering some downside protection.

The question of whether the US economy will have a soft landing in 2024-2025 remains unanswered for now, amid a major election period (in the US and the rest of the world) and against a backdrop of geopolitical instability that could impact certain inflation components. The index of the probability of economic recession in the next 12 months calculated by the New York Federal Reserve rose last year, and now stands at 58%, on a downward trend, although still high, but well below the 70% level seen in May 2023.

G2: PERFORMANCE YTD – S&P500 & SEVEN MAGNIFICENT



Source: Bloomberg, Banque Eric Sturdza, 29/12/23 - 28/03/24

4. FOCUS COMMODITIES

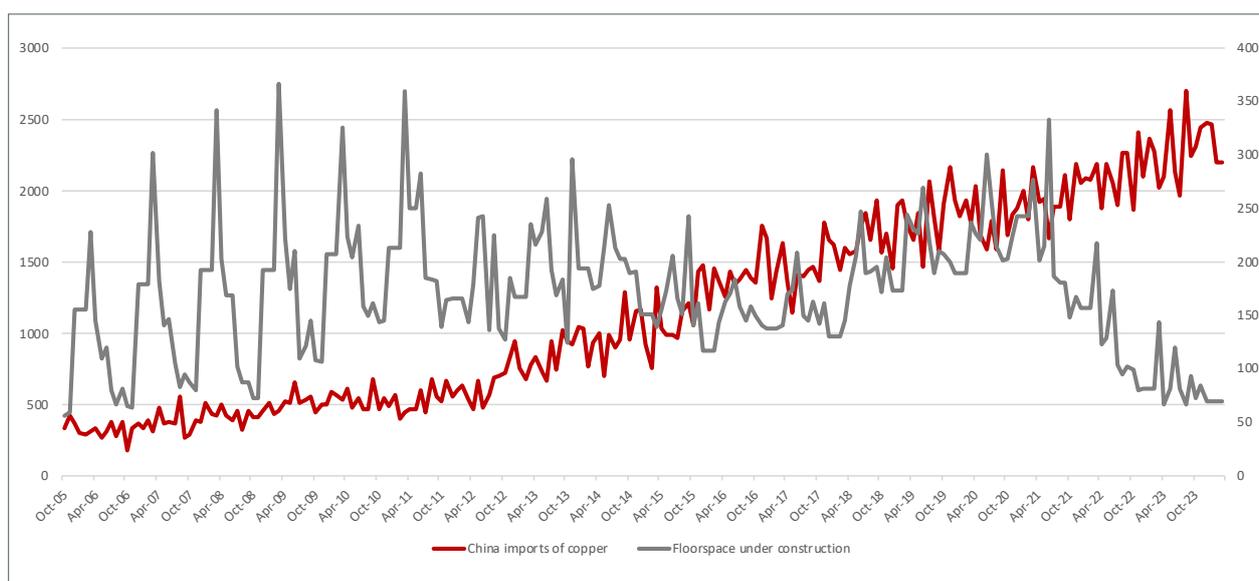
ARE INDUSTRIAL METALS POISED TO JOIN THE 'EVERYTHING RALLY'?

The rise of technology stocks and the semiconductor sector have taken centre stage, but in recent months, equity market performance has broadened. Bitcoin, gold, oil, European indices, cyclicals... the whole lot is rising! This is what's sometimes called the 'everything rally.' Of course, when two assets rise, there's a tendency to think they're correlated: Bitcoin and gold do have one thing in common - they do not pay dividends, and of course, in both cases, 'miners' extract the precious metal or blockchain coins. Still, Bitcoin and gold don't share many other properties, and we won't venture to comment on the logic now. But when it comes to correlations, it seems to us that the wave of widespread buying has left one asset class behind: industrial metals.

Fans of stock-market tracking websites will argue that copper has risen 8% since mid-February and that some other metals are 'waking up.' A glance at a slightly longer timeframe puts this move into perspective. After the post-Covid craze for metals needed in the energy transition, markets quickly lost interest in industrial metals as an asset class. The behaviour of lithium illustrates this best. Not long ago, lithium was considered indispensable to the energy transition, and yet it now trades at no more than one fifth of its peak November 2022 price.

The case of copper is also particularly intriguing. Specialists all agree that it takes more than 10 years to develop a new mine. Copper is a metal whose peak future production is easy to quantify. We also know that demand, linked to the electrification of power grids, will experience double-digit growth:

G3: CHINA COPPER IMPORTS (RED / LHS) VS. FLOORSPACE UNDER CONSTRUCTION (GRAY / RHS)



Source: Bloomberg, Banque Eric Sturdza, 2005 -2024

a recent Goldman Sachs study estimates that the copper market will be in deficit as early as the second quarter of 2024. It should not be long before the long-term trend takes hold.

Copper - like many metals - has an astonishing and often frustrating characteristic: correctly anticipating annual production volumes is not much help in anticipating prices. Experience shows that a relatively small imbalance in demand can have an enormous impact on prices. During the last major rise in copper prices, when the commodity rose 225% between 2008 and 2011, demand outstripped supply by no more than 4%, according to IXIOS. The price elasticity of demand is therefore far from the usual orders of magnitude!

At that time, China's dynamic real estate market was driving the price of copper. Growth now comes from demand for electrification. In China and elsewhere, this traction looks to us both sustainable and less cyclical, which further strengthens our conviction that prices are set to record a strong rise.

6. PERFORMANCES

EQUITIES	28.03.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3437	3,0%	13,7%	15,1%	8,4%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5073	1,7%	14,9%	17,4%	10,0%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3602	4,3%	12,4%	12,6%	6,8%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	39807	2,1%	10,7%	14,6%	5,6%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	5254	3,1%	15,0%	16,6%	10,2%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	6876	4,2%	14,5%	13,2%	7,4%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	18255	1,2%	14,5%	17,8%	8,5%	55,1%	-32,4%	27,5%	48,9%	39,5%
EUROPE	STOXX 600	513	3,7%	11,1%	11,9%	7,0%	16,6%	-9,9%	25,8%	-1,4%	27,9%
	FTSE 100	7953	4,2%	6,7%	6,9%	2,8%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	8206	3,5%	12,2%	12,2%	8,8%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	18492	4,6%	14,0%	16,0%	10,4%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	11075	10,7%	10,1%	16,5%	9,6%	28,1%	-2,0%	10,5%	-12,7%	16,5%
	SWISS MARKET	11730	2,5%	8,1%	5,4%	5,3%	7,1%	-14,3%	23,7%	4,3%	30,2%
ASIA	SPI SWISS	15443	3,9%	8,5%	5,3%	6,0%	6,1%	-16,5%	23,4%	3,8%	30,6%
	MSCI EM	1040	1,9%	5,4%	6,1%	1,6%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2751	2,8%	15,8%	18,0%	16,2%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	16541	0,2%	-2,9%	-10,0%	-3,0%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
	CSI 300	3521	0,1%	0,7%	-6,5%	2,6%	-9,1%	-19,8%	-3,5%	29,9%	39,2%
FX & COMMODITIES	28.03.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
CURRENCIES	EUR-USD	1,079	-0,1%	-0,9%	-0,5%	-2,3%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,973	1,8%	2,1%	1,5%	4,7%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,902	1,9%	3,0%	2,1%	7,2%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD INDEX	104,55	0,4%	1,0%	0,9%	3,2%	-	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2229,87	9,1%	9,5%	14,9%	8,1%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	24,96	10,1%	-1,2%	2,1%	4,9%	2,8%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	83,17	6,3%	9,5%	-0,6%	16,1%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	1,76	-5,2%	-37,1%	-36,3%	-29,9%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	8766,51	4,3%	4,5%	4,3%	3,6%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	28.03.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
RATES	US 10 year gvt	4,20	(0,05)	(0,13)	0,09	0,32	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,30	(0,11)	(0,15)	(0,17)	0,27	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	561,3	0,9%	3,2%	4,2%	0,0%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2253,3	0,6%	2,4%	2,3%	-1,0%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US IG Corporates	3208,2	1,3%	3,9%	5,2%	-0,4%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2516,5	1,2%	5,3%	7,5%	1,5%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	237,0	1,0%	2,9%	3,7%	-0,6%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	247,4	1,2%	3,2%	5,1%	0,5%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	446,8	0,4%	4,7%	7,9%	1,8%	12,8%	-11,1%	4,2%	1,8%	12,3%
	EM USD Aggregate	1189,0	1,7%	5,8%	7,3%	1,5%	9,1%	-15,3%	-1,7%	6,5%	13,1%

Source: Bloomberg, 28/3/24

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