INDOSUEZ WEALTH MANAGEMENT

Marketing Material

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Hanami

Architects of Wealth

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HANAMI

Alexandre DRABOWICZ
Chief Investment Officer

Dear Reader,

Cherry blossom season is finally coming. This Japanese tradition, "Hanami" or flower viewing, goes a long way back to the Nara period in the eighth century. Amazingly, there is data[1] dating back to the year 812 associating a day of the year with the peak bloom of the cherry blossoms. Historically occurring in April, this date has been moving earlier each year and is now taking place closer in March, one of the many consequences of climate change.

Similar to the peak of the cherry blossom season, the key question from clients and investors is also whether we have reached a peak in equity markets. The performance of the markets this year has been remarkable, and similar to Hanami - a time to sit back and contemplate nature - it may be time to ask ourselves whether it's time for a pause.

PEAK CHERRY BLOSSOM SEASON FOR EQUITIES AS WELL?

A year ago, 85% of economists polled in a survey[2] by the Financial Times projected a US recession by end of 2023. Thankfully, they got it wrong. We upgraded our own GDP forecasts several times last year, ditching a recession call in June, and have recently upgraded our US growth forecasts for 2024 by almost a full percentage point to 2.3%. We have been positive on risky assets for the last nine months, cautious on long-term interest rates, but we also have to acknowledge that the market has made progress in readjusting to a more balanced macroeconomic backdrop. This naturally raises the question whether all is priced in. "Good news is good news" for financial markets for now, but for how long?

To be clear, we are not turning negative and our positive macro scenario remains unchanged. The US economy continues to be resilient and we are also seeing early signs of improvement in the Euro Area, where PMI surveys are pointing to a rebound in the manufacturing cycle. Inflation continues its adjustment process, but not as quickly as anticipated: the March figures for the US were a bit difficult to digest for the market. As a result, the number of rate cuts anticipated by investors for this year has moved from seven cuts in the US and Europe to only three and four respectively at the time of writing. Yet, equities did not pay much attention and continue to power ahead, fuelled by supportive company results particularly in the tech area and strong retail appetite on the back of ample liquidity.

A number of indicators are worth watching: sentiment is clearly much more optimistic but not euphoric; positioning has moved much more bullish and in some areas for systematic players as maximum longs; equity flows are strong year-to-date but money market funds flows are even stronger. One could debate for hours what defines the fine line between optimistic and euphoric; however you read it, a lot is now built into the level of the equity market, especially in the US.

ATTRACTIVE EQUITY VOLATILITY LEVELS

The pessimists would point to record low volatility in equities as a sign of complacency and a clear warning signal. The assets of funds that are selling options to enhance their distribution revenue has exploded to reach over USD 60 billion of assets under management. However, funds that are short volatility, which imploded during the volatility spike in late 2017, remain very low on assets, thus creating a very different situation today.

Peak equities and bottom volatility can be used at investors' benefit. For those who want to reduce equity exposures but remain invested, along with those who want to add equities but not being caught buying the highs, the timing to put in place so-called "equity replacements" has never been so attractive.

Together with a high level of interest rates, it is possible to retain a high level of equity market exposure involving buying upside call options, which are priced at very low levels of cost due to depressed implied volatility. This allows us to take a more nuanced approach to equity exposure management with better agility should a market dip occur. As we wrote in our Editorial in February, with the amount of cash still sitting on the sideline, there will be competition to buy a market dip.

In this edition, Nicolas Mougeot is looking at the significant decline of gas prices in Europe, which have decreased tenfold from their peak in 2022. The large increase in supply should ensure that prices remain low, which will in turn be a supporting factor for European consumers along with industrial companies.

Enjoy reading.

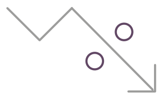
1 - Our World in data, Yasuyuki Aono (2021-2024).
2 - Financial Times (7.12.2022) *US unemployment rate set to surpass 5.5%, economists predict*.

WILL THE ENERGY CRISIS END IN 2024?

Nicolas MOUGEOT
Head of Investment Strategy
& Sustainability

After two years of record high gas prices, 2024 could mark the start of a bearish phase of the supercycle thanks mainly to the large number of LNG projects in the United States and Qatar. This should help lower the bill for households and certain highly energy-intensive sectors.

The European Union's (EU) energy policy was completely destabilised in March 2022 with the onset of the conflict between Ukraine and Russia. Up to that point, the EU had provided such strong support for infrastructure – such as pipelines – to import Russian gas at a lower cost than other energy sources that, in 2021, the EU was consuming 400 billion cubic metres of gas, of which 45% came from Russia. In 2022, the EU placed sanctions on Russia to limit its purchases of Russian gas but this quickly led to much higher gas prices. While the price of gas imported into Europe was trading at less than 50 EUR/MWh on average in 2021, futures prices in Europe shot up to more than 300 EUR/MWh in 2022.



Gas PRICES are DOWN TENFOLD from their 2022 peak

GAS PRICES ARE COMING DOWN

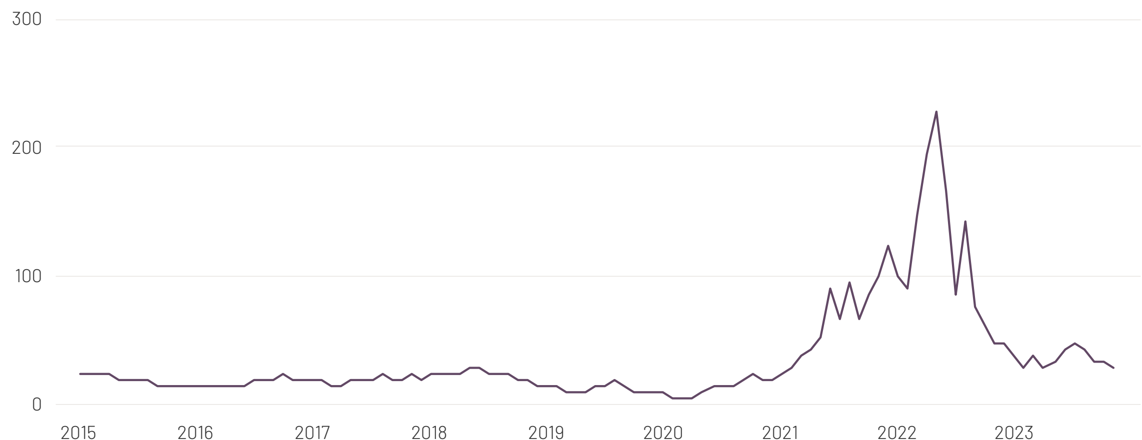
Is the energy crisis behind us? If the financial markets are to be believed, this is in fact the case, since these same futures on gas imported into Europe are currently trading at 25-30 EUR/MWh, i.e. 10 times less than the 2022 peak (Chart 1).

There are several reasons for this. First, high energy prices have had a negative impact on economic activity and consumption in Europe, resulting in lower demand for gas as companies and individuals have worked to keep their energy bills down. Europe was also helped by two historically mild winters, meaning less gas was needed to keep warm.

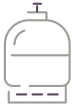
A GAS PRODUCTION SUPERCYCLE

Europe also acted quickly to diversify its gas supply by increasing its purchases from the United States and Qatar. Interestingly, it is these very countries that could help limit future increases in gas prices due to new gas projects: according to the International Energy Agency, new LNG (liquefied natural gas) projects expected to come online starting in 2025 will add approximately 250 billion cubic metres (Bcm) of capacity, mainly in the United States and Qatar.

CHART 1: EUROPEAN GAZ PRICES, EUR/MWH



Source: Bloomberg, Indosuez Wealth Management.



+45%:
the increase in global LNG supply

To put it in value terms, this will increase the global supply of LNG by 45% and is well above the 140 Bcm produced by Russia in 2021 before the international sanctions. This abundant supply of gas could therefore help keep prices low in the coming years.

GOOD NEWS FOR GAS CONSUMERS

First, the entire European economy should benefit from lower and more stable gas prices since price fluctuations have a major impact on the price of goods produced. Some sectors will benefit more than others: the chemicals industry, which uses gas to produce fertiliser, and the highly energy-intensive cement manufacturers will likely be key beneficiaries.

Household consumption should also improve slightly as gas bills are set to be lower in 2024, although the decline is not expected to be as extreme as the rise.

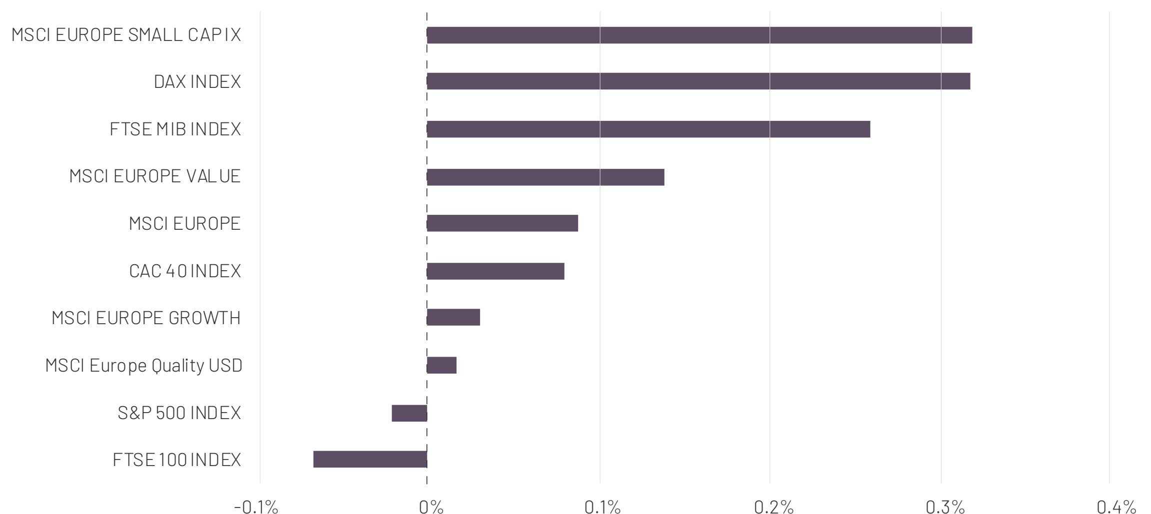
In France, for example, the French Energy Regulatory Commission (Commission de Régulation de l'Énergie) announced a 9% decrease in gas prices between December 2023 and March 2024, followed by an announced decrease of 4.5% between March and April.

Lastly, Chart 2 shows the impact of a 10% decline in gas prices on different equity indices on a relative basis versus the MSCI World. While the effect is limited overall, it is nonetheless higher for small caps and for the German DAX 30 index.

For the German companies, this is due to Germany's heavy reliance on natural gas now that it has phased out nuclear power. As for small European companies, they tend to be more cyclical and less able to set prices, which is why they are highly dependent on external shocks, such as rising gas prices. The UK FTSE 100 is one of the few indices that has historically shown a positive correlation with gas prices due to its heavy weighting in energy companies.

Could the energy crisis triggered by the war in Ukraine be behind us? Probably so, thanks mainly to this LNG production supercycle, and this should support household consumption and certain gas-consuming industries. However, we should hope this does not stop European governments from continuing to reduce their energy dependence, lest they become overly dependent on a new partner.

CHART 2: IMPACT OF A 10% DECLINE IN GAS PRICES ON PERFORMANCE RELATIVE TO THE MSCI WORLD (MONTHLY DATA, %)



Source: Bloomberg, Indosuez Wealth Management.
Note: gas price measured by Dutch gas futures (TTF).

MANY RIVERS TO CROSS[3]

Lucas MERIC
Investment Strategist

The US economy is showing signs of normalisation in an environment where sticky inflation continues to challenge the markets. The Euro Area seems to be at a turning point, with the improvement in *momentum* in recent months expected to continue to some extent throughout the year. In Asia, sequential growth is also improving in China, although the lack of consumer confidence and the property sector problem persist, while in Japan wage negotiations are sending positive signals for possible reflation, although consumption remains sluggish.

The AMERICAN ECONOMY finally seems to be showing signs of NORMALISATION

UNITED STATES: GROWTH IS NORMALISING

After nearly 4% (annualised) growth in the second half of 2023, the US economy seems to be finally showing signs of normalisation. Consumption is slowing, but remains robust, as US households are benefiting from significant wealth effects, thanks in particular to the financial market rally. Real estate also seems to be showing signs of a moderate recovery due to more accommodative financial conditions. At the same time, inflation has proven stickier than expected since the beginning of the year, leading us to revise our expectations for core inflation (excluding food and energy) for 2024 up to 3.2% (+20 basis points). However, the February report was reassuring on the services component, which currently remains the main driver of US inflation, alleviating concerns about the sharp rebound in the January figure. The labour market, while still robust, is also decelerating, as demonstrated by the increase in the unemployment rate to 3.9% in February. We believe this trend will persist and allow the wage slowdown to continue, a key factor in normalising pressure on services inflation in the coming months.

EURO AREA: MACROECONOMIC MOMENTUM IS IMPROVING

As we had expected, the Euro Area avoided recession in the last quarter of 2023 thanks to the positive contribution from investment and government spending, while consumption remained stable. This surprised consensus to the upside and fuelled the positive macroeconomic *momentum* seen in the last few months in the Euro Area. It is in line with our scenario of a growth recovery in Europe in 2024. In our view, this recovery will hinge on an improvement in household purchasing power as wages are expected to catch up with inflation, which we believe will continue to decelerate and flirt with the European Central Bank's (ECB) 2% target in 2025. However, confidence surveys indicate that European consumers are still somewhat apprehensive and, despite the significant savings accumulated since the pandemic, they continue to report strong saving intentions. This caution can be attributed, in part, to persistent inflation in basic components for households, such as food, which continued to hover at more than 5% year-on-year (YoY) at the beginning of the year and where we expect further disinflation.

3 - Reference to the Jimmy Cliff song.

4.5%: Emerging Asia to drive global growth in 2024

Business surveys also seemed to be showing signs of inflection in recent months, with the exception of surveys in industry in Germany, a trend we believe will continue in 2024. In particular, the normalisation of energy prices relative to the 2022 peak and the pick-up in the manufacturing cycle could continue to support improved industrial *momentum*, while the destocking cycle seems to be well underway at the global level.

ASIA: BETWEEN HOPE AND REALITY

A rebound in the manufacturing cycle should also prove beneficial to many emerging countries, including some of the Asian countries, such as South Korea and Taiwan. These countries are positioned upstream in the value chain, mainly on tech products and semiconductors, and their exports, a leading indicator of the manufacturing cycle, have rebounded sharply in recent months. In China, the economy continues to show signs of improvement and we expect the sequential stabilisation trend to remain in place, driven by a slight pick-up in consumption, investment in infrastructure and in the manufacturing sector, and a continuation of accommodative economic policies.

In early March, China's National People's Congress expressed a desire for stability, with growth and inflation targets of 5% and 3%, respectively, for 2024, in line with the 2023 targets. We find these expectations somewhat optimistic given the meagre measures in place to overcome the obstacles related to consumers' lack of confidence in the economy and the still-depressed real estate sector. Despite the structural slowdown in China, emerging Asian economies are expected to account for more than half of global growth, with nearly 4.5% growth expected in 2024 and 2025.

Japan also avoided recession at the end of 2023 thanks to a rebound in capital expenditure, but consumption remains depressed as wages have so far struggled to keep up with inflation which, for Japan, is at a record high of 2.6% (YoY, excluding food and energy). However, the recent wage negotiations for 2024 led to the largest wage increase in more than 30 years (5.3%), a positive development from the perspective of igniting the wage-price spirals the country needs to exit deflation, while the Bank of Japan ended its negative interest rate policy in March.

TABLE 1: MACROECONOMIC FORECAST 2024 - 2025, %

● Revised down since last month ● Revised up

	GDP		INFLATION	
	2024	2025	2024	2025
United States	2.3%	1.7%	2.8%	2.4%
Euro Area	0.6%	1.2%	2.5%	2.2%
China	4.5%	4.2%	0.7%	1.6%
Japan	1.1%	1.5%	2.0%	1.5%
India	6.0%	6.0%	5.9%	6.0%
Brazil	1.3%	2.0%	4.0%	3.5%
World	2.8%	2.7%	-	-

Source: Indosuez Wealth Management.

04 • Fixed Income

IT'S THE START OF A NEW ERA FOR JAPAN

Thomas GIQUEL
Head of Fixed Income

With the contribution of the Fixed Income Team

The bond markets of developed countries have moved in tight ranges since the beginning of the year. Sovereign yields rose slightly after a surprising fall at the end of 2023. On the credit markets, the narrowing of risk premiums has offset the rise in long-term rates.

128%: the Bank of Japan's balance sheet, % of GDP

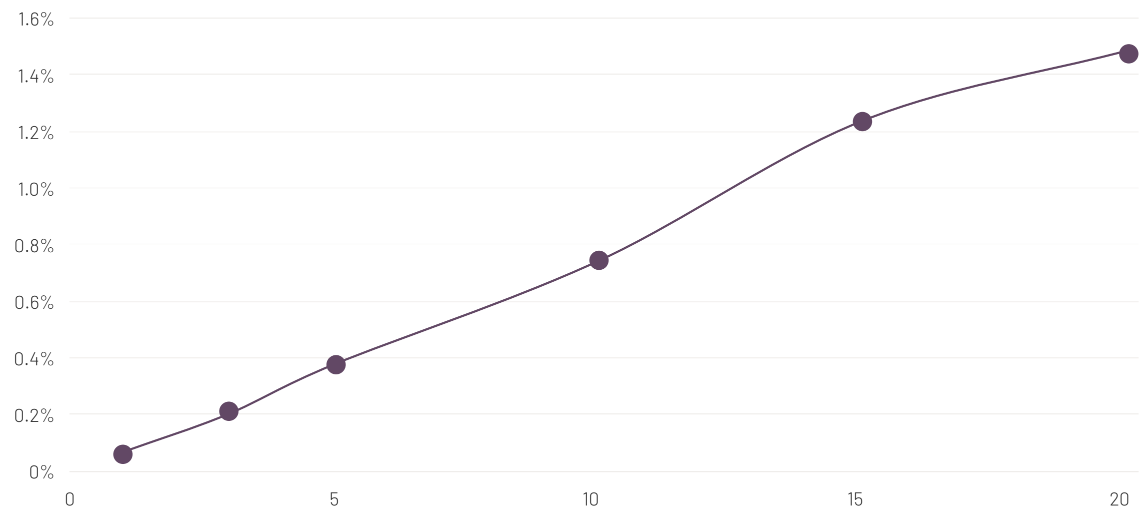
We tend not to comment on the Bank of Japan's actions in this monthly publication, and for good reason: the last rate hike dates back to January 2007! On 19 March of this year, the Bank of Japan exited its negative rate policy when it raised its short-term rates from -0.1% to 0%. The institution also ended its yield curve control policy. It did all this while leaving its bond purchase policy in place. It's the start of a new era thanks to the modest yet sustainable rebound in the Japanese economy. Long-term rates had already risen sharply since early 2023, in anticipation of the end of this exceptional monetary policy. Among G7 countries, the Japanese curve is the only one with a positive slope (Chart 3).

In the United States, the Federal Reserve's (Fed) meeting on 20 March confirmed three rate cuts for 2024. The first one will likely be in June.

The 31 July meeting will be held between the Republican convention (mid-July) and the Democratic convention (mid-August). To avoid any accusation of favouring one political party, the Fed is likely to refrain from intervening, barring a significant deterioration in the economy which is not the core scenario. Those are the only circumstances under which 50 bps rate cuts are conceivable; by extension, risky assets will respond negatively.

In the Euro Area, Christine Lagarde has already signalled a cut to the ECB's key rates in June. This will likely be a 25 bps cut. On 13 March, the ECB also revised its operational framework, opting for a demand-driven system for banks' liquidity needs. The reserve requirement for banks was left unchanged at 1% versus the expected increase to 2%. This is encouraging news for the banking sector, as these reserves do not earn interest.

CHART 3: JAPANESE YIELD CURVE, %



Source: Bloomberg, Indosuez Wealth Management.

Bond market volatility has steadily declined (Chart 4). This normalisation comes after a two-year period that will leave its mark on a generation of bond managers and investors. By extension, the persistent weakness in equity market volatility prompts us to proceed with caution in the next few months. It is certainly still too soon to talk about market complacency, but valuations already factor in a lot of good news.

RISK PREMIUMS CONTINUE TO NARROW

In developed countries, the investment grade market has offset rising rates by rewarding the still-lower risk. This reward still overcompensates investors given historical default rates. Rating upgrade/downgrade ratios have deteriorated slightly, but company fundamentals are sound.

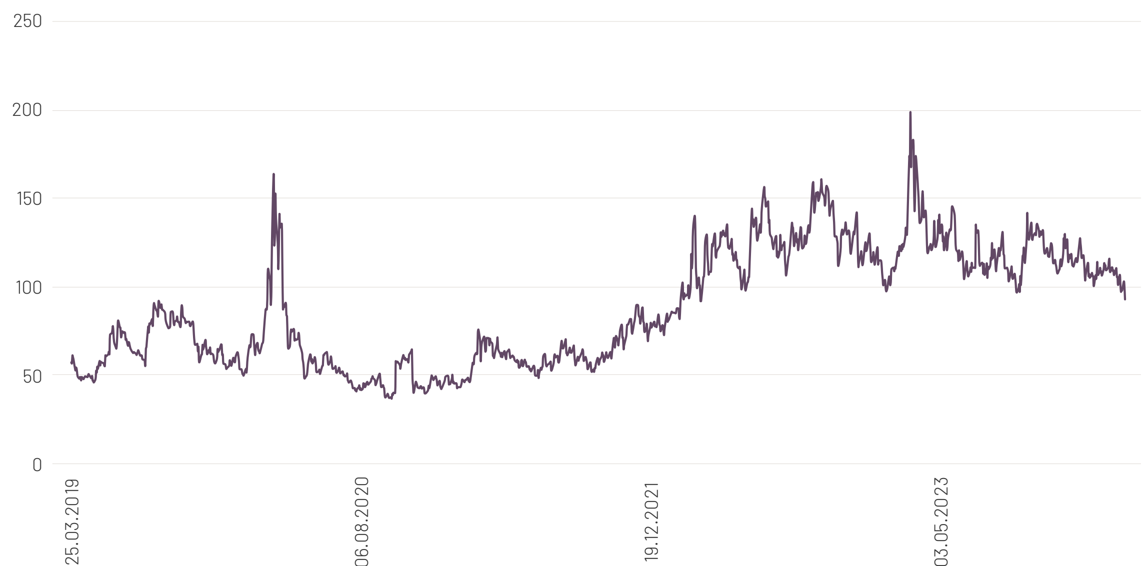
One year after the failure of Silicon Valley Bank (SVB) in the United States and the last-minute takeover of Credit Suisse by UBS, the banking sector is once again attracting investors. Banks are generally recalling their deeply subordinated debt (AT1) on the first call date, and are benefiting from favourable market conditions to obtain financing across all their regulatory pillars.

Regarding high yield, companies are optimising their credit curves by buying back short-term debt and then reissuing medium-term debt to benefit from the inverted structure of the yield curve. Dispersion within the market is currently very low, a sign of considerable strength.

In emerging markets, Latin America outperformed the US market. In relative value terms, this region is becoming less attractive.

Regarding the Asian market, our specialised managers believe valuations in the region are too rich. They are reducing credit risks to remain responsive and opportunistic. After the wave of failures in Chinese real estate, this sector – which represented 47% of the market in 2021 – has declined to just 9% today. The high-yield market is now nearly 20% Cyclical consumer services, 24% financials and 11% energy.

CHART 4: RATE VOLATILITY (US MARKET)



Source: Bloomberg, Indosuez Wealth Management.

05 • Equities

WHAT ARE THE ALTERNATIVES TO MARKET CONCENTRATION?

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

In many ways, the year 2024 resembles 2023, with continued dominance by the US markets and the mega caps in particular. In the first quarter of 2024, the performance of the "Magnificent 7"[4] was nearly twice that of the rest of the market, but with wide divergences between the stocks. As a result, the driver of equity market performance has tended to concentrate further.

GRANOLAS: Quality/Growth profile, less volatile and 30% CHEAPER than their US peers

EARNINGS

The market domination is not without historical precedent and in this case appears justified based on fundamentals. In the United States, the "Magnificent 7" continue to see the largest earnings revisions (+9% vs +1% for the S&P 493 (excluding the "Magnificent 7") as well as a high level of profitability and return on equity. This also enables them to invest to maintain their technological edge (Chart 5).

Nevertheless, the valuation and positioning on these "mega tech" leaders are at high levels and some of the securities are losing *momentum*, prompting investors to consider other diversification opportunities outside these stocks.

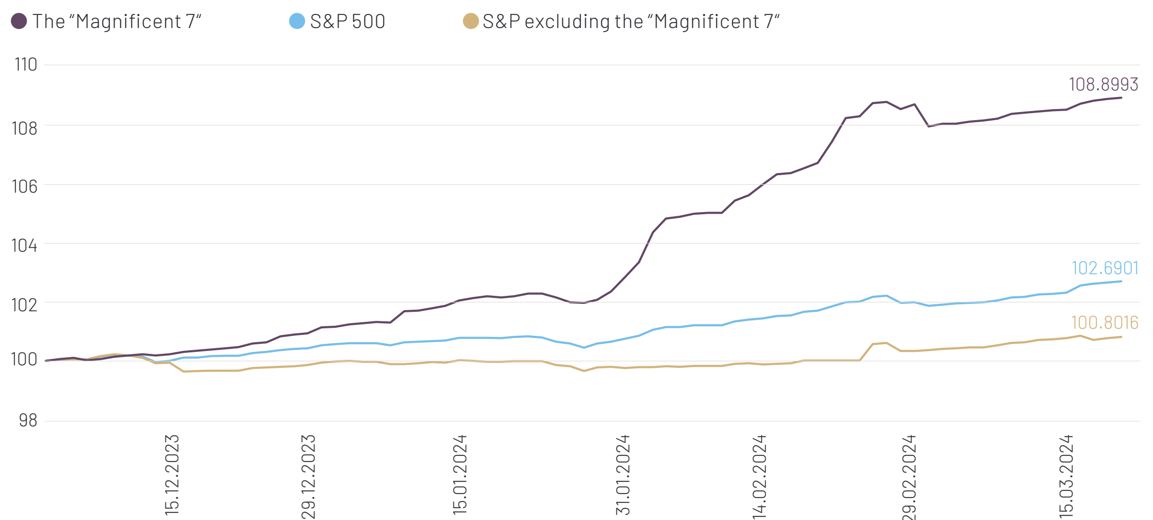
EUROPE

The group of companies known as the GRANOLAS[5] represents nearly one-fourth of the value of the 600 largest companies in Europe.

These companies are more diversified sector-wise, encompassing technology, healthcare, luxury goods and consumer staples.

They also offer an attractive Quality/Growth-type profile with solid fundamentals: strong growth in earnings with high and stable margins and sound balance sheets, while showing lower volatility than their US peers. In valuation terms, these companies are trading on average at a 30% discount to the "Magnificent 7" and below their historical valuation compared with the Growth style.

CHART 5: EARNINGS REVISIONS ACROSS DIFFERENT GEOGRAPHIC REGIONS



Source: Bloomberg, Indosuez Wealth Management.

4 - The "Magnificent 7": Apple, Alphabet, Microsoft, Amazon, Meta, Tesla and Nvidia.
5 - A group of Europe's 11 largest capitalisations: GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP and Sanofi.

Amid ongoing uncertainties (elections, macroeconomic slowdown, conflicts, etc.), we cannot rule out a rebound in volatility during the year. These companies could prove more resilient against this potential volatility, thanks to their defensive profile, and offer an attractive diversification opportunity.

UNITED STATES

Despite the dominance of the "Magnificent 7", we remain constructive on mega caps and more broadly on the key players in artificial intelligence (AI), but we are more selective and recommend diversifying into small and mid-caps over the year.

After underperforming for two years, small and mid-caps are showing attractive discount and valuation levels (close to a more than 20-year record compared with large caps).

The outlook for 2024 remains strong, with earnings expected to grow by about 10% for the next 12 months. Many of these companies are active in resilient markets that enjoy structural growth and are supported by fiscal plans such as the Inflation Reduction Act. Those with more exposure to economic conditions should benefit from tighter monetary policies. Lastly, the US elections could revive the "America First" theme, which would be favourable for companies exposed to the domestic market.

Nevertheless, while economic conditions make the case for a gradual return of small and mid-caps, we prefer high-profitability companies with sound balance sheets and visibility on revenues. Profitable companies perform better overall in each phase of the monetary cycle.

ASIA

On the whole, the Asian markets all rebounded over the last month and were supported, among others, by specific factors in China and South Korea. The Chinese authorities announced new measures to support the economy (in particular, a cut to the benchmark interest rate for mortgages), as well as massive purchases of Chinese equities by the "national team". In South Korea, a "value-up" reform similar to the one implemented in Japan, aimed at improving corporate governance, continues to support this market. Japan continues to draw investor flows (foreign and domestic) thanks to still-rising earnings revisions and highly attractive valuation multiples. Note that more than half of Japanese companies are net cash and are accelerating their share buyback programmes, which should continue to support market prices.

INVESTING STYLE

Despite the rebound in interest rates, equities have not faltered and, surprisingly, Growth stocks continue to outperform the rest of the market, in both the United States and Europe. This outperformance can be attributed, in part, to earnings, which continue to be higher for Growth companies than for those in the Value category. However, some complacency may have set in in the markets, based mainly on the overall high positioning in equities. It may be appropriate to balance this positioning with exposure to quality stocks, as well as certain discounted cyclical stocks (industry, basic resources, etc.) once the PMIs (purchasing managers' indices) start to change direction.

CENTRAL BANKS CALL THE SHOTS

Maxime GARCIA
Investment Strategist

We are taking a more neutral stance on the EUR/USD in the short-term, as the positive surprises in Europe support the single currency while the dollar has less room for growth. As for the yen, the Bank of Japan has not indicated any major changes. We are taking profits on the USD/CHF after the recent strong performance. Gold has strong fundamentals but, now that it has set a new record, we prefer to wait.

USD

Thin margin

Cyclical currencies outperformed over one month, in an environment characterised by appetite for risk. The dollar resisted, however, and only gave up a few basis points of performance, while other safe havens, such as the JPY and CHF, were penalised. The greenback recovered after the release of above-consensus US CPI (Consumer Price Index) and PPI (producer price index) figures, highlighting the risk that inflation could reaccelerate. Rate cut expectations are in line with our scenario (three cuts in 2024), which limits the potential upside in the dollar from that perspective.

On the macroeconomic side, expectations are now higher than at the beginning of the year, leaving less room for positive surprises. Therefore, after staying positive for the last two months, we are taking a tactically more neutral stance on the greenback, while bearing in mind that it remains a hedge against more stickiness in inflation. Over the longer-term, our soft-landing scenario should favour the more cyclical currencies, in line with the movement seen in recent weeks.

EUR

Driven by positive surprises

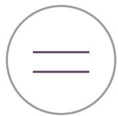
The euro has recovered against the dollar since mid-February, driven mainly by macroeconomic *momentum* that surprised expectations and by a market that is positioned for a synchronised ECB and Fed rate cut cycle.

We believe that strong *momentum* and the receding risk of a Euro Area recession could continue to drive the single currency. However, the growth divergence between the United States and the Euro Area continues to exist, and sooner or later this could be reflected in the road the different central banks will take. The positive and negative factors cancel each other out for now. Therefore, we are taking a tactically more neutral stance, after having been rather negative on the euro in recent months. The EUR/USD should continue to hover between 1.07 and 1.10.

JPY

The situation has not changed

The Bank of Japan ended its negative interest rate policy, raising its short-term target to 0%-0.1%. It also abandoned its yield curve control. However, the central bank stated that it would maintain its government bond purchases and confirmed that its monetary policy would remain accommodative. This move was therefore interpreted as a dovish hike by the market and ended up weighing on the currency, which had appreciated since early March. As this Board meeting was not a game-changer, we maintain a neutral position in the short-term on the JPY, which is expected to continue to hover at 147-152 against the USD. We will now have to wait for signs of more sustainable inflation in Japan to see the USD/JPY at around 145-147. This could result from the pass-through of the wage hike negotiated in the services sector or from a more accommodative Fed.



Japanese monetary policy will remain accommodative; we remain NEUTRAL ON THE USD/JPY

CHF

A surprise cut

The Swiss franc was affected by positive global macroeconomic *momentum* and investors' appetite for risk. In addition, inflation continued to slow and stood at 1.2% in February. This was its ninth month in a row below the central bank's inflation target, leading it to cut its rate. The Swiss National Bank (SNB) had also stated at the December meeting of its Board that it was no longer looking to prop up a strong franc to fight imported inflation. The central bank is also pressured by small and mid caps as a weaker currency would strengthen their exports. This combination of factors weighed on the CHF, which is why in recent months we had taken a positive stance on the USD/CHF. Given the currency pair's past performance, we prefer to take profits and opt for a more neutral stance on the USD/CHF in the short-term.

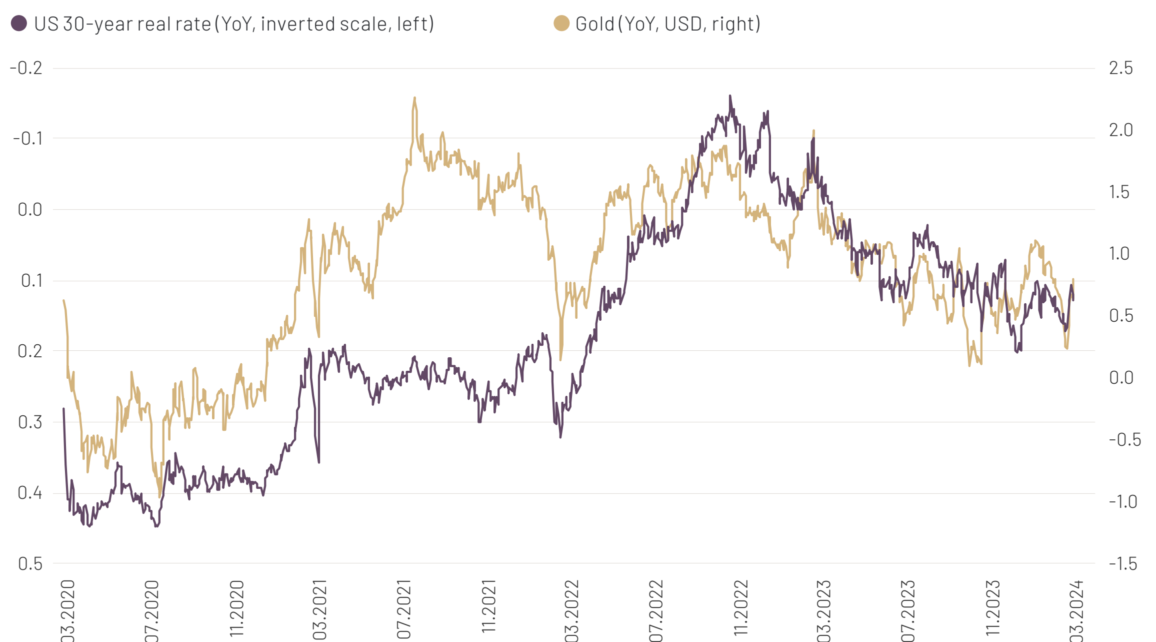
GOLD

The ascent continues

The price of gold posted another all-time high above 2'200 dollars/ounce after the Fed's Committee meeting and on the heels of a 7% rise in the first week of March. Uncertainty abounds on the geopolitical and political fronts, and the slowdown in real rate *momentum* (Chart 6).

Lastly, central banks' purchases as part of their currency reserve diversification strategy, and potentially Chinese investors' purchases of gold, as an alternative to the troubled real estate market, continue to support the yellow metal. After the recent bout of overheating we prefer to wait for lower entry points, but we remain positive in the long-term for the reasons discussed above.

CHART 6: RELATIONSHIP BETWEEN THE PRICE OF GOLD AND REAL RATES



Source: Datastream, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

Lucas MERIC
Investment Strategist

Improved
PURCHASING POWER
and economic recovery in Europe

INVESTMENT SCENARIO

- **Growth:** economic activity is normalising in the United States and this trend should continue in the coming months before converging towards potential growth levels in 2025. Macroeconomic *momentum* is improving in the Euro Area and we continue to believe the improvement in household purchasing power will drive the economic recovery in Europe in 2024, although this rebound could be delayed due to still-faltering household confidence surveys. Global growth in 2024 and 2025 is expected to be driven by emerging countries, mainly in Asia, despite the structural slowdown in the Chinese economy.
- **Inflation**: stickier-than-expected data at the beginning of the year on US core inflation have led us to revise our expectations for 2024, up slightly to 3.2% (+20 bps, Core CPI). Despite this revision, we still expect disinflation to continue; the deceleration in the labour market and the wage trend should help to ease pressure on services inflation in the United States. In the Euro Area, disinflation is expected to be more widespread across the different components, with the exception of energy due to technical effects.
- **Central banks**: we continue to expect the Fed and the ECB to make their first rate cuts in the second quarter; however, due to the recent stickiness of US core inflation, we anticipate only 75 bps of cuts for the Fed in 2024 versus 100 bps for the ECB.
- **Corporate earnings**: the earnings revision trend remains positive for US companies, due mainly to the tech sector. On a relative basis, we remain more confident in their ability to deliver earnings expectations than their European counterparts, whose expectations continue to be revised down.
- **Risk environment:** the risk of more persistent inflation in the medium-term entailing a higher Fed terminal rate is the main market risk. We are also monitoring risks related to the sustainability of public debt and the geopolitical situation around the world, while the US elections are likely to increase volatility on the markets in the short-term.

ALLOCATION CONVICTIONS

Equities

- The resilient macroeconomic environment, especially in the US, leads us to maintain our scenario of a soft landing for the global economy, which should continue to benefit the equity markets through 2024. While we remain positive on equities, we acknowledge the sharp rise of indices since the beginning of the year, materialised by particularly stretched technical indicators. We therefore marginally reduce our overweight position in equities but remain ready to increase our exposure in the event of a market downturn.
- We maintain our preference for US stocks within our allocation. The macroeconomic environment is supportive of equities in the region and the recent earnings season suggests that companies will be able to deliver on their 2024 forecasts. Moreover, Artificial Intelligence (AI) *momentum* remains very positive for US-listed equities.
- Despite low valuation levels on a historical basis, European equities look less attractive to us on a relative basis. We prefer to wait for a turnaround in earnings *momentum* and better visibility on economic growth before adding to our existing exposure.
- Finally, we remain positive on emerging market assets. However, given the idiosyncratic risks in emerging markets, a diversified view is preferable. A broader exposure will also allow us to take advantage of some specific stories, such as South Korea, which is benefiting from the turnaround in the semiconductor cycle.

Bonds

- Our scenario continues to play out with a sustained upward trend in interest rate adjustments, reflecting the recent upside surprises in inflation. Although we are comfortable with the current level of interest rates, we are still underweight on duration, as uncertainties about the disinflation path remain high. For these reasons, we reiterate our positive view for government bonds with short maturities (up to five years) as opposed to longer, more volatile and lower-yielding maturities.
- Regarding the credit market, we reiterate our preference for high-quality corporate debt with short maturities within our allocation, which we believe offers the best risk/return. We continue to steer clear of high yield bonds, as refinancing risks in the market remain high.
- We keep a positive strategic view on local currency emerging market debt, as it provides further diversification.

Forex market

- As we expected, investors have revised down their expectations for Fed rate cuts after fresh inflation surprises. While this should benefit the dollar in the short-term, the potential easing cycle as well as various structural factors could weigh on the greenback.
- We have left our opinion on the Swiss franc unchanged. It no longer enjoys the support of the Swiss National Bank (SNB) while the disinflation process appears to be well underway locally.
- For the first time since 2007, the Bank of Japan has decided to remove its key interest rate from negative territory. Nevertheless, the currency remains weak against the dollar and could benefit from further central bank intervention. Essentially, the change in parity over the medium-term remains constrained by the Fed's future monetary policy.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=	=
EUR 10-Year	=/-	=
EUR Periphery	=	=/-
US 2-Year	=/+	=/+
US 10-Year	=/-	=
EUR Breakevens Inflation	=/+	=/+
US Breakevens Inflation	=/+	=
CREDIT		
Investment grade EUR	=/+	=/+
High yield EUR	=/-	=
Financials Bonds EUR	=/+	=/+
Investment grade USD	=	=/+
High yield USD	-	=/-
EMERGING DEBT		
Hard Currencies	=	=/+
Local Currencies	=	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=/-	=/-
United States	=/+	=/+
Japan	=	=
Latin America	=	=
Asia ex-China	=/+	=/+
China	=	=/-
STYLES		
Growth	=/+	=/+
Value	=	=
Quality	=/+	=
Cyclical	=	=
Defensive	=/-	=/-
FOREX		
United States (USD)	=/+	=/-
Euro Area (EUR)	=/-	=/+
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=/-	=
Japan (JPY)	=	=/+
China (CNY)	=	=
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

08 • Market Monitor (local currencies)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 21 MARCH 2024

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.27%	-5.38	38.78
France 10-year	2.85%	-6.70	28.90
Germany 10-year	2.40%	-3.50	38.30
Spain 10-year	3.21%	-13.30	22.80
Switzerland 10-year	0.70%	-17.90	-0.40
Japan 10-year	0.74%	2.20	12.80

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	36.18	0.79%	-1.48%
Euro Government Bonds	202.55	0.62%	-0.78%
Corporate EUR high yield	218.23	0.06%	0.88%
Corporate USD high yield	338.51	1.13%	1.06%
US Government Bonds	306.01	0.52%	-0.66%
Corporate Emerging Markets	44.40	0.54%	0.61%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9748	2.32%	4.94%
GBP/USD	1.2658	-0.02%	-0.57%
USD/CHF	0.8975	1.97%	6.67%
EUR/USD	1.0860	0.34%	-1.62%
USD/JPY	151.62	0.72%	7.50%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	12.92	-1.62	0.47

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	5'241.53	3.04%	9.89%
FTSE 100 (United Kingdom)	7'882.55	2.58%	1.93%
STOXX 600	509.77	2.96%	6.43%
Topix	2'796.21	5.09%	18.16%
MSCI World	3'434.69	3.15%	8.38%
Shanghai SE Composite	3'581.09	2.71%	4.37%
MSCI Emerging Markets	1'048.34	1.84%	2.40%
MSCI Latam (Latin America)	2'528.82	-1.60%	-5.03%
MSCI EMEA (Europe, Middle East, Africa)	201.53	-0.94%	0.38%
MSCI Asia Ex Japan	659.87	2.31%	2.86%
CAC 40 (France)	8'179.72	3.39%	8.44%
DAX (Germany)	18'179.25	4.66%	8.52%
MIB (Italy)	34'327.95	6.09%	13.10%
IBEX (Spain)	10'867.50	7.19%	7.58%
SMI (Switzerland)	11'703.66	2.79%	5.08%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'528.00	-8.20%	-12.67%
Gold (USD/Oz)	2'181.33	7.75%	5.74%
Crude Oil WTI (USD/Bbl)	81.07	3.13%	13.15%
Silver (USD/Oz)	24.85	9.06%	3.17%
Copper (USD/Tonne)	8'950.50	4.26%	4.57%
Natural Gas (USD/MMBtu)	1.68	-2.83%	-33.05%

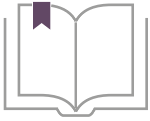
Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets · STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	DECEMBER 2023	JANUARY 2024	FEBRUARY 2024	4 WEEKS CHANGE	YTD (21.03.2024)
BEST PERFORMING (+)	7.74%	7.81%	9.35%	5.09%	18.16%
	4.81%	1.59%	5.52%	3.15%	9.89%
	4.71%	1.39%	5.17%	3.04%	8.38%
	4.42%	1.14%	4.89%	2.96%	6.43%
	3.77%	-1.02%	4.63%	2.71%	4.37%
	3.75%	-1.33%	4.11%	2.58%	2.86%
	3.71%	-4.68%	1.84%	2.31%	2.40%
	3.35%	-4.85%	1.58%	1.84%	1.93%
	-0.36%	-5.49%	-0.01%	-0.94%	0.38%
WORST PERFORMING (−)	-1.86%	-6.29%	-0.52%	-1.60%	-5.03%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.



Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI: An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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