Investment letter

Monthly review of global financial markets

SWISS CAPITAL IB

March 2024

MACROECONOMICS

In the US, Powell's guidance during the FOMC meeting on the last day of January regarding their intention to stay put at the March meeting was proven wise by the slew of strong data throughout February, and by resurgent concerns of inflation stickiness.

The **January ISM manufacturing**, albeit still in contraction, surprised materially on the upside at 49.1 (exp. 47.2) with "New orders minus Inventories" continuing to rise, pointing to further improvement ahead. The **Services** index followed suit, surprisingly rising to 53.4 from 50.5 in Dec. with the prices paid index increasing to 64, highest since early 2023. **February PMIs** also confirmed the ongoing recovery in the manufacturing sector, with the index surprising to the upside at 51.5 (exp. 50.7), while services disappointed somewhat, but remained nonetheless in expansion at 51.3 (exp. 52.3).

Even more notable, the **January's job report** was meaningfully stronger than expected, with monthly jobs' creation at 353k (exp. 185k), the Dec. number revised up to 333k (from 216k), the unemployment rate stable at a still low 3.7% and wage growth rising to 4.5%.

Meanwhile, **Jan. headline CPI** came out at 3.1% y/y (2.9% exp.) while **core CPI** remained unexpectedly sticky at 3.9% y/y (3.7% exp.). **PPI** sent a similarly hawkish message, with the core index annual growth stable at 2.6%.

In contrast, **retail sales** declined in Jan. by 0.4% (control group, exp. 0.2%), their first monthly fall since Mar. 2023, at the height of the regional banks' crisis. **Industrial production** also disappointed, down 0.1% over the month, while manufacturing production fell 0.5% (exp. 0%). The **January Senior Loan Officer Opinion Survey** for Q4 2023 was also somewhat mixed as banks continued to tighten lending standards, albeit with the net percentage of banks tightening lower than in Q3.

> OVERTIGHTENING RISKS ARE GROWING IN THE EUROZONE, AS THE ECB MIGHT BE MISLED BY OVERSEAS DEVELOPMENTS AND WAIT FOR TOO LONG BEFORE CUTTING RATES.

In the Eurozone, the picture remains one of stagnation.

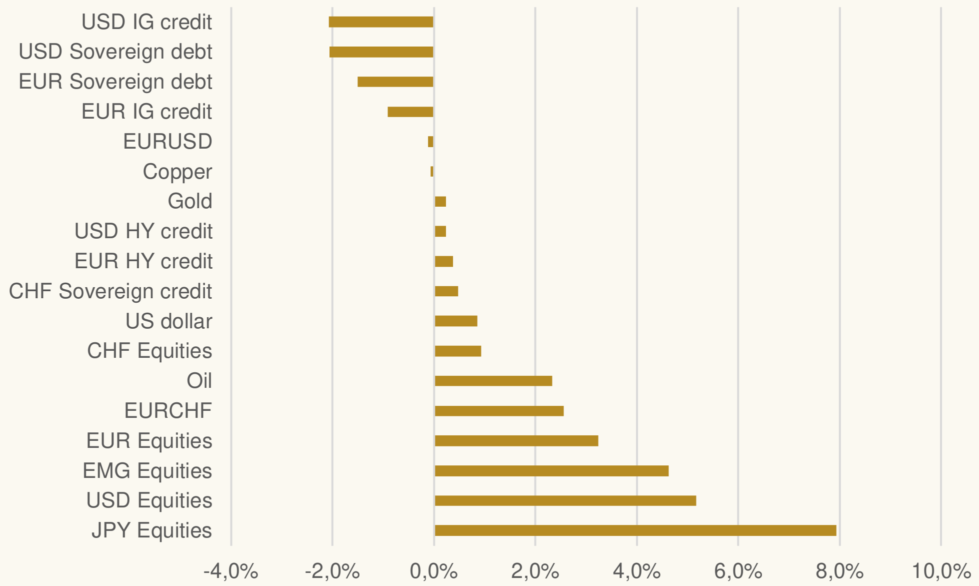
The region just avoided a technical recession with flat **GDP** growth in Q4 2023 (vs. -0.1% exp.), following -0.1% in Q3. Upside surprises in Spain (+0.6% q/q) drove the resilience, while core countries lagged, with France at 0.0% and Germany at -0.3% q/q. The fact that the **labour market** remained remarkably resilient during this stagnation, with employment growth accelerating to 0.3% q/q in Q4 2023 from 0.2% in Q3, should not prevent further progress on the disinflation front. The European consumer has been unwilling to spend its pool of excess savings last year, and it is unlikely to become a large demand boost this year. Moreover, employment has been mainly supported by labour hoarding, high rates of sick-leave and a large share of the workforce approaching retirement, not by strong demand.

Inflation dropped less than expected in Jan. with **headline CPI** down to 2.8% y/y from 2.9% in Dec., and **core** down to 3.3% from 3.4%. This first upside surprise to inflation in 5 months, mainly due to the non-volatile services items, may bother the ECB.

That said, most other data continue to point to a muted momentum.

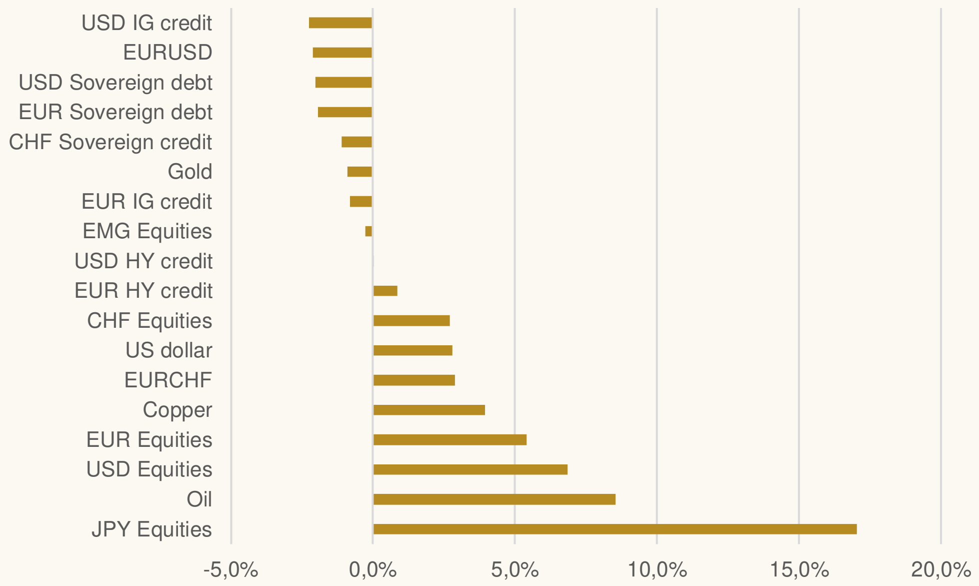
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 29/02/2024

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 29/02/2024
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

The **Feb. Sentix investor confidence** remains weak at -12.9 – albeit improving for the fourth straight month, and well above its Oct. 2022 trough (-38.2). **Dec. PPI** came out broadly in line with expectations at -10.6% y/y and **Dec. retail sales** fell by 0.8% y/y in Dec., in line with expectations after an upwardly revised -0.4% the previous month. Finally, **February PMIs** brushed a mixed picture with the manufacturing sector disappointing by falling to 46.1, still well in contraction, while the services print surprised positively at 50, almost expanding.

We still see overtightening risks in the Eurozone, as the ECB might be misled by overseas developments and wait for too long before cutting rates.

EQUITY MARKETS

February was a good performing month for Equity markets, advancing further (S&P 500 +3.9% in USD, Stoxx 600 Europe +2.8% in EUR over the month). Continuing from January, this movement has pushed the American indices S&P 500 and Nasdaq 100 to new all-time highs.

Enthusiasm around Artificial Intelligence has strengthened further, leading to spectacular gains for chip supplier Nvidia (+25.5% over the month - group reported earnings in end-February), its competitor AMD (+12.9%), and semiconductor equipment maker ASML (+7.8%).

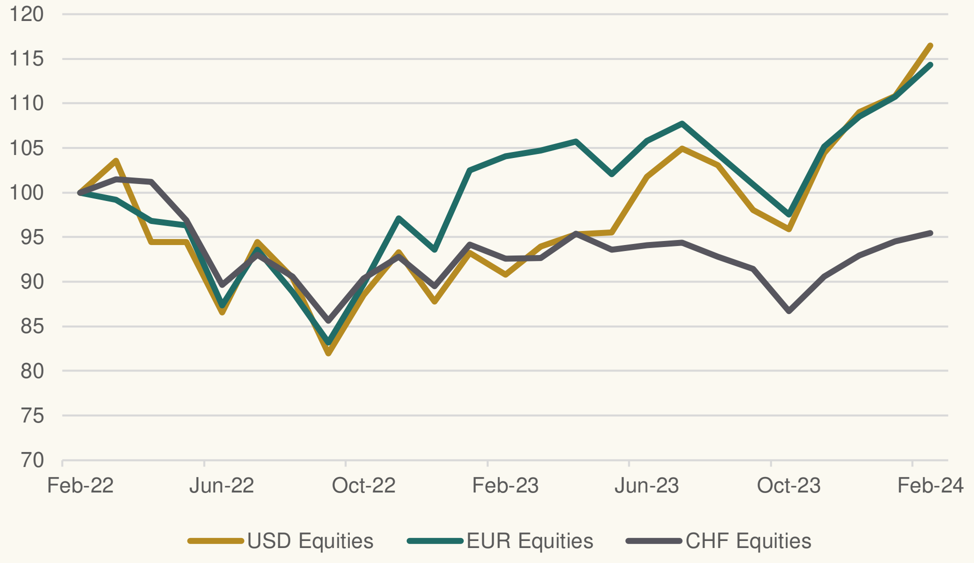
WE OBSERVE THE CONTINUATION OF THE DECOUPLING MOVEMENT BETWEEN LONG-TERM US RATES AND "LONG-DURATION" TECH STOCKS WHICH MANAGED TO ADVANCE DESPITE THIS EVOLUTION THAT WAS SUPPOSED TO PENALIZE THEM.

In February, **we observe the continuation of the decoupling movement between long-term US rates**, with a 10-year US bond up by +34bps over the month, **and "long-duration" tech stocks which managed to advance despite this evolution that was supposed to penalize them** (Nasdaq 100 +5.3% in USD). This sector is indeed supported by a continuous improvement in its fundamentals, with very positive revisions of expectations on the results of companies targeting this market, highlighting the strength of this trend.

On the sectoral front, **very few sectors showed a decline this month**. The largest increase was in the consumer cyclical sector (S&P 500 +8.9%, Stoxx 600 +9.4%), followed by tech (S&P Communications +6.3%, Stoxx 600 Tech +3.7%) and basic materials (S&P 500 Materials +7.2%, Stoxx 600 Basic Resources +1.7%). Energy (S&P 500 +3%, Stoxx 600 -2.1%) and real estate (S&P 500 +2.6%, Stoxx 600 -4.1%) were among the sectors that performed the least well over the past month.

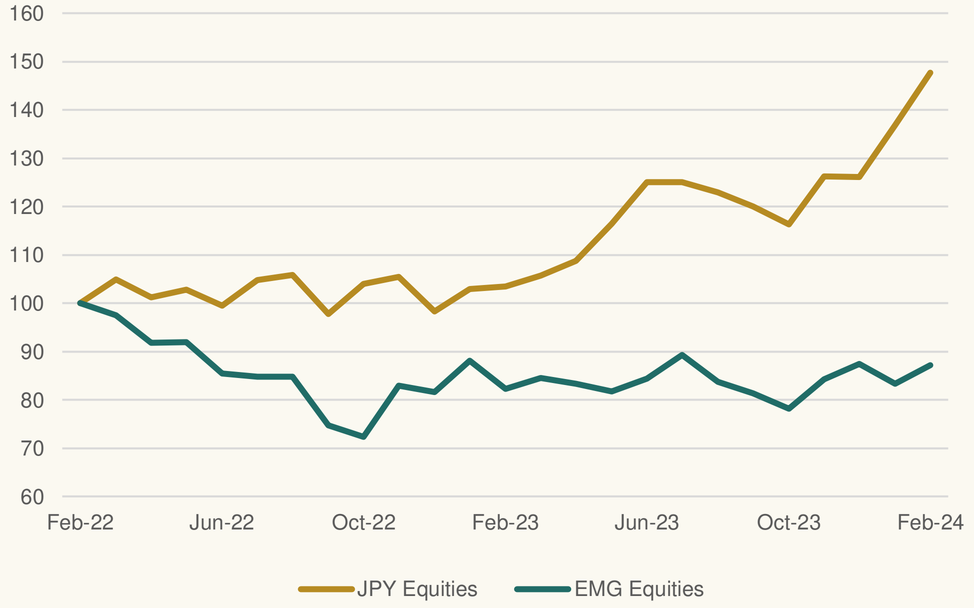
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 29/02/2024

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 29/02/2024
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BOND MARKETS

Good economic indicators in the US (growth, employment, ISM) and the slow pace of disinflation took their toll on the bond market in February. **The repricing of expectations of key rate cuts was violent, with the market aligning itself with the Fed's expectations (75bps cut over 2024 from June according to futures).**

Logically, the long end of the curve reacted in tandem, with 10-year Treasuries gaining 35bps to finish at 4.25% and the yield on the 10-year Bund rising 25bps to above 2.4%. **As a result, the performance of sovereign indices and IG credit indices was mostly in negative territory in February:** the Eurozone sovereign Iboxx lost 1.2% over the month, the Treasury Iboxx fell by 1.4%, EUR investment grade by -0.9% and US IG by -2.1%.

Fortunately, spreads have continued to contract, buoyed by equity markets that are flying from record to record and by a sustained appetite for risky assets across the board. IG EUR spreads have fallen by more than 15bps since the start of the year (although the influx of primary IG supply began to weigh slightly in the last week of February) and by 50bps on the HY side. The good behaviour of credit spreads has enabled HY indices to remain positive since the start of the year (+0.9% for HY EUR and +0.3% for HY US), with inflows into funds often exceeding net issuance.

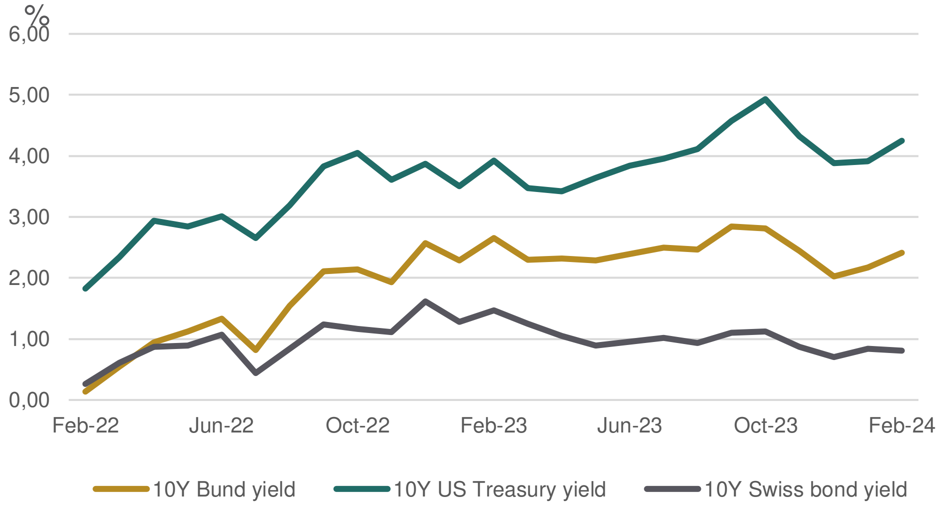
Note that, as expected, subordinated segments have outperformed since the start of the year, with +1.2% for EUR AT1 (vs -0.5% for senior debt) and +0.8% for corporate subordinated debt. Ratings continue to evolve favourably, with Stellantis and Portugal, for example, being upgraded last month.

We do not expect any major change in the interest-rate environment in March, with central banks expected to confirm the pause in key rates. We believe that spreads are already low by historical standards and are unlikely to be as positive as they were in February. The refinancing flow will continue in March for HY debt: after Faurecia and TUI, we are expecting Nexans, Aston Martin and Loxam in the next few days.

“ FORTUNATELY, SPREADS HAVE CONTINUED TO CONTRACT, BUOYED BY EQUITY MARKETS THAT ARE FLYING FROM RECORD TO RECORD AND BY A SUSTAINED APPETITE FOR RISKY ASSETS ACROSS THE BOARD.

10Y SOVEREIGN BOND YIELDS

EVOLUTION OVER 2 YEARS



Source: Bloomberg, 29/02/2024
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CURRENCIES

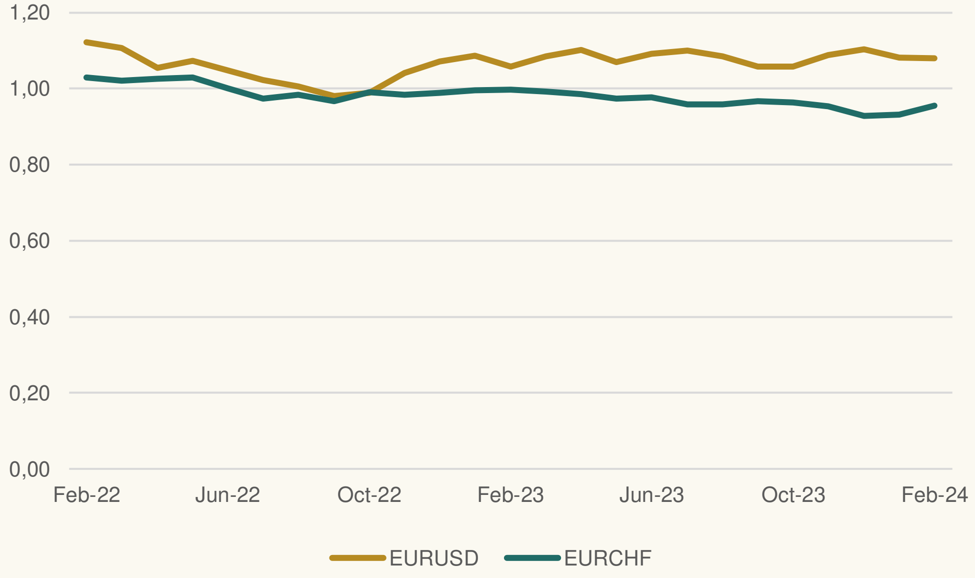
After losing ground in November and December, the **Dollar Index** was a strong performer in January and kept increasing in February 0.9%. This was led by a continued robust sequence of economic data, which meant that the growth differential remains in favour of the US versus the rest of the world. Yet the Dollar index is still 2.4% below the level reached at the end of October 2023.

The **EUR-USD** was almost flat in February at 1.08, but decreased 1.3% until 13 February before increasing 1.0% by the end of the month. The pair is still struggling for direction in the near term as markets continue to assess when and by how much central banks will cut rates this year. Ultimately, we would not be surprised to see the pair weaken toward 1.05 as further near-term resiliency in the US economy could lead the Fed to delay the first rate-cut to June, while the next ECB meeting on March 7 could trigger a discussion for rate cuts in the coming months.

Swiss inflation came softer in January at 1.3% and 1.2% y/y at the headline and core levels respectively in January thus lower levels than the ones reached in December (respectively 1.7% and 1.5% y/y). Therefore, the SNB has no reason to maintain a hawkish tilt, especially since its main worry was to import inflation from the rest of the world, where it is materially declining as well. The CHF keeps depreciating, and the **CHF-USD** cross was further down in February from 1.16 to 1.14. Meanwhile, the depreciation of the CHF relative to EUR was even stronger in February as the pair **CHF-EUR** pair was down by 2.2% after being almost flat in January.

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



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COMMODITIES

OIL

Brent price marginally soften in February to reach USD 81.95 at the end of February and remains above the USD80 mark.

Going forward, oil prices should remain in a tug-of-war between softer global demand as economic momentum softens and further constraints on OPEC+ supplies to support prices. On the top of that, geopolitical tensions, as outlined by the Houthi rebels' attack on commercial shipping in the Red Sea last January, may lead to episodic price spikes due to fears of supply-chain disruptions.

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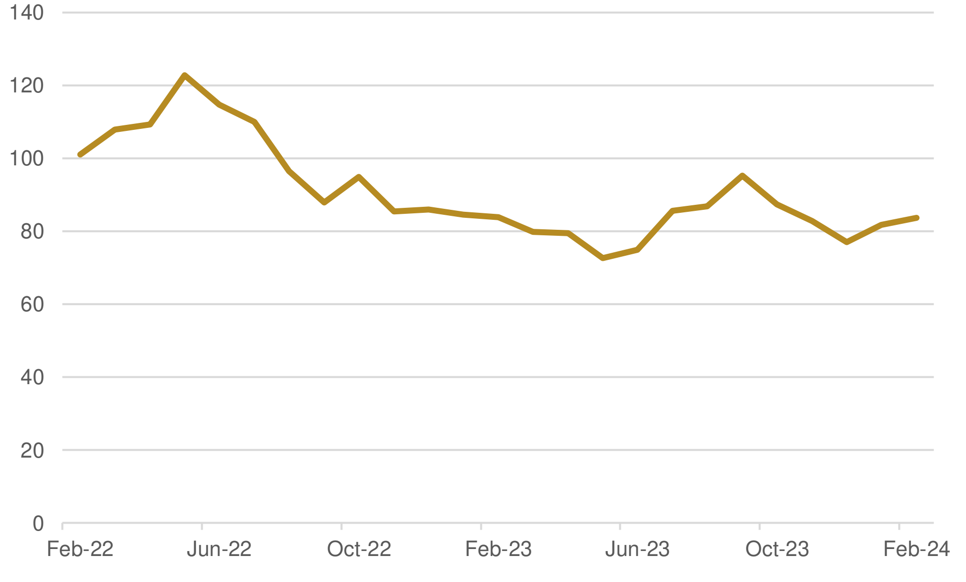
OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



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COMMODITIES

GOLD

The **yellow metal** was flat in February and remains anchored above the symbolic USD2'000 mark since mid-December 2023.

Rising geopolitical tensions along with lower rates contribute to maintain a floor under Gold. Going forward, central banks' cuts may maintain prices elevated, but we would caution that those cuts are likely in the price already. Geopolitical risks may lead to episodes of Gold's spikes, justifying some measured exposure to the metal.

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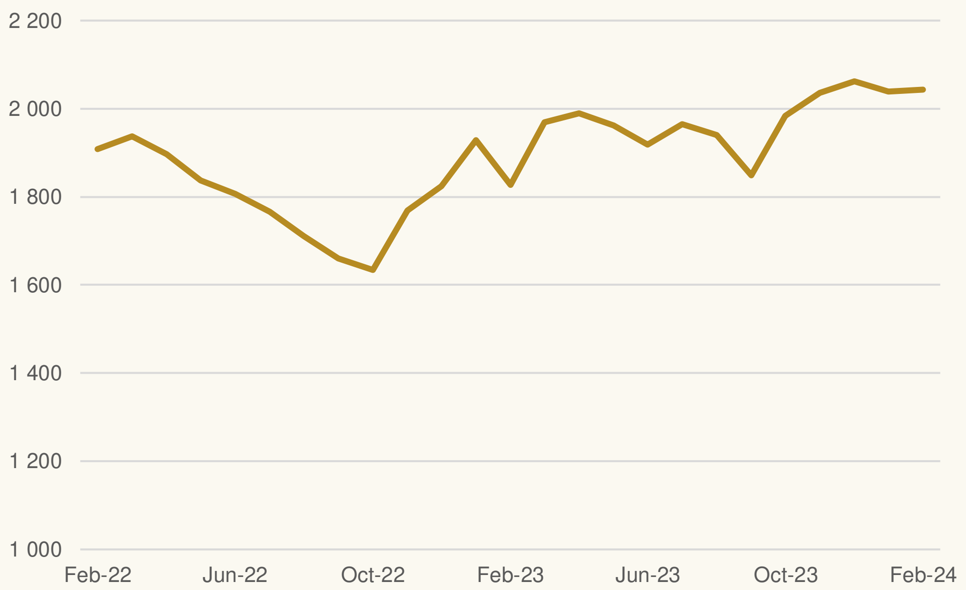
GOLD

EVOLUTION OVER 2 YEARS



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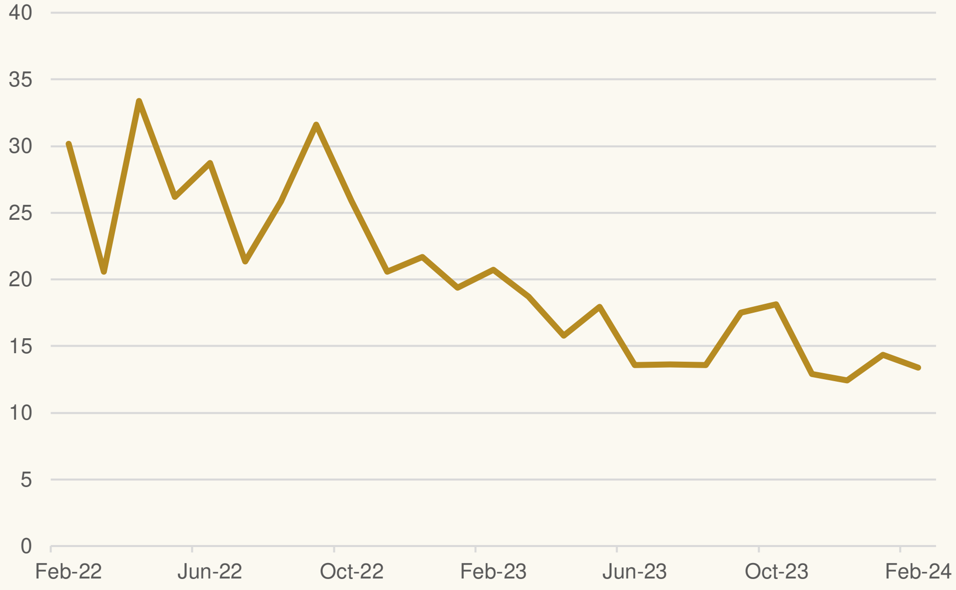
VOLATILITY

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



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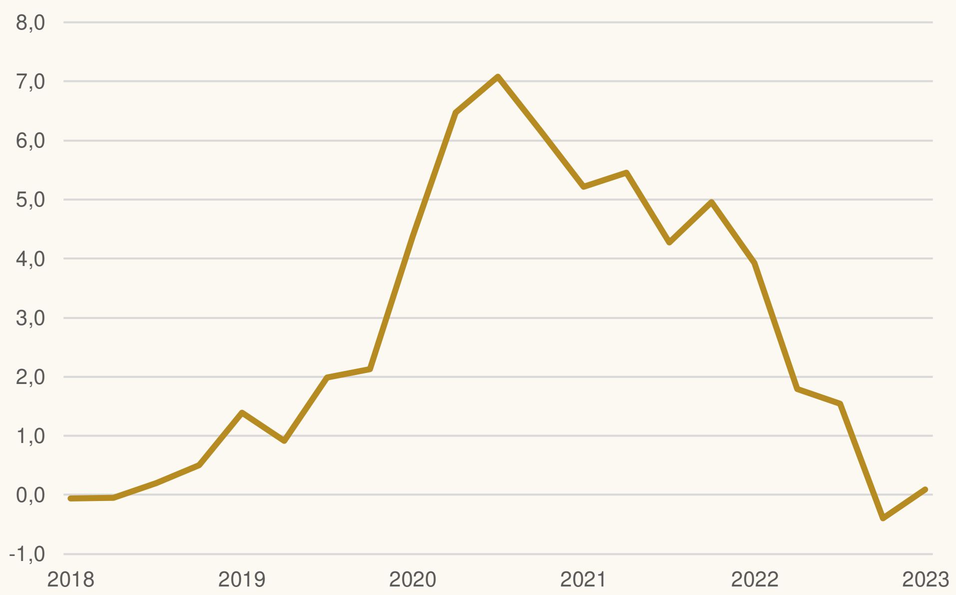
REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



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CALENDAR

Date	Country	Economic Data	Period	Previous
04 March	Switzerland	Inflation (YoY)	Mar-24	1,2
05 March	US	ISM Non-Manufacturing Index	Feb-24	53,4
	Eurozone	Markit Services PMI	Mar-24	50,0
	UK	Markit Services PMI	Mar-24	54,3
	Italy	Real GDP (QoQ)	Mar-24	0,2
07 March	Eurozone	ECB Interest Rate (%)	Feb-24	4,0
	Switzerland	Unemployment Rate (%)	Feb-24	2,2
08 March	US	Employment (000s)	Feb-24	353,0
	US	Unemployment Rate (%)	Feb-24	3,7
	Eurozone	Employment (QoQ)	Mar-24	0,3
	Eurozone	Real GDP (QoQ)	Mar-24	0,0
	Germany	Industrial Production (MoM)	Jan-24	-1,6
09 March	China	Inflation (YoY)	Feb-24	-0,8
11 March	Japan	Real GDP (QoQ)	Mar-24	-0,4
12 March	US	Inflation (YoY)	Feb-24	3,1
	UK	Unemployment Rate (%)	Jan-24	3,8
13 March	Eurozone	Industrial Production (MoM)	Jan-24	2,6
15 March	US	Consumer Confidence	Mar-24	76,9
	US	Industrial Production (MoM)	Feb-24	-0,1
18 March	China	Industrial production (YoY)	Jan-24	4,6
19 March	Japan	Industrial Production (MoM)	Feb-24	-7,5
	Japan	Bank of Japan Interest Rate (%)	Feb-24	-0,1
20 March	US	Federal Reserve Interest Rate (%)	Feb-24	5,5
	UK	Inflation (YoY)	Feb-24	4,0
	US	Philadelphia Fed Business Survey	Mar-24	5,2
	Eurozone	Markit Manufacturing PMI	Mar-24	46,5
	UK	Markit Manufacturing PMI	Mar-24	47,5
	UK	Bank of England Interest Rate (%)	Apr-24	5,3
	Japan	Nikkei Manufacturing PMI	Mar-24	47,2
22 March	Germany	Ifo Business Climate	Mar-24	85,5
28 March	US	Real GDP (QoQ)	Mar-24	3,2
	UK	Real GDP (QoQ)	Mar-24	-0,3
	Switzerland	KOF Leading Indicator	Mar-24	101,6

LET'S TALK ABOUT IT.

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This article was finalised on 29th February 2024.

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