Investment letter

Monthly review of global financial markets

SWISS CAPITAL IB

April 2024

MACROECONOMICS

The ISM manufacturing index for February, published on March 1st, came out slightly below expectations, lower than January's level and below the threshold of 50, raising fears of a contraction in activity. This cautious message was subsequently toned down by **the FOMC on 20 March**, which revised upwards its expectations for growth in gross domestic product (GDP) in 2024 from 1.4%, expected last December, to 2.1%, **finally removing the spectre of a recession in 2024**.

The employment report (JOLTS) released on 6 March further **confirmed the strength of the US labour market**, which also explains why February's seasonally-adjusted monthly inflation rate remained at 0.4% (as in January), while economists were expecting a further contraction. The producer price indice (PPIs) confirmed on 14 March that inflationary pressures had not disappeared.

Despite this, **the FOMC confirmed its scenario of 3 rate cuts in 2024**, raising hopes of a first rate cut in June, even if this decision does not yet seem to have unanimous support due to the strength of the US economy.

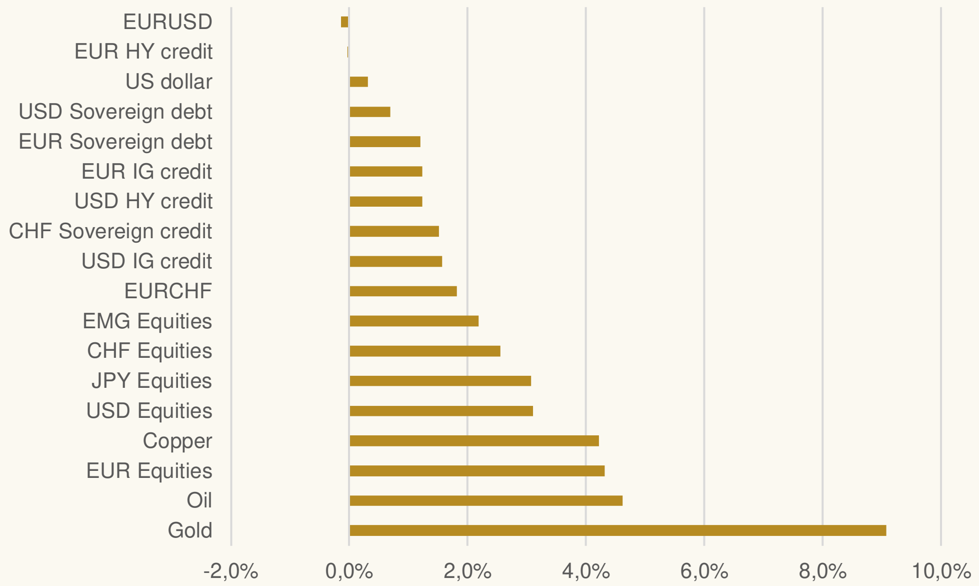
> NO RECESSION IN THE UNITED STATES IN 2024 AND SLUGGISH GROWTH IN EUROPE

On 21 March, **the Swiss National Bank (SNB) surprised investors by cutting its key rate by 25 basis points to 1.5%**, compared with 1.75% previously. This level had been reached in June 2023 after a cycle of monetary tightening that began in June 2022. The SNB's decision was prompted by the easing of inflationary pressure and the appreciation of the Swiss franc in real terms. The SNB is also lowering its inflation forecast to 1.4% for 2024, followed by a further deceleration in 2025 and 2026, while remaining within the range the SNB has set itself [0 - 2%] to ensure price stability. The SNB also points out that economic growth measured by gross domestic product (GDP) is expected to be sluggish in the coming quarters.

At its meeting on 7 March, the European Central Bank (ECB) kept its key rates unchanged. As in December, **the ECB is continuing to revise its inflation and growth forecasts downwards**. Inflation is continuing to fall in the eurozone, with 2.8% in January and 2.6% in February, as confirmed on 18 March. Inflation in the eurozone for 2024, that was estimated by the ECB at 2.7% in December, was revised down to 2.3% on 7 March, mainly due to a weaker contribution from energy prices. Although inflation is falling, underlying inflation remains relatively high due to strong wage growth. ECB expects that inflation should return to its 2% target in 2025.

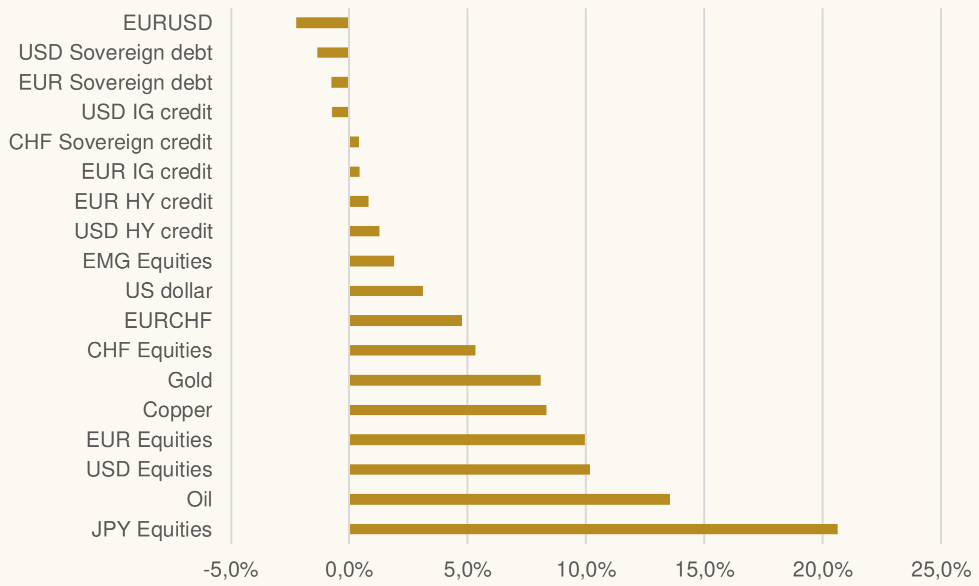
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 31/03/2024

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 31/03/2024
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

GDP growth in the eurozone is expected to remain sluggish in 2024 at 0.6%, leaving little room to avoid a recession. These low expectations are linked to the weakness of both domestic and foreign demand. The leading indicators for the eurozone (PMI on 21 March) for the month of March still show a dichotomy between services, which are in expansion territory and above expectations, and manufacturing, which is in contraction territory and below expectations. The ECB may cut rates for the first time in June.

EQUITY MARKETS

In March, equity markets **advanced** on both sides of the Atlantic, with **Europe** (Stoxx 600 Europe +3.7% in EUR over the month) **outperforming the United States** (S&P 500 +3.1% in USD), in contrast to January and February, **notably due to a slowdown in Tech** (Nasdaq 100 +1.2% in USD).

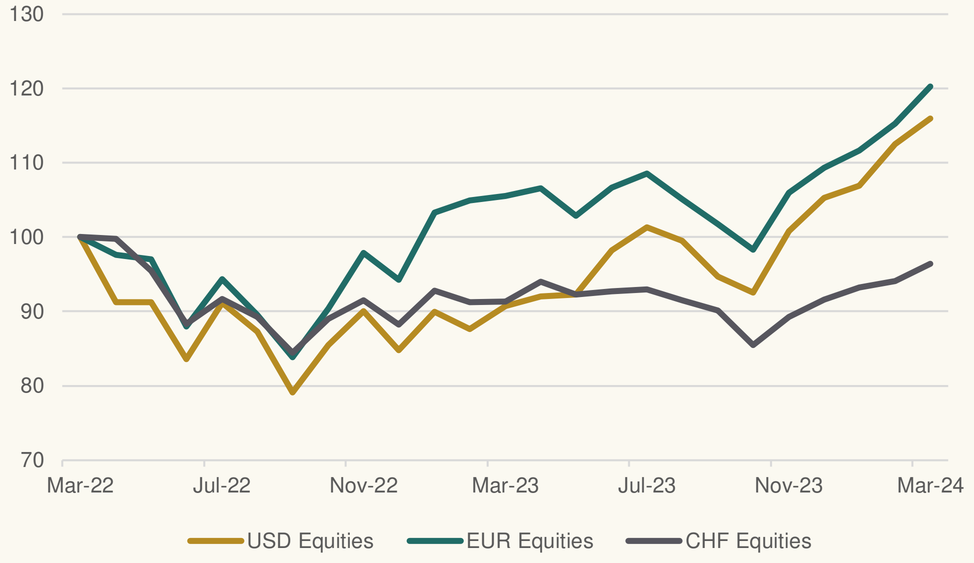
The earnings season ended on a reassuring note (64% positive surprises on sales and 73% on net earnings per share on the S&P 500), **though not an exceptional one**. On the macroeconomic front, the **divergence between a very dynamic United States** (with the FOMC raising its 2024 growth estimate from 1.4% to 2.1%) and an **almost-stagnating Europe was confirmed**. It is now a consensus view that the **ECB will begin its rate-cutting cycle before the Fed** (which helped European stocks to outperform in March).

MARCH SAW THE MOST CYCLICAL SECTORS OUTPERFORM

Sector-wise, **March saw the most cyclical sectors outperform**, notably **energy** (S&P 500 Energy +10.4%, Stoxx 600 Energy +6.3%), **basic materials** (S&P 500 Materials +6.2%, Stoxx 600 Basic Resources +5.7%) and **financial services** (S&P 500 Financials +4.7%, Stoxx 600 Financial services +4.3%). The **technology sector slowed** its increase (S&P 500 IT +1.9%, Stoxx 600 Technology +0.6%) after an extraordinary start to the year. Finally, there was a **marked divergence in the real estate sector**, with much stronger rise in Europe (Stoxx 600 Real Estate +7.4%) than in the United States (S&P 500 Real Estate +1.1%), which can be explained at least in part by the **better visibility on the pivot in Europe**.

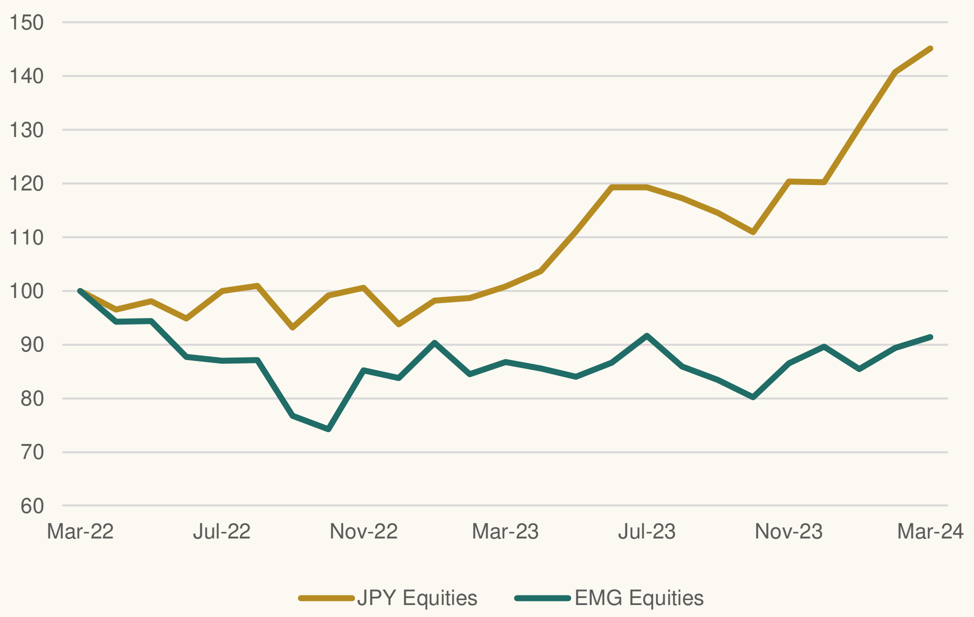
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/03/2024

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/03/2024
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BOND MARKETS

The end of the first quarter provides an opportunity to take stock of the bond market in 2024. As expected, **the trend in long-term yields was adverse during the first quarter**, with central banks remaining patient in the face of slow disinflation and soft landing scenario. The UST 10-year, at around 4.3%, is thus 40bp higher than at the end of 2023, and the yield on the 10-year Bund has risen by 30bp.

As June has become the consensus month for the first rate cut, we do not expect any major changes in April on this point. **The real change is in volatility**, which has been in a downtrend for the past month, with the Move index (the volatility indicator for Treasuries) ending the quarter at 86, compared with a peak of 125 for 2024 in the first quarter.

On the credit side, Q1 2024 was very dynamic, with spreads continuing the compression that began at the end of 2023 and the primary market regularly offering new opportunities.

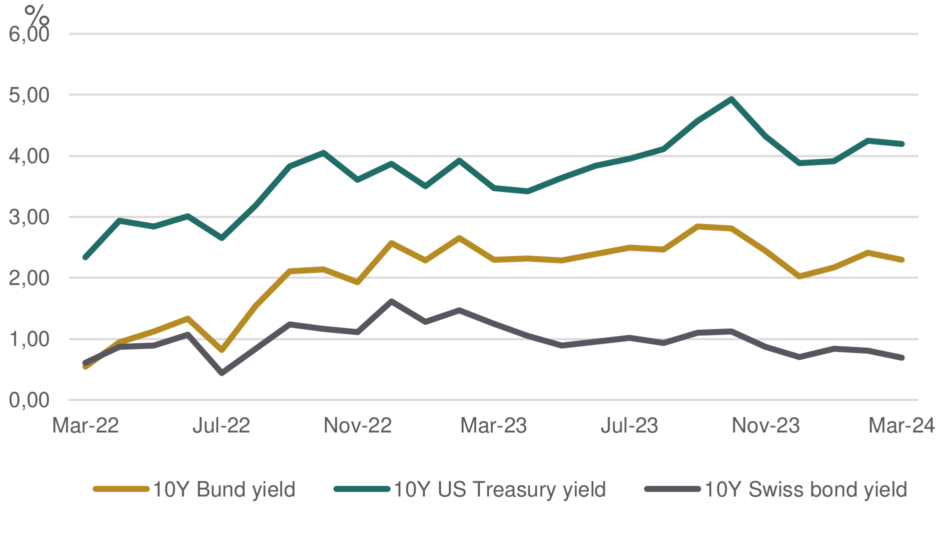
Credit spreads ended the quarter close to their annual lows: IG tightened by almost 20bp in Europe and 10bp in the US, while HY tightened by 40bp in Europe and 20bp in the US. This partly explains the outperformance of European credit in the first quarter.

On the primary market, appetite for IG corporate debt was particularly strong, with almost EUR115 billion issued (+33% yoy), the highest level since 2020 for a first quarter. Subordinated debt was also very dynamic, with EUR7 billion of hybrid corporate debts and EUR15 billion of Tier2 bank debts. Finally, it should be noted that the HY primary market was more dynamic than last year (EUR17 billion issued in Q1 2024), but is still a long way from pre-Covid standards.

In terms of performance, the subordinated debts grew the most, driven by AT1s, whose total return reached almost 4% over the first three months of the year. Conversely, the negative effect of duration impacted sovereigns and IGs on both sides of the Atlantic.

> CREDIT SPREADS ENDED THE QUARTER CLOSE TO THEIR ANNUAL LOWS

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 31/03/2024
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CURRENCIES

The dollar's structural strength has been undiminished since the second half of 2011. Although the dollar index has depreciated by 6.5% since the last quarter of 2022, this movement masks a 3.4% rebound since the start of the year, which includes a 0.4% strengthening in March. The dollar's strength is linked to the strength of the US economy, which is again moving away from recession in 2024.

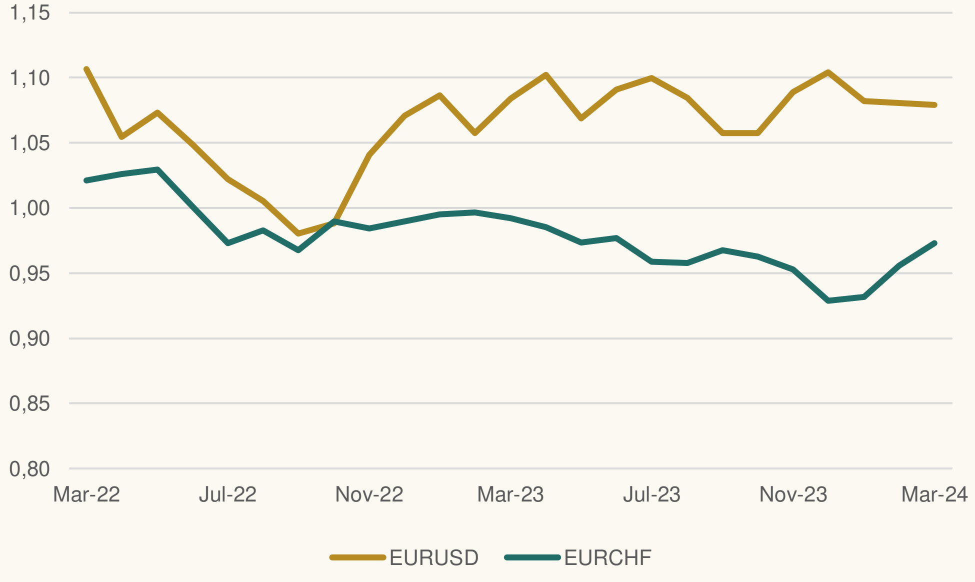
The Swiss franc suffered the most in March, falling by 2.2% against the US dollar and 2% against the euro. This depreciation is in line with the wishes of the Swiss National Bank that no longer needs a strong currency to fight imported inflation but has to cope with persistently weak domestic and foreign demand. The SNB was the first central bank to cut its key rate in March.

The yen's decline slowed slightly in March, with a fall of around 1% against both the dollar and the euro. Against the dollar, the yen depreciated by 6.4% in 2023 and by 7% since the start of the year. This movement has been only marginally affected by changes in monetary policy by the Bank of Japan, which has removed its negative interest rates, but has not abandoned its purchases of Japanese government bonds, the main factor weighing structurally on the yen since the start of Abenomics at the end of 2012.

As in February, **the EUR-USD was almost flat in March**, with an exchange rate of 1.08. Since the start of the year, the euro has depreciated against the dollar by 2.5%, which cancels out most of the appreciation of 2023. The good health of the US economy and a possible time lag between rate cuts by the Fed and the ECB could further weigh on the euro in the coming months.

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



Source: Bloomberg, 31/03/2024
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COMMODITIES

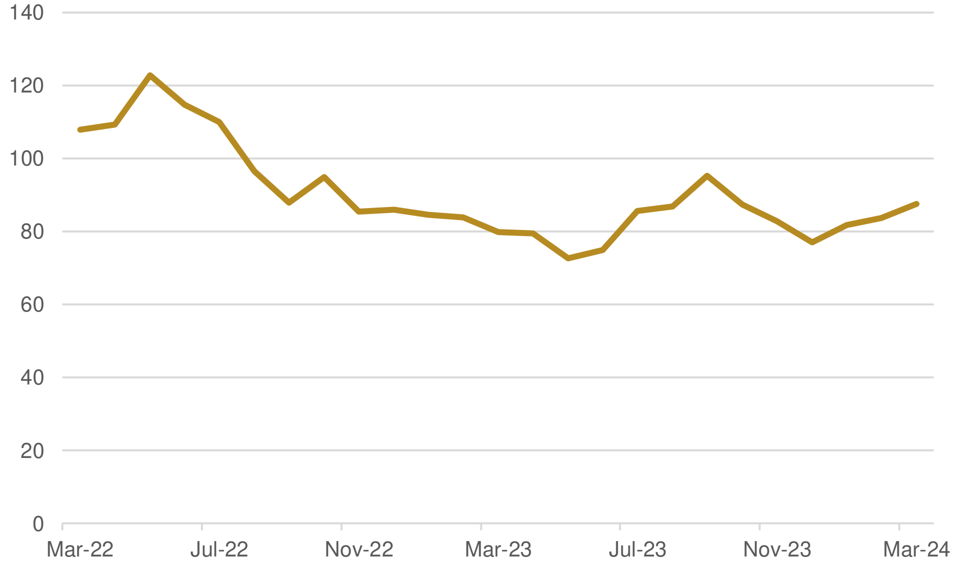
OIL

All commodities rose strongly in March. The price of Brent crude oil rose by 2.9% over the month to USD 87. The increase was even greater for New York WTI, which rose by 5.0%. Copper, for its part, rose by more than 4% to $8729/mt on the London market at the end of March. Although geopolitical tensions have remained high for more than two years, the rise in commodity prices is mainly due to the fading prospects of recession. In addition, the production quota policy pursued by OPEC + (Organisation of the Petroleum Exporting Countries and its allies, including Russia), aiming at limiting supply, is bearing fruit and helping to keep prices high.

Both economic and geopolitical environment are supporting commodity prices

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



Source: Bloomberg, 31/03/2024
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COMMODITIES

GOLD

Within our asset selection, the yellow metal rebounded the most strongly in March, rising by around 8% to above US$2,200 per ounce.

Conventional measures of gold's value cannot explain this rebound, as movements in the US dollar and real interest rates remained muted. At this stage, it is difficult to know whether this movement is linked more to investor buying, central bank buying or stronger jewelry demand. We will be monitoring the fundamentals of gold over the coming months.

In March, gold price posted the strongest increase of our asset selection

GOLD

EVOLUTION OVER 2 YEARS

Source: Bloomberg, 31/03/2024
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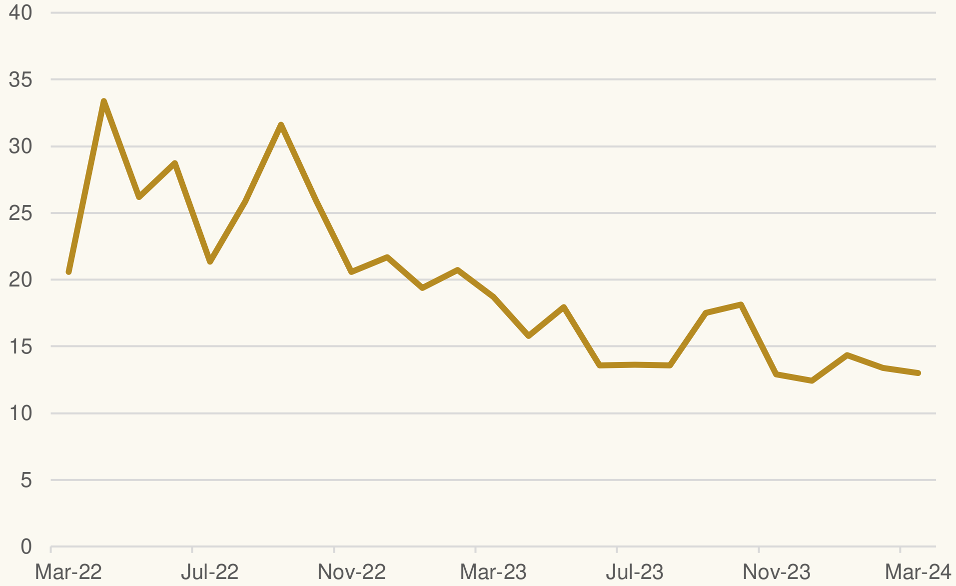
VOLATILITY

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



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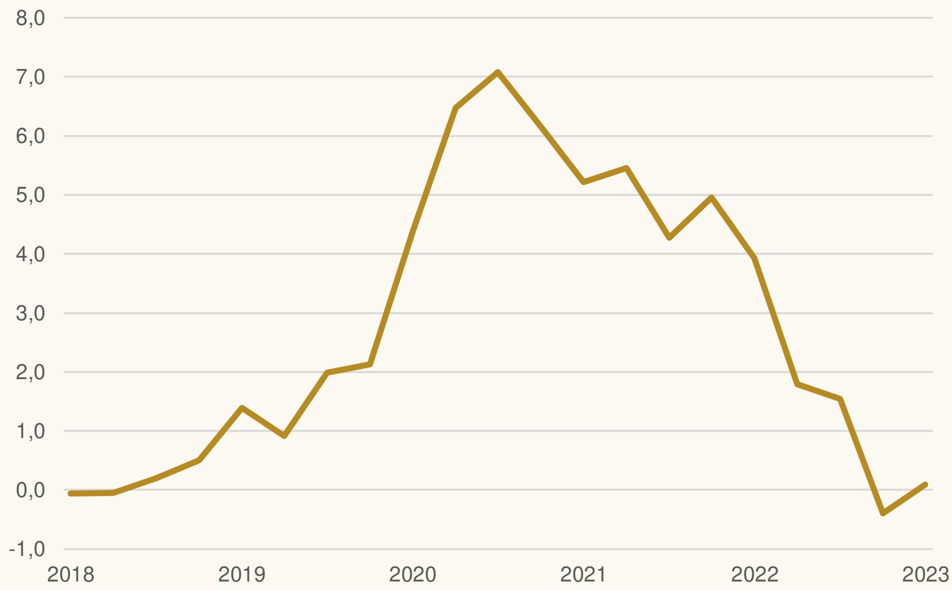
REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



Source: Bloomberg, 31/03/2024
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CALENDAR

Date	Country	Economic Data	Period	Previous
02 April	Eurozone	Markit Manufacturing PMI	Apr-24	45,7
	UK	Markit Manufacturing PMI	Apr-24	49,9
	Switzerland	Manufacturing PMI	Mar-24	44,0
03 April	US	ISM Non-Manufacturing Index	Mar-24	52,6
	Eurozone	Inflation (YoY)	Mar-24	2,6
	Eurozone	Unemployment Rate (%)	Feb-24	6,4
04 April	Eurozone	Markit Services PMI	Apr-24	51,1
	UK	Markit Services PMI	Apr-24	53,4
	Switzerland	Inflation (YoY)	Mar-24	1,2
05 April	US	Employment (000s)	Mar-24	275,0
	US	Unemployment Rate (%)	Mar-24	3,9
08 April	Germany	Industrial Production (MoM)	Feb-24	1,0
	Switzerland	Unemployment Rate (%)	Mar-24	2,2
10 April	US	Inflation (YoY)	Mar-24	3,2
	US	Fed minutes	Mar-25	
11 April	China	Inflation (YoY)	Mar-24	0,7
	Eurozone	ECB Interest Rate (%)	Apr-24	4,0
12 April	US	Consumer Confidence	Apr-24	79,4
	China	Exports (YoY)	Mar-24	5,6
	Japan	Industrial Production (MoM)	Mar-24	-0,1
15 April	Eurozone	Industrial Production (MoM)	Feb-24	-3,2
16 April	US	Industrial Production (MoM)	Mar-24	0,1
	China	Retail Sales (YoY)	Mar-24	7,4
	China	Real GDP (YoY)	Mar-24	5,2
	China	Industrial production (YoY)	Mar-24	7,0
	UK	Unemployment Rate (%)	Feb-24	3,9
17 April	UK	Inflation (YoY)	Mar-24	3,4
18 April	US	Philadelphia Fed Business Survey	Apr-24	3,2
23 April	Japan	Nikkei Manufacturing PMI	Apr-24	48,2
24 April	Germany	Ifo Business Climate	Apr-24	87,8
25 April	US	Real GDP (QoQ)	Mar-24	3,4
30 April	China	Caixin Manufacturing PMI	Apr-24	51,1
	Eurozone	Real GDP (QoQ)	Mar-24	0,0
	France	Real GDP (QoQ)	Mar-24	0,1
	Germany	Real GDP (QoQ)	Mar-24	-0,3
	Italy	Real GDP (QoQ)	Mar-24	0,2
	Switzerland	KOF Leading Indicator	Apr-24	101,5

LET'S TALK ABOUT IT.

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DISCLAIMER