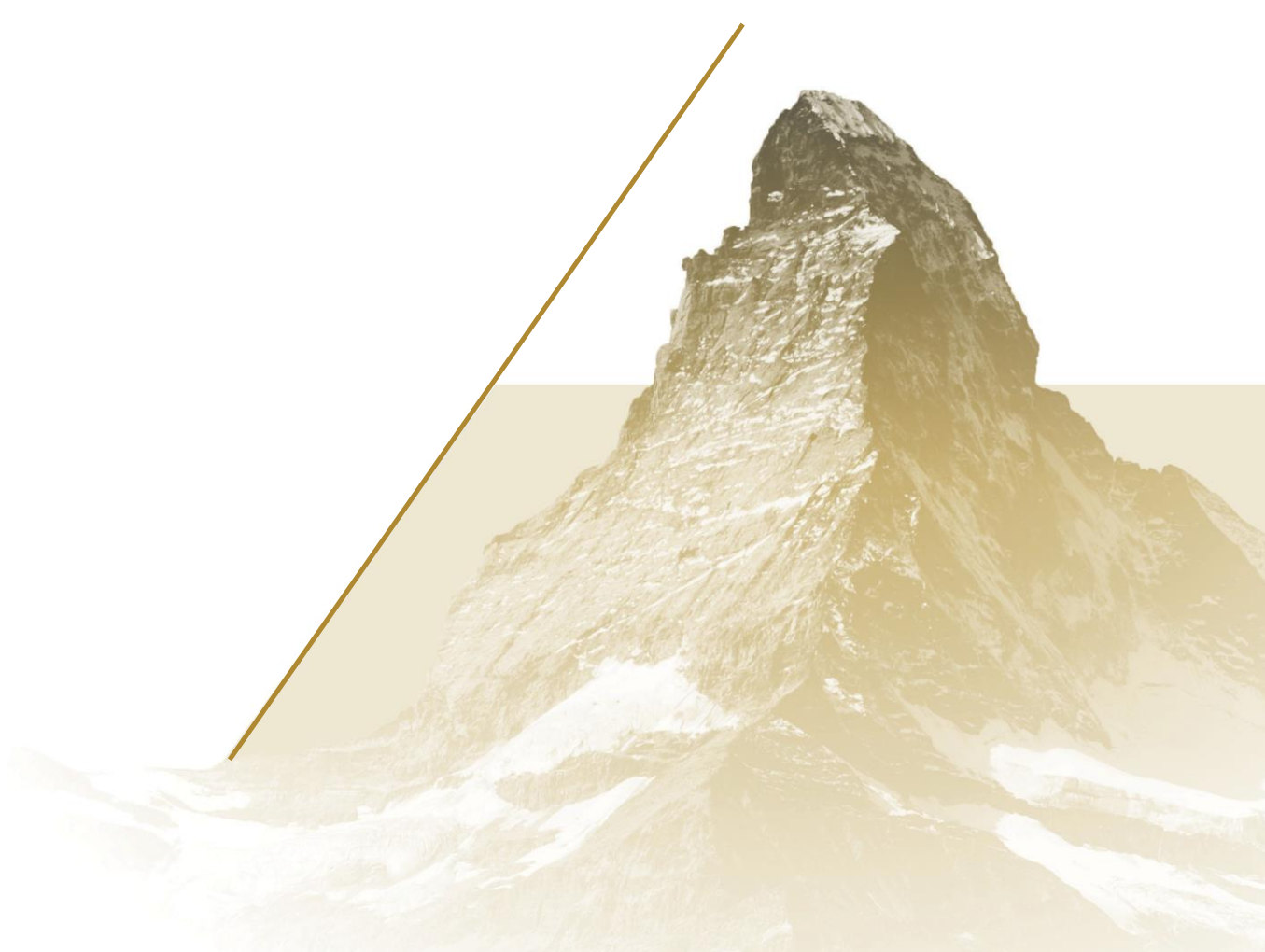


Investment letter

Monthly review of global financial markets



SWISS
CAPITAL^{IB}

May 2024

MACROECONOMICS

The US economy continued to show its strength in April. The leading indicators for March, both the manufacturing PMI and the ISM, published on April the 1st came out above 50, confirming a phase of expansion. The services component of these same indices, published on April the 3rd, confirmed the same trend.

The US job market is also proving robust. The JOLTS report on the 2nd of April showed only a very slight slowdown, with nearly 8.8 million job openings. **Non-farm payrolls in March came in at around 300,000**, higher than the previous month and economists' expectations.

On the other hand, **US inflation also remains high.** On April 10, the consumer price index came out at 3.5% for March, higher than the February figure. The first estimate of the GDP deflator for the first quarter of 2024, published on April 25, came in well above expectations at 3.1%. **Strong economic growth and inflation have prompted the US Federal Reserve to postpone its first rate cut until the second half of the year**, as pre-announced by Jerome Powell in a speech on April 16. The market is now anticipating one or two rate cuts in 2024, the first of which could take place in September.



INFLATION A LITTLE MORE PERSISTENT EXCEPT IN CHINA

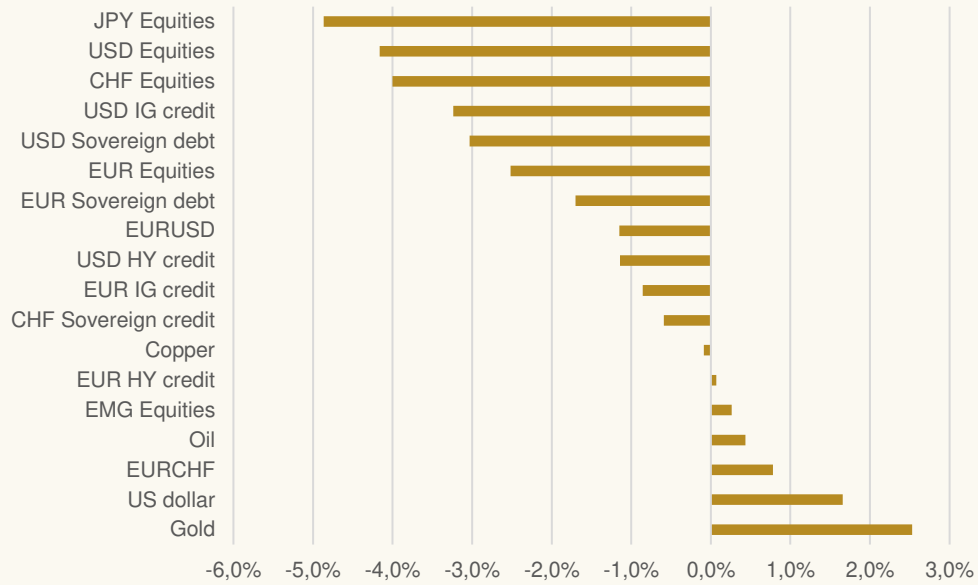
In the eurozone, the European Central Bank kept its refinancing rate unchanged at 4.5% on April 11, but its speech opens the way for a first rate cut in June. There is still a dichotomy in the eurozone economy between manufacturing, with the first leading indicators for April in contraction phase and worse than expected, and services, in expansion phase and better than expected, following the Markit PMI publications of April 23. **The strength of the services sector nonetheless led to an initial estimate of first-quarter GDP growth in the eurozone of 0.4%**, above economists' expectations. Eurozone inflation for April came in at 2.4%, in line with expectations and on a par with March.

Swiss inflation continued to fall in March, to 1% after 1.2% in February. This validates the SNB's decision to cut rates before the other main central banks.

In Japan, March inflation, published on April 19, was marginally down from February at 2.7%, with inflation excluding food and energy also close to this level. Japan's leading economic indicators are broadly stable, as is the unemployment rate at 2.6%. **The main change in Japan in April was the Bank of Japan's intervention to halt the fall in the yen**, which hit an all-time low against the dollar. We believe that as long as the Bank of Japan does not change its ultra-accommodative monetary policy and the Fed does not cut rates, the downward pressure on the yen should remain.

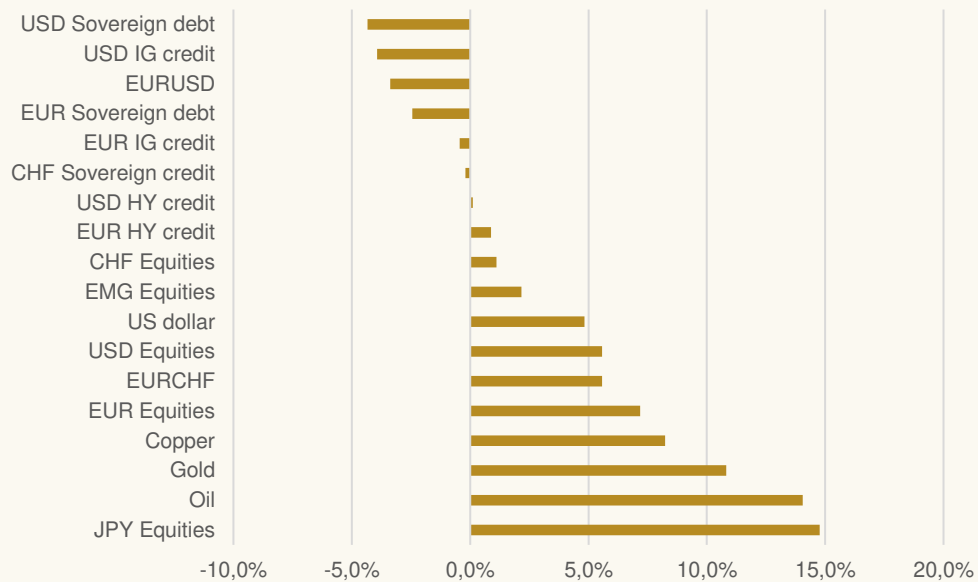
OVERVIEW

MAIN ASSET CLASSES MONTHLY PERFORMANCE



Source: Bloomberg, 30/04/2024

MAIN ASSET CLASSES PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 30/04/2024

Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

In China, GDP growth published on April 16 showed stable growth at 5.3%, above economists' expectations. On the other hand, the stable Chinese consumer price index published on April 11 proved to be much lower than in February. Unlike most other countries, **China does not have an inflation problem, but rather a deflation risk.**

EQUITY MARKETS

In April, **equity markets declined on both sides of the Atlantic**, notably due to rising geopolitical tensions in the Middle East (with attacks from Iranian territory on Israel).

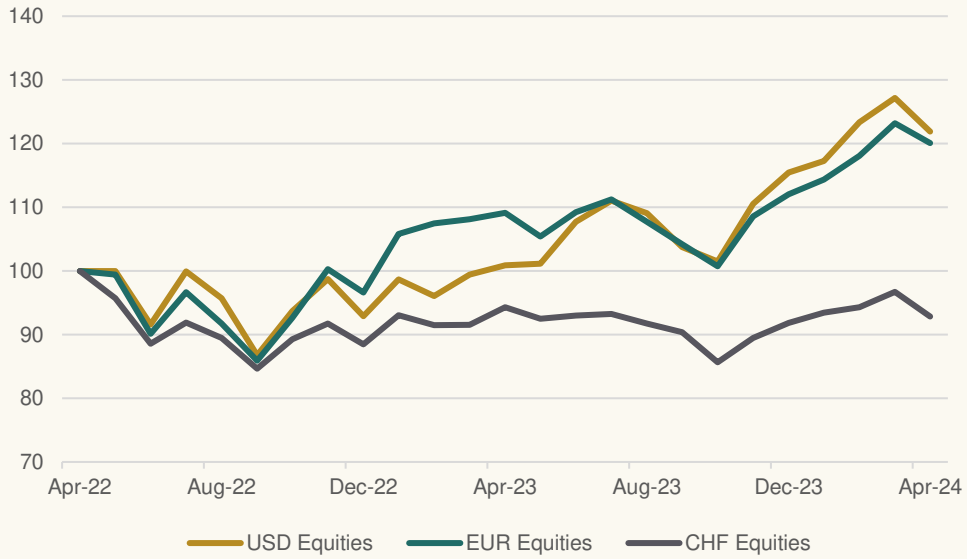
Europe (Stoxx 600 Europe -1.5% in EUR) **significantly outperformed the United States** (S&P 500 -4.2% in USD) during the downturn. The main explanatory factor is the **persistence of inflation in the United States** (the Core CPI for March was published at the beginning of the month at 3.8%), which is driving the market to constantly revise downwards the number of rate cuts expected in 2024 and to push back the timing of the first cut. This factor is weighing even more heavily on growth stocks (Nasdaq 100 down -4.5% in USD over the month).

TECHNOLOGY AND
REAL ESTATE
UNDERPERFORMED
DUE TO THEIR
SENSITIVITY TO
INTEREST RATES

Sector-wise, **performance was much more uniform in April** than in the previous month. Utilities fared well (S&P 500 Utilities +1.6%, Stoxx 600 Utilities +0.5%), while other sectors posted declines. **Among the worst performers were technology** (S&P 500 IT -5.5%, Stoxx 600 Technology -4.5%), whose "high duration" profile makes it particularly sensitive to rising interest rates, and real estate, which is sensitive to the same factor due to its high debt level. Logically, performance was less poor in Europe (Stoxx 600 Real Estate -2.3%) than in the United States (S&P 500 Real Estate -8.6%).

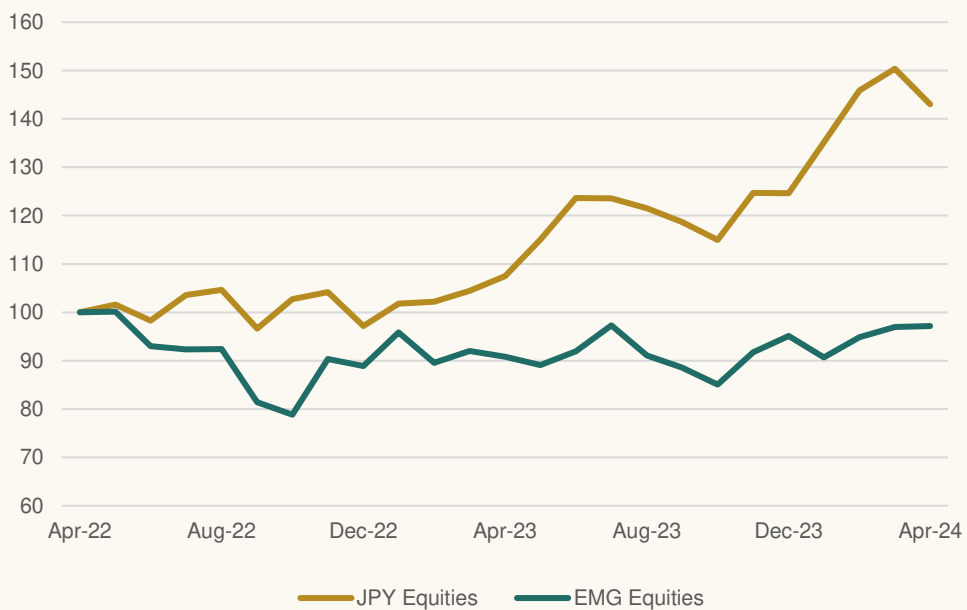
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/04/2024

EQUITY MARKETS JAPAN – EMERGING MARKETS PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/04/2024
Past performance is not indicative of future performance

BOND MARKETS

April was marked by an uptrend in long-term yields in Europe and the USA, due in particular to much higher-than-expected inflation in the US. The 10-year UST came close to 4.7% (up 45bp over the month) and lost around 4.0% in performance over April. It dragged down the 10-year Bund (even though Europe confirmed its disinflation in April), and the IG segment, which is structurally high in duration.

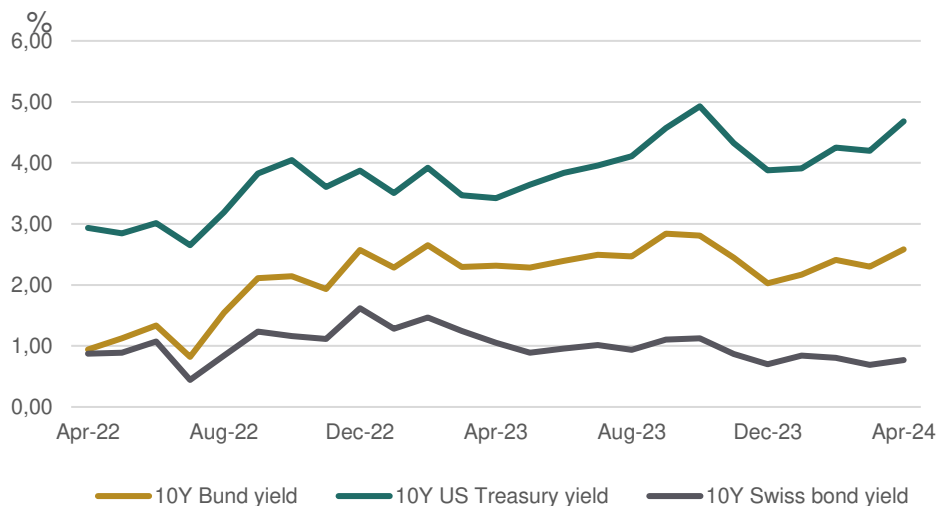
The US inflation figure for March was clearly a game changer for the Fed, which is giving itself time to make its first 25bp cut, potentially in September, but more likely in Q4 2024. These new uncertainties rekindled volatility in Treasuries, with the Move index rebounding from 85 to 110. It should be noted that the ECB's timetable remains unchanged, as the latest inflation figures and wages survey validate the possibility of cutting rates before its US counterpart.

On the credit side, April saw little change in spreads, apart from an underperformance of the lowest ratings (decompression) due to the risks of restructuring the most heavily indebted issuers (Boparan is a new candidate on the list of debt restructurings, as is Lowell). However, appetite for yield remains high, and the primary market has had no trouble finding its audience, helped by globally reassuring Q1 results. HY issuers, which had a programme to refinance their 2025 and 2026 debt, saw an increase in issuance. Therefore, the battle for the debt wall seems to have been won, even though average interest costs have risen sharply over the past year.



THE US INFLATION FIGURE FOR MARCH WAS CLEARLY A GAME CHANGER FOR THE FED

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/04/2024
Past performance is not indicative of future performance

CURRENCIES

The dollar's structural strength has not wavered since the second half of 2011. Although the Dollar Index has depreciated by 6.3% since the last quarter of 2022, this masks a 3.6% rebound since the start of the year, including a 1.6% increase in April. The dollar's strength is linked to the strength of the US economy.

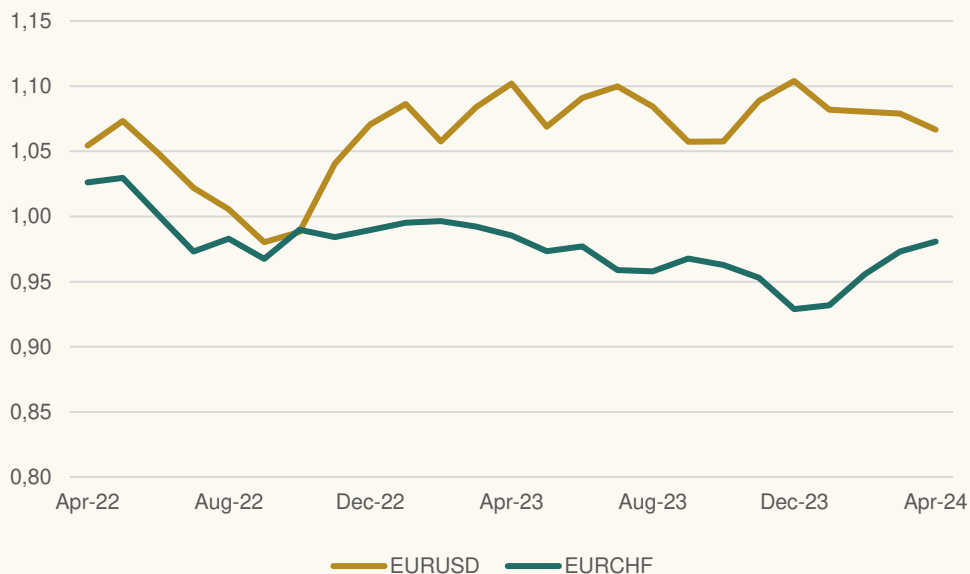
The Swiss franc continued to fall in April, dropping 1.8% against the US dollar. This movement is in line with the Swiss National Bank's decision to cut rates ahead of other central banks. Indeed, the SNB no longer needs a strong franc to fight imported inflation, but has to cope with persistently weak domestic and foreign demand. Swiss inflation continued to fall in March, to 1% after 1.2% in February.

The yen's fall accelerated in April, reaching -3.8% against the dollar. The yen hit an all-time low against the dollar of around 159 during the day on April 29, prompting the Bank of Japan to intervene to halt the fall. Although the yen has strengthened slightly since then, it remains historically low. The BoJ's ultra-accommodative monetary policy and the time lag in the Fed's rate cut could further weigh on the yen.

The EUR-USD pair has remained in a fairly narrow channel since the beginning of 2023, with an exchange rate of 1.07 at the end of April. Since the start of the year, the euro has depreciated against the dollar by 2.6%, cancelling out most of the appreciation of 2023. The health of the US economy and the potential time lag between Fed and ECB rate cuts will be factors to watch over the coming weeks.

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



Source: Bloomberg, 30/04/2024
Past performance is not indicative of future performance

COMMODITIES

OIL

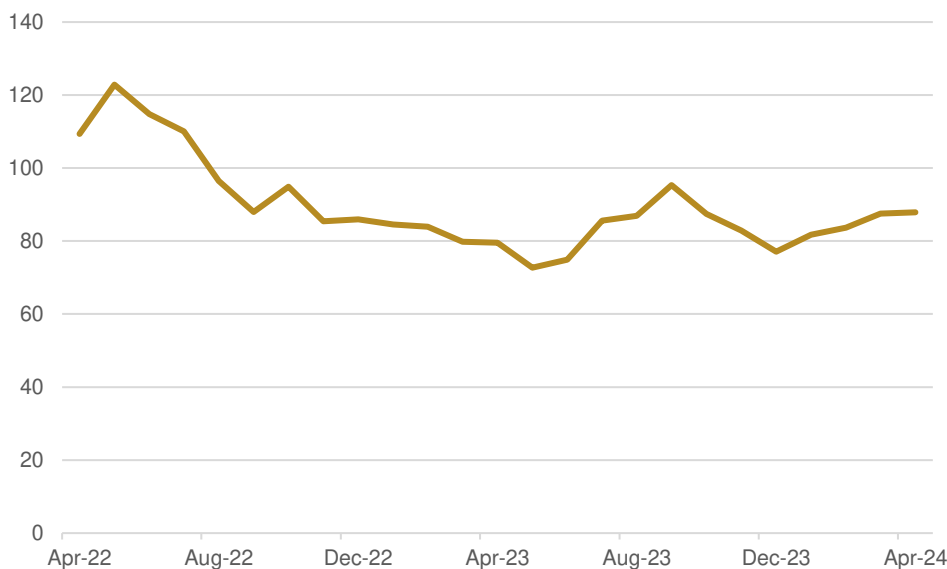
On the crude oil front, Brent crude treaded water in April, while WTI consolidated by 2.5%. As oil supply-demand is close to equilibrium, any change in either has an impact on the equilibrium price. This also shows the relevance of OPEC quotas in maximizing the revenues of producing countries.



Supply and demand for crude oil are close to equilibrium, the price of crude is moving in a fairly narrow channel

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS

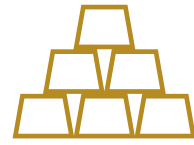


Source: Bloomberg, 30/04/2024
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COMMODITIES

GOLD

Precious and non-precious metals continued their upward trend in April. In April, the strongest rise among raw materials was for iron ore, which regained almost 15%, cushioning its decline since the start of the year. Otherwise, copper continued its upward trend, gaining 14% in April, while gold and silver advanced by 2.9% and 8.6% respectively. Economic growth and persistent inflation are generally supportive factors for metals. Geopolitical tensions and continued gold purchases by central banks, particularly in Asia, to further free themselves from the dollar, are important factors supporting the gold price. In the case of copper, long-term demand remains buoyant due to electrification needs and the energy transition, while a supply shortfall in 2024 is putting pressure on prices.



The economic and geopolitical environment supports metals, both precious and industrial

GOLD

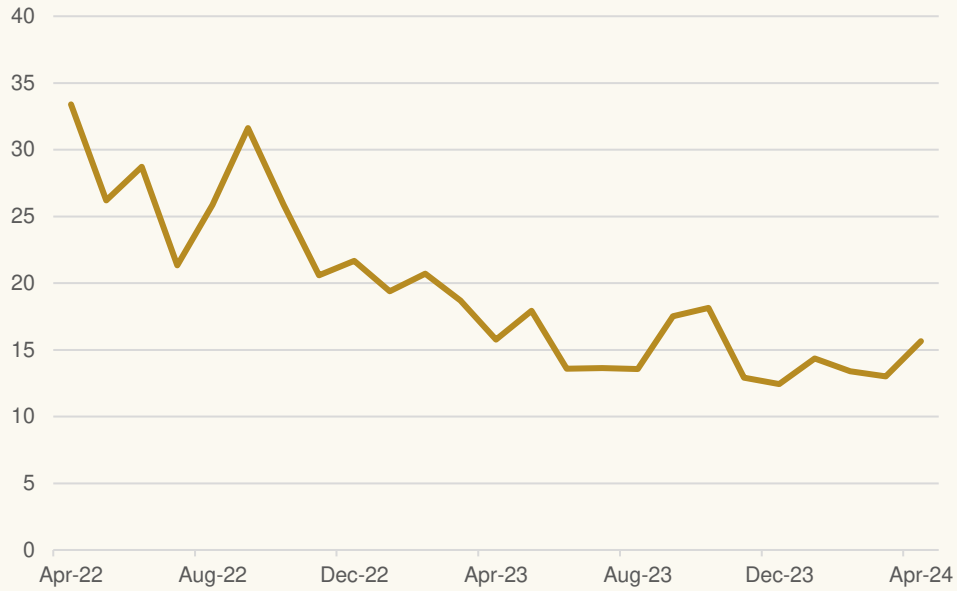
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/04/2024
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VOLATILITY

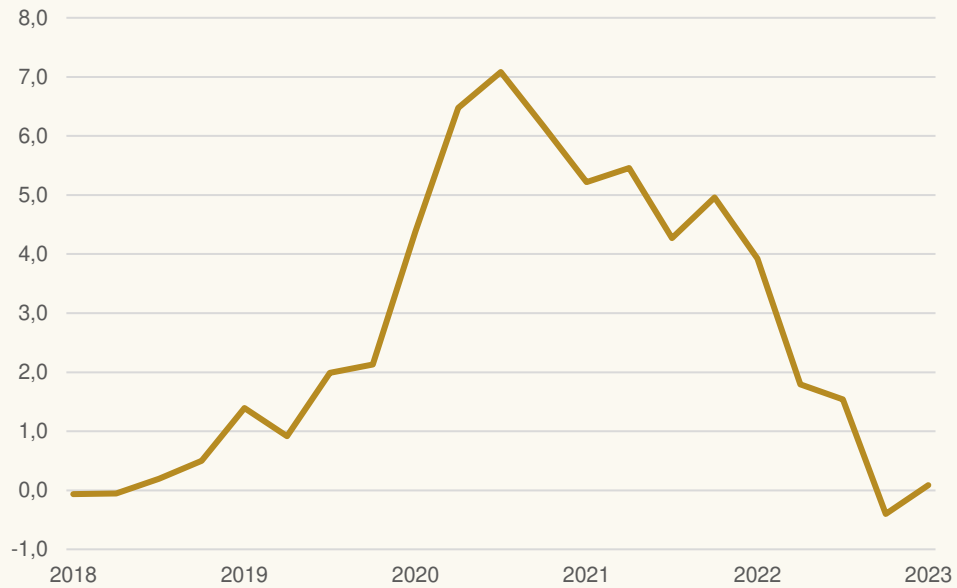
VOLATILITY – VIX INDEX EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/04/2024
Past performance is not indicative of future performance

REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE ANNUAL PRICE CHANGE



Source: Bloomberg, 30/04/2024
Past performance is not indicative of future performance

CALENDAR

Date	Country	Economic Data	Period	Previous
01 May	US	Federal Reserve Interest Rate (%)	Apr-24	5,5
	US	Manufacturing PMI	Apr-24	47,8
	UK	Markit Manufacturing PMI	May-24	50,3
	Japan	Nikkei Manufacturing PMI	May-24	48,2
02 May	Eurozone	Markit Manufacturing PMI	May-24	45,6
	Switzerland	Manufacturing PMI	Apr-24	45,2
	Switzerland	Inflation (YoY)	Apr-24	1,0
03 May	US	Employment (000s)	Apr-24	303,0
	US	Unemployment Rate (%)	Apr-24	3,8
	US	ISM Non-Manufacturing Index	Apr-24	51,4
	Eurozone	Unemployment Rate (%)	Mar-24	6,5
	UK	Markit Services PMI	May-24	54,9
06 May	Eurozone	Markit Services PMI	May-24	52,9
07 May	Switzerland	Unemployment Rate (%)	Apr-24	2,3
08 May	Germany	Industrial Production (MoM)	Mar-24	2,1
09 May	China	Exports (YoY)	Apr-24	-7,5
	UK	Bank of England Interest Rate (%)	May-24	5,3
10 May	US	Consumer Confidence	May-24	77,2
	UK	Real GDP (QoQ)	Mar-24	-0,3
11 May	China	Inflation (YoY)	Apr-24	0,1
14 May	UK	Unemployment Rate (%)	Mar-24	4,2
15 May	US	Inflation (YoY)	Apr-24	3,5
	Eurozone	Industrial Production (MoM)	Mar-24	0,8
	Eurozone	Employment (QoQ)	Mar-24	0,3
	US	Industrial Production (MoM)	Apr-24	0,4
	US	Philadelphia Fed Business Survey	May-24	15,5
	Japan	Real GDP (QoQ)	Mar-24	0,4
	17 May	China	Retail Sales (YoY)	Apr-24
	China	Industrial production (YoY)	Apr-24	6,1
	France	Unemployment Rate (%)	Mar-24	7,5
22 May	US	Fed minutes	Mar-25	
	UK	Inflation (YoY)	Apr-24	3,2
27 May	Germany	Ifo Business Climate	May-24	89,4
30 May	US	Real GDP (QoQ)	Jun-24	1,6
	Switzerland	Real GDP (QoQ)	Mar-24	0,3

LET'S TALK ABOUT IT.

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