Investment letter

Monthly review of global financial markets

July 2024

MACROECONOMICS

The surprises measured by the Citigroup index point to a slight deterioration in the US economy. While the manufacturing PMI released on 3 June was better than expected and in the expansion phase, the ISM manufacturing index provided the opposite picture.

Job vacancies (JOLTS reports released on 4 June for the month of April) **continued to decelerate to just over 8 million but remain at a high level**. The fall is proving to be just a little faster than economists had been expecting for several months. However, this has not yet been reflected in the job market, as non-farm payrolls rebounded from 165,000 in April to 27,2000 in May, well above economists' expectations.

US inflation remains at relatively high levels for a year and fell only marginally in May to 3.3%. The GDP deflator for the first quarter came out slightly above expectations at 3.1% on June 27th. Expectations are now that the Fed will not cut rates before December.

> WITH INFLATION STILL ABOVE 3%, THE FED IS UNLIKELY TO CUT ITS KEY RATE BEFORE DECEMBER.

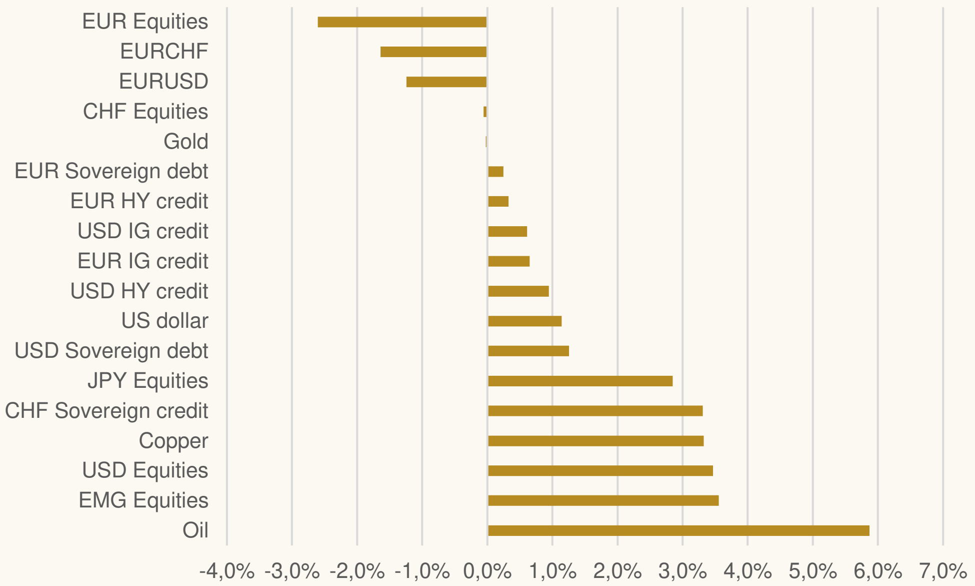
In the eurozone, GDP growth for the first quarter was confirmed at 0.4%, and the leading indicators released on 21 June fell short of economists' expectations, with services continuing to expand and manufacturing contracting further. Against this backdrop, the ECB cut its refinancing rate by 25 basis points to 4.25% on 6 June.

The UK did not cut its rates in June, maintaining them at 5.25%. Core inflation for May, at 3.5% (year-on-year) released on 19 June, showed a fall in line with economists' expectations, paving the way for future rate cuts.

The SNB surprised investors by cutting its key rate by 25 basis points on 20 June to 1.25%, the second rate cut by the SNB in the first half of the year. Inflation in Switzerland in April and May was around 1.4%, within the range targeted by the SNB to guarantee price stability, so we can expect a pause in the current cycle of rate cuts over the next few months, while the KOF leading indicator improved in May.

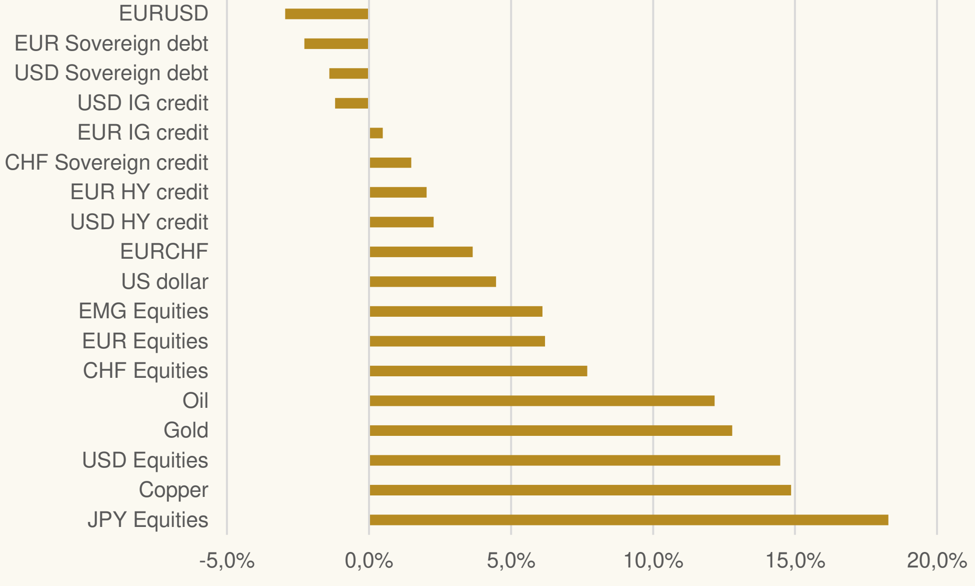
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 30/06/2024

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 30/06/2024
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

The Bank of Japan is keeping rates unchanged at 0.1%. Inflation figures released on 21 June were slightly above expectations at 2.8%, and clearly above the 2% target set by the BoJ in 2013 at the start of Abenomics. The leading indicators show a phase of expansion in both services and manufacturing, even though GDP contracted in the first quarter.

China, for its part, remains very close to deflation, with inflation in April and May stable at 0.3%, while the leading indicators are showing a phase of economic expansion. China's exports rose by 7.6% in May, a sharp acceleration relative to April and above economists' expectations.

EQUITY MARKETS

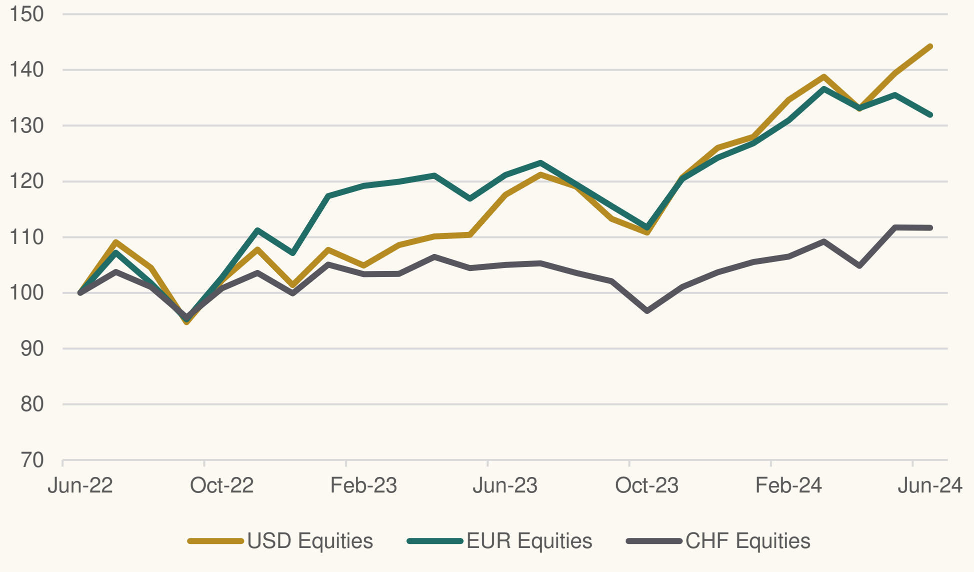
STRONG UNDERPERFORMANCE OF EUROPEAN MARKETS DUE TO THE RETURN OF RISK OF FINANCIAL FRAGMENTATION IN THE EUROZONE.

Equity markets experienced an exceptional configuration in June, with **strong gains for US indices** (S&P 500 +3.5%, Nasdaq 100 +6.2% in USD), while at the same time **European indices decreased** (Stoxx Europe 600 -1.3% in EUR). This trend divergence is due to the **renewed perception of the risk of financial fragmentation in the Eurozone** linked to the political situation in France following the dissolution of the French National Assembly. The markets' fear lies in the possibility of worsening public deficits which could worsen France's borrowing conditions, should the RN or Nouveau Front Populaire rise to power. Against this backdrop, the French market clearly underperformed its European peers (-6.4% in EUR), dragging down markets in countries perceived as financially fragile such as Italy (FTSE MIB -3.9% in EUR).

In terms of sectors, the **ones that suffered the most in Europe were**: **banks** (Stoxx 600 Europe Banks -4.4% in EUR) sensitive to the risk of financial fragmentation, **real estate** (Stoxx 600 Europe Real Estate -3.8%) sensitive to interest rates, **utilities** (Stoxx 600 Europe Utilities -3.5%), closely linked to governments, and **industry** (Stoxx 600 Europe Industrial Goods & Services -3.4%), particularly cyclical. In the United States, technology continued its exceptional run, as evidenced by as shown by the Nasdaq 100's further outperformance of the S&P 500 (+6.2% vs +3.5% in USD over the month).

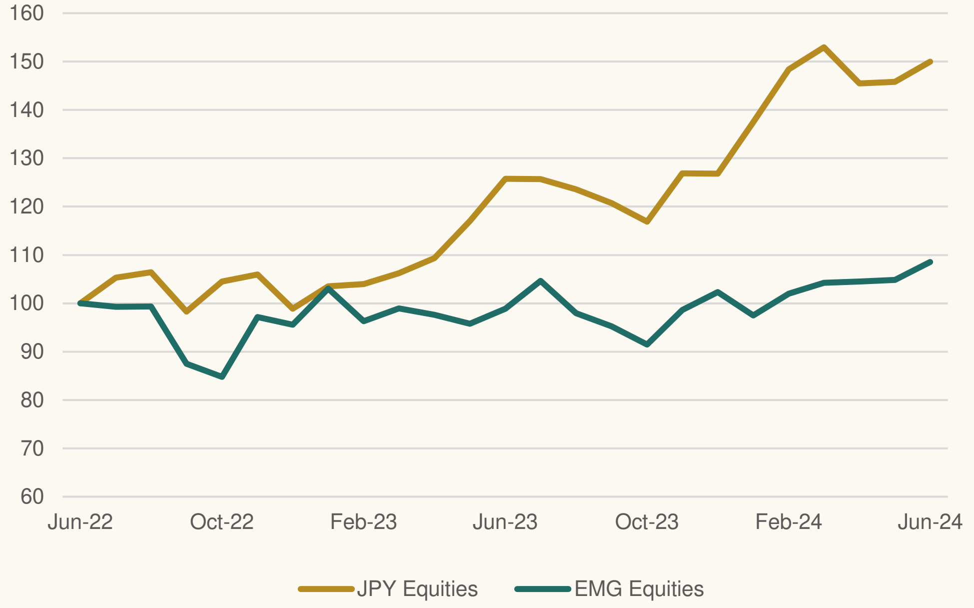
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/06/2024

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



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BOND MARKETS

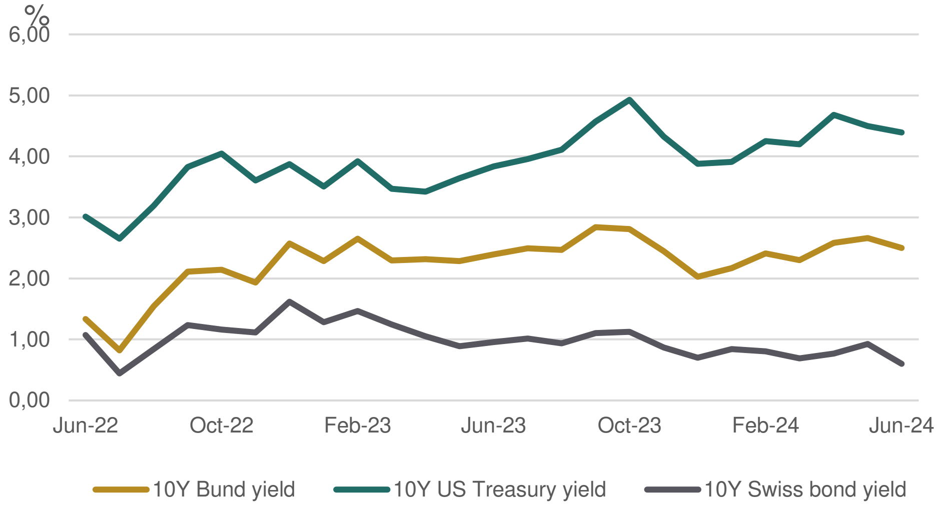
US interest rates fell by 10bps in June, ending the month at 4.4%. While macro indicators showed that disinflation seemed to be starting to take hold in the US, the level is still far from satisfying the FED's requirements, hence the still very *hawkish* rhetoric of several FOMC members. The market has put an option on a first cut in September, but a shift to December remains a serious option, especially with the possibility of a further cut in January 2025. In addition to a slight easing in indicators, the first Biden / Trump televised debate seems to have given the Republican party a considerable advantage.

In Europe, the 10y Bund outperformed in June, with yields down 16bp. The movement could have been more pronounced had it not been for a rise in activity indicators (PMI) and a resurgence of financial fragmentation risks (French elections). The spreads on OAT 10y and BTP 10y bonds had risen to 80bp and 157bps respectively by the end of June. However, the Bund remains attractive at these levels, with a *bear steepening* curve move at the end of the month.

On the credit side, the announcement of the dissolution of France's National Assembly led to a significant widening of cash and CDS spreads. The European IG spread has risen from 108bp to 120bp, while the HY spread climbed to 370bp. As spreads have fared much better in the US, **we think it's worth taking advantage of the 30bp transatlantic *pick-up* in IG and almost 60bp in HY, especially as European fundamentals have not wavered**. Unsurprisingly, and given the negative impact of duration in the first half of the year, sovereigns and IG performed poorly in H1. In our view, we should continue to play the segments with the greatest carry (subordinated segments), bearing in mind that the duration effect should be neutral to positive in H2 2024.

> US INTEREST RATES FELL BY 10BPS IN JUNE, ENDING THE MONTH AT 4.4%.

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



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CURRENCIES

The dollar's structural strength has been undiminished since the second half of 2011. Since then, the greenback has tended to consolidate flat, unlike previous cycles, which were much more pronounced. Since the start of the year, the dollar index has appreciated by 4.5%, including the 1.2% rise in June. The rise in 2024 more than made up for the 2.1% fall in 2023.

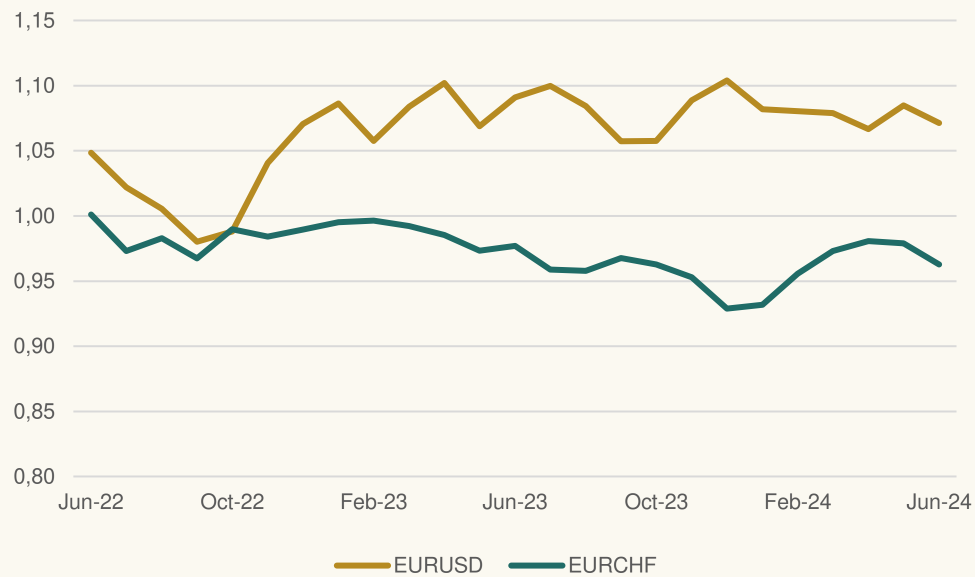
In June, the Swiss National Bank took investors by surprise and cut its key rate for the second time in 2024 by 25 basis points. **With the return of political risk in Europe following the French elections, the Swiss franc regained some of its safe-haven status**, appreciating by 2.8% against the euro in June, mitigating the 3.5% depreciation against the euro in the first half of 2024.

After rebounding slightly in May, the yen resumed its downward trend, reaching 161 against the US dollar at the end of June. The stabilisation in May had been achieved at the cost of intense intervention on the foreign exchange market by the Bank of Japan. The yen is likely to remain weak as long as the Bank of Japan continues its highly accommodative monetary policy and the Fed's rate-cutting cycle does not get underway.

The EUR-USD pair has continued to move in a fairly narrow channel since the start of 2023, with an exchange rate of 1.07 at the end of June, even though the ECB's rate cut in June was the source of a little more volatility in the exchange rate, which was hardly moving at all before. Since the start of the year, the euro has depreciated against the dollar by 3%. The strength of the US economy and geopolitical tensions are tending to favour the dollar against the euro.

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



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COMMODITIES

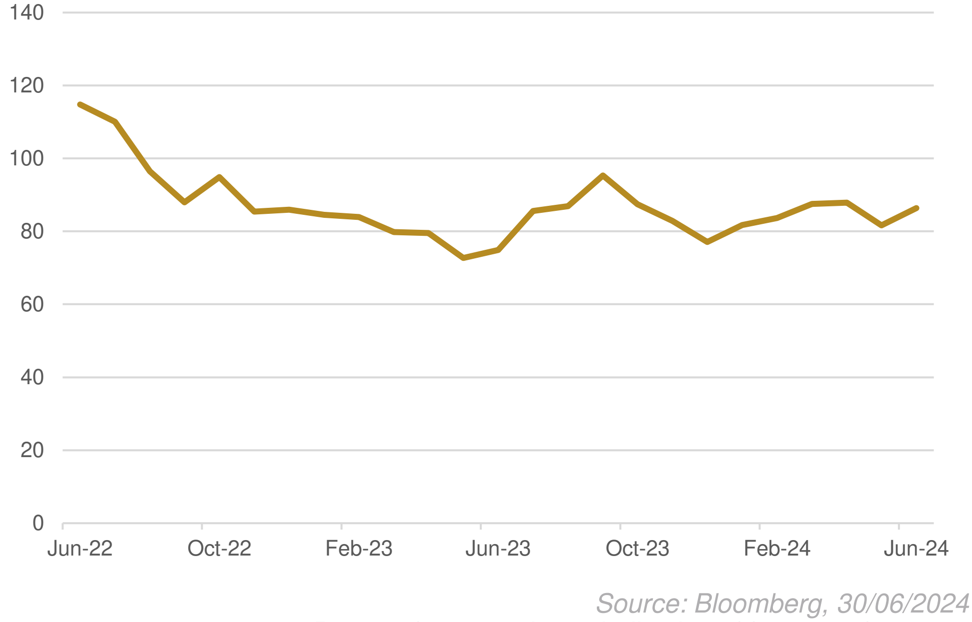
OIL

Commodities underwent a correction, while crude oil rebounded in June, 8.8% for Brent and 6.2% for WTI, enabling oil to erase May's correction. Oil is benefiting from favourable seasonality, although without further production restrictions, supply is likely to exceed demand by the end of the year, which could once again weigh on prices.

Crude oil prices rebound in June.

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



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COMMODITIES

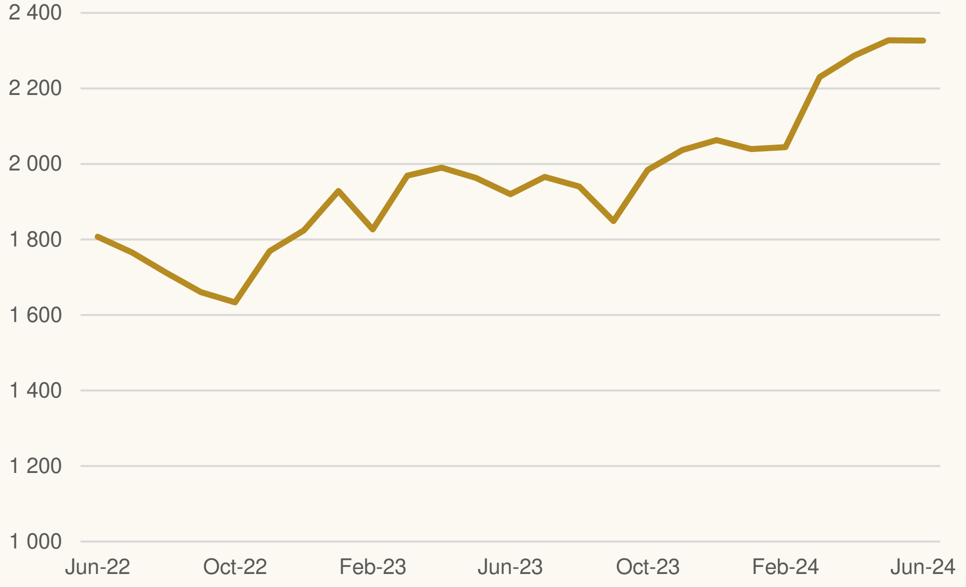
GOLD

The correction in commodity prices has also weighed on precious metals. During this correction, gold proved more resilient than silver: in June, gold fell by just 30 basis points, while silver shed 6.1%. Despite this correction, silver posted the best H1 performance of the assets we track, up 23.5%. The price correction took place at a time when speculative positions, which had risen sharply since the start of the year, have partly returned to normal. Over time, we prefer gold, which, unlike silver, benefits from the attraction of central banks. Geopolitical risk remains a factor supporting the price of gold.

The price of silver corrected in June, while gold proved more resilient, but in the first half of the year silver posted the best performance.

GOLD

EVOLUTION OVER 2 YEARS



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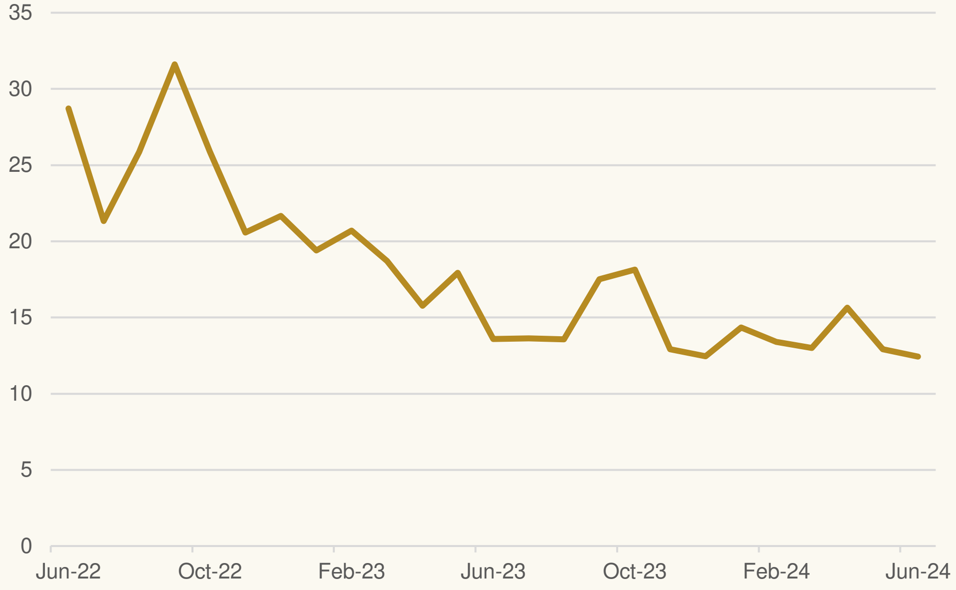
VOLATILITY

VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



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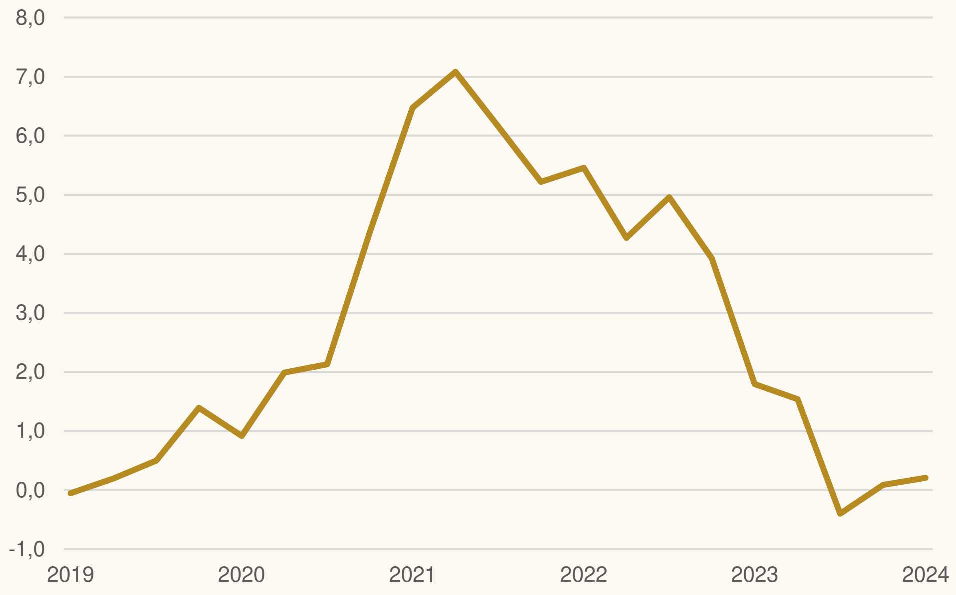
REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



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CALENDAR

Date	Country	Economic Data	Period	Previous
01 July	US	Manufacturing PMI	Jun-24	49,2
	China	Caixin Manufacturing PMI	Jul-24	51,7
	Eurozone	Markit Manufacturing PMI	Jul-24	45,6
	UK	Markit Manufacturing PMI	Jul-24	51,4
	Japan	Nikkei Manufacturing PMI	Jul-24	50,1
	Switzerland	Manufacturing PMI	Jul-24	46,4
02 July	Eurozone	Inflation (YoY)	Jun-24	2,6
	Eurozone	Unemployment Rate (%)	May-24	6,4
03 July	US	ISM Non-Manufacturing Index	Jun-24	53,8
	US	Fed minutes	Mar-25	
	Eurozone	Markit Services PMI	Jul-24	52,6
	UK	Markit Services PMI	Jul-24	51,2
04 July	Switzerland	Unemployment Rate (%)	Jun-24	2,4
	Switzerland	Inflation (YoY)	Jun-24	1,4
05 July	US	Employment (000s)	Jun-24	272,0
	US	Unemployment Rate (%)	Jun-24	4,0
	Germany	Industrial Production (MoM)	May-24	-0,1
10 July	China	Inflation (YoY)	Jun-24	0,3
11 July	US	Inflation (YoY)	Jun-24	3,3
12 July	US	Consumer Confidence	Jul-24	68,2
	China	Exports (YoY)	Jun-24	7,6
	Japan	Industrial Production (MoM)	Jun-24	2,8
15 July	China	Retail Sales (YoY)	Jun-24	3,7
	China	Real GDP (YoY)	Jun-24	5,3
	China	Industrial production (YoY)	Jun-24	6,2
	Eurozone	Industrial Production (MoM)	May-24	-0,1
17 July	US	Industrial Production (MoM)	Jun-24	0,7
	UK	Inflation (YoY)	Jun-24	2,0
18 July	US	Philadelphia Fed Business Survey	Jul-24	1,3
	Eurozone	ECB Interest Rate (%)	Jul-24	3,8
	UK	Unemployment Rate (%)	May-24	4,4
25 July	US	Real GDP (QoQ)	Jun-24	1,4
	Germany	Ifo Business Climate	Jul-24	88,6
30 July	Eurozone	Real GDP (QoQ)	Jun-24	0,3
	France	Real GDP (QoQ)	Jun-24	0,2
	Germany	Real GDP (QoQ)	Jun-24	0,2
	Italy	Real GDP (QoQ)	Jun-24	0,3
	Switzerland	KOF Leading Indicator	Jul-24	102,7
31 July	US	Federal Reserve Interest Rate (%)	Jul-24	5,5

LET'S TALK ABOUT IT.

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