Market Review April 2024

After five consecutive months of gains, Western equity indices stalled in April. Most of them lost between 1% and 5% on the back of healthy profit-taking. Thanks to their more defensive profile, European indices fared better, with the Eurostoxx50 down 1.5% and the Dow Jones down 5%. However some sectors held up well, such as oil and mining companies, which depend on the price of their respective commodities. The big banks, which are benefiting from the current interest rate environment, also performed well. Conversely, US regional banks that are heavily exposed to the domestic commercial property market continue to be under pressure. The sub-index (KRE US) lost 6.5% in April and is down 8.9% since the start of the year.

The period of earnings releases for the 1er quarter, which began a few weeks ago, is going rather well. To date, the vast majority (around 70%) of companies have announced earnings above expectations, demonstrating that they are managing to defend their margins in this inflationary environment. The outlook for most companies is relatively optimistic, so there is nothing to worry about on the micro side for the time being. Rather, it is the macroeconomy that has dampened investor spirits. Despite a slowdown in US GDP growth in the first quarter, economic activity remains buoyant, indeed too buoyant for the FED to consider a short-term rate cut. The robustness of the US economy is therefore stimulating a further rise in inflation and driving up long-term interest rates, complicating the prospects for a more accommodative monetary policy. Against this backdrop, the US 10-year yield rose by 48 basis points to 4.67%, a level that had not been seen since November 2023 (and which many investors did not expect to see again any time soon). The 2-year yield, meanwhile, rose by 41 basis points to break through the psychological 5% barrier once again. In Europe, the economic slowdown is well under way, with inflation returning towards the ECB's 2% target. Yields have also risen, albeit by less.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Market trends to end April 2024

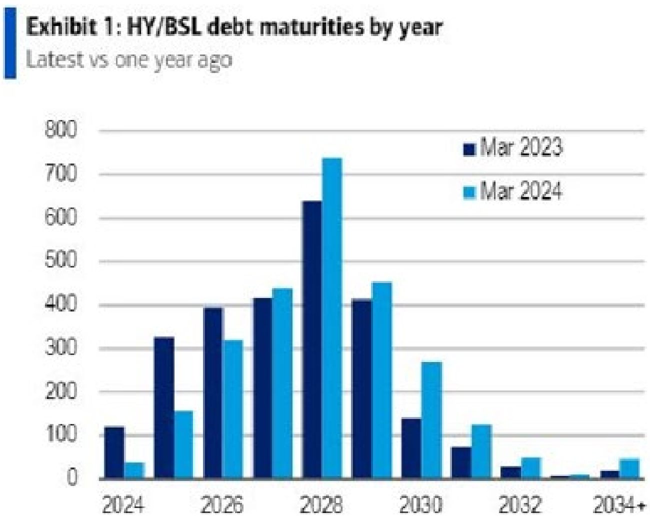
End of April	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
			Equities in Local Currencies					
Perf 1 Month	-3.85%	-4.16%	-3.19%	-2.69%	-1.99%	-4.00%	0.26%	1.89%
Perf 3 Month	3.12%	3.92%	5.87%	4.29%	7.71%	-0.64%	7.19%	12.10%
Perf YTD	4.30%	5.57%	8.84%	5.86%	7.45%	1.11%	2.17%	5.05%

End of April	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
		Commodities				Currencies vs EUR		
Perf 1 Month	-1.49%	0.43%	2.53%	12.68%	1.17%	-2.92%	0.13%	-0.77%
Perf 3 Month	8.02%	7.53%	12.10%	16.06%	1.43%	-5.51%	-0.14%	-4.98%
Perf YTD	14.35%	14.04%	10.82%	16.73%	3.50%	-7.43%	1.53%	-5.28%

End of April	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
			Bloomberg Indices Bonds Total returns					
Perf 1 Month	-2.52%	-2.53%	-1.26%	-3.14%	-3.79%	-2.24%	-0.84%	-1.65%
Perf 3 Month	-3.22%	-3.02%	-1.26%	-4.38%	-4.44%	-2.42%	1.46%	0.42%
Perf YTD	-4.55%	-3.28%	-1.59%	-4.53%	-6.17%	-3.10%	1.27%	-0.14%

Source : Bloomberg 30/04/24

As we have mentioned several times in recent months, persistently high interest rates could suffocate companies with highly leveraged balance sheets. At least, that's what some investors fear. Below is a very interesting graph published by Bank of America showing that the 'debt wall' has been pushed back a few years without default rates soaring. Even though most banks are adopting a restrictive credit policy, it has to be said that companies issuing high-yield debt are finding ways of refinancing themselves for the time being. This is reflected in credit spreads, which remain stable at relatively low levels in both the Investment Grade and High Yield segments. But let's not be too quick to claim victory. A credit crisis cannot be totally ruled out until the fight against inflation is over and monetary policies become more accommodating.



Source : Bank of America Global Research

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

The geopolitical situation also prompted investors to moderate their risk-taking following the escalation of tensions between Iran and Israel. As part of its military intervention, the Israeli army destroyed an annex of the Iranian consulate in Damascus (Syria). A few days later, Iran retaliated by launching an offensive of some 300 drones and missiles against Israel, while hinting that there would be no further military intervention. The Hebrew state retaliated without causing any major damage in Iran.
This worrying situation nevertheless seems to be in the process of being "defused", with both powers confirming that the incident is over. As has been mentioned on several occasions since 7 October 2023, we cannot rule out the possibility of the situation in the Middle East flaring up, but it has to be said that this is not the wish of any of the military powers present in the region, with the possible exception of a few terrorist groupings. Investors have to live with this "sword of Damocles" hanging over their heads, without focusing on it.

It is difficult to assess the direct economic impact of these tensions on financial assets. This is often reflected in the price of oil. After peaking at $87.60 a barrel, the price ended the month below 82, down 1.5%. This suggests that investors are not expecting a direct war between Iran and Israel for the time being.

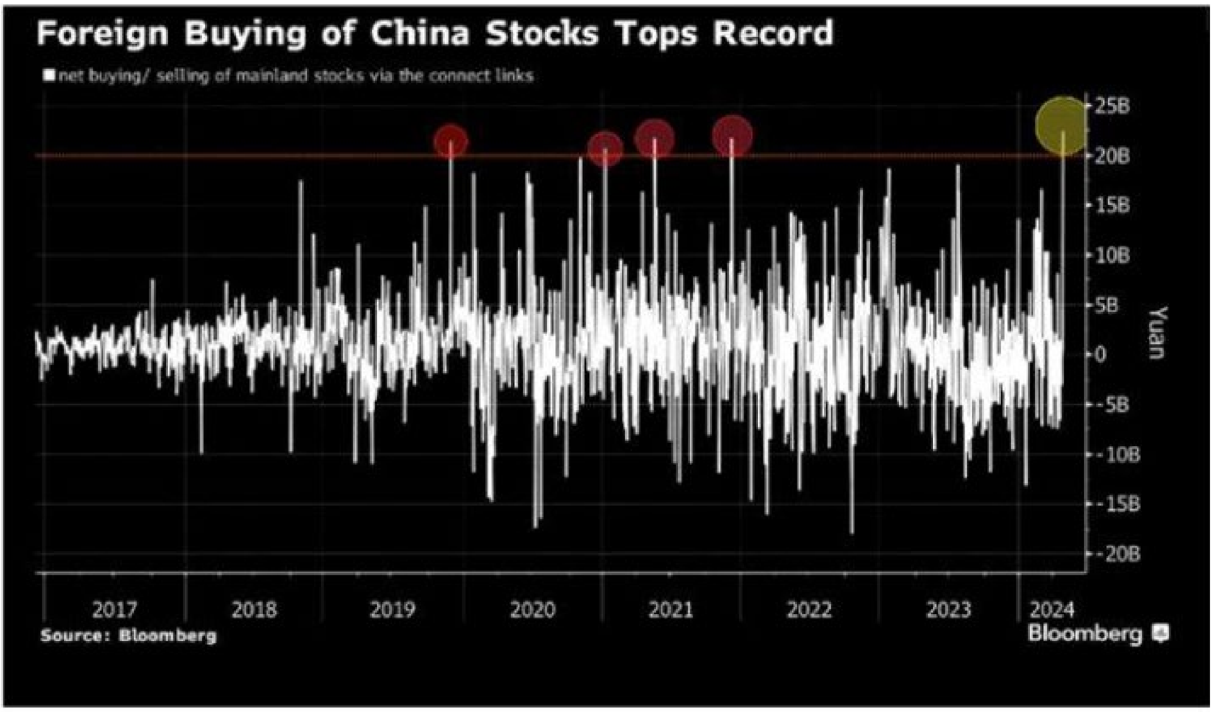
Most commodities were going upwards. Some rose on fears of future shortages, such as copper, which gained 12% while "benefiting" from new metal export sanctions against Russia. Others, like gold (up 2.5%), are benefiting from their safe-haven status.

Source : Bloomberg, Weisshorn

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Are the measures taken over the last few months by the Chinese government and its central bank (PBoC) beginning to pay off?

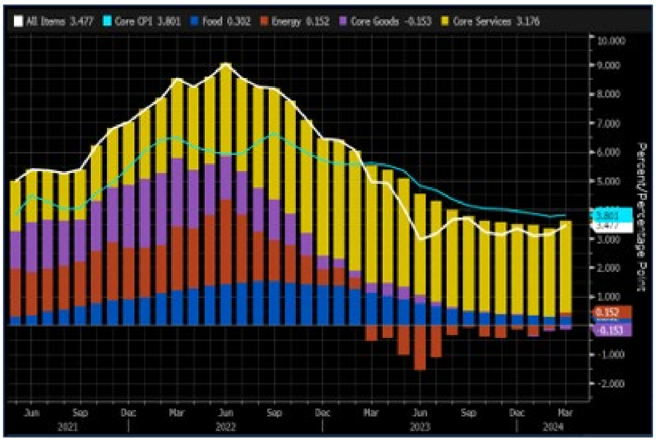
This is obviously a very complicated question to answer, but we have seen a reduction in negativism over the month of April. The Chinese property market, which was the country's main contributor to growth between 2010 and 2020, is still on life support. However, the sector seems to be stabilizing and the domino effect of bankruptcies that some were expecting after the implosion of Evergrande has not materialized (for the time being). As we mentioned in our November 2023 commentary, various measures have been taken to revitalize the country's economy and attract investors to the financial markets. The uncertainties surrounding the Middle Kingdom's intentions regarding Taiwan are not encouraging most foreign investors to reconsider this country as "investable". Nevertheless, strategists at UBS recently recommended an overweight position in Chinese equities. They cite a strong capacity for accelerating earnings growth. They are also seeing buying flows from foreign and domestic investors. It is difficult to say at this stage that the worst is over for the Chinese stock market, even though it has rebounded by almost 20% since its February lows. This may represent no more than a technical rebound. All the same, we think it would be wise to keep a close eye on the situation over the next few weeks.

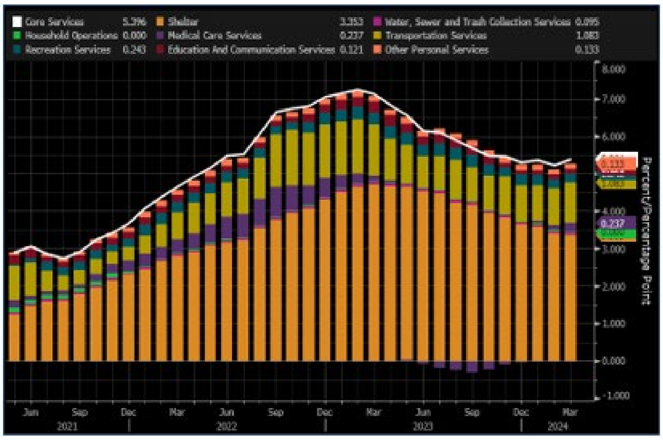


Source: Bloomberg

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

As we mentioned in our introduction, US economic growth slowed (finally) in the first quarter. While the consensus was for a figure of +2.5% for its first estimate, the latter came in at (just) +1.6%, whereas it was galloping along at a rate of 3.4% in the fourth quarter of 2023. This is rather good news for the FED (and investors), who hope to be able to make their first rate cut as soon as possible. The problem is that economic activity as reflected in the PMIs remains buoyant, but above all that inflation is not falling at the expected rate. On the contrary, inflation has actually been trending upwards in recent weeks, raising the spectra of a second wave of inflation like that experienced by the US economy in the 1970s. Although many of the components of inflation are on a downward trend, services inflation remains robust, mainly because of house prices. Fears of stagflation are therefore resurfacing. It should be stressed, however, that the current economic environment is far from resembling that of the 1970s. Back then, President Nixon terminated the Bretton Woods Agreement (which led to a sharp devaluation of the greenback) and the world was experiencing an unprecedented oil crisis, which caused inflation to soar. The comparison between these two periods is therefore difficult to justify.





Source: Bloomberg

Inflation is therefore making the FED's job particularly difficult, and investors are well aware of this. At the end of last year, the consensus was for six rate cuts in 2024, with the first easing in March. Today, barely one cut is expected for the year as a whole, and the last one is likely to come in the fourth quarter. Despite this major turnaround, the bond market has been relatively resilient. Of course, we have seen long rates rise by about 80 basis points since the beginning of the year, but this correction remains contained. All the other asset classes affected by this rise in yields have also held up well, as have equities and gold. Could this be proof that the market expects this rise in long-term yields to be temporary and that there will be no second wave of sustained inflation? At least, that is what some economists think, pointing to productivity gains and deflation imported from China, which should enable inflation to stabilize in the long term… the debate remains open!

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

In Europe, the situation is very different. We came close to a technical recession in the fourth quarter of 2023, and economic activity remains anemic. At the same time, inflation is continuing its downward trend and currently stands at 2.4%, close to the ECB's target of 2%. The ECB is expected to confirm its first rate cut of 25 basis points by June, and to repeat the operation at least twice by the end of the year.

Vontobel

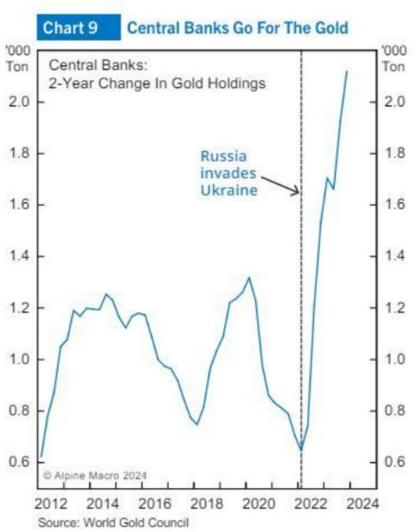
Inflation Second Wave Checklist

		WHAT IS NEEDED?	CHECK?	COMMENT
Monetary policy	1	Strongly rising money supply		Today: Mostly negative money growth
	2	Loose real policy rates		Today: Restrictive real policy rates
	3	Significant currency weakness		Today: Not visible in major economies
Demand shocks	4	Strong economic growth	Watchlist!	Today: Some acceleration visible
	5	Substantially rising fiscal stimulus		Today: High, but has peaked in 2023
	6	Unanchored inflation expectations		Today: Not an issue for the moment
Supply shocks	7	Another energy price shock		Key to watch: Middle East, Ukraine war
	8	Global supply-chain issues	Watchlist!	Today: Rising freight rates (Red sea)
	9	Housing shortage	✓	Today: Issue limited to the US
	10	Labor shortage	✓	Today: Wage pressure still elevated

Note: Not all signals have to be fulfilled to see a second wave of inflation, in the extreme case two or three are already enough.
However, expansive monetary policy (at least one out of the first three arguments) is a necessary condition for high inflation.
Source: Vontobel

April 16, 2024 14

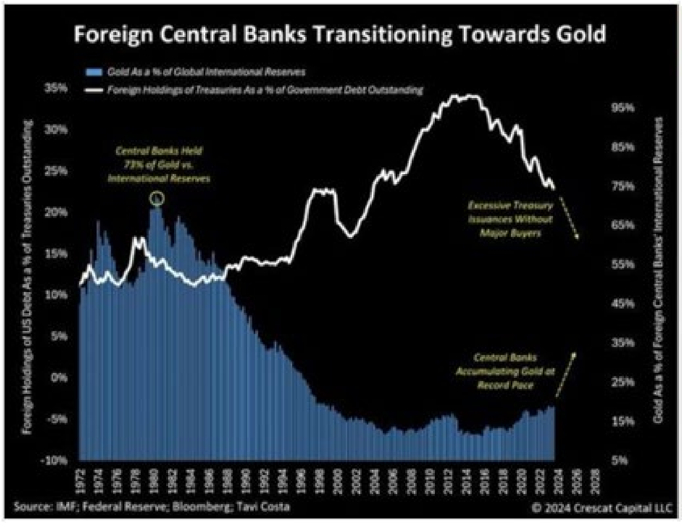
In recent months, central banks (especially those in emerging countries) seem to have had a strong influence on the price of an asset other than bonds... namely gold!
The yellow metal, which usually benefits from a weak US dollar and low real interest rates, has bucked all predictions since the start of the year. The greenback has continued to appreciate while real interest rates have remained relatively high, but this has not prevented gold from hitting an all-time high, having gained 10.5% since the start of the year.

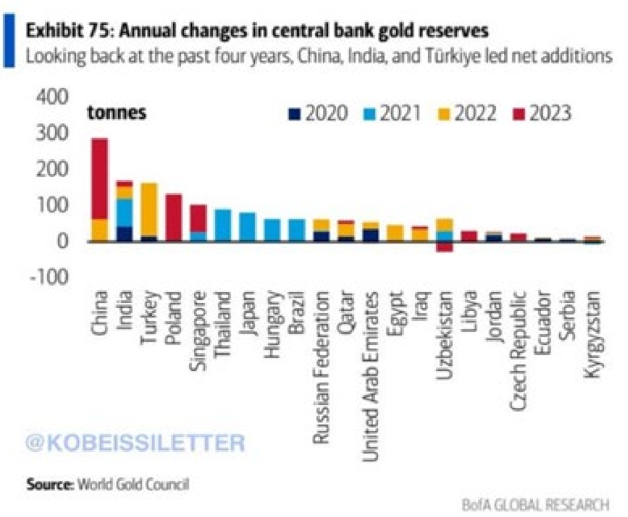


Admittedly, the latter is benefiting from its status as a safe-haven asset in a geopolitical context that has not been so uncertain since the end of the Second World War. We can therefore imagine that some portfolio managers are increasing their exposure to the yellow metal in their allocations, but this is not reflected in the statistics. ETFs that replicate the value of gold have instead suffered negative flows in recent months. So, it is indeed central banks that are accumulating bullion with a view to diversifying their reserves. This has even intensified following the sanctions imposed on Russia in retaliation for its invasion of eastern Ukraine.

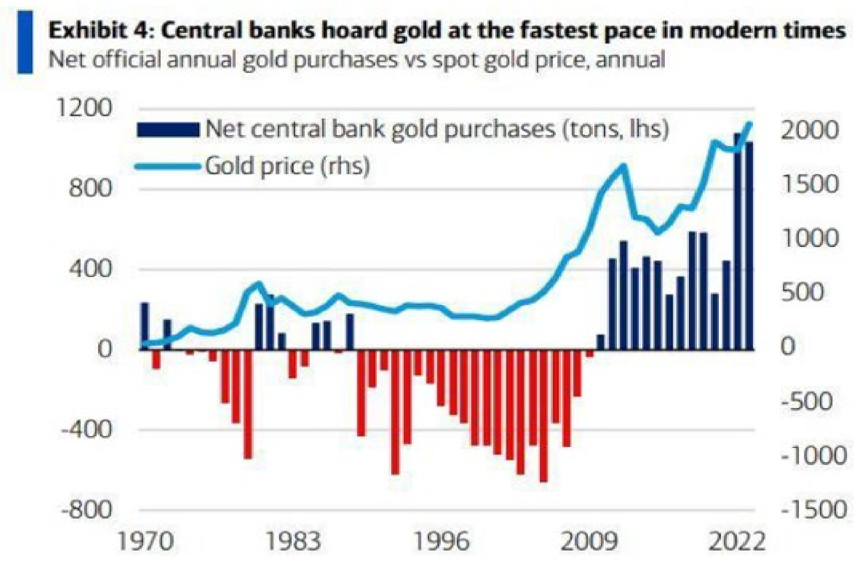
Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Over the last two years, the central banks of China and India, as well as most of their counterparts in emerging countries, have been active in the metal in order to reduce their dependence on the US dollar.





As you can see from the chart below, central banks around the world have been accumulating gold for some time. However, the acceleration since 2022 is striking. With a view to a new world order in which emerging countries will no longer be so dependent on the United States, we can imagine this trend continuing over the next few years/decades. Is "de-dollarization" underway?



Source : Bank of America

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

The current level of interest rates is making it difficult to obtain credit, whether for companies with high levels of debt or for individuals looking to buy property. Nevertheless, even though global debt levels are at an all-time high, the global economy remains buoyant. Future decisions by central banks will have a major impact on the performance of financial assets. As has been mentioned on several occasions, a mistake in monetary policy could sow doubt and affect investor confidence, triggering a wave of profit-taking. It has to be said that, for the time being, their decisions seem to be in line with the economic situation.

Although it may still seem a long way off, the US presidential elections will start to influence prices depending on who wins. We can imagine continuity in current monetary policy if Mr Biden were to be re-elected. On the other hand, if Mr Trump were to win a new term (assuming that his legal troubles still allow him to run, which is not yet a certainty), he has already announced that he will replace Mr Powell as head of the FED, which is likely to bring uncertainty to the financial markets. Not to mention his "America First" campaign promises, which are likely to fuel inflation. At this stage, we cannot rule out the possibility of an independent candidate coming out of the hat for the final sprint. These future uncertainties will inevitably make for nervousness (volatility), but we should bear in mind that even if valuations in some sectors may be considered as 'rich', the financial situation of the majority of companies is quite good. So, as the saying goes: "sell in May and go away"?

Even if we cannot rule out a deeper wave of profit-taking, we remain convinced that we should remain invested for the medium to long term.

We wish you all the best for May.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Bonus graphics :

10y govie returns based on varying yield levels

Bond returns (%) computed using 10y govie duration and convexity, daily data, 1wMA

	NZ	US	AU	UK	IT	CA	ES	FR	BE	FI	IE	NL	DK	DE	SE	JP
Latest 10y yield:	4.9%	4.6%	4.3%	4.3%	3.9%	3.8%	3.3%	3.1%	3.1%	3.0%	2.9%	2.8%	2.6%	2.5%	2.5%	0.9%
10y yield level, %	NZ	US	AU	UK	IT	CA	ES	FR	BE	FI	IE	NL	DK	DE	SE	JP
7.0	-15.3	-17.0	-19.5	-18.9	-22.2	-22.9	-26.0	-29.4	-27.5	-30.1	-29.5	-29.8	-29.9	-30.8	-30.9	-39.7
6.5	-11.9	-13.8	-16.3	-15.8	-19.1	-19.8	-23.1	-26.5	-24.8	-27.1	-26.7	-27.1	-27.3	-28.2	-28.3	-37.8
6.0	-8.4	-10.3	-12.9	-12.6	-15.9	-16.6	-20.0	-23.3	-21.8	-24.0	-23.7	-24.1	-24.6	-25.4	-25.6	-35.6
5.5	-4.7	-6.7	-9.4	-9.2	-12.4	-13.2	-16.7	-19.9	-18.7	-20.6	-20.4	-20.9	-21.6	-22.4	-22.6	-33.3
5.0	-0.8	-2.9	-5.6	-5.6	-8.7	-9.7	-13.2	-16.3	-15.3	-16.9	-16.9	-17.5	-18.4	-19.1	-19.4	-30.6
4.5	3.3	1.1	-1.6	-1.8	-4.8	-5.9	-9.5	-12.4	-11.7	-13.1	-13.2	-13.8	-15.0	-15.7	-16.0	-27.8
4.0	7.6	5.3	2.5	2.2	-0.7	-1.9	-5.6	-8.3	-7.9	-8.9	-9.2	-10.0	-11.4	-12.0	-12.3	-24.7
3.5	12.1	9.7	6.9	6.3	3.6	2.3	-1.5	-4.0	-3.8	-4.6	-5.0	-5.8	-7.6	-8.1	-8.5	-21.3
3.0	16.7	14.3	11.5	10.7	8.1	6.7	2.9	0.6	0.4	0.0	-0.5	-1.5	-3.5	-4.0	-4.4	-17.8
2.5	21.6	19.0	16.2	15.2	12.8	11.3	7.4	5.4	4.9	4.8	4.2	3.1	0.7	0.3	-0.2	-14.0
2.0	26.6	24.0	21.2	19.9	17.7	16.1	12.2	10.5	9.6	9.9	9.1	7.9	5.1	4.9	4.3	-10.0
1.5	31.8	29.1	26.3	24.7	22.9	21.0	17.2	15.8	14.5	15.2	14.3	12.9	9.8	9.7	9.0	-5.7
1.0	37.2	34.4	31.7	29.8	28.2	26.2	22.4	21.3	19.6	20.8	19.7	18.2	14.6	14.7	14.0	-1.2
0.5	42.8	39.9	37.3	35.0	33.7	31.6	27.8	27.1	25.0	26.6	25.4	23.7	19.7	19.9	19.1	3.5
0.0	48.6	45.6	43.0	40.5	39.5	37.1	33.4	33.1	30.5	32.6	31.3	29.4	25.0	25.3	24.4	8.4
-0.5	54.6	51.5	48.9	46.1	45.4	42.9	39.2	39.4	36.3	38.9	37.4	35.4	30.5	31.0	30.0	13.6
-1.0	60.8	57.6	55.1	51.8	51.5	48.9	45.3	45.9	42.3	45.4	43.8	41.6	36.2	36.9	35.8	19.0

Sources: RBA, Macrobond, RBNZ, U.S. Treasury, J.P. Morgan

MACROBOND

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com