Market Review March 2024

Despite economists' revisions regarding the start of the monetary easing cycle, equity markets performed rather well in February. Indeed, in the wake of recent economic statistics and the publication of the minutes of the US Federal Reserve's last meeting, expectations of a rate cut fell. In January, the consensus was for a first rate cut in March, whereas today the FED is not expected to cut rates until June. In addition, the number of rate cuts expected for 2024 has fallen from six to three. These revisions can be explained by underlying inflation slowing less rapidly than expected (mainly due to shelter prices) and economic activity remaining buoyant. Given that the rally in equities that began in October 2023 was driven in particular by the prospect of more accommodative monetary policy (the famous central bank pivot), we might have imagined that these revisions would have a negative impact on investor sentiment, triggering a correction in equities. But nothing of the sort happened! Quite the contrary, in fact. The excellent corporate results for the fourth quarter triggered a fresh wave of buying. Against this "Goldilocks scenario" backdrop (inflation under control and contracting, plus positive growth), most indices gained between 2% and 5% for a fourth consecutive month of gains. Although some technology stocks (mainly those that benefit directly from artificial intelligence), such as Nvidia (up 60% since the start of the year), posted stratospheric performances, the rest of the technology sector did not outperform so much. In Japan, following a sharp rise in January (+8.4%), the Nikkei 225 index of leading Japanese stocks gained a further 7.5% in February. This enabled the index to break through its all-time high, which dates back to 1989, despite the fact that the Japanese economy contracted for the second consecutive quarter, in what looks like a recession.

In Europe, the automotive sector was the big winner, gaining more than 12% over the month, helped in particular by optimistic comments from the boss of Mercedes-Benz (+17.2%) on the day dedicated to investors.

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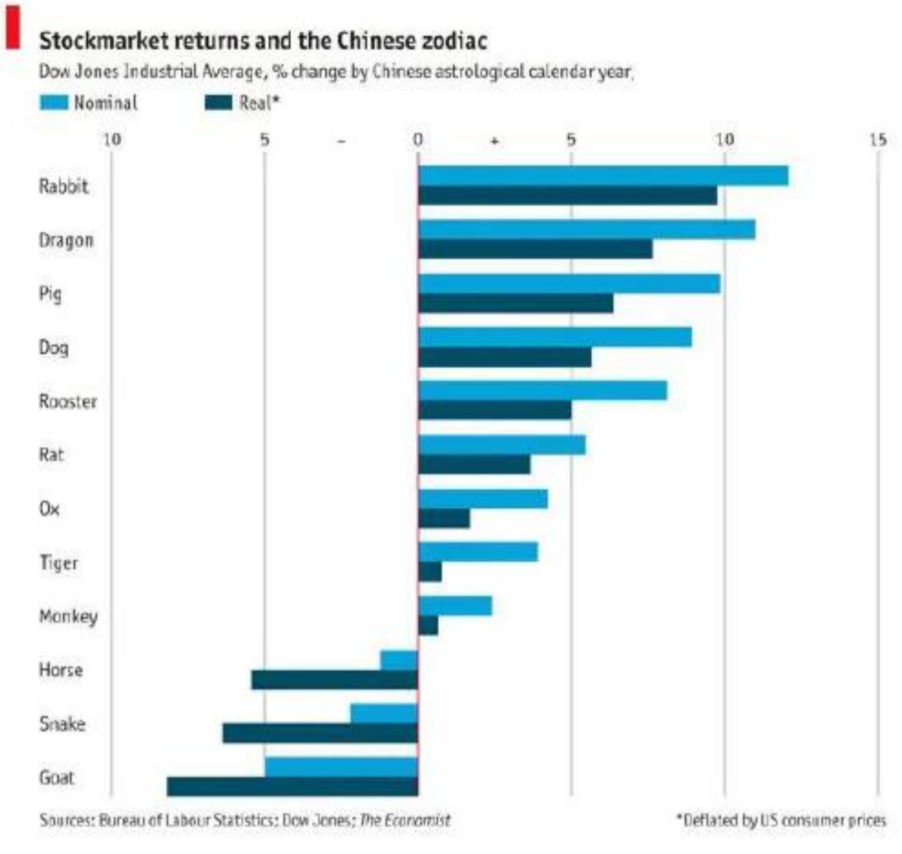
The mining sector (-6.5%), which is strongly correlated with Chinese economic activity, continues to disappoint. Let's talk about China. After dismissing the head of the Chinese securities regulator (CSRC), the Chinese authorities introduced restrictions on short selling. As a result, the Chinese market finally saw a rebound in February. The CSI300 index gained 9.6%, while the HSCEI gained 9.3%. It is obviously too early to interpret this rise as the start of a new trend or simply a technical rebound, but the Chinese authorities are trying to contain the fall. To resume a sustained uptrend, more fundamental and economic measures will be needed. The cut in the 5-year LPR (Loan Prime Rate) from 4.20% to 3.95% was also welcomed by investors. Some economists are talking about a "Japanization" of the Chinese economy. This implies that the Middle Kingdom will undergo the same economic evolution as its neighbor in the 1990s. We can certainly see some similarities. China's fertility rate is currently just 1.2 children per woman, compared with 1.5 in Japan in the 1990s. The Chinese property market has imploded, just as it did in Japan at the time. On the other hand, when the stock market in the Land of the Rising Sun collapsed, it was valued at 70x earnings, whereas the Chinese market is currently trading at 9x earnings. The Japanese Yen appreciated by 30% in 1985 and subsequent years, which weighed on the Japanese economy as a whole and on exporters in particular, which is not the case for the Renminbi today. The current economic situation in China is clearly not rosy, but urban changes are necessary in this country, which is still emerging. This should support the country's long-term growth. Whether the Year of the Dragon will represent a turning point remains to be seen. The parliamentary sessions at the beginning of March could already provide some clues.



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As we said in the introduction, equities rose in February despite the rise in interest rates. In fact, the US 10-year yield rebounded by 33 basis points and its German 'cousin' by 24 basis points. These yields now stand at 4.25% and 2.41% respectively. The upward movement was even more violent on short rates, accentuating the inversion of the curve. A word also about digital assets, which are enjoying renewed interest as the halving of Bitcoin approaches. This practice, which occurs approximately every four years (i.e. every 210,000 blocks), involves halving the miners' commission. This increases the scarcity of the asset and therefore pushes up the price (provided demand remains). Bitcoin soared by more than 40% over the month and is close to its all-time high. Most other digital assets followed the trend in similar proportions.

Market trends to end February 2024

			Equities in Local Currencies					
End of February	**MSCI World**	**S&P 500**	**EuroStoxx**	**CAC**	**Spain**	**Switzerland**	**MSCI EM**	**CSI 300**
Perf 1 Month	4.11%	5.17%	4.93%	3.54%	-0.76%	0.93%	4.63%	9.35%
Perf 3 Month	10.37%	11.57%	11.30%	8.43%	-0.57%	5.39%	3.43%	0.57%
Perf YTD	5.30%	6.84%	7.88%	5.09%	-1.00%	2.70%	-0.27%	2.48%

		Commodities				Currencies vs EUR		
End of February	**WTI Oil**	**Brent Oil**	**Gold**	**Copper**	**USD**	**JPY**	**GBP**	**CHF**
Perf 1 Month	3.18%	2.34%	0.23%	-1.34%	0.12%	-1.92%	-0.38%	-2.50%
Perf 3 Month	3.03%	0.95%	0.39%	0.34%	0.77%	-0.43%	0.77%	-0.29%
Perf YTD	9.23%	8.54%	-0.91%	-0.77%	2.16%	-3.91%	1.28%	-2.81%

			Bloomberg Indices Bonds Total returns					
End of February	**Global Aggregate**	**US Aggregate**	**Euro Aggregate**	**US 10 Year Treasury**	**German 10 Year Bund**	**Global Credit**	**Global High Yield**	**Emerging Sovereign $**
Perf 1 Month	-1.26%	-1.41%	-1.08%	-2.08%	-2.35%	-1.27%	0.79%	0.38%
Perf 3 Month	1.43%	2.08%	1.88%	1.69%	2.68%	2.15%	4.65%	4.00%
Perf YTD	-2.62%	-1.68%	-1.40%	-2.23%	-4.12%	-1.96%	0.60%	-0.19%

Source: Bloomberg 29/02/24.

At a time when the S&P500 has broken through the 5,000-point barrier for the first time in its history, we thought it would be a good idea to set out a (non-exhaustive) list of arguments for and against an extension of the equity market rally.

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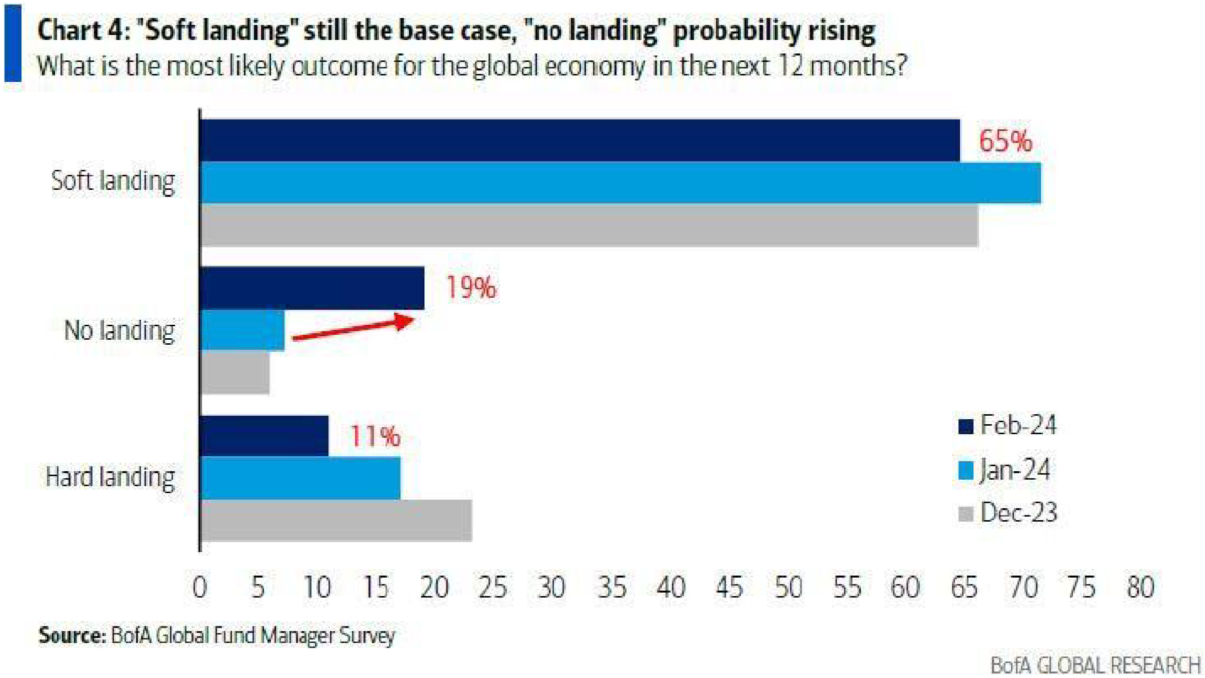
Let's start with the **positive arguments**:

The fundamentals

As we said in the introduction, the current macroeconomic scenario (Goldilocks) is favorable for the equity markets. The latest US growth figures confirm the strength of the economy. Most employees have managed to maintain their purchasing power by putting pressure on their employers for pay rises, and this has been the case in many industries. Despite this, most companies have published excellent results for the fourth quarter and for 2023 as a whole. Overall, the outlook (guidance) for 2024 is encouraging, and according to company CFOs, visibility on business trends is good. Thanks to innovation and the gradual implementation of productivity-enhancing artificial intelligence (AI), major companies have managed to defend and preserve their profit margins, despite the negative impact of inflation. This trend is set to continue over the coming quarters, which is reassuring.



Valuation

The definition of an uptrend is a series of peaks and troughs higher than the previous ones. Investors often tend to feel anxious when a market moves to an all-time high... fear of the unknown perhaps. However, when a new all-time high is supported by solid fundamentals and an expanding economy (which is the case today), there should be nothing to worry about. The main risk is that the markets becomes too euphoric , leading to the formation of a valuation bubble. Even if, as we will show below, most stock markets (and particularly US equities) are not 'cheap', this is not a valuation bubble, at least not for the time being. The indicators used for over 40 years by the famous Ray Dalio, founder of the Bridgewater hedge fund, seem to confirm this hypothesis.

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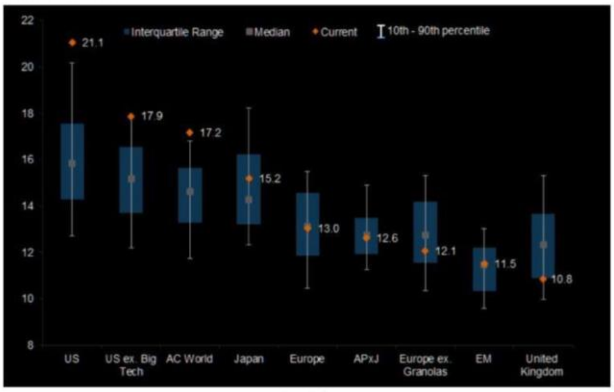
Current Conditions Compared to Previous Bubbles

		Roaring 1920s	Dot-Com Bubble	2007	Jan 22 Total Market	Jan 22 Emerging Tech	Today: Total Market	Today: Mag-7
1	Prices are high relative to traditional measures	Bubble	Bubble	No Bubble	Somewhat Frothy	Frothy	Frothy	Frothy
2	Prices are discounting unsustainable conditions	Bubble	Bubble	No Bubble	No Bubble	Frothy	Somewhat Frothy	Frothy
3	New buyers have entered the market	Bubble	Bubble	Frothy	Frothy	Bubble	Somewhat Frothy	Somewhat Frothy
4	There is broad bullish sentiment	Bubble	Bubble	Frothy	No Bubble	Frothy	No Bubble	Frothy
5	Purchases are being financed by high leverage	Bubble	Bubble	Bubble	Somewhat Frothy	Bubble	No Bubble	No Bubble
6	Buyers/businesses have made extended forward purchases	Frothy	Bubble	Bubble	No Bubble	Somewhat Frothy	No Bubble	Frothy

New All-time High	Additional Gain Beyond New High	Time From New High to Eventual Peak (# of Trading Days)
Aug. 2020	42%	347
Mar. 2013	116%	1735
May 2007	2%	92
Jul 1989	352%	2709
Nov 1982	137%	1215

Source: Bloomberg, Edward Jones. Price return of the S&P 500 Index.

World valuations



Source: FactSet

Central banks

Since the great financial crisis of 2008 (GFC), central banks have demonstrated their responsiveness and interventionism when necessary. Prior to this crisis, which led to the collapse of renowned institutions such as Lehman Brothers and Bear Stearns, to name but a few, central banks allowed the market to find its equilibrium. Now, for more than fifteen years, central bankers have tended to intervene more quickly and on a larger scale, replacing investors when they disappear. The Japanese Central Bank (BoJ), which holds more than half of Japanese government bonds and is a shareholder in many of the companies that make up the Nikkei 225, is a good example of this. We can therefore imagine that the BoJ will inject liquidity and cut interest rates when there are concrete signs of a slowdown.

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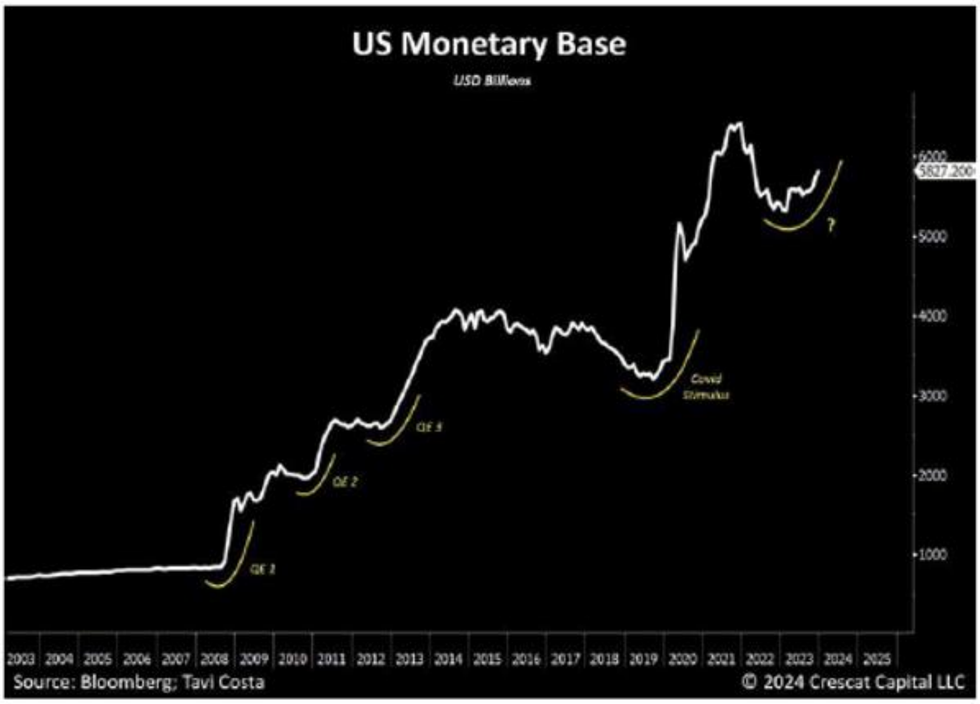

Participation on the rise

The fact that a large part of the market is not participating in the rally is a subject that has been discussed at length in recent months. The weight of the ten biggest companies in the S&P500 index is at record levels. All the attention is focused on the tech giants who, it is true, are taking the lion's share of the pie. Small and medium-sized companies are being neglected. Investors fear that these companies, which often have more leveraged balance sheets than large caps, will bear the brunt of rising interest rates and have problems refinancing their debt. This is a legitimate concern. What if these smaller companies once again attracted investor interest and caught up? This is certainly a hypothetical argument, but if interest rates were to fall as the consensus thinks they will, it could materialise and drive indices to new highs. This argument also applies to emerging markets. With a few exceptions, most emerging markets have suffered from the strength of the US dollar in recent years and benefit from low valuations. Renewed interest in these markets could accentuate the positive momentum in equities.

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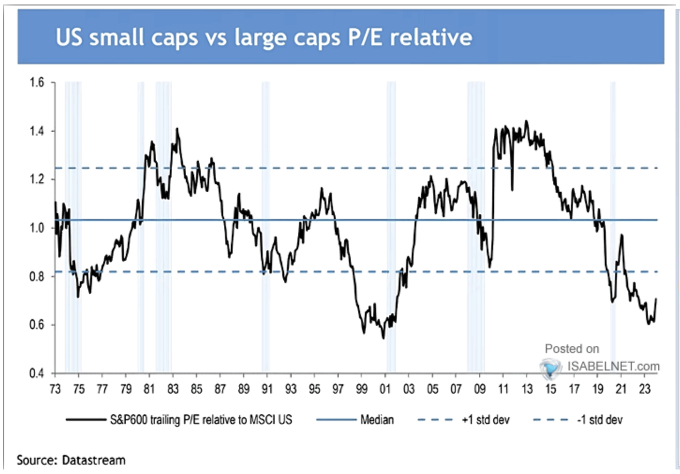
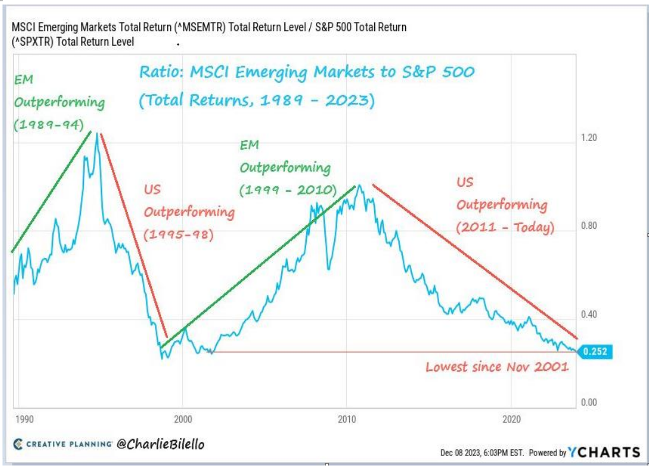
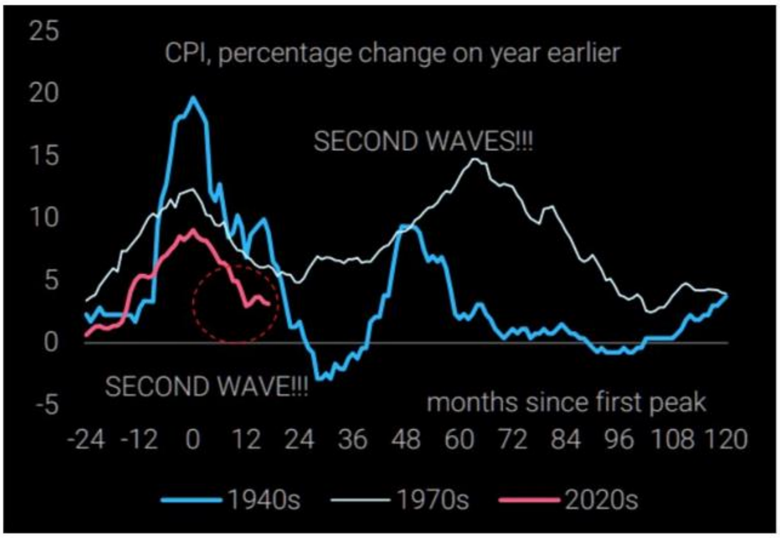




Let's now turn to the **negative arguments** that militate in favor of a correction in the equity markets:

A new inflation peak

This risk clearly exists. As we have mentioned on several occasions in recent months, "second-round effects" are to be taken seriously. Indeed, inflation in both Europe and the United States fell less sharply than expected at the end of last year, which is why central banks are not rushing to cut rates. A sustained acceleration in inflation could lead to a further tightening of monetary policy and, consequently, credit conditions. Consumer purchasing power would come under renewed pressure and demand for goods and services would slump. In addition, the most heavily indebted companies are likely to be unable to refinance their 'wall of debt'. As a result, default rates would soar, even though most of these companies do not represent a systemic risk. On the other hand, a potential wave of bankruptcies could plunge the banks into a difficult situation, requiring recapitalizations... Will the central banks come to the rescue again? Probably ...



Source: TS Lombard

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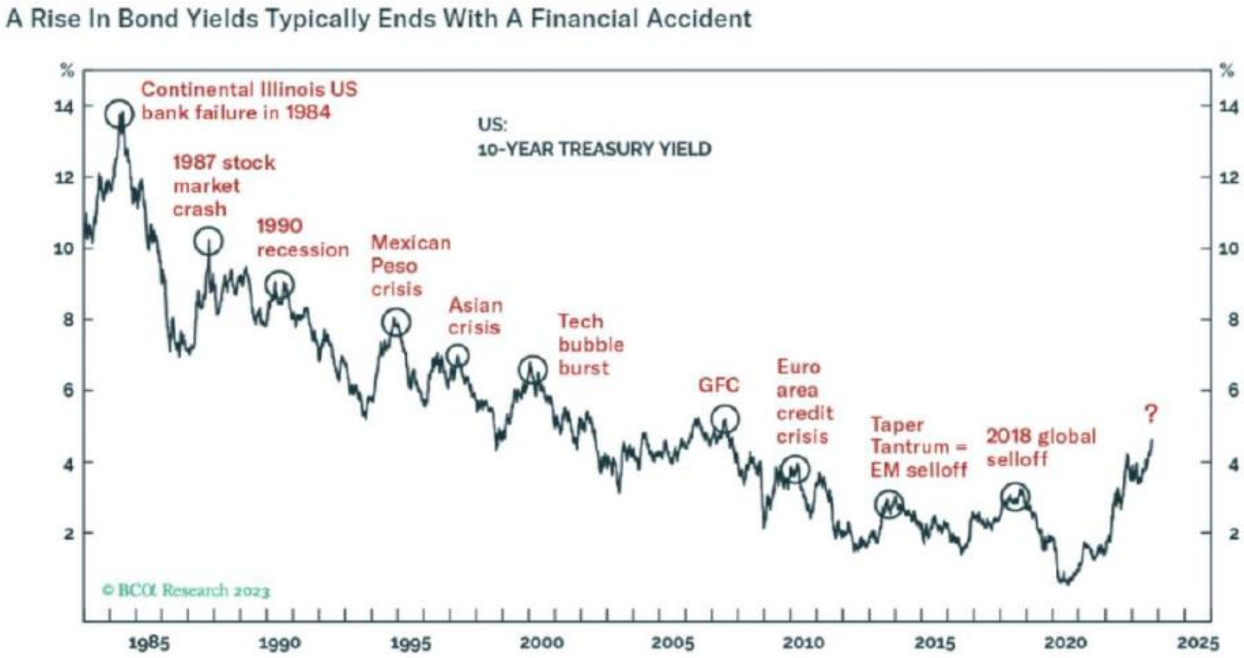
Interest rates

The fastest rate hike cycle in history could leave its mark and cause markets to fall sharply. But let's not forget that central banks are much more reactive today than in the past, and that they have various mechanisms at their disposal to prevent a situation from getting out of control. This is a blessing in disguise. Investors have tended to appreciate the fact that central banks have come to the rescue of the financial markets in recent years, but as we have already mentioned in the past, this interventionism should be a cause for concern in the long term. It gives more and more power to politicians and undermines liberalism...



The political/geopolitical context

Let's be clear: the situation has never been so tense since the end of the Second World War. Whether in Ukraine, the Middle East or Korea, the rhetoric is belligerent. Despite the uncertainties associated with these armed conflicts, and disregarding as usual the humanitarian disaster, the impact on the financial markets remains stable for the time being. Unfortunately, given the level of tension in these regions, spillover effects cannot be ruled out. What if a Russian missile "mistakenly" landed on European soil? What if a North Korean missile reached Japan? What if Iran officially came into conflict with Israel? What if, what if, what if... These are just guesses, but the risk of something going wrong is higher than ever. This situation has already prompted rearmament decisions in Europe and around the world (cynically, this should help industrial companies active in this segment...) and this trend is likely to continue. In the same context, the forthcoming US elections scheduled for November 2024 should also bring their share of uncertainty. If Donald Trump is re-elected, we can imagine a new world order taking shape over the next few years. According to Trump, a rethink of NATO cannot be ruled out.

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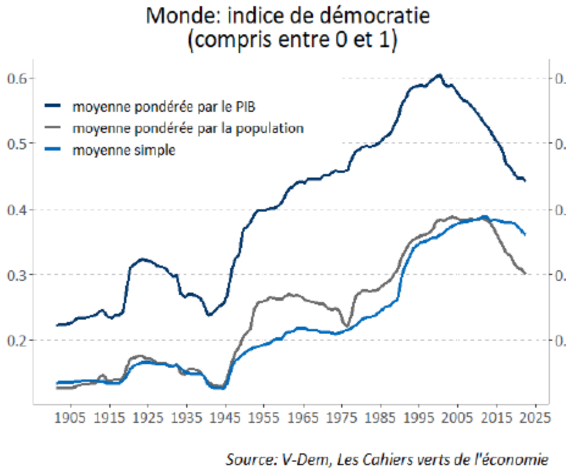
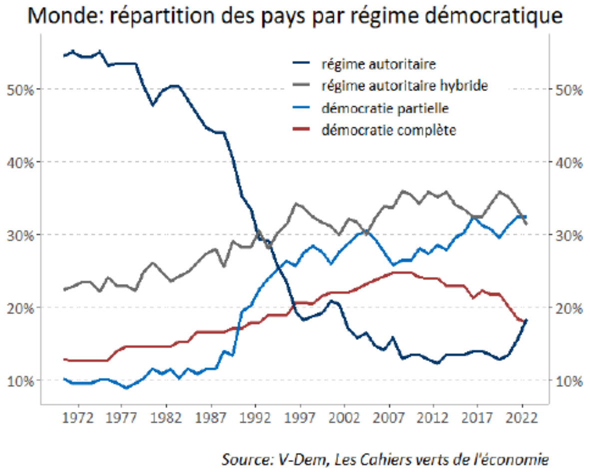
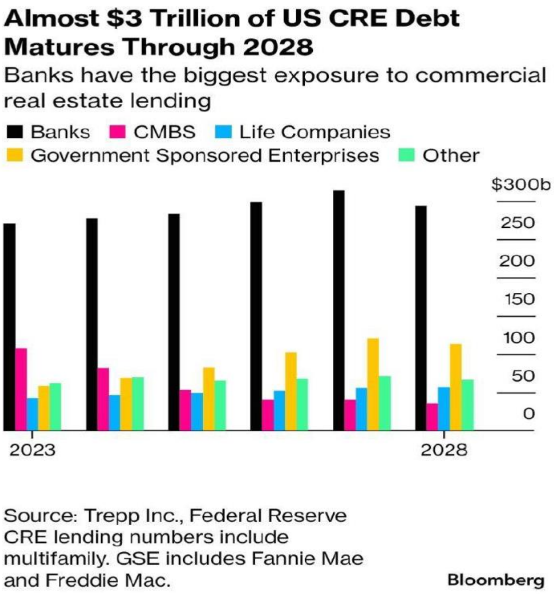
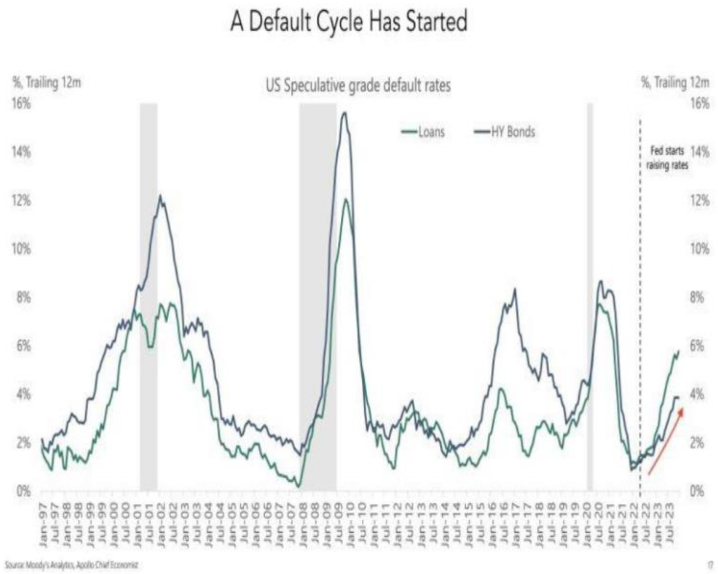




The financial situation of US commercial banks

As we have known for over a year, US regional banks are feeling the full brunt of rising interest rates and the contraction of the domestic property market. In Germany, the situation is not exactly rosy either. As we all know, some banks have already had to close down or be taken over. There is a risk of a domino effect, but as mentioned earlier, this would probably be stopped quickly by the central banks.





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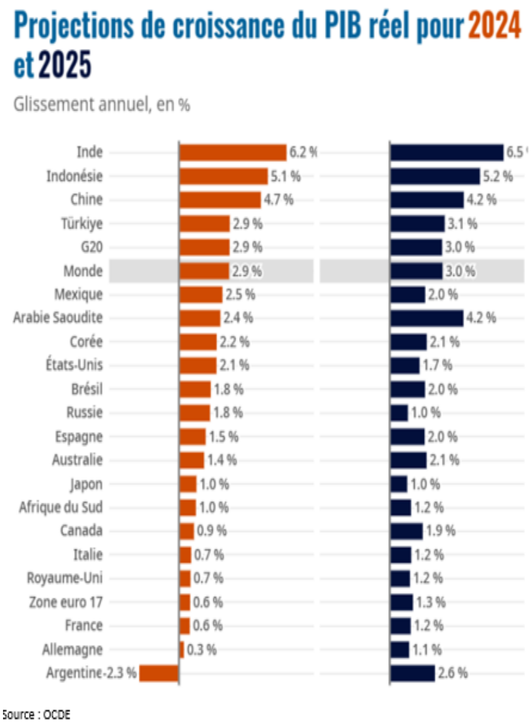
As you can imagine, it is difficult to have a clear-cut view on the direction in which the equity markets will move over the next few months. The fact remains that the fundamental arguments are rather encouraging, while the confirmation of hypothetical exogenous events (such as armed conflicts) could put a damper on this momentum. We therefore encourage investors to be invested and not to bet (speculate) on the materialization of a possible disaster scenario. For the more defensive investors, protection against a potential downturn could make sense, provided it is not too costly. Diversification and the inclusion of uncorrelated investments in a portfolio remain the golden rules.
We hope you enjoy the start of spring.

Bonus charts

BULL MARKET BEHAVIOR CHECKLIST

	Bull Market Criteria	Current Reading	Bull Market Behavior?
Weekly New High - New Lows (As % of NYSE + NASDAQ Issues Traded)	Greater Than 0	Greater Than 0 (4 Consecutive Weeks)	Yes
Net New High A/D Line NYSE + NASDAQ	Rising	Rising (20 Days in a Row)	Yes
% of Global Markets Above Their 50-Day Average	Less Than 70%	GreaterThan 70% (1 Day in a Row)	Yes
ACWI Long-Term Trend	Rising	Rising (43 Consecutive Weeks)	Yes
S&P 500 200-Day Average (Level vs 10-Days Ago)	Rising	Rising (175 Days in a Row)	Yes
Value Line Geometric Index Long-Term Trend	Rising	Rising (14 Consecutive Weeks)	Yes
(data as of 2/16/2024)		Total:	6/6

Source : Hi Mount Research



Source : OCDE