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ERIC STURDZA

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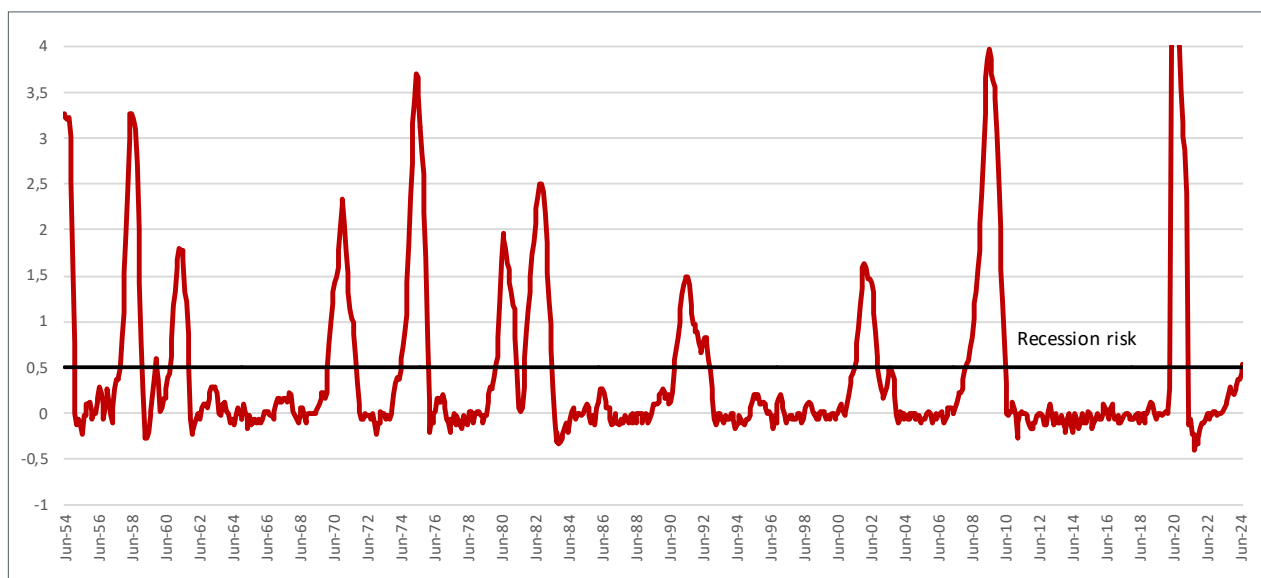
1. EDITORIAL

NO OLYMPIC TRUCE FOR FINANCIAL MARKETS

Last month, we made lengthy comments on the French political situation and the uncertainties created in the wake of the 1st round election results. Not surprisingly, no single party or coalition were able to secure an absolute majority after the 2nd round results, the finish order came nonetheless a bit as a surprise. After a few days of errand, the focus quickly shifted to the United States, where the period was quite busy, with the failed assassination of Donald Trump, a Republican convention with messianic overtones, and an increasingly isolated Joe Biden forced to step down in favour of Kamala Harris... With so much uncertainty, we might have expected a few jolts on financial markets. That was far from obvious, with equity markets continuing on their upward trend, at least the first two weeks, the end of July proving a bit more volatile...

In France, the electoral sequence ended in an unprecedented situation of deadlock, with the emergence of three coalitions of similar size, none of which had an absolute majority. The surprise also came from the order of finish: the left-wing coalition, the “Nouveau Front Populaire” (NFP) came first, “Ensemble” the presidential coalition came as a close 2nd, closely followed by the far-right coalition, that was expected to win by a large margin after the 1st round results. Against this backdrop, the slightly positive performance registered by the CAC40 index, the French stock market’s flagship index, may come as a surprise, but it brings investors back to a twofold reality: 1- French equities had already anticipated somewhat mixed electoral results correcting and underperforming their European counterparts in June, and 2- with on average 15% of their sales in France, large French companies are generally more sensitive to global economic conditions than domestic ones. Even more surprising was the trajectory of the OAT-Bund spread. After

G1 : RECESSION PREDICTING INDICATOR – SAHM MODEL



Source: St Louis Fed, Banque Eric Sturdza

climbing up from 50 to 85 basis points in June, investors feared further slippage with the NFP victory. It did not materialize and the OAT-Bund spread actually narrowed to 65 basis points. However, the tighter spread resulting from the election deadlock may prove temporary, with the looming budget discussion in autumn and positions that may prove tough to reconcile in between the fiscal cuts and discipline expected by the EU and financial partners and the higher public spending to which the NFP is committed in its manifesto. These are all reasons, in our view, to remain cautious with French sovereign debt, while considering selective opportunities on the French equity market.

In the United States, the election issue was also quickly back in the spotlight. Donald Trump's assassination attempt and doubts over Joe Biden's health condition gave the impression that the race was over. Joe Biden's decision to step down in favour of Kamala Harris revived the race. On financial markets, one of the most striking events was the beginning of a rotation: after several months of ultra-dominance, large cap growth stocks are making a break, while financials and small caps are soaring. All this seems to be contradictory, to say the least, with the economic rhetoric of the moment, where the latest mixed economic data lend credence to the prospect of the Fed starting to cut rates as early as September, and in a less cheerful vein, where certain indicators such as the Sham rule (a measure of the gap between the 3M moving average of the unemployment rate and its lowest point reached over the last twelve months) are bringing back recession fears to the forefront. As rising small caps and recession rarely go hand in hand at least from a stock market's standpoint, the current sequence seems to result more from a technical rotation in a context where technology stocks were largely overbought and overvalued than of a real appetite for small caps. The other explanation would be a renewed interest for the asset class in the light of the candidate Trump's protectionist and pro-domestic agenda, a gamble that seems uncertain, to say the

least, given that the elections' results remain unpredictable, most notably for Congress, whose control remains key to implementing an economic agenda. Investors would be well advised to remember that the strongest US market's performances were registered with a divided Congress, and that during Donald Trump's first term, despite his harsh rhetoric against the tech giants and his pro-business stance for fossil fuel industries, it was the former that significantly outperformed the latter...

Beyond the renewed political uncertainty, quiet financial markets warrant some caution as fixed income markets are resilient till they are not and deleveraging and unwinding JPY carry trade positions, as well as markets rotating out of mega cap tech stocks remain volatility factors and are likely to create unpleasant side effects for investors.

2. FIXED INCOME

DOVES COMING BACK IN SEPTEMBER

Trump, yes but...

A few days after the assassination attempt that almost cost Donald Trump his life, Joe Biden stepped down and the race for the White House has been relaunched. What has always bothered us about claims that Trump is good for Wall Street and bad for long-term interest rates (steeper yield curve) is that they ignore which party controls the Senate and the House of Representatives. Indeed, with Trump at the White House and the Congress dominated by the GOP, this is not a very good sign for the long end of the curve. At present, the polls remain pretty much undecided as to the outcome of the other two elections.

Jerome Powell, for his part, has stated that the Fed is insensitive to the electoral calendar and that if the FOMC were to make a decision on monetary policy, it would take absolutely no account of this factor. A rate cut on 18 September will sound the death knell for the “fleeting pleasures” that consist in locking short term rates at levels above 5%. What should we do to replace them? From a duration point of view, this seems logical, but current levels of long rates have two handicaps. Firstly, they are not attractive, as a US 10-year below 4% short term is not a very attractive level. Secondly, although we have expressed some doubts about the theory of Trump steepening, it remains a perfectly valid hypothesis. There are still good quality credits with low to medium durations: spreads are expensive and should scare investors away, but they are only looking at yield. With such a strategy, it is still possible to lock in using a “buy and hold” approach yields that Treasuries still offered late April.

ECB: rate cut in September

We were convinced that the ECB should cut rates quickly in view of the worsening economic situation, but a grain of salt could grind the machine and challenge this conviction. This is the lack of homogeneity in inflation levels in the main member countries. The CPI for the eurozone is 2.5%, but Italy's is barely 0.8%, while Finland's is 1.3%. At the other end of the list, we find Belgium and the Netherlands at 3.7% and 3.2% respectively, and the Iberian peninsula with Spain at 3.4% and Portugal at 2.8%.

In the eurozone, lowering rates today for obvious reasons would mean pouring oil on the fire in the Benelux countries and the Iberian peninsula. So at one point we feared that Christine Lagarde would back down and surprise us with a less dovish speech than expected. This was not the case, and on 12 September the ECB will no doubt announce another rate cut.

A rate cut on September 18th will sound the death knell for the “fleeting pleasures” that consist in locking short term rates at levels above 5%.

3. EQUITIES

DISSONANCE

The second half start has been marked by an increased volatility on equity markets. While first half performances were largely driven by a handful of companies in very specific sectors, such as the tech giants and the leaders of anti-obesity drugs, a rotation seems to be at play slowly but surely with stocks and sectors neglected during the first half trying to make a come-back.

This phenomenon is partly driven by the earnings season that is well under way, and a rather mixed picture to date. Although there have been some positive surprises, they are far less impressive than in previous quarters, particularly for high-growth sectors.

Glass ceiling or consolidation before a recovery?

After several months of stellar growth for technology stocks coupled with upward revised growth forecasts, the emergence of a plateau phase is not surprising, especially as some ambitious capex plans and forecasts are being called into question. This is all the more acute this year as this trend was accompanied by significant multiple expansion, while macroeconomic indicators were deteriorating on both sides of the Atlantic. Moreover, this seems to give credence to the US Federal Reserve, which could decide to cut its key rate as early as September, helped by the fact that inflation is back on a downward slope.

T1 : US MARKET - Q2 24 EARNINGS RECAP

Sector (BICS)	Reported		Earnings Surprise				Sales Growth				Earnings Growth			
			+	Inline	-	%	+	Inline	-	%	+	Inline	-	%
US Broad Market	376	500	297	18	60	4,72%	263	19	91	5,08%	261	6	106	11,03%
Materials	22	28	17	0	5	4,47%	12	1	8	-0,56%	14	0	7	-6,35%
Industrials	59	72	48	4	7	2,61%	44	2	11	0,57%	45	0	12	-1,11%
Consumer Staples	24	38	17	1	6	2,48%	9	2	13	-1,46%	12	1	11	-2,52%
Energy	17	24	12	2	3	1,94%	14	1	2	8,18%	11	0	6	1,55%
Technology	44	62	35	3	6	2,49%	29	1	14	6,23%	29	1	14	11,98%
Consumer Discretionary	36	52	26	0	10	7,19%	25	1	10	6,86%	26	1	9	18,91%
Communications	15	24	11	3	1	4,67%	10	3	2	7,41%	10	1	4	23,24%
Financials	67	75	55	1	10	6,54%	55	2	10	6,79%	50	0	17	12,66%
Health Care	41	63	37	0	4	7,42%	29	3	9	7,01%	32	0	9	17,77%
Utilities	23	31	17	2	4	6,43%	14	2	7	2,62%	16	0	7	16,32%
Real Estate	28	31	22	2	4	3,08%	22	1	5	4,43%	16	2	10	0,04%

Source: Bloomberg, Banque Eric Sturdza, 01/08/24

Historical data shows a slightly positive correlation between falling interest rates and the outperformance of high-duration equities such as those in the technology sector. When rates fall, these equities usually get a boost. However this theory needs to be taken with caution, because falling rates often imply an economic slowdown or even worst a recession, during which equities tend to perform badly at least in the short term.

Equities with high growth expectations are normally more volatile, but in recent months they have been increasingly considered as a new safe haven against economic, political and geopolitical uncertainties. Not to mention, they have also benefited from an investors' behavioural bias referred as the "fear of missing out". Now that quarterly earnings have been released, we are seeing major adjustments and a sometimes painful ones. The focus turns to fundamentals and financial ratios, and the sentence is often immediate. As an illustration, the Nasdaq100 index has already fallen by close to 10% in just a few trading sessions, almost entering into correction territory.

This may not be the end of the story for these stocks, but it may reflect the start of a return to greater sanity and less concentration, and should favor active management over the coming quarters.

In Europe, it's time for politics and the Olympics (!)

The European elections are behind us. The turmoil spill over to France following the President Macron's surprise decision to call a snap election after his party's resounding defeat in the European elections. Since then, French people cast their ballots with an historic turnout, but no party succeeded in getting an absolute majority. The president has not yet appointed a new prime minister and has announced that he will postpone his decision until after the Olympic Games. The left coalition, which had united against the Rassemblement National, has torn itself apart as quickly as their alliance was formed, creating a cacophony that is worrying and divisive. While the CAC 40 recovered, buoyed by stocks whose exposure to France remains fairly limited, the spread between French and German debt stabilised but did not completely narrow.

We are trying to take advantage of these market movements, with our eyes riveted to quarterly earnings and particularly to their 2nd half guidances. The US small- and mid-cap stocks in which we invest indirectly through an active long/short approach have stood out this month, rising by almost 10% in the space of a few days. We remain strategically positive on equities and constant in our thinking, we also favour diversified approaches and active management in our clients' portfolios.

5. PERFORMANCES

EQUITIES	31.07.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3 572	1,7%	8,1%	11,4%	12,7%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5 331	-1,0%	9,6%	13,2%	15,6%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3 699	4,7%	6,5%	9,5%	9,7%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	40 843	4,4%	8,0%	7,1%	8,4%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	5 522	1,1%	9,7%	14,0%	15,8%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	6 956	4,4%	6,4%	9,6%	8,6%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	19 362	-1,6%	11,0%	13,0%	15,1%	55,1%	-32,4%	27,5%	48,9%	39,5%
	RUSSELL 2000	2 254	10,1%	14,2%	15,8%	11,2%	16,9%	-20,5%	14,8%	19,9%	25,5%
	STOXX 600	518	1,3%	2,6%	6,7%	8,2%	16,6%	-9,9%	25,8%	-1,4%	27,9%
EUROPE	FTSE 100	8 368	2,5%	2,7%	9,7%	8,2%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	7 531	0,7%	-5,7%	-1,6%	-0,2%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	18 509	1,5%	3,2%	9,5%	10,5%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	11 065	1,1%	1,9%	9,8%	9,5%	28,1%	-2,0%	10,5%	-12,7%	16,5%
	SWISS MARKET	12 317	2,7%	9,4%	8,7%	10,6%	7,1%	-14,3%	23,7%	4,3%	30,2%
	SPI SWISS	16 356	2,7%	8,6%	10,7%	12,3%	6,1%	-16,5%	23,4%	3,8%	30,6%
ASIA	MSCI EM	1 085	-0,1%	3,7%	11,2%	6,0%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2 794	-0,5%	1,9%	9,5%	18,1%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	17 345	-2,1%	-2,4%	12,0%	1,7%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
	CSI 300	3 442	-0,6%	-4,5%	7,1%	0,3%	-9,1%	-19,8%	-3,5%	29,9%	39,2%
FX & COMMODITIES	31.07.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
CURRENCIES	EUR-USD	1,083	1,1%	1,5%	0,1%	-1,9%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,951	-1,3%	-3,1%	2,0%	2,3%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,878	-2,3%	-4,5%	1,9%	4,3%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD-JPY	149,980	-6,8%	-5,0%	2,1%	6,3%	10,5%	13,9%	11,5%	-4,9%	-1,0%
	USD INDEX	104,10	-1,7%	-2,0%	0,8%	2,7%	-2,1%	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2447,60	5,2%	7,1%	20,0%	18,6%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	29,01	-0,5%	10,3%	26,3%	21,9%	-0,7%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	77,91	-4,5%	-4,9%	2,7%	8,7%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	2,04	-21,7%	2,3%	-3,0%	-19,0%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	9102,28	-3,7%	-8,0%	7,1%	7,5%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	31.07.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
RATES	US 10 year gvt	4,03	(0,37)	(0,65)	0,12	0,15	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,30	(0,20)	(0,28)	0,14	0,28	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	572,8	1,9%	3,7%	2,3%	2,1%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2306,8	2,2%	4,7%	1,6%	1,3%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US IG Corporates	3281,8	2,4%	5,0%	2,1%	1,9%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2593,5	1,9%	4,0%	4,6%	4,6%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	239,3	2,2%	2,4%	0,8%	0,3%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	251,9	1,7%	2,7%	2,1%	2,3%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	458,9	1,3%	2,8%	3,5%	4,6%	12,8%	-11,1%	4,2%	1,8%	12,3%
	EM USD Aggregate	1219,2	1,8%	4,3%	4,7%	4,1%	9,1%	-15,3%	-1,7%	6,5%	13,1%

Source: Bloomber, 31/07/24

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