BANQUE
ERIC STURDZA

QUARTERLY OUTLOOK

3RD QUARTER 2024

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1. EDITORIAL

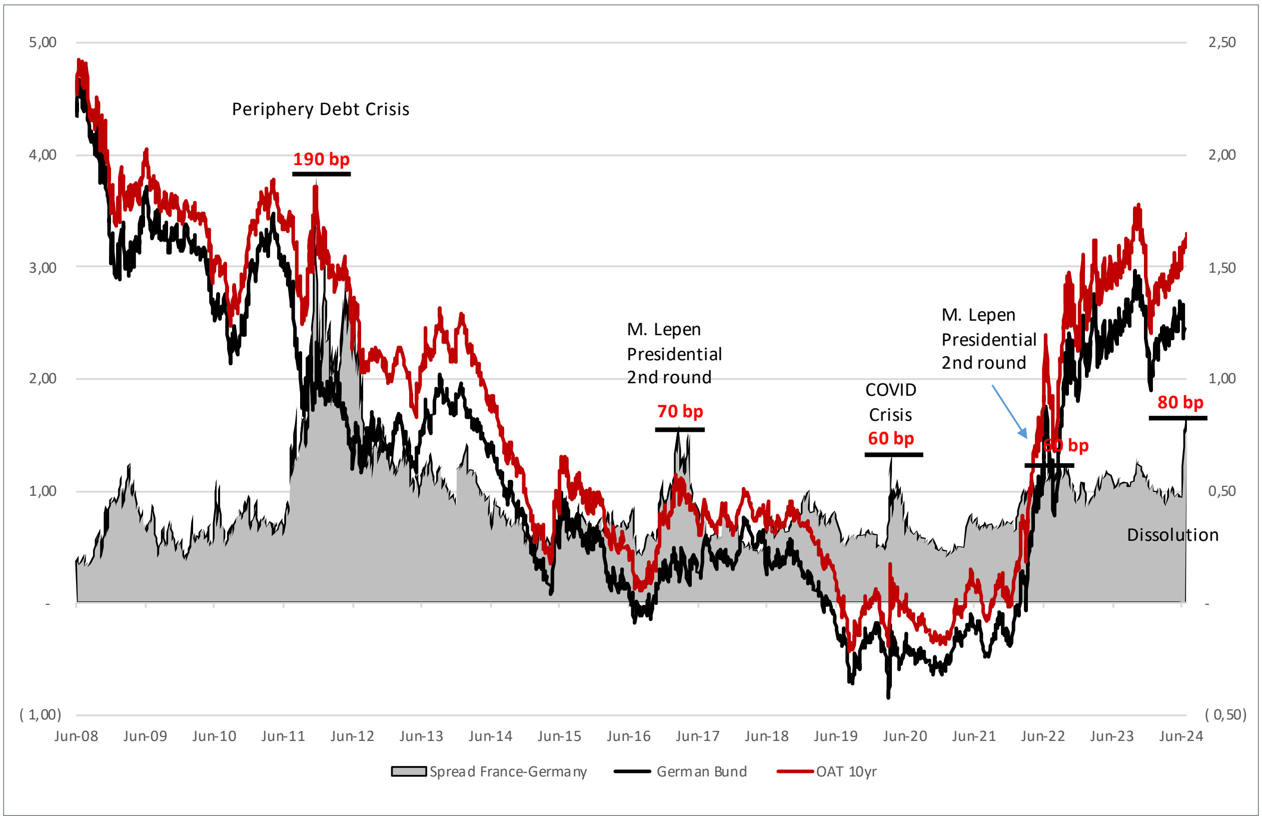
ELECTIONS AND FINANCIAL MARKETS

Just as the French were getting ready to buy tickets for the Olympic Games, or at least turn on their TVs, Emmanuel Macron's surprise dissolution of the French parliament in the wake of the European elections stole the headlines from the French press, and often from the economic news of the Eurozone.

Markets quickly adjusted. The CAC dropped 6.5% compared with a 2.3% drop for the European benchmark (STOXX600), the euro lost 1.5% against the Swiss franc, and the yield spread between German and French debt widened from 50 basis points to 80 basis points.

Cohabitations have occurred three times under the Fifth Republic and have not necessarily had negative macroeconomic consequences. Whether it was in 1986 with the François Mitterrand / Jacques Chirac tandem, in 1993 with Mitterrand / Édouard Balladur, or in 1997 with Jacques Chirac / Lionel Jospin. Each of these past cohabitations had one thing in common; they involved only two blocs, right and left. Today, however, we are in a situation that physicists refer to as a 'three-body problem.' It is not one president and his party facing another party, but a president facing two parties, namely the newly named 'Nouveau Front Populaire,' and the 'Rassemblement National' (or 'RN').

G1 : OAT/BUND 10YR YIELD SPREAD (RHS), GERMAN BUND & FRENCH OAT 10YR (LHS)



Source: Source Bloomberg, Banque Eric Sturdza, June 2008- June 2024

As physicists know, the movement of two planets is easily modelled, but once you have three, the calculation is infinitely more complex.

We have nevertheless seen efforts to quantify all possible outcomes. Now that first-round votes have been cast, it is likely that we will remain in a very uncertain scenario until the second round.

Our goal is limited to trying to read what is already 'priced in', and what is not. In This sense, the French-German sovereign yield spread mentioned earlier is quite illustrative.

This allows us to compare current market stress with that of previous episodes. Comparing the current market stress to that of previous episodes, we are more nervous than when Marine Le Pen reached the second round, but much less nervous than during the great crisis of 2011. Taking a closer look, the spread widening appears to be more of a function of lower German yield - rather than a higher French return.

Given the economic programme of the Nouveau Front Populaire, an extreme dislocation of over 120 basis points in the OAT/Bund spread would surely follow if they won a majority. In our view, however, the other scenarios should not push the spread beyond its current price, and a no-majority situation would probably cause it to retreat. Bear in mind, however, that uncertainties will persist beyond the second round, and that France was already in the crosshairs before the dissolution: we shouldn't expect to see the OAT/Bund spread tighten and return quickly to pre-dissolution levels.

In terms of allocation, if we trust the polling institutes, it's tempting to start considering the 'collateral victims' of the French dissolution. In the first part of this article, we mentioned the deterioration of the CAC relative to the European and US indices, but within the index, there are major disparities: 'global' players such as Schneider have barely corrected, while more domestic (and above all, more regulated!) players have felt heavily the pain. Utilities such as Engie and the French banking sector are just two examples... they're certainly worth looking into for entry points.

2. FIXED INCOME

THE FED AND THE WEAK LINK THEORY

Real estate crisis

Today, in addition to the potential crisis threatening Commercial Real Estate (CRE), there are concerns about the Commercial Mortgage Backed Securities (CMBS) market. US commercial real estate appears to be on the brink of collapse.

Recently in the US, AAA-rated CMBS tranches were valued at between 70% and 75% of their face value. Let's not forget that in March 2023, the Fed injected $400 billion in ten days, so that the Silicon Valley Bank debacle and a few other regional banks' collapse were confined to idiosyncratic risk, when there was a real systemic danger. These regional banks were crumbling under the weight of commercial real estate debts whose value had plummeted.

If a new wave of real estate problems were to rock the US regional bank sector, the central bank would not be able to ignore it and would have to deploy the heavy artillery. It will do everything in its power to avoid such an outcome.

The Fed could therefore make a small step on September 18th if real estate continues to send us signs of a potentially deep crisis.

Rate cuts on September 18?

Since Covid, the various economic sectors (industry, technology, banking, consumer goods, etc.) have evolved at a much less synchronised pace than in the past. The sectors most sensitive to interest rate levels, led by real estate, are now on the brink of recession. If a crisis threatens real estate (especially commercial, but residential is starting to show some signs of weakness), the Fed will lower rates 'for the sake of this sector,' even if others are still in dazzling health. **This is the weak link theory.**

The Fed could therefore make a small step on 18 September if real estate continues to send us signs of a potentially deep crisis. Not to do so would be to gamble that the sector will hold up despite rate levels that are too high for it, which remains a possibility. But it's still a gamble, and Jerome Powell isn't in charge of such an institution to decide the fate of the US economy (and therefore the world) by flipping a coin. The lesson of 2008 seems to have been learned. In addition, a real estate crisis would inevitably lead to a recession and lower inflation, two further reasons to adopt an accommodating monetary policy.

In terms of fixed income investments, this means gradually abandoning what we call "ephemeral pleasures". These very short-maturity money market or bond investments still offer yields in excess of 5%, but not for much longer. So it's a question of gradually putting duration back into portfolios. But gradually, because like alcohol, duration can be consumed, but always in moderation!

3. EQUITIES

THE HAVES AND HAVES-NOT OF EQUITY MARKETS

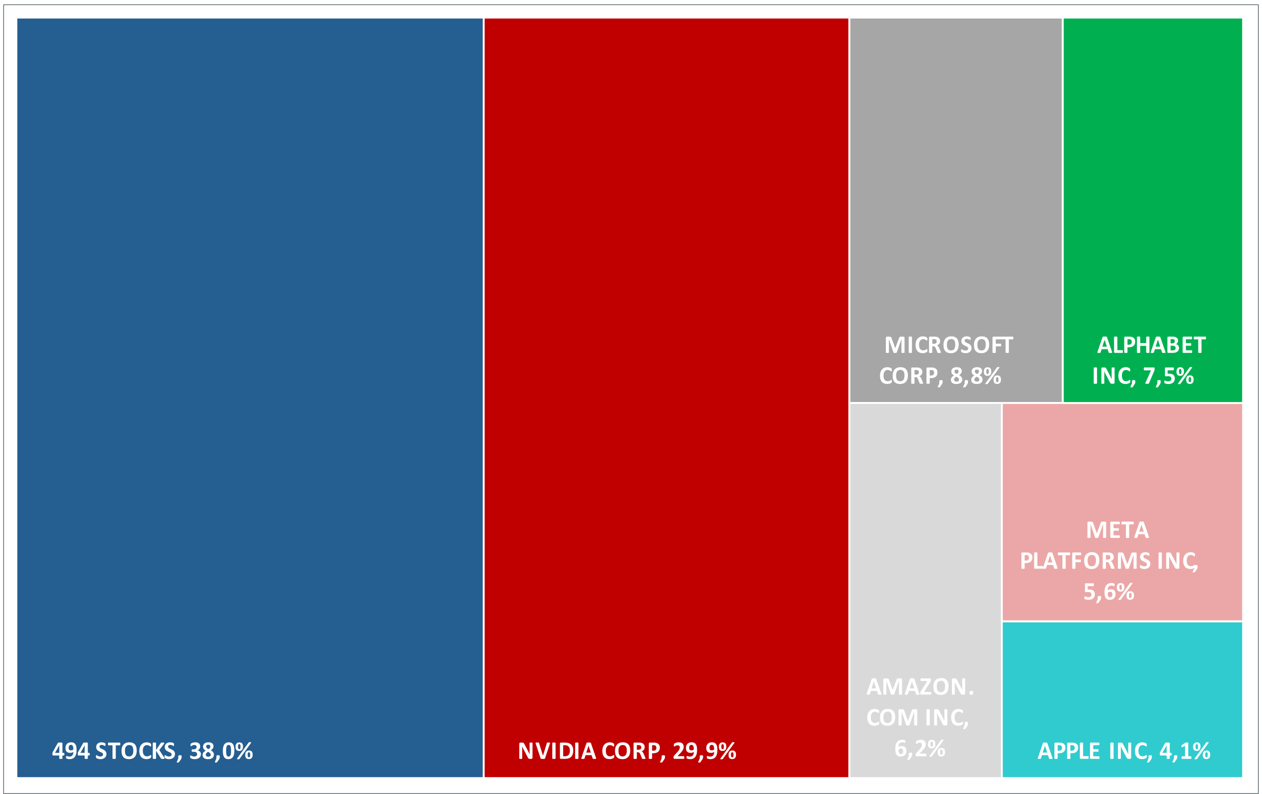
In this election year, the gap between rich and poor is a recurring theme in debates. It's a subject that has a certain resonance in equity markets, for rarely have equity markets been so polarised between the winners and losers of the current bull market, whether geographically or in terms of sectors and stock types.

On the face of it, international equity markets had a fine June, with a rise of almost 2%, confirming the good start to the year for equity markets. On closer inspection, however, the situation is more mixed.

There is little in common between the health of the S&P500, which managed to break through 5,500-points during the month, and the disappointing performance of the CAC40 (-6.5% MTD) that followed the surprising dissolution of the French Parliament, decided by the President and the subsequent snap election.

The downturn in French equities could be explained by the new political uncertainty created by the snap election. At first sight, between the absence of a clear majority and the risk of institutional deadlock, a populist right-wing with an unclear eco-

G2: US INDEX' INDIVIDUAL CONTRIBUTIONS TO YEAR-TO-DATE PERFORMANCE



Source: Bloomberg, Banque Eric Sturdza, YTD nomic programme and a 'Nouveau Front Populaire, whose economic programme is estimated to cost between EUR 150-200 billion*, there's plenty to worry about, but a little less so when you consider that on average, only 15% of CAC40 revenues come from France. The markets don't seem to have been completely fooled, as evidenced by the list of collateral damage on which domestic firms (construction companies, utilities) and financials tend to score low, while French multinationals proved more resilient. There are several reasons to justify the French market's underperformance: 1. the risk premium adjustment as reflected in the OAT/Bund widening spread, 2-. the multiple compression in anticipation of potentially dropping profits (nationalisation, increased taxation and regulation, etc.). While the first factor is somewhat justified, a lot of bad news have been 'baked into' this month notably in financials, providing an investment opportunity.

T1 : CAC40 BOTTOM 10 PERFORMANCES FROM 07/06/24 TO 28/06/24

PERFORMANCES - 08/06/24 TO 28/06/06/24	
NAME	% CHG
Société Générale SA	-15,8%
Eurofins Scientific SE	-15,2%
Airbus SE	-14,5%
Thales SA	-13,5%
Bouygues SA	-13,5%
Crédit Agricole SA	-13,0%
Edenred SE	-12,8%
Carrefour SA	-11,2%
Vinci SA	-11,2%
Engie SA	-11,1%
CAC40 Index	-6,5%
STOXX Europe 600	-2,3%

Source: Bloomberg, Banque Eric Sturdza , 07/06/24 au 28/06/24

In the United States, the stock market craze continues around Nvidia and stocks identified as benefiting from the Artificial Intelligence revolution. The figures are dizzying: despite a 15% drop in the last few trading sessions of June, Nvidia's performance continues to be mind-boggling, rising by 11% MTD and by 150% YTD. That's more than enough to put Nvidia in the very exclusive club of companies with a market capitalisation in excess of USD 3 trillion. So it's hardly surprising that Nvidia has accounted for almost 1/3 of the S&P500's rise since the start of the year, and this contribution rises to almost two-thirds if we add to Nvidia the "Magnificent 5" (Apple, Alphabet, Amazon, Meta Platforms, Microsoft).

Such a situation is unprecedented, looking at the US concentration in a handful of stocks, both from a capitalisation and performance standpoints. Above all, it appears unsustainable in the long run, and should prompt caution more than ever, especially in a context of high valuations and stretched sentiment indicators.

One of this month's lessons is that the political factors feared in 2024 are indeed present, but not where we were expecting them, and could halt well-established stock market trends. All the more reason to remain cautious, as the US presidential election looms in November, with one candidate now a convicted felon and the other achieving a pretty poor performance in the first debate. Nothing can be taken for granted!

** IFRAP Foundation / NFP*

5. PERFORMANCES

EQUITIES	28.06.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3512	1,9%	2,2%	10,8%	10,8%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5383	4,8%	6,1%	16,8%	16,8%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3534	-1,0%	-1,9%	4,8%	4,8%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	39119	1,1%	-1,7%	3,8%	3,8%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	5460	3,5%	3,9%	14,5%	14,5%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	6664	-0,6%	-3,1%	4,1%	4,1%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	19683	6,2%	7,8%	17,0%	17,0%	55,1%	-32,4%	27,5%	48,9%	39,5%
	RUSSELL 2000	2048	-1,1%	-3,6%	1,0%	1,0%	16,9%	-20,5%	14,8%	19,9%	25,5%
EUROPE	STOXX 600	511	-1,3%	-0,2%	6,8%	6,8%	16,6%	-9,9%	25,8%	-1,4%	27,9%
	FTSE 100	8164	-1,3%	2,7%	5,6%	5,6%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	7479	-6,4%	-8,9%	-0,8%	-0,8%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	18235	-1,4%	-1,4%	8,9%	8,9%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	10944	-3,3%	-1,2%	8,3%	8,3%	28,1%	-2,0%	10,5%	-12,7%	16,5%
	SWISS MARKET	11994	-0,1%	2,2%	7,7%	7,7%	7,1%	-14,3%	23,7%	4,3%	30,2%
	SPI SWISS	15919	-0,5%	3,1%	9,3%	9,3%	6,1%	-16,5%	23,4%	3,8%	30,6%
ASIA	MSCI EM	1086	3,6%	4,1%	6,1%	6,1%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2810	1,3%	1,5%	18,7%	18,7%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	17719	-2,0%	7,1%	3,9%	3,9%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
	CSI 300	3462	-3,3%	-2,1%	0,9%	0,9%	-9,1%	-19,8%	-3,5%	29,9%	39,2%
FX & COMMODITIES	**28.06.24**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
CURRENCIES	EUR-USD	1,071	-1,2%	-0,7%	-3,0%	-3,0%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,963	-1,6%	-1,1%	3,7%	3,7%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,899	-0,4%	-0,3%	6,8%	6,8%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD-JPY	160,880	2,3%	6,3%	14,1%	14,1%	10,5%	13,9%	11,5%	-4,9%	-1,0%
	USD INDEX	105,87	1,1%	1,3%	4,5%	4,5%	-2,1%	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2326,75	0,0%	4,3%	12,8%	12,8%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	29,14	-4,2%	16,7%	22,5%	22,5%	-0,7%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	81,54	5,9%	-2,0%	13,8%	13,8%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	2,60	0,5%	47,5%	3,5%	3,5%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	9455,98	-4,6%	7,9%	11,7%	11,7%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	**28.06.24**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
RATES	US 10 year gvt	4,40	(0,10)	0,20	0,52	0,52	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,50	(0,16)	0,20	0,48	0,48	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	561,9	0,9%	0,1%	0,1%	0,1%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2257,5	1,0%	0,1%	-0,9%	-0,9%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US IG Corporates	3205,4	0,6%	-0,1%	-0,5%	-0,5%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2544,1	0,9%	1,1%	2,6%	2,6%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	234,1	0,2%	-1,2%	-1,8%	-1,8%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	247,6	0,7%	0,1%	0,5%	0,5%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	453,0	0,4%	1,4%	3,2%	3,2%	12,8%	-11,1%	4,2%	1,8%	12,3%
	EM USD Aggregate	1197,1	0,6%	0,7%	2,2%	2,2%	9,1%	-15,3%	-1,7%	6,5%	13,1%

Source: Bloomber, 28/06/24

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