BANQUE
ERIC STURDZA

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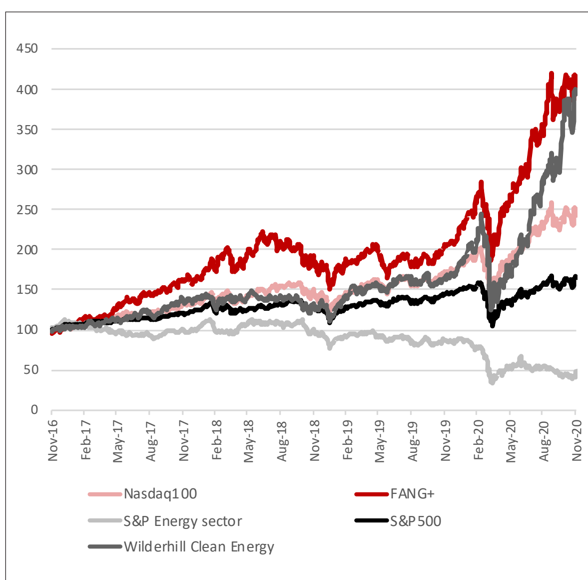
1. EDITORIAL
US ELECTIONS AND THE MARKETS

Investors are fond of historical data, of market observations over long periods, and they tirelessly look for repeatable 'historical' patterns. So, when asked 'Are some months better than others for stock markets? The answer is yes. There is no doubt that performance is not randomly distributed. In reality, the 'yes' is more of a 'yes but', as the recent example in the Hong Kong market demonstrates. Although September is usually one of the worst months for the stock market in general and Hong Kong in particular, the Hong Kong market actually increased by about 20% in September this year... perhaps proving that statistics can be a false friend.

One painful experience is not going to put off statisticians, and as the US elections approach, we should consider market patterns in an election year from two angles: What do financial markets say about the election result? What do the election results indicate about financial markets?

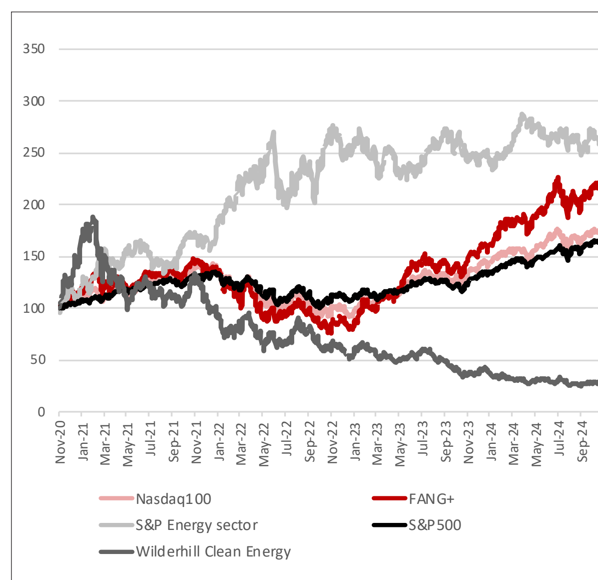
One of the most convincing statistical answers to the first question is the following: Since 1928, when the S&P500 rose over the 3 months preceding an election, the incumbent candidate's party won 83% of the time. The US momentum in recent weeks has been strong, so based on the statistic Kamala Harris should win the election.

G1 : PERFORMANCE
UNDER THE TRUMP MANDATE



Source : Bloomberg, Banque Eric Sturdza, base 100 at 08/11/16 to 09/11/20

G2 : PERFORMANCE
UNDER THE BIDEN MANDATE



Source : Bloomberg, Banque Eric Sturdza, base 100 at 09/11/20 to date

The bookmakers and pollsters take a different view, both giving Donald Trump a slight advantage. Turning to the second question, what is the impact of a particular candidate on financial markets, the first reading is that financial markets tend to favour a victory of Donald Trump. Indeed, the recent rise in US 10-year yields from 3.80% to 4.20% over the last 4 weeks has often been associated with the fact that Trump's programme is more inflationary than that of Kamala Harris. High tariffs, significant restrictions on immigration and tax cuts at a time when the US budget deficit is already a cause for concern all argue in favour of a higher 10-year rate.

However, we need to be very cautious when it comes to anticipating the influence that candidates will have on financial markets or on a particular sector. First of all, candidates do not always do what they say: Donald Trump was very 'vocal' and aggressive on the banking sector during his first campaign, he then rolled out the red carpet for them by easing regulations and lowering capital requirements... Banks should not have been labelled as a straight short sale when Trump was elected in 2016. Less intuitively, even when the programmes implemented are in line with what the candidates promised, the direct effects on financial markets can often be surprising.

From 2016 to 2020 – those same Trump years – the performance of the clean energy sector was stellar, while during the Biden years it was the fossil fuels sector that shone... In both cases, the opposite of what the logic of the programmes would have indicated.

The very short-term effects are generally in line with expectations, but in the medium and long term there are far too many factors at play to construct an allocation based on a political programme. Even with a crystal ball showing us the results of November 5th elections, our portfolio would probably remain unchanged. On that note, it is more useful to focus on fundamentals and the intrinsic value of underlying assets. From this point of view, a little caution towards the US stock market at the end of the year should not do any harm. We have often mentioned the high valuation of the Tech sector and the "Magnificent 7", as well as the US exceptionalism, but when Walmart is valued at 35 times its earnings, it is worth thinking twice before putting new money to work.

2. FIXED INCOME
WHY SUCH A SELL-OFF IN US LONG RATES?

The no-landing scenario is gaining ground

The US 30-year yield fell below 3.9% on September 17th. Today, it stands at 4.5%. This spectacular rise has also affected the 10- and 20-year maturities in similar proportions since the Fed's famous jumbo rate cut on September 18th. We see three main reasons for this sell-off. We could add a fourth, a growing sense of concern about the staggering amount of US Treasury debt outstanding. This argument is justified and raises many questions in the medium to long term. But we do not regard it as the immediate cause of this sharp market movement.

Firstly, there is undoubtedly a Trump effect. The increased likelihood of the Republican candidate's victory led to renewed fears of an inflation come back, and a resulting ripple effect negative impact on long-term interest rates. Remember once again that if Trump wins but the Congress is split, it will be a half-victory and these fears will seem exaggerated. Secondly, remaining on the subject of inflationary fears, fixed-income markets have been cautious since the Core CPI release as it has stopped falling and has actually risen slightly. Will this prove temporary? Finally, the third reason, which in our view is the primary one, is the resilience of the US economy. Mid-September, market participants were forecasting a US economy plunging into recession, whereas now the soft landing scenario appears to be the most likely. Worse still for long duration bonds, investors are once again considering that a no-landing scenario is entirely plausible. This is why they believe that the 50bp cut decided at the last FOMC meeting was probably inappropriate.

Is extending duration a pure folly?

It is key retrospectively consider the three above arguments regarding the sell-off in October, because if we want to lengthen the duration of our portfolios, it is essential to take a view on the evolution of long term rates. Firstly, to estimate how much longer this correction will last, and secondly to take action if any of them (or all three at the same time) weaken or even disappear. Until the fog surrounding our three explanatory factors clears, we rule out any extension in duration, which would be more of a gamble than a strategy. On the other hand, at the first sign of light, we do not rule out investing again in long-term rates.

The major events taking place in November (elections and the FOMC) may provide some investment opportunities. A US 10-year above 4.5% would be a good start. Let's also not forget TIPS (Treasury Inflation Protected Securities). If we were to reinvest in very long rates, we would seriously consider buying 30-year TIPS at the expense of their nominal counterparts. Today, we have the calm before the storm. But the storm could come quickly once we have the US election results and/or the Fed's decision on its key rate.

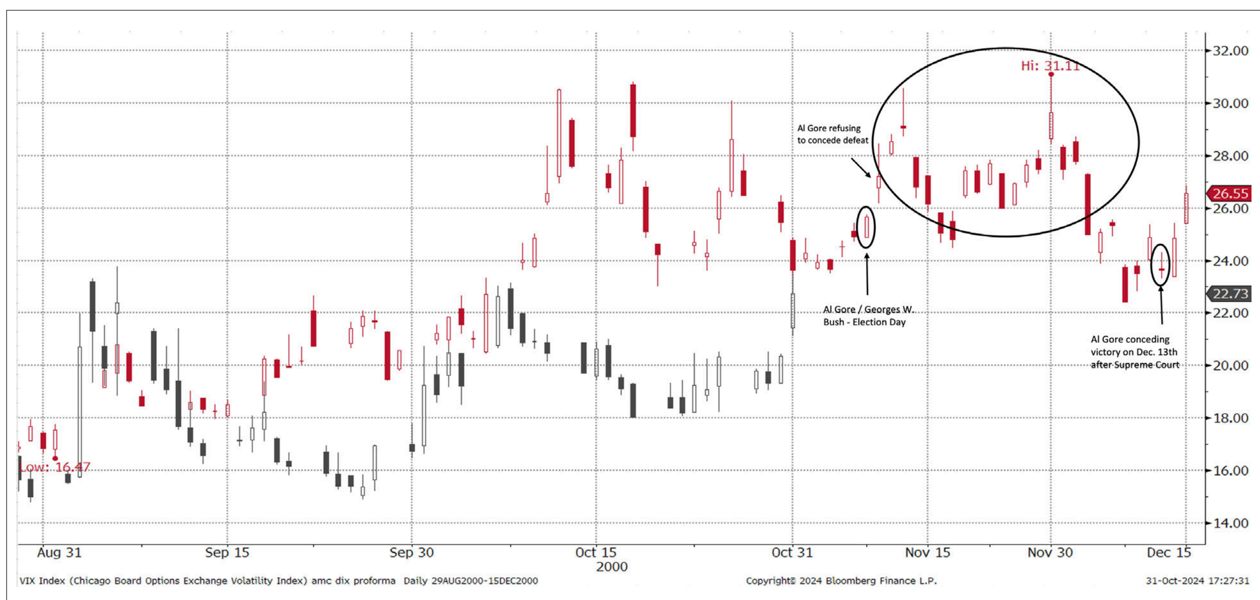
3. EQUITIES

HAVE MARKETS ALREADY VOTED?

October was a rather uneventful month for US markets with investors more focused on the ongoing earnings season. The S&P500, the US flagship index, consolidated its YTD gains bringing its YTD performance to +21%. The heightened volatility traditionally associated with presidential elections did not materialise, and yet rarely has an election been so hotly disputed. In the US electoral system, the path to success lies in 7 swing states (Arizona, North Carolina, Georgia, Nevada, Michigan, Pennsylvania and Wisconsin) that together represent 93 of the 270 votes required to achieve a majority in the Electoral College. However, the latest polls in these states indicate a very narrow gap between the two candidates ranging from 1% to 2% at best, clearly within the pollster margin of error.

After a series of ups and downs, Trump's very recent comeback in the polls cannot certainly be ignored as a possible factor explaining US market resilience. Indeed the Republican candidate and his promises of tax cuts and deregulation are commonly viewed as more favourable to US equities. The increased likelihood of the Republicans achieving a 'Red Sweep', i.e. gaining control of both houses, is also a supporting factor. On this last point, while the control of the Senate seems to be more or less taken for granted for the Republicans, the same cannot be said of the House of Representatives, where the way electoral districts have been reshaped means that the results could be very close. This point could be important, bearing in mind that while protectionist measures and trade policy are the sole responsibility of the US President, fiscal policy and therefore potential tax cuts require passing through the Congress.

G3 : CHANGE IN VIX INDEX FROM 31/8/2000 TO 15/12/2000 (RED CANDLES) VS. VIX 31/08/24 TO NOW (GREY CANDLES)



Source : Bloomberg, Banque Eric Sturdza

The narrow margin between the two candidates combined with legal action procedures already developing mean that the results are likely to be contested and it will probably be difficult to determine the clear winner the day after the election, especially if neither wants to concede victory. The volatility that investors were expecting before the election could make a rapid come back: Ones thoughts go back to the year 2000 and the disputed presidential election between George W. Bush and Al Gore, when the VIX (S&P500 implied volatility) rose briefly from 24% to 31% before heading back to its pre-election level once the uncertainty had been resolved and Al Gore finally conceded.

Beyond the temporary effect on volatility that elections can have, there can be a significant gap between what candidates say and what they do can be significant, as pointed out earlier in this letter. This gap can be even greater when compared to the stock market reality. The examples of the fossil fuels and clean energy sectors under the Trump and Biden administrations are particularly telling. The case of the FAAMG (Facebook/Meta, Apple, Amazon, Microsoft, Google/Alphabet) is even more so. Regardless of the administration, these stocks were the big winners over the last 8 years: neither Donald Trump's threats against Mark Zukerberg and Jeff Bezos nor those of the Biden administration's Department of Justice against Alphabet have managed to derail their formidable stock market trajectory, at least for the time being.

If the political factor alone has proved incapable of reversing or boosting stock market momentum over the long term, it is the fundamentals that should be examined to for explanations. Unfortunately, with the US market trading at 23x expected 12-month earnings and EPS growth of 9%, caution and selectivity are still the order of the day.

5. PERFORMANCE

EQUITIES	30.10.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3 706	-0,4%	3,8%	12,1%	16,9%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5 595	0,6%	5,0%	15,0%	21,3%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3 793	-1,5%	2,5%	9,2%	12,5%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	42 142	-0,4%	3,2%	11,4%	11,8%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	5 814	0,9%	5,3%	15,4%	21,9%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	7 224	-0,6%	3,8%	10,5%	12,8%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	20 388	1,6%	5,3%	16,9%	21,2%	55,1%	-32,4%	27,5%	48,9%	39,5%
	RUSSELL 2000	2 233	0,1%	-1,0%	13,1%	10,2%	16,9%	-20,5%	14,8%	19,9%	25,5%
EUROPE	STOXX 600	512	-2,2%	-1,3%	1,3%	6,8%	16,6%	-9,9%	25,8%	-1,4%	27,9%
	FTSE 100	8 160	-0,9%	-2,5%	0,2%	5,5%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	7 428	-2,7%	-1,4%	-7,0%	-1,5%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	19 257	-0,3%	4,0%	7,4%	15,0%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	11 715	-1,4%	5,9%	7,9%	16,0%	28,1%	-2,0%	10,5%	-12,7%	16,5%
	SWISS MARKET	11 968	-1,7%	-2,8%	6,3%	7,5%	7,1%	-14,3%	23,7%	4,3%	30,2%
	SPI SWISS	15 937	-1,9%	-2,6%	5,8%	9,4%	6,1%	-16,5%	23,4%	3,8%	30,6%
ASIA	MSCI EM	1 127	-3,8%	3,8%	7,7%	10,0%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2 704	2,2%	-3,2%	-1,4%	14,3%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	20 381	-3,6%	17,5%	14,7%	19,6%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
	CSI 300	3 889	-3,2%	13,0%	7,9%	13,4%	-9,1%	-19,8%	-3,5%	29,9%	39,2%
FX & COMMODITIES	**30.10.24**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
CURRENCIES	EUR-USD	1,086	-2,5%	0,3%	1,8%	-1,7%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,941	-0,1%	-1,0%	-4,1%	1,3%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,867	2,5%	-1,3%	-5,7%	3,0%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD-JPY	153,420	6,8%	2,3%	-2,8%	8,8%	10,5%	13,9%	11,5%	-4,9%	-1,0%
	USD INDEX	103,99	3,2%	-0,1%	-2,1%	2,6%	-2,1%	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2787,61	5,8%	13,9%	21,9%	35,1%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	33,78	8,4%	16,4%	28,5%	41,9%	-0,7%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	68,61	0,6%	-11,9%	-16,3%	-4,2%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	2,85	-2,7%	39,7%	42,9%	13,2%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	9398,03	-3,0%	3,2%	-5,0%	11,0%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	**30.10.24**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2023**	**2022**	**2021**	**2020**	**2019**
RATES	US 10 year gvt	4,30	0,52	0,27	(0,38)	0,42	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,39	0,27	0,08	(0,20)	0,36	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	577,9	-1,3%	0,9%	4,7%	3,0%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2307,3	-2,4%	0,0%	4,7%	1,3%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US TIPS	352,4	-1,7%	0,6%	4,9%	3,1%	3,9%	-11,9%	6,0%	11,0%	8,4%
	US IG Corporates	3314,6	-2,3%	1,0%	6,0%	2,9%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2668,1	-0,4%	2,9%	7,0%	7,6%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	241,1	-0,9%	0,8%	3,1%	1,1%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	255,2	-0,2%	1,3%	4,0%	3,6%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	473,0	0,7%	3,1%	5,9%	7,8%	12,8%	-11,1%	4,2%	1,8%	12,3%
	EM USD Aggregate	1251,4	-1,2%	2,6%	7,0%	6,9%	9,1%	-15,3%	-1,7%	6,5%	13,1%

Source: Bloomber, 30/10/24

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Contributors

Edouard Bouhyer, CAIA – CIO

Marc Craquelin, Senior Advisor

Eric Vanraes, Head of Fixed Income AM

Pascal Perrone, Senior Portfolio Manager

Jeremy Dutoit, Head of Advisory

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Contact

Banque Eric Sturdza SA

Edouard Bouhyer

invest@banque-es.ch

www.banque-es.ch