INDOSUEZ WEALTH MANAGEMENT

Marketing Material

MONTHLY HOUSE VIEW

August-September 2024

Sit back and relax

Architects of Wealth

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01 • Editorial
SIT BACK AND RELAX

Alexandre
DRABOWICZ
Chief Investment Officer

Dear Reader,

As we enter summer and are halfway through 2024, this is a good time to reflect on the first half of the year's market evolution and the opportunities ahead.

The global economy continues to show positive trends, spurred by falling inflation, rate cuts in several countries and technological advancements. The US economy remains strong, prompting us to double our GDP forecast to 2.5% since the start of the year, driven by the resilience of the US consumer. While some areas like the savings rate, real income and manufacturing are slowing down, we view this as a normal course of events rather than a sign of significant economic slowdown. Pessimists might point to this as an imminent warning of a considerable economic downturn, but optimists like us see this as a natural normalisation.

CUTS ARE IN THE AIR

One of the most notable developments has been the significant decline in US inflation. Initially, three disappointing inflation reports early in the year shifted expectations for rate cuts from the Fed from seven cuts to almost none. However, the Federal Reserve (Fed) Chair Jerome Powell stood firm, and in June, inflation cooled to its slowest pace since 2021, notably due to a long-awaited slowdown in housing costs. The road is now open to a rate cut by the Fed in September, we expect two cuts this year.

This development comes at a crucial time as unemployment has risen for three consecutive months. While this is not alarming, maintaining high short-term rates for too long is not ideal. The Fed needed this disinflation to continue to maintain its credibility, a central theme of our macroeconomic scenario on which we held firm.

EQUITIES VERSUS BONDS: MAKE YOUR BETS

In terms of financial market performance, it has been a tale of two stories. Bonds have seen significant movement: US 10-year yields rose to nearly 4.75% from 3.8% at the start of the year, then receded to around 4.2% after the June Consumer Price Index (CPI) report.

Opinions are divided: the CEO of one the largest US bank foresees long-term yields at 7% while their own market strategists see them at 3%. Record deficit on the one hand (USD 35 trillion (source: www.usdebtclock.org)), slowing economy on the other hand: this is not an election, but placing your vote on the right scenario will be key. We are currently tactically long duration in the medium part of the curve but believe the curve needs to normalise, with lower short-term rates and higher long-term rates, a "disinversion" process.

Conversely, equities are the asset of choice. The theme of US dominance in our global outlook for 2024 continues, marked by record low equity volatility, notably when compared with bonds. Indeed, the volatility of the S&P 500 fell to below 6% in June. To put things in perspective, this means daily movements below 0.35%.

ROTATION

As we look forward to the second half of the year, we remain optimistic and prepared. For equities, 60% of US market performance has come from just five stocks. Concentration or dominance? We see two possible scenarios ahead: 1) continued advancements in technology and artificial intelligence (AI) pushing Mega Tera caps[1] to new highs; 2) a broader performance spread across other market sectors, smaller market caps or emerging markets, where we see significant catch-up potential. As an illustration, July saw a session where the outperformance of the Russell Index (small caps) versus the S&P 500 (large caps) was among the top five in the last 45 years.

In this edition, Lucas Meric provides an in-depth analysis of the US labour market. With the disinflation process well underway, the current employment slowdown seems to us more like back to normal than a sharp change. This trend will now be a key focus for the Fed to sustain the current soft landing scenario.

Enjoy reading our summer edition.

1 - Referring to mega caps with market capitalisation above 1 USD trillion.

02 • Focus

FEDERAL RESERVE: IT'S ALL ABOUT JOBS

Lucas MERIC
Investment Strategist

The US economy has been on a disinflationary slowdown path for several weeks. This has prompted the Fed and the markets to pay special attention to the job market which, after its rebalancing, now seems to have reached an inflection point and is increasingly looking like the key factor in the quest for a soft landing.

THE SOFT LANDING IS TAKING SHAPE

We have been discussing our scenario of a soft landing for the US economy for several quarters. Since then, the disinflation trend has continued and growth – while still resilient – has slowed. The market now seems to be convinced by this scenario. This optimism is reflected in the sharp adjustment to growth expectations since 2023, as consensus for US growth in 2024 has been revised upwards from 0.7% to 2.3% in 12 months. This realignment of expectations has driven the financial markets, with the S&P 500 continuing to rise by almost 15% in the first half of 2024, also fuelled by the structural theme of artificial intelligence (AI).

The deceleration in the job market, which we described in our March 2024 issue (So far, so good), was a crucial factor in this quest for a soft landing, at a time when services inflation was the largest contributor to inflation. A tight job market is an obstacle to disinflation, because it supports workers' bargaining power and puts upward pressure on wages, a significant share of service companies' cost base.

THE JOB MARKET IS THE KEY

The ratio of the number of job openings to the number of unemployed people is used to measure tightness in the labour market. The higher the ratio, the more companies struggle to find labour, giving workers the upper hand, and vice versa. In 2022, there were two job openings per unemployed person, a record supply/demand imbalance that propelled wage growth to a peak of 7%. In this context, the rebalancing may take two forms: higher unemployment (supply) or fewer job openings (demand).

One landing scenario was based on a rebalancing through the second option, with a slowdown in economic activity and without causing a significant deterioration in the unemployment rate. Between April 2022 and June 2024, the number of job openings fell by nearly 4.5 million while the number of unemployed people increased by 600'000. This healthy dynamic allowed for a smooth labour market rebalancing.

THE FED IS FOCUSED ON EMPLOYMENT

Although this rebalancing is good news on the inflation front, it could now raise more questions about the growth outlook. The job market has slowed: three-month job creation is at its lowest level since early 2021, jobless claims increased in June and the unemployment rate has risen from 3.4% to 4.1% since early 2023. The job market has returned to its pre-pandemic balance, now leaving less room for a further slowdown which would lead to a larger increase in the unemployment rate. The latter has remained mostly in check so far (Chart 1, page 5).

This balance is crucial to understanding the dilemmas the Fed could soon face. More than two years after the start of its monetary tightening, core inflation has returned to around 2.5% and the US economy is starting to show signs of a slowdown. This stands in contrast to what we were seeing a few months ago when the US economy was growing by more than 3% (annualised) per quarter and the question on the markets' mind was the risk of a reacceleration of inflation.

Recently, the Fed's main cause for concern has clearly shifted to the employment side, where a larger-than-expected increase in unemployment could jeopardise the soft landing. The Fed is likely not ready to take this risk, and could trigger the famous "Fed put"[2] and bring on rate cuts if this risk were to materialise further, even if this means tolerating above-target inflation.

We expect a
FED FUNDS
RATE OF 4%
at end-2025

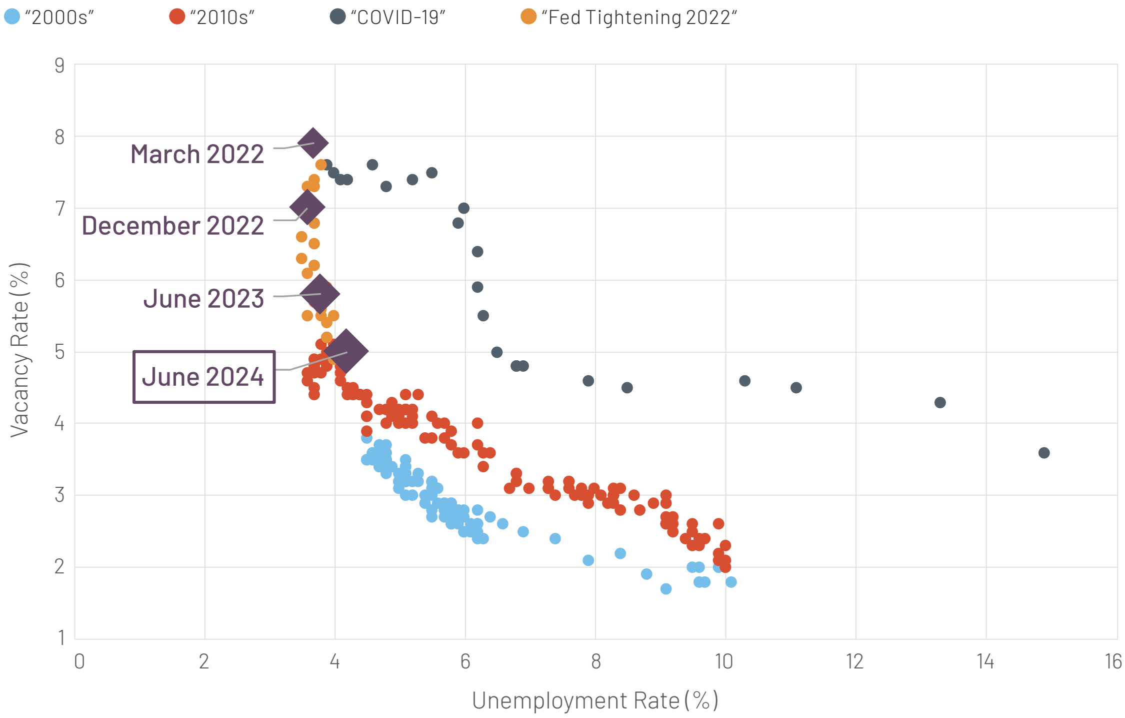
OUTLOOK

However, we think this deceleration in employment and economic activity looks more like a normalisation of the economy after the high levels of growth recorded at the end of last year, rather than a real deterioration. The job market remains healthy, job creation has slowed but is still high, and the rise in jobless claims is mostly seasonal while the unemployment rate remains low and stands below the *equilibrium* level considered by the Fed.

In addition, the recent rises in unemployment partly refer to the increase in the labour force – new entrants to the market do not all find jobs right away – and do not in themselves indicate a deterioration in the labour market.

Consumption is expected to continue to underpin the strength of the US economy with quarterly growth close to 1.5% to 2% (annualised), which would keep the unemployment rate at around 4%. A controlled slowdown, along with the positive inflation trends seen in recent months, should allow the Fed to make two rate cuts by the end of 2024. The rate cut cycle should bring Fed funds rate to 4% by end-2025, which should continue to support economic growth; a combination that is, in principle, constructive for US financial markets.

CHART 1: THE US LABOUR MARKET REMAINS AT AN INFLECTION POINT



Source: Bloomberg, Indosuez Wealth Management.

2 - Fed put: Fed intervention aimed at easing monetary policy in the event of a major deterioration in the economy or financial markets.

03 • Macroeconomics

SUMMER MODERATION

Lucas MERIC
Investment Strategist

Economic activity has shown signs of slowing down at the global level. The scenario of a US growth normalisation remains on track with the good news on the inflation front now supporting a rebalancing of macroeconomic risks across the Atlantic, while core inflation in the Euro Area is looking more resilient than expected. We are also seeing more sources of uncertainty, particularly in Europe, reflecting political developments in France and the United States.

US Core CPI:
+4.5%
(annualised) in Q1 2024,
+2.1%
in Q2 2024

CONTROLLED NORMALISATION

Global macroeconomic *momentum* is slowing, symbolised by the now universally negative economic surprises in major economies in recent weeks. These negative surprises, particularly in the United States, reflect economists' high expectations after the upward readjustment to forecasts in recent months, which is now limiting the potential for upside surprises. Surveys point to contraction trends in the manufacturing sector, as well as in services, while employment, real wages and confidence surveys have moderated. This slowdown is welcome and expected, and now requires a rebalancing between the risk of a reacceleration of inflation, which had prevailed since the beginning of the year, and that of a more significant deterioration in the US economy (Focus, page 4). We have also seen a slowdown in China where domestic *momentum* remains mixed, symbolised by weak consumption and the adverse impact on investment of the real estate sector, which has not shown any significant signs of improvement and could warrant additional support from the authorities. In the Euro Area, we believe that *momentum* should continue to improve in 2024, although, for now, consumption remains disappointing and the semblance of a rebound seen in the manufacturing sector and external trade at the beginning of the year has recently looked more tentative.

IN SUPPORT OF DISINFLATION

The rebalancing of the growth and inflation risks in the United States stems mainly from the very positive inflation trend seen in the second quarter of 2024. Core inflation slowed from 4.5% in the first quarter of 2024 (on an annualised quarter-on-quarter basis) to 2.1% in the second quarter of 2024. While it is still the major driver of inflation in the United States, the services component has been falling, a very encouraging development for the Fed. We believe that this current improvement, which is in line with our expectations, will continue with a slowdown in the services component. This should support disinflation in the United States, with a core Personal Consumption Expenditures Price Index (PCE) around 2% by end-2025. The question mark hanging over inflation has now shifted more to the Euro Area, where the services component has remained sticky at 4% since the beginning of the year. This trend raises some questions at a time when wage growth is still high, standing at 5% year-on-year (YoY) in the first quarter of 2024, and productivity remains modest. Some leading wage indicators had decelerated in recent months, such as the Indeed Wage Tracker, which had been 3.5% (YoY) on average since the beginning of the year before rebounding to 4.2% in June. The European Central Bank (ECB) is expected to keep wage resilience in sight over the coming months, even though the price and employment components in the business surveys point to a further easing of wages in the next few months. As is the case in the United States, this trend is expected to support continued disinflation in the Euro Area although the ongoing increase in freight rates could represent an upside risk to core inflation, which we expect to remain above 2.5% at end-2024 before decelerating further to 2% in 2025.

(GEO)POLITICAL UNCERTAINTIES

Since we are in an election year, the last few weeks have also brought their share of political surprises. The French elections resulted in a parliament that is split into three major blocs (the New Popular Front (Nouveau Front Populaire), the presidential coalition, and the National Rally (Rassemblement National)). Uncertainty is therefore expected to continue, although the main risks appear to have been averted, and is likely to weigh on consumption and investment decisions in France. In the medium-term, the lack of reform is also expected to hinder French growth. The negative impact of the political situation, in a favourable context of an improvement in real wages and monetary conditions, is nonetheless expected to be limited, particularly at the Euro Area level.

On the other side of the Atlantic, Donald Trump's position as favourite to win in the US presidential election has been further strengthened in recent weeks. At this stage, the possibility that the Republican candidate will increase tariffs by 10% for Euro Area countries (and the rest of the world) and by 60% for China is another uncertainty that could weigh on companies' investment decisions and on global growth. However, it is still uncertain whether such measures are possible and can be implemented, and this will depend on several electoral and legal factors, mainly with respect to the universal 10% tariff, which could affect Euro Area exports.

TABLE 1: MACROECONOMIC FORECAST 2024 - 2025, %

● Revised down since last month ● Revised up

	PIB		INFLATION	
	2024	2025	2024	2025
United States	2.5%	1.8%	3.0%	2.4%
Euro Area	0.7%	1.2%	2.4%	2.1%
China	4.8%	4.2%	0.7%	1.6%
World	2.9%	2.7%	-	-

Source: Indosuez Wealth Management.

BACK TO BASICS TO ESCAPE THE NOISE

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

Sovereign risk features prominently again amid the record number of elections taking place in 2024. As we write this, France seems to have no fiscal direction. In contrast, the markets are positioning themselves for a Donald Trump victory on 5 November. On the one hand, we have a risk premium on a deficit trajectory and, on the other, a "memory effect" of calls for Fed rate cuts.

ETF

+ USD 67 BN
in bond ETFs since the beginning of the year

CENTRAL BANKS AND LONG RATES

Jerome Powell took a mostly firm tone at the Fed's monetary policy meeting. He reiterated that there was no rush to start easing quickly. Just one lower inflation figure was enough for the markets to anticipate up to more than two rate cuts by December. This scenario seems much more realistic than the two extremes seen in the first half of the year: between none in early June and seven in January. There is no doubt that the US economy is slowing down (rise in unemployment, contraction in manufacturing activity, etc.).

In Europe, the polls had largely anticipated the results of the parliamentary elections in the United Kingdom on 4 July. Even the British financial press had liberally encouraged people to vote for the Labour Party, which campaigned on what was deemed to be a very centrist platform. British long rates welcomed this victory, following the global downward trend in long rates in July.

The Bank of England has left its policy unchanged for now. The inflation trajectory is not consistent with the start of a rate cut cycle, which would otherwise have been justified by other macroeconomic indicators (employment, growth).

The ECB will remain on its current trajectory throughout the summer. The next rate cut is expected in September. The Frankfurt-based institution believes that its current monetary policy is still more restrictive than when it last raised rates in September 2023. According to the most recent published data, demand for credit has rebounded slightly. The market expects two rate cuts by the end of the year.

Long rates continue to decline gradually, with no clear direction in the curves. Volatility in June pushed the French OAT[3]-Bund spread to its highest levels since the debt crisis in Europe in 2011-2012. In Chart 2 (page 9), we measure the extent to which this event spread to different European countries. German debt served as a safe haven once again. It seems unlikely that the bond rally will continue in the coming weeks. Favourable market information has already been factored in (slowdown in growth and inflation, rate cuts), and we are slightly reducing our portfolios' rate sensitivity.

3 - OAT: Obligations assimilables du Trésor (French government bonds).

CREDIT

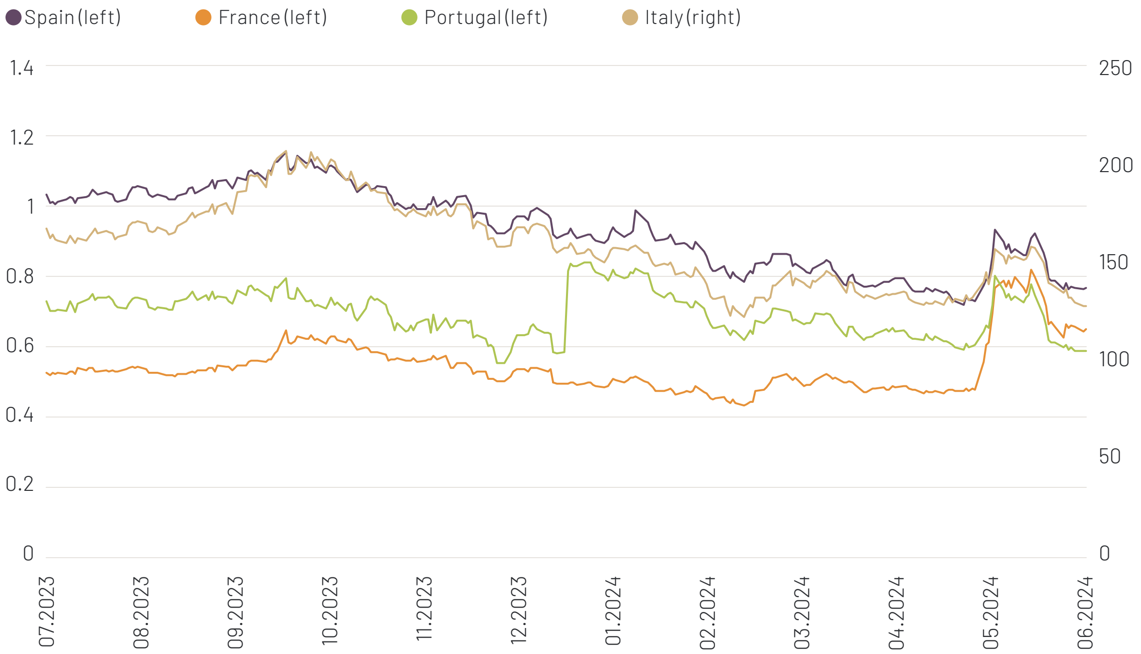
The credit market generated a positive excess return over the month due to slight risk premium compression on both the US and European markets. The European credit market experienced a positive performance in the investment grade and high yield segments despite the uncertainty caused by the French elections.

High yield issuers remain active and opportunistic in refinancing their debt to push back their maturities. In the real estate sector, companies are seizing on the decline in rates and in their risk premiums to buy back their short-term debt while extending their liabilities. In the US market, investors are looking at the absolute rate of return and breaking free from spreads. The low spread dispersion strengthens this holistic approach to investment in the US investment grade segment. While performance is only slightly positive due to higher rates, excess return is largely positive thanks to carry and spread compression.

The aviation and construction sectors are outperforming the market. The rating upgrades since 2021 have fully erased the wave of downgrades in 2020. Given the lag in the agencies' cycle relative to that of companies, it is reasonable to assume that we have reached the rating upgrade peak. Differentiation between ratings is still high in the high yield market, and caution is necessary.

Our portfolios are overweight on debt issued by French companies, and hold virtually no government debt. In sector terms, we maintain our overweight in the real estate sector but remain selective on issuers. Bank debt still presents a favourable mix of return, risk and volatility over the long-term. As we prefer to decide for ourselves when to invest, we rarely participate in the primary market, where issuer concessions are modest. This is perfectly understandable when we see that investors are investing amounts three to five times greater than the amounts issued!

CHART 2: RISK PREMIUMS OF EUROPEAN COUNTRIES VERSUS GERMANY



Source: Bloomberg, Indosuez Wealth Management.

IS THIS THE START OF A ROTATION?

Laura CORRIERAS
Equity Portfolio Manager

With the contribution
of the Equity Team

The worst fears have been averted in France after the legislative elections. While European markets have exhaled, political uncertainty persists and could drag corporate outlooks down. Across the Atlantic, US markets have hit new highs, but were boosted by the market's non-mega cap segments.

Record valuation
DISCOUNT
for the UK
EQUITY MARKET

EUROPE

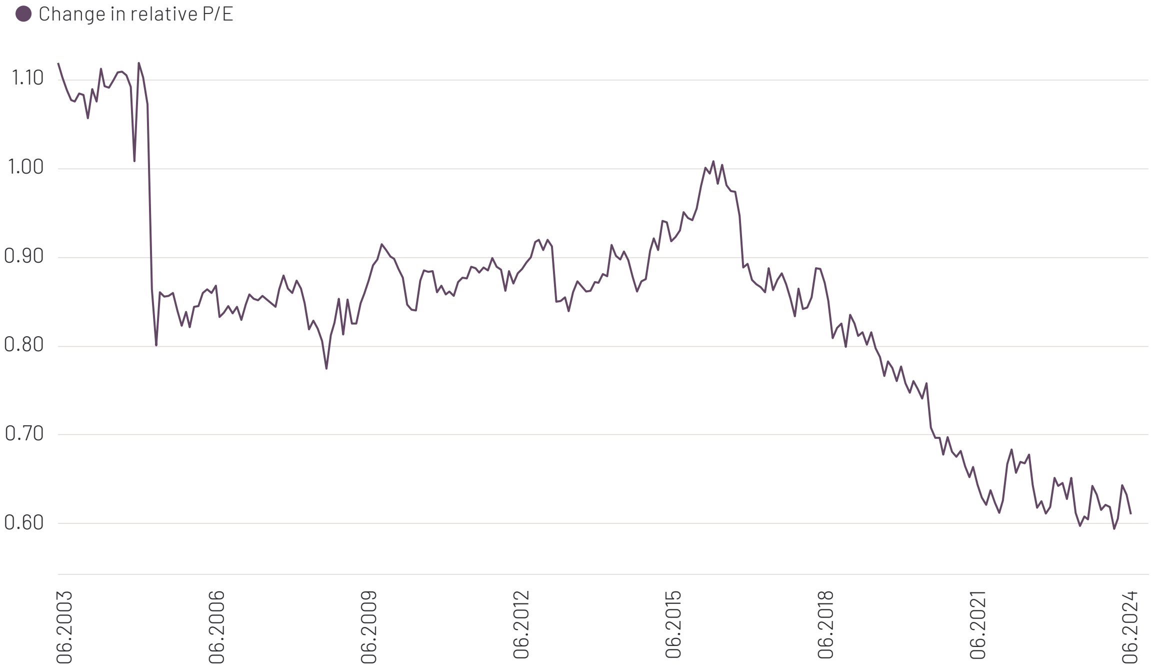
Investors responded well to the lack of an absolute majority after the legislative elections in France. With the risk of increased fiscal pressure now much lower, European markets have rebounded since this outcome. However, the lack of precedent in the French institutional regime is creating uncertainty and requires more caution in the coming months, particularly in light of the challenges and difficulties (including with regard to debt consolidation) that a divided parliament will face.

The UK's current stability contrasts with the political volatility that reigns elsewhere in Europe, with specific new opportunities having emerged post-election.

Thus, the new government is expected to ease building permit regulations and accelerate electrification, which should support companies exposed to the domestic market. In addition, the UK equity market has hit a record discount to its global counterparts over 20 years (Chart 3). This is the "core" market for investing in the Value style theme, and also offers a much higher dividend yield than other regions.

Lastly, interest in the Swiss market has been growing gradually since May, helped by its defensive and safe-haven nature should volatility increase in the Euro Area. This market consists of major actors in the healthcare and fast-moving consumer goods sectors that are viewed as quality players with a defensive bias, while trading at a discount.

CHART 3: MSCI UK 12-MONTH VALUATION (P/E) RELATIVE TO MSCI WORLD



Source: Bloomberg, Indosuez Wealth Management.

UNITED STATES

At the same time, the US equity markets topped their records once again. The latest macro-economic publications confirmed the slowdown in economic activity and the easing of inflation, prompting investors to revise the Fed's first rate cut to September. We did not have to wait long for the equity markets to respond: the small and mid cap segment rebounded sharply (for example, the Russell 2000 Index was up 10.3% in the four days following the inflation report), supported by the decline in bond yields and at the expense of tech stocks, which underwent some profit-taking. Other sectors, such as real estate, which is very sensitive to falling interest rates, also accelerated post-publication. The second-quarter earnings season will be key to confirming corporate earnings growth in an economic slowdown cycle. The preannouncement ratio, which tracks the number of companies in the S&P 500 that expect to report earnings below versus above their estimates, is trending positively and suggests a slightly better earnings season than the 25-year average.

ASIA

In Asia, the Taiwanese, Korean and Indian markets continued to drive performance in the second quarter. This dynamic can be explained mainly by enthusiasm for high-tech AI-related stocks in Korea and Taiwan. In India, the election of Narendra Modi to his third term as Prime Minister consolidated inflows to the region.

In contrast, we saw some profit-taking in China, pending the Chinese Communist Party's third plenum in mid-July 2024. Additional long-term structural reforms are expected by the market and should be on the agenda. Other key topics are also likely to be addressed, including technological sovereignty, challenges posed by the declining population, and improvements in social protection. Second-quarter earnings reports will be monitored closely, in a market where valuations remain at very low levels and could be a support if earnings growth surprises to the upside.

INVESTMENT STYLE

The recent deterioration in macroeconomic indicators prompted investors to anticipate a more proactive rate reduction policy from central banks, leading to a significant sector and style rotation that started in the last few days. The market thus took profits in the tech sector and the "Magnificent 7", among others, in favour of US small caps and some of the more cyclical/value sectors that investors had shunned up to now. It is still too soon to herald a rotation or broader market participation. The upcoming earnings season will provide an opportunity to confirm whether growth mega caps can continue to support the US market's earnings *momentum*.

06 • Forex

A SLOWDOWN IN GOLD

Lucas MERIC
Investment Strategist

The euro has benefited from an easing of political risks in France and a weaker dollar in recent weeks in the context of the macroeconomic slowdown and clarification of the inflation outlook in the United States. Gold continues to top its highs despite mixed fundamentals.

EUR: EASING OF POLITICAL RISK

Despite the volatility seen in June in European assets, the euro appeared to be relatively resilient. The configuration arising from the French legislative elections has averted the major risks, although the chief concerns referred more to France's fiscal trajectory than to any possibility of an exit from the Euro Area. One month after the dissolution was announced, the euro has returned to its early June levels, and is also benefiting from the short-term divergence between transatlantic inflation trends, with Euro Area inflation showing some signs of stickiness. However, uncertainty has not fully subsided and investors could continue to focus on France's fiscal trajectory and, more generally, on sovereign risks in the Euro Area. Despite the recent upside surprises to inflation, we believe that disinflation is likely to persist in 2024 and 2025, which will allow the ECB to continue the rate cut cycle it began in June. This context, in which we have an accommodative ECB, is likely to weigh in the medium-term on the euro, which would also continue to be adversely affected by the rate differential versus the dollar.

USD: DISINFLATIONARY MODERATION

After serving as a safe haven when political stress emerged in Europe, the dollar has since lost ground against the euro as the risks receded. Weak macroeconomic data in recent weeks also weighed on the greenback, punctuated by the positive surprise of the below-expectations inflation figure in June. This slowdown cracks open the door to the start of a future Fed rate cut cycle, which could continue to hold the dollar back slightly in the short-term. That said, we believe that the market has been somewhat aggressive in its rate cut expectations for end-2025 and that the asymmetry on US rates is trending upward, which should support the dollar.

At the same time, we continue to view the dollar as an attractive asset to hedge against the various risks in our scenario, such as a more pronounced economic slowdown, sticky inflation that would push the Fed to remain restrictive, or geopolitical risk, mainly in the run-up to the US elections. A Donald Trump win could lead to the implementation of protectionist and inflationary policies, thus making the case for a rising dollar. We should temper this point, however, as the Republican candidate is fundamentally an advocate of a weaker dollar.

CHF: A TEMPORARY HAVEN

Like the dollar, the Swiss franc initially benefited from European stress before losing ground when the risks eased. It then stabilised at the levels seen since the beginning of the second quarter. The Swiss franc also continued to be weakened by more mixed fundamentals, as the Swiss National Bank (SNB) surprised the market by lowering its rates for the second month in a row when it had not been expected to make any moves. At the same time, retail sales and inflation figures all came out below expectations in June. Despite the unsupportive macroeconomic fundamentals, the Swiss franc could nonetheless remain a preferred asset in a context of latent uncertainties in Europe and at the global level. In our view, this should allow the Swiss franc to stabilise near its current levels.

Negative
ECONOMIC SURPRISES
in the United States
WEIGHED ON THE DOLLAR

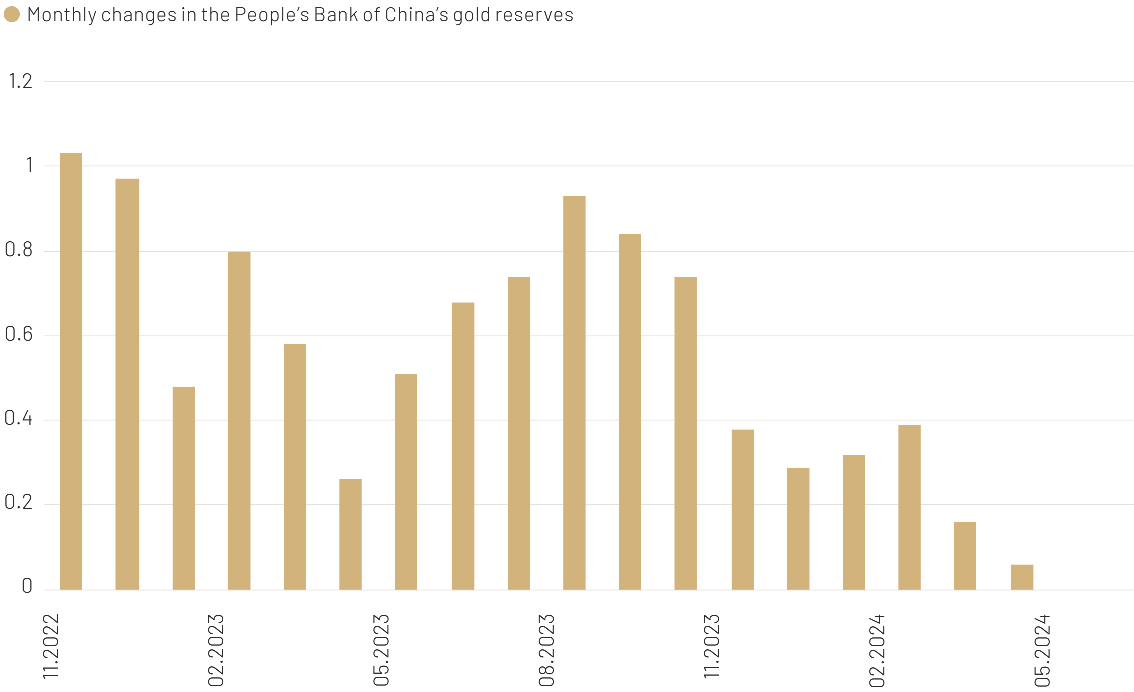
JPY: LOOKING TO THE UNITED STATES

The yen continued to fall in June, before rebounding to its mid-June levels after the downside surprise to US inflation in early June. Investors continue to pay extremely close attention to the outlook for Fed rate cuts which could ease pressure on the USD/JPY. The latter is at an all-time high. The strong reaction on the yen also fuelled speculation about a possible intervention by the Bank of Japan. The central bank had already taken action in April and May but was unable to stem the fall in the yen, which continues to be tarnished by the still modest inflation outlooks and its dominant role in financing carry trades.

GOLD: A STRONG RALLY DESPITE MODEST FUNDAMENTALS

Gold continued to perform well in July, driven by expectations of a more accommodative Fed against the backdrop of a slowdown in US macroeconomic data and inflation. We nevertheless continue to take a tactically negative view on gold, which is at an all-time high at a time when we believe downward movements on US rates are somewhat excessive and fundamentals look less sound. Demand from the People's Bank of China, which had been a major buyer of gold since end-2022, slowed or was even non-existent in June for the second month in a row; similarly, the accumulation of physical gold has plummeted, while geopolitical tensions currently remain mostly in check (chart 4).

CHART 4: MONTHLY GOLD PURCHASES BY THE PEOPLE'S BANK OF CHINA (MILLIONS OF OUNCES)



Source: Bloomberg, Indosuez Wealth Management.

07 • Asset Allocation

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

More **DIVERSIFICATION** in the **EQUITY ALLOCATIONS**

INVESTMENT SCENARIO

- **Growth:** our growth forecasts remain unchanged at +2.5% in the United States and +0.7% in the Euro Area for 2024 and continue to be based on assumptions that consumption will be resilient (in the United States) and will improve (in the Euro Area) due to gains in purchasing power in both economies. Emerging economies, particularly in Asia, remain an important growth driver at the global level.
- **Inflation:** the latest inflation report in the United States proved encouraging, giving us confidence in our scenario of gradual disinflation in the coming quarters. Attention is now more focused on the Euro Area where the latest wage data and rising freight prices pose an upside risk to our inflation forecasts. While caution is therefore necessary in the short-term, we continue to believe that inflation will gradually converge towards the ECB's target by 2025.
- **Central banks:** we expect two rate cuts for the rest of the year for the Fed and the ECB and maintain our assumptions of terminal rates of 4% and 2.5% (+/-25 basis points) for end-2025 in the United States and the Euro Area, respectively.
- **Corporate earnings:** the positive earnings revision trend continues in the United States – particularly across the technology sector – but is now expanding to all regions.
- **Risk environment:** as expected, the global economy continues to normalise, which has led to a welcome rebalancing of growth and inflation risks, particularly in the United States since the publication of the latest price report. In contrast, political risk remains at high levels and the market's attention could gradually turn to the US election in November. Lastly, the risks associated with the public debt trajectory remain a reality and could return to the forefront in the second half of the year as the US elections draw near and the budget proposals for 2025 are defined in the Euro Area.

ASSET ALLOCATION CONVICTIONS

Equities

- While global macroeconomic *momentum* has slowed, we believe the environment remains favourable for risky assets. This normalisation of economic activity, which was largely expected, comes with welcomed disinflation, opening the door to central banks rate cut cycles. Combined with encouraging earnings outlooks for 2024 and 2025, we continue to believe that the equity markets should remain on an upward trend and we therefore maintain an equity overweight within our diversified management.
- We continue to favour US equities but highlight the possibility of increasing market performance through broader participation of business sectors other than technology stocks. At the same time, emerging markets could, in our view, benefit from the start of the rate cut cycle and a still positive growth differential with advanced economies. Lastly, we decided to further diversify our exposure to European equities by increasing the weight of non-Euro Area Europe while maintaining a wait-and-see stance on the region as a whole. In particular, the UK market could become more attractive due to the Labour Party's return to power. It is particularly committed to strengthening the relationship with the European Union.

Fixed Income

- We have left our rate sensitivity unchanged overall. It remains slightly higher than that of our benchmarks within diversified management. We favour exposure to government bonds with short maturities (up to five years), which offer the highest yields and are expected to benefit directly from lower key rates. In contrast, we prefer to limit our exposure to the longest segments, which are vulnerable to a return of the term premium and the markets' potential renewed focus on public debt sustainability.
- Within the credit asset class, we reiterate our preference for short-dated investment grade corporate debt, which continues to provide the highest returns. At the same time, subordinated debt offers interesting diversification potential given the quality of its fundamentals and its attractive carry rates.
- In the high yield segment, we expect the low level of spreads to remain stable as long as the global economy stays on a gradual normalisation trajectory. Against this backdrop, we believe that the highest quality segment in high yield could allow investors to benefit from attractive carry relative to government bonds.

Forex

- We believe that, despite its recent underperformance, the greenback remains the best hedge against the main risks to our scenario. The market also now seems to have factored in numerous rate cuts by end-2025 while the rate differential remains largely positive with all G10 currencies. In our view, this limits the downside in the dollar in the short-term.
- We continue to take a cautious stance on gold in the short-term given the disappearance of certain buying forces in recent months (especially in China) and a more measured balance of risks.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=/+	=
EUR 10-Year	=/-	=/-
EUR Periphery	=/-	=/-
US 2-Year	=/+	=/+
US 10-Year	=/-	=/-
EUR Breakevens Inflation	=/+	=/+
US Breakevens Inflation	=	=
CREDIT		
Investment grade EUR	=/+	=/+
High yield EUR	=	=
Financials Bonds EUR	=/+	+
Investment grade USD	=	=/+
High yield USD	=/-	=/-
EMERGING DEBT		
Hard Currencies	=	=/+
Local Currencies	=	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=/-	=/+
United States	=	=/+
Japan	=	=
Latin America	=/-	=
Asia ex-China	=/+	=/+
China	=	=/-
STYLES		
Growth	=	=/+
Value	=	=
Quality	=/+	=
Cyclical	=	=
Defensive	=/-	=/-
FOREX		
United States (USD)	=/+	=/-
Euro Area (EUR)	=/-	=
Switzerland (CHF)	=/-	=
Japan (JPY)	=	=/+
China (CNY)	=	=
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 22 JULY 2024

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.25%	2.04	37.34
France 10-year	3.15%	-3.70	59.00
Germany 10-year	2.49%	7.60	47.20
Spain 10-year	3.26%	-1.70	27.70
Switzerland 10-year	0.60%	-6.50	-10.60
Japan 10-year	1.05%	6.10	43.90

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	36.37	1.46%	-0.94%
Euro Government Bonds	203.92	0.55%	-0.11%
Corporate EUR high yield	222.41	0.74%	2.81%
Corporate USD high yield	348.19	1.53%	3.95%
US Government Bonds	311.46	0.67%	1.11%
Corporate Emerging Markets	44.62	0.45%	1.11%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9689	1.08%	4.30%
GBP/USD	1.2933	1.95%	1.59%
USD/CHF	0.8896	-0.38%	5.73%
EUR/USD	1.0891	1.47%	-1.34%
USD/JPY	157.04	-1.62%	11.34%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	14.91	1.58	2.46

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	5'564.41	2.14%	16.66%
FTSE 100 (United Kingdom)	8'198.78	-1.00%	6.02%
STOXX 600	514.79	-0.79%	7.47%
Topix	2'827.53	3.19%	19.49%
MSCI World	3'584.66	2.16%	13.11%
Shanghai SE Composite	3'514.93	1.10%	2.44%
MSCI Emerging Markets	1'085.48	0.11%	6.03%
MSCI Latam (Latin America)	2'263.69	2.16%	-14.99%
MSCI EMEA (Europe. Middle East. Africa)	206.86	2.71%	3.03%
MSCI Asia Ex Japan	692.38	-0.37%	7.92%
CAC 40 (France)	7'622.02	-1.10%	1.05%
DAX (Germany)	18'407.07	0.44%	9.88%
MIB (Italy)	34'615.05	2.31%	14.05%
IBEX (Spain)	11'143.80	-0.25%	10.31%
SMI (Switzerland)	12'296.74	1.15%	10.41%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'242.00	-4.65%	-19.75%
Gold (USD/Oz)	2'396.59	2.65%	16.17%
Crude Oil WTI (USD/Bbl)	79.78	-2.27%	11.35%
Silver (USD/Oz)	29.12	-1.36%	20.92%
Copper (USD/Tonne)	9'216.50	-4.60%	7.68%
Natural Gas (USD/MMBtu)	2.25	-19.92%	-10.46%

Source: Bloomberg. Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS. PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	APRIL 2024	MAY 2024	JUNE 2024	4 WEEKS CHANGE	YTD (22.07.2024)
BEST PERFORMING +	10.98%	16.41%	15.18%	3.19%	19.49%
	4.24%	10.44%	14.75%	2.71%	16.66%
	4.14%	8.89%	11.06%	2.16%	13.11%
	3.22%	8.76%	9.93%	2.16%	7.92%
	2.73%	8.75%	8.33%	2.14%	7.47%
	2.10%	7.84%	7.03%	1.10%	6.03%
	-1.57%	6.61%	6.97%	0.11%	6.02%
	-1.91%	6.14%	2.10%	-0.37%	3.03%
	-1.95%	0.32%	-0.46%	-0.79%	2.44%
− WORST PERFORMING	-9.89%	-9.12%	-17.97%	-1.00%	-14.99%

Source: Bloomberg. Indosuez Wealth Management.
Past performance does not guarantee future performance.

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI: An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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