Market **Update**

Hit "Snooze" on the Economy Alarm

October 2024

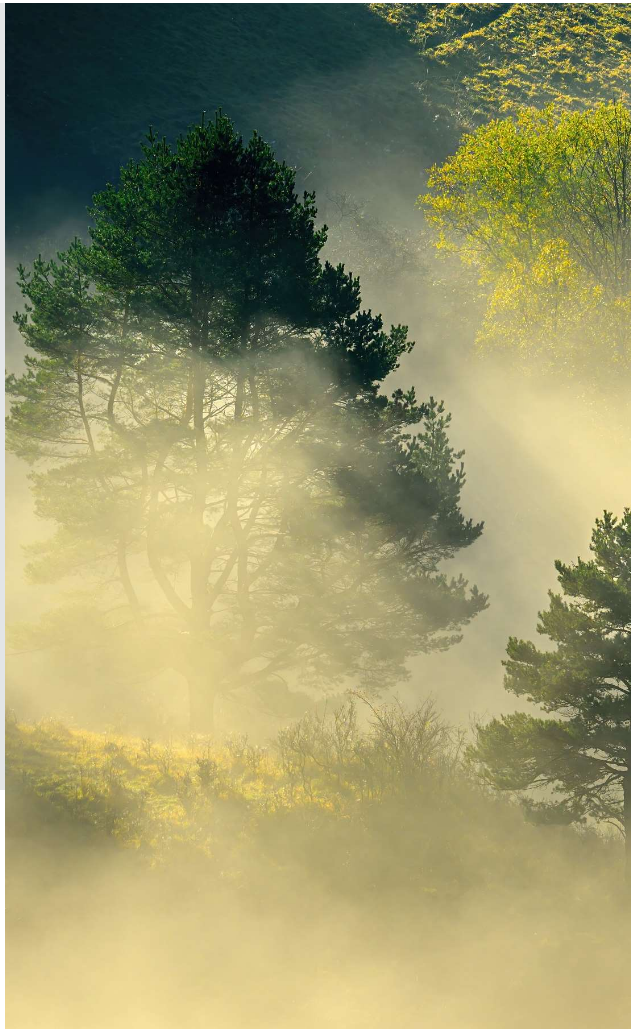
Editorial

From the surprising resilience of the US labor market to the start of the rate-cutting cycle by major central banks, the past month has been an eventful one. The US labor market has surprised with robust employment data even as services inflation remains sticky, presenting a complex backdrop for policymakers and investors alike. By contrast, the eurozone is facing increasing downside risks, with weaker industrial production casting a shadow over growth prospects.

Central banks are adapting to this new reality. The Federal Reserve and several other major central banks have embarked on a cycle of interest rate cuts, signaling a shift towards more accommodative monetary policy. Understanding the balance between growth prospects and inflationary pressures will be crucial in the coming months.

We invite you to explore our detailed analysis of these developments, including insights into inflation trends, labor market dynamics and market valuations. As always, our aim is to provide you with a clear and thoughtful perspective to help you navigate these uncertain times.

Wishing you a pleasant and insightful read.



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Global **Markets**

Global	Last	YTD	MTD
MSCI World	3'723.0	19.3%	1.9%
MSCI ACWI	851.8	19.1%	2.4%

United States	Last	YTD	MTD
Dow Jones Industrial	42'330.2	13.9%	2.0%
S&P 500	5'762.5	22.1%	2.1%
NASDAQ 100	20'060.7	20.0%	2.6%
Russell 2000	2'230.0	11.2%	0.7%

Europe	Last	YTD	MTD
Euro STOXX 600	522.9	12.5%	-0.3%
Euro STOXX 50	5'000.5	13.9%	0.9%
DAX	19'324.9	15.4%	2.2%
CAC 40	7'635.8	4.2%	0.2%
FTSE 100	8'237.0	9.8%	-1.5%
Swiss Market Index (SMI)	12'168.9	12.8%	-2.0%

Sectors (US)		YTD	MTD
Communication Services		27.5%	4.9%
Consumer Discretionary		13.5%	7.0%
Consumer Staples		19.3%	0.9%
Energy		8.7%	-2.5%
Financials		24.0%	-1.5%
Health Care		14.6%	-1.9%
Industrials		20.4%	3.1%
Materials		14.2%	2.8%
Real Estate		14.5%	3.4%
Technology		27.6%	2.7%
Utilities		30.5%	6.9%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2'643.3	27.7%	5.2%
Silver (XAG)	31.3	30.9%	8.0%

Currencies (USD)			
EUR	1.11	0.9%	0.8%
CHF	0.85	-0.5%	0.5%
JPY	144.1	1.8%	-1.7%
BTC	64'097.9	52.1%	8.0%

Fixed Income			
US Treasury	2'364.44	3.8%	1.2%
Global Corporate	3'392.48	5.3%	1.8%
Global EM USD	1'266.7	8.2%	1.8%
Global High Yield	1'668.0	9.6%	2.0%

Interest Rates (US)		Last month	End 2023
3 Months	4.62%	5.11%	5.33%
12 Months	4.00%	4.40%	4.76%
5 Year	3.56%	3.70%	3.85%
10 Year	3.78%	3.90%	3.88%

Price / Earnings Ratios		End 2023	End 2022
S&P 500	26.28	23.00	18.26
Euro STOXX 50	14.52	12.78	11.71
Swiss Market Index (SMI)	19.76	19.00	14.79

Data at close of 30/09/2024

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q3 2024	Q2 2024	Q1 2024
United States	4.88%	4.88%	5.38%	5.38%
Eurozone	3.65%	3.65%	4.50%	4.50%
Switzerland	0.96%	0.97%	1.72%	N/A
Canada	4.25%	4.25%	5.00%	5.00%
Japan	0.05%	-0.05%	-0.30%	N/A
China	0.35%	0.35%	0.35%	0.35%
India	6.50%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.50%	N/A	3.00%	3.50%
Eurozone	1.80%	1.80%	2.50%	2.40%
Switzerland	0.80%	0.80%	1.30%	1.00%
Canada	2.00%	N/A	2.70%	2.90%
Japan	3.00%	N/A	2.80%	2.70%
China	0.60%	N/A	0.20%	0.10%
India	3.65%	N/A	5.08%	4.85%

Unemployment	Last	Q3 2024	Q2 2024	Q1 2024
United States	4.10%	4.10%	4.10%	3.80%
Eurozone	6.40%	N/A	6.50%	6.50%
Switzerland	2.60%	2.60%	2.40%	2.30%
Canada	6.60%	N/A	6.40%	6.10%
Japan	2.50%	N/A	2.50%	2.60%
China	5.30%	N/A	5.00%	5.20%

Gross Domestic Product (YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	3.00%	N/A	3.00%	2.90%
Eurozone	1.00%	N/A	1.00%	0.40%
Switzerland	1.80%	N/A	1.80%	0.60%
Canada	1.50%	N/A	1.30%	0.70%
Japan	2.10%	N/A	2.10%	2.50%
China	4.70%	N/A	4.70%	5.30%
India (Real GDP)	6.65%	N/A	6.65%	7.76%

Producer Price Index (PPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	0.20%	N/A	1.60%	1.80%
European Union	-0.70%	N/A	N/A	-1.30%
Switzerland	-1.20%	N/A	-1.90%	-2.10%
Canada	0.24%	N/A	2.90%	-0.48%
Japan	2.50%	N/A	2.60%	0.90%
China	-1.80%	N/A	-0.80%	-2.80%
India	1.31%	N/A	3.43%	0.26%

Purchasing Managers' Index	Last	Q3 2024	Q2 2024	Q1 2024
United States	47.2	47.2	48.5	50.3
Eurozone	45	45	45.8	46.1
Switzerland	49.9	49.9	43.9	45.2
Canada	50.4	50.4	49.3	49.8
Japan	49.7	49.7	50	48.2
China	49.8	49.8	49.5	50.8
India	56.5	56.5	58.3	59.1

Core Inflation (Core CPI - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	3.20%	N/A	3.30%	3.80%
Eurozone	2.70%	2.70%	2.90%	2.90%
Switzerland	1.00%	1.00%	1.10%	1.00%
Canada	2.40%	N/A	2.90%	2.90%
Japan	1.70%	N/A	1.90%	2.20%

Consumer Spending (PCE - YoY)	Last	Q3 2024	Q2 2024	Q1 2024
United States	2.68%	N/A	2.63%	2.98%

Data as of 04/10/2024
N/A: Not yet reported or Public Holiday

September **Macro News**

- **The US labor market** is still showing signs of moderation. September's US employment report was surprisingly strong across the board, unemployment fell to 4.1% in September from 4.22% in August, with a simultaneous increase in the labor force and decrease in unemployed individuals. However, the latest data from the Job Openings and Labor Turnover Survey (JOLTS) and the ADP private payroll report missed expectations.

- **US Inflation data** was broadly in line with expectations, although core CPI inflation remained sticky at 0.3% m/m versus the expected 0.2%. Consumer confidence deteriorated, but retail sales and industrial production beat expectations, underlining the underlying robustness of the US economy.

- **Downside risks to growth in the euro area have intensified.** Industrial production has weakened in key economies such as France and Germany, and the flash purchasing managers' index (PMI) for September fell sharply, pushing the composite index into contraction territory. In the UK, core inflation reaccelerated, and Q2 GDP growth was revised down to 0.5% q/q. Nevertheless, UK PMIs and retail sales remained robust.

- **The Federal Reserve kicked off its rate-cutting cycle** with a substantial 50bps cut, bringing the target range to 4.75% - 5.00%. The ECB, together with other central banks such as the Swiss National Bank, the Bank of Canada and Sveriges Riksbank, implemented a second rate cut of 25bps. For its part, the Bank of Japan kept its key rate at 0.25%, citing diminishing upside risks to prices.

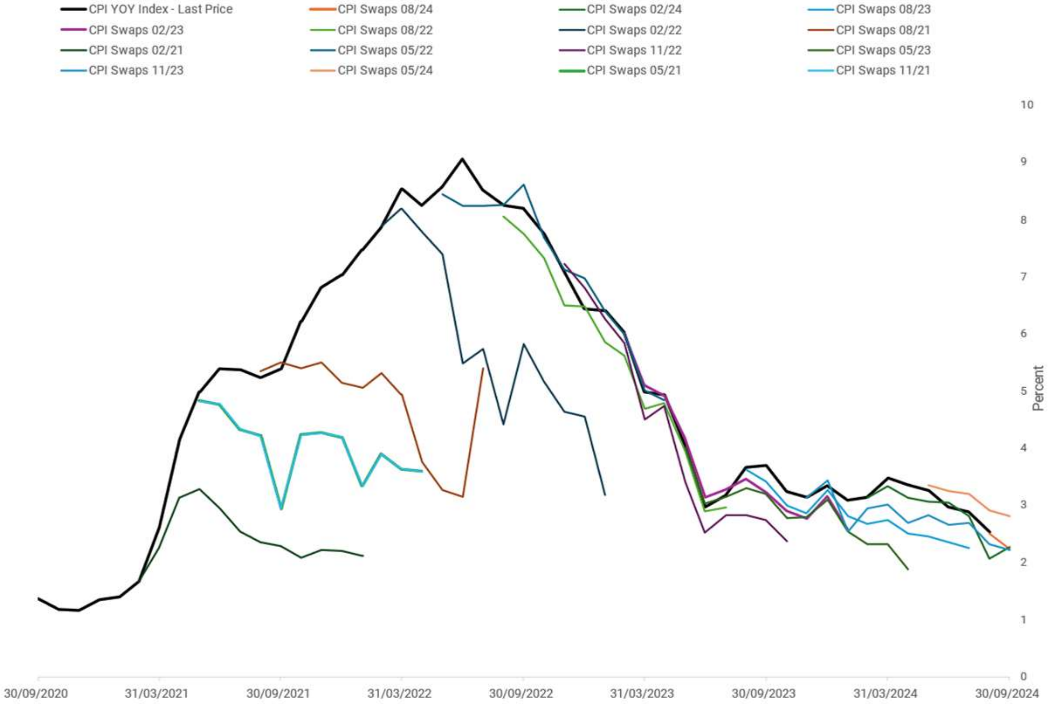
Current **Environment**

- **Inflation appears to be globally slowing. All the main sources of global inflation are showing figures that are down or in line.** However, a closer look reveals that inflation in services remains a concern, making it difficult for central banks to normalize monetary policy. At the same time, the global labor market remains fairly stable, which is particularly reassuring for the future of the US economy.
- **The global economy is on course for a relatively smooth landing, largely due to the unexpectedly robust performance of the American economy.** Indeed, the US economy continues to demonstrate remarkable resilience, with a second estimate of Q2 GDP growth of 3.0% annualized, exceeding the projected 2.8%. However, consumer spending is anticipated to decelerate in the second half of the year due to elevated interest rates and a moderating labor market.
- **Major central banks are moving in tandem and started their rate cuts cycle.** The FED has responded to the improving outlook by cutting the target range for the fed funds rate by 50 basis points to 4.75% - 5% in September, marking the first reduction since March 2020. This move, together with the ECB and the SNB, signals a shift towards a more accommodative monetary policy stance, with further rate cuts anticipated in the coming months.
- **Employment data is becoming increasingly important as it provides insight into the health of the wider economy.** Recent figures have been reassuring, but this apparent strength in the labor market could be misleading as many workers are taking multiple part-time jobs due to the high cost of living and inadequate unemployment benefits. In addition, jobless claims, which are usually a reliable indicator of unemployment, have become less reliable as more unemployed workers exhaust their benefits and become ineligible to claim.
- **In China**, the world's second-largest economy, growth has been steady but uneven. China's GDP rose by 4.7% in Q2, missing expectations of a 5.1% growth. The economic structure remains significantly unbalanced, with the supply side outperforming the demand side. In response to these economic challenges, the Chinese government has implemented a series of bold stimulus measures, which triggered a significant stock market rebound. However, sustaining this momentum will require addressing deeper structural issues in the Chinese economy. The effectiveness of these measures in balancing growth, managing debt, and stimulating domestic demand will be crucial for China's economic trajectory in the coming months.

Inflation **Predictions Accuracy**

Since inflation peaked in late 2022, CPI swaps have demonstrated a **surprisingly accurate ability** to anticipate the slowdown in inflation. We believe that this improved predictive power can be attributed to several factors:

1. **Normalization of supply chains**: The healing of supply chains has been a primary driver of slowing inflation. As supply chain disruptions eased, it became easier for market participants to gauge inflationary pressures accurately.
2. **Central bank actions**: Decisive monetary policy actions by central banks, including interest rate hikes, have helped stabilize inflation expectations.
3. **Return to familiar economic patterns**: As the unusual nature of the supply-chain shock and stimulus-driven inflation subsided, the drivers of inflation became more aligned with traditional economic models, making them easier for economists and traders to interpret and extrapolate.
4. **Lessons learned**: Traders and analysts likely adjusted their models and expectations based on the experiences of the 2021-2022 period, leading to more accurate forecasts.



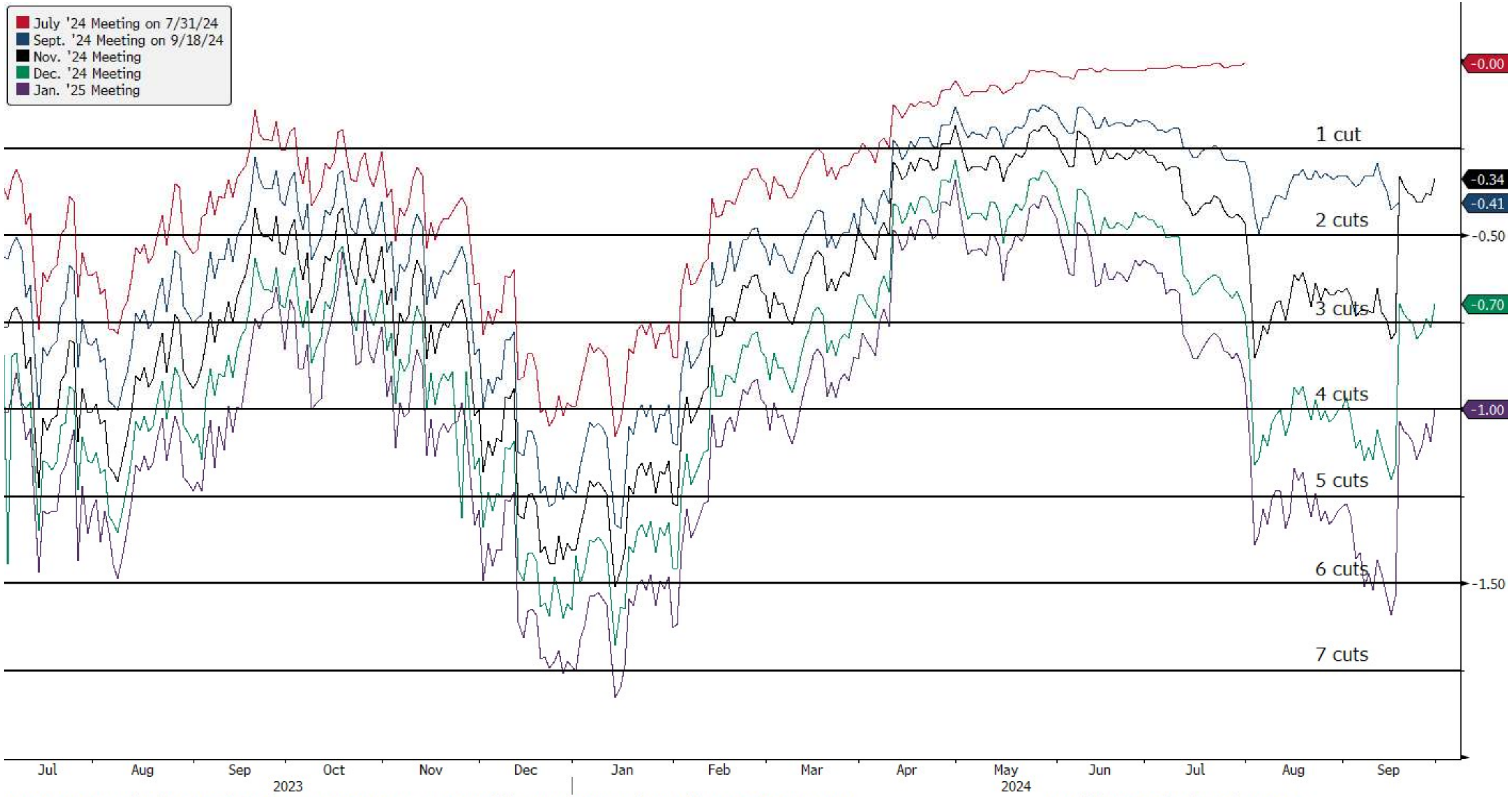
Source: Bloomberg

It's worth noting that as of August 2024, the **annual inflation rate in the US has slowed to 2.5%**, the lowest since February 2021. This trend aligns with the predictions made by inflation swap traders in recent months, further validating their improved accuracy.

However, the persistence of services inflation and wage growth could potentially delay a return to target inflation levels in some regions. Additionally, ongoing geopolitical tensions and potential supply chain disruptions continue to pose risks to inflation forecasts.

Short Term Rates **Expectations**

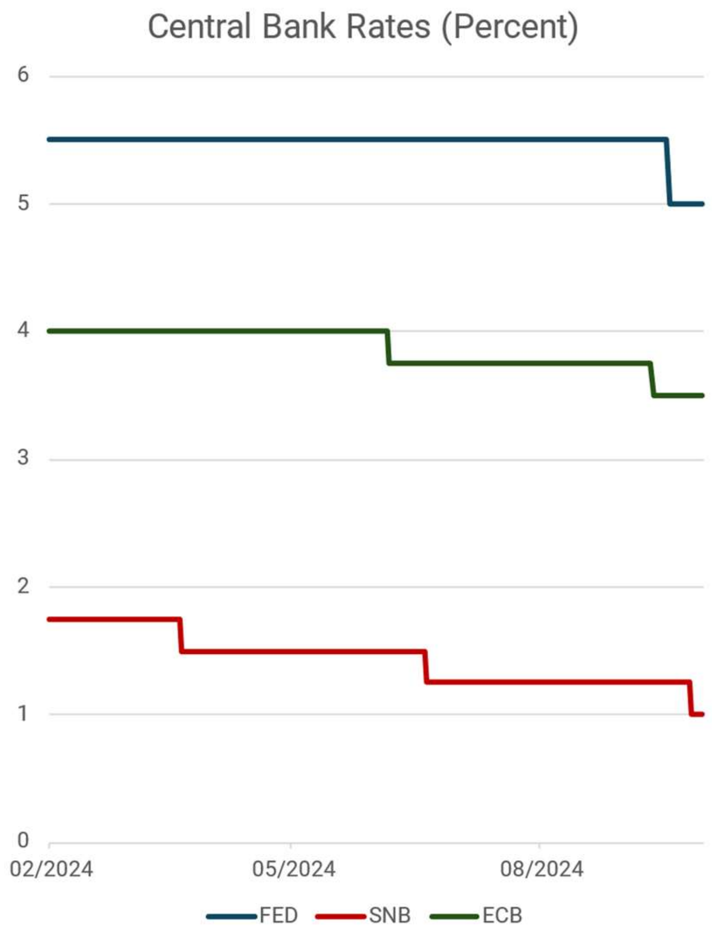
US rate cut expectations have evolved significantly over the course of 2024, shifting from expectations of gradual easing to more aggressive cuts by the Federal Reserve, driven by improving inflation data and concerns about economic growth. Markets are currently pricing in around three more rate cuts (of 0.25%) by the end of the year (green line).



USOACH JUL2024 Index (WIRP Est Change from Current Rate US - Futures Model) Rate Cuts Expectations Daily 03JUL2023-30SEP2024

Rate Cuts : **Moving pre-emptively**

The Federal Reserve initiated its rate normalization cycle with a 50bps rate cut in September, reducing the federal funds rate to a range of 4.75% - 5%. This marks the first rate reduction since the onset of the Covid-19 pandemic in March 2020.



The Fed's decision to implement a substantial rate cut was driven by several factors:

1. **Easing Inflation**: The headline annual inflation rate in the US slowed to 2.5% in August 2024, the lowest since February 2021. Another important inflation measure, the core PCE, remained stable at 2.7% in August.

2. **Labor Market Conditions**: While the unemployment rate ticked down to 4.2% in August, it remains higher than the half-century low of 3.4% reached in 2023. Job gains have slowed, with an average of 116,000 jobs added per month in the past three months.

3. **Economic Outlook**: Fed Chair Jerome Powell emphasized that the overall economy is in "solid shape," and the rate cut reflects growing confidence in maintaining labor market strength while achieving moderate economic growth and sustainable inflation reduction

The decision was closely aligned with market expectations, which had shifted from anticipating a smaller reduction to a 50bps cut.

This move is expected to reduce borrowing costs for consumers and businesses, including lower rates for mortgages, auto loans, and credit cards.

China **Equities Euphoria**

In response to a weakening economic outlook, the People’s Bank of China (PBOC) and Politburo implemented in late September significant policy changes to stimulate growth. These changes were announced in quick succession, signifying a sense of urgency from the government.

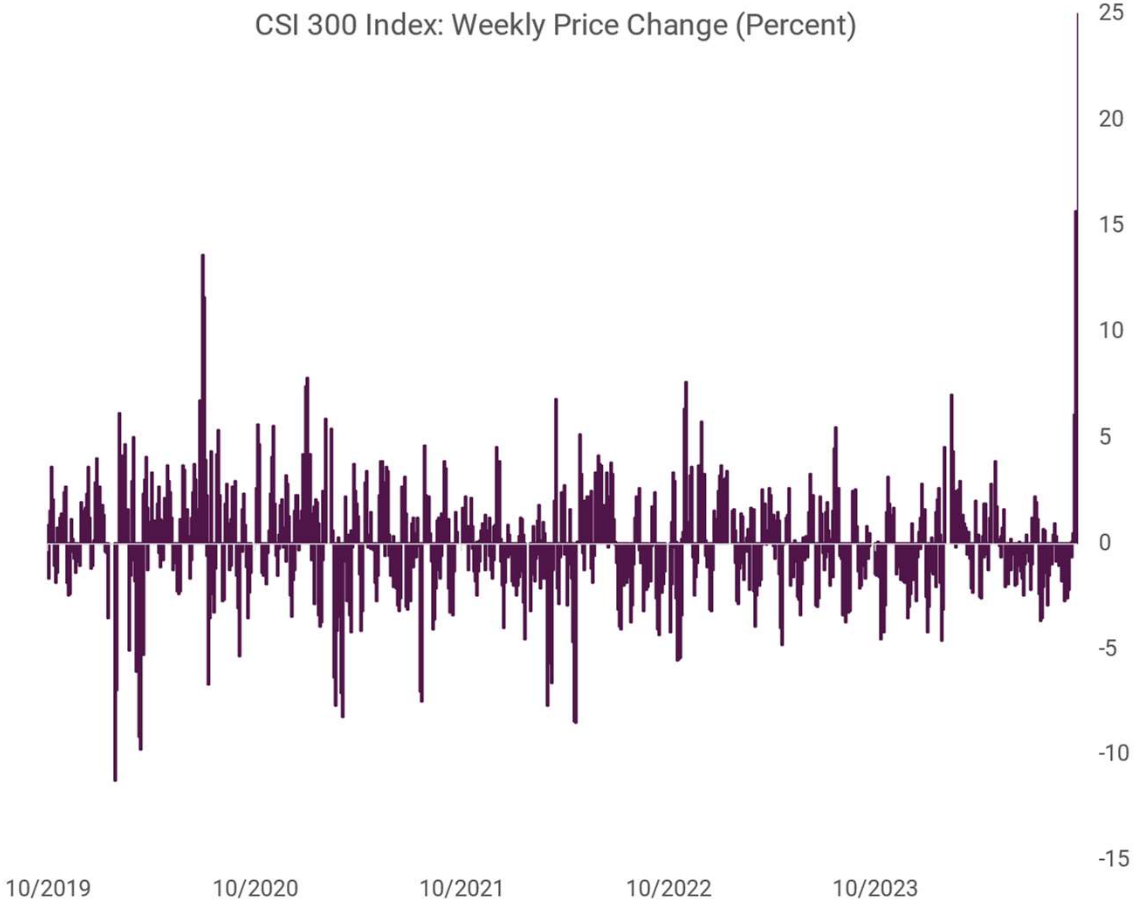
The PBOC announced a series of measures including a 20 basis-point reduction in the seven-day reverse repo rate, a 50 basis-point cut in the reserve requirement ratio (RRR), and an average 50 basis-point decrease in existing mortgage rates.

In addition to these changes, they also announced a $113 billion fund to support the onshore stock market and a 500-billion-yuan swap facility that allows financial institutions to obtain liquid funds from the PBOC using various assets as collateral.

The Politburo's announcements signaled shifts in policy stances on the housing and stock markets, aiming to boost investor confidence and prop up these sectors.

These moves were considered unusually large and decisive by Chinese standards, indicating a shift away from the gradual, incremental approach of previous years.

The stimulus package triggered a significant market rally in China, with the CSI 300 Index surging over 25% since the announcement. However, analysts are divided on whether these measures will be sufficient to achieve the 5% GDP growth target.



Source: Bloomberg

Equity **Valuations Multiples**

While the S&P 500's current P/E ratio suggests some overvaluation relative to historical averages, the interpretation of this metric is becoming increasingly difficult. The index is driven by a small number of stocks, leading to concerns about "bad breadth". This narrow lead can make the market more susceptible to fluctuations in these few companies.

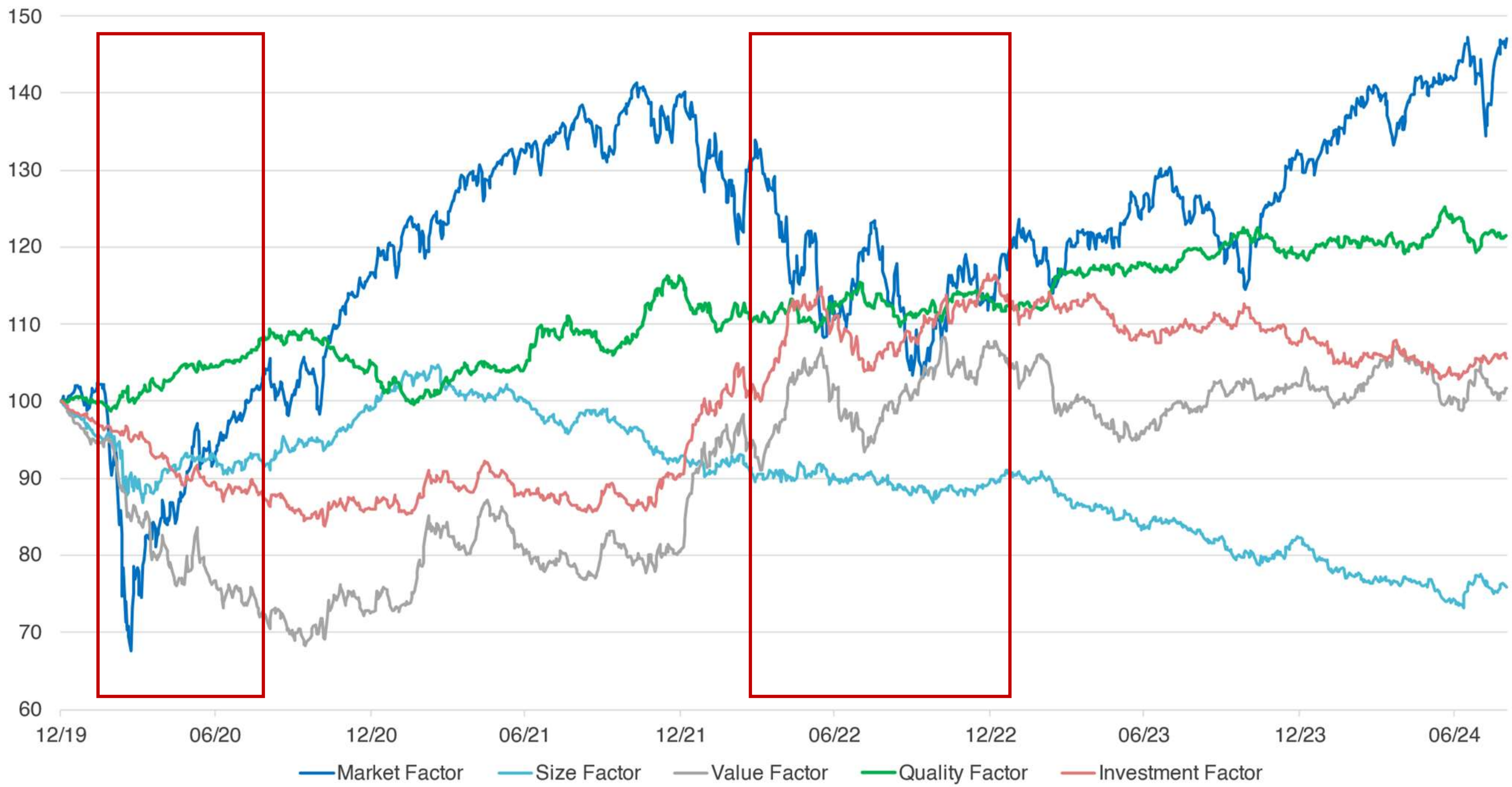
The Magnificent Seven stocks have significantly higher P/E ratios than the rest of the index. Their elevated valuations, driven by tech enthusiasm and the prospects of AI, carry the risk of lower long-term returns. We recommend diversifying portfolios beyond these large-cap tech stocks to reduce the idiosyncratic risk associated with the Magnificent Seven.

Key **Investment Themes**

- Uncertainty over interest rates and the volatility spikes that can accompany disappointing market releases on top of high valuations reinforce our conviction that **diversification is a core strategy -** particularly important as geopolitical uncertainties persist, whether in the Red Sea, the Middle East, Ukraine or Taiwan.
- Further rate cuts are starting to be priced in by the market, now indicating three additional rate cuts (of 0.25%) between now and the end of the year. The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2024.
- Our recommendation is to focus on **quality stocks** with solid balance sheets and a long-term vision.
- On the **fixed-income** side, corporate bonds are facing higher interest costs overall, and potentially refinancing difficulties in the high-yield segment. Our preference at this stage of the cycle is for **higher-rated companies** rather than high yielding issuers. Note that we recently increased the duration of our selection.
- In the current interest-rate environment, our approach remains focused on carry strategies via bonds. We therefore maintain an **underweight in the alternative class,** capitalizing on the stability and predictable returns offered by bond instruments. However, we remain attentive to the opportunities offered by alternative investments, with their potential for returns uncorrelated with traditional markets.

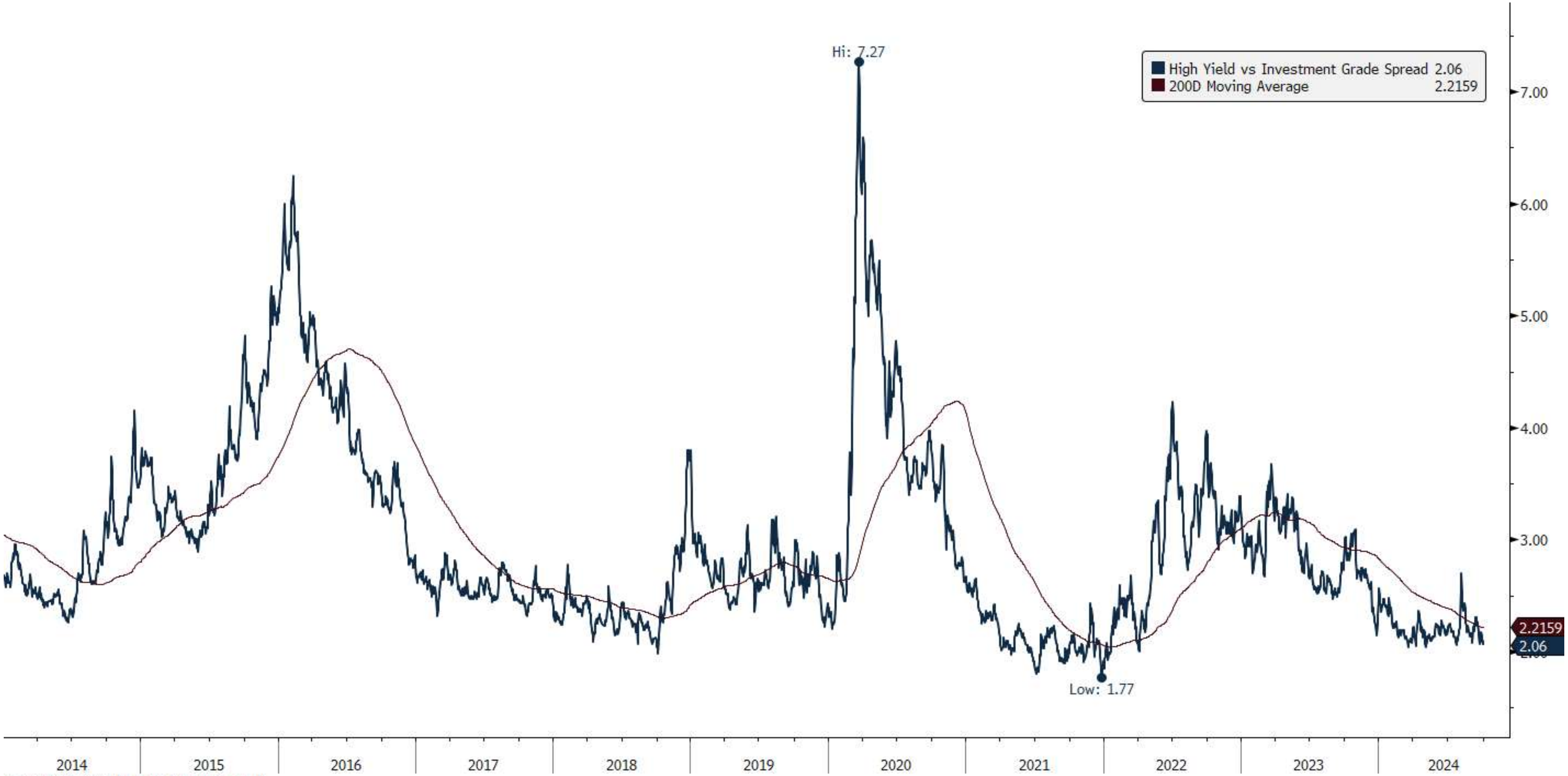
Quality **Stocks**

Our recommendation is to favor quality stocks with healthy balance sheets and managed with a long-term vision. Quality stocks have historically outperformed in the late stages of the business cycle, including in periods of economic contraction, which should offer portfolio protection if the economy slows more than we expect.

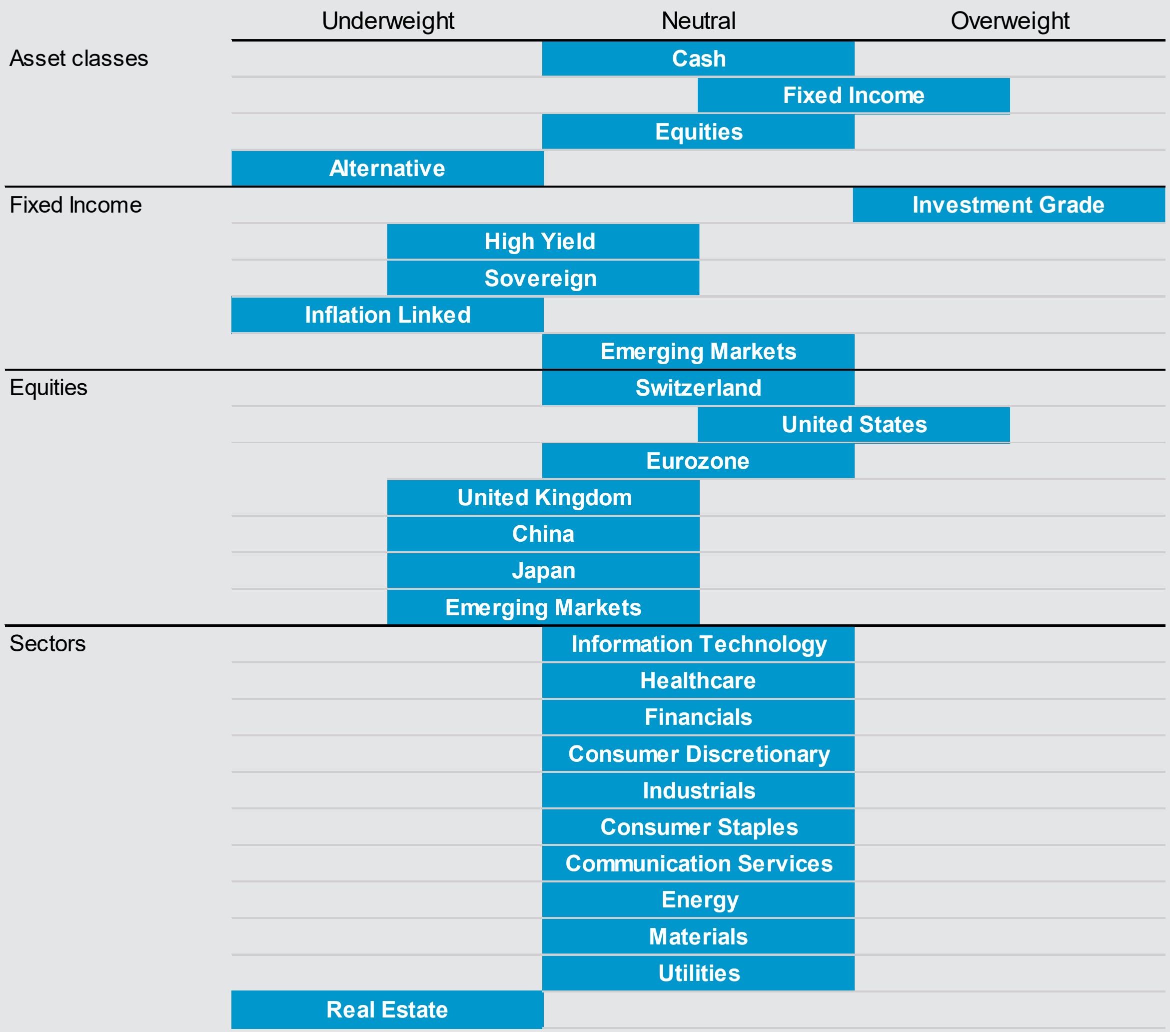


Our preference for **Investment Grade**

On the fixed income side, corporates are facing higher interest costs and potential refinancing difficulties in the high yield segment. At this stage in the cycle, we prefer higher-rated companies rather than high-yield issuers, which we believe are not worth the risk.



Asset **Allocation**



Fixed-income allocation

Our flagship allocation for 2024, we expect yields to fall in the medium term and the yield curve to "heal" in the US and Europe. Our selection focuses on the highest-quality issuers offering extremely attractive risk-adjusted returns. Recently, we increased the duration of our selection.

Equities

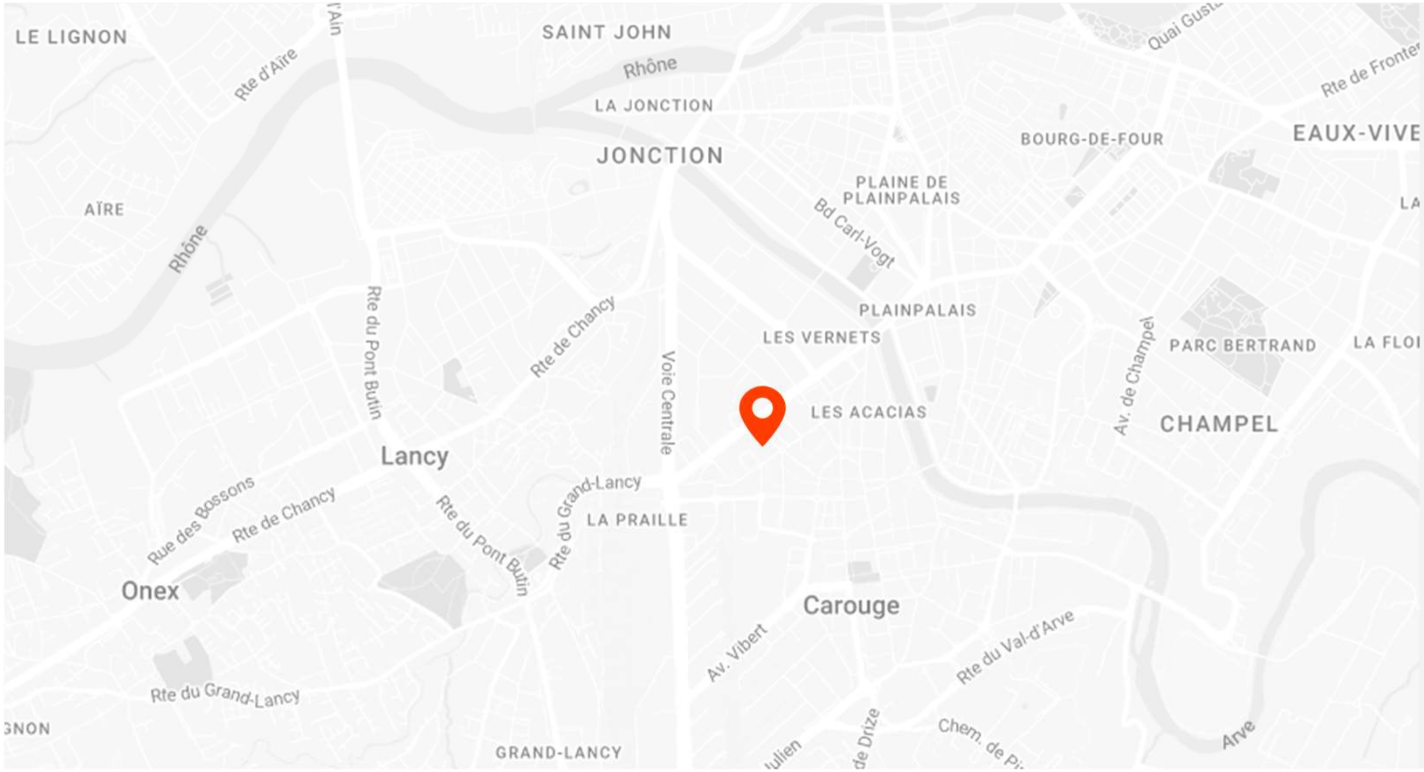
The different scenarios lead us to a more neutral approach to equities, where sector and regional diversification is more necessary than ever. The resilience of the United States leads us to a greater allocation to that country. We keep a neutral stance on the domestic equities in Europe and Switzerland.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments. Nevertheless, we remain attentive to opportunities offered by alternative assets, given their potential for returns uncorrelated with traditional markets.

Contact

A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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