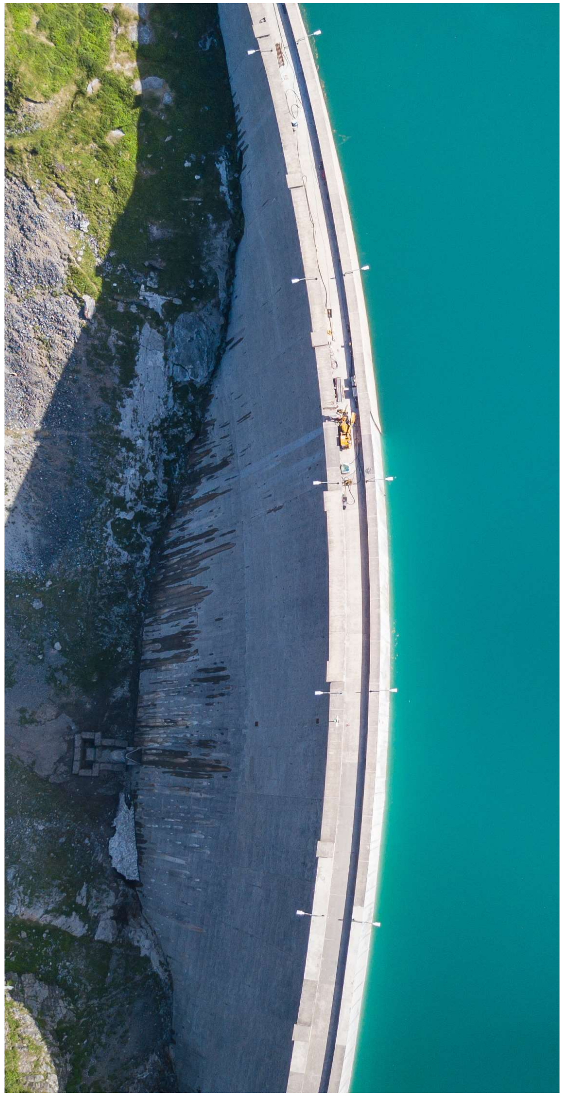
Market **Update**

Matterhorn, El Capitan or Table Mountain

September 2024

Editorial



Inflationary pressures appear to be easing across many parts of the world, with key indicators showing either stable or declining trends. This slowdown in inflation offers some relief, yet the persistence of elevated services inflation complicates the outlook for central banks, which are grappling with how best to normalize monetary policy without derailing growth.

In the United States, a slight uptick in unemployment to 4.3% suggests a cooling labor market, potentially marking a shift in the economic cycle. This development, highlighted by the activation of the "Sahm Rule“, contrasts with the Eurozone, where unemployment rates remain stable but economic sentiment has taken a downturn.

Given this momentum, the global economy appears poised for a relatively soft landing, buoyed by the unexpectedly strong performance of the US economy. The US continues to outperform expectations, but the outlook remains cautious as higher interest rates, and a softening labor market are expected to dampen consumer spending in the coming months.

In response to these developments, the Federal Reserve has indicated that its tightening program is nearing its conclusion, although the timing and extent of future rate adjustments remain uncertain. The importance of coordinated central bank actions is underscored by the recent surprise interest rate hike from the Bank of Japan, which has introduced new complexities, particularly concerning the “yen carry trade”.

We hope you find this month's edition insightful and wish you a pleasant read.

Global **Markets**

Global	Last	YTD	MTD
MSCI World	3'661.2	17.1%	2.7%
MSCI ACWI	833.7	16.3%	2.6%

United States	Last	YTD	MTD
Dow Jones Industrial	41'563.1	11.7%	2.0%
S&P 500	5'648.4	19.5%	2.4%
NASDAQ 100	19'574.6	17.0%	1.2%
Russell 2000	2'217.6	10.4%	-1.5%

Europe	Last	YTD	MTD
Euro STOXX 600	525.1	12.8%	1.6%
Euro STOXX 50	4'958.0	12.8%	1.8%
DAX	18'906.9	12.9%	2.2%
CAC 40	7'631.0	4.0%	1.3%
FTSE 100	8'376.6	11.5%	0.8%
Swiss Market Index (SMI)	12'436.6	15.1%	1.0%

Sectors (US)		YTD	MTD
Communication Services		21.6%	1.6%
Consumer Discretionary		6.1%	-1.0%
Consumer Staples		18.2%	6.0%
Energy		11.5%	-1.4%
Financials		25.9%	3.6%
Health Care		16.8%	5.3%
Industrials		16.8%	2.3%
Materials		11.1%	2.5%
Real Estate		10.8%	5.9%
Technology		24.3%	1.8%
Utilities		22.0%	4.6%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	2'497.2	21.3%	2.3%
Silver (XAG)	28.5	21.3%	-0.5%

Currencies (USD)	Last	YTD	MTD
EUR	1.11	0.1%	2.1%
CHF	0.85	-1.0%	3.2%
JPY	146.4	3.6%	-2.5%
BTC	57'402.4	40.8%	-8.5%

Fixed Income	Last	YTD	MTD
US Treasury	2'336.35	2.6%	1.3%
Global Corporate	3'333.38	3.5%	1.6%
Global EM USD	1'244.8	6.3%	2.1%
Global High Yield	1'636.0	7.5%	2.2%

Interest Rates (US)		Last month	End 2023
3 Months	5.11%	5.28%	5.33%
12 Months	4.40%	4.74%	4.76%
5 Year	3.70%	3.91%	3.85%
10 Year	3.90%	4.03%	3.88%

Price / Earnings Ratios		End 2023	End 2022
S&P 500	25.70	23.00	18.26
Euro STOXX 50	14.34	12.78	11.71
Swiss Market Index (SMI)	20.55	19.00	14.79

Data at close of 30/08/2024

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q2 2024	Q1 2024	Q4 2023
United States	5.38%	5.38%	5.38%	5.38%
Eurozone	4.25%	4.25%	4.50%	4.50%
Switzerland	1.21%	1.23%	N/A	1.72%
Canada	4.50%	4.75%	5.00%	5.00%
Japan	0.08%	-0.09%	N/A	-0.30%
China	0.35%	0.35%	0.35%	0.35%
India	6.50%	6.50%	6.50%	6.50%

Inflation (CPI - YoY)	Last	Q2 2024	Q1 2024	Q4 2023
United States	2.90%	3.00%	3.50%	3.40%
Eurozone	2.20%	2.50%	2.40%	2.90%
Switzerland	1.30%	1.30%	1.00%	1.70%
Canada	2.50%	2.70%	2.90%	3.40%
Japan	2.80%	2.80%	2.70%	2.60%
China	0.50%	0.20%	0.10%	-0.30%
India	3.54%	5.08%	4.85%	5.69%

Unemployment	Last	Q2 2024	Q1 2024	Q4 2023
United States	4.30%	4.10%	3.80%	3.70%
Eurozone	6.40%	6.50%	6.50%	6.50%
Switzerland	2.50%	2.40%	2.30%	2.20%
Canada	6.40%	6.40%	6.10%	5.80%
Japan	2.70%	2.50%	2.60%	2.50%
China	5.20%	5.00%	5.20%	5.10%

Gross Domestic Product (YoY)	Last	Q2 2024	Q1 2024	Q4 2023
United States	3.10%	3.10%	2.90%	3.10%
Eurozone	0.30%	N/A	0.30%	0.30%
Switzerland	0.60%	N/A	0.60%	0.50%
Canada	1.20%	1.20%	0.70%	1.00%
Japan	2.10%	2.10%	2.50%	4.80%
China	4.70%	4.70%	5.30%	5.20%
India (Real GDP)	6.70%	6.70%	7.76%	8.57%

Producer Price Index (PPI - YoY)	Last	Q2 2024	Q1 2024	Q4 2023
United States	1.80%	1.60%	1.80%	0.10%
European Union	-0.70%	N/A	-1.30%	-0.90%
Switzerland	-1.70%	-1.90%	-2.10%	-1.10%
Canada	2.90%	2.90%	-0.40%	-2.99%
Japan	3.00%	2.90%	0.90%	0.30%
China	-0.80%	-0.80%	-2.80%	-2.70%
India	2.04%	3.36%	0.26%	0.86%

Purchasing Managers' Index	Last	Q2 2024	Q1 2024	Q4 2023
United States	46.8	48.5	50.3	47.1
Eurozone	45.6	45.8	46.1	44.4
Switzerland	49	43.9	45.2	43
Canada	47.8	49.3	49.8	45.4
Japan	49.8	50	48.2	47.9
China	49.1	49.5	50.8	49
India	57.5	58.3	59.1	54.9

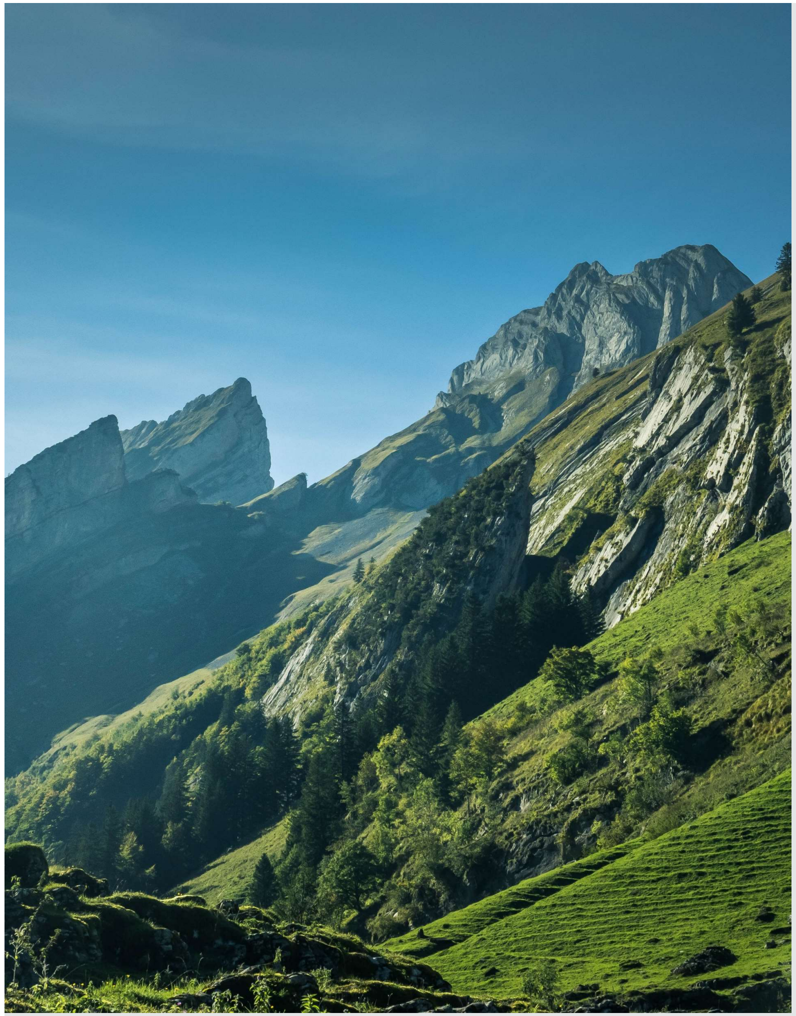
Core Inflation (Core CPI - YoY)	Last	Q2 2024	Q1 2024	Q4 2023
United States	3.20%	3.30%	3.80%	3.90%
Eurozone	2.80%	2.90%	2.90%	3.40%
Switzerland	1.10%	1.10%	1.00%	1.50%
Canada	2.70%	2.90%	2.90%	3.40%
Japan	1.60%	1.90%	2.20%	2.80%

Consumer Spending (PCE - YoY)	Last	Q2 2024	Q1 2024	Q4 2023
United States	2.62%	2.58%	2.83%	2.94%

Data as of 02/09/2024

N/A: Not yet reported or Public Holiday

August **Macro News**



- **In the US,** market expectations for a potential rate cut in September were heightened after Federal Reserve Chair Jerome Powell's speech at the Jackson Hole Economic Symposium. This anticipation was driven by a "growth scare" stemming from weaker Q2 employment data, which raised concerns about the Fed's future policy direction.
- **Similarly, in the euro area, disinflation progressed rapidly**, with headline inflation falling significantly from its previous peak although services inflation has seen some reacceleration. On the other hand, economic indicators and wage growth showed a decline. German ZEW expectations fell to 19.2, and manufacturing PMIs mostly showed contraction.
- **The UK continued to outperform**, with all sector activity PMIs in expansion, Q2 real GDP growth confirmed at 0.6% q-o-q, a lower unemployment rate and weaker than expected core CPI inflation.
- **In response to the market turbulence experienced in early August**, the Bank of Japan (BoJ) has emphasized the importance of maintaining financial stability. Governor Kazuo Ueda has indicated that the BoJ is prepared to consider further interest rate hikes if economic data aligns with their expectations, particularly regarding inflation trends. This stance comes after the BoJ's decision to raise interest rates to 0.25% at the end of July, which was a move aimed at addressing the yen's depreciation and rising inflation risks.

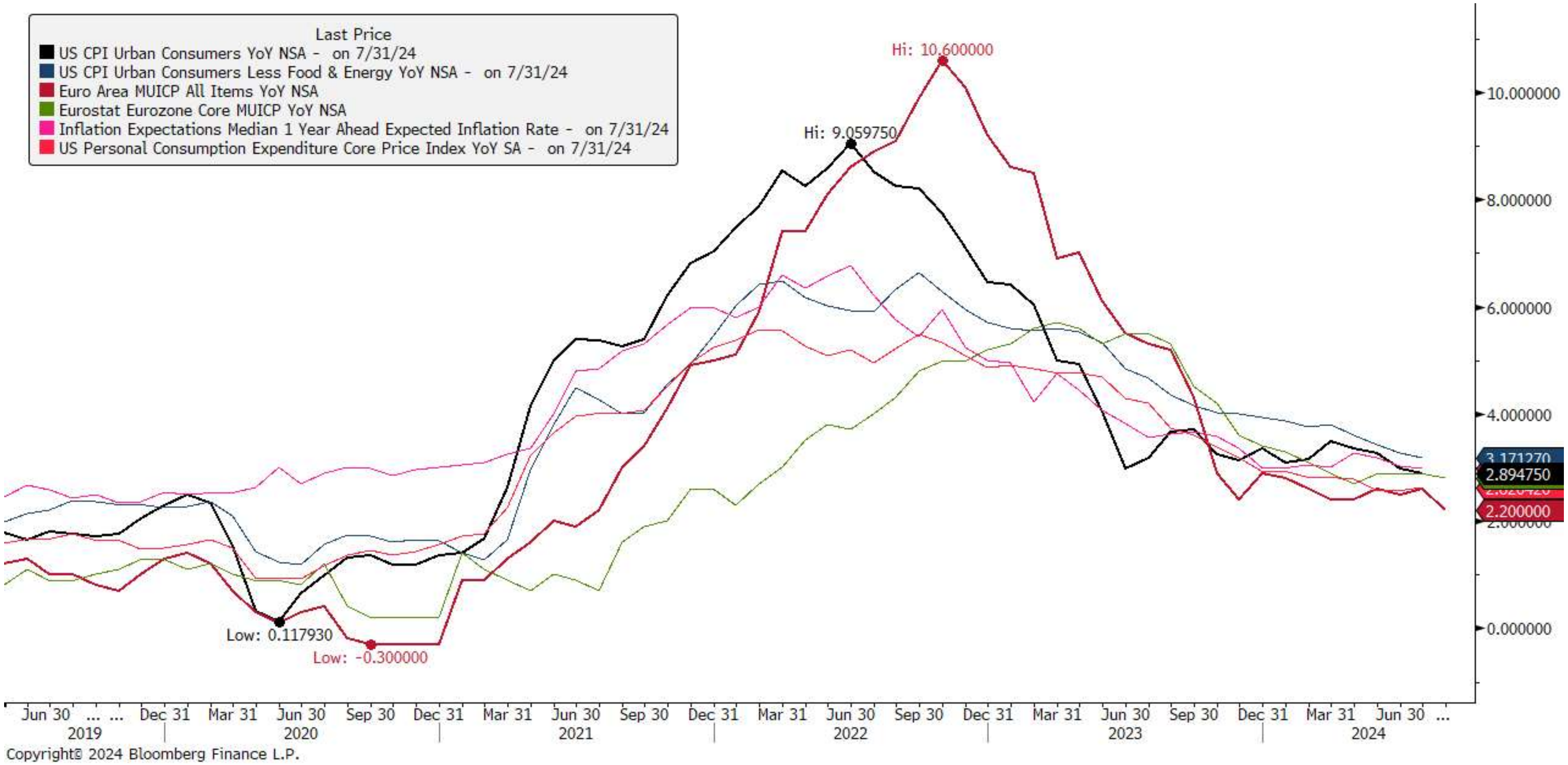
Current **Environment**

- **It looks like inflation is slowing down globally.** All the main sources of global inflation are posting either lower or in-line numbers. Looking more closely, though, services inflation is still a concern, making it tricky for central banks to normalize monetary policy. Meanwhile, the global labor market is displaying divergent trends. In the United States, unemployment has increased slightly to 4.3%, indicating a cooling labor market (and triggering the so-called "Sahm Rule"). In contrast, unemployment rates in the Eurozone remain stable, but economic sentiment has weakened.
- **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.
- **In consequence, the Federal Reserve has signaled an imminent conclusion** to its quantitative tightening program, marking a pivotal shift in monetary policy, though the path and the extent of rate cuts remains uncertain.
- **It is crucial for central banks to collaborate on their actions**, particularly in view of the Bank of Japan's (BOJ) unexpected interest rate increase and its impact on the yen carry trade. The recent unwinding of the carry trade is a reminder of the importance of collaborative efforts to mitigate risks and foster a stable economic environment, and to avoid exacerbating market volatility and unintended consequences.
- **The corporate earnings landscape at the end of August 2024 shows a mixed picture overall**. Some sectors are outperforming, while others are struggling. Market valuations remain a concern, particularly in sectors with high earnings expectations. However, the recent market correction and subsequent rebound suggest that investors are cautiously optimistic about future prospects, contingent on economic conditions and central bank policies.
- **As we approach the November US elections, the political landscape is becoming an increasingly influential factor in market dynamics.** The ongoing campaign season is introducing an element of uncertainty, particularly with regard to potential shifts in trade and economic policies. The stability of the European political landscape remains fragile, and any significant policy shifts could have an impact on market sentiment.

Inflation

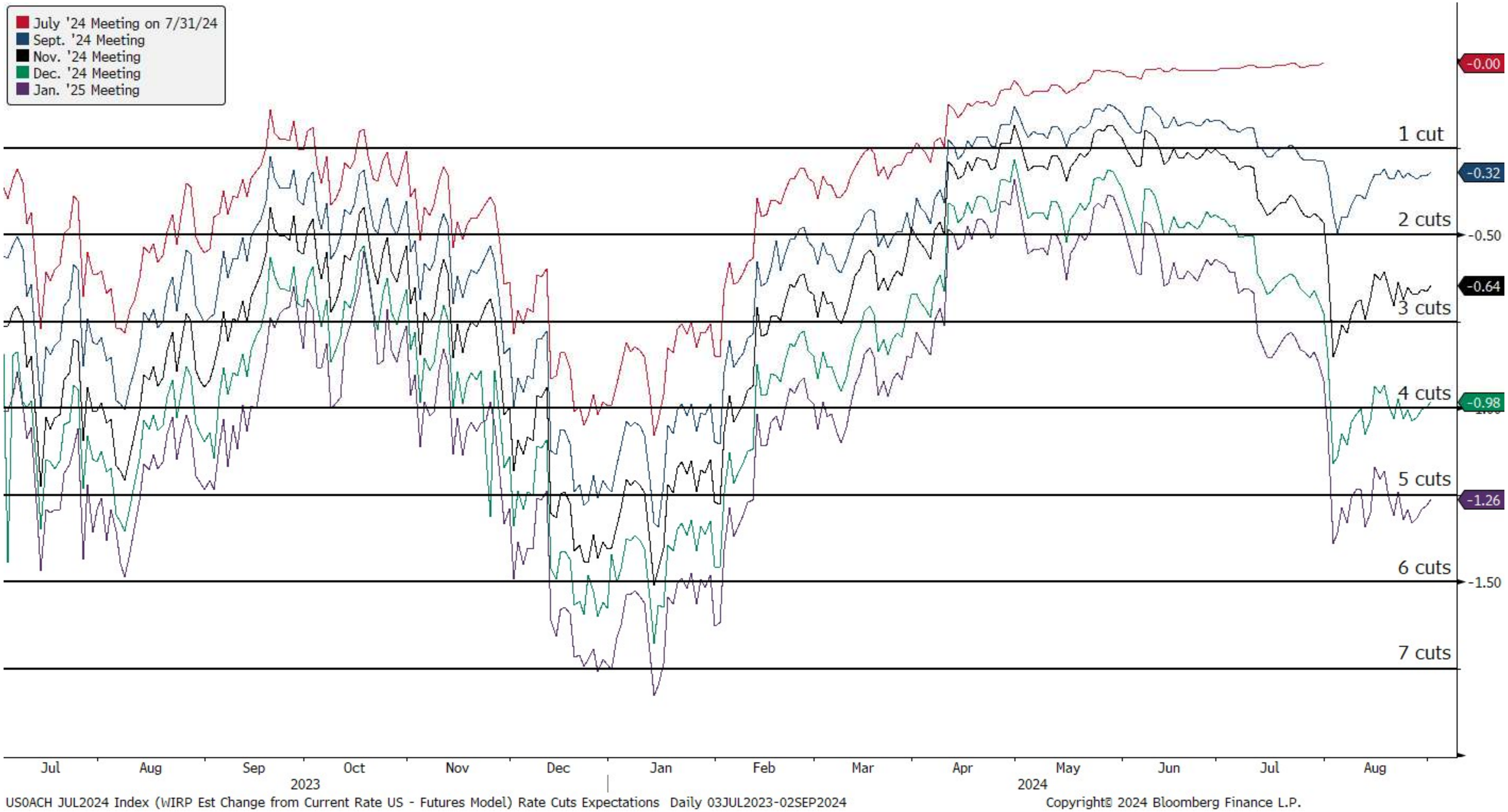
Global inflation has shown signs of cooling, remains higher than targeted, but is overall encouraging

US Core CPI inflation eased further, reaching 3.2%, and core PCE remained unchanged at 2.6% on an annual basis, increasing expectations for a September rate cut. The annual inflation rate in the Eurozone decreased to 2.2% in August from 2.6% in July. Certain components remain sticky, particularly shelter and services. The labor market remains strong despite signs of slowing momentum.



Short Term Rates **Expectations**

Since the beginning of the year, markets have consistently revised their rate cut expectations. The unemployment data published in early August triggered some recession indicators such as the "Sahm Rule" reinforced the necessity for a rate cut cycle to commence. Currently, markets are anticipating approximately four rate cuts (of 0.25%) between now and the end of the year.



The "Sahm Rule"

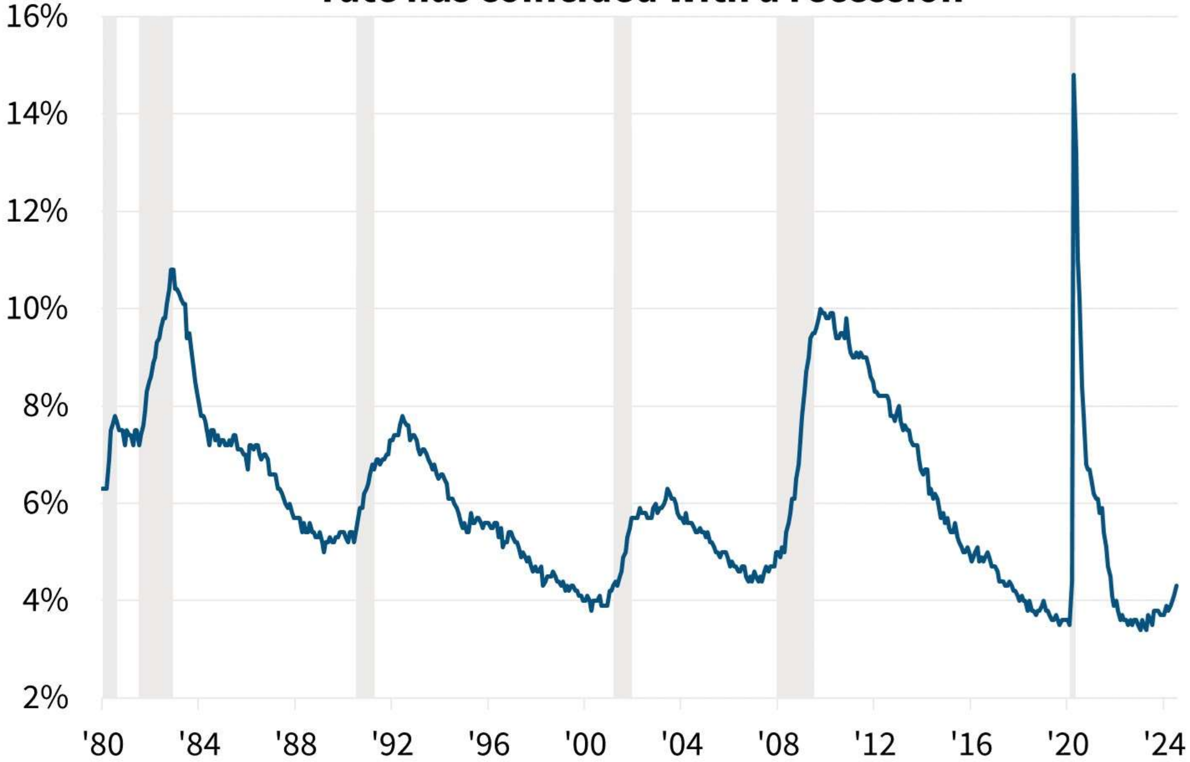
The Sahm Rule is a recession indicator developed by economist Claudia Sahm in 2019. It is designed to provide an early warning of economic downturns by monitoring changes in unemployment rates.

Specifically, the Sahm Rule is triggered when the three-month moving average of the national unemployment rate rises by 0.5 percentage points or more compared to its lowest point in the previous 12 months. This rule is valued for its simplicity and its ability to signal the onset of a recession before traditional methods which often come with a significant lag.

It has been triggered following a rise in the U.S. unemployment rate to 4.3% in July 2024, up from 4.0% in May. This increase has sparked discussions about the possibility of an impending recession. However, the current economic context presents some differences compared to historical recessions. For instance, while the unemployment rate has risen, other economic indicators, such as GDP growth and job creation, remain relatively strong.

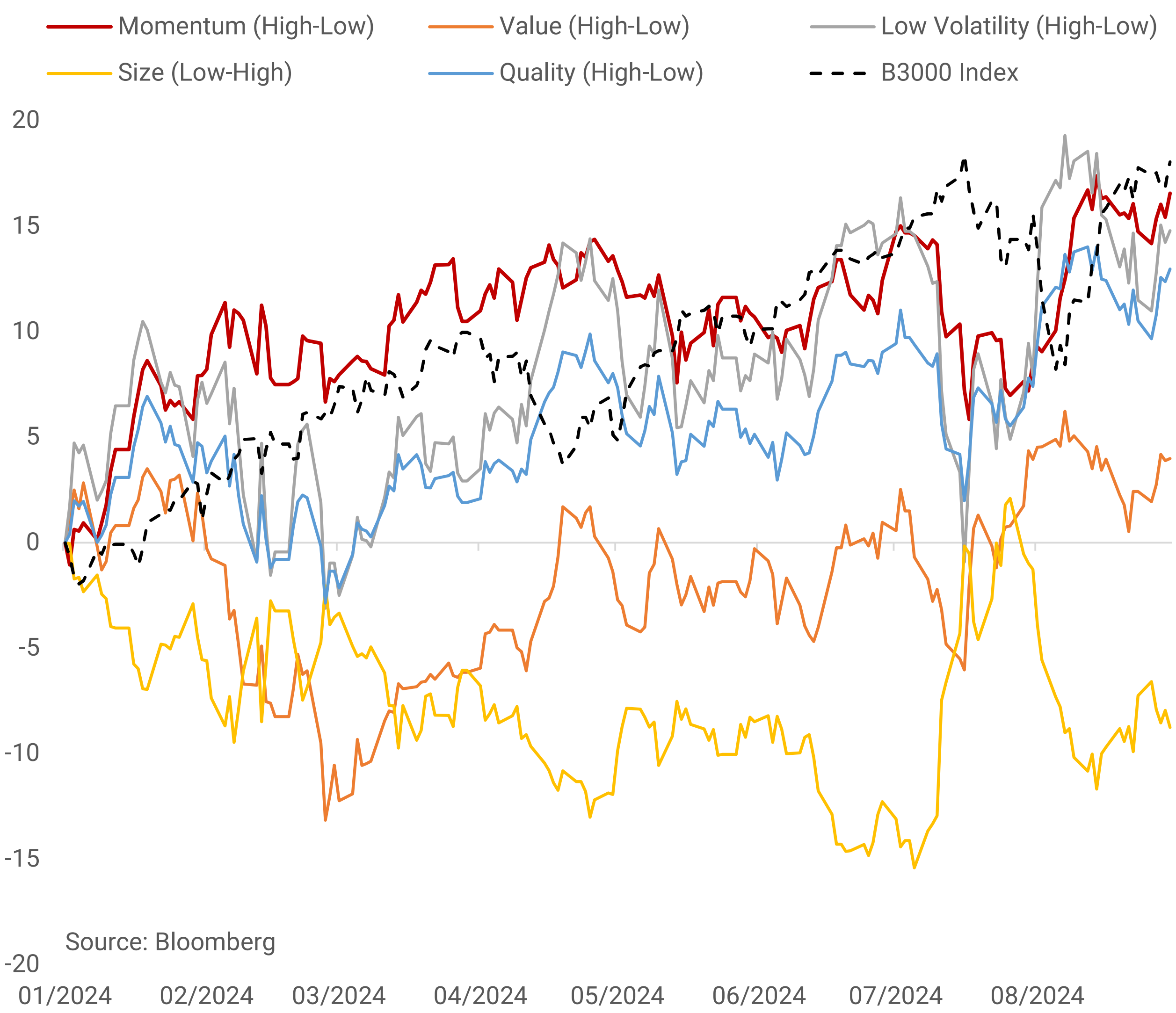
Additionally, the speed at which the Sahm indicator moves past its threshold can vary, and in past recessions, it has often surged quickly rather than gradually creeping up, which is not the case currently.

Historically, a sharp rise in the unemployment rate has coincided with a recession



Source: Fannie Mae

Factor of the Month: **Momentum**



Momentum has emerged as the best-performing factor for both August and 2024 so far.

This investment strategy involves buying stocks that are trending up and selling stocks that are trending down. The risk is that a brutal rotation from winners to losers - a potentially healthy outcome for the market as a whole - would significantly erode the gains made to date.

One potential explanation for this impressive performance is that the AI theme remains a strong driver of market activity. The theme has created a favorable environment for momentum investing, with AI stocks with strong upward trends continuing to attract investors.

In addition, the Federal Reserve's potential shift to a less aggressive interest rate stance, coupled with declining inflation, has provided a favorable backdrop for momentum strategies.

Looking ahead, while AI continues to offer promising opportunities, there are concerns about whether the current momentum is sustainable. High expectations for AI-driven growth could lead to challenges if companies fail to meet investor expectations.

Too soon **to rotate**

Fed Cut	SVX 3M Later	SVX 6M Later	SVX 12M Later
2019	3.1%	6.8%	-5.4%
2007	-6.0%	-15.0%	-26.7%
2001	-4.6%	-8.7%	-19.0%
1998	16.9%	19.7%	19.3%
1995	1.9%	12.7%	12.2%
Average	**2.3%**	**3.1%**	**-3.9%**

Fed Cut	SGX 3M Later	SGX 6M Later	SGX 12M Later
2019	0.9%	9.5%	22.9%
2007	-1.7%	-11.7%	-20.5%
2001	-12.7%	-14.1%	-16.1%
1998	24.2%	32.5%	32.2%
1995	5.0%	13.7%	15.6%
Average	**3.1%**	**6.0%**	**6.8%**

Source: Bloomberg Intelligence

Given that tech stocks are likely to see slower earnings growth in the near term, it might be a tempting move to consider shifting some of your investments into historically cheaper value stocks with lower P/E ratios.

For a short time in early August, it looked like the gap between the S&P 500 Value Index (SVX) and S&P 500 Growth (SGX) was closing fast amid a broader market downturn, but growth stocks bounced back and are doing better than their value peers for the year.

Surprisingly, on average, growth stocks have done better than value stocks in the short, medium, and long term after interest rates started to decline to prevent economic slowdown. Therefore, it might be too soon to rotate from growth stocks to value.

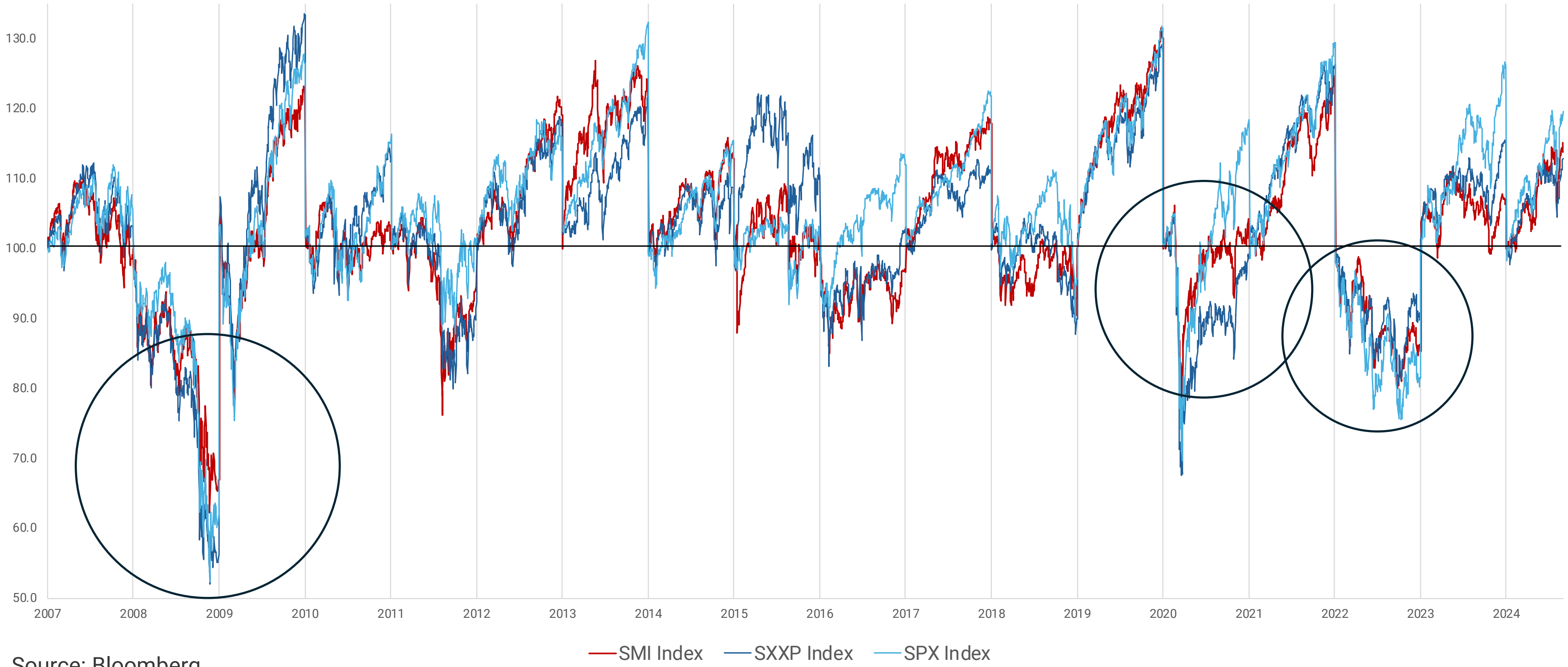
The primary challenge for growth stocks is their expensive valuations. While forward price-to-earnings ratios for the S&P 500 Information Technology sector have not reached the same levels of valuation expansion as seen earlier in the summer, they remain at the highest levels since the dot-com collapse.

The data suggest that exposure to growth will be beneficial for investors once the Fed starts cutting rates. But the value factor also has its place in portfolios, depending on the nature of the economic slowdown to come.

Swiss **Equities**

If the economy takes a dive in the second half of the year, the Swiss Market Index (SMI) could be a safe bet. It usually outperformed the Stoxx 600 and S&P 500 during recent market crises, thus it has proved its worth.

The SMI is well-positioned to better weather any storm, thanks to its defensive composition and limited China exposure. With consensus for 13% EPS growth in both the second half of the year and 2025, the index may be set to outpace the broader European market. The main thing to keep an eye on is how much revenue it gets from the US market. If the country has a hard landing, that could mean less demand and more forex risk. When it comes to valuation, the SMI's price to earnings ratio isn't too high compared to other global stocks or its long-term average, and the key component (pharmaceuticals) is showing upside catalysts.



Source: Bloomberg

Equity **Valuations Multiples**

The price-to-earnings (P/E) ratio of the S&P 500 is currently 25.7, which is above the index's historic average of 20. This indicates that the index may be somewhat overvalued. The S&P 500's valuation is influenced by the high weighting of large technology companies, which trade at an average price-to-earnings ratio of 37. When looking at the broader index (represented by the blue line in the chart below), valuations are closer to long-term averages.

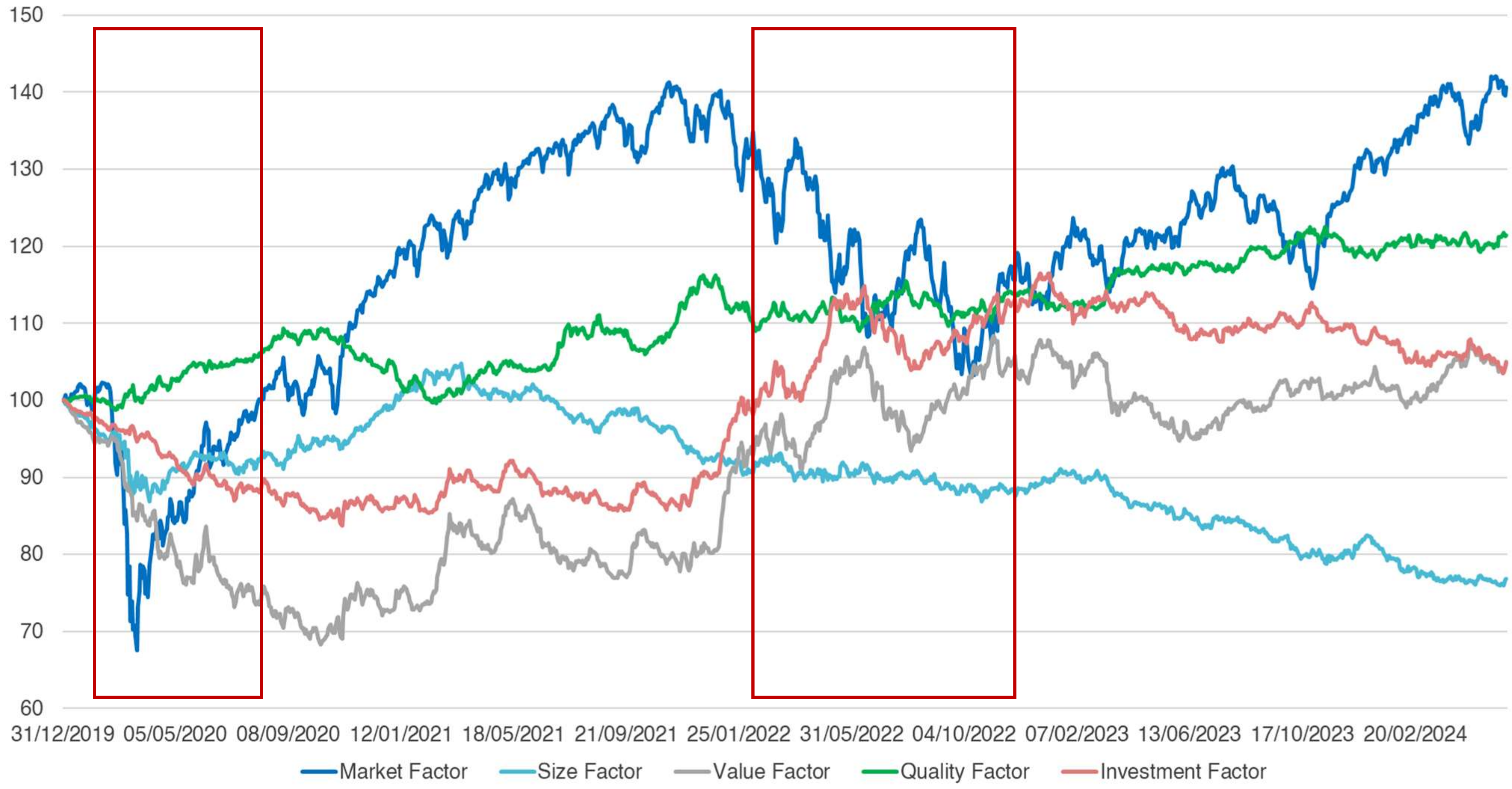
Key **Investment Themes**

- 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 about four 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**

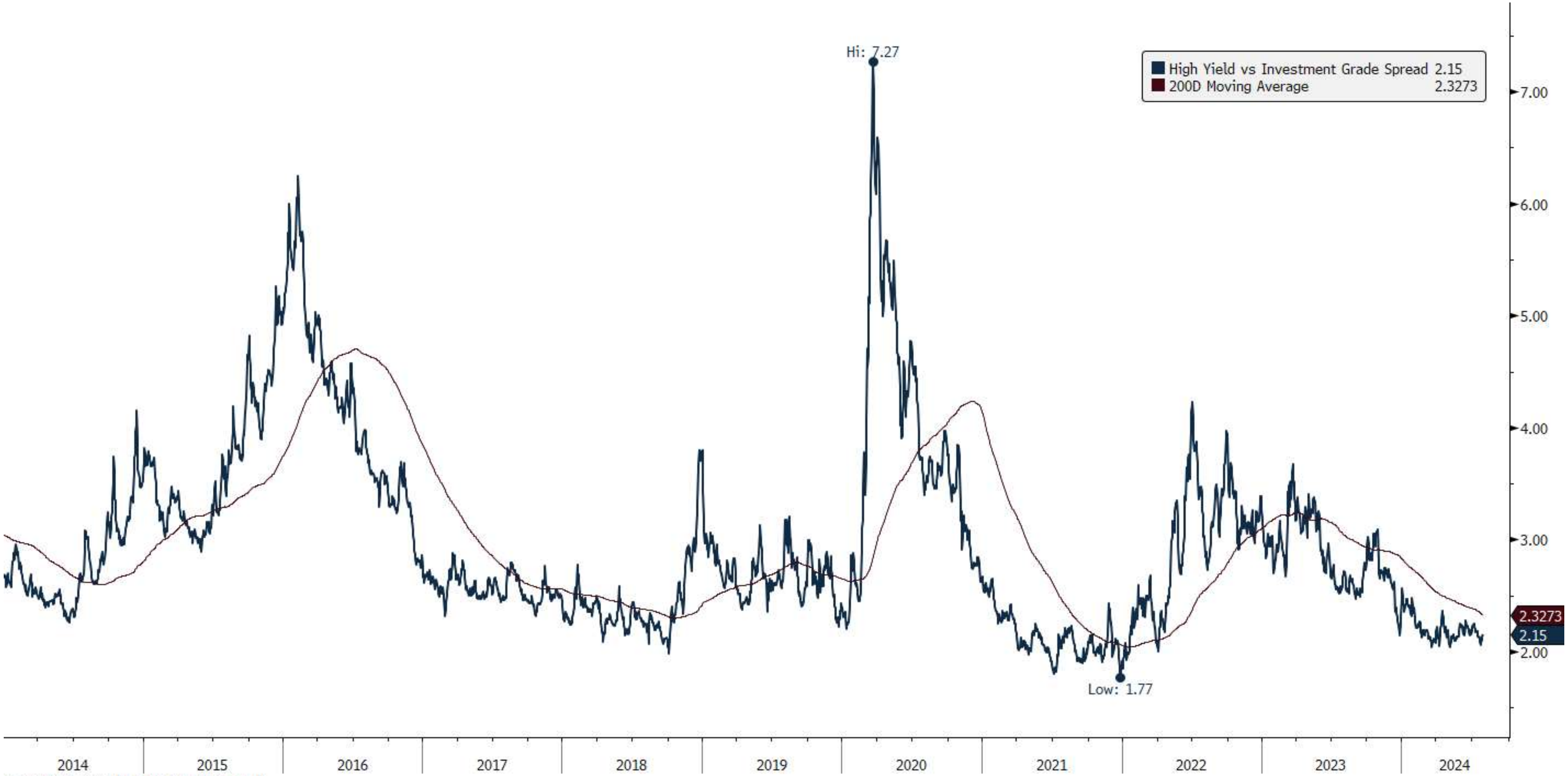
Our recommendation is to favor quality stocks with healthy balance sheets and managed with a long-term vision. Quality stocks have historically outperformed in the late stages of the business cycle, including in periods of economic contraction, which should offer portfolio protection if the economy slows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

Through this quality filter, we have decided to overweight technology, healthcare and energy.

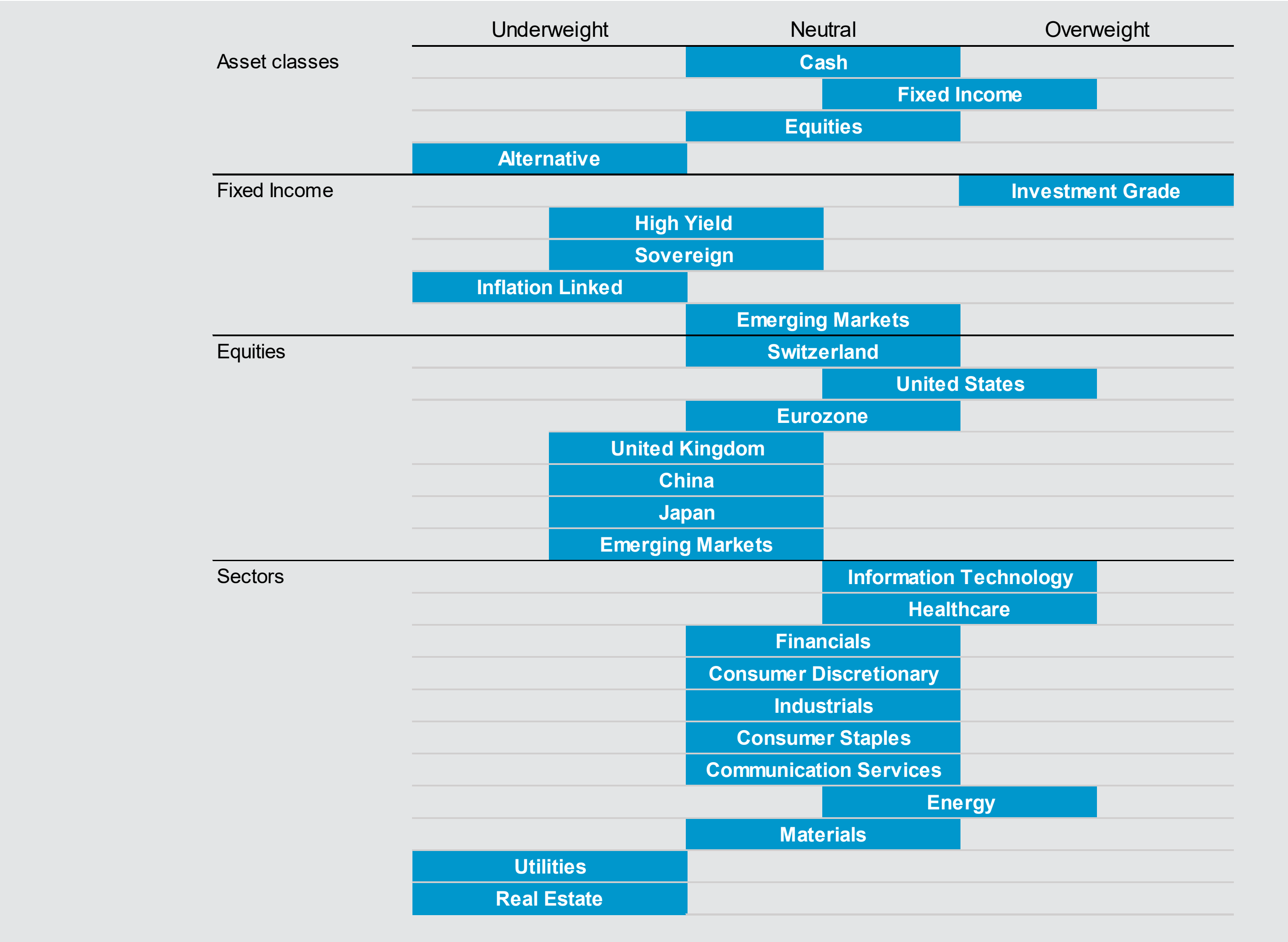


Our preference for **Investment Grade**

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.



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.

Legal **Notice**

This publication constitutes marketing material and is not the result of independent financial research. Therefore the legal requirements regarding the independence of financial research do not apply. The information and opinions expressed in this publication were produced by Telomere Capital SA, as of the date of writing and are subject to change without notice. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Telomere Capital to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily of other entities or any other third party. Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries. Clients of Telomere Capital are kindly requested to get in touch with the local Telomere Capital entity in order to be informed about the services and/or products available in such country. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. Telomere Capital recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested. Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Telomere Capital SA, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication. This publication may only be distributed in countries where its distribution is legally permitted. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited. This document may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.