



TELOMERE | Capital

# Outlook 2024 – Q2

Our investment views



# CALENDAR OF EVENTS 2024

**April 11**

ECB Interest Rate Decision

**May 1<sup>st</sup>**

FED Interest Rate Decision

**June 6**

ECB Interest Rate Decision

**June 12**

FED Interest Rate Decision

**June 14 to July 14**

UEFA EURO 2024 in Germany

**June 20**

Swiss National Bank Policy Rate Decision

**July 18**

ECB Interest Rate Decision

**July 26 to August 11**

2024 Summer Olympics in Paris

**July 31**

FED Interest Rate Decision

**August 28**

Paralympic Games in Paris

**September 12**

ECB Interest Rate Decision

**September 18**

FED Interest Rate Decision

**September 26**

Swiss National Bank Policy Rate Decision

**October 17**

ECB Interest Rate Decision

**November 5**

2024 United States presidential election

**November 7**

FED Interest Rate Decision

**November 11**

2024 UN Climate Change Conference (COP29)

**December 12**

ECB Interest Rate Decision

**December 12**

Swiss National Bank Policy Rate Decision

**December 18**

FED Interest Rate Decision





# SUMMARY OF OUR VIEWS



## Economy

As we enter the second quarter of 2024, the global economy is faced with a complex set of challenges and opportunities. Inflationary pressures, which were a major concern in the previous year, have started to show signs of moderation, though unevenly across different regions. Central banks, particularly the Federal Reserve and the European Central Bank, have begun to adopt a more cautious approach to tightening their policies, recognizing the delayed effects of past rate hikes on economic activity.

The U.S. economy, while resilient, faces the prospect of a slowdown as the effects of higher interest rates impact consumer spending and business investment. Europe, grappling with energy security issues and ongoing geopolitical tensions, is on the brink of recession. Asia, buoyed by China's cautious return to growth, offers a glimmer of hope but also highlights an uneven recovery across the globe.

## Equities

Global equities are at a critical juncture as markets balance the prospects of an economic slowdown with the potential for easing of monetary policy. The technology sector, having adjusted to post-pandemic valuation realities, offers opportunities based on innovation and growth potential. Financial stocks could benefit from a steepening of the yield curve, while consumer discretionary stocks reflect the combined pressures of inflationary forces and changes in consumption patterns.

Emerging markets, particularly in Asia, stand to gain from a shift towards domestic consumption and technological self-sufficiency. However, the evolution of U.S.-China relations and its impact on global trade remains a critical factor to monitor.



## Fixed Income

Central banks' actions in response to inflation have significantly shaped the fixed income landscape. With expectations of a slower pace of rate hikes, bond yields have adjusted, presenting a new dynamic in valuation. Opportunities are emerging in high-quality corporate bonds and certain sovereign debts, where risk-adjusted yields have become more attractive.

Emerging market debt is seen with cautious optimism, as these regions benefit from the stabilization of the dollar and improvements in commodity prices. However, investors must remain vigilant about country-specific risks, particularly those related to fiscal health and political stability.

## Alternative investments

We maintain an underweight position regarding alternative asset classes, favoring the income regularity provided by bonds. However, this caution does not prevent us from remaining vigilant for opportunities within the alternative investment sector. We are aware that these assets can offer attractive returns, uncorrelated with fluctuations in traditional financial markets, which could enhance our overall diversification strategy.

While placing emphasis on bonds, we remain open and attentive to changing market dynamics. We actively explore segments of the alternative investment space that present interesting valuation potential, while carefully assessing the risk-return ratio for our investors. Our objective remains to maximize risk-adjusted performance of our portfolios, harmonizing prudence and responsiveness to growth opportunities in the Q2 2024 financial landscape.



# MACROECONOMIC OVERVIEW

After an excellent first quarter for risk assets, driven by a resilient American economy and overall better-than-expected corporate results, key macroeconomic factors continue to shape the investment environment. Central banks, particularly the Federal Reserve and the European Central Bank, remain cautious about monetary policy, balancing the need to control inflation without stifling growth. The market is increasingly attentive to every comment from central bankers, which is generating more intra-day volatility.

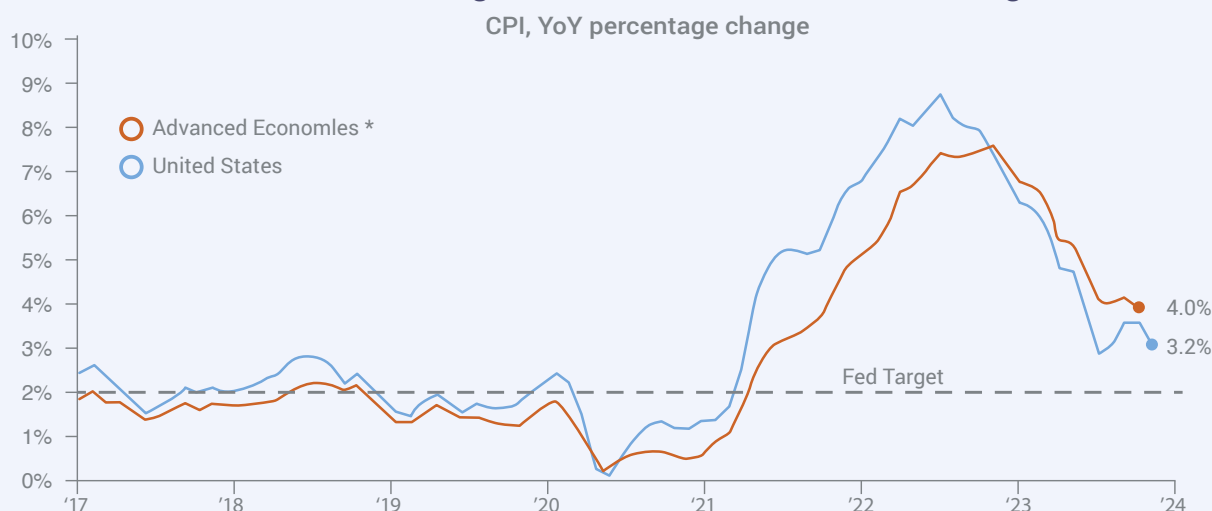
Inflation, although showing signs of slowing, remains a central concern. Countries are facing different inflationary pressures; some benefit from falling energy prices while others are dealing with supply chain disruptions and labor market tensions. The American economy, despite its extraordinary resilience,

is facing challenges due to rising interest rates impacting consumer spending and business investments. Europe, still recovering from energy uncertainties and geopolitical tensions, appears vulnerable to recessionary pressures.

China's cautious recovery underscores regional disparities in economic growth. As it implements measures to boost its economy, its impact on global demand and commodity prices is closely monitored. Emerging markets, benefiting from the stabilization of the U.S. dollar and improvements in commodity prices, present both opportunities and risks, highlighted by the diversity of their economic fundamentals and vulnerability to external shocks.

The global business environment remains complex, influenced by U.S.-China rela-

## Inflation is decreasing but still above the Central Banks' target



\*Our universe of advanced economies includes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States.

Sources: Bureau of Labor Statistics, Haver Analytics

tions, regulatory changes, and a shift towards protectionism. These factors contribute to the uncertainties facing businesses and investors, impacting investment decisions and market sentiment. Technological advances continue to drive economic transformation, offering opportunities across nearly all sectors.

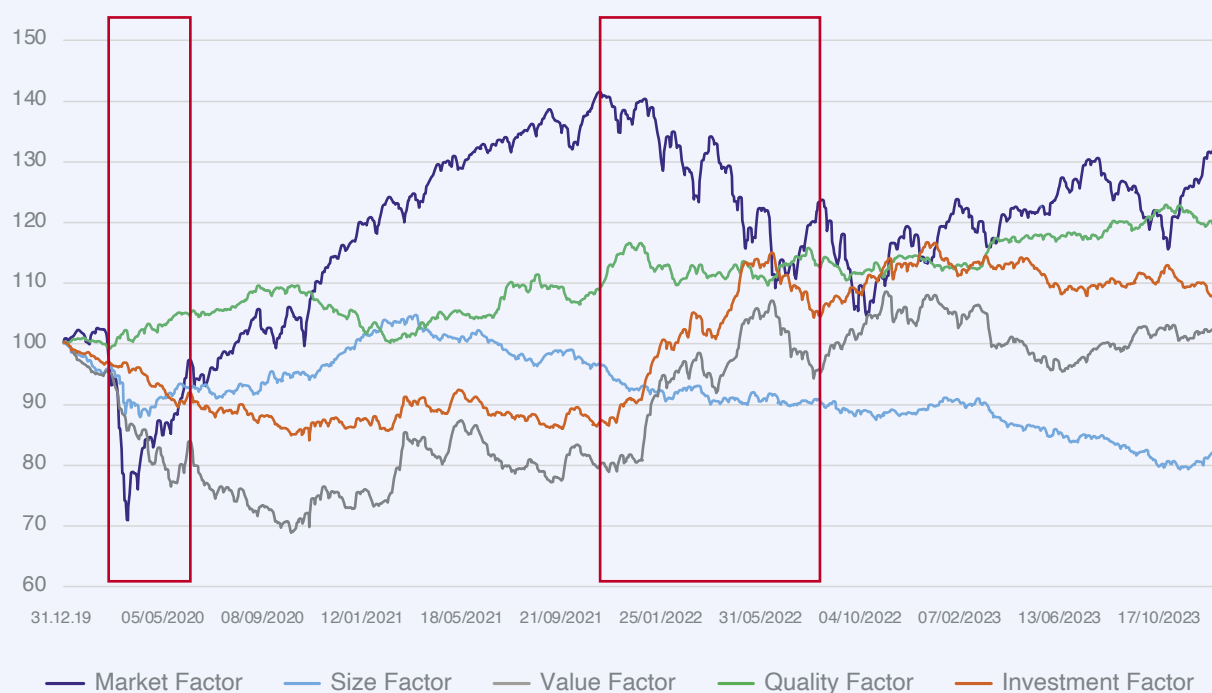
The course of monetary policy is a key element in the direction of financial markets. As central banks embark on paths of normalization, the risk of policy missteps remains a concern, emphasizing the importance of increased surveillance and flexibility in investment strategies.

In summary, the global economic outlook for the second quarter of 2024 is marked by cautious optimism, tempered by inflation concerns,



### Quality stocks with healthy balance sheets

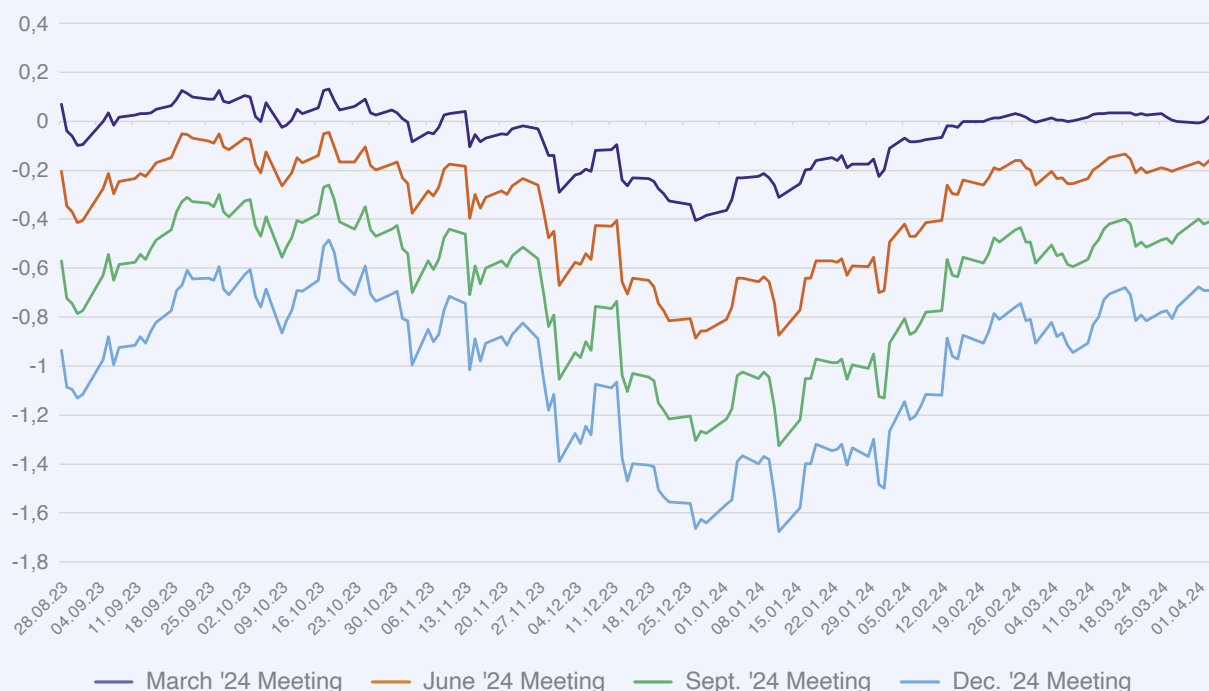
Our recommendation is to favor quality stocks with **healthy balance** sheets and managed with a **long-term vision**. Quality stocks have historically outperformed in the late stages of the business cycle, including in periods of economic contraction, which should offer portfolio protection if the economy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





## Anticipating US rate cuts

The markets have returned to reality after being overly optimistic about rate cut expectations at the start of the year, pricing in about 3 cuts for 2024 instead of 7 in December 2023. The Fed must combat persistent but at least declining inflation while keeping an eye on the growing debt burden due to interest expenses. **We remain cautious about duration, as volatility in yields is expected.**



geopolitical risks, and upcoming political events. Investors are advised to approach this landscape with a balanced and diversified approach. Uncertainty about interest rates and spikes in market volatility following disappointing releases, along with high valuations, reinforce our belief that diversification is a strategic priority.

The global economy and financial markets are at a crossroads, faced with the dual challenge of managing inflation and sustaining growth. In this environment, a multi-asset investment strategy emphasizing diversification, quality, and resilience becomes paramount. Fixed income offers new attractive values, especially in segments that provide appealing risk-ad-

justed yields, such as high-quality corporate bonds.

Investments in equities should adopt a prudent diversification strategy, focusing on solid companies poised for sustainable growth. Alternative investments might attract renewed interest in light of potential negative surprises on rates or growth, allowing for diversification of the portfolio with assets uncorrelated with traditional asset classes.

A person wearing a blue lab coat is working in a laboratory. They are holding a glass vial or pipette. In the background, there are various pieces of laboratory equipment, including what looks like a balance scale and some glassware. The lighting is bright and clinical.

# EQUITIES: DIVERSIFICATION AND CAUTION, KEY WORDS

As we enter the second quarter of 2024, the equity market outlook is shaped by the interplay between expectations of economic growth, inflation and its impact on monetary policies, and corporate earnings dynamics.





Valuation metrics, while not at their extremes, require careful consideration in the context of interest rate expectations and earnings growth. Although a relative optimism pervades the markets, the reality forces us to question the sustainability of the record highs observed in the stock market since the start of the year.

The market has remarkably digested macroeconomic figures, particularly revisions in the number of expected rate cuts in the U.S., but signs of fatigue are observable. Indeed, each disappointing release or contradictory statement from members of the Fed consistently introduces more intra-day volatility.

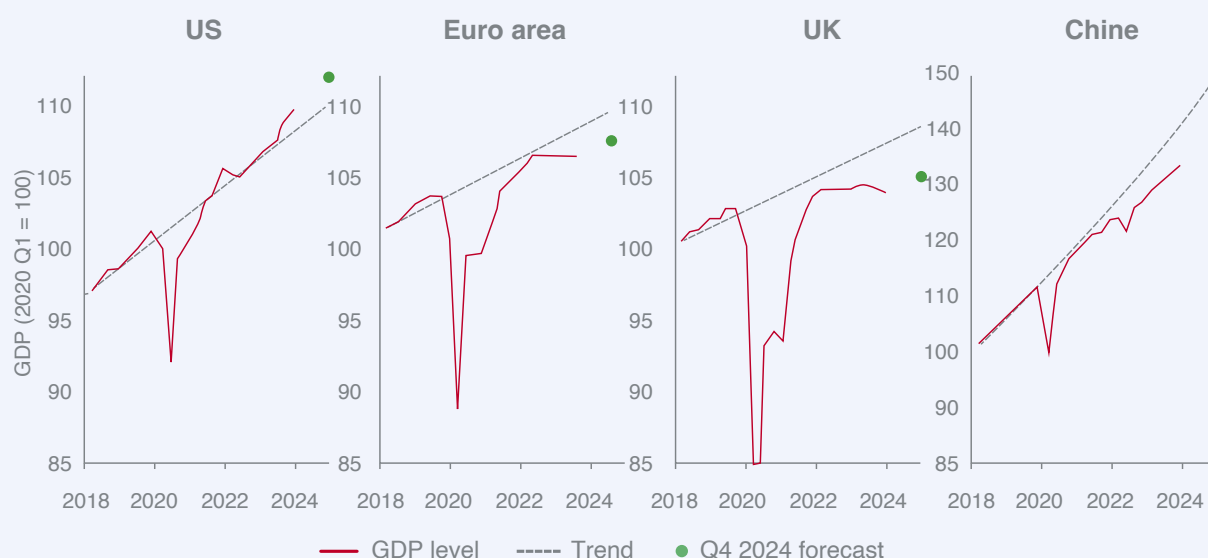
In this context, a wise and balanced approach is imperative, emphasizing diversification and caution.

The technology sector continues to be at the forefront of market movements. While certain segments, such as artificial intelligence and cloud computing, continue to generate keen interest, high valuations in other areas raise questions. Innovation, digital transformation, and the adoption of emerging technologies are driving growth potential but necessitate vigilance concerning regulatory challenges and competitive dynamics.

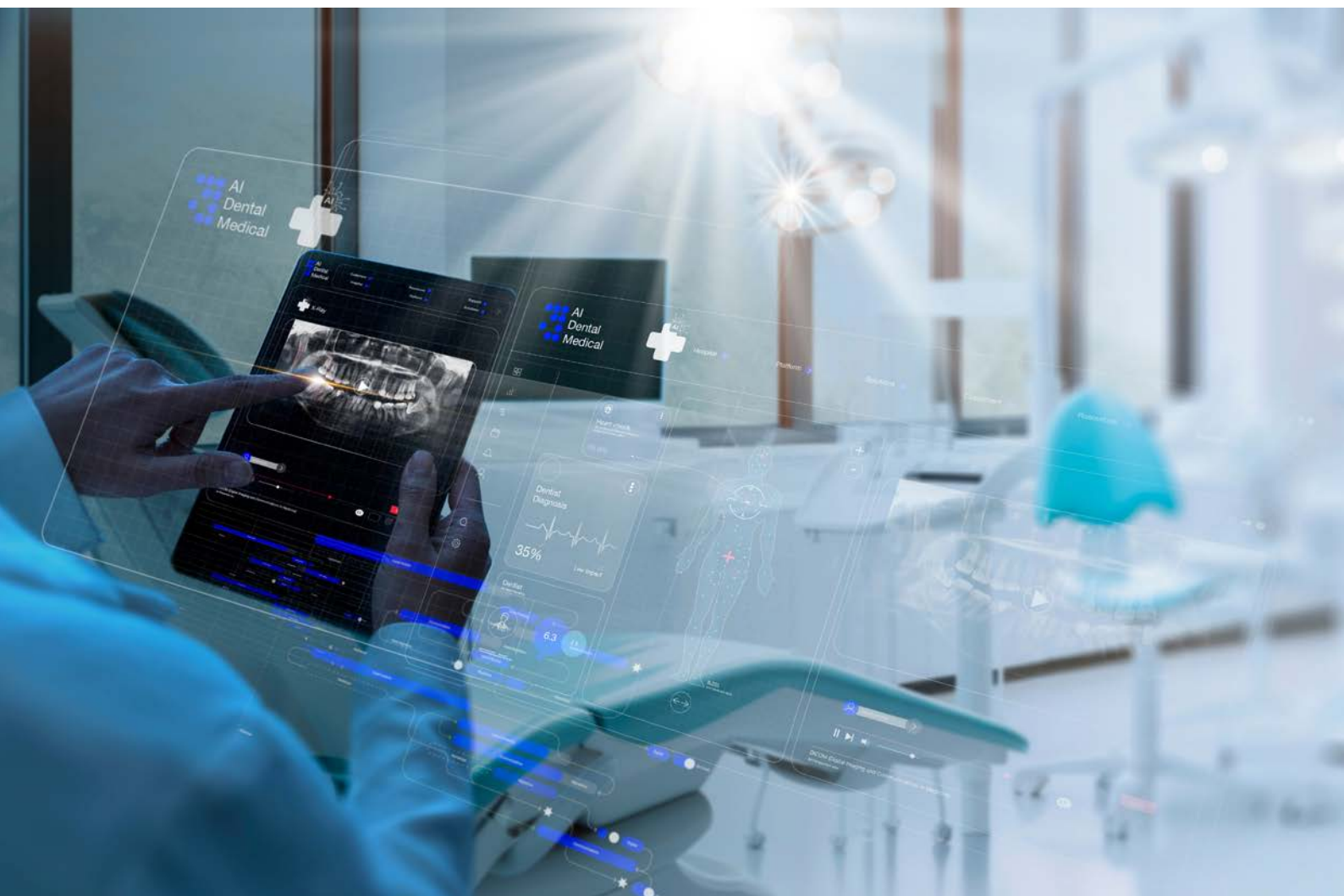
Concurrently, defensive sectors such as health-care, utilities, and consumer staples are likely to regain appeal. These areas, known for their resilience in the face of economic turbulence, offer stable and predictable growth prospects. In the wake of economic recovery, cyclical sectors such as industry, materials, and energy could experience a resurgence of interest. These areas, closely linked to global growth,

## US Economic Resilience

The US economy has significantly outperformed other major advanced economies like the Eurozone and the UK in terms of GDP growth. Strong and resilient consumer spending has been a key driver of the **US economy's exceptional performance**. Consumers have continued spending at a robust pace, even in the face of high interest rates, supported by a strong labor market and decreasing saving rate. This situation contrasts with the growth prospects in other major economies like Europe, which have been more affected by factors such as high energy prices.



Source: Vanguard



present interesting opportunities, particularly due to attractive valuations and improved balance sheets.

Additionally, emerging markets should not be overlooked, offering opportunities for higher returns, albeit with potentially higher volatilities. These markets have an attractive growth potential, fueled by economic recovery, expansion of local consumption, and technological advancements.

However, it is crucial to note that these opportunities come with risks such as geopolitical instability, currency volatility, and political uncertainties, thus necessitating a selective and informed investment approach.

Thus, by adopting a balanced approach that prioritizes quality and diversification, investors will be better equipped to capitalize on the opportunities presented by various equity markets while mitigating the inherent risks in this volatile environment.

# INDIA AND SOUTHEAST ASIA

We previously discussed the interest in allocating a portion of the equity pocket to emerging markets. These markets are generally considered as a whole, while some could benefit from significant inflows given their positioning. Among these are India and Southeast Asia.

The Southeast Asian region will face challenges in the event of a recession in the West or unexpected slowdowns in China, but could also benefit from structural tailwinds for long-term growth. India is likely to be one of the most dynamic economies in the world in the coming years. With a growing working-age population, the country will produce and consume more goods and services and drive technological innovation. The relatively high valuations of Indian stocks, compared to other Asian and emerging markets, can be justified by the consistently superior return on equity of its listed companies.

Furthermore, efforts to reduce dependence on the Chinese supply chain, through expanding production capacities in India and Southeast Asia, will support the growth momentum in manufacturing in the region. While neighboring countries may find it hard to compete with China's manufacturing dominance, the emergence of «China plus one» supply chain configurations will lead to significant trade and investment flows to the rest of the region, thus boosting exports and employment in India and Southeast Asia. Naturally, a recession in developed markets or a more pronounced slowdown in China would have a significant impact on exporters across Asia. However, this would be just one factor among many others, depending on the evolution of the global macroeconomic scenario over the coming year.







## EQUITIES

The closure of the earnings season, marked by performances exceeding expectations, has propelled markets to new records. Faced with a resurgence of volatility in recent weeks, a consequence of nervousness about uncertain forecasts for monetary policy direction, we opt for a neutral stance in equities, favoring solid and enduring companies. We align our equity portfolio with the indices, with selective overweighting in the technology, healthcare, and energy sectors, recognized for their robustness at the end of the economic cycle.

## ACTIVITY WITHIN THE ALLOCATION :

Regarding our strategy for fixed-income securities, we have maintained a preference for high-quality issuers with strong balance sheets and predictable cash flows.

Moreover, we rigorously proceed with the selective incorporation of issuers that stand out due to particularly high credit ratings into our portfolio while maintaining exposure to a duration shorter than that of the benchmark index.

## BONDS

On the fixed income side, corporate bonds are facing higher overall interest costs, and potentially refinancing difficulties in the high-yield segment. However, we prefer well-rated companies over governments whose public spending continues to exacerbate budget imbalances. For the rest of the year, we anticipate a decline in yields and a normalization of yield curves in the US and Europe. For this reason, we have positioned ourselves with a shorter duration than that of the benchmark index.

## ALTERNATIVE INVESTMENTS

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

Concurrently, we methodically analyze our portfolio funds to ensure quality management. Our positioning places us at the upper end of our dedicated allocation to fixed income yield on corporate bonds.

In the equity market, we adopt a cautious approach, aligning our positions with benchmark indices while overweighting the technology, healthcare, and energy sectors. We strengthen our equity portfolio with defensive strategies, including the targeted use of derivatives to cushion market volatilities.

We maintain constant vigilance over the economic cycle and are prepared to adjust our allocation if necessary, by following a prudent and systematic methodology.

## CONCLUSION

The Federal Reserve has kept the target range for its funds rate unchanged at 5.25-5.5%. In his speech, Jay Powell removed previous formulations that left the door open for further rate hikes and adopted a more conciliatory tone, indicating that employment and inflation targets are «balancing out more favorably.»

The Swiss National Bank (SNB) unexpectedly lowered its key interest rate by 0.25% to 1.5%, noting that inflation has remained below 2% for several months, thus stabilizing within the target range. This makes Switzerland the first major financial center to announce a rate cut in recent months, while other central banks such as the Fed and the Bank of England have remained neutral.

Inflation in the United States for February came in at 3.20%, slightly above expectations. This announcement did not trigger significant corrections on global stock markets, seemingly confirming that the market could tolerate inflation higher than the Federal Reserve's target of 2%. The figures for March now cast doubt on the future monetary policy direction of the Fed, thereby increasing volatility in the markets.

In light of recent movements, it's crucial not to lose sight of the fact that the combination of rising credit card balances and decreasing savings also raises concerns about the financial resilience of American households. Consumers could become increasingly vulnerable to economic shocks or potential increases in unemployment, as they have fewer financial reserves to rely on.

The rise in interest rates on credit cards also means that consumers are paying more to pay off their debt, which could crowd out other spending and savings.

Therefore, our investment strategy remains cautious, favoring quality in an ever-evolving environment



**Dominique De Riaz**  
Chief Executive Officer



# ASSET ALLOCATION

World Line Conservateur

	UNDERWEIGHT	SLIGHTLY UNDERWEIGHT	NEUTRAL	SLIGHTLY OVERWEIGHT	OVERWEIGHT
<b>EQUITY</b>	○	○	●	○	○
Global equities	○	○	●	○	○
Emerging markets equities	○	○	●	○	○
Domestic equities	○	○	●	○	○
Small cap equities	○	○	●	○	○
<b>FIXED INCOME</b>	○	○	○	●	○
Government bonds	●	○	○	○	○
Inflation linked bonds	●	○	○	○	○
Corporate credit	○	○	○	○	●
Emerging markets bonds	○	○	●	○	○
High yield bonds	●	○	○	○	○
Convertible bonds	●	○	○	○	○
<b>ALTERNATIVE INVESTMENTS</b>	●	○	○	○	○
Metals	●	○	○	○	○
Alternative funds	●	○	○	○	○
<b>CASH</b>	○	●	○	○	○

Based on 12-month forecasts





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