INDOSUEZ
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Independence Day

Architects of Wealth

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INDEPENDENCE DAY

Alexandre
DRABOWICZ
Chief Investment Officer

Dear Reader,

As we celebrate the 80th anniversary of D-Day and the Battle of Normandy, 6 June could become an important date for the financial markets. On 6 June this year, the European Central Bank (ECB) council is meeting to take an historic decision on monetary policy and likely cut interest rates for the Euro Area before the United States (US) Federal Reserve (Fed).

ECB President Christine Lagarde had defined the central bank's actions as "data-dependent" and not "Fed-dependent". With inflation falling faster than expected, reaching 2.4% in May, compared with a peak of 10.6% in October 2022, we expect the ECB to cut its key rates four times this year from June, and potentially two to four times next year to bring them down to 2 or 2.5%.

DIVERGING MONETARY POLICY PATHS?

In contrast, US inflation has been a bit stickier, leading Fed Chairman Jerome Powell to clarify to investors that he did not expect the Fed to raise rates any further, and what was needed was to be "patient and let restrictive policy do its work". There is therefore ample evidence that the disinflation process in the Euro Area is stronger than in the US and this is the main reason for the diverging monetary path. As for the Fed, the market remains divided. After a reassuring inflation reading in May, the market is now forecasting two cuts from September, compared with seven at the start of the year and one before the inflation figures. We still have three cuts for 2024 and three more in 2025 to reach 4%, but a sequence of two and then four cuts is clearly possible. Jerome Powell has recently regained credibility on his inflation rhetoric, with the latest fall in retail sales putting the Goldilocks scenario back at the centre of investors' mind.

AMPLE LIQUIDITY

At the start of the year, we argued that the massive inflows in money market funds in 2023 would be an important force to support equity markets, as this liquidity could shift to riskier parts should rates come down.

Inflows continue to be strong in the US this year, at over 200 billion dollars, but at a much slower pace than last year, while flows into equities amount to 150 billion dollars so far, almost equivalent to the flows for the whole of 2023. Further reallocations are likely, but the key question will be to which part of the market investors will start to contemplate.

At a recent global markets conference in Paris, over 52% of investors still expect equities to deliver the highest return this year with a majority "moderately bullish". They are not alone: companies actually continue to buy back their shares at a record pace. In May, Apple's announcement of a new 110 billion dollars' share buyback plan is the largest in US history: the company is responsible for the top six of the 10 largest share-repurchase plans. Since 2012, it has reduced the number of its shares by 40%.

A new rotation is beginning to emerge with the improvement in the macroeconomic situation in Europe. However, small caps are still lagging, with the MSCI Europe Small Cap Index lagging its large cap equivalent by 30% over the last three years, but we are now warming up to the asset class. With very attractive valuations, decent earnings growth and massive capital outflows in the last few years, there could be a renewed appetite for small caps. While US equities along with emerging market equities continue to be attractive, we think investors are now exploring what is missing in their portfolios and looking to expand beyond what they already own, and small caps could become a compelling alternative.

In this edition, we have a new section on Private Markets and we invite you to read Matthieu Roumagnac's article on infrastructure. Please note that this publication will henceforth include a Private Markets section on a quarterly basis.

Please enjoy reading this edition.

SHIFTING NARRATIVES

Lucas MERIC
Investment Strategist

After several quarters of outperformance, recent lacklustre US macroeconomic data have left the financial markets questioning the credibility of a soft landing for the US economy. At the same time, in recent weeks we have seen renewed optimism about the Euro Area, where the three variables – growth, inflation and monetary policy – seem to be trending positively. *Momentum* has also improved in China, although real estate and trade tensions with the United States remain risk factors.

UNITED STATES: A BALANCING ACT

Annualised growth of 1.6% in the first quarter of 2024, a slowdown in job creation to 175'000 and flat retail sales in April all point to signs of a slowdown in the US economy. Economic surprises moved back into negative territory for the first time since early 2023, a symbol of this muted *momentum* and a reflection of the drastic change in economist consensus, with US growth expectations for 2024 revised from 0.6% (August 2023) to 2.4% in May. These decidedly more optimistic expectations for the US economy thus leave more room for downside surprises, as we have seen in recent weeks. The United States is therefore no longer currently operating at the stellar growth levels of the second half of 2023, when the economy grew by nearly 4% (annualised). At the same time, the disinflation trend slackened in the first quarter of 2024 due to stickiness in the services component. A combination of weak growth figures and persistent inflation brought stagflation risk back to the fore, another sign that market narratives shift quickly and constantly as data are released. These data are sometimes volatile, but also noisy. The April figure proved more reassuring, although services inflation remained high at 0.4% over the month, but still below the 0.55% seen on average in the first quarter. The markets reacted positively to this easing of inflation, and to the slowdown in job creation earlier in the month.

Although the deceleration in growth indicators in the United States may raise some questions about the actual resilience of the US economy, we believe it is necessary to reach the “last mile” of inflation and in particular to achieve the soft landing we have had in our scenario for the last few months. The focal point of this progression is the job market and the extent to which it might slow down. Our expectation of robust growth in the United States this year, with a slight rebound in the second quarter of 2024, leads us to believe that this softening of the job market should bring the unemployment rate to around 4% at end of 2024 (3.9% in April) with no major deterioration.

EURO AREA: GOOD VIBRATIONS

The outlook seems less uncertain on the other side of the Atlantic. Year-end 2023 was marked by a slight technical recession, but Europe's economy subsequently grew by 0.3% in the first quarter of 2024, surprising consensus expectations at 0.1%. Inflation is still above the ECB's target but, with headline inflation and core inflation at 2.4% and 2.7%, respectively, it remains in more comfortable territory. Pressure on oil prices also eased slightly, with Brent down nearly 10% since its early April highs.

4.7%:
Rise in wages in the Euro Area in Q1 2024 (YoY)

Lastly, while the markets are still playing it by ear when it comes to the timing of the Federal Reserve's rate cuts, there seems to be general agreement that the ECB's first cut will be in June. We believe this will be the first of what will ultimately be 100 basis points (bps) of cuts in 2024. Against this backdrop, investor and purchasing manager sentiment has rebounded sharply in recent months.

However, while consumer confidence has improved since the end of 2023, it remains subdued. This is reflected in consumers' visible caution and their still record-high savings rate of more than 14%. European consumers are not expected to remain prudent forever, with wages up 4.7% in the first quarter of 2024 and inflation just above the target. Purchasing power is improving and the initial rate cuts should support the propensity to consume in the Euro Area, a key factor in the scenario of a gradual growth recovery in Europe in 2024.

CHINA: A PATH FRAUGHT WITH PITFALLS

Momentum is also improving in China, supported by growth in exports and industrial output, while retail sales have slowed. Real estate has shown no signs of stabilising and remains a major challenge for the growth outlook.

The Chinese authorities have announced new measures, including an easing of mortgage rules, while encouraging local governments to buy unsold housing from real estate developers.

Attention is also expected to focus on international trade in the coming months. In May, the White House unveiled new measures that would increase tariffs on certain products imported from China, including semiconductors, batteries and electric cars. This measure is not expected to have much of an impact on Chinese growth, as the US market accounts for only a marginal share of Chinese exports of these products, but it does revive the issue of trade tensions just a few months before the US election. Donald Trump has already hinted at 60% taxes on all imports from China.

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%	2.3%	2.1%
China	4.8%	4.2%	0.7%	1.6%
Japan	1.1%	1.5%	2.0%	1.5%
India	6.0%	6.0%	5.9%	6.0%
Brazil	1.3%	2.0%	4.0%	3.5%
World	2.9%	2.7%	-	-

Source: Indosuez Wealth Management.

LOOKING FOR A COMPASS FOR THE SECOND HALF OF THE YEAR

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

Growth continues to surprise to the upside in the United States. Economic reports are robust, driven by end demand, with gross domestic product (GDP) on a trajectory of about 3% on an annualised basis in the second quarter. The markets remain mostly focused on inflation.

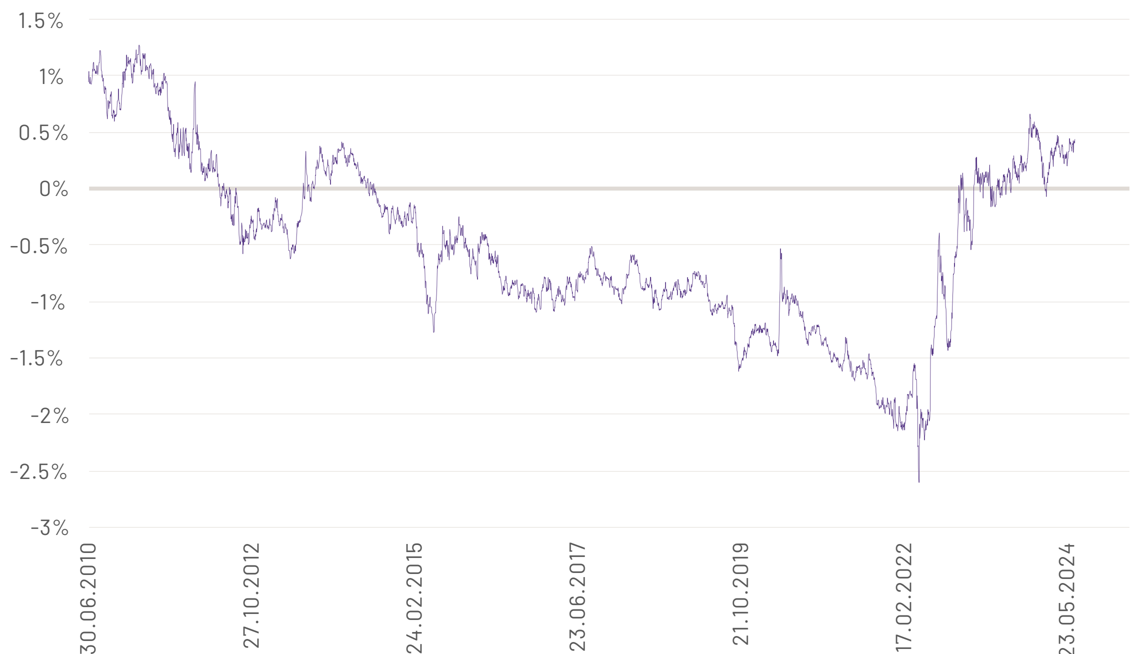
CENTRAL BANKS

At the Fed's May meeting, Jerome Powell acknowledged the stickiness of inflation, signalling that the central bank was not yet prepared to cut its rates. On the contrary, the hike the markets had at one time anticipated is no longer on the agenda. *Momentum* from good economic news is behind us, and negative surprises are outweighing positive surprises. In the coming months, the potential for economic disappointments will support duration in the United States. Taking repressed inflation, tax breaks and the upcoming presidential election into consideration, the US bond market is expected to remain within narrow fluctuation bands.

In Europe, first-quarter publications surprised to the upside, particularly in Germany. Purchasing Managers' Index (PMI) leading indicators point to an acceleration at the end of the year. The ECB has already signalled its intention to start cutting rates in June. Inflation is decelerating quickly in the region, but a pronounced monetary easing cycle will be constrained by divergences with the dollar zone. The recent underperformance of duration in the Euro Area, in relative value terms, lays the foundation for a favourable carry strategy in the medium-term.

For inflation-linked securities, the US figures led to a correction in real rates and upward expectations on the longest maturities. In Europe, real rates calculated on the basis of the German government bond are nearing 0.5% (Chart 1).

CHART 1: REAL RATE (BASED ON THE GERMAN CURVE), YEARS, %



Source: Bloomberg, Indosuez Wealth Management.

USD 77 BN:
Investor demand for Boeing bonds

CREDIT

The credit markets generated a positive excess return over the month due to slight risk premium compression, but this did not offset rising rates when it came to overall performance. On the whole, new issues were introduced without premiums, so at the secondary market level. Investors are easily demanding two to four times the volume issued. US aircraft manufacturer Boeing tapped the US market on 1 May to raise 10 billion dollars with different maturities ranging up to 40 years, attracting aggregate demand of 77 billion dollars!

Despite higher rates, the fundamentals of investment grade companies have proven resilient. Volatility between sectors and issuers remains very low in all markets. This lack of volatility has helped narrow risk premiums, which reached their lowest levels in the last five years. By currency, the dollar market remains attractive thanks to total return, although spreads have compressed. In the Euro Area, spreads still have a margin that can attract international investors.

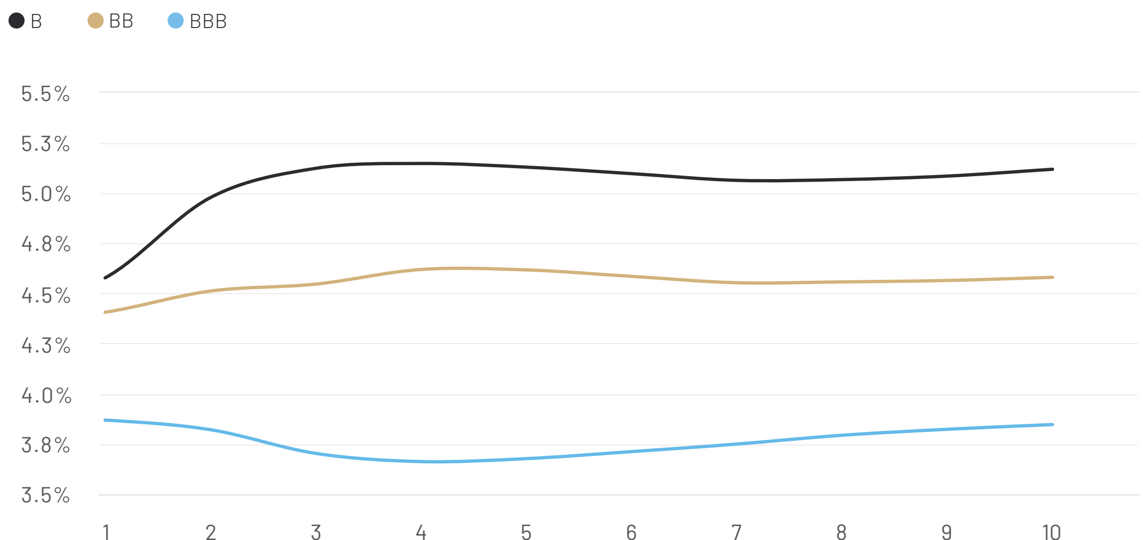
Although the high yield market performed negatively over the month, it outperformed investment grade due to limited duration. The weakest capital structures (stressed and distressed) are the most volatile.

Creditor-on-creditor violence (shareholders, holders of debt with different ranks), which is typical in the United States, has migrated to Europe due to idiosyncratic volatility in just one company; this should serve as a warning to investors. These aggressive situations arise from competition between creditors to obtain a position before refinancing, rather than fix their capital structures.

In the United States, buyers of yield are present in the lowest ratings. We remain cautious on this segment, given the low level of spreads in a historic context.

In Europe, creditor-on-creditor violence at different levels of the capital structure (the telecommunications sector, for example) may eventually affect investor confidence. Default rates remain moderate (between 2% and 2.5%), and the majority of the issuers in this asset class are rated BB (Chart 2). The macroeconomic environment, risk appetite, and the solid fundamentals of companies in this segment justify the current spread level. We are, however, cautious about the coming months, amid concerns about an increase in specific risk and the potential for renewed volatility in equities, currently at all-time lows.

CHART 2: YIELD BY RATING AND MATURITY (YEARS) IN EUROPE, %



Source: Bloomberg, Indosuez Wealth Management.

THE RALLY HAS FINALLY EXPANDED

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

Market *momentum* has shifted in the last two months and some of the geographic regions that had lagged, such as China and the United Kingdom, have played a strong game of catch-up. This broader participation in the market rise can also be seen at the sector level, where gains are no longer concentrated in Growth stocks alone but have spread to the Cyclical and Value sectors. The market is finally starting to benefit from broader support.

MSCI EUROPE: EPS growth estimated at +10.4% in 2025

EUROPE

Europe's first-quarter earnings season, now drawing to a close, was better than expected: 58% of companies reported earnings per share (EPS) above consensus expectations. In addition, earnings estimates for 2024 to 2026 have been revised up, with EPS growth for the MSCI Europe Index estimated at +10.4% for 2025 (versus +4.9% for 2024, see Table 2). Renewed earnings *momentum* confirms the more positive economic trend in Europe, where financial flows are starting to return, and the improvement in investor sentiment.

The European market is also supported by its still very attractive valuation, at 13.6x earnings for 2025 (versus 19.4x for the US S&P 500 Index). The valuation gap is even more pronounced for Value stocks, which are trading at a 50% discount to Growth stocks. This accounts for the current appeal of certain segments of the European market.

Lastly, the United Kingdom looks well positioned to benefit from the expanding scope of investments: UK equities are highly exposed to the Value sectors (energy, commodities, financials) with shareholder return achieved through the highest dividend policy in the world. In addition, this market now offers a historic valuation discount to the MSCI World.

UNITED STATES

After some profit-taking in April, the US markets rose and hit new highs in May. However, the rise is no longer concentrated only among the "Magnificent 7", which drove the market's performance in 2023. Some of these stocks even delivered annual performances below the S&P 500, like Tesla and Apple. Conversely, the market rally expanded to Cyclical sectors, such as energy and financials.

TABLE 2: GROWTH IN EARNINGS PER SHARE

	2024	12-month forward	2025
MSCI USA	10.5	11.7 ↑	14.1 ↑
MSCI Europe	4.9	6.7 ↑↑	10.4 ↑↑
MSCI Japan	10.0	9.4	8.1
MSCI China	10.6	11.3 ↑	12.8 ↑

Source: FactSet, Indosuez Wealth Management.

This expansion could also be found even within investment themes. After focusing heavily on the tech giants and specialised semiconductor manufacturers, investors have now turned to other components of the value chain, such as cloud service providers, data centres and electricity producers. The need for power has skyrocketed to keep Artificial Intelligence (AI) computing infrastructure running.

We can therefore find growth drivers and investment opportunities in what is still a very robust economy, backed by a number of support plans.

ASIA

Chinese and Taiwanese equities have rebounded sharply since the beginning of March 2024. The MSCI China Index's year-to-date performance has even been above the MSCI US Index[1].

China's latest trade data beat expectations, restrictions have been eased on property purchases, and the dividend tax is likely to be eliminated. These factors all helped improve market sentiment and bring flows back to the region. Although tensions between the United States and China have recently been rekindled with higher tariffs on certain Chinese products, for the most part these measures seem symbolic and political in the run-up to the US presidential election. The impact on China looks limited for now.

In addition, it was a very positive earnings season for Taiwanese and Korean tech heavyweights, in particular along the entire high-tech supply chain (AI/cloud/servers).

Equity *momentum* has sputtered recently in India, but growth in fundamentals remains intact and the general elections underway could act as a catalyst.

INVESTMENT STYLE

Despite high bond yields and less favourable seasonality, the Quality style remains very popular among investors who seek protection against geopolitical risks and market volatility. Although Growth stocks are also under pressure due to high interest rates, they continue to perform well in the United States in particular, still driven by the wider AI theme.

At the same time, the market is seeing an expansion to the Value style and to small and mid-caps, mainly in Europe. These Value stocks are benefiting from stronger-than-expected economic *momentum* in Europe and from the recovery in China, which is very favourable for European cyclical players. In addition, investors are once again looking at small caps as attractive opportunities, due to their significant discount and exposure to the relocation and reindustrialisation themes.

1 - On 17.05.2024, MSCI China posted an annual performance of 15.6% (in dollars) versus MSCI US at 11.6% (in dollars).

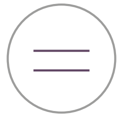
THE DOLLAR BENDS BUT DOES NOT BREAK

Maxime GARCIA
Investment Strategist

The US currency should recover soon. The Bank of Japan's interventions made no difference to the yen. We are adopting a cautious stance on gold due to the risky positions taken by Chinese speculators.

USD: HEADED FOR A REVIVAL

The dollar has wobbled slightly since mid-April, giving up 1.5% against the currencies of its main trading partners. We believe this trend is mostly due to slowing US macroeconomic *momentum*, which led to a revision of the Fed's rate cuts versus other major central banks, a negative for the greenback. It should be noted, however, that while *momentum* has certainly waned somewhat in the United States, we still expect US growth to be solid, which should support the dollar. The inflation trajectory in the United States is therefore stickier than expected, diverging from the trajectories of its main trading partners, starting with Europe. We believe this divergence will once again be a decisive factor in forex market movements, which should, here as well, be favourable for the US dollar. The dollar also remains an asset of choice to protect against the risk of stagflation. Lastly, the US election is fast approaching and both candidates running for the White House seem intent on imposing tariffs. What is the potential impact on the US currency? Robert Mundell, winner of the Nobel Prize in Economics, gives the following answer: "By promising to improve the importer country's underlying balance of payments position through the imposition of tariffs, it causes the domestic currency to strengthen in the foreign exchange market". This is yet another argument in favour of a possible recovery of the dollar in the short-term. We therefore reiterate our positive view on the greenback.



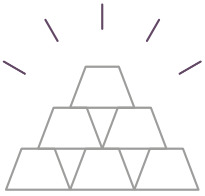
THE EUR/USD
will remain in a
1.0750-1.10
corridor

EUR: IN LIMBO

The euro has regained some ground since mid-April and has appreciated by 2%. The single currency, which is supported by strong macroeconomic *momentum*, has benefited from a favourable change in the 2-year rate differential with the United States. We do not believe this situation will last since, as discussed in the previous paragraph, investor attention should soon be refocused on inflation divergences. Given that the inflation trajectory is trending positively towards 2% and, consequently, that the ECB will likely lower its key rates sooner and to a greater extent than the Fed, the euro is expected to lose out when investors refocus their attention. However, with a rebound in macroeconomic *momentum*, decreasing geopolitical tensions and oil prices down about 8% over one month, sentiment could remain positive in the Euro Area, at least in the short-term, and thus provide some support to the currency. To conclude, we believe that the EUR/USD should continue to move in the 1.075-1.10 corridor.

JPY: INEFFECTIVE INTERVENTIONS

The Bank of Japan intervened a second time in early May, a sign of the government's battle to support the yen. However, the impact of these interventions has been marginal and short-lived, as the currency is 1.2% lower against the dollar than it was a month ago.



A single company may hold USD 4 BN worth of gold positions

The Japanese currency's fundamentals continue to show weakness: sluggish consumption has kept inflation from becoming entrenched and the gap between US and Japanese rates will remain very wide as long as the Fed does not lower its key rates. We are thus maintaining a neutral view in the short-term, with a target USD/JPY exchange rate of between 152 and 158.

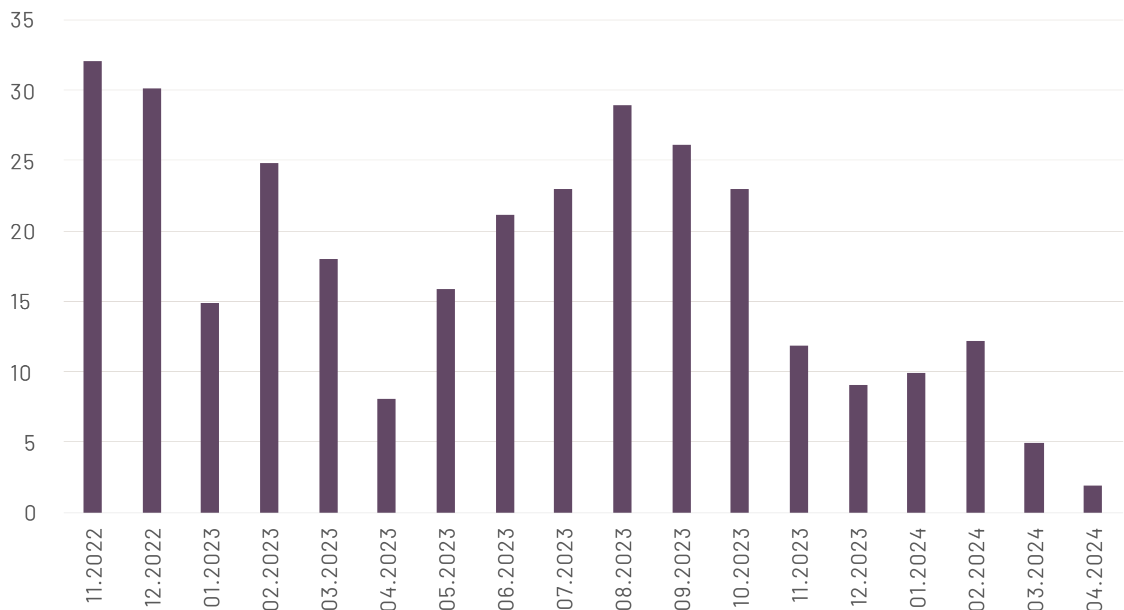
CHF: THE SNB IS STAYING ACTIVE

The Swiss franc has continued to weaken since the Swiss National Bank (SNB) unexpectedly cut interest rates in March. The market initially tested resistance at 0.92 on the USD/CHF before returning to 0.90. Foreign exchange reserves have continued to increase from month to month since the December 2023 meeting. This suggests the central bank has been active on the forex market, selling the Swiss franc against the dollar, in order to bring the price of its currency down slightly to prevent inflation from becoming entrenched too far below the 2% target. If we also factor in the uncertainty that continues to weigh on the Fed's rate cut path, we believe we should remain slightly positive on the USD/CHF.

GOLD: BETTER SAFE THAN SORRY

Gold continued the rally that began in early October and pushed through the 2'450 dollar/ounce mark. Tensions in the Middle East and central bank purchases were the main performance drivers. We note, however, that geopolitical risk is receding and that purchases by the central banks, China's chiefly among them, are becoming less significant. Lastly, Chinese speculators also seem to have helped gold prices recently by taking massive positions, to the tune of 295 tonnes on the Shanghai Futures Exchange (Chart 3). Of these 295 tonnes, 50 tonnes, or 4 billion dollars' worth, are reportedly held by just one firm. This is a risky situation and accounts for our more cautious view on gold prices.

CHART 3: GOLD PURCHASES BY CHINA'S CENTRAL BANK, IN TONNES



Source: Bloomberg, Indosuez Wealth Management.

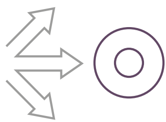
INFRASTRUCTURE: SUPPORTING THE MEGATRENDS

Matthieu ROUMAGNAC
Private Markets - Head of Real Assets Investments

Initially associated with modest returns over particularly long horizons, the infrastructure sector is undergoing an extraordinary transformation, supported by major societal trends around decarbonisation, digitalisation and mobility. By targeting service companies focused on these dynamics, infrastructure is reinventing itself to become an asset class in its own right.

DECARBONISATION

The decarbonisation trend is accelerating, driven by public opinion and governments. Renewable energy production, in particular the construction of solar panels and wind turbines, still has attractive fundamentals, although regulatory uncertainties and the effects of cost-push inflation call for caution. As a result, infrastructure funds tend to diversify their investments through companies active in the renewables sector, supplementing the direct development of production assets. Decarbonisation also means managing energy consumption by installing measuring equipment in homes, offices and factories. Lastly, it involves electrifying transport assets, whether for individual or public use. Also, in a persistently volatile geopolitical environment, energy security is a powerful argument in favour of local energy sources. The share of renewable energy in the energy mix is expected to increase by more than one percent per year, reaching 52% by 2050 versus 20% today.



Share of renewable energies:
52%
expected by 2050

DIGITALISATION

Traditional roads designed for people and goods are now complemented by digital roads. Fibre-optic networks and telecommunications towers have become critical tools that keep societies and economies running. The construction and deployment of these highly capital-intensive assets present tremendous opportunities for infrastructure fund managers who invest independently or in partnership with telecom operators.

The digital infrastructure theme also covers data centres. The explosion in the volume of data exchanged is generating exponential demand for data storage.

The surge in AI is the most recent driver in this ecosystem. The emergence of infrastructure funds, particularly US funds, focused solely on digital infrastructure reflects the appeal of this market segment, its essential nature and the alluring outlook on performance.

MOBILITY

The mobility theme sits at the intersection of the energy transition and digitalisation. First of all, activities related to electric vehicles, whether hybrid or fully electric either for use by individuals or the public, such as bus and ship fleets. Battery production, vehicle charging stations, and guidance and safety systems are just some of the opportunities for infrastructure funds to invest in innovative and fast-growing companies. It would, however, be short-sighted to limit the mobility segment to electrification. Vehicle leasing, including in the railway sector, is also a sought-after theme, offering attractive performance with contained risk. In contrast, airports and motorways, the flagship assets held by the first infrastructure funds in the early 2000s, have lost some of their lustre due to long holding periods and their relative dependence on the public authorities.

USD 15 TRILLION:
infrastructure financing deficit by 2040

A GENERATIONAL OPPORTUNITY

While capital-intensive megatrends are here to stay, it appears that governments' reduced funding capacity may also last. The gap between the volume of planned investments and what is actually needed to provide essential infrastructure globally is estimated at 15 trillion dollars by 2040.

Governments, which have historically been the initiators, architects and funders of major infrastructure projects, have mostly become regulators, providing broad guidelines and offering tax incentives. One example is the 2022 Inflation Reduction Act in the United States. Therefore we see a generational investment opportunity available to private players who can to combine industrial expertise and financial know-how. Particularly with the possibility to invest into infrastructure services companies, not just into the assets, which offer a perspective of higher returns in a shorter time frame. In the last 10 years or so, the major Private Markets managers have, one by one, launched their own infrastructure funds applying the proven methods of Private Equity.

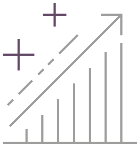
WHAT ALLOCATION IN A PORTFOLIO?

Assets under management in infrastructure funds have increased fivefold in the last decade, exceeding 1'300 billion dollars. Since 2023, the growth outlook for assets has fostered a trend towards consolidation among infrastructure managers, a sign of confidence in the sector. Societal megatrends with disruptive technologies, the provision of essential services, barriers to entry, and inflation indexation: the fundamentals are attractive to private investors, who see a welcome diversification for their Private Markets portfolio, alongside their Private Equity, private debt and real estate allocations. Instead of the historical low-return core strategies, we favour more sophisticated strategies that offer investment horizons and performance objectives closer to traditional Private Equity. The increase in the number of infrastructure managers nonetheless calls for caution and, as is always the case in Private Markets, how much care you bring to selection is fundamental.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager



Will European small and mid-caps PLAY CATCH-UP SOON?

INVESTMENT SCENARIO

- **Growth:** we maintain our forecast of 2.5% growth in the United States in 2024. Economist consensus is now aligned on this figure. Despite the normalisation of economic activity in the United States, consumption remains resilient and should continue to be supported by a decelerating but still robust labour market. We have raised our growth forecasts for the Euro Area (+0.7% expected) to reflect the positive economic surprises in the first quarter, as well as in China (+4.8%), where easing measures have accelerated.
- **Inflation:** disinflation continues in advanced economies although the trajectories are expected to diverge. In the Euro Area, the latest inflation figures show that the slowdown in price increases is more widespread than in the United States, where inflationary pressures persist, in particular in highly labour-intensive sectors. Risks remain to the upside.
- **Central banks:** we expect the ECB to make its first rate cut in June, followed by three more cuts of 25 basis points (bps) each by the end of the year. Uncertainties remain in the United States, consistent with the lower visibility on its disinflation trajectory. While we continue to believe that the Fed will begin its rate reduction cycle in the second half of the year and will make 75 bps of cuts this year, we acknowledge that an alternative scenario exists where the Fed is more patient.
- **Corporate earnings:** the most recent earnings season confirmed companies' strong fundamentals in the first quarter. Earnings revision *momentum* remains positive in the United States, while sentiment seems to be shifting in the Euro Area, simultaneously with the improvement in the economic environment.
- **Risk environment:** the biggest risk facing the market is the risk of more persistent inflation in the medium-term implying a higher terminal fed funds rate. We are also keeping a close eye on risks associated with evolving geopolitical conflicts, public debt sustainability and the upcoming US elections. In this context, low equity volatility helps protect low-cost portfolios.

ASSET ALLOCATION CONVICTIONS

Equities

- Our constructive scenario for the global economy for 2024 leads us to remain strategically positive on the equity markets for the rest of the year. We maintain an equity overweight within our allocations, although we trimmed it recently given the strong performances of the major stock market indices, and as we believe the likelihood of further positive surprises on US growth is lower than it was a few months ago. We will continue to pay close attention so we can take advantage of any market dips and redeploy our cash.
- We continue to favour US-listed large caps and emerging market equities, with the latter benefiting from positive news flow out of China. In Europe, we believe the ongoing shift in earnings *momentum*, combined with improved macroeconomic sentiment and the first key rate cuts, could benefit the small and mid-cap segment. After lagging large caps by about 30% in the last three years, since 2021, we believe a catch-up is possible in the current environment.

Bonds

- Fed and ECB rate cut expectations have been revised sharply down and are now more conservative than we project. Within diversified management, we have tactically increased our rate sensitivity in the Euro Area where we have better visibility on the disinflation path and the rate cut cycle. We continue to favour the shortest ends of the rate curve, which offer higher yields and, in our view, better value. In contrast, the longest maturities could suffer from a return of the term premium.
- We have left our opinion unchanged on high-quality corporate debt with short maturities as well as on subordinated debt. These segments offer an attractive additional yield relative to the risk involved. The higher-quality segment within high yield may help significantly improve the yield of the bond allocations, although selectivity remains important. However, we continue to steer clear of the riskiest segment.

Forex market

- We maintain our positive opinion on the dollar. While the greenback's rally recently faltered, in addition to its safe-haven status if geopolitical risk reemerges, it offers an attractive hedge against the alternative scenario of delayed Fed rate cuts.
- Despite the rise in real rates, gold broke a new record, supported in part by rising geopolitical risk and massive purchases by emerging country central banks. These supports now appear to play less of a role. Combined with significant speculative positions on the market (see Forex, page 10), we have adopted a slightly more cautious position on gold.

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)	=/-	=
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=/-	=
Japan (JPY)	=	=/+
China (CNY)	=	=
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 23 MAY 2024

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.48%	-22.72	59.76
France 10-year	3.06%	-6.30	50.70
Germany 10-year	2.60%	-3.40	57.40
Spain 10-year	3.35%	-7.90	37.00
Switzerland 10-year	0.83%	2.10	13.20
Japan 10-year	1.00%	10.30	38.90

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	36.30	2.45%	-1.15%
Euro Government Bonds	201.45	0.26%	-1.32%
Corporate EUR high yield	220.01	0.89%	1.70%
Corporate USD high yield	339.13	1.55%	1.25%
US Government Bonds	305.54	1.00%	-0.81%
Corporate Emerging Markets	44.12	1.10%	-0.02%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9889	1.03%	6.46%
GBP/USD	1.2699	1.48%	-0.25%
USD/CHF	0.9143	0.23%	8.66%
EUR/USD	1.0815	0.79%	-2.03%
USD/JPY	156.93	0.82%	11.27%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	12.77	-2.60	0.32

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	5'267.84	4.35%	10.44%
FTSE 100 (United Kingdom)	8'339.23	3.22%	7.84%
STOXX 600	521.56	3.82%	8.89%
Topix	2'754.75	3.42%	16.41%
MSCI World	3'446.43	4.23%	8.75%
Shanghai SE Composite	3'641.79	3.16%	6.14%
MSCI Emerging Markets	1'091.37	6.10%	6.61%
MSCI Latam (Latin America)	2'419.94	-0.05%	-9.12%
MSCI EMEA (Europe, Middle East, Africa)	201.42	2.68%	0.32%
MSCI Asia Ex Japan	697.74	7.31%	8.76%
CAC 40 (France)	8'102.33	1.07%	7.41%
DAX (Germany)	18'691.32	4.32%	11.58%
MIB (Italy)	34'467.67	1.56%	13.56%
IBEX (Spain)	11'311.10	2.98%	11.97%
SMI (Switzerland)	11'966.75	6.27%	7.44%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'598.00	0.25%	-10.94%
Gold (USD/Oz)	2'329.27	-0.14%	12.91%
Crude Oil WTI (USD/Bbl)	76.87	-8.02%	7.29%
Silver (USD/Oz)	30.28	10.72%	25.73%
Copper (USD/Tonne)	10'417.50	5.60%	21.71%
Natural Gas (USD/MMBtu)	2.66	62.21%	5.69%

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

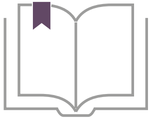
BEST PERFORMING (+)

FEBRUARY 2024	MARCH 2024	APRIL 2024	4 WEEKS CHANGE	YTD (23.05.2024)
9.35%	4.23%	10.98%	7.31%	16.41%
5.52%	3.65%	4.24%	6.10%	10.44%
5.17%	3.47%	4.14%	4.35%	8.89%
4.89%	3.10%	3.22%	4.23%	8.76%
4.63%	3.01%	2.73%	3.82%	8.75%
4.11%	2.32%	2.10%	3.42%	7.84%
1.84%	2.18%	-1.57%	3.22%	6.61%
1.58%	0.61%	-1.91%	3.16%	6.14%
-0.01%	0.56%	-1.95%	2.68%	0.32%
-0.52%	-0.55%	-9.89%	-0.05%	-9.12%

(−) WORST PERFORMING

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

09 • Glossary



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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