Marketing Material

MONTHLY HOUSE VIEW

July 2024

Time to vote

Architects of Wealth

• Table of contents

01 • Editorial
TIME TO VOTE

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

Never before in the history of mankind has there been an election year quite like 2024. It will set a world record with half of humanity going to the polls in 68 countries.

All eyes have been on the November elections in the United States, which will likely be intense. Donald Trump will be sentenced on 11 July after being found guilty on 34 counts in the Stormy Daniels case. In theory, he could face up to four years in prison. Political polarisation is extremely high and US society is divided by extreme social and economic disparities. In the first quarter of 2024, the top 10% of the population held two-thirds of the wealth and the bottom 50% held only 2.5%. It is worth noting that the country's Canadian neighbours have even included the possibility of civil war in the United States in their risk scenarios due to escalating ideological divisions, democratic erosion and violence[1]. Such a scenario would have an extremely strong impact, although its likelihood of occurrence is, in fact, virtually nil. The actions by Quebec's pro-independence militants in the 1960s, while not remotely a civil war, disrupted the local order for a decade, culminating in the October 1970 crisis, and this memory remains fresh in Canadians' minds.

As the focus had mostly been on the other side of the Atlantic, little did we know that there would be a major plot twist in the European elections. We had been concerned about the potential fragmentation and polarisation of the European Parliament due to rising extremism. Ultimately, however, the conservatives (European People's Party or EPP) remained very stable, retaining the majority and even gaining a few seats. Note that the ecologists, centrists and liberals (Renew Europe) lost ground, while the far right made some inroads (coming out on top in France and Austria). The far left, in contrast, remained stable.

The polarisation surprise came where it was least expected, when Emmanuel Macron dissolved the National Assembly on the night of the European elections. The results of the new legislative elections will be known after the second round of voting on 7 July. Alliances were quickly formed against the President's party, ultimately creating two major blocs: the far right (the National Rally, i.e. the Rassemblement National or RN) and the left's alliance with the far left (the New Popular Front, i.e. the Nouveau Front Populaire or NFP).

The French equity market and French debt were immediately penalised by this climate of political uncertainty; there is now a real possibility that President Emmanuel Macron will have to govern with a prime minister from another party. In this volatile environment, it may make sense to identify market asymmetries and take advantage of potential opportunities. In addition, the US market seems unflappable and continues to hit record highs, driven by shares of NVIDIA, which has accounted for more than one-third of the S&P 500's performance since the beginning of the year. The company is now the symbol of the artificial intelligence (AI) revolution and has become the world's largest capitalisation at more than 3'000 billion dollars. This rise is unprecedented. Its capitalisation has increased tenfold in four years. The question now is who will be the next champion? As was the case for General Electric in 2000 and Exxon in 2007, the future will likely belong to the company that can reinvent and store the energy of tomorrow. In the meantime, our focus in this issue is on our oil analysis.

Happy reading!

1 - Disruptions_on_the_Horizon_2024_report.pdf (canada.ca).

02 • Focus

WHAT IS THE OUTLOOK FOR OIL?

Nicolas MOUGEOT
Head of Investment Strategy & Sustainability

While growth in oil demand is slowing, the decision by OPEC+ members to increase production in the next 18 months could weigh on oil prices. This is potentially good news for inflation and for oil-consuming countries.

2 MILLION BARRELS/DAY: the expected decline in OPEC+ production

In 2022, the war in Ukraine drove oil prices higher, once again raising the spectre of a global recession that could potentially reduce world oil demand. Members of the Organization of the Petroleum Exporting Countries (OPEC+) agreed in October 2022 to cut production by about 2 million barrels/day, i.e. approximately 2% of global demand, in order to stabilise prices. These cuts have since been extended, which has kept oil prices mostly stable.

AMPLE SUPPLY

As the European election results and the central banks' announcements took centre stage, the decision by OPEC+ members went almost unnoticed in June. OPEC+, which brings together more than 20 oil-producing countries, met on 2 June to discuss the quotas implemented to limit its members' production and thus support oil prices. The new agreement extends the cuts of 2 million barrels a day until the end of the third quarter, but these restrictions will gradually be phased out over the following 12 months. The United Arab Emirates (UAE) also seems to have emerged as the winner in these negotiations, as its own quota was revised upwards by 300'000 barrels a day. Daily oil production by OPEC+ members is therefore expected to reach just over 23 million barrels by the end of 2025 compared to 21 million today.

OPEC+ members are not the only ones thinking about ramping up oil production by the end of 2025. The United States has been the world's largest oil producer since 2018 and now has a 22% market share, well ahead of second-place finisher Saudi Arabia with 11%.

The supply of oil on the market could therefore increase if Donald Trump wins back the US presidency, as he has made no secret of his desire to reverse certain environmental restrictions and allow oil drilling in the Arctic, in particular.

DEMAND UNDER PRESSURE

On the demand side, the short-term signals are mostly positive and could help absorb some of this additional oil supply. Economic growth remains robust in the United States and is regaining some *momentum* in Europe and China. However, we forecast global growth of 2.7% in 2025, down 0.2% from this year, which could weigh on oil demand. In the medium term, the International Energy Agency (IEA) cites growing demand for electric vehicles and the reduced use of oil to generate electricity as factors that will weigh on oil demand in the coming years. The IEA therefore expects oil demand in advanced economies to continue to decline, from nearly 46 million barrels a day in 2023 to less than 43 million barrels a day in 2030. OPEC+ members will therefore have to proceed cautiously before turning the tap back on, so as not to create a surplus on the oil market.

Based on these factors, economists and the financial markets agree that oil prices should fall by about 10% over the next 18 months, as shown in Chart 1 (page 5).

USD 60:
a threshold for Middle Eastern countries?

WHO ARE THE WINNERS AND LOSERS?

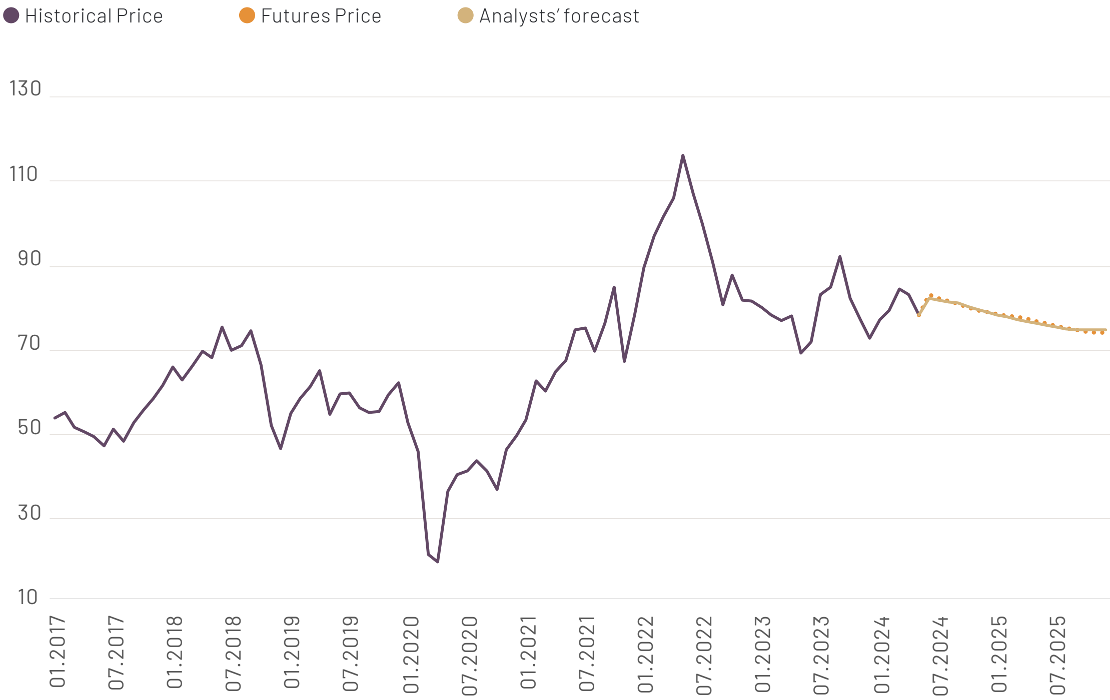
From a geographic standpoint, the oil-producing countries would clearly be the biggest losers. Saudi Arabia is one of the most oil-dependent countries due to its fiscal policy, as oil prices need to be above 80 dollars for it to balance its budget. Other countries in the region, such as Qatar, the UAE and Oman, can balance their books with oil prices below the 60-dollar mark and are therefore better equipped to withstand any decline in oil prices. On the other hand, the major beneficiaries of lower oil prices would of course be oil consumers, such as India, China and Europe.

WHAT IS THE IMPACT ON CENTRAL BANKS' MONETARY POLICIES?

Central banks are on track to win their battle against inflation. A steady decline in oil prices would, de facto, have a deflationary effect. This would bring headline inflation closer to the central bank targets and give them the option of lowering interest rates. Nevertheless, the central banks usually focus on the core inflation rate, that is, based on the index that excludes changes in food and energy prices as they behave very cyclically: oil prices fluctuate roughly between 50 dollars and 100 dollars and become an inflationary and then deflationary factor as they move up or down.

Given the ample supply and the expectation that demand will grow more slowly, the upside potential in the price of a barrel of oil could therefore be relatively limited.

CHART 1: CRUDE OIL PRICES, ACTUAL AND FORECASTS, IN DOLLARS



Source: Bloomberg, Indosuez Wealth Management.

BUCKING THE TREND

Lucas MERIC
Investment Strategist

The resilient growth and slowing inflation scenario has materialised, although not without some hitches, and this has allowed (or, in the case of the Federal Reserve, should allow) central banks to start their monetary easing cycle. This is a constructive setup for the financial markets but there are some risks and signals that should be monitored in the coming weeks.

UNITED STATES: A SECOND WIND

UNITED STATES: core inflation AT ITS LOWEST LEVEL since 2021

At the beginning of the year, we viewed stickier inflation as the major risk to the macroeconomic scenario. This risk materialised to some degree in the first quarter, with inflation at 4.5% (annualised) over the period. But some of these fears were eased when May core inflation came in at its lowest level since August 2021, bringing three-month annualised core inflation down to 3.3%, a figure more in line with our disinflation expectations. However, one datapoint does not make a trend, and we believe inflation remains the main risk to be monitored for the markets as it would force the Federal Reserve (Fed) to take a more restrictive stance. Although the latest figures did reassure the markets, we continue to pay close attention to the services component. We expect the housing component to drive some of the disinflation in the coming months, but right now it is stagnating. Inflation expectations have also rebounded since early April, and while this rebound can be attributed, in part, to the stickiness of inflation in the first quarter and the rise in natural gas prices, this development should be closely monitored, as inflation expectations are a major factor in wage dynamics.

In recent weeks, more mixed macroeconomic data in the wake of disappointing first-quarter gross domestic product (GDP) figures have revived recession fears. Although macroeconomic data have stabilised since then, particularly for the services sector and job creation, some signs of weakness seem to be emerging in the US economy. First, consumer confidence surveys have deteriorated in recent weeks, due to sticky inflation at the beginning of the year and mounting doubts about the robustness of employment.

This weakening of the labour market is particularly visible in the unemployment rate, which has gradually risen to 4%, its highest level since February 2022. Job-seekers are taking longer to find work, although their numbers, like the unemployment rate, remain historically low and layoff announcements, which tend to precede job applications by nearly a quarter, are slowing.

Lastly, late credit card payments are also on the rise, reflecting some degree of stress among low-income borrowers, even though, overall, credit cards are not currently a major driver of consumption and represent a small share of disposable income compared with historical patterns, at a time when household indebtedness has been greatly reduced since the 2008 financial crisis.

EURO AREA: CAUTIOUS OPTIMISM

Our expectations for a growth recovery in the Euro Area are largely based on the improvement in consumption over the course of the year. The very positive first-quarter GDP figure led investors and economists to take a decidedly more optimistic view on Europe's economy. The problem is that the contribution of the domestic economy remains negative, with the upside surprise coming mostly from the positive effect of external trade. While the improvement in international trade stems mainly from the strength of the US economy, and tourism could continue to support this trend, we do not expect external trade to support growth to the same extent in the coming quarters. Simmering geopolitical tensions and signs of protectionist measures, involving China and the United States, remain real risks.

The source of growth must therefore be the domestic economy and particularly among households, which are currently benefiting from rising real wages and significant savings. However, consumer confidence remains mixed, and savings intentions are still high, especially in Germany. Furthermore, the political uncertainty in France, at a time when populist parties are the only alternative to the party of the former centrist government, could further erode household and business confidence. These developments are nevertheless limited mainly to France, which in particular faces a fiscal risk in light of its questionable debt trajectory, just as the European Commission is preparing to reinstate its deficit rules next year.

Lastly, inflation surprised expectations in the Euro Area in May, due to a stickier-than-expected services component: the latter bounced back from 3.7% year-on-year (YoY) in April to 4.1% in May. At the same time, wages also rebounded in the first quarter, with unit labour costs rising by 5.1% YoY during the period. This stickiness could persist in the coming months but should start to ease in 2025, as some leading indicators (Indeed Wage Tracker) are in fact pointing to a continued wage deceleration.

At the same time, the consumer goods component, currently below 1%, was a significant driver of disinflation in 2023. However, the global logistics chain remains under some pressure, as reflected in the rise in freight prices since December 2023. This situation persists and could ultimately represent an upside risk to goods inflation, even though we are nowhere near the pressures seen in 2021, when brisk demand for goods combined with limited transport capacity and high energy prices drove up the price of goods at a global level.

TABLE 1: MACROECONOMIC FORECAST 2024 - 2025, %

● Revised down since last month ● Revised up

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

CARRY TRADE: THE CAPITULATION OF COMPLACENCY

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

Carry positions were unwound in a matter of days after the election results. A historic number of elections are taking place in 2024, increasing the risk of volatility on the markets. After Mexico and India, the unexpected dissolution of the lower house of the French Parliament triggered some mistrust of the entire Euro Area.

YIELDS: THE RETURN OF SOVEREIGN RISK?

The German 2-year rate is trading at 2.85%, reflecting – more than it had before – the Euro Area's restrictive monetary stance, as the divergence with its US counterpart was short-lived.

The European Central Bank (ECB) began its monetary easing cycle, taking into account economic projections pointing to inflation on target for next year, a slowdown in wage inflation in the coming quarters, and stable oil. What about the rest of the year? Two to three additional rate cuts depending on economic developments and exogenous factors.

The ECB restored some optionality to the fixed income market and is trying to reconfigure uncertainty to allow market forces to form prices across the curve.

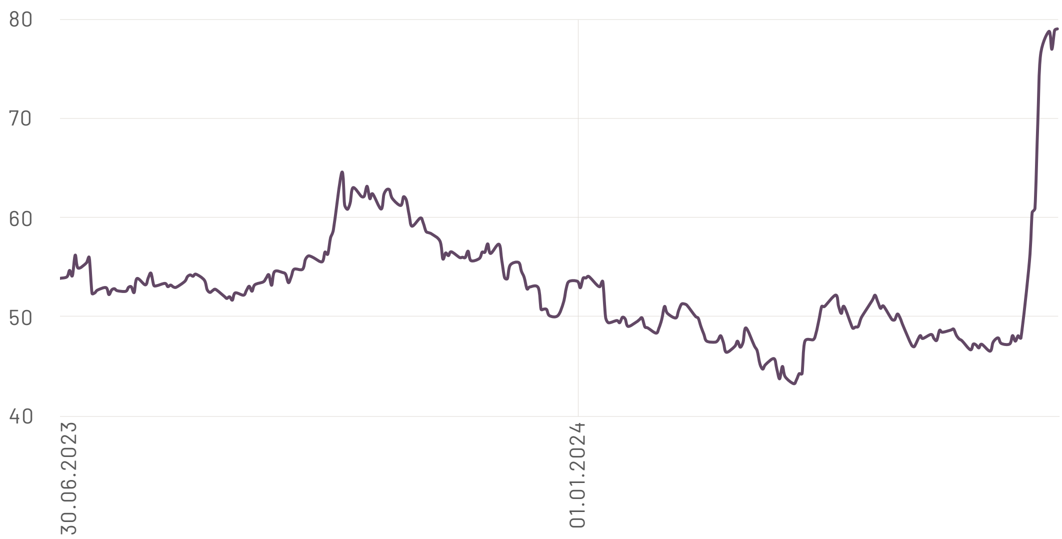
In the days following the ECB's rate cut and the increase in political uncertainty, the markets reassessed fiscal risk, resulting in a steepening of European curves. This reinforces our cautious long-term position, which is also vulnerable to external factors such as the Fed and the end of the Bank of Japan's bond-buying policy.

We have favoured 2-year rates for several months. It is now time to go up the curve and favour the 5-year, which has been cheap compared with the 2- and 10-year since early 2023, and is expected to outperform in the new monetary cycle.

As we write this, French sovereign risk is reminding investors of the European crisis of 2011-2012. The dissolution of the National Assembly is causing concerns about the state's fiscal trajectory and debt level. While S&P's rating downgrade did not affect the France-Germany spread, the new elections led to a widening of 0.32% in just a few days, or two-thirds of the initial spread (Chart 2)!

Markets are MONITORING THE PUBLIC DEFICIT trajectories

CHART 2: FRANCE-GERMANY 10-YEAR SPREAD, BPS



Source: Bloomberg, Indosuez Wealth Management.

Half of French government bonds (OATs) are held by foreign investors (central banks, pension funds, etc.)(Chart 3). Domestic players' low level of exposure (for example, less than 10% of insurance companies' assets, an all-time low) provides purchasing power to finance already identified needs.

Technically speaking, thanks to their status and liquidity, OATs play a key role on the European repo[2] market, allowing players to obtain short-term financing and manage their liquidity and risk. If this segment, which is essential for bond market fluidity, were to collapse, the ECB would respond immediately to gain back control. By extension, an unchecked widening of the French yield compared with Germany's would activate the ECB's anti-fragmentation tool, whose outline and means of action have not been disclosed. Although, it would certainly be the case after an outbreak of volatility.

In the United States, the publication of the latest set of key rate forecasts by the Fed's governors at the meeting of 12 June confirmed the expectation that the terminal rate would be slightly higher than the March figure (2.8% versus 2.6%). Rate cuts have been postponed, as the landing level remains unchanged at end-2026.

CREDIT MARKETS

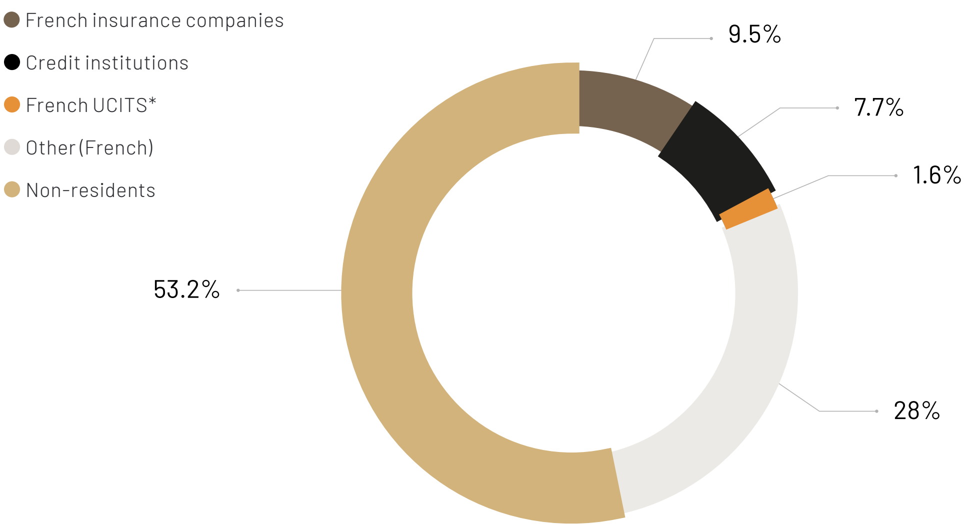
The end of the carry trade, described in the introduction, is not currently affecting the US investment-grade market, where the overall rate remains attractive enough to draw investors.

In the Euro Area, the impact of political risk has led to a bout of volatility. The banking sector under-performed during the week of 10 June. There has been some mistrust towards French companies, although, on 11 June, Électricité de France (EDF) successfully placed 3 billion euros with three different maturities, the longest of which is 2044!

Looking ahead to the coming weeks, the equilibrium of the European market will depend on investors' ability to handle volatility. Pockets of opportunity are already emerging in the deeply subordinated bank debt segment. On the high-yield market, the rate cut offset the rise in risk premiums. A market overshoot will be an entry point.

Domestic demand remains very strong in the Asian market due to its attractive overall performance. Our managers' allocations to the region remain stable.

CHART 3: HOLDERS OF FRENCH DEBT, %



*UCITS: Undertaking for collective investment in transferable securities.

Source: Banque de France, Indosuez Wealth Management.

2 - Repo: a transaction in which securities are sold with a commitment to buy them back at a later date.

DICHOTOMY BETWEEN MARKETS

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

The increase in volatility, particularly in Europe after the elections, redirected investor flows to the United States, the only market that rose last month. The Nasdaq 100 and S&P 500 indices once again hit record highs, driven by tech stars such as NVIDIA, which reported earnings that Wall Street called "mind-blowing".

EUROPE

Financial markets hate uncertainty. By announcing the dissolution of the National Assembly – in the wake of the European election results – French President Emmanuel Macron sent a shock wave through Europe.

However, the stars seemed to align rather well for European equities, with an improvement in leading growth indicators, the first rate cut by the ECB, and earnings per share revisions trending upwards once again, for both 2024 and 2025.

But the announcement of new legislative elections in France caused the CAC 40 to plunge more than 7% in just one week, effectively wiping out the year's gains. French small and mid-caps fell by about 9%, as their incomes are more exposed to the French domestic market.

Banks are, not surprisingly, among the most affected sectors, as they are by nature more sensitive to political risk and more impacted by higher risk premiums on French bonds.

The construction sector, which has the highest exposure to France among STOXX 600 sectors (15%), is also highly dependent on political decisions (nationalism, changes in environmental policies, etc.).

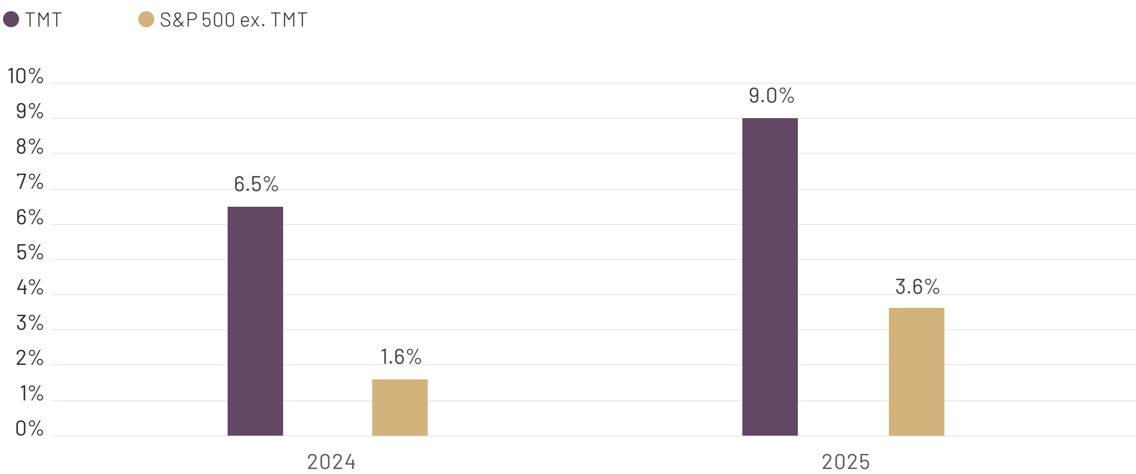
A period of political uncertainty has thus begun in France, and we will have to monitor the impact on European project as soon as we have the final results on 7 July.

UNITED STATES

Themes around artificial intelligence (AI) continue to fuel the economic and financial world. The first-quarter earnings season confirmed the rise of this new paradigm: companies' revenues are seeing a boost, and their prospects are expanding. A new investment supercycle is starting, like the internet revolution of the 2000s.

Companies in the S&P 500, excluding the technology, media and telecoms (TMT) sector, thus expect to increase their capex by 3.6% on average next year. In the TMT segment, capex is expected to rise by 9% in 2025 (Chart 4).

CHART 4: CAPEX ESTIMATES, %



Source: Goldman Sachs, Indosuez Wealth Management.

NVIDIA, the world's largest capitalisation, SURPASSES THE CAC 40

The TMT segment is, of course, driven by the major tech companies, but this new ecosystem benefits other players more broadly and trickles down to the entire economy.

This trend is exemplified by the new highs reached by US indices, as well as by another symbolic record, that of semiconductor company NVIDIA, which for the first time became the most valuable company in the world.

The chipmaker has thus surpassed Microsoft and Apple in the global ranking of the largest companies listed on the stock market (Chart 5). Since the November 2022 launch of ChatGPT, NVIDIA's market capitalisation has increased eightfold and has now reached 3.34 billion dollars (as at 19 June 2024), thereby surpassing the capitalisation of the CAC 40 (i.e. the aggregate weight of the 40 largest French companies).

ASIA

In China, the government announced new measures to support the real estate markets, environmentalism and, more generally, the platform economy. The third plenum that will be held in July will be a key political event to watch. Hopes of new economic reforms and real estate support measures could increase investor appetite for the region – particularly if macroeconomic data continue to improve.

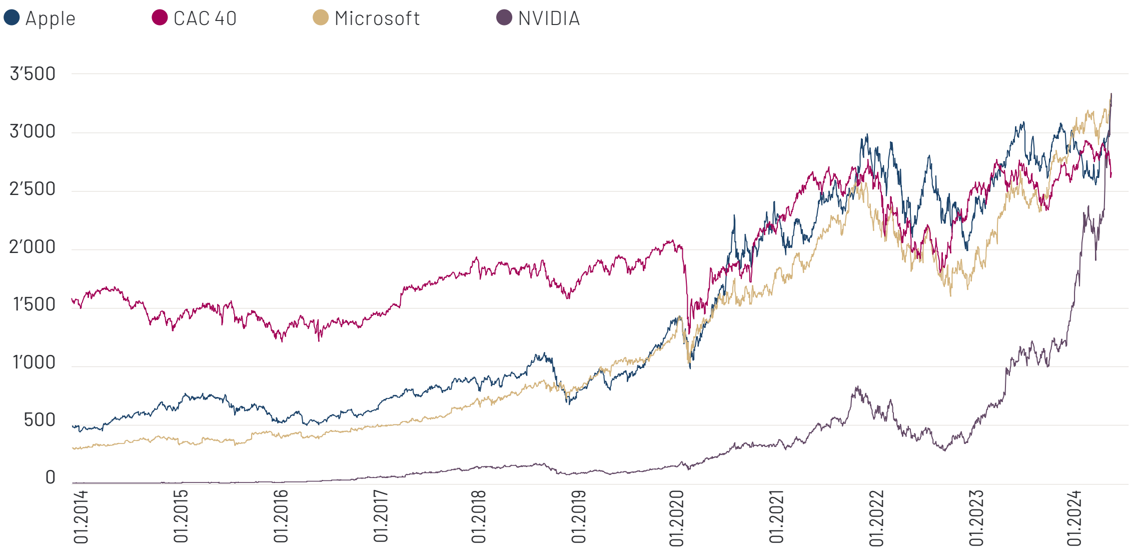
Elsewhere in Asia, Indian equities experienced significant volatility during the campaign period, but began to recover after the election. In the short term, the markets could implicitly reassess certain policy outlooks but the growth in the country's fundamentals and its long-term reform agenda are expected to remain intact.

Overall, the fundamentals of many Asian companies remain attractive, particularly in light of their low valuations relative to MSCI World. The tech segments in Taiwan (AI/cloud/servers) and Korea (high bandwidth memory (HBM)), as well as the consumer discretionary sector in China, are attractive value propositions.

INVESTMENT STYLES

The outperformance of Growth stocks in the United States accelerated once again, driven by improving earnings *momentum*, the decline in interest rates, and the increase in volatility in Europe. Quality stocks were also popular, given the political uncertainty in France, and offer a defensive hedge in the event of geopolitical escalation or increased market volatility. Lastly, the recent rebound in the Value style was not able to withstand the recent turbulence in the Euro Area, despite the improved *momentum* in the European economy combined with a historic discount to the United States, which supported a recovery in European market performances. Uncertainty carried the day and benefited the US markets.

CHART 5: CHANGE IN MARKET CAPITALISATIONS, USD BILLIONS



Source: Bloomberg, Indosuez Wealth Management.

POLITICS CASTS A SHADOW

Lucas MERIC
Investment Strategist

Political risk made a comeback in Europe in June, with safe havens – and the Swiss franc in particular – back in favour at the expense of the euro, which remains resilient, nonetheless. The dollar is still the asset of choice in a market environment where risks abound.

EUR: POLITICAL JITTERS

The European elections in mid-June and the subsequent dissolution of the National Assembly by French President Emmanuel Macron marked the return of political uncertainty in France. Periods of rising populist parties have historically weighed on the euro, as was the case with the Italian elections in 2018 and the French elections in 2022. The announcement of legislative elections in France was no exception, although movements remained limited relative to the spike seen in the OAT-Bund spread, which reached its highest level since the French elections of 2017 (Chart 6, page 13). The main risk associated with these legislative elections is now mostly on the fiscal trajectory side, and no longer on France's possible exit from the euro. This idea has gradually been removed from the platforms of the most populist parties on the French political chessboard. At the same time, despite the upside surprise in May, the inflation situation looks more comfortable than on the other side of the Atlantic. This allowed the ECB to make its first rate cut in June, which should also continue to weigh on the euro.

USD: THE BEST OF BOTH WORLDS

In contrast, the dollar has appreciated by 1.2% since our last publication, due, first, to a more hawkish Fed, which is looking increasingly isolated at a time when the rate cut race is well underway for developed country central banks, and, second, to the markets' European risk aversion. The greenback also maintains its edge when it comes to the attractiveness of rates of return. We continue to view the dollar as an appropriate hedging asset within our portfolios, as it offers protection against the main risks to our scenario.

USD: protection against the
MAIN RISKS
to our scenario

Among these risks, we believe the risk of more pronounced stickiness in US inflation, which would force the Fed to postpone the start of its rate cut cycle, is the most credible alternative scenario, despite the highly reassuring figure in May. The dollar could also benefit from its safe-haven status in the event of a sharper slowdown in the US economy, which would increase investor risk aversion, but also in the context of simmering geo(political) risk, particularly with the US elections drawing near and potentially highlighting the import tariffs issue.

CHF: BACK IN FAVOUR

After falling sharply since the beginning of the year, against the backdrop of a strong deceleration in inflation and the decision of the Swiss National Bank (SNB) to cut its rates in March (becoming the first developed central bank to do so), the Swiss franc has recovered significantly. This rebound came particularly after comments by the Chairman of the SNB at the end of May in which he hinted at possible support for the currency to fight imported inflation. Political uncertainty in the Euro Area and the unwinding of carry positions also channelled investor flows to the Swiss franc and its safe-haven status. In the coming weeks, the Swiss franc could continue to benefit from the worsening political climate in Europe, but the low level of inflation, compared with other major economies, and the ongoing rate cut cycle are also expected to weigh on the currency.

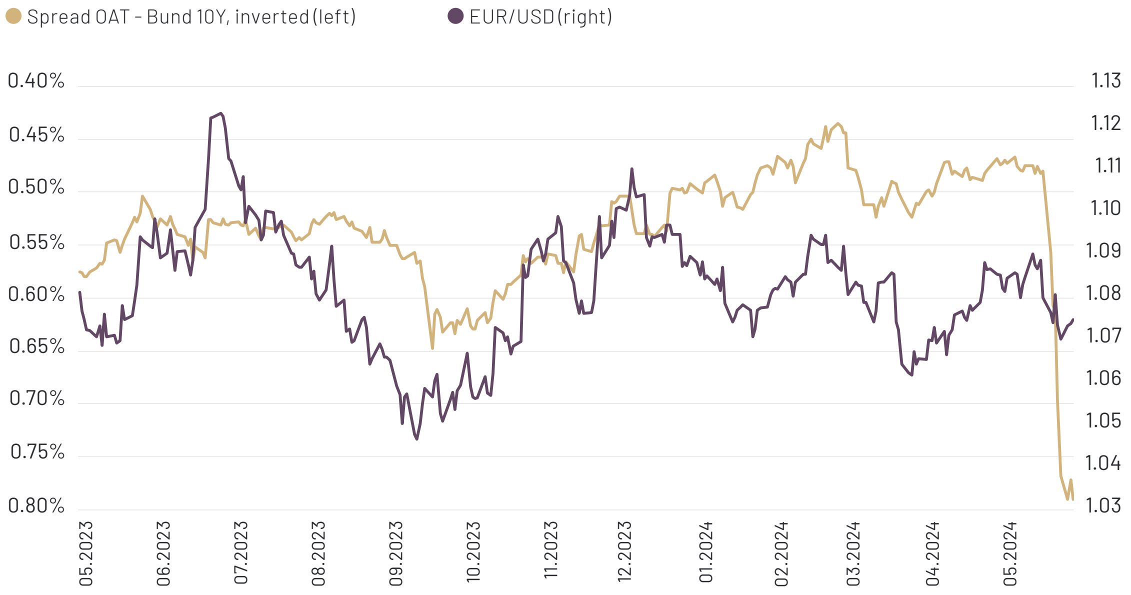
JPY: HINGING ON FUNDAMENTALS

The yen continues to depreciate against the dollar, nearing the 158.24 level it reached in April at the time of the Bank of Japan's intervention. At its last monetary policy meeting in mid-June, the Bank of Japan disappointed investors by postponing the start of its quantitative tightening (QT) to July and not offering any specific guidance on a possible rate hike at the next meeting. Governor Kazuo Ueda has not, however, ruled out the possibility of simultaneously raising rates and starting QT in July. The normalisation process may seem slow, but is partly justified by still-mixed fundamentals, as the record wage negotiations did not translate into any improvement in the consumption trend in the first quarter. In the short term, the still-high rates in the United States should continue to weigh on the yen, on which we maintain a neutral view.

GOLD: BUYERS WANTED

Gold also fell from the all-time high of 2'425 dollars/ounce reached in mid-May, in a context of profit-taking by certain investors, reduced geopolitical tensions in the Middle East and improved economic data in the United States, which prompted the markets to take a more restrictive view on Fed rate expectations. Another major factor that could prove important in the coming months is that, for the first time since end-2022, the People's Bank of China left its gold reserves unchanged in May. If it continues, this slowdown in gold purchases that began in mid-March could weigh on investor sentiment towards the yellow metal. Against this backdrop, we take a relatively neutral view on gold with a target of 2'200-2'400 dollars/ounce.

CHART 6: THE EURO'S RELATIVELY MUTED REACTION TO THE EUROPEAN ELECTIONS



Source: Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS


Grégory STEINER
Global Head of Multi Asset


Adrien ROURE
Portfolio Manager

INVESTMENT SCENARIO

- **Growth:** our growth assumptions for advanced economies in 2024 remain unchanged at +2.5% for the United States and +0.7% for the Euro Area. Across the Atlantic, some of the data point to a gradual slowdown in consumption, although it should continue to be supported by US households, which are benefiting from real gains in purchasing power and a positive wealth effect. Macroeconomic *momentum* in the Euro Area seems to be trending positively, which can be attributed, here as well, to an improvement in European consumers' purchasing power and the ongoing rebound in the manufacturing cycle. In the short term, political uncertainty could affect business confidence and consumer sentiment and put the brakes on a rebound in economic activity, although we believe this risk is geographically limited to the French economy. Lastly, at the global level, we maintain our scenario of growth driven by emerging countries, and by Asia in particular.
- **Inflation:** we continue to believe that the disinflation process is well underway in advanced economies. Risks remain, however, in both the services sector, where inflationary pressures persist in highly labour-intensive sectors, and the manufacturing sector, where signs of renewed supply chain pressures call for vigilance.
- **Central banks:** we have marginally adjusted our rate cut forecasts for 2024 and now target two rate cuts for the rest of the year for the Fed and the ECB. However, we maintain our terminal rate assumptions of 4% and 2.5% (+/- 0.25%) for end-2025 in the United States and Euro Area, respectively.
- **Corporate earnings:** the positive earnings revision trend continues, particularly in the United States and across the tech sector. The shift in sentiment in the Euro Area has been confirmed, with revisions also trending upwards in the European small and mid-cap segment.
- **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 diversified portfolios at a low cost.

POLITICAL UNCERTAINTY, an obstacle to a Euro Area rebound?

ASSET ALLOCATION CONVICTIONS

Equities

- We continue to believe that the macroeconomic environment remains strategically favourable for risky assets, a conviction that seems to be confirmed from a fundamentals' standpoint by the high levels of earnings growth expected in 2024 and 2025. Nonetheless, the strength of the US economy currently appears to be highly valued by the markets. Combined with the presence of multiple political and geopolitical risk factors, and the generally unfavourable summer seasonality, we prefer to maintain a limited overweight and to wait for any temporary declines in the market before repositioning.
- Our geographic preferences remain unchanged: we continue to favour US large caps and emerging market equities at the expense of European equities. Within the Euro Area, political uncertainty about the future of French legislative power poses a risk to several specific sectors and correctly identified stocks. Thus, while this episode is expected to rekindle jitters on the market and delay the return of foreign investor flows, it could provide us with attractive opportunities in the short term to redeploy our cash, particularly to European small and mid-caps.

Fixed Income

- After having tactically increased our rate sensitivity last month within our multi asset portfolios, our allocations now remain unchanged overall. We continue to believe that the shortest segments of the government bond yield curve offer the most value. In addition to providing higher yields, these maturities have proven less volatile while the longest maturities are vulnerable to a return of the term premium. This risk is even greater in the Euro Area, where the risk of fiscal slippage seems to be spreading in the market due to political uncertainty in France, as reflected in the recent widening of the France-Germany spread.
- We maintain our positive opinion on high-quality corporate debt with short maturities, as well as on subordinated debt. These segments offer an attractive yield pick-up relative to the risk involved. The higher-quality segment within high yield may help significantly improve the yield of bond allocations, although selectivity remains important. However, we continue to steer clear of the riskiest segment.

Forex

- We maintain our positive view in the short term on the dollar. In addition to benefiting from a positive rate differential with all heavily traded (G10) currencies, we continue to see greenback as one of the best hedges against the main risks to our scenario (stickiness of inflation in the United States, renewed geopolitical tensions, rising political uncertainty in the Euro Area).
- We had noted in our previous Monthly House View that we were taking a more cautious view on gold in the short term, due to slowing purchases by emerging country central banks (particularly in China) and the aggressive positioning of certain hedge funds. In a mostly unchanged environment, we reiterate our warning to remain vigilant.

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 20 JUNE 2024

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.26%	-21.73	38.03
France 10-year	3.20%	13.40	64.10
Germany 10-year	2.43%	-16.40	41.00
Spain 10-year	3.30%	-5.60	31.40
Switzerland 10-year	0.68%	-15.50	-2.30
Japan 10-year	0.95%	-4.90	34.00

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	35.67	-1.73%	-2.86%
Euro Government Bonds	202.55	0.55%	-0.78%
Corporate EUR high yield	220.64	0.29%	1.99%
Corporate USD high yield	342.08	0.87%	2.13%
US Government Bonds	309.21	1.20%	0.38%
Corporate Emerging Markets	44.45	0.75%	0.73%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9540	-3.53%	2.70%
GBP/USD	1.2657	-0.33%	-0.58%
USD/CHF	0.8914	-2.50%	5.94%
EUR/USD	1.0702	-1.04%	-3.05%
USD/JPY	158.93	1.27%	12.68%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	13.28	0.51	0.83

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	5'473.17	3.90%	14.75%
FTSE 100 (United Kingdom)	8'272.46	-0.80%	6.97%
STOXX 600	518.91	-0.51%	8.33%
Topix	2'725.54	-1.06%	15.18%
MSCI World	3'519.68	2.13%	11.06%
Shanghai SE Composite	3'503.28	-3.80%	2.10%
MSCI Emerging Markets	1'095.76	0.40%	7.03%
MSCI Latam (Latin America)	2'184.22	-9.74%	-17.97%
MSCI EMEA (Europe, Middle East, Africa)	199.84	-0.78%	-0.46%
MSCI Asia Ex Japan	705.24	1.07%	9.93%
CAC 40 (France)	7'671.34	-5.32%	1.70%
DAX (Germany)	18'254.18	-2.34%	8.97%
MIB (Italy)	33'675.15	-2.30%	10.95%
IBEX (Spain)	11'160.5	-1.33%	10.48%
SMI (Switzerland)	12'128.16	1.35%	8.89%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'475.00	-3.42%	- 13.99%
Gold (USD/Oz)	2'360.09	1.32%	14.40%
Crude Oil WTI (USD/Bbl)	82.17	6.89%	14.68%
Silver (USD/Oz)	30.82	1.77%	27.96%
Copper (USD/Tonne)	9'858.00	-5.37%	15.18%
Natural Gas (USD/MMBtu)	2.74	3.16%	9.03%

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

MARCH 2024	APRIL 2024	MAY 2024	4 WEEKS CHANGE	YTD (20.06.2024)
4.23%	10.98%	16.41%	3.90%	15.18%
3.65%	4.24%	10.44%	2.13%	14.75%
3.47%	4.14%	8.89%	1.07%	11.06%
3.10%	3.22%	8.76%	0.40%	9.93%
3.01%	2.73%	8.75%	-0.51%	8.33%
2.32%	2.10%	7.84%	-0.78%	7.03%
2.18%	-1.57%	6.61%	-0.80%	6.97%
0.61%	-1.91%	6.14%	-1.06%	2.10%
0.56%	-1.95%	0.32%	-3.80%	-0.46%
-0.55%	-9.89%	-9.12%	-9.74%	-17.97%

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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