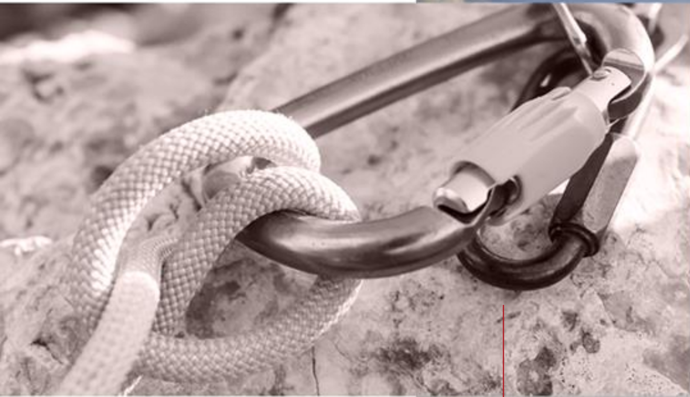
CITÉ GESTION
PRIVATE BANK

Newsletter: Not that Fast / February 2024

THE ESSENCE OF FREEDOM



1. Macro and Rates
2. Fixed Income
3. Equity
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Key Take-Aways

- For the third consecutive month, the S&P 500 index has demonstrated a positive performance, closing with a gain of 1.68%. This uptrend extends its three-month rally to a total gain of 15.54% performance, reflecting a steady and positive movement in the market over recent months

- The Federal Reserve, acknowledging ongoing high inflation, is unlikely to reduce interest rates soon, with no cuts expected in March and possibly not before May. This decision follows consistent price increases in key sectors and inflation rates surpassing the 2% target.

- Strong U.S. economic data, including job growth and wage increases, have led to a positive revision of GDP projections, affecting market rate cut expectations. Meanwhile, instability in the U.S. regional banking sector and a potential rebound in China's market are noteworthy developments.

- Despite initial expectations of a weaker dollar due to potential interest rate cuts by the Federal Reserve, a strong US jobs report kept the dollar strong.

- Bond yields experienced a reversal at the start of the year, with an initial rise due to adjusted expectations of rate cuts by the FED and ECB, followed by a fall influenced by the US core PCE index and weaker economic data. Nevertheless, the outlook does not point to a recession, but rather to a potential 'soft landing', suggesting a continued overweight in bonds and duration in investment portfolios.

- While the baseline scenario for the economy remains stable, geopolitical tensions and supply chain disruptions pose inflationary risks. Despite these uncertainties, preference should be given to high quality, long duration government bonds and investment grade bonds, while being cautious about high yield bonds due to historically low spreads. Investors are advised to maintain their bond positions until 2024, anticipating a cut in central bank rates between now and the end of the year, despite intermediate volatility.

- The "7 Magnificents" remain a central point for discussion, as their performance disparity with the rest of the S&P 500 is significant. A portfolio without these stocks can hardly beat the market.

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Review

January's overview

January marked another positive month. The NIKKEI 225 is the best-performing of the listed indexes at the start of the year (see table), with a positive return of 8.44%. Following are the Euro Stoxx 50 and the SMI, with respective performances of 2.97% and 1.76% last month. The Russell 2000 and the FTSE 100 started the year on a sour note with underperformances of -3.89% and -1.27%. The MSCI emerging markets index was negative, with a significant impact from the Chinese CSI 300 index, which fell -6.29% in January.

The S&P 500 index posted a positive performance of 1.68% for the third consecutive month. It has gained 15.54% over the past three months. The index broke through the 4,900 level, closing at an all-time high of 4,927.93 during January. The four sectors that performed well were Telecom, Health Care, IT, and Financials. It is noted that the Real Estate index retreated by -4.74% as well as in the Utilities sector with -3.01%.

The US Dollar Index rose by 1.92%. A strengthening of the Dollar is particularly noted in the currency pairs EUR/USD (-2.0%), USD/CHF (+2.38%), and USD/JPY (+4.17%) last month. The Swiss Franc depreciated against the US Dollar as well as against the Euro (EUR/CHF 0.32%). The emerging market currency index is again in trouble with a decline of 1.82%.

Overall, yields on 10-year government bonds rose climbed slightly in January (+3 bps). The 10-year German bonds and UK bonds rose by 14 bps and 26 bps respectively. It can be observed that for the last 5 days of January, there has been a quite significant decline in yields following the FED's meeting, for which the market prices an interest rate cut in the near future. Private debt spreads have widened in the US by 15 bps. The increase in yields on private debt turned out to be more significant than the yield increase on government bond, which can be interpreted as a negative sign of market confidence in companies' future resilience. For European private debt, it is the opposite with a negative MTD High Yield spread, which is certainly due to the strong rise of European government bond yields last month.

The Bloomberg Commodity Index is down -0.09%, even though the Crude Oil WTI increased by 5.86%. Gold decreased by -1.14% despite this slight decline, gold is practically at its high on December 1, 2023, at 2062.40.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 846	-1.66	-0.45	1.68	1.68	1.68	20
Nasdaq	15 164	-2.96	-2.04	1.04	1.04	1.04	30
Russell 2000	1 947	-3.18	-0.73	-3.89	-3.89	-3.89	22
Euro Stoxx 50	4 648	0.19	1.85	2.97	2.97	2.97	13
Stoxx 600 EUR	486	0.17	1.81	1.49	1.49	1.49	13
FTSE 100	7 631	-0.03	1.37	-1.27	-1.27	-1.27	10
SMI	11 333	-0.84	1.22	1.76	1.76	1.76	18
NIKKEI 225	36 287	0.73	0.17	8.44	8.44	8.44	21
CSI 300 China	3 215	-2.68	-1.88	-6.29	-6.29	-6.29	10
MSCI EM Index	976	-1.45	-0.66	-4.64	-4.64	-4.64	12

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 846	-1.66	-0.45	1.68	1.68	1.68	20
UTILITIES	312	-0.28	2.49	-3.01	-3.01	-3.01	15
ENERGY	637	-0.84	1.98	-0.38	-0.38	-0.38	11
TELECOM	258	-4.61	-1.60	5.02	5.02	5.02	17
CONS STAPLES	773	-0.12	1.88	1.54	1.54	1.54	20
REAL ESTATE	240	-1.59	-0.00	-4.74	-4.74	-4.74	18
CONS DISCRET	1 368	-2.06	-1.22	-3.53	-3.53	-3.53	25
MATERIALS	518	-0.83	0.77	-3.91	-3.91	-3.91	20
HEALTH CARE	1 636	0.14	1.23	3.01	3.01	3.01	19
INFO TECH	3 530	-2.83	-2.56	3.95	3.95	3.95	28
FINANCIALS	645	-0.01	1.13	3.04	3.04	3.04	15
INDUSTRIALS	956	-1.09	0.36	-0.88	-0.88	-0.88	21

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	103.274	-0.32	0.04	1.92	1.92	1.92
EUR-USD	1.0818	-0.14	-0.62	-2.00	-2.00	-2.00
USD-JPY	146.92	-0.39	-0.40	4.17	4.17	4.17
USD-CHF	0.8614	0.01	-0.16	2.38	2.38	2.38
EUR-CHF	0.9319	-0.13	-0.78	0.32	0.32	0.32
GBP-USD	1.2688	-0.17	-0.30	-0.34	-0.34	-0.34
EUR-GBP	0.8526	0.02	-0.32	-1.65	-1.65	-1.65
JP EM FX Index	47.27	0.12	-0.30	-1.81	-1.81	-1.81

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	3.91	-16	-26	3	3	3
Germany	2.17	-7	-18	14	14	14
UK	3.79	-8	-22	26	26	26
SWITZERLAND	0.84	-4	-10	14	14	14
Japan	0.73	1	2	12	12	12
US IG Spread	103	3	3	-2	-2	-2
US High Yield spread	386	20	16	15	15	15
EUR High Yield spread	389	11	21	-3	-3	-3

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	98.6	0.66	0.07	-0.09	-0.09	-0.09
Gold Spot $/OZ	2039.5	0.31	1.27	-1.14	-1.14	-1.14
Crude Oil WTI	75.9	-1.21	0.30	5.86	5.86	5.86

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	14.4	0.75	1.21	1.90	15.26	1.90

Source: Bloomberg 01/31/2024

Macro & Rates

From Easing Bias to 'Wait and See' Approach

After concluding its first 2024 meeting, and with inflation remaining elevated, the FED is adopting a 'wait and see approach', making the prospect of interest rate cuts in March increasingly unlikely.

In its first meeting of 2024, the FED maintained its key interest rate for the fourth consecutive time. The Committee continues to closely monitor inflation risks, with FED officials emphasizing the importance of a restrictive monetary until inflation demonstrates a consistent decline, aligning with the Committee's objectives. In this context, Powell suggested that a rate cut in the upcoming March meeting is improbable. Although inflation has eased over the past year, it remains significantly above the FED's 2% target. This is partly due to price increases in the shelter and energy sectors, as indicated by the latest CPI Report which showed a 0.3% rise in December, compared to a 0.1% increase in November. Over the 12 months ending December, headline inflation rose at 3.4%, exceeding the 3.1% increase for the 12 months ending November. In the meantime, core inflation decreased slightly to 3.9% in December, stabilizing around 4%.

Despite a 15th consecutive contraction of the economic activity in the manufacturing sector, the US ISM Manufacturing PMI Index for January reached its highest level since 2022, surpassing market expectations of 47 by climbing to 49.1 from 47.1. The US ISM Services PMI Index also exceeded expectations, reaching 53.4. However, there was a significant rise in the Prices Paid Index – the inflation-related component – that escaladed to 64.0 from 57.4. This represents the highest reading on prices paid in a year and is a concern considering robust services wage growth and sticky core services inflation.

The January 2024 Employment Report rose by a much stronger-than expected 353,000 in January, revealing the strength of the US job market and the ongoing demand for workers. A 0.6% rise in average hourly earnings from the previous month led to a 4.5% year-over-year wage rise. The unemployment level remained at a historically low 3.7%, and the unexpected addition of 353,000 jobs in January underscores the US job market's consistent ability to surpass expectations. Following these developments and the upward revisions in forecasts for real personal consumption expenditures growth and real gross private domestic investment growth, the latest GDPNow projection has adjusted the Q1 2024 GDP growth estimate to an annualized 4.2%, up from the previous forecast of 3.0% at the end of January. This revision follows a 3.3% growth rate in Q4 2023.

Amid robust economic data, financial markets are revising their rates cuts expectations, with the market pricing in just a 20% chance of a rate cut in March, down from a near 80% probability in early January.

From now on, due to recent positive economic indicators and persistent inflationary pressures, May is considered the earliest month that the FED may consider cutting rates. Market predictions for rate cuts this year have been scaled back by 50 bps over the past month (-115bps) and this shift has led to the US 10-Year Treasury yield returning to the 4% range.

The significant drop in New York Community Bancorp's stock value, which was halted after a sharp decline following an unexpected dividend cut from 17 cents to 5 cents due to increased capital requirements, could signal potential instability in the US regional banking sector. This event resulted in a 12% decline of the Nasdaq Regional Banking (KRX) Index.

Although it might be too early to call this a remake of March 2023, the US regional banking sector is facing significant stress. This might prompt the FED to expedite policy adjustments, including interest rate changes and quantitative tightening.

Regardless of a critical 2023 financial year for China, some indicators suggest a cautiously optimistic outlook for 2024.

China, the worst market performer YTD, with a China's Shenzhen CSI 300 at a five-year low, finally started a rebound last Tuesday. Echoes of a possible large "direct stabilizing package" combined with the 50 bps of the RRR from PBOC (an obvious liquidity injection) and further restriction on short selling offered a decent boost to the Chinese market.

Fixed Income

At the summit of the hiking cycle

The year began with a «reversal» of recent tendencies: bond yields, which fell rapidly in the last two months of 2023 rose over the first three weeks of the new year. The 10-year US Treasury yield, which ended 2023 at 3.84%, rose to 4.2%, only to end January at 3.9%. The movement was similar for the 10-year Bund which rose to 2.37% and fell to 2.16% at the end of the month.

The initial rise in yields was due to a downward revision of expected rate cuts by the FED and ECB over the first weeks of the new year. It was really the US Core PCE index QoQ which came in at the expected 2% which triggered a renewed fall in yields. A series of somewhat weaker than expected data, including initial and continuing jobless claims, lower New Home Sales MoM, PCE Core Deflator YoY, manufacturing activity and finally JOLTS Job Openings and ADP Employment Change, showed signs of a potentially slightly slowing US economy.

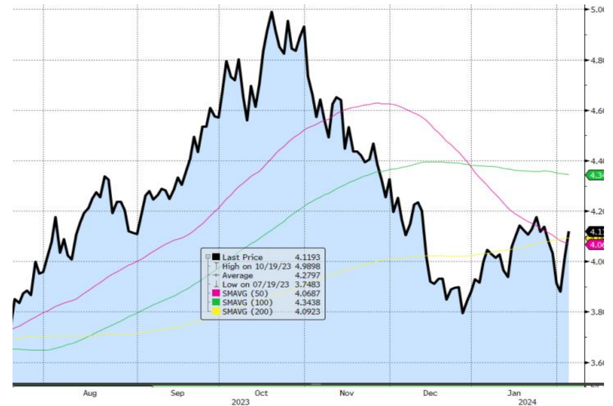
There are, however, no signs yet of a recession, and the base-case scenario remains a «soft landing». We believe that bonds and duration should continued to be overweight in portfolios. Even if much of the rate cuts has been anticipated in the recent fall of market yields, the expected cuts for 2024 together with the attractive carry should provide a comfortable «floor» for bonds.

There are, as always, risks to the base-case scenario. Firsly, geo-political tension and the fact, that global supply-chains are once again disrupted in the Middle East. The route from Singapore to Rotterdam is 3'300 nautical miles and 10 days longer around Africa than through the Suez canal. This could potentially have an inflationary effect on prices. The base-effect, e.g. an inflation which has sharply fallen over the last year, may also weigh on the next couple of CPI readings. Secondly, a recession in the US – for whatever reason – remains a possibility. in this case, however, core rates should fall and at least govies and high-quality bonds should fare relatively well.

Given this overall picture, we recommend to stick to quality in bonds. We favor taking on longer duration in govies and investment grade. But we are somewhat sceptical towards high-yielding bonds. US high-yield bonds are trading at a historically low spread of 380bps (550bps in March 2023) and European high-yield bonds have a spread of 330bps (510bps in March 2023).

In 2024, it will be important to keep the year-end target in mind and try to ignore the volatility on the way. In other words: bonds will see ups and downs, depending on macro-data published and the probabilities of a «policy mistake». But central bank rates should be lower at year-end, so you should stick to your bonds!

US 10-year Treasury yield



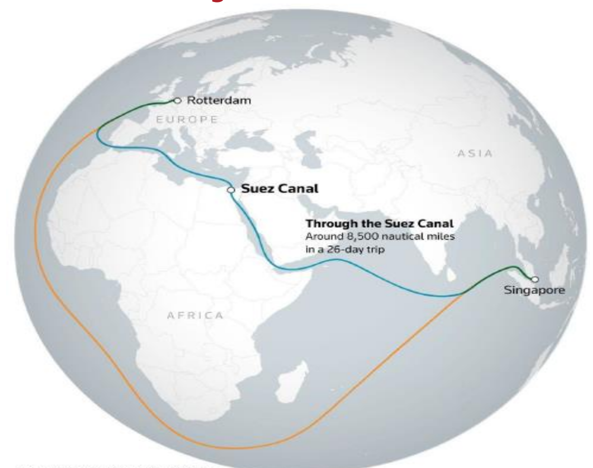
Source: Bloomberg

FED and ECB priced rate cuts as of 5.2.24

FED	Implied Policy Rate (%)	Number of Hikes/Cuts Priced In	ECB	Implied Policy Rate (%)	Number of Hikes/Cuts Priced In
20.3.24	5.27	-0.2	7.3.24	3.87	-0.1
1.5.24	5.12	-0.8	11.4.24	3.74	-0.6
12.6.24	4.90	-1.7	6.6.24	3.49	-1.7
31.7.24	4.71	-2.4	18.7.24	3.25	-2.6
18.9.24	4.48	-3.4	12.9.24	3.02	-3.5
7.11.24	4.31	-4.0	17.10.24	2.82	-4.3
18.12.24	4.14	-4.7	12.12.24	2.62	-5.1

Source: Bloomberg

Vessel re-routing



Source: Bianco Research LLC

USD IG (LHS) and HY (RHS) Spreads

Source: Bloomberg

Equity

One bullish month chases the other (1/2)

US and European stock markets continued their bullish momentum into January, albeit with less vigor than previous months, while China further declines but with hopes that the worst is behind.

What can we expect in 2024?

The "7 Magnificents" remain a central point for discussion, as their performance disparity with the rest of the S&P 500 is significant. A portfolio without these stocks can hardly beat the market. Interestingly, these same stocks had pulled the market down in 2022. As of early 2024, they have generally returned to their 2021 highs.

AI and robotics remain one of our top 10 themes for the year, though we anticipate this segment could be volatile depending on profit reports. Nvidia continues to benefit from the AI boom, with its stock rising over 24% in January in anticipation of favorable financial results for 2024. The Stock benefited from a moderate PE for 2025 given the anticipated growth.

The S&P 500 rose 1,68% in January, while the S&P equally weighted index fell 0,91%. Performance is produced by a few companies, as illustrated by the following table.

Since January 2023 the difference between both indices is 17,23% and 52,82% since January 2014.

Luxury Companies Make a Strong Return

LVMH's results were highly anticipated and, while not extraordinary, they met market expectations. The stock made an amazing 12,8% performance the day after the announcement. Still, it remains below its historical high of 904,60 as the stock was penalized in the past six months. Within the luxury sector, there's a significant disparity. Hermes is at its historical highs, whereas Kering and Richemont are still lagging behind.

Hermes and LVMH are two stocks that fit any European selection for 2 reasons: growth and they both account together for 8,75% of the EURO STOXX 50 index.

US small caps strugling

The Russel 2000 is down 3,89% in January and flat over the past 12 months. Small caps are suffering from higher interest rates. The index trades within a range over the past 12 months (1750-2000).

The following map shows the contribution of each companies to the index performance YTD (as of 02.02).

Source: finviz.com

Equity

One bullish month chases the other (2/2)

Healthcare: US delivered better than europe

As of now, 40% of healthcare companies have reported their Q4 results, with around three-quarters surpassing estimates. However, the devil is often in the details, with the US driving the positive results, while Europe has been underwhelming across all sub-sectors.

Specifically, European Pharma largely missed estimates, with results and guidance falling below expectations, except for Novo Nordisk, which is buoyed by its growth prospects in obesity (expecting sales and results to increase by more than 20% in 2024).

In Switzerland, Lonza has pleased investors with better H2'23 numbers, reaffirmation of FY'24 guidance, and benefits from the troubles of its competitor, Wuxi Biologicals, related to clinical trials execution and geopolitical concerns. Conversely, Novartis and Roche reported misses in sales and results, with FY'24 EPS guidance suggesting consensus cuts for both (a negative low to mid-single digit for Novartis, and mid to high-single digit for Roche).

However, the dynamics between the two are distinct: Novartis is capitalizing on its growth drivers in cardiology, cancer, immunology, and neuroscience, expecting to achieve mid-single-digit sales growth and high single-digit bottom-line growth at constant currency (cc). Long-term, Novartis has forecasted a sales CAGR of 5% at cc from 2023 to 2028, with an operating margin above 40% by FY'28e, indicating potential upside to estimates.

Roche's situation is more complex. Despite having new management for nearly a year, it is not ready to unveil its strategy until September. Investors' frustration is understandable, given several pipeline setbacks, ongoing negative impacts from generics on its historical cancer franchise, and Covid-related challenges in diagnostics. For 2024, Roche expects mid-single-digit sales growth and low single-digit EPS growth at cc. With no significant pipeline catalysts in sight, patience will likely be necessary for Roche in 2024.

11 reasons to buy China !

1. Signs of investor capitulation with Chinese A small caps down 27% and midcaps down 19% ytd

2. The required reserve ratio for Chinese banks is to be cut by 0.5% on February 5th

3. The change in Fed policy direction allows for more monetary policy space at PBOC. Excess liquidity is growing in China and this has historically helped equity performance

4. Equities are anticipating a sharp slowdown, but Chinese activity indicators (PPI) are showing a rebound

5. China is one of the few countries where nominal GDP is actually expected to accelerate slightly in 2024

6. Beijing plans to set up a 300bn yuan stabilisation fund to buy A shares to support its stock market, as well as other support measures

7. Jack Ma has just bought Ali Baba shares

8. China's economy has probably passed its cyclical trough, with several economic indicators showing early signs of improvement

9. The Chinese government is more concerned about stabilising equities than in the past

10. According to the Bank of America survey, being underweight China is the second most popular belief among fund managers (after positive on Tech & AI)

11. The HangSeng index has reached 1997 levels and a P/e of 6.8x

Conclusion... Caution !

The current levels of the S&P 500 and the EURO STOXX 50, at their historical highs, advise more caution than ever, awaiting a correction that would allow for re-engagement in stocks. Interest rate cuts are expected but have not yet occurred. Until then, the markets will be influenced by the publication of inflation and growth figures. Taking profits at current levels will allow for repositioning in the event of a correction.

Forex And Commodities

US Dollar Remains King, CHF Strenght Coming To An End?

2024 commenced with the prevailing perception that the robust USD might swiftly face a decline, fueled by expectations that the Fed could adopt a dovish stance in its interest rate policy. However, as January concluded, it's becoming evident that the anticipated rate changes may not unfold as rapidly. The resilient U.S. jobs report surpassed market expectations, and the Fed appears less eager to initiate rate cuts in March, keeping the US dollar dominant.

The EUR/USD failed to consolidate above 1.10, a strong psychological resistance, reverting to a two-month high around 1.08. Trading below its 200-day SMA, the pair has the closest support at 1.075. A potential death cross (50-day SMA crossing below the 200-day) could favor a bullish dollar. With a stronger economic outlook for the US compared to the eurozone, the downside risks for the EUR seem to outweigh the upside, potentially eroding the previous bullish bet in the short term. Despite short-term uncertainties, the EUR/USD is expected to remain within the 1.05-1.10 range in the coming weeks.

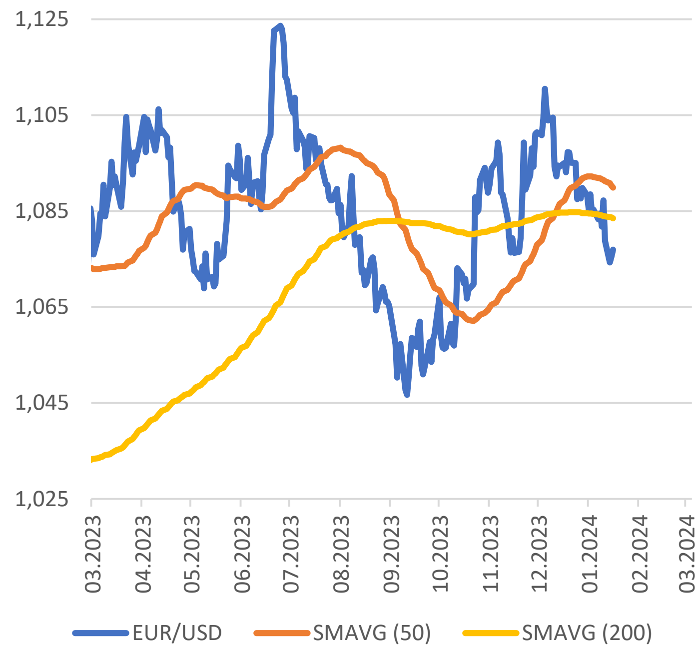
Since 2022, the Swiss Franc has moved more and more towards unsustainable territory. After October's attack in Israel, the appreciation of this money considered as a safe haven has reached new highs. And started to grow concerns among investors that the franc's current high valuation is unlikely to be sustained longer. There are also several catalysts pointing out for a change in the CHF over appreciation.

First, since June 2022, the SNB started to favor a policy of CHF appreciation to reduce imported inflation. This policy consisted of using the large stockpile of foreign reserves accumulated over the last decade. In other words, the SNB was selling foreign currency and buying Swiss Francs to prop up the latter. This policy has been quite successful since Swiss inflation is now back below 2%. As the inflation target has been reached, we can easily think that the SNB will no longer need to spend its foreign exchange reserves to boost the Swiss Franc. Secondly, with the return of positive interest rates among the major G10 currencies, the spreads of nominal interest rates in Switzerland and foreign economies have widened significantly against the franc. Therefore, investors will increasingly look to use the franc as a funding currency with the consequence that it will face more weakening pressure. Finally, we observed recently a switch in the positions. Investors took profits on long positions in the CHF and turned significantly short. Betting on the fall of the franc. The EUR/CHF is attempting to move back above the prior low at 0.94 and the 50-day SMA as the next resistance for going to new momentum. Similarly, the USD/CHF should test the next resistance at 0.885 (200-day SMA) for confirming further rebound.

The Japanese Yen is still navigating in uncertain territories. The question of whether the BOJ will finally abandon its negative interest rate policy is still stirring investors.

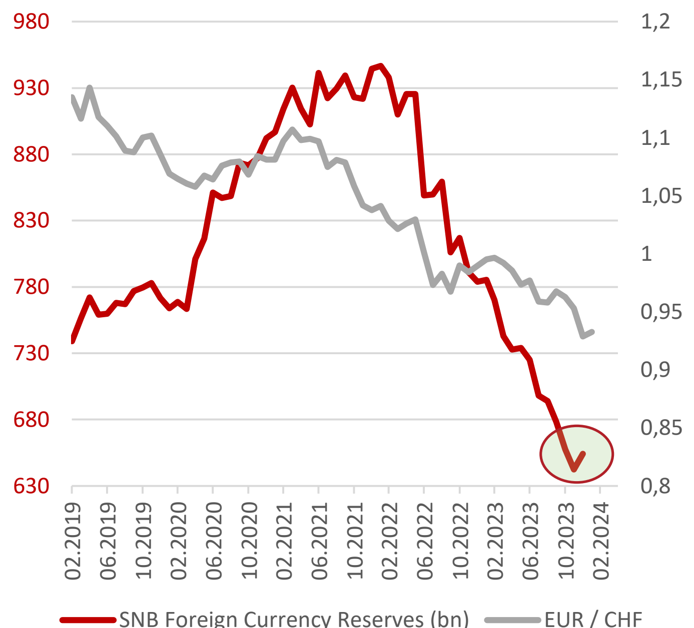
So far, Japanese firms have done well in recent years with a weak yen, while past strong-yen periods have tended to pull equity value lower. It is therefore questionable if a tighter policy/higher yen is necessary at this moment. Still, it must be said that the yen has never been this undervalued. A revaluation of this currency could still leave Japanese corporations in a thriving business.

No Sign Of Improvement For The EUR/USD ?



Source : Bloomberg

End Of Intervention on Foreign Exchange Reserves For The BNS ?



Source : Bloomberg

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