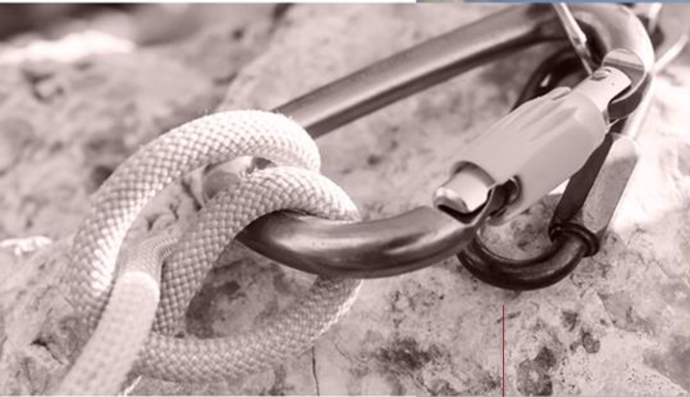
CITĒ GESTION
PRIVATE BANK

Newsletter: Fear of missing out / March 2024



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

- The Nikkei 225 is the best-performing index since the start of the year, up 17.11% YTD.
- The Bank of Japan could abolish its negative interest rate policy. This could be the first rate hike since 2007.
- Activity in the US economy is robust due to the wealth of US consumers. There are some signs of weakness in macroeconomic data such as MoM job creation and the unemployment rate.
- USD bonds have had a difficult start to the year, mainly due to the market's repricing of expected rate cuts. The first cut is expected in June-July this year.
- The Swiss franc could be approaching an turning point, as shown by the EUR/CHF pair. The Swiss National Bank could stop intervening in its foreign currency reserves. This could lead to a depreciation of the Swiss franc in the medium term.
- We are in the heart of the most dynamic biotech rally for over three years, and there's more to come. The biotech sector is enjoying a vigorous rebound, after a sharp fall in the period 2021-2022, largely attributed to rising interest rates.
- Last year, the 7 Magnificent stocks accounted for most of the S&P 500's performance. In 2024, only 4 of the 7 stocks are performing well: Nvidia, Microsoft, Meta and Amazon.
- Take profits on technology stocks or add to equities at this level? We think it makes sense to consider buying the dips. Technology is here to stay.

Review

February overview

February marked another positive month. The Nikkei 225 is the best-performing index since the start of the year (see table), with a positive return of 17.11% YTD. The CSI 300 China gained 9.35% last month, which brought its YTD into positive territory at +2.48%. Small and mid-cap stocks performed well last month, as evidenced by the Russell 2000, which rose by 5.65% in February. The Nasdaq and Euro Stoxx 50 indices also followed the general positive trend with returns of 6.22% and 5.08%, respectively.

The S&P 500 index posted a positive performance of 5.34% for the fourth consecutive month, gaining 21.52% over the past four months. The index surged past the 5,100 level, an all-time high during February. Every S&P sector saw gains last month, with Consumer Discretionary, Materials, and Information Technology performing particularly well. Although there has been a positive correction for the Utilities and Real Estate sectors, they still remain in the negative YTD, with returns of -1.93% and -2.28%, respectively.

The US Dollar Index rose by 0.85%. The Dollar notably strengthened in the currency pairs USD/CHF (+2.68%) and USD/JPY (+2.08%) last month, posting YTD returns of 5.12% and 6.34%, respectively. The US Dollar depreciated slightly against the Euro (by 17 bps) and the British Pound (by 50 bps). The Swiss Franc depreciated against the Euro (EUR/CHF increased by 2.56%). The emerging market currency index again faced challenges with a decline of 1.19%.

Overall, yields on 10-year government bonds rose in February, except for Swiss and Japanese government bonds. The 10-year German and UK bonds rose by 35 bps and 33 bps, respectively. The US 10-year also rose by 34 bps due to the unlikelihood of a rate cut at the next Fed meeting. Private debt spreads have tightened in the US by 24 bps and in Europe by 43 bps. Markets are not willing to pay a risk premium on high-yield private debt, as indicated by the tightening of spreads last month in the US high-yield spread (-24 bps) and the European high-yield spread (-43 bps).

The Bloomberg Commodity Index is down by 1.89%, while crude oil WTI rose by 3.18% last month, putting its YTD at 9.23%. Gold increased by 0.23% but still remains negative for the year at -0.91%

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5,096	0.54	0.22	5.34	7.11	7.11	19
Nasdaq	16,092	0.92	0.34	6.22	7.33	7.33	31
Russell 2000	2,055	0.73	2.07	5.65	1.54	1.54	18
Euro Stoxx 50	4,878	-0.12	0.47	5.08	8.20	8.20	13
Stoxx 600 EUR	495	0.02	-0.08	2.00	3.52	3.52	12
FTSE 100	7,630	0.14	-0.63	0.45	-0.83	-0.83	10
SMI	11,439	0.21	0.46	0.93	2.70	2.70	16
NIKKEI 225	39,166	-0.11	0.23	7.99	17.11	17.11	20
CSI 300 China	3,516	1.91	0.84	9.35	2.48	2.48	11
MSCI EM Index	1,021	0.22	-0.77	4.78	-0.08	-0.08	12

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5,096	0.54	0.22	5.34	7.11	7.11	19
UTILITIES	314	0.10	0.99	1.12	-1.93	-1.93	14
ENERGY	653	0.43	-0.46	3.18	2.79	2.79	11
TELECOM	273	1.21	-1.01	5.70	11.01	11.01	17
CONS STAPLES	789	-0.20	-0.11	2.32	3.89	3.89	20
REAL ESTATE	245	0.87	1.18	2.58	-2.28	-2.28	18
CONS DISCRET	1,485	0.94	1.33	8.71	4.87	4.87	23
MATERIALS	551	0.81	1.48	6.46	2.30	2.30	19
HEALTH CARE	1,686	-0.72	-1.56	3.22	6.32	6.32	17
INFO TECH	3,749	1.17	0.45	6.31	10.51	10.51	29
FINANCIALS	670	0.03	0.54	4.16	7.32	7.32	15
INDUSTRIALS	1,023	0.39	1.23	7.23	6.29	6.29	19

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	104.156	0.17	0.19	0.85	2.79	2.79
EUR-USD	1.0805	-0.30	-0.17	-0.12	-2.12	-2.12
USD-JPY	149.98	-0.47	-0.37	2.08	6.34	6.34
USD-CHF	0.8845	0.65	0.49	2.68	5.12	5.12
EUR-CHF	0.9557	0.34	0.32	2.56	2.89	2.89
GBP-USD	1.2625	-0.29	-0.28	-0.50	-0.83	-0.83
EUR-GBP	0.8559	-0.01	0.12	0.39	-1.27	-1.27
JP EM FX Index	46.71	0.15	0.12	-1.19	-2.97	-2.97

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.25	-1	-7	34	37	37
Germany	2.41	-5	-3	25	39	39
UK	4.12	-6	2	33	59	59
SWITZERLAND	0.80	-7	-8	-4	10	10
Japan	0.71	1	-1	-2	10	10
US IG Spread	105	1	9	2	0	0
US High Yield spread	362	1	11	-24	-9	-9
EUR High Yield spread	346	5	6	-43	-46	-46

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	96.7	0.04	0.29	-1.89	-1.97	-1.97
Gold Spot $/OZ	2,044.3	0.48	0.98	0.23	-0.91	-0.91
Crude Oil WTI	78.3	-0.36	-1.82	3.18	9.23	9.23

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	13.4	-0.44	-1.14	-0.95	7.63	0.95

Source: Bloomberg 02/29/2024

Macro & Rates

Market matches FED's expectation

Two months into the year, US equities are still on an uptrend despite a slight rise in the US 10Y interest rates, which has had no impact on the equity market (there is usually decorrelation). According to the data, the market expects rates to fall for the first time in June or July 2024.

A few months ago, at the end of November, the market was anticipating a sharp fall in interest rates by the end of 2024. Then, with a sticky inflation and a US robust economy, investors were forced to revise their estimates of the rate-cut cycle, resulting in a flattening of the yield curve, in a bear flattening mode.

Since the beginning of 2023, The FED has not made a single rate cut despite the market anticipations. The Federal Reserve will take its time before proceeding with a rate cut and is waiting for a real confirmation of a sustained decrease in inflation, even though it seems difficult in view of the 1% MoM increase in February in US Personal Income, which should support consumption and hence inflation. By the next meeting on March 20, and unless there are any surprises in the forthcoming inflation figures, there is every reason to believe that rates will remain unchanged at least until June this year. All in all, The US economic activity, thanks to a wealthy US consumer continues to show some robustness. As a result, we should no expect in the immediate future aggressive expectations of rate cuts.

Nevertheless, the no-landing is not part of our scenario for now as we observe some signs of deceleration, notably in the employment.

Despite the robust headline beat (275K vs 200K expected), the US employment report was weak on aggregate. Not only were prior data revised down by 167K, but the unemployment rate unexpectedly popped to 3.9% and wage growth was cooler than expected at 0.1%. The ISM manufacturing index fell more than expected from 49.1 in January to 47.8 in February (49.5 expected) and the ISM New Orders (from 52.5 to 49.2) is also in decline. Nevertheless, with these indicators, three rate cuts this year seems reasonable, and it will be very data-driven.

The US elections in November could be a catalyst for the equity market, either positive or negative.

It is almost certain that the two candidates in the American elections will be Trump and Biden. If there is one certainty, it is that neither of them will withdraw voluntarily. The future will tell us more about the soap opera in store for these two candidates.

The Bank of Japan (BOJ) could abolish its yield curve control program and negative interest rate policy. This could happen after the BOJ's next meeting on March 19. It is quite historical for a central bank that has not moved rates since January 2016 (it was a cut) and is about to raise rates for the first time since 2007. Such a decision is likely to support the Japanese yen, a reversal that we have begun to see in its exchange rate with the US dollar. Japan remains the best-performing stock market of the year, with the Nikkei index recovering in February.

Even with the financial difficulties experienced by China in 2023, there are signs pointing to a guarded yet positive expectation for 2024.

China's stimulus package, which has started on Ferbruary 5, allowing banks to reduce their reserve requirement ratio (RRR) by 50 bps is set to release $139.8 billion in long-term capital said the People's Bank Of China. Investors have greeted the stimulus favorably, which is reflected in the year-to-date rise of the CSI 300 index. In February, the index surged strongly.

Fixed Income

Dialling back on rate cuts

So far, 2024 is as bad a year for fixed income as was 2023. The Bloomberg Aggregate bond index is closely tracking its 2023 performance since the beginning of the year, and is down 2.6% YTD. The only exception are high-yielding bonds which are flat YTD in USD and slightly positive in EUR.

This negative performance is mainly due to a repricing by the market of expected rate cuts. A series of better than expected macro-data in the US, and especially higher than expected inflation readings (CPI YoY 3.1% vs. 2.9%; PPI MoM 0.3% vs. 0.1%), have reduced expected cuts in 6 months by roughly two cuts and for the 12m – 18m time horizon by up to three cuts. The picture is similar in Europe, where investors now expect about two rate cuts less in the next 12 months.

The US 10-year Treasury yield which ended 2023 at 3.87% ended February at 4.25% and the German 10-year which was at 2% on 29.12.23 is now trading at 2.4%. While this recent rise in yields was painful, it should probably be seen in the context of the sharp fall of yields over the last two months of 2023 rather than a change of direction. A base effect and geopolitics weighing on global supply-chains are among the reasons. Rate cuts are still coming, the question is just when and how many.

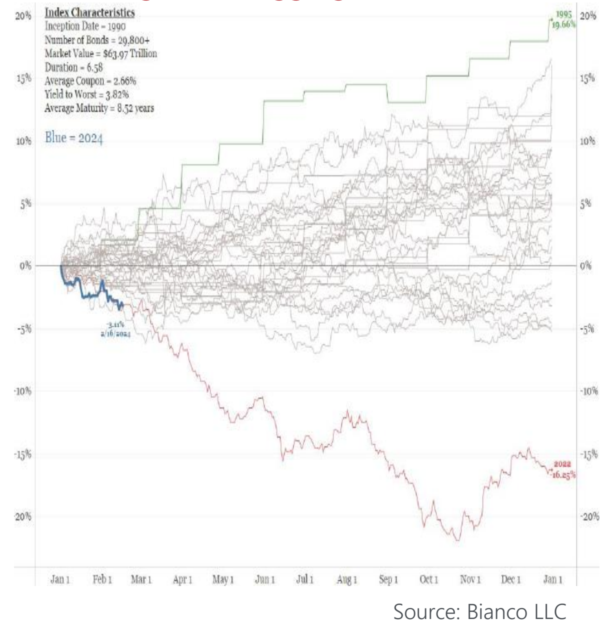
A look at history shows that periods of «rate pauses» by the Fed never lasted very long: usually it took less than six months for the FED to reverse its course, only on few occasions the pause lasted longer. As a reminder, the last hike took place in July 2023… and currently the first cut is priced-in for roughly June – July of this year.

Therefore we see the recent «turbulences» rather as an opportunity. And we continue to recommend an owverweight positioning in fixed income, implemented mainly through govies and investment grade credit. We also think that you should now have interest-rate sensitive asset classes in your portfolios – and the fixed-income part should certainly not be underweight in duration.

Whatever the rate-cut path will be, the general environment continues to look like a good one for bonds. BlackRock looked at recent yields by sub-asset class vs. their 10-year average and range. The picture is unequivocal: all types of fixed income offer now higher yields than they did on average over the last 10 years. Not surprinsingly, with the strong inversion of the yield curve, USD cash remains very attractive with a yield at the upper range of the last 10 years. But govies and investment grade also look attractive both in USD and EUR.

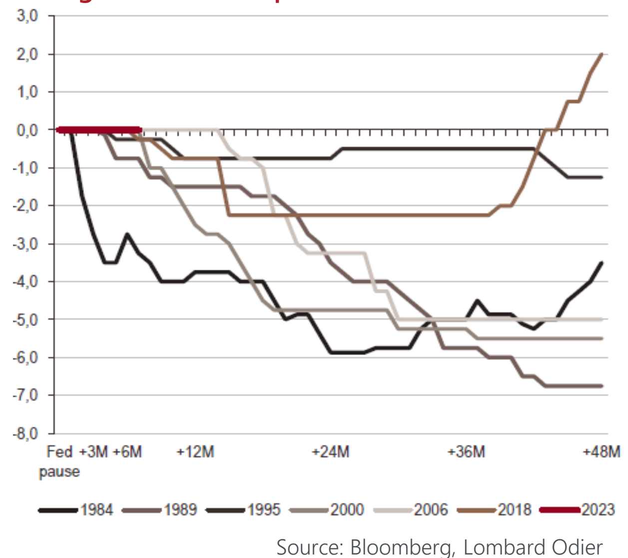
Regarding high-yielding bonds, the situation is a bit more tricky: overall yields remain attractive, but tight spreads, business cycle and refinancing risks put a question mark on their near-term outlook.

Bloomberg Global Aggregate Index YTD



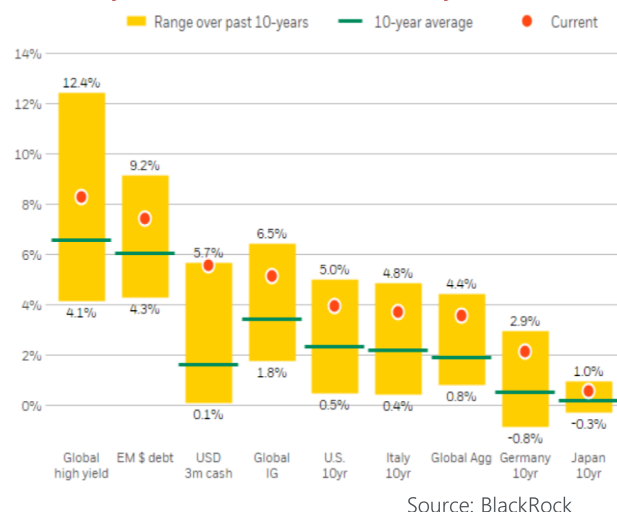
Source: Bianco LLC

Length of Fed rate pauses



Source: Bloomberg, Lombard Odier

Bond yields – current vs. last 10-years



Source: BlackRock

Equity

Equity markets defy all predictions (1/2)

As the S&P 500 approaches the year-end targets of many analysts already in February, the question arises whether to continue buying equities or to start taking profits. Certain sectors such as biotech remain at attractive levels.

Buy, sell, protect?

Those waiting for a correction to increase their equity allocation keep waiting as no correction is coming. Those lucky enough to hold the Magnificent 7 stocks are wondering when taking profits. Difficult time. Performance of portfolio is disappointing for value investors that are fully invested but underweight tech. Is sky the limit for Nvidia ? The performance of the market is narrowing: Last year 7 stocks made the performance of the S&P 500 – they are only 4 in 2024,

We start hearing : *"This equity rally is not like in 2000!"*

Yes and no.

Yes we can agree to that because many tech companies make a lot of **profits**, and a certain number are not that overvalued (we are not saying that they are not expensive). Nvidia, for example, is trading around 30 times the expected profits for the next 4 quarters, knowing that for the past year, it has always beaten analysts' expectations every quarter, and ultimately could turn out to be much cheaper. These levels are much lower than what Amazon, Google and Yahoo used to trade at the turn of the century when sales expectations (not profits) were valued at stratospheric levels and Amazon sold books and DVDs, not data and cloud services.

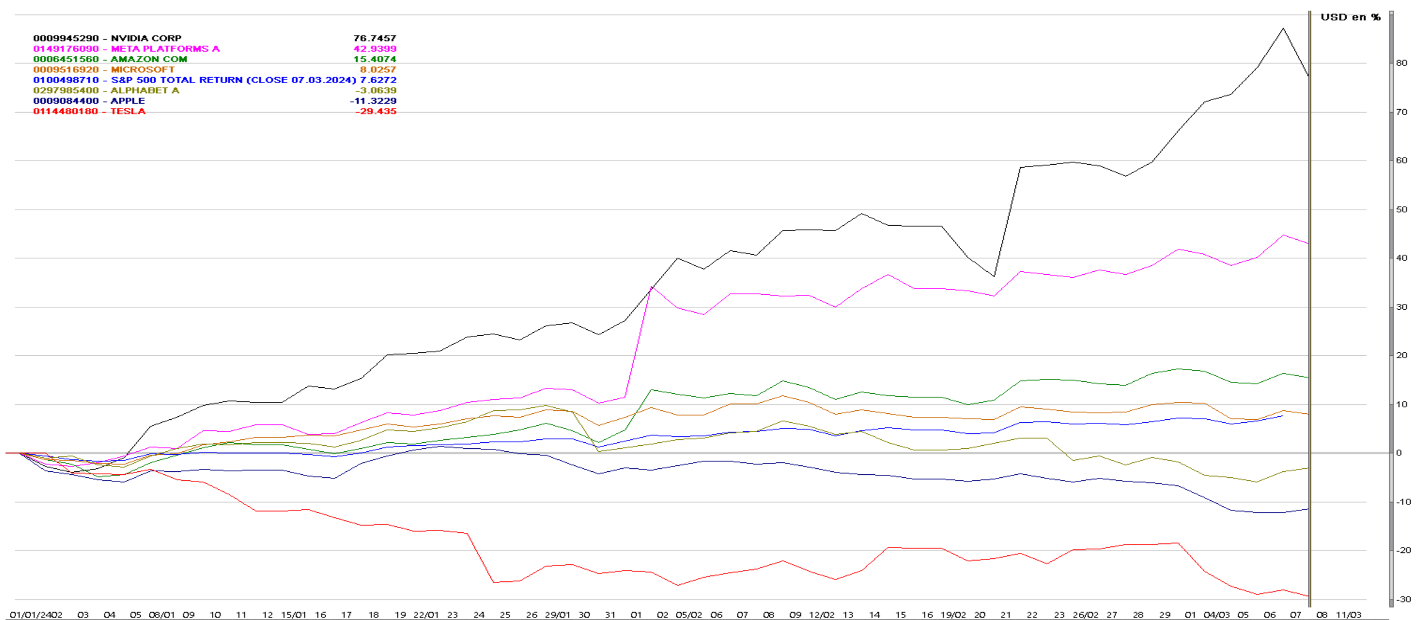
No we do not agree because we notice that, these days, as soon as a company drops the acronym "AI", its stock price immediately sees a double digit upside. Immediately meaning here: "in the next minute". Second, we have seen during this earnings season many significant movements after publication: Meta shares surged more than 20% after the company reported a tripling in fourth-quarter profit and issued its first-ever dividend. The volatility is big on certain stocks and here are some similarities to the old days of the dot com bubble in 1999-2000.

Is it too late to get into tech?

If you have not benefited from a piece of the rally that started a year ago, it may be wise to be cautious and wait for some correction. Despite everything, this demonstrates that tech must have its part in portfolio construction to enable a good overall long-term performance. The technology of today is no longer the one of 20 or 30 years ago. It is therefore never too late to buy tech stocks and make an allocation over time, using any dip as an opportunity to buy more. Tech remains volatile. The Nasdaq lost 32.97% in 2022 after a gain of 26.63% in 2021 and 47.58% in 2020.

The following chart shows the Magnificent 7 vs S&P 500 index in 2024. They tend to become the Mangificent 4.

Source: Cité Gestion



Equity

Equity markets defy all predictions(2/2)

The day when Thor descended upon the realm of biotechs!

We find ourselves at the heart of the most vibrant biotech rally seen in over three years, with much more to come. The biotech sector is witnessing a robust rebound (XBI surging 50% since the end of October 2023), following a steep decline of over 60% during 2021-2022, attributed largely to rising interest rates.

Investor enthusiasm is on the rise, evidenced by several successful IPOs this year, signaling a buoyant sector (notably CG Oncology and Kyvernain the ca ncerdomain), alongside rewarding positive clinical outcomes (Viking Therapeutics in obesity and Zealand Pharma in fatty liver disease, both part of our investment portfolio), and a flurry of deal-making activity marking this period as the most dynamic for M&A in recent times (including one of our own - Axonics).

Coupled with an anticipated shift towards a more accommodating monetary policy, including several interest rate cuts by the Federal Reserve this year to bolster long-duration assets like ours, we're crafting a formula for unparalleled success!

Viking Therapeutics returned 219% this month, buoyed by strong clinical data in the battle against obesity.

Viking Therapeutics is riding high on very positive Phase 2 results for VK2735, its oral GLP1-GIP receptor agonist, setting a new benchmark over current market offerings from Novo-Nordisk and Lilly, which are injectables. Viking show cased an impressive 15% weight loss at 13 weeks for its high dose, without reaching a plateau, outperforming Novo and Lilly's 7-10% at the same timepoint.

Although tolerability (29% experiencing vomiting at this dose) needs enhancement, Phase 3 titration should provide improvements, positioning Viking's candidate as a potential best-in-class in the USD 150 billion obesity market. Zealand Pharma (+40%) followed as our second-highest contributor, after releasing promising Phase 2 results for survodutide, with 83% of patients showing significant improvements in MASH (fatty liver) at 48 weeks, including significant enhancements in liver fibrosis, a development described by the management as a "blue sky scenario."

Natera (+31%, cancer screening) emerged as our third-highest contributor, surpassing Q4 expectations, projecting higher-than-anticipated FY24 revenue, and securing Medicare coverage expansion for ovarian and breast cancer testing, broadening its market scope by approximately 10%. Krystal Biotech (+43%) also impressed, exceeding Q4 revenue expectations and achieving an unexpected profit, capitalizing on the successful launch of Vyjuvek, the pioneering treatment targeting the genetic root of dystrophic epidermolysis bullosa, a rare dermatological condition.

China equities have had an encouraging pre and post-Chinese New Year rally.

Since the low point on 5 February, onshore and offshore markets are both up by around 10%. Most of the market losses year to date have now been regained. Having been hit hardest in the sell-off, small caps have been particularly strong in recent weeks. The ChiNext Index – sometimes referred to as China's NASDAQ – is up close to 16% since its low point. This year's equity market weakness has resulted in a higher-than-usual level of scrutiny from senior politicians in China. The State Council – equivalent to a government cabinet – held a meeting specifically on capital markets. The National People's Congress, part of the annual "Two Sessions" kicks off this week. Serving as China's most important annual political event, thousands of government officials will travel to Beijing where top policymakers will discuss key economic issues. It is an important test in continuing this momentum and providing greater visibility on China's macro outlook for the year ahead.

The average Chinese equity holdings of global actively managed funds is 1.6% while Chinese equities current weighting in the MSCI World All Country (ACWI) Index is 2.31%. This low exposure is even more surprising as China's market cap as a percentage of World Market cap stands at 12% today. In the real economy, China accounts for 18% of global GDP and currently accounts for an extraordinary 31% of global manufacturing.

In the MSCI World ACWI Index (All Countries), China's weighting is currently 2.31% and there are now four companies, which alone are weighting more than all Chinese stocks: MSFT (4.1%), AAPL (3.7%), NVDA (2.86%) and AMZN (2.32%).

Forex And Commodities

Will FX Stability Last Toward March ?

End of February, the forex market exhibited stability, primarily in the rate space, driven by a high correlation in the global bond market. This correlation reduced opportunities for sharp currency movements. As March unfolded, the USD maintained its strength, propelled by the robustness of the US economy. This resilience is anticipated to persist through the end of Q1 2024, with the market not foreseeing potential shifts in US interest rates likely before June. Assuming all factors remain constant, the dollar index is likely to hover within the 103-105 range throughout March.

Turning to the EUR, the March European Central Bank (ECB) meeting on interest rates is expected to be a non-event, with the decision to leave rates at the 4% level widely anticipated. The Eurozone's growth landscape remains challenging, notably with Germany showing initial signs of a recession. Consequently, without clear new catalysts, challenges to EUR upside are likely to persist in the upcoming weeks. An analysis of the EUR/USD pair reveals a struggle to breach the psychological resistance at 1.10, now hovering slightly above its 200-day Simple Moving Average (SMA) at 1.08. Technically speaking, the EUR finds itself in uncertain territory, squarely in the middle of its key range *versus the USD*. Therefore, except unanticipated catalysts, it is likely that the EUR/USD will maintain the 1.06-1.10 window over March.

The CHF may be approaching a turning point, as observed in the EUR/CHF pair, which recently broke a key resistance line in place since January 2023. This upward break and consolidation above signal a potential shift to a weaker Swiss franc regime. Additional indicators of CHF strength reversal include the Swiss National Bank's potential cessation of intervention in its foreign currency reserve. This could lead to a depreciation of the Swiss Franc in the mid-term. At the time of writing, it remains uncertain if the Swiss National Bank is already intervening to prevent further strengthening of the CHF. Additionally, with inflation seemingly under control in Switzerland, there will be no need for hawkish interest rates, and the current rate levels will not favor carrying Swiss Franc versus its G10 peers. This offers more pressure to the downside. For the USD/CHF pair, it has recently broken above the 200-day SMA resistance, and if it consolidates above, the USD/CHF could have room to increase in the 0.90-0.94 range.

The recent surge in gold prices to a new record high above USD 2,100/oz has significantly increased investor interest in the precious metal. However, the rationale behind this surge remains somewhat mysterious. Gold, being a non-yield bearing asset, typically appreciates when interest rates decrease. As the likelihood of the Federal Reserve cutting rates before Q1 diminishes, other factors may be influencing the recent momentum in gold. Technical analysis signals could be driving investors to overbuy the precious metal, and geopolitical uncertainty and increased focus on the US election may be adding attractiveness to this safe haven. Nonetheless, the magnitude of the move suggests it could be short-lived, and a retracement to a more equilibrium level around USD 2,050/oz could be anticipated over March.

EUR/USD Still Testing the Key Level At 1.10

Source : Bloomberg

EUR/CHF : Turning Point For A Weaker CHF?

Source : Bloomberg

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