



BANQUE  
ERIC STURDZA

QUARTERLY OUTLOOK  
4<sup>TH</sup> QUARTER 2024

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*\*The Clash*

# 1. EDITORIAL

## 50 BASIS POINTS AND AN ANNIVERSARY

**Half a percentage point: after a long wait, the US Federal Reserve's decision is finally out: US short term rates have been cut to a range of 4.75 to 5%. To say that the news had been expected would be an understatement. Jerome Powell's speech was then heavily scrutinized and market participants were happy to learn that "the upside risks to inflation have diminished and the downside risks to employment have increased". They looked at past market sequences and quickly remembered that when the FED cuts rates by 50 basis points or more -provided there is no recession- markets rise on average by 16% in the 6 following months. It's a big if, but let's enjoy the moment.**

Financial commentators are quick to criticize central banks, often qualifying them as "late": late to understand that inflation is structural, then too late

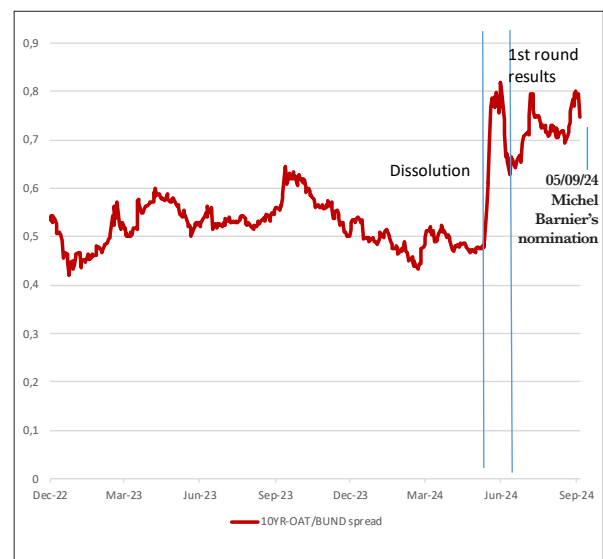
to realise that inflation has come under control. But when it comes to the FOMC and other major meetings, they drink up the central bank's words greedily, fully aware of their power. As the actor and humourist Will Rogers said ironically almost a century ago: "There have been 3 great inventions since the beginning of time: fire, the wheel and central banking." So, thanks to Jerome Powell, September should prove a good month for financial assets.

September also marks an anniversary: two years ago Liz Truss succeeded Boris Johnson as UK Prime Minister. Although she remained in office for just 49 days, her name is now infamous both at home in the UK and internationally. Unfortunately for her, it is often associated with the expression of "a moment". A "Liz Truss moment" refers to a sudden market downturn caused by a mistake in economic policy. In September 2022, the announcement of unfunded tax cuts, coupled with a number

G1: 10YR UK GILT / US TREASURIES SPREAD



G2: 10YR OAT/BUND SPREAD



Source: Bloomberg, Banque Eric Sturdza

of other measures, led to a very rapid fall in Sterling and a sudden rise in British government bond yields. With the resignation of the aforementioned minister and a return to more fiscal orthodoxy, things were soon back to normal. But the violence of the episode left investors speechless and with some painful memories, as well as that expression which Liz Truss could have done without.

In France, this moment has a special resonance. After the Olympic truce, political life has resumed, and the French (finally) have a prime minister and a government.... Which will soon have to pass the 2025 budget. Michel Barnier's political profile is a far cry from Liz Truss's, and the new French Prime Minister is likely to be more inclined towards a fairly orthodox budget. Nevertheless, the gap between French and German 10-year yields – a sort of fear thermometer already referred to at the time of the snap election - indicates that markets remain quite concerned. A “Barnier-moment” would obviously be a poor outcome to this post-government reshuffle saga. This is not the scenario we foresee, but the graph below clearly indicates that markets are not ruling it out altogether.

**This “Liz Truss moment” could also applied to the USA. The elections are fast approaching, with two candidates with orthogonal social plans and very different economic agendas. What they do have in common however is that neither Kamala Harris nor Donald Trump seems very concerned about the current level of American debt. Neither program is likely to curb continued rising debt. And yet, at 6.7% of GDP, the budget deficit is already in the red zone. Central bankers have often “saved the day” for the markets, but there are limits to what they can do, and politicians should not seek those limits out. On both sides of the Atlantic, we must be wary of repeating the British episode of September 2022...**

## 2. FIXED INCOME

### THE FED DID WHAT MARKETS EXPECTED IT TO DO

#### Recession fears recede

While the ECB without flinching continued its monetary policy easing program, the Fed hit back hard. This “jumbo rate cut”, which will undoubtedly be followed by others according to the famous “dot plots”, is a game-changer: we’ve gone from fearing a recession caused by a fatal monetary policy error to relief as the Fed tells us it has understood the message and will do everything in its power to avoid this worst-case scenario. No one is talking about inflation anymore, and it’s a mistake. China’s central bank is deploying a whole arsenal of monetary decisions to avoid the “Japanization” of its economy (i.e., one or more decades of deflation and zero to negative growth). The Chinese need to revive the economy fast and hard, and helicopter money will no doubt be used if needed. Consequently, if China succeeds in avoiding the worst and returns to growth, the prices of most commodities will inevitably soar while the Fed and ECB continue their monetary easing programs. Quite the cocktail for 2025!

***No one is talking about inflation anymore and it’s a mistake. If China returns to growth, the prices of most commodities will inevitably soar while the Fed and the ECB continue their monetary easing programs.***

#### Beware of the bearish steepening

With regards to fixed-income markets, we are focusing on two major issues. The first one address the extreme tightness of credit spreads, as the corporate bond market, like its close “cousin” the equity asset class, has for several months favoured a soft landing scenario. But as government bonds’ yield curves are adjusting to reflect a similar scenario, credit spreads may well stabilize at their tight current level. We may therefore be tempted not to sell corporate bond and hold on to them to benefit from the carry. The second issue concerns the slope of the yield curve. Until now, we’ve been confident on the downward trend of long rates, since our preferred scenario was a bullish steepening. We are now increasingly wary of a bearish steepening scenario. Short term rates could indeed continue to go down in line with the Fed’s revised expectations of rate cuts, while long term rates could rise slightly as the worst-case scenario (recession and hard landing) is apparently avoided thanks to the Fed’s doves. The sharp drop in long term rates at the beginning of September seemed sufficiently attractive to us and justified significantly reducing our portfolios duration. At the same time, short-duration TIPS (inflation-indexed treasuries) remain very attractive. Bond markets will therefore remain volatile and uncertain over the fourth quarter. One thing is clear: after the Fed’s “jumbo” rate cut, fleeting pleasures (i.e. remaining invested in money markets at 5% yield) have certainly become a thing of the past.

# 3. EQUITIES

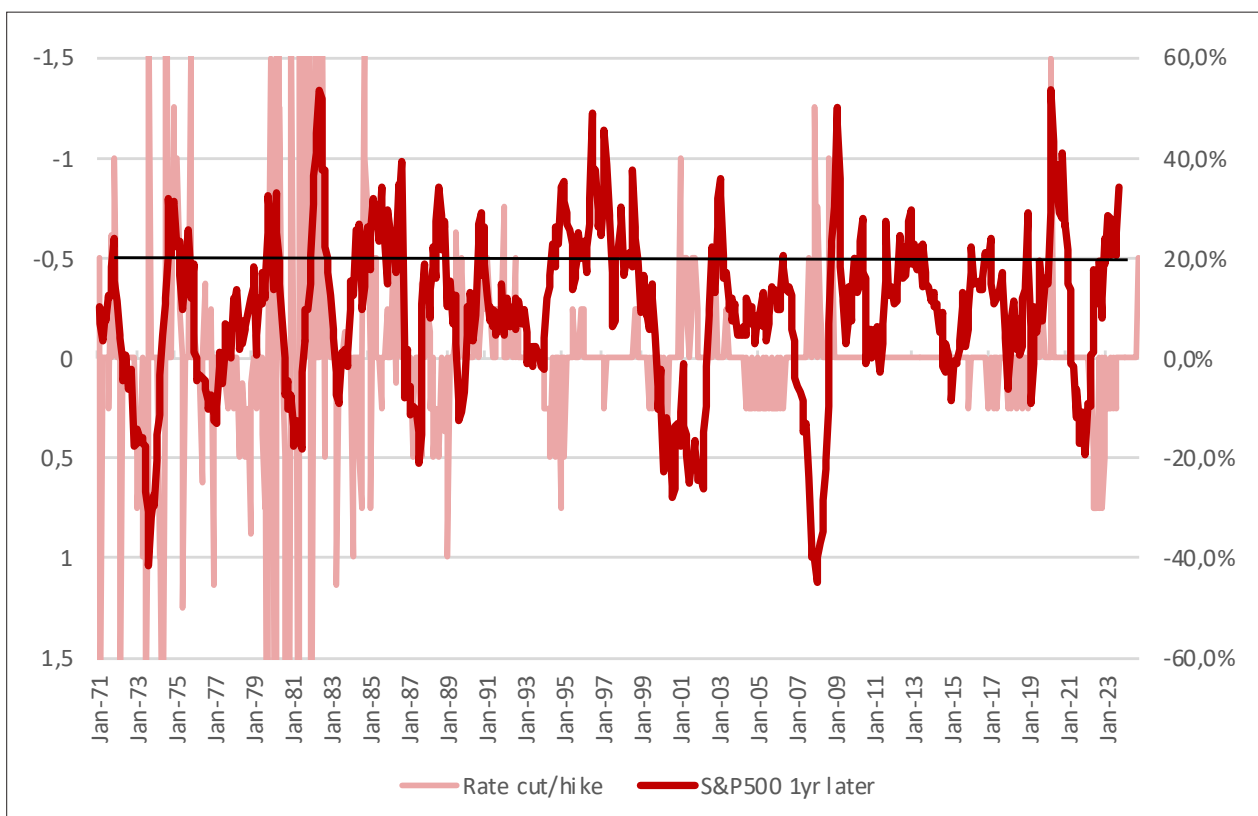
## SHOULD I STAY OR SHOULD I GO\*...

**The rate cut cycle launched by the major central banks in recent months, most recently by the Federal Reserve, has quite logically led investors to address their impact on equity markets, and whether it makes sense to stay invested after an already significant rise this year.**

Judging by the upward sequences on the S&P500 following the Fed's historic 50bp cut at the last FOMC meeting, the markets have clearly shown their preference! These positive reactions contrast with the prevailing gloom at the beginning of the month,

when investors were scrutinizing US employment figures for possible recessionary signals. The main point is summed up here... A rate cut, especially one of this magnitude, is conducive to stimulating economic activity, and remains a major support factor for financial markets provided it does not indicate an imminent recession. With 7 to 8 rate cuts expected by the end of 2025, market participants have been prompt to price a rapid normalization of short term rates and to lend credence to the "soft landing" thesis. Whether the risk of recession justifies further cuts, it's not certain that the equity markets' perception of those cuts will remain as favourable...

G3 : FED FUND RATE FALL/RISE (INVERTED LEFT SCALE) VS. 12M FORWARD S&P500 PERFORMANCE



Source: Bloomberg, Banque Eric Sturdza, Janv. 1971 - Sept 24

The rate cut cycle effect is also being felt in term of sector leadership: while for several quarters the market progression had largely been driven by the “Magnificent 7” and a handful of stocks linked to the artificial intelligence theme, the recent sequence shows the start of an increased market breadth. Consumer-related stocks, which had been in the doldrums as a result of a combination of rising price pressures and higher interest rates, have been offered some respite. As the artificial intelligence theme starts deflating and market breadth improves, this move could potentially mark the start of a new market leadership, one that has yet to be confirmed.

By the end of the month, it was China that had come back to centre stage. Within a few days, the Chinese authorities, who had hitherto been considered too timid in their response to the ongoing crisis and whose growth target seemed increasingly unachievable, finally decided to address the issue head-on. Firstly through monetary policy by cutting the REPO rate and the reserve requirement rate, and then by encouraging a cut in mortgage rates. They also set up new funding programs meant for institutional investors facing some liquidity needs and for corporates to finance their buyback programs. The goal here is to help boost confidence among Chinese households. While the real estate sector has been on the radar for several months, it is interesting to note that the Chinese authorities’ focus is increasingly turning to the Chinese stock market. As an illustration, the Chinese authorities decided to set up a CNY 500 bln swap facility coupled with an additional CNY 300 bln loan facility to provide liquidity for brokers, asset managers and funds to buy back securities and fund equity purchases. In addition to these measures, markets are buzzing with rumours of major fiscal stimulus plans as China entered its traditional “Golden Week” vacation period.

That was all it took to ignite the Chinese equity markets, which soared by almost 15% in just a few days. Such a reaction might seem exaggerated, but it should be put into context: Chinese equities were deeply undervalued and under-held by investors.

This rebound was so impressive that the Chinese market YTD performance overtook the Japanese market one, which was at the same time facing the ripple effects of the JPY strengthening and the unwinding of carry trade positions. As often said, European stock markets tend to be leveraged on global growth and as such some segments such as European luxury companies, for which the Chinese consumer remains of prime importance, are benefiting from that growth. However, the same cannot be said of all market segments: the European automotive car manufacturers, which until just a few years ago were market leaders in China, and are now facing stiff competition from Chinese domestic car manufacturers, and not only in China but in Europe as well.

**Against this backdrop, we are maintaining our diversified strategy, and are happy to see that some of the themes we have long been betting on are finally making good progress. While the Chinese recovery is still in its early stages and has yet to be confirmed, it nonetheless represents a major event and could have positive ripple effects in other markets. We are maintaining our cautious stance on the US, as the rate-cut adjustments have been very (perhaps too) rapid, and the US elections could be a source of volatility and potential entry points.**

*\*The Clash*

# 5. PERFORMANCES

EQUITIES	30.09.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
MSCI WORLD	MSCI WORLD	3 723	1,7%	8,1%	11,6%	17,5%	24,4%	-17,7%	22,4%	16,5%	28,4%
	MSCI WORLD GROWTH	5 561	1,9%	8,3%	11,5%	20,6%	37,3%	-29,0%	21,4%	34,2%	34,2%
	MSCI WORLD VALUE	3 853	1,5%	7,9%	11,6%	14,3%	12,4%	-5,8%	22,8%	-0,3%	22,8%
WORLD & US	DOW JONES	42 330	1,8%	9,4%	8,5%	12,3%	16,2%	-6,9%	20,9%	9,7%	25,3%
	S&P 500	5 762	2,0%	9,2%	13,1%	20,8%	26,3%	-18,1%	28,7%	18,4%	31,5%
	S&P500 EW	7 269	2,2%	8,4%	10,2%	13,5%	13,8%	-11,5%	29,6%	12,8%	29,2%
	NASDAQ 100	20 061	2,5%	8,2%	11,2%	19,2%	55,1%	-32,4%	27,5%	48,9%	39,5%
	RUSSELL 2000	2 230	0,6%	7,7%	8,5%	10,0%	16,9%	-20,5%	14,8%	19,9%	25,5%
	STOXX 600	523	-0,4%	0,9%	5,7%	9,2%	16,6%	-9,9%	25,8%	-1,4%	27,9%
EUROPE	FTSE 100	8 237	-1,7%	-0,5%	8,0%	6,5%	7,7%	4,6%	18,4%	-11,4%	17,2%
	CAC 40	7 636	0,1%	-4,5%	-3,7%	1,2%	20,1%	-6,7%	31,9%	-5,0%	30,5%
	DAX	19 325	2,2%	4,5%	9,3%	15,4%	20,3%	-12,3%	15,8%	3,5%	25,5%
	IBEX 35	11 877	4,2%	4,9%	18,8%	17,6%	28,1%	-2,0%	10,5%	-12,7%	16,5%
	SWISS MARKET	12 169	-2,2%	1,4%	6,4%	9,3%	7,1%	-14,3%	23,7%	4,3%	30,2%
	SPI SWISS	16 242	-1,6%	1,6%	9,3%	11,5%	6,1%	-16,5%	23,4%	3,8%	30,6%
ASIA	MSCI EM	1 171	6,4%	11,6%	14,7%	14,4%	10,2%	-19,8%	-2,3%	18,8%	18,8%
	TOPIX	2 646	-2,5%	-4,6%	-1,1%	11,8%	28,3%	-2,5%	12,8%	7,4%	18,1%
	HANG SENG	21 134	17,5%	16,9%	28,0%	24,0%	-10,5%	-12,6%	-11,8%	-0,2%	13,0%
	CSI 300	4 018	21,0%	12,2%	14,3%	17,1%	-9,1%	-19,8%	-3,5%	29,9%	39,2%
FX & COMMODITIES	30.09.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
CURRENCIES	EUR-USD	1,114	0,8%	2,6%	3,1%	0,9%	3,1%	-5,9%	-6,9%	8,9%	-2,2%
	EUR-CHF	0,942	0,3%	-3,8%	-1,5%	1,4%	-6,1%	-4,6%	-4,0%	-0,4%	-3,6%
	USD-CHF	0,846	-0,5%	-6,3%	-4,4%	0,5%	-9,0%	1,3%	3,1%	-8,4%	-1,6%
	USD-JPY	143,630	-1,7%	-8,7%	-4,2%	1,8%	10,5%	13,9%	11,5%	-4,9%	-1,0%
	USD INDEX	100,78	-0,9%	-3,7%	-3,2%	-0,5%	-2,1%	8,2%	7,0%	-7,3%	1,2%
COMMODITIES	Gold	2634,58	5,2%	13,2%	28,9%	27,7%	13,1%	-0,3%	-4,2%	25,0%	18,3%
	Silver	31,16	8,0%	2,5%	37,4%	30,9%	-0,7%	2,8%	-13,6%	48,7%	12,7%
	WTI Crude Oil	68,17	-7,3%	-11,5%	-12,9%	-4,9%	-10,7%	6,7%	59,1%	-21,5%	11,6%
	Natural Gas	2,92	37,4%	13,0%	57,2%	16,3%	-43,8%	20,0%	46,9%	16,0%	-25,5%
	Copper	9692,01	6,3%	-2,2%	15,4%	14,5%	0,9%	-14,1%	25,7%	26,0%	3,4%
FIXED INCOME	30.09.24	CURRENT	1 M	3M	6M	YTD	2023	2022	2021	2020	2019
RATES	US 10 year gvt	3,77	(0,14)	(0,73)	(0,48)	(0,11)	0 bps	237 bps	60 bps	-100 bps	-77 bps
	German 10 year gvt	2,12	(0,18)	(0,54)	(0,29)	0,10	-54bps	275 bps	39 bps	-38 bps	-43 bps
BONDS	Global Aggregate USD hdg.	586,4	1,3%	5,3%	5,4%	4,5%	7,1%	-11,2%	-1,4%	5,6%	8,2%
	US Treasuries	2370,0	1,4%	6,0%	5,8%	4,1%	4,1%	-12,5%	-2,3%	8,0%	6,9%
	US TIPS	358,8	1,6%	5,0%	5,9%	4,9%	3,9%	-11,9%	6,0%	11,0%	8,4%
	US IG Corporates	3398,4	2,0%	6,7%	7,3%	5,5%	8,5%	-15,8%	-1,0%	9,9%	14,5%
	US High Yield	2677,9	1,6%	6,3%	7,7%	8,0%	13,4%	-11,2%	5,3%	7,1%	14,3%
	Euro Government	243,1	1,2%	4,1%	3,6%	2,0%	7,1%	-18,2%	-3,4%	4,7%	6,3%
	Euro IG Corporates	255,5	1,1%	3,9%	4,5%	3,7%	8,2%	-13,6%	-1,0%	2,8%	6,2%
	Euro High Yield	469,4	1,0%	4,1%	5,5%	7,0%	12,8%	-11,1%	4,2%	1,8%	12,3%
EM USD Aggregate	1266,4	1,7%	6,5%	8,3%	8,1%	9,1%	-15,3%	-1,7%	6,5%	13,1%	

Source: Bloomberg, 30/09/24

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