INDOSUEZ
WEALTH MANAGEMENT

Marketing Material

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The presidential election, a major issue in 2024?

Architects of Wealth

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01 • Editorial

AND IF AI WERE THE SOLUTION TO THE WORLD'S CHALLENGES?

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

Some major events happened in 2023. First, while we had been hoping for a lull or an end to the conflict in Ukraine, the war has dragged on and become normalised. With more than 650 days of combat behind him, Vladimir Putin has emerged stronger after quelling the Wagner group rebellion. We could also cite the new conflict between Israel and Hamas, as well as one of the deadliest earthquakes in 100 years in Turkey and Syria, which claimed more than 50'000 lives.

Climate change is accelerating, with Brazil experiencing extreme temperatures of nearly 60 degrees in November. At the same time, flooding is increasing around the world and the unprecedented El Niño-related water level rises in Ethiopia, Kenya and Somalia have caused hundreds of deaths and left a million people displaced, according to a preliminary assessment for these three countries.

Lastly, we note the historic forest fires, with more than 18 million hectares burnt in Canada, comparable to the area of Austria, Switzerland, Belgium and the Netherlands combined.

The months from June to October were the hottest on record globally[1], and 2023 will likely break the 2016 record for being the hottest year ever. Evidence shows that the global average temperature exceeded the preindustrial seasonal average by more than two degrees for the first time in November. So, should we really have expected any miracles from a COP28 held in the land of oil? In the end, the Dubai conference did not bring about any major changes because, at this stage, there is no plan for a coordinated exit from fossil fuels.

In this rather depressing environment, we can understand how certain populists who propagate reassuring and positive messages that cast doubt on these realities might reach the highest levels of power. This is true, most recently, for Javier Milei in Argentina and potentially for Donald Trump, who is running to win back the White House at the end of the year.

There are, however, some reasons for optimism:

- The temperature acceleration curve is bending. We have moved from a trajectory of an increase of 4.3 degrees[2] to 2.9 degrees[3] by 2100 relative to the preindustrial era.
- The year 2023 will mark a turning point for artificial intelligence (AI); while it does raise ethical questions, the ChatGPT revolution is disruptive and totally innovative, and will likely be a source of future productivity.
- Lastly, year-on-year inflation is normalising and stood at 3.1% for the United States and 2.4% for the Euro Area in November. The equity markets, with the exception of emerging markets, are ending the year with a bang. The S&P 500 has recovered the entire loss it suffered in 2022, which was its worst year in 10 years. This was especially true for tech stocks and in particular for the "Magnificent 7"[4] which, after losing half their value in 2022, saw their share prices double in 2023.

The year 2024 looks to be full of challenges as well as promise. We see challenges ahead for the central banks, which will have to coordinate to steer their rate cuts through a maze of complexity to ensure global debt, which stands at 238% of GDP[5] and is still above its pre-COVID levels, remains sustainable. There will also be political and geopolitical challenges, including between China and the United States, particularly if Trump is re-elected. Lastly, we have the challenge of climate policy, where Europe has long felt it is going it alone.

But 2024 also holds the promise of new technologies and the acceleration of artificial intelligence (AI) in all areas of society to benefit people and the planet, and this should provide some great investment opportunities.

Happy reading and best wishes for 2024. As always, we will be available throughout the year to assist you with your investments.

1 - Source: Copernicus.
2 - Source: Intergovernmental Panel on Climate Change (IPCC), 2015.
3 - Source : United Nations (UN), November 2023.
4 - The "Magnificent 7": Apple, Alphabet, Microsoft, Amazon, Meta, Tesla and Nvidia.
5 - Global debt: International Monetary Fund (IMF) data on private and public debt at end-2022.

02 • Focus

THE PRESIDENTIAL ELECTION, A MAJOR ISSUE IN 2024?

Nicolas MOUGEOT
Head of Investment Strategy
& Sustainability

The United States will hold a presidential election in 2024. Will the colour of the winner, whether red for the Republican or blue for the Democrat, have an impact on equity market returns this year and over the course of the future administration's term?

FROM GEOPOLITICS TO POLITICS

The last two years have been dominated by a series of major geopolitical events, including China/US tensions, the invasion of Ukraine and the attack on Israel. The year 2024 could signal a break with the past as domestic politics rather than geopolitics could dominate the discourse. Citizens of no less than 40 countries will be voting in 2024 to elect their government representatives. Of all these elections, that of the president of the United States is expected to be the most tumultuous, from the nomination of the Democratic and Republican candidates, to the general election in early November and the inauguration a year from now. Regardless of the outcome, should we be concerned that the uncertainty created by the US election will weigh on the markets in the coming months?

Presidential ELECTIONS do not weigh on EQUITIES

Table 1 shows the return of the S&P 500 Index in the 19 years since 1946 when there has been a US presidential election. At first glance, investors might have reason to be wary of the next 12 months, as the S&P 500 has historically underperformed by more than 2% in election years since the end of World War II (6.84% versus 9.16%). However, if we exclude 2008, which was not only a presidential election year but also the year of the financial crisis, there is no significant difference between election and non-election years (9.36% versus 9.16%). So, history tells us that in the absence of a crisis exogenous to the election process, the performance of US equities does not depend on presidential election cycles.

THE POLITICAL CYCLE, A MAJOR FACTOR

Does this mean the political cycle doesn't matter? Looking at the performance of US equities since 1946 by dividing the sample into Democratic and Republican presidencies paints a different picture: while the average return of the S&P 500 is 10.17% under Democratic presidencies, it is "only" 7.12% when Republicans are in power. Even excluding 2008, when George W. Bush was president, the difference is still almost 2%.

TABLE 1: RETURN OF THE S&P 500 INDEX SINCE 1946

1946-2023			
Election year	6.84%	Democrats	10.17%
Non-election year	9.16%	Republicans	7.12%
1946-2023, EXCLUDING 2008			
Election year	9.36%	Democrats	10.17%
Non-election year	9.16%	Republicans	8.29%

Note: "Democrats" and "Republicans" indicate the return of the S&P 500 based on the party of the president in office.
Source: Bloomberg, Indosuez Wealth Management.

Pastor and Veronesi, two professors at the University of Chicago, have an explanation for this "presidential puzzle"[6]: when risk aversion is high, as it is during economic crises, voters are more likely to elect a Democratic president because they need a larger social safety net. When risk aversion is low, voters are more inclined to vote for a Republican because they want to take more risks. Roosevelt was elected after the 1929 crisis, Carter after the first oil shock, Clinton after the recession at the beginning of the 1990s, Obama after the 2008 financial crisis and Biden after the COVID-19 crisis –all Democratic presidents.

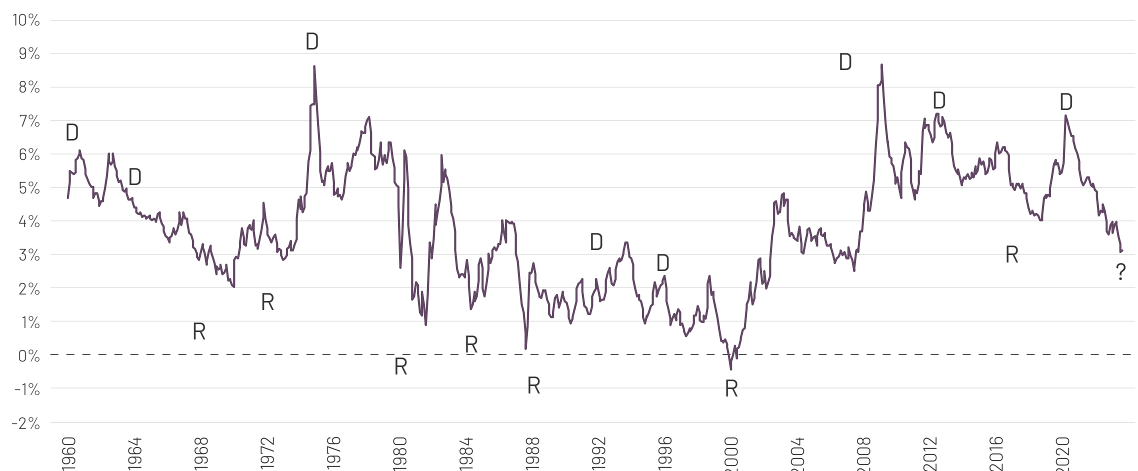
High risk aversion implies a high equity risk premium or, in other words, equities with lower valuations at time T, and thus a potentially higher performance by equities. This is why equities outperform during Democratic presidencies, regardless of the economic measures taken. If history repeats itself and Pastor and Veronesi's theory is borne out, the absence of a major economic crisis and the low volatility in the equity markets would tend to favour a Republican candidate in the next election and would entail slightly lower-than-average returns during the next term.

3 %: THE OUTPERFORMANCE by equities when the president is a Democrat

ARE GREEN INVESTMENTS AT RISK?

Another factor that cannot be ignored is the impact the choice of the next president will have on economic and fiscal policies in the coming years. On the one hand, certain assistance programmes passed under the Biden administration, such as the CHIPS Act[7], which aims to support the semiconductor sector, had bipartisan support and are unlikely to come under threat. On the other hand, a Republican president could well put an end to certain types of green financing. In April 2023, former Republican House Speaker Kevin McCarthy had proposed the "Limit, Save, Grow Act" to limit certain expenditures, foreshadowing potential cuts by a Republican administration. Among others, it called for significant reductions in the tax incentives provided for in the Inflation Reduction Act, as well as in green tax credits. A shift to a Republican administration would not necessarily mean fiscal austerity, particularly with a Democratic Senate, but it is highly likely that the tax incentives for renewable energies would be substantially reduced. An election year always brings its share of surprises and 2024 will be no different. The financial markets, like Neo in The Matrix, could therefore see a different fate depending on whether US voters choose the red pill or the blue pill.

CHART 1: EQUITY RISK PREMIUM AND US ELECTIONS, %



Note: the equity risk premium is estimated by taking the inverse of the Shiller price/earnings ratio +6% earnings growth – the US 10-year rate. Rs and Ds indicate the years when a Republican (R) or Democratic (D) president was elected.

Source: Shiller data, Indosuez Wealth Management.

6 - See Lubos Pastor and Pietro Veronesi, 2020, "Political Cycles and Stock Returns", Journal of Political Economy.
7 - The CHIPS Act is a US federal law that provides for funds and incentives to increase domestic production of semiconductors and expand research in this field.

EURO AREA: THE LIGHT AT THE END OF THE TUNNEL?

Lucas MERIC
Investment Strategist

Despite the sluggish *momentum* in the Euro Area economy right now, recent macroeconomic data showed encouraging signs of movement towards our scenario of an economic recovery in 2024. The significant progress made in the last few months on the price increase side supports this view, even though we believe it is still too soon to declare victory over inflation.

The markets expect
1.5%
INFLATION AT END-2024
in the Euro Area

INFLATION: GAME, SET AND MATCH?

At the time of this report, the markets expect Euro Area inflation of just above 1.5% for end-December 2024, while expectations were still at 2.5% at the end of October. This disinflation euphoria has come about after three months of positive surprises on European inflation[8], which stands at 2.4% year-on-year for total inflation and 3.6% for underlying inflation. Although this trend is in line with our expectation of continued disinflation in the Euro Area, we believe market expectations are highly optimistic, as we anticipate annual average inflation will fall from 5.5% in 2023 to 2.7% in 2024.

Initially, we expect total inflation will re-accelerate to around 3% due to base effects related to the natural gas subsidies put in place in Germany in December 2022. However, this bounce will be temporary and should be followed by a deceleration in inflation, which should hover between 2.5% and 3% during 2024, above the 2% inflation target set by the European Central Bank (ECB).

A combination of factors should act as a floor for European inflation: the phase-out of a number of state aid programmes introduced in response to the 2022 energy crisis (price cap in Germany, tariff shield in France, VAT reductions in Italy and Spain); food inflation, which is expected to remain sustained (3% to 4%) due to high producer prices and climate events (such as the El Niño phenomenon, which is expected to return this winter); and, lastly, a historically tight labour market (with an unemployment rate of 6.5%), which should continue to fuel wage pressure: the European Central Bank (ECB) expects a 4.6% increase in compensation per employee in 2024 (versus the pre-pandemic average of about 2%).

In the longer term, the energy transition (greenflation[9]) and deglobalisation themes should also play a role in structurally higher inflation, as discussed in our Global Outlook 2024: Searching for a new inflation regime.

SLUGGISH MOMENTUM BUT ENCOURAGING PERSPECTIVES

Against this backdrop of positive surprises on the inflation front, *momentum* in the European economy remains underwhelming, as illustrated by the 0.1% contraction in GDP in the third quarter of 2023. If we look beyond the negative growth figure, however, the details look more encouraging given the positive contribution from domestic demand, as the drag on GDP has come mainly from changes in inventories. In particular, household consumption made a significant contribution to GDP growth in the third quarter of 2023 for the first time this year. This is a positive development, as our scenario is based on a rebound in consumption driven by an improvement in households' real income in the context of a wage catch-up and continued disinflation.

8 - The percentages provided are year-on-year.
9 - Greenflation refers to a rise in the price of commodities and energy caused by the green transition.

Even though the disinflation trend has been very positive recently, it should be noted that inflation levels in a country like Germany, for example, were still above 6% this summer. Likewise, Euro Area food prices, a component of households' day-to-day life, increased by 7% year-on-year in November, a pace that is expected to decelerate to 3% to 4% in 2024 but which remains quite high for now.

The improvement in purchasing power should be a major growth engine as European households, unlike their US counterparts, are still benefiting from high levels of savings, a symbol of much more cautious consumer behaviour in recent years. The rebound in consumption should also be accompanied by an easing of monetary tightening pressure, while the manufacturing sector appears to have hit a low based on the latest surveys published. This sector should pick up next year, on the back of a less adverse impact from energy prices and the recovery in the global manufacturing cycle.

However, on the fiscal policy side, we expect fiscal stimulus to weigh more heavily on growth in 2024 in the context of continued fiscal consolidation and the phase-out of energy-related tax measures. Public debt should also be a major issue with the potential for latent risk to linger, as the viability of Italy's debt is raising concerns amid high interest rates and lower nominal growth.

GROWTH BELOW ITS POTENTIAL

Thus, despite our expectation of improved growth *momentum*, our scenario for the Euro Area ultimately remains one of gradual and modest growth of 0.6% in 2024. We have decided to slightly lower our growth expectations (-10 basis points) due to the poor *momentum* in the European economy at the moment. We have also taken into consideration the recent ruling by the Court of Justice in Karlsruhe that the German government had failed to comply with the constitutional "debt brake" rule. This is expected to prompt budget cuts in 2024 and thus weigh (modestly) on Euro Area growth.

TABLE 2: MACROECONOMIC FORECAST 2023 - 2024, %

● Revised down since last month ● Revised up

	GDP		INFLATION	
	2023	2024	2023	2024
United States	2.4%	1.3%	4.1%	2.6%
Euro Area	0.5%	0.6%	5.5%	2.7%
China	5.2%	4.5%	0.5%	1.3%
Japan	1.9%	1.1%	3.2%	2.0%
India	6.5%	6.0%	6.2%	5.9%
Brazil	2.6%	1.3%	4.8%	4.0%
World	3.0%	2.7%	-	-

Source: Indosuez Wealth Management.

04 • Fixed Income

ANOTHER YEAR UNDER THE AUSPICES OF THE CENTRAL BANKS

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

At the end of 2023, the bond markets optimistically welcomed the shift in monetary policy expectations. Carry will be less generous in early 2024 than in October 2023, while still comparing favourably with other assets. Financial conditions are easing quickly.

EUROPE:
growth is expected
TO IMPROVE
IN 2024

CENTRAL BANKS

The end of 2023 has highlighted the mismatch between the central banks' messages and the markets' expectations. Many market players, from strategists to managers, view the rate cut expectations for 2024 as excessive. So, who sets the prices?

Inflation is coming down in the short-term (see "Euro Area: the light at the end of the tunnel?" on page 6) and growth, which is currently sluggish, is expected to improve in Europe in 2024. In this context, why cut rates aggressively?

The US Federal Reserve (Fed) had accustomed us, in the recent past, to rates staying low. If we go back a few decades, we see periods where rates were maintained in a relatively tight band (Chart 2).

In Europe, in the first publication in which the European Central Bank (ECB) reveals its economic expectations for 2026, core inflation remains above its target of 2%.

Reinvestments under the asset purchase programmes put in place during the pandemic will stop at the end of 2024. The ECB aims to be less accommodative than the Fed.

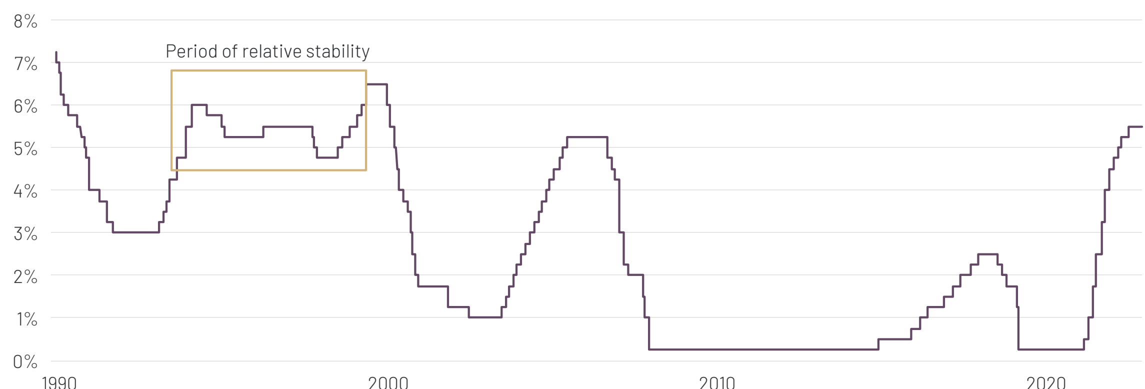
INFLATION AND REAL RATES

In our Global Outlook 2024, we tied the behaviour of long-term rates to the central banks' desire to keep real rates positive. As a reminder, real rates represent rates at maturity minus the inflation expected for that same maturity. The decline in inflation, combined with a soft landing for growth, allows us to anticipate real rates in line with long-term inflation of 2% (Chart 3, page 9).

MARKET ACTIVITY

With yields higher across all bond segments, all diversified portfolios have been adding back this asset class since 2022. In Europe, target maturity funds have grown; in the United States, retail customers directly buy bonds issued by the government or by corporates.

CHART 2: FEDERAL RESERVE KEY RATES, %



Source: Bloomberg, Indosuez Wealth Management.

The return of retail customers has helped absorb financing needs for 2023. The end of every year is an opportunity to look ahead. Just a few weeks ago, high rates were raising concerns about 2024 financing for the most heavily indebted European states (France, Italy) and high-yield companies. The real estate sector in Europe and the United States also left investors wary for two reasons: the financing needs of companies (or their doubtful solvency) and of buyers. Since the end of October, the real estate subsectors in the S&P and Euro Stoxx have surged by nearly 19% and more than 20%, respectively. Why discuss these equity sectors in the section dedicated to bonds? The Merton model illustrates why this is a useful correlation: to put it in the simplest of terms, equities represent a call option on the debt. A rise in equities provides a protective cushion for debtholders. It also sends a positive signal from investors about a company's future activity.

EXPECTATIONS FOR 2024

The acceleration in rate cuts in December 2023 lowers the outlook for 2024. Governments' financing needs (federal deficit of USD 1.8 trillion in the United States in 2024) will open up investment windows over the course of the year. If we look out to the end of the year, long-term rates will likely be below current levels.

When it comes to corporate debt, on the other hand, financing needs are expected to decline next year. Excluding an exogenous shock, risk premiums are expected to be stable at the beginning of the year, but will likely encounter some volatility in the run-up to the US presidential election.

WHAT ARE THE RISKS FOR 2024?

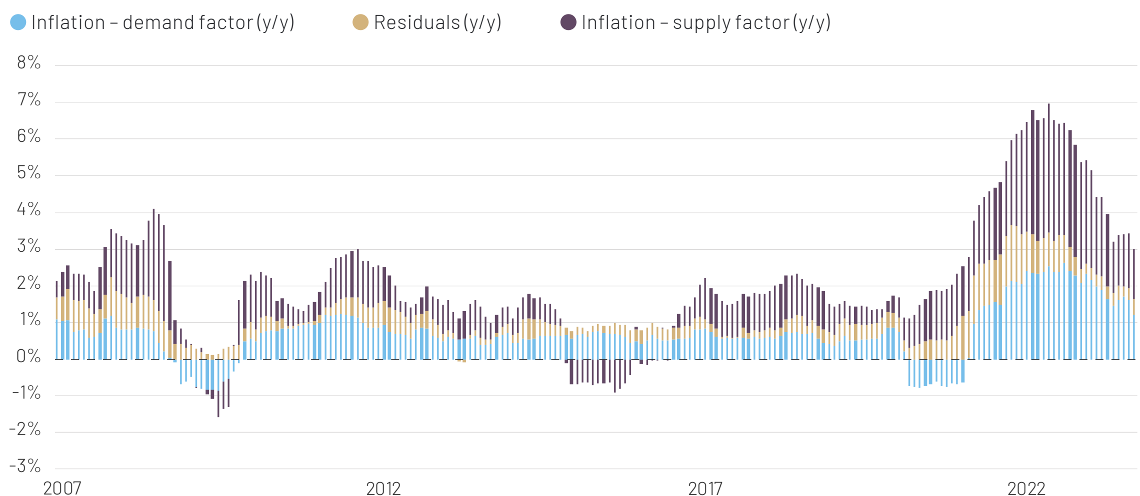
Financial risks for next year have been relatively well identified and are therefore already factored into valuations. Will 2024 be the year when Japan ends its ultra-accommodative monetary policy? Governor Ueda does not seem to be in any hurry to change the country's current financial conditions.

Geopolitical risks, which are by nature hard to anticipate, did not prevent strong performances in 2023. A number of elections will be held in 2024, all of which will be sources of tension and volatility:

- Will the European elections in June send anti-European parties to Parliament?
- The US presidential election we discussed above.
- The elections in the United Kingdom.

Voters will go to the polls starting in January with the presidential election in Taiwan, which will be of particular interest given the constant friction with China.

CHART 3: FINAL DEMAND KEEPS INFLATION HIGH, %



Source: Fed San Francisco, Indosuez Wealth Management.

A SOFT LANDING IN 2024?

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

While the equity markets ended 2023 on an optimistic note with a robust year-end rally, investors are now looking to 2024. Although many questions remain, consensus no longer seems to fear a recession scenario and now expects a rate cut in the second quarter of 2024.

DECLINE IN LONG-TERM RATES: investors are trying to anticipate the central banks' pivot

Long-term rates are sharply down in this context. Since its October high, the US 10-year has fallen by 100 basis points from 5% to 4%, somewhat easing the pressure weighing on risky assets. If 2023 was characterised by the "higher for longer" mantra, 2024 could be the year of "lower and sooner", potentially pointing to a Goldilocks scenario.

EUROPE

The European market has rebounded sharply and is setting year-on-year records. This significant rise has occurred even though yields on sovereign bonds throughout the Euro Area have been trending sharply downwards. While the level of unemployment has remained stable, disinflation continues at a faster-than-anticipated pace and more and more investors now expect the European Central Bank (ECB) to reduce its rates in 2024. In this context, investors have shifted away from the energy sector and moved into industrial and tech stocks, reversing the trend seen over the last two months.

The valuation of European equities remains very attractive and is currently trading at a discount to its historical median.

UNITED STATES

The bullish trend continued for the S&P 500, which hit a one-year high of 4'650 points on 12 December. Unlike the rest of the year, the performance was not driven by the tech giants (the "Magnificent 7"), but rather by stocks that had fallen out of favour, such as real estate, financial and industrial stocks that benefited from the decline in long-term rates. This decline also benefited unprofitable companies with unsound balance sheets. After the recent rally, the S&P 500, at 19 times earnings, is now trading at valuation levels above the historical median.

However, this re-rating is largely explained by the advent of the artificial intelligence (AI) theme which, by boosting growth expectations, justifies this historic premium. Excluding the "Magnificent 7", the price/earnings (P/E) ratio for the S&P 500 is at 16x P/E levels, i.e. in line with historical levels. The year 2024 will also be marked by the US presidential election. Historically, election years have generally translated into solid performances for the equity market, especially in the second half of the year (Chart 4).

ASIA

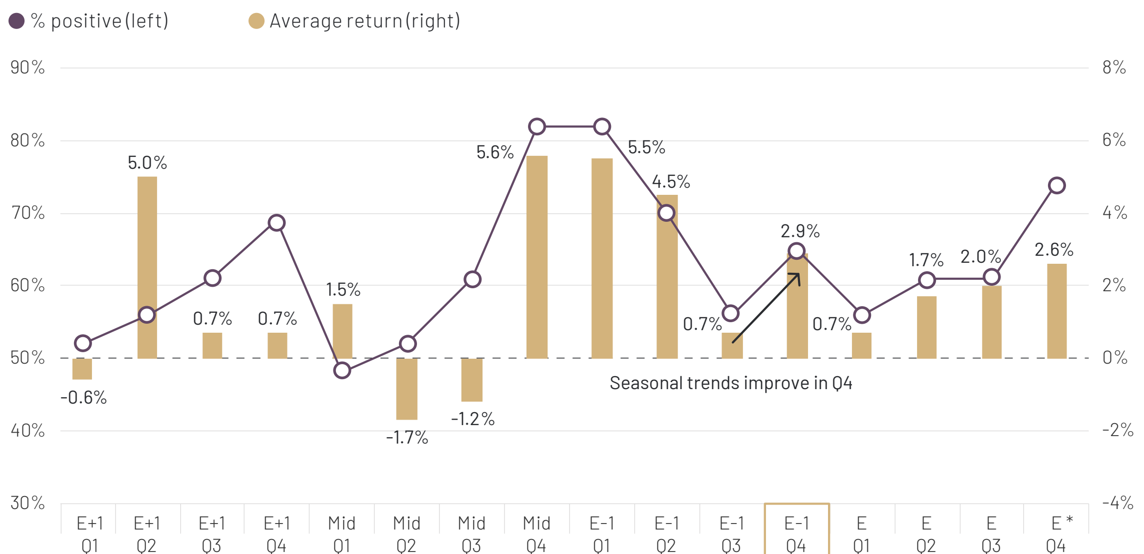
Persistent high volatility on the Asian equity markets in 2023 has kept up the pressure on performances for now. Pessimism and negative sentiment about the Chinese economy remain high. The recent acceleration in stimulus measures is expected to be positive for the Chinese economy and could gradually translate into more optimistic sentiment about the country. In the region, we believe an attractive value proposition exists in the tech subsectors in Taiwan (AI/cloud/datacenter) and South Korea (HBM memory), as well as in the automotive sector in Asia (electric vehicles and the vertical supply chain, in particular).

From a sector standpoint, we are focused on a barbell-type strategy: consumer discretionary/IT and energy/high dividends. In China, we also favour the consumer discretionary, new economy and electric vehicle supply chain sectors (putting the focus on strong government support) and are selective on state-owned enterprises that generate significant cash flows. We maintain our overweight on South Korea and Taiwan (mainly AI-related technology supply chains). In 2024, stock-picking will be more critical than ever in Asia. There will be winners on all the Asian markets, including in China.

INVESTING STYLE

The decline in long-term rates was particularly beneficial for the Growth style, which is made up of companies that have long-duration business models and are therefore heavily influenced by interest rate levels. The Quality style also benefited, but to a lesser extent than the Growth style, because it is also made up of more defensive companies. It is worth noting that this decrease in rates also benefited other styles, including the Value segment where valuations remain extremely low. Lastly, while small caps had suffered from the rate level, the decline in rates has allowed this segment to perform well once again.

CHART 4: AVERAGE QUARTERLY RETURN OF THE S&P 500 BY US PRESIDENTIAL CYCLE YEAR, 1929-2020, %



* E: estimates.
Source: Oppenheimer, Indosuez Wealth Management.

EURO: BE CAREFUL ON THE WAY DOWN

Maxime GARCIA
Investment Strategist

The dollar could continue its recovery in the short-term, while the upside in the euro looks somewhat limited. As for the Swiss franc, we now expect less support from the central bank. The yen continues to depend on future moves by the Federal Reserve (Fed) and gold has strong fundamentals, but we prefer to wait for a correction before adding to our positions.

CAUTIOUS
on the dollar
in the short-term

USD

Heading towards a continued recovery?

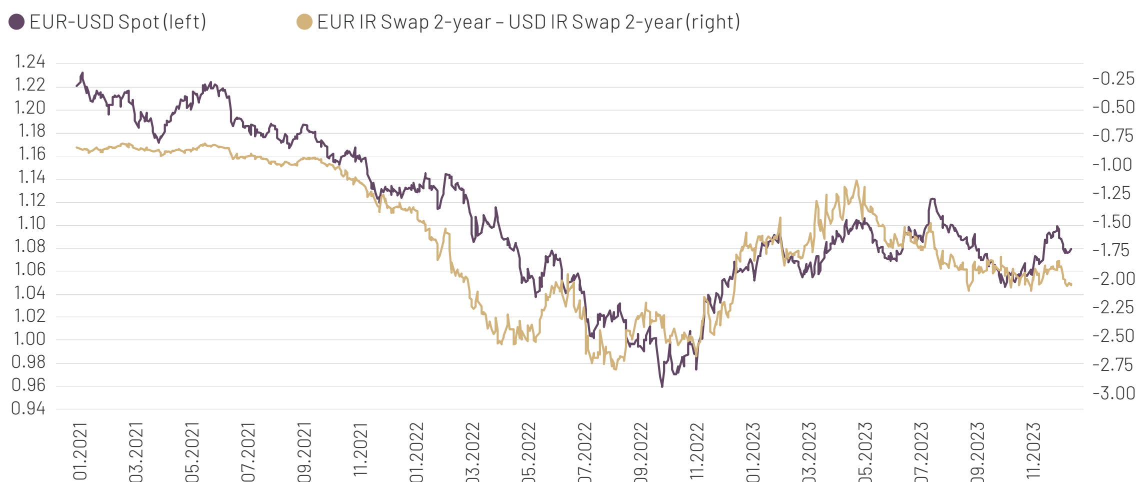
The US currency lost ground in November (dollar index down 3% over the month). It was affected by the decline in interest rates and hopes of a soft landing, which boosted investors' appetite for riskier currencies. However, the dollar has recovered since early December, mainly because investors are becoming relatively more accommodative in their expectations for non-Fed central banks. As a result, the attractiveness of the return on the dollar has increased relative to G10 currencies. We believe this trend could continue in the short-term. In the longer term, we expect the Fed to make its first rate cut before the other major central banks, which could weigh on the US currency, particularly as the de-dollarisation trend continues.

EUR

On a slight downward trend

The euro rallied against the dollar in November (+3.2% over the month) driven by a favourable change in the 2-year interest rate spread with the United States (Chart 5) and a reduction in risks to the Euro Area. However, the market seems to have gotten somewhat carried away and retraced some of its movement in early December, due to rising rate cut expectations in the Euro Area. We note that the positioning on the currency is tight; the single currency is the most overbought in the G10. Upside is therefore limited for now, which leads us to take a neutral if not slightly bearish stance on the euro in the short-term with a target of 1.07-1.10. In the longer term, we expect the Fed to cut its rates before the ECB, which is a positive catalyst for the EUR/USD. Lastly, the reduced risk of a Euro Area recession should provide some support to the currency.

CHART 5: 2-YEAR INTEREST RATE SPREAD GERMANY VERSUS US AND EUR/USD



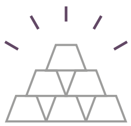
Source: Bloomberg, Indosuez Wealth Management.

CHF

Less support from the Swiss National Bank

The Swiss franc has been one of the best-performing G10 currencies since the beginning of the year. The currency has been supported by its central bank, which has stepped in to combat inflation and has not hesitated to dip into its currency reserves to support its currency and thus counter imported inflation. This policy has borne fruit: inflation is now at 1.7% year-on-year, below the Swiss National Bank's target (under 2%). As a result, the central bank now has more freedom to adopt an accommodative policy next year and less of an interest in seeing upward pressures on its currency. In addition, the current level of the Swiss franc against the euro and the dollar leaves little room for further appreciation.

We therefore forecast the USD/CHF at 0.86-0.92 and the EUR/CHF at 0.95-1.00, although renewed geopolitical tensions could strengthen the Swiss franc.



WAITING for a correction before ADDING TO OUR GOLD POSITIONS

JPY

No major changes

The yen has recently recovered against the dollar as the market began anticipating a possible exit from negative rates in 2024, which led to a narrowing of the transpacific interest rate spread.

However, we do not expect a major change in Japanese monetary policy, as the economy is not currently facing sustained inflation and upward pressure on wage growth. We therefore believe that the adjustments by the Fed and the European Central Bank (ECB) will be the main variables influencing future movements in the yen. In the meantime, we believe the yen will remain depressed at least until the Fed's first rate cuts.

GOLD

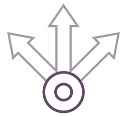
Structurally strong demand

The price of gold remained on the upward trend that began at the start of the conflict in the Middle East, and reached a new record on 1 December 2023 of USD 2'070/ounce. In addition to renewed geopolitical tensions, which are positive for gold, it has also been supported by the recent decline in rates, which reduces the opportunity cost of an investment in gold. Also, while significant outflows have been seen in physical ETFs, the central banks remain buyers, and of large amounts, which acts as a strong support for the price per ounce. We therefore remain positive on gold but, at current levels, prefer to wait for a correction before adding to our positions.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager



Stay
DIVERSIFIED

INVESTMENT SCENARIO

- **Growth:** while economic activity in the United States is expected to decelerate in the coming quarters, we maintain our slightly above consensus growth forecast for 2024, which is justified by our confidence in the health of the US consumer. In Europe, we continue to anticipate modest growth with differences between countries in the region, although the improvement in households' purchasing power in 2024 is supportive in the medium-term. Emerging countries will have stronger growth *momentum* than advanced economies.
- **Inflation:** the disinflation process will continue next year, but with some volatility expected in inflation figures in the coming months due to significant technical effects. The structural changes in the global economy will cause inflation to stabilise towards a higher core inflation regime than in the past.
- **Central banks:** the stabilisation of the Federal Reserve's (Fed) and European Central Bank's (ECB) key rates is now confirmed. Up next are their first rate cuts, on the order of 75 basis points (bps) to 100 bps for the Fed, starting in the second quarter, followed closely by the ECB, with rate cuts of 25 bps to 50 bps.
- **Corporate earnings:** we remain more confident in the ability of US companies to deliver on earnings growth forecasts for 2024 relative to their European counterparts, for which the market expectation trend is still not as positive.
- **Risk environment:** the lower volatility on the markets partially reflects waning macroeconomic uncertainties. However, some risks must be taken into account in 2024, at both the (geo) political level (with multiple elections to come) and within the financial world (sustainability of the debt in the Euro Area and the United States).

ASSET ALLOCATION CONVICTIONS

Equities

- As discussed in our previous issues, and more recently in our Global Outlook 2024, we continue to take a constructive stance on the equity markets in the coming months given the resilient macroeconomic environment and companies' continued strong financial health. However, for tactical reasons and because of the speed of the year-end rally and tight technical indicators, we believe it would be wise to reduce our positions and move back closer to neutral.
- Within our equity allocation, we maintain our preference for shares of large US corporates that generate significant cash flows and whose economic fundamentals remain sound. They are also best positioned to benefit from renewed technological breakthroughs related to artificial intelligence.
- In relative terms, despite low valuations on a historical basis, European equities look less promising, as the economic growth outlook for the region remains gloomy for 2024. We also believe that European equities are less able to benefit from the ongoing structural changes inherent in the technological, climate and demographic transitions.
- Lastly, although we recently strategically reduced our conviction on China, we remain positive on emerging country assets as a whole. In 2024, these economies are expected to offer a favourable growth differential relative to developed economies, as they will benefit from an easing of financial conditions in the United States and a possible turnaround in the manufacturing cycle (along the lines of what we are already seeing in certain export data in Asia). Note that we favour taking a diversified view at both the geographic level and in terms of asset class (equities, debt), as it is more difficult for investors to evaluate the specific risk premium for certain countries.

Bonds

- High interest rates (compared with the last two years) offer attractive entry points for investors seeking exposure to the bond markets in addition to risky assets. However, we believe the recent decline in rates was too fast and we do not buy into a market scenario that calls for up to six rate cuts in 2024, whether in the United States or in Europe.
- Similarly, on a more structural level, we believe we are now transitioning to a higher nominal growth regime with changing market equilibriums, implying that interest rates will stabilise at higher levels than those seen in the past. That is why we remain tactically cautious on government bonds and continue to favour the shortest ends of the rate curves which offer a better risk/return trade-off than longer-term maturities.
- Regarding credit, we continue to prefer high-quality corporate debt with short maturities and remain on the sidelines on the high yield segment. However, on a relative value basis, we believe that the subordinated debt segment offers some worthwhile investment opportunities with attractive returns given the risk that is factored into this asset class.
- From a diversification perspective, we remain optimistic on emerging market debt in local currencies in 2024.

Forex

- The more resilient macroeconomic environment in the United States, combined with the readjustment by the markets of expectations of ECB rate cuts starting in the second quarter of 2024, has benefited the dollar in the short-term (particularly against the euro). While this trend could continue in the coming weeks, we have decided to strategically maintain a cautious view on the dollar for several reasons: the expected end of monetary tightening in the United States and the management of fiscal policy, as well as, more structurally, the currency reserve diversification phenomena and the creation of bilateral channels between emerging countries with the use of other settlement currencies.
- In the short-term, gold could prove vulnerable to a partial increase in long-term rates after the sharp easing seen in recent weeks. However, in the medium-term, the expected decline in real rates, the central banks' continued appetite for this asset, and the factoring in of a more complex geopolitical environment than in the past are all forces that could lead to higher gold prices in 2024.

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.

08 • Market Monitor (local currencies)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 14 DECEMBER 2023

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	3.92%	-51.47	4.60
France 10-year	2.64%	-51.00	-46.60
Germany 10-year	2.11%	-47.70	-45.30
Spain 10-year	3.08%	-51.00	-57.20
Switzerland 10-year	0.66%	-35.90	-96.00
Japan 10-year	0.67%	-11.60	25.60

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	36.50	1.50%	5.16%
Euro Government Bonds	202.75	2.28%	5.24%
Corporate EUR high yield	214.64	3.00%	10.91%
Corporate USD high yield	332.16	4.57%	11.95%
US Government Bonds	306.70	2.29%	3.83%
Corporate Emerging Markets	43.73	3.02%	2.27%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9537	-1.12%	-3.63%
GBP/USD	1.2767	2.84%	5.66%
USD/CHF	0.8676	-2.37%	-6.15%
EUR/USD	1.0993	1.30%	2.69%
USD/JPY	141.89	-5.86%	8.21%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	12.48	-1.84	-9.19

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'719.55	4.69%	22.92%
FTSE 100 (United Kingdom)	7'648.98	3.21%	2.65%
STOXX 600	476.57	5.61%	12.16%
Topix	2'321.35	-2.00%	22.71%
MSCI World	3'128.89	5.24%	20.22%
Shanghai SE Composite	3'351.96	-6.17%	-13.42%
MSCI Emerging Markets	992.51	1.04%	3.78%
MSCI Latam (Latin America)	2'586.75	5.10%	21.54%
MSCI EMEA (Europe. Middle East. Africa)	196.63	2.71%	2.42%
MSCI Asia Ex Japan	619.89	0.01%	0.11%
CAC 40 (France)	7'575.85	5.68%	17.02%
DAX (Germany)	16'752.23	6.12%	20.32%
MIB (Italy)	30'359.06	3.76%	28.06%
IBEX (Spain)	1'0171.70	5.22%	23.61%
SMI (Switzerland)	11'209.95	5.33%	4.48%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'850.00	-1.74%	-5.98%
Gold (USD/Oz)	2'036.36	2.80%	11.64%
Crude Oil WTI (USD/Bbl)	71.58	-1.81%	-10.81%
Silver (USD/Oz)	24.10	0.68%	0.23%
Copper (USD/Tonne)	8'551.50	4.03%	2.14%
Natural Gas (USD/MMBtu)	2.40	-21.88%	-46.55%

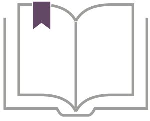
Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

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

	SEPTEMBER 2023	OCTOBER 2023	NOVEMBER 2023	4 WEEKS CHANGE	YTD (14.12.2023)
BEST PERFORMING (+)	2.27%	-2.20%	12.99%	5.61%	22.92%
	-0.37%	-2.97%	9.21%	5.24%	22.71%
	-1.74%	-2.98%	8.92%	5.10%	21.54%
	-2.01%	-3.00%	7.86%	4.69%	20.22%
	-2.47%	-3.17%	6.86%	3.21%	12.16%
	-2.81%	-3.68%	6.45%	2.71%	3.78%
	-2.86%	-3.76%	6.32%	1.04%	2.65%
	-3.35%	-3.91%	5.38%	0.01%	2.42%
	-4.45%	-3.94%	1.80%	-2.00%	0.11%
WORST PERFORMING (−)	-4.87%	-4.96%	-2.14%	-6.17%	-13.42%

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



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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