BANQUE HAVILLAND

MONTHLY INVESTMENT OUTLOOK

MAY 2024

MARKET ENVIRONMENT

In April, investors endured a broad-based decline in the equity and bond markets. Investors have had to face the reality that three to six rate cuts by the Fed was overly optimistic, and they needed to recalibrate their forecasts.

Slower GDP growth and nagging inflation may further delay the Fed's pivot until later in the year. The inflation dragon has not been tamed and the U.S. may be enduring a prolonged period of sticky CPIs. U.S. GDP expanded at a modest 1.6% seasonally adjusted rate in the first quarter versus a revised 3.4% growth in the previous quarter. More troublesome was the jump in the Fed's preferred core inflation gauge (personal consumption expenditure index), which rose 0.3% in March and 2.8% year-over-year.

Meanwhile, inflation-adjusted consumer spending gained 0.5% more than forecast, which represented the largest increase for this year. With borrowing costs in the U.S. remaining near a 23-year high, GDP growth could continue to moderate at a time when prices are still rising. Although the resilience of the U.S. economy may avoid a recession, a period of possible stagflation could increase market volatility over the next several quarters.

Europe on the contrary shows a clearer picture vs US allowing the ECB to start cutting earlier. Here as well we see slower rate cuts and also highlight that divergences in Central Bank actions will require FX to be closely monitored.

On the positive side equity earnings through April have been encouraging, with roughly two-thirds of US large cap companies beating consensus EPS estimates by an average of 9%.

We believe that earnings growth and micro factors are ultimately the key drivers of equity prices despite heightened macro uncertainty, evidenced by many investors assigning large valuation premiums to companies with quality attributes and strong balance sheets.

"Although the resilience of the U.S. economy may avoid a recession, a period of possible stagflation could increase market volatility over the next several quarters. Europe on the contrary shows a clearer picture vs US allowing the ECB to start cutting earlier."

EQUITIES	BONDS	OTHER
Earnings expectations of higher for longer rates weighed on equities last month, with some consolidation particularly in the US market and a higher appetite for cheaper markets in Europe and China.	Government bond yields have risen on the back of the surprisingly resilient US economy and the lack of urgency to cut rates by the Fed Credit markets continue to benefit from investor appetite (IG in particular).	Commodities were higher in April as most subsectors gained. Oil prices were volatile over the month but ended flat. Ongoing tensions in the Middle East provided price support, but the gains were curtailed as some of the tensions de-escalated and on account of U.S. inventory builds.

OUR SUB-ASSET CLASS VIEWS

	-	=	+	
EQUITIES				**The bull market took a pause in April, but no technical break of the trend. The soft landing thesis remains intact. Geopolitical risks are for the time being ignored.**
US				Robust earnings and expectations of rate cuts continue to drive the market. Risks of a slowdown do not appear to be priced in.
UK				Positive macro surprises have boosted sentiment, with expectations that rates will fall later in 2024. Cheap valuations could see upside from increasing M&A activity.
Eurozone				After stagnating for a year economic activity seems to be picking up. Value and cyclical bias of the market could revise EPS higher.
Switzerland				Quality bias and low leverage make Swiss equities an attractive long term allocation.
EM				EM growth outlook remains moderately attractive, with disinflation as an additional support. Valuations are generally attractive but dispersion among countries is high.
Japan				Robust earnings outlook and improving corporate governance are a medium term support. Cyclical bias is however a long term risk if the global economy stalls.

	-	=	+	
FIXED INCOME				**Front end yields make short-dated investment grade bonds attractive, but it is also time to take duration to minimise reinvestment risk long term.**
Sovereign Bonds				Euro rates are the most attractive in the near term due to recent inflation dynamics, however US treasuries can provide the most upside in case of an economic slowdown.
Corporate I.Grade Bonds				Selective opportunities in global corporate bonds, particularly in short term and securitized credit.
High Yield Bonds				Valuations are expensive with spreads falling sharply in the last months. The market fully prices a soft landing.
E.M. Bonds				EM credit spreads can benefit in case the FED finally cuts rates. Spreads are generally tight but further compression is possible.

OUR SUB-ASSET CLASS VIEWS

		-		=		+		
ALTERNATIVES								**We like holdings that are genuinely uncorrelated to the main asset classes.**
Precious Metals								Gold price is short term overbought but long term picture is intact.
Hedge Funds								We aim to create a blend of alternative strategies that offer different return profiles and risk premia to bonds and stocks.
Oil/Commods								Commodities are attractive for the long term, due to the demands of net zero, but oil looks to have peaked in the near term as supply has risen.

		-		=		+		
CURRENCIES								**Recent US economic strength will probably limit the pace of rate cuts and hence be more supportive for the USD.**
U.S. Dollar (DXY)								The USD strength could continue in the short run due to US growth premium.
Sterling (GBP)								BoE could cut rates soon but nominal rates are still very attractive.
Euro (EUR)								Economic activity is picking up but we expect the ECB to cut rates in June and September.
Japanese Yen (JPY)								Fundamentally attractive but BoJ intervention are complicating the picture and adding to volatility.
Swiss Franc (CHF)								CHF looks expensive on all metrics, and inflation is now below the SNB target.
EM								Economic activity is picking up and inflation is under control in most countries.

AUTHOR

Stefano Torti
Group Head of Asset Management & Advisory

ASSET MANAGEMENT TEAM

Teemu Riihijärvi
Deputy Head of Asset Management & Advisory

Ronak Yadav
Senior Investment Advisor, Asset Management & Advisory

Arimatti Alhanko
Senior Investment Manager, Asset Management & Advisory