Investment Research

Global Outlook

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Markets review

MACRO OUTLOOK

Analyzing the intricate global macroeconomic landscape, it's evident that the **United States** are at an interesting juncture in their monetary policy. The nation appears to be nearing the end of its tightening cycle, with interest rates currently resting at 5.5%. However, within the Federal Reserve, there is a divergence of opinions, with some members advocating for another rate hike as a necessary measure. The spectre of inflation continues to haunt policymakers, as it rose in both July and August, to a rate of 3.7%. This inflationary pressure was primarily fueled by the relentless upward trajectory of oil prices and the persistent impact of the base effect. Interestingly, a somewhat different narrative emerges when we delve deeper into the data, focusing on core inflation, which excludes the volatile components of oil and other commodities. Core inflation has been on a downward trajectory, reaching 4.3% in August.

Meanwhile, the **Eurozone** faces a more complex and nuanced economic landscape. The European Central Bank (ECB) seems poised to hit the pause button on further rate adjustments, currently holding its rate steady at 4%. The ECB signals that prevailing monetary conditions are sufficiently tight to curb inflation. This complexity arises from the diverse economic scenarios unfolding in various EU member states, as well as weaker macroeconomic indicators tied to GDP growth and balance of payments. The Eurozone's economic outlook remains modest, with growth expected to reach 0.7% in 2023, 1.0% in 2024, and 1.5% in 2025. Germany, a linchpin of the Eurozone, grapples with declining exports, possibly linked to reduced demand from China.

China, in turn, faces its own set of challenges, including an unstable real estate market exacerbated by the pandemic and further destabilized by issues surrounding companies like Evergrande and Country Garden. China's inflation rate has recently ticked up from -0.3% to 0.1%, and its interest rate currently stands at 3.45%.

Over in the **United Kingdom**, the central bank surprised market participants by refraining from raising interest rates in its most recent meeting, keeping the rate at 5.25%. This decision was driven by declining inflation figures, running contrary to the expectations of investors who had anticipated another 25-point increase.

In **Japan**, the Bank of Japan teeters on the edge of discontinuing its Yield Curve Control policy, following a recent decision to widen the yield corridor of the Yield Curve Control (YCC) from 0.5% to 1% around zero on the 10-year government bond, a move aimed at providing greater flexibility in monetary policy.

One overarching concern casting a shadow over the inflation outlook is the persistent issue of **oil**. The actions of OPEC+ members, particularly Saudi Arabia, in curtailing oil production, combined with their inability to sustain previously agreed-upon production levels, have given rise to a supply deficit. This deficit looms as a significant threat to the inflation outlook for Western economies, with Europe bearing a disproportionate burden. Already contending with geopolitical tensions involving Russia and the ongoing conflict in Ukraine, Europe navigates a treacherous inflationary landscape. These multifaceted factors create a macroeconomic landscape marked by uncertainty and challenges that central banks worldwide must carefully navigate to maintain economic stability and growth. Possible repercussions following the attack of Hamas on Israel and possible connivence of Iran is worth noting for the future.

TREASURY MARKET DEVELOPMENTS

The fixed income market has witnessed significant shifts in recent times. Treasury yields have surged, leading to a rise in borrowing costs and a noticeable tightening of financial conditions. Investment-grade corporate yields have climbed to 6,2%, surpassing the highs seen last October. Concurrently, high-yield (HY) yields have risen to 9,57%, and HY spreads have expanded by approximately 45 basis points over the past two weeks. Even though the financial sector is displaying signs of activity both in senior and sub spreads, it's important to note that this activity isn't at the same level as that observed in March. These developments are unfolding alongside a general uptick in interest rates, affecting various segments of the economy. The risk of a liquidity crisis akin to the one witnessed in March 2020 is growing as the pace of debt growth outpaces the market's ability to provide liquidity. Despite witnessing an increase in dealer warehousing capacity, it still remains lower than the levels seen before the global financial crisis (GFC). Simultaneously, the volume of outstanding corporate bonds, Agency Mortgage-Backed Securities (MBS), and Treasuries continues to rise.
Investors expect dealers to promptly provide cash for financial assets, but this expectation can only be met under favourable conditions. The ongoing surge in securities issuance is influencing interest rates and causing liquidity to become scarcer. This situation highlights the structural decline of liquidity in markets, which seems to be worsening.

While Treasuries are still regarded as the most liquid securities globally, their **liquidity is undergoing a structural reduction**. Average daily cash transactions in Treasuries haven't kept pace with the overall increase in issuance. Although there has been some increase in average daily cash volumes, a substantial portion of this uptick is attributed to principal trading firms. These firms tend to disappear during periods of market volatility, making their liquidity provision appear illusionary. Excluding their participation, the market's depth concerning potential investor activity is dwindling, rendering it fragile during external shocks.

Investors, often referred to as "bond vigilantes," who penalize governments with excessive spending by selling their bonds and driving yields higher, were last seen in the 1990s when concerns about U.S. federal spending pushed Treasury yields to 8%. The anticipation of a significant increase in the U.S. government's deficit spending and debt issuance to cover it has caused unease among investors and brought the term "bond vigilantes" back into the financial world's daily conversations, even if Treasury Secretary Yellen argued that arguing that the dynamics that brought out bond vigilantes decades ago don't exist today.
Despite that, while the Federal Reserve's announcement of higher interest rates has played a significant role in pushing yields higher and bond prices lower, some market participants still believe that part of the sell-off in longer-term bonds is due to concerns about increased government spending: the federal deficit has surged by 156% in the past year due to falling government receipts, higher government spending (particularly in areas like Social Security), and rising debt expenses.

As already said, Treasury yields have risen notably, particularly following the recent Federal Reserve meeting. Right after the unexpected development of the latest US Jobs report last week, the yield on 10-year US Treasuries increased by almost 14 basis points, reaching 4.86%, and eventually settling at 4.78%, marking its highest level since 2007. The Dot Plot and the reaffirmation of the Fed's stance contributed to this trend. Fundamentals suggest that higher rates may persist, driven by ongoing Treasury supply estimates and increased issuance.
The **demand for Treasuries** has weakened as the Federal Reserve and commercial banks, which were major buyers, are reducing their holdings.
Hedge funds have entered the scene as new buyers, but there are concerns about them reaching their capacity limits.
Hedge funds have recently become significant players in the Treasury market, actively buying cash Treasuries as part of their cash-futures basis trade strategies. However, their demand is nearing its limits due to various factors.

TREASURY MARKET DEVELOPMENTS

One key concern is that hedge funds, along with other leveraged investors, have faced challenges securing financing for their Treasury purchases. Dealer repurchase agreements (repo), a common source of financing, have become constrained due to regulatory changes like Basel III, which impose capital costs on banks' repo activities. This limitation in financing has led to a slowdown in hedge funds' Treasury buying. Overall, hedge funds have played a notable role in the Treasury market, but their capacity constraints, coupled with broader structural challenges, highlight the evolving dynamics and complexities within the market.

The Treasury market's complexity is further compounded by the Federal Reserve and commercial banks reducing their Treasury holdings since mid-2022. While leveraged investors initially filled the gap, their purchases have also decelerated. This poses uncertainty as the Treasury is expected to increase its net issuance. Going forward, there's a growing concern that rising interest rates and potential volatility may disrupt the market. To address this, the market may need participation from "real money" investors like pension funds and insurance companies. However, these institutional investors tend to act more slowly, and foreign investors are unlikely to step in significantly.

Two other bearish factors warrant consideration. Firstly, inflation is likely to be structurally higher. The aging population contributes to inflation as there are more people not working but still consuming.

Secondly, there is a possibility that the Federal Reserve may revisit its inflation target upwards due to political pressure, especially if the economy underperforms, and inflation remains above 2%. This notion, though not mainstream at present, could gain traction in the event of the next economic downturn.

Furthermore, geopolitical risks represent another factor contributing to higher yields. Many countries that are not friendly to the United States hold a significant pile of Treasuries, and concerns may arise about holding such substantial positions in case of disputes.

The prevailing belief in the market is that U.S. households will emerge as the marginal buyers of duration, demanding a higher term premium compared to the past decade.

However, the precise yield level at which households will be willing to increase their savings rate and invest in sovereign debt remains uncertain.

In summary, the fixed income market is in a state of transition, marked by rising yields and concerns about liquidity. Structural issues in the market, coupled with factors such as inflation and geopolitical risks, contribute to the overall uncertainty. The role of U.S. households as potential buyers of duration remains a pivotal question in this evolving landscape.

OIL AND BRICS

The latest data from OPEC+ reveals a concerning deficit in oil production, creating a growing gap between supply and demand. In the third quarter, OPEC's oil output falls short by approximately 1.8 million barrels per day compared to demand. Projections indicate that this deficit will further expand in the fourth quarter, necessitating the use of oil reserves to bridge the gap. If the current production levels remain unchanged, inventories could drop by 3.3 million barrels per day, representing the most substantial decline since 2007.

Moreover, another source of uncertainty concerning Oil prices and potential upward pressured has recently sparked due to the terrorist attack in Israel by the Palestinian Hamas. While Israel's role in the global oil supply chain is limited, the escalating tensions in the region have broader implications for the stability of oil markets and global security. the recent violent outbreak has the potential to involve both the United States and Iran into the conflict. Iran has emerged as a significant source of additional crude oil supply this year, providing some relief to otherwise tightening global markets. However, potentially increasing impositions of American sanctions on Tehran could hinder these oil shipments.

Any retaliatory actions against Tehran, especially amid reports suggesting its involvement in planning the attacks, could pose a serious threat to the safe passage of vessels through the Strait of Hormuz. This waterway is a crucial conduit for transporting a substantial portion of the world's crude oil, and the Iranian government has previously threatened to close it in response to hostilities. It's important to note that Iran denied any involvement in the recent assault.

The moves from OPEC+ and the situation in Israel carry upside risks to oil price prospects. A surge in oil prices risks fueling a new wave of global inflation as it drives up fuel prices like gasoline and diesel. This could complicate the central banks' task at a time when they are trying to determine if they have already done enough to curb inflation.

Regarding Oil, also relevant is a recent move by the BRICS. As BRICS pursue expanding the coalition with the addition of six new member states – Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and UAE – they are planning to shuffle the deck on how oil trades are settled. The expanded group will control over 42% of the oil supplies while including both the key exporters as well as largest oil importers: China, and India. This development may lead to the de-dollarization of oil settlements as India has already started to settle trades in Chinese Renminbi and UAE Dirhams. Of course, US Dollar is nowhere near being eclipsed in oil settlements, yet this might be interpreted as a sign that countries are in search of new ways to avoid the dollar-centric model in commodity markets.

DE-DOLLARIZATION

The US Dollar has been the global reserve currency since the Bretton Woods Agreement suspended the Gold Standard and anchored the exchange rate of non-American currencies to a fixed value against the dollar. Many things have changed since then, but the US Dollar has never lost its status. However, speculation about a possible dethronement of the American currency has recently widespread, due to several factors and events posing doubts about its future superiority.

At the moment, the strong position of the dollar holds as a result of different factors, including the fact that about half of all international debt securities and cross-border loans issued in offshore funding markets are denominated in USD, and it is the settlement currency for international trade and global payment among most economies worldwide. To date, it is included in 90% of FX transactions, where it is used as a vehicle currency.

Among the factors that could posing doubts about dollar superiority in the future there, the spark was caused by the growing willingness by several countries, mostly emerging ones, to reduce their reliance on the Dollar; in addition, the development and growth of emerging economies poses long-term challenges to the dominance of the USD, within the basket of strong global currencies.

The emerging countries matter is of particular importance, and can be viewed in examples such as talks between Brazil and China to find a common currency in order to circumvent the use of the US Dollar in trade transactions, or talks of a possible BRICS union currency. Additional evidence comes from the fact that recently there has been an increase of non-traditional currencies as Central Banks reserves. Finally, tensions between the two major global economies did nothing but to provide further reasons in support of this argument.

Nonetheless, in the short run, the US Dollar does not see threats to his dominance, as it continues to be the safest currency in markets both as a reserve and both as a mean of transaction. Beyond its wide use in global transactions discussed above, the US Dollar has unique features that make it not replaceable as reserve currency and not even comparable to its major competitors, the Euro and the Yuan, including its size, its convertible nature, and the economic and political stability of the US.

However, the de-dollarization is a theme whose relevancy might become more and more pivotal in the decades ahead. We need to recognize that new secular trends are occurring, and the dominance of the American currency cannot be guaranteed to remain unquestionable in the long run. More and more countries are developing and emerging as fierce competitors to the favor position of the World's greatest economy, and political and economic interests may induce the arrangement of international contracts independent from the Dollar.

In such a scenario, in order to preserve their currency, the United States will have to be very careful not to make any missteps or provoke any political turmoil, such as the debt-ceiling stalemate last May or the recent experienced risk of a government shutdown, which resulted in Kevin McCarthy losing his role of Speaker of the House of Representatives shading even more uncertainty on the reliability of the USD. These events boosted fears of a technical default, sending the cost of debt and the Credit Default Swaps skyrocketing, thus posing threats for the US Dollar's position and value.

CHINA’S ECONOMIC SITUATION AND IMPACT ON GERMANY

In 2023, China's GDP consensus fluctuated between 4.9% and 5.5%, finally settling at 5.0% in September. China's economy in 2023 transitioned from a high-growth scenario to a lower-than-anticipated growth one, with the prospect of a possible future expansion marked by fluctuations in consumer data and improving PMIs. Investment demand increased, but real estate investment growth remained negative year-on-year (YoY). Moreover, consumer demand showed signs of recovery, but income was primarily used for loan repayments.

China's exports experienced fluctuations due to a combination of factors, including decreases in Producer Price Index (PPI) prices, a high base effect, and currency depreciation. China's YoY export growth rate dropped from around 7.3% in January to -8.4% in July and then rebounded in August. Nevertheless, China's export market share remained stable, with a shift in focus towards midstream and capital goods. Key indicators included improved port throughput and increased Christmas orders at Yiwu (China Foreign Trade Center).

Inflationary conditions in China recently improved as the inflation rate stabilized in the first half of 2023. After 3 months of flat prices, CPI fell by 0.3% for the first time in July 2023, followed by a 0.1% increase in the following month, compared to the 0.2% forecasted for August.

The one-year loan prime rate (LPR), which serves as the benchmark for corporate and household lending, remained unchanged at a record low of 3.45% as set by the People's Bank of China (PBoC). The PBoC had reduced the LPR by 10 basis points in August and also lowered the reserve requirement ratio by 25 basis points in September. These policies reflected a commitment to maintaining high liquidity and supporting post-pandemic recovery by stimulating credit demand and stabilizing the troubled property market.

China's real estate sector difficulties continue, due to issues like overbuilding, misdirected investment, and excess inventory, leading to declining prices and transaction volumes. This sector accounts for approximately 30% of China's GDP, making its challenges significant for the overall economy.

One of the main issues in China's real estate sector is its excessive reliance on debt. Developers have borrowed heavily to finance new projects, and many are now struggling to repay their loans. This is partly due to the government's efforts to cool the housing market and reduce financial risks, which began at the end of 2020. Many Chinese households have heavily invested in property, resulting in a significant drop in consumer spending.

Starting from mid-2022, the PBOC and NAFR, in an effort to boost the property market and avoid a real estate crisis, decided to reduce interest rates on existing mortgage loans. More recently, in September, they lowered the down payment for mortgages and abolished home purchase limits in non-central districts of major cities.

China’s situation didn’t come without spill-over effects. Among others, in particular, Germany has been significantly affected by China's bumpy recovery. China's economic slowdown presents a dual challenge for Germany due to its economic characteristics and close ties with the Chinese economy. On one hand, this slowdown is dampening demand for German exports, potentially leading to job losses and reduced economic growth. Germany, as a manufacturing powerhouse, heavily relies on exports, and any decrease in overseas demand can have significant repercussions on its economy.

Conversely, the slowdown in China is also impacting the supply of Chinese imports, and this, too, has implications for Germany. Being a manufacturing-oriented country, Germany depends on a global supply chain, and disruptions from China can lead to shortages of critical components and raw materials, such as the semiconductor chip shortage. This can result in higher production costs and potentially lead to higher prices for German consumers.

JAPAN'S ECONOMIC PATH FORWARD AMIDST MARKET CHALLENGES

The Japanese Topix index's prolonged underperformance compared to the US's S&P 500 has raised concerns, especially in light of global geopolitical events and the pandemic's economic aftershocks. Japan is grappling with an inflation surge reminiscent of the challenging 1980s. Prime Minister Fumio Kishida is heading the nation towards strategic market reforms to tackle these economic issues. Central to Kishida's vision is creating a "virtuous cycle of growth and asset income." He is supporting households to amplify their investments in domestic equities and pushing corporations to boost wages.

Historical context reveals Japan's tryst with multiple market rallies that eventually petered out. However, the present-day reforms and the external economic dynamics might carve out a distinct trajectory for Japan's equities market, marking both growth and resilience.

The Bank of Japan is poised to procure an unspecified volume of Japanese government bonds (JGBs) to stabilize 10-year JGB yields at around zero per cent, even though they currently hover above 0.75%. Yield curve control will be agile, permitting fluctuations within about ±1 percentage point around 0%, ensuring a stable and consistent yield curve through diverse strategies, including large-scale JGB purchases.

Additionally, the Bank's asset purchase guidelines outline plans to acquire ETFs and REITs, setting specific upper limits with the objective of yearly increments. Corporate bonds and commercial papers (CP) are also on the radar, with CP outstanding being retained at approximately 2 trillion yen. The acquisition strategy for corporate bonds aims to revert to pre-pandemic norms, ensuring market fluidity and stability.

It looks as if the Japanese economy is headed for a moderate recovery. While there have been hiccups in exports and industrial production due to international developments, the dampening effects of supply constraints are receding. Corporate profits are positive, stimulating moderate increments in business fixed investments.

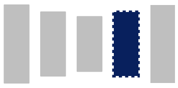
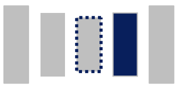
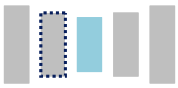
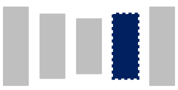
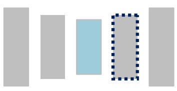
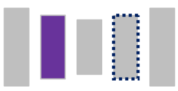
The labour market and income dynamics are on an uptrend, supporting steady private consumption despite the shadow of price escalations. However, housing investments are lagging. On the flip side, public investment has been gaining traction.

Concerning prices, the consumer price index (CPI) shows a recent increase of around 3 per cent. This is attributed to costs associated with prior import price surges, although the government's economic strategies have cushioned against steep energy price hikes. Forecasts suggest Japan's economy will outpace its potential growth rate. CPI is projected to oscillate, reflecting various domestic and international factors, but the overarching goal remains a sustainable and stable 2% inflation rate.

Uncertainties abound, especially considering international economic activities, commodity price trends, and domestic wage and price dynamics. The Bank of Japan, aware of these unpredictable variables, commits to patient monetary easing, ensuring response agility based on evolving economic and financial landscapes. The overarching objective remains clear: achieving and sustaining the 2% price stability target.

Asset classes Preferences

OVERVIEW

	STRATEGIC VIEW	TACTICAL VIEW	COMMENTS
FIXED INCOME			We are generally bullish on fixed income. Bond yields have reached highs not seen in more than 15 years and we believe most central banks are close to the peak in interest rates, if not already there. In the US, with inflation heading in the right direction without strong signs of economic slowdowns, we believe in the higher for longer scenario pushed by Fed officials and therefore do not expect cuts before the second half of 2024. In the EU, instead, signs of a faltering economy suggest the ECB will implement rate cuts sooner than its American counterparty. Nonetheless, the rise of oil prices could accentuate the risk of resurgent inflation, and businesses could struggle with higher for longer interest rates.
GLOBAL EQUITIES			In our strategic perspective, we are slightly overweight on equities, anticipating them to outperform fixed-income assets in the next decade. While long-term valuations seem balanced, tactically, we favor an upgrade on Japan but remain underweight on DM equities, particularly in the U.S. and Europe. We believe current corporate earnings projections might be overly optimistic given signs of likely economic slowdown and higher for longer dynamics. However, within the equities realm, select opportunities present promising growth potential. Most of the indexes growth was sustained by the mega-cap stocks, while small and mid-cap have lagged, creating opportunities for investors.
COMMODITIES			Commodity prices are currently being influenced by a complex interplay of factors. On one hand, the OPEC+ production cut and Russia's temporary ban on diesel exports have led to supply constraints, causing concerns about global fuel availability and putting upward pressure on prices. Conversely, rising interest rates have diminished investor interest in non-yielding assets, particularly precious metals, further aggravated by their negative correlation with high real rates. Meanwhile, there are renewed worries about the financial health of property developers in China, which has a significant impact on industrial metals due to its strong connection with China's industrial production and overall economy. These concerns are contributing to uncertainties in the commodity markets. Currently, our position is slightly overweight, but we are closely monitoring these factors for potential shifts in the market dynamics.
EURO			We anticipate a short-term depreciation for the Euro, driven by market analysts' skepticism regarding the rate hike's effectiveness in tackling inflation. Doubts also persist about the ECB's willingness to further raise rates due to economic strains and lower growth forecasts for the Eurozone. On a positive note, high inventories have kept gas prices low, with the EU achieving its 90% gas storage target ahead of the November 2023 deadline. In the longer term, our outlook remains neutral, as the Euro area economy is expected to expand at a low pace in the future.

ASSET CLASS BREAKDOWN

Six to 12-month tactical views on selected assets vs. global asset classes, by level of conviction

FIXED INCOME

US Treasuries Short duration

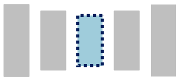
We are overweight. Not only are the yields extremely attractive, but we also support the "higher for longer" view, limiting reinvestment risk.

Underweight Neutral Overweight Previous view

US Treasuries Long duration

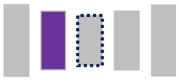
We see multiple reasons to invest, among them the possibility of locking high rates for a long time, the possible benefits in the case of cuts, and the recent correction in long term yields may be over. However, we should consider the possibility of investors demanding greater term premiums, bringing the long-term yields up further.

Euro Area Government bonds



We believe the peak in interest rates has been reached. Therefore, the high yields offered by safe core countries make an interesting investment opportunity. Nonetheless, it is important to monitor how the economies react to a period of higher interest rates, and we think that the possibility of a second wave of inflation in Europe should not be underestimated.

Global IG Credit



We are underweight. Spreads with government bonds are thin, and a negative earnings season could worsen valuations further. We think that it makes more sense to take risks elsewhere in the current market conditions.

EM Government Bonds

Competitive yields combined with the improving economic conditions of some countries make investing in this asset class interesting. The strong dollar and possible rate cuts threaten local currencies; therefore, we prefer hard currency investment opportunities.

Inflation-linked Europe

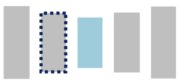
Our preference leans towards Eurozone when compared to US counterparts, primarily due to prevailing market uncertainty compounded by the potential for a resurgence of inflation. We hold the view that markets may be undervaluing the persistence of inflationary pressures within the European context.

Inflation-linked US

Given the latest sign of resiliency of the economic conditions in the United States, we have confidence in the Federal Reserve's commitment to maintaining inflation control. We align with the view that rates will remain "higher for longer" until the inflation target is officially reached.

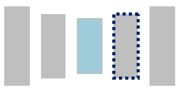
EQUITIES - REGIONS

United States



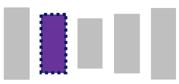
Despite the decrease in inflation, with forecasts indicating 2.5% in 2024 and 2.4% in 2025 and the US government's commitment to investing in infrastructure, the interest rates ranging from 5.25% to 5.50% are exerting significant pressure on the delicate financial positions of small-cap businesses, potentially leading to a higher likelihood of defaults.

Europe



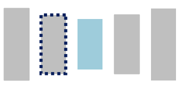
We maintain a neutral stance on EU equities. With inflation on the descent and appealing valuations, there's promise. However, Germany's reduced production and China's declining imports, coupled with ECB's anticipated prolonged tightness, temper our enthusiasm.

United Kingdom



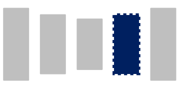
Despite the decision to halt the increase in interest rates aimed at supporting the economy, and despite a rise in unemployment, the United Kingdom is still grappling with high inflation. Moreover, there is an ongoing downward trajectory in the economy, with house prices declining and the consumer confidence index remaining historically low, indicating a difficult time ahead.

Japan



While Japan exhibits growing GDP and earnings, we remain neutral. The underlying concern stems from the less appealing outlook for long-term growth.

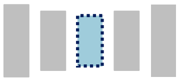
China



We're leaning into China with a positive weight. Near-zero inflation, a projected 5% GDP growth, and an industrial sector on the mend all present compelling arguments. Anticipated government stimuli, forecasted retail sales growth of 7.7%, will also support growth. We believe much of the adverse news, such as down trending real-estate market is already priced in, bolstering our conviction.

Underweight | Neutral | Overweight | Previous view

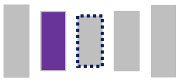
Emerging Markets (excl. China)



India has demonstrated consistent and stable growth, while Latin America may benefit from the stop of interest rates tightening. However, it's important to note that there are volatile market conditions in these countries and other more appealing investment prospects to consider.

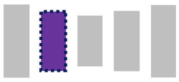
EQUITIES - SECTORS

Telecom



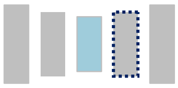
Challenges in the telecommunications sector encompass legal disputes, government regulatory oversight, limited growth potential in the near term, and a lack of significant technological innovation.

Consumer Discretionary



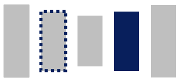
Improving export conditions are expected as the Federal Reserve curtails its monetary tightening efforts and inflation begins to recede, leading to a more favorable economic outlook. However, there is a concurrent increase in unemployment and student loan payments are accumulating, reducing the spending power of consumers.

Consumer Staples



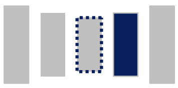
We have a neutral view for the Consumer Staples. The sector is historically defensive, providing good hedge against possible shocks ahead. Nonetheless, there is a limited growth potential and a reduced projected spending power, suggesting that most of the sector growth started in the COVID era has probably ended.

Industrials



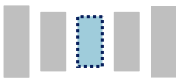
In the industrials sector, a bullish outlook is driven by factors such as substantial investments in green initiatives, ongoing consolidation within the industry, robust infrastructure expansion projects, and the trend of reshoring manufacturing. However, it's important to note a potential downside risk associated with oil prices.

Energy



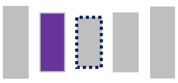
The sector is characterized by its investment-dependent nature, thus requiring large loans to maintain the current infrastructure as well as developing green energy plants to enjoy government incentives. As hawkish cycle nears an end, we expect the sector to thrive with new investments. We also anticipate higher oil prices leading to broader margins amidst the conflict between Azerbaijan, Armenia and Iran.

Information Technology



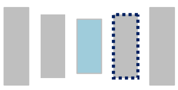
With the AI theme rapidly stealing the spotlight, advancements in the AR rivalry, increasing innovation hence enhanced productivity and the microchip crisis coming to a near end we expect a strong earnings season. However, our verdict gravitates towards the fact that these positive factors are already priced in by the market as we observe high PE multiples and high valuations above average.

Financials



As we foresee lower interest rates after the second quarter of 2024, we expect the financial sector to suffer from decreased profit margins. We also see that banks are cutting jobs in an effort to ease cost pressures. Considering the mediocre results from the first two quarters of 2023 and the forward PE multiples being within the industry average, we predict that the sector will underperform.

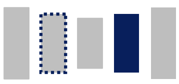
Healthcare



Due to the defensive nature of the sector, we believe that current investors will leave to exploit sectors with higher beta values as the economic outlook will be in a better condition. We also think that the current valuations of companies are fair and simply don't see a worthy upside. The sector yields adequate dividends and can be used as a hedge against possible market shocks.

CURRENCIES

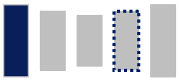
US Dollar



We maintain our overweight position on the US Dollar, underpinned by optimistic growth prospects for the United States by year-end, and the upward trajectory of US Treasury yields (indicative of a bear steepening yield curve). However, it's worth noting concerns stemming from the Federal Reserve's decision to hold rates, hinting at a possible conclusion of their hiking cycle or even the consideration of rate cuts, which could introduce volatility and potential Dollar depreciation. Nonetheless, our prevailing stance remains in favor of the Dollar.

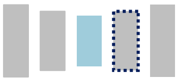
Underweight Neutral Overweight Previous view

UK Pound



We have a heavily underweight position on the Pound since the challenges in managing inflation pose a significant downside risk. The UK's declining GDP and the potential for year-end growth to fall below expectations raise concerns, especially considering the long-term assumption for the UK economy's growth, which is notably lower than historical averages. Furthermore, the possibility of a cutting cycle, given the unexpected pause in recent meetings, adds uncertainty. Corporate insolvencies also remain elevated, contributing to the negative outlook for the Pound.

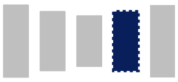
Japanese Yen



We suggest a neutral position on the Yen, considering various factors. On the positive side, the Japanese economy has shown signs of recovery. However, there are significant headwinds to consider. The strong pressure from the US Dollar poses a challenge, and the recent renewal of Yield Curve Control by the Bank of Japan suggests a commitment to an ultra-loose monetary policy, resulting in a substantial depreciation of the Yen. Additionally, the government's lack of clear indications on whether and at what point it would intervene to support the Yen's decline adds further uncertainty to the currency's outlook.

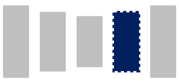
COMMODITIES

Oil



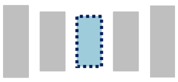
Saudi Arabia's extension of a 1 million barrel per day oil cut, coupled with additional OPEC+ reductions, aims to boost oil prices above $100 per barrel for investment financing. This production decrease, exceeding agreed levels by 3.3 million barrels per day, threatens global supplies and potential inflation, particularly in Europe. Russia's halt on diesel and petrol exports amid rising crude prices raises concerns of oil supply manipulation in response to Western sanctions. These elevated oil prices challenge central banks in taming inflation and may hamper economic growth, while strong backwardation signals supply shortages and robust demand.

Natural gas



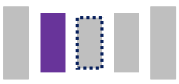
Natural gas prices are expected to rise primarily due to seasonality, but a cautious approach is maintained due to the volatility caused by geopolitical events related to Europe's tensions with Russia.

Industrial metals



We maintain a neutral stance on industrial metals as a result of renewed apprehensions regarding the financial stability of property developers, coupled with a deceleration in industrial production within major European nations. On the other hand, the potential increase in usage due to electrification could once again stimulate demand in this sector.

Gold



Rising interest rates have been discouraging investors from non-yielding assets like gold. Gold's strong negative correlation with real rates, which have risen due to the Fed's commitment to keeping rates higher for longer, is adding up to this trend. These factors are creating headwinds for gold, potentially offsetting any positive drivers and justifying our slightly negative weight.

Underweight Neutral Overweight Previous view