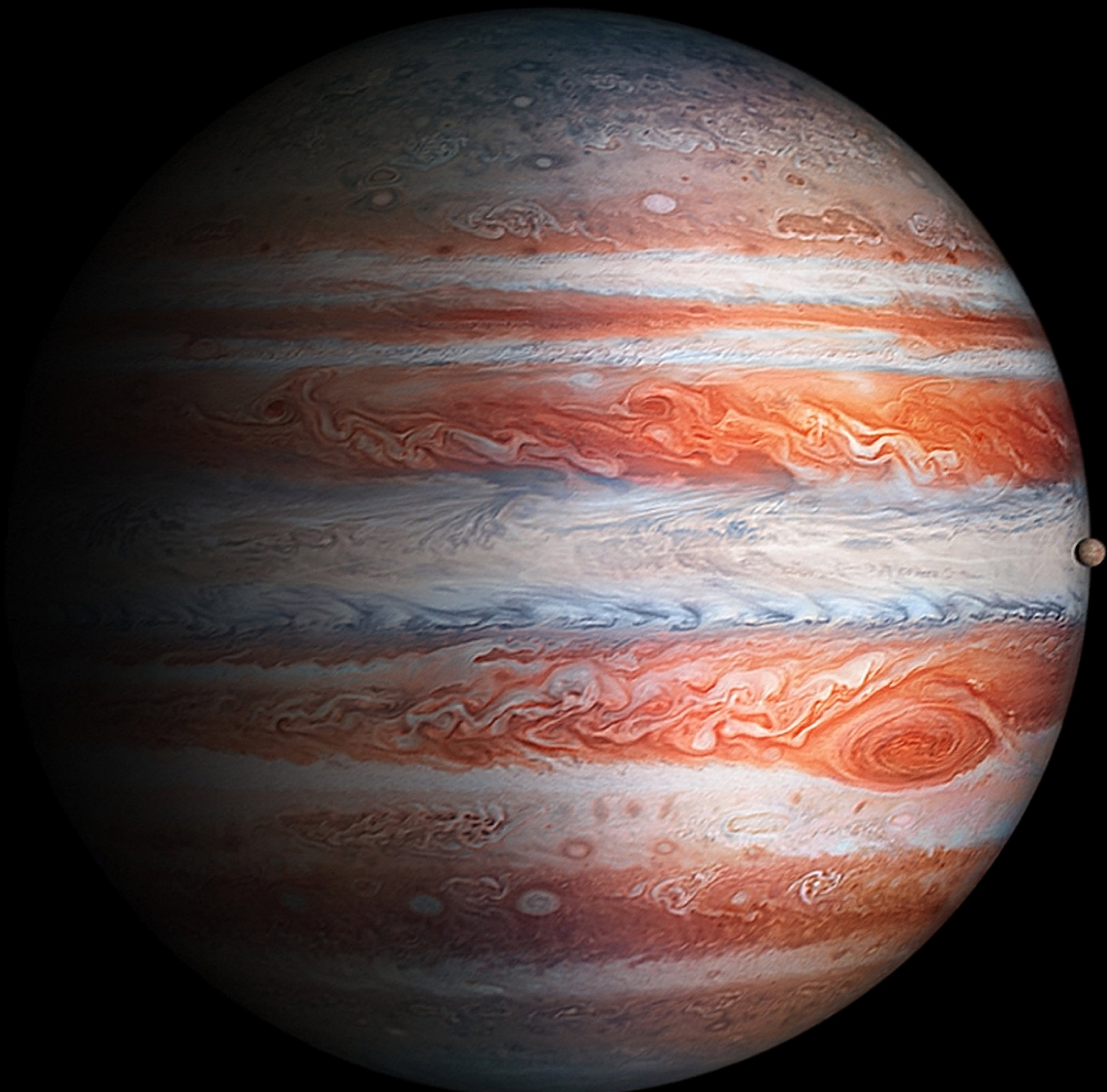
Investment Research

Global Outlook

March 2024



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MARKETS REVIEW

Macro Outlook

United States: *The economy remains strong*

The economic landscape in the United States presents a blend of positive and concerning indicators. With unemployment at 3.9% and robust GDP growth, reaching 3.2% in Q4 2023, signaling a strong economy, inflationary pressures, as evidenced by elevated CPI and Core CPI figures, raise concerns about price stability. However, the gradual approach to PCE inflation, which decreased to 2.4% in January, with the core rate at 2.8%, towards the Fed's 2% target provides a more optimistic outlook. Market uncertainty surrounding the effectiveness of monetary policy has led to expectations of interest rate cuts in 2024, with markets pricing in three 25bps cuts, bringing interest rates to the 4.50-4.75% range. Yet, signs of softening in the labor market, with hiring and labor participation rates resembling levels seen in 2018-19, and job growth relying more on stable sectors like public and healthcare, add complexity to the economic narrative. Additionally, the January PMI Index stood at 51.4, slightly down from December but still signaling upcoming economic expansion. While speculation looms over the possibility of Fed quantitative tightening scaling back, the overall resilience of the US economy suggests that significant rate cuts are unlikely before June, with concerns over potential inflation rebound hindering drastic policy changes.

Canada: *GDP up, unemployment down, inflation low*

In Q4 2023, Canada's GDP grew by an annualized 1%, reflecting some economic expansion. January 2024 saw a surprising drop in the unemployment rate to 5.7%, defying expectations and easing worries about the impact of rising interest rates on the economy. Simultaneously, the annual inflation rate declined to 2.9%, the lowest since June 2023, indicating disinflation. Noteworthy changes include slowed inflation in transportation and food, influenced by factors like a 4% decline in gasoline costs and eased prices in grocery stores. However, rising bond yields led to increased mortgage rates, causing shelter prices to accelerate.

Euro Area: *Fragmented economic realities*

In 2023, the Eurozone's economic growth stalled, and inflation slowed to 2.6% in February, hinting at a possible rate cut. Despite this, high services inflation at 3.9% and wage growth above the 3% target, at 4.5% in Q4 2023, signal ongoing inflation challenges. Unemployment reached a record low of 6.4%, and upcoming Q1-24 wage negotiations will be key for the European Central Bank (ECB)'s rate decisions. Economic growth is hindered by Germany's manufacturing downturn. Notably, Germany contracted by 0.3% in the last quarter, primarily due to industrial sector weakness, while France's GDP remained stagnant. In contrast, Spain and Italy experienced accelerated economic growth at 0.6% and 0.2%, respectively. February's PMI has seen a slight improvement to 48.9, yet it still indicates contraction. The higher-for-longer narrative has also led to a fall in private sector credit by €12.2bn in January, the largest drop since August 2023. In sum, inflation is gradually decreasing, although the Q1-24 wage data release will be crucial and the sticky services inflation still worries policymakers. At the same time, growth stagnates. Contrary to the Fed, the ECB faces an economy that needs to be revived and an inflation whose dynamics are more explained by energy prices fluctuations than by the demand component. Thus, we expect the ECB to start cutting in June and a bit faster than the Fed, probably by 100bps by the end of 2024.

Russia: *War-driven growth and fiscal refinancing concerns*

After the invasion of Ukraine, the Russian economy has been largely driven by war-related increases, for 2024 it is expected to increase at 2.4%. Inflation remains high at 6.5%, as well as interest rates set by the Russian central bank, which are at 11%. The depreciation of the Ruble helped the fiscal financing need for 2024, but fiscal refinancing after 2024 is set to be more difficult due to the impossibility of using resources from the Total National Wealth Fund.

Macro Outlook

China: *Growth slower than expected and departure from disinflation*

China's GDP grew by 5% in the last year. For 2024, however, markets do not expect China to maintain the 5% target, failing short by half a percentage point. The turmoil in the real estate sector is not likely to represent a systemic financial risk. Markets expect fiscal stimuli to solve it, but the Chinese government did not signal it. Inflation is set to return to positive territory as the industrial and agricultural sector prices are improving. China's central bank announced a 25 basis points reduction to the five-year Loan Prime Rate (LPR) utilized by commercial banks for long-term lending, lowering it to 3.95% on February 20th. This marks the largest cut since the establishment of the LPR as the primary lending rate benchmark in 2019, continuing a recent trend of rate reductions. Given China's heavy reliance on the property sector to fuel growth and employment, stimulating the economy through lower interest rates is deemed necessary. However, the People's Bank of China faces constraints due to downward pressure on the Chinese yuan, especially as Western central banks have yet to initiate rate cuts. Consequently, it is probable that the Bank of China will align its interest rate cuts with decisions made by the Fed, ECB, and Bank of England.

Japan: *A change in monetary policy*

In the last quarter, Japan's GDP has contracted by 0.1% quarter to quarter. The upward increase in wages, propelled by a tight labor market and high inflation, is anticipated to persist as negotiations between unions and employers in the spring aim to further bolster pay growth. Most importantly, inflation expectations, which has proven to be a fundamental transmission mechanism in Japan, have influenced households leading to a renewed increase in prices. Concurrently, the dollar-yen exchange rate has climbed from 140 at the beginning of the year to approximately 150 by the end of February. This surge can be attributed not only to the expectation of inflation stabilizing positively in the coming years but also to the market's recognition that the Fed is unlikely to cut rates soon. Consequently, the Bank of Japan is pressured to appreciate the yen by raising interest rates, potentially shifting from the current -0.10% to 0.25% by the end of 2025.

UK: *Slow growth in the election year*

After the UK slipped into a technical recession at the end of last year, the rise in the PMI index which now stands at 53.3 indicates a majority of businesses reporting rising activity and thus suggests that the economy might have already rebounded from the downturn. Currently, GDP growth in 2024 is expected at 0.6%. At the same time, inflation is still sticky at 4% in January with the core gauge steady at 5.1% and services inflation, which is a better indicator of domestic price pressures according to the BoE, edging up to 6.5%. The annual pace of growth in average weekly earnings, including bonuses, slowed to 5.8% in the last quarter of 2023, easing less than expected and thus renewing fears that inflation might be sustained by resilient wage growth. Unemployment is at a record low of 3.8%.

The encouraging growth outlook combined with a resilient labor market and worrying inflation signals lead us to expect that the BoE will start cutting rates only in September. Moreover, we do not expect more than 2 25bps cuts within the end of 2024.

Q4 2023 Earning Season

The **European** earnings season for the fourth quarter of 2023 resulted worse than expected: almost half of European companies missed earnings forecast despite already low expectations. Out of 313 companies only 50.2% reported positive earnings results compared to the earnings forecasts, the worst percentage since the first quarter of 2020. The worst performing sectors were materials, consumer discretionary and healthcare, while tech and utilities were the sectors with the highest proportions of positive earnings compared to expectations. Nevertheless, it's noteworthy that the industry leaders still had impressive earnings.

Shell was one of the best oil performers, reporting earnings of $28.25 billion (versus $27.5 expected), announcing a 4% increase in dividend per share and a share buyback program of $3.5 billion.

Regarding the banking sector, Deutsche Bank exceeded the earnings expectations with a net profit of $1.4 billion (versus $785 million expected) and announced a hike in share buybacks and dividends of 50%, for a total of $1.6 billion. On the other hand, HSBC has been one of the worst performers, quarterly profit dropped by 81% to $977 million from $5.05 billion, due to a $3.0 billion impairment related to its investment in BoCom.

L'Oréal, the largest beauty brand reported below-estimates sales, rising 2.8% to $10.6 billion (versus $10.9 billion expected), while Hermes' fourth quarter revenues rose by 18%, with full year revenues of $13.42 billion.

Among the pharmaceutical companies, Novo Nordisk's relevant full year operating profit jumped by 37% in Kroner and 44% at constant exchange rates to 102.6 billion kroners ($15 billion), while AstraZeneca reported lower than expected earnings of $13.5 billion (versus $14.5 estimated).

One of the most important semiconductor equipment companies in the world, ASML, reported $28.5 billion in revenue for 2023, a 30% year on year rise.

Regarding Italian companies, Ferrari took the lead, with an outstanding 34% increase in net profits to $1.4 billion, with car sales up 3.3%.

On the other hand, regarding the **United States**, approximately 95% of the S&P 500 constituents have disclosed their Q4 results, showcasing a generally positive trend among large-cap companies. Notably, 73% of these entities surpassed analysts' expectations, aligning closely with the 5-year average. Moreover, these companies demonstrated a commendable 4% growth in earnings, marking the second consecutive quarter of YoY expansion. Looking ahead, analysts foresee an 11% earnings upswing for S&P 500 firms over the year.

Information Technology sector has been the main character of this earnings season, led by Nvidia and Meta Platforms. The surge of demand for accelerated computing and generative AI worldwide resulted in a +265% QoQ in revenues and diluted earnings per share of $4.93, as opposed to the $0.57 of the same quarter in 2022 for Nvidia. Meta Platforms added new users to its already staggeringly large base across its family of apps and through the launch of the new social network Threads. This was reflected in an extremely positive fourth quarter, with sales up 25% from the year prior and diluted earnings per share up 203%.

The rise in earnings of the index has been driven also by strong performances in the Industrials, Health Care, and Consumer Discretionary sectors. In particular, Uber Technologies and Amazon have exceeded analysts' expectations, with the latter reporting a QoQ increase of 14% in net sales and $1 diluted EPS, compared to $0.03 in the fourth quarter of 2022.

Finally, the Financials sector represented the largest detractor to the increase in earnings, negatively affected by the quarterly performances of Truist Financial, which reported a -$3.85 diluted EPS vs. $0.68, Citigroup (-$1.16 diluted EPS vs. $0.11), Bank of America ($0.35 vs. $0.53), and JPMorgan Chase ($3.04 vs. $3.35).

US Elections

The 2024 U.S. presidential election is shaping up to be unprecedented. Former President Donald Trump, despite facing numerous federal and state criminal charges linked to his attempts to overturn the 2020 election, is poised to secure the Republican nomination. On the other hand, incumbent President Joe Biden is the presumptive Democratic nominee and, at 81, could become the oldest American to win a presidential election if re-elected. Additional contenders include independent Robert F. Kennedy Jr., known for anti-vaccine activism, and independent Cornel West. Former presidential candidate Jill Stein seeks the Green Party's nomination.

National polls indicate Trump's edge over Biden in a head-to-head matchup, with concerns about Biden's age, economic handling, and illegal border crossings. Trump, however, faces legal obstacles with indictments in four cases, impacting his campaign. Key issues include abortion, the economy, immigration, crime, and foreign policy. Democrats focus on abortion rights, while Republicans grapple with internal divisions over state-level restrictions. Economic debates centre on reassurance versus spending cuts and deregulation. Immigration remains contentious, with criticism of Biden's border policies. Crime concerns persist, and foreign policy issues include China, Ukraine, and the Israeli-Hamas conflict.

It is noteworthy that as the time passes, the possibility of an escalated economic confrontation between the United States and China is more and more significant. Both Donald Trump and Joe Biden have embraced firm positions on China, pledging to implement assertive actions that could exacerbate the already delicate economic relationship between the two major global powers.

Given the general landscape, it could be useful to talk about the possible Market Implications of the 2024 US Elections.
A thorough examination of market data by U.S. Bank, spanning from 1948, reveals a limited connection between national election outcomes and medium to long-term capital market performance. Instead, a more robust and consistent relationship is observed between market returns and economic and inflation trends. Positive market returns have been observed under both Democratic and Republican administrations, with certain divided government scenarios showing correlation, although not statistically significant. This lack of statistical significance implies that altering investment strategies solely based on election results is not justified.

In the upcoming election, the potential policies of the candidates, such as tax cuts and deregulation under Trump or increased environmental spending and potentially higher corporate taxes under Biden, could influence market dynamics based on their previous terms. While election years often introduce heightened stock market volatility due to the uncertainty surrounding outcomes, historical data indicates that the market tends to experience an overall upward trend during these periods. For instance, the S&P 500 has recorded positive returns in 17 of the last 23 election years, with an average gain of approximately 7.05%.

In formulating an investment strategy for the 2024 U.S. election, it remains advantageous to concentrate on broader economic indicators and market fundamentals. While elections can bring about short-term market fluctuations, historical trends suggest that any impact is generally temporary.

Trade Disruptions In The Red Sea

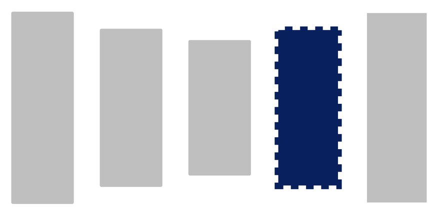
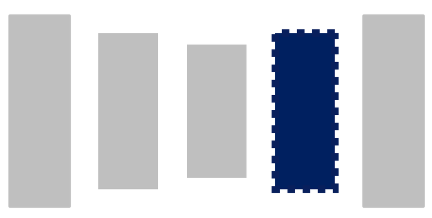
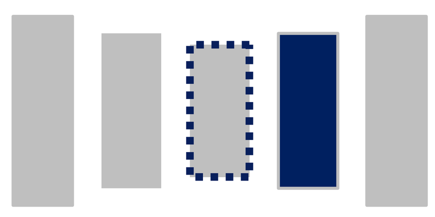
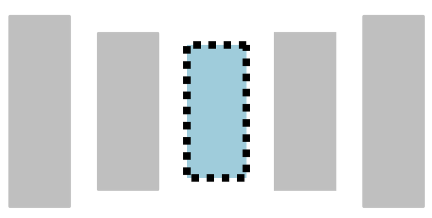
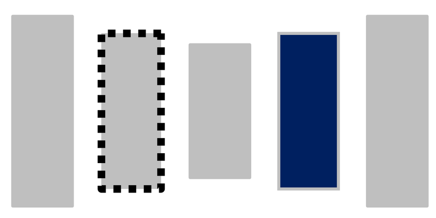
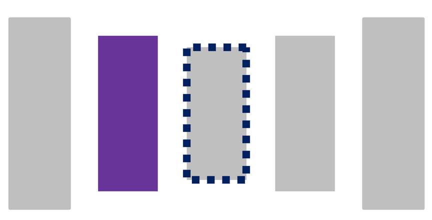
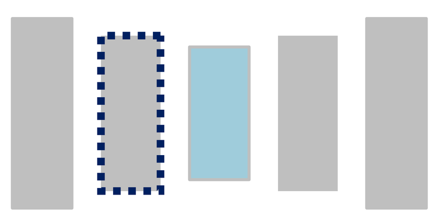
The crisis that unfolded in the Red Sea in October 2023 has significantly impacted the flow of maritime commerce, particularly through the Suez Canal, a pivotal passage for international shipping. This disruption arose due to escalated maritime hostilities by the Houthi movement, characterized by missile and drone attacks targeting vessels in the Red Sea, with the objective of obstructing access to the Suez Canal. The focus of these attacks has been on ships flying the Israeli flag or en route to Eilat, Israel's principal port, as a retaliation against Israeli military actions in Gaza. In response, the United States, the United Kingdom, and other nations, including Italy, have initiated naval defense mission ASPIDES with military strikes against the Houthi forces, both at sea and on land, thus exacerbating regional tensions.

The Red Sea is a critical artery for global commerce, with approximately 12% of the world's trade, including 30% of the worldwide container traffic and goods valued at about $1 trillion annually, passing through it. The Suez Canal significantly reduces the maritime distance between Asia and Europe, underscoring its strategic importance. The heightened security risks have prompted major shipping companies to halt their operations in the Red Sea, opting instead for the considerably longer journey around Africa's Cape of Good Hope. The additional time required to navigate this route ranges from approximately 7.3 days to 14.6 days on average. In some cases, the time more than quadruples: from the port of Odessa to the port of Djibouti it takes 38 days to navigate through the Cape of Good Hope, as opposed to 8 days through the Suez Canal.

This shift has led to a 1.3% decrease in global trade from November to December 2023 and a fivefold increase in shipping costs from Asia to Europe. Furthermore, war risk insurance premiums have increased exponentially. Analysts from J.P. Morgan Research predict that these disruptions could elevate global core goods inflation by 0.7 percentage points and overall core inflation by 0.3 percentage points in the first half of 2024. The diversion of shipping routes adds further pressure to global supply chains already under strain, resulting in higher freight costs and extended delivery times. This situation complicates logistics and inventory management across various sectors, emphasizing the fragility of international trade to geopolitical strife and the importance of establishing more resilient and diversified supply chains and transportation routes.

ASSET CLASSES PREFERENCES

OVERVIEW

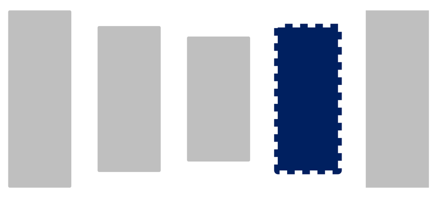
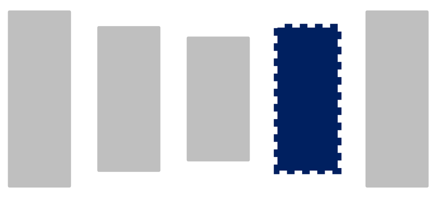
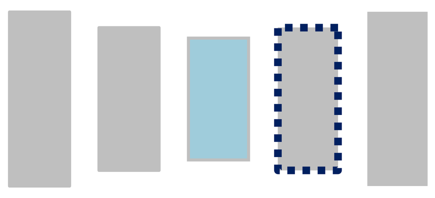
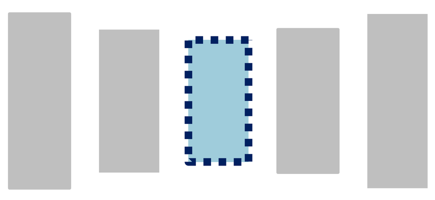
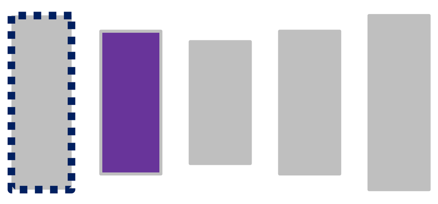
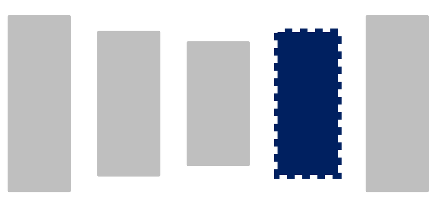
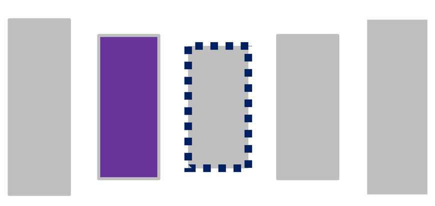
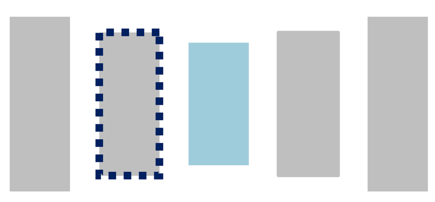
	STRATEGIC VIEW	TACTICAL VIEW	COMMENTS
FIXED INCOME			Generally, we see attractive opportunities in fixed income for the upcoming year, despite potential economic challenges, with a preference for short-term high-quality exposure. Inflation is expected to decrease gradually, though not as swiftly as initially thought, even if the Federal Reserve's projected pivot faces challenges as inflation moves in an unexpected direction, this doesn't spell trouble for the bond market. Instead, potential sell-offs are viewed as strategic buying opportunities, given the trends seen in yields. As the Fed initiates rate cuts, a general downward shift of the yield curve is expected, irrespective of a soft landing or recession. Anticipated shifts in other central banks are likely to drive a transition from cash and money market funds to active market investments, and this is good news in a landscape in which we have acknowledged the strength of demand for credit as it has been evidenced by the smooth absorption of a heavy new issuance volume across most markets.
GLOBAL EQUITIES			The tactical view of equity sector allocation suggests cautious optimism for Emerging Markets, driven by the recovery in the global semiconductor cycle and expectations of Fed rate cuts, despite risks associated with electoral volatility. Meanwhile, while the US equity market is at record highs, concerns linger about overvaluation in AI companies and potential geopolitical tensions. In contrast, the UK faces challenges with stagnant GDP growth and contraction in key sectors, requiring significant reforms for recovery. Overall, sectors like Information Technology and Healthcare show promise, with strong growth potential driven by advancements in AI and Healthcare mergers and acquisitions, offering a mix of defensive and growth characteristics amidst market uncertainties. Consequently, these strategic opportunities suggest a promising upside for global equities.
COMMODITIES			Our outlook for 2024 is moderately supportive, with fundamentals across most commodities ranging from neutral to mildly bullish. The heightened geopolitical environment is expected to persist, adding to this sentiment. Anticipated policy changes by the US Federal Reserve, potentially reversing tightening measures and cutting interest rates, coupled with a weakening USD, are likely to provide additional support to commodities. Regarding oil, our view is neutral due to conflicting signals: while we anticipate production cuts by OPEC+, the United States will sustain oil supply; nonetheless, downward revisions in demand growth remain a concern. LNG prices currently sit at a discount, and we don't foresee an imminent price increase. The potential recovery of the Chinese economy in 2024 could present upside opportunities for metals.
EURO			In 2024, Europe is expected to have a slow GDP growth, particularly in the first three quarters. We expect the Euro to depreciate in the long term. Fiscal policy uncertainty originating from US and EU elections will play a large role in Q3 and Q4.

Underweight Neutral Overweight Previous view

ASSET CLASS BREAKDOWN

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

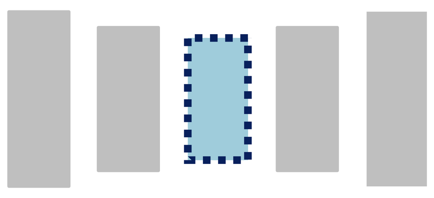
FIXED INCOME

US Treasuries Short duration		We believe that in an environment of lower rates and with eventually the start of the policy easing cycle, the very front-end of the yield curve will drop sharply. However, given the latest dynamics in terms of data releases, we have reason to believe that interest rates are going to stay higher even for longer than previously expected. Moreover, the robustness of the American economy and the relaxation of financial conditions, driven by the market already factoring in initial cuts, should not lead us to underestimate the downside risks.
US Treasuries Long duration		Real yields remain high and the commitment from the FED to keep rates restrictive to bring down inflation should support US duration. It is not clear in which direction we should expect a move from the long-term yields in the future, but we think that the yield surge driven by expected policy rates has likely peaked.
Euro Area Government bonds		Slowing growth suggests cuts could come before markets expect, but the risk of stickier-than-expected inflation in Europe is now priced in the market. While 10-year yields have decreased from their peak levels, the continued expansion of spreads between European peripheral countries' government bonds and the benchmark German Bund still poses a risk.
Global IG Credit		Following a robust rally in credit markets towards the end of the previous year, many investors anticipated a resurgence of weakness driven by supply pressures. Contrary to expectations, Investment Grade spreads demonstrated resilience in January, despite substantial issuance in the first available window. This notable performance can be attributed to robust demand, particularly from the retail sector, and the asset class maintains historically elevated yield levels. We don't see an upside in the asset class in the near future, but we expect it to be resilient despite the market uncertainty.
Global HY Credit		Even if valuations are slightly better with respect to the end of last year, we still expect wider spreads for leveraged credit, as higher-for-longer rates and a lower growth are likely to erode credit quality. We don't think that spread levels are going to compensate the risk of high downgrades and defaults.
EM Government Bonds		Competitive yields combined with the improving economic conditions of some countries make investing in this asset class interesting. We recommend steering clear of countries grappling with both high inflation and deficits. Opting for hard currency investment opportunities over local ones is our preference, considering their relative value and quality and the still general uncertain market conditions.
Inflation-linked Europe		ECB President Christine Lagarde is likely to wait for more data on wages and prices to be sure to reach the inflation target before cutting rates. That being said, we favor the US over Eurozone counterparts, mainly because we believe that markets might be overestimating how long inflationary pressures will persist in Europe.
Inflation-linked US		We have confidence in the Federal Reserve's ability to tame inflation with higher for longer interest rates. Nonetheless, uncertainty is growing around the timeline of rate cuts, with some voices in the market even ruling out a cut in 2024

Underweight Neutral Overweight Previous view

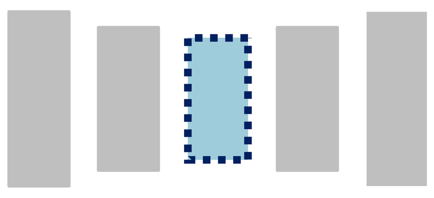
EQUITIES - REGIONS

United States



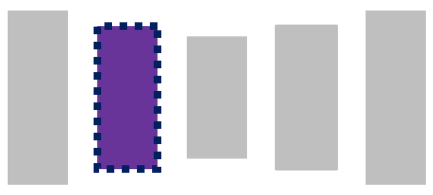
The S&P and NASDAQ have both achieved new records, driven significantly by the success of AI companies like Meta and Nvidia. This surge is additionally backed by a resilient economy, with investors closely monitoring the Federal Reserve's anticipated timing for the first interest rate cut, currently projected for June, as they hope for a soft economic landing. The favorable economic indicators imply a gradual shift from a higher interest rate cycle without the necessity for aggressive rate cuts.
Despite the optimism, it is worth noting that much of the economic landscape is already priced in. There is a possibility that AI companies might be somewhat overvalued, as investors may not be fully accounting for potential issues like the risks associated with energy prices required for AI expansion and geopolitical risks tied to countries, such as Taiwan and other Asian nations, currently dominating chip and semiconductor production for AI technology development.

Europe



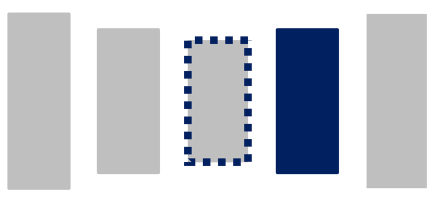
EU GDP growth is forecast to be 1.3% in 2024 and projected to gain further pace to 1.7% in 2025. All in all, a gradual acceleration of economic activity is still possible. As inflation decelerates, real wage growth and resilient employment should support a rebound in consumption. Additional trade disruptions could bring renewed stress to supply chains, hampering production and adding price pressures. On the downside, a more persistent transmission of the still tight monetary conditions could further delay the rebound in economic activity, pushing inflation lower. Climate risks and the increasing frequency of extreme weather events continue to pose threats.

United Kingdom



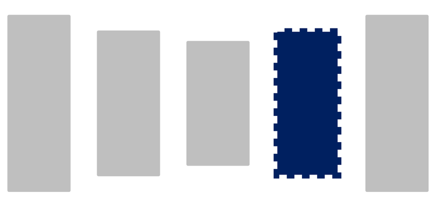
The United Kingdom is facing relevant issues regarding GDP growth: the economy has not grown since 2022, monthly GDP fell by 0.1% in December 2023, looking at a broader picture GDP contracted 0.3% in q4 2023, services output fell by 0.2%, production output by 1% and construction output by 1.3%. The good news regards the increase in real incomes and the downward trend of CPI inflation, likely to fall below the Bank of England's target of 2%. Large reforms, such as an increase in public investment will be needed to escape the current low growth trend.

Japan



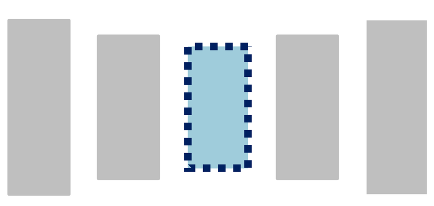
With the Nikkei 225 index hitting an all-time high in February, optimism for the Japanese stock market is back after an over 30-year financial drought. The Nikkei 225 gained an impressive 28.2% last year beating the S&P 500 and other major indices. The recent market boom has enticed foreign investors, and the Japanese market has seen a substantial inflow of foreign capital. The awakening of young Japanese retail investors is also a promising indicator of a profitable future for the land of the rising sun.

China



We expect GDP growth of around 4,5% in 2024. China's future outlook is mainly positive. A possible problem for China in the future is a drop in the working age ratio and total population, which may induce an increase in the retirement age to offset the loss in tax revenue. We believe that China can overcome its recent struggle with deflation and produce a swift recovery in the equity markets. With MSCI China Index 2024 consensus earnings-per-share estimates projecting strong 14.2% growth and the market now being down for three consecutive years we believe it to be a profitable opportunity to enter the Chinese equity markets.

Emerging Markets (excl. China)

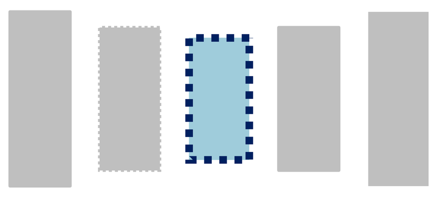


A key catalyst driving earnings in Emerging Markets (EM) this year is the ongoing recovery in the global semiconductor cycle, which is already underway and evidenced by increasing global sales. Additionally, with the market currently pricing in four rate cuts by the Fed over the next year and a weaker dollar historically correlating with EM equity outperformance, pressures on debt, capital flows, and exchange rates are expected to ease, potentially leading to strong performance, particularly in countries like Vietnam, Taiwan, Indonesia, and Malaysia. India stands to benefit from these factors in the long term, albeit to a lesser extent. However, the risks associated with emerging markets are heavily influenced by the volatility stemming from electoral flows this year. Therefore, while the prospects for the sector appear highly favorable, the risks should not be overlooked, prompting us to overweight this sector cautiously.

Underweight Neutral Overweight Previous view

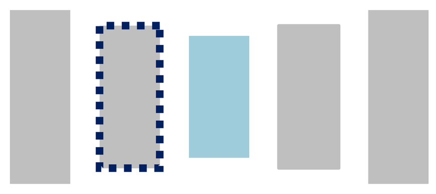
EQUITIES - SECTORS

Telecom



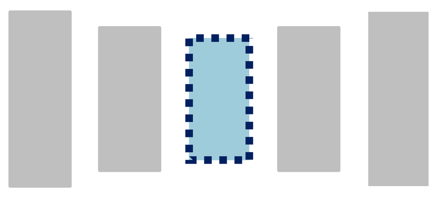
In 2024 a major role for the telecom industry will be played by CSPs (cloud service providers), who are evaluating what it takes to implement generative AI. US consumers will enjoy far more options for broadband connectivity, more than double the amount previously available. To reduce their environmental impact and uphold their social responsibility, telecom operators are set to adopt sustainable technology solutions and increasingly track their progress and impact.

Consumer Discretionary



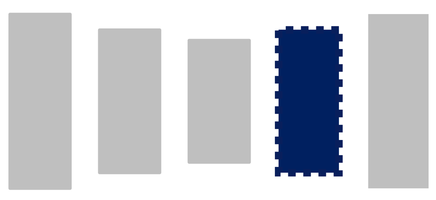
In 2024, sector-level performance will likely continue to be driven by macroeconomic crosscurrents. Lower inflation and a pause or end to the Fed's rate-hike cycle could benefit the sector, as consumers might be more likely to purchase big-ticket items such as automobiles or houses. Better still for the sector could be a scenario in which the economy sidesteps a recession, and the labor markets remain strong. If the US does enter a recession and consumers pull back their spending, consumer discretionary stocks could face considerable pressure.

Consumer Staples



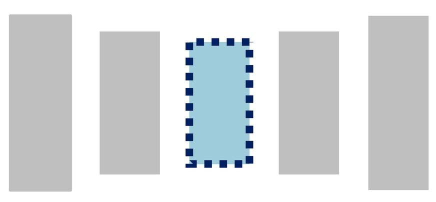
Seen as a historically defensive sector with very inelastic demand, the consumer staples sector could have a better year ahead of it compared to 2023. Valuations in the sector have looked compelling compared to the broader market and to sector history. In addition, any possible decline in interest rates later this year could also boost the attractiveness of dividend-paying consumer staple stocks.

Industrials



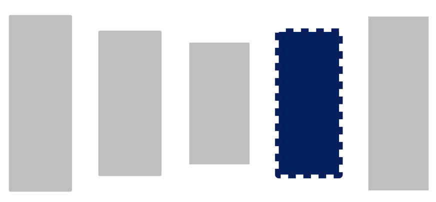
Although lagging behind the S&P 500, the industrials sector had a positive 2023. For 2024, we are overall bullish about the sector for a few reasons. Certain macro factors such as government spending on infrastructure and business consolidation have the capacity to support sustained growth in the near future. Additionally, an economic upturn could act as a catalyst for segments of the industry that are particularly responsive to economic changes. Moreover, we are bullish on companies involved in the green transition, especially those focusing on electrification and cables. However, it is worth noting that while the green transition presents significant long-term opportunities, it is probable that these companies may need to wait several years before seeing substantial performance gains from this shift in focus.

Energy



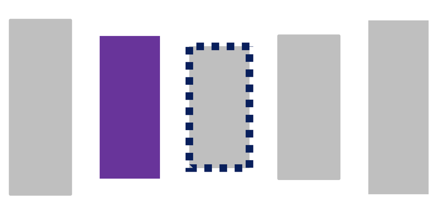
Last year was slow for the energy sector. We believe 2024 could prop up the energy market due to a few catalysts. Oil prices are likely to remain elevated in 2024 due to heightened geopolitical risk, supply constraints from OPEC and growing demand, which should generally support profitability among oil and gas producers. A wave of new investments in energy production also contributes to our positive outlook for the sector although it will require time for full implementation.

Information Technology



In recent years, the technology sector has witnessed substantial growth, fueled by significant advancements in artificial intelligence (AI) that have sparked renewed interest among investors. The emergence of generative AI, with its transformative potential, presents a challenge in terms of the time required for companies to seamlessly integrate it into their operational workflows, necessitating an extended period for adoption. The progression of AI adoption is likely to unfold through various stages, each offering distinct investment opportunities as companies grapple with the complexities and possibilities inherent in this evolving technology. Notably, the tech sector's one-year price return (as of end of February 2024) stands at over 60%, surpassing the S&P's 30%. This robust performance suggests a plausible trend continuation in the coming years.

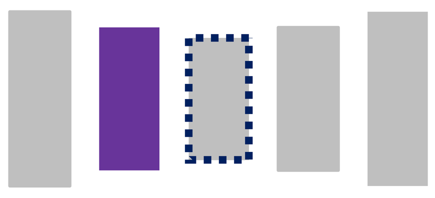
Financials



The financial sector in equities presents a complex picture. While lower interest rates might limit the traditional profit boost banks receive from charging higher loan interest, it could also improve the borrowing environment for businesses and consumers, potentially stimulating loan demand. Fintech companies, already experiencing growth, could see continued momentum as they offer innovative financial solutions. However, concerns about a potential economic slowdown and loan defaults remain. Overall, the outlook for financials is still uncertain and hinges on the broader economic performance.

Underweight Neutral Overweight Previous view

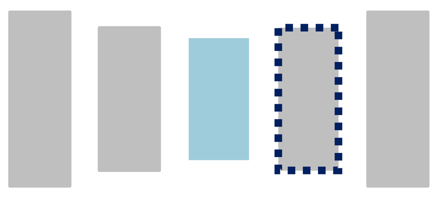
Healthcare



In 2023, hospital and health system mergers and acquisitions surged by 27%, a trend likely to continue into 2024 as organizations seek growth. No matter where US markets are headed next, the health care sector can offer a combination of defensive and growth characteristics that may be attractive in a variety of scenarios. Significantly, Novo Nordisk, the developer of the new weight loss medication Ozempic, along with emerging companies focusing on innovative weight loss drugs, are poised for potentially robust performance in the coming years. This is fueled by the growing market demand for effective solutions in addressing weight management.

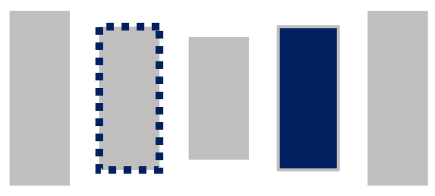
CURRENCIES

US Dollar



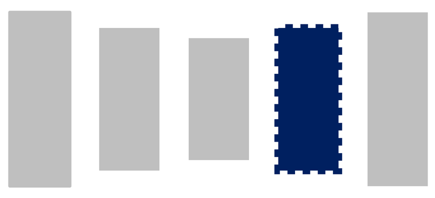
On one hand, the caution expressed in the FOMC minutes and in Powell's statements reveals that the Federal Reserve is aware of the risks of moving too quickly to ease the policy stance, resulting in a resilient dollar. On the other hand, the PCE data, released on February 29 2024, indicates that US inflation moderated in January, leading to a depreciation of the dollar.
In conclusion, especially considering that June appears to be the probable starting point of the Fed's rate-cutting cycle, we maintain a neutral view on the US dollar.

UK Pound



Chancellor Jeremy Hunt's strategic move to cut Employee National Insurance tax by 2% in the UK Budget 2024 aims to secure voter support ahead of the general elections that will take place no later than January 28, 2025. However, this fiscal stimulus may heighten inflationary pressures, currently at 4%, potentially prompting the Bank of England (BoE) to prolong its benchmark interest rates at 5.25%. Considering that ECB and FED will likely cut interest rates this year, we could expect an appreciation of the UK pound.

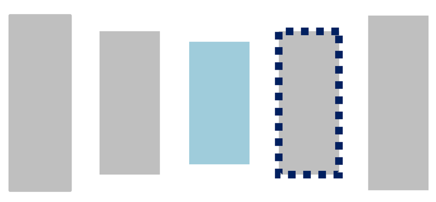
Japanese Yen



The Bank of Japan is likely to begin the normalization of its monetary policies in April 2024 after the spring wage negotiations. Wage inflation, together with an increase in inflation expectations will lead inflation in positive territory for a prolonged period. The USDJPY exchange rate reached 150 again in January, as markets were expecting rate cuts by the FED sooner than the reality. The prolonged weakness of the yen, together with an improving macroeconomic outlook will induce an increase in interest rates from the current -0.10%.

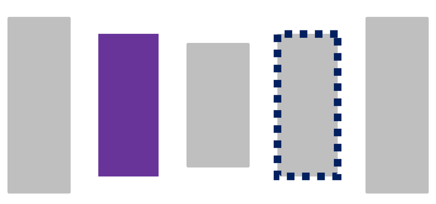
COMMODITIES

Oil



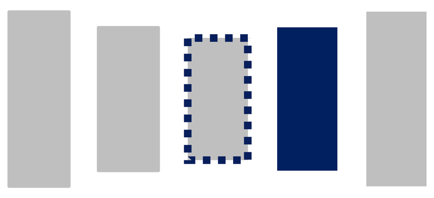
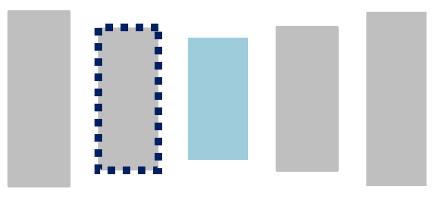
Although we expect cuts by OPEC (as pledged by Kuwait and Algeria), considering the latest IEA report, we anticipate an ample oil supply for 2024, notably provided by the Americas, namely the US, Canada and Guyana. On the other hand, the oil demand is expected to grow in the following period. However, OPEC's constant downward revisions on projected demand growth in 2024 disincline us to express a positive view on oil. Our bearish stance is offset by possible inflation risks during rate cuts in the subsequent quarter and the Chinese recovery. Hence, we foresee a price movement within the current range, yet we remain cautious about possible conflicts in the Middle East.

Natural gas



Due to the lower count of expected heating degree days compared to the 10-year average and 15% higher-than-average inventories of US Natural Gas around 1910 BCF (Billion Cubic Feet), despite increased consumption, we don't expect higher natural gas prices anytime soon. A recent negative long-term outlook by Shell accompanies this view on LNG, as China's industrial decarbonization goals and cheaper alternatives to LNG in emerging Asian countries put downward pressure on global demand. Despite all bearish developments in the natural gas industry, we see a possible opportunity to take advantage of the already discounted market. Thus, we choose to stay neutral and carefully monitor the prices.

Underweight Neutral Overweight Previous view

Industrial metals		We have a positive outlook on industrial metals prompted by signs of recovery of the Chinese economy. We expect industrial metals to grow fueled by construction and technological innovation. However, a note of caution must be made concerning lithium: excessive supply of this material and slowing demand for EVs in China are causing lithium’s prices to plummet.
Gold		Gold continues to serve as a hedge against inflation and remains an effective portfolio diversifier. On March 1, 2024, gold prices surged, setting a new all-time high. Expected cuts in interest rates by the Fed may lead to a depreciation of the U.S. dollar, potentially resulting in an appreciation of gold. However, such rate cuts are not expected to occur before Q3. Consequently, we are currently neutral on gold, as we continue to closely monitor its performance.