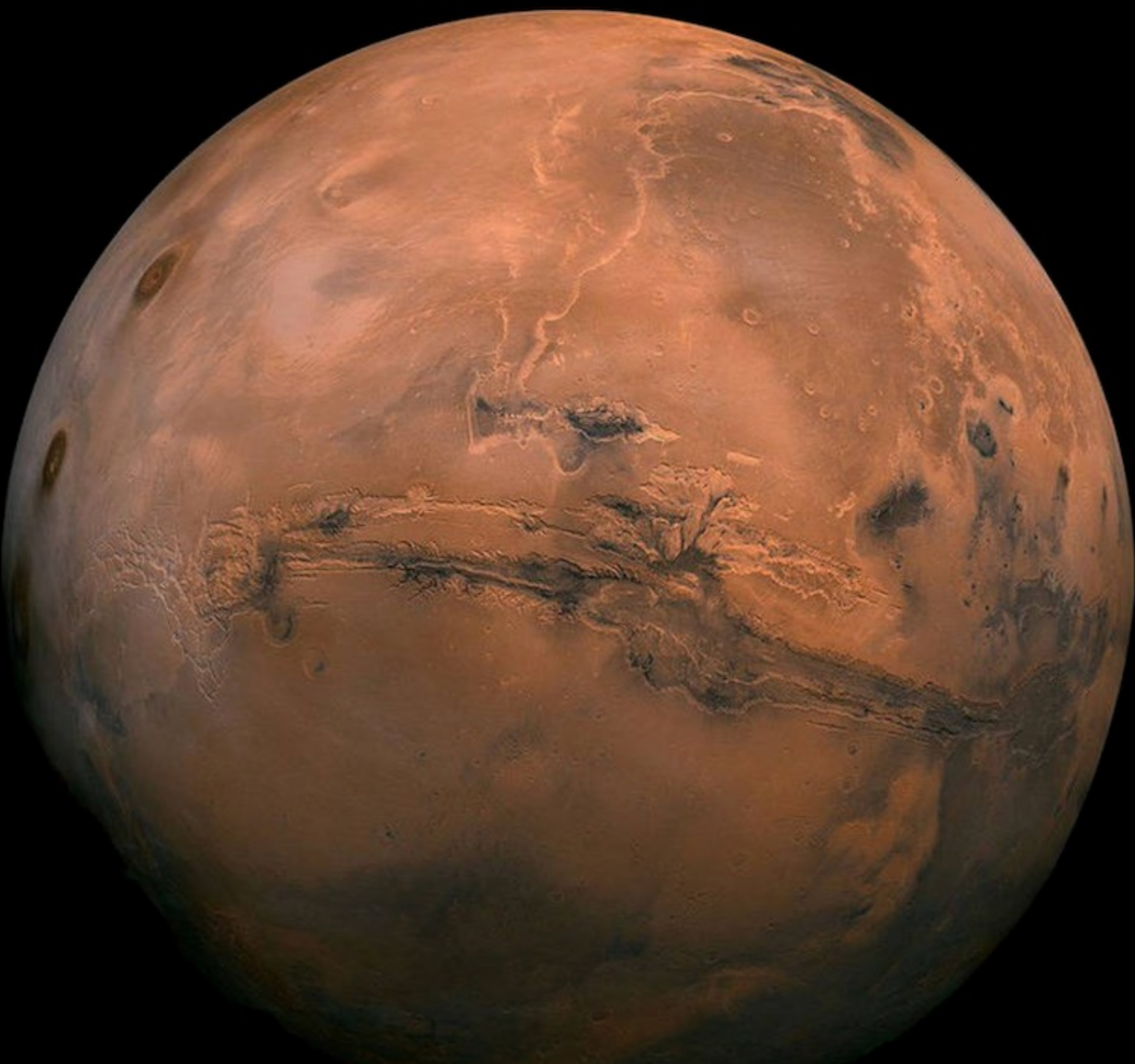
Investment Research

Global Outlook

May 2024



Contributors

Marco Neri
Head of Investment Research
marco.neri2@studbocconi.it

Giovanni Porporino
Fixed Income strategist – Lead
giovanni.porporino@studbocconi.it

Marco Caccia
FOREX & Commodities – Lead
marco.caccia@studbocconi.it

Nicolas Carlone
Equities strategist – Lead
nicolas.carlone@studbocconi.it

Lorenzo De Felice
Fixed Income strategist
lorenzo.defelice@studbocconi.it

Elia Marenco
Equities strategist
elia.marenco@studbocconi.it

Giovanni Francescato
Fixed Income strategist
giovanni.francescato@studbocconi.it

Lukas Louhiluoto
Equities strategist
lukas.louhiluoto@studbocconi.it

Giuseppe Provenzano
Fixed Income strategist
giuseppe.provenzano@studbocconi.it

Bartu Sen
FOREX & Commodities strategist
bartu.sen@studbocconi.it

Alessandro Palasciano
FOREX & Commodities strategist
alessandro.palasciano@studbocconi.it

Massimo Biavardi
FOREX & Commodities strategist
massimo.biavardi@studbocconi.it

MARKETS REVIEW

Macro Outlook

United States:
The economic outlook in the US is now looking weaker than in the last months: recent data releases show that GDP growth in the first quarter of 2024 has slowed down to 1.6% compared to the 2.5% expectations. The fall was mainly driven by decreases in exports, consumer spending and government spending. On the other hand, inflation is picking up again: the annual inflation rate in March has accelerated for the second straight month to 3.5%, above the expectations of 3.4%. The personal consumption expenditure index (PCE) has grown 3.4% in Q1 2024, significantly up from the 1.8% in the last quarter of 2023. Data raise questions on whether the Fed has achieved a soft landing, with strong growth and inflation back to its 2-percent target. Instead, concerns are arising about possible stagflation, a stagnant economy with high inflation. At the same time, data on employment in March have remained similar to the previous month: unemployment was at 3.8% compared to the 3.9% expectation and February's figure. This indicates a labor market which is still strong despite the tight monetary policy. However, there are some signs that it is cooling: the pace of monthly job gains has slowed significantly over the last two years and layoffs are rising. The Fed has maintained the key interest rate between 5.25% and 5.50% in the last few months, while analysts were predicting several cuts in 2024. This outlook is now looking more unlikely: markets are currently expecting the first cut in September 2024, and the following ones in 2025. Concerns remain about another rate hike if inflation persists.

Canada:
After a stagnant growth in the last quarter of 2023, GDP seems to have rebounded in the first months of 2024: GDP expanded 0.6% in January and 0.4% in February, exceeding forecasts. On the other hand, the annual inflation rate went up to 2.9% in March driven by higher gas prices, while CPI increased by 0.6%, largely below expectations. The Bank of Canada has held its benchmark interest rate at 5% in the last meetings. The first cut is expected in June and the median forecast for the rate at the end of 2024 is unchanged at four percent. Bets on a June rate cut were spurred also by weak jobs data: the unemployment rate jumped to a 26-month high of 6.1% in March.

Euro Area:
In the Eurozone, inflation seems to have cooled down in the first months of 2024: in April the annual inflation rate was 2.4%, steady from March and in line with expectations. While food and energy prices are declining, there is still strong price pressure in services. Core inflation decreased to 2.7%, hitting a two-year low. The ECB consumer expectations survey in March also showed that the rate of perceived inflation over the next 12 months decreased from 5.5% to 5.0%. At the same time, the unemployment rate remained steady at 6.5% in February. The economy in the Eurozone remained weak in the first quarter of 2024, with limited production especially in energy-intensive sectors. Financing conditions remain restrictive and credit dynamics show weakness: in February, average business loan rates slightly declined to 5.1% from 5.2% in January, while mortgage rates increased from 3.8% to 3.9%. In February, bank loans to businesses increased 0.4% YoY from 0.2% in January. In the last meeting, the ECB kept its benchmark interest rate constant at 4.5% but sent clear signals that rate cuts are coming, as Europe's economy languishes. The first cut will probably be in June, at least three months earlier than an expected move by the Fed. Two more cuts in 2024 are likely, with markets expecting 75-100 bps of cuts by the end of the year, less than previously thought.

Russia:
The Russian economy is proving to be resilient: Moscow's new GDP growth forecast for 2024 is 2.8%. The strength is not due only to a massive military build-up: consumer spending is supported by a strong labor market (the unemployment rate is 2.8%) and by wage rises. Moreover, sanctions on Russian energy are not very tight, as Western countries do not want to trigger a further surge in oil prices. Other sanctions on trade have proved to be quite ineffective. However, there are also some signs of overheating as inflation remains extremely high: the inflation rate was 11.9% in 2022, 7.4% in 2023, and is expected to remain above 5% in 2024. Therefore, the central bank has kept its key interest rate at 16% but expects it to be between 13.5% and 15.5% at the end of the year.

Macro Outlook

China:

In the first quarter of 2024, China posted a higher-than-expected YoY GDP growth rate of 5.3%. The government set a 5% increase in GDP as its target, but it is facing some concerns. The crisis in the property sector is not improving, house construction and completion continue to worsen, and real estate investments are down 10.5% on a monthly basis. Additionally, inflation in March, 0.1% compared to last year, was worse than expected, exposing China to a deflationary problem. The market is waiting for a strong package of fiscal helps, which however might be delayed, as China sees a deterioration of the fiscal outlook, driven by local governments and investment vehicles' debt.

Japan:

In the last quarter of 2023, Japan's Real GDP grew by 0.1%, while nominal GDP grew by 0.4%. However, demand indicators looked more worrisome, with declines in private consumption and in corporate investments, which are traditionally indicators of demand growth. For Japan, 2024 is going to be an important year to understand if the surge in inflation is going to be passed to consumers. Trade unions are demanding wage increases of 6%, and some corporates offered even higher wages. Forecasts are now expecting real GDP growth of 0.6% in 2024 and 1.3% in 2025, driven mainly by domestic demand. However, the role of inflation expectations on citizens is going to be crucial, as for a long time citizens had embedded the idea of a 0% inflation rate.

UK:

In February, the UK economy expanded by 0.1% MoM. Inflation in March was 3.2% YoY, continuing the disinflationary trend for most of the components, excluding services, which keep being sticky. The monthly growth is in line with expectations of the avoidance of a technical recession, vacancies are decreasing but they are not matched with an increase in unemployment, which is at 3.8%. Consumers are increasing their spending thanks to the disinflationary trend and the savings built up during the pandemic. The British economy is expected to grow by 0.5% in 2024 according to the IMF, with the BoE cutting twice, as inflation is expected to be around 2.5%.

Q1 2024 Earning Season: Banking Industry

The first quarter of 2024 has unveiled a mixed bag of financial results for major banks, reflecting the intricacies of the current economic landscape and market conditions. As JPMorgan Chase, Citigroup, and Wells Fargo disclose their earnings, along with the vigilant monitoring of European banks amidst expectations of rate cuts and economic headwinds, analysts are piecing together the puzzle of the banking sector's performance and future trajectory.

JPMorgan Chase faced a significant decline of 6.5% in its share price on Friday, April 12th (the day of the Earning release), marking its worst single-day percentage loss since June 2020. Despite these challenges, the bank's card-volume growth accelerated in the first quarter, offering a glimmer of hope amidst market turmoil. Chief Financial Officer Jeremy Barnum's commentary on the bank's real estate portfolio underscores its resilience in navigating remote work challenges while maintaining a cautious outlook.

In contrast, **Citigroup**'s first-quarter earnings demonstrated progress in its transformation efforts, with notable revenue growth in its retail banking segment. Although net income for the period decreased from the previous year, the company's performance exceeded analyst expectations, driving a 2% increase in premarket trading. CEO Jane Fraser's emphasis on organizational simplification underscores the bank's commitment to strategic alignment and operational efficiency.

Wells Fargo grappled with downward pressure on its stock price amidst concerns about future earnings prospects in a low-interest-rate environment. Despite mixed results in its first-quarter earnings report, the bank's emphasis on noninterest income highlights its resilience in mitigating challenges. However, market concerns persist regarding its ability to maintain future guidance amid ongoing uncertainties.

On a different note, **State Street** showcased resilience in its first-quarter earnings, boasting solid growth in assets under custody and management. The company's ability to capitalize on market opportunities and drive revenue growth reflects investor confidence in its performance and growth prospects.

Meanwhile, **Goldman Sachs** reported robust financial results for the first quarter of 2024, with strong net revenues and earnings. Despite market challenges, the company's resilience and profitability underscore its strategic focus on delivering value to shareholders amidst evolving market conditions.

In Europe, investors are closely monitoring bank earnings amidst expectations of rate cuts and economic uncertainties. The recent drop in expectations for rate cuts may provide unexpected support to European banks, although challenges persist, particularly in the commercial real estate sector. Analysts remain optimistic about the potential for strong earnings growth in European banks, driven by higher rates and contained bad loans.

Indeed, **Deutsche Bank** reported a 10% YoY rise in first-quarter profit, beating expectations. Bolstered by a robust recovery in its investment banking unit, the bank's net profit of 1.275 billion euros marks its highest since 2013. Despite positive momentum, analysts caution that while investment bank figures shine, corporate and asset management division lag, underscoring the need for sustained strategic focus amid evolving market conditions.

Moreover, despite a 20% dip in fixed income trading revenue, also **BNP Paribas** surpassed Q1 profit expectations, propelled by cost reductions and strong global banking performance. While some analysts noted Fixed Income Currencies and Commodities underperformance, BNP Paribas' rigorous cost management garnered praise, signalling a promising start to the year and renewed optimism for achieving ambitious full-year earnings targets.

Barclays' first-quarter earnings also beat forecasts, driving a notable 7% surge in shares and signalling a successful return to profit amid strategic restructuring efforts. Despite a 12% YoY dip in pre-tax profits, the bank's commitment to overhaul plans, including investment in its consumer business and the Tesco Bank acquisition, underscores a disciplined execution strategy. Analysts view this as a promising start, reaffirming Barclays' ambitions for profitability targets and its commitment to reshaping its valuation narrative for shareholders.

In conclusion, the financial reports of major banks offer a snapshot of the complex landscape characterized by market volatility and evolving economic conditions. As banks navigate these challenges, their ability to adapt to changing market dynamics and deliver sustainable growth will be paramount for long-term success.

Who’s Buying US Treasuries?

In 2024, a significant portion of the U.S.'s outstanding public debt, amounting to $7.6 trillion, is due for renewal in a higher interest rate environment. This comes amid projections of a $1.9 trillion deficit by the Office of Management and Budget (OMB), which also forecasts a budget deficit amounting to 5% of U.S. GDP over the next decade.

Interest expense on the United States' $33T debt just crossed $1T on an annualized basis. Federal receipts are $4.4T, which means almost a quarter of all revenue is consumed by interest. Interest expense has doubled over the past two years and will probably move higher with the remaining of 2024 auction activity.

Looking ahead, Treasury auctions are set to increase by an average of 35% across the yield curve in 2024, with a more pronounced uptick in shorter maturities. Notably, a considerable portion of this issuance comprises T-bills. The dominance of T-bills reflects the current Treasury buyers' composition which sees households, mutual funds, and pension funds increase their shares and the Fed shrinking its balance sheet, letting $60bn worth of bonds mature every month. Households and real money are indeed attracted by the high rates on short maturities. At the same time, the Treasury is discouraged from issuing long-term notes due to the lack of demand by the Fed, which has traditionally been one of the main buyers of long-term bonds, especially in recent years.

Of the $33 trillion national debt, approximately 78% is held by the public, with the U.S. accounting for 70% and international entities for the remaining 30%. Inter-government agencies, including Social Security and Medicare, hold the remaining 22%. Major U.S. public holders encompass entities such as mutual funds, banks, states, pension funds, and insurance companies, alongside the Federal Reserve, which holds $6 trillion, though it has ceased further purchases. Over the past decade, international appetite for U.S. debt has dwindled, dropping from 40% to the current 30%. Key international holders, including Japan with $1.1 trillion, China, the UK, Belgium, Switzerland, and the Cayman Islands, alongside other nations, have seen reduced buying activity. Recent weak treasury auctions have prompted U.S. officials to voice concerns about declining demand from international buyers, with China net selling and Japan reaching its limits. Additionally, the strength of the U.S. dollar against other currencies incentivizes international holders to sell U.S. debt and reinvest in their own currencies, bolstering their value.

Since the Federal Reserve initiated its hiking cycle in March 2022, a discernible trend has emerged in the Treasury market. While U.S. households and institutional investors are actively purchasing Treasuries, both the Fed and foreign entities are reducing their holdings. This shift in buyer dynamics is notable, with households showing a preference for short-term debt while the Fed focuses on longer-term bonds. Indeed, a recent trend has been the large issuance of T-bills as opposed to the relatively small issuance of long-term notes. This has been the consequence of the Fed’s recent Quantitative Tightening. However, a slowdown in QT is expected in the coming months. A return of the Fed in the market could also, over time, change the composition of Treasury issuance, with longer-term debt securities gaining a larger share after increases in their sales were contained in recent months. This would happen as the Fed gains buyer’s share against households so that longer-term notes can be successfully auctioned, instead of shorter-term bonds.

Moreover, there has been a significant transformation in the buyer base for U.S. Treasuries, transitioning from yield-insensitive entities such as sovereign wealth funds and central banks to yield-sensitive buyers like U.S. households, pensions, and insurance companies. However, this shift poses potential challenges, particularly when the Fed considers cutting rates, as it could diminish demand from yield-sensitive buyers, potentially leading to a steeper yield curve. Additionally, the absence of historically steady investors, including foreign governments, U.S. commercial banks, and the Federal

Reserve, is becoming increasingly apparent. In their absence, hedge funds, mutual funds, insurers, and pensions are stepping in. Observers of the market are quick to highlight that this new buyer base is likely to demand a significant premium to finance the burgeoning deficits, especially with debt sales poised to surge.

Declining rates and a slowdown in QT might lead to the reversal of some of the trends mentioned so far. Households, mutual funds, and pension funds might start to find Treasuries less attractive, and this might keep yields higher for longer even if the federal funds rate is lowered by the Fed. At the same time, if the Fed comes back in the game, the Treasury might be able to finance its debt with longer maturities. A scenario where the Fed turns back to being a net buyer of Treasuries is indeed not such a far-fetched hypothesis given the projected size of U.S. deficits over the next years (be it a Republican or a Democratic government, it probably will not matter). The return of bond vigilantes and the fear of a Liz Truss-style crash is likely to give the Fed the necessary reasons to step back in over the next months.

Indian Elections

The upcoming Indian general elections are set to be the biggest democratic elections in history, with an estimated 960 million people eligible to vote. The elections started on April 19th and will go on until June 1st, 2024. They will elect the 543 members of the 18th Lok Sabha, the lower house of India's bicameral Parliament. The current prime minister, Narendra Modi, who completed his second term, is contesting for a third term.

The main competing parties are the right-wing BJP (Bharatiya Janata Party), led by Modi, and the center to center-left INC (Indian National Congress), led by Mallikarjun Kharge. The two parties will compete for majority in the Lok Sabha, which will be achieved by attaining 272 seats out of a total of 543 seats. In the last elections in 2019, BJP attained a clear majority of 303 seats, rewarding Modi with a second consecutive term as the prime minister. Indian politics has become increasingly bipolar, with two main alliances: the NDA (National Democratic Alliance), with its biggest party being BJP, and the opposition INDIA (Indian National Developmental Inclusive Alliance), with its biggest party being INC.

Narendra Modi has held the seat of prime minister since 2014. Before Modi's first term, India's economy was considered to be a part of the "Fragile Five" of emerging-market economies due to its reliance on foreign capital to fuel its economy. A decade later, after Modi's two terms as PM, India is considered one of the world's fastest-growing economies, with an expected GDP growth in 2024 of 6.8% (Moody's), the highest of the G20 countries. Between 2014 and 2024, India's economy has achieved, on average, 5.6% in compound annual growth. Due to this stellar growth, a significant poverty reduction, and infrastructure development, Modi is a clear favorite to hold the seat for a third consecutive term.

Modi's re-election has some possible risks that, if realized, could trump India's growth. Firstly, Modi is Hindu, and in the past, naturally, it has affected his decision-making when considering religious questions in India. India has a long history of religious division between Hindus and Muslims. Modi denies any discrimination, but the Muslim minority of India has been and most likely will continue to be marginalized if Modi stays in power. Under Modi, a squeeze on free expression and opposition has been a feature of recent years, especially since BJP's second win in the 2019 Lok Sabha polls. Recent arrests of opposition leaders, including Arvind Kejriwal, by the Enforcement Directorate and the bank account freezing allegation by the Congress, the principal opposition party, have highlighted Modi's powerful and potentially harmful grip on power.

If Modi were to make his discrimination against Muslims more evident, he would force Arab and Muslim countries, including Saudi Arabia and Iraq, to sever ties with India. This could have significant implications for India's trade, as it is a crucial oil buyer and Saudi Arabia and Iraq are some of its biggest suppliers. Furthermore, India's relationship with the West suffered as a consequence of persistent purchases of oil from Russia despite the conflict with Ukraine. If Modi manages to keep ties with the world's major economies, India's strong population growth, advanced and meritocratic education, a flood of foreign investments, and structural reforms would offer investors very tempting opportunities to get a piece of India's amazing growth.

Cocoa Crisis: Climate Change, Speculation And The Rising Cost Of Chocolate

Adverse weather conditions have significantly influenced the escalating global cocoa prices in West Africa, the hub of cocoa production. Ivory Coast and Ghana, which collectively account for about two-thirds of global cocoa bean output, have experienced extreme and destructive weather conditions due to El Niño—a climatic event that sporadically elevates sea temperatures and affects weather systems. This phenomenon recurs roughly every three to five years, bringing atypical heavy rainfall followed by dry heat. This resulted in a significant reduction of the cocoa crop by 11% compared to the previous season, as reported by the International Cocoa Organization.

Furthermore, the Ghana Cocoa Board (Cocobod), the government regulator that sells beans forwards, began talks with traders to roll over to the next season, starting in October, up to 250,000 tons of cocoa beans, according to two people with direct knowledge of the talks. Its Ivorian counterpart similarly asked traders to wait for the delivery of 130,000 tons. According to Abubakar, a board member of the Cocobod, there are no beans left to be sold; he also added that brokers can sell only by defaulting on other contracts, remarking on the absence of beans to sell.

This decline in production has triggered a surge in cocoa futures in New York, with prices more than doubling this year and reaching new record highs almost daily. The situation is exacerbated by illegal gold mining, poor management within the sector, continuous underinvestment in cocoa farming and processing, and widespread diseases affecting cocoa plants. These elements combined have created a perfect storm, leading to low supply and soaring prices. Moreover, the involvement of hedge funds, engaging aggressively in cocoa futures, has intensified the price escalation due to the high level of speculation. These elements suggest that these challenges are long-term and unlikely to be resolved in the short term with seasonal changes.

In response to these pressures, in 2019, the Ivorian Conseil du Café-Cacao and the Ghana Cocoa Board, which collectively regulate cocoa pricing, formed an export cartel similar to the oil organization OPEC. This move was aimed at exerting greater control over cocoa prices. Additionally, Ivorian farmers are now crossing borders into Liberia in search of land, leading to the plantation of unauthorized cocoa trees and subsequent smuggling of cocoa beans back into the Ivory Coast. This practice undermines European efforts to combat deforestation and poses significant environmental and economic challenges.

These same regulators from Ghana and Côte d'Ivoire increased the set prices paid to farmers, going from 50 cents to $2.48 per kg, to incentivize plantation and boost yields. Other maneuvers involved the Cocobod starting from February 2024 when they secured a World Bank loan of $200 million to rehabilitate plantations affected by the cocoa swollen shoot virus. The board acts by taking over the disease-ridden farms, removing and replacing the affected cocoa trees, and nurturing the new plantations to the fruiting stage. This practice of Cocobod taking out loans to assist farmers is a longstanding one in Ghana, since in 2018 Cocobod used part of a $600 million loan to rehabilitate aging plantations. Another essential measure has been the activation of a task force to shield cocoa farmers from illegal miners.

At the farm level, although the rise in prices may initially appear beneficial to farmers, the reality is not straightforward. A decrease in output leads to fewer harvests on average, which means that, overall, farmers are not earning more. This issue is compounded by recent economic challenges in West Africa, such as high inflation and currency devaluation, particularly in Ghana. These factors have resulted in farmers becoming poorer.

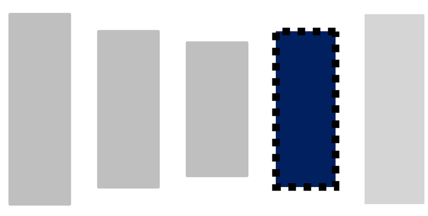
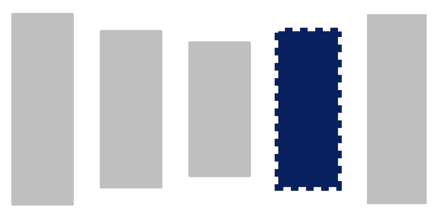
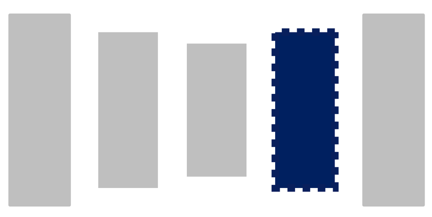
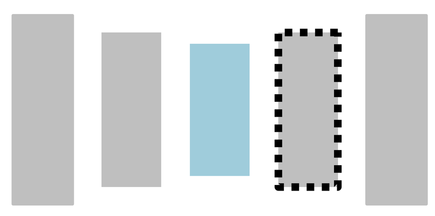
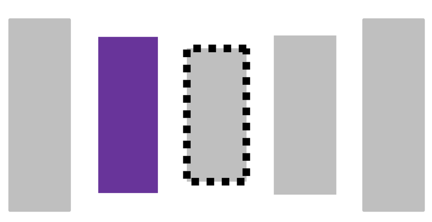
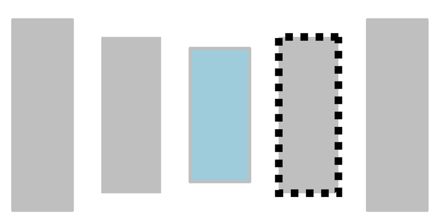
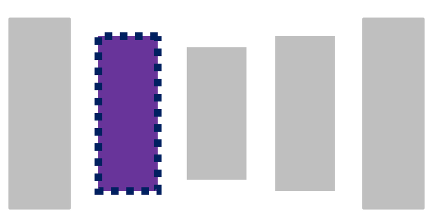
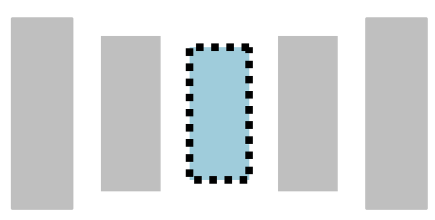
Another impact of the output decline is a reduction in local processing. Major African processing facilities in Côte d'Ivoire and Ghana have either ceased operations or reduced their processing capacity as they cannot afford to purchase beans. This, in turn, adversely affected the local production units that have been emerging in recent years.

Many experts find it inevitable that chocolate makers will eventually turn to cocoa alternatives; as a matter of fact, the transition is already underway with the rise of cocoa butter equivalents, cocoa extenders, and artificial flavors, such as synthetic or nature-identical flavors that replicate the taste of cocoa.

The impact of the surge in cocoa prices caused by these several factors is likely to be extensive for consumers. In 2023, many chocolate manufacturers absorbed the initial price hikes and relied on existing stockpiles to shield consumers from the price increases. However, as these reserves shrink, companies will face no alternative but to transfer these higher costs directly to consumers. This situation indicates that for consumers of chocolate worldwide, the worst has yet to come, with chocolate becoming a more expensive commodity due to the global cocoa production crisis.

ASSET CLASSES PREFERENCES

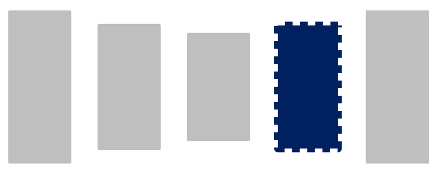
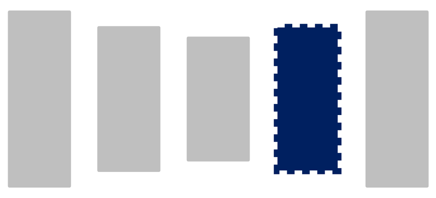
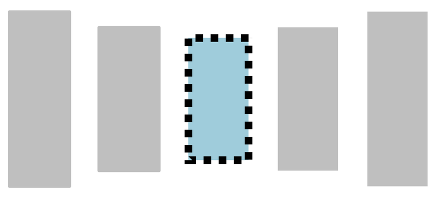
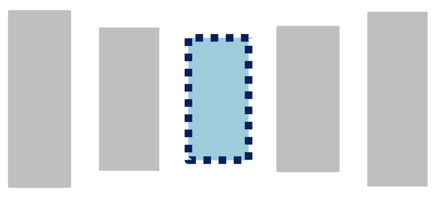
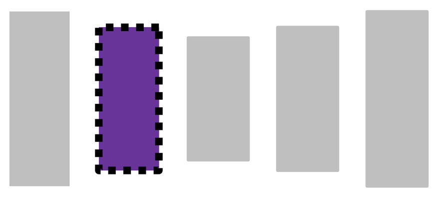
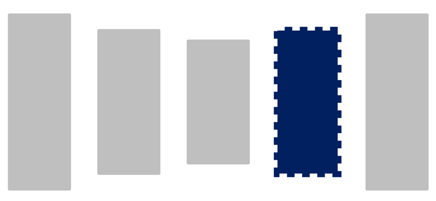
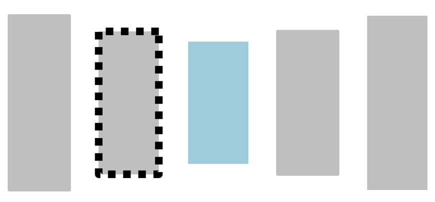
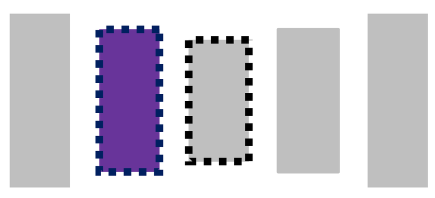
OVERVIEW

	STRATEGIC VIEW	TACTICAL VIEW	COMMENTS
FIXED INCOME			Looking ahead, the fixed income market looks promising despite some economic uncertainties. Initially, we expected a drop in short-term rates, but surprising inflation has made us rethink; rates might stay high longer than anticipated. The U.S. economy remains strong, and while we're positive about extending durations, we're treading carefully. Long-term U.S. Treasuries are backed by high real yields and by the Fed's tough stance on inflation. In Europe, we are neutral as we predict stability in government bond yields and no major policy shifts. On the credit front, investment grades show solid fundamentals, though the high yield sector faces risks from increased defaults, demanding a selective investment approach. Meanwhile, emerging market bonds are attractive, supported by lowering rates and strong fundamentals.
GLOBAL EQUITIES			Strategically, overweighting equities seems prudent amid potential inflation resolution, despite persistent inflationary trends in the last quarter. Uncertainties like the Ukraine conflict may linger, yet economic recovery in major European and Asian economies, notably Germany and China, signals optimism. These powerhouses' momentum could catalyze growth and investment. Despite geopolitical risks, allocating strategically to equities could capitalize on the expected global economic resurgence. Navigating the current equity terrain requires a cautious stance amid heightened volatility, largely driven by inflation concerns, notably in the US. Geopolitical tensions, like those in Ukraine and the Middle East, add uncertainty. Investors face challenges with potential sudden market shifts, compounded by historic index highs, hinting at a plateau or correction. Prudence entails assessing risk and investment strategies to mitigate downturns while seizing emerging opportunities
COMMODITIES			Due to geopolitical tensions, prices of oil and gold have reached a strong increase. Some special concerns are also due to geopolitical tensions involving the Strait of Hormuz, which is an important supply bottleneck for oil and, most importantly, natural gas. For this reason, we are neutral in tactical allocation. Ample supply of oil and natural gas, we are underweight in strategic allocation. Industrial metals and gold instead are expected to increase due to Chinese growth and rate cuts by the FED in September.
EURO			In the near term, we do not expect changes in EURUSD, as markets have already priced in the 25 bps cut from the ECB in the June meeting and the pushback in rate cuts by the Fed. In recent years, whenever the 1 year forward EURUSD fell below 1.05, the 2 years forward EURUSD was at 1.08. Hence, if a depreciation occurs shortly, we think large investors and corporates will start buying EUR. At the moment, the exchange rate is characterized by political uncertainties, due to the incoming European and US elections.

Underweight Neutral Overweight Previous view

ASSET CLASS BREAKDOWN

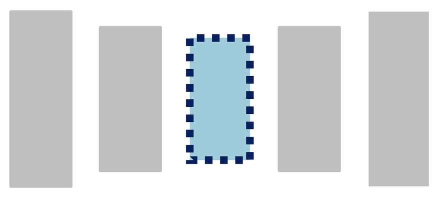
6 to 12-month tactical views on selected assets vs. global asset classes, by level of conviction

FIXED INCOME		
US Treasuries Short duration		Expecting lower rates, we faced inflation surprises, altering our view on easing pressures. Interest rates might stay high, conflicting with the Fed's three expected rate cuts, versus the market's one and a half. The resilient U.S. economy, with robust growth rates, suggests strength. Despite a positive duration outlook, extending it now seems premature.
US Treasuries Long duration		Elevated real yields and the Fed's commitment to restrictive rates lend support to US duration. Responsive to higher-than-expected inflation, current prices imply a cut in November as the most likely scenario. We believe they are overreacting to the latest inflation readings and expect two cuts over the year, with the first one in September.
Euro Area Government bonds		We maintain neutrality as 10-year yields stay below highs, with no ECB policy shifts expected. March saw Eurozone inflation align with expectations, decreasing to 2.40%. We forecast a June ECB rate cut, with market pricing matching our policy rate outlook, suggesting stability.
Global IG Credit		Global investment grade firms show resilience, especially in Europe with lower inflation hinting at rate reductions. Despite narrower spreads, supportive technicals in the US and Europe signal healthy fundamentals. We favor Europe's IG spreads and advise selectivity in the US amidst diverging issuer quality. The asset class offers high yields despite contraction and projected Fed cuts.
Global HY Credit		2024's rise in defaults predicts spread widening in leveraged credit, a trend fueled by persistent inflation and high rates impacting risky borrowers. However, select sub-IG bonds provide value, requiring detailed analysis. We advocate for quality over yield in this challenging climate.
EM Government Bonds		EM disinflation accelerates, with central banks cutting rates, supported by upcoming cuts in euro and pound rates, although with the caveat of higher-for-longer US rates. Positive fundamentals and IMF backing for countries like Pakistan, Egypt, and Ukraine bolster our favorable EM sovereigns' view. We prefer hard currency opportunities in EM, considering quality and value.
Inflation-linked Europe		Market expectations for persistent Eurozone inflation are realigning with actual trends. Anticipation of a June ECB rate cut, fueled by recent data and Lagarde's comments, reduces the likelihood of surprises, pointing to a stable outlook.
Inflation-linked US		The market, possibly overreacting to the recent inflation uptick, contrasts with our view of a gradual (although bumpy) decrease toward the Fed's goal. We trust the Fed's rate management but sense an overestimation of enduring inflation, suggesting an inflated market reaction.

Underweight Neutral Overweight Previous view

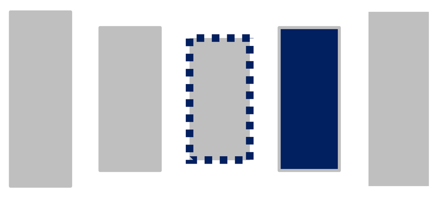
EQUITIES - REGIONS

United States



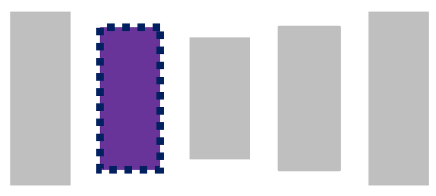
It appears the US economy did indeed weaken in the first quarter, but while growth moderated, inflation did not. The sharp decline in price pressure that prevailed in the second half of last year abruptly flattened out as the new quarter unfolded. Since inflation drives monetary policy, investors anticipated Fed rate cuts would be delayed, which complicated the general picture. Any hope that labor pressure would ease in early 2024 was quickly dashed when the January employment report turned out to be an unexpected “blowout.” The BLS announced that 303k jobs were added to company payrolls, doubling the median forecast with the biggest single month increase in a year. Existing homes, which typically account for 85% to 90% of total sales, experienced the worst volume year in three decades in 2023. The problem is not a lack of demand, but rather a massive supply shortfall, estimated between two and seven million units.

Europe



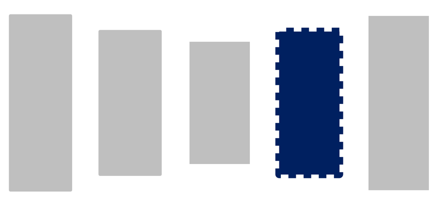
While economic challenges persist, signs of improvement are emerging, particularly in service industries, manufacturing sentiment, and falling energy prices. Anticipation of ECB rate cuts could further boost European equities, which still offer favorable valuations compared to international markets, particularly the US. Additionally, the resurgence of green energy stocks signals promising opportunities for growth in the sector. Despite potential macroeconomic uncertainties, European equity investors can approach the coming months with cautious optimism, buoyed by supportive valuations and improving economic indicators.

United Kingdom



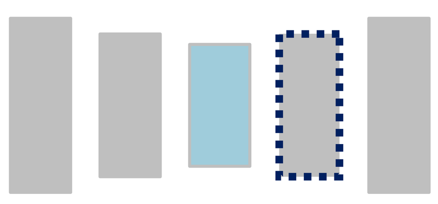
Bank of England policymakers signaled at least three interest rates cuts this year after seeing “encouraging signs” of falling inflation as they kept interest rates on hold at 5.25% for a fifth time in March. The likely future rate cuts would help The UK boost the British economy out of the hole it has found itself in recently. Inflation is getting close towards the BoE’s target and the housing market is showing signs of slight improvement. Despite the positive turn in the economy, The United Kingdom is struggling with GDP growth and labor productivity. The IMF expects the UK’s GDP growth to be around 0.5% in 2024, which trails behind other developed economies. The UK would need major reforms, such as an increase in public investment to produce a substantial positive change in growth. Therefore, we retain our underweight stance.

Japan



In March, the Bank of Japan (BoJ) ceased its prolonged negative interest rate policy, adopting a 0% to 0.1% short-term rate target. This, combined with halting ETF and J-REIT purchase programs and tapering bond acquisitions, marks a significant financial market shift. Robust wage hikes of 3%–4% exceed expectations, fostering positive labor market sentiment, and fueling consumer spending and investment. With increased corporate acquisitions and rising capital expenditures, Japan's financial markets promise enticing opportunities amid evolving policies and improving economic foundations. (Japanese companies governance*)

China



The world's second-largest economy grew 5.3% in January-March from the year earlier, much above a 4.6% analysts' forecast. While the quarterly GDP data showed the economy was off to a solid start this year, data on exports, consumer inflation, producer prices, and bank lending for Industrial output in March grew 4.5% from a year earlier, below the 6.0% forecast and a gain of 7.0% for the January-February period. Retail sales rose 3.1% year-on-year in March, missing the 4.6% growth forecast and slowing from a 5.5% gain in the January-February period.

China's new home prices fell at their fastest pace in more than eight years last month. Property investment fell 9.5% year-on-year in the first quarter, deepening its slump after a 9.0% drop in January-February. Therefore, considering strong GDP growth and at the same time low industrial output and home prices, our view is neutral.

Underweight Neutral Overweight Previous view

Emerging Markets (excl. China)

Despite the recent underperformance compared to the US, we believe that emerging market equities to be undervalued mainly due to high and improving earnings growth and financial productivity, such as return on equity, free cash flow yield, and dividend yield. The biggest growing risk we see with emerging market equities is the tensions in The Middle East. Many EM economies like India are big buyers of Middle Eastern oil and a possible increase in oil prices could trump growth and affect trade. India's upcoming elections also have the potential to trigger instability in India and its neighboring countries.

EQUITIES - SECTORS

Telecom

While 2023 launched generative AI into the world, 2024 will see Communication Service Providers (CSPs) bringing the Gen AI proofs of concept they've been developing into the market. This will require them to better understand the costs and risks of data conditioning and governance, training foundational models, running inference at scale, and building guardrails to minimize errors and hallucinations. CSPs have large cost burdens and larger responsibilities to deliver reliable connectivity and quality of service. In 2024, their investments could be challenged to pay off, and the businesses they once held dominion over will likely face strong competition for multiple quarters, especially. The abundance of options reflects more competition among providers and technologies working to meet the evolving connectivity needs of consumers.

Consumer Discretionary

Despite the disappointing start to the year, there is some light at the end of the tunnel for the sector. A possible optimistic turn in the economy, inflation cooling off and the consequent rate cuts by the central banks of the world, would give the consumer discretionary sector a much-needed boost. With rate cuts, comes an increase in willingness from consumers to take out a loan to buy discretionary products such as automobiles. Additionally, a recovering economy naturally brings more disposable income to consumers, encouraging them to spend more on discretionaries. Even though rate cuts are likely in the coming quarters, they are not guaranteed, and neither is the number of them. Therefore, we maintain our weight for the sector at neutral.

Consumer Staples

The 2024 outlook for consumer staples equities remains cautiously optimistic, presenting a blend of challenges and potential opportunities. With the emergence of recent developments concerning the Middle East conflict involving Iran and Israel, consumer staples are increasingly viewed as a prudent defensive sector for investment. Risks persist, however, including the broader economic landscape and shifts in consumer spending behaviors, particularly amid ongoing concerns over inflation and potential reductions in consumer expenditures.

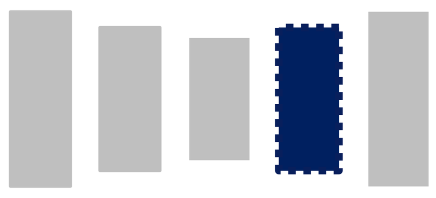
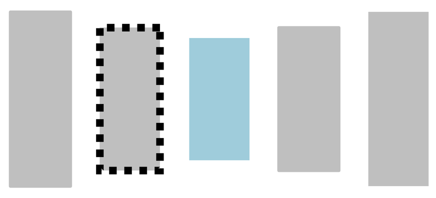
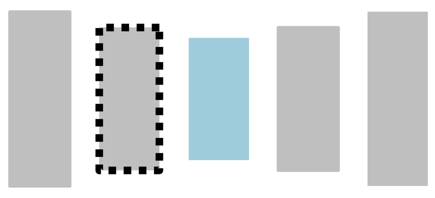
Industrials

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. The industrial sector is set to beat the overall market in 2024, with a predicted growth of around 11%. A significant risk that could affect the growth of the sector is a possible increase in oil prices due to the ongoing crisis in the Middle East. Historically an increase in oil prices has had a negative and highly significant impact on industrial production. Furthermore, we hold an especially optimistic outlook for companies in the sector engaged in the green shift, particularly those emphasizing electrification and cable technologies. Despite this, it's important to recognize that although the green transition offers tempting investment opportunities in the long run, it will take several years to materialize this gain.

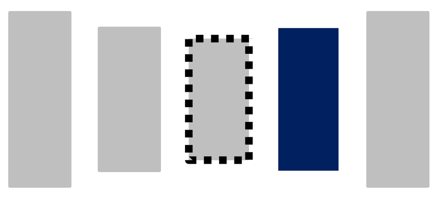
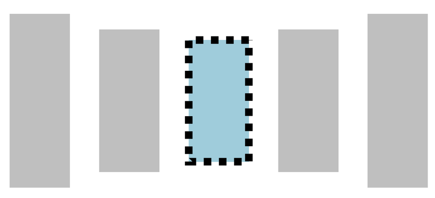
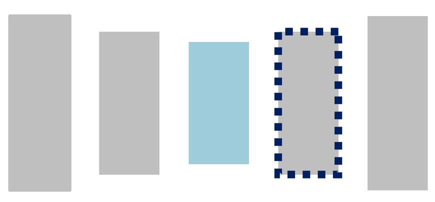
Energy

The outlook for energy sector equities in 2024 is multifaceted. Positive aspects encompass a recovery from the challenges of 2023, elevated oil prices, governmental backing for renewable energies, and the ongoing rise in global energy demand. The recent developments concerning the Middle East conflict could significantly influence oil prices, particularly considering the historical trend of price increases during summer. Furthermore, the increasing emphasis on renewable energy sources, aimed at reducing dependency on foreign nations, particularly evident in Europe, adds another dimension to the sector's dynamics.

Underweight Neutral Overweight Previous view

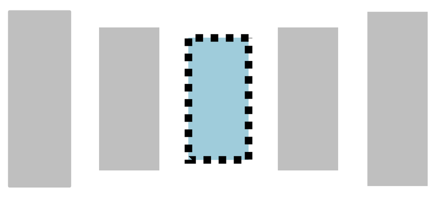
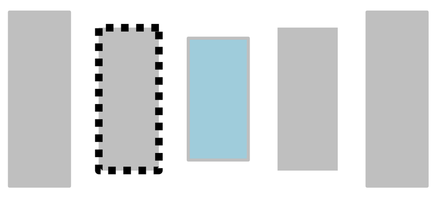
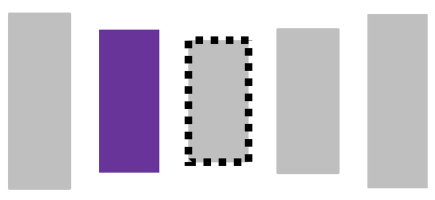
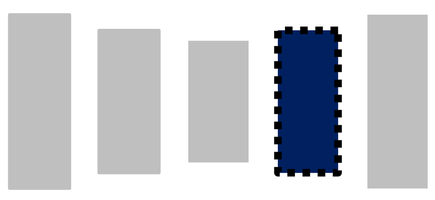
Information Technology		Despite the impressive gains, the IT sector has encountered several speed bumps recently, including geopolitical tensions, supply chain volatility, raw material shortages, and emerging regulations. We believe the adoption of generative AI, although a rather slow process, will continue to prop up the sector and encourage other advancements when it comes to information technology. The likely rate cuts in the near future and easing inflation would also help boost the demand for the sector, increase investments, and raise profits.
Financials		Earnings season for banks has been positive and overall above analyst's forecasts. In general, banks tend to benefit from higher interest rates. Given that debts often have floating rates, this circumstance could affect the valuation of banks' assets, considering that the valuation of these types of loans may be highly impacted by higher interest rates and default probability. The conditions most likely to play out over the next few months, the combination of high interest rates, greater regulatory pressure, and potentially moderating, but still troubling, inflation, are trends many senior financial services industry (FSI) leaders have seen before.
Healthcare		In the first quarter of 2024, healthcare kept pushing forward, especially with more digital tools like telemedicine and remote monitoring. These technologies are making it easier for patients to get care from home and for doctors to keep an eye on their health. We're also seeing a lot more focus on making healthcare more personal and centered around what patients need. Patient involvement through digital means is currently valued at over $200 billion and is projected to expand by more than 18% each year until 2032. The rise in AI will necessarily affect the growth of this sector in the upcoming years. Profits are more likely to show later this year or even at the start of 2025, therefore we suggest a neutral position.

CURRENCIES

US Dollar		The continued robust performance of the American economy and the inflation rate currently moving further from the 2% target at 3.5%, led investors to project a more conservative interest rate cut of 40 basis points for 2024, starting from September. In contrast, other central banks, like the ECB, appear to have greater leeway for interest rate reductions, possibly starting as early as June due to a more pronounced economic slowdown and a level of inflation closer to the target. Given these dynamics, we anticipate that the U.S. dollar will continue to strengthen in the coming months.
UK Pound		The BoE is expected to follow the ECB and cut rates around August. The market is pricing 50 bps of cut for 2024. The economy is proving to be stronger than expected, although growth remains sluggish. On a longer-term scenario, a key event will be the elections in January 2025, where the Labour Party is expected to win. Fiscal budgets will prove to be an important driver of the GBP performance and might drive a GBP depreciation against EUR and USD.
Japanese Yen		The Japanese Yen, subject to downward pressure against the U.S. dollar, has dropped to multi-year lows. Although BoJ Governor Kazuo Ueda has said that the BoJ will not raise interest rates just to boost the Yen, Japanese Finance Minister Shunichi Suzuki has suggested a possible intervention to reduce the excessive volatility of the currency and data suggest that this might have occurred on the 29th of April. We maintain the neutral stance on the Japanese Yen, as we foresee the possibility of FX interventions driving upward pressures yet acknowledge that a weaker currency could facilitate import driven inflation to sustain the 2% target.

Underweight Neutral Overweight Previous view

COMMODITIES

Oil		As we have stated in our recent report, we still expect possible production cuts by OPEC, which the increased supply by the Americas should offset. Thus, we predict an ample oil supply and a downward price pressure. However, the recent missile attacks between Israel and Iran have propelled us to recognize the geopolitical importance of the Strait of Hormuz, which borders Iran and is responsible for 20% of crude oil transportation every year. A possible escalation in the conflict might result in the strait's closure and, hence, a supply shock. Because of the unpredictable nature of war, we continue our neutral view on oil.
Natural gas		According to the EIA's recent natural gas outlook, the US had 39% more natural gas in its inventories than the five-year average of withdrawal seasons and is projected to have a 10% above average at the end of the injection season. In addition to this new information, we find our recent findings in our previous report still valid and foresee a downward price pressure. However, as mentioned in our oil evaluation, a possible tension between Iran and Israel may bottleneck natural gas transportation as the Strait of Hormuz is the primary route for LNG transportation and has almost no alternatives. If the conflict aggravates, we anticipate a significant price increase in natural gas, potentially transcending the impact on oil prices. Hence, we update our view to neutral, because we consider natural gas prices to be more sensitive to conflicts in Iran.
Gold		Considering that the demand for safe-haven assets reduced as the threat of a conflict between Israel and Iran has been momentarily averted and that the Fed will reasonably wait until September before cutting interest rates, which would potentially increase gold futures, we do not anticipate any immediate upward movements in gold prices. However, a rise in gold futures may be caused by sustained speculation among Chinese traders, who have already contributed to the recent rally, as well as emerging developments in geopolitical conflicts.
Industrial metals		Sanctions imposed on Russia have prohibited the Chicago Mercantile Exchange and the London Metal Exchange from accepting aluminum, copper, and nickel from Russia, causing a reduction in supply. We believe China's economy will keep growing, and therefore keep the demand for industrial metals high. We are overweight as we expect tight supply and growing demand.