HOUSE VIEWS

This month with our views on non-listed assets

June 2024
Remaining calm amidst political uncertainty

In accordance with the regulations in force, we inform the reader that this document is qualified as a promotional document.

The results of the European elections ultimately proved more significant for France than for Europe, as it prompted the French President to call a snap parliamentary election for 30 June and 7 July. The decision took political analysts and politicians alike by surprise, spooking French financial markets. These reactions show that investors think they have much to worry about: short-term uncertainty about the outcome of the poll, fears France may plunge into a prolonged period of instability, and doubts about whether the next government will be able to address the public finances issue.

Stepping back from the political uncertainty, the global economic landscape still looks positive, with modest economic growth and inflation drifting gradually downward, giving the key central banks reasons to nudge interest rates down.

We are leaving our portfolio positions unchanged

Despite rising uncertainty and volatile markets, we have opted to leave our asset allocations unchanged for several reasons. First, we prefer not to overreact to political news, whose market impacts tends to be short-lived. Second, looking at the fundamentals we think this is the right time to remain exposed to risky assets. Finally, we see our existing diversified stance as the best defence against possible turbulence. It has already proved able to weather recent turbulences.

We therefore maintain our Overweight to equity markets in developed economies. United States continue to benefit from a robust economy, while European stocks are still attractively priced. We remain constructive on sovereign bond markets and on investment grade corporate debt, which continue to offer attractive carry and make a good diversification play if the going gets rough in the current geopolitical instability. We also remain Overweight the US dollar against its main European pairs as we expect US rates to remain higher than their European peers.

OUR MAIN CONVICTIONS

Holding our positions despite uncertainty and market volatility

Following the announcement of the early elections in France, some markets could remain volatile. However, we believe it is preferable not to overreact to political news, which generally have a limited impact on financial markets. In fact, the fundamentals suggest it is time to maintain our exposure to risky assets in our allocation. What is more, our portfolio remains diversified, the most resilient stance for troubled times and one that has proved itself in recent episodes of turbulence.

All regions are growing but at very different speeds

Growth trends in the world's major economies continue to diverge. The United States has been showing signs of a modest slowdown recently, but the economy looks set to continue performing strongly. Meanwhile, in Europe, the economy seems to be mounting a modest rebound, thanks to the fall in inflation, which should be sustained by the monetary easing. Lastly, in China, economic data show a slight improvement, but the country is likely to remain plagued by lacklustre domestic demand.

Central banks: rate cuts out of sync

Global inflation is on the way down in the leading developed economies, albeit more slowly than hoped. With economies still sound, central banks can afford to tread carefully in cutting rates. The European Central Bank (ECB) has made a start and is likely to put through two further cuts before the year is out. The Bank of England (BoE) followed by the US Federal Reserve (Fed) should follow suit with rate cuts in H2-24. Nevertheless, we are expecting no drastic reductions from any of the three in 2024, with just three rate cuts by the ECB and two for the Fed and the BoE by the end of the year.

Overweight to European and US equities, neutral on emerging markets

Given the strong corporate earnings in the United States and its robust economy, we remain Overweight US equity markets We also remain Overweight European markets which stand to gain from the ongoing economic rebound and from attractive valuations. The prospect of lower rates will further help spur all these markets. Finally, we are Neutral on Emerging Market equities, mainly on grounds of their attractive valuations.

Positive on sovereign and top-rated corporate bonds

Attractive carry and the prospect of cuts to policy rates continue to support bond markets. Sovereign bonds may benefit from their safe haven status in the current geopolitical situation or should recessionary risks emerge. That said, our economic scenario – sustained growth in the United States and a modest rebound in Europe with only modest rate cuts – does not suggest a sharp squeeze on bond yields. We therefore stand by our Neutral position on bond markets.

Overweight dollar to European currencies

The desynchronisation of rate cuts between the Fed and the European central banks (ECB and BoE) should continue to support the dollar. Thus, we remain Underweight the EUR/USD and GBP/USD.

OUR ASSET ALLOCATION

Summary house views

			UW	Slight UW	N	Slight OW	OW	Variation since previous GIC
EQUITY		GLOBAL EQUITY				■		=
		United States				■		=
		Euro area				■		=
		United Kingdom				■		=
		Japan			■			=
		Emerging			■			=
FIXED INCOME	SOVEREIGN	GLOBAL RATES			■			=
		U.S. Treasuries			■			=
		Bunds			■			=
		Gilts			■			=
		EM Govies ($)		■				=
	CORPORATE	U.S. IG			■			=
		U.S HY		■				=
		EMU IG			■			=
		EMU HY		■				=
		U.K. IG			■			=
FOREX		EURUSD		■				=
		USDJPY			■			=
		GBPUSD		■				=
		EURCHF		■				=
ALT.		Commodities			■			=
		Gold		■				=
		Hedge funds		■				=

Equity markets: Allocation by style

	Growth	Value
United States	No Preference	
Euro area	■	
United Kingdom	No Preference	

Fixed income: Allocation by duration

	Underw.	Neutral	Overw.
United States		■	
Euro area			■
Unitted Kingdom			■

Unless specified, all figures and statistics in this report are from Bloomberg and Macrobond on 13/06/2024, publication completion date. Past performance does not prejudge future performance. Investments may be subject to market fluctuations, and the price and value of investments and the resulting revenues may fluctuate downward and upward. Your capital is not protected, and original investments may not be recovered.

ECONOMIC OUTLOOK

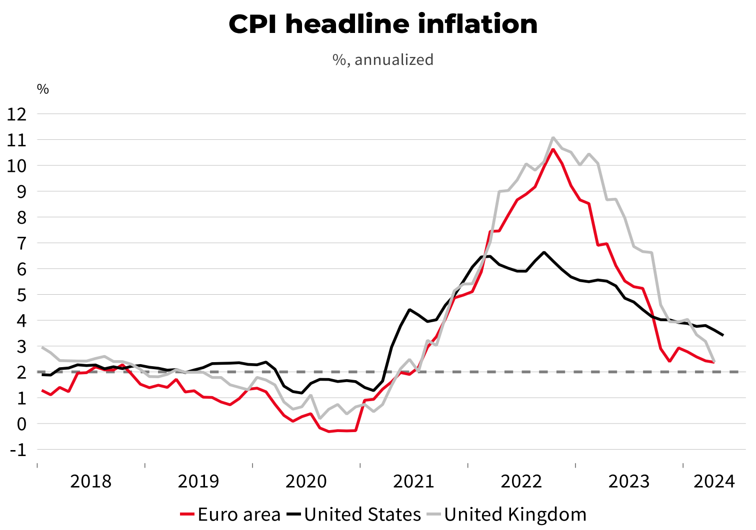
Central banks confirm their gradual pivot

The European Central Bank (ECB) cut rates in early June. However, this initial cut came with a deeply prudent commentary, indicating that further reductions would be slow and gradual. The Fed meanwhile awaits confirmation of the recent fall in inflation to embark on its own slow rate cut cycle. Our scenario for the economy and inflation continues to point to a cycle of gradual rate cuts by the major central banks. In China recent data show some green shoots of recovery, but the improvement will be limited.

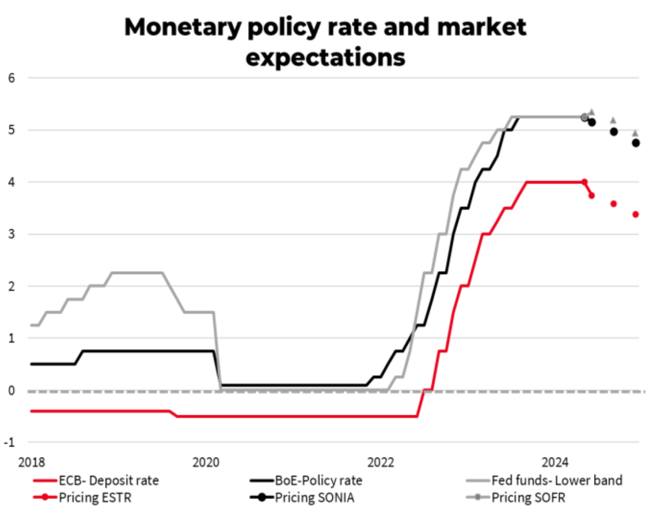
Europe. In Europe, leading indicators signals a stronger economic momentum ahead in the euro area and United Kingdom. Moreover, the economy has up-ticked slightly, helped by the normalisation of inflation. We believe this improvement will continue, if only as an automatic ratchet effect. In the wake of the energy crisis, European economies were clearly dragged down, particularly in Germany where industry took a heavy hit. With energy supplies now back to normal, economies should return to a better pace of growth. Subsequently, likely cuts in central bank rates should add a further relief. Nonetheless, our outlook remains one of only modest growth. Meanwhile, inflation continues to fall but remains somewhat sticky as wages rise to catch up lost ground. The Bank of England should soon follow the ECB into a cycle of rate cuts, and is likely to take its time, given the stickiness of inflation and the generally healthy state of the economy.

United States. Recent activity indicators have sent mixed signals of late, with some surveys apparently suggesting a slump and others a risk of overheating. We are looking to avoid overreacting to these blips, as we continue to expect the economy to come off the boil slowly while still growing at a healthy pace. Fiscal policy remains a major source of stimulus while domestic demand continues to draw support by healthy balance sheets of households and companies. The stock market rally of recent months mainly reflects a wealth effect among American households who hold much of their savings in equities. That said, the US economy looks set to slow back towards its pre-Covid growth rate of around 2%. The jobs market is rebalancing itself in terms of job numbers and wages as the fiscal stimulus is easing off. On the inflation front, May's figure reinforced our scenario of a gradual decline, but after a number of negative surprises the Federal Reserve will remain prudent; we expect two cuts in H2.

China. Economic indicators have improved slightly. Industrial output and retail sales both grew lately and surveys suggest this trend will continue. However, the Chinese economy's troubles have not gone away, including the ongoing struggles of the property sector and, longer term, an ageing population trend.



Sources: SGPB, Macrobond, INSEE, BLS, ONS, INE, DESTATIS, Istat, Eurostat 04/2024



Sources: SGPB, Bloomberg

EQUITY MARKETS

We remain Overweight developed equity markets

Global equity markets made further gains last month, with several indices setting new highs. However, this surge masks some underlying volatility – though not so much as on fixed income markets – and marked international differences: United States and Japanese gained while European and Emerging markets dropped. We remain Overweight developed equity markets, on value grounds in Europe and on strong earnings growth in the United States.

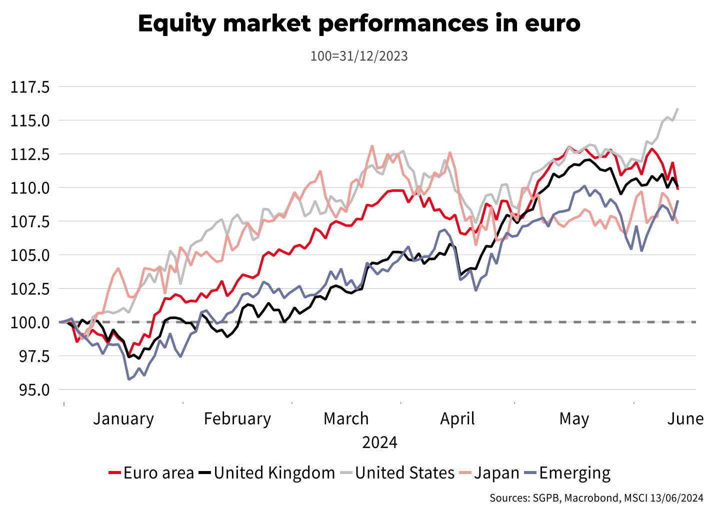
United States. The US equity market outstripped the global index by more than a percentage point over the last month, gaining 2.2% compared to 1%, stretching its year-to-date outperformance to +25% compared to +20%. Even so, the US index hit a few air pockets along the way, mainly linked to the economic growth outlook. We have been forecasting the US slowdown to be modest for some time now, with slowly declining inflation and only limited rate cuts. In this scenario, equity markets should continue their rally. They are backed by healthy trends in corporate balance sheets and earnings – justifying paying a valuation premium. Also, momentum indicators remain good – though market sentiment surveys are nearing record highs. We remain Overweight US equities.

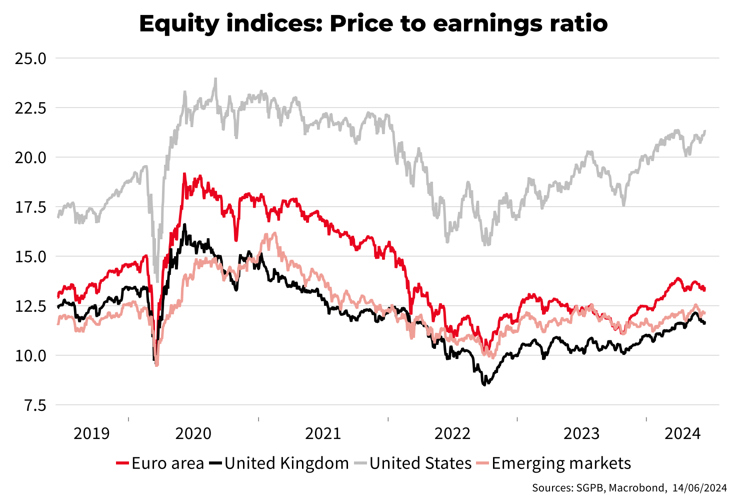
Euro zone. European stocks lost ground last month, dragged down by the energy, financial and industrial sectors. Slightly higher-than-expected inflation in May and the prudent tone struck by the European Central Bank (ECB) dampened market spirits. French markets took a further hit when politics was plunged into uncertainty. Even so, we see reasons to remain Overweight the euro area. For one, stocks remain attractively valued and momentum and sentiment indicators are pointing in the right direction. For another, the prospect of an, albeit modest, rebound in the economy and, admittedly small, rate cuts by the ECB should lend some vital support to these markets by helping sustain the recovery in earnings growth.

United Kingdom. British stock markets dropped slightly more than their cross-channel peers last month. Partly this was because several months of falling oil prices took their toll on the energy-heavy index. Nor was this helped when anticipations of a Bank of England rate cut were pushed back from June to August as inflation data proved stickier than expected and Prime Minister Rishi Sunak announced an early election on 4 July. We, however, remain Overweight British markets, given their attractive valuations and the prospect of future rate cuts.

Japan. The Japanese market was broadly stable over the past month, buoyed by the technology and communication sectors. Also, the end of deflation and gradual exit from the zero-rate policy have been good for the financial sector. These factors should remain in play for some time yet. However, given the yen's volatility and doubts surrounding monetary policy, we remain Neutral on this market.

Emerging markets. Emerging markets underperformed markedly last month, dragged down by Latin America (chiefly Mexico post its presidential elections) and China (following the previous months' strong rally). We remain Neutral on these markets, which still appeal on value and boast good momentum indicators.





FIXED INCOME

We are still positive on bond markets

We remain Neutral on fixed income. With inflation continuing its gradual fall, yields paid by government and corporate debt remain attractive in both nominal and real terms. Europe is at risk of short-term volatility following the recent surge in political uncertainty.

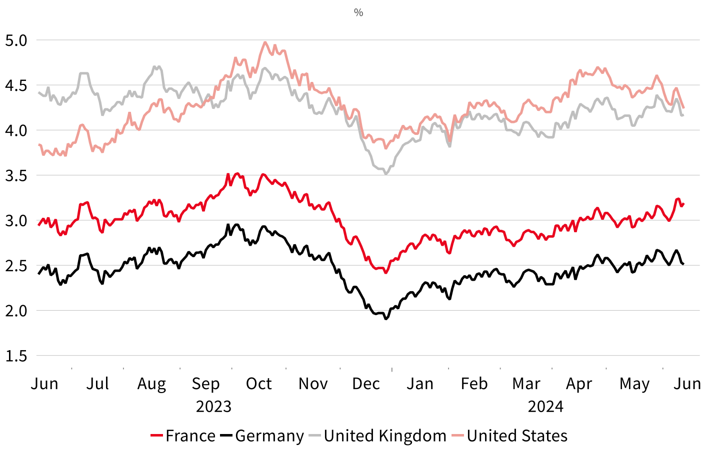
United States. Sovereign yields continued their volatile performance over the past months. Rates on 2-year Treasury bills, a proxy for Federal Reserve (Fed) rates a year out, have swung between 5% and 4.65%, and 10-year T-bonds between 4.2% and 4.7%. This see-sawing basically mirrored shifting concerns of overheating or slowdown in the US economy. Latest activity data was disappointing, particularly figures for household consumption, but the labour market continues to beat consensus and inflation continues to fall slowly. We still see a scenario of a moderate slowdown for the US economy, marked by a normalisation of the labour market and softer wage growth. In this environment, the Fed is likely to bring down its policy rate to a range of 4.75-5.00% by the end of the year, a 50bp cut from present levels. We therefore remain at Neutral on the Treasuries market, despite its volatility, as carry remains good.

Euro zone. The 10-year bund lost about 10 bp over the past month, but with large volatility: the yield hovering between 2.4% and 2.7%. Conversely, the French OAT rose 15bps to 3.1%, with a peak at 3.3%, and a spread of 70bp. Peripheral countries sovereign spreads generally widened too, the Italy/Germany spread increased from 130bps to 150bps. The main driver of these movements was the unexpectedly hawkish tone struck by the ECB at its meeting. The ECB actually made an initial 25bps cut to its policy rates, trimming the deposit rate to 3.75%. But it also raised its inflation forecasts for 2024 and 2025 and the comments were more cautious in tone than markets had expected. Secondly, the results of the European elections and, most importantly, the dissolution of the French National Assembly, have ramped up political risk, increasing the likelihood of paralysis in French politics. In light of which, we remain Neutral on euro area sovereign debt. Even so, we expect the ECB to continue its rate-cutting cycle with two further cuts in 2024, providing support for sovereign yields. However, volatility could be a big factor in the short term, depending on what happens in France.

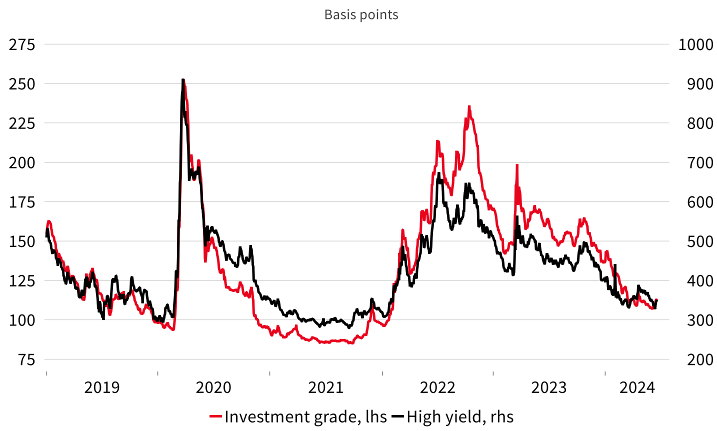
United Kingdom. Yields on Gilts tracked those on Treasuries, with the 10-year bond trading in a range of 4-4.4%. We expect the Bank of England to press ahead with its rate-cutting cycle, with 2 cuts in H2-24, but with inflation now coming down more gradually we remain Neutral on Gilts.

Credit - Developed markets. We remain Neutral on investment grade credits (companies with good credit scores), which still have an attractive 4% carry rate and healthy balance sheets. We remain Underweight high yield credits (poorly rated companies) which look expensive and are generally issued by highly indebted companies that are more at risk.

10 years sovereign yields



European corporate bonds spreads



Sources: SGPB, Macrobond, 13/06/2024

CURRENCIES

Environment still bullish for the dollar

We remain Underweight EUR/USD and GBP/USD – i.e. we are Overweight the dollar which should strengthen against its principal crosses as monetary policy at central banks moves out of sync and geopolitical risks accumulate.

Dollar index. The US currency tracked the volatility of US interest rates. Of the developed economy currencies, the euro has been the most volatile against the dollar. Among emerging market currencies, the same is true of the Mexican peso. Both were reacting to political tensions.

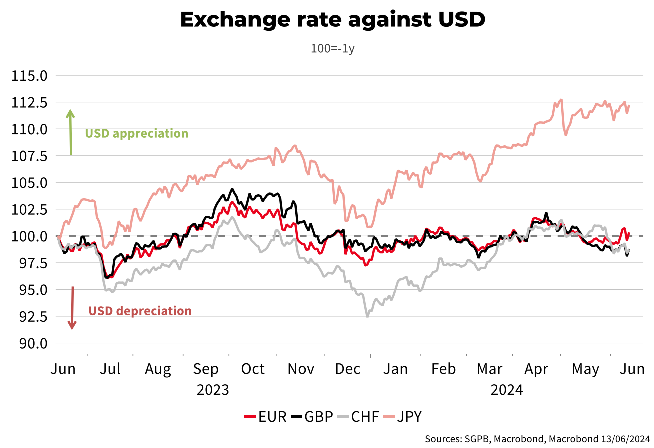
EUR/USD. The single currency was up and down against the dollar in the past month, trading a range of USD 1.09 to USD 1.07 (slightly below that figure at the end of the period). The volatility largely reflects shifts in US Treasuries and market expectations for the timing of Fed rate cuts. The most recent fluctuations stem from escalating political uncertainty in Europe following the continent-wide elections and the calling of parliamentary elections in France. In this context, we remain Underweight EUR/USD. First, the greenback can count on the United States' stronger growth trend and a bigger rate gap. Spiralling political tensions could translate as greater volatility, supporting the US currency.

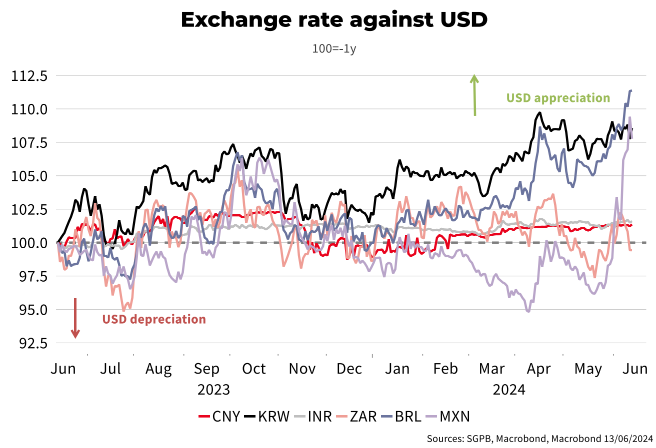
GBP/USD. Unlike the euro, sterling gained ground versus the dollar, strengthening 2% to GBP/EUR 1.27. This rise was mainly due to markets expectations for BoE rate cuts after inflation figures showed a slower-than-expected decline. We nonetheless remain Underweight GBP/USD. This is because we still think the Bank of England will put through two rate cuts in the second half of the year as inflation keeps coming down and the economy mounts a modest recovery.

USD/JPY. The yen weakened against the dollar, fluctuating around an average 157 USD/JPY. Taking the long view, the yen's weakness since 2022 has reflected the interest rate gap between Japan and the rest of the developed world. The Bank of Japan is now normalising policy but taking a very gradualist approach, with a policy rate of 0.1% and the end of the ceiling on the 10-year Japanese Government Bonds. We remain Neutral on the USD/JPY. First, the BoJ will continue to crawl toward a more normal policy stance. We expect two rate hikes in H2-24. Second, the country's balance of payments remains heavily positive, limiting further downward pressure on the yen.

EUR/CHF. The euro has been falling against the Swiss franc for a month and is now down more than 2% at 0.96 EUR/CHF. We remain Underweight this cross. Rising political uncertainty in Europe should be good for the Swiss franc, particularly given the wider political risks in the world. Also, Switzerland's heavy balance of payments surplus coupled with a reduction in the Swiss National Bank's foreign exchange reserves should help the franc.

EM currencies. Emerging market currencies are on a downtrend, led by Latin America. The Mexican peso ended its recent strong run by falling 10% against the US dollar last month after Morena's coalition stormed to victory in the recent elections. Investors fear a super-majority that could enact constitutional change. The BRL fell 5% by contagion.





We stick with our Underweight to gold and hedge funds

The high level of interest rates continues to undermine the appeal of both gold and hedge funds. On themes, we stand by Artificial Intelligence and Clean Energy as well as Reshoring and European Excellence.

Commodities. Brent crude prices were basically stable month-on-month, but this masks a plunge to USD 76/bbl followed by a rebound to above USD 82/bbl. The plunge was a response to an OPEC deal that would gradually loosen some production constraints from September, amid a slowdown in the United States economy. The recovery reflected upgraded forecasts for global demand and the prospect of Fed rate cuts. Natural gas prices rose 20% on the month, amid fears for Europe's supplies of Russian gas.

Gold. Gold was just as volatile, ending the month down by 3.5% as tensions appeared to ease in the Middle East. It then rose again after good inflation figures in the United States revived hopes of Fed rate easing this year.

HF- Long/Short Equity. Long/short equity funds, which specialise in non-directional strategies, could do well in the current climate of high volatility and dispersion and the current stage of the economic cycle.

HF- Event Driven. High interest rates and a shortage of liquidity continue to discourage firms from embarking on mergers and acquisitions. Funds specialising in such deals look unattractive for now.

HF- Fixed Income Arbitrage. Some sovereign bond funds could benefit from higher interest rates. We retain our relative interest in funds positioned in the credits segment.

HF- Global Macro/CTA. Commodity trading advisors (CTAs) are generally useful as a way to hedge market volatility. But their recent performance has left them looking insufficiently attractive in our view.

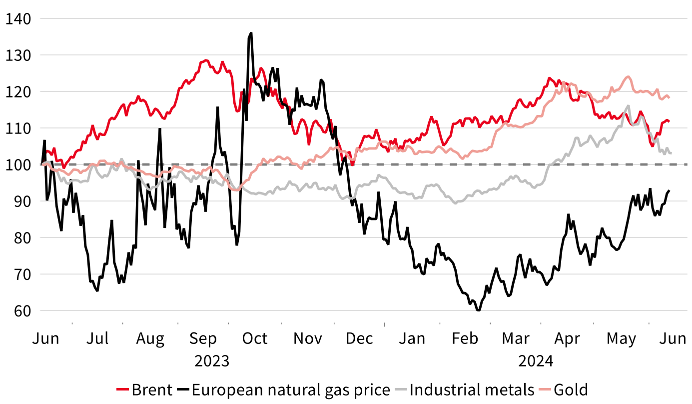
Themes

Reshoring. The Reshoring theme should benefit from resurgent national industrial policies following problems with supply chains and trade and geopolitical tensions. These policies have taken the form of stimulus packages in both the United States (Inflation Reduction Act) and Europe (Next Generation EU). Recent announcements from the United States administration that it would be beefing up tariffs on some imports from China is the latest such policy. The theme has performed well on equity markets. Since end-2022, the index of industrial stocks in developed economies has been on a bull run, outperforming its benchmark.

European Excellence. After two tough years for the European economy, retreating inflation should not only allow the ECB to continue cutting rate but should also sustain household purchasing power and hence activity. Recent data confirm this scenario. European equity markets can also count on their attractive multiples. To get the most out of this combination of favourable factors, we favour international companies who are leaders of their market segment.

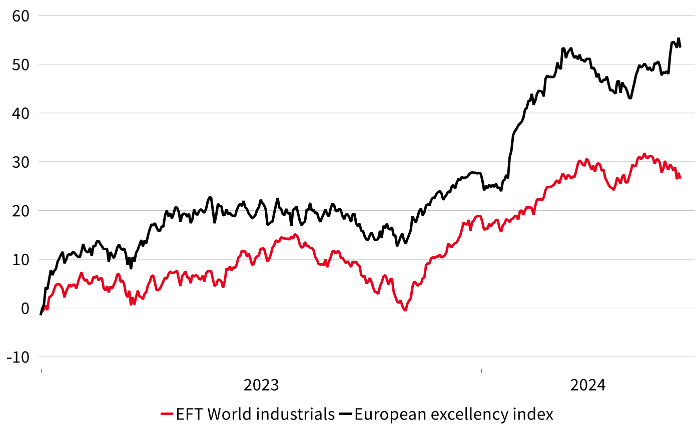
Commodity prices

100=-1Y



Sources: SGPB, Macrobond, ICE, LBMA 13/06/2024

Performance since 2023



Sources: SGPB, Macrobond, 13/06/2024

ADDITIONNAL MATERIAL
PRIVATE ASSETS

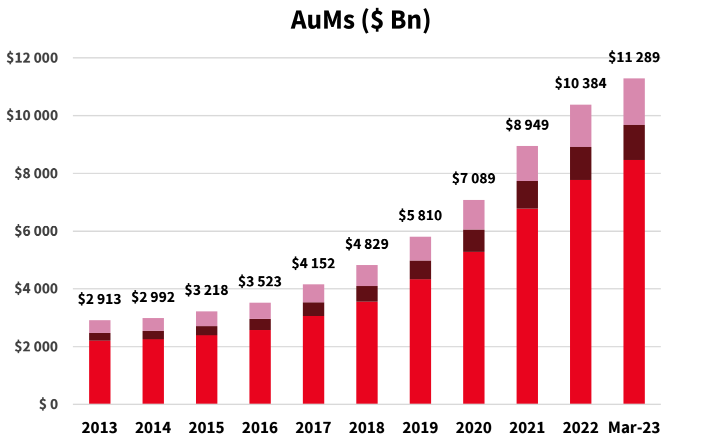
Private equity: a good time for infrastructure

Markets are still growing. The activity in private assets, which slowed down in 2023 due to economic uncertainties, has been stabilising this year. Within private equity strategies, the purchase valuation multiples show a significant reduction, consistent with a persistently higher interest rate environment. After a slight decrease in 2022, the performance of buyout funds, which take controlling stakes in profitable companies, rebounded due to the solid fundamentals of the held companies, which were able to pass on inflation to their customers. Private debt strategies continue to offer attractive returns for investors, but these may soften if the anticipated interest rate decrease occurs. Infrastructure strategies remain driven by structural capital needs.

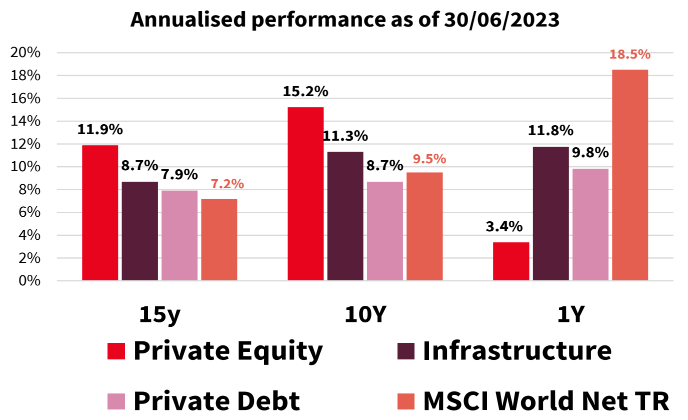
It's important to remember that private assets are inherently illiquid. However, 2024 continues to present opportunities for investors, provided they are selective and willing to commit for the long term.

Private equity: Performance driven by operational value creation: Within buyout strategies, the reduction in valuation multiples and the need for some managers to sell assets present opportunities for funds in the deployment phase, particularly in certain cyclical sectors that were overlooked recently. In this context, fund performance will continue to largely stem from the operational profit growth of their companies. Furthermore, a more normal trading environment could emerge for larger companies if interest rates decrease. One of the challenges for this asset class remains the relatively low distribution rates of funds, due to weak exit volumes over the past two years. A recovery is expected to occur over the course of the year.

Infrastructure: A favorable environment: Infrastructure funds invest in essential assets and services for the economy's functioning, spanning sectors like Energy, Telecom networks, Transport, and Social Infrastructure. This asset class has several advantages: performances are partly decorrelated from the economic cycle, long-term contracts ensure steady cash flow, and income is partly indexed to inflation. The current environment is particularly attractive for this asset class for several reasons: 1) underinvestment in infrastructure by public authorities. 2) massive needs for the energy transition and decarbonisation of the economy. 3) digitalization of the economy requires significant investments in digital infrastructure and 4) demographic changes require social infrastructure for healthcare and aging populations."



Source : Preqin

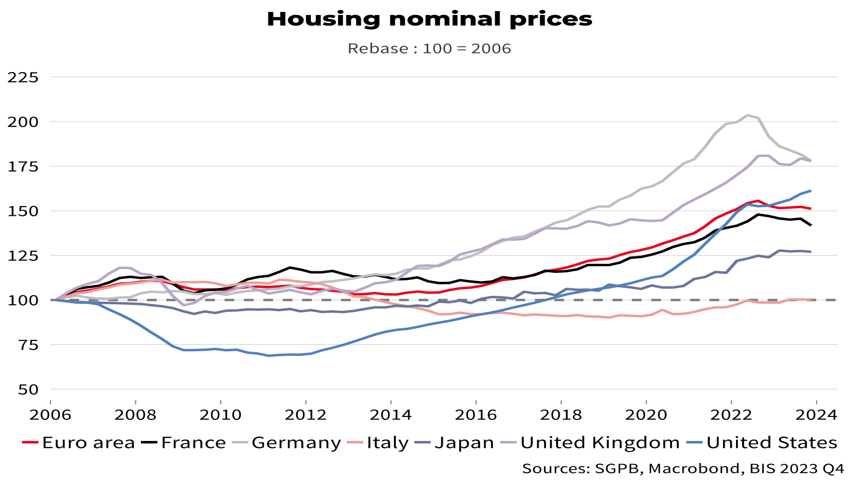


Source : Preqin (Private Capital Quarterly Index), Bloomberg

ADDITIONNAL MATERIAL
REAL ESTATE

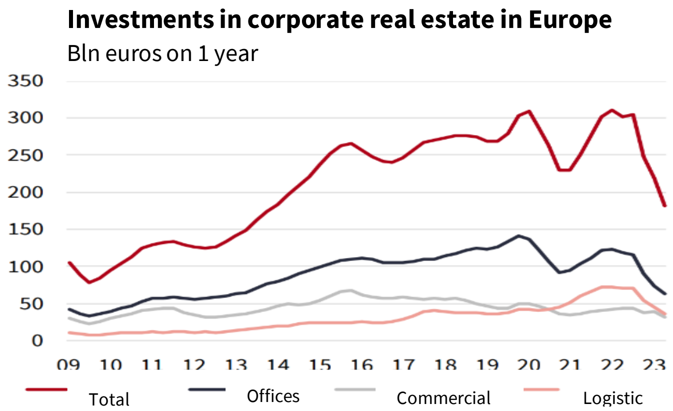
Falling rates should give property markets a fillip

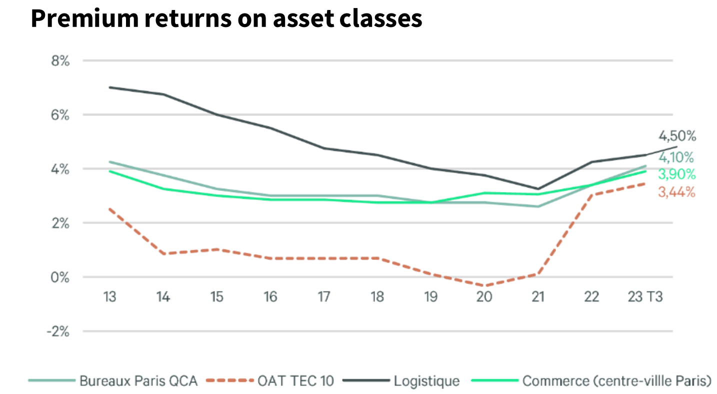
France's residential property market should recover some of its mojo in the second half of the year. Real estate has been in the doldrums since early 2023, hit by a combination of interest rate hikes, squeezed buying power and high prices. Prices have only fallen modestly (-5,2% year-on-year in Q1-24) but volumes have plummeted (-23% year-on-year to Q1-24). This pattern of low sales and falling prices looks set to continue for some months yet as economic growth remains lacklustre and interest rates remain high. The easing of ECB rates, likely to continue in the second half of the year, should gradually restore some vigour to the market and we should see volumes pick up. Prices will continue to be squeezed by generally slow growth in the economy.



France is around the euro area average *with a moderate decline in house prices. In Germany and the United Kingdom, prices have fallen further, but after larger increases.*

Green shoots in a corporate property market that continues to wait and see. Since July 2022, corporate property – offices, retail space, warehousing, etc. – has been held back by the rise in interest rates. Investment volumes have fallen back hard as investors wait for prices and hence appraisal values to adjust to the new state of affairs. In a bid to restore the segment's appeal, property risk premiums were partly restored in 2023. The property risk premium is the gap between the rental yield on property assets on acquisition and the risk-free interest rate, measured as the 10-year OAT yield which was 3.44% in Q3-23 compared to 2.54% in Q4-23. Logistics was paying 4.75% and commercial property 4.5% in Q4-23. As for the office market (Paris Central Business District), returns were 4.50% in Q4-23, compared to 2.60% in Q4-21. In H2-24, the stabilisation of inflation and fall in central bank policy rates should help revive the competitiveness of corporate property, restoring some visibility to the market and hence some confidence to investors, assuming the world economy remains stable.





Source : CBRE Research, Banque de France, T3 2023 (septembre)

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