

SEPTEMBER 2024

# HOUSE VIEWS

## Central banks to step up the pace

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

### ÉDITO

#### **A Volatile summer had markets fear a sharper slowdown.**

The world's major economies showed signs of faltering this summer. In the United States, leading indicators came in worse than expected and the jobs market eased slightly. In Europe, a struggling German economy and political problems in several countries, including France, raised fears of a sharper slowdown. In China, domestic demand remains slack. Markets reacted to these signals with greater volatility. Equity markets corrected and interest rates fell, particularly in the United States.

We maintain our scenario of a soft landing for developed economies, as central banks step up the pace of monetary policy loosening and inflation comes down. Over the last few months, we have seen final proof that inflation is being squeezed out, which should give central banks space to ease policy more quickly. Lower inflation and looser rates should help boost their economies

As a result, the US is likely to experience only a gradual slowdown, still cushioned by solid balance sheets of both households and companies. In Europe, growth is likely to remain modest but positive.

#### **Softer view on US equities.**

The outlook of continuing growth and falling interest rates lead us to maintain our exposure to equity markets in developed economies. But with the slowdown now clearly underway, we have opted to have moved to a more neutral view on the year's biggest winners: the US stock market and growth segments. We remain Overweight European markets which still harbour good value and a hefty proportion of value stocks. At the same time, we remain positive on bonds as a way to play coming rate cuts and hedge against any precipitate correction in stocks.

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# OUR MAIN CONVICTIONS



Against a softer economic backdrop, we decided to move to a modestly more conservative risk-taking allocation. We are maintaining our overweight on equity markets, however.



We favour European equity markets, which should benefit from their attractive valuations. We remain exposed to other geographies, which should benefit from a still positive global growth environment and rate cuts by the main central banks. We are also neutral on emerging equity markets, despite their attractive valuations, largely due to the situation in China, where the economy remains sluggish.

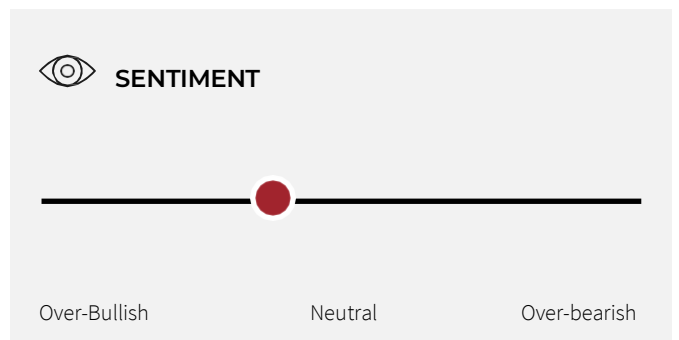
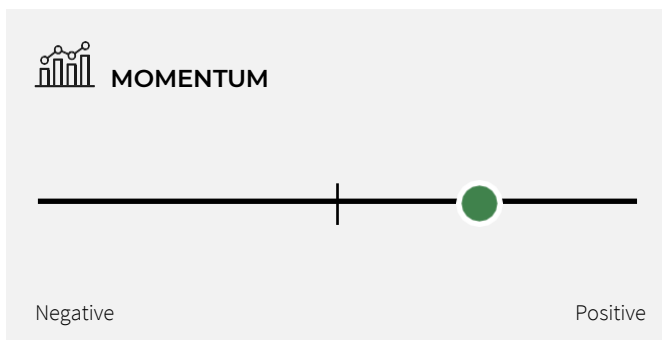
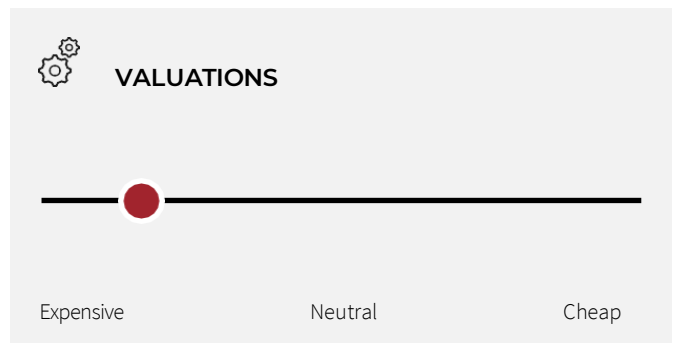
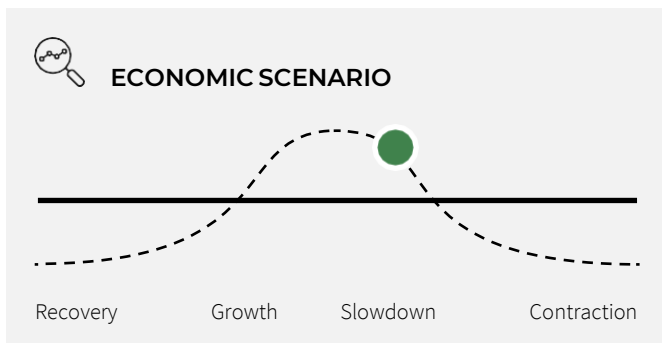


Rising prospects of key interest rate cuts and the attractiveness of the carry trade continue to play in favour of bond markets. The safe-haven status of government bonds remains important in the current geopolitical context, but also in the event of a recession risk scenario materialising.



We are neutral on the dollar against the major currencies, against a backdrop of fairly synchronised rate cuts by the main central banks.

## The main building blocks of our analytical framework



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# OUR ASSET ALLOCATION

## Summary house views

	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight	Changes since last allocation meeting
<b>EQUITIES</b>						
<b>WORLD EQUITIES</b>				●		=
United States			●			-
Euro area				●		=
United Kingdom				●		=
Japan			●			=
Emerging markets			●			=
<b>FIXED INCOME</b>						
<b>SOVEREIGN</b>						
<b>RATES</b>			●			=
United States			●			=
Euro area			●			=
United Kingdom			●			=
Emerging markets debt (USD)		●				=
<b>ENTREPRISES</b>						
US IG			●			=
HY IG			●			=
Euro area IG			●			=
Euro area HY			●			=
United Kingdom IG			●			=
<b>FOREIGN EXCHANGE</b>						
EUR/USD			●			=
USD/JPY			●			=
GBP/USD			●			=
EUR/CHF		●				=
<b>ALTERNATIVES</b>						
Commodities			●			=
Gold		●				=
Hedge funds		●				=

### EQUITY MARKETS: ALLOCATION BY STYLE

	Growth	Value
United States	Blended	
Euro area	Blended	
United Kingdom	Blended	

### FIXED INCOME: ALLOCATION BY DURATION

	Underweight	Neutral	Overweight
United States		●	
Euro area		●	
United Kingdom		●	

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# ECONOMIC OUTLOOK

## Good news of the summer: decline in inflation

Since summer began, a number of indicators have suggested developed economies could face a more rapid slowdown than previously expected. However, there was good news too, with confirmation that inflation is down in both the United States and Europe, which should allow the world's main central banks to step up the pace of monetary policy loosening and give their respective economies a shot in the arm. The Bank of Japan, meanwhile, will likely be heading in the opposite direction, tightening monetary policy.

### The Federal Reserve (Fed) turns its attention to the labour market.

The US jobs market has been booming since Covid, but is now showing some signs of deterioration, prompting some to talk of recession. In our view though, the picture is more indicative of a return to normal after a period of uncommon expansion. Companies are still sitting on ample financial cushions, delivering strong profits and are unlikely to embark on any drastic job cuts in the short term. Meanwhile, American households are seeing a continuing rise in their real incomes. Finally, the Fed is likely to normalise monetary policy fairly fast. Its official mandate gives it two objectives: containment of inflation and stable unemployment. During the recent price surge, it made tackling inflation its clear priority, even at the risk of a severe economic slowdown. Now, with inflation clearly under control, the Fed is free to start cutting interest rates to curtail any further rise in unemployment.

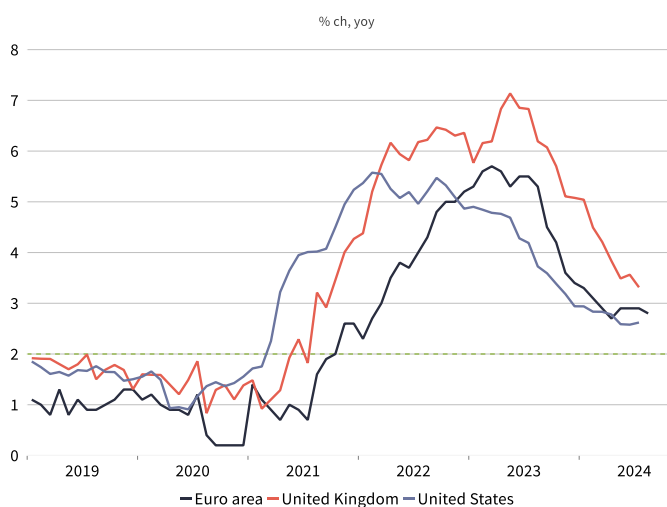
### The ECB needs to watch Germany's weak economy.

In Europe, the German economy continues to show signs of weakness. It has proven especially vulnerable to three recent shocks: Covid, the Ukraine war and the slump in the Chinese economy. Germany makes up a third of the euro area economy and a sluggish Germany automatically drags down the region's growth. With inflation apparently under control at long last (+2.2% year-over-year in August), the European Central Bank (ECB) could be tempted to loosen monetary policy faster to help the German economy and give the wider European economy a boost. At the moment, markets are discounting two rate cuts this year and six by next September. If current indicators on the economy and inflation are confirmed, it might want to go harder and faster, with three cuts this year. The Bank of England opted to cut rates in August and could do so again in November when it publishes its new economic forecasts. UK inflation is back near target (+2.2% year-over-year in July) and likely to hover around this level for the next few months, raising the possibility of another rate cut in December

### Bank of Japan (BoJ) bucks the trend.

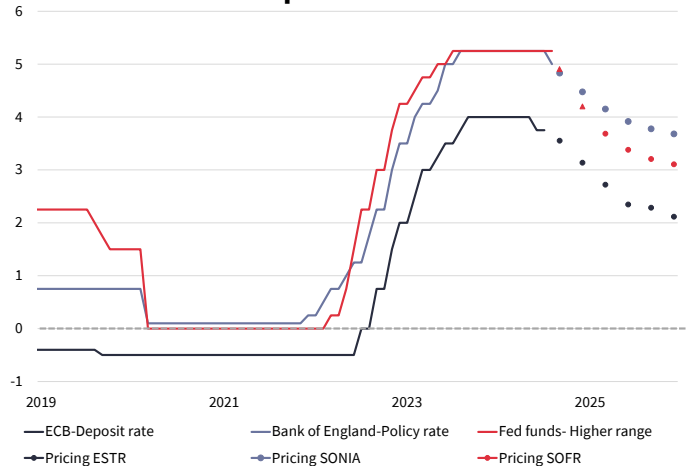
The Bank of Japan sprung a surprise rate hike on markets in late July and looks set to continue its tightening cycle. Inflation now looks to have peaked. Headline inflation was unchanged at +2.8% year-over-year in July and underlying inflation fell slightly to +1.6%. Japan's long struggle with deflation now seems to be over. This should encourage the BoJ to continue moving toward a more conventional monetary policy. The People's Bank of China has sought to revive moribund domestic demand by repeatedly cutting rates and pumping liquidity into banks. Further cuts, more closely targeted on the property market, may be announced in coming months.

Core inflation rate



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

Central bank policy rates & market expectations



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

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# EQUITY MARKETS

## Back to Neutral on the United States but still Overweight Europe.

Global stock markets had a volatile summer. A slump in early August on a slide by growth stocks in general and techs in particular was followed by a bounceback led by value stocks and small caps. In this volatile atmosphere, we decided to take profits on US stocks, which had made the biggest gains, but remain Overweight to European markets, which offer better value.

### United States

After more than a year of outperformance, US equity markets slipped back in the summer, falling -2.9% since mid-July compared to -2% for global markets. Tech and growth stocks went into the summer as the biggest gainers year-on-year, but they not only fell hardest during the slump but recovered least during the rebound. Partly this reflected the mixed data coming out of the US economy – although in our view the figures continue to point to a soft landing. Given the high multiples on which the market is trading and its vulnerability to economic news, we decided to move to a more neutral view on US equities. That said, US companies are still growing earnings and the economy is proving pretty resilient. Fed rate cuts coupled with a soft landing for the economy could also help buoy markets. We have therefore moved from Overweight to Neutral on the United States, with no preference on style.

### EURO AREA

European equities also had a hard summer and have not yet recovered to their mid-July levels. But they still held up better than the global market average. Despite the weak economy and political uncertainty, we remain Overweight euro zone markets, which remain attractively valued in absolute terms. Also, impending rate cuts by the ECB and falling inflation should help sustain consumer spending, which has been feeble since the Ukraine war broke out. Another potential plus point for the European market is its large exposure to value stocks, which seem to be enjoying healthy momentum since the summer.

### UNITED KINGDOM

The UK market has rallied strongly by +2.2% since mid-July, helped by a heavy bias toward defensive stocks which had a good summer. But it still lags global markets year-to-date and year-on-year. Looking ahead, though, the market has several benefits: pricing looks cheap, the Bank of England began cutting rates in August and there are even some modest signs the economy may be picking up. We therefore stand by our Overweight to this market.

### JAPAN

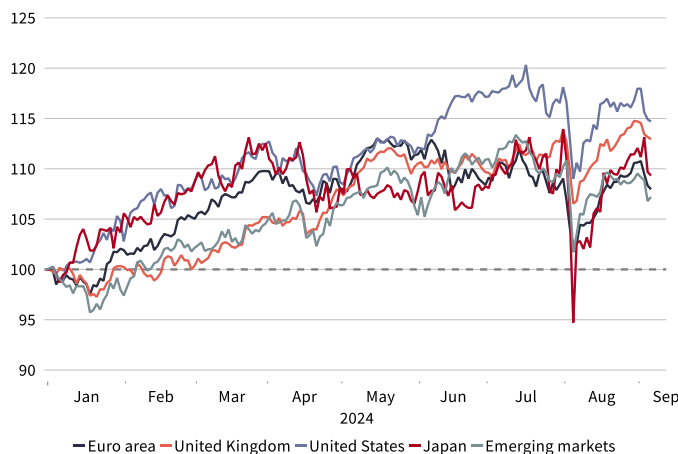
The Japanese stock market went into the summer as one of the top-performers year-on-year and came out as the season's biggest loser, down -9.6%, not helped by narrowing rate spreads to the United States and a yen rally. The market has some bull factors: reforms to corporate governance, high corporate earnings and the end of deflation accompanied by a gradual exit from the zero-rate policy. And some bear factors, including a volatile yen and heavy bias toward technology and communications stocks. We remain Neutral.

### EMERGING MARKETS

Emerging markets looked to be attractively priced but failed to benefit from this summer's sector rotation and underperformed global markets, falling by 3.2% since mid-July. This was due in part to the fall in the Chinese market, hurt by persistently weak economic indicators, and in part to the sharp drop in Latin American indices, particularly Mexico's. The heavy weighting toward tech stocks, geopolitical risks and the weakness of the Chinese economy persuades us to tread cautiously on these markets. We nonetheless remain at Neutral on grounds of attractive value.

Equity market performance

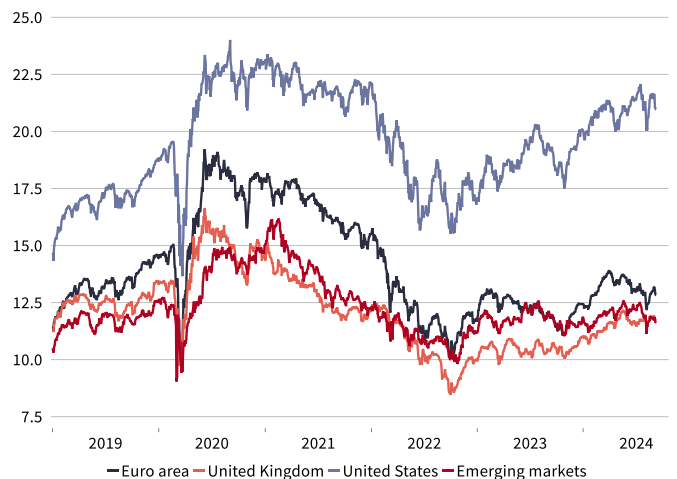
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Sources: Société Générale Investment Solutions, Macrobond, MSCI 05/09/2024

Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

Equity markets: Price to earnings ratio



Sources: Société Générale Investment Solutions, Macrobond, 06/09/2024

Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

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# FIXED INCOME MARKETS

## Maintained exposure to bond markets

We remain Neutral on fixed income. Inflation is falling across the world, central banks are cutting rates and stock markets are looking nervous, but sovereign bonds continue to offer good carry and have reasserted their role as a hedge in volatile times. We also remain Neutral on corporate bonds, which stand to benefit from the rate cutting cycle and are backed by robust balance sheets at issuer companies.

### UNITED-STATES

US sovereign yields came down sharply during the summer, back to where they began the year. The yield on 2-year Treasury bills – taken as a market proxy for the Fed Funds rate one year out – fell from 4.5% in mid-July to 3.8% at the start of September. Meanwhile, the 10-year T-bond fell from 4.2% to 3.8% undoing the inversion of the yield curve. Driving these movements are the ongoing decline in inflation and a slowdown in the jobs market, a combination that has led the Fed to focus more attention on its full employment mandate. July inflation came in below the Fed's forecasts at 2.5% year-over-year whereas the August jobless rate reached 4.2% in August, above the Fed's expectations. Against this backdrop, Jerome Powell all but confirmed at the Jackson Hole conference that the Fed would start its rate-cutting cycle in September and that labour market stability would again be a priority. We now expect the Fed to cut rates by between 75 and 100bp in 2024. We remain Neutral on Treasuries as falling inflation and stock market volatility make sovereign debt attractive.

### EURO AREA

Les taux souverains de la zone monétaire ont connu aussi des baisses importantes au cours des derniers mois, sur fond de baisse du risque politique en France, de poursuite de la désinflation et de détente monétaire. En effet, les taux du Bund et OAT à 10 ans ont diminué de 20 pb depuis début juin pour atteindre 2,4 % et 3,1 % respectivement. La prime de risque française reste cependant au-dessus de son niveau pré-dissolution du parlement. Finalement, les taux souverains des économies périphériques ont aussi diminué et leurs primes de risque sont à leur niveau pré-dissolution. L'inflation européenne continue sa détente progressive (2,9 % sur un an), aidé notamment par la forte désinflation de biens durables, et la modération des salaires devrait se traduire par une plus forte désinflation des services dans les mois à venir. Dans ce contexte, la BCE a maintenu son taux de dépôt à 3,75 % lors de sa réunion de juillet et nous nous attendons à qu'elle procède à deux baisses de taux supplémentaires au cours de 2024 pour finir l'année ainsi à 3,25 %. Nous restons ainsi Neutres sur les obligations souveraines européennes mais avec une préférence pour la durée longue pour profiter de la baisse de l'inflation et du cycle de baisse de taux.

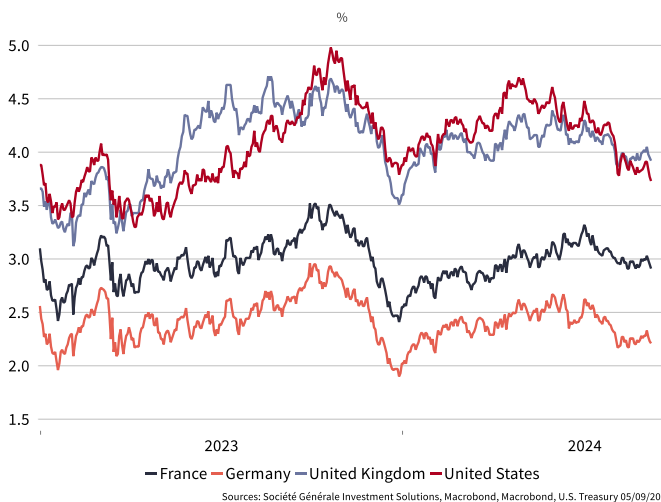
### UNITED-KINGDOM

We remain Neutral on UK sovereign debt. 10-Year Gilt yields fell by 30 bp between mid-July and early September, to 3.9%. The snail-like decline in UK inflation has slowed further, likely keeping the Bank of England's tone cautious and Gilt yields appealing.

### CREDIT

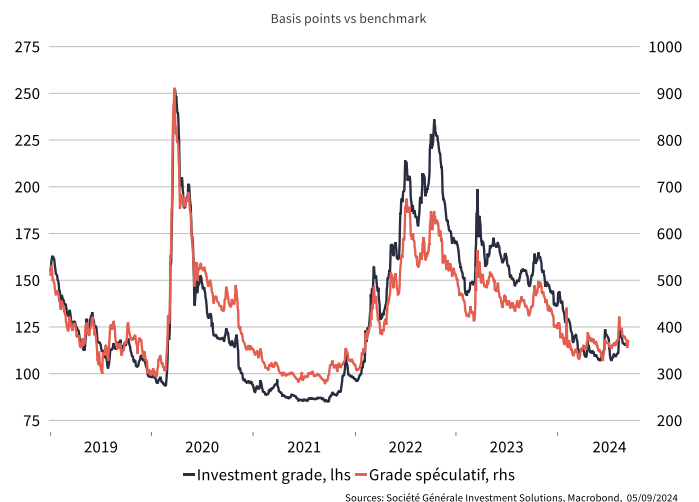
We remain Neutral on both investment grade (IG) and high yield (HY) corporate debt. The asset class rode out the August surge in stock market volatility with only a minimal widening of risk premiums. What is more, performance remains impressive, particularly among HY bonds which have achieved a total return of over 5% this year. With rates coming down and company balance sheets still solid, we maintain our exposure to the corporate bond markets.

Sovereign 10 years yields



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

Europe: Corporate debt spread



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

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# CURRENCIES

## Still neutral on the dollar.

Defying the year's trend, the dollar fell sharply against its main developed-market peers as investors revised their expectations for Fed rate cuts. Even so, we opted to stay Neutral on the EUR/USD, GBP/USD and JPY/USD crosses for two reasons: first, much of the downward adjustment now seems behind us. Second, the United States still has the strongest economy of the developed world.

### DOLLAR INDEX

The US currency lost ground in its key crosses with developed and emerging market currencies, falling most sharply against the Japanese yen as their monetary policies diverge. Among emerging markets, the dollar strengthened against Latin American currencies amid political controversy in Mexico and Brazil.

### EUR/USD

The European single currency rallied strongly against the dollar this summer, gaining 3% from USD 1.08 in August to USD 1.11. The rise basically reflects changing views on the Fed's rate-cutting cycle. Good news on inflation and a slowing labour market prompted the Fed to suggest it would start cutting policy rates in September and adopt an accommodative tone. The ECB meanwhile should continue its own rate-cutting cycle but struck a more cautious tone. In these circumstances, we remain at Neutral on EUR/USD. The market has now priced in its changed outlook for rates and the cross should hold steady at current levels. Also, the more vigorous US economy should limit the dollar's downside.

### GBP/USD

We remain Neutral on GBP/USD. Like the euro, the UK currency gained over 3% against the dollar this summer, ending at USD 1.31 to the pound. The rally also showed the impact of the Fed shifting its tone while the Bank of England remains cautious on the painfully slow fall in UK inflation. We, however, think sterling should also hold near current levels. The rate adjustment is at least partly behind us and the US economy remains stronger, limiting downside on the dollar.

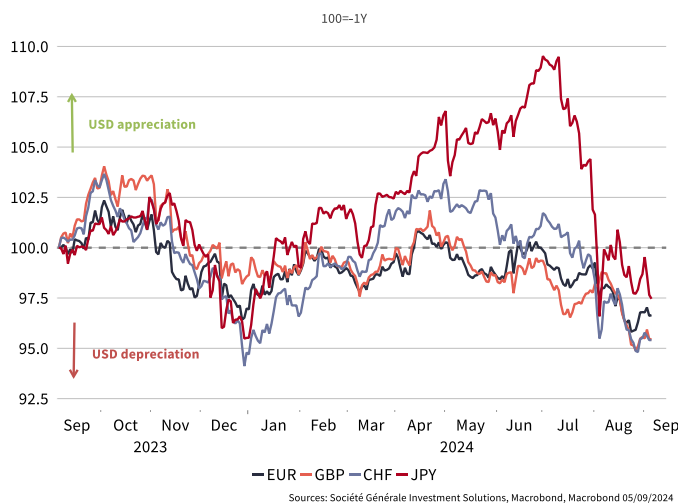
## USD/JPY

The yen continued its major revival against the dollar over the summer, almost wiping out the year's declines to date. The rise reflects both the change in the Fed's monetary policy stance and the ongoing normalisation of Japan's own monetary policy. Bank of Japan (BoJ) policy rates currently stand at 0.25% and its governor has confirmed rates will gradually return to more normal levels, making it the only major central bank to be tightening financial conditions. Further, the unwinding of carry trade positions has boosted the yen's rise against the main developed economy currencies. However, we remain Neutral on USD/JPY as we think the BoJ's normalisation will be a gradual process given that underlying inflation is still well below its 2% target.

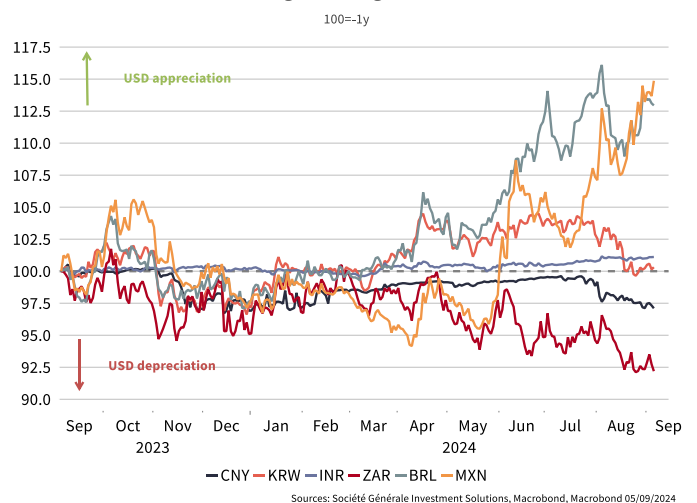
## EUR/CHF

The euro lost around 3% against the Swiss franc over the summer, to 0.94 CHF/EUR. We remain Underweight this cross. Political uncertainties 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.

Exchange rate against USD



Exchange rate against USD



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

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# ALTERNATIVES AND THÉMATICS

## We retain our Underweight to gold and hedge funds

High interest rates tarnish the appeal of hedge funds and gold. Theme-wise, we still like Artificial Intelligence, Clean Energy, Reshoring, European Excellence and Health Innovation.

### COMMODITIES

Oil prices were up and down like a yo-yo this summer, trading between USD 83/bbl and USD 75/bbl in August before dipping to USD 72/bbl in early September, the lowest in more than a year. Prices were undermined by doubts about global growth and particularly by ongoing sluggish demand from China. On the supply side, OPEC members have delayed implementation of the latest quota cuts, further weakening prices.

### GOLD

Gold continued to benefit from its safe haven status amid heightened uncertainties and reached new record highs. The prospect of rate cuts by the world's leading central banks also adds to its relative appeal. However, we continue to prefer yielding assets to gold and/or risky assets given the still positive economic environment.

### 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.

## Thematics

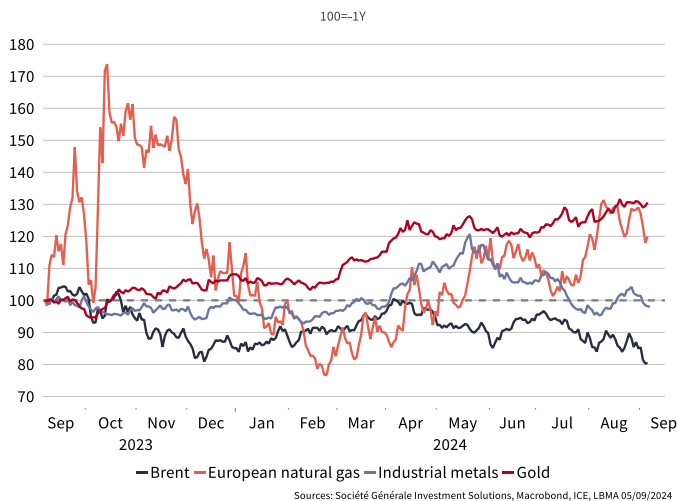
### CURRENT THEMES: Artificial Intelligence and European Excellence: shaken but not stirred

The investment themes of Artificial Intelligence and European Excellence both had a turbulent summer. We are standing by AI, even though we think growth stocks have lost some of their shine, because of the theme's balance of maturity and potential as well as the strong earnings growth reported by companies in the sector. On European Excellence, to cash in on a combination of bullish factors – falling inflation, cuts to ECB rates and attractive value – we are playing the theme via international companies that are leaders in their respective markets.

### Clean Energy, Reshoring and Health Innovation.

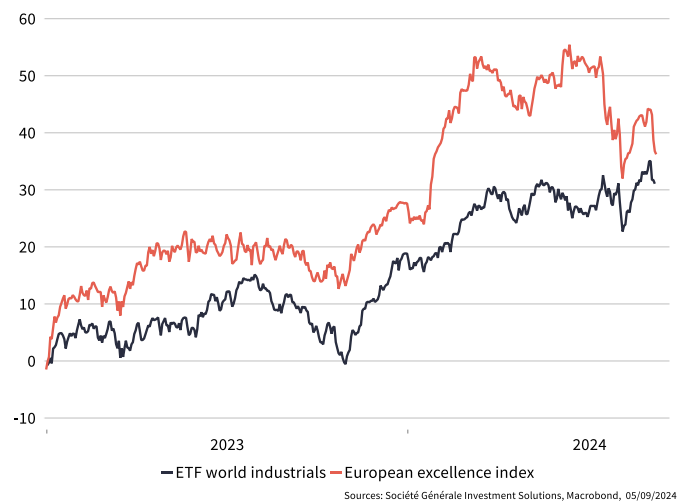
The Clean Energy theme is a way to invest in companies that stand to gain from the energy transition. The Reshoring theme should benefit from the return of industrial policies and perform strongly on equity markets. An ageing population, changing lifestyles more focused on physical fitness, well-being and nutrition, coupled with major technological advances (gene therapies, immunotherapy, personalised medicine, remote health services, etc.) should benefit the health sector as a whole and its innovation component in particular. This theme thus represents an opportunity to invest in cheaper valued stocks that offer long-term growth..

Commodity prices



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

Performance since end 2022



Sources : Société Générale Investment Solutions, Macrobond 06/08/2024

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