Market Review May 2024

After a healthy correction in April, risky assets resumed their uptrend in May. US inflation figures (CPI) published mid-month reassured investors that inflation was on a downward trend. The geopolitical and humanitarian context, as dramatic as it may be, has not deteriorated. Investors therefore consider this risk to be "stable" for the time being. What's more, most companies have published good results for the first quarter. Without dwelling on the companies that are benefiting from the explosion in artificial intelligence, such as Nvidia, which published stratospheric results (and forecasts), the vast majority of companies have managed to maintain solid profit margins or even increase them. In this 'goldilocks' environment, most indices gained between 1% and 5% over the month, and some even had the luxury of hitting all-time highs, such as the S&P500 and the Stoxx Europe 600. Long yields corrected sharply at the start of the month but have tended to ease in recent sessions. The US 10-year yield ended the month down 18 basis points at 4.50%, after visiting the 4.40% level a few days earlier. Its German counterpart ended the month slightly up by 8 basis points at 2.66%. While the ECB's monetary policy is relatively "easy to read" (the first rate cut should be confirmed at the meeting on 6 June), investors remain nervous and undecided about the Fed's future decisions. FED members, whether voting or non-voting, have tended to blow hot and cold in the press in recent weeks, which explains the volatility seen across the yield curve. The inversion of the yield curve has become more pronounced on both sides of the Atlantic.

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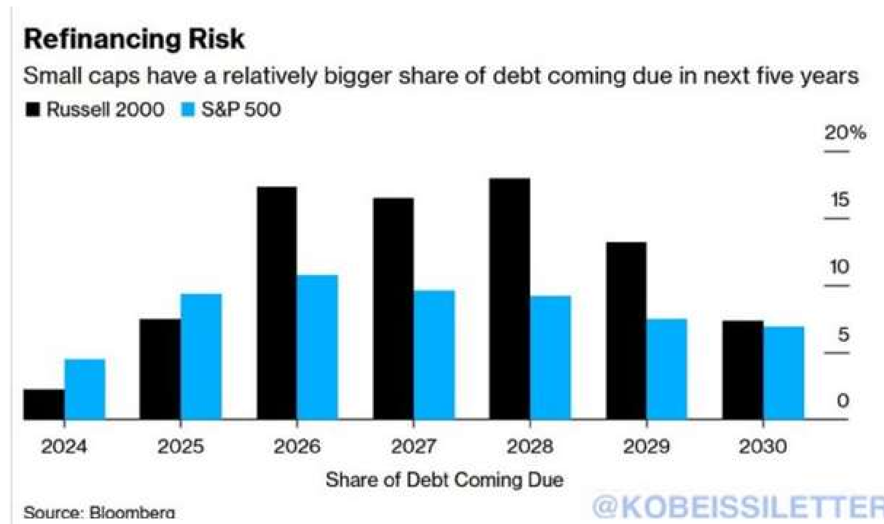
Credit spreads remain stable and are still very narrow, a sign of the financial strength of companies. Despite this, the specter of a credit crunch continues to haunt the minds of some investors since the sharp rise in interest rates. According to Bloomberg data, the companies in the Russell 2000 (an index of small and mid-caps) have accumulated more than US$830 billion in debt, of which around 75% will have to be refinanced over the next five years. The debt wall, which we have mentioned several times in recent months, could hinder the smooth running of the economy by causing default rates to rise. Even if this is not the preferred scenario, the refinancing of the most heavily indebted companies will need to be closely monitored as their debt maturities approach.



On the commodities markets, the Bloomberg Commodity Index has just completed its third consecutive month of gains (+3% in May and +6.1% since the start of the year) and is back above its 200-day moving average, in a constructive technical configuration. Aside from the technical aspects, which remain relatively uncertain, the fundamentals of some stocks are excellent. On several occasions in recent months, we have highlighted the strong demand from central banks for the yellow metal. Central banks, especially those in emerging countries such as China, India and Brazil, are accumulating large quantities of Gold to diversify their reserves and reduce their dependence on the US dollar. But Copper (+4.66% in May and +22.2% since the start of the year), Silver (+19.26% in May and +31.8% since the start of the year), Aluminium and Nickel are not standing still. Strong demand for these industrial metals, some of which are trading at all-time highs, is mainly driven by the energy transition. The excitement is even spreading to companies active in extraction, such as the recent attempt by BHP Group to take over Anglo American.

Some raw materials, such as Copper and Silver to name but two, are experiencing (or will soon be experiencing) a shortage of supply that could cause prices to soar. The electrification of the industry is triggering an explosion in demand, while supply is not growing fast enough as a result of under-investment by Ore mining companies in recent years. This is all the more true given as it takes more than ten years for a new mine to reach full capacity. It's still too early to say for sure, but the 'super cycle' in commodities that we mentioned last year is probably starting to take hold. This uptrend could (should) last for several years.

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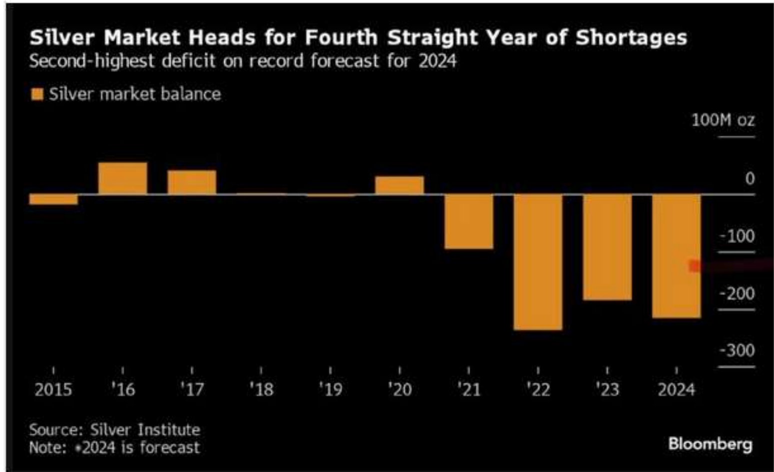
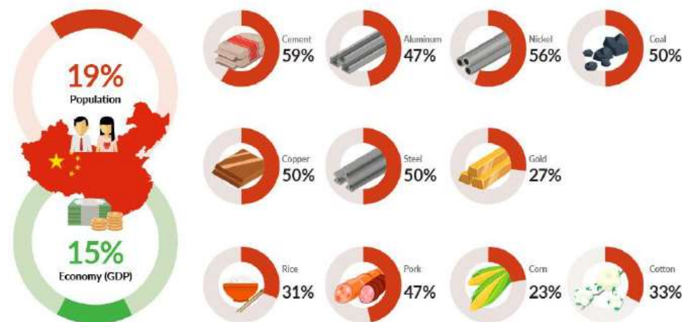


Although various institutions have recently revised upwards their growth forecasts for China for 2024, the country has been "slowing down" since Covid and the implosion of its property market. China is by far the biggest consumer of base metals. If growth returns as expected, this should also have an impact on demand for raw materials, including Copper, which would support the thesis of a "super cycle" in this segment.



Oil, for its part, lost 6% in May. Despite the geopolitical conflicts militating in favor of a rise in black Gold, fears of a more pronounced economic slowdown are limiting its upside potential. In addition, with a view to the presidential elections in November and in order to boost his popularity by keeping pump prices low during the driving season, President Biden has decided to boost supply by proposing an additional million barrels a day from the country's strategic reserves.
Another word on the digital assets that soared in May. Thanks to a rise of more than 13%, Bitcoin once again flirted with the psychological level of $70,000, close to its all-time highs. The SEC's decision to authorize the issue of ETFs for Ethereum boosted the latter by more than 27% over the month.

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Market trends to end May 2024

End of May	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
	Equities in Local Currencies							
Perf 1 Month	4.23%	4.80%	1.27%	0.10%	4.31%	6.57%	0.29%	-0.68%
Perf 3 Month	3.24%	3.56%	2.17%	0.83%	13.21%	4.91%	2.74%	1.82%
Perf YTD	8.71%	10.64%	10.22%	5.96%	12.08%	7.75%	2.46%	4.34%

End of May	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
	Commodities				Currencies vs EUR			
Perf 1 Month	-6.03%	-7.10%	1.80%	0.49%	-1.69%	-1.41%	0.27%	0.18%
Perf 3 Month	-1.62%	-2.39%	13.84%	18.21%	-0.40%	-5.02%	0.52%	-2.36%
Perf YTD	7.45%	5.94%	12.81%	17.30%	1.76%	-8.73%	1.81%	-5.11%

End of May	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
	Bloomberg Indices Bonds Total returns							
Perf 1 Month	1.31%	1.70%	0.04%	1.82%	-0.89%	1.82%	1.49%	1.72%
Perf 3 Month	-0.70%	0.04%	-0.15%	-0.58%	-3.01%	0.64%	2.16%	1.77%
Perf YTD	-3.30%	-1.64%	-1.55%	-2.79%	-7.01%	-1.34%	2.77%	1.58%

Source: Bloomberg 31/05/24

In addition to the economic reasons mentioned above, which explain the good performance of stock market indices, share buyback programs by companies that are 'flush' with cash are another source of support for equity markets. During the development of the program, the company's share price benefits from support that can sometimes reassure investors and encourage them to buy these stocks.
Mechanically, share buy-backs lower the P/E ("Price Earning Ratio") and therefore make the company's valuation less expensive in the eyes of investors (at least, for those who use this ratio to assess a company's attractiveness). It should be noted, however, that when an exogenous event occurs, companies can suspend their program at any time.
The latter are sometimes controversial within the investment community. Some argue that while share buybacks are good for supporting the share price in the short term, they symbolize a lack of investment opportunity and therefore potentially lower future growth. Others point to the fact that companies which use these programs generally do so in a cycle of strong cash flow generation, and therefore at a time when the company's valuation is already high (expensive). Investors in this camp largely prefer companies to distribute dividends with surplus cash that is not directly reinvested in their business. Some growth companies, such as Meta and Alphabet, have recently announced their first dividend payouts. Beware also of companies that take on debt in order to carry out a share buyback program to give the impression that the business is doing well. It may seem surprising, but more companies do this than you might think.
According to a study by Goldman Sachs, these programs are likely to increase over the next few years. Of the US$925 billion worth of share buybacks by S&P500 companies that the investment bank expects to take place in 2024, US$110 billion (or nearly 12% of the total) will involve Apple alone!
Whether they are good or bad in the medium term, share buybacks will still provide short-term support for the shares of the companies that carry them out.

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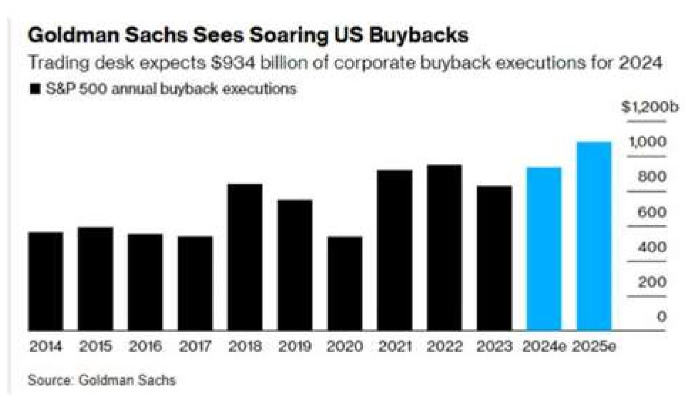

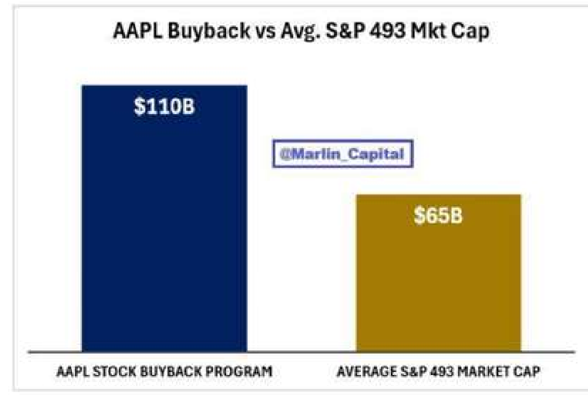

Is the trade war making a comeback? Or put differently, have we really seen a truce in recent years? You will all remember Donald Trump's campaign promises to "Make America great again", which he has endeavored to implement (in his own way) throughout his presidential term. Although everything seems to oppose the real estate tycoon with the current Democratic President of the United States, it would seem that the two candidates have some points in common. The announcement of new customs tariffs against China came in May, affecting everything from minerals and electronic chips to electric vehicles. Although this news has had no particular impact on the markets for the time being, investors are concerned about the balance of world trade. So, is this really a surprise? Since the Covid confinements were lifted, the "reshoring" strategy of the United States and Europe has created an environment of protectionism against countries that play the globalization card at all costs. China is criticized for its questionable methods and ethics, which is why the USA does not want to give them too easy access to its consumer market. This decision comes at a time when tensions are at their highest between China and Taiwan. Let's not forget that Beijing takes a dim view of the complicity that has developed between the Republic of China, which it would like to reintegrate into the Empire, and the United States. The numerous Chinese military exercises around the island have also irritated the recently elected pro-independence Taiwanese President Lai Ching-te. Although Chinese military intervention is unlikely at this stage, it should not be ruled out.

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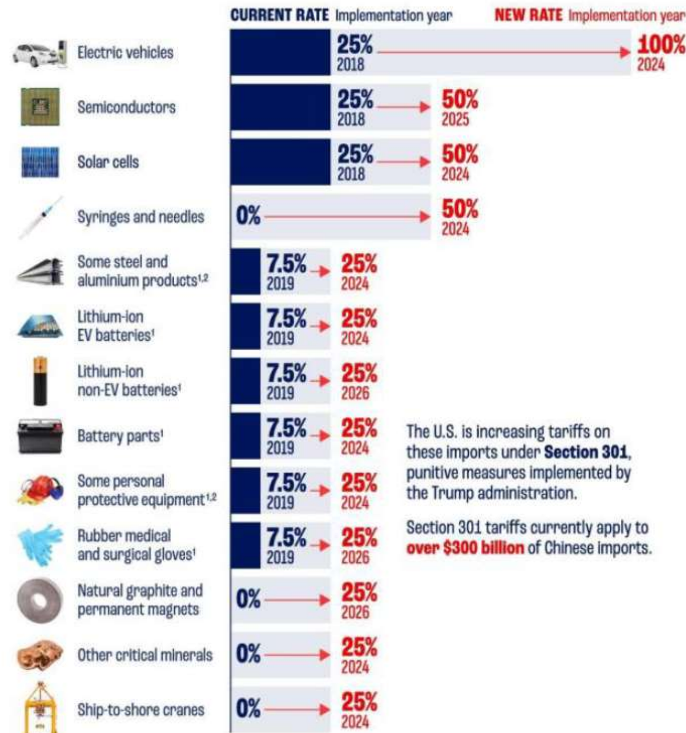


As is so often the case, the economic environment is not all black and white. Even when it is encouraging, there are regularly pockets of risk that tend to calm investors' fervor, which is perhaps no bad thing and avoids too many periods of euphoria which, as we all know, end in brutal corrections.

Will geopolitical conflicts, whether in Ukraine or Palestine, cause further collateral damage to supply chains and the global economy? Is China really considering the option of military intervention to reunify the island of Taiwan? Will inflation in services trigger a 2nd wave of sharp rises in the latter, as was the case in the 1970s (we don't think so, and we set out the arguments for our point of view in last month's letter)?

It's difficult to answer these questions with a simple yes or no...

As we regularly repeat, our job as asset allocators is not to make a bet on the assumption that this or that disaster scenario will come true. Our aim is to build robust portfolios that, over the long term, offer a satisfactory risk-adjusted return. This is why we are confirming our recommendation to remain diversified, even if one of these risks materializes.

The global economy is in good shape, with most companies boasting solid balance sheets, decent growth and comfortable profit margins. A slowdown cannot be ruled out, but the risks of a recession are relatively low at the time of writing.

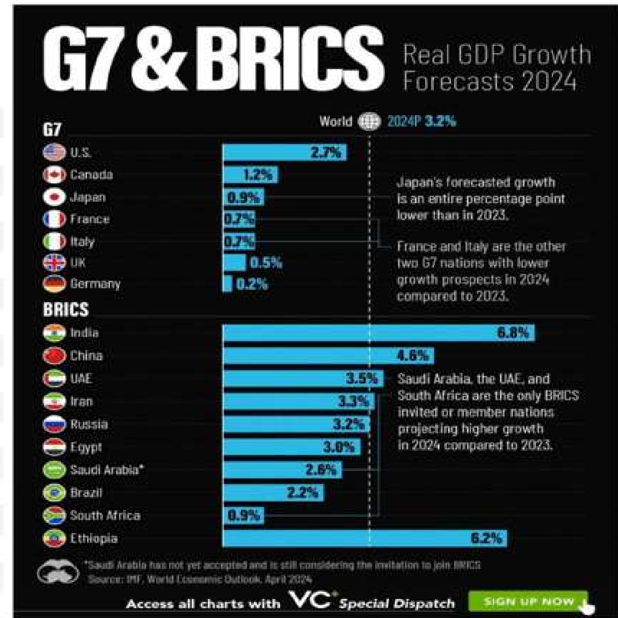
Even so, we are cautious about the very (overly?) highly valued segments that are benefiting from the euphoria of the "artificial intelligence" theme, and would tend not to overweight this pocket at the moment. In the current climate, we are particularly fond of companies capable of offering steady dividend growth. We remain at your disposal to discuss this further.
We hope you enjoy your summer.

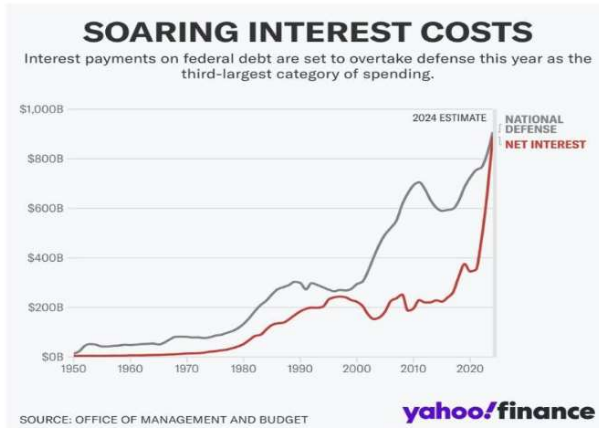
Bonus charts :

Wall Street's S&P 500 $SPX Price Targets

Wall Street firm	2024 S&P 500 target as of May 20	2024 S&P 500 target as of March 25
BMO Capital Market	5600	5100
Wells Fargo Investment Institute	5535	4625
Deutsche Bank	5500	5100
Oppenheimer Asset Management	5500	5500
Société Générale	5500	5500
Morgan Stanley	5400 (12-month forecast)	4500
Bank of America	5400	5400
Yardeni Research	5400	5400
RBC Capital Markets	5300	5150
Barclays	5300	5300
Goldman Sachs	5200	5200
UBS Global Wealth Management	5200	5200
Fundstrat	5200	5200
Citi	5100	5100
JPMorgan	4200	4200
Average	**5289**	**5117**
Median	**5400**	**5200**

Source: MarketWatch





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