
WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q3

1. Market highlights
2. Macro & Markets View
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1. Market highlights

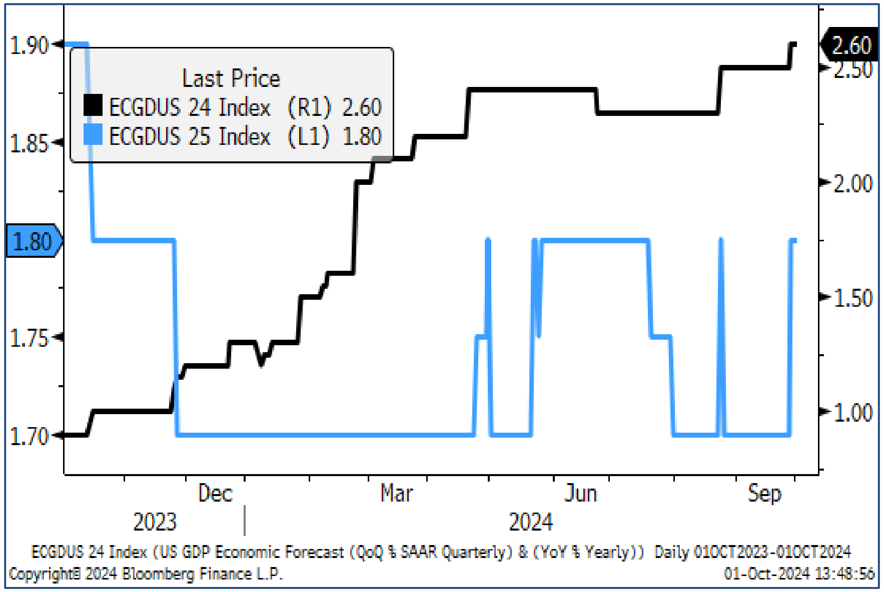
- Thanks to an **easing labor market** in Europe and the US, inflation continues to point towards the Central Banks' target.
- This has enabled Central Banks to begin a **cycle of monetary easing**, while remaining vigilant regarding future economic statistics.
- The US economy remains resilient and **should avoid a recession**.
- The situation in **Europe is less encouraging**: Germany is slowing down.
- In China, the **PBoC's bazooka** could be the game changer investors have been waiting for.
- The BoJ is going alone with a **restrictive monetary policy**, which is having a positive impact on the Yen.
- There is one certainty surrounding the forthcoming US presidential election: **the budget deficit is set to continue rising!**
- Most sectors are trading at historically **high valuations**. Companies will have to publish excellent results to justify these levels. Beware of unpleasant surprises.
- **Gold** continues its ascent to **all-time highs**. China's bazooka could revitalize the secular bull market across all Commodities.
- The feared escalation of the **Middle East conflict** seems to be materializing. We are keeping a close eye on the potential impact on certain asset classes.

2.1 Economic : GDP Forecast

- Economists are expecting **2.6% GDP growth**, compared with 1.3% at the start of the year. However, they seem to agree that the economy is slowing down and **should grow less strongly next year**, with expectations oscillating between 1.7% and 1.8%.

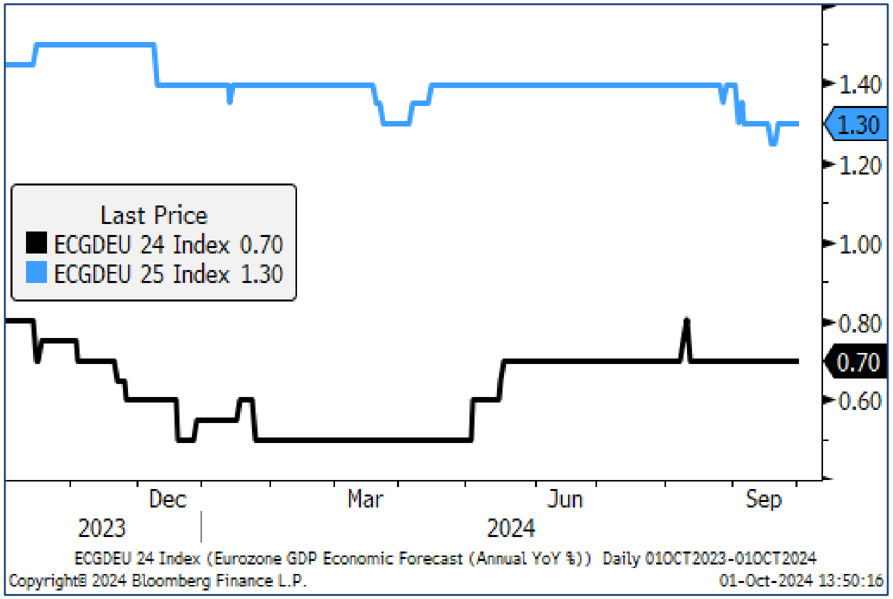
- **In Europe**, the cycle seems **more advanced**. This year's growth is expected to be the weakest, at 0.7%, while next year's economy should improve, with 1.3% real growth expected.

US GDP Forecast



Source: Bloomberg

EU GDP Forecast



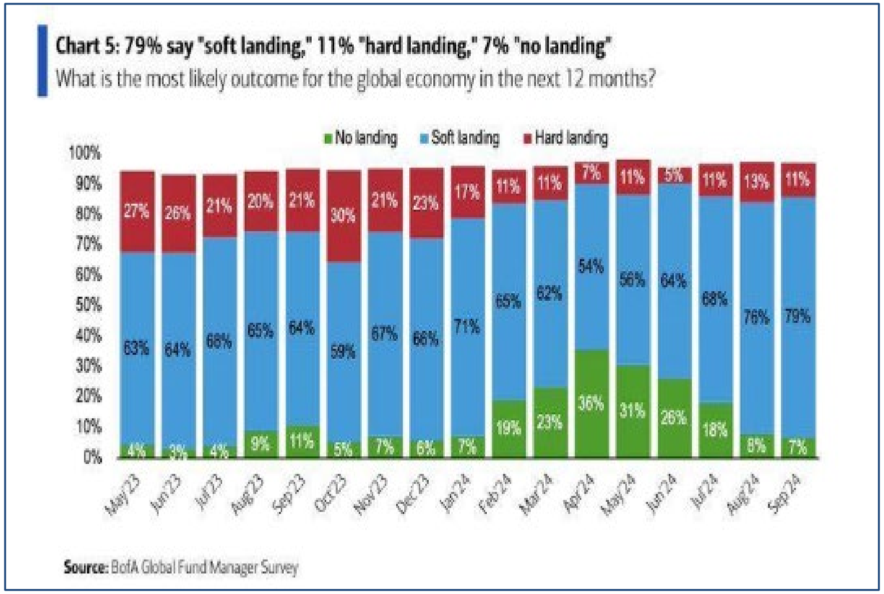
Source: Bloomberg

2.1 Economic : Growth Forecast

- Like economists, investors seem to agree that the economy is slowing down, but a recession should be avoided. **Over 79%** of fund managers surveyed by Bank of America **expect a soft landing**.

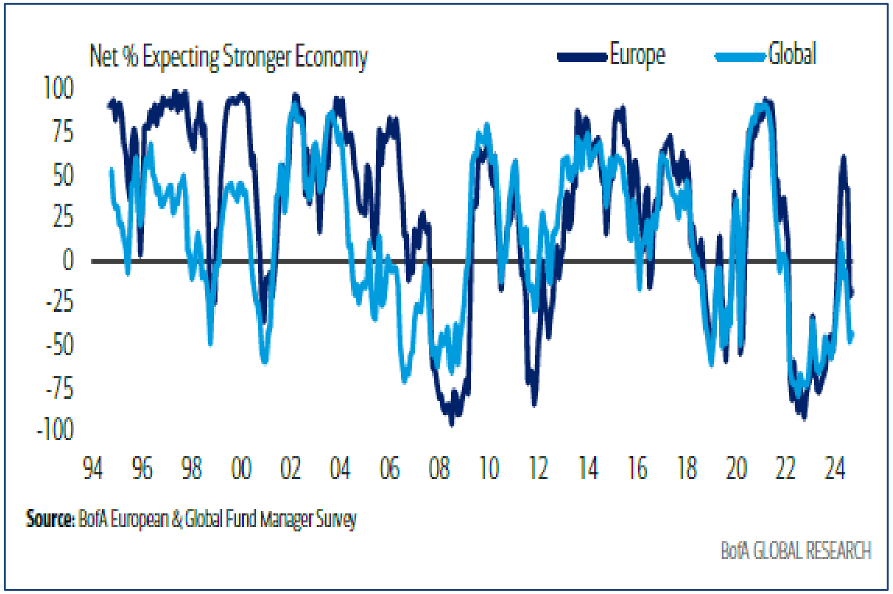
- In Europe, on the other hand, fund managers disagree with economists. The majority of those polled expect a weaker economy next year, both in Europe and globally.

BofA FMS Survey on landing



Source: Bank of America

BofA FMS Survey on stronger economy



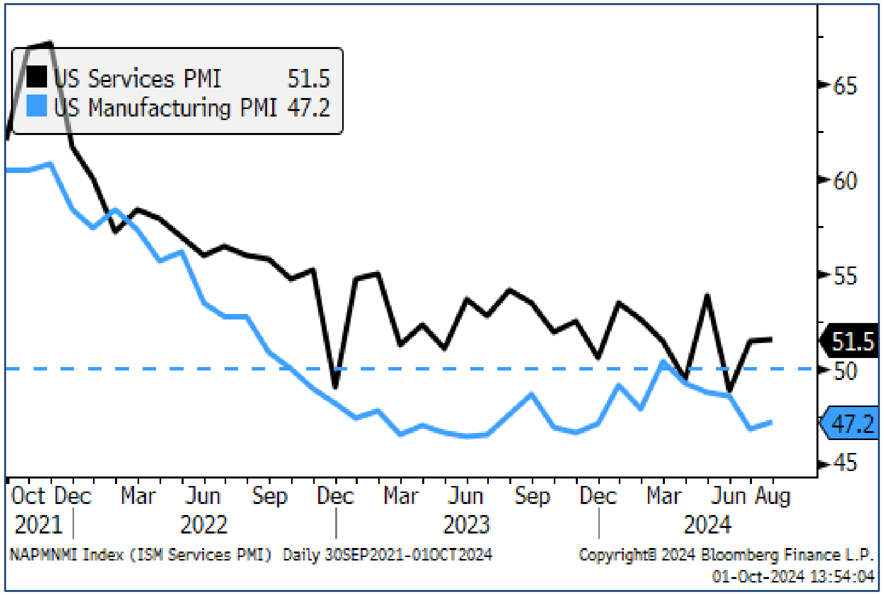
Source: Bank of America

2.1 Economic : PMI

- PMIs, leading economic indicators, tell two different stories. Manufacturing PMIs have been in contraction territory for two years now, while **services remain in expansion territory**, and it is these that have enabled the economy to be so resilient as Services represent more than 75% of the GDP both in the US and Europe.

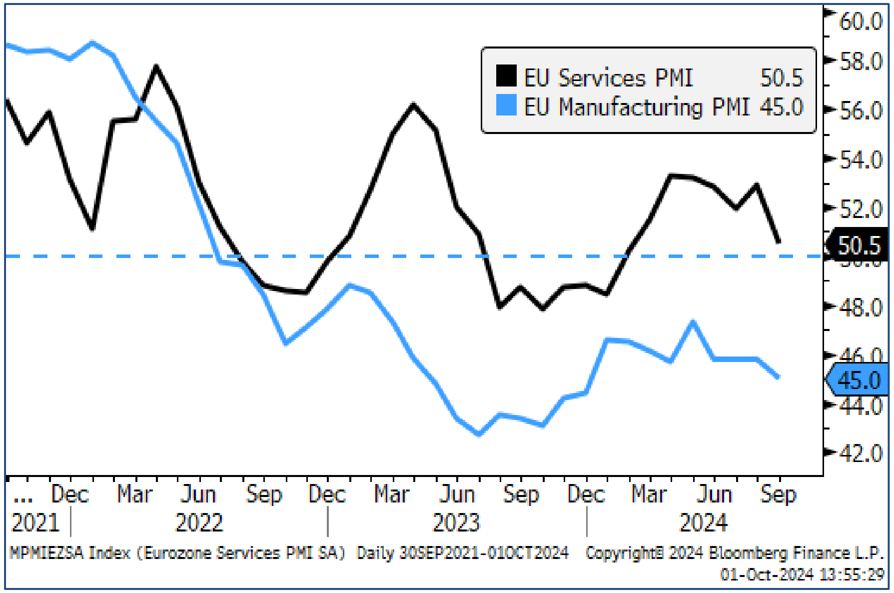
- Now that the Central Banks have begun their monetary easing cycle, we can expect manufacturing PMIs to improve and return to the expansion zone, provided the Central Banks are not "behind the curve".

US PMI



Source: Bloomberg

EU PMI



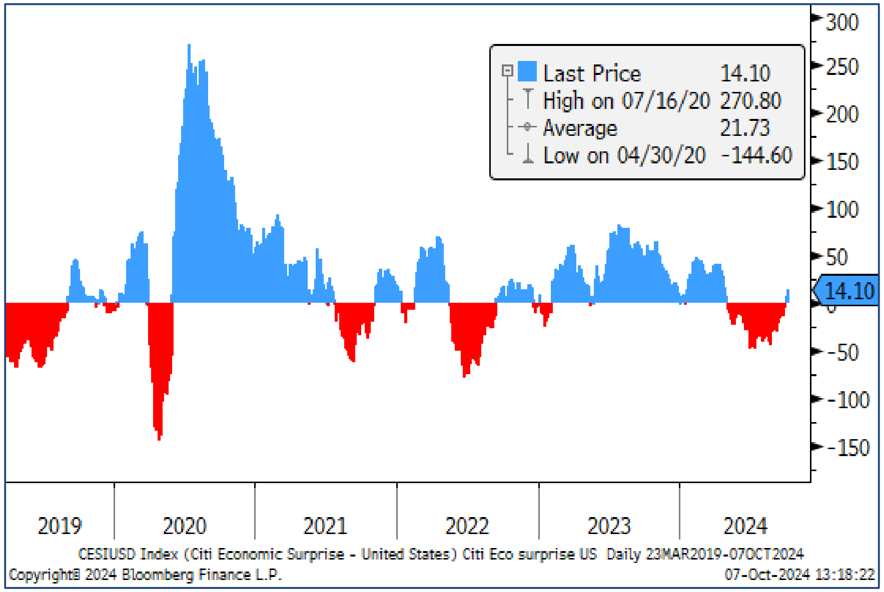
Source: Bloomberg

2.1 Economic : Citi Economic Surprise

- Looking more broadly at the latest macroeconomic data, we can see that most of them have been negative in recent months, coinciding with the market correction between late July and early August.

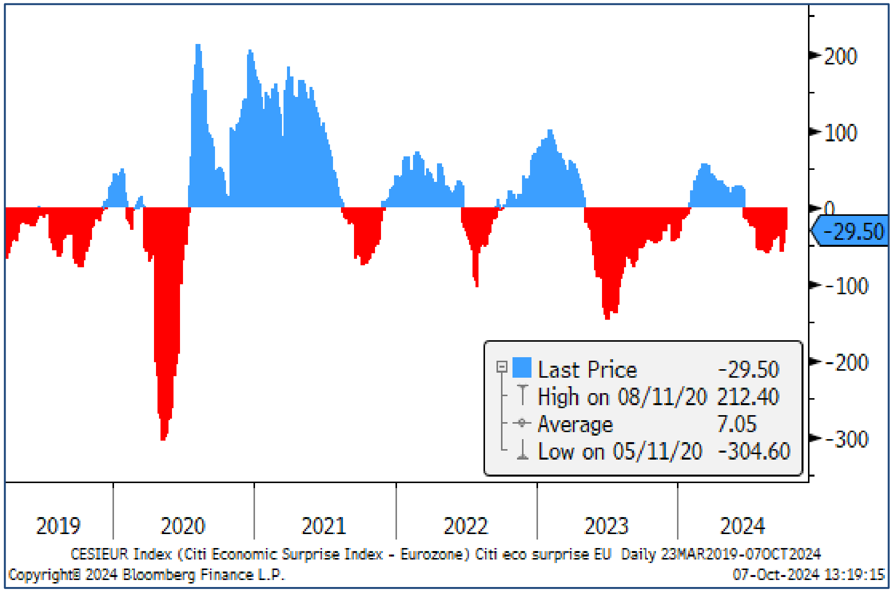
- However, data has improved in recent weeks, mainly in the US, whereas it remains negative in Europe.

Citi US Economic Surprise



Source: Bloomberg

Citi EU Economic Surprise



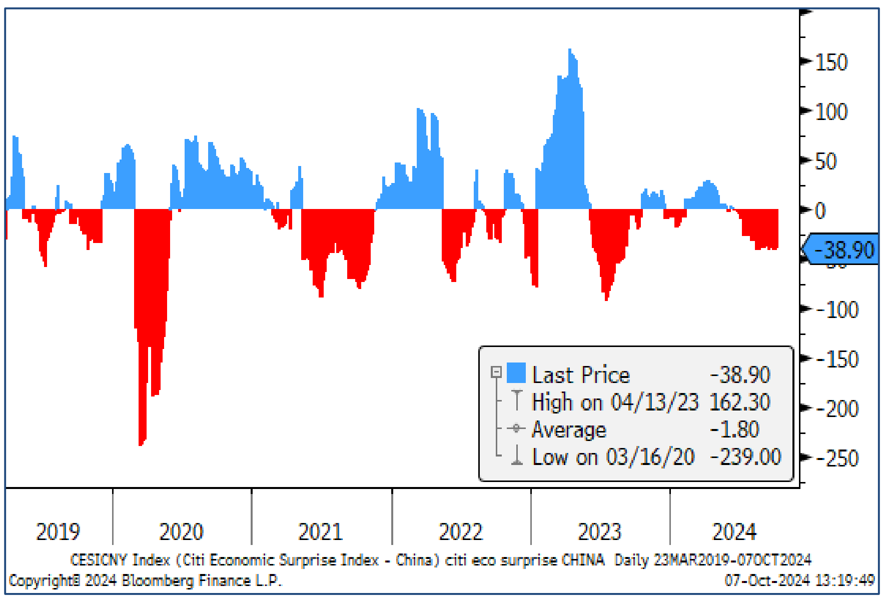
Source: Bloomberg

2.1 Economic : Citi Economic Surprise

- In China, too, surprises have been mostly negative for several months now. This is certainly what prompted the Chinese government to introduce new economic stimulus measures.

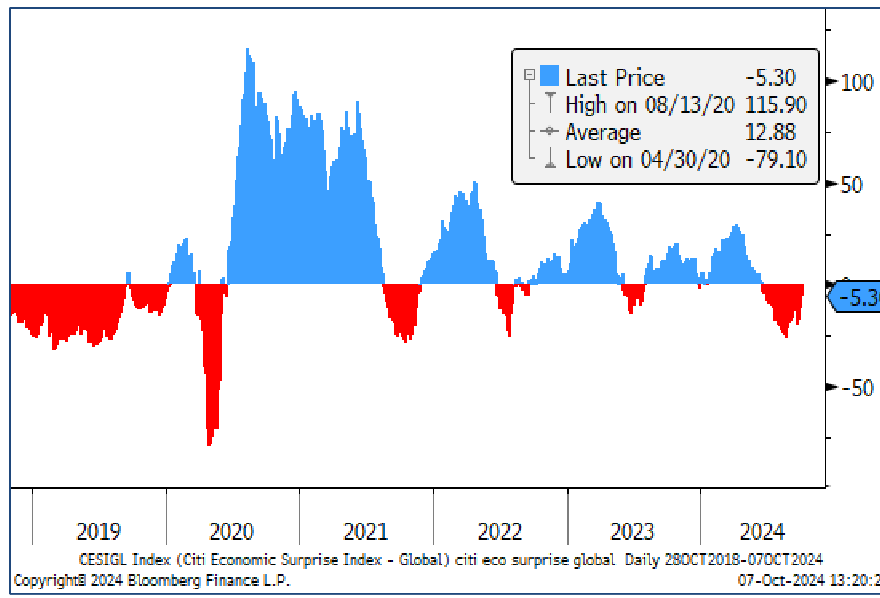
- Globally, surprises have also been negative, although there are signs of improvement thanks to the US economy.

Citi China Economic Surprise



Source: Bloomberg

Citi World Economic Surprise



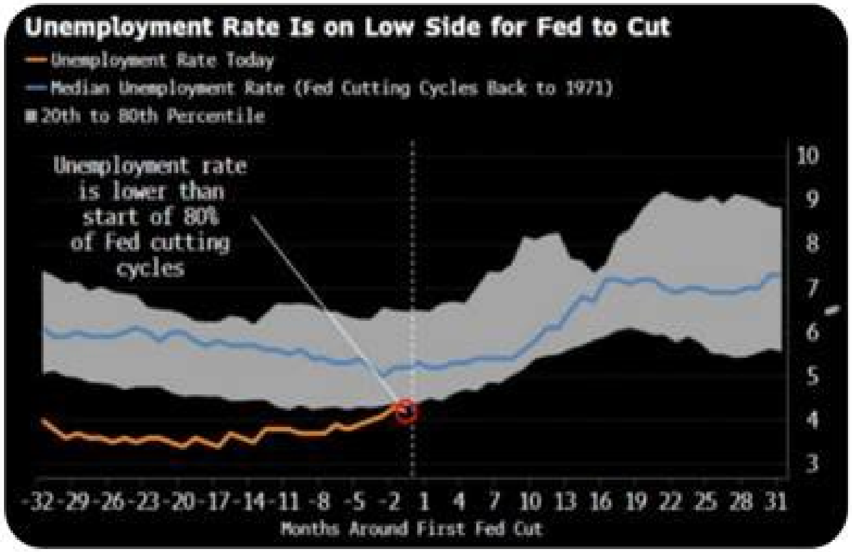
Source: Bloomberg

2.1 Economic : Labor Market

- The **US job market is normalizing**. Job openings are returning to pre-Covid levels, while the number of unemployed is gradually rising. However, **there are still more job openings than unemployed**, which is not a “normal” situation.

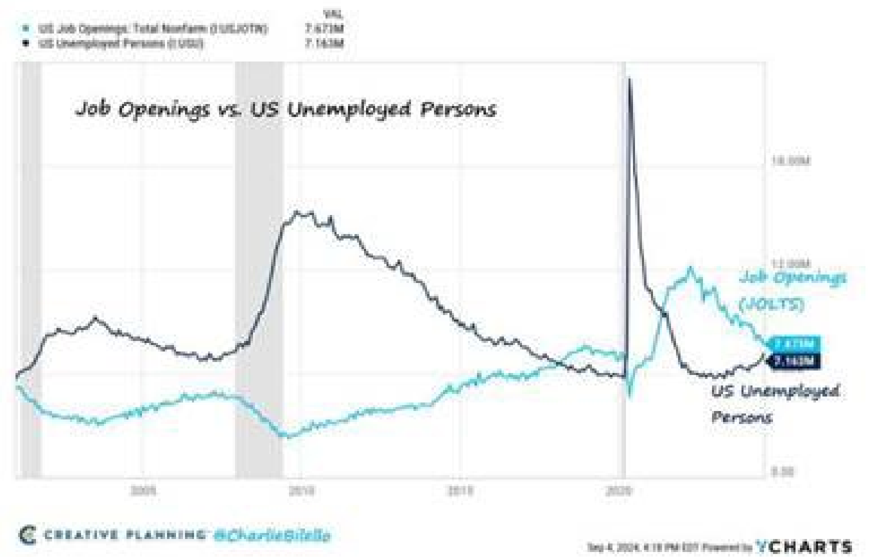
- **Unemployment has risen** over the past year, and if history is anything to go by, it should continue to climb after the FED's first rate cuts. The levels of unemployment that will be reached will certainly determine whether or not a recession will be avoided.

Unemployment Rate during easing cycle



Source: Bloomberg

Job Openings vs Unemployed



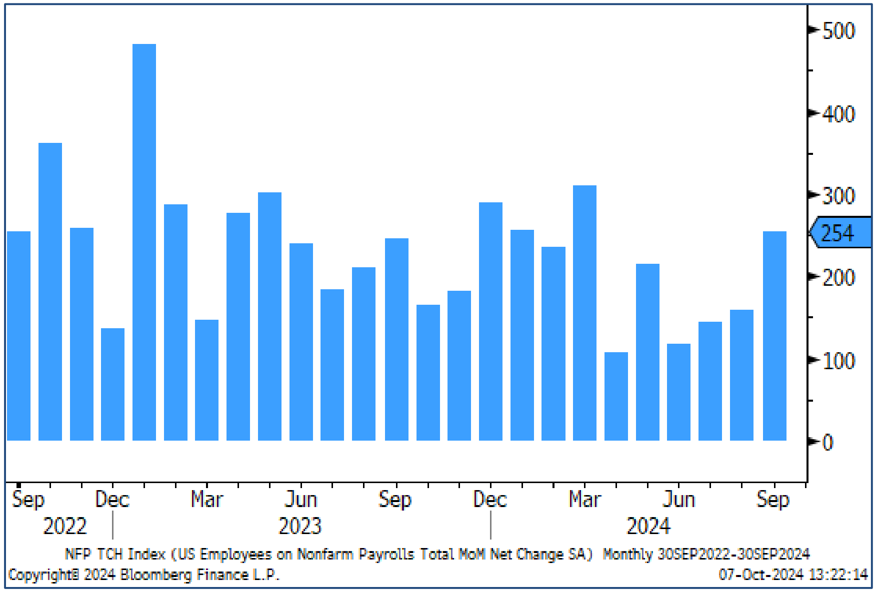
Source: Charlie Bilello

2.1 Economic : Labor Market

- Job creation remains in positive territory. Although job creation figures have been lower in recent months than in 2023, they remain healthy for the US economy.

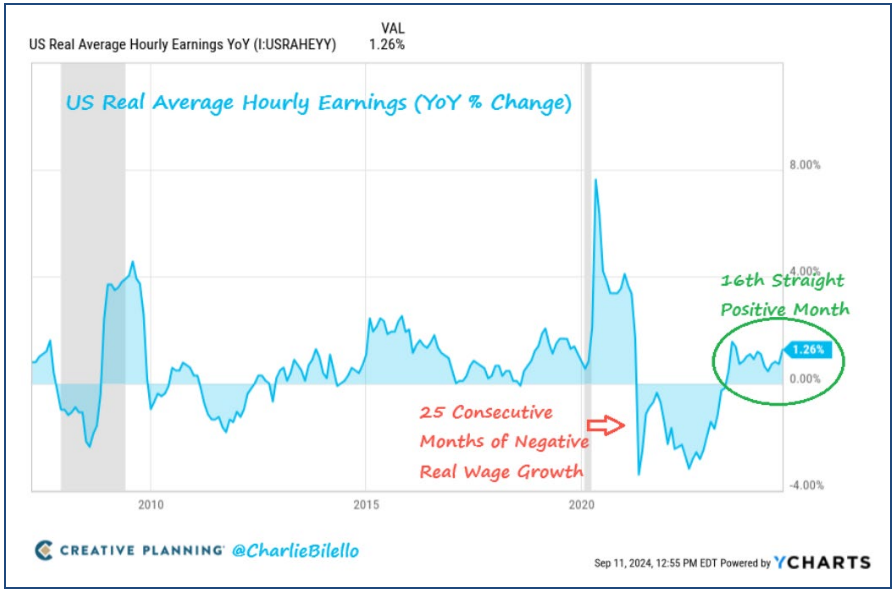
- Wages have now risen positively in real terms for 16 consecutive months. This shows that **households have regained purchasing power**, which is positive for consumption, which accounts for two-thirds of GDP.

Non-Farm Payrolls



Source: Bloomberg

Real Hourly Earning Growth



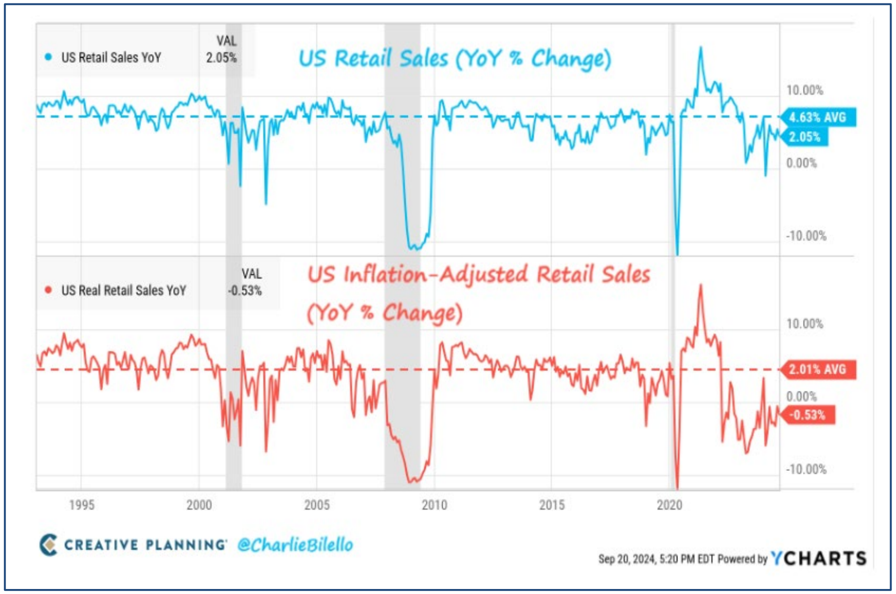
Source: Charlie Bilello

2.1 Economic : Consumption

- Consumption continues to grow below its historical average. However, growth remains positive in nominal terms. It's **in real terms that the figures are more worrying**: for almost two years now, real retail sales growth has been negative.

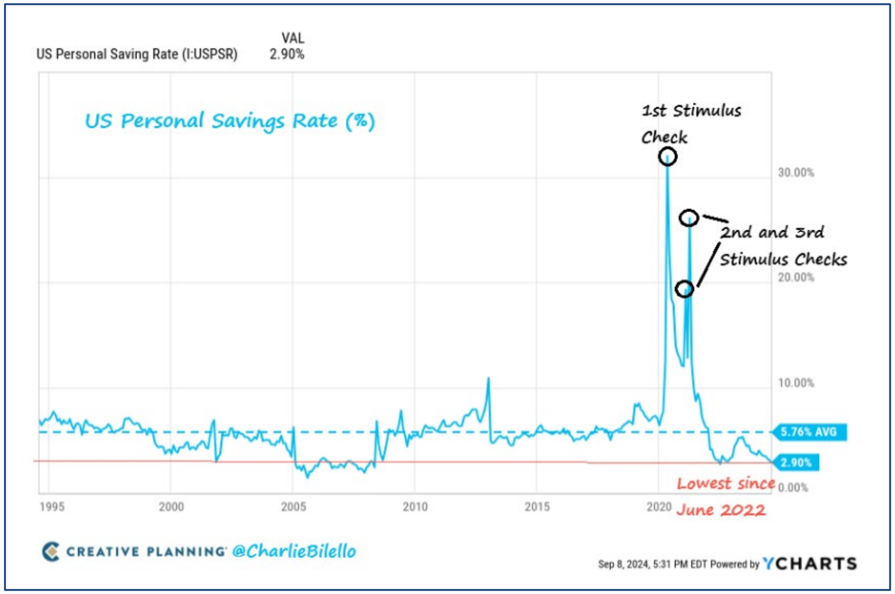
- Another worrying point is the household savings rate, which is at its lowest level since 2022. This could indicate that **the excess savings from Covid have been exhausted**. We could see a negative impact on consumption.

Retail Sales



Source: Charlie Bilello

Personal Saving Rates



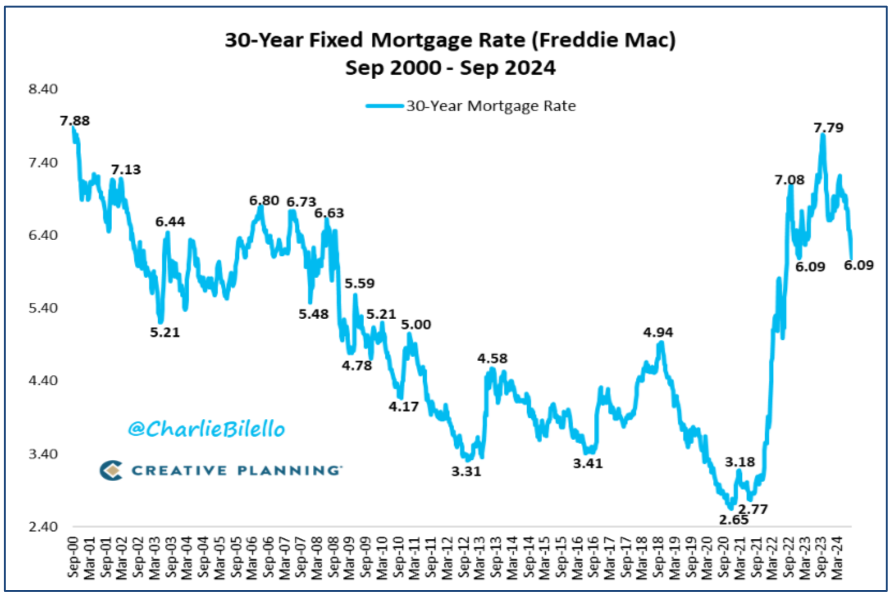
Source: Charlie Bilello

2.1 Economic : US Real Estate

- On the real estate front, the fall in interest rates should revitalize the housing market and enable more people to own their home.

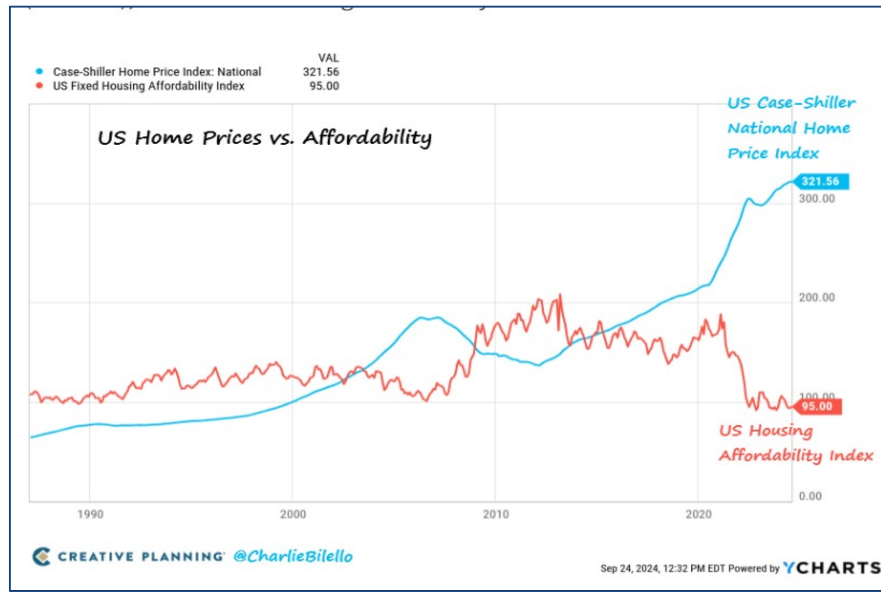
- However, even though long-term interest rates have fallen, house prices have not stopped rising and, as a result, **home affordability remains very difficult** for the majority of households.

30Yr Mortgage Rates



Source: Charlie Bilello

Home Affordability



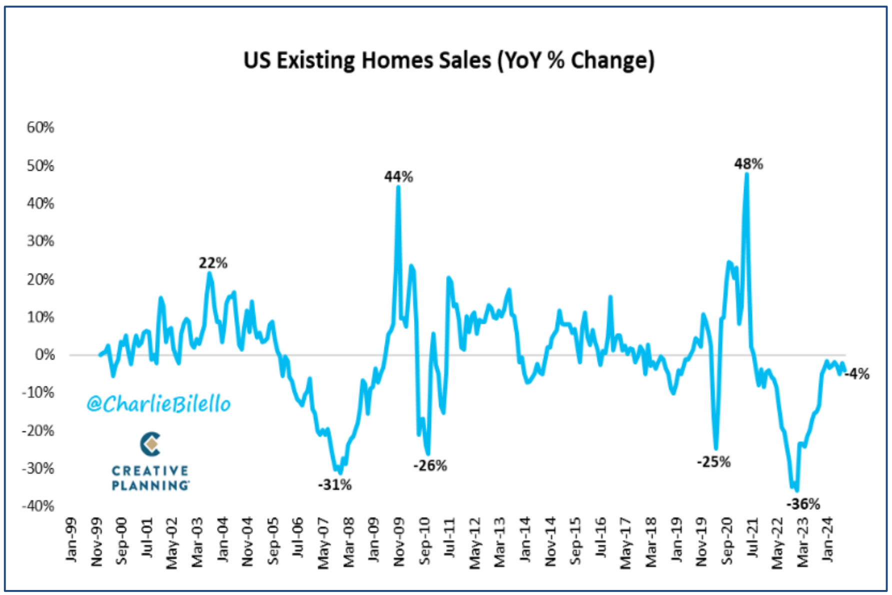
Source: Charlie Bilello

2.1 Economic : US Real Estate

- Existing home sales growth has remained in negative territory since the end of 2021. This is proof that the US real estate market is at a standstill and needs to see rates and house prices fall in order to restart.

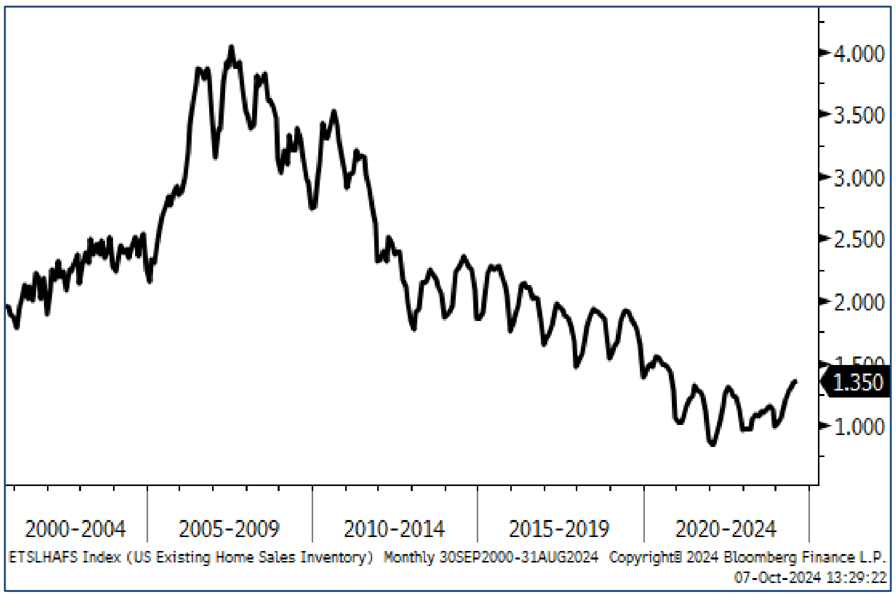
- **Lower rates** should boost the demand side but **has little effect on the supply** side where much more construction is needed on the residential market.

Home Sales YoY



Source: Charlie Bilello

US Existing Home Sales Inventory



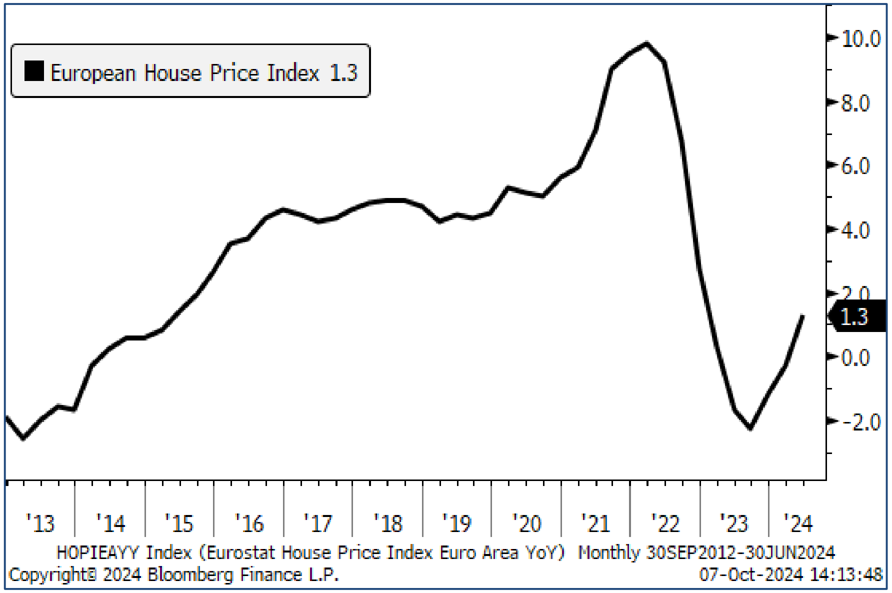
Source: Bloomberg

2.1 Economic : EU Real Estate

- In Europe, since the end of 2022 the pace of Real Estate prices started to slow and reached negative territories in 2023. This drop in prices was mainly a consequence of the **poor German and France economy** while the ECB was rising interest rates.

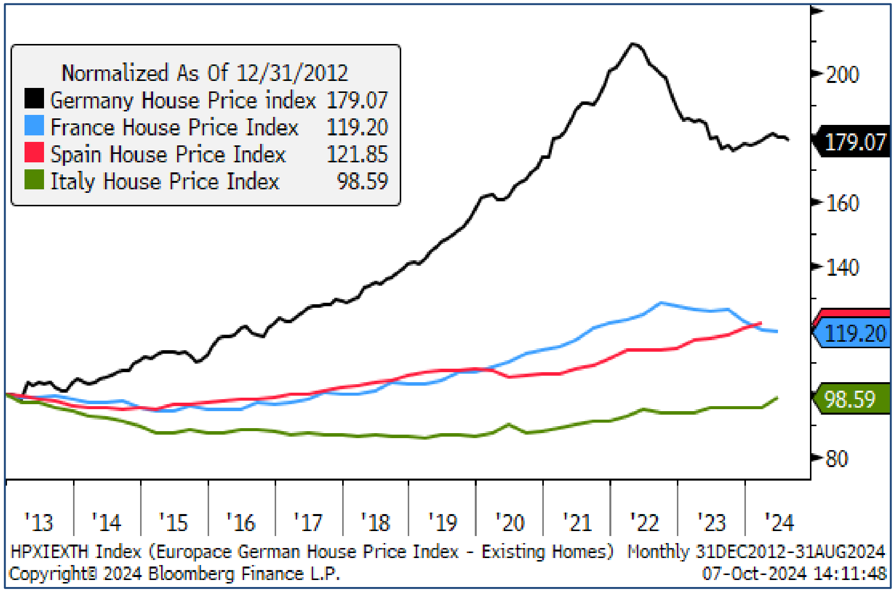
- In other markets such as **Italy and Spain, higher interest rates didn't have a negative impact on the residential market** where prices continued to rise throughout 2023 and 2024.

European House Price YoY



Source: Bloomberg

House Price Index by Country



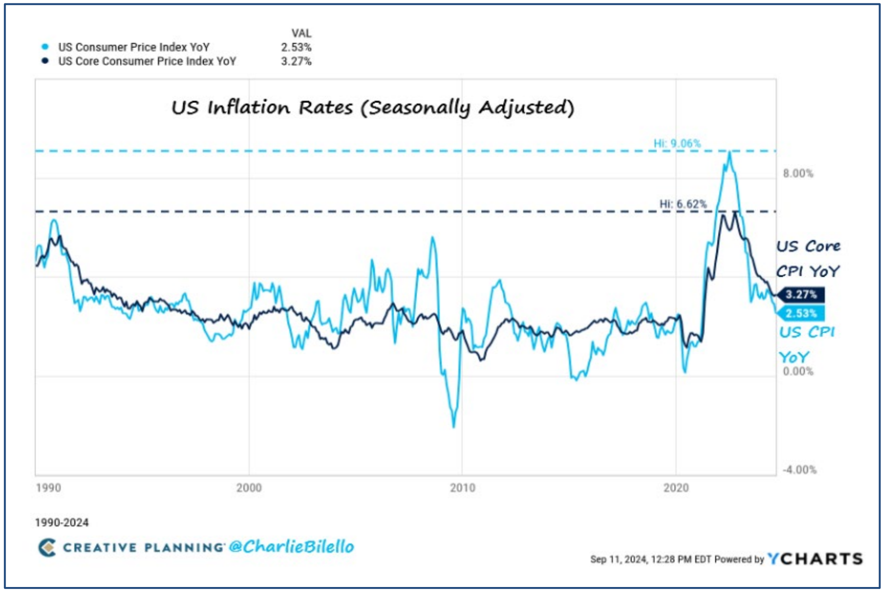
Source: Bloomberg

2.1 Economic : Inflation

- Inflation continues to follow its downward trend and is approaching the FED's target. However, **inflationary pressures remain in certain areas** of the economy, which is why core inflation has still not fallen below 3%.

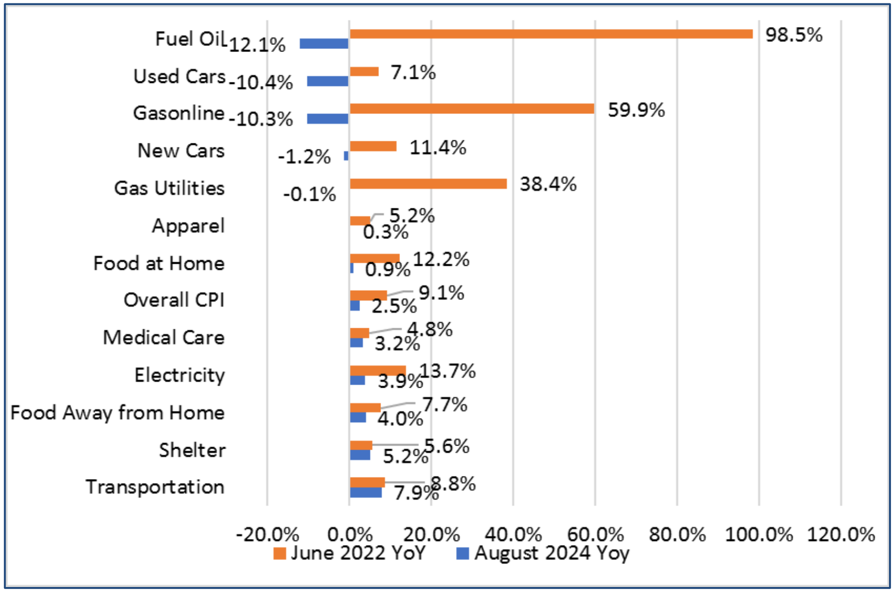
- These pressures come from three areas in particular: **Transport, Housing and Food**. Lower rates should have a positive impact on rental inflation (30% of CPI), and could therefore help to reduce inflation in this sector.

US CPI



Source: Charlie Bilello

CPI Breakdown 2022 vs 2024



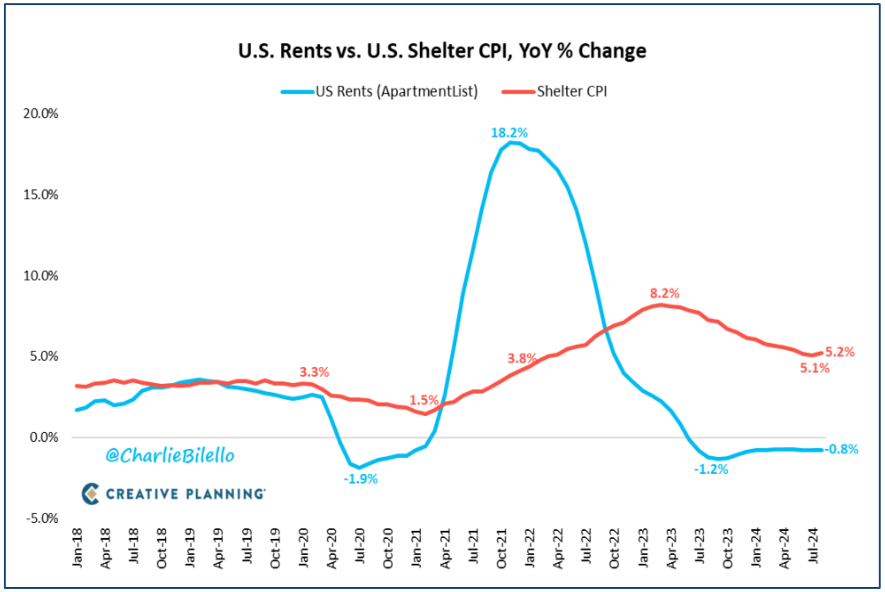
Source: Charlie Bilello

2.1 Economic : Inflation

- **New leases in the US have been signed at lower and lower prices** for over a year now. This can be seen as a leading indicator of housing inflation in the CPI. This is further evidence that inflation in this sector should continue to fall.

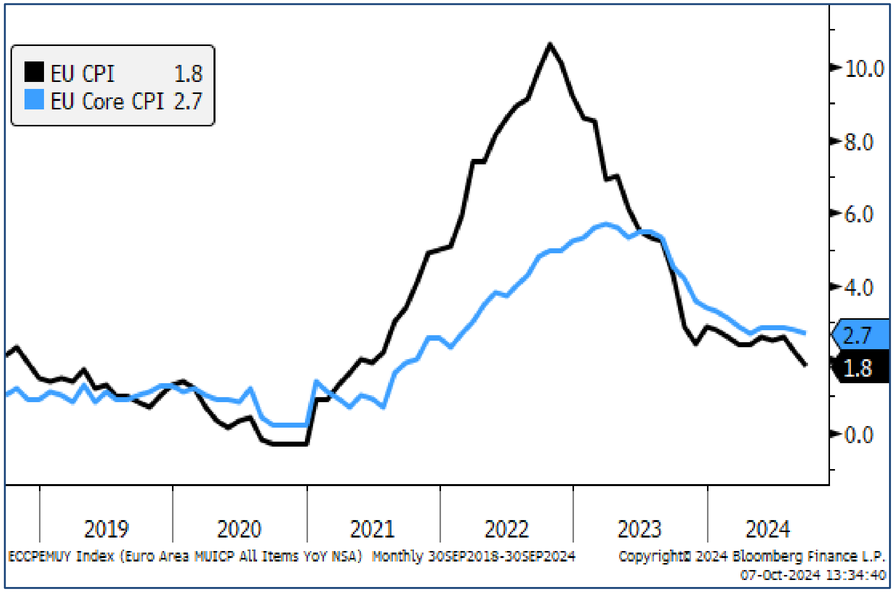
- In Europe, inflation has moved below the ECB target of 2%. Yet, like in the US **core inflation is stickier than expected** and needs more progress to move back below 2%.

Rents vs Shelter CPI



Source: Charlie Bilello

Europe CPI



Source: Bloomberg

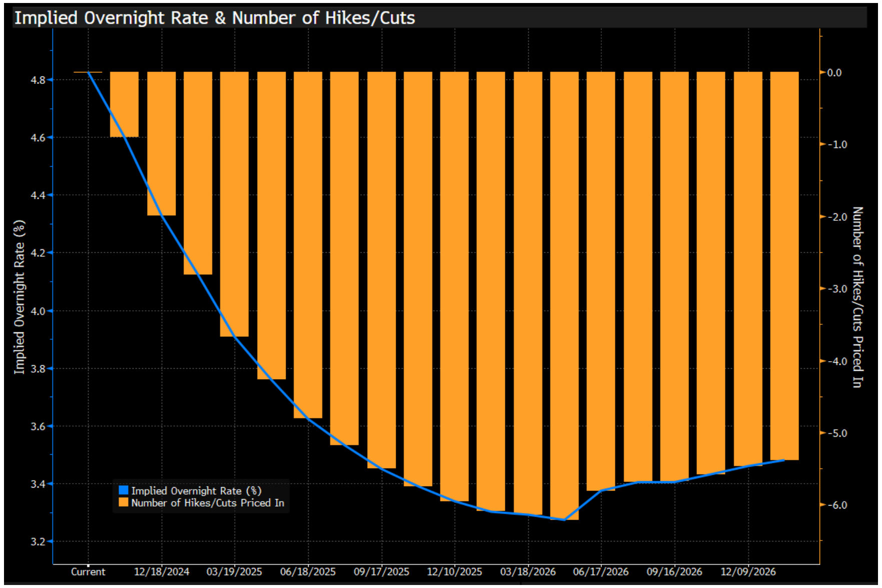
2.1 Economic : Central Banks

- The FED, which was one of the last major Central Banks not to start cutting rates, made up for lost time by cutting rates by 50bps in September.

- Between this 50bps cut and disappointing employment figures, the market is now expecting the FED to continue cutting rates aggressively**. The market is forecasting 2 rate cuts by the end of the year**, which means we can expect two 25bps cut.

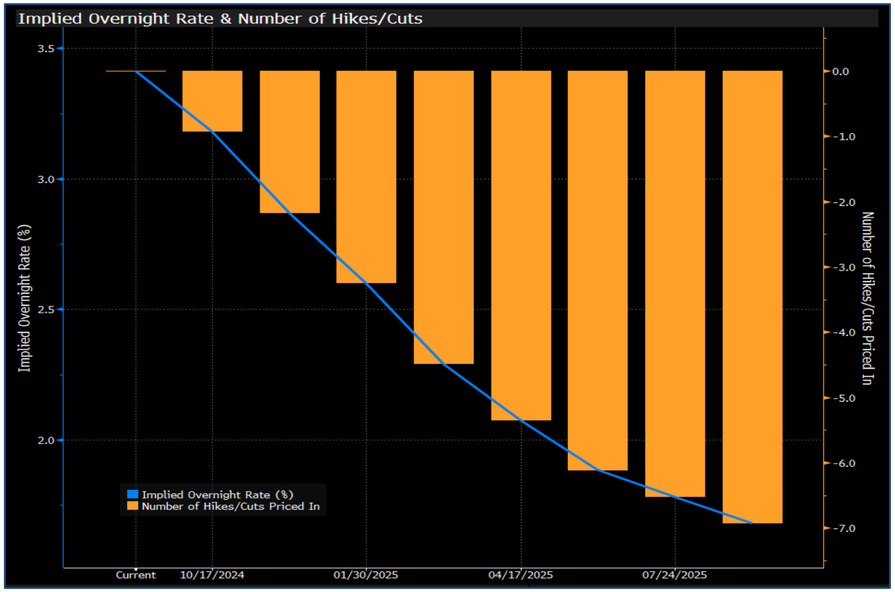
- In Europe the BCE lowered its rates by 25bps and hinted for a pause until December. But due to recent economic data, the market still expect 25bps cut in October.

US Rate Cuts Expectations



Source: Bloomberg

EU Rate Cuts Expectations

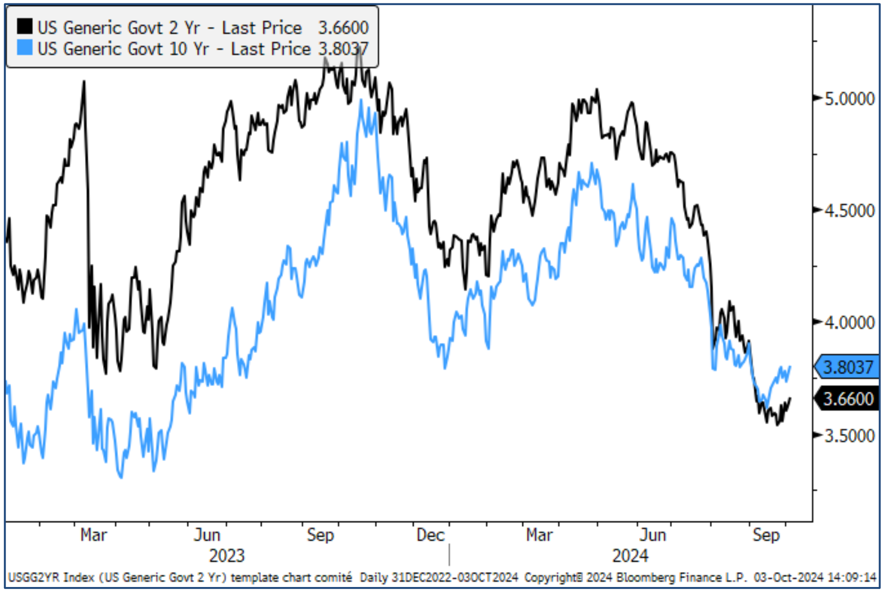


Source: Bloomberg

2.1 Economic : Rates

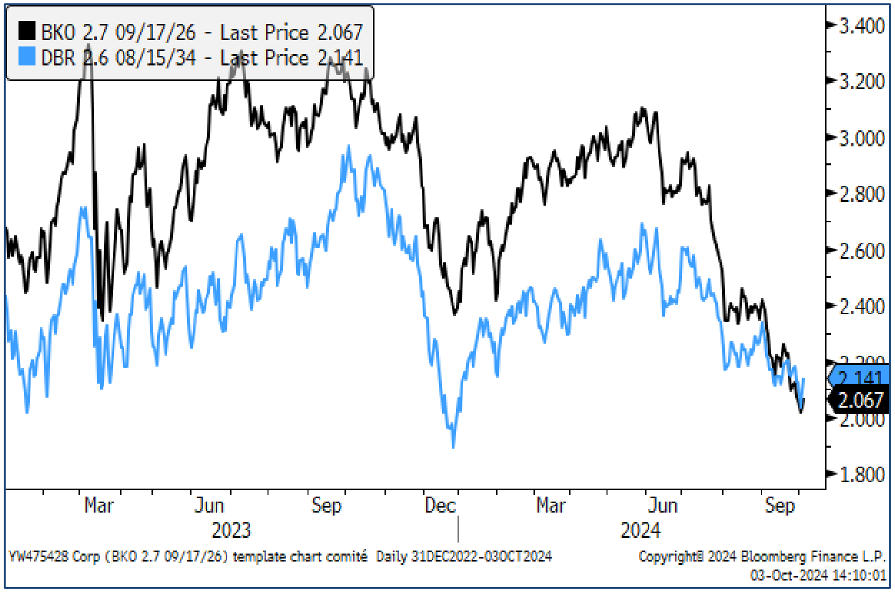
- Between fears of a slowdown, the start of the FED rate cut and the correction that took place between July and August, **yields fell on both sides of the Atlantic**.
- Weak growth forecasts in Europe should also prompt the ECB to cut rates significantly.
- With these rate cuts, the **yield curves have steepened** and are now positive again.

US Interest Rates



Source: Bloomberg

EU Interest Rates



Source: Bloomberg

2.1 Economic : Peripheric Spread

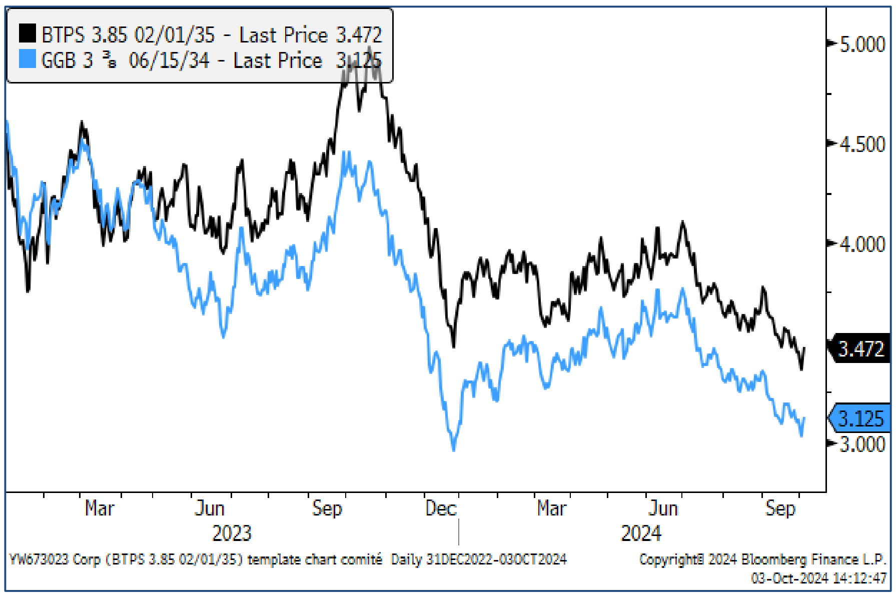
- In Europe, France's budget deficit and its new budget have sent the spread against German rates to its highest since the European crisis in 2012. Now the **spread between France and Germany** is at the same level as the spread with Spain.

- Even Greece is now trading with a spread closer to France's than Italy's.

France vs Spain 10Yr Yield

Source: Bloomberg

Italy vs Greece 10Yr Yield



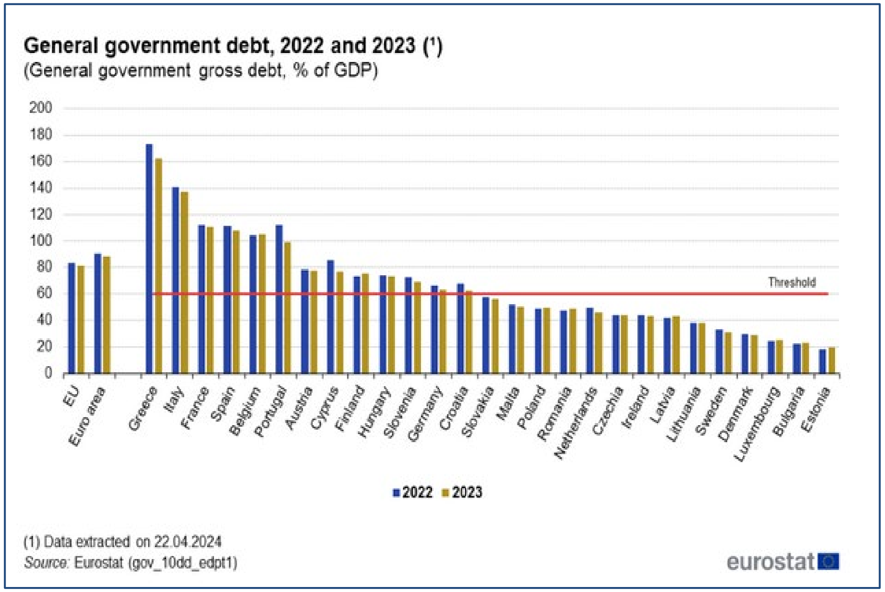
Source: Bloomberg

2.1 Economic : European Debt and Deficit

- The spread between the OAT and the Bund has widened because **France's economy and fiscal budget look gloomy.**

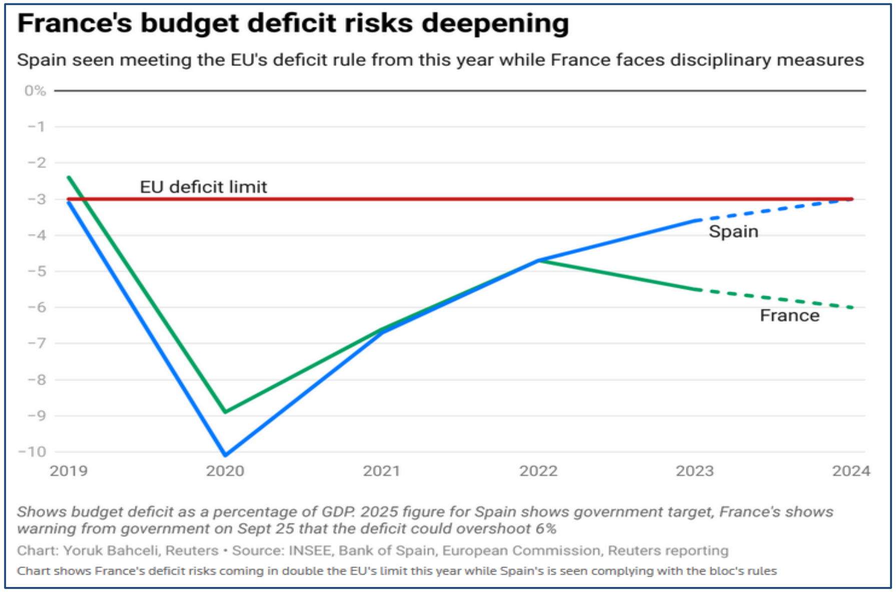
- Compared to Spain, France is now more heavily indebted and should have a bigger fiscal deficit for next year. Investor believe that Spain's economy might prove more resilient than France.

EU Governement Debt



Source: Eurostat

Spain & France Deficit



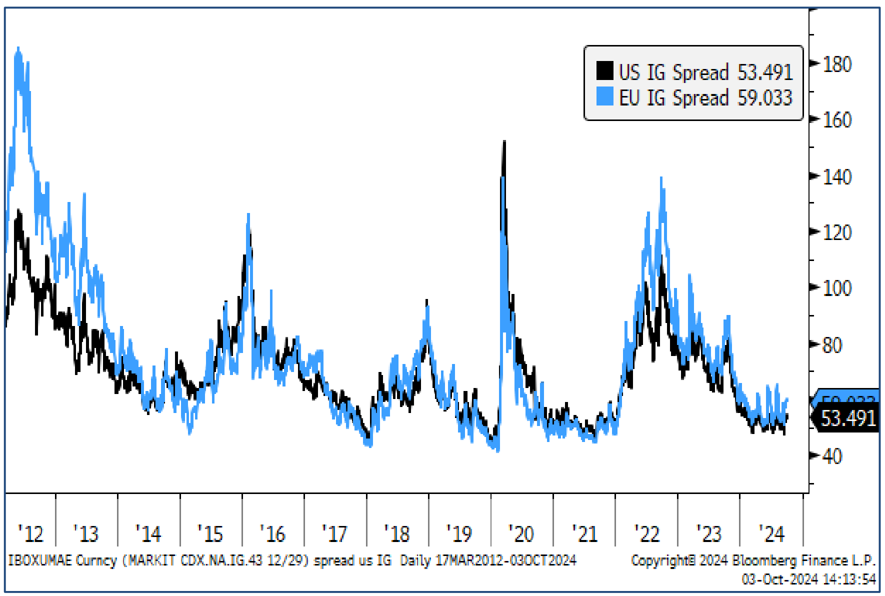
Source: Reuters

2.1 Economic : Credit Spread

- **Credit spreads remain very stable** on both the Investment Grade and High Yield sides.

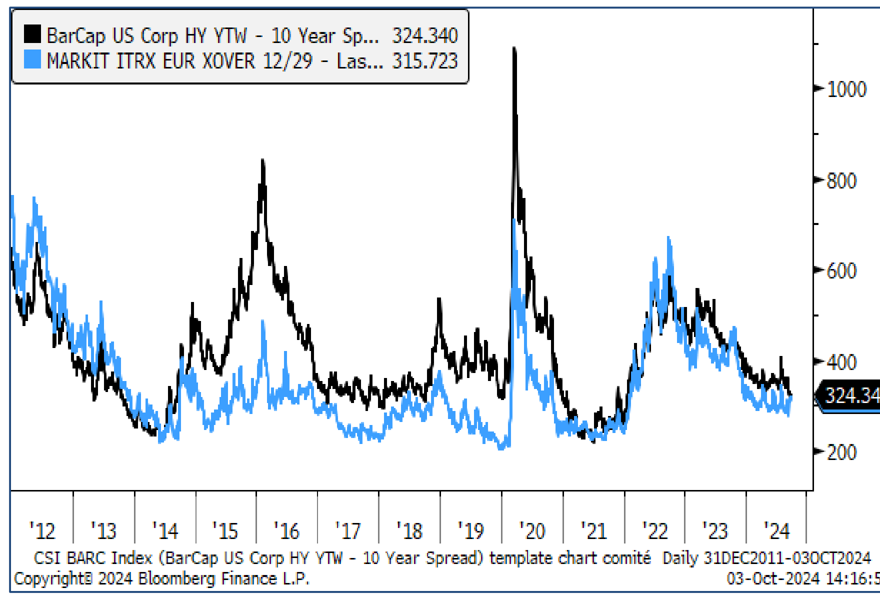
- Even the turbulence in the equity markets, fears of recession and the geopolitical environment do not seem to be having any impact on credit risk at the moment.

US & EU IG Credit Spreads



Source: Bloomberg

US & EU HY Credit Spreads



Source: Bloomberg

2.1 Economic : Asset Class Performance

➤ Not all the indicators we have seen point in the same direction. Some are rather optimistic, while others are more pessimistic. However, given that markets anticipate the economic cycle, **investors do not seem to be preparing for a recession**, given the performance of all asset classes.

Asset Class Performances

CREATIVE PLANNING		Asset Class Total Returns Since 2011 (Data via YCharts as of 9/24/24)														@CharlieBilello	
ETF	Asset Class	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2011-24 Cumulative	2011-24 Annualized
N/A	Bitcoin ($BTC)	1473%	186%	5507%	-58%	35%	125%	1331%	-73%	95%	301%	66%	-65.5%	155.8%	**52.0%**	21425791%	144.8%
GLD	Gold	9.6%	6.6%	-28.3%	-2.2%	-10.7%	8.0%	12.8%	-1.9%	17.9%	24.8%	-4.2%	-0.8%	12.7%	**28.7%**	77.4%	4.3%
IWF	US Growth	2.3%	15.2%	33.1%	12.8%	5.5%	7.0%	30.0%	-1.7%	35.9%	38.3%	27.4%	-29.3%	42.6%	**24.0%**	663.9%	16.0%
SPY	US Large Caps	1.9%	16.0%	32.2%	13.5%	1.2%	12.0%	21.7%	-4.5%	31.2%	18.4%	28.7%	-18.2%	26.2%	**21.3%**	485.2%	13.8%
QQQ	US Nasdaq 100	3.4%	18.1%	36.6%	19.2%	9.5%	7.1%	32.7%	-0.1%	39.0%	48.6%	27.4%	-32.6%	54.9%	**19.0%**	910.0%	18.4%
IWD	US Value	0.1%	17.5%	32.1%	13.2%	-4.0%	17.3%	13.5%	-8.5%	26.1%	2.7%	25.0%	-7.7%	11.4%	**15.7%**	295.7%	10.6%
VNQ	US REITs	8.6%	17.6%	2.3%	30.4%	2.4%	8.6%	4.9%	-6.0%	28.9%	-4.7%	40.5%	-26.2%	11.8%	**14.3%**	204.1%	8.5%
EEM	EM Stocks	-18.8%	19.1%	-3.7%	-3.9%	-16.2%	10.9%	37.3%	-15.3%	18.2%	17.0%	-3.6%	-20.6%	9.0%	**14.0%**	27.3%	1.8%
MDY	US Mid Caps	-2.1%	17.8%	33.1%	9.4%	-2.5%	20.5%	15.9%	-11.3%	25.8%	13.5%	24.5%	-13.3%	16.1%	**13.2%**	310.6%	10.9%
EFA	EAFE Stocks	-12.2%	18.8%	21.4%	-6.2%	-1.0%	1.4%	25.1%	-13.8%	22.0%	7.6%	11.5%	-14.4%	18.4%	**12.2%**	113.8%	5.7%
PFF	Preferred Stocks	-2.0%	17.8%	-1.0%	14.1%	4.3%	1.3%	8.1%	-4.7%	15.9%	7.9%	7.2%	-18.2%	9.2%	**12.0%**	90.2%	4.8%
IWM	US Small Caps	-4.4%	16.7%	38.7%	5.0%	-4.5%	21.6%	14.6%	-11.1%	25.4%	20.0%	14.5%	-20.5%	16.8%	**10.8%**	241.0%	9.4%
EMB	EM Bonds (USD)	7.7%	16.9%	-7.8%	6.1%	1.0%	9.3%	10.3%	-5.5%	15.5%	5.4%	-2.2%	-18.6%	10.6%	**8.5%**	64.5%	3.7%
HYG	High Yield Bonds	6.8%	11.7%	5.8%	1.9%	-5.0%	13.4%	6.1%	-2.0%	14.1%	4.5%	3.8%	-11.0%	11.5%	**7.8%**	90.4%	4.8%
CWB	Convertible Bonds	-7.7%	15.9%	20.5%	7.7%	-0.8%	10.6%	15.7%	-2.0%	22.4%	53.4%	2.2%	-20.8%	14.5%	**6.5%**	220.1%	8.9%
LQD	Investment Grade Bonds	9.7%	10.6%	-2.0%	8.2%	-1.3%	6.2%	7.1%	-3.8%	17.4%	11.0%	-1.8%	-17.9%	9.4%	**5.6%**	68.5%	3.9%
TIP	TIPS	13.3%	6.4%	-8.5%	3.6%	-1.8%	4.7%	2.9%	-1.4%	8.3%	10.8%	5.7%	-12.2%	3.8%	**5.2%**	45.0%	2.7%
BND	US Total Bond Market	7.7%	3.9%	-2.1%	5.8%	0.6%	2.5%	3.6%	-0.1%	8.8%	7.7%	-1.9%	-13.1%	5.7%	**4.9%**	36.9%	2.3%
BIL	US Cash	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.1%	0.7%	1.7%	2.2%	0.4%	-0.1%	1.4%	4.9%	**3.9%**	15.8%	1.1%
DBC	Commodities	-2.6%	3.5%	-7.6%	-28.1%	-27.6%	18.6%	4.9%	-11.6%	11.8%	-7.8%	41.4%	19.3%	-6.2%	**2.5%**	-10.9%	-0.8%
TLT	Long Duration Treasuries	34.0%	2.6%	-13.4%	27.3%	-1.8%	1.2%	9.2%	-1.6%	14.1%	18.2%	-4.6%	-31.2%	2.8%	**2.4%**	50.6%	3.0%
Highest Return		BTC	BTC	BTC	VNQ	BTC	BTC	BTC	BIL	BTC	BTC	BTC	DBC	BTC	BTC	BTC	BTC
Lowest Return		EEM	BIL	GLD	BTC	DBC	BIL	BIL	BTC	BIL	DBC	TLT	BTC	DBC	TLT	DBC	DBC
% of Asset Classes Positive		62%	95%	52%	71%	38%	100%	100%	5%	100%	90%	67%	10%	95%	100%	95%	95%

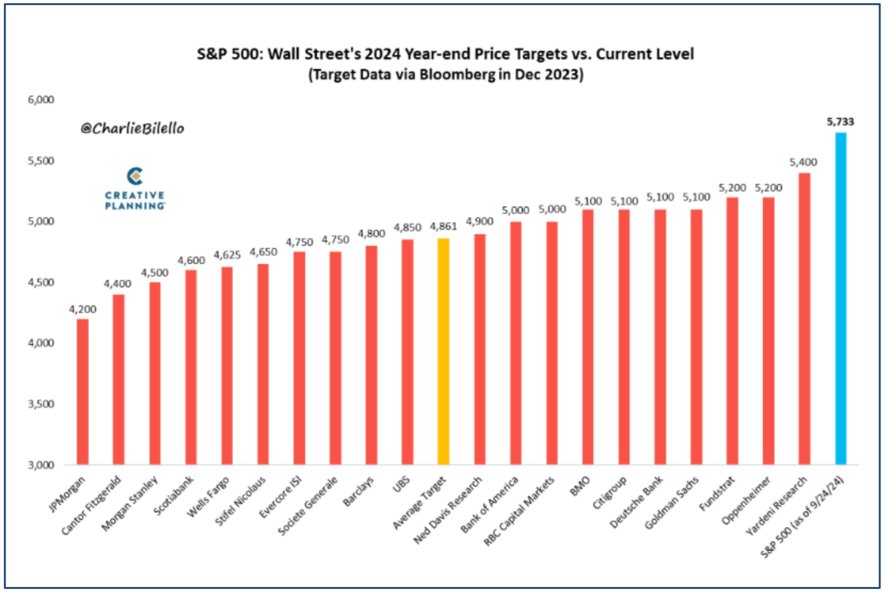
Source: Charlie Bilello

2.1 Economic : S&P 500

- The S&P 500 has already made 41 new all-time highs in 2024. Whereas in December 2023 economists expected the S&P 500 to end the year at 4,860, it is now over 5,700.

- **This reflects either excessive optimism in the market or excessive pessimism among economists.**

S&P 500 vs Analyst Expectations



Source: Charlie Bilello

S&P 500 #of ATH

S&P 500 Index: Number of All-Time Highs (1929 - 2024)

Year	# ATH	Year	# ATH	Year	# ATH	Year	# ATH	Year	# ATH
1929	45	1949	0	1969	0	1989	13	2009	0
1930	0	1950	0	1970	0	1990	6	2010	0
1931	0	1951	0	1971	0	1991	22	2011	0
1932	0	1952	0	1972	32	1992	18	2012	0
1933	0	1953	0	1973	3	1993	16	2013	45
1934	0	1954	27	1974	0	1994	5	2014	53
1935	0	1955	49	1975	0	1995	77	2015	10
1936	0	1956	14	1976	0	1996	39	2016	18
1937	0	1957	0	1977	0	1997	45	2017	62
1938	0	1958	24	1978	0	1998	47	2018	19
1939	0	1959	27	1979	0	1999	35	2019	36
1940	0	1960	0	1980	24	2000	4	2020	33
1941	0	1961	53	1981	0	2001	0	2021	70
1942	0	1962	0	1982	2	2002	0	2022	1
1943	0	1963	12	1983	30	2003	0	2023	0
1944	0	1964	65	1984	0	2004	0	2024	41
1945	0	1965	37	1985	43	2005	0		
1946	0	1966	9	1986	31	2006	0		
1947	0	1967	14	1987	47	2007	9		
1948	0	1968	34	1988	0	2008	0		

CREATIVE PLANNING @CharlieBilello *Note: Closing Prices as of 9/24/24*

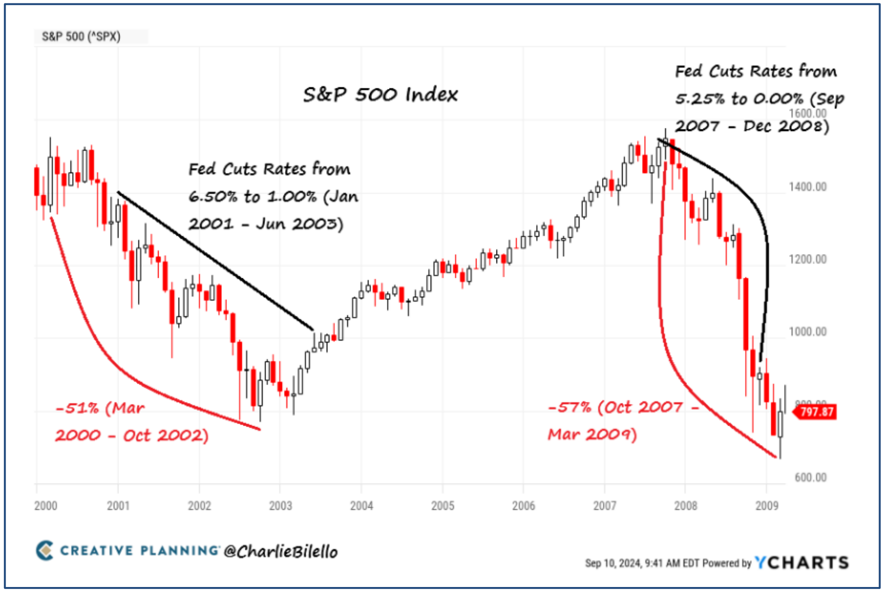
Source: Charlie Bilello

2.1 Economic : S&P 500 and Recession

- **Historically, the FED's first rate cuts coincided with equity market tops**. Now that the FED has started cutting rates, history could repeat itself, although Mr. Powell is convinced that the FED is not "behind the curve".

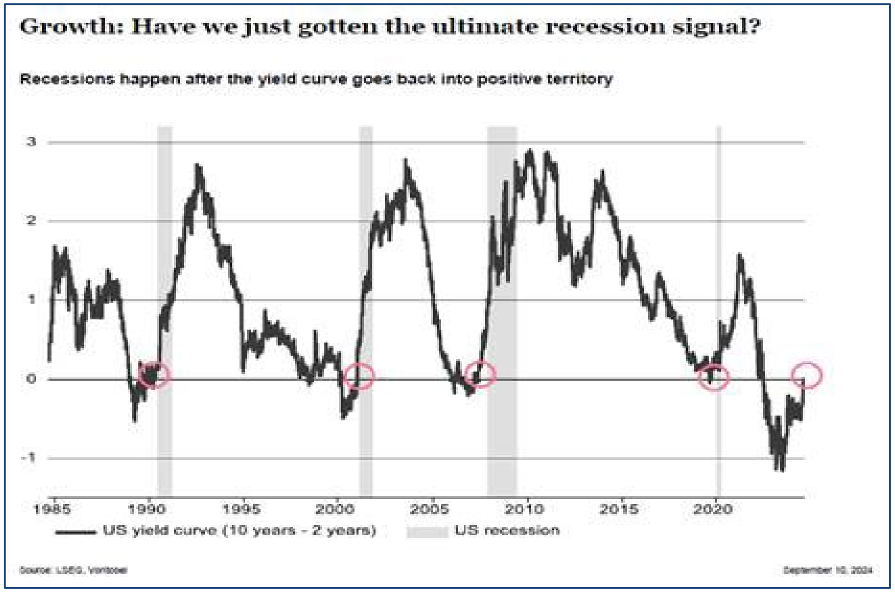
- **The last four recessions all began after the yield curve came back in positive territories**, and we've just seen the curve steepen in positive territory. But history doesn't always repeat itself and a recession isn't our central scenario.

S&P 500 vs Rate Cuts



Source: Charlie Bilello

Yield Curve & Recession

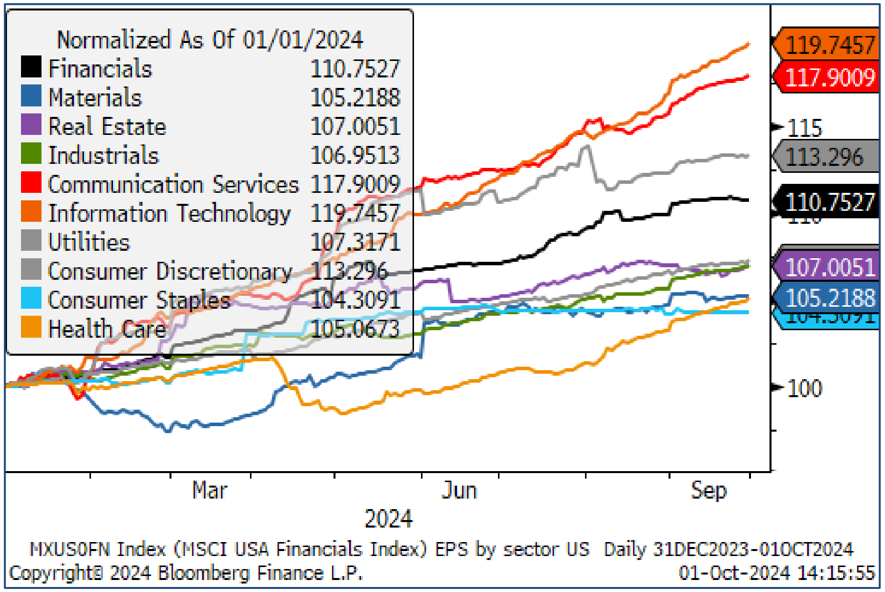


Source: LSEG

2.1 Economic : Earnings

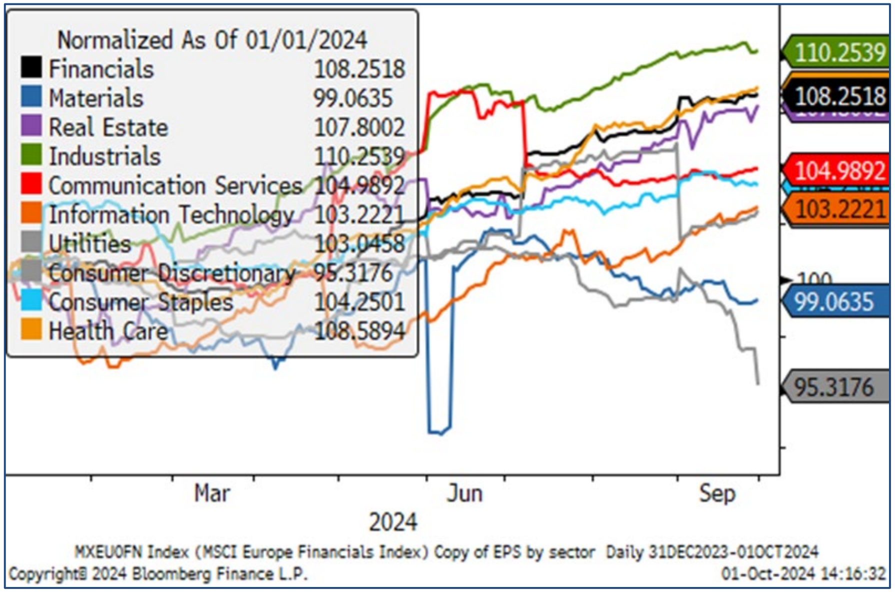
- While markets climbed throughout the year, so did earnings growth expectations.
- Although less marked in Europe, earnings expectations for the next twelve months show that companies should see growth in both revenues and profits.

US Earnings Expectations



Source: Bloomberg

EU Earnings Expectations

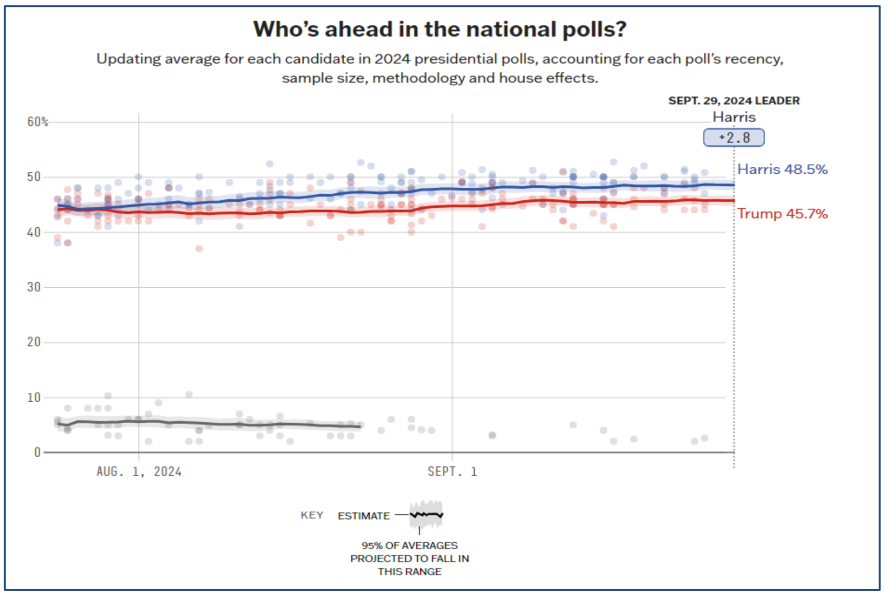


Source: Bloomberg

2.1 Economic : US Election

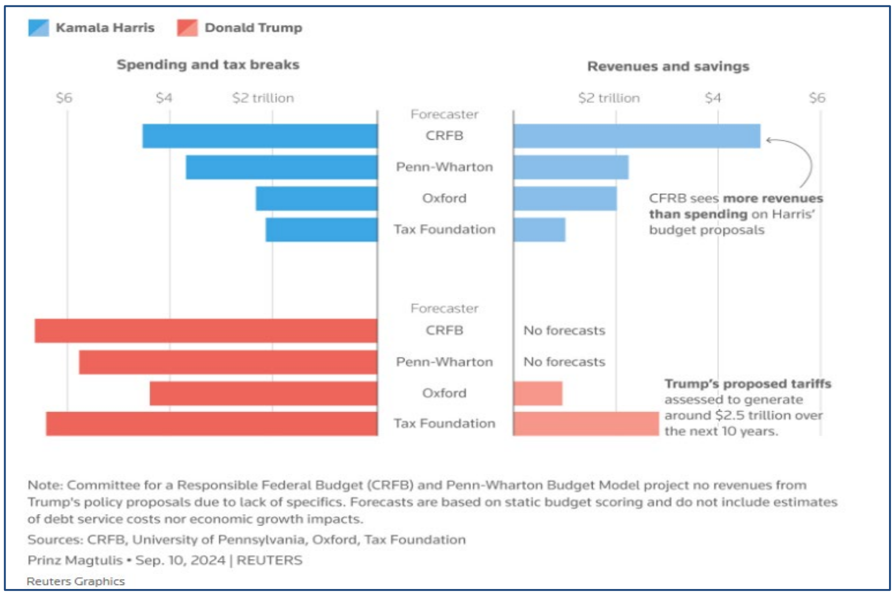
- The elections are a major issue for the markets between now and the end of the year. Today, Kamala Harris is leading in the polls, after Biden decided in July not to run for re-election.
- According to several estimates, **Trump's economic plan is the one that would see the biggest budget deficit** and would therefore certainly be the best for the markets.
- The election of **Congress are also as important as the presidential** one. If one party sweeps the elections it will be much easier to implement the economic plan whereas if it's a divided government it could stay at a standstill.

US Election Polls



Source: FiveThirtyEight Interactives

Impact of Economic Policy



Source: Reuters

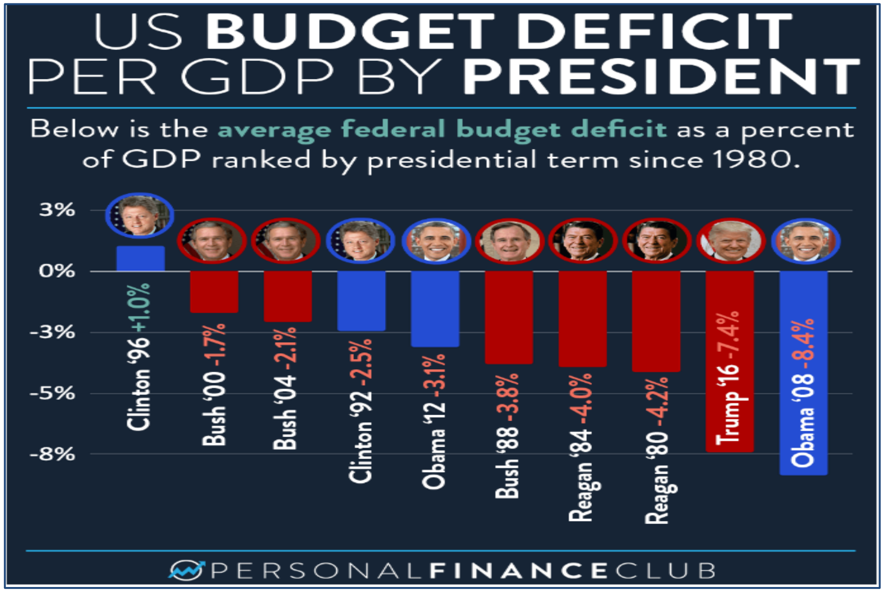
2.1 Economic : US Election

- If we look at the history of Presidents and budget deficits, we can see that **there is no real link between fiscal policy and stock market performance**.

- On average, it's the Democrats who have seen the best performance, although this is biased by the fact that it's the Republicans who have had to weather the biggest crises, such as 2008 and 2000.

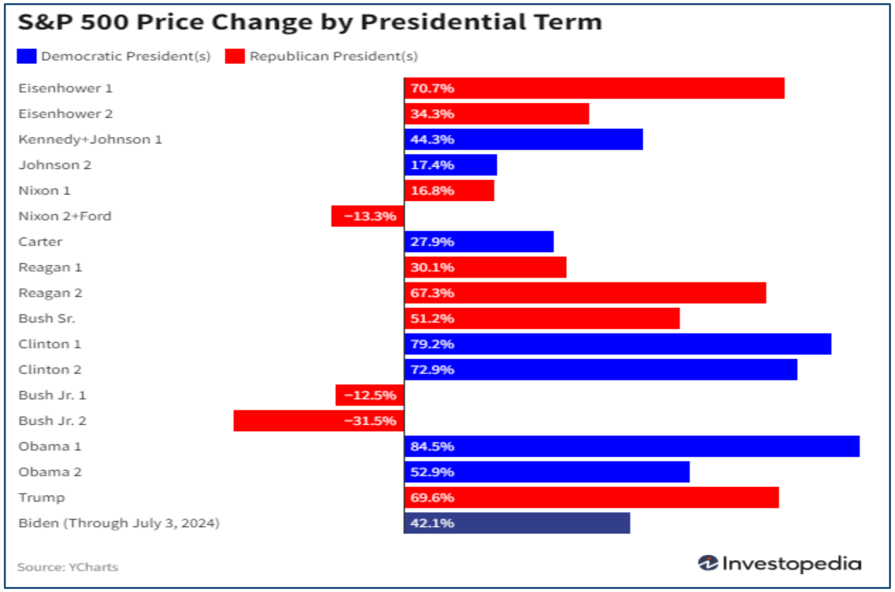
- Going forward, it will be harder for Government to **justify a deficit as the debt servicing is much higher than last decade** due to higher interest rates.

Budget Deficit by President



Source: Personal Finance Club

S&P 500 Perf. By President



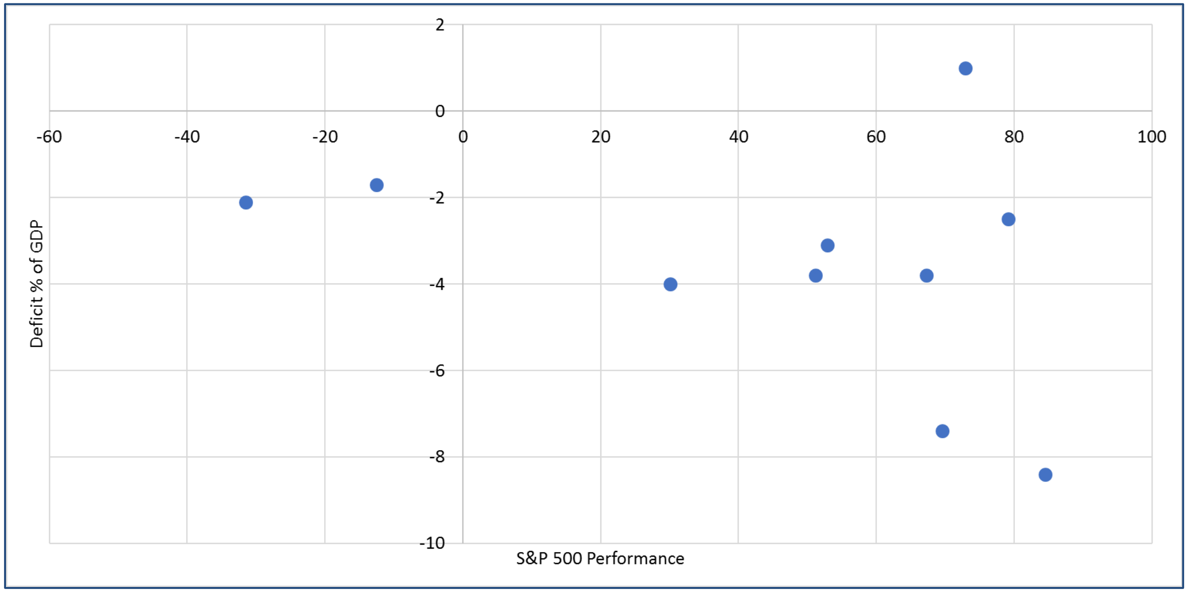
Source: Investopedia

2.1 Economic : US Election and Budget Deficit

- Although there seems to be a slight correlation between deficits and stock market performance, the sample is too small to draw any real conclusions.

- Many other factors need to be taken into account, so basing our analysis solely on fiscal policy is no guarantee of predicting market performance.

Relation Between Budget Deficit and S&P 500 Perf.



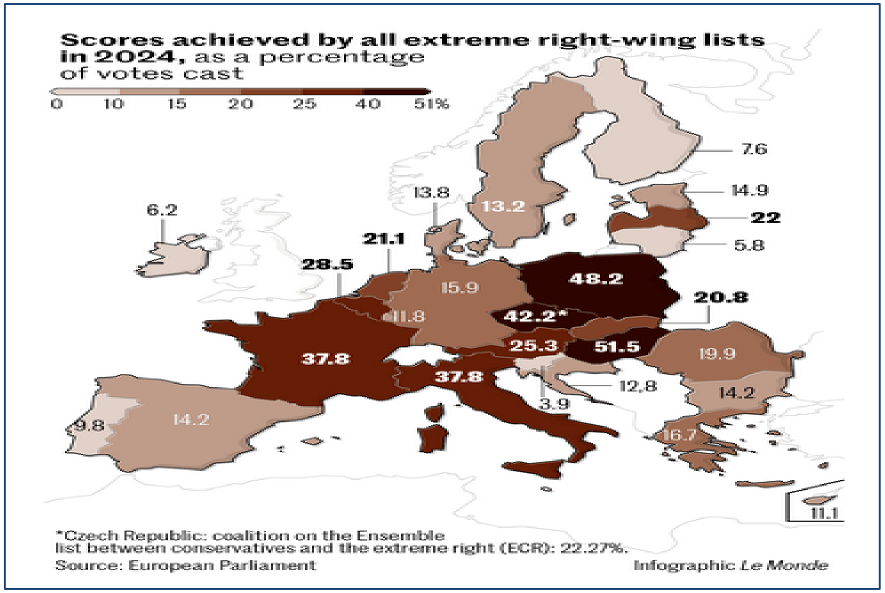
Source: Weisshorn

2.1 Economic : EU Political Landscape & Competitivness

- In Europe the political landscape is already shifting. After the European parliament election, we have seen that the **extreme right wing has gained seats** and is well represented in many countries. Therefore, we might see more protectionism in Europe.

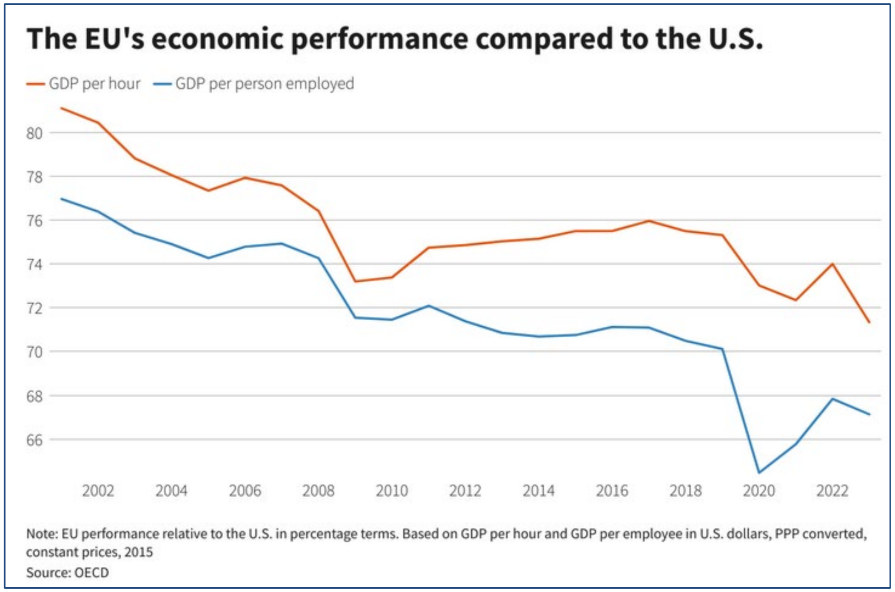
- Draghi published his report on Europe's competitiveness and the conclusion were not reassuring. **Draghi's reports recommend to invest more than EUR 800Bn** per year in order to improve Europe's competitiveness. We'll see if these recommendations meet the political agenda of Europe.

European Parliement Extreme right as % of vote



Source: Le Monde

EU Economic performance Compared to US



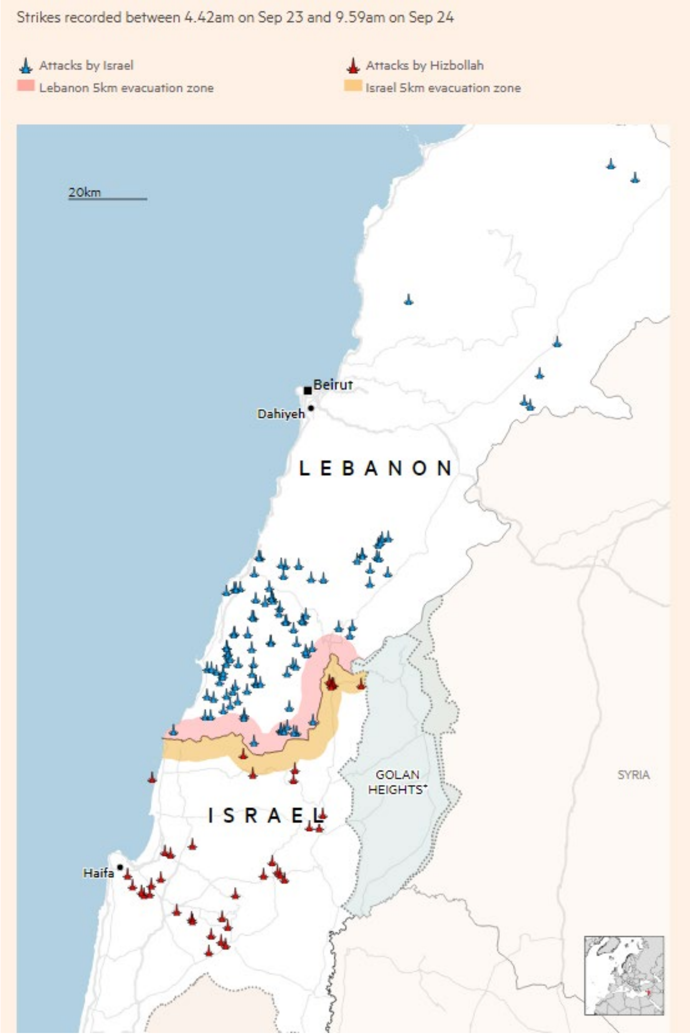
Source: OECD / Reuters

2.1 Economic : Israel Conflict

- It’s been a year now that the conflict in Israel has started. Thousands of deaths on both side are to deplore. The **risk is now that this conflict grows into an all-out war in the Middle East**.

- Israel has already started to strike Lebanon in order **to fight against Hezbollah**. Iran didn’t let it slip and retaliated with a strike in September. The world is now waiting for Israel’s response.

- So far, the **market does not seem to see it as a major risk for the global economy**. Crude oil is only bouncing back from its September lows.



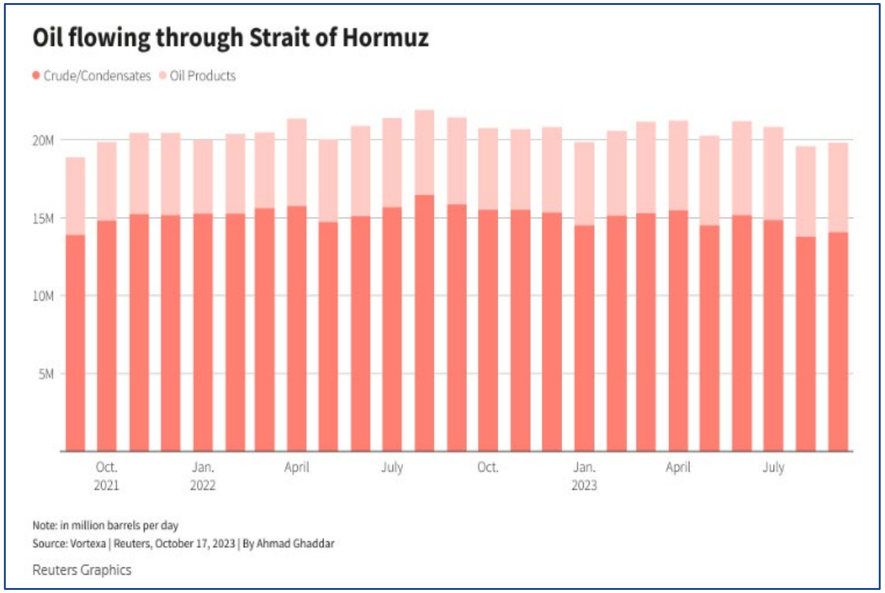
Source: FT

2.1 Economic : Israel Conflict

- Now that Iran is taking directly part to the Israel Conflict, one of the key concern might be the **Strait of Hormuz**. In this little area **almost 20% of the World production of oil** is circulating through tankers everyday.

- If for any reasons this strait had to be closed, this would send the price of oil skyrocketing and impact inflation. If Israel starts to launch missiles in Iran, some tankers might not want to take the risk to go through this strait so this is something to watch closely.

Oil Flowing Through the Strait of Hormuz



Source: Reuters

Strait of Hormuz

Source : MarketWatch

2.1 Economic : China

- **China has just announced extraordinary measures to revitalize its economy**. These include rate cuts, as well as reserves for banks and rate cuts on current mortgages to reduce the financial burden on consumers. These measures are designed to stabilize the real estate market and restore consumer confidence.

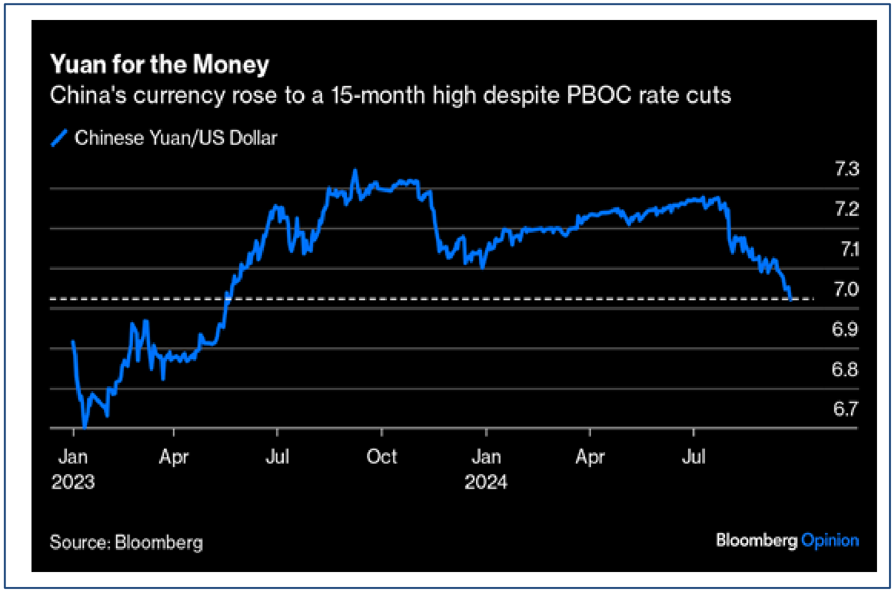
- China has certainly waited for the FED to begin its easing cycle, so as not to go against the tide. Indeed, the Yuan reacted rather positively to all this news.

China Stimulus Package

1. Monetary Policy
   - 20bp cut in the 7-day reverse repo rate to 1.5%.
   - 50bp cut in the Reserve Requirement Ratio (RRR), releasing RMB1tn in liquidity.
   - Potential further RRR cut of 25-50bp by year-end.
2. Property Policy
   - 50bp cut in the outstanding mortgage rate.
   - Reduced down-payment ratio for second-time homebuyers to 15% (from 25%)
   - Re-lending Loans: Increased from 60% to 100% coverage for loans to buy completed but unsold homes.
3. Stock Market Support
   - RMB500bn swap facility for brokers and funds to buy stocks.
   - RMB300bn refinancing facility for stock buybacks.
4. Total Measures
   - Total measures amount to RMB1950bn (1.6% of GDP).
   - Impact: Significant, but lower rates may have limited effect due to low demand for credit.
5. Key Concern
   - Investor sentiment significantly rebounded, but consumer and homebuyer sentiment remains weak.
   - Monitoring transmission to sentiment is crucial for assessing effectiveness.

Source: Pictet AM

Yuan / USD



Source: Bloomberg

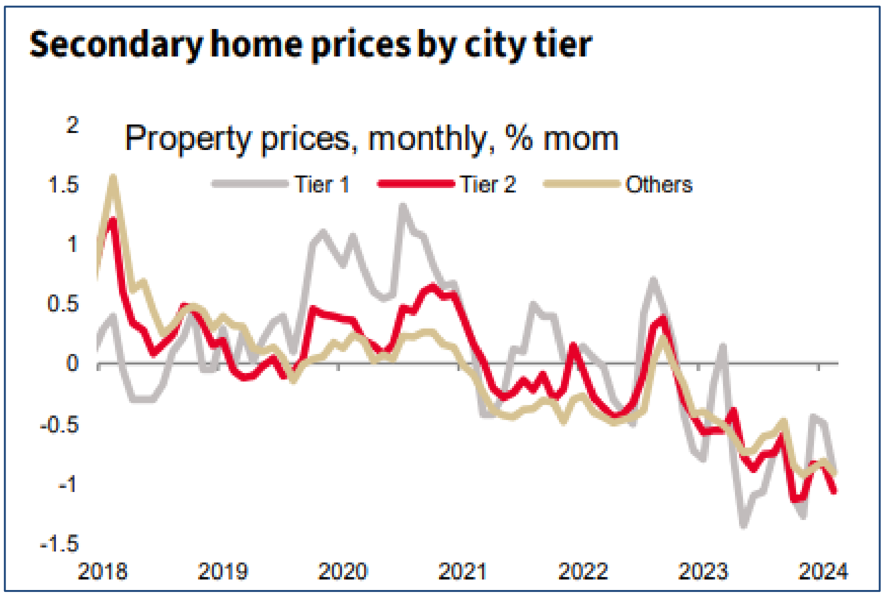
2.1 Economic : China

- **Chinese property prices continue to fall** month after month, and the next figures will be closely watched to see whether the measures China has announced are beginning to have a real impact on the economy.

- If we compare the Chinese real estate crisis to the 2008 or the Japanese real estate crisis, **we could expect the worst to be over soon**.

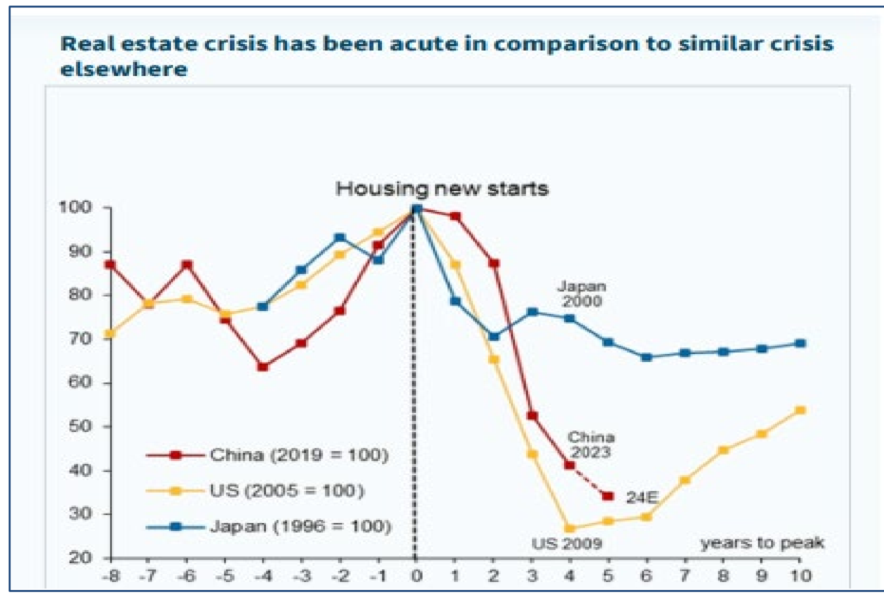
- Even if China solve its real estate issues, many other factors could negatively impact it economy like the reshoring or the taxes that the US and EU are putting in place.

China Property Prices



Source: Société Générale

Real Estate Crisis



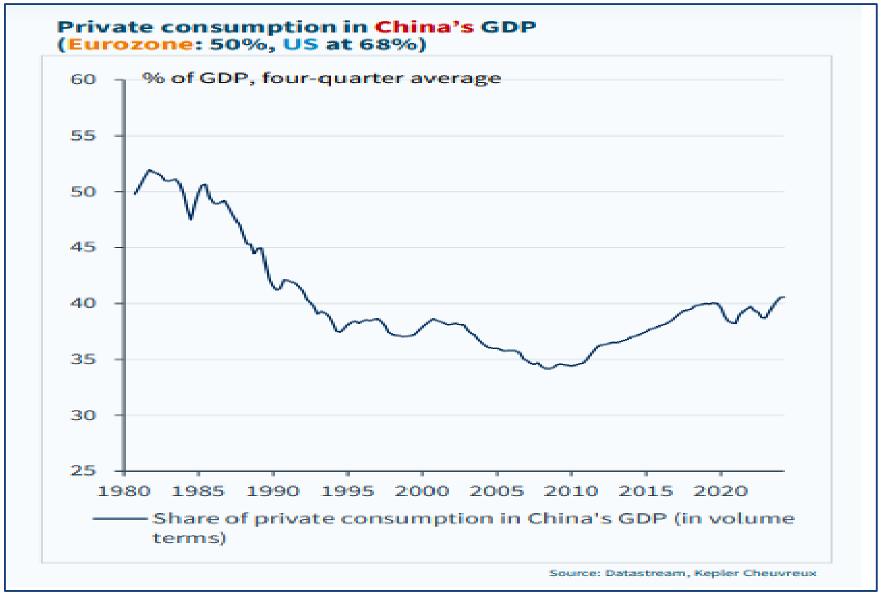
Source: Kepler Chevreux

2.1 Economic : China

- In China, domestic consumption accounts for almost 40% of GDP. However, as long as the consumer has no faith in the system, he will keep his cash reserves in the bank to prepare for the worst.

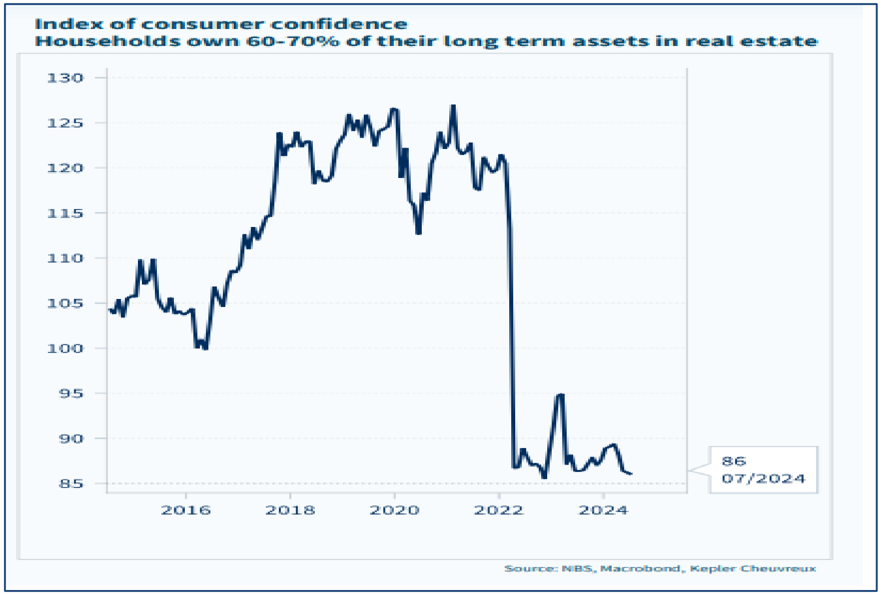
- **If the government fails to restore consumer confidence**, the 5% GDP growth target will have to be revised downwards.

China Consumption as % of GDP



Source: Kepler Chevreux

China Consumer Confidence

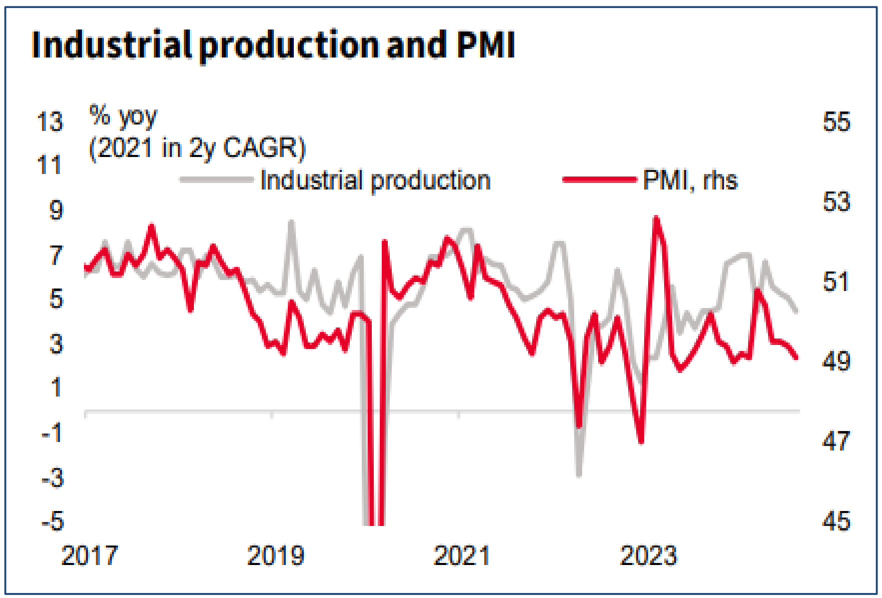


Source: Kepler Chevreux

2.1 Economic : China

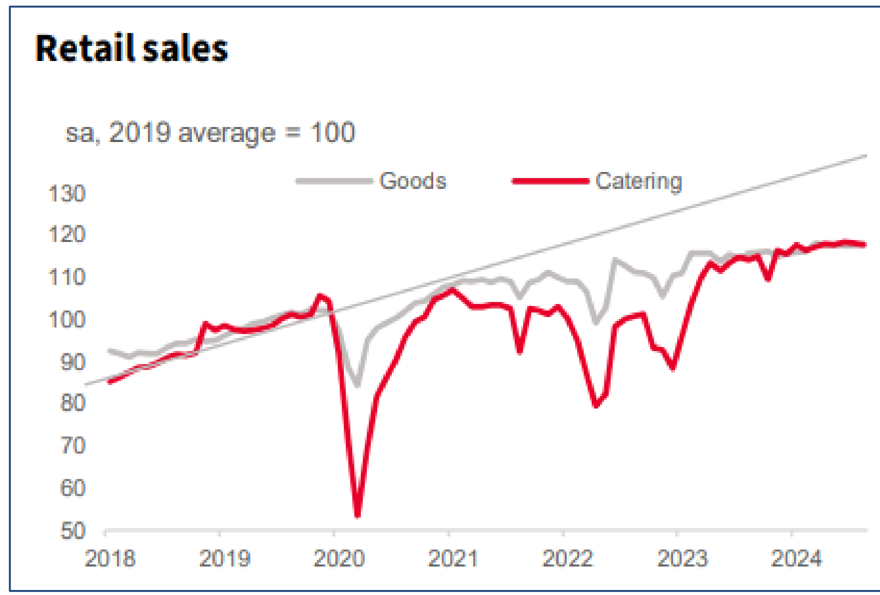
- Other indicators show that the Chinese economy is far from firing on all cylinders.
- Manufacturing PMIs are in a contraction zone, while industrial production is growing weakly. Moreover, retail sales growth has been non-existent since 2023.

China Indu Prod. Vs PMI



Source: Société Générale

China Retail Sales



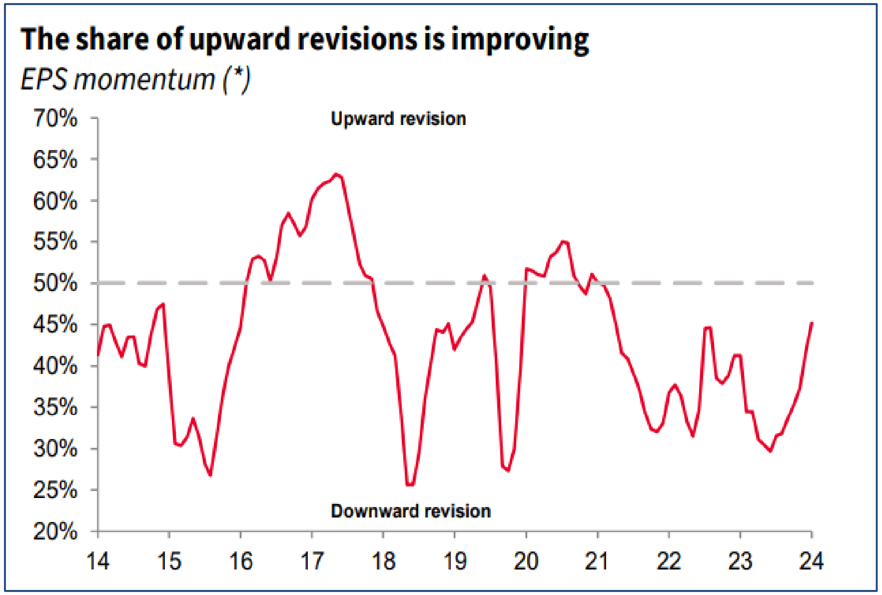
Source: Société Générale

2.1 Economic : China

- However, not all is bad in China. Some indicators are already recovering. **Revisions to earnings expectations are becoming less and less negative**, and seem to have bottomed out in the second quarter of 2024.

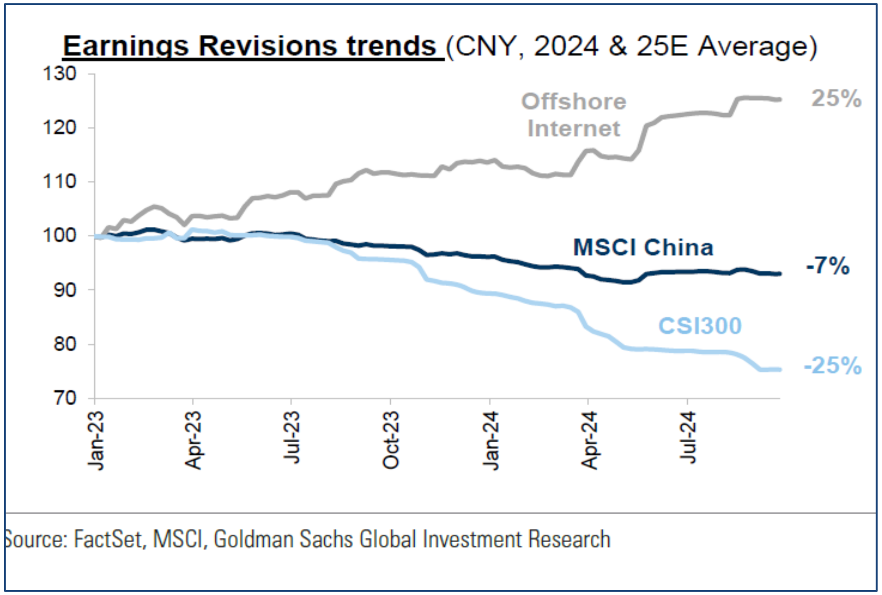
- **Offshore technology companies are benefiting most from these revisions**. Since 2023, expected earnings growth has reached 25%, while the price of these stocks has fallen throughout this period, making them very attractive from a valuation point of view.

China EPS Revisions Momentum



Source: Société Générale

China Earnings Trend



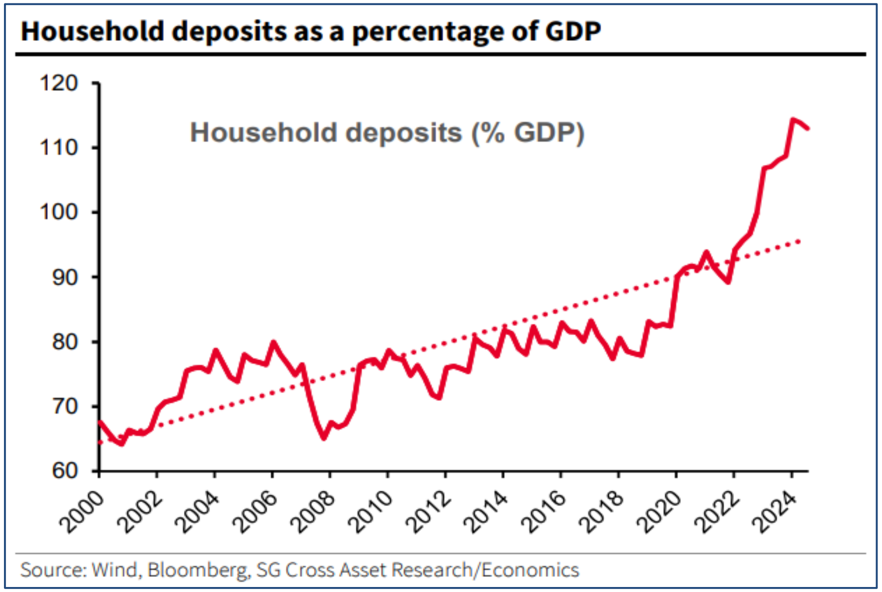
Source: Goldman Sachs

2.1 Economic : China

- Chinese households were cash rich before the Covid and even more now. When their confidence will return they will start to invest in the equity market which should provide a recurring source of inflow into Chinese equity.

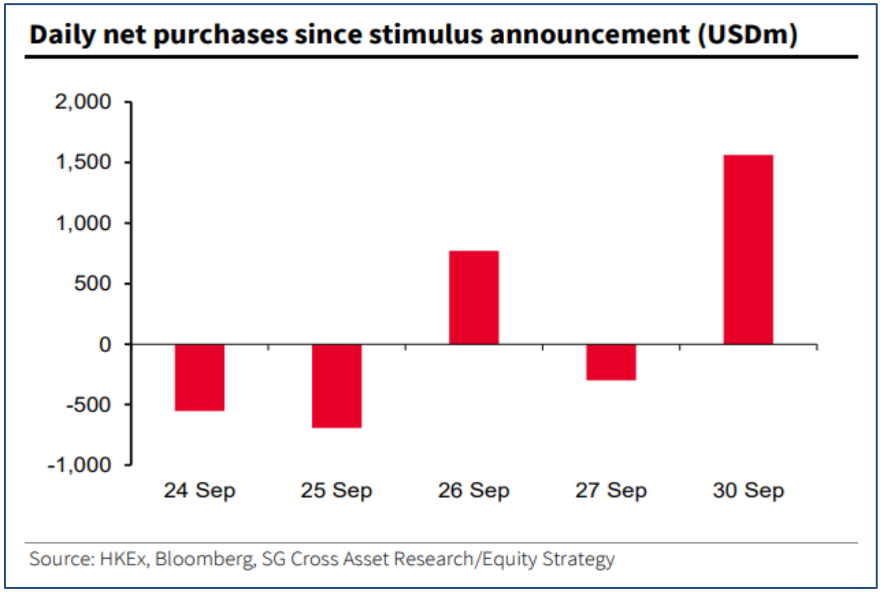
- Despite the recent Chinese Fiscal Bazooka, the Chinese consumer is still risk averse and didn't fully participated to the rally after the announcement. During the first days they were net sellers only to turn net buyers before the start of the Chinese holidays.

Household deposits



Source: Société Générale

Mainland China net purchases



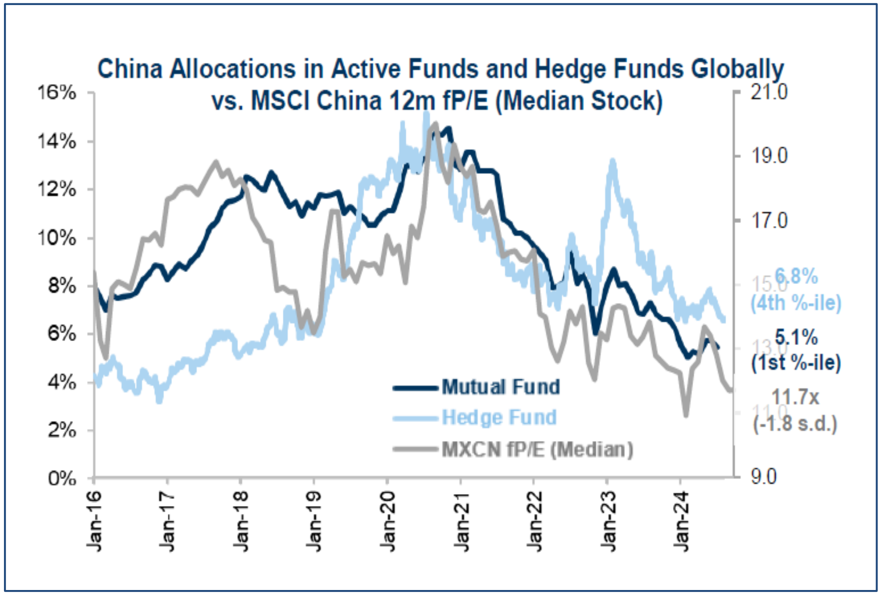
Source: Société Générale

2.1 Economic : China

- The markets reacted very well to these announcements. During the initial announcements, it was mainly foreign investors who flocked to Chinese assets.

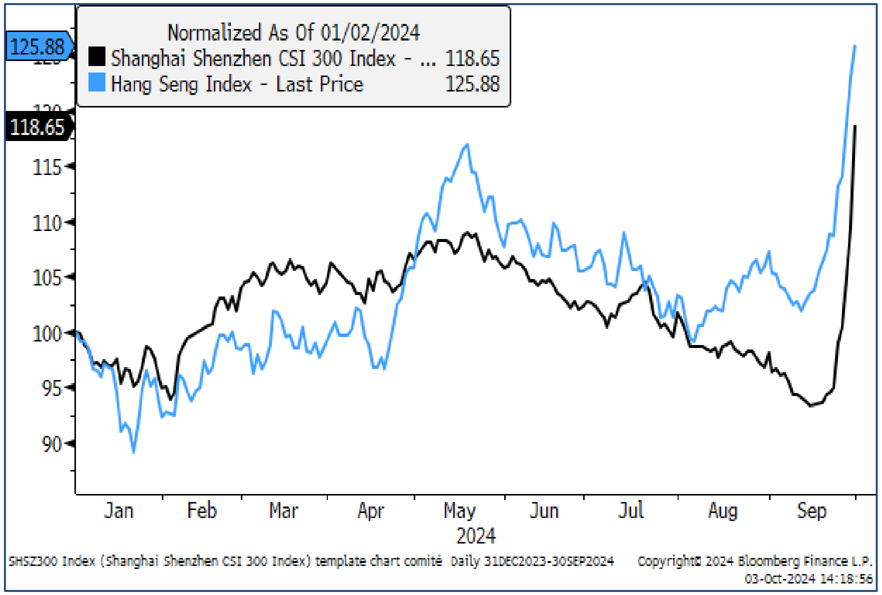
- Since 2020, most investors have reduced their exposure to the Chinese market. As a result, **almost all portfolios are now underweight**. If investors were to catch up, many more flows could arrive into China.

China Allocations



Source: Kepler Chevreux

China Equity Performance YTD



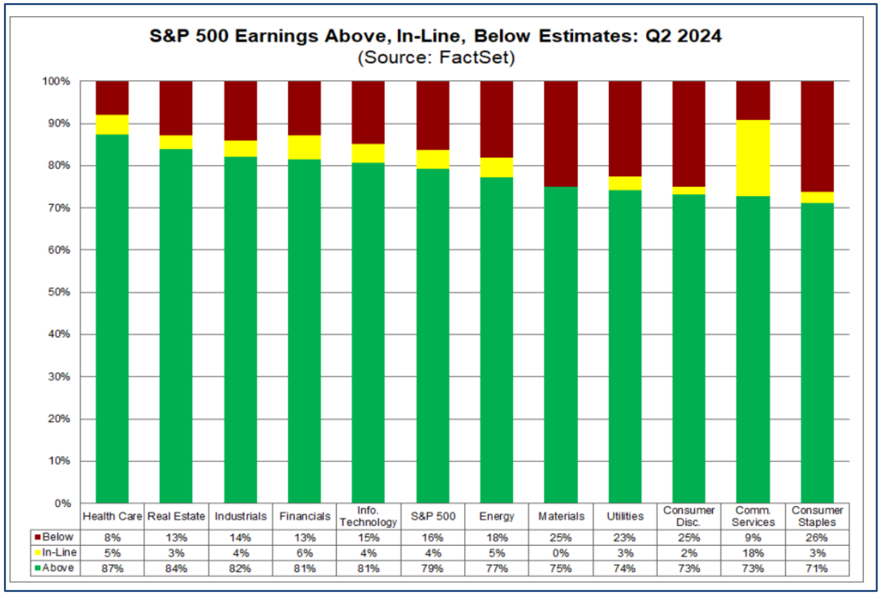
Source: Bloomberg

2.1 Economic : Earnings Q2 US

- The earnings season was very good for the second quarter of 2024. Almost 80% of companies beat analysts' expectations.

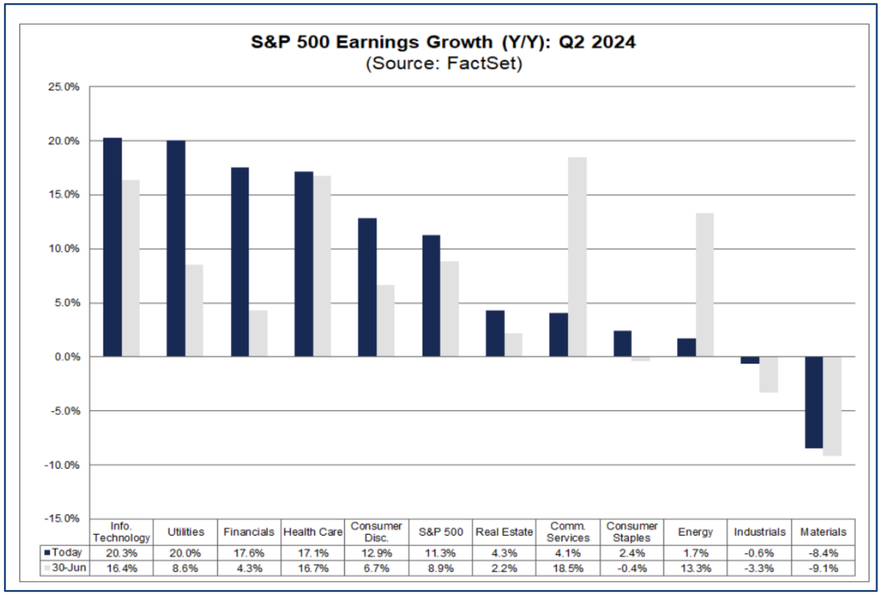
- While in June analysts expected EPS growth of 8.9%, it turned out to be 11.3% YoY.

S&P 500 Q2 2024 Earnings Surprise



Source: Factset

S&P 500 Q2 2024 Earnings Growth



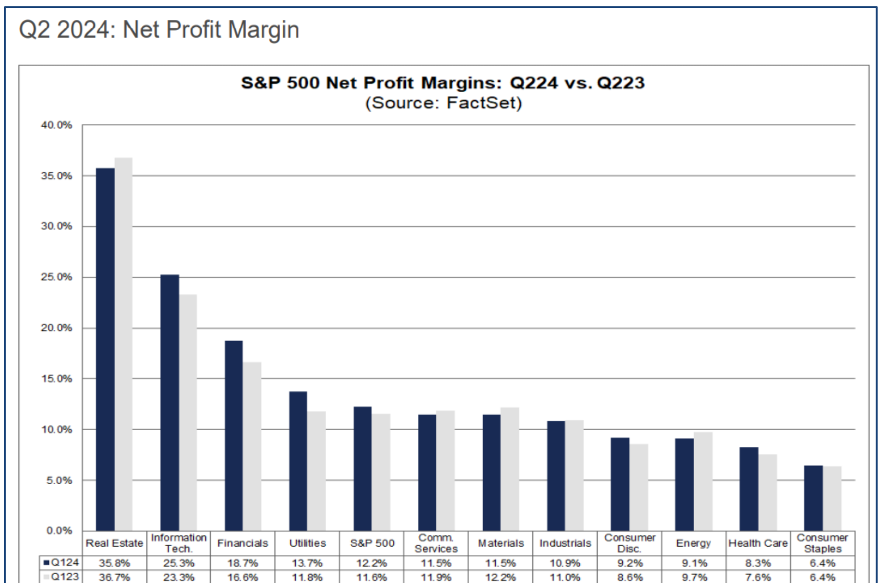
Source: Factset

2.1 Economic : Earnings Q2 US

- Companies have managed to protect their margins in almost all sectors. 7 out of 11 sectors even have better margins today than in Q2 2023. At index level, they stand at 12.2%.

- The negative aspect of this earnings season has to do with guidance. Many companies have issued negative guidance for the third quarter. This led analysts to revise their estimates downwards.

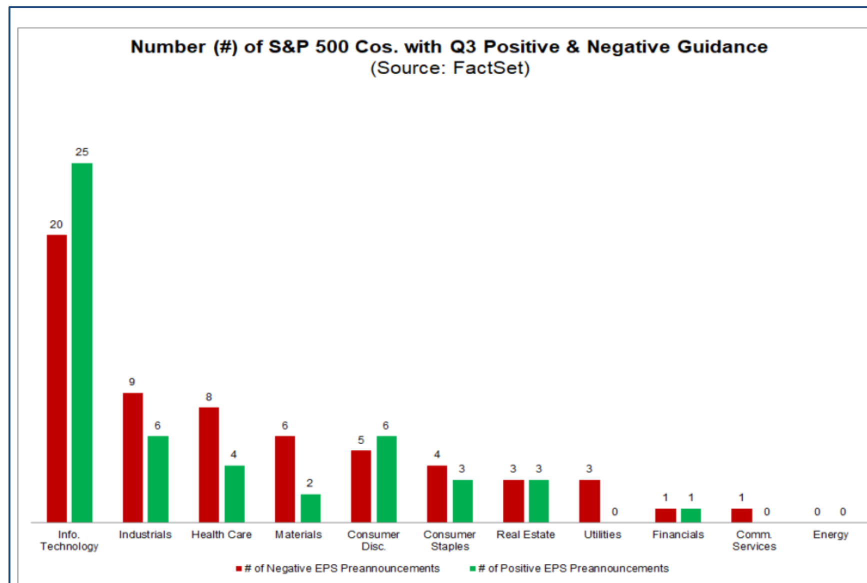
S&P 500 Q2 2024 vs 2023 PM



	Real Estate	Information Tech.	Financials	Utilities	S&P 500	Comm. Services	Materials	Industrials	Consumer Disc.	Energy	Health Care	Consumer Staples
Q124	35.8%	25.3%	18.7%	13.7%	12.2%	11.5%	11.5%	10.9%	9.2%	9.1%	8.3%	6.4%
Q123	36.7%	23.3%	16.6%	11.8%	11.6%	11.9%	12.2%	11.0%	8.6%	9.7%	7.6%	6.4%

Source:Factset

S&P 500 Q3 Earnings Guidance



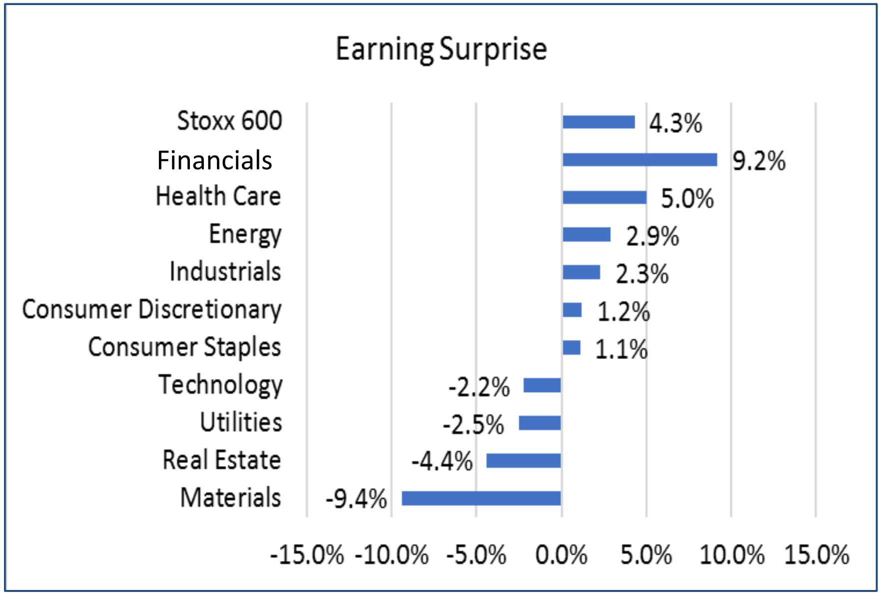
Source: Factset

2.1 Economic : Earnings Q2 EU

- In Europe, earnings for the second quarter were a little better than expectations. Starting July the market was expecting 2% growth and has now revised it up to 3%.

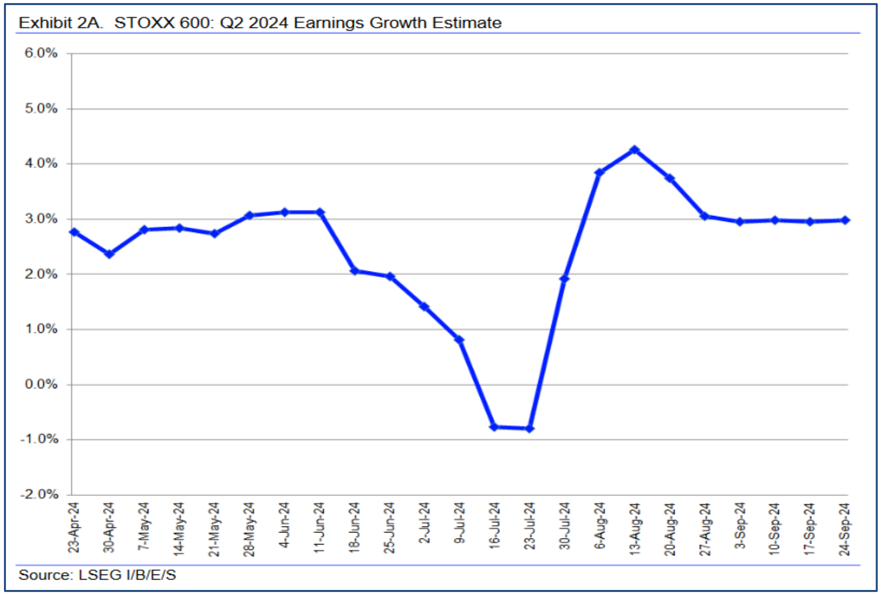
- The Stoxx 600 Financials had the best earning surprise, certainly due to rates being higher than what the market had expected and the recovery in the Investment Bank part of the bigger banks.

Stoxx 600 Earnings Surprise



Source: Refinitiv

Stoxx 600 Earnings growth Q2



Source: Refinitiv

2.1 Economic : Earnings Q3 EU

- For the third quarter, earnings should have grown by 5.3% YoY and revenue should be down by 2.5%.

- This might leave some margin to beat the consensus as the bad mood on markets during August and September led analysts to revise down their expectations by almost 3%. Some of these revisions were legitimate as we have seen some companies in the Auto sector to announce profit warnings.

Stoxx 600 Growth Expectations

Exhibit 3A. STOXX 600 YoY Growth Rates

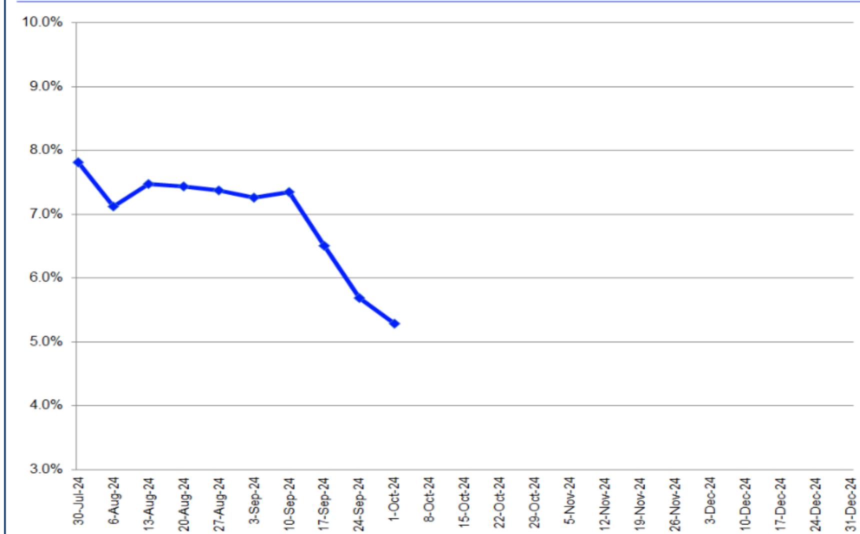
	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3	25Q4
Revenue	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-4.6%	-0.8%	-2.5%	1.2%	6.9%	4.1%	9.4%	7.5%
Earnings	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-3.3%	3.0%	5.3%	10.0%	3.2%	10.3%	15.7%	5.1%

Source: LSEG I/B/E/S

Source: Refinitiv

Stoxx 600 Q3 Earnings Growth

Exhibit 2A. STOXX 600: Q3 2024 Earnings Growth Estimate



Source: LSEG I/B/E/S

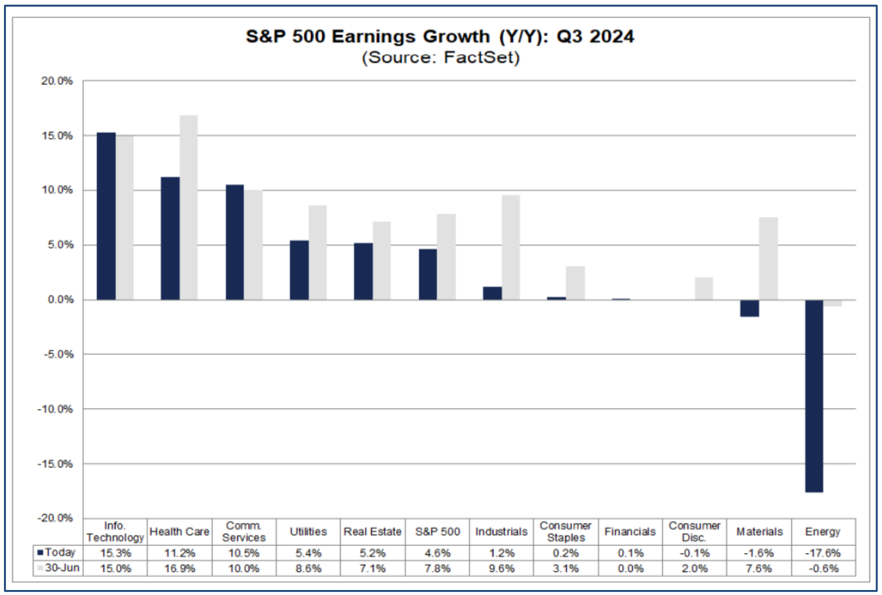
Source: Refinitiv

2.1 Economic : Earnings Q3 and FY24

- Expectations for the third quarter were therefore revised downwards as a result of the poor guidance given by companies. At the end of June, analysts were expecting growth of 7.8% for the third quarter, but these expectations were reduced to 4.6% over the Summer. This downward revision may leave more room for upside surprises.

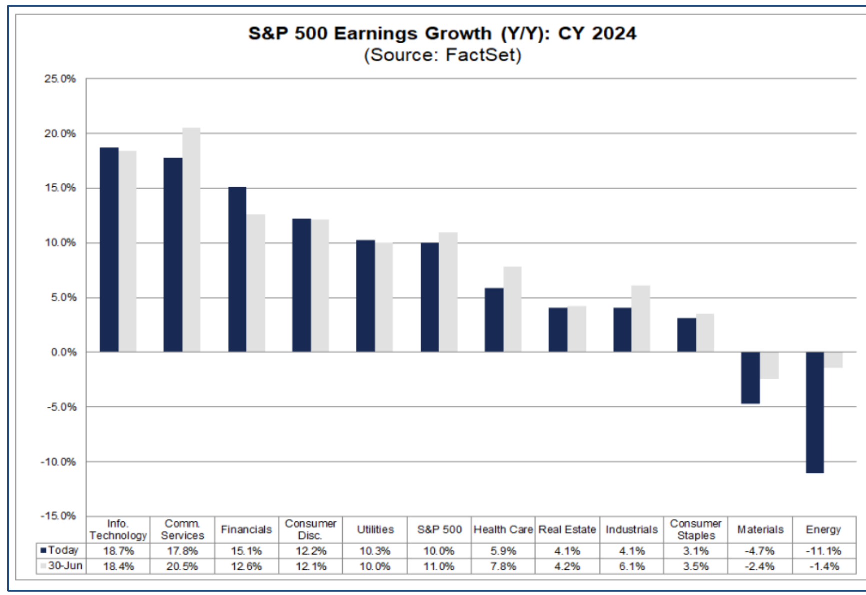
- Expectations for 2024 have also been revised downwards, with growth expected at 10%, compared with 11% in June. The Energy sector was the most negatively revised, going from -1.4% to -11.1%.

S&P 500 Q3 2024 Earnings Expectations



Source: Factset

S&P 500 2024 Earnings Expectations



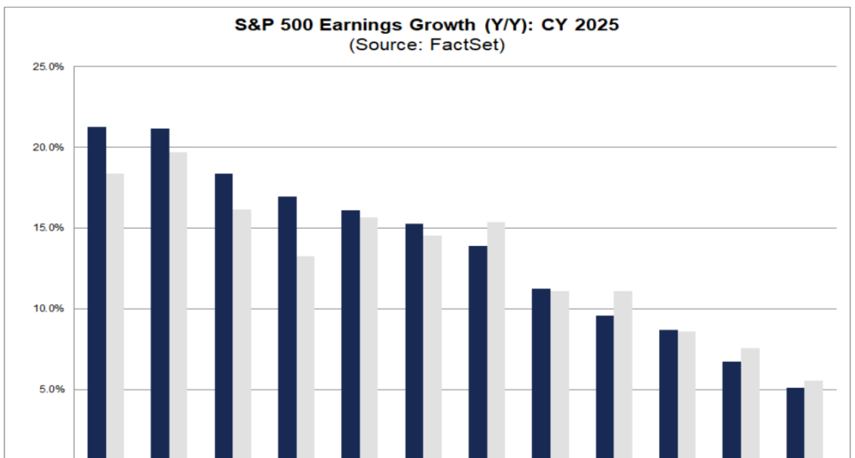
Source: Factset

2.1 Economic : Earnings FY25 and Valuation

- For next year, analysts expect S&P 500 earnings to rise by 15.2%. This seems a particularly high figure given that we are expecting an economic slowdown. A revision of these expectations could weigh on market performance.

- In terms of valuation, all sectors are expensive compared to their historical multiples. If lower earnings are expected, current valuations will no longer be justifiable.

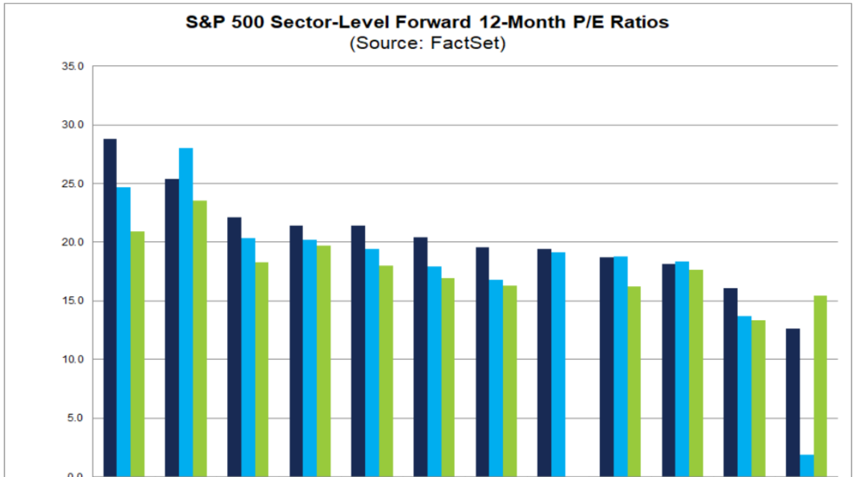
S&P 500 2025 Earnings Expectation



	Health Care	Info. Technology	Materials	Comm. Services	Industrials	S&P 500	Consumer Disc.	Energy	Financials	Utilities	Consumer Staples	Real Estate
Today	21.3%	21.2%	18.4%	16.9%	16.1%	15.2%	13.9%	11.2%	9.6%	8.7%	6.7%	5.1%
30-Jun	18.4%	19.7%	16.1%	13.2%	15.6%	14.5%	15.4%	11.1%	11.1%	8.6%	7.5%	5.6%

Source: Factset

S&P 500 Sector Valuation



	Info. Technology	Consumer Disc.	Industrials	Consumer Staples	S&P 500	Materials	Health Care	Real Estate	Comm. Services	Utilities	Financials	Energy
Fwd P/E	28.8	25.4	22.1	21.4	21.4	20.5	19.6	19.4	18.7	18.2	16.1	12.6
5-Yr Avg.	24.7	28.0	20.3	20.2	19.5	18.0	16.8	19.2	18.8	18.3	13.7	1.9
10-Yr Avg.	20.9	23.5	18.3	19.7	18.0	17.0	16.3	0.0	16.2	17.7	13.3	15.5

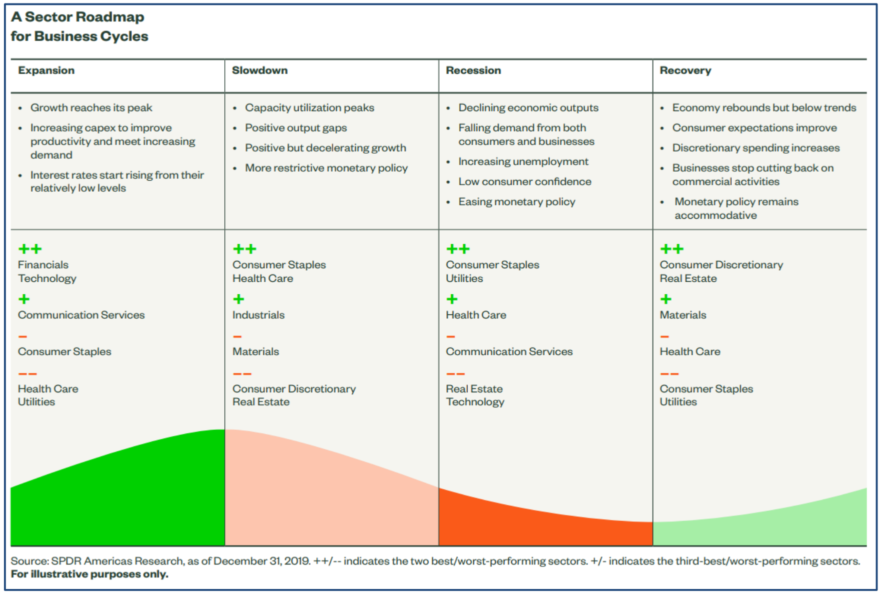
Source: Factset

2.1 Economic : Economic Cycle

- The question is to know where we are in the cycle and how to position ourselves. It's difficult to know precisely, given that we can currently choose to see the glass as half full or half empty.

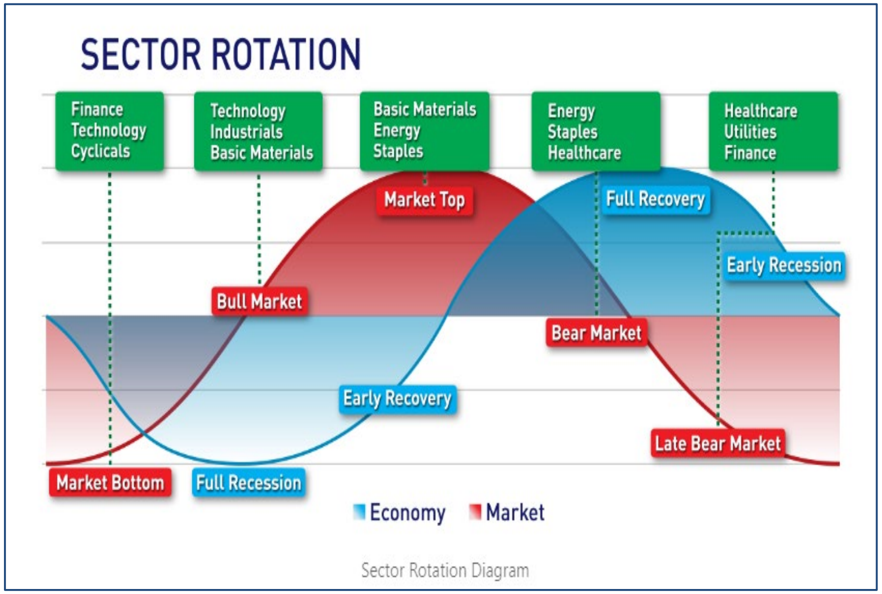
- However, the consensus is that we're in a slowdown phase, and although Europe is a little further ahead, it's hard to imagine growth picking up in 2025 when it's declining in the US. This is why the most recommended sectors in this cycle are the more defensive ones, such as Health Care and Consumer Staples.

Economic Cycle and Sector Allocation



Source: SPDR

Economic Cycle and Market Cycle



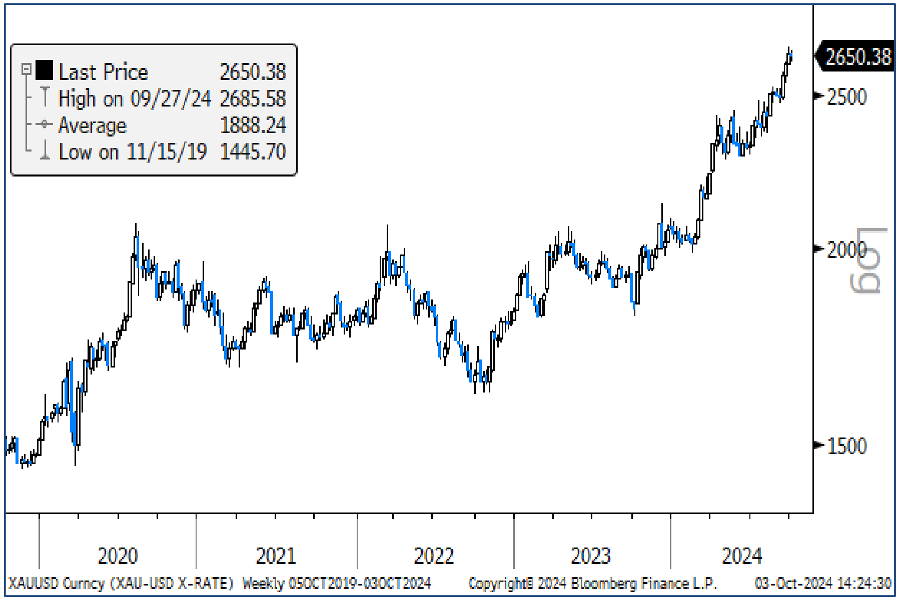
Source: Investopedia

2.2 Cross Asset : Commodities - Gold

- Gold is also in a bull market, supported by several factors. Falling US interest rates and a lower dollar are part of them.

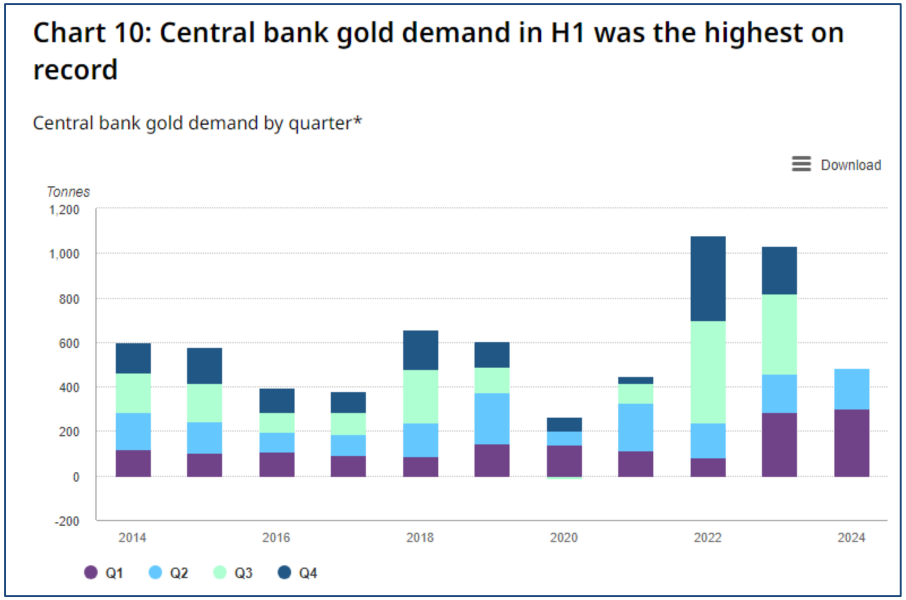
- But it is above all de-dollarization, coupled with Gold purchases by Central Banks in China, Russia and India, that are providing the buying power to push the yellow metal to new all-time highs.

Gold Price



Source: Bloomberg

Central Banks Gold Purchase



Source: Central Bank Survey

2.2 Cross Asset : Commodities - Gold

- In order to reduce their dependence on the dollar, Central Banks are freeing up their greenback reserves and using this money to buy Gold.

- These trends can be seen in the import figures of countries such as India, as well as in the balance sheets of Central Banks.

Japan and China Treasury Holdings

Source: WSJ

Indian Gold Imports

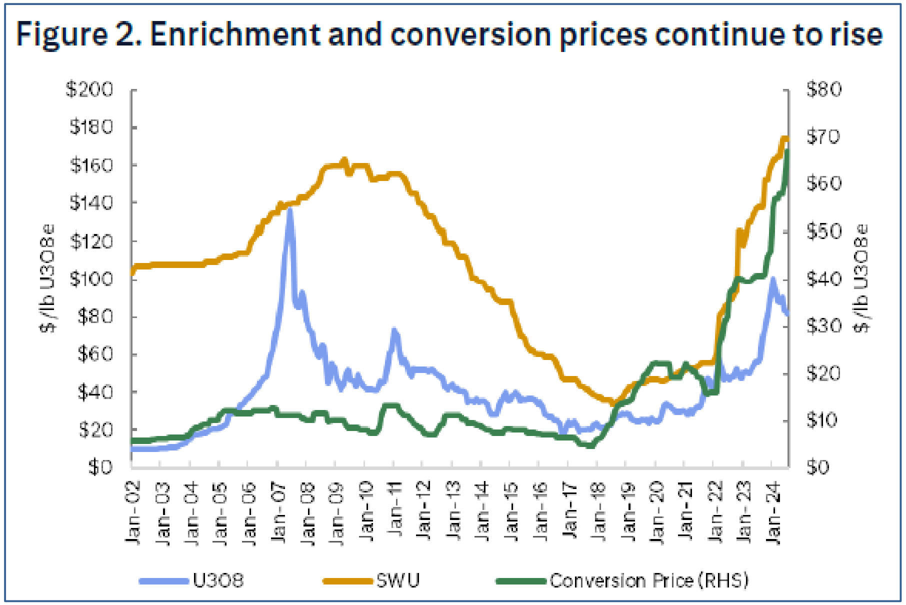
Source: FT

2.2 Cross Asset : Commodities - Uranium

- Uranium prices have been trading modestly lower until July in a weak trading volume and liquidity context.
- Recently, Kazatomprom, which produces a fifth of the global Uranium supply, cut its production target for the next year due to project delays and sulfuric acid shortages, essential for extracting Uranium from deposits. This could support Uranium prices in the short term.
- Usually Uranium price follow enrichment (SWU) and conversion prices (RHS). We can imagine Uranium price following the same pattern is a matter of time.

Uranium spot YTD

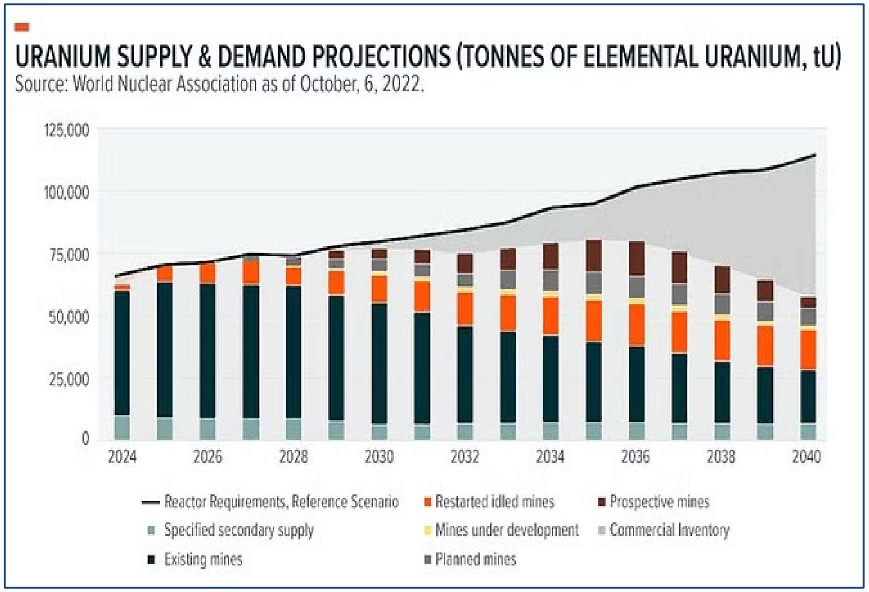
Uranium enrichment and conversion prices



2.2 Cross Asset : Commodities - Uranium

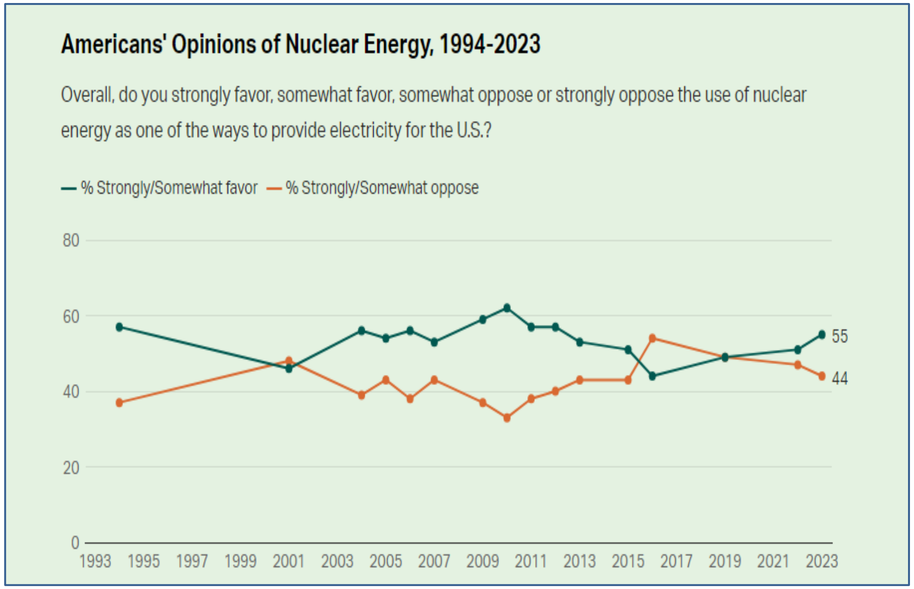
- The outlook for Uranium demand has been steadily improving, driven by the increasing need for clean energy and rising power consumption, particularly due to datacenter growth and AI-driven demand.
- Global demand is expected to outpace supply by 2030. Projected inventory is anticipated to decline gradually, intensifying the need for increased production.
- Sentiment for nuclear energy appears to be on the upswing. In the United States, public support for nuclear is at a decade high. Even big companies like Microsoft are signing deals to resurrect nuclear plants in order to secure energy for its datacenters.

Uranium supply and demand



Source: World Nuclear Association

US sentiment on Nuclear Energy

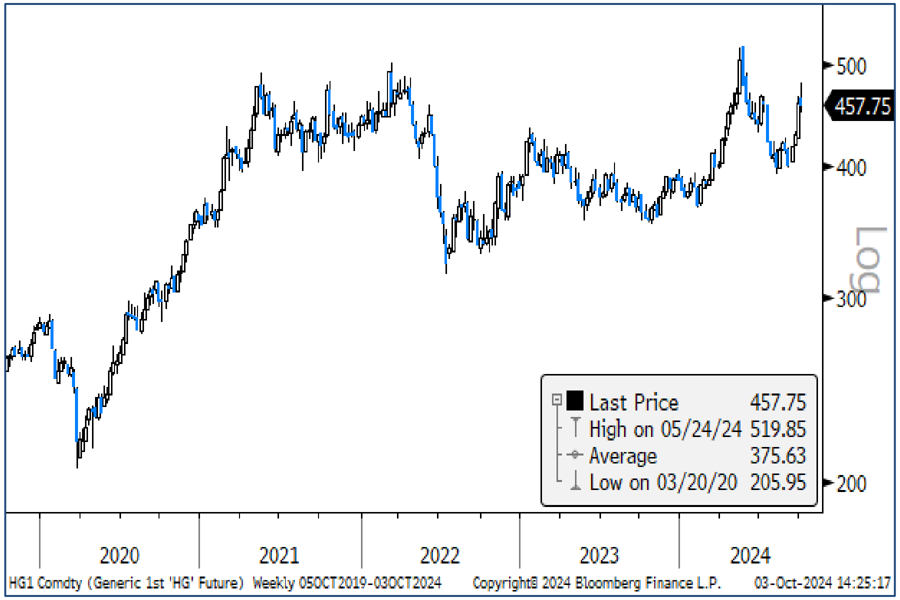


Source: Gallup

2.2 Cross Asset : Commodities

- Since China announced its new stimulus measures, the market has once again turned its attention to Commodities. Copper, of which China is a major consumer, has rebounded nicely by 14% since the bottom of the correction that started in April.
- The entire Commodity sector has benefited from this rebound, as shown by the Bloomberg Commodity Index. If China's measures work, this trend should continue.
- The recent Chinese announcements should reignite the secular bull market on Commodities as demand is still growing due to energy transition and reshoring trends.

Copper Prices



Source: Bloomberg

Bloomberg Commodity Index

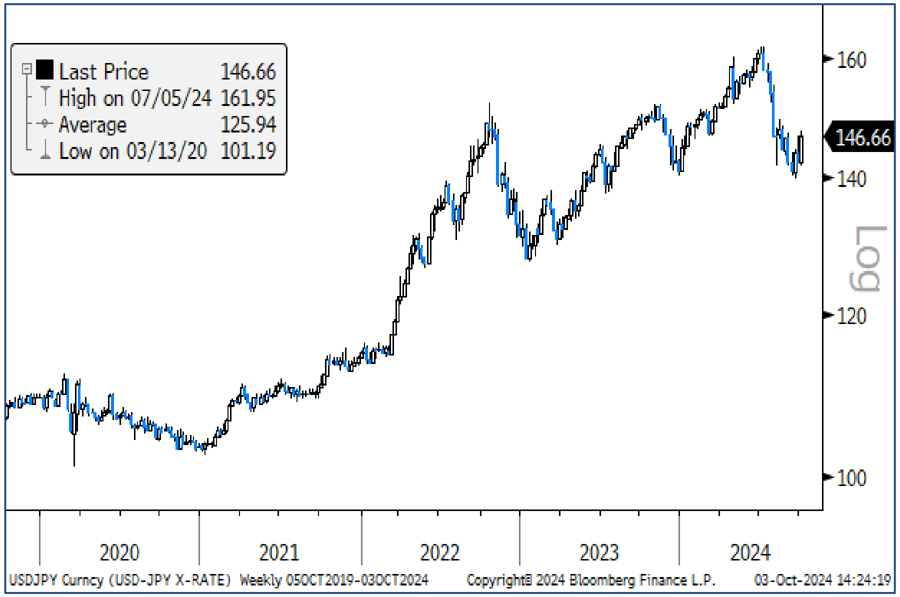
Source: Bloomberg

2.2 Cross Asset : JPY

- On the forex front, the yen was in the spotlight during the third quarter. After the BoJ raised rates, the yen strengthened against the dollar.

- This led to a massive unwinding of the "Carry Trade" and drove the markets lower. The Nikkei lost over 13% in one day, but the Nasdaq 100 also suffered heavily. The complete unwinding of these positions is still far from complete, but this no longer seems to worry the market.

USD/JPY



Source: Bloomberg

JPY Cumulative Foreign Lending

Source: Société Générale

3. Market review: Equity Performance

- During the quarter, developed economies closed in positive territory in local currencies with decent performances. The VIX index reached its highest level since March 2020 following an unexpected hawkish move by the Bank of Japan.

- In Emerging Markets, China saw a strong rally at the end of September following the announcement of new stimulus measures. The Hang Seng and Shanghai indices surged by 19.7% and 15.9%, respectively, in USD terms.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	17.5%	16.6%	6.0%	2.2%
S&P 500	20.8%	19.9%	5.5%	1.7%
NASDAQ	21.2%	20.3%	2.6%	-1.2%
BRAZIL	-14.1%	-15.1%	9.0%	5.1%
Euro Stoxx 50	11.5%	10.6%	6.1%	2.2%
Stoxx Europe 600	10.0%	9.2%	6.2%	2.2%
FTSE 100	11.6%	10.5%	6.7%	2.6%
CAC 40	2.1%	1.2%	6.0%	2.1%
DAX	16.2%	15.4%	9.9%	6.0%
IBEX	18.4%	17.6%	12.5%	8.5%
MIB	13.3%	12.4%	6.9%	2.9%
SMI	8.8%	7.9%	7.4%	3.7%
NIKKEI 225	11.5%	10.6%	6.5%	3.0%
HANG SENG	24.5%	23.6%	19.7%	15.8%
SHANGHAI	13.3%	12.6%	15.9%	12.0%
VIX	34.4%	33.5%	34.5%	30.7%

Source: Bloomberg 30/09/24.

3. Market review : Sector Performance Review

- From a global perspective, all sectors except Energy recorded positive returns in Q3, with Utilities, Financials, Materials, and Industrials being the top performers, benefiting from a declining interest rate environment. Utilities thrived due to their defensive nature amid economic uncertainty, while Materials gained from the Chinese stimulus measures.

- Energy was the main laggard for the quarter, primarily weighed down by Oil prices, which faced pressure from concerns about potential excess supply in the coming months, despite ongoing geopolitical tensions in the Middle East.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	5.3%	0.9%	13.2%	7.6%	11.8%	7.2%
Consumer Staples	3.9%	5.6%	16.5%	8.3%	13.0%	9.2%
Energy	-4.2%	-10.2%	5.7%	-3.1%	5.7%	-2.4%
Financials	21.0%	6.9%	20.4%	10.2%	21.8%	10.7%
Health Care	14.6%	-0.8%	13.0%	5.7%	14.1%	5.7%
Industrials	14.9%	4.8%	18.9%	11.2%	18.4%	10.4%
Information Technology	11.7%	-10.3%	29.6%	1.4%	27.0%	1.5%
Materials	9.0%	5.3%	12.6%	9.2%	10.3%	10.6%
Telecommunication Services	16.1%	8.1%	27.9%	1.4%	25.5%	2.8%
Utilities	8.9%	12.9%	27.4%	18.5%	22.9%	17.6%

Source: Bloomberg 30/09/24.

3. Market review : FX and commodities performance

	Currencies	
	Against USD	
	YTD	3M
EURO	0.9%	3.9%
JPY	-1.8%	10.7%
GBP	5.1%	5.8%
CHF	-0.5%	5.9%
CNY	1.1%	3.4%
HKD	0.5%	0.5%
CAD	-2.1%	1.1%
AUD	1.5%	3.6%
	Against Euro	
	YTD	3M
USD	-0.9%	-3.8%
JPY	-2.7%	7.2%
GBP	4.0%	1.7%
CHF	-1.4%	2.2%
CNY	0.4%	-0.4%
HKD	-0.4%	-3.5%
CAD	-3.1%	-2.8%
AUD	0.6%	-0.3%
	Against CHF	
	YTD	3M
EURO	1.4%	-2.2%
USD	0.5%	-6.3%
JPY	-1.3%	5.1%
GBP	5.3%	-0.5%
CAD	-1.6%	-5.1%
AUD	1.9%	-2.5%
HKD	0.9%	-5.8%

- The JPY strengthened against all major currencies following the BoJ's interest rate hike.
- Gold hit an all-time high, rising 13.2% in Q3, driven by falling interest rates and geopolitical tensions. Oil prices declined due to concerns over excess supply in 2025.

	% YTD in USD	% 3M in USD
WTI Crude Oil	-4.9%	-16.4%
Brent Crude Oil	-6.8%	-16.9%
Gasoline	-6.7%	-22.4%
Natural Gas	-5.4%	-5.1%
Gold	27.7%	13.2%
Silver	30.9%	6.9%
Platinum	-1.0%	-1.4%
Palladium	-8.8%	2.7%
Aluminum (LME)	9.5%	3.4%
Copper (LME)	14.8%	2.4%
Corn	-9.9%	6.9%
Wheat	-7.0%	5.5%
Soybean	-18.3%	-8.1%
Coffee	43.5%	18.0%
Sugar	10.2%	11.6%
Cotton	-9.2%	5.4%

Source: Bloomberg 30/09/24

3. Market review : Fixed Income Performance

- Fixed income market has been buoyed by the prospect of falling inflation and interest rate cuts.
- Government bonds and Credit both delivered solid returns.
- Given the backdrop of falling Developed market bond yields, Emerging fixed income delivered strong performance.
- Credit Spreads remained relatively unchanged over the quarter.

	Perf September	Perf YTD	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	1.7%	3.6%	7.0%	3.3	6.7	54
Treasuries	1.8%	2.6%	7.8%	2.8	7.5	12
Credit	1.8%	5.1%	6.3%	4.2	6.3	91
USA						
U.S. Universal	1.4%	4.9%	5.2%	4.5	6.0	101
U.S. Aggregate	1.3%	4.4%	5.2%	4.2	6.2	36
U.S. Gov/Credit	1.4%	4.4%	5.1%	4.1	6.6	33
U.S. Treasury	1.2%	3.8%	4.7%	3.8	6.2	0
Government-Related	1.2%	4.6%	4.6%	4.3	5.7	47
Corporate	1.8%	5.3%	5.8%	4.7	7.3	88
U.S. MBS	1.2%	4.5%	5.5%	4.5	5.5	40
Pan Europe						
Pan-Euro Aggregate	1.2%	2.8%	3.8%	3.0	6.8	60
Euro-Aggregate	1.2%	2.5%	3.7%	2.7	6.6	68
Asia Pacific						
Asian-Pacific Aggregate	0.2%	3.4%	-2.6%	1.8	7.6	6
High Yield						
Global High Yield	2.0%	9.6%	6.2%	7.3	4.0	387
U.S. Corporate High Yield	1.6%	8.0%	5.3%	7.0	3.4	300
Pan-European High Yield	1.0%	7.0%	3.7%	6.3	3.1	359
Other						
Global Inflation-Linked	1.7%	3.2%	6.0%			
Municipal Bond Index	1.0%	2.3%	2.7%	3.3	5.7	
Emerging Markets						
EM USD Aggregate	1.8%	8.2%	5.8%	6.3	6.5	248
Sovereign	2.0%	8.6%	6.6%	6.8	7.5	299
Corporate	1.4%	8.5%	4.8%	6.0	5.0	219
High Yield	2.5%	12.9%	6.6%	8.6	5.4	481

Source: Bloomberg 30/09/24

4. Long-term Investment Strategy

- We think diversification into long term themes will provide real benefits to traditional sector allocation in the current investment landscape. Many sectors (such as the car market) are disrupted and challenged by Technological developments. Moreover, diversified approaches (style, sector, geographic) have proven to be an effective hedging against tail risk with durable long term performance.

- Short term noise may bring volatility up but we focus on secular trends: implementation of our Innovation societal impact environmental footprint 3 dimensional approach.

- Our equity exposure is centered around: Technology (Robots, Cybersecurity, Artificial Intelligence), BioTechnology, Societal as well as Environmental impacts, mixed with strong balance sheet companies that generate recurring cashflows over time and rewards investors through share buyback programs and high dividend distribution.

- In a context of interest rates normalization, we now believe that Government bonds look attractive.

- Look for decorrelated asset.

4.1 Current Asset Allocation

➢ Our current allocation is 49.3% Risky Assets*, 30.2% Investment Grade Bonds in our Balanced EUR model.

Asset allocation	**Equity allocation:** neutral. **Bonds:** underweight. **Cash:** neutral. **Alternative:** Overweight.		
		Core allocation	**Tactical allocation**
Equities	**Regions/ sectors**	• Developed Markets (USA and Europe). • Emerging Markets, China & Vietnam.	
	Investment style, stock selection	• Global growth themes. • Quality dividend selection. • Sustainable Investments.	
Bonds & currencies	**Duration**	• Neutral Duration(short-term HY and medium- term IG in Europe).	
	Bond segments	• Investment Grade USD and Euro, High Yield corporates EURO.	• CAT Bonds.
	Currencies	• Neutral.	• Crypto basket.
Commodities & Alternatives		• Gold & Commodity Basket Energy Transition. • Decorrelated Strategies.	

* Risky Assets = Equities + (High Yield Bonds * 0.6 factor)

Conclusions

- Economic activity is, as expected, slowing down. Consensus is that a global recession should be avoided.
- Inflation continues to move towards the Central Banks' target. Due to Middle Est conflict, a reacceleration cannot be ruled out, but this is not the central scenario.
- Except BoJ, all major Central Banks are on easing mode.
- Despite lower rates, most leveraged companies may face difficulties to refinance their debt. This may impact credit spreads
- Look for decorrelated assets

Small & Mid Caps

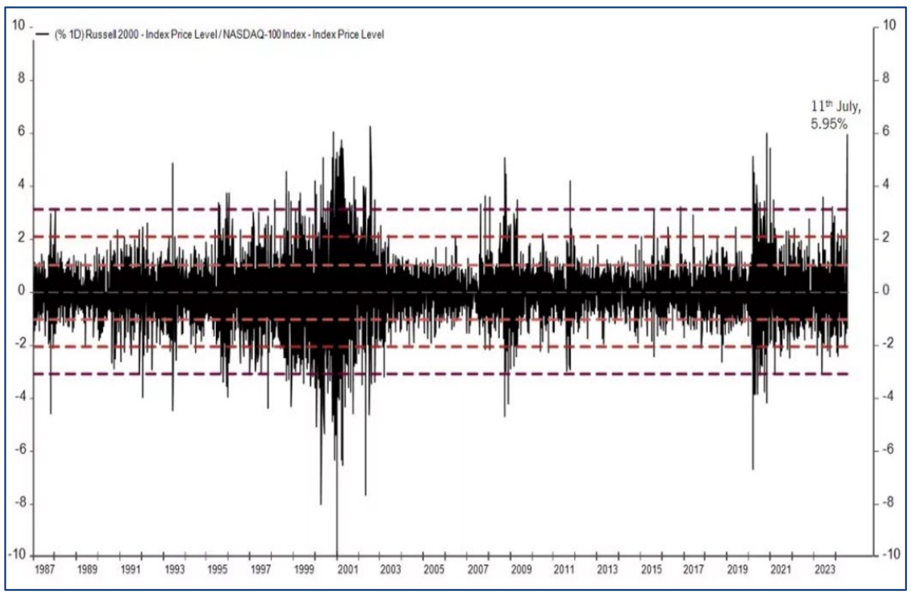
6. S&M caps – What happened ?

- Over the month of July, Small Caps stocks significantly outperformed Large Caps.

- The rally in Small Caps began when an unexpectedly low inflation report boosted investor confidence, suggesting that the Central Bank had successfully met its targets.

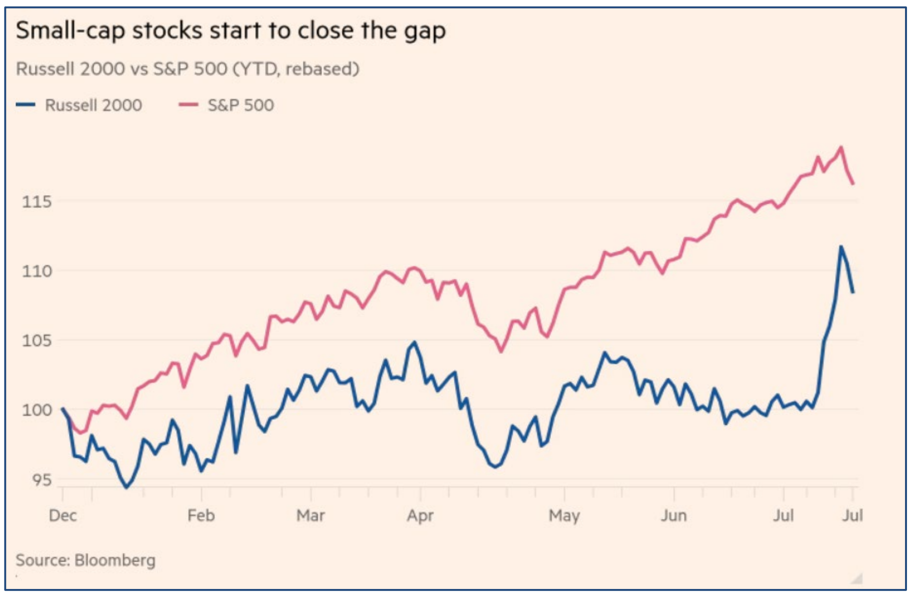
- On July 11, 2024, the Russell 2000 outperformed the Nasdaq 100 by nearly 6%, marking one of the most substantial shifts from Large Caps to Small Cap in history.

Russell 2000 vs Nasdaq 100 (daily change)



Source: FactSet; Pictet Trading Strategy; as of 30/7/2024.

Russell 2000 vs S&P500 performance January-July



Source: Financial Times

6. S&M caps – Reliance on Debt

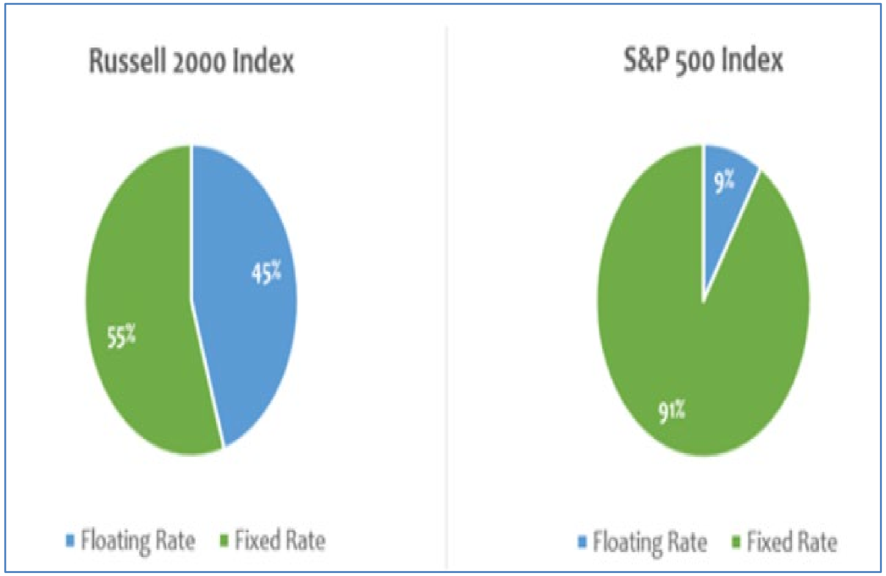
- Smaller companies often face more challenges accessing capital compared to larger firms and tend to use more debt, at higher rates and borrow for shorter periods of time.
- They also tend to use more floating-rate debt than large companies with 45% of Russell 2000 classified as floating rate compared to only 9% of the S&P500.
- As a result, Small Caps tend to be more sensitive to interest rate variations.

Debt ratio comparison

	Russell 2000 Index	S&P 500 Index
Net Debt/EBITDA	3.2x	1.6x
Total Debt/EBITDA	6.5x	2.3x
Net Debt/Total Capital	37%	34%
Total Debt/Total Capital	52%	48%

Source: FactSet, Lazard Asset Management

Floating rate vs Fixed rate

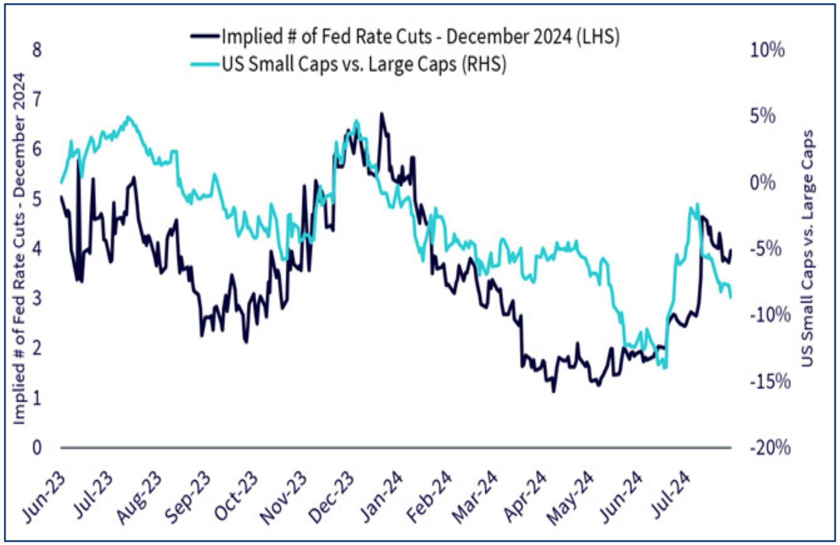


Source: Lazard Asset Management

6. S&M caps – Interest rate sensitivity

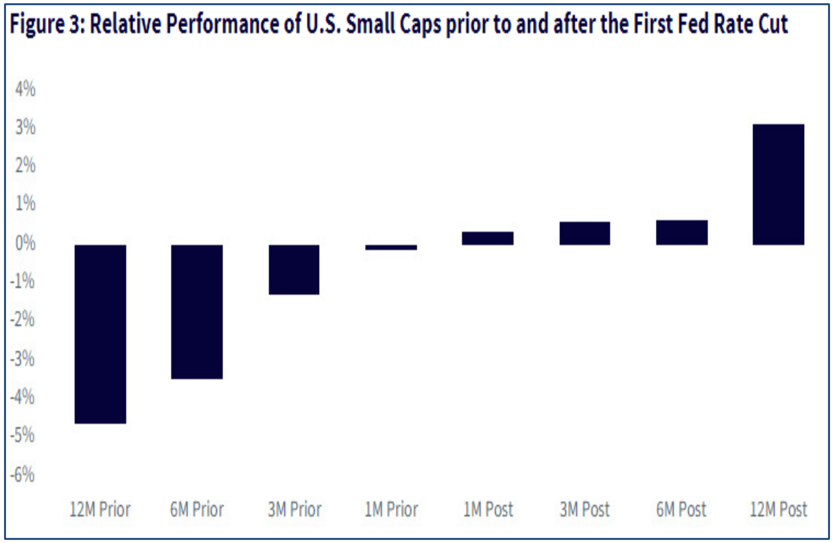
- June's lower CPI inflation print has fueled expectations of a lower terminal interest rate.
- Small Caps, which are more sensitive to rate cuts, started gaining momentum.
- Small Caps are expected to rally when interest rates fall. Historically, they tend to outperform Large Caps following the first rate cut in a cycle.
- It is important to note that while interest rates are declining, they have not returned to 2019 levels. This means companies rolling fixed-rate loans from five years ago will face higher interest payments.

Expected Fed rate cuts and Small Caps to Large Caps ratio



Source: WisdomTree

Smalls Caps prior to and after the first rate cute relative performance



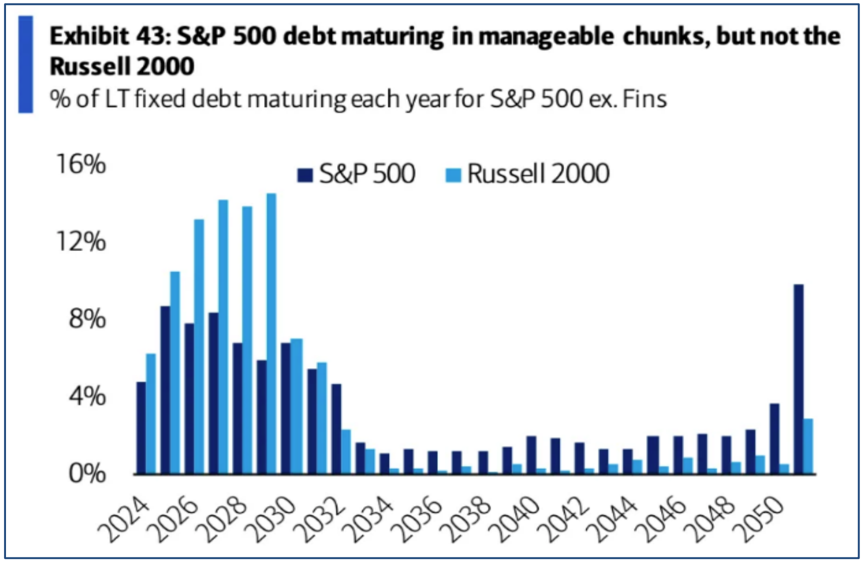
Source: WisdomTree

6. S&M caps – Falling short term interest rates

- Small Caps will need to refinance significant amounts of debt over the next five years, and although rates have not (yet?) returned to pre-pandemic levels, there is a strong likelihood that the peak is behind us, and that rates will continue to decline. This could ultimately benefit companies refinancing their fixed-rate debt.

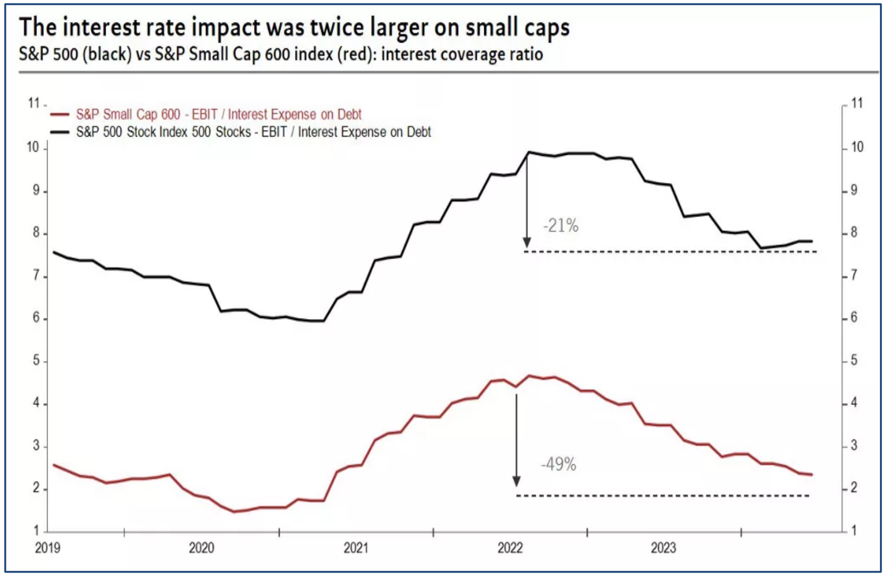
- Between the end of 2020 and 2022, the rise in US 2-year yields caused a 49% deterioration in the interest coverage ratio for Small Caps, compared to only 21% for large caps.

Russell 2000 vs S&P500 debt maturity



Source: FactSet, BofA US Equity & Quant Strategy

Impact of an increase in short term rates



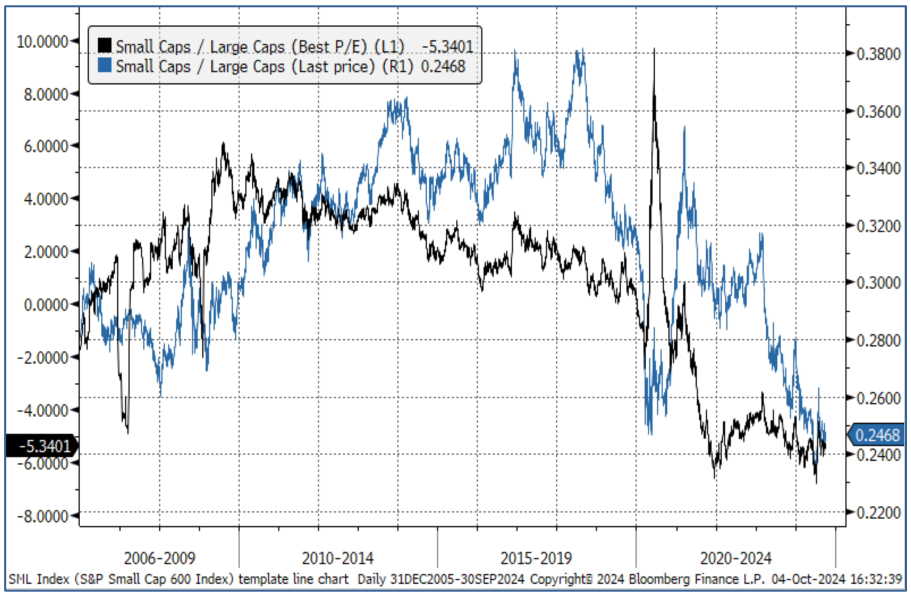
Source: Pictet

6. S&M caps – Valuation

- In the US, over the past three years, the valuation of Small Caps relative to Large Caps has remained stable (black line), despite Small Caps underperforming Large Caps (blue line). This suggests that US Small Caps are still being valued similarly to three years ago, while their expected earnings have declined in comparison to Large Caps.

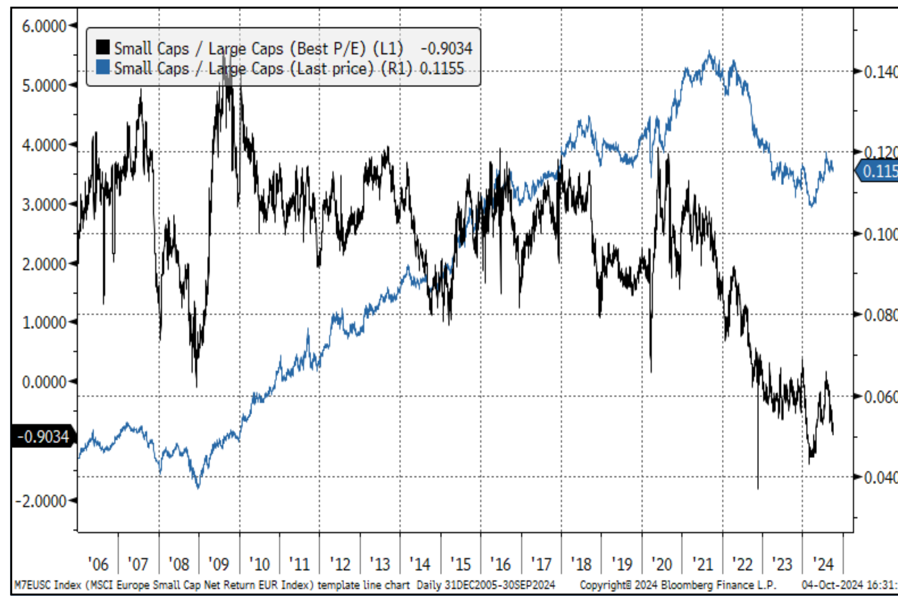
- In Europe, however, Small Caps have experienced a decline in both valuation (black line) and price (blue line). This indicates that EU Small Caps are trading at a discount compared to Large Caps, while their expected earnings growth has remained stable in relation to Large Caps.

Small Caps/Large Caps P/E and Price - US



Source: Bloomberg

Small Caps/Large Caps P/E and Price - Europe



Source: Bloomberg

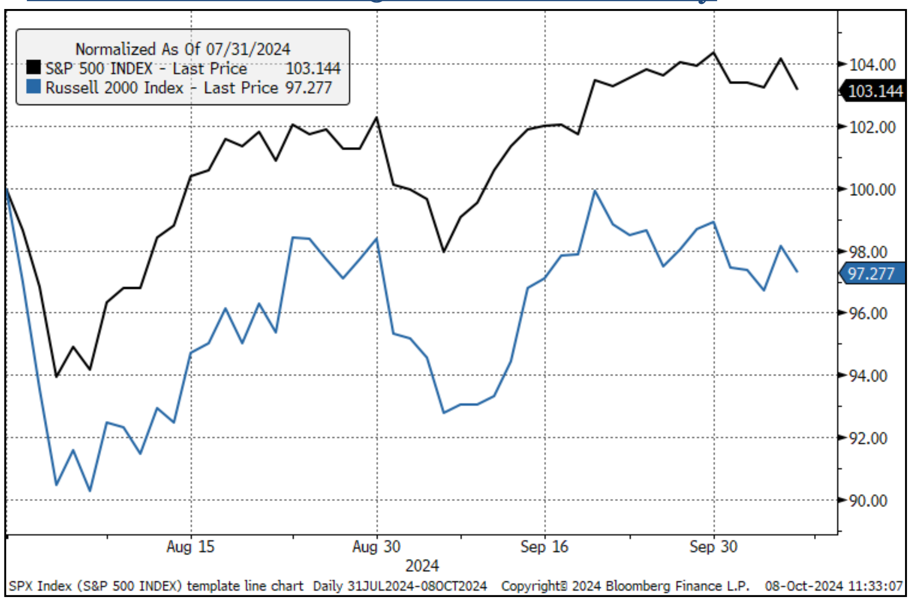
6. S&M caps - Since the rally

- Since July Small Caps have underperformed. This suggests that there are still doubts about the economy's trajectory.

- Although there are many signs that we are heading to a soft landing, some investors worry that the growing optimism that the FED will bring down inflation without a sharp rise in unemployment is misplaced.

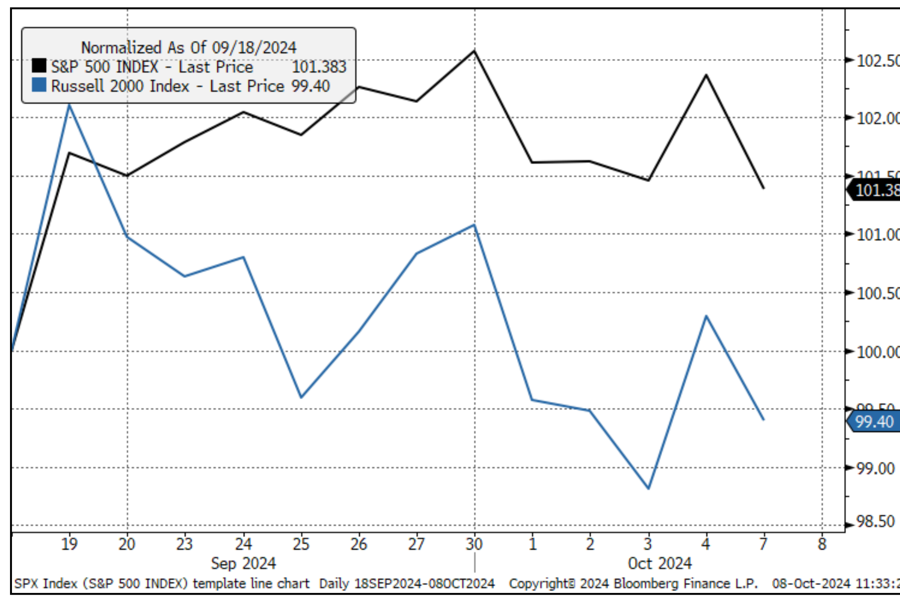
- Weak data in the coming months could force the FED to ease policy more aggressively. This is why more evidence on future data is needed to improve the visibility into future trends.

Russell 2000 vs S&P500 since end of July



Source: Bloomberg

Russell 2000 vs S&P500 since US first rate cut



Source: Bloomberg

6. S&M caps - Conclusion

To sum up, a few takeaways:

Pros

- Declining interest rates generally improve sentiment toward Small Caps.

- The relative P/E ratio suggests that EU Small Caps expected earnings have remained stable, while their prices have depreciated compared to Large Caps. This indicates that Small and Mid Caps could have some underperformance to catch up.

Cons

- Even though interest rates are starting to decrease, they are still significantly higher than pre-pandemic levels and could therefore weigh on the profitability of fixed-debt financed companies.

- Small Caps tend to underperform during an economic slowdown, and there are still no clear signs that the economy will rebound soon without undergoing further stages of adjustment.

As for our position, we have not yet made significant investments in this segment. We appreciate it and are closely monitoring it, but we are waiting to see sufficient recovery signs before taking action.

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