Market Review October 2024

Although seasonality favors the last three months of the year, October was no respite for the markets. Whereas during the last months of the summer, equity indices were stressed by prospects of an economic slowdown, the trend has reversed. Expectations are now turning to an almost "overly" resilient US economy, accompanied by resurgent inflationary fears. The employment figures published at the beginning of the month reinforced this scenario, pushing the yield curve upwards. Whereas at the end of September, eight rate cuts were expected until 2026, only five are now expected. This readjustment has had a direct impact on both short and long rates, with US 2Yr and 10Yr yields each recovering 50bps.

This repricing of interest rates confirms that investors remain particularly emotional and do not yet know how to position themselves in relation to the economic context. The "data dependency" regularly evoked by central bankers still seems to be relevant.

The next few weeks are likely to prove volatile. The U.S. elections are due to be held in early November, and it's still unclear whether any candidate has managed to build up a comfortable lead. Some polls show Ms. Harris in the lead, others favor Mr. Trump, and betters seem to think the latter could win a second term.

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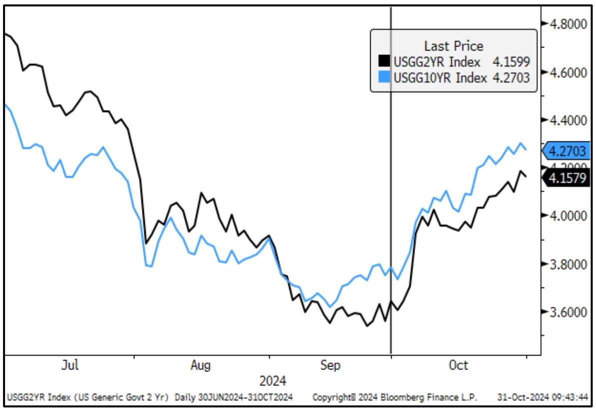
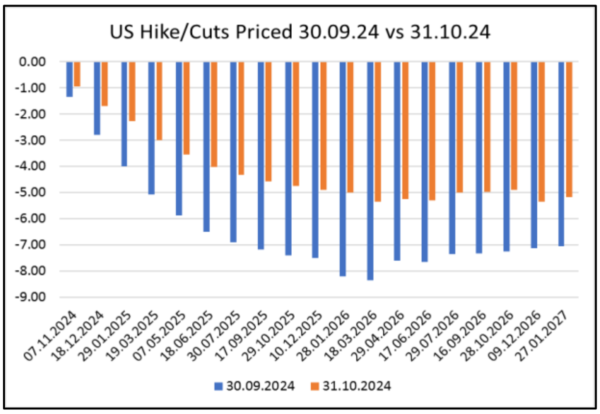
Third-quarter results should also have a significant impact on equity markets. There's still a lot of hype around technology stocks, which are benefiting from the democratization of artificial intelligence.

US 2 and 10Yr Yield



Source : Bloomberg

US Hike/Cuts Priced



Source : Bloomberg

Equity market performances were all negative in October. It was mainly the last few days that weighed heavily, with the publication of Mag7 results, some of which disappointed, such as Meta and Microsoft, which fell by 4% and 6% respectively. In Europe, despite stronger-than-expected GDP growth, the outlook remains bleak and failed to reassure investors sufficiently, so indices ended in the red.

The bond market also suffered from rising rates and the duration effect, which increased the correlation between bonds and equities, which is bad for multi-asset portfolios. Commodities were the big winners. Gold continues to hit all-time highs, supported by several factors such as central bank buying, its role as a hedge against inflation, and finally its safe-haven characteristics, to which investors turn in times of geopolitical uncertainty and falling interest rates.

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Market trends to end October 2024

	Equities in Local Currencies							
End of October	**MSCI World**	**S&P 500**	**EuroStoxx**	**CAC**	**Spain**	**Switzerland**	**MSCI EM**	**CSI 300**
Perf 1 Month	-2.04%	-0.99%	-3.46%	-3.74%	-1.72%	-3.09%	-4.38%	-3.16%
Perf 3 Month	2.12%	3.32%	-0.93%	-2.40%	5.49%	-4.26%	3.20%	13.04%
Perf YTD	15.08%	19.62%	6.77%	-2.56%	15.55%	5.88%	9.36%	13.40%

	Commodities				Currencies vs EUR			
End of October	**WTI Oil**	**Brent Oil**	**Gold**	**Copper**	**USD**	**JPY**	**GBP**	**CHF**
Perf 1 Month	1.60%	1.94%	4.15%	-3.29%	2.30%	-3.35%	-1.33%	0.13%
Perf 3 Month	-11.10%	-9.37%	12.11%	3.05%	-0.53%	-1.89%	-0.19%	1.10%
Perf YTD	-3.34%	-5.04%	33.01%	11.06%	1.42%	-5.90%	2.75%	-1.22%

	Bloomberg Indices Bonds Total returns							
End of October	**Global Aggregate**	**US Aggregate**	**Euro Aggregate**	**US 10 Year Treasury**	**German 10 Year Bund**	**Global Credit**	**Global High Yield**	**Emerging Sovereign $**
Perf 1 Month	-3.35%	-2.48%	-0.75%	-3.33%	-2.28%	-2.72%	-0.63%	-1.37%
Perf 3 Month	0.62%	0.25%	0.91%	-0.67%	-0.64%	0.98%	3.51%	2.47%
Perf YTD	0.12%	1.86%	1.73%	0.60%	-2.95%	2.28%	8.90%	6.68%

Source: Bloomberg 31/10/24

We don't believe in reacting to short-term "noise". It's very difficult to anticipate market sentiment, let alone position oneself accordingly. Macroeconomic figures influence investors and regularly cause them to change their minds, which just goes to show the current degree of uncertainty.

A longer-term view allows us to navigate more calmly through the various situations we may encounter. Several strategists have shared their outlooks for the next ten years, and while they may not be aligned with current market positioning, there should still be some good opportunities over the next decade.

Vanguard's expectations show that the sectors currently supported by the market are likely to have the lowest returns over the next few years. Market performance tends to follow the evolution of its fundamentals, but it also has a habit of reverting to its long-term averages when it reaches too extreme levels.

We can see the glass as half-full, knowing that the asset classes that have underperformed should be the ones to record the best returns. In Vanguard's view, it's time to move away from large-cap growth stocks towards smaller-cap or large-cap stocks at reasonable valuations.

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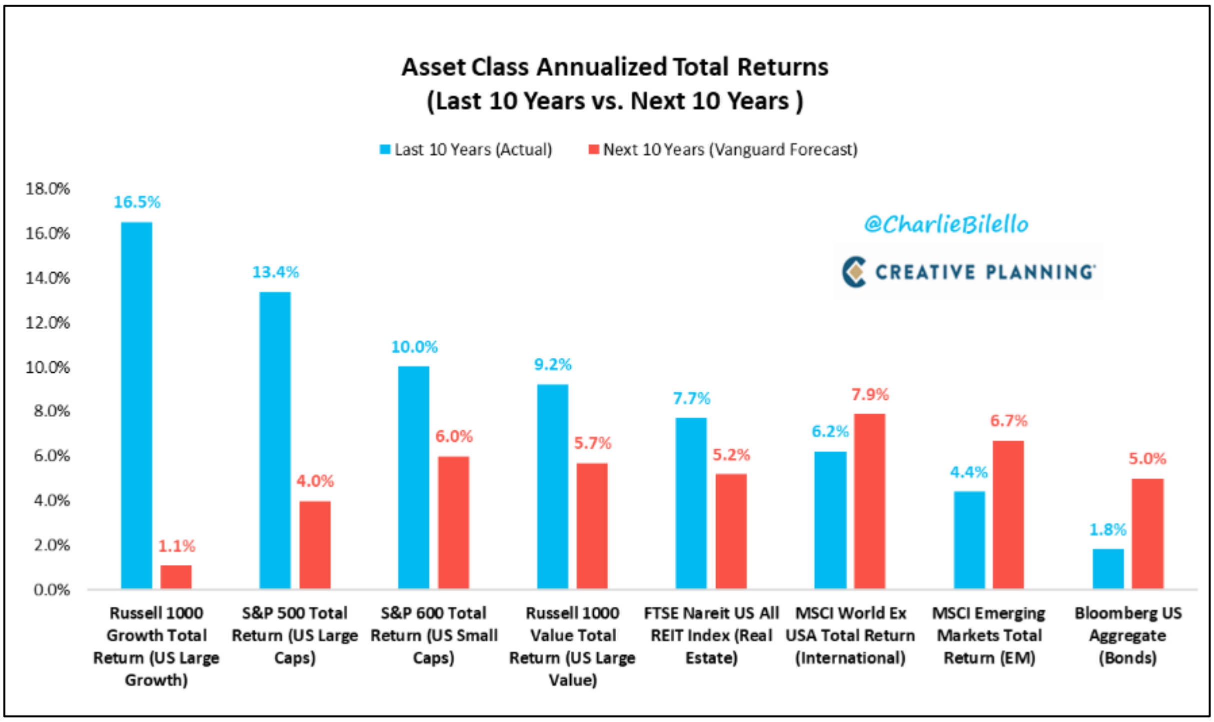
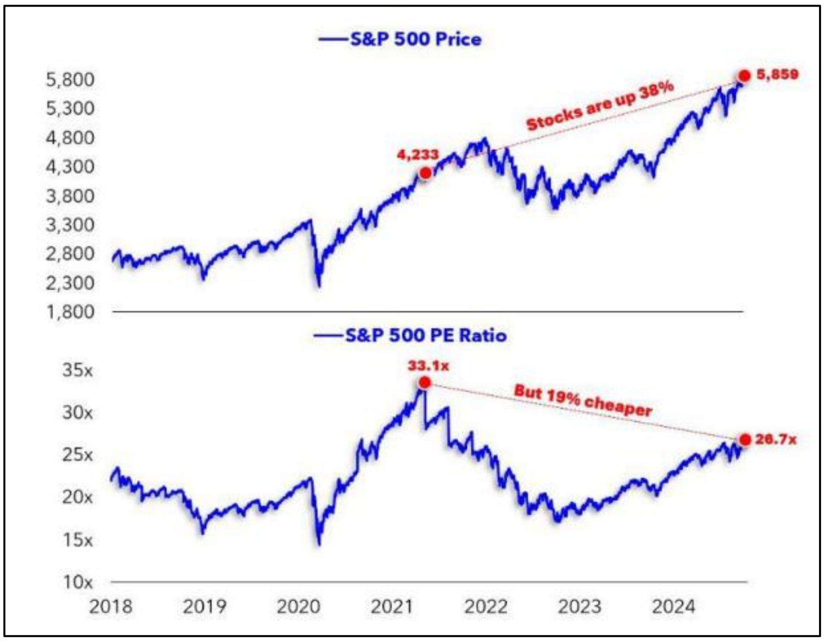
Even if the reasoning behind these performance prospects seems to make sense, it's hard to imagine today that these are the market segments that will perform best. Indeed, when we look at the macroeconomic situation, we see that it's the large-cap growth stocks that are benefiting most from the current environment. With the US economy more resilient than expected and exponential growth in the artificial intelligence sector, it's hard to convince ourselves to reallocate portfolios to other market segments. Let's not forget, however, that the market can remain irrational for long periods, and that a barbell allocation allows us to position ourselves on both sides.



Source : Charlie Bilello / Vanguard

Although the S&P 500 is projected to underperform over the past ten years, its valuation has improved since its peaks in 2021. Indeed, as we mentioned earlier, it turns out that, over the long term, performance follows the evolution of fundamentals.

Several ratios exist to assess market valuation, but if we focus on earnings, we can see that earnings growth for S&P 500 companies has been higher than their share price evolution since mid-2021. Given recent developments in the economy and earnings growth, we can therefore conclude that the market rally in 2024 is not a bubble fueled by artificial intelligence, but simply a rally in line with earnings growth.



Source : Syz

Apart from equities and bonds, there are many other assets to diversify portfolios. One asset class to which we have talked about on several occasions is commodities. Among them, Uranium seems to be particularly popular these days.

Demand for energy, particularly electricity, is set to continue growing in the coming years, and nuclear power is emerging as one of the best solutions for meeting this demand. In view of rising electricity demand and government targets for massive reductions in CO2 emissions, the number of nuclear reactors due to be built over the next few years is likely to create an imbalance between supply and demand for uranium, which will inevitably lead to a rise in the spot price.

Recently, investors have realized that nuclear power should also benefit from the development of artificial intelligence. Major technology companies continue to build data centers to increase their cloud capacity and the computing power needed to train artificial intelligence models. These data centers require a huge amount of electrical power to operate, which is why several major groups, such as Microsoft, Alphabet and Amazon, have announced that they have signed partnerships with companies operating nuclear reactors to secure a steady supply of electricity. Following these announcements, it was mainly Uranium mining companies that benefited from a rise, while spot prices remained almost unchanged.

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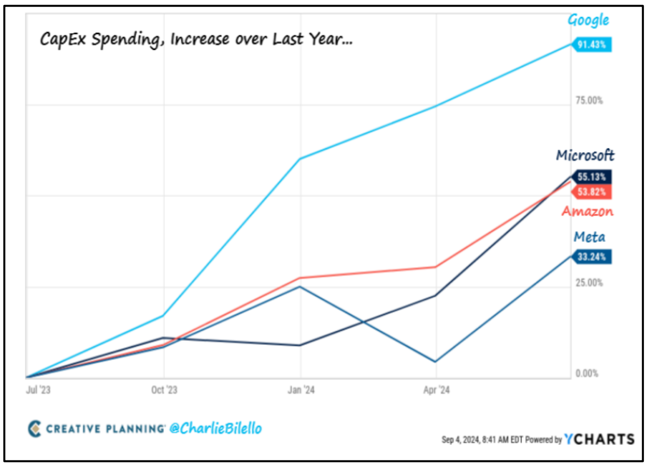
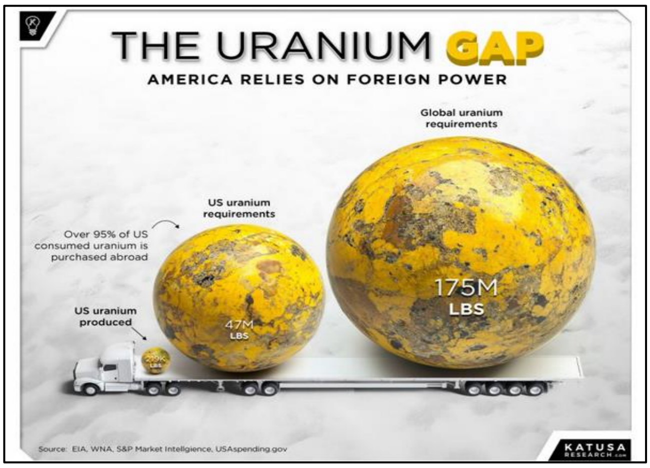
Big Tech Capex Spending



Source : Charlie Bilello

Uranium spot price (Blue) & Uranium Miner ETF

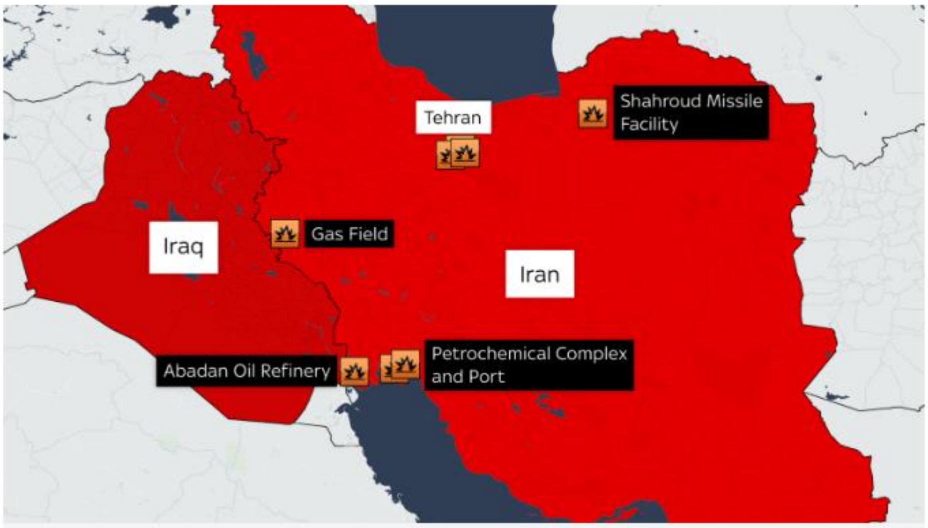


Source: Uranium Royalty Corp

The geopolitical context continues to influence commodity prices. Tensions in the Middle East have a direct impact on oil prices, and fears of a direct strike by Israel on Iran's oil infrastructure pushed up the price of black gold at the beginning of the month.

After several weeks of uncertainty, Israel decided to attack Iran on October 26. As it turned out, the strikes were not aimed at oil sites, but rather at military targets, allaying market fears of potential disruption to the black gold supply chain. Commodity traders therefore felt "reassured" after the attack, which led to a drop in oil prices.

The Iranian President's comments were also rather sober, as he refrained from announcing that Iran would respond to this attack. Although the conflict in the Middle East is far from resolved, we can only hope that the situation will stabilize in the coming weeks.



The confirmed locations that were hit. Pic: ISW

China also had a significant impact on black gold prices following its recent monetary stimulus announcements at the end of September. Investors flocked to Chinese assets as soon as the government made these announcements. However, market doubts persist. Although many analysts believe that these measures are just the beginning, and that further announcements should follow, they are slow to materialize.

After stellar performances at the end of September, the Chinese market has calmed down in anticipation of further measures. The country's shares remain volatile as we wait for the government to act (probably after the US elections?). With the measures already implemented, we can now expect the second-largest economy to achieve its 5% growth target for this year. Emerging markets, and China in particular, have underperformed in recent years. Government measures could well reverse this trend. It takes a lot of "ifs" for the Chinese economy to return to normal, but if (1) China manages to turn around the property market, if (2) it succeeds in revitalizing domestic consumption and if (3) geopolitical tensions calm down after the US elections, the risk premium on the Chinese market would no longer be justified and we could finally see a real and lasting return of foreign investors.

Now that several measures are in place, the forthcoming economic data will be crucial in determining whether this stimulus plan has a real impact on the economy. However, just as when central banks raise or lower rates, there is always a lag effect between the decisions taken and their impact on the economy. The key indicators to watch in the coming months will be consumer confidence and all the figures relating to the real estate market.

China Stimulus Plan

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.

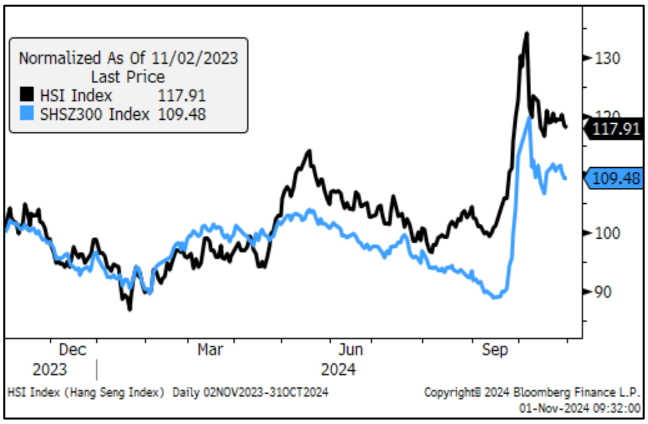
3. Stock Market Support
- RMB500bn swap facility for brokers and funds to buy stocks.
- RMB300bn refinancing facility for stock buybacks.

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

Hang Seng & CSI 300 (Blue)



Source : Bloomberg

Finally, the event that will probably have the greatest impact in November will be the American elections. We're just a few days away from the "final" result, but neither candidate seems to be clearly emerging from the pack. The FiveThirtyEight website, which averages all the polls and corrects for statistical errors, points out that Kamala Harris could win by a very narrow margin. Conversely, the RealClearPolitics site, which averages all the betting sites, shows that a strong divergence has developed since the beginning of October in favor of Donald Trump, giving him a 60% win against 40% for Ms. Harris.

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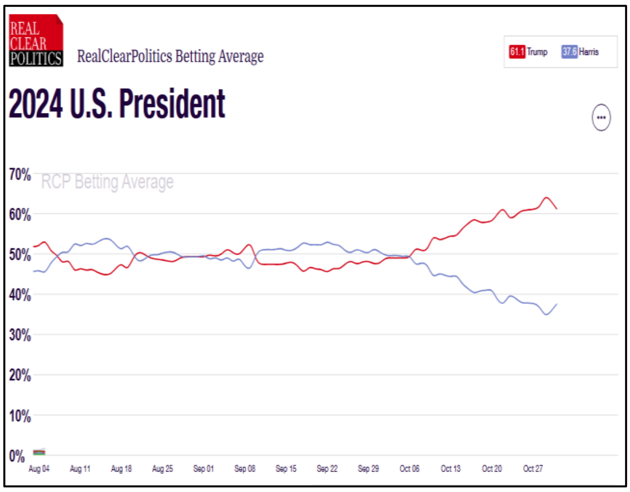
This remains a major issue to be considered, because, whichever candidate is elected, if the majority of Congress is not of the same party as the President, it will be more difficult for him to implement his policies. Regardless of who wins, the consensus is that both candidates' tax plans are inflationary, and should continue to widen the US debt deficit. What might be most appreciated by investors, therefore, would be a President and Congress from different parties, making it difficult to implement an expansionary fiscal policy and keeping control over debt levels. For Europe and most other countries, a victory for the vice-president would probably be seen as good news, as it would avoid the taxes that the former president wishes to impose on imports.

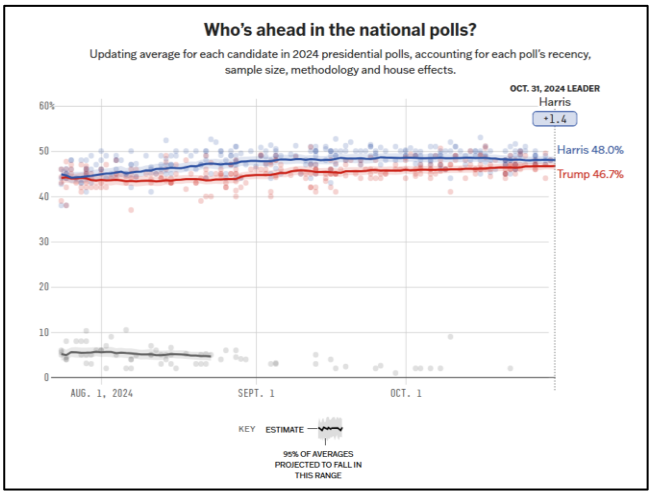
Contested results could also cause market volatility. Multi-million-dollar groups are responsible for monitoring the vote count. Should anything go wrong, they are ready to contest the results. In fact, complaints have already been lodged in the state of Pennsylvania. These interventions could disrupt the smooth running of the elections. If so, it could take several weeks to determine the winner. We remember the assault on the Capitol following Mr. Trump's accusations, and we don't want to see such an event happen again.

US Election Betting Average



Source : Real Clear Politics

US Election Polls Average



Source : FiveThirtyEight

While we await the outcome of these elections, we wish you a pleasant November.

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