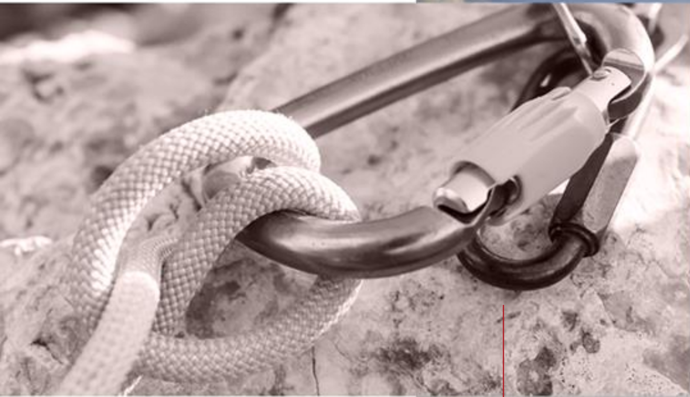


1. Macro and Rates
2. Fixed Income
3. Equity
4. FX and Commodities

Key Take-Aways

- The Fed kept interest rates on hold for the 7th time in a row.
- The US economy seems to be taking the right direction in order to deliver the expected three rate cuts in 2024.
- The Swiss National Bank was the first bank to deliver a rather unanticipated rate cut, after reaching its 2% inflation target.
- For the first time since 2016, the Bank of Japan raised its interest rates, from -0.1% to 0.1%, thus abandoning its negative rates.
- The Japanese Yen failed to reverse its downward trajectory following this decision. Instead, it plummeted to a 34-year low against the USD, hovering around the 150-152 range.
- The EUR/USD pair continues to struggle in its attempt to breach the psychological barrier of 1.10 against the USD. The market sentiment is heavily influenced by the contrasting stances of the European Central Bank (ECB) and the Federal Reserve (Fed).
- The month of March has been a very good one for equity investors, as demonstrated by the first quarter of the year ending with new records.
- The Nikkei 225 is the best-performing index since the start of the year, up by 21.43% YTD, reaching an all-time high in March.

CITÉ GESTION
PRIVATE BANK

Newsletter: Too soon to cut ? / April 2024

Review

March overview

March saw all major indices post a positive performance. The European indices showed the best performance, with the Euro Stoxx 50 up by 4.38%, the Stoxx 600 EUR up by 4.18%, and the FTSE 100 up by 4.84%. This positive month also allowed the FTSE 100 Index and the MSCI EM Index to reach a positive YTD performance, at +3.98% and +2.41% respectively.

The S&P 500 index posted a positive performance of 3.22% for the fifth consecutive month, reaching a YTD performance of 10.55%. The index surged past the 5,200 level, an all-time high in March. All S&P sectors saw gains last month, but the best performing sectors were Energy (+10.60%), Utilities (+6.62%), and Materials (+6.50%). The only sector with a continuing negative YTD is Real Estate (-0.55), while the Telecom sector continues to lead this year (+15.82).

The US Dollar Index rose by 0.32%. The Dollar gained in strength in the currency pairs USD/CHF (+1.91%) and USD/JPY (+0.91%) last month, posting YTD returns of 7.13% and 7.31%, respectively. The Euro depreciated against the US Dollar (by 14 bps) and the British Pound (by 12 bps), but appreciated against the Swiss Franc (by 181 bps). The emerging markets currency index saw, yet again, a decline of 0.42%.

Overall, yields on 10-year government bonds fell in March, except Japanese government bonds. The 10-year German and UK bonds fell by 11 bps and 19 bps, respectively. The US 10-year also fell by 5 bps due to the unlikelihood of a rate cut at the next Fed meeting. Corporate debt spreads have tightened in the US by 16 bps, but rose by 14 bps in Europe. The market is less willing to pay a risk premium on US high-yield corporate debt, which is not necessarily true regarding European high yield.

The Bloomberg Commodity Index is up by 2.89%, as well as crude oil WTI, which rose by 6.27% last month, putting its YTD at 16.08%. Gold increased by 9.08%, which puts its YTD performance at 8.09%.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5 254	0.11	0.40	3.22	10.55	10.55	19
Nasdaq	16 379	-0.12	-0.29	1.85	9.32	9.32	24
Russell 2000	2 125	0.49	2.60	3.58	5.17	5.17	19
Euro Stoxx 50	5 083	0.03	1.04	4.38	12.94	12.94	13
Stoxx 600 EUR	513	0.24	0.70	4.18	7.85	7.85	13
FTSE 100	7 953	0.31	0.32	4.84	3.98	3.98	10
SMI	11 730	0.25	0.88	3.96	6.77	6.77	17
NIKKEI 225	40 369	0.50	-0.68	3.69	21.43	21.43	21
CSI 300 China	3 537	0.47	-0.21	0.61	3.10	3.10	12
MSCI EM Index	1 043	0.27	0.45	2.49	2.41	2.41	11

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5 254	0.11	0.40	3.22	10.55	10.55	19
UTILITIES	333	0.76	2.86	6.62	4.57	4.57	15
ENERGY	721	1.10	2.21	10.60	13.69	13.69	12
TELECOM	284	-0.31	-0.75	4.34	15.82	15.82	18
CONS STAPLES	814	0.17	0.96	3.49	7.52	7.52	19
REAL ESTATE	248	0.73	2.39	1.77	-0.55	-0.55	18
CONS DISCRET	1 485	-0.14	0.70	0.10	4.98	4.98	23
MATERIALS	585	0.30	1.69	6.50	8.95	8.95	20
HEALTH CARE	1 724	0.11	1.61	2.38	8.85	8.85	18
INFO TECH	3 821	-0.11	-1.26	1.97	12.69	12.69	29
FINANCIALS	701	0.57	1.74	4.77	12.45	12.45	15
INDUSTRIALS	1 067	0.07	0.62	4.41	10.97	10.97	20

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	104.487	-0.06	0.05	0.32	3.11	3.11
EUR-USD	1.0790	0.01	-0.17	-0.14	-2.26	-2.26
USD-JPY	151.35	-0.02	-0.04	0.91	7.31	7.31
USD-CHF	0.9014	-0.03	0.43	1.91	7.13	7.13
EUR-CHF	0.9731	0.04	0.33	1.81	4.76	4.76
GBP-USD	1.2623	-0.01	0.17	-0.02	-0.85	-0.85
EUR-GBP	0.8549	0.03	-0.34	-0.12	-1.39	-1.39
JP EM FX Index	46.51	0.08	0.18	-0.42	-3.38	-3.38

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.20	1	0	-5	32	32
Germany	2.30	1	-2	-11	27	27
UK	3.93	0	0	-19	40	40
SWITZERLAND	0.69	-0	-0	-11	-1	-1
Japan	0.73	2	-1	2	11	11
US IG Spread	98	-1	2	-7	-7	-7
US High Yield spread	346	-1	2	-16	-25	-25
EUR High Yield spread	360	-1	-1	14	-32	-32

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	99.5	1.20	0.80	2.89	0.85	0.85
Gold Spot $/OZ	2 229.9	1.60	2.98	9.08	8.09	8.09
Crude Oil WTI	83.2	2.24	2.63	6.27	16.08	16.08

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	13.0	0.23	-0.05	-0.39	4.50	0.56

Macro & Rates

Satus Quo for the cuts to come

In this first quarter, the global macro landscape suggests that current market pricing for the major central banks is probably relevant for now. After the extreme Fed rate cut cycle priced-in in January, (up to seven cuts of 25bps by December 2024), rate expectations have normalized to reach quite precisely the levels suggested by the Fed dots, i.e. three rate cuts for 2024, with the first one likely in June.

The US economy seems to be taking the right direction, or at least the one expected by the Fed, in order to deliver the expected three rate cuts in 2024. The economic activity, according to the recent PMIs, is resilient. The manufacturing sector seems to be in a better shape, while the Service sector is softening slightly. Retail sales were lower than expected, suggesting that after the 2023 boost, the behavior of the US consumer may be normalizing. Regarding employment, it shows some signs of slow deterioration. All in all, the "very" soft-landing scenario, that would allow the Fed to deliver a modest rate cut cycle appears to be the most probable.

The only problem in this perfect scenario is that inflation in the US, while showing a downward trend, is clearly not dead yet. Currently, recent measures suggest~~s~~ that inflation is "temporarily" ticking up.

Indeed, the February US inflation report shows Core CPI beating expectations, rising 0.4% on the month with overall service prices up by 0.5% and services excluding rent, for example, up by 0.6%. The resilience against inflation was confirmed by PPI that were higher than expected across every aggregate.

Christopher Waller is one of the more important Fed speakers of the past few years, as his comments have helped shape some of the narratives that have driven market pricing. His recent comment, "There's Still No Rush", rather speaks for itself. The narrative that the FOMC is intent on cutting rates regardless of what the data says, is clearly a challenge. Hopefully, we will have three other inflation reports before the meeting of June, but we acknowledge that another bad number could well put the prospects of a June rate cut in very serious jeopardy.

While the Bank of Japan ended with negative interest rates, its yield curve control and the ETF purchase in a well anticipated way, the Swiss National Bank surprised the market by pulling the trigger on a first rate cut.

In the end it was the Swiss National Bank that stole the show, delivering a rate cut that very few economists had anticipated. Clearly the market was surprised by the news, and the franc weakened fairly sharply on the same day. But after all, the SNB is the first bank to have pushed back inflation to the 2% target.

Within a very narrow range, markets are now expecting the Fed, the ECB, the BOE and the SNB to all deliver 3 rate cuts in 2024. While it is probably hazard, it all seems well coordinated.

So where are the risks in such a scenario? Well… Data. One of the arguments for cutting rates is that policy is clearly very restrictive for certain segments of the economy, with housing being a notable example, with just how sensitive it is. This appears evident from the latest housing data, (existing home sales blew away expectations by rising to 4.38 million last month, with the year-on-year median price rising by 5.7%, the highest pace of gains since October 2022). This kind of data could clearly moderate the rate projection from both the market and the Fed. If correct, the anticipation of a more moderate and delayed rate cut cycle could offer a consolidation or even a correction to risky assets that would be more than welcome to add risk in portfolios.

Fixed Income

Monetary Policy is changing

On 19 March, the BOJ ushered in a new era as the last central bank to abandon negative interest rates, raising interest rates for the first time since 2016 from -0.1% to 0.1%. Just two days later, this new era was confirmed at the other end of the specter of monetary policy by the SNB: it surprised markets as the first major central bank to cut its policy rate from 1.75% to 1.5%. The BOE left rates unchanged, and hawks threw in their towel and stopped calling for rate hikes.

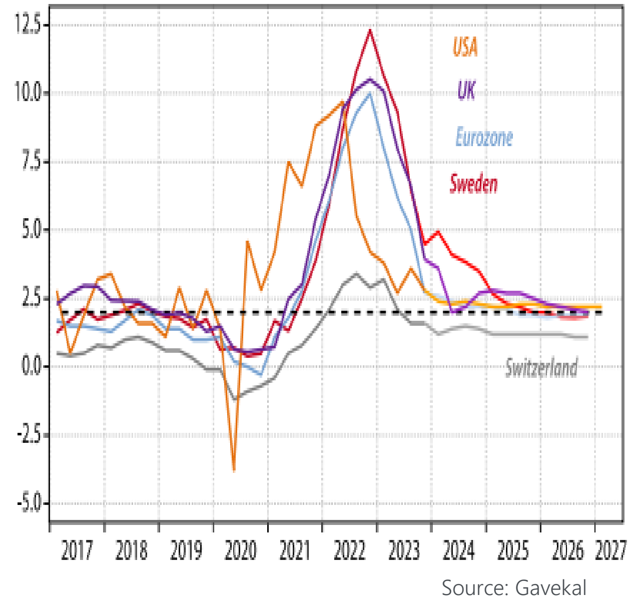
For Switzerland, recent inflation readings indicated a quicker than expected deceleration of price growth. With CPI YoY at 1.3% vs. 1.7 expected in February and 1.2% in March, the SNB concluded that inflation is clearly trending towards its long-term target and therefore the policy change was justified. The Swiss franc depreciated across the board and fell to 2.5% vs. the greenback and temporarily 2.8% vs. the European single currency MTD.

The Fed, meanwhile, kept interest rates on hold for the 7th time in a row. The overall tone, however, was rather dovish, and the updated dot plot indicates that the FOMC members expect 3 rate cuts in 2024, bringing the policy rate to 4.75% by year-end. Fed chair J. Powell also indicated that QT will be trimmed «fairly soon», which will have an easing impact on markets.

The Fed's change in its balance sheet policy has two main impacts: firstly, it eases liquidity and therefore decreases the risks of a sudden liquidity crisis. Secondly, it means that the QT will continue for longer and that the Fed's reserves will remain «ample» as an estimated $1trn of excess liquidity will still have to be «drained» in the future.

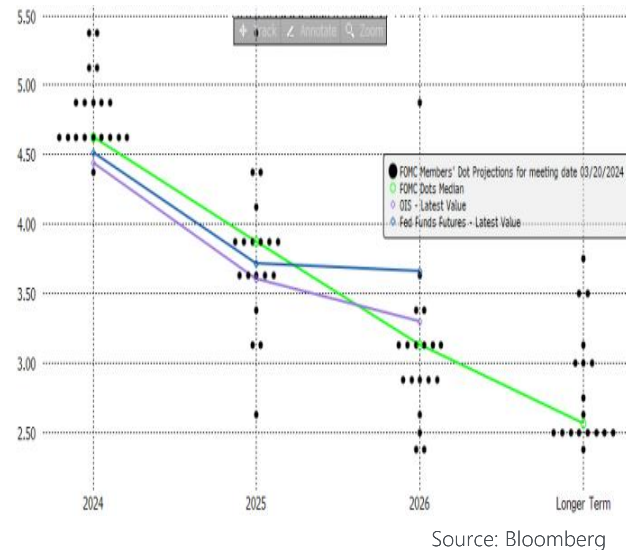
Going forward, everything will depend on inflation data. The timing of the rate cuts is the real question, rather than whether rates will fall. Therefore we still recommend to position portfolios for this new monetary policy cycle by remaining OW fixed income.

CPI Inflation Forecasts of the Central Bank



Source: Gavekal

Fed Dot Plot as of 20.3.2024



Source: Bloomberg

Date	Event	Rate cut?
29.3. - 26.4.	PCE, CPI, PPI, PCE	
1.5.	**FOMC**	Unlikely given current data
14.5. - 31.5.	PPI, CPI, PCE	
12.6.	**FOMC**	Currently first possible date, and priced
12.6. - 12.7.	CPI, PPI, PCE, CPI, PPI	
15.-18.7.2024	Republican National Convention	
26.7.	PCE	
31.07.2024	**FOMC**	Unlikely first cut? Second cut possible?
13.-14. 8.	PPI, CPI	
19.-22.8.2024	Democratic National Convetion	
30.8. - 12.9.	PCE, CPI, PPI	
18.9.	**FOMC**	Unlikely first cut? Second or third cut possible?
27.9. - 31.10	PCE, CPI, PPI, PCE	
5.11.	US Presidential election	
13.-14. 11	CPI, PPI	
7.11.	**FOMC**	Possible
27.11.	PCE	
18.12.	**FOMC**	Possible

The Fed's bumpy road ahead In a presidential election year:

Trying to appear politically neutral reduces the number of windows of opportunity for a *change* in monetary policy to June and then to November and December after the US presidential election on 5 November 2024.

Given current data, a first hike should happen by June. The Fed will only start hiking during summer if absolutely necessary based on new data and/or market events.

Equity

Peak equities... except for China !

The bullish momentum is for now unstoppable, despite rate cuts not coming from the US and the European Central Banks.

Another very good month and a very good quarter

The month of March has been a very good one for equity investors, with the first quarter of the year ending with new records. Indeed, the main indices gained between 3.1% and 4.4% in their respective currencies in March.

Total return index	March 2024	Q1, 2024	Currency
S&P 500	3.22%	10.55%	USD
EURO STOXX 50	4.38%	12.94%	EUR
SMI	3.96%	6.77%	CHF
Nikkei	3.17%	20.82%	JPY

Swiss stocks benefited from the unexpected rate cut of 25 bps by the Swiss National Bank in March. One would expect that the SNB would act after the Fed and the ECB.

All time high for the Japan Equity Index

On 19 March, the BOJ decided to lift the negative interest rate policy and discontinue purchases of ETFs. Amid heightened expectations for Japan to pull out of its deflationary spiral, buying pressure notably increased, which, combined with a weaker yen, helped stock indices to advance strongly with the Nikkei Stock Average hitting fresh new highs in March at 40,888. The index is now trading back at levels unseen since 1989. Simultaneously, the Yen continue to weaken, trading at around 151 vs USD.

Defense stocks up amid war in Ukraine

While the war rages in Ukraine, at the gates of Europe, it seems to us today that the world has not seen war at this scale for a long time. This conflict has profoundly changed the vision of European governments on their ability to defend themselves and their needs to increase military spending.

Donald Trump's statements on the NATO and Ukraine, Sweden joining the NATO, weapons used every day in Ukraine and increased military spending in Europe are many reasons to explain why the Defence industry has a bright future ahead.

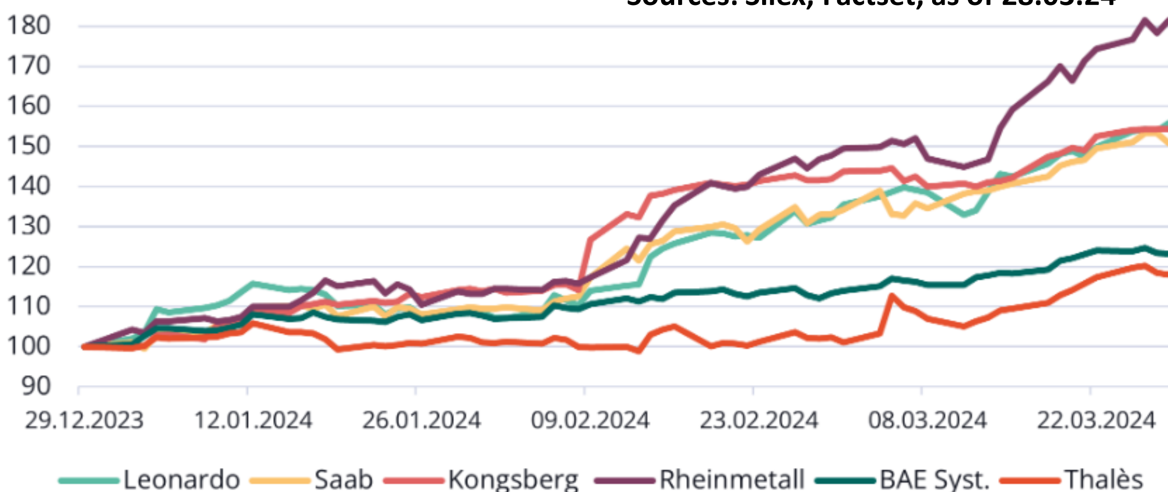
This theme has never been very popular among investors, for obvious reasons, but this could herald a change, with defense being seen as a means to protect and maintain sovereignty, not to conquer.

The STOXX Europe Total Market Aerospace & Defense gained 30.23% in YTD (total return) and 53.32% over the last 12 months.

Prudence

We still believe that investors should be cautious as volatility could return at some point. A correction could be a good entry point for those with underweight equities.

YTD Performance in local curency of European Defense Stocks (100: 29.12.2023).
Sources: Silex, Factset, as of 28.03.24

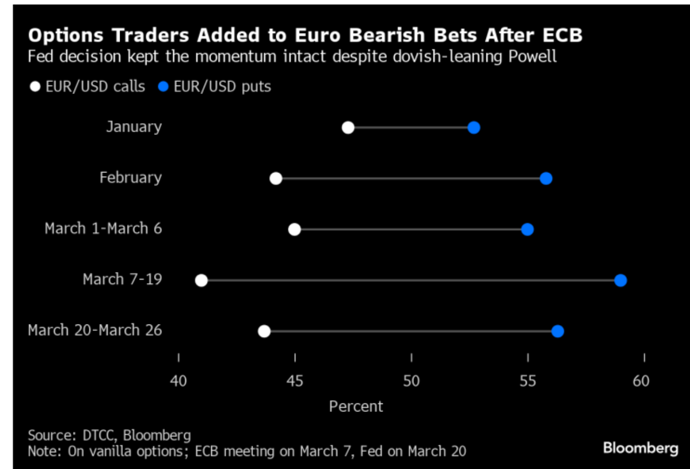


Source: Cité Gestion

Forex And Commodities

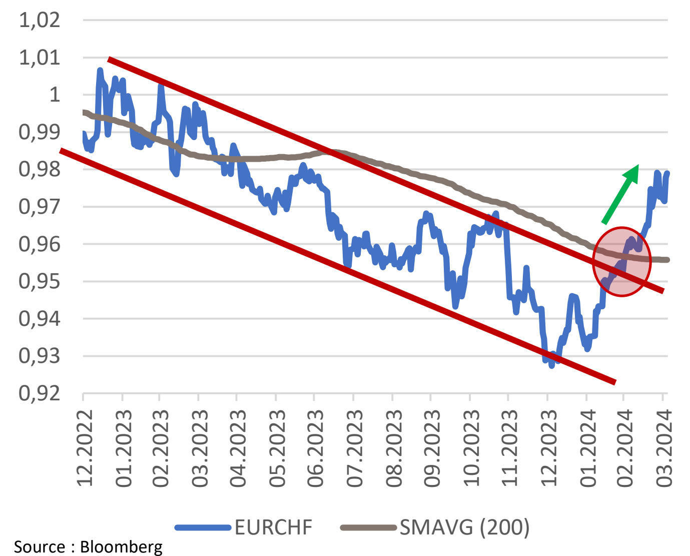
EUR / USD Pending For A Pivot ? New Regime For The CHF?

The EUR/USD pair continues to struggle in its attempt to breach the psychological barrier of 1.10 against the USD. The market sentiment is heavily influenced by the contrasting stances of the European Central Bank (ECB) and the Federal Reserve (Fed). The ECB is leaning towards a potential interest rate cut in June due to early signs of inflation slowdown, while the Fed maintains a more cautious approach, casting doubts on the possibility of a rate cut in the same period. This divergence is exerting significant pressure on the EUR, which is currently range-bound between 1.06 and 1.10 against the USD. Investors are already factoring in a higher likelihood of the ECB initiating rate cuts before the Fed, and downside risks for the EUR have intensified. Option pricing indicates that hedge funds anticipate further weakness in the EUR/USD pair, with expectations that the current range will persist. Consequently, maintaining a EUR/USD level around 1.08 throughout Q2 seems probable. From a technical standpoint, a decisive break below the support level at 1.0795 would signal a continuation of the downtrend towards the next target at 1.07, while a move above 1.095-1.10 could challenge the validity of the downtrend analysis.



In late March, the Swiss franc experienced a sharp decline against major currencies following the Swiss National Bank's (SNB) decision to cut its key interest rate by 25 basis points and revise down its inflation forecast. This prompted an immediate response for the CHF, breaking through previous resistance levels and initiating a new downtrend. The impact was particularly evident in the EUR/CHF pair, which breached the 2023 downward channel and the 200-day SMA resistance, potentially revisiting parity. Conversely, the USD/CHF pair saw a less pronounced move, breaking above the key resistance at 0.90 and stabilizing at this level, with the next upside target likely at 0.91. The possibility of a reversal hinges on a return to below 0.89. The SNB's commitment to maintaining the CHF as a favorable G10 funding currency suggests continued downward pressure on the CHF through lower interest rates or direct currency interventions, especially with a reduced inflation target for 2024 and 2025. Although, the issue remains that if this upcoming policy is already priced in the current CHF, it is likely expected to further weaken in the Swiss franc in Q2.

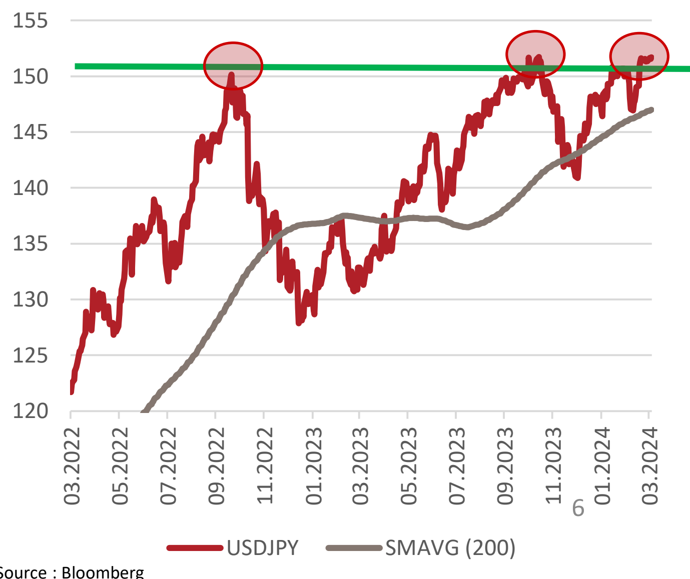
New Bearish Regime For the CHF ?



Source : Bloomberg

The Japanese Yen failed to reverse its downward trajectory following the decision of the bank of Bank of Japan–to lift its negative interest rate policy in mid-March. Instead, it plummeted to a 34-year low against the USD, hovering around the 150-152 range. The widening gap between U.S. and Japanese bond yields, coupled with the BoJ's dovish stance on monetary policy tightening, fueled the surge in USD/JPY. However, the persistent decline of the Yen poses challenges for Japan, particularly in inflating raw material import costs, which dampens consumption and retail profits. The BoJ acknowledges the need for measures to address the weakening currency. Technically, USD/JPY faces resistance at 152, a pivotal level since 2022, while a bullish Yen would require breaking below the 200-day SMA at 147.

The Yen Is Re-testing Resistance.



Source : Bloomberg

By choosing Cité Gestion, you will benefit from our unique business model which sets us apart from most traditional wealth managers. Learn more on our website : www.cite-gestion.com

And follow us on LinkedIn to stay connected to all market news and perspectives.

Disclaimer and important information

This document has been published in Switzerland by Cité Gestion SA, Geneva, a custodian and securities dealer subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not intended for distribution, publication or use in any jurisdiction where such distribution, publication or use would be prohibited, and is not directed to persons or entities to whom it would be unlawful to send such a document. All information provided in this document, in particular opinions and analyses, is for information purposes only and should not be construed as an offer, advice or recommendation to buy or sell any particular security or to enter into any transaction. Nor does this publication constitute - and should not be construed as - an advertisement for a particular financial instrument. The risks associated with some investments are not suitable for all investors and a precise assessment of the risk profile must be made. Nor should this document be construed as legal, accounting or tax advice. Although Cité Gestion SA makes every reasonable effort to use reliable and complete information, Cité Gestion SA makes no representation or warranty of any kind that the information contained in this document is accurate, complete or up to date. Any decision based on this information must be made at the investor's risk and Cité Gestion SA declines all responsibility for any loss or damage that may result directly or indirectly from the use of this information. United States: Neither this document nor any copies thereof may be sent, taken or distributed in the United States or given to a US-Person. This document may not be reproduced (in whole or in part), transmitted, modified or used for public or commercial purposes without the prior written consent of Cité Gestion SA.