CITĒ GESTION PRIVATE BANK

Newsletter: Ahead of the US elections / November 2024

Key Take-Aways

- ❖ In October 2024, global markets presented a mixed picture, with U.S. equities, despite negative returns, outperforming due to strong Q3 earnings, favorable economic data, and geopolitical developments.

- ❖ Despite strength in the U.S., uncertainties remained in global markets, particularly in China and Europe.

- ❖ With economic data in the US surprising on the upside in October, yields continued to rise, thereby weighing on bond total returns. The deteriorating US fiscal situation as well as the possibility of a Trump-win in the presidential election are additional reasons for the correction in bonds in October

- ❖ Both US and European high yielding bonds managed to maintain their YTD total returns of around 6% to 7% mainly thanks to their higher carry and lower average duration than govies and corporates

- ❖ In October, the S&P 500 saw a slight decline but remains over 20% higher since the year's start, while the EuroStoxx50 held steady with a modest gain of 7.7% for 2024.

- ❖ As the U.S. election approaches, volatility is increasing, and investors are cautiously watching sectors that might benefit if Donald Trump wins.

- ❖ Several factors are driving this rally. First, the escalating conflict in the Middle East has investors seeking safe-haven assets, bolstering the dollar's value. Second, as U.S. elections approach, speculation grows that Trump could win, further strengthening the dollar.

- ❖ The USD/JPY has climbed back above 150. Japan's recent political shake-up, with the ruling bloc losing its parliamentary majority, may add uncertainty around the yen's future direction

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Review
October's overview

The month of October was marked by widespread volatility in financial markets. Geopolitical uncertainties and the upcoming U.S. elections reduced investors' risk appetite. U.S., European, and Asian indices, as well as the MSCI World, showed either negative or stable performances in a cautious environment. Markets are likely to remain volatile in the coming months, with a focus on central bank decisions and signals of global economic growth.

All major equity indices apart from the Nikkei (up 3.06%) ended the month in negative territory. European equities fell most with the Euro Stoxx 50 and the Stoxx 600 falling 3.3% and 3.22%, respectively. The Swiss SMI index and the Chinese CSI 300 index also lost about 3%. The worst performing equities were Emerging Market equities which ceded 4.32%. Sector wise healthcare was down most falling 4.62% while energy, telecoms and financials managed to print positive returns.

The bond market continued to slide on the back rising yields. All segments were down over the month, with US Treasuries and USD Investment Grade bonds falling most. The YTD performance of the Bloomberg Global Aggregate Treasuries USD unhedged index is now in negative territory YTD, but this is also due to the appreciating dollar. High yielding bonds did not correct as much in October thanks to their carry and lower duration. The Bloomberg Global High Yield USD index is still up 8.9% YTD. In Europe, bonds remained more stable as yields rose less than in the US. EUR govies and EUR corporates ended the month 93bps and 31 bps lower.

The dollar remained supported by the prospect of high interest rates from the Fed, which is facing moderate but persistent inflation. As a result, the DXY index posted a slight increase in October. The Euro, however, was under more pressure, ending the month at 1.0880 against the dollar due to economic uncertainties in the Eurozone and concerns about energy. The Swiss franc, often seen as a safe-haven asset during uncertain times, remained stable against the euro but slightly depreciated against the dollar, in line with the general trend.

The BBG Commodities Index ended the month stable or slightly down, except for gold, which continues to hit record highs. Global demand for commodities remains uncertain.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5'705	-1.85	-1.79	-0.92	-0.92	20.96	21
Nasdaq	18'095	-2.75	-1.73	-0.49	-0.49	21.24	27
Russell 2000	2'197	-1.62	-0.99	-1.44	-1.44	9.56	23
Euro Stoxx 50	4'828	-1.16	-2.09	-3.30	-3.30	10.12	13
Stoxx 600 EUR	505	-1.19	-2.56	-3.22	-3.22	8.85	14
FTSE 100	8'110	-0.60	-1.92	-1.45	-1.45	8.20	12
SMI	11'793	-1.46	-3.12	-3.09	-3.09	9.32	17
NIKKEI 225	39'081	-0.50	2.46	3.06	3.06	18.64	19
CSI 300 China	3'891	0.05	-0.94	-3.02	-3.02	16.67	13
MSCI EM Index	1'120	-0.61	-1.30	-4.32	-4.32	12.11	12

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	5'705	-1.85	-1.79	-0.92	-0.92	20.96	21
UTILITIES	406	1.06	-2.00	-1.02	-1.02	29.29	18
ENERGY	681	0.71	-1.29	0.79	0.79	9.22	13
TELECOM	320	-1.63	2.32	1.94	1.94	31.31	18
CONS STAPLES	862	-0.13	-1.99	-2.80	-2.80	15.42	21
REAL ESTATE	271	-1.73	-2.74	-3.27	-3.27	10.56	20
CONS DISCRET	1'580	-1.81	-1.40	-1.55	-1.55	12.14	25
MATERIALS	586	-1.52	-1.66	-3.49	-3.49	10.16	20
HEALTH CARE	1'712	-0.81	-1.68	-4.62	-4.62	9.07	18
INFO TECH	4'360	-3.56	-3.29	-0.97	-0.97	29.04	27
FINANCIALS	773	-1.20	-1.30	2.69	2.69	25.17	16
INDUSTRIALS	1'131	-1.13	-1.43	-1.35	-1.35	18.58	22

Fixed Income - % Change	Price	5 days	MTD	QTD	YTD
BBG Global Agg Treasuries TR Index UNH $	199	-0.37	-3.88	-3.88	-1.41
BBG Global Aggregate TR Index Value $	472	-0.34	-3.35	-3.35	0.12
BBG Global Aggregate Corporate TR $	294	-0.43	-1.62	-1.62	3.62
BBG Global High Yield $	1'657	0.19	-0.63	-0.63	8.90
BBG US Treasury TR Unhedged $	2'308	-0.30	-2.38	-2.38	1.36
BBG US Corporate TR Unhedged $	3'310	-0.36	-2.43	-2.43	2.77
BBG EuroAgg Government TR Index UNH €	241	-0.83	-0.93	-0.93	1.09
BBG EuroAgg Corporate TR Index UNH €	255	-0.71	-0.31	-0.31	3.51

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	103.976	-0.02	-0.08	3.17	3.17	2.61
EUR-USD	1.0884	0.26	0.52	-2.25	-2.25	-1.40
USD-JPY	152.03	-0.91	0.13	5.85	5.85	7.79
USD-CHF	0.8641	-0.30	-0.18	2.19	2.19	2.70
EUR-CHF	0.9403	-0.06	0.31	-0.13	-0.13	1.23
GBP-USD	1.2899	-0.49	-0.59	-3.56	-3.56	1.32
EUR-GBP	0.8437	0.74	1.11	1.35	1.35	-2.68
JP EM FX Index	44.81	0.05	-0.61	-3.11	-3.11	-6.92

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	98.1	-0.80	-1.73	-2.24	-2.24	-0.56
Gold Spot $/OZ	2'744.0	-1.57	0.29	4.15	4.15	33.01
Crude Oil WTI	69.3	0.95	-1.68	1.60	1.60	-3.34

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	23.2	2.81	4.08	6.43	38.43	10.71

Source: Bloomberg 31/10/2024

Macro & Rates

Volatility likely to rise towards the end of the year.

In October 2024, global markets presented a mixed picture, with U.S. equities, despite negative returns, outperforming due to strong Q3 earnings, favorable economic data, and geopolitical developments.

Key U.S. indicators like retail sales and low jobless claims bolstered investor sentiment, alongside expectations for moderate inflation. However, Federal Reserve policy became more nuanced as September's FOMC minutes revealed divided opinions on the 50-basis-point rate cut, indicating a cautious approach due to persistent inflation pressures. The CPI data showed a slight rise in core inflation, balancing the Fed's need to curb inflation without stifling economic growth.

Despite strength in the U.S., uncertainties remained in global markets, particularly in China and Europe.

In China, Q3 GDP growth and September retail sales exceeded expectations. However, weak export figures and deeply negative producer prices (PPI) signaled ongoing economic challenges, keeping investor sentiment cautious. The Chinese Ministry of Finance provided some fiscal stimulus for local governments and state-owned banks but refrained from disclosing specific intervention levels. This stance reflects China's preference for gradual support measures to tackle economic headwinds. The People's Bank of China (PBOC) continued to inject liquidity to support market confidence and address deflationary pressures.

In Europe, some consumer-related sectors faced disappointing earnings, and the anticipated 25-basis-point rate cut from the European Central Bank (ECB) did little to boost investor optimism. The subdued economic environment added to concerns about a potential resurgence of inflation. In addition, high exposure to Chinese demand affected European luxury and consumer sectors, with signs of lower Chinese consumption further weighing on market performance.

With the resilience and/or resurgence of inflation, future monetary policies still remain uncertain.

The sharp rise in U.S. Treasury yields, driven by resilient economic data, reduced the likelihood of additional Fed rate cuts, contributing to a "bear-steepening" pattern. This movement, where long-term yields rise faster than short-term yields, strengthened the dollar and put pressure on stocks in emerging markets. Those moves also discount a victory of Trump in US presidential election.

We expect a year-end marked by higher volatility as investors will have to navigate between a complex global economic conditions with potential further economic surprises and possible monetary policy shifts. On top of that, geopolitical tensions have not really abated and could even emerge again depending of the US presidential elections.

The heavy calendar for the rest of the year suggest a defensive posture in terms of risk management. The political agenda combined with high valuation could trigger some take profits in an elevated volatility environment

China's economic measures and their impact on emerging markets and commodities will also be closely monitored. We will remain vigilant in assessing China's approach to fiscal and monetary policies and their potential ripple effects globally.

Fixed Income

Some Headwinds for Bonds

When we wrote the October newsletter, bonds just had a nice rally on the back of falling yields over the previous four months. Since mid September, the wind has changed for fixed income. USD denominated bonds have corrected sharply: US corporate bonds' YTD total return has fallen by 2.5% to roughly +3% and US govies have ceded roughly 3% bringing the performance since the beginning of the year to 1.5% as of writing.

In Europe, the picture is different. While the total return of govies is still small, European corporates have even risen, mainly on the back of a strong spread compression. EUR Investment grade spreads have rallied from almost 1.3% in August to 1%, the lowest level since early 2022.

Both US and European high yielding bonds have still managed to maintain their YTD total returns of around 6% to 7% mainly thanks to their higher carry and lower average duration.

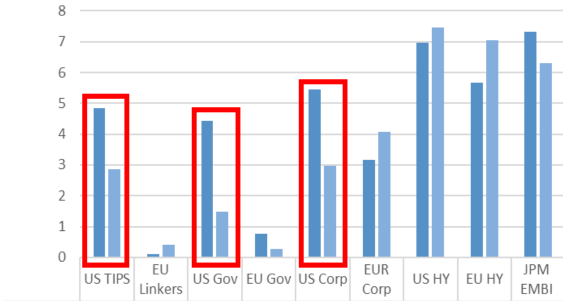
There are several reasons for the correction in USD bonds. Firstly, US inflation seems relatively sticky at the current level of 2.4% (US CPI Urban Consumer YoY). Secondly, the latest data on the state of the US economy has on average surprised on the upside: initial jobless claims have reverted to the 220k level after a brief spike to 260k at the beginning of the month and continuing jobless claims have remained stable – the unemployment rate remains at 4.1%; private and non-farm payrolls were stronger than expected; retail sales were above estimates across the board. Thirdly, the fiscal situation in the US continues to deteriorate and this has brought bond vigilantes back.

Indeed the US debt mountain is growing. The US debt to GDP ratio stands at 99% and is expected to reach 135% by 2035. The country has been running large budget deficits, but voters don't seem to care about the fiscal situation which has been almost absent in the political debate ahead of the November 5th presidential election. Both parties are expected to increase spending, and US government spending could reach USD 13 trillion in 2029 according to the IMF.

Fiscal austerity doesn't seem to be high on the agenda as a reform of Social Security or Medicare are politically delicate, and tax hikes are unpopular. Therefore, with the supply of US debt set to continue rising, upward pressure on (long) bond yields may well remain – unless the Fed cuts more than expected or the US economy falls into recession.

Given that the US yield curve remains inverted, investors are currently not remunerated to take much duration risk. As a result, it makes sense to keep US duration moderate until after the US election. With the recent sharp rise in yields, some opportunities might, however, emerge once the political uncertainties settle after November 5th.

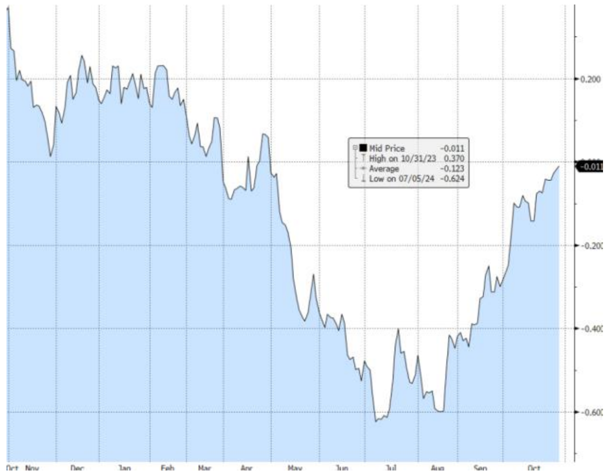
Bond YTD Total Returns as of 16.9.24 and 28.10.24



	US TIPS	EU Linkers	US Gov	EU Gov	US Corp	EUR Corp	US HY	EU HY	JPM EMBI
16.9.24	4.85	0.11	4.44	0.78	5.45	3.16	6.97	5.66	7.31
28.10.24	2.86	0.4	1.47	0.26	2.96	4.08	7.46	7.05	6.31

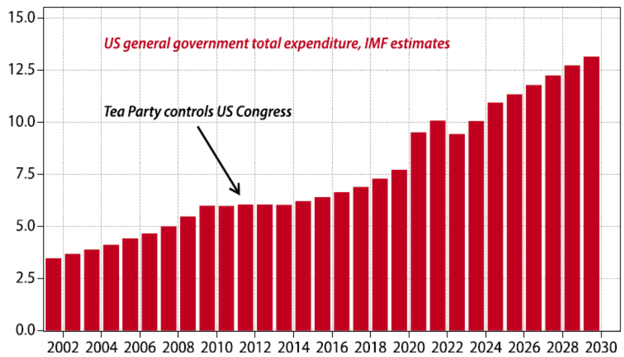
Source: Bloomberg

Bloomberg Economic Surprise Index



Source: Bloomberg

US government spending in USD trillion – IMF estimate



Source: Gavekal Research

Equity

Earnings momentum & election-driven volatility

In October, the S&P 500 saw a slight decline but remains over 20% higher since the year's start, while the EuroStoxx50 held steady with a modest gain of 7.7% for 2024. U.S. companies, especially financials, had a strong start to earnings season, with many beating expectations, although growth estimates have slightly declined compared to previous quarters. As the U.S. election approaches, volatility is increasing, and investors are cautiously watching sectors that might benefit if Donald Trump wins.

The S&P 500 ended October with a slight decline of 1%, finishing the month slightly above 5705 points. Nevertheless, the index remains significantly up since the beginning of the year, with a return of over 20%. The influential factors during the month for the indices were the volatility of tech stocks and economic discussions regarding inflation and interest rates, not to mention the uncertainty surrounding the U.S. elections. In Europe, the EuroStoxx50 was generally stable, not accounting for the last two sessions of the month when the index lost 2.5%. These movements reflect increased investor caution due to global economic uncertainties and fluctuations in certain large-cap stocks, particularly those in the financial sector. However, the index is also up 7.7% since the start of the year.

Earnings Reports

In the United States, 18% of the S&P 500 companies have reported earnings, with financials leading the way. It is still too early to predict how the entire season will shape up, but it has had a good start. There are five times as many companies that exceeded EPS estimates compared to those that disappointed. Overall, the median EPS consensus stands at 4.2%, consistent with the standards of past seasons. In the U.S., after strong results from JP Morgan, all major U.S. investment banks have reported better-than-expected earnings. The equity division of the investment banks significantly contributed to these positive results. In Europe, results have been more mixed, with UBS and BNP being penalized by the market.

Looking at the monthly at end of October. SPX first down month in 6

EPS Growth is Higher in the U.S. Compared to Europe

There is good earnings momentum in 2024, though it has turned slightly negative with a few downward revisions during the season. In the U.S., EPS growth for fiscal year 2024 is currently estimated at 9% year-over-year, down from 10% three months ago, and for fiscal year 2025, it's around 15%. The EPS growth of American companies is slowing somewhat each quarter on an annual basis. However, the results are still exceeding expectations. The year-over-year estimate for the third quarter of 2024 is the slowest since the second quarter of 2023, standing at 3.5%. In Europe, EPS growth for the STOXX 600 in 2024 was reduced to 4.3%. The EPS growth for 2025 has also been lowered by 1% (from 10% to 9%).

Sector Outlook

Across sectors in both the U.S. and Europe, most sectors have experienced negative revisions. The largest downgrades were seen in energy, materials, and automotive. U.S. Tech, EU Healthcare, and Travel & Leisure saw the most positive upward revisions. With the U.S. elections approaching, sector flows indicate that investors are leaning slightly more toward companies that could benefit if Donald Trump is elected. Tesla notably rebounded after its results and reached its short-term resistance at 270 by the end of the month. A breakout of this level would be necessary to confirm the positive trend.

Volatility to Watch Ahead of the Presidential Election

As the U.S. elections approach, the VIX volatility index has picked up, hovering around 22%. However, it could spike if the final victory of one candidate takes time to be confirmed. Uncertainty might persist even beyond November 5.

Forex And Commodities

US Presidential : Keep Investors Biased To The Dollar

October 2024 saw a significant rally in the U.S. dollar. The Dollar Index (DXY) briefly rose to levels last seen in late June, above 104.50, before stabilizing around 104. This rebound surprised the market, especially given the Fed's first rate cut in September and a dollar decline since August. However, the dollar has regained much of its strength from earlier in the year.

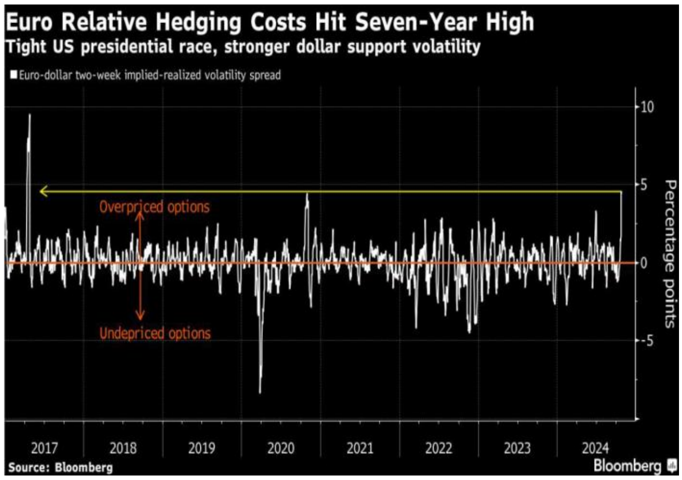
Several factors are driving this rally. First, the escalating conflict in the Middle East has investors seeking safe-haven assets, bolstering the dollar's value. Second, as U.S. elections approach, speculation grows that Trump could win, further strengthening the dollar. Trump is seen as a pro-growth, pro-inflation candidate, largely due to his plans for tax cuts and higher tariffs. This environment could support a stronger dollar. Recent U.S. macroeconomic data also indicate a relatively stable economy, raising the possibility that the Fed may adopt a slower and more gradual rate-cutting policy, which could keep the dollar strong in the coming months.

The EUR/USD fell below the 1.10 level, a key support level for the pair. This decline reflects the dollar's growing appeal over the euro, with the pair reaching 1.08 by the end of October, the lowest level in over three months. Interest rate differentials and a weaker European economy have fueled expectations for further ECB rate cuts at its next meeting. Additionally, more investors are hedging against EUR/USD downside risk, with euro hedging costs at their highest since the turbulent 2017 French elections. The market increasingly anticipates a sustained decline in EUR/USD, with some expecting it to remain well below 1.10 through year-end.

As for the Swiss franc, the Swiss National Bank may welcome a weaker franc, as pressures from the export sector grow. This environment could lead to a December rate cut, followed by another in March 2025, even as inflation in Switzerland appears to be stabilizing. On a technical level, USD/CHF has entered a new momentum phase since October, crossing the 0.85 resistance level. A pause at 0.86 is expected, with a potential short-term rise towards 0.88 afterward.

The USD/JPY has climbed back above 150. Japan's recent political shake-up, with the ruling bloc losing its parliamentary majority, may add uncertainty around the yen's future direction. Given the upcoming U.S. elections, the yen is likely to keep its short-term momentum, with 155 as the next target. However, in the longer term, measures to strengthen the yen may gain importance. It is increasingly likely that the Bank of Japan will consider a rate hike at its next meeting, which would align with the agenda of the next government.

EUR Relative hedging Costs Hit Seven-Year High.



Source : Bloomberg

Forex Market Consensus

	Spot	Q4 24	Q1 25	Q2 25	Q3 25	2025
Euro	EURUSD					
Forecast	1.08	1.08	1.09	1.10	1.10	1.11
Japanese Yen	USDJPY					
Forecast	153	152	150	149	147	146
British Pound	GBPUSD					
Forecast	1.30	1.30	1.30	1.30	1.30	1.30
Swiss Franc	USDCHF					
Forecast	0.87	0.86	0.85	0.84	0.84	0.83
Swiss Franc	EURCHF					
Forecast	0.94	0.93	0.93	0.92	0.92	0.92

Source : Bloomberg

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