APRICUS FINANCE

WEALTH MANAGEMENT

October 2024

An Oversized US (Federal Reserve) Rate Cut drives Stock Markets and Gold to All-Time Highs

Towards the end of the month US economic data didn't point at all towards an imminent recession, but rather to a deceleration. The markets thus kept pushing higher, led by the usual group of US technology mega caps. With better-than-expected economic news, the markets also repriced expectations for rate cuts in the US from 75 bps to slightly less than 40 bps in 2024. This caused USD 10-year yields to move sharply higher, from just over 3.6% to over 4%.

Meanwhile, there were more data that point to a core Europe flirting with stagnation. With inflation falling, and recently printing at 1.7% for September, below target, the market thus repriced a rate cut from the European Central Bank, which eventually happened on October 17th.

Gold is closing in to 2,700 USD an ounce. Perspectives of lower rates, geopolitics, investors diversifying their portfolio, retail demand in countries such as India, and Central Bank Purchases, particularly from emerging countries, are all contributing factors to the continued ascent of its price.

China delivers a Damp Squib, Yet Again

Towards the end of September, Chinese policymakers announced a raft of measures, designed to stabilize the continued property downturn, stimulate domestic consumption, and stabilize the equity market:

- Property market: the measures included repricing of existing mortgage rates towards current market conditions, cutting the minimum downpayment on second home purchases, and the People's Bank of China (PBoC) stating that it will provide greater support for property de-stocking.

- Monetary policy: several benchmark rates were cut, with the PBoC hinting that more could come before year-end.

- Equity markets: a 71 billion USD facility was set up for institutional investors to tap liquidity for stock purchases, and a 42 billion USD facility was set up for companies and major shareholders to either buy back their own shares or increase their shareholdings.

The move was greeted with enthusiasm by the stock market: the domestic CSI 300 index rose by 25% in a few days, before closing for one week for the National Holiday. Foreign-listed trackers of the same index continued higher during the holiday, reaching a level more than 50% higher from the moment the government and PBoC made the announcements.

This time, the belief of many observers was that the Chinese government was finally 'grabbing the bull by the horns'.

Expectations were running high that a comprehensive fiscal stimulus would revive consumption, and that a supplementary package for the real estate sector would be announced.

Expectations were also running high that the measures would reawaken the cohort of 200 million domestic retail investors who sit on 21 trillion USD of assets and who make up the bulk of the stock exchange volumes.

Then, after the holiday, during two distinct press conferences, (by the Ministries of Finance and Housing), the cold shower: very little or no details on either.

Chinese investors retreated, and the US-listed ETF tracking the CSI 300, although still above the September level, is, as of today, only up by 14%, and by 9% year-to-date.

As pointed out in the past, and having been disappointed every time since the end of the Zero Covid Policy at the beginning of 2023, we really need some strong confirmation and certainty before adding / increasing exposure to this market.

Politics

While the world and the financial media are fixated on the US election, to be held in slightly over two weeks, several things are happening in Europe.

First, both France and Italy are trying to deal with their excessive deficits. We believe that Italy's budget will pass: the Italian political landscape is certainly polarized, but premier Meloni has the votes and the power to make it happen. In France, where president Macron already surprised us and the financial markets at the beginning of the summer with the dissolution of the parliament, (the local stock market never really recovered from the event and the subsequent election), it is likely to be more complicated. We are not specialists on French politics and its many subtleties, however those who are will all tell you that in one form or another, the outlook is complicated and all outcomes are possible, including the likelihood of a new Prime Minister.

What we are interested in is the German 'Wachstumsinitiative', (the 'Growth Initiative'). The German government recently presented a major initiative aimed at strengthening Germany as a business location and ensuring its competitiveness.

The planned measures include tax and social security free overtime bonuses, more flexible regulation on maximum daily working hours, making it easier for employees to remain in employment after retirement, and reducing bureaucracy in the employment of foreign skilled workers and refugees. They also include new rules on tax write-offs for companies.

Contrary to several countries, Germany has definitely room to expand fiscally.

This is just the beginning, but at last it appears that the government is finally tackling its sagging economy, which is structurally unprepared to face the new economic realities. These problems have created a drag on the wider EU economy.

Germany has struggled to cope with the economic fallout of the war in Ukraine, high energy costs, and lack of demand from China. Trading patterns with China have also changed. Germany must reshape its industrial sector, but also invest massively in its infrastructure.

Closed bridges, outdated railway control centers, missing high-voltage power lines between north and south, as well as dead zones in the mobile network are just a few of the issues. These mostly affect Western Germany, where, similarly to Italy, massive investments were made in the 60s and 70s, but very little thereafter, with the result that much of the infrastructure is aging / deteriorating rapidly.

Earnings Season

The US Q3 earnings season has just started. Earnings growth for the S&P 500 index is expected to be 4.1% year on year, (source Factset). Earnings growth expectations were revised downwards by 320 basis points heading into this earnings season. This aligns closely with a common trend, as typically analysts lower estimates by an average of 330 basis points before earnings, (source Refinitiv).

Energy saw the largest downgrade, by close to 17%, followed by materials (12%) and industrials (8%).

The Magnificent 7, (most of them report towards month-end, Nvidia on the 21st of November), are expected to continue to play a significant role in driving earnings growth: in aggregate they should show a growth rate of 19%. Stripping them out of the index, the growth rate could fall to between 0% and 2%.

Similarly, net profit margins are expected to see an 11.7% expansion, led by the Magnificent 7, expected at 23.2%, (source Refinitiv).

In terms of future near term direction for the equity markets, we will keep an eye to see if there are any signs that the outrageous earnings' dominance of the mega caps starts to subside.

Strategy

After the big gains seen so far this year, we are moderately positive for risk assets for the remainder of the year.

Near term risks include the US election and the conflict in the Middle East.

The outcome of the US election could have important policy implications, especially around trade, immigration, and fiscal policy. Without delving into politics, in the short-term financial markets would probably react more positively to a Trump win and no Republican clean sweep: i.e. not a complete control of Congress.

The conflict in the Middle East also remains highly uncertain, and a widening on a regional scale remains a possibility.

During the month, no changes were made to our asset allocation.

Equity

We keep an overweight in Eurozone equities versus the US broader market, while being neutral in the technology sector.

We continue to own, (a now reduced), partial put on US equities.

Fixed income

We continue to favor exposure to credit versus duration. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt, US municipal infrastructure and Asian hard currency debt.

Foreign Exchange

The Japanese YEN exposure is mostly hedged, while we do keep a 5% exposure to the US Dollar

Gold

We continue to keep our allocation to Gold at about 5%: while it doesn't provide any yield, it continues to be a good diversifier in a multi-asset portfolio. This year it is the best relative contributor to the portfolios.

Conclusion

The perspective of lower rates going forward and continuing disinflationary trends are supportive for equity markets, fixed income, and thus a balanced portfolio.

Positioning

Overall Exposure

We are now Neutral Equities, and Neutral Fixed Income, with a Gold position, partially USD and JPY hedged.

Equity: Neutral

We have a very sizeable Overweight to the Eurozone and a very sizeable Underweight in US equities, Slight Underweight US technology, Overweight Nasdaq 100 equal weight, Neutral UK, Neutral Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Champions.

Fixed Income: Neutral

Long 1 to 3 years US Treasury Notes. Long 20+ years US Treasuries, Underweight Sovereigns. Overweight Investment Grade EUR and USD Bonds. Overweight High Yield in EUR and Underweight in USD.

Thematic Fixed Income

Long US Municipal Infrastructure Bonds, Long Hybrids, Long Subordinated Financial Credit & Long Asian Bonds in hard currency.

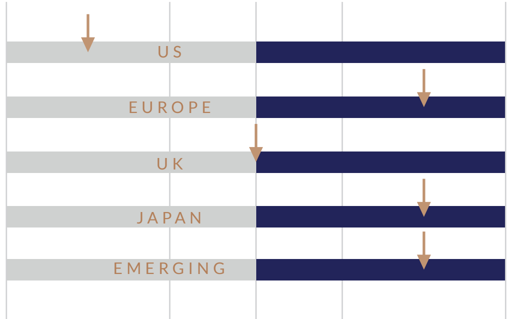
Currencies: Portfolios have a 5 % USD exposure.

Commodities: Overweight

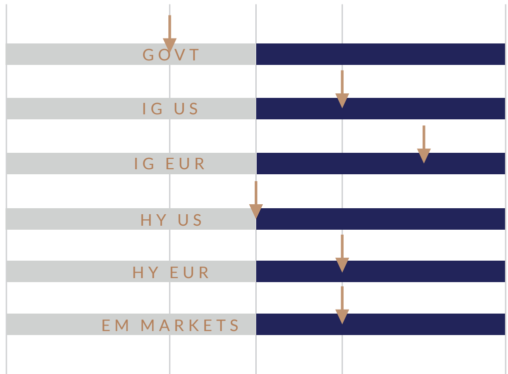
Long Gold.

Conviction thermometer

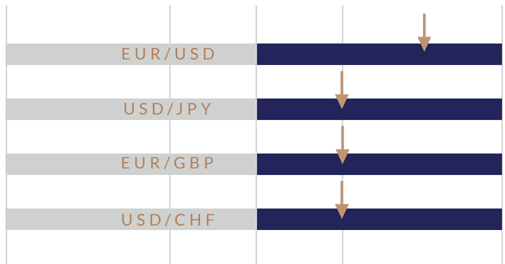
Equities



Bonds



Currencies



Commodities

Negative view   Positive view

Market overview as of 30th September 2024

Equities (local ccies)	Level	5D	MTD	YTD	2023
MSCI WORLD	3 723,03	1,01%	1,87%	19,29%	24,44%
US S&P500	5 762,48	0,79%	2,14%	22,08%	26,26%
NASDAQ 100	20 060,69	1,06%	2,57%	19,97%	55,13%
RUSSELL 2000	2 229,97	0,49%	0,70%	11,16%	16,88%
EUROPE EURO STOXX 50	5 000,45	2,41%	0,93%	13,88%	23,21%
GERMANY DAX	19 324,93	2,54%	2,21%	15,36%	20,31%
FRANCE CAC40	7 635,75	1,81%	0,17%	4,20%	20,10%
BELGIUM BEL20	4 299,71	1,59%	2,76%	18,96%	3,51%
SWISS MARKET INDEX	12 168,87	1,70%	-2,02%	12,81%	7,06%
UK FTSE100	8 236,95	-0,21%	-1,54%	9,79%	7,68%
JAPAN TOPIX	2 645,94	0,98%	-1,64%	14,12%	28,28%
MSCI EMERGING	1 170,85	5,44%	6,68%	17,13%	10,20%
BRAZIL IBOVESPA	131 816	0,96%	-3,08%	-1,77%	22,28%
CHINA CSI 300	4 017,85	25,09%	21,11%	20,30%	-9,14%
HS TECH	4 751,81	28,49%	33,49%	27,44%	-8,25%
INDIA SENSEX	84 299,78	-0,74%	2,35%	17,99%	20,34%
KOREA KOSPI	2 593,27	-0,33%	-3,03%	-1,31%	20,52%
HONG KONG HANG SENG	21 133,68	15,83%	18,32%	29,21%	-10,46%
AUSTRALIA ALL-SHARE	4 511,00	-0,03%	-1,29%	9,79%	7,70%
SAUDI ARABIA TADAWUL	11679.50	0,80%	0,76%	4,82%	18,10%

US: Sectors	Level	5D	MTD	YTD	2023
COMMUNICATION SVCS	314,60	1,97%	4,63%	28,81%	55,80%
CONSUMER DISCRETIONARY	1 605,41	0,16%	7,09%	13,91%	42,30%
CONSUMER STAPLES	887,78	-0,28%	0,90%	18,74%	0,52%
ENERGY	676,47	-1,30%	-2,68%	8,36%	-1,42%
FINANCIALS	754,16	-0,30%	-0,55%	21,90%	12,10%
HEALTH CARE	1 796,48	-0,25%	-1,68%	14,35%	2,06%
INDUSTRIALS	1 147,06	1,41%	3,39%	20,20%	18,08%
INFORMATION TECHNOLOGY	4 403,72	1,79%	2,49%	30,31%	57,84%
MATERIALS	607,70	1,90%	2,63%	14,14%	12,55%
REAL ESTATE	280,46	-0,45%	3,31%	14,31%	12,35%
UTILITIES	410,28	0,52%	6,60%	30,63%	-7,08%

EUROPE: Sectors	Level	5D	MTD	YTD	2023
BASIC MATERIALS	3 068,69	6,48%	6,20%	5,21%	5,95%
CONSUMER GOODS	4 007,16	1,56%	-0,52%	5,29%	-2,46%
CONSUMER SERVICES	1 552,49	5,21%	0,13%	5,25%	21,53%
FINANCIALS	1 060,42	0,60%	1,66%	23,45%	25,42%
HEALTH CARE	3 992,28	-0,39%	-6,61%	15,98%	8,75%
INDUSTRIALS	4 175,56	1,48%	1,86%	15,42%	27,43%
OIL & GAS	1 422,35	-4,07%	-5,86%	-2,76%	9,01%
TECHNOLOGY	1 921,15	3,01%	-1,45%	13,47%	34,72%
TELECOMS	606,52	-0,22%	2,33%	20,02%	8,86%
UTILITIES	2 181,89	0,26%	3,81%	11,14%	14,75%

Market overview as of 30th September 2024

Fixed Income	Level	5D	MTD	YTD	2023
Pan-Euro 3-5 yrs IG	212,22	0,27%	1,20%	3,23%	6,68%
Euro Aggregate	243,42	0,37%	1,23%	2,49%	7,19%
Pan-Euro HY Hedged Eur	445,13	0,17%	0,89%	6,38%	12,32%
Global Inflation hedged EUR	240,85	-0,23%	0,89%	1,28%	2,02%
US Corp High Yield	2 264,90	0,16%	1,62%	8,00%	13,45%
EM USD Aggregate TR	1 260,87	0,22%	1,76%	8,17%	9,09%
EM Aggregate TR Local Ccy	154,67	0,36%	2,32%	5,70%	6,91%
EUR Banks CoCo Tier 1	158,24	0,30%	1,50%	10,05%	5,04%
EU GOVT HEDGED EUR	215,38	0,22%	1,04%	1,39%	6,31%
Global Aggregate	2 554,99	0,19%	1,70%	3,60%	5,72%

Commodities	Level	5D	MTD	YTD	2023
GOLD	2 634,58	0,22%	5,24%	27,71%	13,10%
COPPER	455,30	6,16%	9,84%	17,03%	2,10%
OIL WTI	68,17	-3,13%	-7,31%	-4,86%	-10,73%
OIL BRENT	71,77	-2,88%	-8,92%	-6,84%	-10,32%

Currencies	Rate	5D	MTD	YTD	2023
EURUSD	1,1135	0,22%	0,79%	0,87%	3,12%
GBPUSD	1,3375	0,21%	1,89%	5,06%	5,36%
USDJPY	143,6300	0,01%	-1,74%	1,84%	7,57%
USDCHF	0,8456	-0,22%	-0,47%	0,50%	-8,99%
AUDUSD	0,6913	1,10%	2,19%	1,48%	-0,01%
EURCHF	0,9416	-0,01%	0,27%	1,37%	-6,13%
USDCNY	7,0187	-0,47%	-1,02%	-1,15%	2,92%
USDKRW	1 314,70	-1,54%	-1,73%	1,72%	1,79%
USDINR	83,8013	0,29%	-0,08%	0,71%	0,57%
USDIDR	15 140,00	-0,39%	-2,04%	-1,67%	-1,10%
USDBRL	4,8572	-0.08%	-1,27%	-7,55%	-8,01%
USDTRY	34,1977	0,17%	0,36%	15,81%	57,82%
BITCOIN	63 785,09	0,74%	8,03%	52,10%	152,94%

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