APRICUS FINANCE

WEALTH MANAGEMENT

July 2024

Is Biden fit for Office?

After his awful performance during the Presidential debate, President Biden tried to correct the growing concern that he might not be fit for office. He thus delivered an interview to ABC News channel, which worsened instead of improving the situation.

This is an excerpt from the interview:

'I'm proud to be, as I said, the first vice president – first black woman- to serve with a Black president, proud to have been involved with the first Black woman on the Supreme Court', end of quote.

He then mistook Zelensky with Putin, and Trump with Vice-President Kamala Harris.

We leave it to our readers to make their own judgement.

What we believe though, is that Trump's failed assassination attempt boosts his reelections chances, and further increases the likelihood that he will also take the Congress. We thus think that the Democratic party, (or at least many of its tenors), will eventually push Biden out of the race, in a bid to save the majority in Congress.

Financial markets will prefer a split of power between the White House, Senate and the House, rather than an unconstrained Trump.

Central Banks now say that they are Data-Dependant: The US Case

Let's start with the United States, to get a sense of how difficult forming a 'data-dependent' view is.

The latest S&P Global U.S. PMIs suggested that both manufacturing and services activity accelerated their expansion in June, with services particularly strong and adding employees.

But somehow, the Institute for Supply Management (ISM) gave a totally different picture of the economy: manufacturing fell further into contraction, services plunged from expansion to contraction, and employment in both sectors declined.

On the labor front we had also contrasting surveys, both coming from the Bureau of Labor Statistics:

- U.S. non-farm payrolls for June came in at 206,000, narrowly beating forecasts, though down from May's numbers, the statistic has generally given an upbeat picture.
- On its side the same agency's Household Survey showed unemployment ticking up.

So let us look at some at a few other indicators:

- Unemployment rose primarily because more people entered the workforce, meaning that the labor market is becoming more competitive.
- The 'quits' rate has been stable for months now, although as per a study from the Bank of America Institute, median pay rises for job-switchers are below 2019 levels.
- The temporary help category is often used as a forward-looking indicator: it dropped sharply and might be a sign that the labor market might weaken significantly over the next few months.

- People also stay unemployed for longer: the median duration of unemployment jumped to 9.8 weeks from 8.9 in May.
- Continuing claims for unemployment benefits rose to 1.858 million, which is higher than pre-pandemic.
- The underemployment rate, (which measures unemployment in a similar fashion to what we do in Europe, and includes for example part-time workers), rose to 7.4%, higher than the pre-pandemic level at 7%.

Taken all together, in aggregate these indicators clearly point to labor market weakness.

Meanwhile recent inflation figures have been quite benign and indicate we might finally be on the right track to approach 2%: it dropped 0.1% month on month, and rose just 3% year on year, while core inflation eased to 3.3%. Perhaps most importantly, the stubborn and sticky shelter (housing) inflation slowed down to 0.25% month on month, or an annualized 3%. After over 6% and 7% annual rates in 2023 and 2022 respectively, that would be in-line with the pre-pandemic average. Shelter represents 36% of the inflation index.

In Fed Chairman Powell testimony, it was full of remarks to lawmakers about references to labor-market risks. He gave a forecast for the unemployment rate to climb to 4.5% from 4.1% currently, (where will the underemployment rate be then?), and that he expected that the central bank will be prioritizing the employment leg of its (dual) mandate, (the other being inflation).

On their side several consumer companies in various sectors, from Nike to large pharmacies and Pepsi for example, are warning about the weakness of the consumer, along with major American banks who just recently released their quarterly reports. This is something we highlighted a couple of months ago: the quick deterioration of the financial health of the lower- and middle-income consumer.

We think inflation, together with a weak consumer and deteriorating labor market sealed the case for rate cuts in September. The markets have now joined our view expressed last month: with a near certainty of a rate cut in September and near certainty of at least one more rate cut in 2024: either in November or December.

Europe

Europe is on holidays, and the European Central Bank refrained from cutting rates, likely waiting for its September meeting.

France's political situation on its side is likely to keep financial markets more volatile than normal, although with a hung parliament the worst outcome has been avoided. We still do not know the composition of the future government nor the different alliances in parliament. We do know who is likely to be excluded: the extremes both left and right.

The reason we do focus on France is that the country, along with Italy, is facing Brussels' Excessive Deficit Procedure. The deadline for the submission of the 'national medium-term fiscal-structural plan' is September 20th, and to do this France needs some sort of agreement in parliament. Being late exposes the country to all sorts of actions from Brussels, including heavy fines.

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Financial Markets

After the second round of the parliamentary elections in France, resulting as noted above in a hung parliament, European markets regained some color, while until just very recently the US markets continued their march higher led by the usual cohort of mega caps in technology.

Then in a matter of days a few things happened:

- Weak US inflation numbers, followed by heavy interventions, (estimated at 35 billion USD over two days), by the Bank of Japan to strengthen the YEN: it gained 4 figures in a few minutes.
- Trump's assassination attempt.
- Very weak numbers out of China: GDP growth dropped to 4.7% versus 5.1% expected, and retail sales grew only 2% instead of the expected 3.4%.
- Warnings from European luxury companies on weak Chinese demand.
- Biden's rhetoric on technology exports to China, which would severely limit any country to export any electronic material to the country, (more on it below).
- Trump's comments on Taiwan, that seemed to suggest that he was not overly concerned about protecting Taiwan, possibly indicating that he expected something in return.
- No news (yet) out of China after the end of the Third Plenum.

This sequence of bad news led to:

- An unwinding of probably the most popular trade for hedge funds since last year: long the Nasdaq 100 (technology heavy) index, short US small companies, (Russel 2000), leveraged in YEN.
- A rotation towards the Trump trade: that is towards companies that would benefit reduced control and legislation from a Trump administration, such as healthcare companies, oil companies.
- A sell-off in European companies with a sizeable exposure to the Chinese consumer.
- A large sell-off in worldwide semi-conductor companies.

Fixed income markets were on their side relatively quiet, while credit risk continued to perform well. In currencies, aside from the fast-moving YEN, the dollar was weaker across the board, while Gold burst to a new all-time high, bringing its gains close to 20% for the year.

The Biden administration floated the idea of using the extremely tight control measure, called the Foreign Direct Product Rule (FDPR) as a mean to further restrict China from importing technology. Under the FDPR, the US can impose export controls made by foreign companies if any, even a tiny percentage, is of US-origin.

We think Europe, as well as Japan, in the (unlikely) case FDPR is implemented will not bow to it, and the US will become isolated. Particularly Europe is already (with Trump) likely facing new tariffs, less support in Ukraine for Nato. It will be a lot to swallow for Europe, as they one-sidedly would be on the losing front, we thus think the US will be left alone in their limitations. Europe having already acquiesced to many American demands on that front.

We are not yet willing to join the rotation into US small caps: smaller companies tend to outperform when rates are cut while the economy stays reasonably strong along with a healthy consumer. Our main scenario is that the US economy is likely to grow below trend over the next couple of quarters, and the situation for the average consumer will worsen before improving.

The 2nd quarter earnings season has just kicked off. Earnings will determine the direction of the next leg in equity markets. Consensus in the US is for 9% growth. Of the large global technology stocks Dutch ASML and Taiwan Semiconductors already delivered impressive numbers.

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Positioning

We continue to have a constructive view for the 'Balanced Portfolio' for the next 3 to 6 months. Bar an accident, we believe high nominal growth, peak rates and broadening earnings performance continue to underpin equity market performance.

As noted above, we invested in a protective put on US equities which matures in December.

In terms of risk, we continue to focus on where the potential ones are to our positioning, and that we can, at least in part, control:

- Peak in companies' earnings due to margin compressions.
- Lower capital expenditures in Artificial Intelligence, which has been a leading theme since last year, in many sectors outside of pure technology.
- A worsening of the global economic situation, with the biggest risk coming from China.
- A failure of the disinflationary trend to continue.

Strategy

During the month we didn't perform any asset allocation change.

Equity

We keep an overweight in Eurozone equities versus the US broader market .

We also keep an overweight in Japanese shares. Again, on top of its economy where policies are aimed at lifting the country from decades of deflation, for the first time in history, the government and the stock exchange are taking initiatives that are extremely shareholder friendly. We do own a 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.

Conclusion

The backdrop of higher economic growth revisions and continuing disinflationary trends is supportive for equity markets, fixed income, and thus a balanced portfolio.

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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, Overweight 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.

Thematic Fixed Income

Overweight High Yield in EUR and Underweight in USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long US Municipal Infrastructure Bonds, Long Hybrids, Long Subordinated Financial Credit & Long Asian Bonds in hard currency.

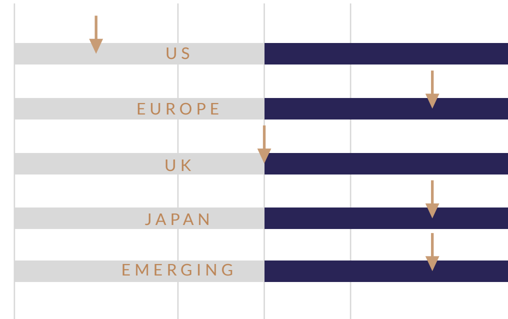
Currencies: Portfolios have a 5 % USD exposure.

Commodities: Overweight

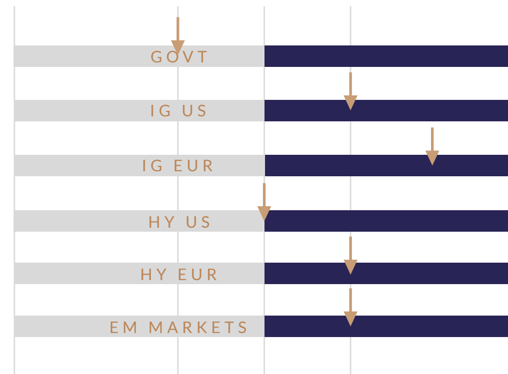
Long Gold.

Conviction thermometer

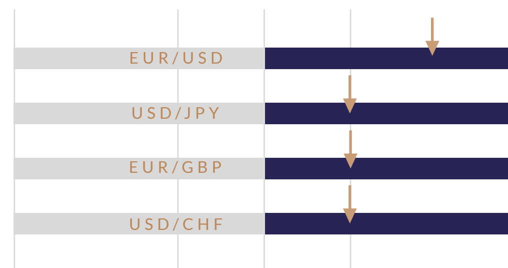
Equities



Bonds



Currencies



Commodities

Negative view Positive view

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Market overview as of 30th June 2024

Equities (local ccies)	Level	5D	MTD	YTD	2023
MSCI WORLD	3 511,78	0,15%	2,07%	12,04%	24,44%
US S&P500	5 460,48	-0,06%	3,59%	15,29%	26,26%
NASDAQ 100	19 682,87	-0,07%	6,27%	17,47%	55,13%
RUSSELL 2000	2 047,69	1,33%	-0,93%	1,73%	16,88%
EUROPE EURO STOXX 50	4 894,02	-0,27%	-1,72%	11,15%	23,21%
GERMANY DAX	18 235,45	0,40%	-1,42%	8,86%	20,31%
FRANCE CAC40	7 479,40	-1,95%	-6,20%	1,88%	20,10%
BELGIUM BEL20	3 887,24	-0,15%	-0,39%	7,50%	3,51%
SWISS MARKET INDEX	11 993,83	-0,16%	-0,04%	11,04%	7,06%
UK FTSE100	8 164,12	-0,82%	-1,04%	7,85%	7,68%
JAPAN TOPIX	2 809,63	3,22%	1,45%	20,12%	28,28%
MSCI EMERGING	1 086,25	0,04%	3,96%	7,60%	10,20%
BRAZIL IBOVESPA	123 907	2,11%	1,48%	-7,66%	22,28%
CHINA CSI 300	3 461,66	-0,75%	-2,52%	2,06%	-9,14%
HS TECH	3 554,45	-3,96%	-3,46%	-4,95%	-8,25%
INDIA SENSEX	79 032,73	2,38%	7,11%	10,30%	20,34%
KOREA KOSPI	2 797,82	0,51%	6,14%	6,21%	20,52%
HONG KONG HANG SENG	17 718,61	-1,57%	-1,10%	6,21%	-10,46%
AUSTRALIA ALL-SHARE	4 451,92	-0,80%	-1,14%	7,40%	7,70%
SAUDI ARABIA TADAWUL	11679.50	2,02%	2,01%	-0,51%	18,10%

US: Sectors	Level	5D	MTD	YTD	2023
COMMUNICATION SVCS	310,19	1,26%	4,80%	26,68%	55,80%
CONSUMER DISCRETIONARY	1 492,14	0,46%	4,89%	5,66%	42,30%
CONSUMER STAPLES	819,86	-0,63%	-0,18%	8,98%	0,52%
ENERGY	698,23	2,68%	-1,29%	10,93%	-1,42%
FINANCIALS	684,26	-0,19%	-0,89%	10,16%	12,10%
HEALTH CARE	1 700,33	-0,33%	1,91%	7,81%	2,06%
INDUSTRIALS	1 031,96	-0,56%	-0,94%	7,75%	18,08%
INFORMATION TECHNOLOGY	4 341,09	-0,42%	9,32%	28,24%	57,84%
MATERIALS	556,50	-1,09%	-3,03%	4,05%	12,55%
REAL ESTATE	241,17	0,81%	2,01%	-2,45%	12,35%
UTILITIES	346,33	-1,03%	-5,51%	9,44%	-7,08%

EUROPE: Sectors	Level	5D	MTD	YTD	2023
BASIC MATERIALS	2 977,90	-0,84%	-3,58%	1,54%	5,95%
CONSUMER GOODS	3 808,92	-2,44%	-1,95%	-0,56%	-2,46%
CONSUMER SERVICES	1 572,12	-1,17%	-2,07%	6,26%	21,53%
FINANCIALS	998,90	-0,21%	-2,65%	15,76%	25,42%
HEALTH CARE	4 008,04	-0,12%	2,99%	16,18%	8,75%
INDUSTRIALS	3 937,43	-1,40%	-3,60%	8,73%	27,43%
OIL & GAS	1 577,93	1,06%	-2,12%	6,54%	9,01%
TECHNOLOGY	2 117,85	0,86%	7,66%	24,90%	34,72%
TELECOMS	543,95	0,46%	0,32%	7,27%	8,86%
UTILITIES	1 940,91	-1,98%	-2,55%	-2,31%	14,75%

Market overview as of 30th June 2024

Fixed Income	Level	5D	MTD	YTD	2023
Pan-Euro 3-5 yrs IG	205,37	-0,17%	0,74%	-0,10%	6,68%
Euro Aggregate	234,64	-0,40%	0,35%	-1,21%	7,19%
Pan-Euro HY Hedged Eur	430,56	0,05%	0,36%	2,90%	12,32%
Global Inflation hedged EUR	234,11	-0,67%	0,22%	-1,55%	2,02%
US Corp High Yield	2 264,90	0,04%	0,94%	2,58%	13,45%
EM USD Aggregate TR	1 260,87	-0,35%	0,63%	2,22%	9,09%
EM Aggregate TR Local Ccy	144,51	0,23%	0,37%	-1,25%	6,91%
EUR Banks CoCo Tier 1	150,74	0,43%	0,24%	4,83%	5,04%
EU GOVT HEDGED EUR	207,86	-0,54%	0,44%	-2,15%	6,31%
Global Aggregate	2 554,99	-0,41%	0,14%	-3,16%	5,72%

Commodities	Level	5D	MTD	YTD	2023
GOLD	2 326,75	0,21%	1,77%	12,79%	13,10%
COPPER	439,05	-1,16%	-3,81%	12,85%	2,10%
OIL WTI	81,54	1,00%	-0,48%	13,80%	-10,73%
OIL BRENT	86,41	1,37%	-1,65%	12,16%	-10,32%

Currencies	Rate	5D	MTD	YTD	2023
EURUSD	1,0713	0,19%	0,44%	-2,95%	3,12%
GBPUSD	1,2645	0,00%	1,22%	-0,68%	5,36%
USDJPY	160,8800	0,68%	1,95%	14,07%	7,57%
USDCHF	0,8988	0,55%	-2,24%	6,82%	-8,99%
AUDUSD	0,6670	0,44%	3,04%	-2,08%	-0,01%
EURCHF	0,9628	0,70%	-1,82%	3,65%	-6,13%
USDCNY	7,2980	0,09%	0,79%	2,79%	2,92%
USDKRW	1 382,10	-1.14%	2,58%	3,86%	1,79%
USDINR	83,3913	-0,18%	-0,05%	0,22%	0,57%
USDIDR	16 375,00	-0,46%	0,71%	6,35%	-1,10%
USDBRL	4,8572	-0.08%	-1,27%	-7,55%	-8,01%
USDTRY	32,7609	-0,26%	1,04%	10,95%	57,82%
BITCOIN	60 118,16	-6,31%	0,42%	43,36%	152,94%

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