

First-half 2024 summary:

Like Vladimir and Estragon waiting for Godot (who will never come...), the market is still not desperate to wait for the FED's first rate cut. While the ECB started , as expected, cutting its key rates by 25bps in early June, other central banks have also proceeded doing so: Canada, Switzerland, Hungary, Sweden and the Czech Republic.

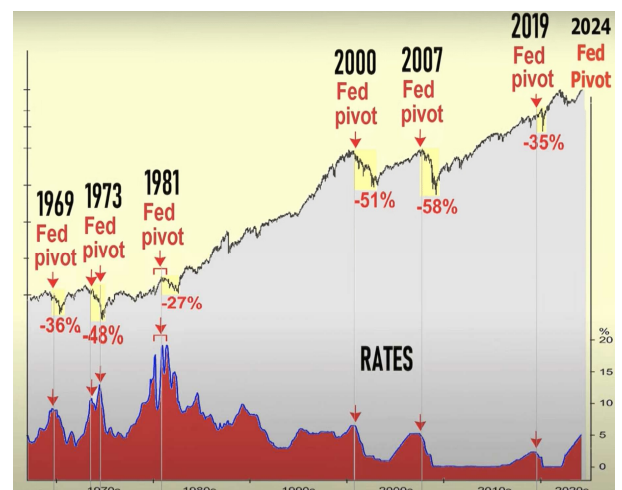
Although comparisons between monetary policies are difficult, if not pointless, the market seems to be comfortable with a shift in expectations. The FED's first rate cut looks set for September, while some FOMC members not ruling out leaving rates unchanged throughout 2024.

So why is the FED not cutting rates just yet?

- Firstly, and FOMC members are very vocal on this subject: inflation remains too high. Lowering rates too quickly would stimulate the economy and households, thwarting "efforts" to reduce inflation,
- The US growth dynamic is still positive,
- The FED keeps some latitude to support the economy when it will really needs it,
- The FED keeps an eye on the political agenda.

This last point, being counter-intuitive (remember that the Fed is supposed to be independent from the White House), takes on its full meaning at the end of this quarter, a few days after the first presidential debate opposing President Joe Biden to Donald Trump, marking the intensification of the electoral campaign that will culminate in the November election. While nothing can be taken for granted for either of the candidates for the presidency or the necessary majorities, declarations in favor of strong consumption or a weak dollar will necessarily have an impact on the trajectory of inflation, and therefore of lower rates.

Our conviction has always been that a rate cut is synonymous with a declining economy. A pivot by the FED has always resulted in a substantial fall in the indices, so we're in no hurry to see it happen...

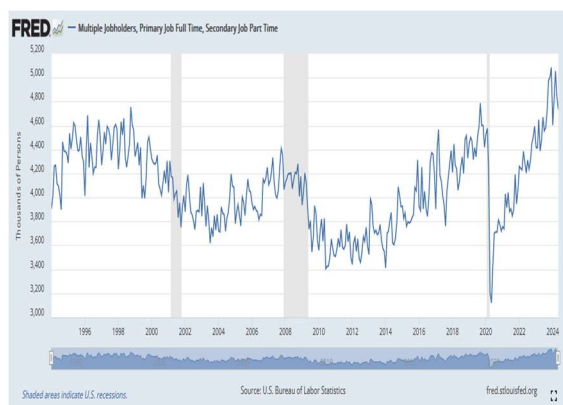


Among the reasons that would push the FED to lower its rates, we retain the following:

- A rapid deterioration in growth momentum,
- An unsustainable debt burden.

We remember that 70% of US growth is driven by consumption, and therefore by employment, wages and accumulated savings (to offset inflation).

In terms of employment, we note a low point of 3.4% reached in January 2024, and settled at 4% at the end of May. While there is no question of slippage at this level, it is important to note that the share of secondary jobs has risen sharply, a sign of structural change, certainly linked to inflation.

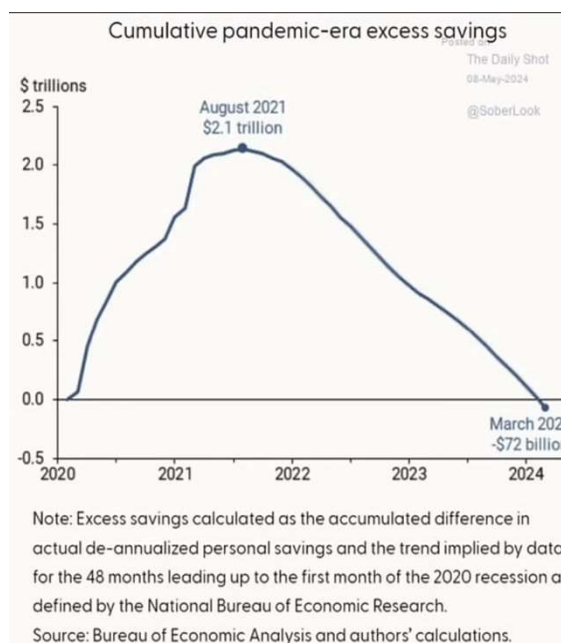


We remain attentive to more structural factors, as it would appear that the employment dynamic is waning, with a decline in the hiring prospects of US small businesses, which are generally around 6/7 months ahead of unemployment.

Small business hiring plans typically lead the unemployment rate



Moreover, it seems that the excess savings accumulated by households during the covid period has now been exhausted. As a result, we are increasingly cautious about the resilience of the US economy.



Finally, US debt has continued to grow, with interest charges rising in tandem with interest rates. The fact that debt service is now a top US federal budget item, having exceeded \$1,000bn, is the only valid argument for a rapid cut in key rates, but it has to be said that this situation is not a stated priority of either Mr. Powell of the FED, or his predecessor,

Mrs. Yellen, now Secretary of the Treasury, considering the real rather than the nominal¹ mass of the debt, reminiscent of the FED's policy in the 1970s², hence the relative urgency of bringing inflation down... Debt servicing now represents 2.4% of US GDP, a level not seen since 1999.



So, in a very political year in the US, we remain cautiously optimistic about the country's growth momentum, and believe that the current campaign is muddying the waters until either the Democratic or Liberal resolution of the electoral equation.

Musical chairs are being played out in many other countries, such as Mexico with the election of Ms. Sheinbaum, India where Mr. Mohdi surprised everyone with his contested leadership, and France with Macron's poker play which, if he loses, risks destabilizing France at the opening of the Olympic Games and the dynamics of Europe.

¹ <https://www.cnbc.com/2024/06/13/treasury-secretary-yellen-says-us-debt-load-is-in-reasonable-place-if-it-remains-at-this-level.html>

Impact on markets

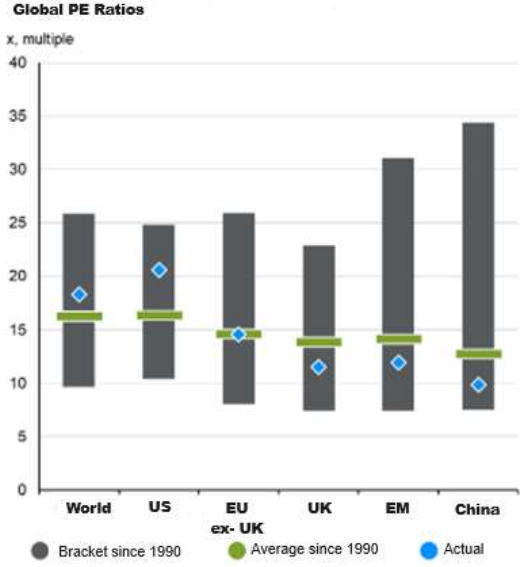
The market's near-continuous rise since October 2022 is remarkable. Indeed, the market had corrected sharply in anticipation of FED rate hikes, and established a low point in October, at a valuation level of 15x earnings for the S&P. The real long-term catalyst for the rise was the AI boom from March 2023 onwards.

Just over a year later, the trend continues unabated, with estimated earnings growth of 65% from the beginning of 2024 to the end of 2025 in the *Information Technology* segment of the US flagship index. However, we do cast one doubt: while AI undeniably represents a major opportunity for the economy in general, the listed players benefiting from it are like the shovel and pickaxe sellers of the gold rush, are the hardware suppliers (eg: Nvidia, ASML...etc). It's hard to see any quantifiable impact on the real economy, as the AI boom has been so sudden and the reaction time of non-tech players can be long.

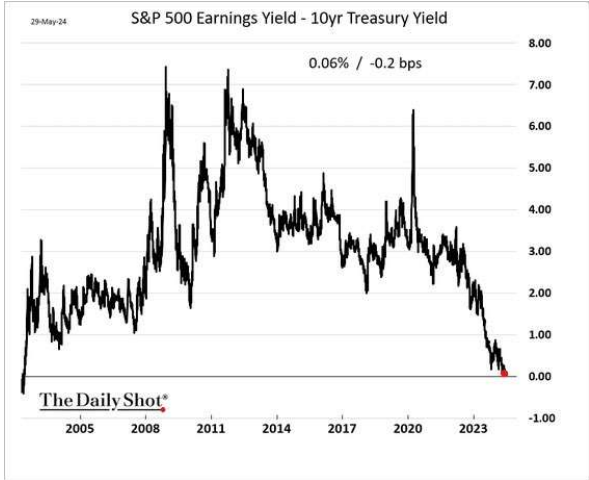
The US market is currently trading at 22x earnings, reflecting a 16% rise in earnings over 2025. Europe is trading at levels in line with its long-term historical average, reflecting a lackluster economy lacking real competitiveness. Although

² <https://www.stlouisfed.org/on-the-economy/2022/aug/inflation-real-value-debt-double-edged-sword>

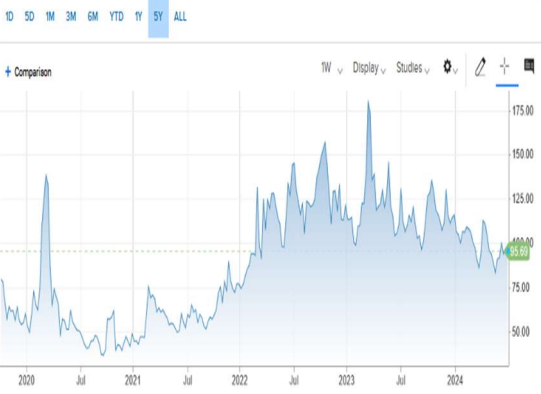
the valuation seems "attractive" (valuation alone is not, in our view, a sufficient argument to invest...), the lack of catalysts combined with a heavy political agenda and a more-than-present "France" risk do not lead us to overweight this zone.



In a context of high interest rates, it is obviously once again worthwhile regaining interest to bonds and money-market instruments, on the one hand to reduce portfolio risk, and on the other to benefit from carried and revaluation following future rate cuts. For example, the US SOFR risk-free rate is 5.33%, and the €STR 3.65%. the real question becomes the attractiveness of equity vs bonds after the latter regains interests contrary to the 2010–2020 period. The equity market risk premium is now at 0 or just below.



Given the volatility of market expectations regarding future Fed rate cuts, and the ECB's relative credibility, we continue to favor the short end of the Western yield curves. The risk of US 10-year yields rocketing to 5% as a result of a drying-up of buyer demand or persistent/rising inflation is still present, in a market that is still rather skittish, as evidenced by the MOVE bond volatility index, which remains at a high level, albeit below the levels reached during rate hikes.



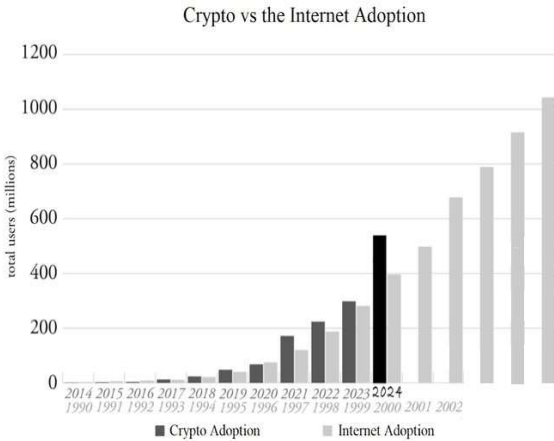
So, while we feel it is premature to strengthen the long end of the market,

where we are seeing a certain amount of volatility, we remain constructive and are looking to strengthen our position as the trajectory and, above all, the timetable for key rates becomes clearer, although we believe there will be many pitfalls to overcome. While European interest-rate spreads are creating interesting opportunities due to the political situation in France, we remain, as usual, cautious about the possibility of the far-right coming to power, or the far-left reacting to a potential defeat. We draw a parallel with David Cameron, who, having never lost an election, launched the Brexit referendum in 2016 with a view to an "assured" victory; and to a lesser extent with the election of Donald Trump the same year: an election launched imbued with nationalism proving a loser for the more liberal camps, Mr. Macron will certainly have to deal with an outcry...

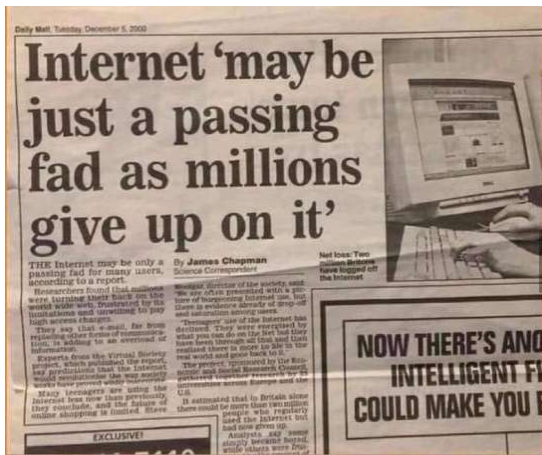
Finally, we are also keeping a close eye on movements in *investment-grade* and *high-yield corporate* rates, in order to establish a measured risk allocation. Indeed, some rates are becoming attractive again, both in terms of spread and yield, and we are looking to capitalize on this by making tactical and strategic risk allocations.

Crypto-assets

The world of crypto-assets is not left behind. Bitcoin's *halving* (50% reduction in miners' fees) has indeed taken place, and "digital gold" has surpassed its all-time high of \$69K, to set a new record (which had not happened at previous *halvings*) at \$73K. This *halving* marks the fourth occurrence of the inflationary slowdown it represents, the previous three having marked the beginning of a sensational "*bull run*", which has not, at least for the time being, materialized. Unwilling to listen to bullish or bearish agitators, our conviction lies in the fact that the technology is still disruptive, with use cases (like AI) continuing to unfold. We also note that the adoption curve for cryptos, vs that of the internet, is much faster...



While comparison is not reason, we believe that blockchain is not a transitory phenomenon, with over 500K daily transactions and around 500m users in 2024.



We believe that users are located in developing economies (eg; Africa, Asia) with low confidence in their respective central authorities, rapid growth and access to new technologies facilitated by a young population.

Last but not least, we're seeing a real dynamic in the creation of potential Ethereum ETFs in the US, continuing to drive the momentum forward. It's worth remembering that authorities are regulating instead of prohibiting, somehow a guarantee of sustainability.

Performance of our different investment profiles:

In a persistently volatile environment, with markets price discovery mode, we continue to remain cautious without being underinvested. We mitigate risk through in-depth diversification across asset classes, rationally weighting different styles, themes or factors for equities, and different maturities and issuers on the bond side.

In this context, performance by risk profile is at satisfactory levels at the close of this first half of 2024, reflecting

a fairly buoyant global equity market, a bond pocket focused on carry and relatively low volatility, and a crypto-asset pocket fulfilling its role as a performance contributor and diversifier.

Profile	Security	Cautious	Balanced	Dynamic
Perf 2024	2,61%	7,73%	8,97%	10,73%
Priips risk	1,64	3,40	3,86	4,37
Equity	11%	59%	68%	80%
Bonds	32%	19%	15%	5%
Crypto	0%	4%	8%	12%
Cash	58%	18%	9%	3%

Conclusion:

In the face of rising risks - political, geopolitical, monetary, etc. - we believe it is essential to have deeply diversified portfolios. Faithful to our raison d'être, remaining agnostic to products and asset classes, in order to build high-performance, diversified allocations that measure risks and opportunities, seems to us to be the best equation. Our conviction of the need for total and absolute independence is more than reinforced, given the over-optimistic rhetoric of certain sectors of the financial management industry, persisting and signing ineffective statements made for sometimes 3 years (eg: smallcaps...) presenting a significant opportunity cost but above all an increase in exposure to risk that is too great.

Our confidence in the markets remains cautious, as the confidence of many seems unshakeable and sometimes unfounded. Without seeking to announce a hypothetical endgame, we remain vigilant in order to distinguish between excessive optimism and exaggerated caution, so as to proportionately reduce net equity exposure in order to protect performance and the capital entrusted to us. The risk still seems to lie at the end of the year, when the US elections and the seasonality of macro indicators come together.

With markets often slowing down during the summer months, we are also prone to certain excesses, so we will be dynamic and reactive if interesting opportunities arise.

We wish you a wonderful summer!

Bertil Aubrun

Chairman

Completed on 01/07/2024

