syzgroup.com/privatebanking

Market outlook H2 2024

Bank Syz

POWERED BY SYZ RESEARCH

15 MAY 2024

PRIVATE BANKING

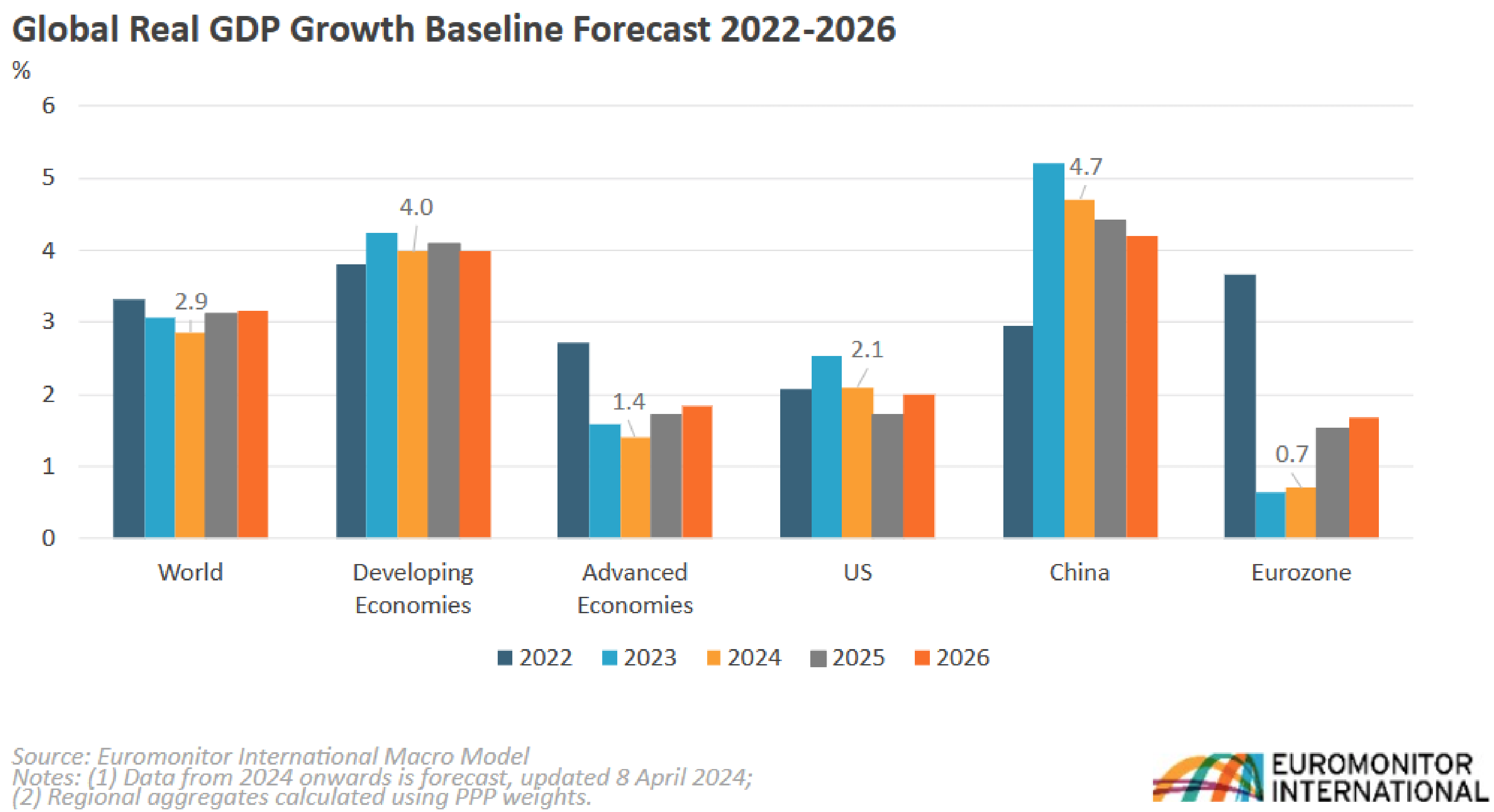
Agenda

- What did we learn in H1 ?
- The House View
- Investment Themes

#macro

Economic resilience continues among advanced countries

- Still, some slowdown is expected.



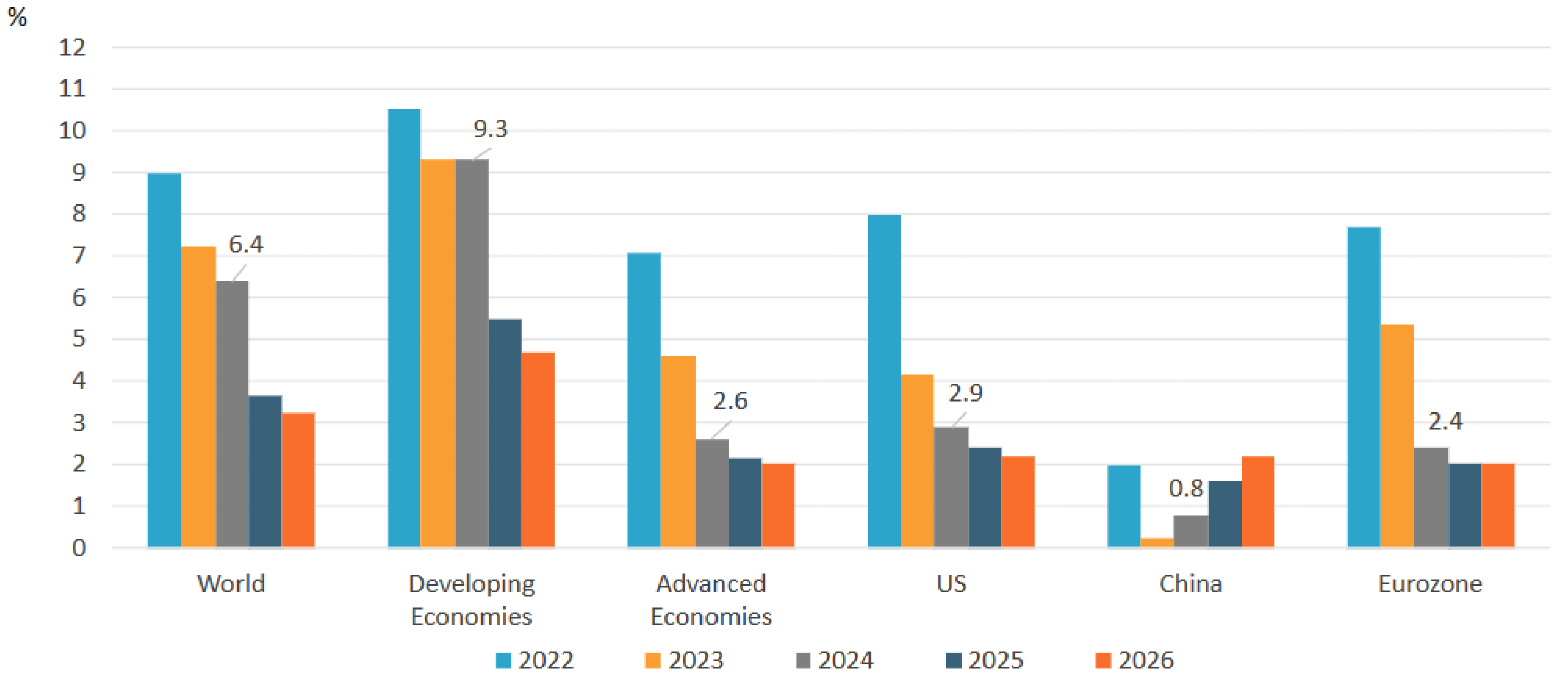
Source: Euromonitor

#macro

Global disinflation trend to continue

- But renewed price pressures point to a more bumpy path

Global Consumer Price Inflation Baseline Forecast 2022 - 2026



Source: Euromonitor International Macro Model
Notes: (1) Data from 2024 onwards is forecast, updated 8 Aoril 2024; (2) Regional aggregates calculated using PPP weights

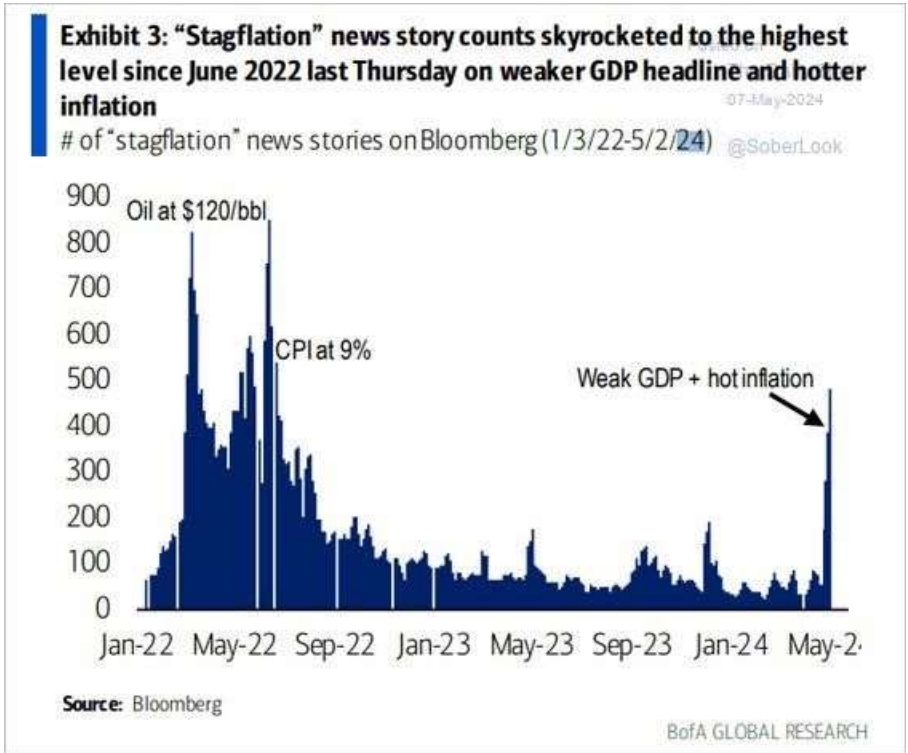
EUROMONITOR INTERNATIONAL

Source: Euromonitor

#macro

US macro: stagflation risk (perception) is on the rise

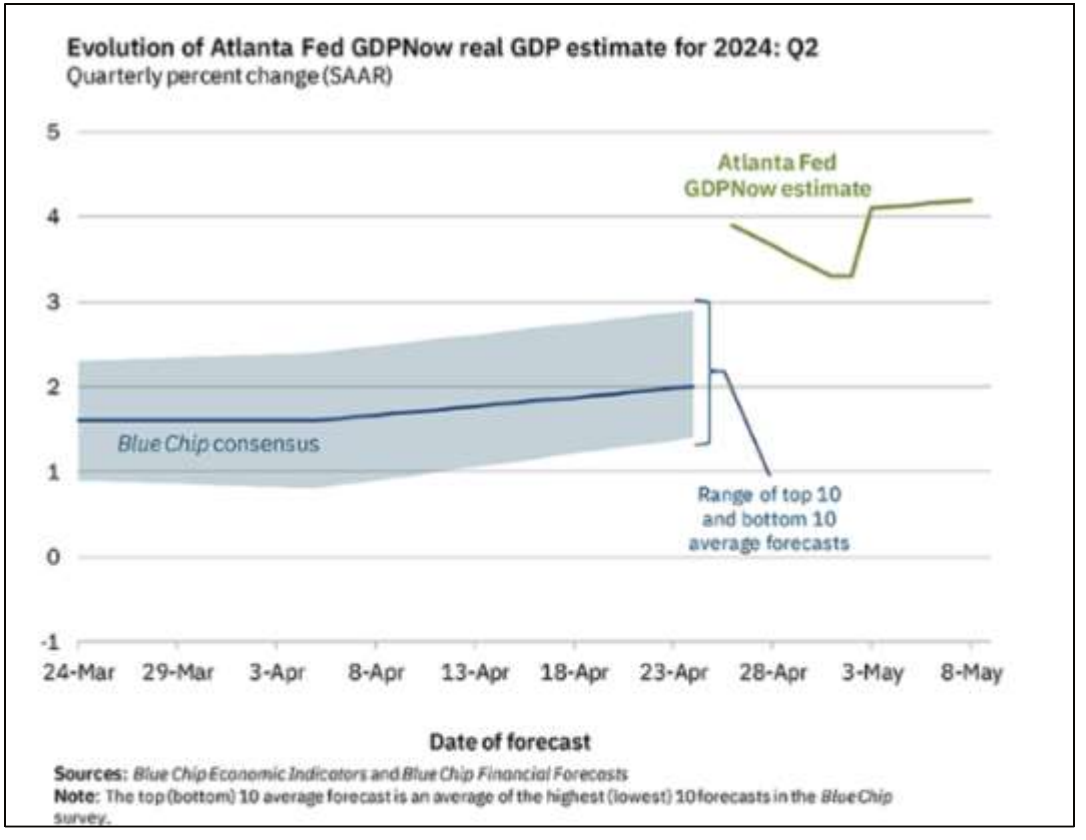
- For the last several weeks, talk of stagflation risks have entered the conversation as investors fear another wave of inflation as the economy shows signs of stagnation. Fed Chair Powell tried to dispel those concerns at last week's press conference when he said "I don't see the stag, or the 'flation."
- However, University of Michigan outlook for inflation across the one- and five-year horizons increased. Mean 5-10-year price expectations are up 5.3% per U Michigan data. That's a 30-year high....

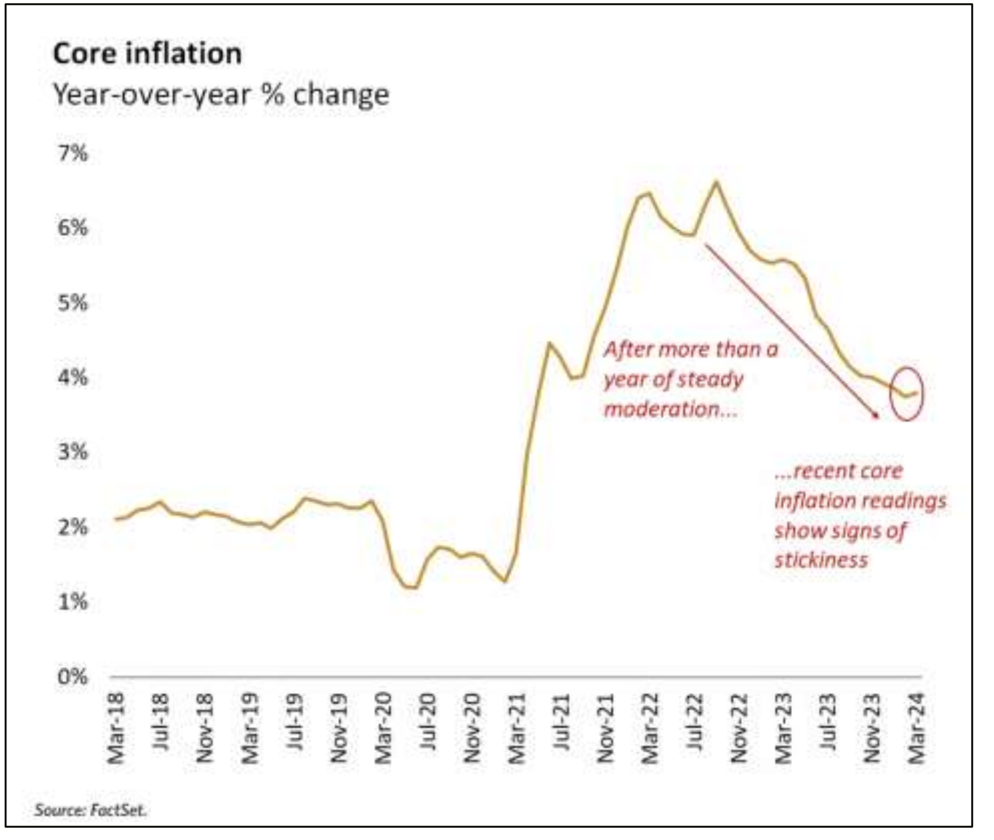


Source: BofA, Bloomberg

US macro: we are still far away from stagflation

- In case you missed it… **Atlanta Fed US Q2 GDP Now latest 4.18%,** vs last 3.31%…
- The next leg lower for inflation will be tougher than the initial-stage decline from the 2022 peak, but this will require **some help from moderating consumer demand**, which we think is in the cards as we advance

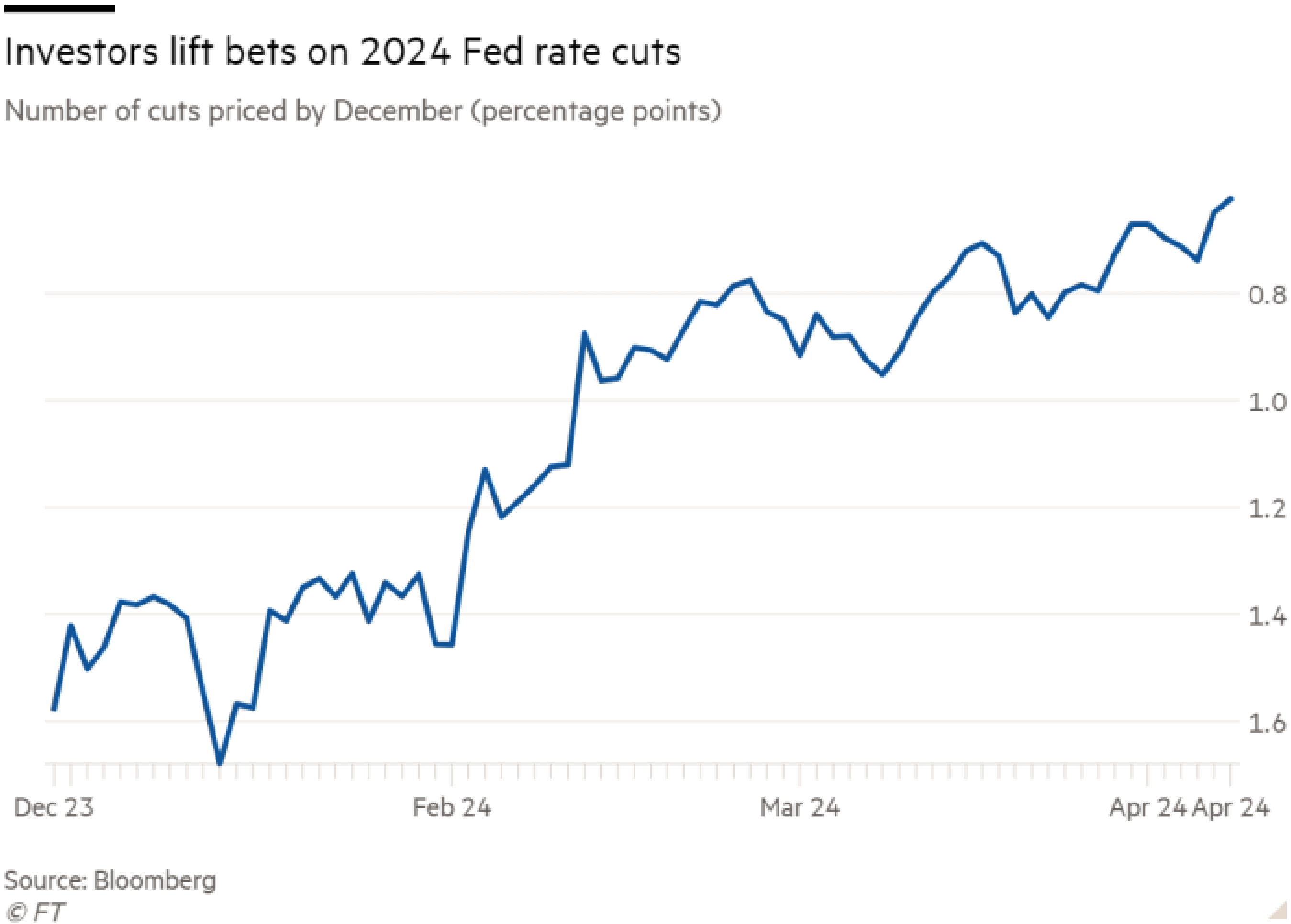




Source: AtlantaFed, Edward Jones

Fed rate cut expectations: from 6 to less than 2 rate cuts expected

- Investors lose hope of rapid US interest rate cuts this year.



Source: FT

Financial conditions in the US remain loose

- Fed's Powell: Very pleased we haven't seen pain originally projected. The chart below summarizes it well: despite rates hikes and rates staying higher for longer financial conditions kept easing
- M2 money supply turns positive for first time since late 2022 👀

Source: Bloomberg, FRED

#markets

US equities: back to all-time highs

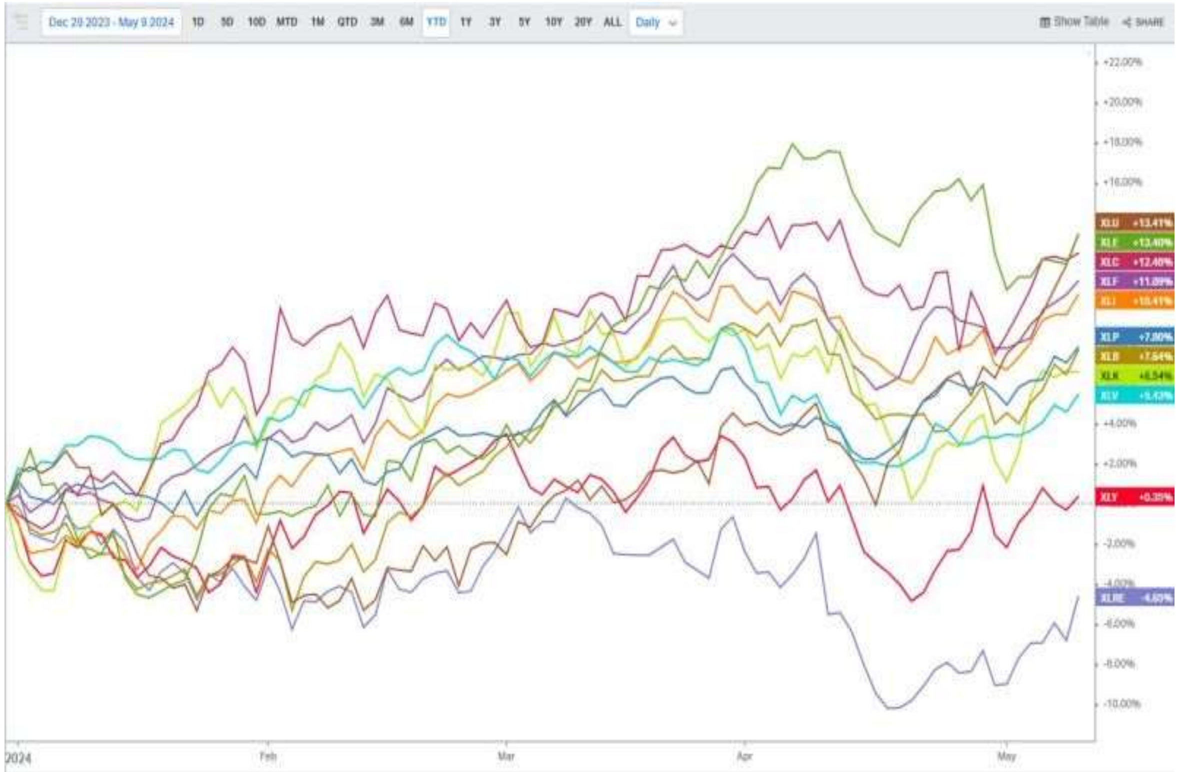
- CPI data this week will let us know where we are headed next…

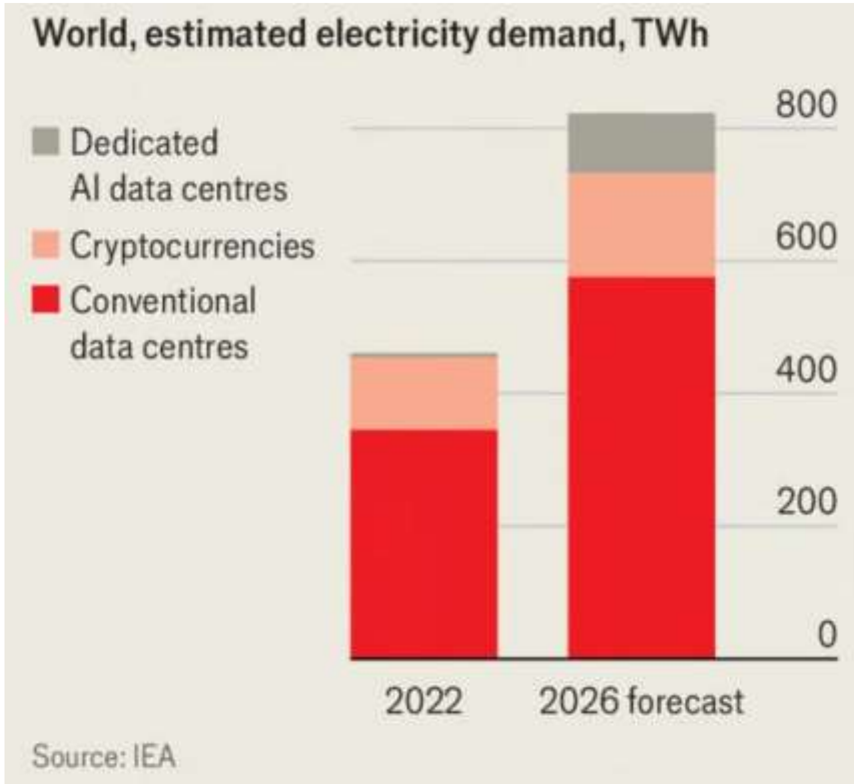
Please see important information at the end of the document

Source: Trend Spider

US equities: Utilities is now the best performing sector YTD

- Believe it or not, **Utilities $XLU is now the best performing SP500 ETF since the start of the year (+13.4%).** Technology $XLV is in the second half of the ranking (+5.4%).
- So what's going on? Utilities has been on a run as we are reaching the 2nd derivative of the AI trade. **Investment bankers are pushing new AI baskets and many of them include some Utilities stocks.**





Source: Barchart, Michel A.Arouet

US equities: some signs of exuberance

- **VIX has now traded red or unchanged over the last 8 trading days, the longest such streak since 2015.**
- Retail investors have bought over $5 billion of leveraged equity. ETFs in the last 12 months, the most since 2022. This marks a $3 billion increase on a 1-month rolling sum basis in just a few months. A similar pattern was seen in 2021 and early 2022 after which retail experienced significant losses. **Retail risk appetite is near record highs**.

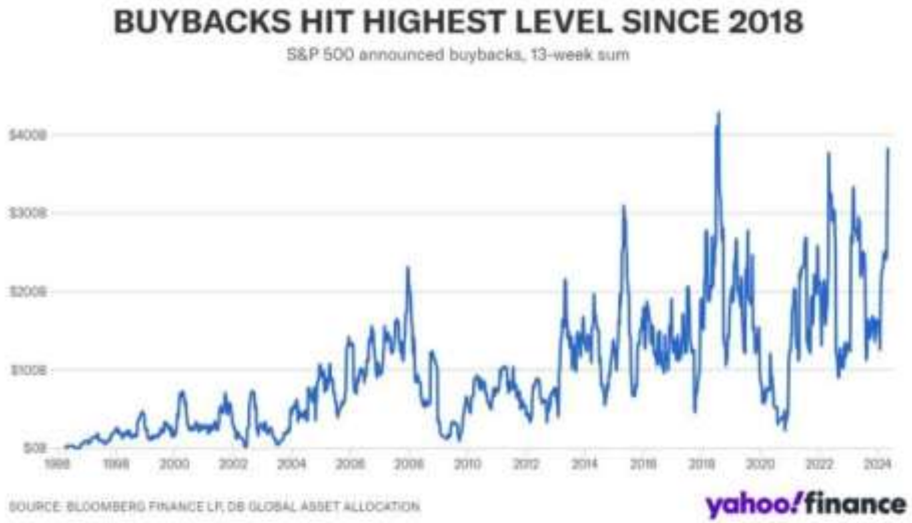
Source: Barchart, FT

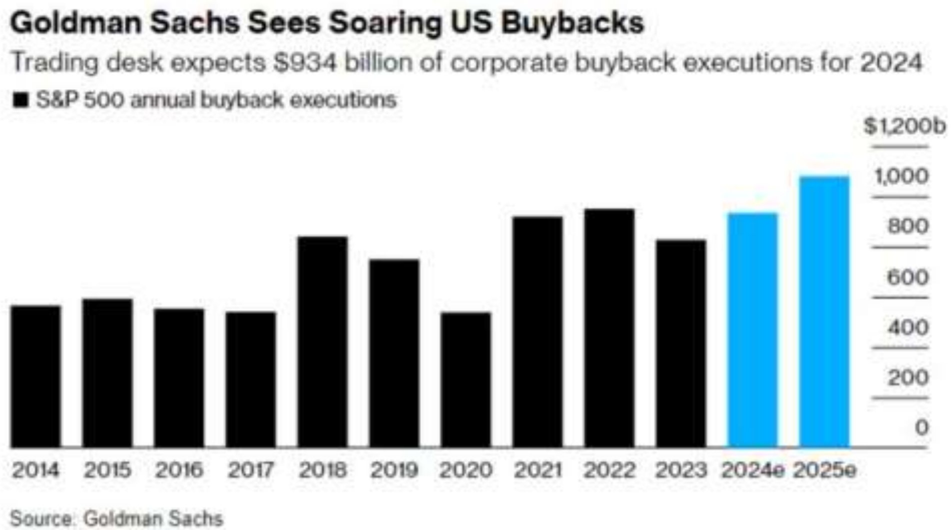
Source: FT, Th

#markets

US equities: the power of buybacks

- **Buybacks just git their highest level since 2018**
- According to Goldman, **U.S. stock buybacks are projected to reach a record high of $1.1 trillion next year.** Note that the mega-caps stocks are full of cash



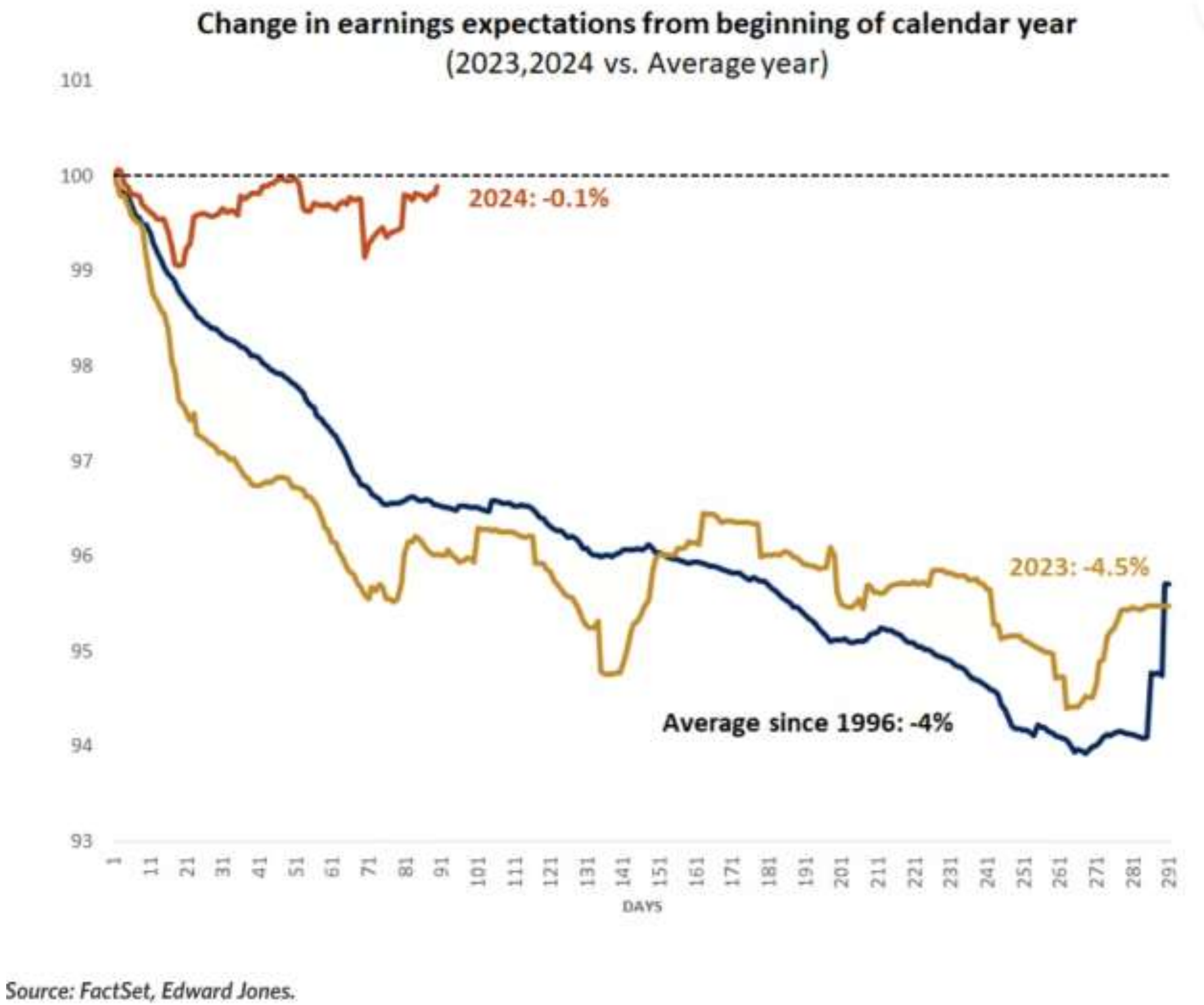


Source: Bloomberg, Yahoo Finance

US equities: earnings remain a tailwind (1/3)

- Zooming out again, Q1 results for the S&P 500 and company guidance provided additional confidence that **earnings are on track to grow slightly more than 10% in 2024**.

- In a typical year, analysts usually reduce their initially optimistic earnings estimates over the course of the year by about 4%, (the average since 1994). But **so far 2024 earnings revisions have not followed the historical path lower** and have held steady despite worries about interest rates and the economy.



Source: Edward Jones

US equities: earnings remain a tailwind (2/3)

- The upshot is that while uncertainty around the Fed-policy outlook and likely upcoming worries around the U.S. presidential elections could be catalysts for volatility in the months ahead, **corporate earnings remain in a solid uptrend, supporting the market gains**. Stocks are near record highs and about 8% above the prior bull-market peak in early 2022, but so are earnings.

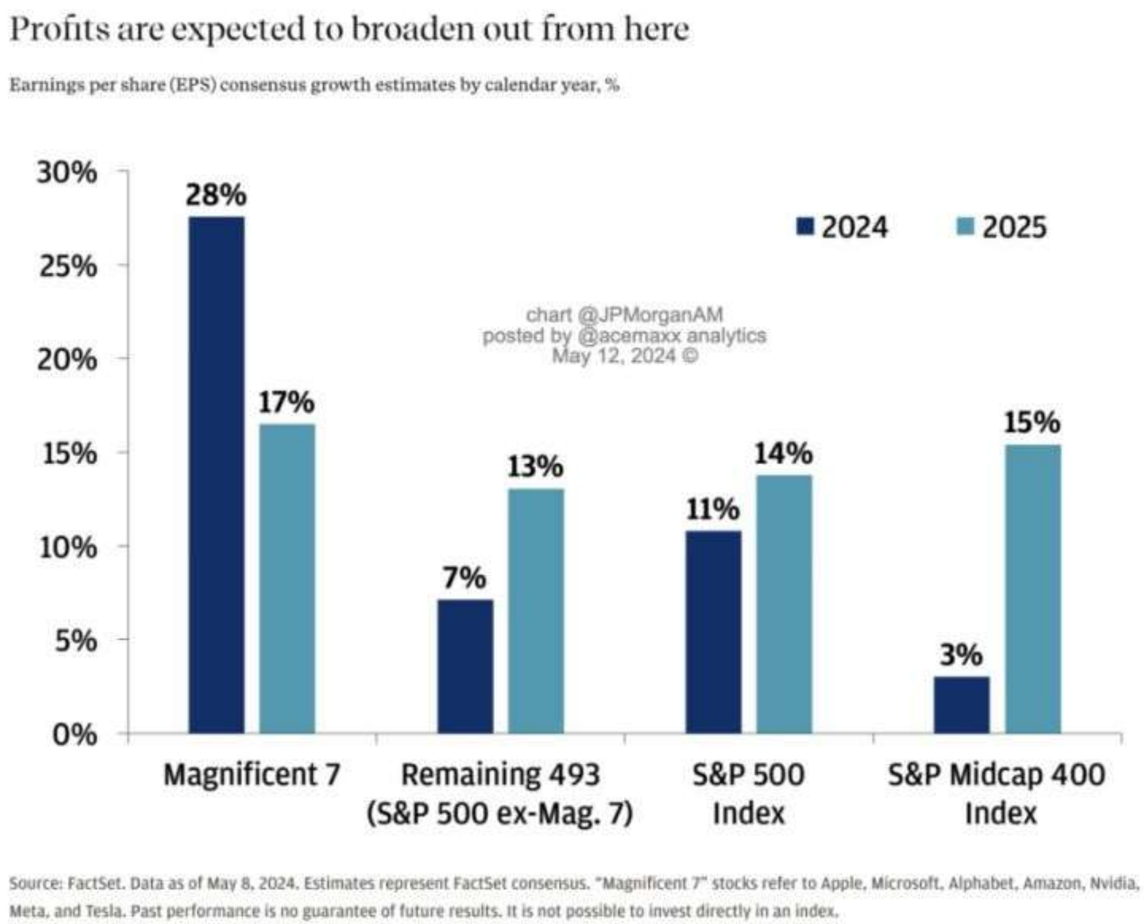
As earnings go, so goes the market

Source: FactSet, Edward Jones.

Source: Edward Jones

US equities: earnings remain a tailwind (3/3)

- The so-called Magnificent 7 and the “remaining 493” other companies in the S&P 500 are **ALL expected to grow earnings by double digits next year.**



Source: JP Morgan

US equities: S&P 500 trades at 20.6x NTM earnings due to Tech

- Most S&P 500 valuations ratios are way above 10-year averages but this is due to high valuation premium for Information Technology. Other sectors are below historical average.

Current aggregate valuation metrics - absolute

	EV/ Sales	EV/ EBITDA	Price/ Book	FCF Yield	PEG Ratio	NTM P/E
S&P 500	**3.1x**	**15.4x**	**4.8x**	**3.3 %**	**1.3x**	**20.6x**
Energy	1.6	7.2	2.5	6.4	2.9	12.5
Financials	NM	NM	2.2	NM	1.4	15.3
Real Estate	NM	NM	2.9	NM	4.8	15.9
Utilities	NM	11.7	2.2	(3.9)	2.3	17.3
Comm Services	4.0	11.7	4.3	5.1	1.0	18.5
Health Care	1.9	15.6	5.0	3.5	1.1	19.0
Cons Staples	1.7	14.3	6.3	4.1	2.5	20.3
Materials	2.7	12.7	3.1	3.1	1.7	20.4
Industrials	2.7	14.6	6.2	3.6	1.7	21.2
Cons Discr	2.7	15.9	9.5	3.2	1.3	24.4
Info Tech	8.4	24.6	12.1	2.7	1.5	27.2

Current relative valuation vs. historical average (Z-score)

	10-year							30-year
	EV/ Sales	EV/ EBITDA	Price/ Book	FCF Yield	PEG Ratio	P/E	Median Z-Score	Median Z-Score
S&P 500	**1.6**	**1.0**	**1.8**	**2.2**	**(0.1)**	**1.1**	**1.3**	**1.6**
Real Estate	NM	NM	(2.3)	NM	0.4	(2.3)	(2.3)	(1.1)
Comm Services	(1.4)	(1.7)	(0.9)	(2.6)	(0.6)	(1.8)	(1.5)	(1.2)
Cons Staples	(1.4)	(1.1)	(1.4)	(0.9)	1.0	1.3	(1.0)	(1.3)
Utilities	NM	(1.5)	(1.6)	0.6	(0.9)	(0.0)	(0.9)	(0.2)
Cons Discr	(0.9)	(1.2)	(0.5)	(1.2)	0.0	(0.7)	(0.8)	0.1
Health Care	(1.7)	(0.0)	(1.8)	1.9	(1.5)	(0.0)	(0.8)	(1.1)
Energy	(0.8)	(0.8)	(0.1)	(0.7)	0.2	(0.8)	(0.8)	(1.1)
Financials	NM	NM	(0.7)	NM	0.3	(1.6)	(0.7)	(0.9)
Industrials	(1.2)	(0.6)	(0.8)	(0.7)	(0.1)	0.4	(0.6)	0.4
Materials	(0.9)	(0.5)	(1.0)	0.4	0.2	0.2	(0.2)	(0.2)
Info Tech	2.1	2.1	1.0	1.3	(0.1)	1.4	1.4	1.2

Source: FactSet, I/B/E/S, FirstCall, and Goldman Sachs Global Investment Research.

Source: Goldman Sachs

US equities: Valuation gap vs. US Treasuries is widening

- **The valuation gap between equities and bonds is widening**: in the US, the risk-free yield is now higher than the risky stock market yield. Either the economy needs to softly land and so interest rates fall without jeopardizing profits. Or the economy must remain stable and drive profits without producing higher inflation.

Source: Bloomberg

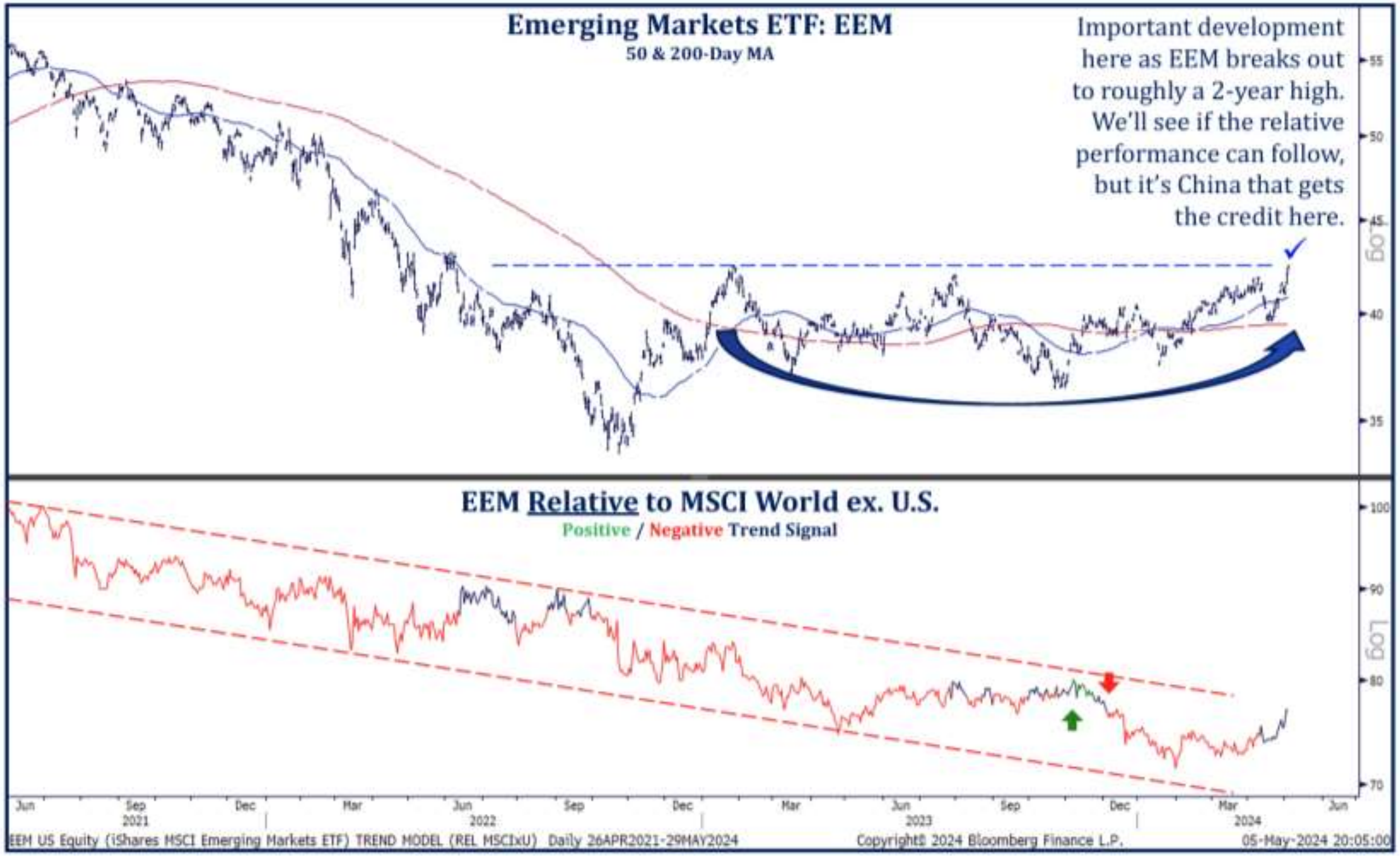
EU equities to fresh highs. Internals remain strong

- Europe is still acting strong with new high BEFORE S&P 500 or Nasdaq 100

Source: Strategas

EM equities are breaking out

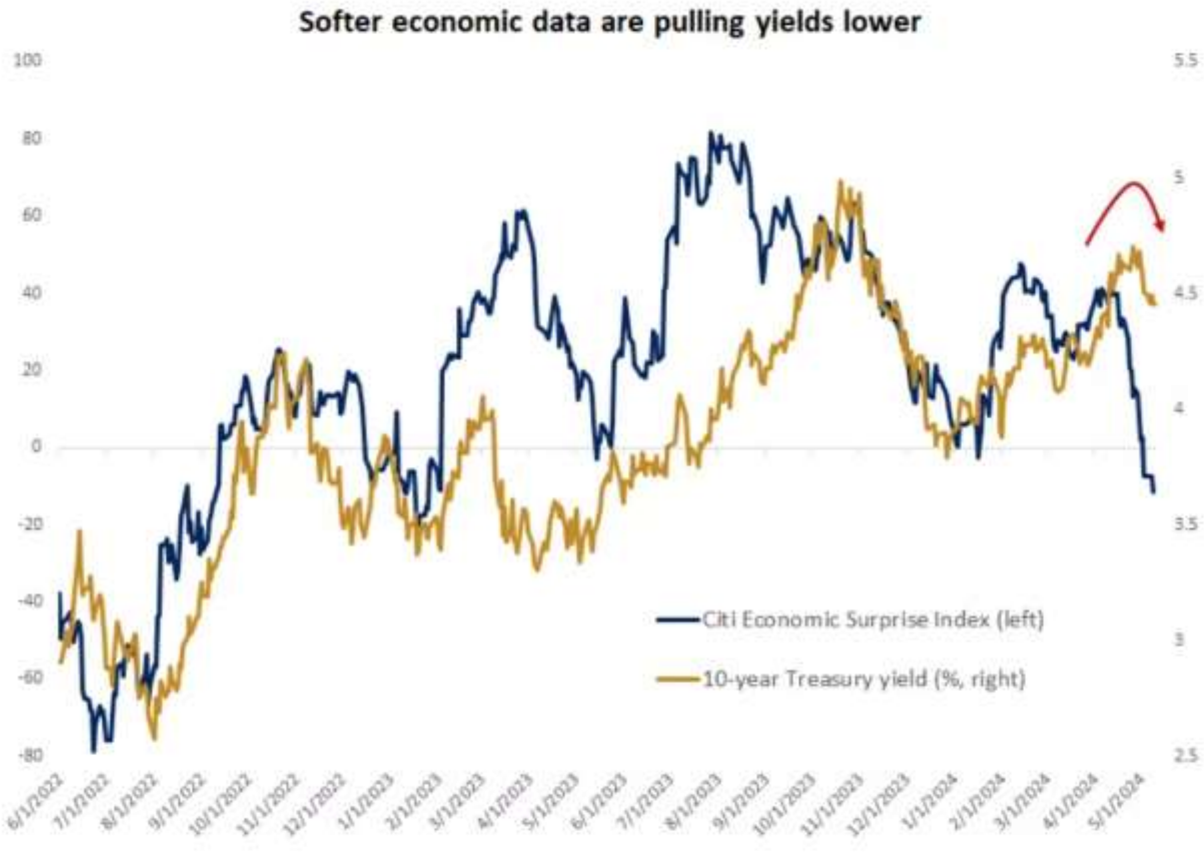
- It is mainly thanks to China. Let see if the relative chart breaks out as well



Source: Strategas

US Fixed Income: softer economic data are pulling yields lower

- The graph shows the economic surprise index against the 10-year Treasury yield. Softer economic data are pulling yields lower this month

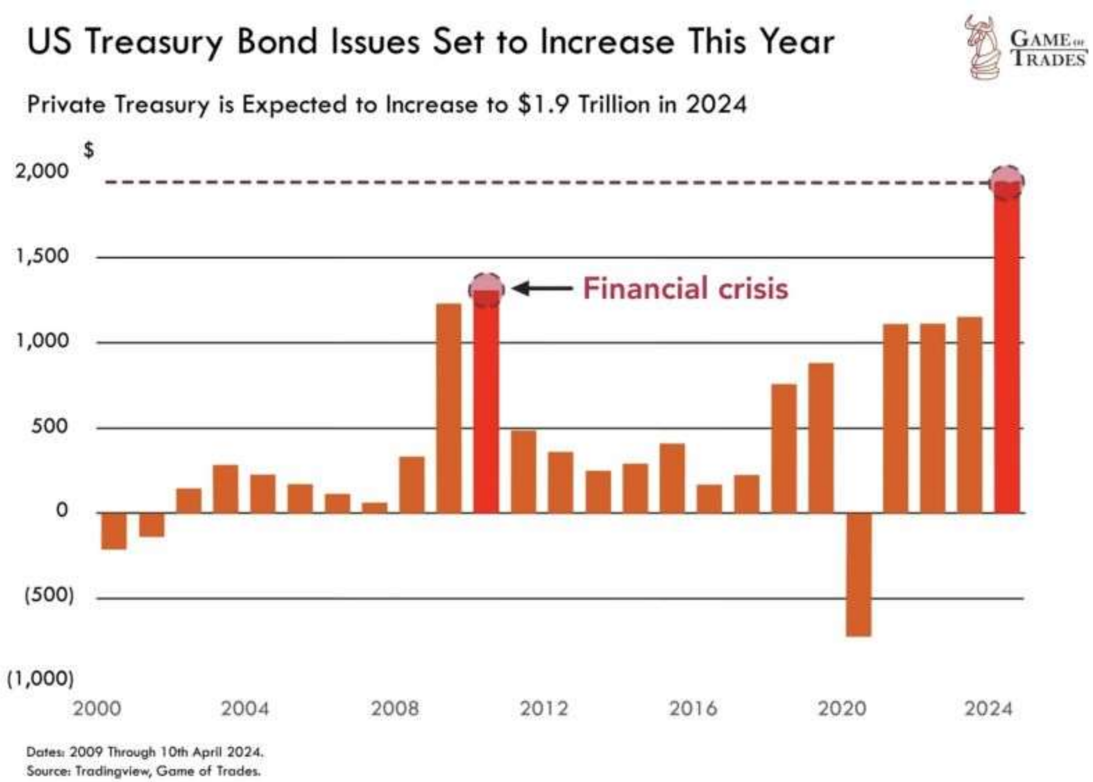


Source: Bloomberg, Edward Jones

Source: Edward Jones

Fixed Income: US Treasuries supply remains a headwind for bonds

- Treasury bond issuance in 2024 is expected to hit $1.9 TRILLION. Surpassing levels seen even during the 2008 financial crisis and 2x 2023 levels.
- US Treasury boosts April-June borrowing estimates to $243b from $202b. US reiterates a cash-balance estimate of $750bn for the end of June. US Treasury cites lower cash receipts for bigger borrowing estimates. No Mrs Yellen, this is not virtual reality…

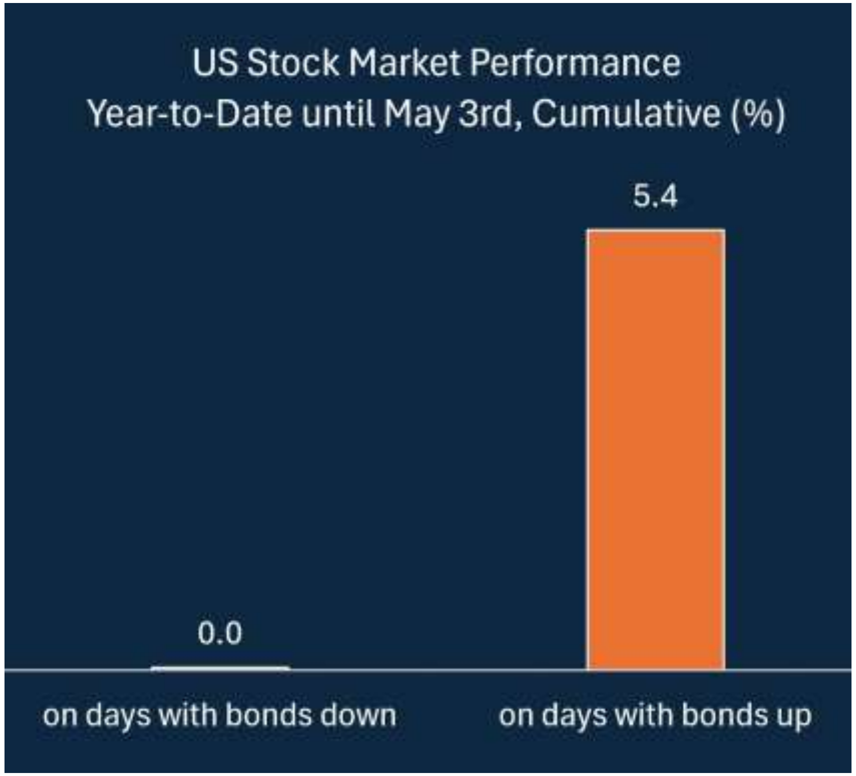


Source: Trend Spider

#markets

US equities: Macro context is still more favorable to stocks than bonds

- One of the most important chart in the asset allocation decision process: stocks vs. long duration US Treasuries. The trend is your friend …
- **On days when bonds were up, stocks tended to go up as well. When bonds fell, stocks managed to stay at least flat.** Overall it has been a pretty nice environment for equity investors. Let’s hope this doesn't turn into a high-correlation-when-markets-are-down type of environment.



Source: Dr. Michael Stamos, J-C Parets

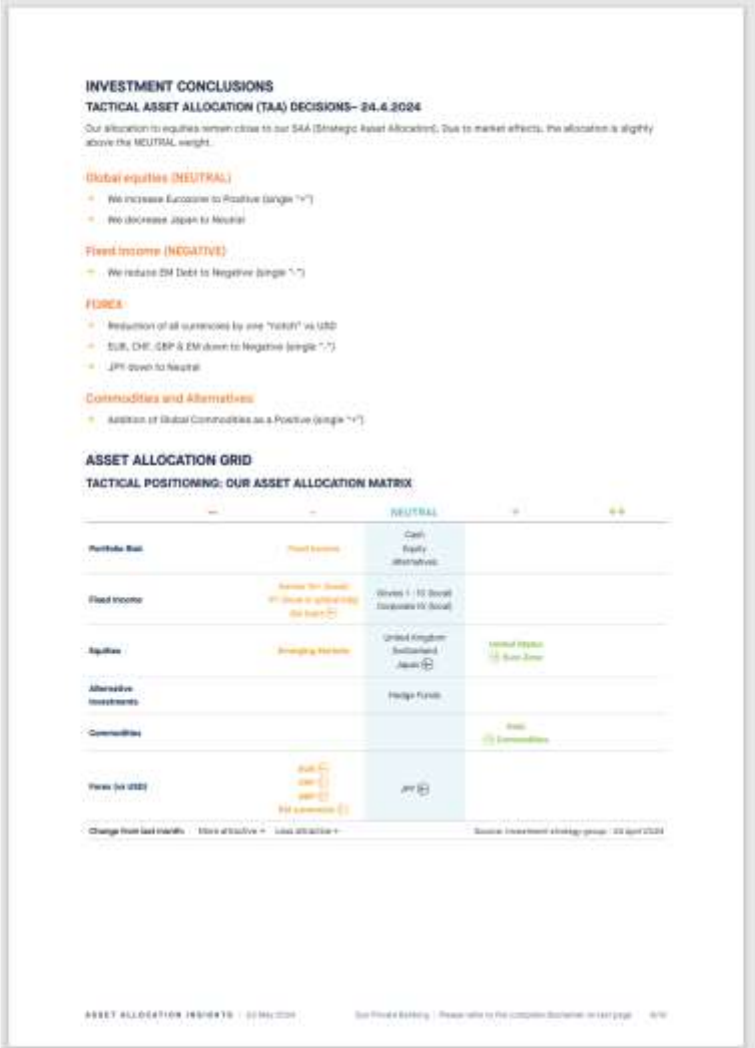
The House view: "Keep calm and stay invested"

- https://blog.syzgroup.com/slow-food-for-thought/keep-calm-and-stay-invested

ASSET ALLOCATION INSIGHTS

Keep calm and stay invested

Key takeaways



INVESTMENT CONCLUSIONS

TACTICAL ASSET ALLOCATION (TAA) DECISIONS– 24.4.2024

ASSET ALLOCATION GRID

TACTICAL POSITIONING: OUR ASSET ALLOCATION MATRIX

The House view: "Keep calm and stay invested"

ASSET ALLOCATION GRID

TACTICAL POSITIONING: OUR ASSET ALLOCATION MATRIX

	--	-	NEUTRAL	+	++
Portfolio Risk		Fixed Income	Cash Equity Alternatives		
Fixed Income		Govies 10+ (local) HY (local or global hdg) EM Debt ←	Govies 1 - 10 (local) Corporate IG (local)		
Equities		Emerging Markets	United Kingdom Switzerland Japan ←	United States → Euro Zone	
Alternative Investments			Hedge Funds		
Commodities				Gold → Commodities	
Forex (vs USD)		EUR ← CHF ← GBP ← EM currencies ←	JPY ←		

Change from last month: More attractive → Less attractive ←

Source: Investment strategy group - 24 April 2024

Potential winners & losers for the current decade

Potential Winners

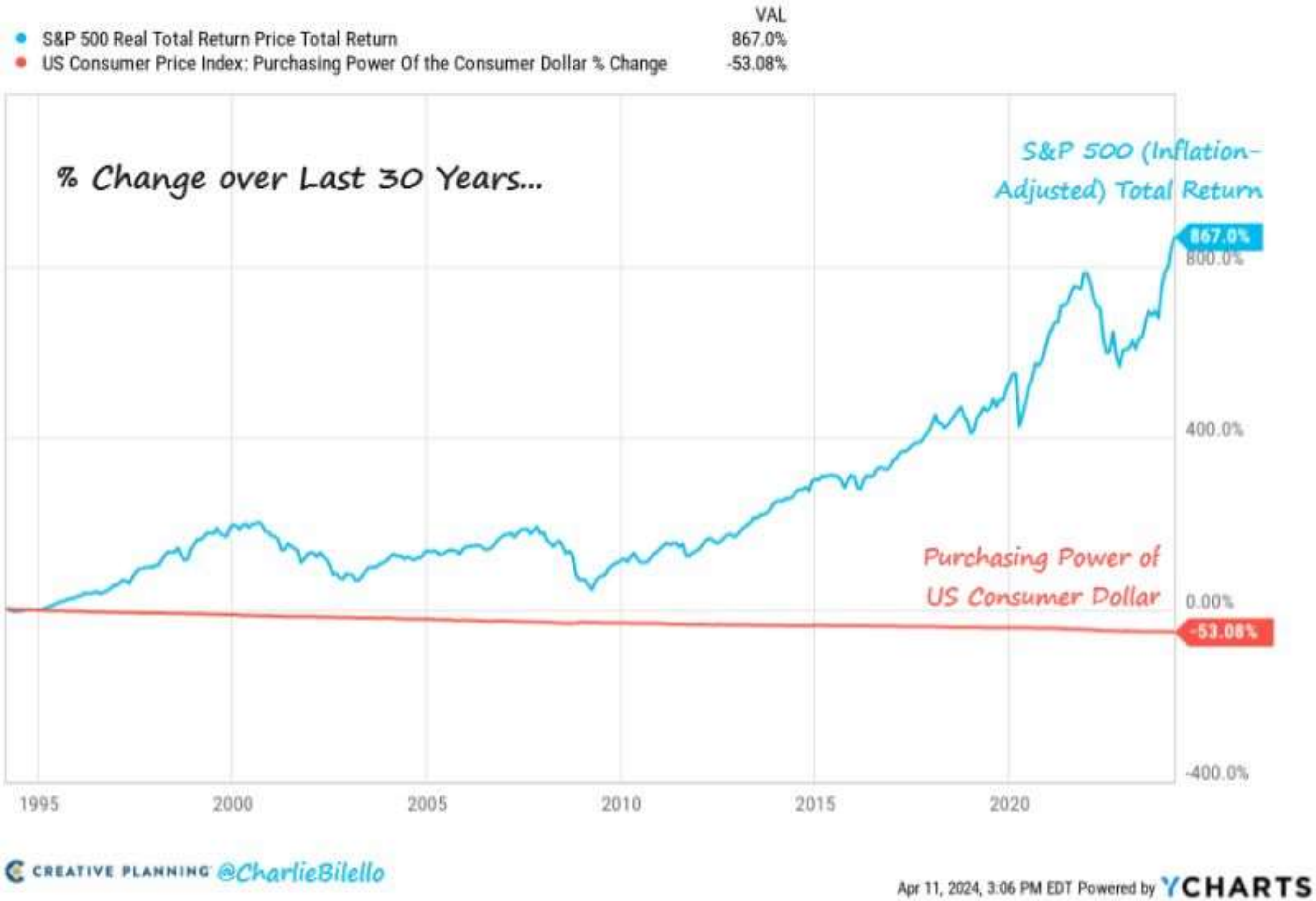
- The fiscal dominance beneficiaries
- Productivity enhancers (e.g AI)
- The new FAANGs
- The re-shoring beneficiaries
- Store of values
- Alternative & Real assets
- Active management

Potential Losers

- Europe?
- China?
- Long duration assets (unprofitable Tech? Leveraged Buyout?)
- Small caps & "zombies"?
- G7 claims?

«Fiscal dominance»: stay invested

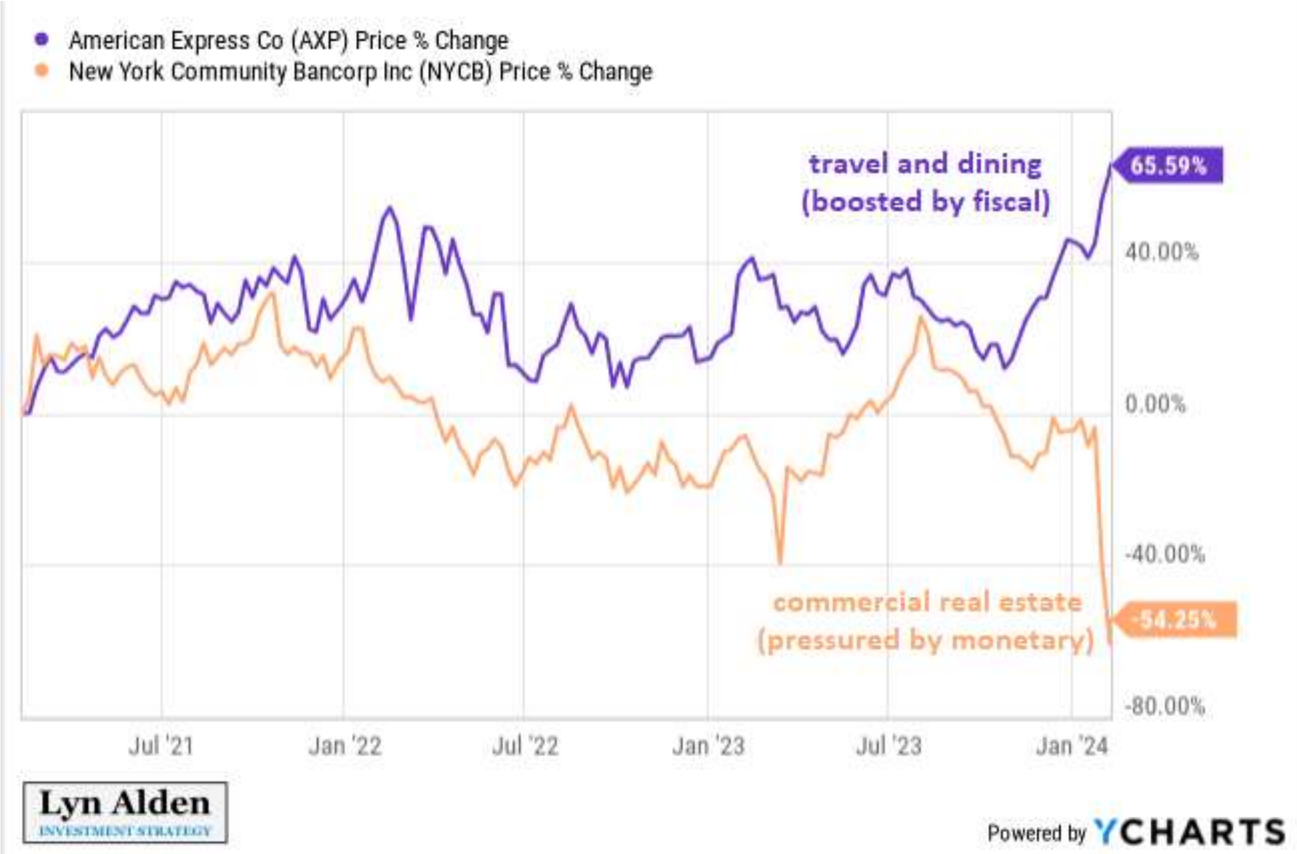
- **Over the last 30 years, the purchasing power of the US consumer dollar has been cut in half due to inflation. At the same time, the SP500 has gained 867% (7.9% per year) after adjusting for inflation.**



#fiscal-

Long «Fiscal dominance» / short «higher rates for longer»

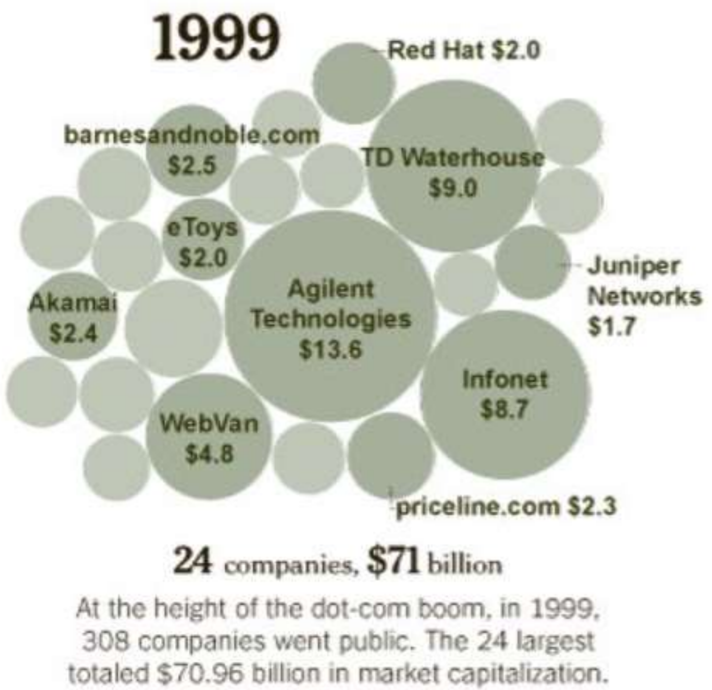
- **The wider-than-normal divergence between loose fiscal policy (which is stimulating) and tight monetary policy (which slows things down) contributes to wider-than-normal divergence between the performance of different economic sectors.**



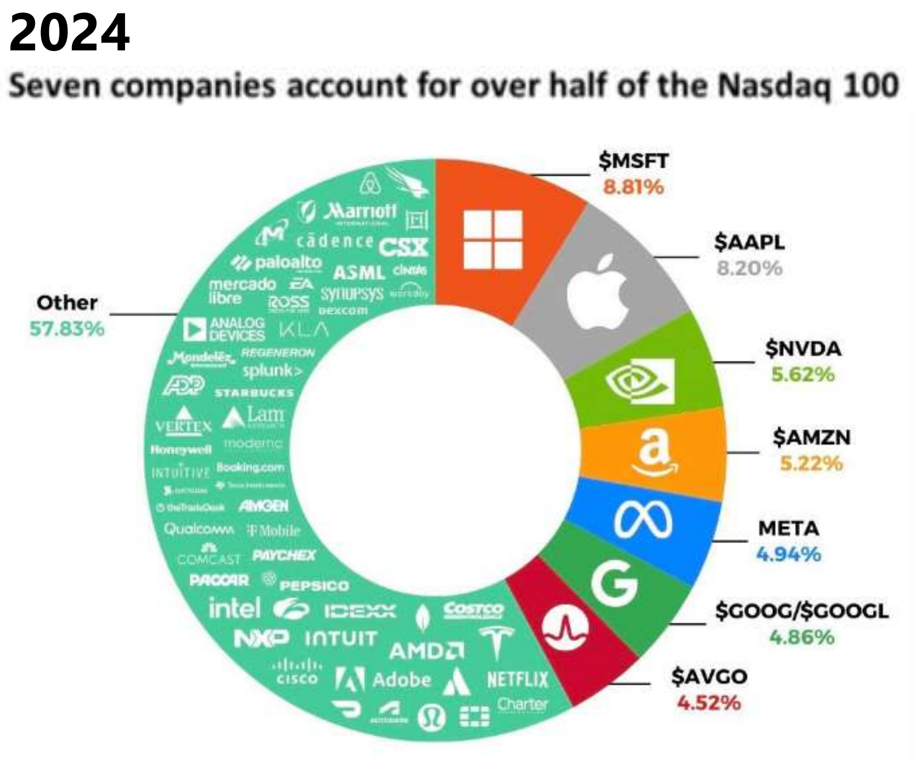
#productivity-enhancers

The Mag 7 are benefiting from a favorable supply / demand situation

- **The late 1990s saw a frenzy of IPOs, often involving money-losing companies**
- **Today:** 1) The Mag 7 attract the vast majority of AI-related investment flows and IPOs are stable **(no liquidity drain due to the influx of shares);** 2) There is even a **reduction in the supply of shares linked to share buybacks by the Mag 7**



Source: Morgan Stanley (1999 companies)



#productivity-enhancers

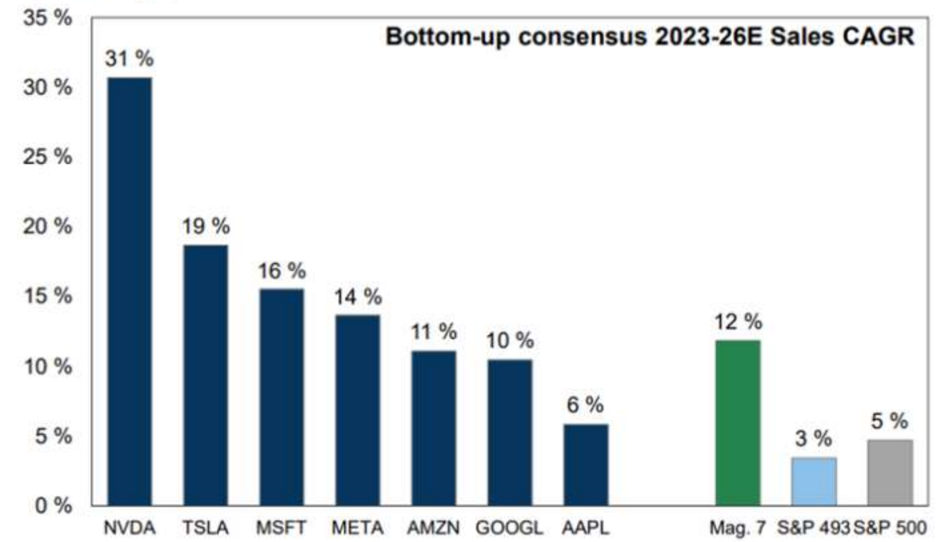
The Mag 7 strong fundamentals

- **In contrast to the dot-com era, large-cap technology stocks are already highly profitable and continue to grow at a strong pace.**

- Regarding forecasts for the coming years, **expected growth rate** is well above the rest of the market. **Expected margin levels** are also well above the rest of the S&P 500.

Exhibit 5: Consensus expects the 7 to grow sales at 4x the rate of S&P 493

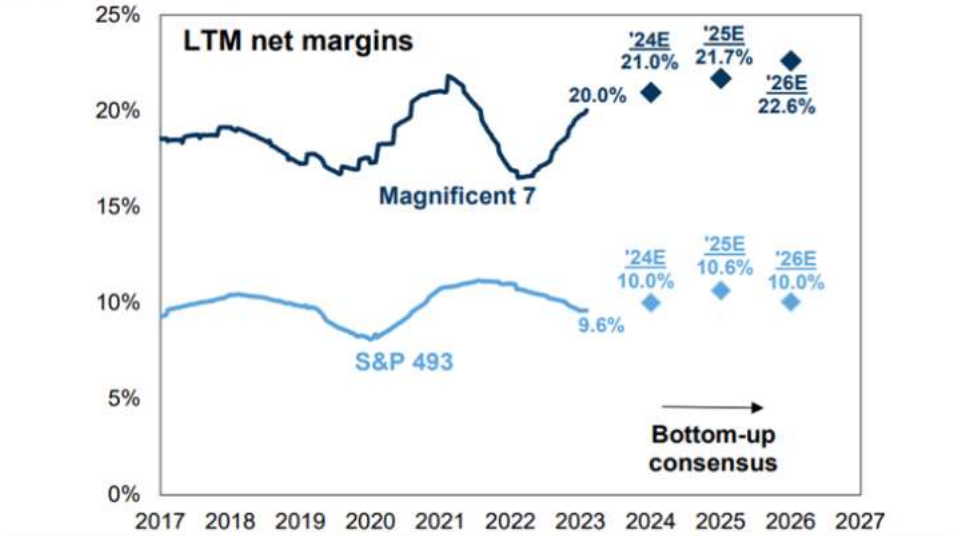
as of February 1, 2024



Source: Factset, Goldman Sachs Global Investment Research

Exhibit 6: The Magnificent 7 are expected to expand margins by >2 pp by 2026

as of February 1, 2024



Source: Factset, Goldman Sachs Global Investment Research

#geopolitics-beneficiaries #pragmatic-

The new FAANGs?

Fuels

Aerospace & Defence

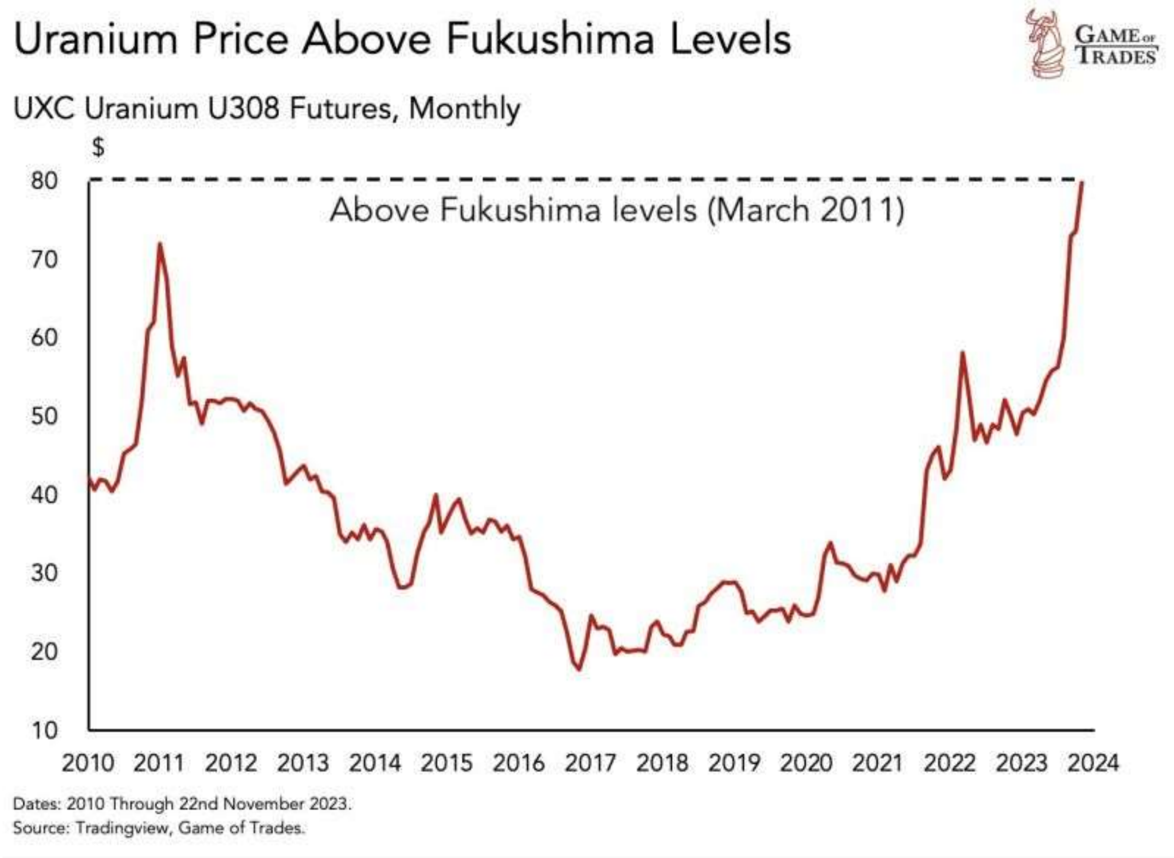
Agriculture

Nuclear & Renewables

Gold & metals / minerals

Uranium prices are now back above pre-Fukushima levels

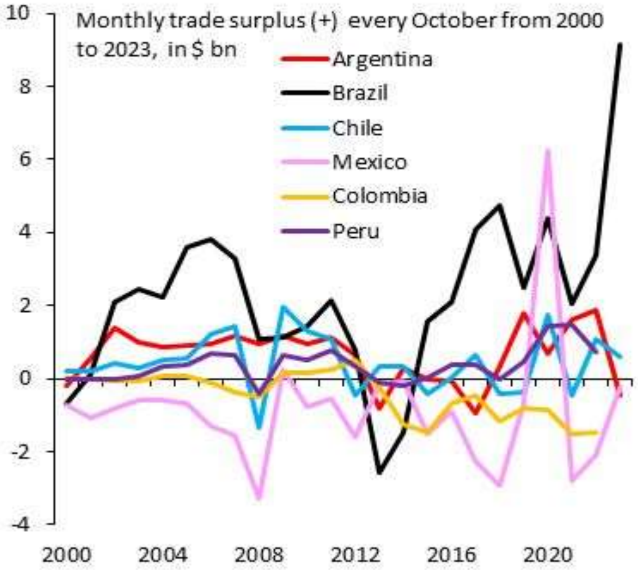
- **Uranium prices should benefit from major tailwinds from a supply deficit in the coming years, especially in the U.S**. By 2028 **a shortfall of 60% is expected.** Meanwhile, a long list of countries sees nuclear as one of the only "clean" viable option…



Source: Game of Trades

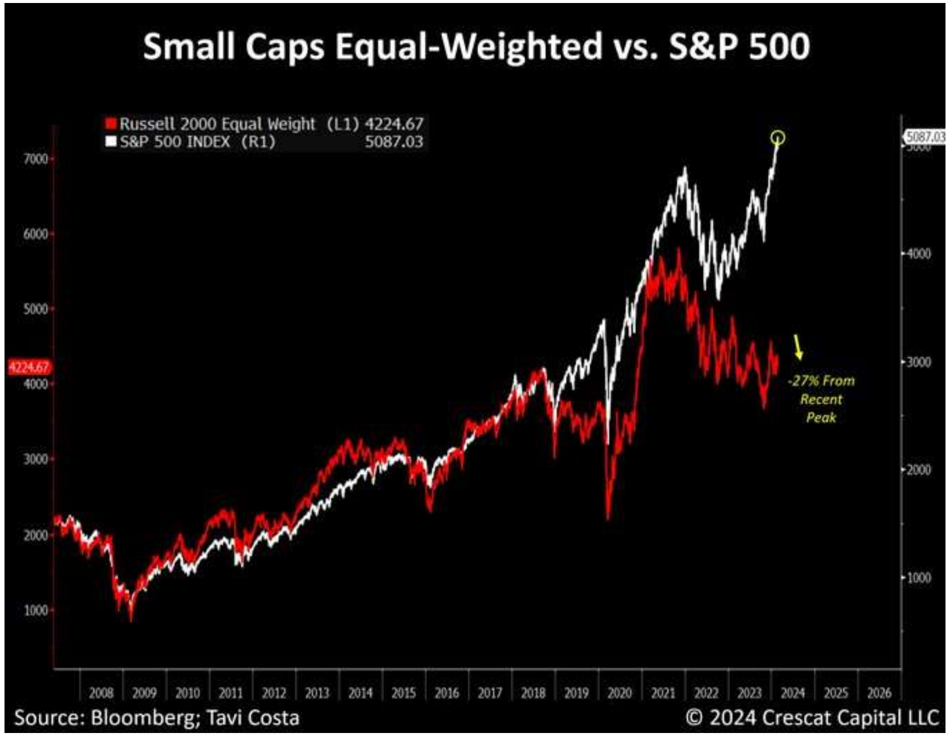
Emerging markets winners

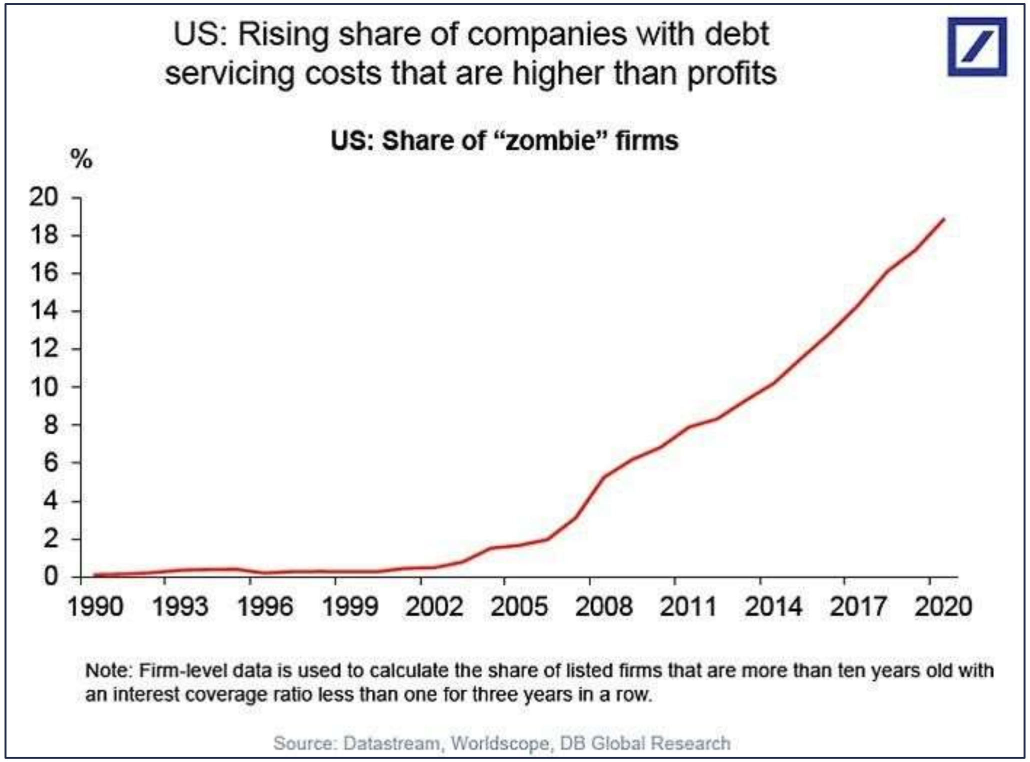
- Energy & agricultural exporters, countries benefiting from near-shoring / friend-shoring



Potential losers: small-caps & «zombies»

- **Despite the surge in market-cap indices, small-cap stocks remain deeply entrenched in a bear market, now down 27% from their recent peak.**
- **Smaller companies remain the most exposed to the elevated interest rates.** The number of unprofitable companies that are also heavily leveraged and dependent on debt issuance to stay afloat (a.k.a. Zombies) keeps rising.

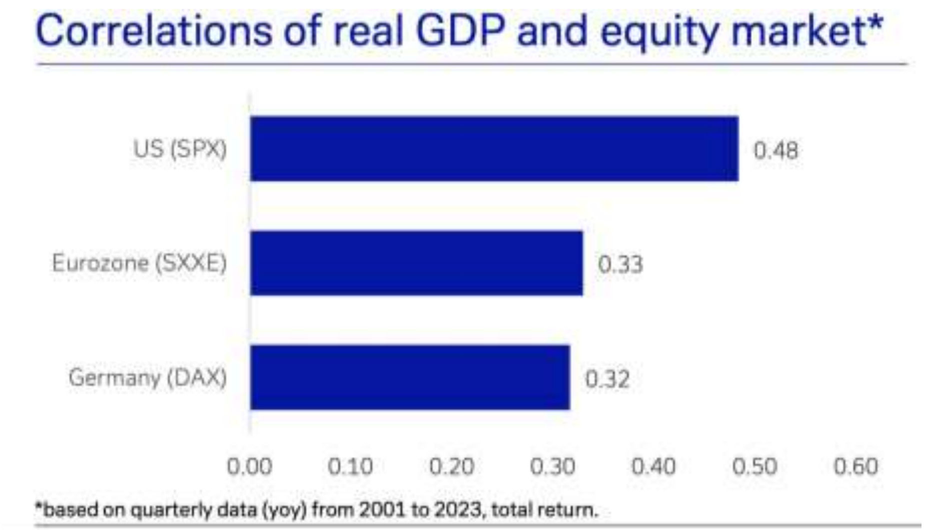


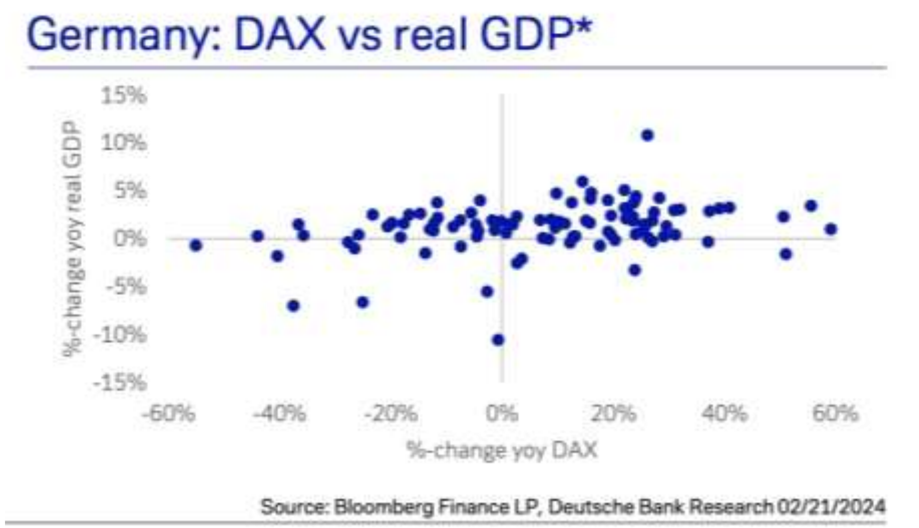


Source: Crescat Capital, DB

The limited impact of Macro data on German stocks

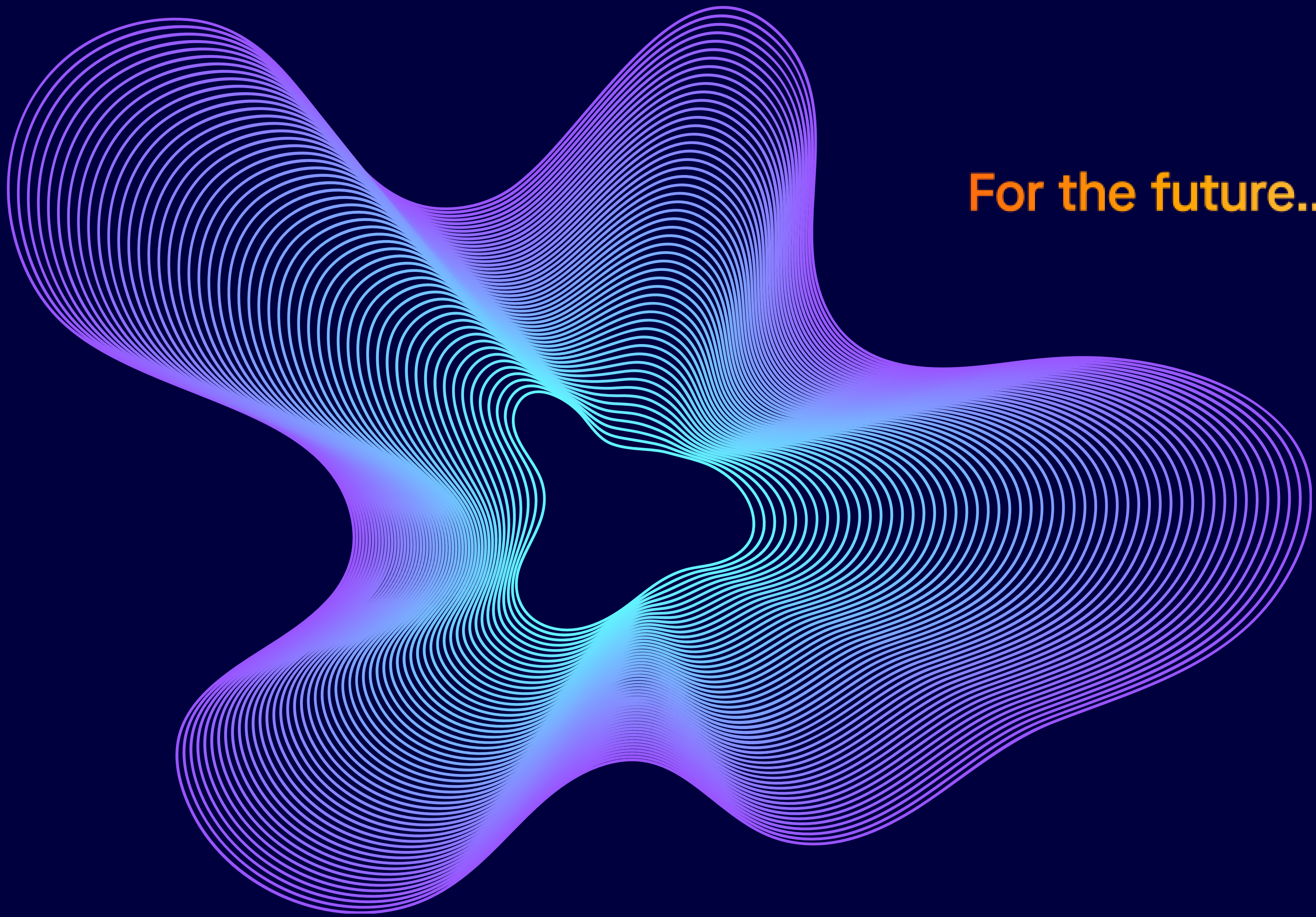
- **Despite ugly German macro data, the benchmark index Dax has hit all-time-high last week**
- **Indeed, the Dax is NOT Germany**: the correlation between German GDP growth and the Dax is just 0.32, according to DB, as German companies only earn 19% in Germany.





Source: DB

Gold & digital gold



For the future...

Important Information