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# Market outlook H2 2024

**Bank Syz**

POWERED BY SYZ RESEARCH

15 MAY 2024



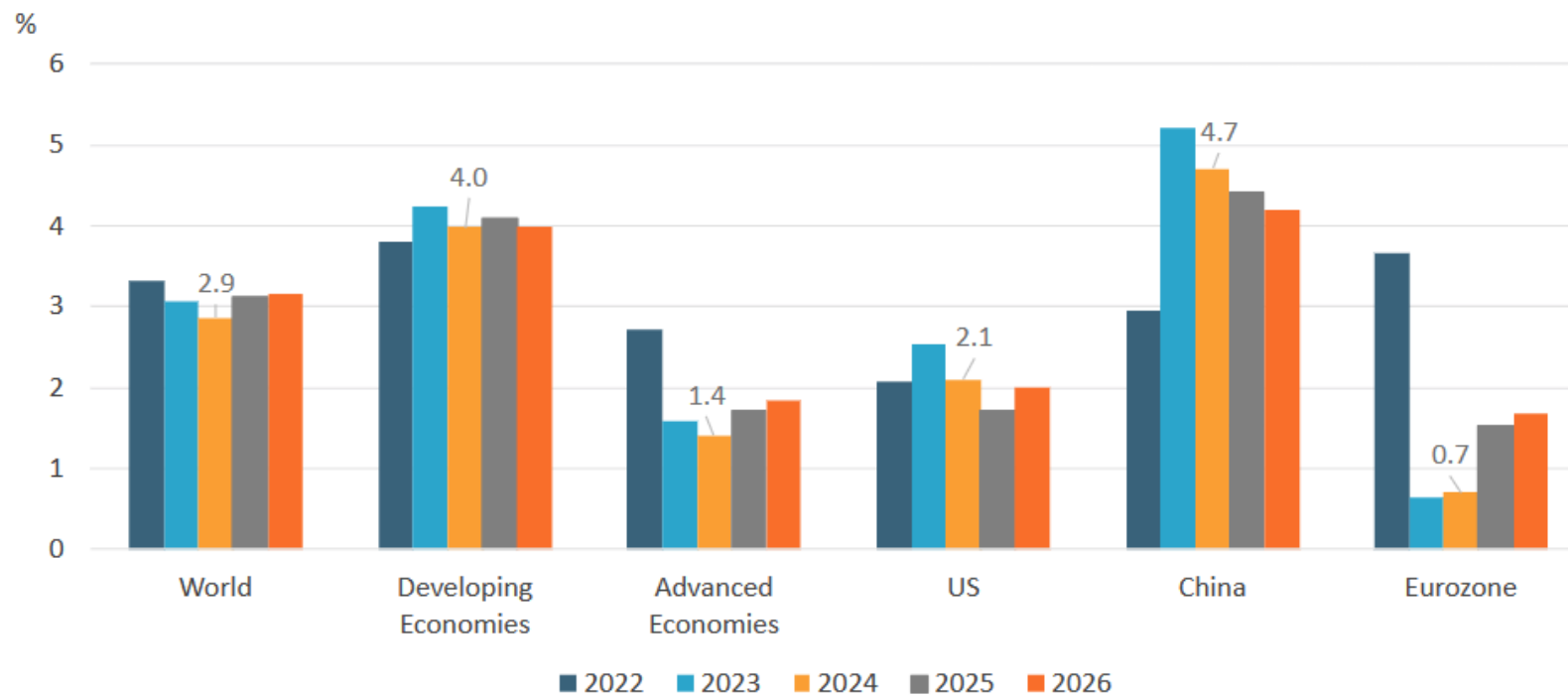
# — Agenda

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

# Economic resilience continues among advanced countries

- Still, some slowdown is expected.

### Global Real GDP Growth Baseline Forecast 2022-2026



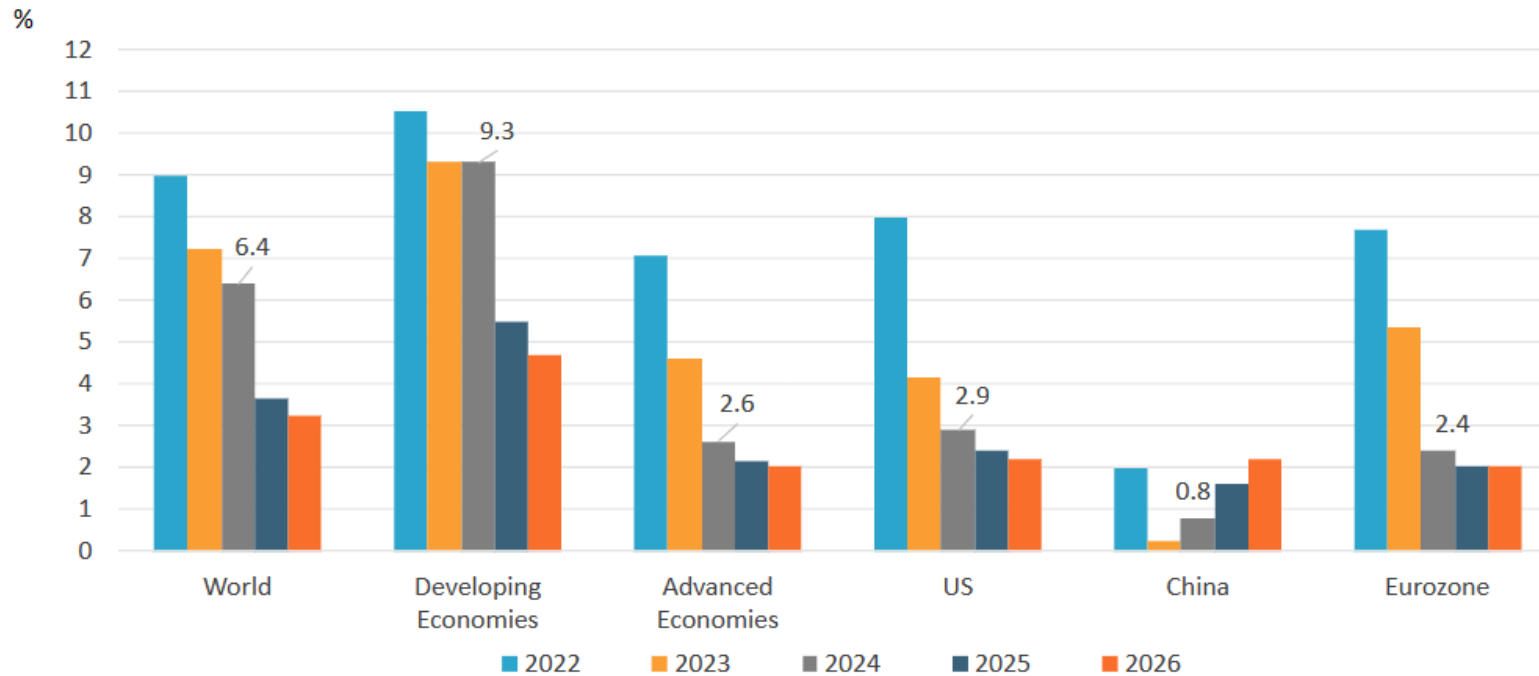
Source: Euromonitor International Macro Model  
Notes: (1) Data from 2024 onwards is forecast, updated 8 April 2024;  
(2) Regional aggregates calculated using PPP weights.



# Global disinflation trend to continue

- But renewed price pressures point to a more bumpy path

### Global Consumer Price Inflation Baseline Forecast 2022 - 2026



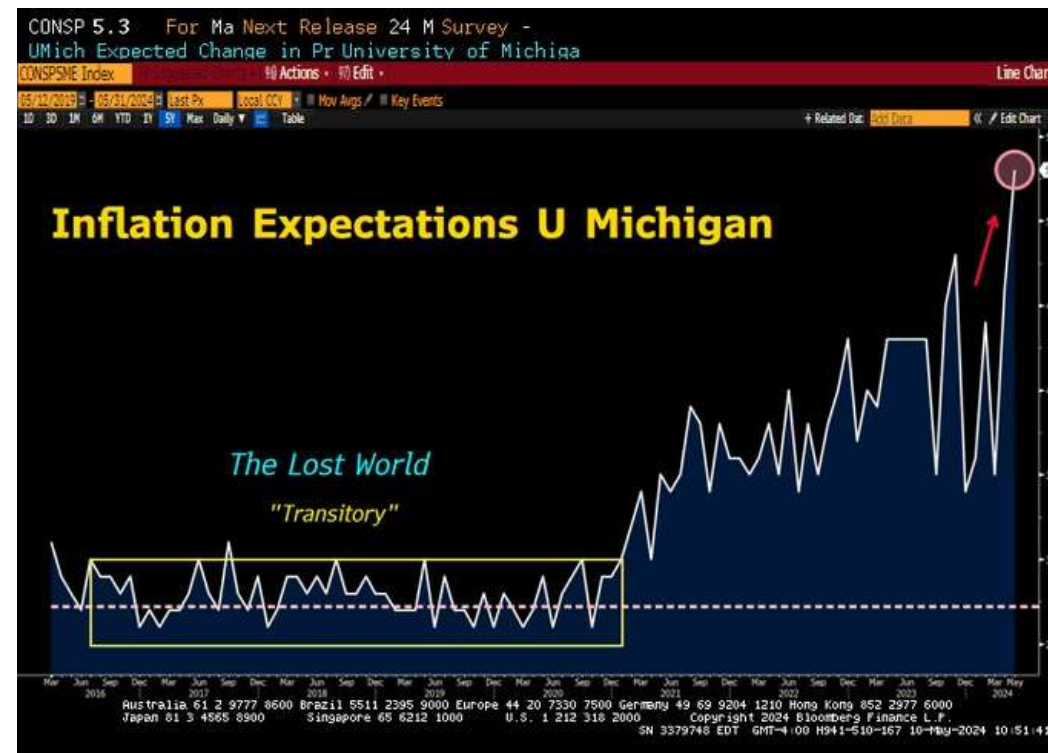
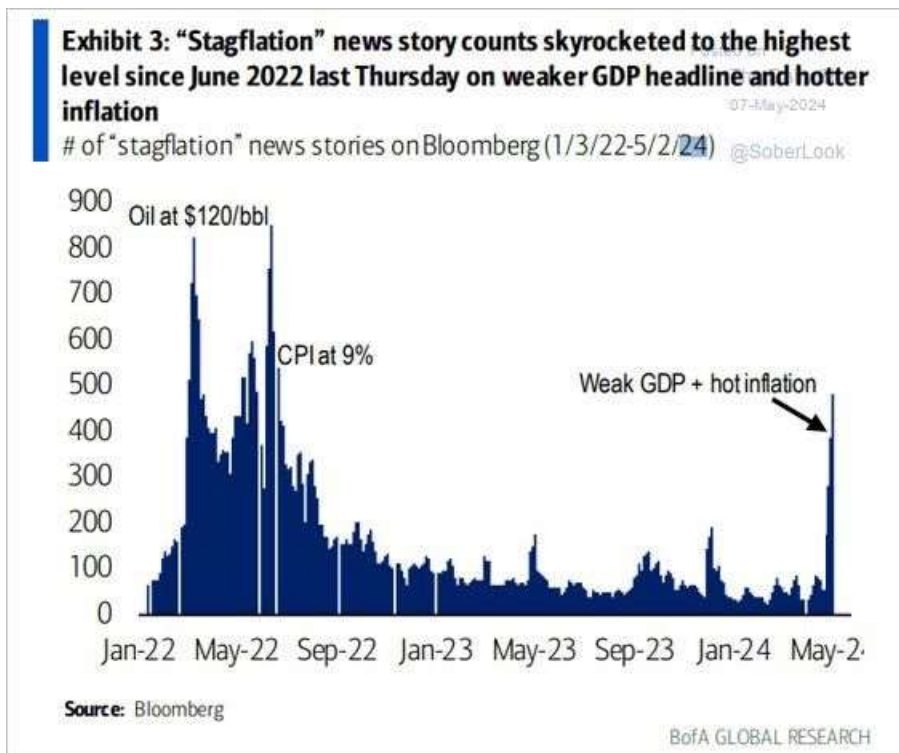
Source: Euromonitor International Macro Model

Notes: (1) Data from 2024 onwards is forecast, updated 8 April 2024; (2) Regional aggregates calculated using PPP weights



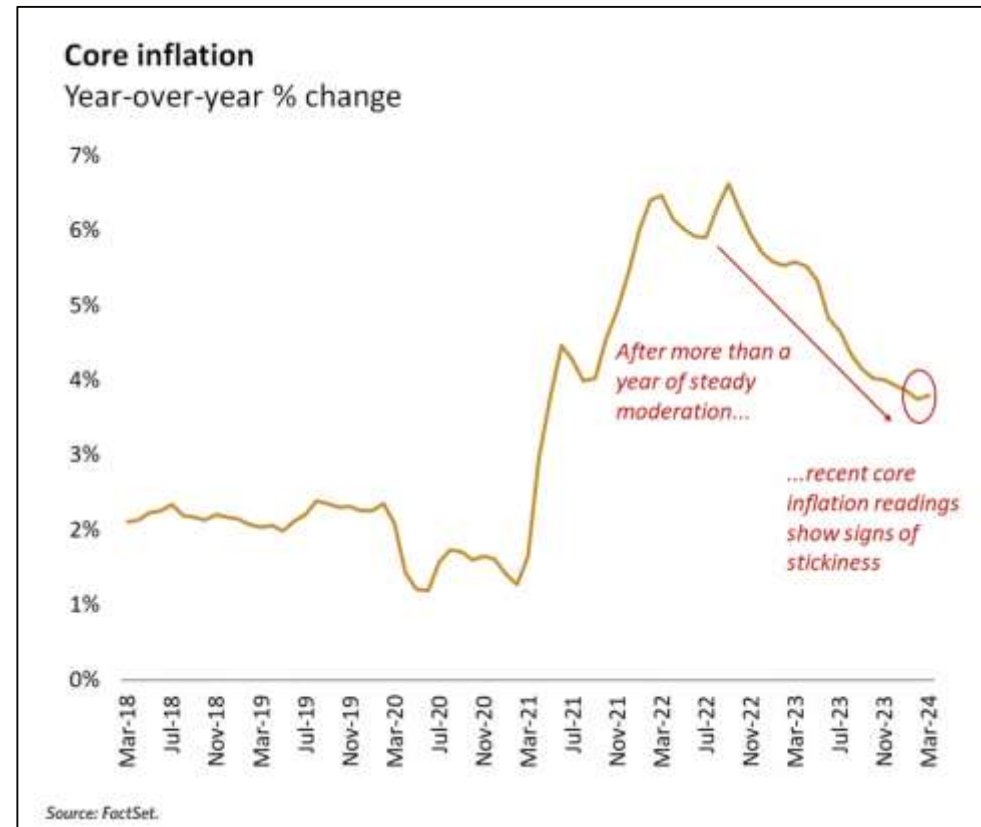
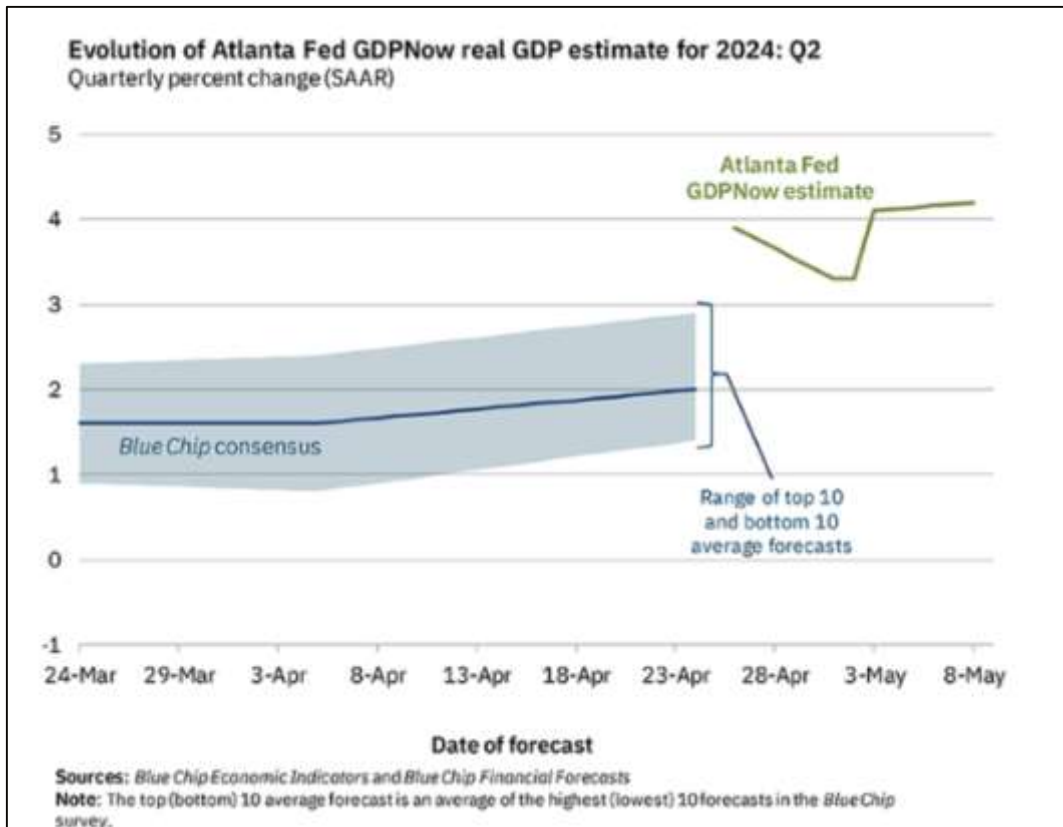
## US macro: stagflation risk (perception) is on the rise

- 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....



# 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



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

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

### Investors lift bets on 2024 Fed rate cuts

Number of cuts priced by December (percentage points)



Source: Bloomberg  
© FT

## Financial conditions in the US remain loose

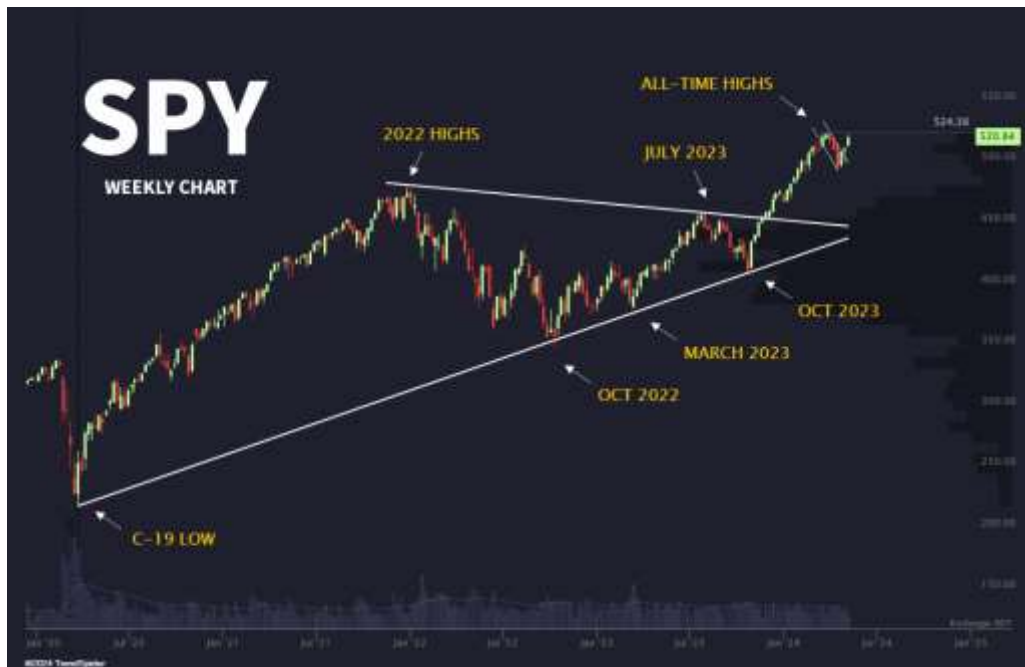
- Fed's Powell: Very pleased we haven't seen pain originally projected. The chart below summarizes it well: despite rates hikes and rates staying higher for longer financial conditions kept easing
- M2 money supply turns positive for first time since late 2022 🕒🕒





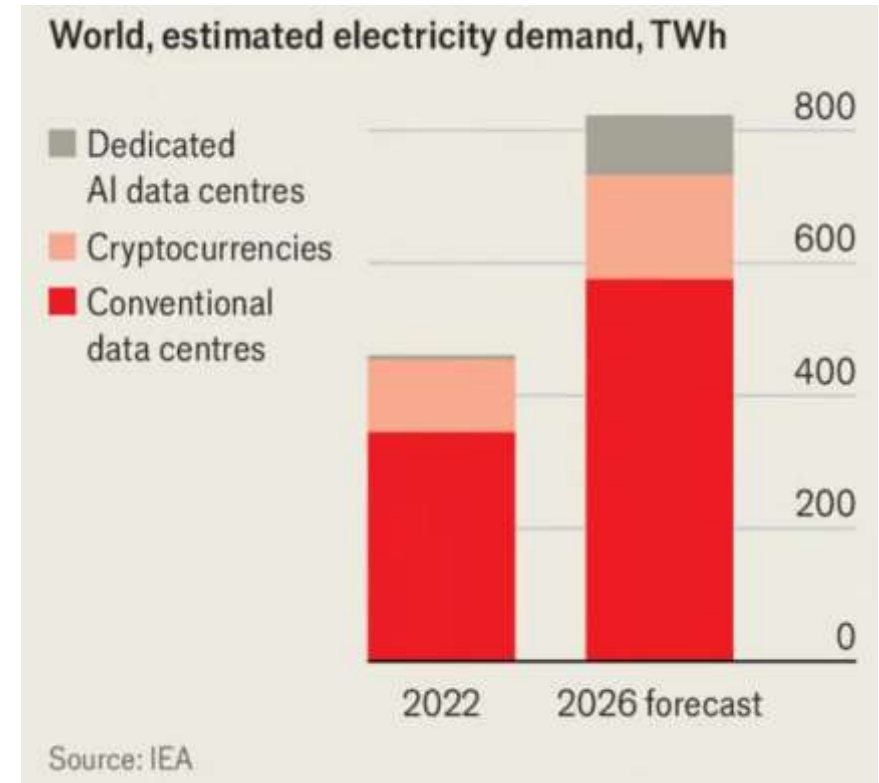
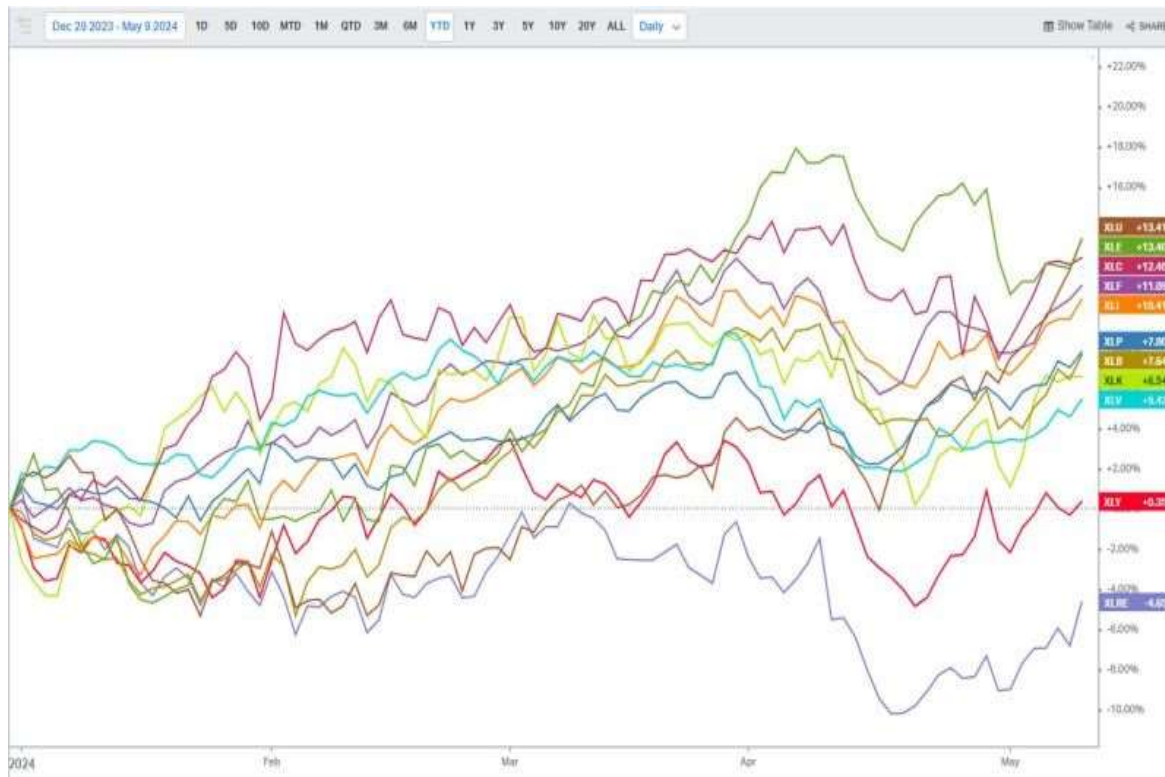
## US equities: back to all-time highs

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



## 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.**



## 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.**



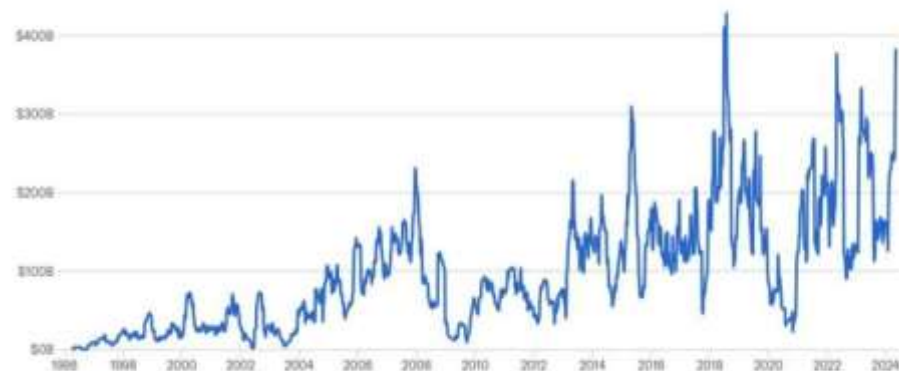
# US equities: the power of buybacks

- Buybacks just hit 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



### BUYBACKS HIT HIGHEST LEVEL SINCE 2018

S&P 500 announced buybacks, 13-week sum



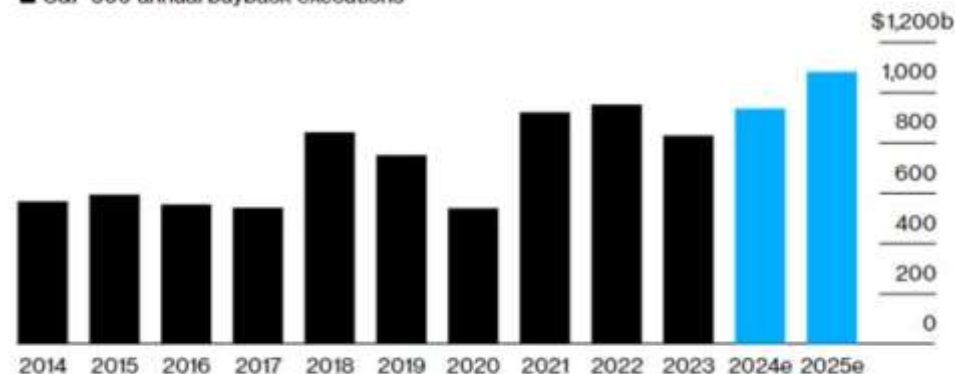
SOURCE: BLOOMBERG FINANCE LP, DB GLOBAL ASSET ALLOCATION

yahoo/finance

### Goldman Sachs Sees Soaring US Buybacks

Trading desk expects \$934 billion of corporate buyback executions for 2024

■ S&P 500 annual buyback executions



Source: Goldman Sachs

## 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: FactSet, 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.



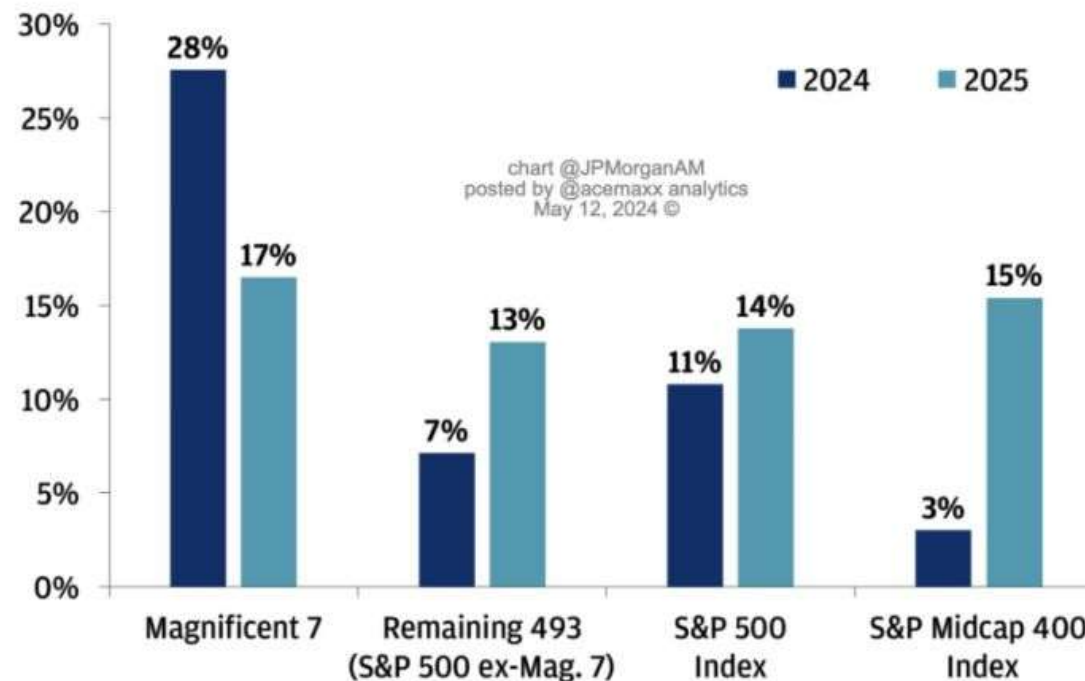
Source: FactSet, Edward Jones.

## 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.

Profits are expected to broaden out from here

Earnings per share (EPS) consensus growth estimates by calendar year, %



Source: FactSet. Data as of May 8, 2024. Estimates represent FactSet consensus. “Magnificent 7” stocks refer to Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

## 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
<b>S&amp;P 500</b>	<b>3.1x</b>	<b>15.4x</b>	<b>4.8x</b>	<b>3.3 %</b>	<b>1.3x</b>	<b>20.6x</b>
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
<b>S&amp;P 500</b>	<b>1.6</b>	<b>1.0</b>	<b>1.8</b>	<b>2.2</b>	<b>(0.1)</b>	<b>1.1</b>	<b>1.3</b>	<b>1.6</b>
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.



## 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.



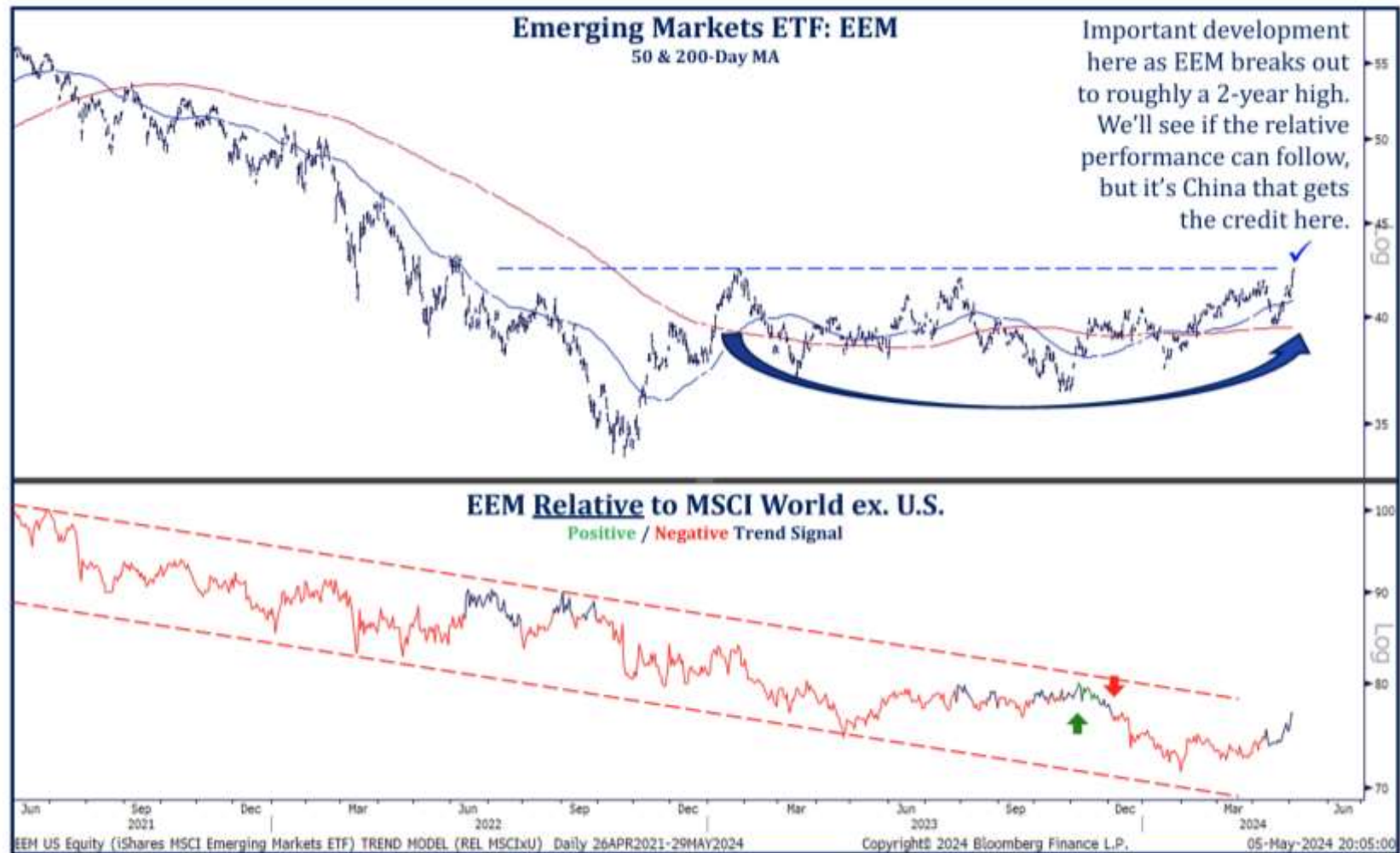
## EU equities to fresh highs. Internals remain strong

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



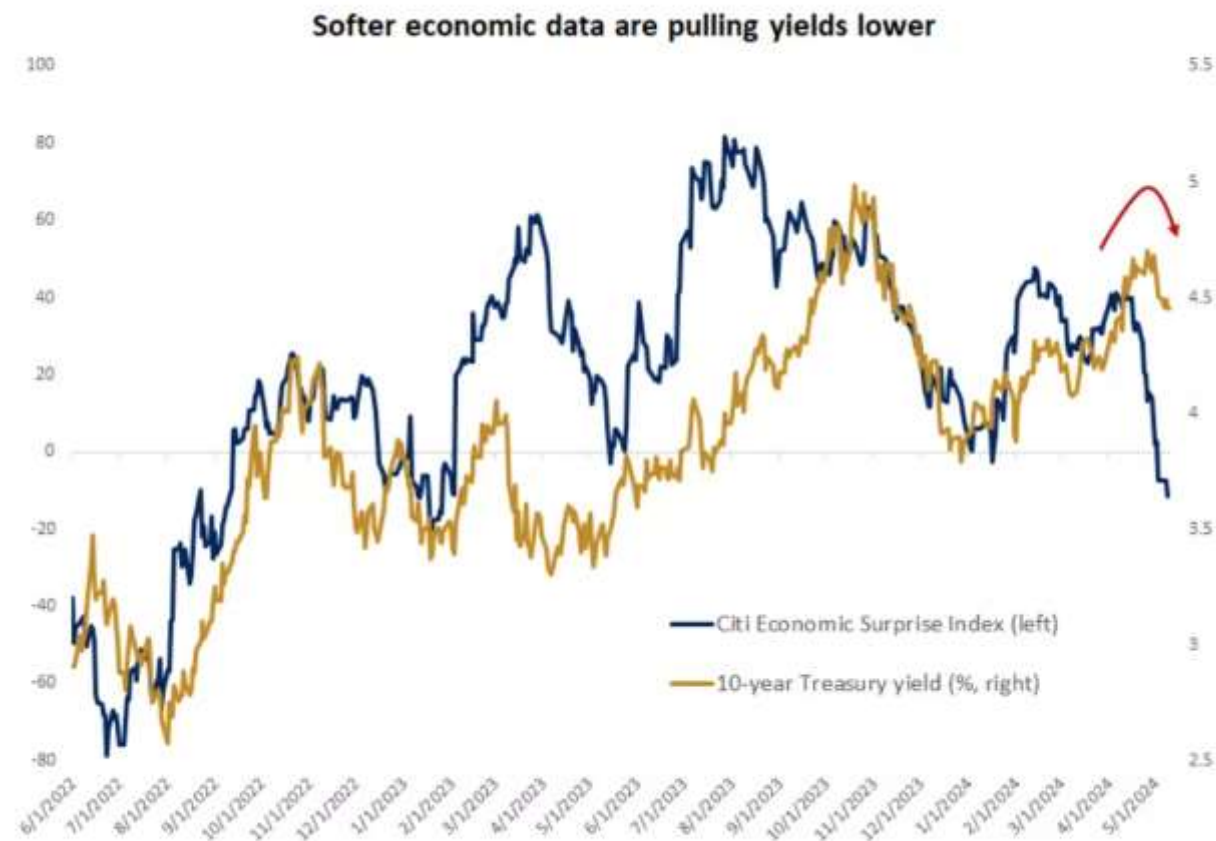
## EM equities are breaking out

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



## US Fixed Income: softer economic data are pulling yields lower

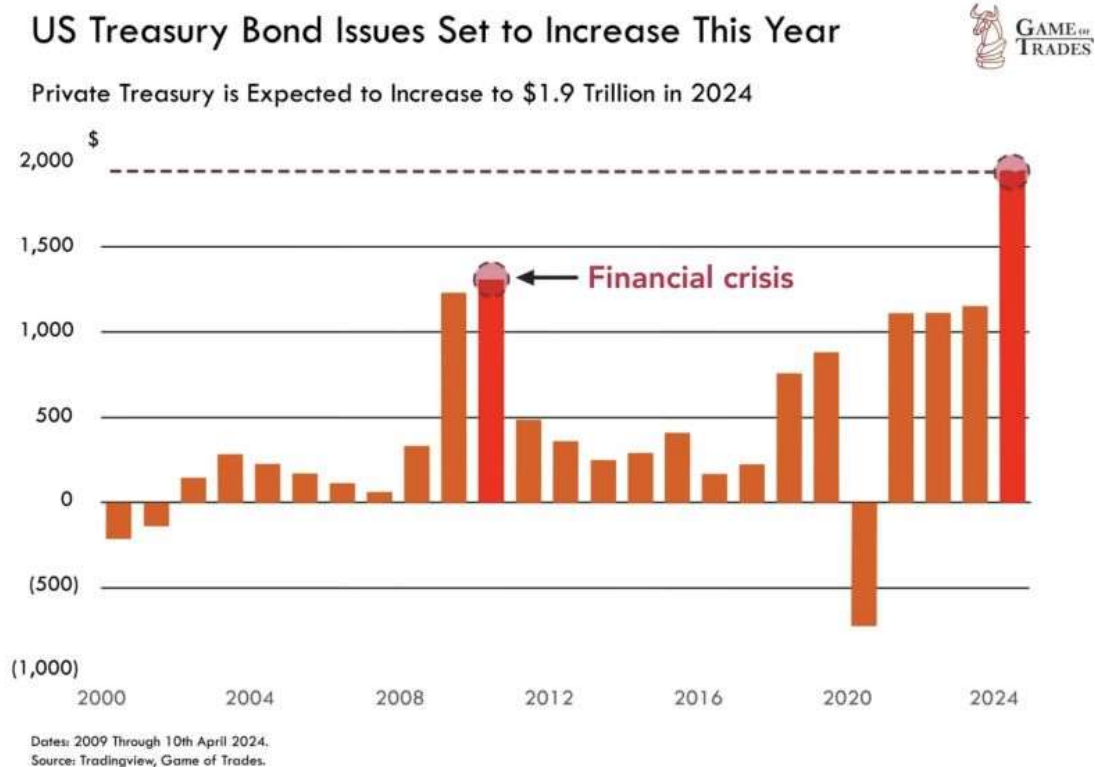
- The graph shows the economic surprise index against the 10-year Treasury yield. Softer economic data are pulling yields lower this month



Source: Bloomberg, Edward Jones

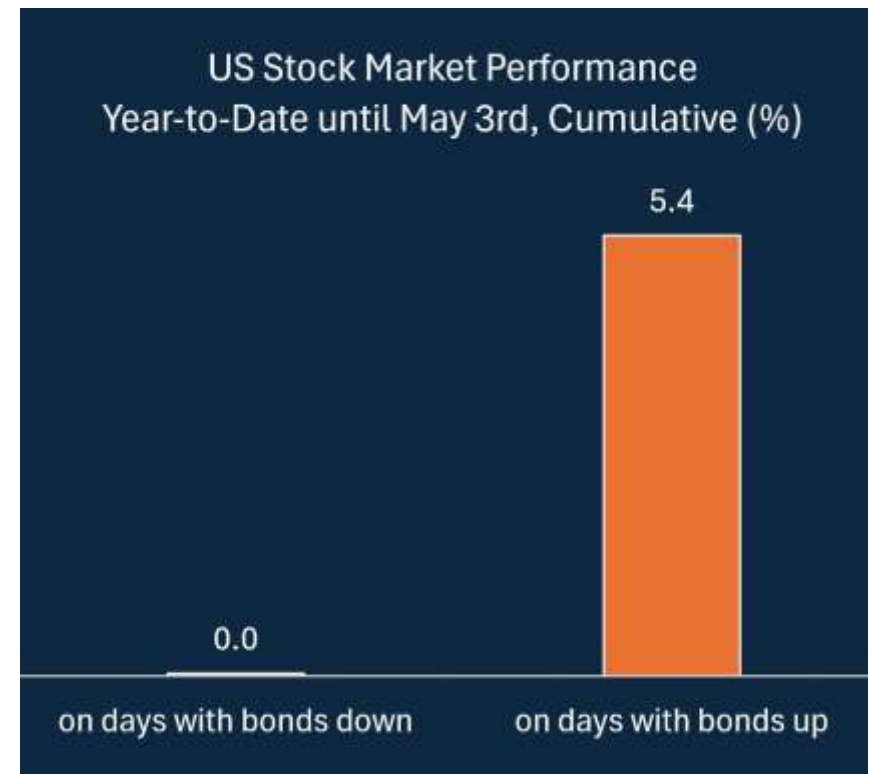
## Fixed Income: US Treasuries supply remains a headwind for bonds

- 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...



## 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.



# The House view: “Keep calm and stay invested”

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

**ASSET ALLOCATION INSIGHTS**  
MONTHLY EQUITY | 2024 Q1 22 APRIL 2024



**Keep calm and stay invested**

**Key takeaways**

- There has been a change of tone in the markets with equities pulling back in April and US 10-year yield moving up 40 basis points over the month, while gold and the dollar soared.
- The weight of evidence of our fundamental asset market dynamics indicates leads us to remain neutral to positive on equities. While markets could stay choppy for a little while, we believe that the pullback could be contained, and that further equity market weakness is buyable.
- Going forward, we want to keep our allocation to equities closer to our strategic asset allocation (SAA) neutral weights. We upgraded our stance on European stocks (from neutral to positive), and downgraded our view on Japanese stocks from positive to neutral. We remain negative in fixed income and downgraded our view on Emerging markets bonds. We have also upgraded our stance on Commodities to positive from neutral. Last but not least, we reduced all currencies by one “notch” vs. USD: EUR, CHF, GBP & EM are reduced down to negative (from neutral) while JPY is down to neutral (from positive).

**Syz PRIVATE BANKING**

Charles Henry Meislin, CEO Investment Advisor  
 Luk Phipps, Head of Investment Research & Development  
 Julian Pittwood, Head of European & Global Equities Strategy  
 Gail Fisher, Head of Fixed Income & Asset Allocation Strategy  
 Gail Simons, Head of Finance

**INVESTMENT CONCLUSIONS**  
**TACTICAL ASSET ALLOCATION (TAA) DECISIONS- 20.4.2024**

Our allocation to equities remains close to our SAA (Strategic Asset Allocation). Due to market effects, the allocation is slightly above the NEUTRAL weight.

**Global equities (NEUTRAL)**

- We increase Eurozone to Positive (single “+”)
- We decrease Japan to Neutral

**Fixed Income (NEGATIVE)**

- We reduce EM Debt to Negative (single “-”)

**FX/ES**

- Reduction of all currencies by one “notch” vs USD
- EUR, CHF, GBP & EM down to Negative (single “-”)
- JPY down to Neutral

**Commodities and Alternatives**

- Addition of Global Commodities as a Positive (single “+”)

**ASSET ALLOCATION GRID**  
**TACTICAL POSITIONING: OUR ASSET ALLOCATION MATRIX**

	++	+	NEUTRAL	-	--
<b>Portfolio Bal.</b>	Fixed Income		Cash Equity Alternatives		
<b>Fixed Income</b>	Europe (see above) EM (down to negative) EM Debt (-)		US Gov 1-10 (see below) Corporate US (see below)		
<b>Equities</b>	Emerging Markets		United Kingdom Switzerland Japan (-)	Global Equities Euro Zone	
<b>Alternative Investments</b>			Hedge Funds		
<b>Commodities</b>				Gold Oil Commodities	
<b>Currencies (vs USD)</b>	AUD (-) CAD (-) CHF (-) GBP (-) EM Currencies (-)		JPY (-)		

Change from last month: + More attractive = Less attractive | Source: Investment Strategy Group | 22 April 2024

ASSET ALLOCATION INSIGHTS | 22 APRIL 2024 | Syz Private Banking | Please refer to the complete document on last page | 4/6

# The House view: “Keep calm and stay invested”

## ASSET ALLOCATION GRID

### TACTICAL POSITIONING: OUR ASSET ALLOCATION MATRIX

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

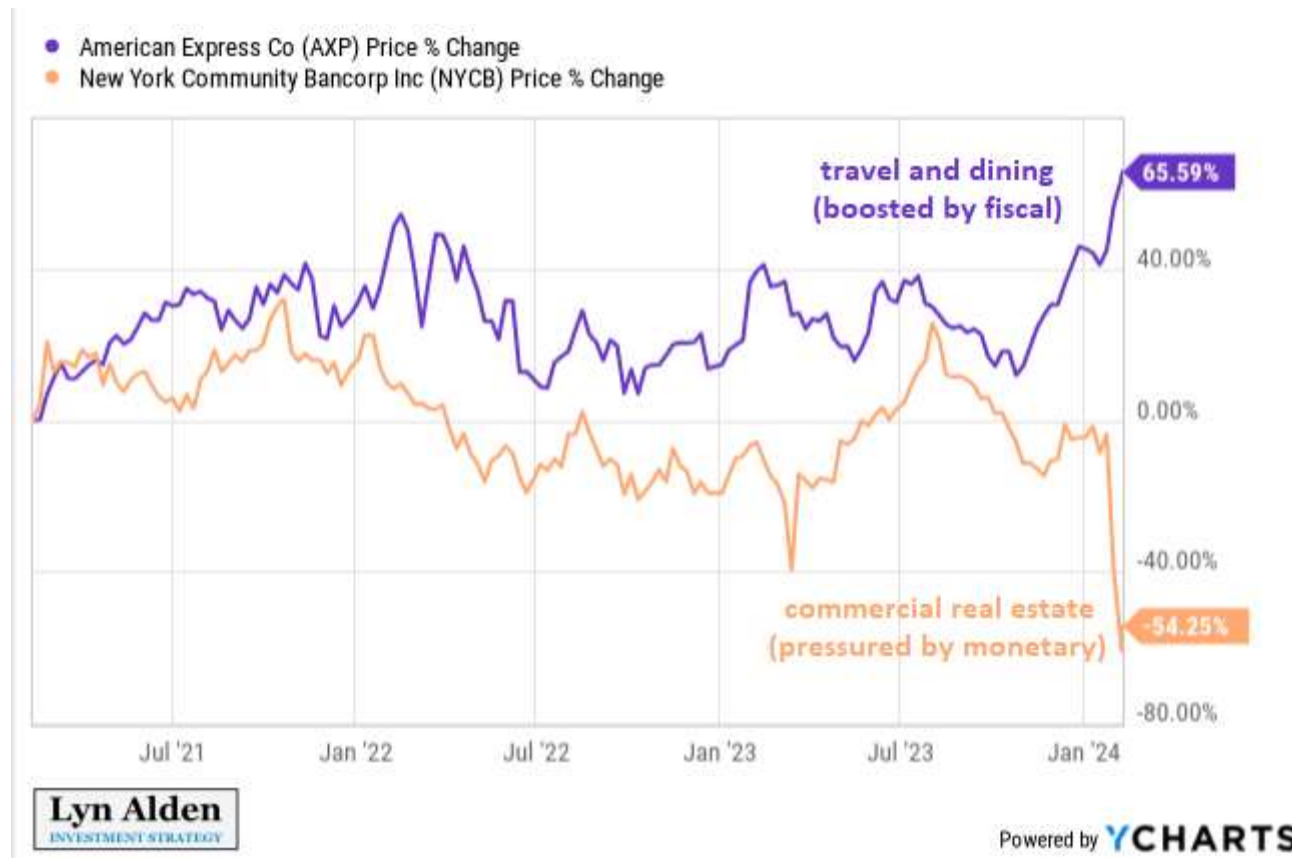
## «Fiscal dominance»: stay invested

- 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.



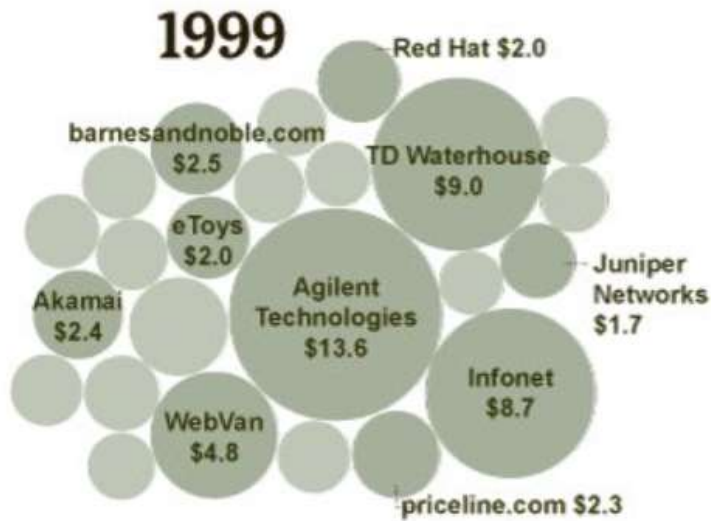
## Long «Fiscal dominance» / short «higher rates for longer»

- 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.



## 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**

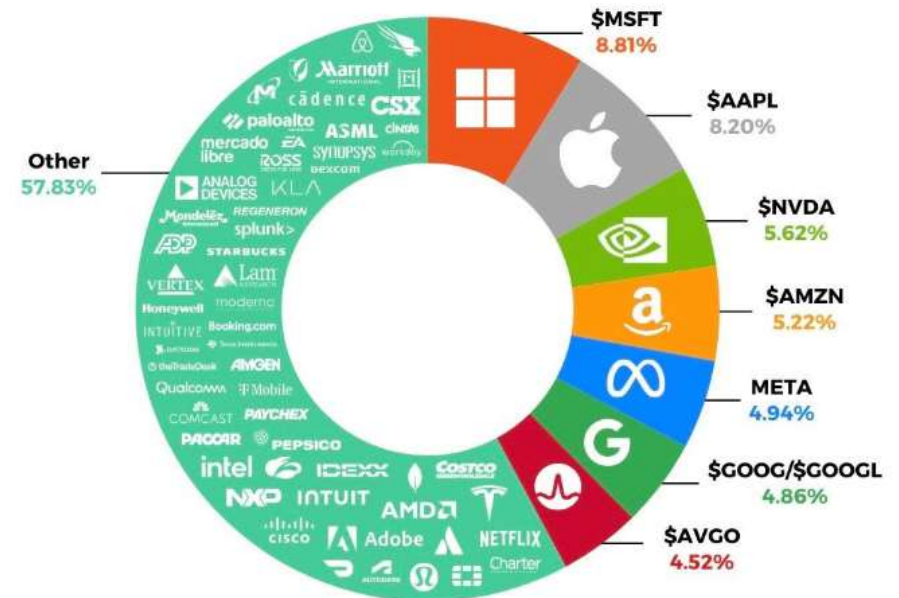


24 companies, \$71 billion

At the height of the dot-com boom, in 1999, 308 companies went public. The 24 largest totaled \$70.96 billion in market capitalization.

Source: Morgan Stanley (1999 companies)

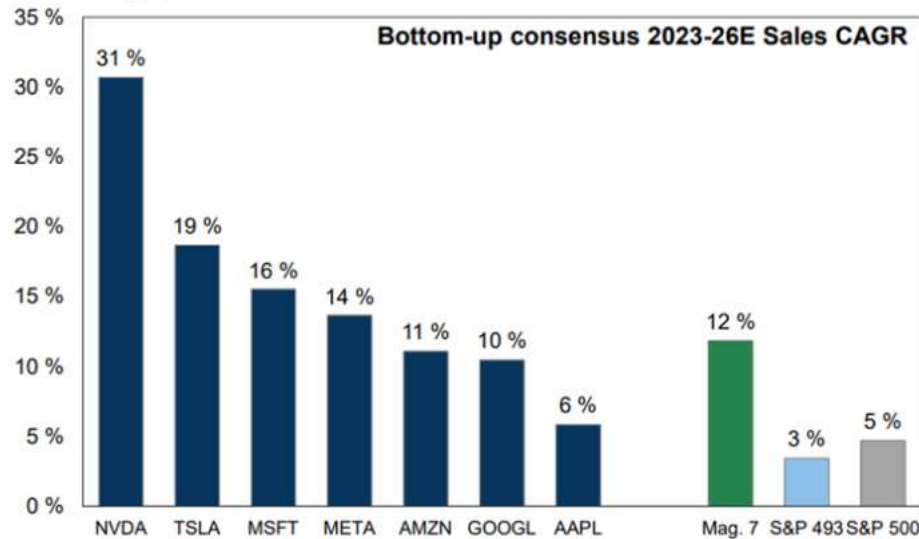
## 2024 Seven companies account for over half of the Nasdaq 100



## The Mag 7 strong fundamentals

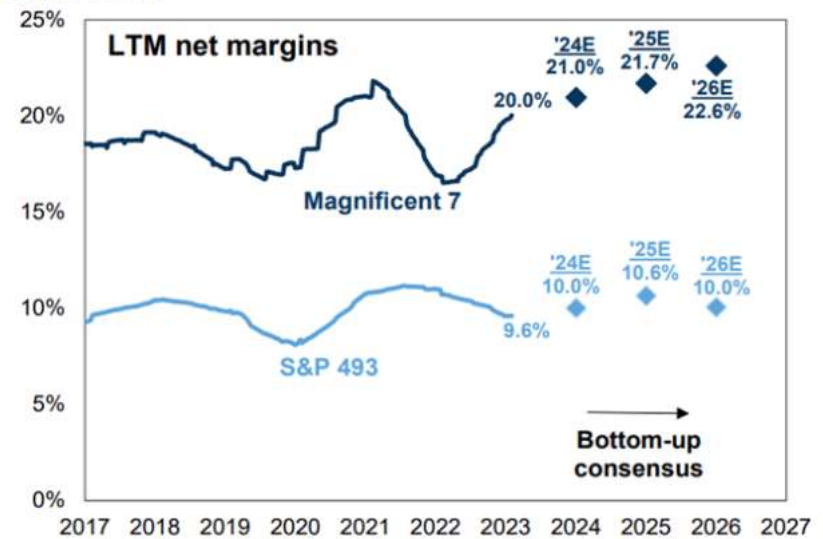
- In contrast to the dot-com era, large-cap technology stocks are already highly profitable and continue to grow at a strong pace.
- Regarding forecasts for the coming years, **expected growth rate** is well above the rest of the market. **Expected margin levels** are also well above the rest of the 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



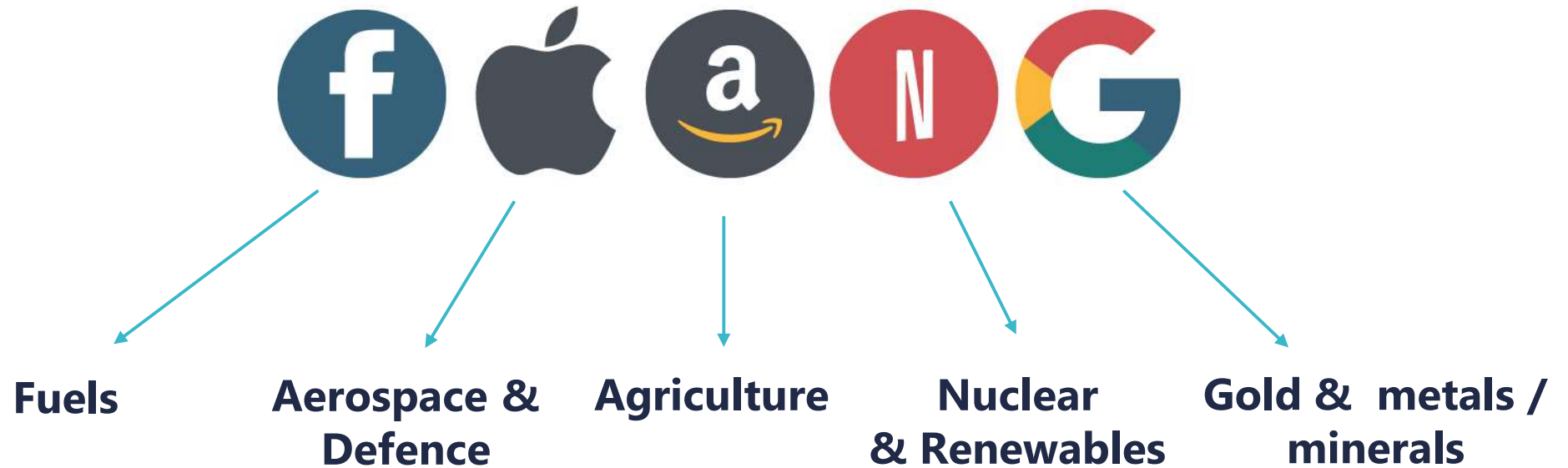
Source: Factset, Goldman Sachs Global Investment Research

**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

## The new FAANGs?



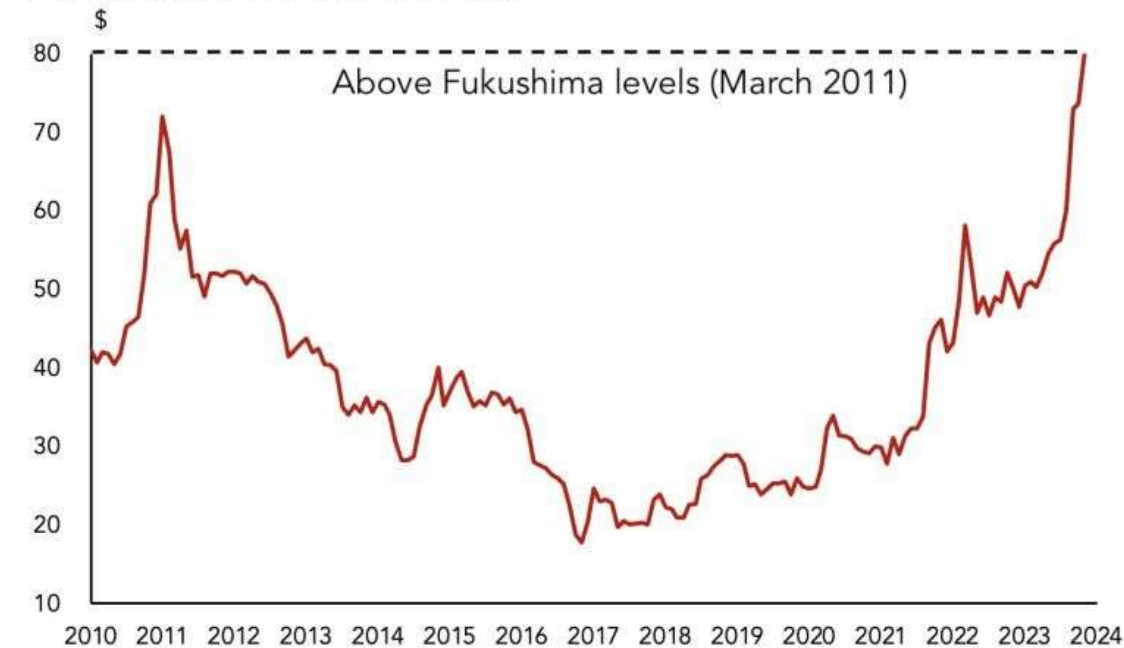
## Uranium prices are now back above pre-Fukushima levels

- **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...

Uranium Price Above Fukushima Levels



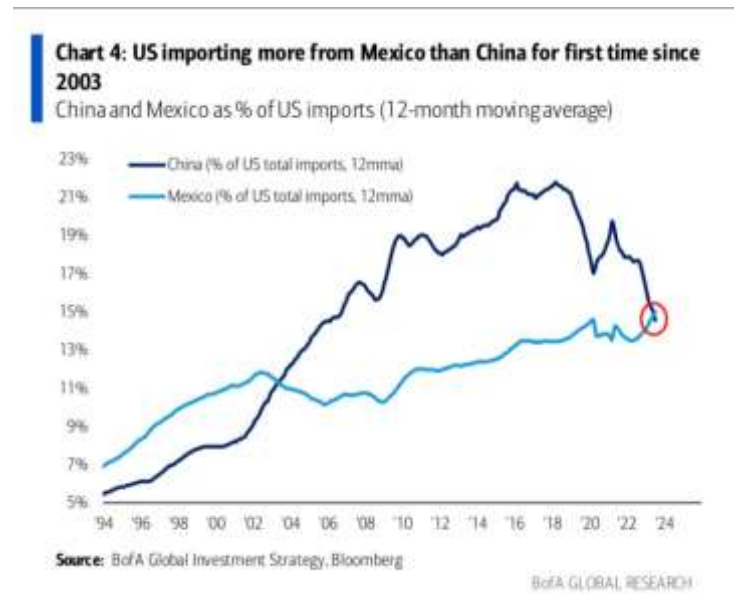
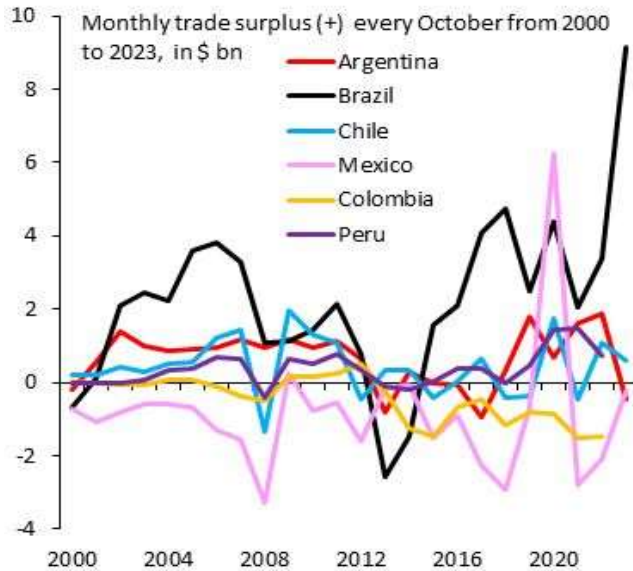
UXC Uranium U308 Futures, Monthly



Dates: 2010 Through 22nd November 2023.  
Source: Tradingview, Game of Trades.

## Emerging markets winners

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



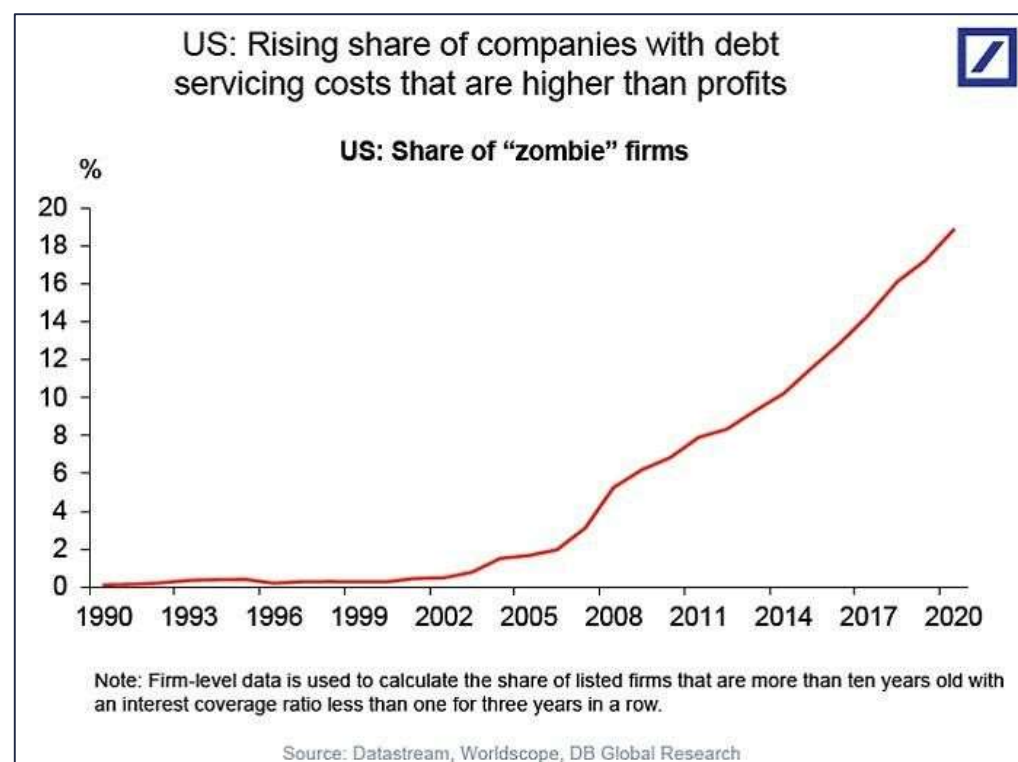
iPhone 14: Can India replace China as the world's factory?





## Potential losers: small-caps & «zombies»

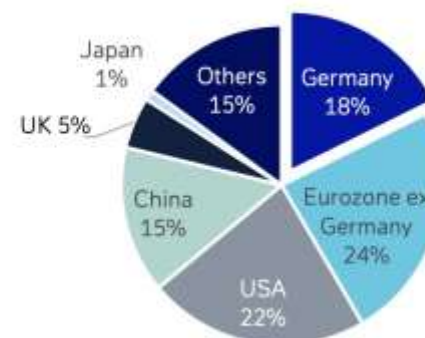
- Despite the surge in market-cap indices, small-cap stocks remain deeply entrenched in a bear market, now down 27% from their recent peak.
- Smaller companies remain the most exposed to the elevated interest rates. The number of unprofitable companies that are also heavily leveraged and dependent on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



## The limited impact of Macro data on German stocks

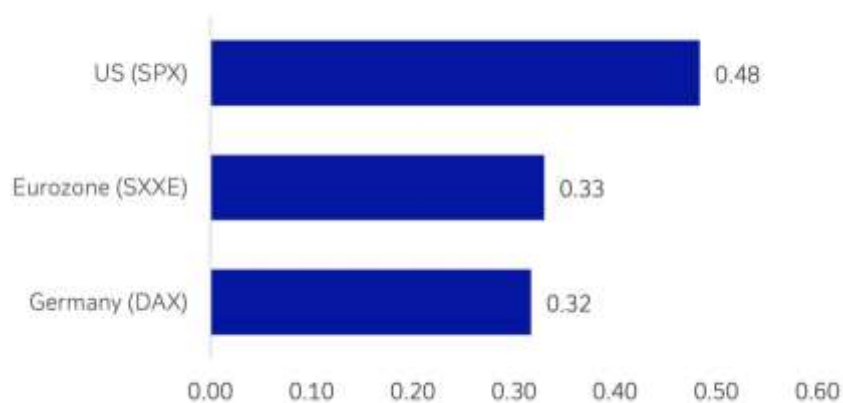
- **Despite ugly German macro data, the benchmark index Dax has hit all-time-high last week**
- **Indeed, the Dax is NOT Germany:** the correlation between German GDP growth and the Dax is just 0.32, according to DB, as German companies only earn 19% in Germany.

### DAX: revenue exposure



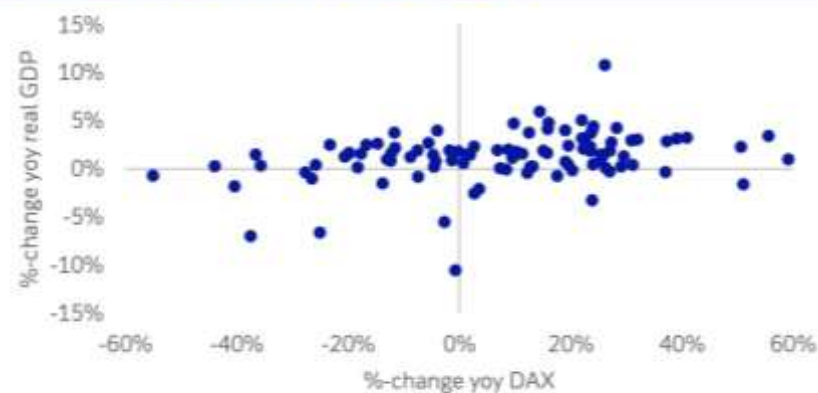
All exposures are best estimates by our DB company analysts and are not necessarily based on published company data.  
Source: Company data, Bloomberg Finance LP, Deutsche Bank Research 05/31/2023

### Correlations of real GDP and equity market\*



\*based on quarterly data (yoy) from 2001 to 2023, total return.


### Germany: DAX vs real GDP\*



Source: Bloomberg Finance LP, Deutsche Bank Research 02/21/2024

# Gold & digital gold

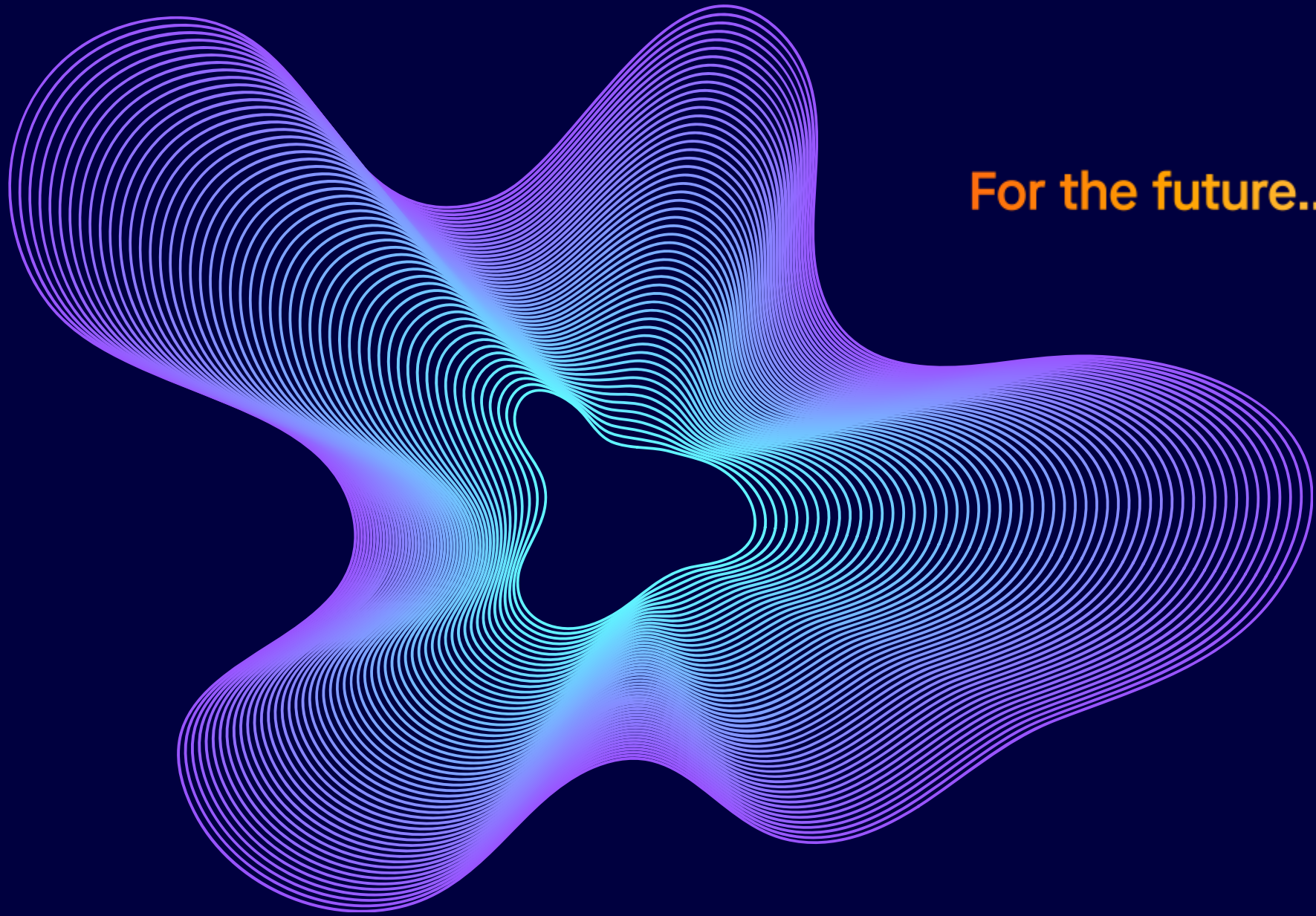
## GOLD VS BITCOIN

<b>TANGIBILITY</b> Gold is physical. Bitcoin is a digital, thus intangible asset. 	<b>HISTORY</b> Gold has thousands of years of history backing it. Bitcoin Has A Decade Old History 	<b>VOLATILITY</b> Gold is Less Volatile. Bitcoin is Highly Volatile. 	<b>RISKS &amp; RETURNS</b> Gold has Low Risk & Low Return. Bitcoin has High Risk & High Return.
<b>GOVERNMENT CONTROL</b> Gold is Under Control Of Futures Market. Bitcoin is Not In Government Control.	<b>FUNGIBILITY</b> Gold is Difficult To Send/Receive. Bitcoin is Easy To Send/Receive. 	<b>LIABILITY TO CONFISCATION</b> Gold is Easy To Confiscate Bitcoin is Difficult to Confiscate.	<b>SCARCITY</b> Gold Is rare but supply is not fixed Bitcoin supply is fixed. 

### BITCOIN VS GOLD SIMILARITIES

1. Globally Accepted	4. Limited In Supply
2. Investments Are Speculative In Nature	5. Have Safe Heaven Properties In Economic Collapses
3. Costly To Mine	6. Impossible To Counterfeit





**For the future...**

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