Making sense of **divergent information**

- **Last week was mixed for most asset classes, with US stocks once again the positive exception**
- **Geopolitics, US politics, Q3 earnings were supportive but top-down data was a bit confusing**
- **Our positioning remains slightly defensive, with strong YTD returns so far**

Market participants seem to lack conviction so far in October, and last week was no exception.

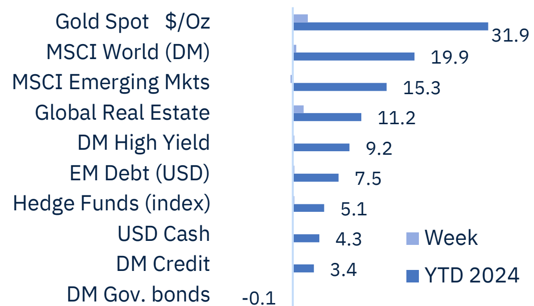
On the one hand, US stocks continued to print record highs, for good reasons: a positive start to the Q3 earnings season, some trend appearing in elections polls, robust retail sales and the low jobless claims released last week. In addition, hopes for geopolitical de-escalation pushed oil prices materially lower.

But on the other hand, visibility remains low. China surprised positively with its Q3 GDP growth and its September industrial production and retail sales, but disappointed on deeply negative PPI and tepid exports. The hiatus continues between authorities and market participants, weighing on stocks. Even in the US, everything is not that clear, with the Empire manufacturing and industrial production both raising concerns. In Europe, some earnings in consumer related sectors were disappointing, and the well telegraphed 25bps rate cut from the ECB did not trigger investors' enthusiasm.

In a nutshell, the global economy remains supportive with US exceptionalism and stimulus in China. The issue is that most asset classes are priced for it, and global investors positioned for it, creating vulnerability to any rise in uncertainty. Will inflation come back at some point? Will the US elections deliver a smooth result? Will the geopolitical picture actually improve? A few questions remain in the "Year of Answers".

This is why we stay slightly defensive, since September, ready to seize the next opportunities after so far excellent returns in 2024. The week ahead will provide more corporate earnings as well as flash PMIs everywhere in particular. Have a great one.

ASSET CLASSES USD % TOT.RETURN, 2024 & LAST WEEK



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Cross-asset Update

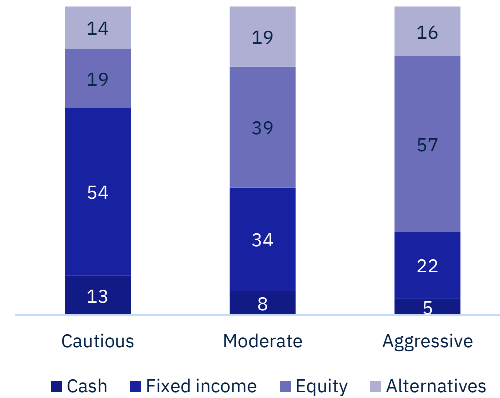
More central banks are expected to cut rates, following the start of an easing cycle that has seen the US Federal Reserve in a leading position. While the prospects for future outsize Fed easing are somewhat dimmer now, given the extreme resilience of the US economy, in other economic areas, and in Europe and China in particular, the need to do more seems obvious. The euro area September CPI below 2%, as well as the muted growth outlook give the ECB ample leeway to go ahead with a third cut at the December meeting. This morning the Chinese banks lowered the 1-year and 5-year loan prime rates by 25bps, after the central bank lowered interest rates at the end of September. More is in pipeline in both countries, and with a growing number of central banks going to ease, few months down the line one should see noticeable effects on the economy. Indeed, the liquidity made available via monetary policy has historically boosted the manufacturing cycle, so far the missing link in the global recovery. This, alongside the novelty represented by the Chinese stimulus, should be good reason to think the equity market rally can broaden further.

A more sustainable equity bull market firstly unfolded in July, with US small caps outperforming large caps, and materials rallying on hopes for new Chinese measures propping up the economy. We have since seen further improvements. US small caps are close to their all-time highs, and financials and transportation stocks have recorded new highs for the year. And the prospect for more liquidity has also awakened cryptocurrency investors, that pushed bitcoin closer to its all-time highs. Also, amidst US exceptionalism and a hawkish repricing of expected rate cuts the dollar rebounded hard against major peers. All of this could be seen as a US soft landing turning into a no landing, or the emergence of Trump trades. And it could actually be a bit of both.

We hold the view that, irrespective of whom lands the top seat in the White House, risk assets should rally into year-end. As more money is thrown to the economy even as no recession is in sight, a stronger recovery should also impact yields and exert upward pressure on the longer-end of the Treasury curve. And with more China stimulus forthcoming, commodities would be benefitting, pointing to further inflation down the road, that in the early phases would be seen just as reflation, hence still a net positive.

Gold should not be outperforming against this backdrop. Yet, the secular factors represented by Western debt levels getting out of control, and the BRICS+ central banks consistently purchasing the yellow metal in pursuit of a new monetary system have de-anchored gold from real rates.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

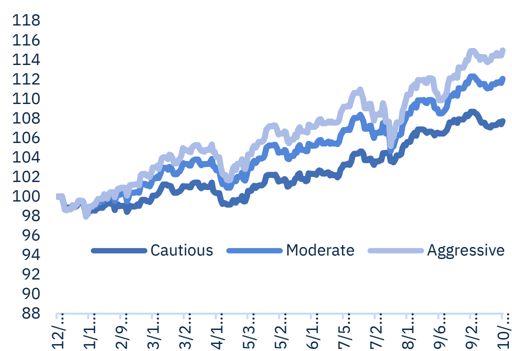


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>>
DM Gov.			>>
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<<		
EM Equity	<		
Gold			>
Hedge Funds	<<		
Real Estate	<		

TAA – 2024 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

Strong macro data from the US continues as retail sales came in at 0.4% MoM vs an expectation of 0.1%. Weekly jobless claims came down to the 240k range indicating a strong labour market. The yield curve's bear-steepening suggests we may yet see higher yields. There are no catalysts to reprice Fed rate path dovishly in the short term. JP Morgan Fed Sentiment Index has reversed from extreme dovish levels. We remain neutral duration at the moment, with a lot hinging on the outcome of the US elections. October employment numbers will be marred by hurricane Milton and markets may look through a weak number.

Looking at US elections, a split congress accompanied by either a Republican or Democrat win would leave little room for fiscal expansion. However, the President can dictate trade policy without Congressional approval. According to a JP Morgan calculation. a 60% tariff on all Chinese imports would statically raise just over $200 billion, raising the price level by 1.1%. A similar calculation for a 10% universal tariff yields $280 billion, or about 1.5% on the price level. This would be inflationary and with increased volatility would demand higher term premium resulting in higher long-end yields. A Harris victory on the other hand would be taken as the keeping of the status-quo and would not impact yields much.

However, a sweep of either party in the elections would increase the fiscal concerns driving the case for a bear-steepening of the curve. Bipartisan research from the Committee for a Responsible Federal Budget has estimated that Vice President Harris's plan would increase the debt by $3.5tn through 2035, while President Trump's plan would increase the debt by $7.5tn over the period.

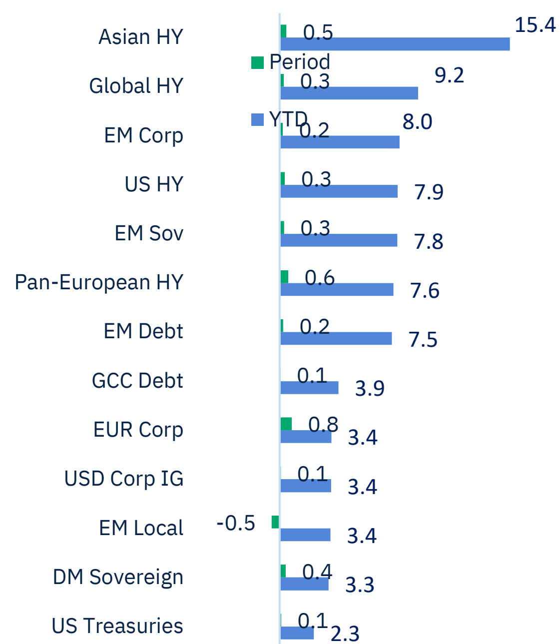
The ECB as expected cut rates by 25 bps last Thursday. Officials reckon another interest-rate cut in December is highly likely, with inflation to settle at 2% faster than envisaged. President Christine Lagarde refused to be drawn on when and how quickly rates will be decreased — even as she argued that downside risks to inflation outweigh upside threats. Earlier in the day, data showed that the European CPI moderated to 1.7% in September from 2.2% the previous month.

Credit spreads have been sanguine with BBB yields north of 5%. High-Yield spreads have taken the robust Retail Sales and receding labour market concerns in their stride. HY bonds now yield roughly 7%+ with a duration slightly less than 4 years. Issuances have been light in both HY and IG markets and we forecast the issuance calendar for this week to remain light as well. EM debt spreads have also compressed to 231 bps and bond issuance has picked up. EM Rates market will feel the pressure of upward risk in US employment numbers. We already saw Turkey and Egypt hold their rates last week. We remain neutral across the different credit segments.

FIXED INCOME KEY CONVICTIONS (2024)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

Equity Update

DM: OW US/UK, Neutral Japan, UW Eurozone

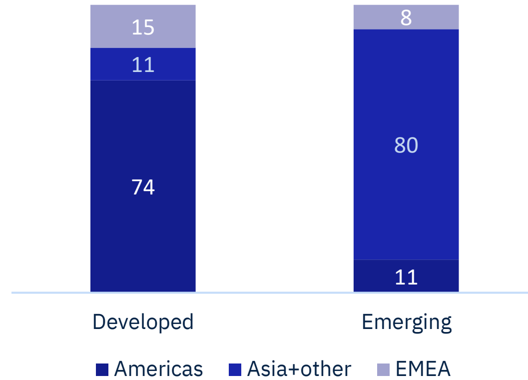
EM: OW China/ UAE, Neutral India

Global equities gained last week with the MSCI ACWI +0.5%, driven by strength in developed markets, +0.6%, while emerging markets underperformed, -0.4%. dragged by China. US equities continued their rally, with the S&P 500 advancing to 5864 (+0.9%), marking its 46th record close this year. Key drivers include strong earnings. 14% of S&P 500 companies have reported results, with 79% exceeding EPS expectations and 64% beating revenue estimates. Q3 earnings are estimated to rise by 4.3% y/y. Year to date global equities are up 20% and expected volatility around US elections has been offset by the current macro setup which is favorable with the US economy benefitting from resilient growth and cooling inflation while stimulus levers are at work - most central banks are cutting rates while China takes both monetary and fiscal actions and US corporates exhibit healthy growth.

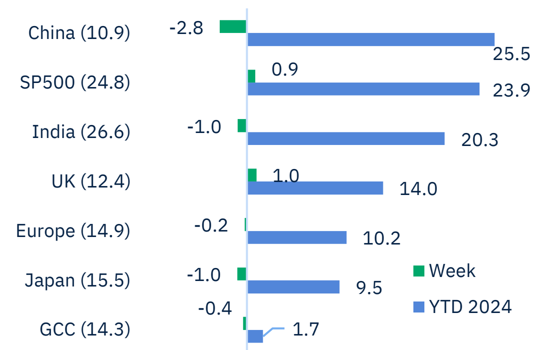
US banks Morgan Stanley, Goldman Sachs, Citigroup, and Bank of America posted strong results, driven by investment banking gains and reinforced the strength of the consumer and the economy. The Magnificent Seven's earnings are expected to grow 30% in Q3, a deceleration from the 56% achieved in Q2 and expected to slow to 23% by year end, normalizing after the fast pace of the past two years. Nvidia, up 179% YTD, now holds a 6.8% weight in the S&P 500, highlighting the sector's influence on broader markets. Earnings growth estimated + 85% y/y in Q3. Semiconductor stocks, central to the market's rally in 2024, remain under close watch. Last week, chip stocks initially fell after ASML's weak sales forecast but rebounded when TSMC reported a 54% profit increase, signaling strong demand for advanced chips. The SOXX Index was up over 30% in H1 but has since pulled back, now up 20% year-to-date. The chips sector, crucial for AI and technology products, account for 11.5% of the S&P 500's weight. This week brings major earnings reports from companies like Tesla, Coca-Cola, and IBM. Important industry events such as the Qualcomm Snapdragon Summit and the MIT AI Conference may drive further movements in the tech sector.

Eurozone equities fell last week, and luxury stocks struggled, with LVMH reporting a 5% drop in organic sales. The decline in Chinese demand weighed heavily on European luxury brands. In Asia, the MSCI China Index fell -2.7% last week, even after gains of +3.9% on Friday, following additional stimulus measures from the PBOC aimed at stabilizing property and stock markets which came shortly after data showed China's economic slowdown worsened in Q3. Japanese equities saw the TOPIX Index fall last week. Uncertainty surrounding the timing and scale of policy rate changes, along with the yen now 150 to the USD have kept Japanese equities in a narrow trading range. The start of trading in subway operator Tokyo Metro is set to be the biggest IPO in Japan since 2018.

EQUITY RECOMMENDED REGIONAL POSITIONING

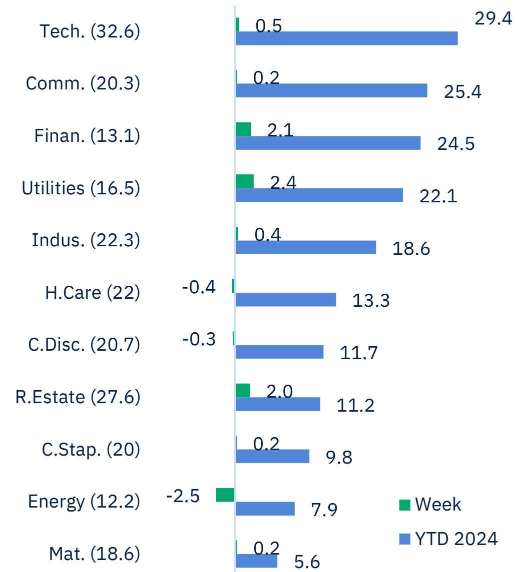


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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