# MONTHLY REVIEW

## MACRO

This September has been marked by major macroeconomic events, primarily driven by central bank announcements. The U.S. Federal Reserve kept its benchmark interest rates unchanged but adopted a hawkish tone, stating that rates would remain high, a perspective that was not well-received by the markets. The Swiss National Bank followed suit and decided to maintain the status quo, believing it had successfully countered inflationary pressure. In contrast, the European Central Bank raised its benchmark interest rate by 25 basis points to its highest level since 1999, specifying, however, that it might be its last increase, news that was well-received by the markets. These developments were coupled with discouraging economic indicators, especially in Europe, leading to declines in stock markets and pushing interest rates to new highs in the United States. All this volatility has caused unease among investors.

This month, we might temporarily set aside our usual economic textbooks and theories because nothing seems to be following its usual course. Stocks plummeted as if a recession were imminent, while oil prices soared as if there were no recession threat on the horizon. Interest rates rose as if there were 10% inflation. Meanwhile, gold lost its value as if inflation had disappeared. Real estate prices resumed their increase as if rates were falling. At the same time, the commercial real estate sector experienced a decline similar to that of 2008.

All of this highlights our reliance on economic data, especially on the direction and projections of interest rates in the months ahead. Poor economic data can be interpreted as positive, and vice versa, underscoring the crucial importance of correctly interpreting these indicators in such a volatile economic context.

## OUTLOOK

After an unexpectedly strong first half of the year during which markets anticipated a smooth landing, aided by resilient earnings, the narrative has shifted back to concerns about stagflation since mid-summer. Persistent inflation coupled with resilient labor markets has led to the realization that rates will need to remain high for a longer period. This has impacted both stock and bond yields.

For the markets, it's a delicate balance between dismal economic indicators and a less aggressive approach by central banks in the months ahead. The idea that central banks will persist in a policy of aggressive tightening in the face of economic slowdown, especially in Europe, seems increasingly unlikely. If they push too far in this direction, the risk of a recession becomes tangible. On the other hand, excessively drastic measures could force states to increase their spending, thus compelling central banks to intervene again to rebalance the situation. Neither states nor central banks desire such a scenario.

Stock indices have declined since late July; we anticipate a probable rebound by the end of the year. This projection suggests a potential appreciation of 5% to 8% compared to current levels at the end of September. We expect an adjustment of the S&P500 to 4,600 points, the CAC40 to 7,500 points, the Stoxx600 to 475 points, and the SMI to 11,600 points. In terms of stock markets, the macroeconomic situation currently favors the United States. However, in terms of valuation, European and Chinese stocks present more attractive opportunities.

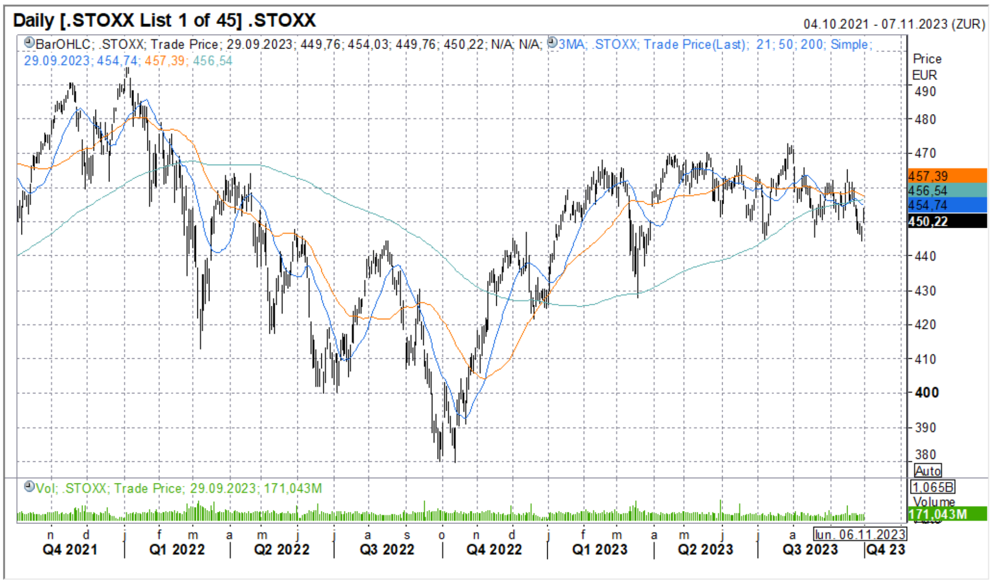
Regarding the bond markets, we believe that at 4.70%, the yield on the U.S. 10-year Treasury bond offers an opportune entry point. It is true that there is no catalyst for a significant price rebound (fall in yields) at the moment, but we consider it advantageous to establish positions at these levels. In Europe, the ECB's policy appears to be becoming more sensitive to growth than to inflation, and the probability of further rate hikes now seems very low. This shift in policy direction will naturally accelerate the debate about rate cuts in 2024.

# EQUITY MARKETS

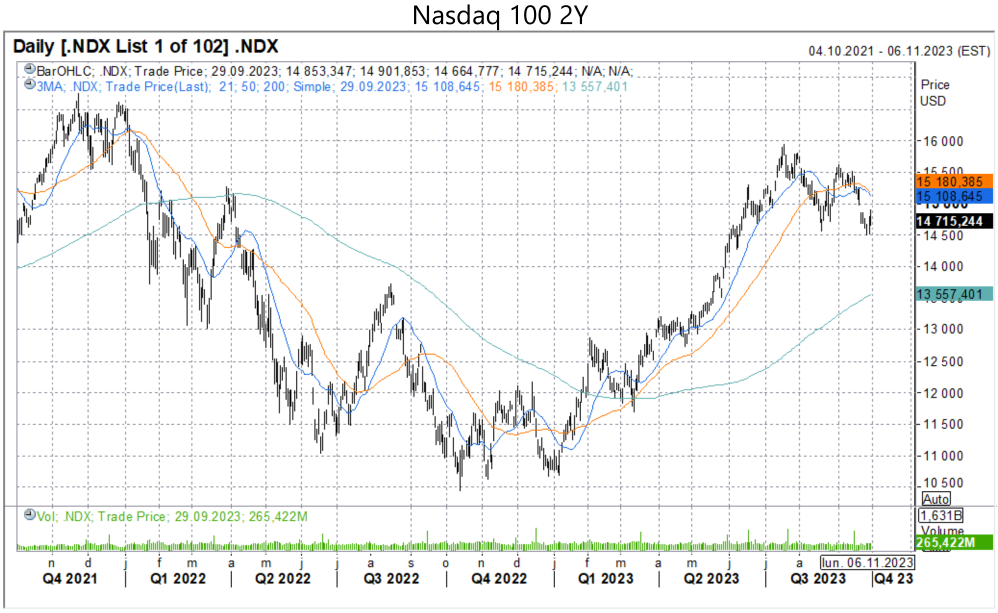
It is fair to say that September has lived up to its reputation as the worst month of the year for the markets. All sectors have struggled, except for energy, boosted by rising oil prices. The luxury sector experienced a loss of over 10%, while the technology sector saw a 7% decline over the last month.

Performance in August: CAC40 -2.22% (YTD 10.22%), SMI -1.01% (YTD 2.18%), Stoxx600 -1.73% (YTD 5.96%), Nasdaq -5.79% (YTD 26.30%), S&P500 -5.04% (YTD 11.68%), Hang Seng -3.11% (YTD -9.97%), Topix -1.12% (YTD 22.82%).

Stoxx600 2Y




Nasdaq 100 2Y



# FOREIGN EXCHANGE MARKET

The divergent stance between the Federal Reserve (Fed) and the European Central Bank (ECB) has had a significant impact on the euro-dollar exchange rate. It's not just the decisions made but also the comments and forecasts that have influenced the dollar's movement against the euro. The hawkish tone adopted by the Fed and the relatively accommodative stance of the ECB led to a drop in the exchange rate from 1.07 to 1.05 within 10 days. The interest rate differential between the two currencies, along with more favorable economic data in the United States, strengthens the dollar's position in the foreign exchange market. Since mid-July and the last Fed rate hike, the dollar has appreciated by 6% against the euro.

EUR USD YTD


The Swiss National Bank surprised everyone by keeping its rates unchanged in September. The bank stated that its restrictive policy so far is beginning to bear fruit, as inflation is maintained at acceptable levels. This decision immediately led to a depreciation of the Swiss franc against the euro, with a 1% drop from 0.957 to 0.967. As a result, the interest rate gap widened, offering a more attractive yield in euros. However, in the medium term, we anticipate the currency pair fluctuating between levels of 0.96 and 0.98, as economic outlook and significantly lower debt levels appear more promising than those of the eurozone.

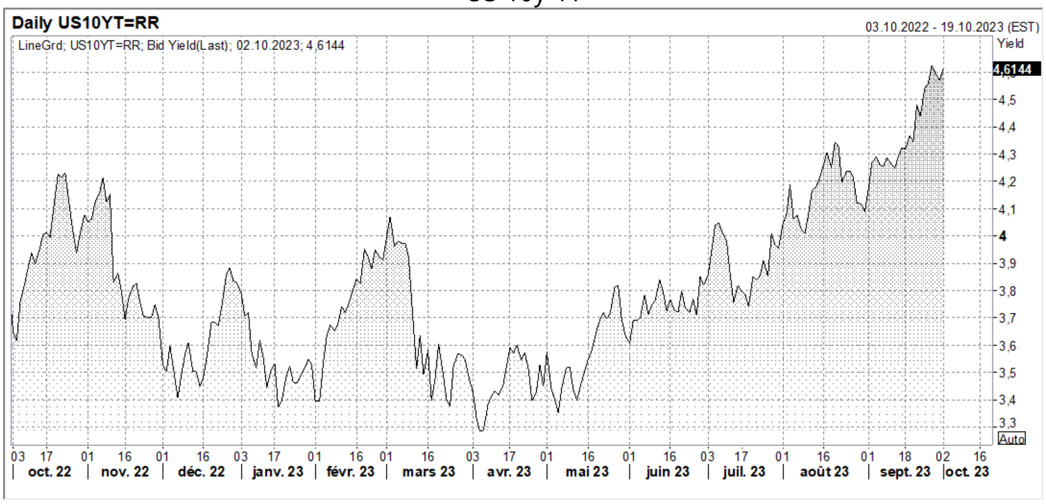
EUR CHF YTD

# BOND MARKET

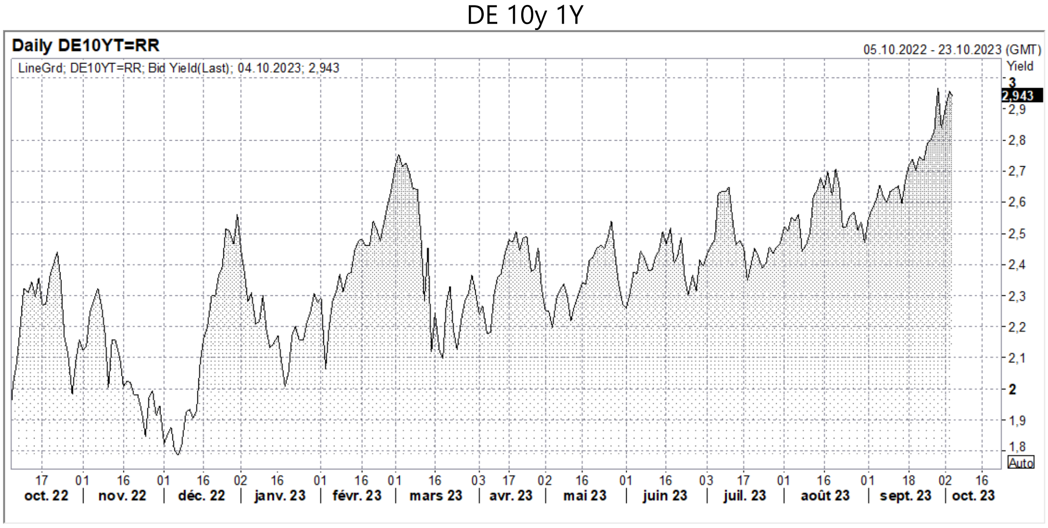
Powell stated that the Fed was prepared to further raise rates and committed to maintaining rates restrictive enough to bring inflation back to their 2% target. A majority of Federal Reserve members anticipate one final tightening this year and now only expect 2 rate cuts in 2024, two fewer than anticipated in June. This tightening sent shockwaves through the bond market, with the yield on 2-year US government bonds, the most representative of political expectations, soaring to 5.20%, the highest in 17 years. As for its 10-year counterpart, it went up to 4.69%, a first since November 2007.

The European Central Bank (ECB) raised its benchmark interest rate to its highest level since 1999, defying those advocating for a pause to avoid worsening the economic slowdown in the Eurozone. After this tenth consecutive hike since July 2022, the Frankfurt institution did not explicitly announce a pause in its strict monetary tightening cycle. However, in its statement, it indicated that interest rates had reached levels that, if maintained for a sufficiently long duration, would significantly contribute to a rapid return of inflation to the set target. This can be interpreted as a halt in the rate hikes.

US 10y 1Y




DE 10y 1Y



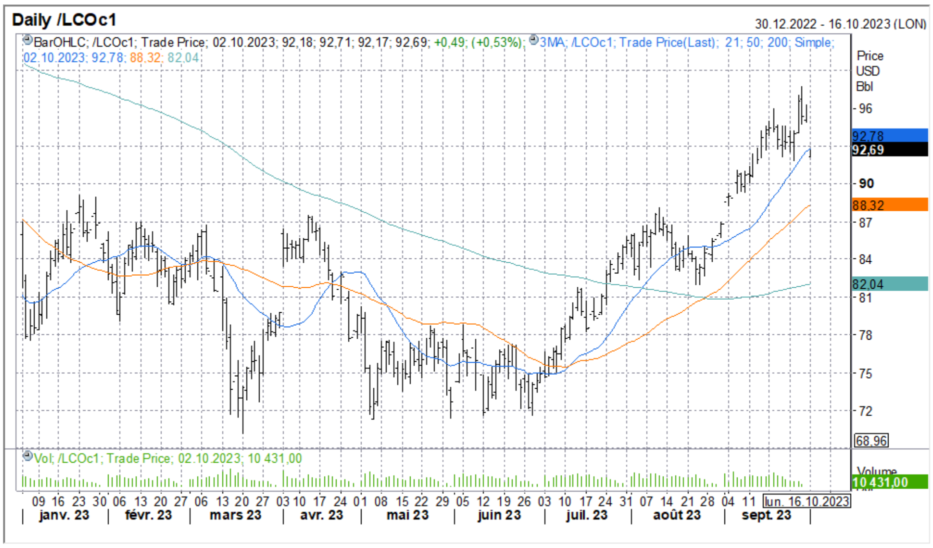
# COMMODITIES

After a rise in August, the price of gold experienced another significant drop, especially since September 20th, following central bankers' statements. In just ten days, the price plummeted by 4%. Once again, as previously explained, interest rates and the strength of the dollar are impeding gold's progress. Gold investors currently lack a short-term structural catalyst. In the medium term, with stabilized rates, the price of gold could reach $2,000.

Gold 2Y


Meanwhile, oil prices continue to climb following OPEC's policy of production cuts. In one month, Brent crude has surged by 13%, rising from $84 to $95 per barrel. Prolonged OPEC+ production cuts tighten medium-term balances, but we anticipate short-term price pressure, pushing them toward the $85-$90 per barrel range due to increasing market challenges, as is often the case with black gold prices.

Brent YTD



# DISCLAIMER

The information in this publication does not constitute investment advice or recommendation(s), and shall not be construed as a solicitation or an offer for sale or purchase of any products, to effect any transactions or to conclude any legal act of any kind whatsoever. The information is for internal use only however this publication may be transmitted to a client of Vision Asset Management or any third-party investor at their express request.

Nothing herein is based upon the consideration of the particular needs, investment objectives and financial situation of any specific client and do not constitute an exhaustive description of the mentioned products. Clients of Vision Asset Management or any third-party investor should not make an investment decision or any other decision solely based on this information. Before concluding a sale, purchase, transaction or any legal act of any kind whatsoever, clients of Vision Asset Management or any third-party investor should seek advice from their consultants in legal, regulatory, tax, financial, economic and accounting matters to the extent it is deemed necessary and make their investment decisions (including decisions relating to the suitability of a transaction) on the basis of their own judgement and the advice from the specialists they have sought out. Past performance is not necessarily indicative of future performance.

Unless specifically stated otherwise, all information, as well as price information is indicative only, based on information obtained from sources believed to be reliable but are not guaranteed as being accurate, exact, complete, appropriate or up to date. The information in this publication is subject to change without notice. No representation or warranty (either express or implied) is provided in relation to the accuracy, exactness, completeness, appropriateness, actuality or reliability of the information.