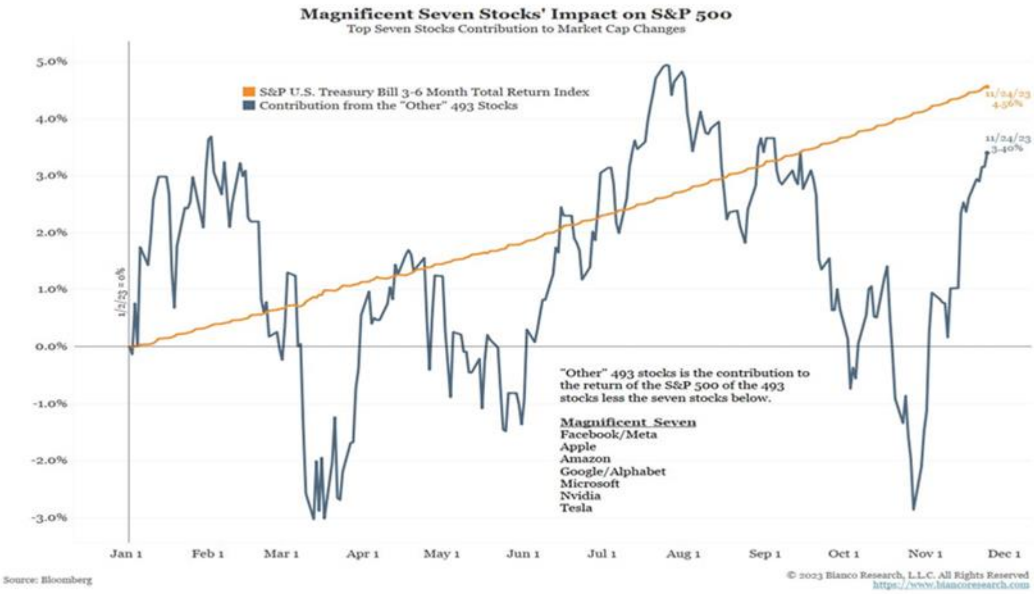
MONTHLY REVIEW

2023 REVIEW AND 2024 OUTLOOK

2023 REVIEW

- A mere twelve months ago, Wall Street strategists predicted a downturn for 2023. Yet, as we approach the year-end, the S&P 500 has surged by an unexpected 18%.

- What caught strategists off guard were the remarkable gains of the "Magnificent Seven" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla), constituting initially 20% of the S&P 500's market cap but soaring to nearly 30%, boasting an impressive combined performance of 86% by November's close. In stark contrast, the remaining 493 stocks struggled to outpace the money market, languishing at 3.4%!



- Did they not foresee that 493 stocks would lag behind, while the seven "AI"-inspired giants would propel the index to a staggering 15% gain solely by themselves?

- In Europe, indices closed around 7% for the Stoxx 600, with relatively low valuations and P/E ratios below 12, reflecting near-zero growth prospects for the upcoming year.

- Despite a robust 30% growth in the European luxury sector until June, challenges arose due to sluggish reopening in China and declining demand, leaving the year nearly balanced.

- Various sectors flourished in 2023, including technology, e-commerce, travel, and industrial sectors.

- The year witnessed banking failures (Credit Suisse, Silicon Valley Bank) causing market tremors in March.

- In Switzerland, a second year of underperformance relative to European neighbors; the Swiss Market Index (SMI) struggled to regain pre-pandemic levels, weighed down by the health sector, lack of tech stocks, and industrial reliance on Germany. Only the banking and insurance sectors shone brightly.

- In China, 2023 signaled the end of an era but not of a world. Supposedly a year of reopening, it instead highlighted persistent structural issues, especially the real estate sector's drag on growth. Tensions with the U.S. and repatriation of certain activities to the West defined the year. China now enters a phase demanding internal and better-directed growth.

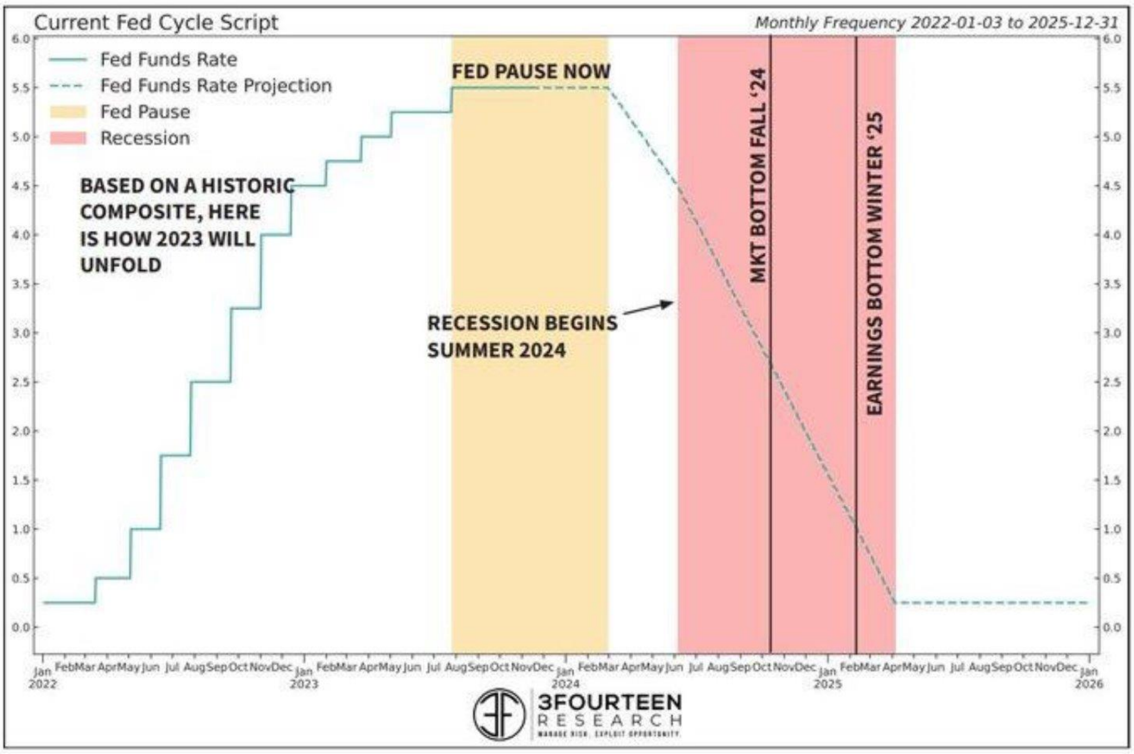
2024 OUTLOOK

For the upcoming year, two potential market scenarios come into focus:

Main Scenario: Soft Landing
Foreseeing a consensus soft landing, relying on maintaining sufficiently restrictive rates to control inflation. A robust job market and corporate signals suggest resilience to restrictive conditions, offering a potential uptick in 2024. Fundamental improvement in stocks may begin with central banks' rate cuts, especially if without apparent deterioration in consumer conditions and the job market. However, challenges may surface in H1 2024, characterized by phases of weakness.

Alternative Scenario: Recession
Contrary to consensus, this pessimistic view envisions a U.S. recession, with amplified repercussions in Europe. The significant rate hikes in 2022 and 2023 show early signs of damage to the job market in 2024, manifested in hiring freezes and declining consumer confidence. Central banks react with prolonged rate cuts, leading to market turbulence and substantial volatility. Corporate results bear significant impacts, adding risk to the stock market.

A graph from "3fourteen research" depicts a predictive view of 2024 in this critical context, supported by historical data from similar situations. Despite rate cuts starting in March, the stock market's reaction is not immediate, reaching its low only in October 2024 before initiating an improvement phase. This temporal lag underscores the complexity of the relationship between interest rates and stock performance.



We assign a 70% probability to the main scenario, the more optimistic one, while the recessionary and riskier scenario is estimated at 30%.

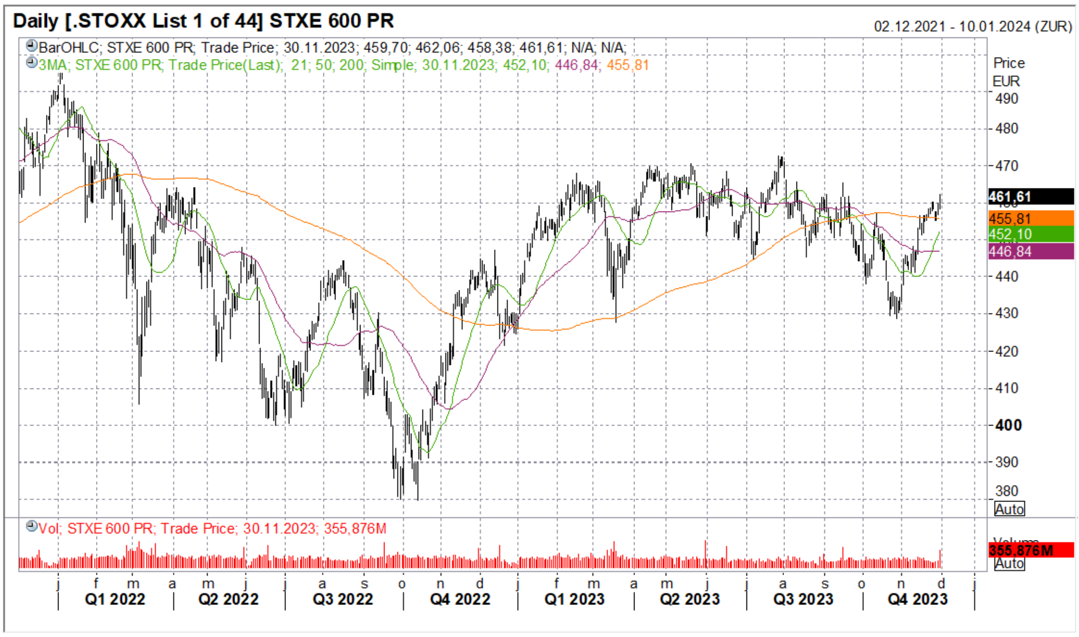
In both scenarios, fixed-income instruments, especially "Investment Grade," prove particularly attractive. The transition to a higher interest rate environment has been tumultuous, but investors now face the prospect of significantly more attractive future yields on bonds. Moreover, in an unfavorable scenario, government bonds could play a protective role with the onset of a sharp rate decline.

EQUITY MARKETS

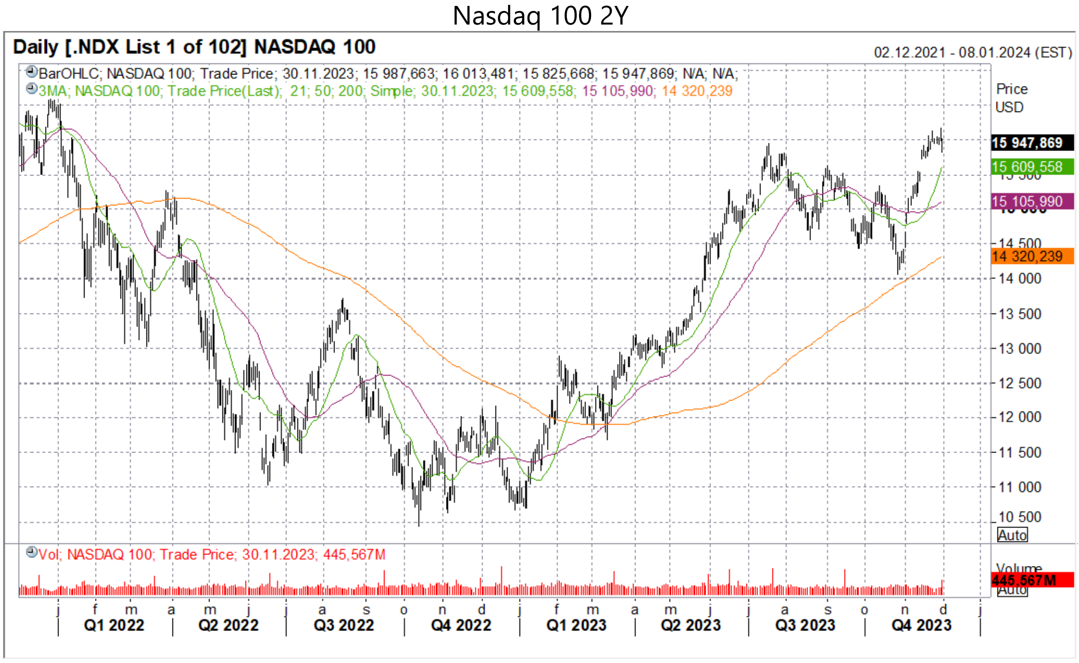
In November, stock markets experienced a remarkable surge, fueled by investor optimism surrounding monetary policy direction, decreasing inflation, and favorable technical signals following two months of sales. This winning combination benefited all sectors, with a notable boost for the technology sector, which fully capitalized on the anticipated decline in interest rates.

Performance in November: CAC40 5.45% (YTD 12.93%), SMI 3.34% (YTD 1.16%), Stoxx600 5.74% (YTD 8.64%), Nasdaq 9.16% (YTD 35.92%), S&P500 7.38% (YTD 18.97%), Hang Seng -0.34% (YTD -13.84%), Topix 2.78% (YTD 25.95%).

Stoxx600 2Y



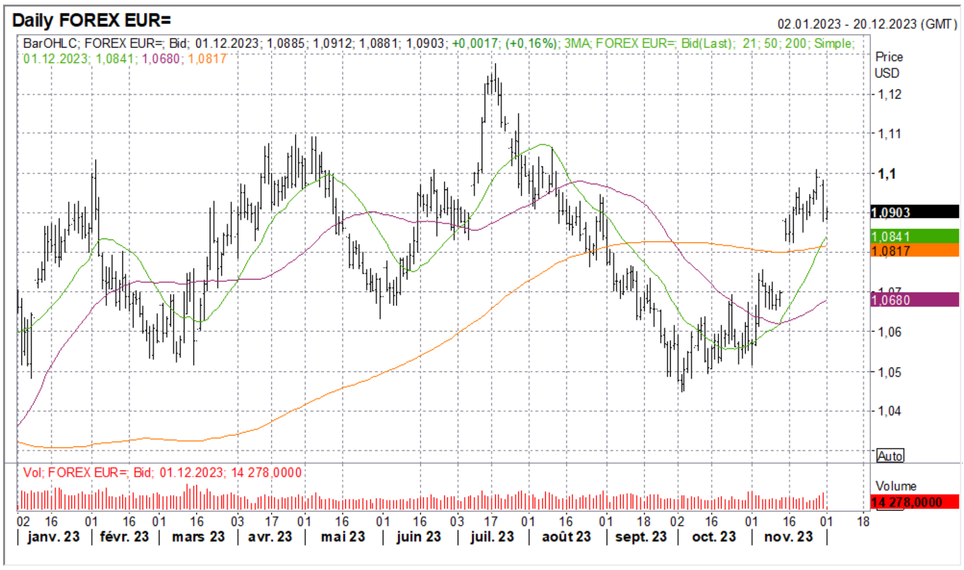
Nasdaq 100 2Y



FOREIGN EXCHANGE MARKET

The euro regained ground against the dollar, primarily in response to rate fluctuations. The more pronounced drop in U.S. rates narrowed the gap, strengthening the position of the single currency. This dynamic underscores the forex market's sensitivity to rate movements, a trend expected to persist in the medium term. A bank's monetary policy will continue to wield a significant influence on its currency, remaining a key indicator of currency valuation.

EUR USD YTD



In November, the euro also saw a rebound against the Swiss franc. Diminished geopolitical concerns in financial markets, coupled with renewed optimism in the stock market, relegated the Swiss franc to the background for investors. While we anticipate the Swiss franc maintaining its safe-haven status in the coming months amid global risks, whether geopolitical or economic, a relaxation and economic improvement, especially in Europe, could bolster the euro against the Swiss franc.

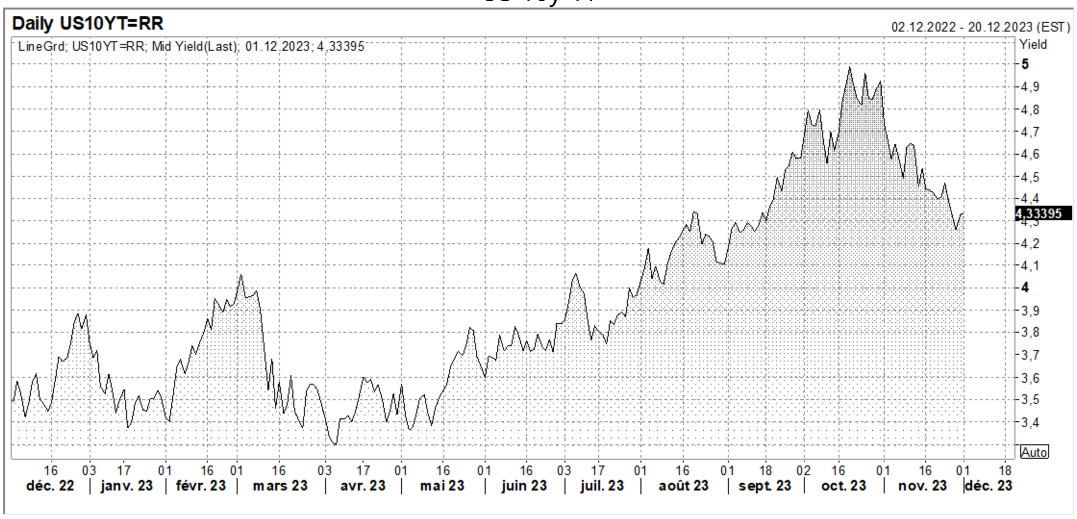
EUR CHF YTD

BOND MARKET

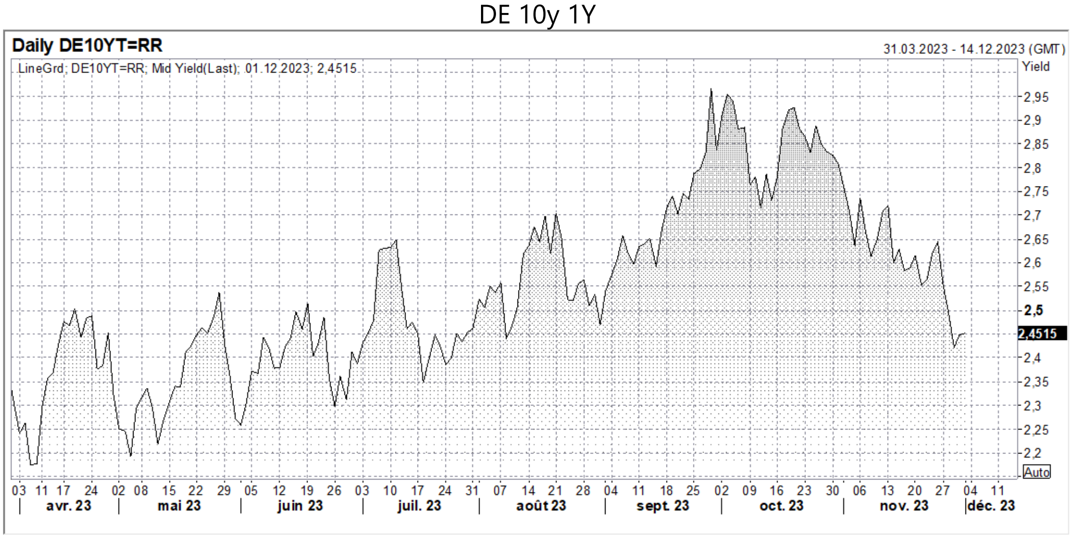
At its November meeting, the Federal Reserve's Federal Open Market Committee (FOMC) maintained rates, adopting a more cautious approach in the face of growing negative risks associated with its economic policy tightening. Thus far, the Fed has skillfully navigated through increases, supported by the economy's robustness, marking one of the fastest-recorded monetary tightening cycles.

Looking ahead, the reversal of this tightening cycle is likely to commence in the second half of 2024, coinciding with moderate economic growth and overall declining inflation converging toward the 2% target by late 2024. If the macroeconomic scenario of a smooth landing materializes, we anticipate a steady and gradual easing cycle. However, in the event of a recession, the risks lean towards faster reductions justified by deteriorating macroeconomic outlooks.

US 10y 1Y



DE 10y 1Y



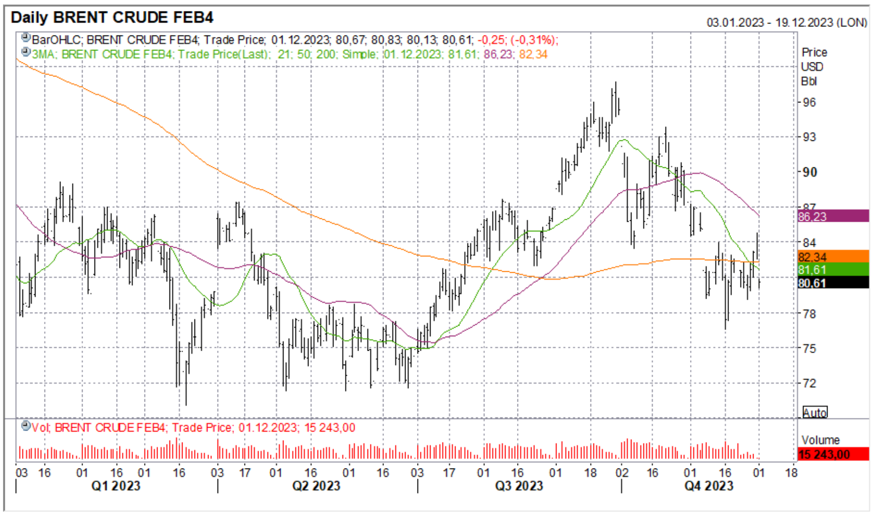
COMMODITIES

Geopolitics has captured attention on gold in recent months, benefiting from tensions and conflicts. The last two weeks of November marked the revival of the correlation between gold and U.S. interest rate fluctuations, constituting the primary recent catalyst for gold prices. This dynamic is expected to persist in the coming months. In case of de-escalation of geopolitical tensions, a decline in gold prices may be anticipated. Conversely, the current downward movements in rates, influencing the asset's trajectory, are expected to continue favoring the yellow metal. The context of rate cuts is bullish for gold.

Gold 2Y

The oil market was overlooked by investors in November, mainly due to the increasing allure of stock and bond markets. This trend is also explained by consistently lackluster leading economic indicators, particularly in industrial production, exerting downward pressure on energy prices. Oil demand remains in decline, prompting producers to continually adjust production downwards. At the end of November, producers seemed indecisive about future production cuts, illustrating the persistence of pressure on the oil market and highlighting buyer enthusiasm's lack. For future prospects, especially for the next year, oil prices will be significantly influenced by the dominant economic sentiment. The asset, highly sensitive to economic conditions, could weigh on its short-term value.

Brent YTD



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