MONTHLY REVIEW

MACRO

July witnessed significant volatility both economically and in the stock market. The impressive rise in indices, particularly in the U.S. and Japan, abruptly halted due to profit-taking in major tech companies.

Global growth remained robust, driven by strong U.S. and Asian performance. The Eurozone, however, struggled, with recent political developments ushering in a period of heightened uncertainty, further exacerbating the already cautious stance of businesses and households.

The attack on Trump again shook the political scene following Europe's turmoil, increasing the Republican candidate's chances for the presidency. However, the Democrats are not to be underestimated, as President Biden has finally decided to step aside, with Kamala Harris stepping in, resetting the race and promising suspense until November.

Second-quarter earnings were better in the U.S. than in Europe, where profit warnings were prevalent in sectors such as luxury, aviation, and IT services. The automotive sector also saw disappointing results, particularly from Tesla, Ford, and Stellantis.

OUTLOOK

We believe markets should resume their upward trajectory after the mid-July correction, which was healthy for stocks, especially in the U.S. We favor U.S. equities and recommend being selective in Europe.

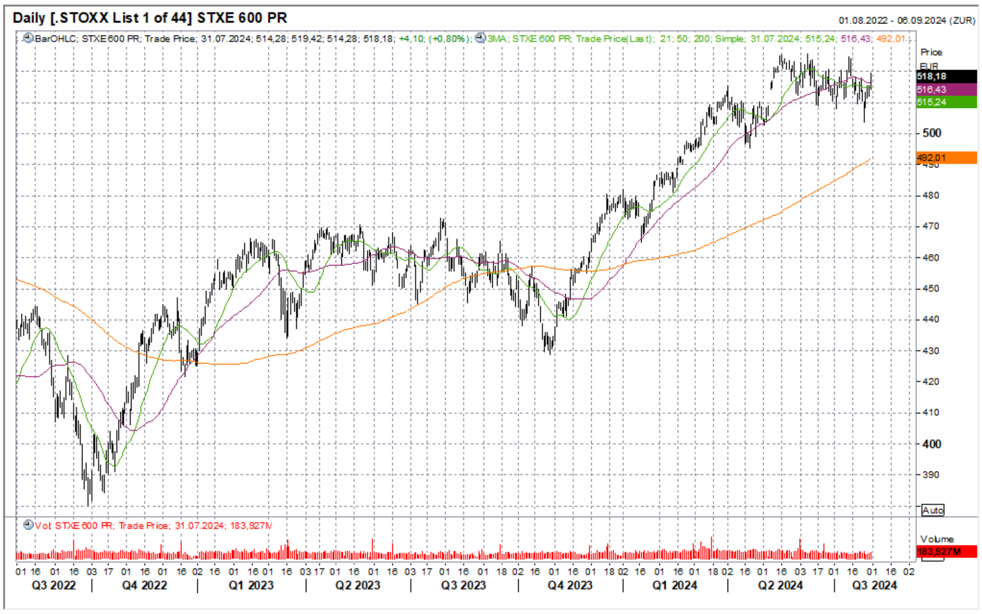
The earnings season reinforces our view to focus on companies with strong prospects and good visibility, regardless of their geographic exposure or style (value, growth). Europe should not be overlooked as it offers interesting opportunities.

EQUITY MARKETS

The highlight of the month was profit-taking in US technology stocks, particularly the Magnificent 7 and the semiconductor sector. What's particularly astonishing about this profit-taking is that it's taking place against a backdrop of very strong releases in the sector. The Nasdaq has fallen by 9% since its July 10 highs. Over the past decade, valuations in the global technology sector have undergone at least a 10% correction every year, according to UBS analyses.

July performance: CAC40 0.70% (YTD -0.15%), SMI 2.70% (YTD 10.59%), Stoxx600 1.50% (YTD 8.18%), Nasdaq100 -1.63% (YTD 15.07%), S&P500 1.13% (YTD 15.78%), Hang Seng -2.11% (YTD 1.74%), Topix -0.55% (YTD 14.25%).

Stoxx600 2Y



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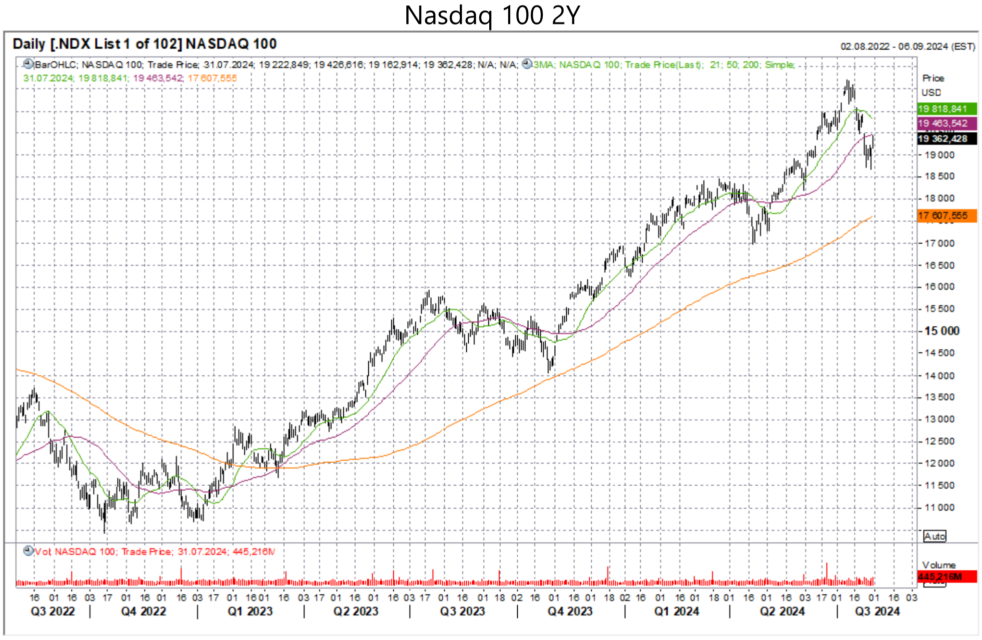


FOREIGN EXCHANGE MARKET

Since the start of 2023, the EUR/USD pair has fluctuated between 1.04 and 1.12, narrowing to 1.06 and 1.10 in 2024. Future trends will depend on central bank actions and the pace of rate cuts. The bank that cuts rates faster will see its currency depreciate due to less favorable borrowing costs. The U.S. election will also influence this trend.

EUR USD 1Y

The appreciation of the Swiss franc increases pressure on the Swiss National Bank (SNB) to counteract this by lowering rates or intervening in the forex market. This will likely lead to multiple rate cuts by the SNB in the coming quarters. However, the European Central Bank (ECB) is expected to reduce rates faster in the coming months and 2025, narrowing the rate gap between the euro and the Swiss franc.

EUR CHF 1Y

BOND MARKET

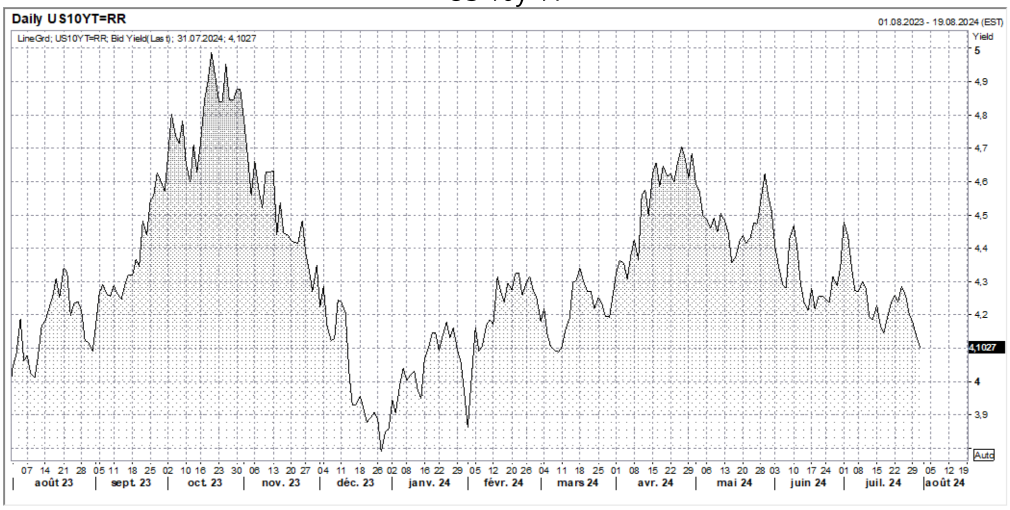
The ECB has kept interest rates unchanged but may ease policy in September. European macroeconomic data remains discouraging, with PMI indices declining for three consecutive months. Coupled with decreasing inflation, potentially reaching 2% in the coming months, the ECB might continue lowering rates.

The Federal Reserve might start to act, according to economists' estimates. Unemployment is gradually declining, and the U.S. consumer price index unexpectedly dropped by 0.1% in June 2024 compared to the previous month, marking the first decline since May 2020. This could signal a pivot in the bond market.

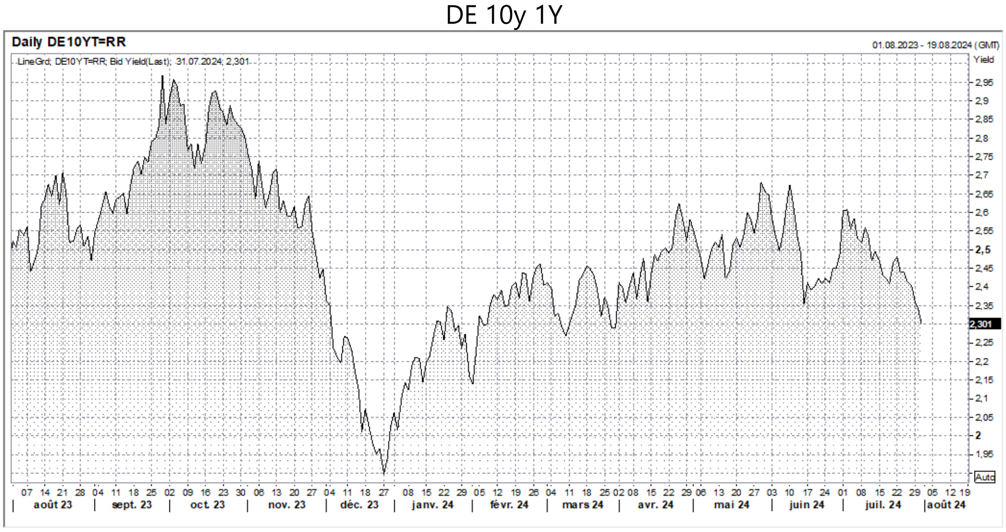
These developments have flattened yield curves in the U.S. and Europe. The spread between 10-year and 2-year bonds in the U.S. narrowed from -50 basis points to -20 basis points in July, and from -41 basis points to -23 basis points in Europe. Short-term rate expectations increasingly predict central bank rate cuts.

At the end of July, the Bank of Japan (BOJ) raised its benchmark rate to around 0.25%, up from a range of 0 to 0.1%. This marks the second-rate hike by the BOJ in 2024.

US 10y 1Y



DE 10y 1Y



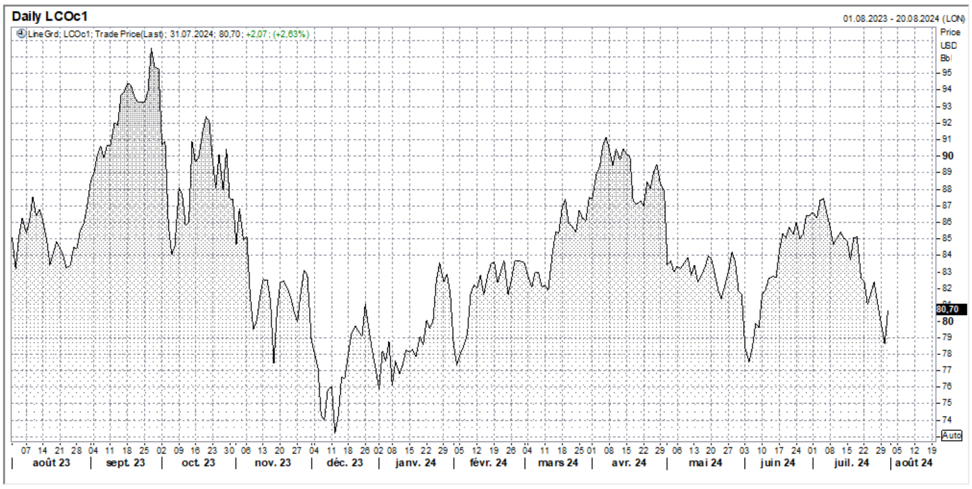
COMMODITIES

In mid-July, gold broke the resistance level of $2,430, reaching new all-time highs. However, this upward movement was short-lived, with gold peaking near $2,480 before quickly falling back to around $2,350.

Gold 2Y

The months continue to show varied patterns for crude oil. After a strong June, the trend reversed in July, with Brent crude prices falling back to the $80 range. Political tensions and strategic concerns are introducing uncertainty into oil prices, which have fluctuated between $72 and $92 over the past eighteen months.

Brent 1Y



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