MONTHLY REVIEW

MACRO

At the beginning of August, global stock markets experienced a series of disruptions. These challenges began in the Japanese market and then spread to other exchanges, culminating on August 5th with significant losses: the Nikkei dropped by 12%, and the Nasdaq by 5% in a single session.

Several factors contributed to this downward trend. First, the volatility in the exchange rate between the U.S. dollar and the Japanese yen caused concern among investors. Additionally, some major U.S. tech companies reported earnings below expectations. Lastly, the unemployment rate in the U.S. reached 4.3%, a figure that surprised the markets. These elements combined to create an atmosphere of uncertainty and nervousness in global stock markets.

However, the markets have quickly responded. Within five days, indices recovered their losses, supported by reassuring economic data. The ongoing decline in inflation and better-than-expected retail sales in the U.S. restored investor confidence, easing fears of an economic slowdown, at least for the moment.

The month ended with the Jackson Hole conference, where Jerome Powell confirmed what investors had been anticipating for some time: the beginning of rate cuts by the U.S. Federal Reserve. With this announcement, investor focus has shifted to the number of upcoming rate reductions, which will largely depend on economic data, particularly those related to the job market.

OUTLOOK

We maintain our outlook expressed at the end of July: stocks should continue to rise. The growth in sales of consumer-oriented companies, strongly linked to stock market returns, remains positive. Profits have increased by 11% year-on-year, surpassing initial expectations of 9% at the beginning of the earnings season, which is very solid. However, the early August episode prompts us to remain vigilant, closely monitoring employment indicators and other factors sensitive to the delayed effects of high interest rates over the past two years. The slightest lapse in economic data could represent a downside risk, as observed in early August.

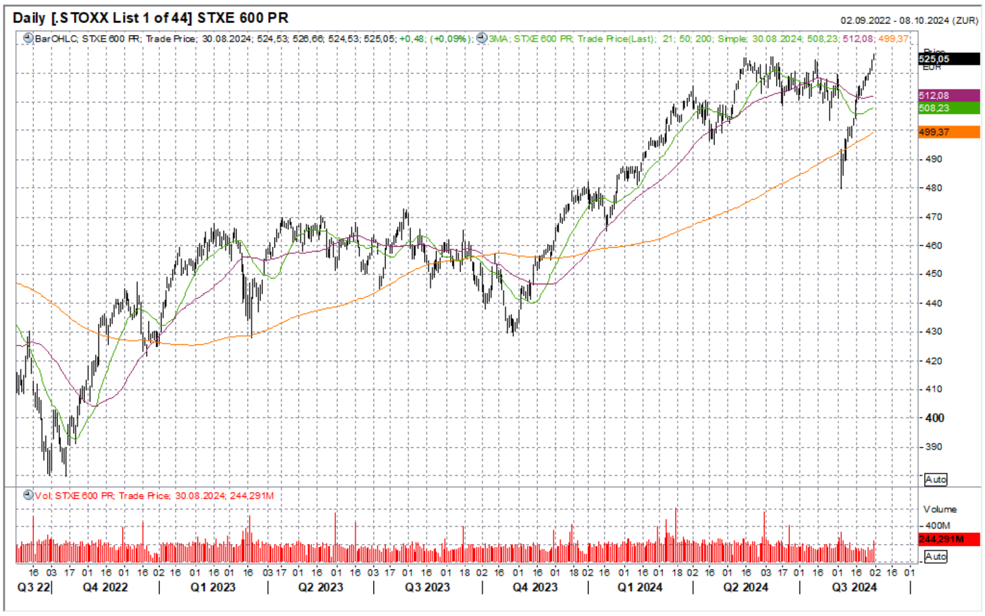
In light of the resurgence of concerns regarding economic uncertainties, government bonds and investment-grade corporate bonds play a crucial role. They are expected to provide strong support if the shadow of recession re-emerges. As for high-yield (HY) bonds, they continue to offer a good carry (additional yield), and despite relatively low credit spreads, this asset class still presents yield opportunities.

EQUITY MARKETS

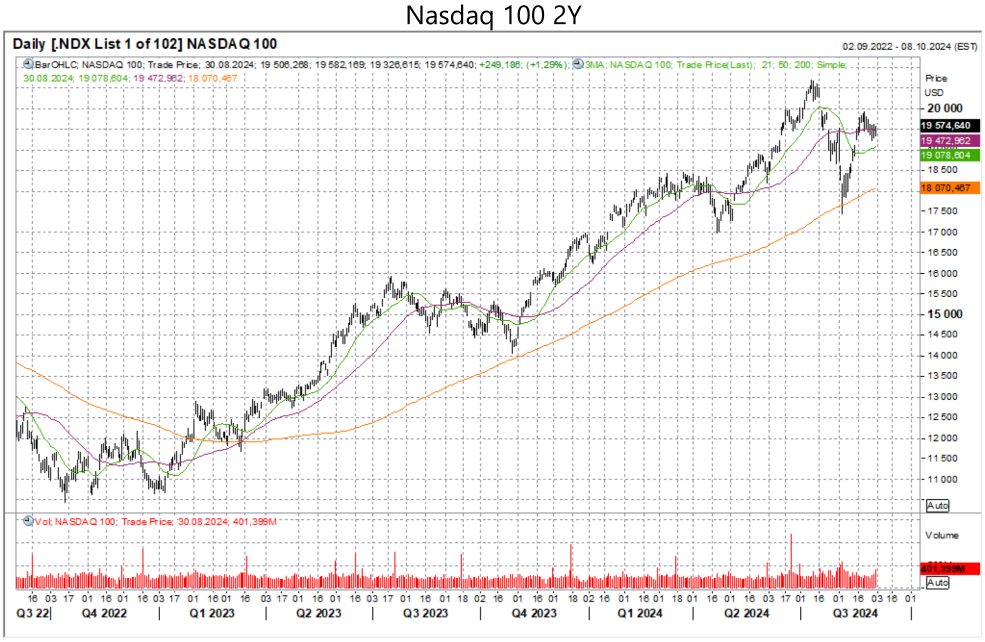
Technology stocks are taking a pause, while some previously neglected sectors are returning to the forefront, encouraged by the prospect of rate cuts. Since the inflation report on July 11th, the S&P 500 has remained stable, but the "Magnificent 7" have fallen by more than 6.5%. In contrast, consumer staples have risen by 5.5% thanks to Walmart's strong results, and the healthcare sector is recovering, supported by more favorable prospects. On the other hand, energy and discretionary consumer sectors are weakening, reflecting the impact of interest rate movements on these sectors.

August performance: CAC40 3.53% (YTD 1.16%), SMI 0.97% (YTD 11.66%), Stoxx600 2.58% (YTD 9.62%), Nasdaq100 3.62% (YTD 16.34%), S&P500 3.70% (YTD 18.42%), Hang Seng 3.95% (YTD 5.52%),
Topix 0.33% (YTD 14.63%).

Stoxx600 2Y



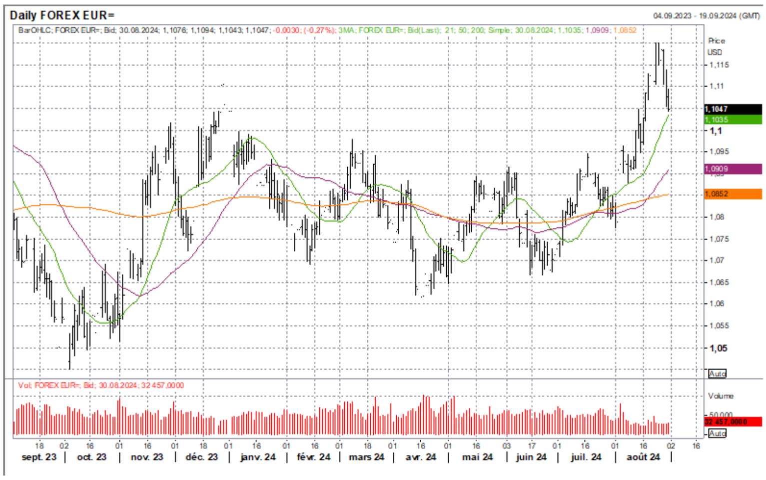
Nasdaq 100 2Y



FOREIGN EXCHANGE MARKET

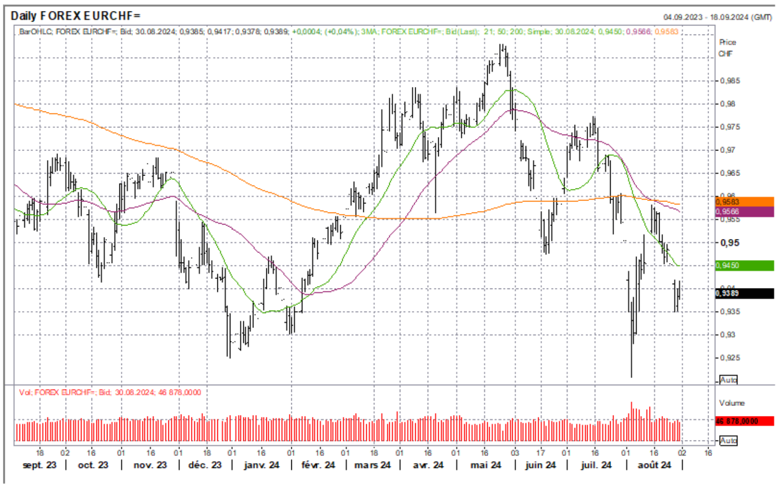
August was a tough month for the dollar. Market volatility, carry trade movements with the yen, and political uncertainties related to the elections weighed heavily, pushing the dollar down from 104.5 at the beginning of the month to 101.5 by the end. The euro, meanwhile, broke out of its 1.07 to 1.09 range, appreciating amid the turbulence. On August 13th, it crossed the 1.092 threshold to reach a high of 1.12. Although one might expect the euro to depreciate given the economic challenges in Europe, expectations of rate cuts are stronger in the United States. Moreover, U.S. economic data appears less robust than initially thought, while in Europe, the situation is already factored into market expectations. The dollar's weakness is even more pronounced against the Swiss franc, with the pair reaching 0.84 by the end of the month. Despite these challenges, the dollar is based on stronger foundations than the euro. Given the growing uncertainties surrounding the European political landscape, the long-term trend remains more favorable to the dollar, supporting its resilience over time.

EUR USD 1Y



The Swiss franc also played a significant role in the markets. The currency strengthened against the euro, moving from 0.96 to 0.92 before settling around 0.94. Geopolitical tensions and investor concerns have increased demand for the Swiss franc. Looking ahead, the ECB and SNB's decisions on interest rates in September will be crucial in determining the short-term direction of the pair. However, in the long term, the Swiss franc's fundamentals remain stronger, providing lasting stability amid market uncertainties.

EUR CHF 1Y



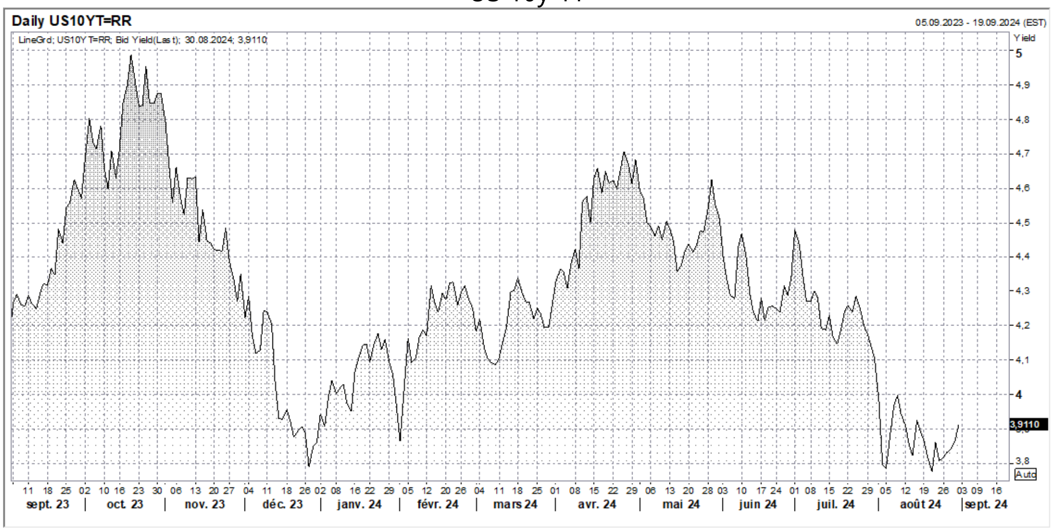
BOND MARKET

Everyone was waiting for it, and Jerome Powell finally announced it. During the Fed's monetary committee meeting on September 17th and 18th, the chairman will lower the key interest rate. He noted that the pace of these cuts will depend on upcoming economic data. Notably, Powell avoided using certain coded terms like "gradual" and "methodical," which some of his colleagues had recently used to describe a traditional series of quarter-point rate cuts.

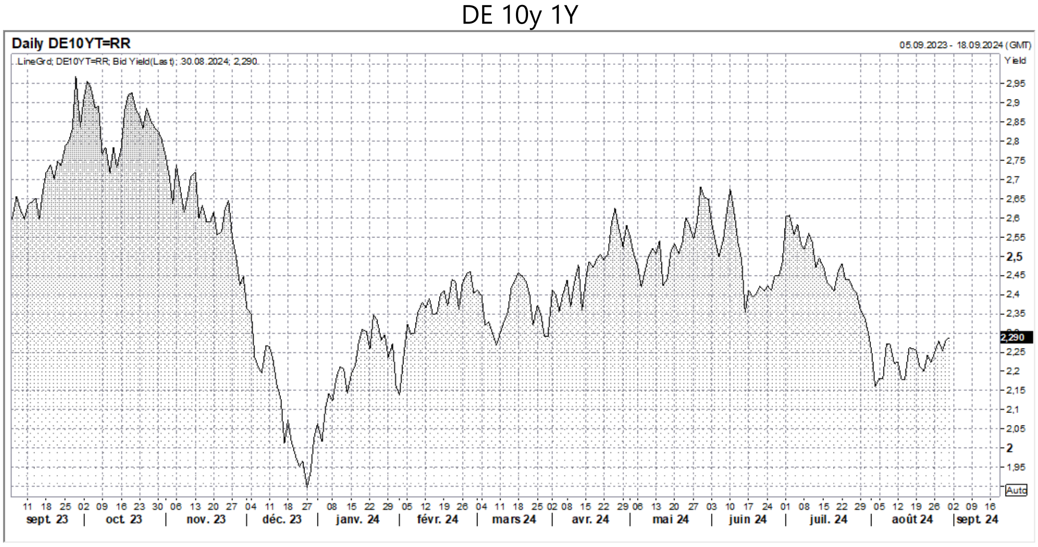
By staying vague, Powell left the door open for more significant rate cuts if the labor market shows increased signs of weakness in the coming weeks. In September, U.S. interest rates are expected to drop by a quarter point, but a 50-basis point reduction remains possible depending on data coming in by mid-September. According to economists, the monthly employment report for August, expected on September 6th, could be decisive.

Investors now anticipate a rate cut in September with a 70% probability of a 25 basis point cut and a 30% probability of a 50 basis point cut. For 2025, the consensus is that the Fed could lower its rates to 3.25%, a 2% reduction from current levels.

US 10y 1Y



DE 10y 1Y



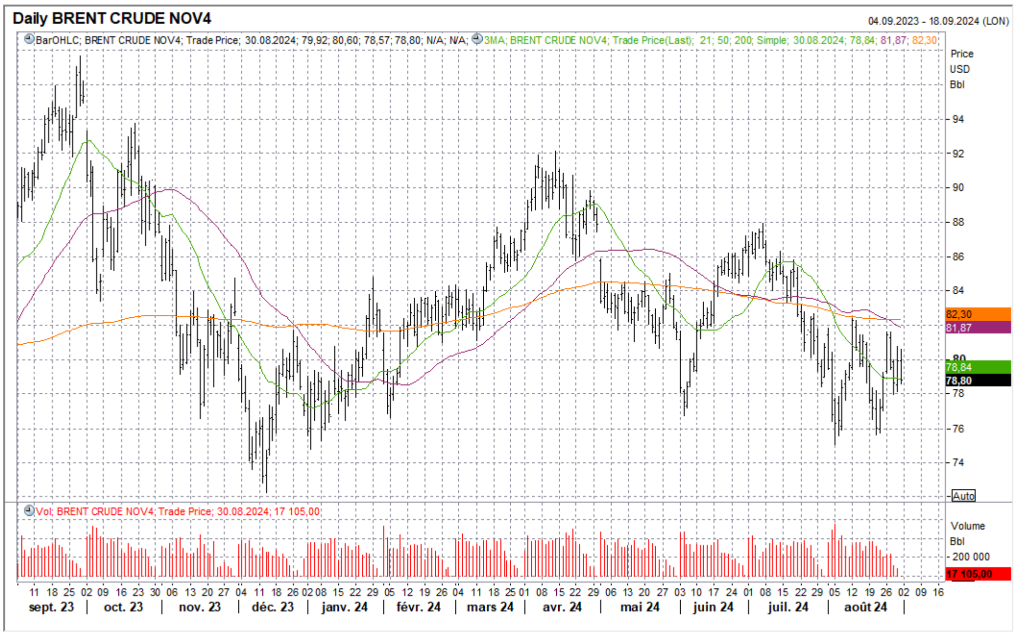
COMMODITIES

Gold has finally surpassed the $2,500 mark. All indicators are positive for this asset to continue rising. The decline in interest rates, geopolitical tensions, economic uncertainties, and sustained demand for gold ETFs all play in its favor. Technically, gold could fluctuate between $2,500 and $2,600 in the short term.

Gold 2Y

Oil continues the same trend as in previous months, oscillating between $76 and $80 per barrel.

Brent 1Y



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