Markets
& Convictions

June 2024

RJ Management

Since the beginning of the year, the major stock indices have shown strong performances despite geopolitical and economic uncertainties. Companies have benefited from lower interest rates during the first quarter, and commodities are once again experiencing significant growth. The American economy, facing budgetary challenges and high debt, may see its two expansionary presidential programs come up against less tolerant bond markets. The energy transition and gold remain key sectors, offering interesting investment opportunities in a complex economic context. Discover our comprehensive analysis for more insights and strategies.

Macro

Index	Performance YTD
S&P500	+ 12.1 %
Nasdaq	+ 14.13 %
Europe Stoxx 600	+ 8.58 %
SMI	+ 9.29 %
CSI300	+ 4.17 %
Nikkei	+ 16.16 %
CAC 40	+ 4.04 %

- Despite various geopolitical or economic uncertainties (wars and inflation, etc.), equity markets remain strong.
- Another piece of good news: companies have largely benefited from the drop in interest rates at the beginning of the year.
- As a reminder, the 10-year US interest rate dropped from 5% in October 2023 to 3.80% in January 2024 (thanks to the FED...).
- Corporate treasurers seized this opportunity and refinanced their debts with record amounts of new bond issuances since 2010.
- Since then, markets have realized that rates were not going to "sustainably" decrease right away, and the 10-year rate has risen to 4.50%.
- In the equity sector, concentration remains significant and benefits the "Magnificent 7."
- Nvidia's market capitalization is larger than the German DAX index, which comprises the 40 largest companies in the country!
- Or consider this: the market capitalization of the three largest US companies (Microsoft, Apple, and Nvidia) exceeds that of the entire Chinese stock market!
- But let's not forget that these same "tech" companies are the main contributors to earnings growth for Q1 2024 recently published: +48% for the "Magnificent 7" and -2% for the other 493 companies in the S&P 500!

- Simultaneously, the prices of a significant number of commodities have seen substantial growth since the beginning of the year:

Commodities	Performance YTD
Brent	+ 3.80 %
Aluminium	+ 8.14 %
Copper	+ 14.06 %
Coffee	+ 19.50 %
Gold	+ 11.24 %
Silver	+ 24.20 %

- Politically, for the first time in American history, a president has been charged with a crime (LINK).
- Meanwhile, the current president, J. Biden, is taking an increasingly firm stance on trade relations with China, implementing highly "Republican" protectionist measures: a 50% tax on semiconductors, a 100% tax on electric vehicles,… LINK.

Convictions

- Indeed, we observe that the "Magnificent 7" are significant value creators, but this is also a reflection of the market's vision and expectations for these stocks.
- For example, **Apple's revenue has remained flat since 2022**, and its own guidance for 2025 does not indicate any growth. However, its PE ratio has increased from 20x to 29x, making the same company 50% more expensive.
- We clearly sense that the hyperactive US foreign policy aims to give them an edge in the technological war against China, particularly to maintain a competitive advantage in AI.
- China, on the other hand, has become the world's largest producer of electric vehicles, with production costs significantly lower than those of European or US competitors and unmatched production capacities (LINK).
- A sign of change: in a few years, the Geneva Motor Show has vanished, replaced by the Beijing Auto Show, which has become the new El Dorado → Auto China 2024 (LINK).
- As a result, a European company like Stellantis is making an interesting move by creating a joint venture with a Chinese electric vehicle manufacturer to distribute its cars through its global network. Consequently, the JV, based in the Netherlands, benefits from ridiculously low production costs subsidized by the Chinese state, while the profits remain in Europe (LINK).
- **These major underlying trends support our investment thesis on the energy transition** with a long-short strategy and a strong focus on commodities. The Volta fund has posted a 7.25% performance this year.
- The American elections are approaching, and J. Biden currently holds the lowest approval rating for a sitting president in US history, while D. Trump is leading (LINK).
- Both candidates' platforms are based on expansionist policies, in a conflict-ridden international climate. In either scenario, the US will spend more!
- The US economic situation is very challenging, with a budget deficit close to that of a recessionary economy (>6%) and a debt level comparable to that of an emerging market (120% of GDP).

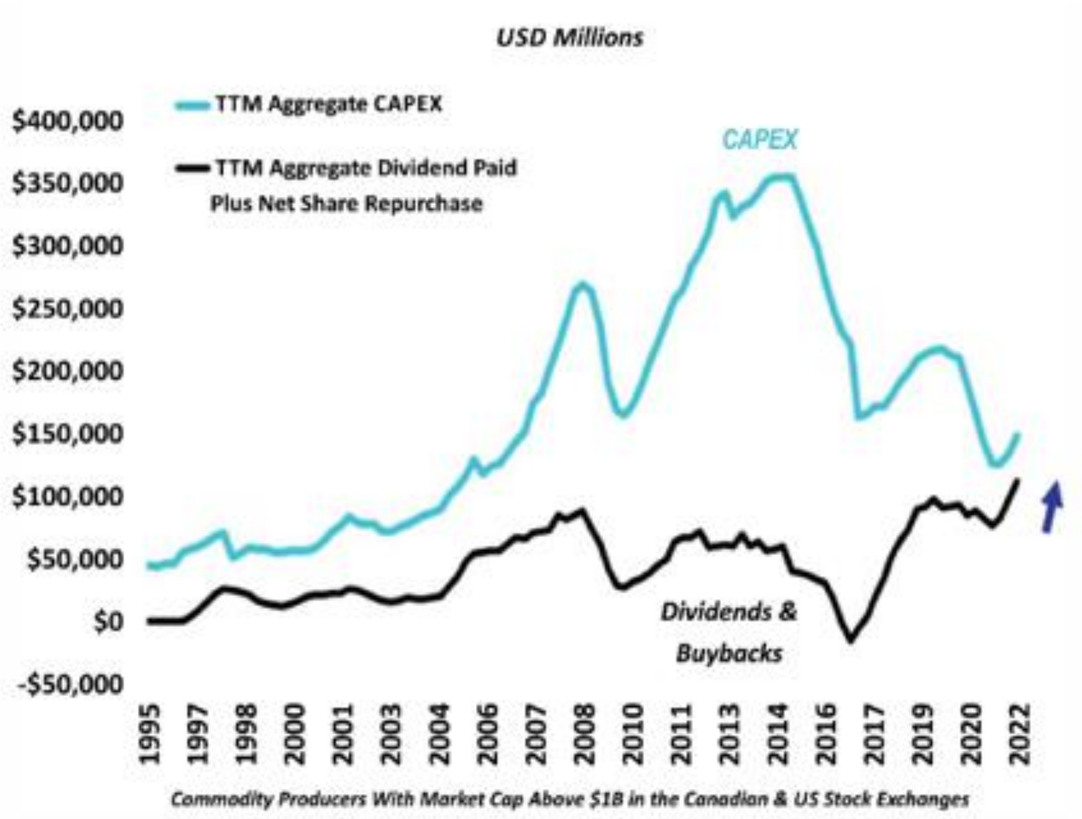
- We believe their respective programs could **face resistance from less tolerant bond markets**.
- One should recall British Prime Minister **Liz Truss**, who proposed a similar program in 2022 and immediately encountered the country's most significant bond market crisis (the 10-year rate jumped from 2% to 4.5% in one month) before ultimately resigning.
- This always leads us to prefer staying relatively short in duration on bond investments:

Funds	Performance YTD	Duration
Axiom Legacy	+ 6.74 %	2.5 ans
Carmignac Credit	+ 4.55 %	3 ans
Vontobel Emerging Corp	+ 3.75 %	4 ans

- For similar reasons and others (mentioned below), we remain very bullish on gold and the gold mining sector (IXIOS Gold: +29.06% YTD).
- The Chinese real estate crisis no longer allows Chinese savers to invest in this sector.
- Additionally, local political authorities have frightened many equity investors with their dictatorial methods towards tech entrepreneurs (e.g., Jack Ma, CEO of Alibaba (LINK)).
- As a result, **there is a strong demand from Chinese private savers** to buy gold and have it physically delivered (LINK).
- Economically, we observe several signs of slowdown in the US and Europe (durable goods orders, labor market, etc.).
- We believe that inflation, generally analyzed from a "macro" perspective, does not impact the population uniformly.
- Americans (or Westerners) who lack financial means suffer from inflation: it is impossible to buy a house with mortgages over 7% (LINK) / impossible to consume with credit card rates over 20% (LINK)!
- Conversely, the wealthier individuals benefit from inflation: their cash earns over 5% per year / stock market performances offer them substantial capital gains / they take advantage of this by filling their lives with experiences, with airports showing record traffic (LINK).
- The same applies to companies: the healthiest ones benefit from returns on their cash and the ability to increase prices without hurting their revenue.
- Conversely, a significant portion of certain assets suffers in this high-interest-rate environment and are at major risk. **This is why we have been very concerned for over 18 months about real estate, private debt, and private equity.**
- This could be counterbalanced by a massive investment cycle in the reindustrialization of the West, the energy transition with its mega projects, and the AI revolution.
- We still believe that in the medium/long term, our economies remain in an inflationary cycle with a high cost of capital.
- All this continues to benefit companies with very little debt and visible growth prospects (the Natixis US Growth fund has posted +9.26% YTD).
- Our energy theme continues to perform well with excellent results for our portfolio companies (TotalEnergies, Shell, BP, Eni, Discovery Certificate).
- The price of oil remains very volatile in the short term, and the Westbeck Energy Opportunity manager once again captures these movements very well (performance +13.5% YTD).

- Equity markets are generally expensive. In this environment, we remain cautious and try to find excellent quality companies during earnings season that disappoint in the short term and quickly lose more than 20% in the stock market.
- At this point, we set an even lower potential purchase price (between -20% and -30%) in exchange for an annual return between 7% and 12%.
- We have adopted this strategy several times since December 2023 for stocks like Lonza, VW, Starbucks, and Salesforce.
- **The general environment remains very complacent and risky.**
- Our diversified allocation allows us to capture some of these trends while providing a significant cushion in case of shocks.

Why commodities interest us in a nutshell: less investment (CAPEX) and more returns to shareholders



Source: Crescat Capital