Markets
& Convictions

March 2024

RJ Management

Since the rebound at the end of October 2023, the upward trend on the stock markets has continued. This trend began when the Federal Reserve indicated to the market that the inflation issue was under control. This stock rally is synonymous with extreme concentration, especially in the Nasdaq 100, dominated by a few technology companies. This situation reflects the cyclical behavior of investors, who tend to overpay for certain assets during periods of euphoria. The overall appreciation movement in gold also reinforces our positioning on this theme. We continue to hold strong convictions in the energy sector, despite its still low valuation but excellent corporate results.

Macro

- The first two months of the year have continued the upward trend that began at the end of October 2023. To date, stock indices have posted the following performances: S&P +7.98% / Nasdaq +7.44% / Euro Stoxx600 +5.65% / CAC 40 +8.21% / SMI +5.23% / Nikkei +15.67% / CSI 300 +4.05%.
- To recall, at the end of October 2023, except for the US, the stock markets were in the negative. Then, the US Treasury Secretary and the Chairman of the Federal Reserve announced that the battle against inflation was about to be won…
- On this good news, stock markets soared, and the fixed income markets anticipated up to 8 interest rate cuts for 2024!
- The very aggressive policies of our central banks, initiated in 2022, allowed, thanks to their sharp interest rate hikes, to tame inflation.
- The US economy is strong at +3.2% for the last quarter of 2023, and the latest corporate earnings reports were also relatively good.
- Forecasts according to the Federal Reserve Bank of Atlanta's model remain very positive, with US growth exceeding +2.5%: (LINK).
- The US election leaves no doubt about the Republican candidate: Donald Trump has eliminated all his Republican opponents AND his legal risks (LINK).
- In Europe, the war in Ukraine is taking a harsher turn with a French president who emphasizes the existential nature of this conflict for our continent (LINK).
- The markets do not seem to question the ability of our central banks to manage the famous "soft landing".
- However, a prominent European central banker (Mario Draghi) made a very explicit speech on this subject: (LINK). He emphasizes the importance of our central banks and their monetary policy in our past world, which was dominated by globalization & free trade => a low-inflation environment => low real rates
- To make way for a new paradigm today with many social imbalances, increasing economic insecurity pushing for the reindustrialization of our Western economies (at the expense of emerging countries) causing inflation shocks due to supply shortages (less energy / less transport capacity…)

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Convictions

- The current stock rally is characterized by its high concentration: the entire rise of the famous Nasdaq 100 is solely due to 4 stocks: Microsoft / Amazon / Meta / Nvidia (which alone accounts for more than half of the index's rise!!!). In other words, the 5 largest companies of the S&P 500 represent more than 25.6% of the index (Microsoft 6.89% / Apple 6.19% / Nvidia 4.59% /Amazon 4.13% /Alphabet 3.82%).
- **This is the highest concentration since 1965!**
- We understand the excitement for stocks in an environment of decreasing inflationary pressures, and where governments seem completely over-indebted. But we also sense the famous FOMO (Fear of Missing Out) which boils down to "why don't you have more NVIDIA?"
- **However, we are convinced that cycles tend to extend more than reasonable, and they excessively focus on certain "great stories".**
- Yet, our financial history shows and will always show how investors are capable of paying a company 20 times its earnings, then 30 times, then 50 times... later, they stop caring about earnings to focus on revenues and growth... to eventually focus on Growth Market Value or the TAM (Total Addressable Market)... and go as far as the number of clicks!!!! and then it all starts over from the beginning.
- Another important element in the current environment is the phenomenon of Indices and ETFs with a stock rally hyper-concentrated on a few titles: as an equity fund manager you must have enough of these "famous" stocks to beat the benchmark... which forces you to buy more of these "famous" stocks... which drives up the price of these "famous" stocks... meaning you don't have enough of these "famous" stocks... etc, etc.
- Let's not forget that the opposite is likely to materialize in a downturn.
- The manager of the Loomis US Growth fund continues to capture this trend in tech and AI in the US very well.
- **Regarding our theme on energies**, the earnings season was excellent for companies, even if these good news are not yet fully reflected in the performances of the titles since the beginning of the year (TotalEnergies +1.80% / Shell +0.72% / Eni -5.38% / BP +5.12%).
- We still have a very strong conviction in this sector with also our Energy Discovery certificate focusing on smaller companies in the sector. These values have the characteristic of being always very undervalued, using their very significant profitability to drastically reduce their debts and then make significant share buybacks (we're talking about 15% to 25% annual free cash flow yield!!!).
- OPEC continues to be very active by confirming new oil production cuts (LINK).
- Even more interesting, ARAMCO, the Saudi national energy company, decides to leave its oil underground rather than investing to extract it (LINK) ➔ the price per barrel is not high enough to stimulate investments.

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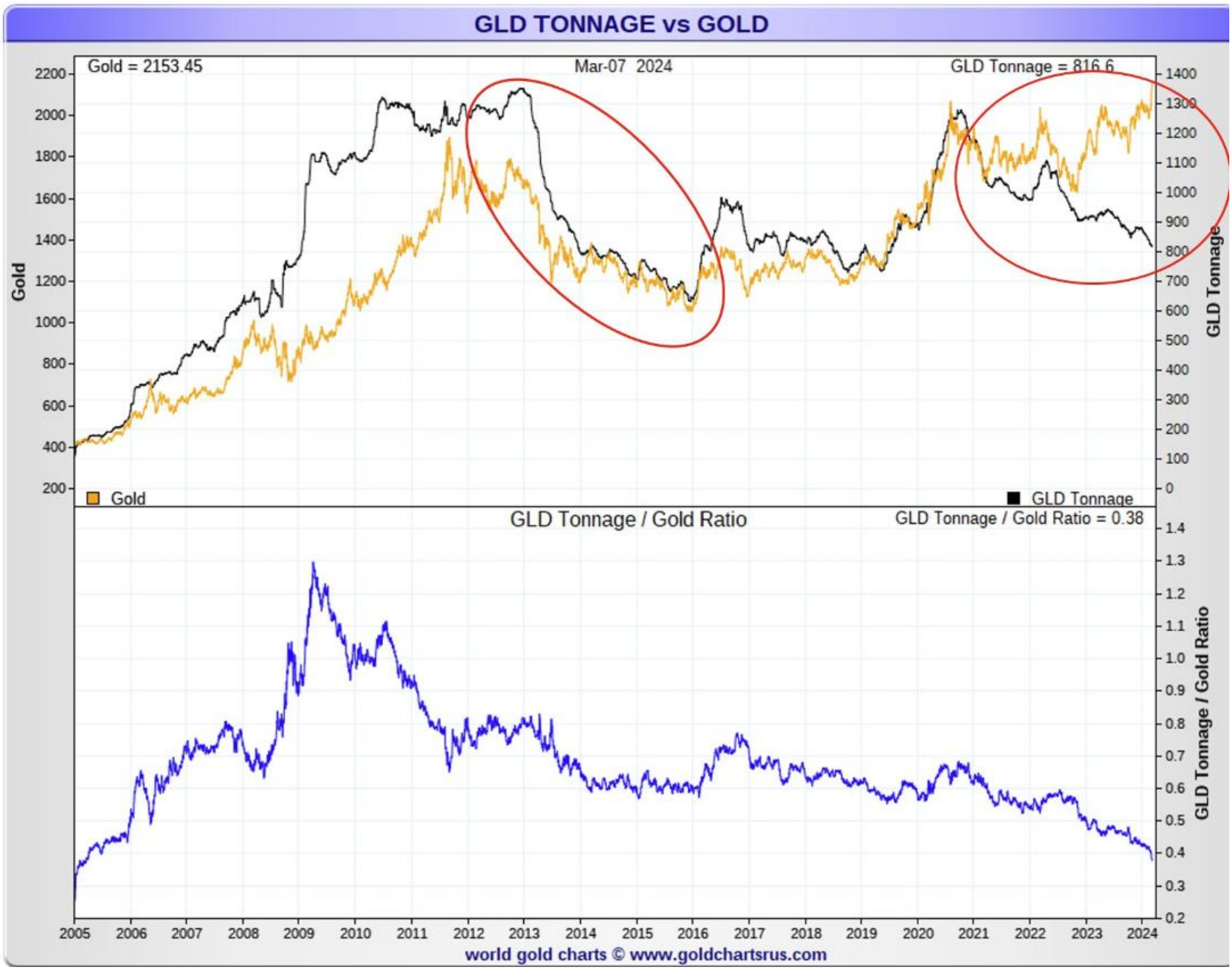
- **Regarding the FED and inflation**, it is clear that the window of action is narrowing over time.
- Since the end of October, the market has taken the end of the inflation cycle for granted, and yet it still persists.
- After the March 20 meeting, there will be "only" 4 FED meetings left to start a rate-cutting program... The November 7 one cannot be used, the US presidential election being on November 5... too politicized.
- Given the figures published in recent days (CPI / PPI), the market has significantly revised downward the probabilities of rate cuts for the year 2024**, since we go from a scenario of 8 to 3 cuts**.

Implementations

- **Our allocation to gold** (metal or miners) is experiencing a very interesting journey. Gold is breaking its historical highs against many currencies (even the CHF).
- On this gold price increase, it is important to note that gold ETFs are losing assets... So, it is not the "retail" flow that is feeding this movement.
- On the contrary, when comparing the price of gold with the amount of physical gold held in the most important global stocks (London and Zurich), we realize that it is not the West that is buying gold (graph below).
- However, the central banks of China, Turkey, and the Czech Republic continue to increase their gold reserves (LINK) and ask for physical delivery to their vaults.
- **Regarding interest rates**, we believe that the probability of a scenario of higher and more persistent inflation is clearly not "priced" by the stock and bond markets.
- The same goes for geopolitical risks that seem totally ignored for the moment.
- At the beginning of February, we adjusted our equity allocation upwards, **but we don't want to increase it any further in this environment valued for a perfect**, ideal scenario, as the risk of disappointment is too great.
- We preserve our bond allocation intact, which benefits from both the credit side (Carmignac Portfolio Credit) and emerging (Vontobel Emerging Corp).
- **Our alternative allocation** is performing relatively well at the moment (Advent / Nova / Westbeck / Volta) except for Invenomic (-8%) which suffers from the exuberance of the US stock markets. But this is not its first correction which is usually followed by a long rebound phase.
- The current general environment is disturbing and we are convinced that it is important to understand why we are buying shares of a company and its valuation. It is therefore wiser to miss an opportunity than to invest without understanding its stakes.

Gold chart in parallel with gold stocks in the West



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