EDMOND DE ROTHSCHILD

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POLITICAL VOLATILITY AND OPPORTUNITIES: EDMOND DE ROTHSCHILD ASSET MANAGEMENT UNVEILS ITS INVESTMENT OUTLOOK FOR H2 2024

- In H2 2024, investors will have to contend with a fairly buoyant economic environment, offset by political problems taking the upper hand
- Edmond de Rothschild AM has chosen not to overweight European assets, pending clarification of the new French political landscape
- In the bond markets, our investment teams continue to favor carry strategies and hybrid debt (corporate and financial)
- A return to emerging assets is on the horizon

Paris, July 4th, 2024: Edmond de Rothschild AM unveils its investment outlook for the second half of 2024, marked by an "almost ideal" economic environment and new political obstacles.

THE ECONOMIC ENVIRONMENT IS ALMOST IDEAL

The economic environment is more favorable than anticipated for capital markets, for three reasons:

- Disinflation remains steady despite its non-linear trajectory;
- Labour shortages in the US have finally begun to ease (supported by a substantial influx of immigrants);
- Interest rate cuts have commenced in Switzerland, Canada and Europe and should be initiated before the end of the summer in the US, knowing that the Federal Reserve, despite all the surprises regarding inflation, has ruled out the option of a further rate hike.

Historically, equity markets have delivered positive – and frequently robust - performances in periods of economic landing ahead of a first rate cut in the US. The prospect of monetary easing, starting from decent levels, still suggests that the Federal Reserve will manage the slowdown effectively and avoid a recession.

Benjamin Melman, Global Chief Investment Officer of Edmond de Rothschild AM commented: *"Looking at the performances recorded year-to-date, history appears to be repeating itself, strengthening our belief that considering the strength of the global economy, it makes sense to remain well exposed to equities. We have been tactically shifting between neutral and over-exposed since the beginning of the year. When the Fed first lowers its key rates, we will have time* *to review the economic outlook and reset our main allocation decisions. For the time being, confidence prevails!"*

CAN THE FRENCH POLITICAL TURMOIL TURN INTO A EUROPEAN FINANCIAL CRISIS?

If the Rassemblement National Party wins or in the event of a 'hung Parliament', it is possible - though unlikely - that the new government will embark on a Spending programme expanding the deficit. But this will not prevent Brussels from opening an Excessive Deficit Procedure, and credit agencies may continue to downgrade France's rating. The OAT-Bund spread could widen a little further, but a major crisis seems avoidable, particularly if the prospect of a deficit reduction is postponed and not buried, if Brussels and Paris reach an agreement over the mid-term. One could even imagine a favourable scenario in the event of a 'hung Parliament' and further political reshuffling, that could lead to an alliance between "government" parties on the left, centre and right, that would allow the country to pursue its initial commitment to lower the public deficit.

Until now, European assets have benefited from an increasingly favorable alignment of factors: a stronger-than-expected economy, ongoing disinflation, and an ECB on the ball. All the more so since the proximity of the US elections is leading to a wait-and-see attitude on the other side of the Atlantic. However, Edmond de Rothschild AM's investment teams have chosen not to overweight European assets, pending further clarification of the unstable political balance in France, with its repercussions for Europe.

THE US PRESIDENTIAL ELECTION IS ON THE WAY

While President Biden's reelection would have no major impact on capital markets, Donald Trump's return to the White House is expected to have the following implications:

- Negative for long-duration sovereign bonds, due to an inflationist policy involving a crackdown on immigration and plans to deport 11 million undocumented immigrants, as well as new import taxes and a fiscal policy that would not lower, but rather increase the country's substantial public deficit.
- Positive for equities, notably thanks to the return of a deregulation policy and plans to renew the tax cuts he had initiated in 2016, including a possible squeeze on corporate taxes. However, while it is difficult to assess the pressure that would be exerted on long-term rates, if long-term yields were to rise too fast, this would have adverse effects on equity markets.

SECOND SEMESTER INVESTMENT POLICY

Benjamin Melman, adds: *"One year ago, the economy raised many questions, as disinflation remained timid, and the US feared a recession. However, political difficulties were rather contained at this point. The issues have since reversed. While the economic environment is now looking rather promising, this is being overshadowed by political problems. The only constant has been the continued deterioration of the geopolitical environment. This means there may be some volatility – triggered by the French political turmoil or by Trump's possible return to the White House. The good news is that markets can sometimes over-react to political crises, and this may generate some attractive opportunities."*

Edmond de Rothschild AM's investment teams are therefore confident on both equities and bonds. Regarding the latter, we are considering lowering our exposure to long maturities – but as late as possible, to account for the US election. Indeed, if the economic slowdown is quick to materialise in the US, all fixed income markets would benefit.

Within equity markets, while major geographical decisions (US versus Europe) will be largely determined by the above-mentioned political issues, the investment teams have a preference for Big Data and Healthcare, and for European small caps which are trading at highly attractive valuations, considering the brighter economic environment and the monetary easing that has already been initiated.

On the bond markets, Edmond de Rothschild AM continues to prefer carry strategies and hybrid debt (corporate and financial) and plans to raise exposure to emerging debt once the Fed's pivot signal is strong enough.

ABOUT EDMOND DE ROTHSCHILD

As a conviction-driven investment house founded upon the belief that wealth should be used to build the world of tomorrow, Edmond de Rothschild specialises in Private Banking and Asset Management and serves an international clientele of families, entrepreneurs and institutional investors. The group is also active in Corporate Finance, Private Equity, Real Estate and Fund Services.

With a resolutely family-run nature, Edmond de Rothschild has the independence necessary to propose bold strategies and long-term investments, rooted in the real economy.

Founded in 1953, the Group had more than CHF 163 billion in assets under management at the end of December 2023, 2,600 employees, and 28 locations worldwide.

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