MARKET FLASH: TRANSITION

• We still believe disinflation will continue due to economic slowdown, property market normalisation, labour market easing and reduced budgetary support.

• In practice, the ECB wants to continue shrinking its balance sheet and exert more control over money in circulation.

• We remain invested on risky assets, especially in US and European equities but underweight the dollar. We still prefer fixed income for its yield.

Increasing signs of an economic slowdown are appearing in the US. Retail sales unexpectedly fell, especially the more precise "control group" data, and the NFIB confidence index for small companies also dropped. US consumers seem to be running out of steam, even if the jobs market is holding up for the moment. But the inflation figures were less convincing: core inflation rose 0.4% in February, once again led by services, and producer price inflation also edged higher.

The disinflation trend is still intact but these developments are likely to slow the pace of rate cuts. Yields on 10-year US Treasuries gained 15bp over the week while equity markets stabilised around recent peaks.

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In Europe, the ECB released highly technical details on its monetary policy review. We noted that the yield gap on its various benchmark rates started to narrow from September 18 and that there was a gradual adjusting of commercial bank reserves. In practice, the ECB wants to continue shrinking its balance sheet and exert more control over money in circulation.

In Japan, the first wage discussion rounds resulted in rises of more than 5% over a year, or more than double the average over the last 30 years. Such an increase should allow the Bank of Japan to end its negative interest rate policy, a move that puts it at odds with central banks trends elsewhere. The outlook is good for the yen but has weighed on the stock market.

In China, the recent 0.7% rise in CPI fostered hopes that deflation was coming to an end even though the increase was due in part to a rebound in consumer spending over the Lunar New Year holiday.

We remain invested on risky assets, especially in US and European equities but underweight the dollar. We still prefer fixed income for its yield. We think our duration overweight, mainly in Europe, is judicious following the ECB's downward revisions to its growth/inflation scenario.

EUROPEAN EQUITIES

As in the previous week, European markets ended the period higher. Equity markets seemingly brushed off rising bond yields and uncertainty over the tug-of-war at the ECB between doves and hawks. In the end, traders remained focused on results with more than 70% of company reports now in. It is interesting that although in absolute terms the results have been relatively disappointing -44% beats or lower than the 53% average in recent years- followed by downward revisions, share prices have tended to outperform significantly the day after results were announced.

Specialised distribution managed to outperform, thanks to companies like **Inditex**, a key player in the advances made by the IBEX35, and **Zalando** which saw margins expand sharply. Banks also gained ground. **BNP Paribas**, previously under attack, managed to reassure investors by raising its cost cutting targets and unveiling plans to return €20bn to shareholders over the next 3 years. Energy also jumped thanks to rising Brent Crude prices as Ukraine tensions once again mounted. Property quite naturally fell due to rising bond yields and tech was also down.

As expected, **Inditex** saw sales rise 10.4% to €35.95bn and EBITDA rose 13.9% to €9.85bn, or slightly higher than the €9.83bn expected. The dividend will be €1.54, or lower than the €1.57 expected but even results that are in line can send shares higher in today's environment.

The autos sector was more troubled. **Volkswagen** lost ground after declaring that its performance in 2023 would be hard to match this year. Management cited lower demand and very strong competition from China. **BMW** sent the same message, citing higher production costs and pressure on prices due to competition.

US EQUITIES

Trading was quiet despite important news on Inflation. CPI came in 10bp higher than expected and PPI was 30bp above consensus. Retail sales, also disappointing, complicated the rate outlook.

Even with doubts arising over the disinflation trajectory, the S&P 500 still managed a 0.63% gain over the week, thanks chiefly to energy stocks. More or less tracking Brent crude rises, energy gained 3.54%, one of its best weekly returns this year.

In tech company results, **Oracle** reaffirmed guidance up to 2026, citing strong cloud demand from AI spending. In contrast, **Adobe** fell sharply despite reasonable results after the group disappointed investors by not raising its forecast for this year.

In consumption, **William Sonoma** jumped after an excellent fourth quarter and news that the dividend would be raised and a $1bn share buyback launched.

The crisis at **Boeing** continued, with adverse effects on airlines. **Southwest Airlines** cut guidance for the second half due to longer plane delivery times. **American Airlines** cut its forecast for this quarter but stuck with its full-year guidance.

Social networks had a complicated week. Donald Trump suggested he would regulate **Meta** if he won the presidential election. On Wednesday, the House of Representatives approved a bill to ban **TikTok** if the service failed to sever relations with its parent company **ByteDance**. We will be closely watching **Reddit**'s IPO next Thursday.

JAPANESE EQUITIES

The NIKKEI 225 and TOPIX fell by 2% and 2.09%, respectively with the NIKKEI 225 range bound between 38,800 and 39,600 yen but on a down trend. In the previous week, the market was in a festive mood after the NIKKEI 225 hit 40,000 for the first time ever. But this week was a period of adjustment with investors on high alert. The market priced in the possibility that the Bank of Japan would lift negative interest rates at its monetary policy meeting on the 18th and 19th. The country's largest union said major companies had agreed to large wage increases so the conditions are now right for the Bank of Japan to make significant monetary policy changes.

The NIKKEI 225 is being driven by Wall Street strength, yen depreciation and the BoJ's ongoing monetary easing. But there is a risk that institutional investors might rebalance portfolios towards the end of the quarter and weigh on the index.

The yen traded around 147 against the dollar, touching 148.30 on March 14th.There were no major movements as investors are waiting to see what the BoJ decides next week and there were no clear signs that the yen would appreciate further.

EMERGING MARKETS

The MSCI EM Index was up 1.21% this week in USD as of Thursday, outperforming developed markets, thanks to a 4.31% rebound in **China**. **Korea** gained 1.09% while **Taiwan** and **Brazil** closed almost flat. **India** lost 2.31%.

In **China**, CPI came in ahead of expectations at 0.7% vs. -0.8% in February, while PPI slightly missed the estimates by coming in at -2.7%. The State Council released an action plan to promote large-scale equipment renewals and consumer goods trade-ins. Hangzhou and Guangzhou continued to loosen housing policy while **China Vanke** was reportedly in talks with banks on a debt swap that would avoid its first ever bond default. Beijing proposed lifting punitive tariffs on Australian wine, signalling a three-year trade dispute was nearing an end amid efforts by both countries to strengthen ties. The US House passed a bill that would require a forced sale of **TikTok** or a total ban in the **US**. **Wuxi Biotech group** terminated its membership of **BIO** (Biotechnology Innovation Organization) after the latter said it would support legislation to restrict **US** dealings with **Wuxi AppTec**. **Li Ning** is reportedly considering privatisation. **BYD** plans to build an EV plant in **Mexico**. **Kanzhun**, the online recruitment platform, said it expected a robust spring season, suggesting a rebound in recruitment supply and demand dynamics.

In **Hong Kong**, **Samsonite**'s fourth-quarter results were in line. The company announced a new dividend payout and raised 2024 guidance with an improved outlook due to buoyant tourism in Asia. In **Korea**, **Samsung C&T** shareholders rejected proposals from activist funds on a dividend increase and share buyback.

In **India**, the government signed a free trade pact with four European countries that will see $100bn invested in the country over 15 years and create a million jobs. CPI inflation was stable at 5.1% in February while core inflation fell to its lowest level since 2012. The Union cabinet approved two additional Delhi Metro corridors. The ministry announced a new scheme to promote e-mobility in the country. **Tata Motors** is to build a $1.1bn vehicle plant in southern **India**. **Paytm** won approval to become a consumer digital-payments platform, a decision that will help the beleaguered fintech to continue a bulk of its business even as its banking affiliate is getting wound down. .

In **Brazil**, a bill aiming to tighten regulations on private sector corruption made progress through Congress. The government is investing R$10bn in the Porto of **Santos**. **Natura** reported better than expected results, driven by Ebitda margin expansion. **Lojas Renner** also announced better trends in its retail business, but the credit business continued to struggle. **Eletrobras** missed estimates due to higher provisions, mostly non-recurring.

In **Mexico**, January's industrial production surprised on the upside. **Funo** suggested to **Terrafina** that they should combine their industrial real estate portfolios.

CORPORATE DEBT

CREDIT

Bond yields started rising again in the US and Europe after macro indicators like PPI and jobless claims continued to highlight a highly resilient US economy. As of Friday morning, yields on 10-year US Treasuries were at 4.29%, or close to year highs. The euro yield curve rose in sympathy now that rate cut hopes have been pushed back to June. Between the previous Friday evening and this morning, 2-year yields were up 16bp to 2.92%, +18bp to 2.46% on the 5-year and +16bp to 2.43% on the 10-year.

Credit market spreads stayed resilient with massive inflows still pushing them lower. The Xover stayed rooted at 300bp and IG spreads narrowed to a 2-year low of 110bp. High yield tightened to 335bp, or 60bp less than at the end of 2023. In subordinated financial debt, **Euro CoCos** also had a strong week with spreads falling below 600bp to 550bp.

New issues continued to be largely oversubscribed. **Arkema** raised €400m at 4.8% with a new hybrid bond. In financials, we subscribed to a T2 from **Banco BPM** at 5% due 2034 and a senior bond from **Virgin Money UK** at 4% due 2028. Elsewhere, **Stellantis** raised €750m at 3.5% due 2030, **Heathrow** £400m at 6.625% due 2031 and **Elis** €400m at 3.75% due 2030.

Between March 7 and 14, bond market returns held up as strong credit markets offset the negative impact of rising rates. IG edged only 0.01% down and is now down 0.25% YTD. High yield gained 0.41% (+1.91% YTD) thanks to spreads performing well.

CONVERTIBLES

It was a volatile week for global convertible bonds, with technology companies giving up some gains, and underperformers in the energy sector recovering.

In Europe, **Zalando** posted strong gains after reporting results; investors were pleased with its plans to further increase profitability and capture market share. The company aims to cover 15% of the European fashion market over the long term. The European primary market was again absent this week.

In the US, cryptocurrency related companies were in big focus after bitcoin reached all-time highs. **MicroStrategy**, a software company that makes business-intelligence tools and has significant investments in bitcoin, returned with another convertible-debt offering to help it purchase more bitcoin. **Coinbase**, the cryptocurrency trading platform, raised $1.1bn due 2030 with the proceeds to go on refinancing outstanding convertible debt and senior notes. With these new deals, new issuance from crypto related companies amounted to more than $2bn in just two weeks.

Plug Power, a renewable energy company, was able to negotiate an exchange for its 3.75% convertible senior notes due 2025. **Fisker**, the EV company, tumbled on Thursday after warning that it was running out of cash. Management said it had hired restructuring advisers.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• Markit publishes the Main iTraxx index (125 leading European stocks), the HiVol (30 highly volatile stocks), and the Xover (CrossOver, 40 liquid and speculative stocks), as well as indices for Asia and the Pacific.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

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