MARKET FLASH: NVIDIA STEALS THE SHOW FROM CENTRAL BANKS

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Nvidia's results stole the show this week. Third-biggest S&P 500 cap, the group's figures had as much, if not more, impact on markets than a central bank meeting. Before the results came out after Wednesday's close, several mixed economic indicators suggested markets should perhaps mark a pause: PPI inflation was higher than expected and there were conflicting signals on activity like a drop in housing permits. The Philly non-manufacturing survey and the Conference Board's Leading Index also fell and Michigan University's investor confidence index rose less than expected.

As for Nvidia, there was only good news in its results and expectations. The group's stellar performance sent risk assets higher, led by tech, and the S&P 500, Nasdaq 100 and Dow Jones all ended Thursday's sessions at all-time highs. And the Nikkei 225 finally returned to record highs even if it spent more than 34 years getting there.

Chinese equity markets are still some way off their highs but rebounded after the Chinese New Year break. As expected, the PBoC cut rates but it went further than expected by shaving 25bp off its 5-year benchmark to 3.95%. In addition, spending over the holiday was up so investor confidence rose.

Thursday's economic data also boosted risk assets. In the US, weekly jobless claims came in lower than expected. PMI indicators for February may have been mixed -US manufacturing up but services down- but the economy is undoubtedly showing resilience. Manufacturing PMI, for example, settled in above 50, moving from 50.7 to 51.5. Services, however, fell from 52.5 to 51.3. In the eurozone, Composite PMI rose for the fourth month in a row with services hitting 50 for the first time since July 2023, offsetting a fall in German manufacturing which retreated to 42.3 after 6 up months. German services PMI, meanwhile, edged higher to 48. In France, both indicators rose more than expected but stayed below 50 (46.8 and 48).

Unlike risk assets, government bond prices fell over the week and yields rose. Investors are factoring in economic resilience and a manufacturing recovery by pushing back expectations for rate cuts to June for the ECB and between June and July for the Fed.

We remain invested in risk assets after recently raising eurozone weightings. In fixed income, we have reduced duration in US bond holdings because of economic resilience. Even so, we are still long duration overall, but essentially in the eurozone because we continue to believe the ECB will inevitably start a rate-cutting cycle this year.

EUROPEAN EQUITIES

With investors eyeing earnings announcements, Europe ended the week higher. Close to 60% of companies have now reported and the score keeps on improving: more than 50% have beaten expectations. Hawkish comments from an ECB official may have pushed government bond yields higher but they failed to dampen investor enthusiasm and Europe's indices hit fresh records. **Nvidia**'s stellar results galvanised tech but there were also favourable contributions from **BE Semiconductor** and **Sopra Steria**. Almost all sectors ended higher apart from property, basic resources, and agrifoods which fell after Swiss giant **Nestlé** posted disappointing figures.

Forvia fell sharply after the company announced a 5-year redundancy plan concerning 10,000 employees. Management cited tougher Chinese competition, reduced demand and sector over-capacity. The news also dragged down **Valéo**. But the autos sector itself was unscathed. Even if the demand outlook is clouded, **Mercedes** gained ground after announcing a share buyback and raising its dividend.

In insurance, **Axa** is being particularly generous to shareholders: its results were in line but the group expects its payout ratio to hit 75%. In the banking sector, **HSBC** sold off after disappointing results that suffered from its exposure to the Chinese property sector via its stake in China's **Bank of Communications**. HSBC nevertheless said it had reduced exposure to US property, a sector which is also struggling due to falling demand.

Sopra Steria had a very good fourth quarter with sales jumping 20.8% to €1.62bn, or better than the €1.60bn expected. EBITDA for 2023 came in at €548m vs. €538m expected and the margin was 9.4% (vs. 9.3% expected). Building on this momentum, management now expects 2-4% growth this year. And the sale of its **Sopra Banking Software** division shows that the new CEO is refocusing on IT services.

Carrefour's results showed that non-food sales in France were soft as persistent pressure on household purchasing power prevailed. But higher cash flow allowed the group to increase its dividend by 50% and announce a share buyback programme.

US EQUITIES

Nvidia's quarterly results were as hotly expected as the Super Bowl final score and they did not disappoint. The GPU creator posted exceptionally good results that crushed already demanding expectations and gave the S&P 500 its best day in almost a year. Nvidia's CEO said demand had crossed a new threshold taking in companies to governments. The figures sent the entire tech sector higher. But **Palo Alto**'s results offered a contrasting picture: the cyber security specialist which is close to the AI segment said demand was waning. The share price promptly fell back to November 2023 levels.

Figures in the construction sector confirmed the trend for 2024. Individual house builder **Builders FirstSource** posted upbeat results with renovation beating expectations. It was the same story at luxury house builder **Toll Brothers**, except that the group raised earnings guidance for 2024 by 10% due to strong demand.

In renewables, **Sunnova** said 2024 would be more stable but its fourth quarter figures failed to reassure investors due to poor short-term visibility on sales. On the other hand, **SolarEdge** cut revenue and margin guidance for this quarter, reinforcing investor concerns over its future.

In the energy sector, **Valaris** beat EBITDA estimates for the fourth quarter by 17% and unveiled another share buyback programme which is double the size of the preceding plan. The group's ability to do this is based on its optimistic view of the oil cycle and its own comfortable sector position for the coming years.

Despite upbeat earnings in 2023, the share price of retirement home operator **Brookdale** fell after the company cut first quarter guidance, citing January's bad weather.

The Fed minutes unsurprisingly confirmed that there would probably be no rate cuts before the summer.

JAPANESE EQUITIES

The NIKKEI 225 and TOPIX gained 0.27% and 1.37% after trading within a narrow range. Brokers were preparing to celebrate with Kusudama balls (Pinatas) if indices were to hit December 1989 highs but that failed to happen. In fact, a single company, **Nvidia** influenced Japanese market trends. But in Tokyo, semiconductor stocks fell and weighed on the market. Even so, more and more people now see the Nikkei 225 Index rising to more than 40,000, or above its peak during the 1989 bubble. Estimates from major broking firms are around 42,000-43,000.

Iron and steel rose 4.15% led by **Nippon Steel** which rebounded after a sell-off in the previous week. Banks gained 4.04%, led by **Mitsubishi UFJ Financial Group** on expectations of strong earnings from higher interest rates. Securities and commodities ended 3.47% higher, led by **Daiwa Securities** on prospects trading volumes would remain high. In contrast, other manufacturing fell 2.24%, led by **Nintendo** (-6.13%) after it delayed the launch of its next-generation game consoles to the first quarter of 2025. Electrical appliances slipped 0.54%, led by **Sony** (-3.83%) on a downgrade of its gaming division. Metal Products edged 0.21% lower on profit taking.

Bandai Namco Holdings, a multinational video game and entertainment company, bounced by 12.75% after weakness due to poor results. **OLYMPUS**, an optical and electric equipment manufacturer, also rebounded by 7.10% after last week's fall. **Mitsubishi**, a general trading company, advanced 6.55% on share buy-back plans. **SYSMEX**, (laboratory testing equipment) slipped 3.73% on profit taking sales after earnings rose 66.3%, but below the 5-year average of 73.9%.

The dollar traded around 150 to the yen. Some investors are now anticipating US rate cuts in June. The market is generally in a wait-and-see mood before the next economic and inflation data is released.

EMERGING MARKETS

The MSCI EM Index was up 2.16% this week as of Thursday. China (+4.95%) rebounded, India gained 1,63% and Brazil ended 2.32% higher. Mexico slipped 0.61%.

In **China**, the government cut the 5-year loan prime rate (LPR), which influences mortgage pricing, by 25bp to 3.95% when the market expected a 10bp move. The 1-year rate was unchanged at 3.45%. **China**'s new house prices fell 0.37% MoM, or at a slower pace than the 0.45% drop in December. **Sinopharm** suggested taking **China TCM** private. **Ctrip** posted solid fourth-quarter results with higher-than-expected margins and the company was upbeat for this quarter.

In **Taiwan**, AI server supply chain stocks benefited from **Nvidia**'s better-than-expected results. In addition, **Intel**'s CEO confirmed that the group would collaborate with **TSMC** to produce 2x CPUs (vs consensus expectations of 1x CPU).

South Korea plans to unveil details of its value-up programme on February 26th: the government may propose corporate tax incentives for treasury share cancellations and dividend increases (subject to Congressional approval). **Samsung** said it would sell its **ASML** stake to increase its investments in **HBM**.

In **India**, the government raised the minimum purchase price for sugar cane from farmers by 8% YoY. **ABB India** posted good results with a 35% YoY increase in new orders. **Grasim** launched its new paints business "**Birla Opus**" with an Rs100bn sales target in 3 years and the ambition to break even during the period. The launch weighed on incumbents **Asian Paints** and **Berger Paints.**

In **Brazil**, January's tax revenues were better than expected. **Carrefour Brazil** beat across the board, driven by cost restructuring. Fourth-quarter results at **Weg Motors** beat expectations as margins remained high and exports were stronger than expected. **Mercado Libre** missed consensus expectations due to higher logistics spending. **NuBank** reported strong results, but below expectations, due to NIM deterioration, lower fee income and higher expenses.

In **Mexico**, retail sales fell by 0.2% YoY in December, or below consensus for a 2.4% rise. Remittances fell 7.7% in the fourth quarter but less than the 8.6% drop in the previous quarter. **Volkswagen** is planning a $1bn investment to boost EV production in **Mexico**. **Vesta'**s results missed on a lower top line but guidance pointed to a recovery of revenues and margins. **Gentera**'s fourth quarter also missed due to one-off provisions for the Otis hurricane but with strong core trends and guidance for 2024 was reassuring.

In **Colombia**, **Bancolombia** reported better-than-expected figures thanks to strength in its investment portfolio.

CORPORATE DEBT

CREDIT

As at the beginning of January, this week saw the same upward trend in risk-free rates. Strong macro indicators point to a resilient economy so traders have pushed back their rate cut expectations by some months. Europe's composite PMI came in at 48.9, or better than expected. Services PMI even returned to the neutral 50 zone when it was expected at 48.8. The impact on the yield curve was significant with short rates rising the most. Yields on the 2-year German Bund gained 15bp to 2.94% and the 5-year was up 10bp to 2.48%. The 10-year Bund yield rose 6bp to 2.47%.

Even with interest rate volatility, credit markets continued to show resilience. The Xover tightened by 5bp to 304bp. Investment grade spreads narrowed by 5bp to 118bp and high yield by 10bp to 340bp, both hitting 2-year lows. Europe's high yield segment saw inflows for the sixth week running, underpinning valuations and indicating that investors are still focusing on carry strategies and overall yield.

In new issues, **ENEL** raised €900m at 4.75% with a new hybrid perpetual. The deal was well oversubscribed, a token of investor interest in the asset class. In high yield, **Avis** raised €600m at 7% due 2029. This week's results were still upbeat with good figures from companies like **Cirsa**, **Verisure** and **Rolls Royce**.

Investment grade returned 0.1% over the week (-0.82% YTD) due to the duration effect. High yield returned 0.23%, or a comfortable 1.2% rise since January 1st thanks to strong performance from spreads.

CONVERTIBLES

Nvidia's excellent results helped convertibles end the week higher across the globe. Among this week's numerous company reports, cyber security specialist **Palo Alto** in the US cut its sales guidance for 2024. The stock plummeted by more than 25% and dragged down the entire sector. **Zscallier**, for example, tumbled 14%. The electric vehicle sector also tanked after **Rivian** plunged by more than 25% due to disappointing results.

In Europe, **Carrefour** had a good fourth quarter due to better-than-expected cash flow. The dividend for 2023 was also raised. **Accor** confirmed its medium-term targets after posting record annual results that beat its guidance. The luxury hotel division in particular performed well.

The new issues market raised more than €5bn, mainly in the US. **Global Payment** raised $2bn at 1.5% due 2031 and with a 20% premium. **Super Micro Computer** raised $1.7bn at 0.5% due 2039 and with a 30% premium.

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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