



## MARKET FLASH: THE SITUATION SHOULD BE CLEARER IN JUNE.

- *Following comments from the Fed's Christopher Waller that there was no rush to cut rates, investors are still unsure if the US rate-cutting cycle will start in June.*
- *This momentum should help inflation fall back and add support to the soft landing scenario and an ECB rate cut in June.*
- *Equity markets have performed very well since the end of October so we think it is time for some tactical profit taking.*

Following comments from the Fed's Christopher Waller that there was no rush to cut rates, investors are still unsure if the US rate-cutting cycle will start in June. It is certainly true that recent economic data, notably economic surprise indicators in various geographical zones, could encourage central banks to wait a little longer. It is rather unusual to see a simultaneous economic upturn for advanced and emerging economies ahead of a rate-cutting cycle. And it is also true that the disinflation process has slowed since the beginning of the year, enough to fuel doubts that inflation will trend lower to central bank targets.

We think the battery of growth and inflation data up to June should provide confirmation that price inflation has slowed in the US and Europe. Annualised PCE inflation in the US over 6 months should trend towards 2%, or even much less, and allow the Fed to feel more comfortable about cutting rates. In France as in other European countries, companies are tending to grant more modest wage increases with the possibility of a downturn in wage inflation, a sine qua non for the ECB. The Bank of France expects wage increases to be smaller this year so that would suggest the price/wage spiral should slow. This momentum should help inflation fall back and add support to the soft landing scenario and an ECB rate cut in June.

Equity markets have performed very well since the end of October so we think it is time for some tactical profit taking. The situation is ripe for a market consolidation; equity risk premiums leave no room for disappointment over consensus expectations for miraculous disinflation. Over the short term, end-of-quarter portfolio adjustments will see profit taking and switches into fixed income. At the same time, the implicit correlation with the S&P 500 is now at a 10-year low. In our view, bond markets now offer a more attractive risk/return profile. We have in particular reinforced our US duration

### EUROPEAN EQUITIES

Central banks in Europe are sounding more accommodating over monetary policy. The ECB's chief economist said he was sure wage growth would return to normal and take inflation back down to 2% in 2025, leaving the way open for rate cuts. Sweden's central bank left rates unchanged but said there was a 50% chance of a rate cut in May.

However, the fight against inflation is not yet over. Take, for example, the Dutch post office **PostNL** which agreed to union demands for a 19% wage rise. Similarly, the UK's **Kingfisher** (DIY stores) posted a steep drop in annual profits due to cost inflation and its difficulty in

passing on costs to consumers as demand remained slack. In semiconductors, **Soitec** sounded a much more cautious note than expected for 2025 and the chairman of the board chose not to seek renewal of his mandate.

On a brighter note, Sweden's **H&M** (ready to wear) swept past expectations and was optimistic that demand would recover while **Trigano** (camping cars) saw a 16% jump in sales despite unfavourable base comparisons. Management added that demand was still strong

## US EQUITIES

In a shortened week ahead of the Good Friday holiday, markets continued to trend higher amid sector rotation. The S&P 500 gained 0.5% and the Russell 1000 Value 1.5%. Unlike previous quarters, the rise concerned a bigger stock spread rather than being confined to momentum plays. The trend benefited value sectors like financials and building materials.

And yet it was an eventful week for social network companies. **Reddit's** IPO was a big success and the stock surged before falling back. It was the same story for Donald Trump's **Truth Social** network which debuted on Wall Street after 20 months as a SPAC. The listing could help Donald Trump deal with a big fine before continuing with this presidential campaign. **Astera Labs** (data centre infrastructure and connectivity) also listed. The company has **Nvidia** and **Amazon** as clients.

Problems continued with the aviation sector. **United Airlines** lost ground after the Wall Street Journal said FAA officials were worried about security problems and had stepped up scrutiny of the airline. **Boeing's** CEO resigned as a result of recent mishaps and the stock rallied.

Steel maker **Cleveland Cliffs** said it had been chosen for talks to secure government financing for up to \$575m. The proceeds would go on two separate decarbonisation investments.

Beijing announced a ban on chips made by **Intel** and **AMD** for PCs sold in China. Investors brushed off the news even though the ban could shave 5-10% off earnings per share for both companies.

## JAPANESE EQUITIES

Japanese stock markets fluctuated around recent highs following last week's rally after the BoJ's policy change decisions. The NIKKEI 225 slipped 0.13% while the TOPIX edged 0.11% higher. The market extended its rise on the 22nd, but profit-taking took the lead from Monday. However, on confirmation accommodative monetary policy would continue, the Yen carry trade became active again, driving the currency lower. The dollar rose to just below the 152 level, marking a new recent high and underpinning the stock market.

Statements from senior government officials expressing concerns over the Yen's rapid depreciation heightened wariness over a possible intervention. Markets remained nervous.

## EMERGING MARKETS

The MSCI EM Index edged 0.19% lower in the first 3 days of this week. **Brazil** and **India** were up 0.99% and 0.73% in USD. **China** and **Taiwan** lagged slightly, down 0.73% and 0.55% respectively, while **Korea** was almost flat.

In **China**, January-February industrial profits grew 10.2% YoY when they were seen falling 2.3%. Premier Li's speech at the **China** Development Forum focused on macro policy support and opening up access to foreign companies. **China** also lifted its tariffs on Australia's wine exports as relations improved. The commerce minister met with top global companies, including the CEOs of **Apple**, **SK Hynix**, **Micron**, and **Qualcomm**. **Meituan** reported a strong revenue beat in the fourth quarter. China Merchants Bank lifted its dividend payout to 35%. **CATL** is planning to expand in the **US** through licensing deals with automakers including **Tesla** on faster charging batteries and is reportedly supplying machinery to **Tesla's** Giga Nevada factory.

In **Korea**, February retail sales jumped 13.7% YoY. National Assembly poll data showed some slippage for President Yoon. Hynix will build a \$4bn HBM advanced packaging facility in the **US**. Major banks are expected to confirm the extent of ELS compensation-related losses. **Hanwha Aerospace** reached an agreement with the Polish government to build an R&D center.

In **India**, gold imports are set to plunge by more than 90% in March from the previous month to hit their lowest level since Covid-19. The Onion export ban has been extended until further notice. The government initiated an anti-dumping probe into the import of aluminum foil from **China**. From January to March 2024, house sales rose 30% YoY. **Royal Enfield** Motorcycle Maker will set up a **Dutch** unit due to BREXIT. **Ultratech Cement** will buy a 26% stake in **O2 renewable energy**.

In **Brazil**, Lula and Emmanuel Macron announced a \$1.1bn investment plan to protect the Amazon rainforest. March-IPCA 15 was higher than anticipated. **Anima** reported good results, with EBITDA margin expansion and further deleveraging.

**Mexico** reported a smaller-than-expected trade deficit in February. The trade balance figures suggest some improvement in activity indicators in February as reflected in rising manufacturing exports, as well as non-energy and capital imports, after a surprisingly weak monthly GDP print in January.

## CORPORATE DEBT

### CREDIT

Yields continued to ease after last week's decision by the Swiss National Bank and ahead of an expected rate cut from the ECB in June. Yields on Germany's 10-year Bund had fallen by 7bp to 2.30% as of Thursday morning. But the move was less marked in the US where 10-year Treasury yields only fell 3bp following a comment from the chairman of the St Louis Fed that there was no rush to cut rates. He pointed out that core inflation had picked up and that it should continue to be the main focus, a point of view that puts him at odds with Jerome Powell.

Investment grade spreads widened by 3bp over the period to 113bp. High yield spreads widened by 10bp to 355bp amid mounting worries over companies like **Atos**, **Altice France (SFR)**, **Intrum** and **Ardagh Packaging** which are beginning to struggle with heavy debt loads. Debt restructuring and talks with creditors are on the agenda. However, any spread to the wider market looks limited for the moment with investor appetite for new deals still intact. **Virgin Media** (BB-) raised €600m at 5.625% due 2023 and **Eutelsat** (B+) €600m at 9.75% due 2029. Both deals were oversubscribed and heavy demand for the **Eutelsat** bond

allowed it to reduce the coupon by close to 50bp. In investment grade, **Saint Gobain** (BBB) raised €1bn at 3.375% due 2030 and €1bn at 3.625% due 2034.

Between March 21 and 27, investment grade returned 0.41% and is now up 0.33% YTD. High yield, which was stable due to rates offsetting wider spreads, has now returned 1.6% since the beginning of 2024.

## CONVERTIBLES

Global convertible bonds advanced this week, driven by a supportive equity market. European convertibles had their first issuance in weeks after **Citigroup** announced a **Citigroup/LVMH** synthetic launch. The €375m deal matures in 2029 and was priced at 1% coupon and a 25% premium and the structure and valuation met with investor approval.

**Air France-KLM** repaid €452m of the outstanding €500m in its 2026 OCEANE bonds; this early redemption option on March 25, 2024 was part of the bond's terms and conditions. Ocado's first quarter sales beat estimates and the company maintained its February 29 guidance for mid-high single digit percentage revenue growth and an underlying EBITDA margin of around 2.5%.

In the US, the primary market remained busy. **Cardlytics**, an advertising platform, raised \$150m at 4.25% due 2029 to refinance debt. **Rexford Industrial Realty** raised \$1bn with two convertibles due 2027 and 2029; the proceeds will mainly go on funding acquisitions.

In M&A, media reports indicated that Johnson & Johnson was in talks to acquire Shockwave, a maker of cardiovascular disease devices with a market value of around \$10.7bn. The event could trigger premium compensation for holders of its convertible bonds.

## 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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