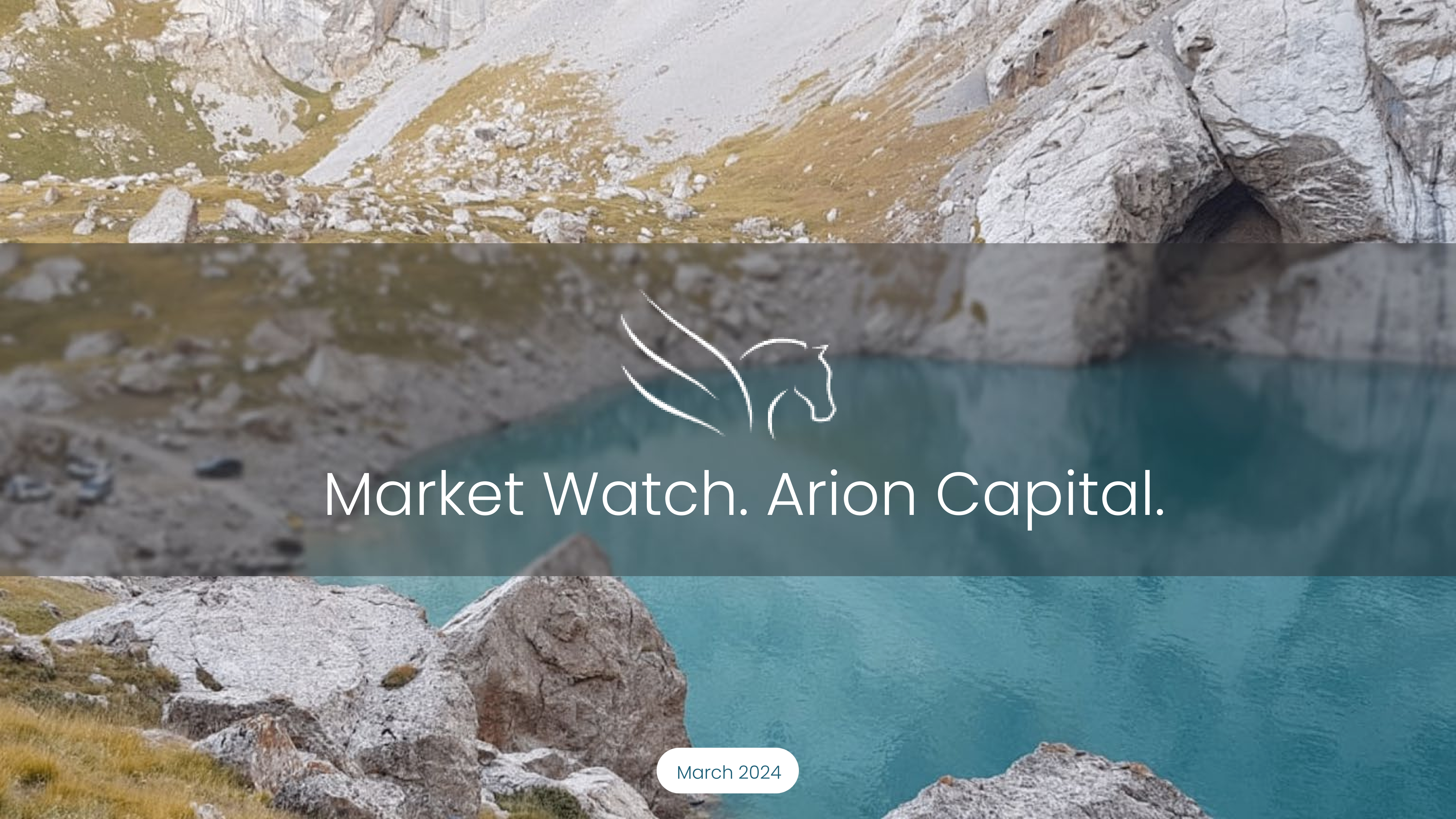


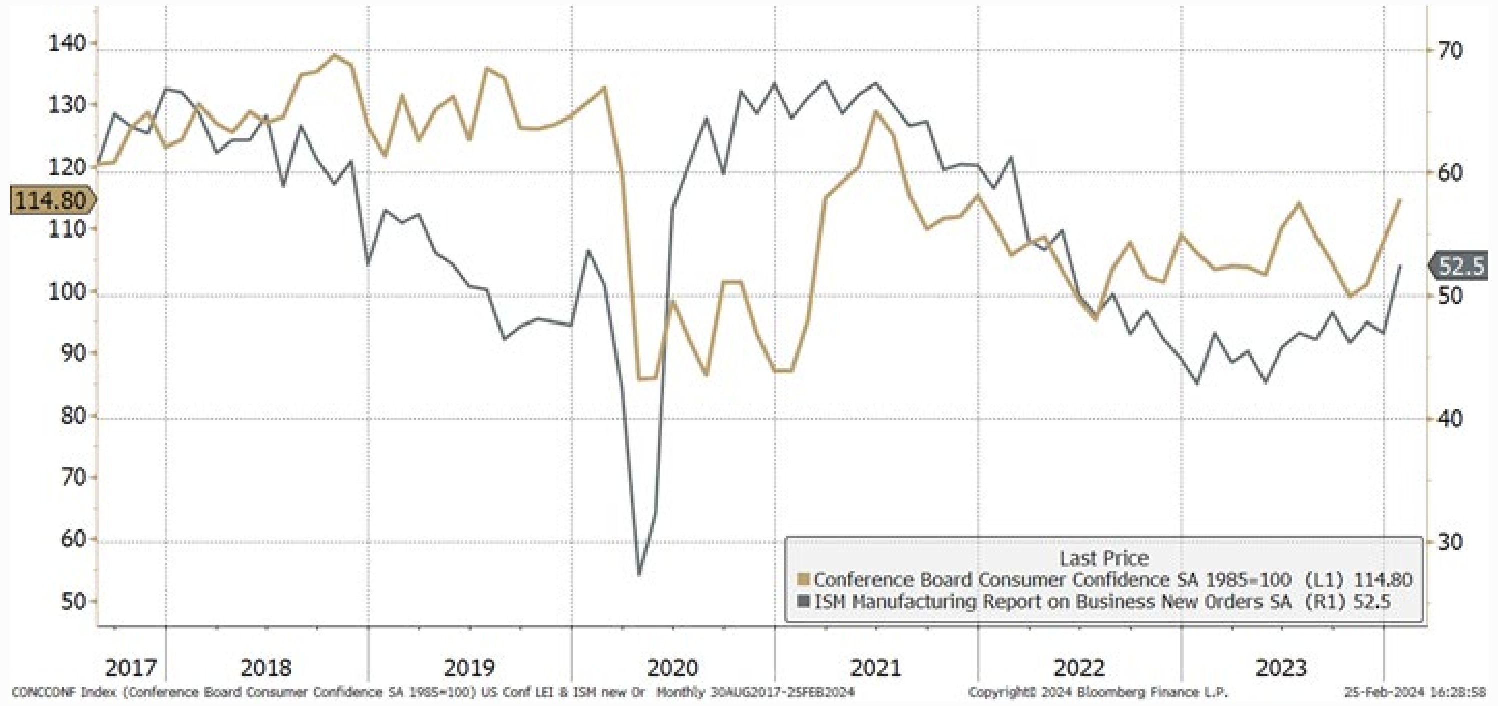
Market Watch. Arion Capital.

March 2024

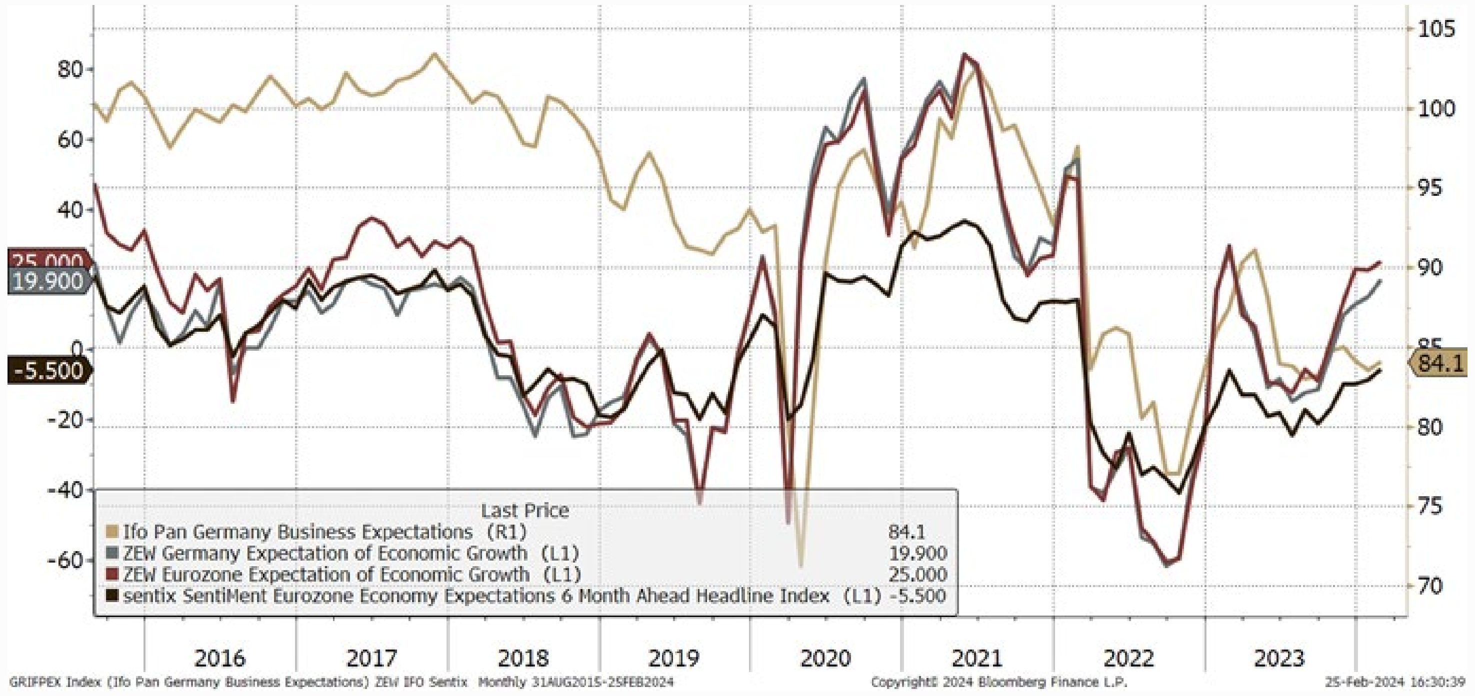
More positive global economic signals

- The macro outlook for the US has improved further based on ISM new order data and consumer confidence indicators. Additionally, the flash PMI shows more signs that the economy is accelerating.
- The Fed has reacted to this situation and indicated that they most likely will not cut rates in March or May. Even a cut in June is not a done deal. The latest data on US job inflation was not as expected, decreasing rather than increasing. There are still roughly 1.5 jobs open for each unemployed person. However, the qualifications of the unemployed do not often match the requirements. Therefore, the job market remains tight, and with the expected acceleration of the US economy, it might worsen.
- Therefore, it's little surprise that Larry Summers, former US Secretary of the Treasury, brought up the idea that the Fed might not need to cut rates but should rather consider one more hiking step.
- If you agree with us that stock markets are leading indicators of the economy, or at least of the expected EPS growth of listed companies, we must take notice that all three major US indices are at new record levels. Furthermore, domestically oriented mid-caps have started to outperform (international) large caps. This is just another sign that the US economy will not fall into a recession any time soon.

US ISM New order and Consumer Confidence are both rising



Eurozone & Germany ZEW, IFO and Sentix are improving

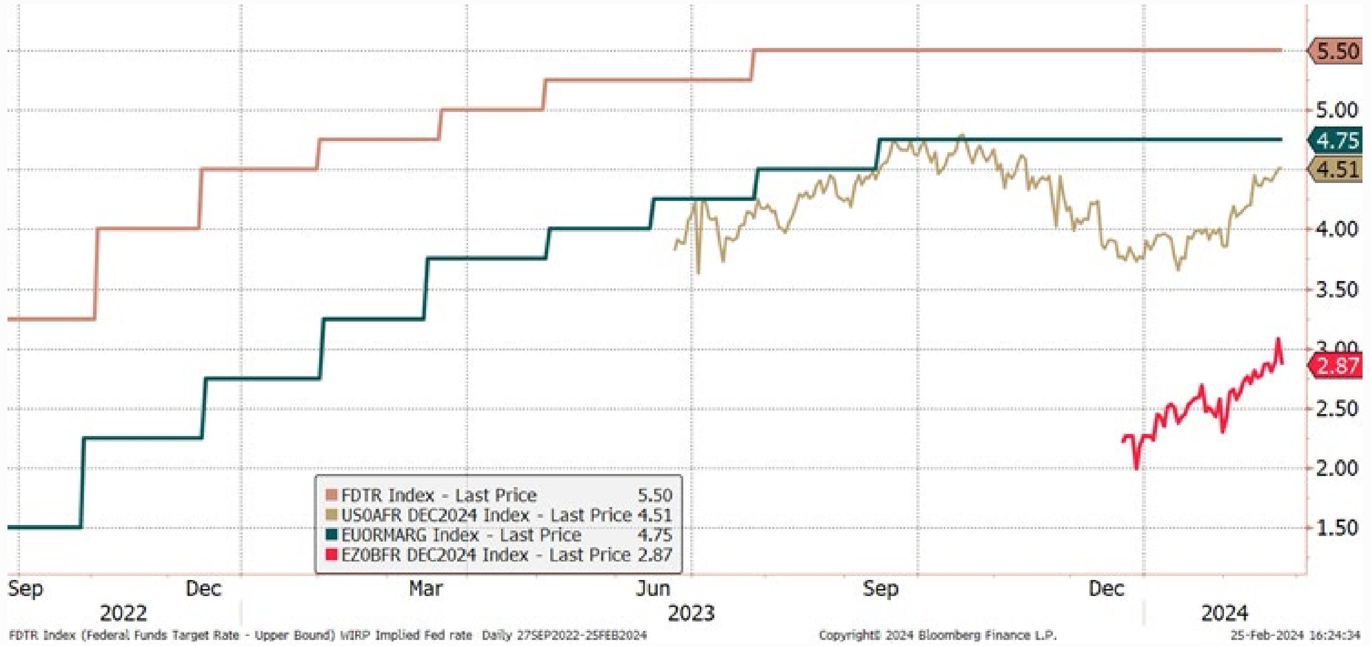


- Surprisingly, the picture for Europe, excluding Germany, looks very similar. ZEW and Sentix leading indicators continue to rise. Meanwhile, the Stoxx Europe 600 has also reached a new record level.
- The situation in Germany is more complex. The latest IFO and ZEW indicators, after a blip, have regained momentum. However, the industrial PMI has fallen to such a low level that we must conclude that the German economy continues to stagnate as a whole and is shrinking in the industrial area.
- Meanwhile, the ECB has changed its narrative and is now indicating that they might only start cutting rates in the summer if the inflation data continues to decrease.
- However, based on the latest PMI data, France and Spain are showing a resilient economy, which gives the ECB room to wait with their first rate cut. Especially as most of the problems in the largest economy (Germany) are domestically generated and may not be solved with monetary stimulus.
- China, on the other hand, continues to stimulate with monetary measures, which we believe may not be effective as the economy faces a balance sheet problem. However, recent news indicates that they are addressing the credit problem in the real estate sector.

Source: Bloomberg, Arion Analytics

Markets in 2024: Currencies, Commodities, Equity & Bond Indices

Fed and ECB rate outlook: We might get just 3 rate cuts by both central banks



No recession at sight: US corporate bond spreads tighten further

Bonds	Feb.2024	YTD 2024
Bloomberg Barclays Global-Aggregate TR	0,71%	0,5%
Bloomberg Barclays Euro Aggregate Corporate TR	-0,92%	-0,8%
Bloomberg Barclays Pan-European High Yield TR	0,47%	1,5%
Bloomberg Barclays US Corporate High Yield TR	0,26%	0,3%
Bloomberg Barclays Asia USD High Yield TR	1,81%	4,6%
Bloomberg Barclays Global High Yield TR	0,47%	1,5%
JPM Emerging Market Global Bond	5,49%	9,1%

Equities	Feb.2024	YTD 2024
NASDAQ 100 Stock Index	4,95%	6,9%
S&P 500 INDEX	4,93%	6,7%
MSCI World Index	4,08%	5,4%
MSCI Emerging Markets Index	5,43%	0,5%
EURO STOXX 50 Price EUR	5,20%	8,3%
SMI	1,27%	3,0%
DAX	3,93%	4,9%
FTSE 100	0,75%	-0,5%
Hang Seng Index	6,79%	-3,0%
Shanghai Shenzhen CSI 300 A-Shares	7,31%	0,6%
Nikkei 225	8,10%	17,2%

Commodities	Feb.2024	YTD 2024
Gold	5,29%	10,2%
Copper	-6,88%	1,6%
WTI	3,22%	2,5%
BRENT	0,98%	1,9%
Bloomberg Comodity Index	-7,18%	-7,5%

Currencies	Feb.2024	YTD 2024
EURCHF	-4,70%	-3,5%
CHFUSD	3,99%	6,3%
CHFGBP	1,23%	0,6%
EURUSD	-0,90%	2,5%
EURGBP	-3,49%	-2,9%
GBPUSD	2,69%	5,6%
EURRUB	30,35%	29,7%

Source: Bloomberg, Arion Analytics

The US equity markets have reached new records and might further rise

Liquidity

The Swiss Franc has continued to depreciate against both the dollar and the Euro, largely influenced by the lower CPI. This situation provides the Swiss National Bank (SNB) with greater flexibility in adjusting their policy rate compared to the European Central Bank (ECB) and the Federal Reserve (Fed).

The Euro remained range-bound against the US dollar, while against the Swiss franc, we observed a continued trend of depreciation.

The USD, as measured by the DXY index, has traded within a narrow range.

Equities

As of this writing, the S&P 500 has reached a new record closing for the 14th time. The earnings outlook for 2024 remains promising, with an expected EPS growth of over 9%. Estimates for 2025 have risen even higher, surpassing 13%. Therefore, we believe there is significant upside potential.

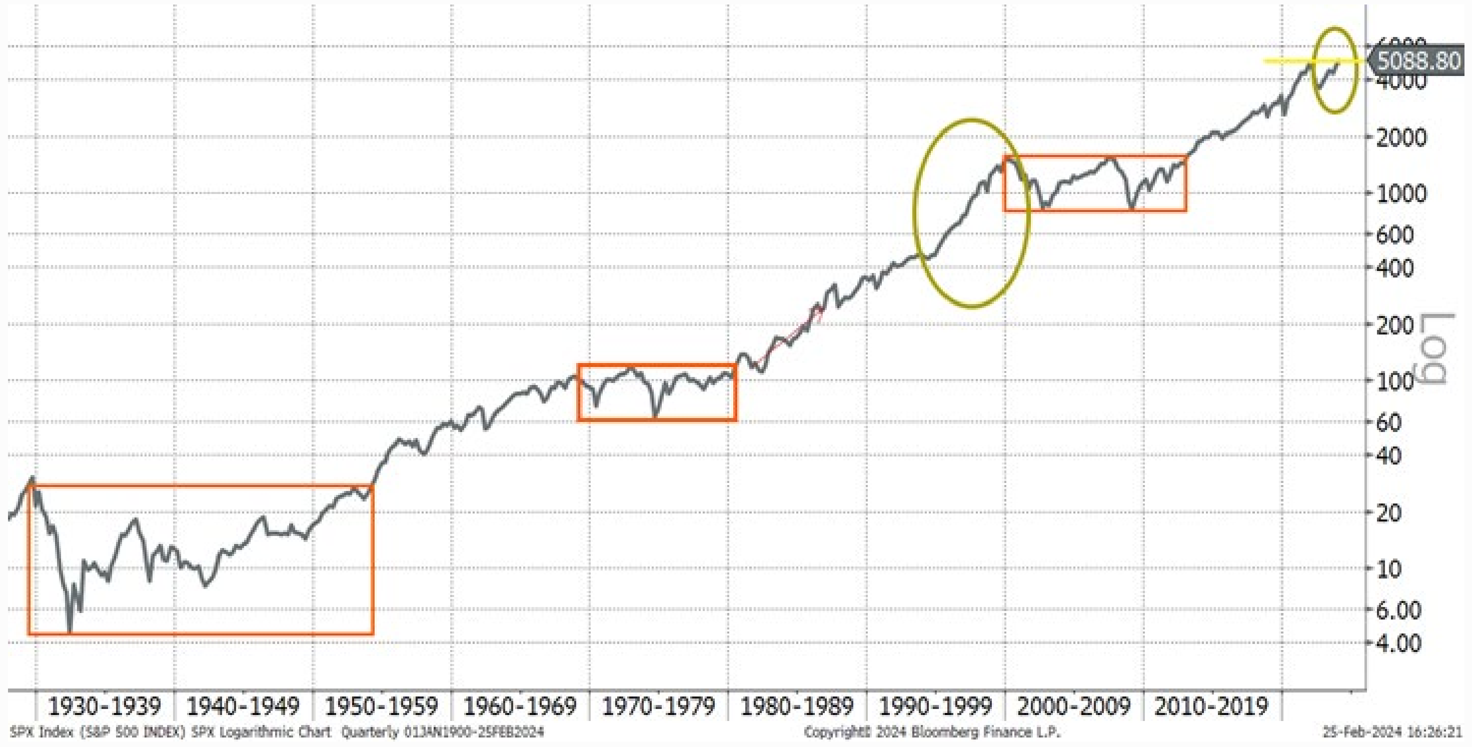
The crucial question, however, is whether we are merely in a Goldilocks environment or at the dawn of the new Roaring Twenties. The definitive answer will only be unveiled in the distant future. However, we believe that this AI-momentum rally has the potential to unfold similarly to the dot-com rally. Therefore, we restate our belief that the secular equity bull market is alive, and we anticipate that, after some turbulence, the market will be at a higher level at the end of 2024 compared to its current trading level.

Another noteworthy aspect is that not only have the three major US indices reached new records, but also the Stoxx Europe 600, the Dax, and the Nikkei. Apart from Japan, this remarkable rise has largely gone unnoticed by mainstream media. Until the taxi driver—or in older times, the shoe-shining boy—begins to offer investment advice, I believe we are still far from experiencing euphoria or a bubble, if you will.

Fixed Income

The US corporate spreads for investment-grade and high-yield bonds compared to government bonds have further narrowed. The corporate bond sector does not anticipate a US recession. It has been our opinion for months, but it has now become consensus, that the Fed will likely cut rates three times this year. The controversial view is that, due to a strong economy, especially in the US labor market, the Fed might instead opt for an additional rate hiking step. We do not believe that, but we acknowledge the fact that the economy is very resilient.

S&P 500 might have started the next stage of this AI driven bull market



Alternative Investments

In February, gold tested its USD 2000 resistance level, influenced by a strengthening US dollar and market adjustments regarding the Fed's expected rate cuts, which are now anticipated to be fewer than initially priced in January. However, as of this writing, gold is trading around USD 2030 USD per ounce. It appears that the gold market is adjusting well to this new rate outlook

The price of copper has once again been trading within a narrow range since our last publication. While it still displays volatility, it has remained within the trading range of USD 8,000 to USD 8,600.

Both oil futures prices have been trading within a narrow range over the last month. With no significant news flow and the end of the heating season following a very mild winter in the northern hemisphere, market movements have been relatively subdued.

Source: Bloomberg, Arion Analytics

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