

KEY ECONOMIC DATA

- Euro area annual inflation is expected to have been 2.4% in March, down from 2.6% in February, according to a flash estimate from Eurostat.
- US job growth accelerated in February, but this is likely to mask underlying weakening labour market conditions as the unemployment rate rose to a two-year high of 3.9%.
- The Personal Consumption Expenditures price index rose 2.5% in the 12 months to February, faster than the 2.4% increase in January.
- The flash composite PMI for Japan rose to 52.3 in March from 50.6 in February. The flash figure therefore suggests that conditions in the Japanese private sector improved at an accelerated pace at the end of the first quarter.
- The euro area composite PMI production index rose from 49.2 in February to 49.9 in March.
- The global manufacturing PMI rose from 50.0 in January to 50.3 in February. The breach of the 50.0 neutral level was notable as it signalled the first improvement in business conditions since August 2022.

The US Large Cap Index hit eight new closing highs in March

10.09%

THE PERFORMANCE OF SILVER PRICE

INVESTMENT PERSPECTIVE

Despite the most aggressive tightening cycle, the US economy continues to defy the historical relationship between economic growth and interest rates. We expect US real GDP to grow by around 2% this year, with the potential for upside surprises. Recent headline inflation readings have pointed to some upward pressure, while core inflation has declined slightly, without calling into question our central scenario of a gradual decline in inflation towards 2.0%. Eurozone inflation surprised to the downside in March, with headline inflation coming in at 2.4% year-over-year, below the consensus of 2.6%.

The SNB, acting very independently, surprised the market by starting the long-awaited cycle of rate cuts among developed central banks. The Fed and the ECB have reiterated their intention to cut rates several times this year and next. Despite higher-than-expected inflation rates, the Fed expects that stronger-than-expected labor force growth and increased investment will stimulate the supply side to the point that inflation will continue its downward trend. The BoJ raised its key rates (dovish hike) but will continue to buy large amounts of government bonds each month.

The 10-year US Treasury yield fell slightly to end the month at 4.2%, while in Europe the 10-year Bund followed the same trend to end the month at 2.85%. US large cap equities hit eight new closing highs in March, rising 3.1% for the month. Breadth improved over the month and was strongly positive, with the equal weight index gaining 4.4%. We are seeing an increasing divergence in the return patterns of the Magnificent Seven, with Tesla down 29.3% year-to-date.

European equity indices rose by 4.4% in euro terms over the month, outperforming their US counterparts. It should be noted, however, that while the market breadth is also underway, it is still very tentative. In line with the start of the year, emerging markets continue to lag, while the Japanese market continues to deliver an excellent return in local currency terms, up more than 19% year-to-date.

The highlight of the month was undoubtedly the surge in gold and silver prices, up 8.3% and 10.1% respectively over the month, as lower interest rates increase the appeal of holding non-yielding bullion.

Gold (USD/Troy Ounce)





INVESTMENT STRATEGY

The near-term growth outlook in the US remains solid, with economic data continuing to surprise on the upside. The median forecast for real GDP growth in 2024 has risen from 1.4% at the December FOMC meeting to 2.1% today.

The Eurozone economy is on the upswing, with the latest business surveys pointing to the fastest expansion of private sector activity in ten months. Business optimism rose to its highest level since the eve of Russia's invasion of Ukraine.

The eurozone's economic recovery should continue, with growth forecasts for the first half of 2024 potentially revised upwards. The main risk is a rise in commodity prices, which could lead to a resurgence of inflation in European economies. European leading economic indicators are clearly picking up, but Europe's still very attractive valuations suggest that a lot of negative news is still priced in. The probability of positive surprises could therefore increase as the European economies regain traction.

The Swiss equity market could benefit from the recent interest rate cut by the Swiss National Bank and the weakening of the Swiss franc. These developments will help mitigate the headwinds faced by Swiss companies last year and contribute to positive earnings revisions.

Estimated 1Q24 y/y earnings growth rate for the S&P 500 is 3.6%, third-straight quarter of y/y earnings growth

PORTFOLIO ACTIVITY

Many technical indicators have reached levels historically associated with tops, but the trend is still our friend as it remains clearly up.

Investor optimism could continue into April, which is historically one of the strongest months of the year for the US equity market. We are therefore maintaining our overweight in equities, with a clear preference for European equities, to take advantage of the current macro and market momentum, although we have reduced this overweight somewhat.

We have also made some adjustments to the composition of our equity exposure, increasing the allocation to a top-down strategy at the expense of strategies with a strong growth bias.

Chinese equities were very oversold and the recent rally has helped a little, but market psychology is extremely bearish on Chinese equities, which can be interpreted as a contrarian signal for this market. We are maintaining our exposure to Chinese domestic equities. The Chinese A-shares are our main exposure to emerging markets in our portfolios.

Our bond portfolio remains exposed to both investment grade and high yield credit as well as hard currency emerging market debt. We added to the latter in March.

Although our interest rate sensitivity has increased, it remains lower than that of the main bond indices. We are keeping a close eye on the resistance level for US yields (4.35% for the 10-year yield), as a breach of this level could send a particularly negative signal to the markets.

	31/12/2022	31/12/2023	29/03/2024	Month-to-Date	Year-to-Date
Yields (%)					
US 3-Month	4.34	5.33	5.36	-2bps	-3bps
German 3-Month	1.56	3.55	3.66	-8bps	+11bps
US 2-Year	4.43	4.25	4.62	Unchanged	+37bps
German 2-Year	2.74	2.39	2.85	-5bps	+46bps
US 10-Year	3.87	3.88	4.20	-5bps	+32bps
German 10-Year	2.57	2.02	2.30	-11bps	+28bps
Currencies					
EUR/USD	1.0705	1.1039	1.0790	-0.1%	-2.3%
USD/CHF	0.9245	0.8414	0.9014	+1.9%	+7.1%
EUR/CHF	0.9896	0.9289	0.9731	+1.8%	+4.8%
GBP/USD	1.2083	1.2731	1.2623	0.0%	-0.8%
Commodities					
Oil (WTI)	\$80.3	\$71.7	\$83.2	+6.3%	+16.1%
Copper	\$381.1	\$389.1	\$400.7	+4.5%	+3.0%
Gold	\$1'824	\$2'063.0	\$2'229.9	+9.1%	+8.1%

Source: Bloomberg Finance L.P.

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