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FORUM FINANCE
1994

# MONTHLY NEWSLETTER

September 2024

## KEY ECONOMIC DATA

- U.S. real gross domestic product (GDP) increased at an annual rate of 3.0% in the Q2 2024, according to the “second” estimate.
- Seasonally adjusted HCOB Flash Eurozone PMI Output Index rose to 51.2 in August from 50.2 in July.
- Euro area annual inflation is expected to be 2.2% in August, down from 2.6% in July according to a flash estimate from Eurostat.
- Euro zone growth in negotiated wages slowed to 3.55% in the second quarter from 4.74% three months earlier, primarily because of a major slowdown in Germany.
- U.S. consumer confidence rose to a six-month high in August amid optimism over the economic outlook, but Americans are becoming more anxious about the labour market.
- China’s factory activity contracted for a fourth month in August, the latest sign the world’s second economy may struggle to meet economic growth target.
- Swiss consumer prices rose 1.1% from a year ago in August.

The Federal Reserve (Fed) is ready to cut interest rates ... and SOON!

-2.3%

THE PERFORMANCE OF THE DOLLAR INDEX

## INVESTMENT PERSPECTIVE

The beginning of the month was marked by a sharp sell-off triggered by weaker than expected non-farm payrolls and a rise in the unemployment rate for July, which raised concerns about US growth, and then the Bank of Japan's decision to raise interest rates for the second time this year.

Markets reacted quickly. In the first few days of August, global equity markets plunged and bond spreads widened sharply. In the space of a few days, the main US index fell by more than 6%, while the Magnificent Seven fell by almost 10%.

The initial sell-off was exacerbated by the unwinding of carry positions on the yen, triggered by the divergence in monetary policy expectations between the Bank of Japan, which is in rate hike mode, and the Federal Reserve, which is expected to begin its monetary easing cycle at its September meeting.

These growing uncertainties led to a spike in volatility, with the VIX peaking above 65 in early August, one of the highest level on record. However, as markets gained confidence in the resilience of the economy, strengthening the case for a soft landing, the VIX fell back to levels around 15. Fortunately, the stress was short-lived and the recovery was swift, with the global index closing the month up 1.9% in local currency terms.

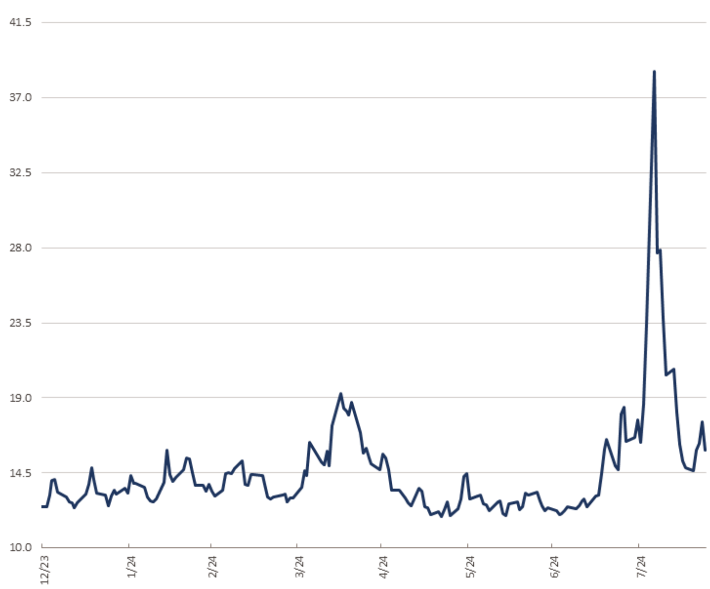
The latest consumer price index (CPI) readings in Europe and the United States were down, well within the central banks' target ranges and clearly decelerating. This would further increase the likelihood of interest rate cuts.

Credit spreads widened in sympathy before closing the month on a tighter note, while the yield curve steepened, with the 2-year benefiting the most from the increased likelihood of rate cuts. In this context, all fixed income segments posted positive returns over the month, with emerging market debt the best performer, followed by global high yield.

The optimism surrounding the US rate cut claimed its first victim: the US dollar, which fell sharply against the major currencies (-2.5% against the euro) and even erased all its year-to-date gains against the Swiss franc.

Finally, gold prices remained buoyant (+2.3%), while oil prices continued to fall, with WTI down 5.6% following a 4.5% fall in the previous month.

**CBOE Volatility Index (VIX)**

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## INVESTMENT STRATEGY

After the market jitters of early August, which forced many players to rethink their stance and significantly reduce their leverage, the spotlight is back on the central banks.

The Fed is likely to begin its monetary easing cycle in September. The market has priced in an aggressive bearish campaign, as it did at the start of the year. Those expectations were overly optimistic and forced the market to reassess the timing and magnitude of rate cuts.

This time, however, the conditions for a rate cut appear to be more favourable, thanks to the slowdown in consumer price inflation brought about by a softer labour market. The upcoming labour market data will be crucial as it will determine the pace of rate cuts. The Fed is likely to cut rates by 25 basis points in September and the SNB is likely to follow suit.

Although sentiment and momentum indicators briefly gave buying signals, especially for US equities, we decided to leave our exposure virtually unchanged. The rapid rebound in the markets quickly brought us back to a more neutral zone.

We are clearly at a crossroads, especially as we enter a seasonally difficult period, but for the time being we remain constructive on both developed and emerging market credit and equities.

August reminded us how heterogeneous alternative strategies can be, even within a single category such as trend strategies (CTAs). We reiterate our commitment to alternative trend strategies, which proved resilient in the sell-off as they are less exposed to crowding effects.

### The ECB Minutes Indicate That, in July, Members Had an “Open Mind” About Further Rate Cuts

## PORTFOLIO ACTIVITY

After a few days of intense stress, markets calmed down and ended the month on a very positive note across all asset classes, except for some global macro and trend strategies.

During the month, we took advantage of price differentials to slightly reduce our exposure to emerging market debt, which reduced the negative impact of the weakness of the US dollar against the Swiss franc and the euro.

In fixed income, we have maintained a high interest rate sensitivity, not only to benefit from falling inflation, but also to provide a cushion in the event of a more pronounced economic slowdown. This position was built up gradually and played its full role during the tensions of early August.

After a brief spike, credit spreads returned to their end-July levels, giving us the highest return in the bond segment over the month. We continue to have confidence in corporate bonds across the board, from investment grade to high yield, in both developed and emerging markets.

The increase in volatility provided us with a good opportunity to rebalance our allocations. Against this backdrop, we are maintaining our preference for European equities over US equities, especially after the turmoil caused by the political posturing in France.

Having been cautious on emerging markets, the prospect of an interest rate cut in the US encourages us to be more constructive on these markets. As a result, we have finally exited China as a dedicated allocation in favour of an increased weighting in global emerging markets.

The most significant change in our allocation has been the increase in the weighting of alternative strategies, in particular global macro strategies, where we have almost doubled the weighting.

| | 31/12/2023 | 30/6/2024 | 31/8/2024 | Month-to-Date | Year-to-Date |
|---|---|---|---|---|---|
| **Yields (%)** | | | | Δ In basis points | Δ In basis points |
| US 3-Month | 5.33 | 5.35 | 5.11 | -17 | -22 |
| German 3-Month | 3.55 | 3.32 | 3.19 | -13 | -36 |
| US 2-Year | 4.25 | 4.75 | 3.92 | -34 | -33 |
| German 2-Year | 2.39 | 2.83 | 2.39 | -14 | 0 |
| US 10-Year | 3.88 | 4.40 | 3.90 | -13 | +2 |
| German 10- Year | 2.02 | 2.50 | 2.30 | -14 | +28 |
| **Currencies** | | | | Δ In % | Δ In % |
| EUR/USD | 1.1039 | 1.0713 | 1.1048 | 2.1 | (1.9) |
| USD/CHF | 0.8414 | 0.8988 | 0.8496 | (3.2) | 1.0 |
| EUR/CHF | 0.9289 | 0.9628 | 0.9390 | (1.2) | 1.1 |
| GBP/USD | 1.2731 | 1.2645 | 1.3127 | 2.1 | 3.1 |
| **Commodities** | | | | Δ In % | Δ In % |
| Oil (WTI) | $71.7 | $81.5 | $73.6 | (5.6) | 2.7 |
| Copper | $389.1 | $439.1 | $414.5 | (0.8) | 6.5 |
| Gold | $2’063 | $2’327 | $2’503 | 2.3 | 21.3 |

Source: Bloomberg Finance L.P.