BANQUE HAVILLAND

MONTHLY INVESTMENT OUTLOOK

MARCH 2024

MARKET ENVIRONMENT

Investors were shaken in February by the Fed's shift in tone regarding the timing of interest rate cuts following several "hot" economic releases. The Fed's new "wait and see" posture suddenly clashed with Wall Street's forecasts for multiple rate cuts beginning in the first half of the year. While many sectors of the U.S. economy seem immune to higher interest rates, investors are intently focused on the timing of the Fed's pivot. With rate cuts apparently off the table for the immediate future, recent market sentiment appears more driven by the blistering rally in AI stocks (particularly Nvidia), than recent pronouncements by the Fed.

Although the equity markets posted solid returns in February, credit markets struggled as a result of concerns over persistent inflation and fewer rate cuts in 2024.

In light of interest rates remaining higher for longer, credit managers are experiencing significant inflows from investors hungry for yield. High yield bond spreads remain tight with defaults below historical levels, while leveraged companies have access to the market to refinance their near-term maturities. However, caution may be warranted over the next several months as U.S. GDP may deteriorate and corporate earnings could miss expectations, while the Fed's pivot timetable may be pushed out further. The major threat to market performance in 2024 seems less about the Fed, but more about investors becoming complacent in a bullish market.

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EQUITIES	BONDS	OTHER
The consensus EPS growth estimates for 2Q-4Q '24 are high in the context of sticky cost structures and falling pricing power as fiscal spend crowds out both labor and capital for the average company.	Valuations for government bonds look attractive versus their own history and versus equities, more so after the sell-off in February.	Commodity security boosts strategic restocking demand, is bullish long-cycle critical commodities, but bearish short-cycle commodities.

OUR SUB-ASSET CLASS VIEWS

	-	=	+	
EQUITIES				**New all time highs are set but the market continues to be dominated by a handful of stocks, valuations are getting richer for growth stocks but they remain reasonable for mid caps.**
US				Strip out the 'AI boom' and most US companies returns are less compelling. Earnings season underway should provide more clarity.
UK				British stocks are still very cheap and GBP appreciation attractive for EUR, USD investors. Growth revised up, but tepid. Inflation seems getting finally under control.
Eurozone				Economic weakness is visible, however a rate cut could finally sustain a rally in small and mid cap stocks.
Switzerland				Quality, defensive nature of the market can play an important role in a portfolio, but the real catalyst will be CHF weakness.
EM				China sentiment has never been so bearish, with the market being considered univestable by some. However valuations are extremely attractive.
Japan				Valuations are getting now slightly extended but momentum is still there.

	-	=	+	
FIXED INCOME				**Front end yields make short-dated investment grade bonds attractive, long end has probably repriced too aggressively; more patience to take additional duration risk.**
Sovereign Bonds				We prefer the short and medium part of the curve, especially for EU and US govies. Avoid Japanese, neutral UK.
Corporate I.Grade Bonds				Short duration high quality IG yielding 5/6% is appealing as the core of a bond portfolio, but is important to have exposure to also longer dated bonds to reduce reinvestment risk.
High Yield Bonds				Have enjoyed a good run as the US economy stays resilient, we have recently taken profits and closed our position in light of economic headwinds and rising defaults.
E.M. Bonds				We are generally cautious on emerging markets due to fiscal imbalances, but our short duration approach achieves yield at acceptable risk.

	-	=	+	
ALTERNATIVES				**We like holdings that are genuinely uncorrelated to the main asset classes.**
Precious Metals				Peaking real rates should help the gold price, and trades in its own way to offer diversification.
Hedge Funds				We aim to create a blend of alternative strategies that offer different return profiles and risk premia to bonds and stocks.
Oil/Commods				Commodities are attractive for the long term, due to the demands of net zero, but oil looks to have peaked in the near term as supply has risen.

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