



MARKET COMMENT (As of end of Feb. 2024)

February 2024 was a continuation of previous months, with investors still very optimistic. Inflation remains on its downward trend worldwide, even if the different Central Banks continue to be wary and wish to have more data to act on their victory. It is also important to note that the Federal Reserve's preferred metric (Core PCE Deflator) is accelerating upwards on a monthly basis, notably due to the Services component. Unsurprisingly, the Fed's message was one of patience, arguing that there are more risks in cutting rates too quickly than in holding them steady. As a result, investors, analysts and the market as a whole had to revise downwards the expected number of rate cuts for 2024, and also had to postpone the start of the rate-cutting cycle, with June now the consensus. Against this backdrop, 10Y rates in the G10 universe have retraced since the start of the year a small half of the decline in the final quarter of 2023.

This rise in long-term rates had absolutely no impact on equity markets, whereas the Q4 2023 decline had been the trigger and the driving force behind the late 2023 rally. Investors focused on corporate results, which were better than expected overall, after expectations had been revised downwards during the year. But the overall picture hides a much more mixed reality. It was mainly the technology growth stocks that reported higher earnings, especially those linked to AI (such as the famous Nvidia), while the other stocks on average announced gloomier sales and earnings prospects, much more in line with economic indicators that remain rather disappointing. However, optimism remains with earnings growth expected to reach 10% by 2024. Equity markets rose by an average of over 4% (MSCI World Index) in February.

The publication of GDP figures in Europe confirmed that Germany is in recession, closely followed by France, which is slowing sharply, which could bring Europe as a whole into recession. Unsurprisingly, the PMI indices (manufacturing and services) remain in contraction territory, and at historically low levels for Germany in particular. By comparison, the United States is showing remarkable growth, with PMIs remaining in the expansion zone in recent quarters, particularly for services. The composite index is less encouraging, but remains slightly in the expansion zone. In China, on the other hand, PMIs indices continue to be depressed, flirting with the recession zone, in a context of deflation (CPI at -0.8% in February), with the crisis of the real estate sector still weighing on the entire economy. Governments and Central Bank's stimulus measures seem to be insufficient for the time being.

At the end, the "Goldilocks" scenario, so desired by the markets, seems to be a reality only for the US economy, and even then only if we set aside the subject of debt and the colossal and growing cost of servicing it. The recurrent debates in Congress to avoid an umpteenth shutdown remain a major problem, and the large amounts of debt to be refinanced in 2024 will continue to support long-term rates. Commercial real estate also poses a threat to the markets: NYCB's woes appear to be confined for the time being, but could be the sign of a wider financial problem with major refinancing needs ahead for the entire sector. Last but not least, geopolitical tensions are not getting any better and are also a threat on the horizon.

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