SUNLINE

WEALTH MANAGEMENT

March 2024

New Highs

Stock indices and gold have been hitting new highs over the last couple of weeks.

The US economy continues to run a bit hotter than anticipated, there are signs that global manufacturing is improving, and green shoots are starting to appear in anticipation of the return of European consumers. With the exception of Italy, European consumers kept increasing their savings post-pandemic: there are now signs that they are finally starting to spend some of those extra-savings, which could be a boon to the recession-straddling Eurozone economy.

Inflation, both in the US as well as in Europe, is going in the right direction - lower. It is just not as fast as the financial markets had anticipated at the beginning of the year. As a result, markets have repriced their expectations for the timing and number of rate cuts:

- For the US Federal Reserve this has gone from 1.8% of rate cuts by year-end to about 75 basis points, starting in June instead of March.
- For the ECB, it is from 2% to just 1%, also only starting in June.

The notion of a 'Goldilocks economy', neither too hot nor too cold, is thus gaining ground, and is, in the medium term - we would argue through the summer - supportive for equities.

At the same time, the repricing of central bank activity, for positive reasons - namely a better, or for Europe improving, economy, implies higher bond yields for longer. This also means that the on-going attractiveness of the classic 'Balanced Portfolio' will be extended, and reinvestment risk in fixed income reduced. Currently, both European as well as US 10-year yields are flirting with their highs for the year, while credit spreads are flirting with the lows.

Gold recently hit a new all-time high at just below 2,200 USD an ounce. Looking at physically backed holdings of Gold ETFs, we can deduce that most investors, whether retail or institutional, have likely missed both last year's, as well as this year's, rally: the number of outstanding shares has constantly diminished since a peak in 2020, and is now at the same level as late 2019, compatible with a Gold price of just 1550 USD.

The rally is likely to be attributable to Central Bank buying of physical Gold. We have figures for the Chinese Central bank, which restarted its purchases after the abandonment of the country's Zero Covid Policy. Those purchases have greatly increased from the pre-pandemic period, likely due to a desire to further diversify away from the USD: China has probably learned the lesson from the freeze of Russia's international reserves after the invasion of Ukraine.

US Stockmarket

In the US, the market has been broadening. While the performance of the Magnificent 7 so far this year could be described as like two locomotives, (Nvidia and Meta), and three ballasts, (Tesla, Apple and Alphabet), sectors such as industrials and healthcare are both up 8% so far this year. Obviously, Nvidia and Meta have done most of the heavy lifting for the S&P performance.

US earnings for Q4 grew by a better-than-expected 8%: that is mainly attributable to the technology mega-caps: without them, the rest of the S&P 500 saw a 1.6% drop in profits.

Which leads to two questions:

- is the US technology sector in a bubble?
- are the Magnificent 7 overvalued?

As more people are trying to find similarities with the US technology bubble of 2000, there are key differences:

- Today's technology mammoths are cash-rich, expanding and very profitable.
- The median PE of the 10 largest US stocks today is 29, in 2000 it was 47.
- Since December of 2019, the Magnificent 7 as a group have delivered 28% annualized returns. Around 27% is attributable to earnings growth, of which 20% comes from sales growth and 7% from margin expansion. It also means that just 1% is attributable to multiple expansion, (source C. Connors, Goldman Sachs).

Financial Markets

Whilst optically Europe is lagging the US, and Japan is leading performance so far this year, it is because Europe and the STOXX600 have been dragged lower by the UK and Switzerland. Extracting those two countries, the Eurozone is leading the US, and the gap has expanded in early March:

- The MSCI Eurozone is up 9% year-to-date.
- The S&P 500 is up 8.7%.
- While ex the magnificent 7, the S&P 493 index is up roughly just 4.5%.

So far this year, Eurozone equities have been supported by a broad-based market rally, led by internationally exposed quality growth companies, and select global leaders. While the acronym, coined by Goldman, the GRANOLAS has resurfaced, comprising names such as ASML, Roche or Nestlé, the performance of about half of its members is either flat or negative year-to-date. While individual names such as Novo Nordisk and ASML have outperformed, in terms of sectors the outperformers can be found in unlikely ones such autos and parts, up 13.5%, banks, up 12%, or industrials, up 9.5%.

The Eurozone equity rally is simply a lot broader than its US counterpart, and thus healthier.

Of note is that in Europe banks are now viewed as the 'new' utilities', in terms of dividends: a bank such as BNP Paribas now offers a 7.5% dividend yield, and Intesa Sanpaolo over 9%.

The Sick Man Of Europe: The Ftse 100

FTSE earnings would be up about 6%, (JP Morgan) - without the 30% drop of BP, Shell, Rio Tinto and Glencore, dragging it down to minus 8% since the beginning of 2023, (on a market-cap weighted average basis), and a bottom has yet to be found. In contrast, for the FTSE (ex-energy and mining) earnings would be up by 8%.

But it is not only energy and mining which have been dragging the index lower: staples, financials, health care and industrials are also contributing. For the top 12 members of the index, which represent about 50% of the index weight, earnings have been revised lower.

The post-pandemic commodity boom turbo-charged UK profits for much of 2022, but since then a combination of weak commodity prices, softening demand, faltering pricing power, and a relatively strong currency all contributed to weigh on earnings.

A resurging Chinese economy would be beneficial to Europe in general and, currently, particularly to the UK.

After 17 Years Of Negative Rates, Bank Of Japan Historic Change

The BOJ delivered many of the policy changes that were anticipated by markets. In terms of timing, we believed that they would wait for the national inflation figure to be released, and possibly make changes at the next meeting. The recent wage negotiations, whereby salary increases of over 5% were achieved, were probably enough for the central bank to act.

The Bank of Japan announced the following:

- Policy rate target range of 0 to 0.1%.
- One-tier policy rate (prev. 3-tier) with +0.1% applied to current account balances held by financial institutions at the Bank.
- The scrapping of the Yield Curve Control.
- A cessation of stock purchases.
- The upper range of outright purchases of JGBs was lowered, however not the lower range, where recent purchases have been conducted.
- Unchanged was the declaration that the bank will continue to conduct emergency purchases if yields rise significantly, the soft cap at 1% was, however, removed.

The essentially unchanged pace of bond-buying and the unclear course of additional rate hikes disappointed both bond bears and YEN bulls: the YEN weakened, back above 150 against the USD and bonds strengthened, (lower yields). BOJ governor Ueda also commented that it is 'important to keep conditions accommodative'.

This move by the BOJ doesn't change our positive outlook for Japanese equities, which is based on the reflationary trade, global economic growth improving, and shareholder friendly actions by the government, the regulator, and the companies themselves. It is not a surprise therefore that recently well-known international activist investors have started to return to Japan, seeking to shake up companies they believe are falling behind in corporate governance or profitability measures.

Strategy

No significant changes were made to our portfolios over the month.

Equity

We keep an overweight in Eurozone equities versus the US broader market. Looking once again at our basket of European Champions, to see how core Europe is doing, it is now up 11.3% year-to-date.

We also keep an overweight in Japanese shares. Again, on top of its economy, where policies are aimed at lifting the country from decades of deflation, for the first time in its history, the government and the stock exchange are taking initiatives that are extremely shareholder friendly.

Fixed income

We continue to favor exposure to (long) credit versus being (long) duration. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt, US municipal infrastructure and Asian hard currency debt.

Gold

We continue to keep our allocation to Gold at about 5%: while it doesn't provide any yield, it continues to be a good diversifier in a multi-asset portfolio, and is currently adding value to the portfolio.

Conclusion

The backdrop of higher economic growth revisions and continuing disinflationary trends is supportive for equity markets, fixed income, and thus a balanced portfolio.

Positioning

Overall Exposure

With the drift we are now Neutral Equities, and Neutral Fixed Income, with a Gold position, partially USD and JPY hedged.

Equity: Neutral

We have a very sizeable Overweight to the Eurozone and a very sizeable Underweight in US equities, Neutral US technology, Overweight Nasdaq 100 equal weight, Neutral UK, Overweight Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Champions.

Fixed Income: Neutral

Long 1 to 3 years US Treasury Notes. Long 20+ years US Treasuries.

Thematic Fixed Income

Overweight High Yield in EUR and Underweight in USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long US Municipal Infrastructure Bonds, Long Hybrids, Long Subordinated Financial Credit & Long Asian Bonds in hard currency.

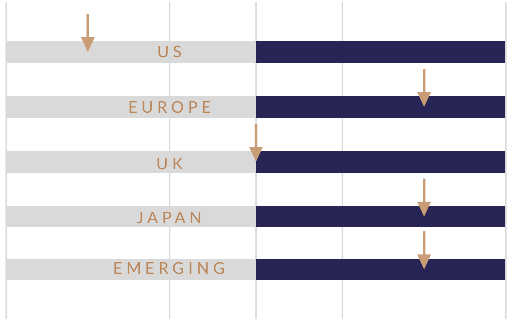
Currencies: Portfolios have a 5% USD exposure.

Commodities: Overweight

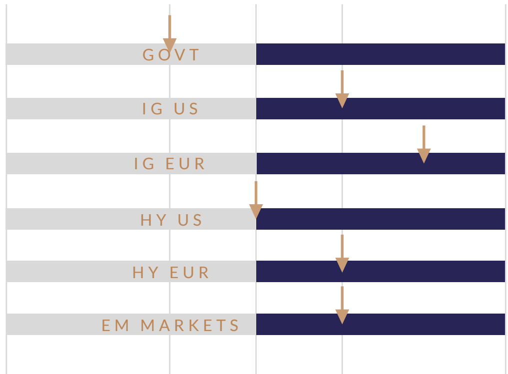
Long Gold.

Conviction thermometer

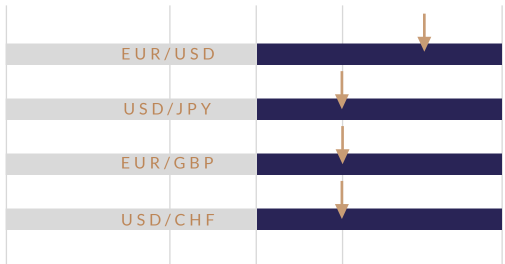
Equities



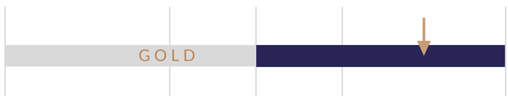
Bonds



Currencies



Commodities



Negative view Positive view

Market overview as of 29th February 2024

Equities (local ccies)	Level	5D	MTD	YTD	2023
MSCI WORLD	3 337,20	0,26%	4,28%	5,56%	24,44%
US S&P500	5 096,27	0,22%	5,34%	7,11%	26,26%
NASDAQ 100	18 043,85	0,25%	5,41%	7,40%	55,13%
RUSSELL 2000	2 054,84	2,07%	5,65%	1,54%	16,88%
EUROPE EURO STOXX 50	4 877,77	0,47%	5,08%	8,20%	23,21%
GERMANY DAX	17 678,19	1,77%	4,58%	5,53%	20,31%
FRANCE CAC40	7 927,43	0,20%	3,54%	5,23%	20,10%
BELGIUM BEL20	3 661,42	-0,92%	-0,02%	-1,12%	3,51%
SWISS MARKET INDEX	11 438,86	0,46%	0,93%	2,70%	7,06%
UK FTSE100	7 630,02	-0,63%	0,45%	-0,83%	7,68%
JAPAN TOPIX	2 675,73	0,59%	4,91%	13,11%	28,28%
MSCI EMERGING	1 020,94	-0,77%	4,78%	-0,08%	10,19%
BRAZIL IBOVESPA	129 020	-0,94%	0,99%	-3,85%	22,28%
CHINA CSI 300	3 516,08	0,84%	9,35%	2,48%	-9,14%
HS TECH	3 431,30	0,62%	14,16%	-8,85%	-8,25%
INDIA SENSEX	72 500,30	-0,90%	1,16%	0,51%	20,33%
KOREA KOSPI	2 642,36	-0,63%	6,04%	-0,28%	20,50%
HONG KONG HANG SENG	16 511,44	-1,38%	6,63%	-3,14%	-10,46%
AUSTRALIA ALL-SHARE	4 163,21	-0,68%	0,19%	-1,13%	7,70%
SAUDI ARABIA TADAWUL	12 630,86	0,02%	7,27%	5,76%	18,10%

US: Sectors	Level	5D	MTD	YTD	2023
COMMUNICATION SVCS	272,50	-1,01%	5,70%	11,01%	55,80%
CONSUMER DISCRETIONARY	1 485,31	1,33%	8,71%	4,87%	42,30%
CONSUMER STAPLES	789,20	-0,11%	2,32%	3,89%	0,52%
ENERGY	653,14	-0,46%	3,18%	2,79%	-1,42%
FINANCIALS	670,05	0,54%	4,16%	7,32%	12,10%
HEALTH CARE	1 686,41	-1,56%	3,22%	6,32%	2,06%
INDUSTRIALS	1 022,56	1,23%	7,23%	6,29%	18,08%
INFORMATION TECHNOLOGY	3 748,57	0,45%	6,31%	10,51%	57,84%
MATERIALS	550,91	1,48%	6,46%	2,30%	12,55%
REAL ESTATE	245,41	1,18%	2,58%	-2,28%	12,27%
UTILITIES	313,71	0,99%	1,12%	-1,93%	-7,08%

EUROPE: Sectors	Level	5D	MTD	YTD	2023
BASIC MATERIALS	2 814,28	-0,27%	-2,16%	-6,23%	5,95%
CONSUMER GOODS	3 832,23	-2,99%	-3,64%	-2,08%	-2,43%
CONSUMER SERVICES	1 668,66	0,54%	7,58%	10,56%	21,53%
FINANCIALS	932,24	1,35%	2,42%	3,70%	25,42%
HEALTH CARE	3 658,23	-1,06%	0,41%	4,31%	8,75%
INDUSTRIALS	3 940,81	1,67%	7,01%	7,25%	27,43%
OIL & GAS	1 459,35	-0,98%	-1,02%	-2,95%	9,01%
TECHNOLOGY	1 973,44	-0,03%	5,56%	15,75%	34,72%
TELECOMS	522,07	-0,68%	-2,50%	-0,17%	8,86%
UTILITIES	1 865,33	-0,52%	-5,67%	-8,56%	14,75%

Market overview as of 29th February 2024

Fixed Income	Level	5D	MTD	YTD	2023
Pan-Euro 3-5 yrs IG	203,37	0,08%	-1,10%	-1,07%	6,68%
Euro Aggregate	234,17	0,17%	-1,08%	-1,40%	7,19%
Pan-Euro HY Hedged Eur	423,54	0,01%	0,39%	1,22%	12,32%
Global Inflation hedged EUR	233,08	1,12%	-0,71%	-1,99%	2,02%
US Corp High Yield	2 264,90	0,15%	0,29%	0,29%	13,45%
EM USD Aggregate TR	1 260,87	0,52%	0,38%	-0,19%	9,09%
EM Aggregate TR Local Ccy	145,05	0,25%	0,25%	-0,87%	6,91%
EUR Banks CoCo Tier 1	145,13	-0,02%	0,17%	0,93%	5,04%
EU GOVT HEDGED EUR	208,15	0,25%	-1,17%	-2,01%	6,31%
Global Aggregate	2 554,99	0,37%	-1,26%	-2,62%	5,72%

Commodities	Level	5D	MTD	YTD	2023
GOLD	2 044,30	0,98%	-0,91%	-0,91%	13,10%
COPPER	383,45	-1,60%	-1,44%	-1,44%	2,10%
OIL WTI	78,26	-0,45%	9,23%	9,23%	-10,73%
OIL BRENT	83,62	-0,06%	8,54%	8,54%	-10,32%

Currencies	Rate	5D	MTD	YTD	2023
EURUSD	1,0805	-0,17%	-2,12%	-2,12%	3,12%
GBPUSD	1,2625	-0,28%	-0,83%	-0,83%	5,36%
USDJPY	149,9800	-0,37%	6,34%	6,34%	7,57%
USDCHF	0,8845	0,49%	5,12%	5,12%	-8,99%
AUDUSD	0,6497	-0,92%	-4,62%	-4,62%	-0,01%
EURCHF	0,9557	0,32%	2,89%	2,89%	-11,08%
USDCNY	7,2980	-0,07%	2,79%	2,79%	5,28%
USDKRW	1 331,15	-1.14%	N.A.	3,86%	4,22%
USDINR	82,9138	0,08%	-0,36%	-0,36%	9,15%
USDIDR	15 715,00	0,80%	2,07%	2,07%	7,42%
USDBRL	4,8572	-0.08%	-1,27%	-7,55%	-8,01%
USDTRY	31,2334	1,37%	5,78%	5,78%	57,82%
BITCOIN	61 430,64	18,93%	46,49%	46,49%	152,94%

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