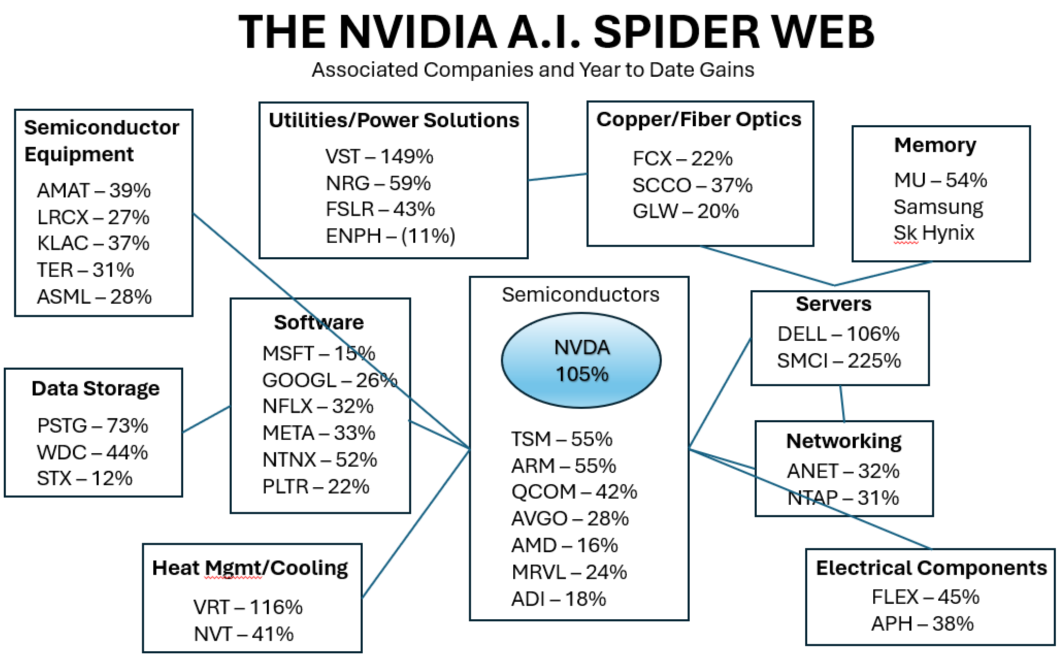
MONTHLY REVIEW

MACRO

In May, Europe saw inflation slightly above forecasts, but this didn't sway expectations of an imminent monetary easing. Economic dynamism remains moderate, hampered by lower consumer confidence that's dampening growth. Additionally, the S&P agency downgraded France's rating from AA to AA-, a revision that could influence national economic policy and have repercussions on budget management and the political landscape.

In the United States, consumer confidence remains high, boosting spending and the economy. May's PMI indicators and durable goods orders suggest a recovery, particularly in services. However, American economic growth slowed to 1.3% in Q1 2024, below the preliminary estimate of 1.6% and well short of the 3.4% in Q4 2023, casting doubt on future interest rate decisions. Jerome Powell, the Fed chairman, has maintained a cautious tone in his statements.

Despite divergent monetary policies, markets have welcomed the possibility of a rate cut in Europe and steady rates from the Fed. However, while the economy warrants a thorough analysis, it's the excitement for artificial intelligence that's fueling market growth. Nvidia's end-of-month performance is a shining example. Beyond Nvidia, an entire ecosystem related to AI is driving stock values upward, as the following graph illustrates.



Source (twitter.com)

OUTLOOK

For equity markets, the upward trend seen in May is expected to continue into June and July, supported by traditionally favorable seasonality during these months. Furthermore, the prospect of a rate cut by the ECB could give an additional boost to equity markets. However, despite this positive trend, there are risks associated with these high market levels. Investors should remain vigilant to the possibility of corrections or increased volatility.

For bond markets, the situation seems to be heading towards a period of stability, with yields that could remain flat in the short term. Nevertheless, the anticipation of an interest rate cut could enhance the appeal of bonds. But inflation remains a key factor, as persistent or stable inflation could challenge the trajectory of rate cuts. Government bonds might continue to face headwinds.

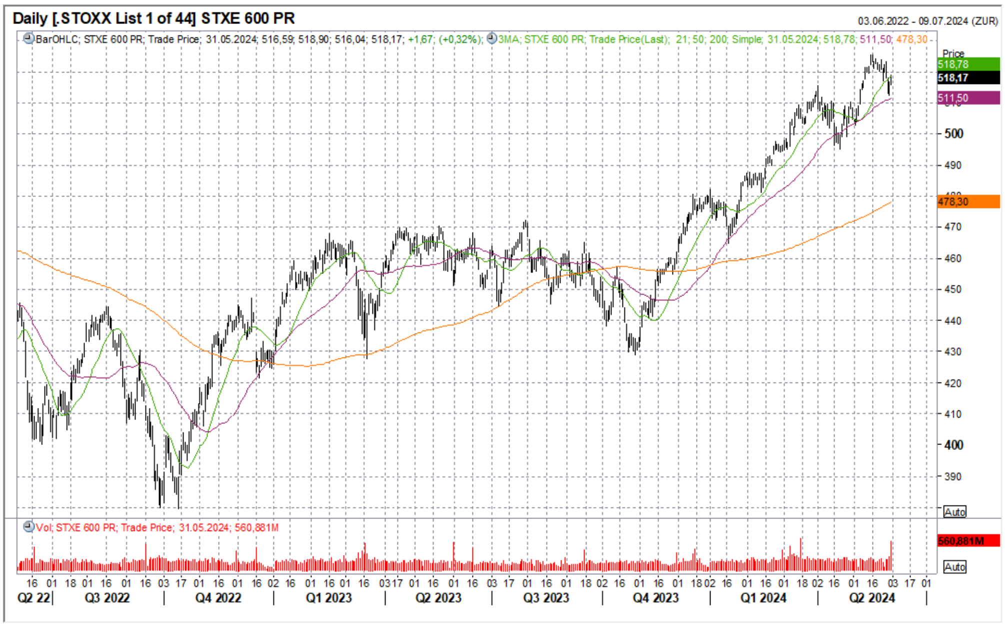
EQUITY MARKETS

Sector dynamics are mixed, with varied performances among major companies. Target and the consumer sector continue to face persistent challenges related to pricing. In contrast, Nvidia is benefiting from sustained growth in the artificial intelligence (AI) sector.

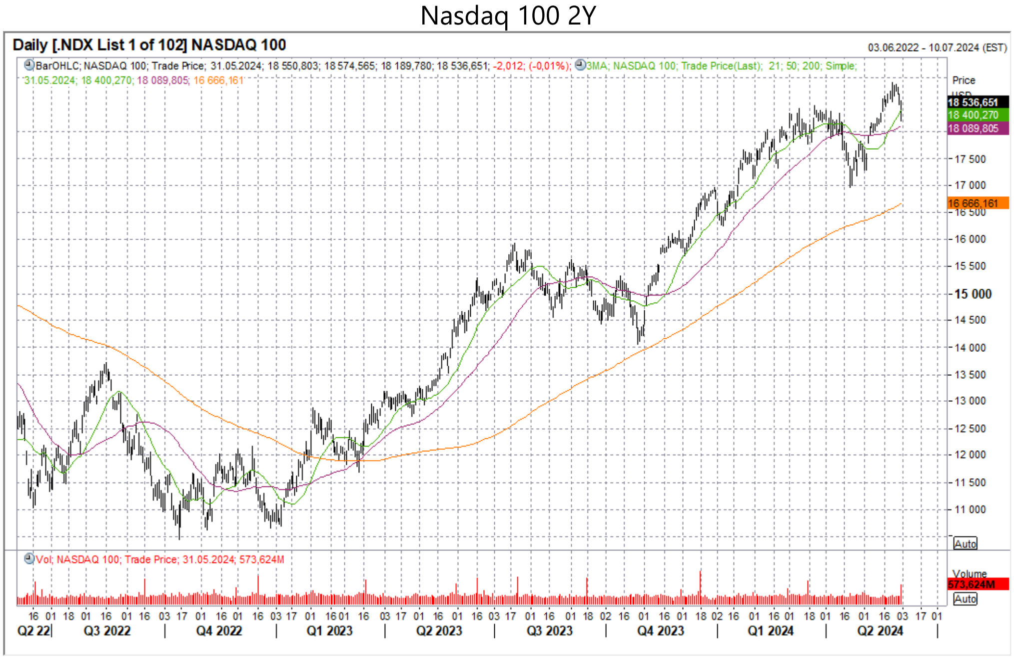
In May, consumer discretionary sectors fell by 4%. Conversely, utilities, retail, and technology sectors saw increases ranging from 2% to 5%.

May performance: CAC40 0.10% (YTD 5.96%), SMI 6.57% (YTD 7.75%), Stoxx600 2.75% (YTD 8.18%), Nasdaq 7.03% (YTD 10.17%), S&P500 5.16% (YTD 10.64%), Hang Seng 1.78% (YTD 6.06%), Topix 1.58% (YTD 17.16%).

Stoxx600 2Y



Nasdaq 100 2Y



FOREIGN EXCHANGE MARKET

Rate expectations have also influenced the foreign exchange market, with the dollar weakening against the euro (1.078). The decline in U.S. bond yields has reduced the appeal of dollar-denominated bonds.

EUR USD 1Y

The euro has continued to perform well against the Swiss franc, primarily due to expectations of rate cuts by the European Central Bank (ECB). Markets currently anticipate that the ECB will reduce its rate soon. Additionally, the Swiss National Bank (SNB) is expected to follow a similar path, continuing the policy initiated earlier this year. However, at the end of the month, the Swiss franc appreciated after hawkish comments from SNB President Thomas Jordan, who emphasized the benefits of a strong franc in controlling inflation.

EUR CHF 1Y

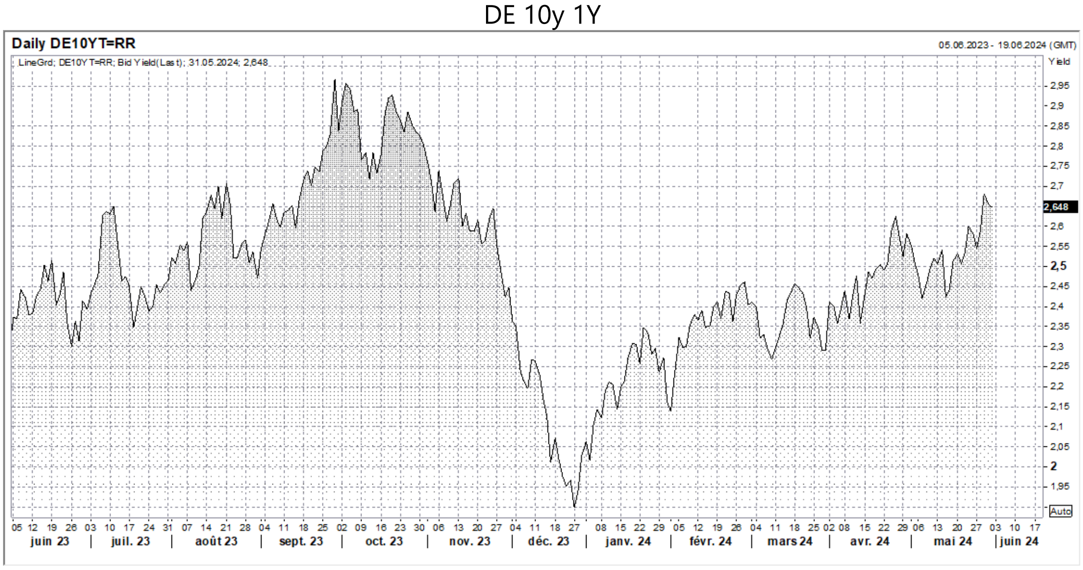
BOND MARKET

In May, interest rates experienced notable fluctuations, responding to monetary policy expectations and economic data. In the United States, the 10-year rate oscillated around a significant threshold of 4.33% before rising to 4.60% towards the end of the month. While rate cut prospects persist, the strength of the American economy could justify higher rates for an extended period.

In Europe, the Bank of England has adopted a more flexible approach without changing rates. This move could be a positive sign for a potential rate reduction by the European Central Bank as early as June.

US 10y 1Y

DE 10y 1Y



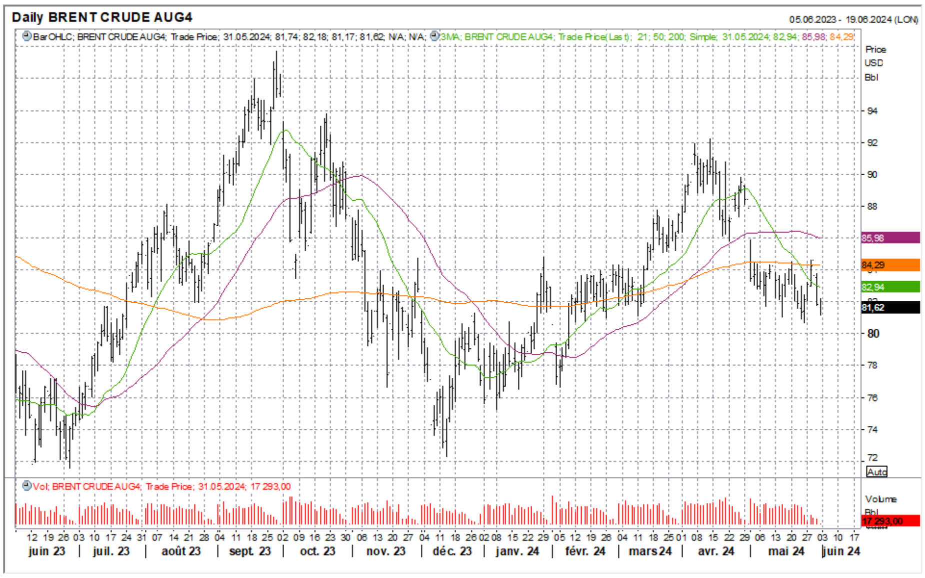
COMMODITIES

Gold has entered a new consolidation phase within a range of $2,300 to $2,400. During the first half of May, gold prices reached new highs. The price remains influenced by several factors: real interest rates, physical demand, the movement of the U.S. dollar, and, to a lesser extent, geopolitical events. Surpassing the $2,400 level could prove challenging. The continuation of this trend will depend on the aforementioned factors.

Gold 2Y

After reaching $90 in April, the decline continued in May. Geopolitics and inventory announcements play a significant role in price movements. In any case, the upward trend observed since the beginning of the year has reversed, with Brent crude falling from $90 to around $80. This is welcomed as it reduces inflationary pressure. Looking ahead, making predictions is difficult, especially in an election year. If gasoline prices are high, I will vote for the best promise.

Brent 1Y



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