APRICUS FINANCE

WEALTH MANAGEMENT

May 2024

April: A Tale of Two Halves

Global equities and bonds suffered as the second quarter started. Fears of higher for longer rates on the back of yet again strong US economic figures and another disappointing inflation report, combined with rising geopolitical tensions between Iran and Israel, sparked the sell off that continued for the better part of the month. Gold meanwhile marched higher and hit a new all-time high.

During the second part of the month and in early May the situation changed drastically: the bond market rebounded, as equities rebounded and reached new highs. The triggers:

- Strong earnings reports particularly from Alphabet and Microsoft on the back of insatiable demand for AI-related products.
- A calmer situation in the Middle East, as Iran's retaliation ended up being just a big telegraphed and expensive firework, while Israel's response was just more than subdued, indicating both countries just wanted to leave it there.
- Weaker than expected economic figures in the US, along with the first inflation number of the year in line with expectations.

Is the US Economy Starting to Sputter?

Over the last 30 days we had various indicatons that the US economy is slowing down, while the 'average' consumer is starting to cave in:

- US GDP growth slowing to an almost two-year low, at 1.6 % annualized rate, versus estimates of 2.5 %.
- A headline and core PCE (US Fed's preferred gauge of inflation) of 0.3 % month-on-month, was in line with estimates. Headline inflation was slightly lower at 3.4 % year-on-year, versus 3.5 % the previous month. Of note was that pretty much all categories are now deflationary.
- A low, but finally rising unemployment rate, along with weak non-farm payrolls.
- Consumer sentiment dropping on dimmer views of personal finances.
- More and more credit card holders are living paycheck to paycheck, falling behind on payments, or carrying debt from one month to the next month, according to the latest data from the New York Fed.
- The latest data for US retail sales were also particularly weak: the key Control Group, (ex-food 'away from home', ex-auto, building material and gasoline), printed a negative 0.3 % instead of positive 0.1 %, while the previous month was also revised downward.

Following that data markets quickly repriced and moved from one extreme to the other: they went from pricing a soft-landing scenario to stagflation, and pricing again two rate cuts for 2024.

We stick with our scenario highlighted last month: which is we think it is likely there will be no landing.

Powell, the chair of the Fed, at his last press conference on May 1st, perhaps offered one of his most insightful comments of the year, countering the gloomy sentiment, with which we agree: "I don't see the 'stag' or the 'flation'."

His comments were less hawkish than investors expected. He essentially dismissed fears of another rate hike, while acknowledging the stickiness of inflation.

We would like to remind our readers that deflation is a term for economists: it simply means prices are rising more slowly than previously. They are not going down. Food prices in the US have risen 25 % since the beginning of the pandemic, and have since stagnated at these levels, while real wages have stopped growing as they did in 2023. This means that many consumers are feeling the pinch and this might explain the doom that many of them are expressing in many surveys, which Biden has tried to counter by touting his administration economic successes.

On that front we want to highlight the comments that several companies, including Starbucks and McDonalds, have made during their last earnings call: 'US consumers are careful on what they spend'. This is bad news for Biden and his reelection bid. We also think that medium term financial markets would be unaffected if Trump gets elected, while geo-politics might change, for example the unconditional support to Ukraine.

Green Shoots in Europe are confirmed: We are in an Upturn

The Euro area economy has started to grow again, after what essentially has been five quarters of stagflation. GDP grew by 0.3 % non-annualized, faster than expected. Growth was led by the periphery, with Spain and Portugal growing 0.7 %, while Germany grew more modestly by 0.2 %. The figure was boosted by foreign demand, fixed investments, and perhaps most importantly, as highlighted in our last monthly comment, by household consumption, Germany being the exception. We highlighted how crucial it would be for the European economy to see consumers out spending again, and that seems to start to be the case: the latest figures seem to confirm that, as sales grew by 0.8 % month-on-month, and 0.7 % year-on-year. As core inflation slows further to 2.7 %, there is plenty of scope for the European central Bank to start cutting rates in June of this year, further helping the economy, and thus equity markets.

China

The latest news from the country, in its attempt to shore up its battered property sector, is a proposal to have local governments buy millions of unsold, (and maybe unbuilt), homes at 'reasonable' prices, and turn them into affordable housing, (state-run news agencies, citing Vice Premier He Lifeng). Several analysts estimate that if 5 million homes are bought, it would be equivalent to a cash injection of about 250 billion dollars. This ambitious plan could address both the excess inventory, stabilizing prices along the way, and the real estate developers' liquidity issues. If implemented we would describe the move as a big step in the right direction, however we doubt that anything real will be announced before the Third Plenary Session in July. At the same time the central bank, the People's Bank of China, effectively scrapped the nationwide minimum mortgage rate, while cutting by 5 % the minimum down-payment ratio to 15 % for first-time buyers and 25 % for second homes.

Financial Markets

As mentioned above, stock indices dropped during the first part of the month. At its low the MSCI World (hedged) was losing over 4.5 %, led by the 'Magnificent 7', while the European and Japanese market were outperforming. Markets then quickly rebounded led by the prior losers: 'the Magnificent 7', leading US and European benchmarks to new all-time highs.

In the fixed income space, the nervousness surrounding the future path of the US monetary policy led to heavy losses particularly in government bonds: US ten-year yields surged 50 basis points to this year's high of 4.7 % before retreating to 4.35 %, while yields on the German Bund surged 30 basis points to 2.6 % before retreating to 2.45 %. Credit in general did better than duration and government over the period, and our thematic exposure to fixed income, (see below), outperformed the Global Aggregate benchmark (currency hedged).

Gold, on the back of the potential instability in the Middle East, benefited from further buying bringing it to a new all-time high, dropping by 4 % as the conflictual situation calmed down, only to print a new high at the time of writing.

Initially crude oil had quite intuitively a similar initial path: rising from 78 to 87 Dollars a barrel (WTI), to just fall again back to where it started.

Of note the short squeeze in copper prices which rose over 20 % since the end of March for the US Comex contract. The squeeze surprised from quantitative hedge funds to Chinese traders. The premium fetched by New York copper futures above London's LME price rocketed to an unprecedented level of over 1200 dollars a ton, compared with a normal differential of just a few dollars. It thus prompted a frantic dash for supplies to be shipped to the US. Remember when in 2020 US Oil futures settled at negative prices? In the US futures are settled physically, so the situation was exactly the inverse of the one experienced by crude oil back then. The wild swings highlight how commodity markets can spiral rapidly out of control when market participants are no longer able to finance their positions, or able to deliver the product, (as another recent example cocoa, which was subject to both).

Positioning

We continue to have a constructive view for the 'Balanced Portfolio' for the next 6 to 9 months. Bar an accident, we believe high nominal growth, peak rates and broadening earnings performance continue to underpin equity market performance.

In terms of risk, we continue to focus on where the potential ones are to our positioning, and that we can, at least in part, control:

- Peak in companies' earnings due to margin compressions.
- Lower capital expenditures in Artificial Intelligence, which has been a leading theme since last year, in many sectors outside of pure technology.
- A worsening of the global economic situation, with the biggest risk coming from China, (although the IMF just upgraded the world's GDP for 2024).
- A failure of the disinflationary trend to continue.

Strategy

During the month we didn't perform any asset allocation change.

Equity

We keep an overweight in Eurozone equities versus the US broader market.

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 history, the government and the stock exchange are taking initiatives that are extremely shareholder friendly.

Fixed income

We continue to favor exposure to credit versus 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.

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

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, Slight Underweight 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.

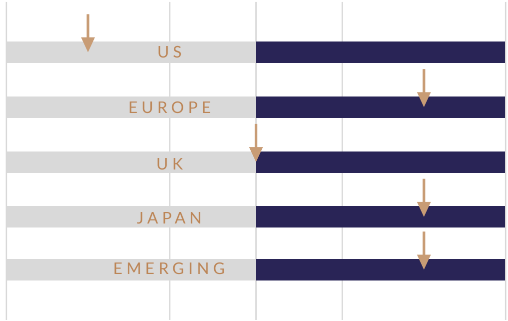
Currencies: Portfolios have a 5 % USD exposure.

Commodities: Overweight

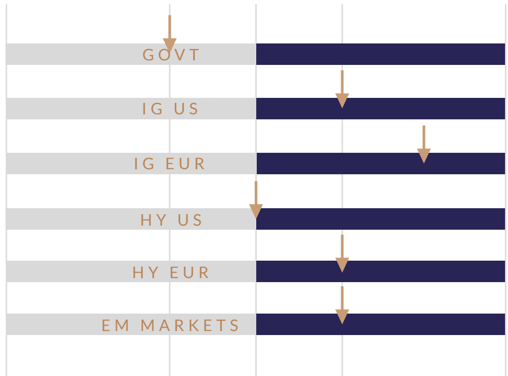
Long Gold.

Conviction thermometer

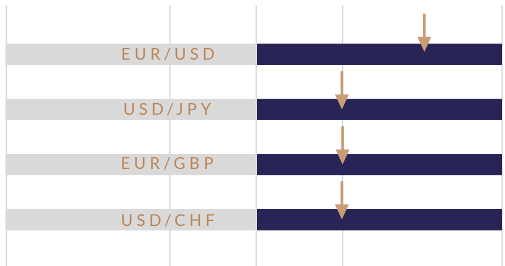
Equities



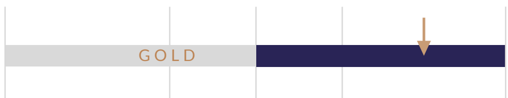
Bonds



Currencies



Commodities



Negative view Positive view

Market overview as of 30th April 2024

Equities (local ccies)	Level	5D	MTD	YTD	2023
MSCI WORLD	3 305,30	-0,46%	-3,67%	5,02%	24,44%
US S&P500	5 035,69	-0,67%	-4,08%	6,04%	26,26%
NASDAQ 100	17 440,69	-0,17%	-4,43%	3,90%	55,13%
RUSSELL 2000	1 973,91	-1,42%	-7,04%	-2,23%	16,88%
EUROPE EURO STOXX 50	4 921,22	-1,28%	-2,24%	10,42%	23,21%
GERMANY DAX	17 932,17	-1,13%	-3,03%	7,05%	20,31%
FRANCE CAC40	7 984,93	-1,17%	-1,93%	6,93%	20,10%
BELGIUM BEL20	3 883,26	0,25%	1,42%	5,33%	3,51%
SWISS MARKET INDEX	11 260,91	-1,64%	-2,72%	3,87%	7,06%
UK FTSE100	8 144,13	1,29%	2,72%	6,81%	7,68%
JAPAN TOPIX	2 743,17	2,89%	-0,92%	17,14%	28,28%
MSCI EMERGING	1 045,95	2,66%	0,43%	2,89%	10,20%
BRAZIL IBOVESPA	125 924	0,62%	-1,70%	-6,16%	22,28%
CHINA CSI 300	3 604,39	2,88%	2,01%	5,18%	-9,14%
HS TECH	3 700,67	7,29%	6,69%	-1,37%	-8,25%
INDIA SENSEX	74 482,78	1,01%	1,13%	3,26%	20,33%
KOREA KOSPI	2 692,06	2,63%	-1,97%	2,17%	20,52%
HONG KONG HANG SENG	17 763,03	5,55%	7,45%	4,74%	-10,46%
AUSTRALIA ALL-SHARE	4 430,25	1,24%	2,47%	6,12%	7,70%
SAUDI ARABIA TADAWUL	12 394,91	-0,67%	0,05%	4,43%	18,10%

US: Sectors	Level	5D	MTD	YTD	2023
COMMUNICATION SVCS	277,98	-3,11%	-2,07%	13,42%	55,80%
CONSUMER DISCRETIONARY	1 420,81	0,93%	-4,33%	0,43%	42,30%
CONSUMER STAPLES	805,51	0,35%	-0,89%	6,56%	0,52%
ENERGY	714,95	-2,58%	-0,76%	12,82%	-1,42%
FINANCIALS	671,09	-1,93%	-4,18%	7,75%	12,10%
HEALTH CARE	1 634,44	-0,66%	-5,08%	3,32%	2,06%
INDUSTRIALS	1 028,09	-1,29%	-3,58%	7,00%	18,08%
INFORMATION TECHNOLOGY	3 612,61	0,19%	-5,43%	6,57%	57,84%
MATERIALS	558,16	0,41%	-4,59%	3,95%	12,55%
REAL ESTATE	226,77	-0,80%	-8,50%	-9,00%	12,35%
UTILITIES	338,80	0,59%	1,65%	6,29%	-7,08%

EUROPE: Sectors	Level	5D	MTD	YTD	2023
BASIC MATERIALS	3 062,63	1,89%	3,07%	3,78%	5,95%
CONSUMER GOODS	3 829,60	0,58%	0,03%	-0,73%	-2,46%
CONSUMER SERVICES	1 606,82	-2,37%	-4,06%	7,30%	21,53%
FINANCIALS	980,28	-0,93%	0,02%	11,87%	25,42%
HEALTH CARE	3 801,34	0,93%	1,03%	9,68%	8,75%
INDUSTRIALS	3 939,27	-0,42%	-2,76%	8,00%	27,43%
OIL & GAS	1 645,85	-0,34%	5,91%	9,91%	9,01%
TECHNOLOGY	1 909,97	-0,10%	-4,79%	12,19%	34,72%
TELECOMS	518,62	-1,73%	-1,36%	0,97%	8,86%
UTILITIES	1 953,03	0,12%	0,41%	-4,18%	14,75%

Market overview as of 30th April 2024

Fixed Income	Level	5D	MTD	YTD	2023
Pan-Euro 3-5 yrs IG	203,17	-0,24%	-0,81%	-1,17%	6,68%
Euro Aggregate	233,74	-0,37%	-1,26%	-1,59%	7,19%
Pan-Euro HY Hedged Eur	424,83	-0,15%	-0,09%	1,53%	12,32%
Global Inflation hedged EUR	230,92	-0,33%	-2,07%	-2,90%	2,02%
US Corp High Yield	2 264,90	0,03%	-0,94%	0,52%	13,45%
EM USD Aggregate TR	1 260,87	-0,27%	-1,65%	-0,14%	9,09%
EM Aggregate TR Local Ccy	142,78	-0,38%	-1,38%	-2,43%	6,91%
EUR Banks CoCo Tier 1	147,53	0,13%	-0,68%	2,60%	5,04%
EU GOVT HEDGED EUR	206,84	-0,48%	-1,73%	-2,63%	6,31%
Global Aggregate	2 554,99	-0,51%	-2,52%	-4,55%	5,72%

Commodities	Level	5D	MTD	YTD	2023
GOLD	2 286,25	2,23%	8,09%	8,09%	13,10%
COPPER	456,45	-0,98%	2,99%	2,99%	2,10%
OIL WTI	81,93	2,59%	16,08%	16,08%	-10,73%
OIL BRENT	87,86	1,98%	13,55%	13,55%	-10,32%

Currencies	Rate	5D	MTD	YTD	2023
EURUSD	1,0789	-0,65%	-2,26%	-2,26%	3,12%
GBPUSD	1,2624	-0,27%	-0,84%	-0,84%	5,36%
USDJPY	151,3800	-0,16%	7,33%	7,33%	7,57%
USDCHF	0,9017	0,47%	7,17%	7,17%	-8,99%
AUDUSD	0,6516	-0,82%	-4,35%	-4,35%	-0,01%
EURCHF	0,9727	-0,21%	4,72%	4,72%	-11,08%
USDCNY	7,2980	0,38%	2,79%	2,79%	5,28%
USDKRW	1 382,10	-1.14%	2,58%	3,86%	4,22%
USDINR	83,4037	0,30%	0,23%	0,23%	9,15%
USDIDR	15 855,00	1,25%	2,97%	2,97%	7,42%
USDBRL	4,8572	-0.08%	-1,27%	-7,55%	-8,01%
USDTRY	32,3443	0,96%	9,54%	9,54%	57,82%
BITCOIN	70 712,89	8,01%	68,62%	68,62%	152,94%

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