

INVESTMENT STRATEGY: EQUITY FOCUS

# Entering an Election- Heavy Second Half

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# Entering a Politically-Charged H2 2024

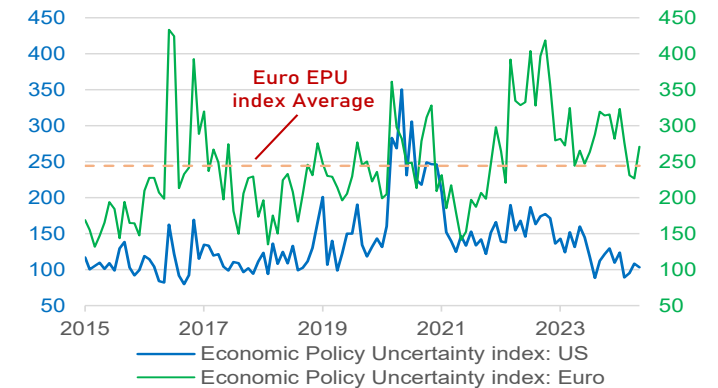
## Key Points

- **US is not the only show in equity town -**  
While the S&P 500 index continues to be propelled higher by Nvidia and other mega-cap tech stocks, note that the Japanese Nikkei 225 index has risen 19% in yen so far this year, while the MSCI Emerging Market index has gained over 12% in US dollar terms.
- **Political risk weighs on French stocks -**  
Following the announcement of snap French legislative elections to be held in early July, the French CAC 40 index has slipped 8% from recent peak and is now only +1% for the year to date. Volatility is likely to persist until the result of the 7 July second round of voting for the French parliament is known.
- **Focus on Deep Value, ignored stock markets -**  
We have initiated a new investment theme on Deep Value for patient, long-term investors. We focus on cheap stock markets with catalysts such as the UK, South Korea and Turkey. While still volatile, China could also prove to be an attractive, cheap investment for investors who can absorb the attendant volatility.

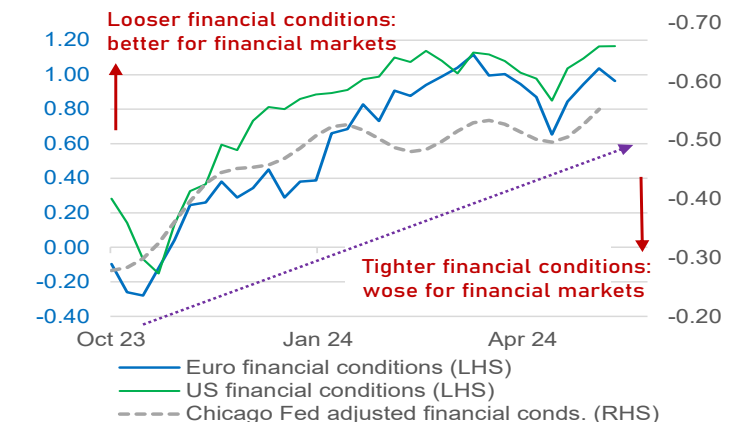
## Main recommendations

- ➔ **Remain positive on global stocks -**  
Key drivers remain improving global liquidity, to be helped by central banks lowering interest rates before year-end. Share buybacks and positive earnings growth are supplementary supports, while lower inflation and then lower long-term interest rates should also support valuation levels.
- ➔ **Preferred Investment Themes -**  
Clean water, copper miners, electricity infrastructure; circular economy, deep value markets.
- ⚠ **The key risk for stocks at this point is that the Federal Reserve cuts the Fed Funds benchmark interest rate too late to prevent a sharp rise in the unemployment rate, and ultimately a 2025 economic recession.**

## GEOPOLITICAL RISK INDICES FAIRLY STABLE



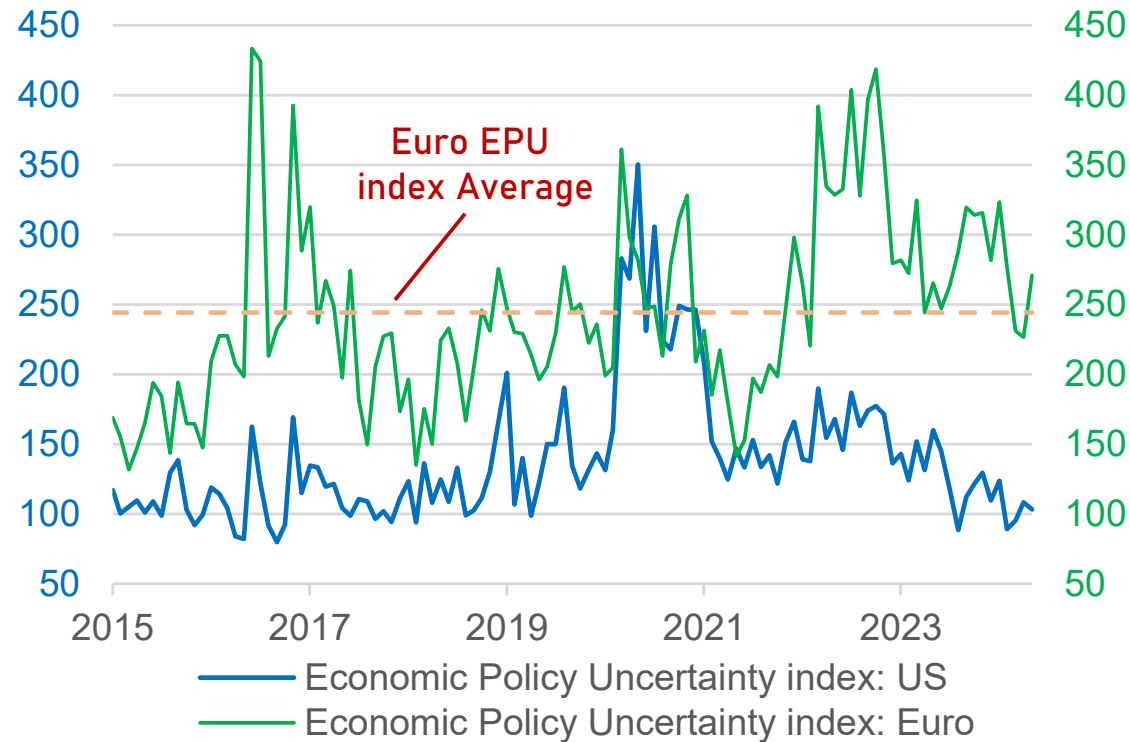
## LOOSER FINANCIAL CONDITIONS HELP STOCKS



Source: BNP Paribas, Bloomberg

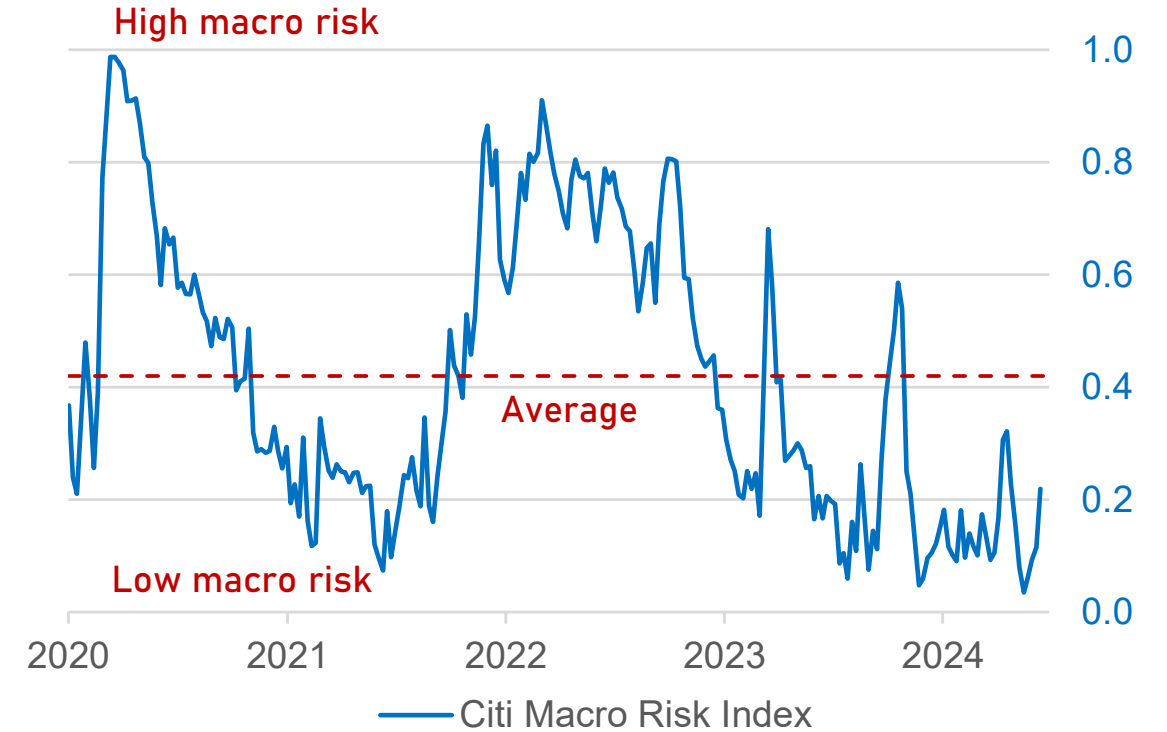
# Geopolitical tensions everywhere: but limited market impact

## Geopolitical risk indices fairly stable



Sources: BNP Paribas, Bloomberg

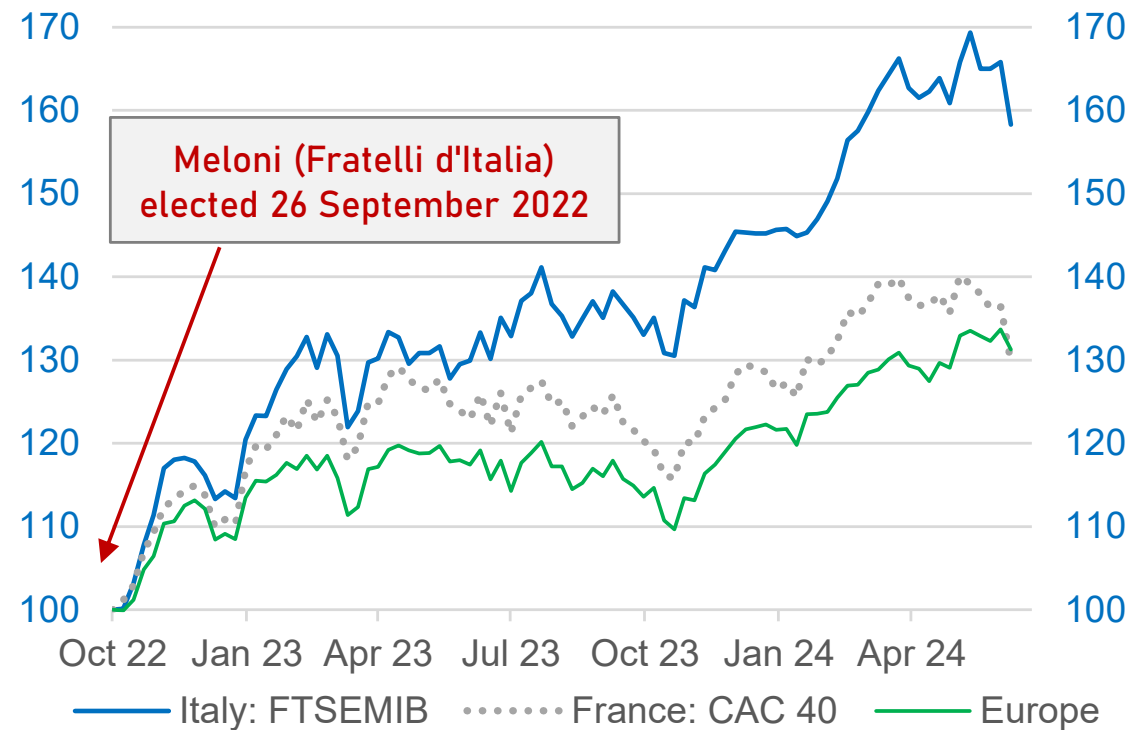
## Limited financial market risk is priced today



Sources: BNP Paribas, Bloomberg

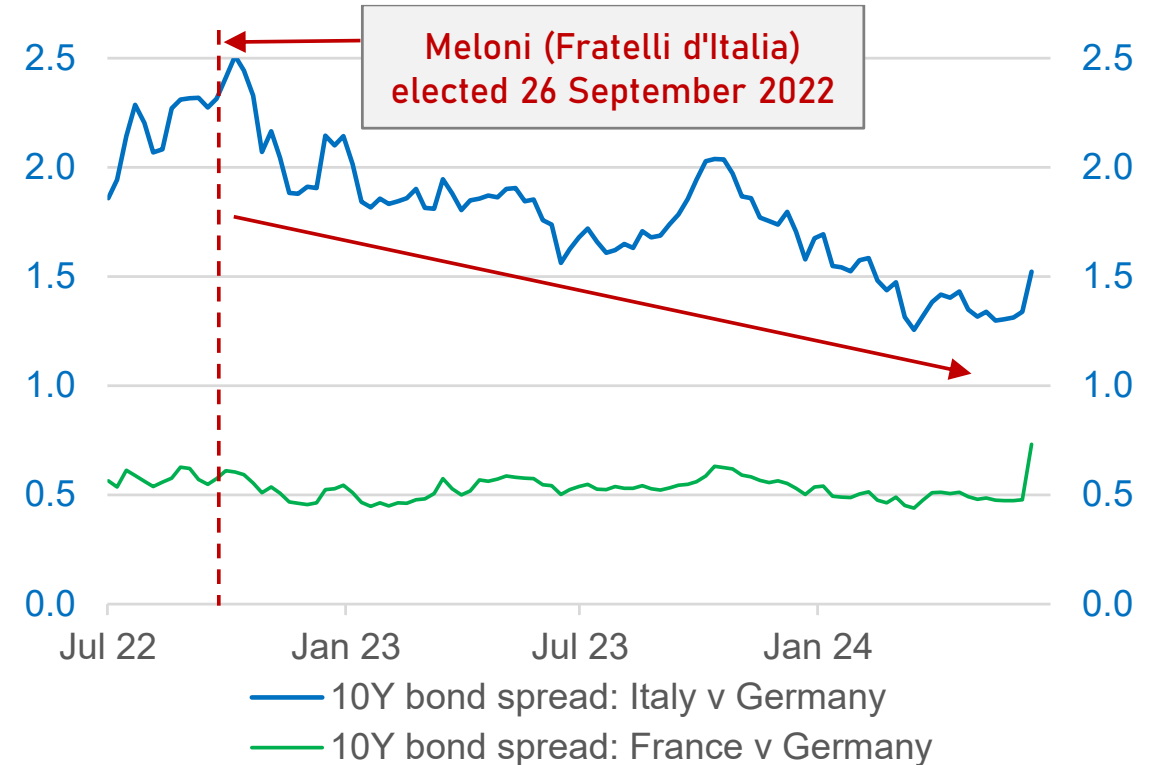
# Extreme Right-Wing coalition government: Italy

## Italy: Brothers party lead the right-wing coalition



Sources: BNP Paribas, Bloomberg

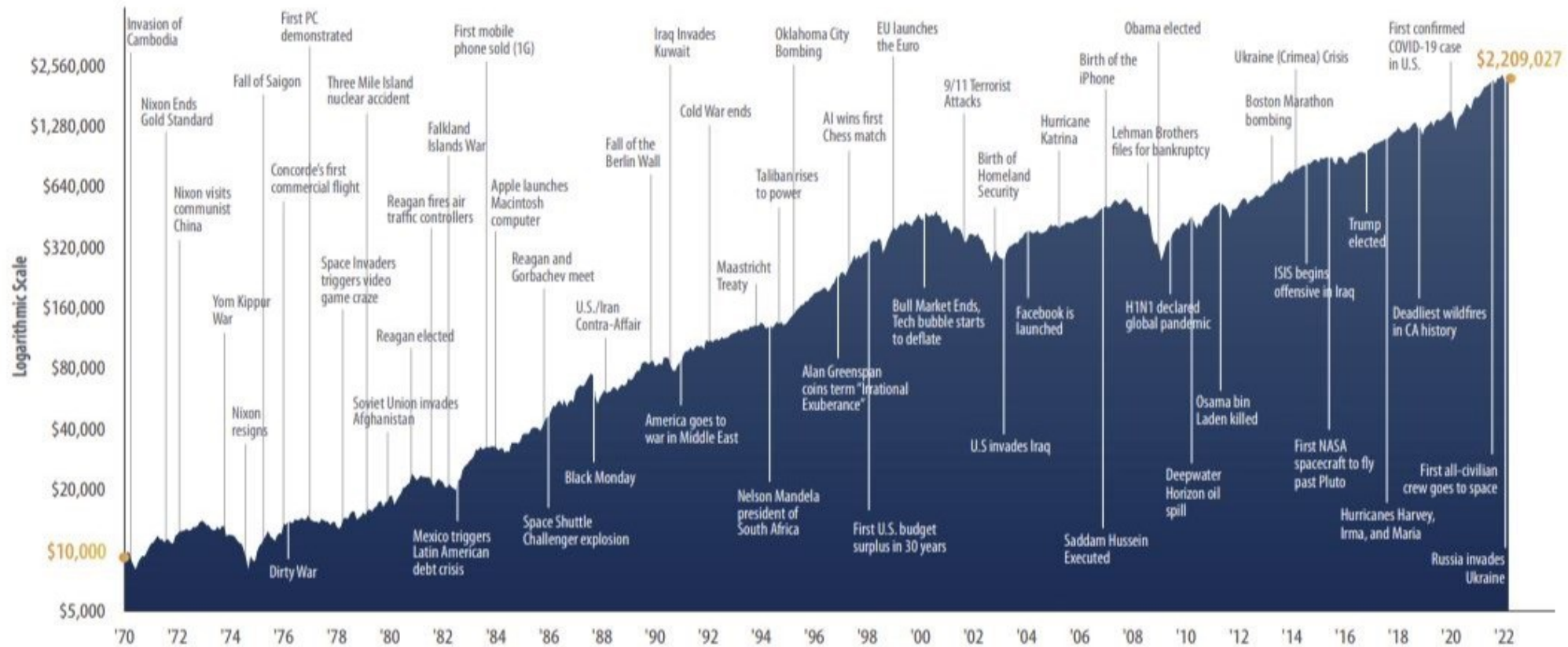
## Italy: reduced bond market risk pricing



Sources: BNP Paribas, Bloomberg

# In the long run, the stock market shrugs off geopolitical events

THE AVERAGE ANNUAL TOTAL RETURN OF THE S&P 500 INDEX FOR THE PERIOD SHOWN BELOW WAS 10.88%.

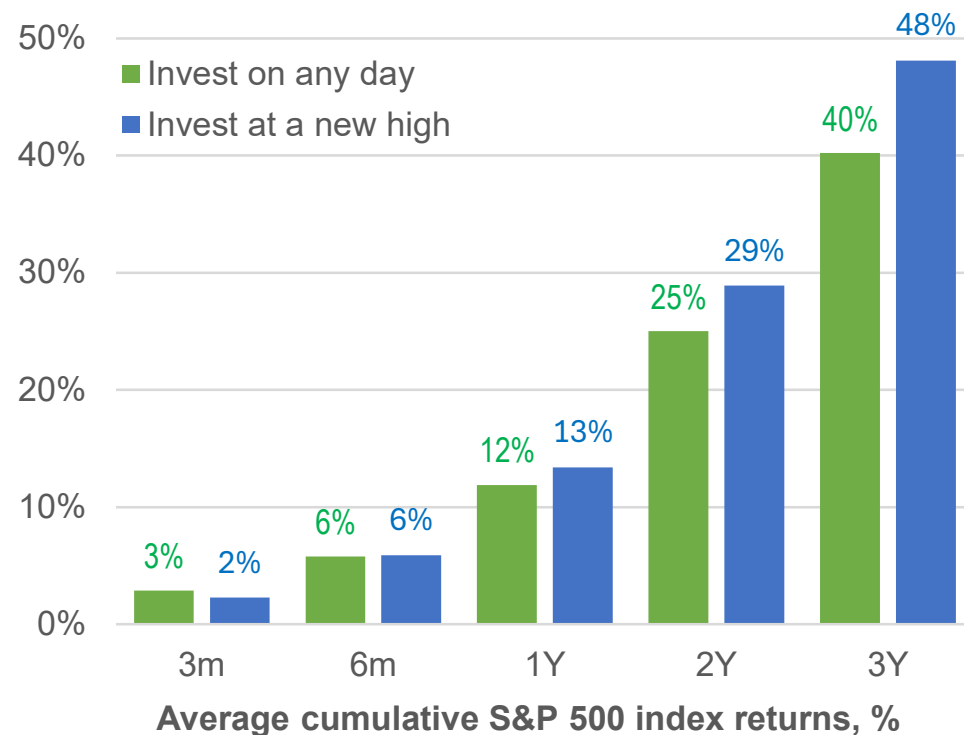


Source: Bloomberg

# Don't be afraid of investing at new market highs

## Investing at new highs: returned above-average results

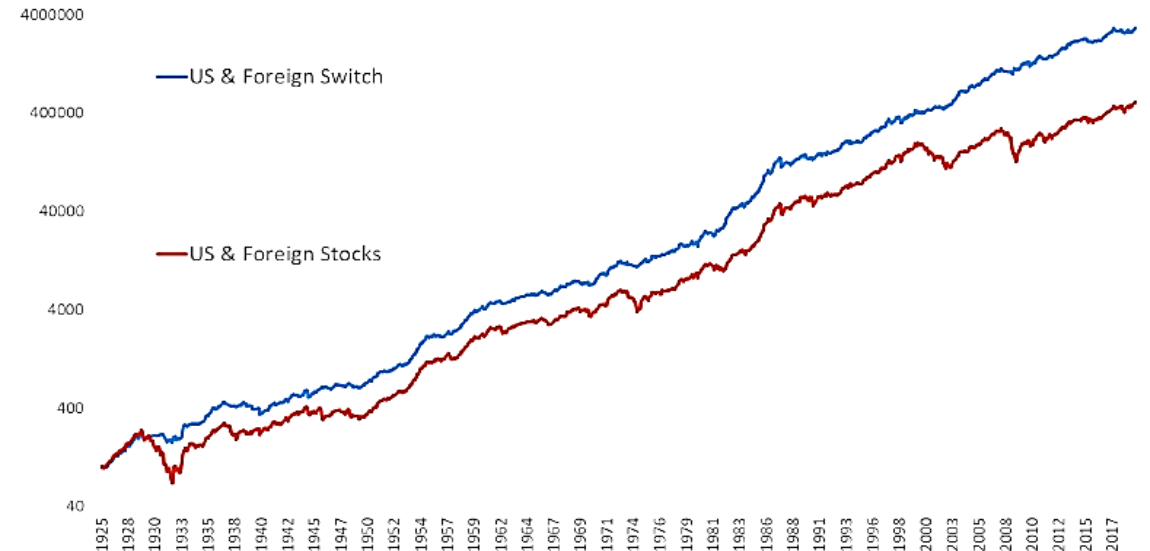
Jan 1, 1988 - Dec. 31, 2023



Sources: BNP Paribas, Bloomberg, JP Morgan AM



## Investing systematically at/near 12m highs has worked



| 1926-2019  | Average | Switch  |
|------------|---------|---------|
| Returns    | 9.52%   | 11.55%  |
| Volatility | 14.37%  | 9.79%   |
| Sharpe     | 0.43    | 0.83    |
| Max DD     | -71.06% | -25.58% |

Sources: Meb Faber / Cambria AM, Global Financial Data Inc.

"US & Foreign stocks" = Buy and Hold strategy of 50% US stocks, 50% non-US stocks.

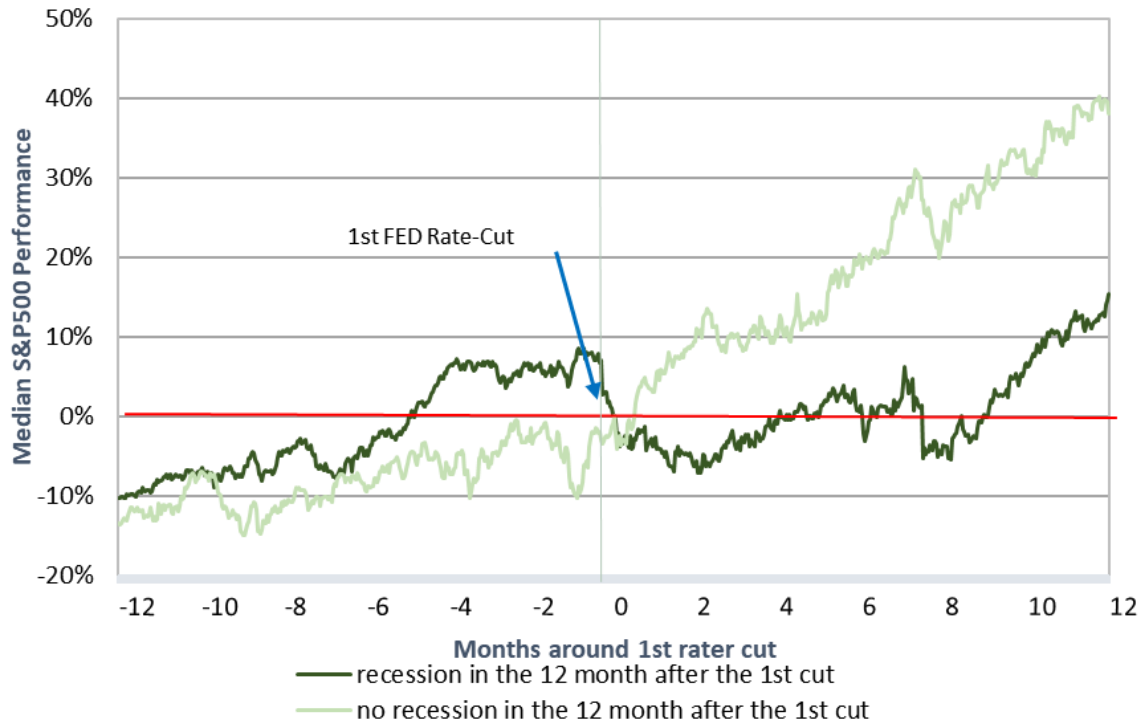
"US & Foreign Switch" = Monthly rebalancing strategy where you buy/hold US + foreign stocks if they are within 5% of their 12-month index high at monthly observation. If not, switch instead into US 10-year Treasury bonds for 1 month.

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Classification : Internal

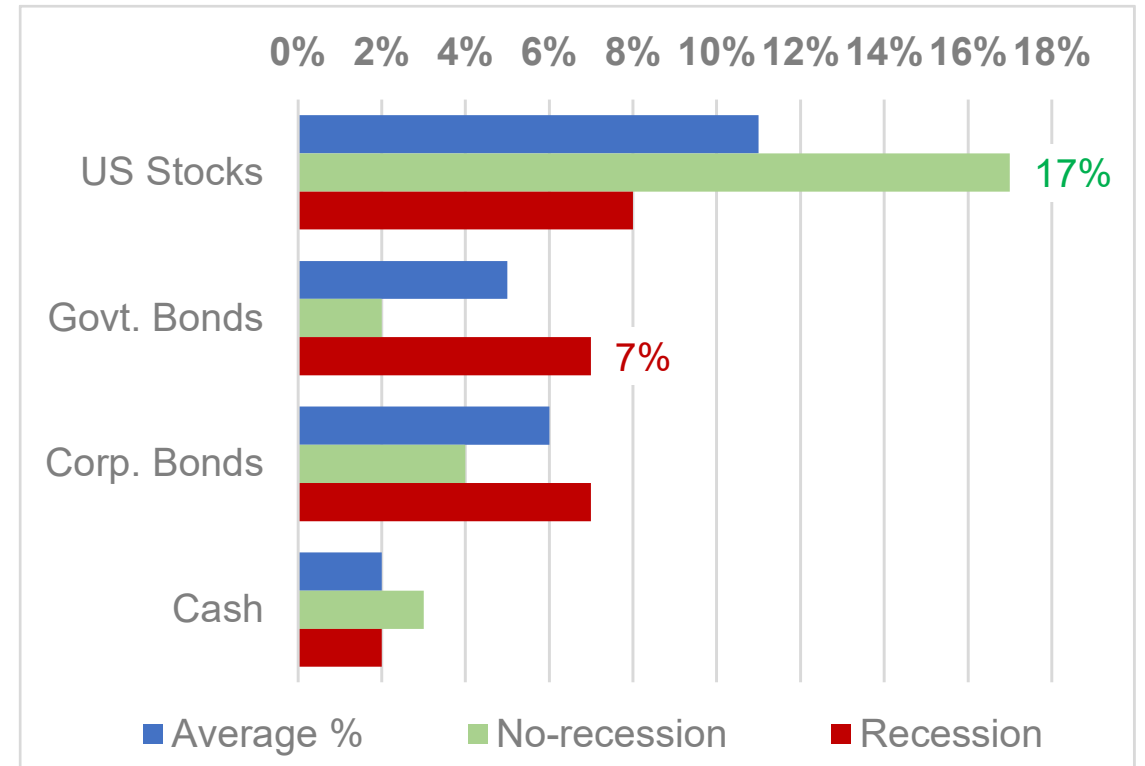
# Rate Cuts: Stocks best if no recession; but Bonds if recession

## Fed rate cuts good for stocks, IF recession is avoided



Sources: BNP Paribas, Bloomberg

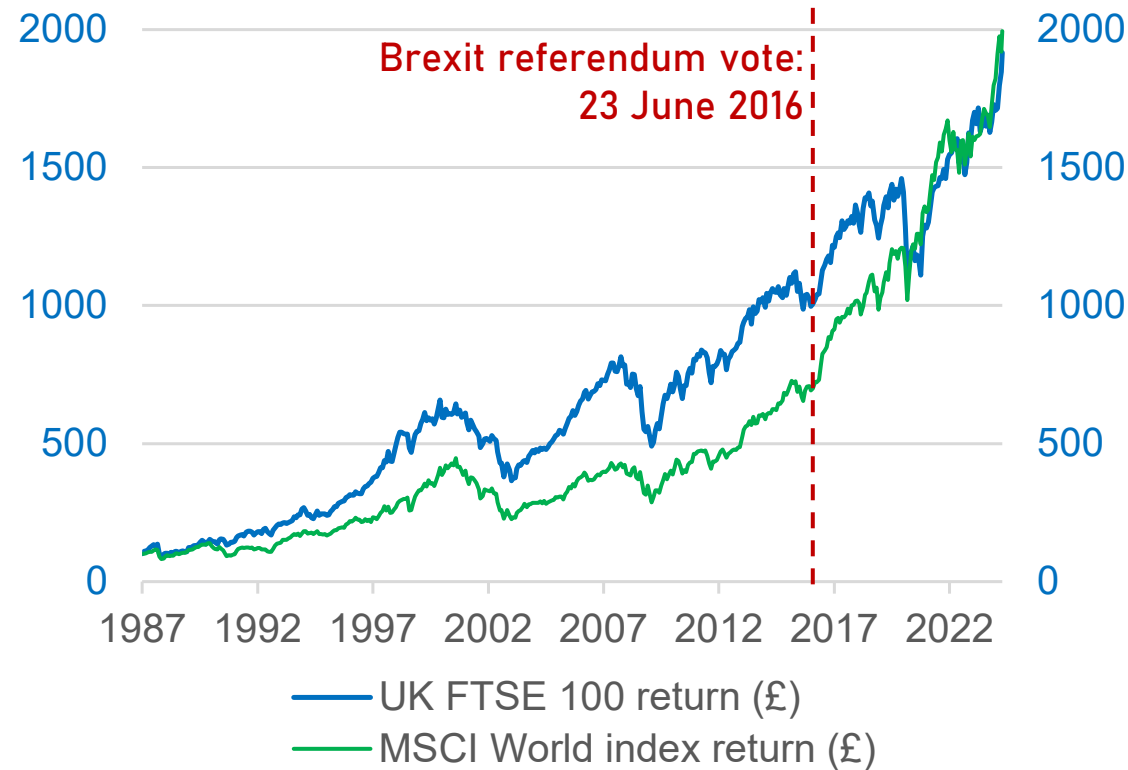
## Fed Rate Cuts + No Recession = Stocks; else Treasuries



Sources: Schroders. Note: Performance shown is average real return (after subtracting inflation) in 12 months after first Fed rate cut, over 22 rate-cutting cycles since 1929

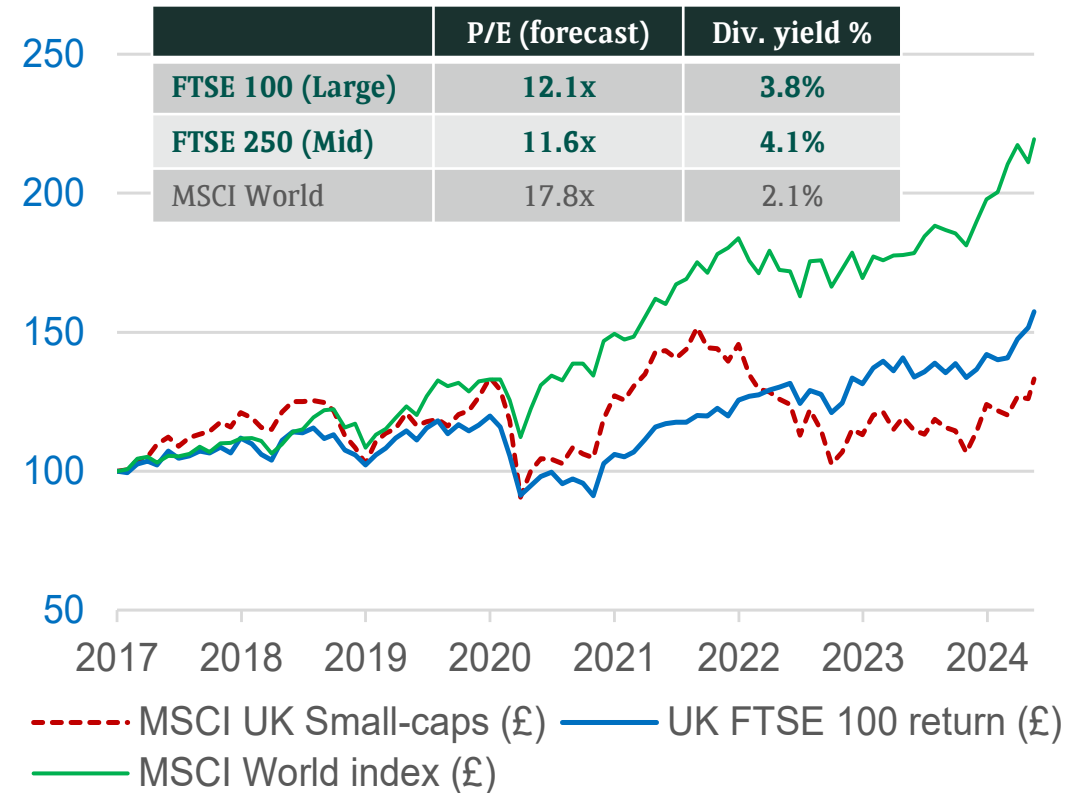
# UK Stocks: forgotten even by domestic investors post Brexit

## FTSE 100 index outperformed World until Brexit



Sources: BNP Paribas, Bloomberg.

## UK large-cap stocks wake up, boosted by M&A activity

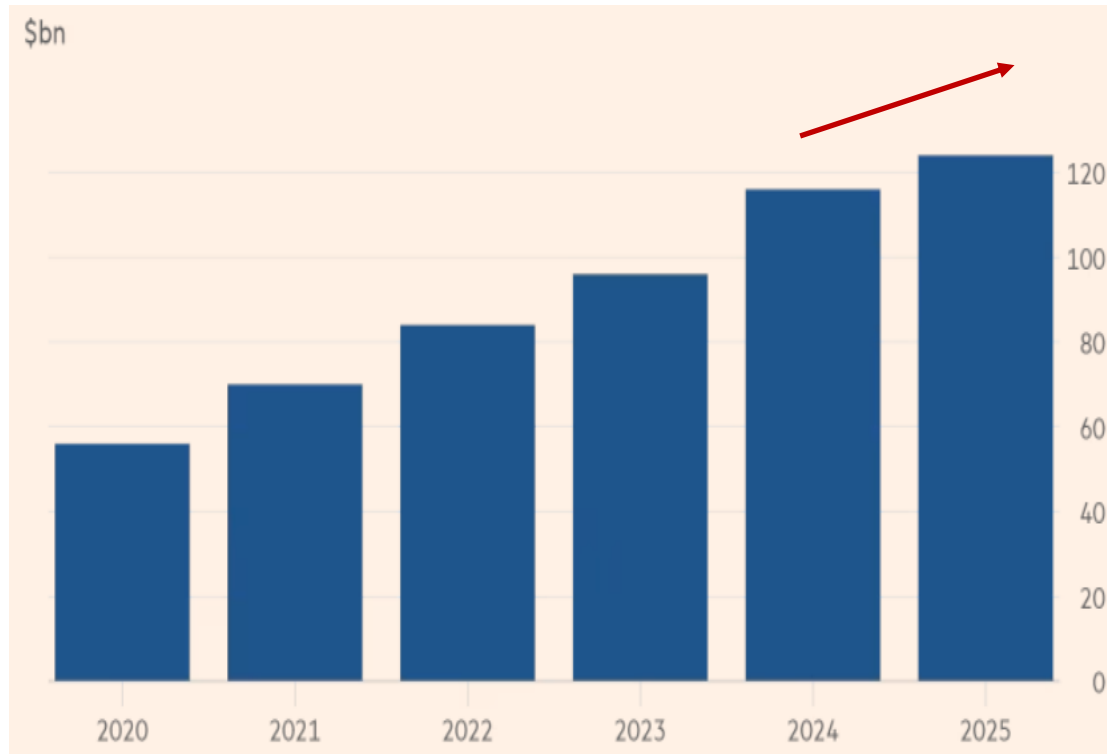


Sources: BNP Paribas, Bloomberg.



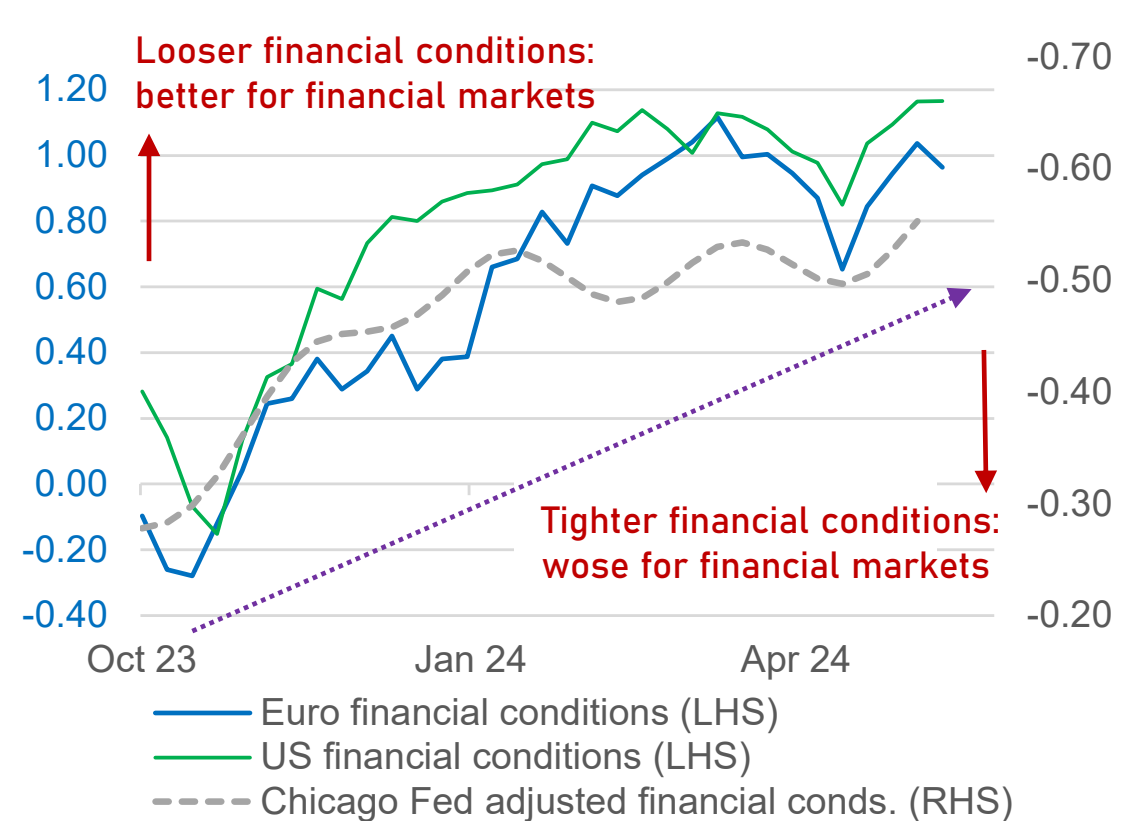
# Circular Economy, Smart Grid Infrastructure investment

## Microsoft, Amazon, Google: Cloud Computing Capex



Sources: ft.com (17 April 2024)

## Circular economy: AI models drive electricity demand



Sources: BNP Paribas, Bloomberg

# Sector Allocations – Overview

| European Sector View   |   |
|--|---|
| Overweight   | Underweight   |
| STOXX Europe 600 Technology (SX8P Index)<br>STOXX Europe 600 Insurance (SXIP Index)<br>STOXX Europe 600 Health Care (SXDP Index)<br>STOXX Europe 600 Banks (SX7P Index)<br>STOXX Europe 600 Financial Services (SXFP Index)<br>STOXX Europe 600 Real Estate (SX86P Index)<br>STOXX Europe 600 Industrial Goods & Services (SXNP Index)<br>STOXX Europe 600 Construction & Materials (SXOP Index) | STOXX Europe 600 Chemicals (SX4P Index)<br>STOXX Europe 600 Personal Care (S600PDP Index)<br>STOXX Europe 600 Food, Bev. & Tobacco (S600FOP Index)<br>STOXX Europe 600 Consumer Products (S600CPP Index)<br>STOXX Europe 600 Telecommunications (SXKP Index)<br>STOXX Europe 600 Automobiles & Parts (SXAP Index) |
| Neutral  |   |
| STOXX Europe 600 Basic Resources (SXPP Index)<br>STOXX Europe 600 Retail (SXRP Index)<br>STOXX Europe 600 Energy (S600ENP Index)<br>STOXX Europe 600 Utilities (SX6P Index)  | STOXX Europe 600 Travel & Leisure (SXTLP Index)<br>STOXX Europe 600 Media (SXMP Index)<br>STOXX Europe 600 Financial Services (SXFP Index)  |
| US Sector View   |   |
| Overweight   | Underweight   |
| S&P 500 Health Care Sector GICS Level 1 Index<br>S&P 500 Industrials Sector GICS Level 1 Index<br>S&P 500 Materials Sector GICS Level 1 Index  | S&P 500 Consumer Staples Sector GICS Level 1 Index<br>S&P 500 Consumer Discretionary Sector GICS Level 1 Index  |
| Neutral  |   |
| S&P 500 Financials Sector GICS Level 1 Index<br>S&P 500 Utilities Sector GICS Level 1 Index<br>S&P 500 Energy Sector GICS Level 1 Index  | S&P 500 Communication Services Sector GICS Level 1 Index<br>S&P 500 Information Technology Sector GICS Level 1 Index<br>S&P 500 Real Estate Sector GICS Level 1 Index   |



We have changed our Sector approach as we switch to Stoxx Sector indices in Europe while focussing on GICS Level 1 Sectors in the US. As those sectors offer the most popular and liquid product suites, the new methodology makes it easier to follow our sector views and to transform them in actual positions.

Better be a bit more defensive but opportunistic in the current environment

# Sector Allocation: no change this month

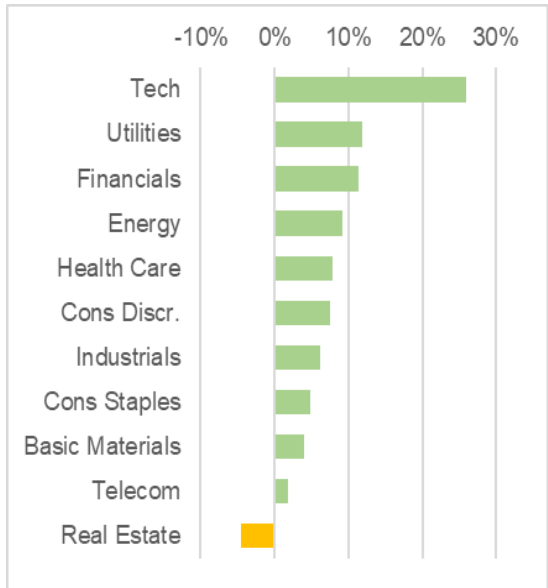
IN JUNE, VALUE CYCLICAL SECTORS HAVE UNDERPERFORMED WHEREAS GROWTH SECTORS HAVE DONE WELL

Recent economic figures show a slowdown in the US whereas elections in Europe and in other parts of the world bring new uncertainties. Despite cyclicals' underperformance in June and the more complicated environment, we would not be too negative on these as a recovery is taking place in many parts of the world. Many cyclicals are cheap, particularly the European Financials.

We recently reduced the basic resources sector to neutral after a strong recovery earlier this year. We also reduced the Auto sector to negative considering sluggish sales in the West and a lack of competitiveness in the electric segment against China.

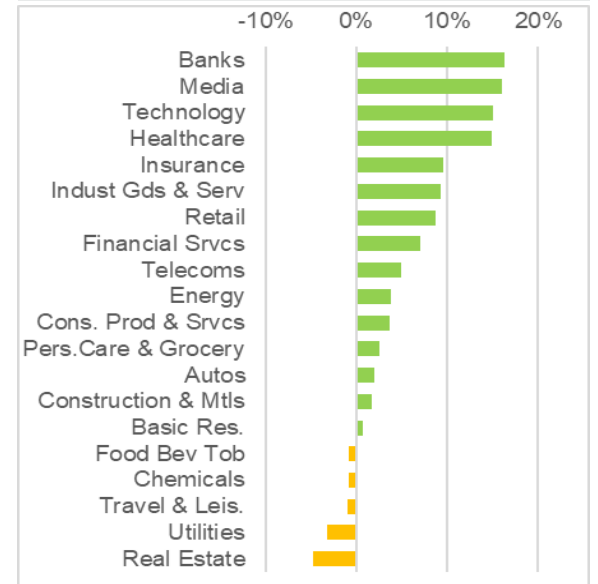
- **Qua performance, US (Mega) Tech is still leading the charge, but the number of rising stocks is dwindling.** It will be interesting to check this Summer, at the time corporates announce their H1 results, whether their forecasts still justify the current stretched valuations.
- **Regarding AI, remember that next to the tech sector, there are other vehicles to play this revolution,** including companies in Health Care, Business Services, Industrials, and even some Financials and Utilities that are expected to profit from it. Be diversified.
- **On the other hand, we are cautious (-) on consumption stocks : they are often expensive** in a context where consumers see their savings drying out and therefore tighten their belt.

US sector performance YTD : Technology leads while real estate is down.



Source: FTSE Russell. Performance as at 24 June 2024

European sector performance YTD : Financials, Media, Tech and Healthcare lead while Real Estate and Utilities have been performing poorly.



Source: STOXX. Performance as at 24 June 2024

- **We still consider European banks as too cheap (our recommendation is +).** They generate big cash flows, allowing them to continue returning sizeable amounts of cash to shareholders via dividends and share buybacks. The situation also looks healthy in the insurance sector (+).
- **Healthcare (+) is also among the best sectors in Europe,** still driven by some great new medicines especially in the field of diabetes and obesity.
- **On the other hand, the materials sector performance has been subdued** due to the relatively weak manufacturing activity globally, especially construction in China. The sector valuations are however attractive. Remember that the green transition will require lots of metals.
- **Listed European Real Estate is recovering** but, although quite cheap, it still suffers from uncertainties about its refinancing, growth and dividends.



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