NAVIGATING A SHARP TURN IN MARKET SENTIMENT

August 6th, 2024

CBH Investment Management

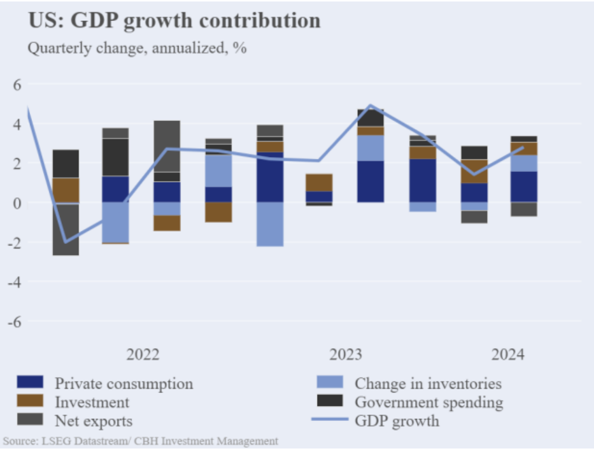
CREATIVITY WITHIN EXCELLENCE

Navigating A Sharp Turn In Market Sentiment

In the midst of a rather quiet summer so far, disappointing US labor data have triggered recession fears while the Bank of Japan's unexpected policy move has led to an unwinding of the "carry trade". On top of that, US political uncertainty, and mounting geopolitical tensions in the Middle East increased market nervousness.

Against this backdrop, cyclical commodities prices dropped, the US dollar index depreciated, equities fell sharply amid risk-off sentiment, and treasury yields declined on the prospect of policy rate cuts and economic slowdown expectations. With summer vacations in full swing, trading volumes are low, leading to a sharp market reaction.

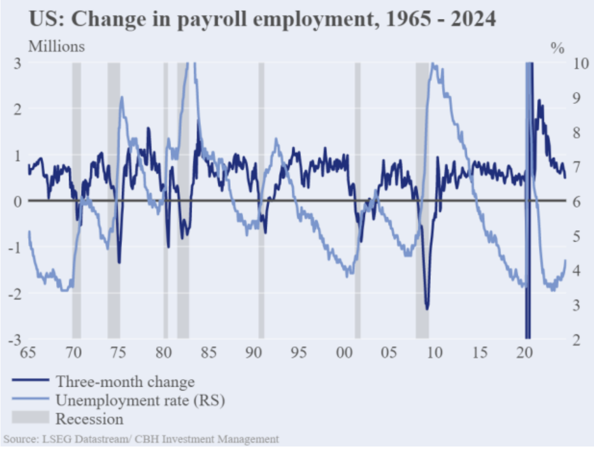
Yet, US economic growth is still extremely resilient and on track for a soft landing.



1. **The US economy accelerated in the second quarter** with a +2.8%, annualized rate, reflecting increases in consumer spending (goods and services) and corporate investment. The economy still benefits from robust fundamentals and drivers: strong household consumption, disposable income growth, a solid employment market, increasing productivity, disinflationary pressures, strong investment dynamics, and massive public spending programs to support critical industries. J. Powell, Chair of the Federal Reserve, highlighted the strong performance of the US economy at his last press conference a few days ago.

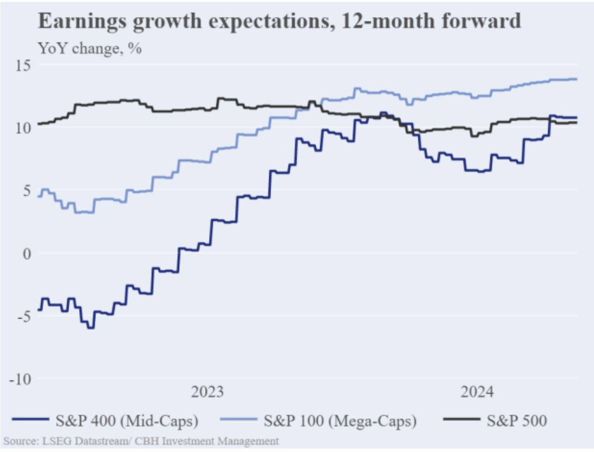
2. **Economic surveys are more pessimistic than hard data.** A weaker-than-expected ISM index should not be extrapolated, although the media tends to report surveys as if they were economic reality.

3. **Employment market data show a gradual normalization** of labor market conditions, rather than a sharp deterioration that would be consistent with a recession. Non-farm payroll grew less than anticipated, but employment is still rising and the unemployment rate remains low. It is also worth noting that July's employment report was affected by Hurricane Beryl and the unemployment rate rose because of an increase in labor supply (immigration, increase in the participation rate) and not because of a sharp drop in demand. Job openings are still at historically strong levels. Wage growth has slowed but remains robust compared to pre-pandemic levels.



4. **Financial conditions have eased** and are no longer a drag to economic growth. Except for the Bank of Japan, we are on the verge of a global easing cycle. However, it is important to note that central banks will not intend to stimulate growth but seek a neutral stance.

5. **US companies are healthy and enjoying strong earnings.** Despite a few disappointments, especially among tech stocks, companies reported good results so far in Q2. Expectations for earnings growth remain strong. S&P 500 earnings are forecasted to grow 10.3% over the next 12 months.



All in all, markets have reacted strongly to a surprising risk-off event, but **the macroeconomic environment has not changed: resilience and normalization**. In this context, we are skeptical about the sharp repricing of monetary policy expectations and we still anticipate the Fed to cut its policy rate by 25 basis points in September (the market is currently pricing 50 bps). In our view, the market's dovish expectations are not warranted by the macro backdrop. Hence, given the sharp move in yields along the curve in the wake of the repricing of the monetary policy path, we expect US yields to retrace some of the recent drop in the coming months. That said, we forecast that volatility will remain elevated as many uncertainties persist.

Geographical Presence

CBH is present in Geneva, Zurich, London, Luxembourg, Israel, Hong Kong, Rio de Janeiro, São Paulo and The Bahamas. Due to its international exposure, it is under the consolidated supervision of the FINMA in Switzerland and its affiliated companies are supervised by the CSSF in Luxembourg, the FCA in the United Kingdom, the Central Bank of The Bahamas, the SFC in Hong Kong and the CVM in Brazil

Geneva
Headquarter
CBH Bank
Bd Emile-Jaques-Dalcroze 7
P.O. Box
1211 Geneva 3, CH
cbhbank.com
t +41 22 839 01 00

Zurich
Branch Office
CBH Bank
Bahnhofstrasse 82
P.O. Box 1213
8021 Zurich, CH
cbhbank.com
t +41 44 218 15 15

Luxembourg
SICAV
1618 Investment Funds
106, route d'Arlon
L-8210 Mamer
Grand Duché de Luxembourg
1618am.com

London
Subsidiary
CBH Wealth UK Limited
2-4 Cork Street, London
W1S 3LG, UK,
cbhbank.com
t +44 207 647 1300

Hong Kong
Subsidiary
CBH Asia Limited
Suite 2001, 20th Floor, K11 ATELIER, 18-24 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong, HK
cbhbank.com
t +852 2869 0801

Nassau
Subsidiary
CBH Bahamas Ltd.
CBH House, East Bay Street
P.O. Box N-1724
Nassau, N.P., Bahamas
cbhbank.com
t +1 242 394 61 61

Rio de Janeiro
Subsidiary
1618 Investimentos
Av. Ataulfo de Paiva, 204 Salas 305 a 308
Leblon, Rio de Janeiro/RJ
CEP: 22440-033, Brazil
1618investimentos.com
t +55 21 3993 6901

São Paulo
1618 Investimentos Subsidiary
Rua Iguatemi, 192
Itaim Bibi, São Paulo -SP
CEP: 01451-010
Brazil
1618investimentos.com
t +55 11 4550 4401

Tel Aviv
Representative Office
CBH Bank
Rehov Tuval 40
Ramat Gan
5252247 Israel
cbhbank.com
t +972 73 793 62 22

Disclaimer

This publication is for information purpose only and does not constitute any offer, inducement, and recommendation by CBH Compagnie Bancaire Helvétique SA or any other members of its group. Particularly, this publication does not constitute a prospectus, and the published information is not to be understood to be an offer of sale of any securities or an investment proposal of any kind.

It is general information based on proprietary knowledge, information furnished by third parties, and publicly accessible sources. It is not solely the result of independent financial research, therefore the legal requirements regarding the independence of financial research do not apply. The information and opinions expressed in this publication were published by CBH Compagnie Bancaire Helvétique SA, as of the date of writing and are subject to change without notice, in particular any prices indicated are current as of the date of this publication, and are also subject to change without notice.

Investments in the asset classes mentioned in this publication may not be suitable for all recipients and may not be available in all countries. This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives.

Professional advice, including tax advice, should be sought if investors are in doubt. The value of investments and the income from them may fall as well as rise and is not guaranteed, therefore they may not get back the original amount invested; the value of an investment may fall suddenly and substantially; past performance is not a guide to future performance; and levels and basis of, and reliefs from, taxation may change from time to time. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment.

Please note that the value of investments and the income from them may fall as well as rise and is not guaranteed, therefore they may not get back the original amount invested; the value of an investment may fall suddenly and substantially; past performance is not a guide to future performance; and levels and basis of, and reliefs from, taxation may change from time to time. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment.

No representation is made with respect to the accuracy and completeness of this publication, and this publication should not be relied on. Possible errors or incompleteness of the information contained in this publication do not constitute grounds for liability. Neither Compagnie Bancaire Helvétique SA nor any other members of its group are liable for the information contained in this publication.

This publication may only be distributed in countries where its distribution is legally permitted by CBH's local entities. This publication is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited.

Important Distribution Information

Switzerland - This publication is distributed by CBH Compagnie Bancaire Helvétique SA, an authorized and regulated entity by the Swiss Financial Market Supervisory Authority FINMA in Switzerland.

Bahamas - This publication is distributed to clients of CBH Bahamas Ltd. and is not intended for distribution to persons designated as a Bahamian citizen or resident for the purposes of the Bahamas Exchange Control Regulations and rules. Thus, it is only intended for persons who are designated or who are deemed non-residents.

Hong-Kong – This publication is distributed by CBH Compagnie Bancaire Helvétique SA, and is distributed by CBH Asia Limited on its own behalf to its clients. CBH Asia Limited is a company licensed with the Hong Kong Securities and Futures Commission (SFC), and registered with the Mandatory Provident Fund Schemes Authority (MPFA) and the Hong Kong Insurance Authority (IA).

UK - This publication is distributed to clients of and by CBH Wealth UK Limited, authorized and regulated in the United Kingdom by the Financial Conduct Authority [FRN 514546]. This document is intended for general information purposes, and not considered as investment research. For full information on CBH Wealth UK Limited communications, please visit our website or speak to your Relationship Manager.

United States - Neither this publication nor any copy thereof may be sent, taken into or distributed in the United States or to any us person.

This publication may contain information obtained from third parties, including ratings, scoring measures, prices and other data. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third- party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

All data as of August 5, 2024
Published on August 6, 2024

Creativity within Excellence

CBH | Compagnie Bancaire Helvétique

Asset Management
Boulevard Emile-Jaques-Dalcroze 7
P.O.Box
CH - 1211 Geneva 3

am@cbhbank.com
www.cbhbank.com