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MARKET COMMENT (As of end of Jan. 2024)

The month of January 2024 was a continuation of the last quarter of 2023, with markets generally still optimistic and well-oriented. A very large majority (75%) of investors are now convinced of a soft-landing scenario in the United States, while the remaining minority believe that the "no landing" scenario is the most plausible.

US GDP figures for the fourth quarter surprised very favorably at a level of 3.3%, while PMI indices rebounded slightly and the University of Michigan index rose strongly. All this is further evidence of the resilience of the American consumer to date. At the same time, the job market also remained robust, with job creation figures continuing to surprise positively.

While inflation in the USA has continued to fall and converge towards the Federal Reserve's target, the overall macroeconomic context is forcing the latter to be patient before embarking on a rate-cutting cycle, as it confirmed at its last meeting. Investors' over-optimistic expectations regarding the number of rate cuts to come were therefore revised downwards, while 10Y rates in the G10 universe rose by an average of 10bps, with the US 10Y yield back above 4%.

Initial corporate earnings releases were mixed and disparate with a modest YoY earnings growth of +1% in 2023. On average, technology stocks surprised on the upside and further boosted their relative weighting in the indices. Although many companies refrained from giving very precise guidance, in a global context which they consider more vague, analysts nevertheless expect earnings growth to be high (+10%) for 2024), especially in the second half of the year. While North American and European equity markets ended the month only marginally higher, with the MSCI World gaining +1.1%, Asian equity markets were much more volatile. Chinese markets fell sharply, still impacted by the real estate crisis but also by flows linked to certain very popular structured products, while the Japanese market continues to progress month after month on the back of reforms and buoyed by the yen.

This "Goldilocks" scenario for the US economy must nonetheless contend with fears of a recession in the European zone, potential contagion of China's problems to its Asian neighbors, higher-than-expected interest rates in 2024 that will continue to weigh on consumer resilience, not to mention the issue of debt, the cost of which continues to swell month after month towards potentially unsustainable levels. It is worth noting that the equity market risk premium is currently below its pre-Covid level, at its lowest level since 2001.

GUILLAUME DUPIN

Chief Investment Officer

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