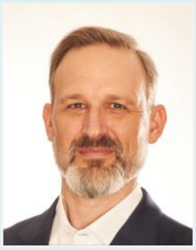
Multi Asset Tactical View

MAY 2024



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Views in brief: The "last mile" of inflation?

The potential for a rapid geopolitical escalation between Israel and Iran was a significant concern for markets in April, leading to a sell-off in equities and a surge in oil prices. Israel's measured response and the avoidance of an outright war helped equity markets recover and relieved the upward pressure on oil prices towards the end of the month. However, inflation data, particularly in the US, continued to exceed expectations, leading to a further reduction in the likelihood of rate cuts in 2024. The interpretation of persistent inflation data appeared to shift in April from a "good news is good news" to once again a "good news is bad news" paradigm, resulting in lower equity and fixed income markets.

In light of these developments, we have tactically adopted a more cautious approach towards equities, particularly in the US, while maintaining our overall constructive stance. Our strongest conviction remains in Japanese equities, where we continue to see opportunities based on attractive valuations and the ongoing transformation towards a capital market more focused on shareholder value. We have also shifted to a quasi-neutral stance on emerging market (EM) equities, partly due to our expectation of continued strength in the US dollar (USD). While we generally maintain a constructive outlook on fixed income, the negative momentum year to date has moderated our overall fixed income positioning further in April. Within government bond markets, we have now moved to a slight underweight position in US Treasuries and maintain a particularly negative view on Japanese government bonds. Additionally, we have become more cautious about high yield and riskier credit exposures following significant spread tightening in recent months. We continue to favour the US dollar due to "safe haven"-considerations and our interest rate expectations in the current environment. Prevailing geopolitical tensions may stoke further price rises in precious metals and commodities in general.

Tactical asset allocation views summary

These tactical views reflect a short-term horizon and the direction and conviction of the team's analysis based on fundamental and systematic indicators. Views are independent of portfolio construction considerations.

	Asset class	Index Return% 1mo	3mo	6mo	Asset Class View (Cautious / Constructive)	Views summary
Broad Asset Classes	Global equities	-3.3	4.0	19.8		We see recent movement as a healthy correction, markets have so far reasonably digested the rate path repricing
	Global sovereign	-2.8	-3.8	3.7		US Inflation data continued to weigh on bonds globally, adding to attractiveness
	Commodities	2.7	4.5	-0.2		Sentiment turned positive after geopolitical escalation, global economy remains robust, ongoing scarcity likely
	Currencies (USD)	1.6	2.2	-0.8		USD appreciated against all G10 currencies in 2024, spreads and sentiment stay supportive for USD
Equities	US equities	-4.1	4.3	21.0		Rate cuts are being priced out, but the US Federal Reserve (Fed) likely to avoid rate hikes; decent earnings season
	Euro zone equities	-1.9	5.8	20.5		Case for a June European Central Bank (ECB) rate cut is strengthening, slow recovery of sentiment data
	Japanese equities	-0.9	8.6	23.1		Mid-term transformation intact, JPY volatility and more uncertain Bank of Japan options weighing
	Emerging markets	0.4	7.8	15.4		China tries to stabilise markets and sentiment while stimulus remains subdued, many other EM doing okay
Fixed Income	US treasuries	-2.3	-2.9	3.5		Price momentum turned negative; new supportive inflation data is needed to reverse recent trend
	UK gilts	-3.1	-2.5	3.7		While still at a high level, the underlying price pressure has eased and should continue to support gilts
	Euro zone sovereign	-1.4	-1.5	4.5		ECB policy is supportive for debt; the key risk is correlation to UST at the moment
	US high yield	-0.9	0.5	9.0		Low supply, carry attractiveness, and recent correction are supportive factors in the medium term
	EM fixed income (USD)	-2.0	1.6	12.6		EM fundamentals are healthy and central bank policies are supportive; vulnerability ties to US policy
Commodities and currencies	Oil	-0.1	11.2	5.1		Trading at the upper bound of the range, but coming drivers season and tight Opec+ supply supportive
	Copper	13.8	17.0	25.6		Supply side remains tight, inventories in China picked up substantially, positioning turning positive
	Gold	2.5	12.1	15.2		Especially Chinese buyers driving gold price higher, gold trading at a new all time high
	USD vs. EUR	1.2	1.4	-0.8		Spreads remain the main driver for USD, sentiment and technical picture improved further for USD
	GBP vs. EUR	-0.1	0.1	-1.9		GBP remains highly cyclical with a strong correlation to market volatility, spreads are supportive for EUR
	USD vs. JPY	4.3	7.4	4.0		JPY hit a 34 year low, support by potential interventions helped to stop further depreciation

KEY: Blue = Equities, Dark Grey = Fixed Income, Orange = Commodities, Light Grey = Currencies

See overleaf for sources.

Source: Bloomberg Finance L.P.; data as of 30 April 2024. Past performance does not predict future returns. Global equities are represented by MSCI AC World Daily TR, Global sovereign by FTSE World Government Bond Index – Developed Markets in USD, Commodities by Bloomberg Commodity Index, Currencies (USD) by Bloomberg Dollar Spot, US equities by S&P 500 Index, Euro-zone equities by MSCI EMU Index (EUR), Japanese equities by TOPIX Index (JPY), Emerging markets by MSCI EM NR, US treasuries by J.P. Morgan US Government Bond Index, UK gilts by J.P. Morgan UK Government Bond Index, Euro-zone sovereign by J.P. Morgan EMU Investment Grade Index, US high yield by Bloomberg U.S. Corporate High Yield, EM fixed income by J.P. Morgan EMBI Plus Index, Oil by S&P GSCI Crude Oil, Copper by BBG Copper TR, Gold by GOLD SPOT $/OZ. For currencies, the US dollar (USD) and the British pound (GBP) are represented by each respective currency vs. the euro (EUR) as well as the USD vs. the Japanese yen (JPY).

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