WEEKLY VIEW

Making history

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Tipping point

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SUMMARY

Major equities indices hit new highs

M&A activity returns to life

US price data key this week as Fed gauges inflation progress

THE WEEK IN REVIEW

The week was marked by blow-out results from the world's leading AI-related chip maker. Seen as a bellwether for the AI boom, the company's guidance was also strong. Together with a small number of tech-related companies, this continued to drive the S&P 500's performance (up 1.7%[i] over the week in USD). Europe's Stoxx 600 reached a record, helped by business surveys showing that the downturn in the euro area economy may be easing. And with a gain of 1.4%[ii] (in yen), Japan's Topix approached highs last seen in 1989. Other Asian markets such as those in Korea and Taiwan also benefited from the enthusiasm surrounding chip makers. A decline in jobless claims for the week ending 16 February and a general reassessment of the outlook for rate cuts pushed short-term US Treasury yields modestly higher over the week. The US dollar index declined last week, while oil prices softened.

QUOTE OF THE WEEK

"Accelerated computing and generative AI have hit the tipping point", the CEO of the world's leading AI-related chip maker said after it reported a 769 percent annual profit rise in its fourth quarter. "Demand is surging".

KEY DATA

Annual inflation in the euro area was confirmed at 2.8% in January, down from 2.9% in December. **S&P Global's composite purchasing manager index (PMI) for the euro area rose to a preliminary 48.9 in February from 47.9 last month**, with services offsetting continued weakness in manufacturing, particularly in Germany. The German Ifo Business Climate Index reached 85.5 in February, improving from the January print of 85.2.

Led by services, the composite PMI for the US declined to 51.4 in February from 52 in January. **The Conference Board Leading Economic Index (LEI) for the US fell by 0.4% in January** to 102.7 compared with a 0.2% decline in December. In the six months to end-January, the LEI declined 3%.

Japanese imports declined an annual 9.6% in January while exports rose 11.9%. S&P Global's PMI for Japanese manufacturers slid to 47.2 in February, its lowest level since August 2020. The composite PMI fell to 50.2.

MARKETS VIEW

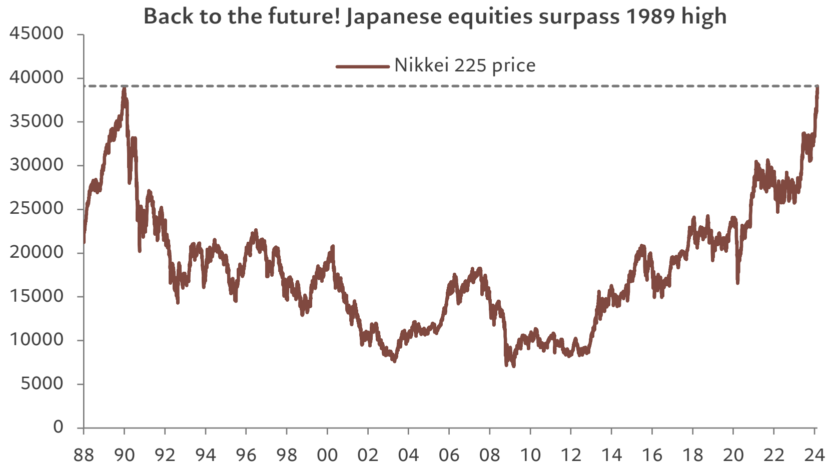
After Fed officials confirmed last week that the US central bank is in no hurry to cut rates, we will pay close attention to the release on Wednesday of core PCE data – the Fed's preferred inflation measure – and jobless claims on Friday. **We expect the first cut to come in June, and market pricing has adjusted to that timeline too, making credit investment more attractive.** We prefer investment grade corporate bonds.

Major equity indices are making new highs, thanks to positive earnings surprises, with the Nikkei 225 passing the record it set in 1989 before Japan's financial bubble burst. **We like Japanese equities**. In China, more direct support is needed to boost confidence in the property sector even after a cut in the 5-year loan prime rate.

A proposed merger between two credit card lenders shows M&A is alive again, and **our theme of seeking out companies that can return money to shareholders** is supported by another finance firm's plans to do just that.

We made it!

Last week, the Nikkei 225 Index finally surpassed its previous all-time high of December 1989. This historic milestone, the subject of a previous Chart of the Week, has been propelled by a weak yen but also by sweeping corporate governance reforms that have renewed interest in the Japanese equity market. Investors seem unbothered by the fact that Japan entered a technical recession in Q4 23 and are instead focusing on listed companies' solid earnings prospects.



Source: Pictet Wealth Management, Bloomberg Finance L.P., 22.02.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	39,131.53	1.3%	3.8%
S&P500*	5,088.80	1.7%	6.7%
NASDAQ Comp*	15,996.82	1.4%	6.6%
MSCI World Small Cap $*	525.04	0.1%	-0.7%
MSCI Europe*	166.91	1.2%	3.9%
MSCI EMU*	161.16	1.8%	5.6%
SMI*	11,496.76	1.6%	3.2%
MSCI China $*	54.43	2.7%	-1.9%
Nikkei*	39,098.68	1.6%	16.8%
CBOE Volatility (VIX)*	13.75	-3.4%	10.4%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.0822	0.5%	-2.0%
GBPUS**	1.2679	0.7%	-0.5%
USDCHF**	0.8810	0.0%	4.7%
USDJPY**	150.54	0.2%	6.8%
USDCNY**	7.1984	0.1%	1.5%
EURCHF**	0.9534	0.5%	2.5%
Gold**	2,035.40	1.1%	-1.3%
Silver**	22.95	-2.0%	-3.6%
Crude Oil**	79.64	0.0%	10.8%
US Investment Grade	3,203.11	0.4%	-1.1%
US High Yield	1,594.61	0.5%	0.3%
EU Investment Grade	275.80	0.3%	-0.6%
EU High Yield	357.22	0.4%	1.4%

Source: Pictet as of 23.02.2024. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. This table may contain information about financial instruments or issuers but does not set out any direct or implied recommendation whatsoever (either general or personalized). YTD stands for year to date. *measured on a non Total Return basis.
** showing mid price numbers.

WHAT TO WATCH THIS WEEK?

MONDAY
US: New Home Sales (Jan)

TUESDAY
Japan: CPI (Jan)
Euro Zone: Money Supply M3 (Jan)

WEDNESDAY
US: GDP (Q4)
US: Pers. Consumption (Q4)
US: Core PCE (Q4)

THURSDAY
Japan: Ind. Production (Jan)
France: CPI (Feb)
France: GDP (Q4)

FRIDAY
Germany: CPI (Feb)
US: Personal Income & Spend (Jan)
US: Jobless Claims (Feb 24)

Glossary of Risks

Commodity risk: The value of commodity-linked instruments can fluctuate substantially due to changes in supply and demand as well as due to political, economic and market events.

Concentration risk: Refers to identifying the risk in a portfolio arising from a concentration in a single asset, counterparty, sector or country.

Counterparty/issuer risk: The risk of losing part or all of an investment due to the insolvency of the issuer of the financial instrument.

Country risk: Country risk should be considered when investing in a foreign country and in particular in emerging markets, e.g. the risk of investing in shares of a foreign company that is exposed to the risk of nationalisation or the inability to repatriate proceeds of an investment due to capital controls.

Credit and default risk: This risk arises when the financial health of an issuer of a fixed-income security deteriorates, leading to the issuer's inability or unwillingness to repay the bond or meet contractual obligations (interest or principal repayments). This can result in a decline in the value of the bonds or render them worthless.

Currency/exchange rate risk: This risk arises when the reference currency differs from the investment currency. Fluctuations in foreign exchange rates directly impact (positively or negatively) the value/price or income of the holdings. Funds that attempt to hedge against currency risk can mitigate the direct impact of currency movements but cannot completely isolate the indirect effect of foreign exchange fluctuations. When investing in structured products, investors may benefit from an embedded hedge of the underlying currency risk that is referred to as a quanto.

Economic risk: The economic cycle and macroeconomic situation of a country, a region or the global economy can have a significant influence on prices of financial instruments.

Emerging market risk: Investing in emerging markets carries a heightened risk profile; liquidity may be less reliable and price volatility can be higher than that experienced in more developed economies, potentially resulting in sudden and significant declines in value. Emerging markets have less sophisticated rules governing the clearing and settlement of transactions and investor protection.

Inflation risk: Inflation risk should be considered in particular when investing in emerging markets or fixed-rate investments. Inflation is defined as the rate at which prices increase in an economy. Inflation can lead to currency depreciation and reduce the real returns of investments and financial instruments.

Interest rate risk: Changes in interest rates usually result in an opposite movement in the value of bonds and other debt instruments (e.g. a rise in interest rates is generally reflected by a fall in bond prices). The longer the maturity of the bond (the time when the principal is due to be repaid), the higher the interest rate risk. This is the commonly referred to as duration risk.

Liquidity risk: When market conditions are unusual or characterised by particularly low volumes, a portfolio can encounter difficulties in valuing and/or trading some of its assets.

Market risk: Financial instruments are subject to price fluctuation/volatility and to political and economic risks which can significantly impact the performance of the financial instrument/portfolio.

Political risk: Countries with unstable political leadership or where politics strongly influence markets and business practices may be subject to greater volatility. Political risk may include potential for currency controls that would disrupt the financial markets in that country.

Sustainability risk: The risk arising from any environmental, social or governance events or conditions that, were they to occur, could have a material negative impact on the value of the investment. Specific ESG/sustainability risks vary for each compartment and asset class and include, but are not limited to, the following:

***Climate transition risk:** This refers to the risk associated with the exposure to issuers that may be negatively affected by the transition to a low-carbon economy due to their involvement in fossil fuel exploration, production, processing, trading and sale, or their dependency on carbon-intensive materials, processes, products and services. Transition risk may result from several factors, including rising costs and/or the limitation of greenhouse gas emissions, energy-efficiency requirements, the reduction in fossil fuel demand or the shift to alternative energy sources due to policy, regulatory, technological and market demand changes. Transition risks can negatively affect the value of investments by impairing assets or revenues, or by increasing liabilities, capital expenditures, operating and financing costs.

***Climate physical risk:** This refers to the risk associated with the exposure to issuers that may be negatively affected by the physical impact of climate change. Physical risk includes acute risks arising from extreme weather events such as storms, floods, droughts, fires or heatwaves, and chronic risks from gradual climate changes, such as changing rainfall patterns, rising sea levels, ocean acidification, and biodiversity loss. Physical risks may negatively affect the value of investments by impairing assets, productivity or revenues, or by increasing liabilities, capital expenditures, operating and financing costs.

***Environmental risk:** This refers to the risk associated with the exposure to issuers that may be affected by environmental degradation and/or the depletion of natural resources. Environmental risk can result from air pollution, water pollution, waste generation, the depletion of freshwater and marine resources, the loss of biodiversity or damages to ecosystems. Environmental risks can negatively affect the value of investments by impairing assets, productivity or revenues, or by increasing liabilities, capital expenditures, operating and financing costs.

***Social risk:** This refers to the risk associated with the exposure to issuers that may be negatively affected by social factors such as poor labour standards, human rights violations, damages to public health, data privacy breaches or increased inequalities. Social risks can negatively affect the value of investments by impairing assets, productivity or revenues, or by increasing liabilities, capital expenditures, operating and financing costs.

***Governance risk:** This refers to the risk associated with issuers that may be negatively affected by weak governance structures. For companies, governance risk can result from malfunctioning boards, inadequate remuneration structures, abuses of minority shareholders or bondholders' rights, deficient controls, aggressive tax planning and accounting practices or lack of business ethics. For countries, governance risk can stem from governmental instability, bribery and corruption, privacy breaches and lack of judicial independence. Governance risk may negatively affect the value of investments due to poor strategic decisions, conflicts of interest, reputational damages, increased liabilities or loss of investor confidence.

Our investments take into account Sustainability Risks, by integrating in the investment process Environmental Social and Corporate Governance (ESG) factors, based on proprietary and third-party research, to evaluate both investment risks and opportunities. Consequent impacts to the occurrence of Sustainability Risks can be many and varied according to a specific risk, region or asset class. Generally, when a Sustainability Risk occurs for an asset, there will be a negative impact and potentially a partial or total loss of its value. However, the integration of Sustainability Risks analysis should mitigate the impact of such risks on the value of the investments and could help enhance long-term risk adjusted returns for investor.

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i) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, S&P 500 Composite (net 12-month return in USD): 2019, 31.5%; 2020, 18.4%; 2021, 28.7%; 2022, -18.1%; 2023, 26.3%.

ii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, TOPIX (net 12-month return in JPY): 2019, 15.2%; 2020, 4.8%; 2021, 10.4%; 2022, -5.1%; 2023, 25.1%