WEEKLY VIEW

More of the same?

22 April 2024

The pivot from the pivot

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SUMMARY

Fed pivots again, to high-for-longer stance

Tech titans report; outlooks key for equities

Iran, Israel appear to de-escalate but uncertainty remains

THE WEEK IN REVIEW

Fading prospects for near-term US rate cuts and heightened tensions in the Middle East were factors in the rise in volatility gauges last week. But perhaps the most striking feature was the s**ell-off in some prominent mega-cap tech stocks ahead of Q1 reports this week**. The S&P 500's 3%[i] drop over the week (in USD) was outstripped by the 5.5% fall in the Nasdaq[ii]. As in the previous week, greater confidence that rate cuts are coming in June and lesser reliance on tech meant that the Stoxx Europe 600[ii] limited its loss to 1.1% (in euros). But the continued rise in the USD shook EM indexes and the strong recent rally in Japanese equities was brought to a halt. Government bond yields rose—more so in Europe than the US. **Corporate bonds had a hard time**, with spreads widening on US noninvestment-grade bonds. **The Japanese yen wilted further against the US dollar**, as did other Asian currencies, raising the chance of official intervention. Oil prices fell as markets played down the risk of Middle East escalation, while gold again defied the rise in Treasury yields to produce a positive return.

QUOTE OF THE WEEK

"The recent data have clearly not given us greater confidence, and instead indicate that it's likely to take longer than expected to achieve that confidence," Fed Chair Jay Powell, referencing inflation, said on Tuesday.

KEY DATA

Retail sales in the US rose by 0.7% in March, down from a revised figure of 0.9% in February, but still higher than expected. US retail spending has increased in seven of the past 10 months.

In the UK, wage growth was higher than expected in the three months to February and unemployment rose, making the Bank of England's job harder.

According to official figures, **Chinese GDP rose at an annual rate of 5.3% in Q1**, higher than expected, with industrial production up 6.1%. Retail sales rose at an annual 4.7% in Q1 and fixed-asset investment by 4.5%. But property investment fell at an annual rate of 9.5% in Q1.

MARKET VIEW

With the Fed's pivot to a high-for-longer stance, away from its previous pivot to an easier posture, a policy divergence looms between leading central banks – **fuel for volatility in foreign exchange and fixed income markets.**

This week, data on core PCE, the Fed's preferred inflation measure, will be **key for gauging the timing and pace of Fed cuts**. PMI data in developed markets will show whether a manufacturing recovery is materialising.

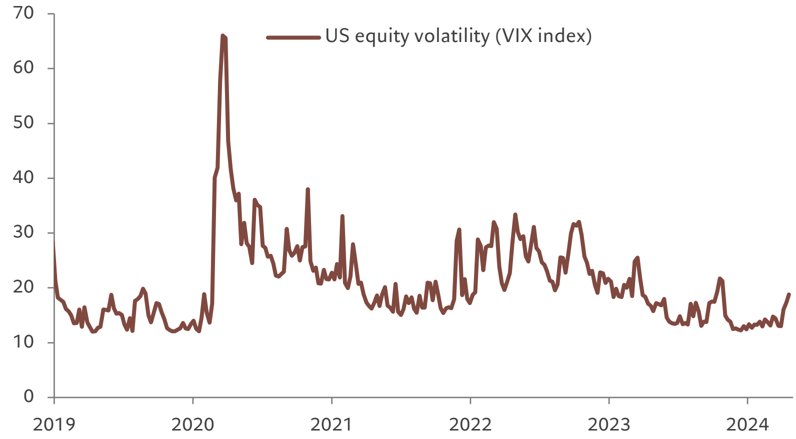
Weak outlooks from some tech companies last week compounded a sell-off in mega caps, putting the onus on big names reporting this week to **revise up guidance if equity markets are to advance**, as valuations are high.

On the geopolitical front, Iran and Israel appear to be looking for a de-escalation of tensions. However, a positive correlation between gold, oil, and copper is unusual and means markets are sending conflicting messages, pointing to **uncertainty and volatility ahead**. **We are overweight gold.** The US House of Representatives passed a USD95 bn aid package for Ukraine, Israel and Taiwan. In India, voting has begun in elections in a process due to last until end-April.

Volatility surge

After a long period of calm, there was a notable surge in US equity volatility last week as escalating tensions between Israel and Iran prompted investors to seek safer assets. Persistently high interest rates and fading expectations for Fed rate cuts have contributed to downward pressure on equity markets, which could last for a while yet.

Equity volatility picks up



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 19.04.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%%
Dow Jones*	37,986.40	0.01%	0.79%
S&P500*	4,967.23	-3.05%	4.14%
NASDAQ Comp*	15,282.01	-5.52%	1.80%
MSCI World Small Cap $*	513.45	-2.55%	-2.86%
MSCI Europe*	167.45	-1.19%	4.24%
MSCI EMU*	162.69	-0.96%	6.56%
SMI*	11,296.40	-0.73%	1.42%
MSCI China $*	53.45	-1.88%	-3.64%
Nikkei*	37,068.35	-6.21%	10.77%
CBOE Volatility (VIX)*	18.71	8.09%	50.28%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.07	0.37%	-3.40%
GBPUS**	1.24	-0.02%	-2.47%
USDCHF**	0.91	-0.16%	8.04%
USDJPY**	154.60	1.08%	9.66%
USDCNY**	7.24	0.04%	2.09%
EURCHF**	0.97	0.21%	4.36%
Gold**	2391.93	2.03%	15.95%
Silver**	28.69	2.91%	20.57%
Crude Oil**	83.79	-3.09%	16.55%
US Investment Grade	3160.96	-0.68%	-2.39%
US High Yield	1586.64	-0.58%	-0.21%
EU Investment Grade	276.34	-0.79%	-0.36%
EU High Yield	357.29	-0.33%	1.37%
Swiss Bond Index	127.86	-0.30%	0.46%

Source: Pictet as of 19.04.2024. 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
Eurozone: Consumer Confidence (April, preliminary)

TUESDAY
Japan: Jibun Bank PMI (April, preliminary)
Eurozone: HCOB PMI (April, preliminary)
UK: S&P Global PMI (April, preliminary)
USA: S&P Global PMI (April, preliminary)
USA: New Home Sales (March)

WEDNESDAY
Germany: IFO Survey (April)
USA: Durable Goods Orders (March, preliminary)
Bank of Indonesia Key Rate Decision and Briefing

THURSDAY
USA: GDP (1Q, advanced)
USA: Core PCE Price Index (1Q, advanced)

FRIDAY
Bank of Japan Monetary Policy Decision
Japan: Tokyo CPI (April)
USA: Personal Income and Spending (March)

Glossary of Risks

Derivative and Leverage risks: Investing in derivative instruments or leveraging an investment could potentially lead to a high degree of financial risk. A movement in the price of an underlying security, investment, interest rate or benchmark may result in proportionally larger movement in the price of the derivative instrument or investment and losses may in certain circumstances exceed the cost of the investment. In addition, there is a potential risk of default by a counterparty and the risk that that these products may not be liquid.

Commodity risk: The value of commodity linked instruments may fluctuate substantially due to changes in supply and demand and/or due to political, economic and market events.

Company Specific risk: Company-specific risk (or unsystematic risk) is specific to an individual company. For example, the stock market or the share prices of comparable companies may rise yet certain company-specific news can have a negative influence on the share price. This company-specific news can include negative events such as strikes, management crises and poor annual results as well as positive news such as the winning of a major order, innovative products and a favorable market company may affect the fluctuation in the share price (volatility) and cannot be foreseen.

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

Counterparty/issuer risk: Risk to lose part or all of an investment due to insolvency of the issuer of the financial instrument. This risk is particularly relevant for structured products, derivatives and certain ETFs (Exchange traded Funds).

Country risk: Country risk should be considered when investing in a foreign country and in particular in emerging markets. E.g. investment in the shares of a foreign company which is subject to nationalization or the inability to repatriate proceeds of an investment due to capital controls.

Credit and default risk: A decline in the financial health of an issuer of a fixed income security can lead to an inability or unwillingness to repay a bond or meet a contractual obligation (interest or principal repayment). This causes the value of its bonds to fall or become worthless.

Currency/exchange rate risk: Where the reference currency is different from the currency of the investment, foreign exchange rate movements will directly impact (positively or negatively) the value/price or income of the holdings. Funds which try to hedge to a reference currency can mitigate the direct impact of currency movements but cannot completely isolate the indirect effect of foreign exchange movements. When investing in Structured Product, investors may benefit from an embedded hedge of the underlying currency risk called 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: There is a greater risk associated with emerging markets; liquidity may be less reliable and price volatility may be higher than that experienced in more developed economies which may result in sudden and large falls in value. Emerging markets have less sophisticated rules regarding clearing and settlement of transactions and investors' protection.

High yield bond risk: Portfolio with high exposures to non-investment grade debt instruments (S&P/Moody's Credit Rating: BB+ and below) have a higher exposure to Credit and Default risk.

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 may cause a currency to depreciate and reduce the real returns of investments and financial instruments.

Interest rate risk: Changes in interest rates will usually result in the values of bonds and other debt instruments moving in the opposite direction (e.g. a rise in interest rates likely leads to fall in bond prices). The longer the maturity of the bond (which is the time when its principal is due to be reimbursed) the higher the interest rate risk. This is the commonly referred to as duration risk.

Liquidity risk: When market conditions are unusual or a market is characterized by particularly low volumes, the portfolio may encounter difficulties in valuing and/or trading some of its assets. For Funds there might be liquidity constraints where subscriptions and redemptions are not available daily or where lockups apply, meaning that investors are subject to market risk during interim pricing periods and may not be able to access funds on short notice. For Structured Products, liquidity risk could materialize before maturity as investors may have difficulties selling the product on the secondary market. The investor may receive less than his initial investment if the product is sold on the secondary market (in case of unfavorable evolution of the parameters impacting the product market value).

Market risk: Financial instruments are subject to price fluctuation/volatility and to political and economic risks which may have significant impact on the financial instrument/portfolio's performance.

Political risk: Countries where political leadership is either unstable or where it exerts a very strong influence on markets and business practices may be subject to greater volatility. Political risk may include potential for currency controls which would disrupt the financial markets within that country.

Reinvestment risk: The risk that coupons from a bond will not be reinvested at the same interest rate as when the bond was issued. This risk is related to the fluctuations of interest rates, where an increase in interest rates will be positive for the investor and a decrease unfavorable.

Risks linked to costs/charges: All investments incur various charges whether the investment return are positive or negative. When investment return are very low or negative, these charges can significantly impact the overall return.

Smaller Company risk: Securities of smaller companies may be less liquid than larger companies. Securities of smaller companies may be more price volatile and involve greater risk.

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

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

Climate Physical risk: The risk posed by the exposure to issuers that may potentially be negatively affected by the physical impacts of climate change.

Physical risk includes acute risks arising from extreme weather events such as storms, floods, droughts, fires or heatwaves, and chronic risks arising from gradual changes in the climate, 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: The risk posed by the exposure to issuers that may potentially be affected by environmental degradation and/or depletion of natural resources. Environmental risk may result from air pollution, water pollution, waste generation, depletion of freshwater and marine resources, loss of biodiversity or damages to ecosystems. Environmental risks may negatively affect the value of investments by impairing assets, productivity or revenues, or by increasing liabilities, capital expenditures, operating and financing costs.

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

Governance risk: The risk posed by the exposure to issuers that may potentially be negatively affected by weak governance structures. For companies, governance risk may 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 may include 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.

Special Risks in Securities Trading: Please always refer to the following publication of the Swiss Banking Association

Funds: Before investing, please always read the relevant Fund documentation (e.g. prospectus, simplified prospectus and any available key information document ("KIDs")) containing information about the Fund and its specific risks. These documents can be obtained free of charge upon request.

Structured Products: The value of structured products may depend not only on the performance of the underlying asset, but also on the credit rating of the issuer. The investor is exposed to the risk of insolvency of the issuer/guarantor (counterparty). Before investing, please always read the relevant product documentation (issuance program, final terms/term sheet, prospectus, simplified prospectus) containing information about the product, the prospects for profits and losses and the risks. Structured products are not collective investment schemes within the mean of the Swiss Federal Act on Collective Investment Schemes (CISA) and are therefore not subject to the regulation of the CISA or the supervision of the Swiss Financial Market Supervision Authority FINMA.

Risks of Private Equity: Private Equity investments are often made at an early stage or turning point of a company's development, when the chances of success are uncertain and the risks therefore high. Thus, the valuation of a Private Equity investment is very volatile. The company's development may be highly dependent on the role of certain key persons in the management, development or restructuring of the company's business activities. The performance of a Private Equity investment may be affected by a change in any such key person, and such key persons may face conflicts of interests. Business and financial projections may not always be reliable. The company is usually not bound to follow a given strategy or report to investors on its actions and decisions; investors have no rights or powers to take part in the management of the company. The ability of the company to obtain financing and the financing instruments chosen (which may involve significant leverage) often have a significant impact on the performance of the Private Equity investment.

Risks of Private Real Estate: Local environmental, economic, political and legal conditions have a significant impact on the ability to sell, build, lease or otherwise use a property and on operating income and expenses (e.g. infrastructure and transportation in the area, overbuilding, unemployment rate, credit conditions and interest rates, zoning laws and other building regulations, real property taxes, natural disasters). The forms of real estate ownership may vary depending on the relevant jurisdiction; thus, an investment in Private Real Estate may not entitle the investor to full and unlimited ownership rights to the relevant real estate. Some countries may have regulations that limit or preclude foreign investments in real estate. Local conditions may vary substantially during the time of investment and their impact depends on the type of property (e.g. residential, commercial, unbuilt land or underdeveloped real property). Correction of defects or improvements on the property may be needed with significant charges attached, which can be unpredictable at the time of the initial investment. Real estate properties may be subject to certain losses of a catastrophic nature (e.g. fire, flood, earthquake, terrorist attack); investors have no assurance that such a loss would be covered by an insurance policy.

Risks of Private Debt: In order to achieve investment objectives, investments may include debt instruments. As a general rule the lender bears the risk of default by the borrower and of the underlying asset securing (or financed through) the loan depreciating in value. On the other hand, the lender may also bear the risk of a prepayment, i.e. the risk that the borrower repays the loan earlier than expected, potentially reducing the lender's income. Private Debt investments are particularly sensitive to credit conditions and interest rates on the markets and thus to inflation and deflation (among other factors).

This glossary does not describe all risks inherent to investments in financial instruments but it only provides basic information about what we perceive to be the most relevant and material risks. You should never enter into any investment transaction if you don't understand all the risks related to the specific transaction and its impact on your portfolio.

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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, Nasdaq Composite (net 12-month return in USD): 2019, 36.7%; 2020, 44.9%; 2021, 22.2%; 2022, -32.5%; 2023, 44.6%.

iii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, STOXX Europe 600 (net 12-month return in EUR): 2019, 27.6%; 2020, -1.5%; 2021, 25.5%; 2022, -10.1%; 2023, 16.5%.