SERENIS

FAMILY CAPITAL

Monthly Markets Chronicles

September 2024

Strategy and anticipation in a turbulent world

The month of September 2024 was marked by intense economic and geopolitical news. The Fed continues to attract attention, tensions around Israel escalate, and the US presidential elections are in full swing

However, it is China that occupies the heart of this new Chronicle. Beijing's recent stimulus measures have sparked lively debate within our Investment Committee. Our Thinking Forward section addresses this topic, offering a perspective that we feel is too often overlooked.

In this environment, our strategy remains constant: observe, anticipate and keep a flexible plan of action. It is this pragmatic approach that has guided us, particularly in our recent decisions on the Japan theme - a good example of our ability to identify opportunities despite an uncertain landscape.

More than ever, it's imperative to keep a critical eye and prepare for all eventualities, even when media noise can sometimes distract from essential signals.

Happy reading and may this month of October shed a little more light on the trajectories to follow.

Comments of the month of September

While many were calling for caution during September, the markets once again demonstrated their resilience, posting perfectly reasonable performances to end the 3rd quarter of the year in the green. Following the FED's announcement of a 50-basis point rate cut, investors reacted positively, with significant flows into equity markets. With a year-to-date performance of over 20%, the S&P500 has confirmed its robustness.

The surprise of the month - and we'll come back to this later - came from China, with its announcements of massive support for its economy, which, it should be remembered, is (was?) in a pronounced state of lethargy. The rebound of more than 20% in just a few days, just before the week-long national holiday, has given the main index a new lease of life.

Equity Indexes	Value	MTD	2024
S&P 500 (USA)	5 762	2.0%	20.8%
Nasdaq 100 (USA)	20 061	2.5%	19.2%
Euro Stoxx 50 (Europe)	5 000	0.9%	10.6%
SMI (Switzerland)	12 169	-2.2%	9.3%
Nikkei 225 (Japan)	37 920	-1.9%	13.3%
CSI 300 (China)	4 018	21.0%	17.1%
Currencies	**Value**	**MTT**	**2024**
EUR/USD	1.114	0.8%	0.9%
USD/CHF	0.846	-0.5%	0.5
EUR/CHF	0.942	0.3%	1.4%
GBP/USD	1.338	1.9%	5.1%
USD/JPY	143.63	-1.7%	1.8%
Bond Indexes		**MTD**	**2024**
Government USA		1.2%	3.8%
US Corporate IG		1.8%	5.3%
US Corporate HY		1.6%	8.0%
Government UE		1.2%	2.1%
UE Corporate IG		1.2%	2.5%
UE Corporate HY		0.9%	6.3%
Other Asset Classes	**Value**	**MTD**	**2024**
Gold	2 635	5.2%	27.7%
Brent Crude	72	-8.9%	-6.8%
Bitcoin	63 785	8.0%	52.1%
Rates / Indicators	**Value**	**∆ MTD**	**∆ 2024**
US 10 years rate	3.78%	-0.12%	-0.10%
GER 10 years rate	2.12%	-0.18%	0.10%
US Unemployment	4.2%	-0.10%	0.5%
Volatility Index (VIX)	16.7	1.7	4.3

However, we must remain cautious about the immediate future of the stock markets. Admittedly, most US economic indicators are promising, but current levels are, let's face it, very high in a global politico-economic environment full of uncertainty. Against this backdrop, the bond sector should do well, and yields should continue to be attractive, playing the capital protection role it has so often enjoyed.

Tensions in the Middle East will undoubtedly influence price trends over the coming months, and oil could experience a spectacular rebound, reviving (if dead) the specter of a definite economic slowdown, or even recession. This risk should not be underestimated and, if it materializes, could cause the indices to tip sharply and rapidly.

This is also reflected in the significant positive flows into crypto-currencies, particularly Bitcoin. This month, investment in Bitcoin ETFs has far outstripped the mining (creation) of new Bitcoin. In the event of a victory of D. Trump, a new super cycle could begin.

Our current positioning

In line with our cautious approach and the search for serenity, our Investment Committee has decided to maintain its underweight in the US and European equity markets, albeit for different reasons. On the one hand, the US market has reached very high levels, with economic activity still positive, but rather on a negative slope, and on the other, the European markets are facing structural and political difficulties too great to ignore.

There have been heated discussions about emerging markets, particularly in the context of China's interventionist stance. Our neutral stance reflects a certain caution and restraint regarding the long-term effects of such strong measures taken in a context that lent itself to them. It is likely that China's leaders are speculating on a diversionary effect in order to take advantage of the instability in the Middle East, as well as in the United States with elections fast approaching.

We therefore prefer to invest through emerging market ETFs rather than directly in a specific country. While this diversification effect may attenuate any exceptional returns linked to China's decisions, from our point of view, the reduction in risk, or volatility, brings more advantages than disadvantages. It should also be remembered that the combined weight of China and India in our benchmark EM ETF exceeds 50%.

The situation on the bond markets seems more stable in the current environment, and we are maintaining our overweight in sovereign and high-grade bonds. Indeed, we believe that these asset classes can generate above-average returns over the coming months and continue to benefit from decorrelation with equity markets, as we have seen in the past. Institutional investor flows into bond markets appear to be picking up again, as are the very substantial flows into money markets. We therefore conclude that this search for stability will provide welcome additional yield in these uncertain times.

As far as high-yield bonds are concerned, although this asset class has outperformed historical yields since the start of the year, our neutral position reflects our view of possible more difficult economic developments. Indeed, the risk of bankruptcy on the one hand, and of refinancing problems for lower-rated companies on the other, has increased in recent months, even as falling rates help in the renewal of short-term debt. As a result, a position in these bonds seems attractive to us as part of a balanced portfolio, but we prefer other alternatives within this normalized risk/return framework.

In terms of our strategic investments, we have seen some excellent performances in September, particularly in gold and uranium. Commodities are recovering, and investor interest is growing not only in our two opportunities, but also in silver and oil. This interest, which we can describe as “normal” in the current context, clearly demonstrates the complexity in which the traditional markets currently find themselves. Of course, geopolitical tensions are helping to drive the trend upwards, and this is set to continue over the coming months.

The evolution of the gold price confirms our view that the metal has entered a new super cycle. What's more, the divergence between the price of gold and that of Bitcoin is indicative of a certain search for tangible safe-haven assets, and both governments and individuals continue to accumulate strategic reserves.

Uranium is one to watch very closely, as many signs point to a very promising future. There could be a spectacular development in the near future, given the growing demand for energy and the inability of supply to keep pace.

Finally, our investment committee has decided to close the Japanese market in yen theme from our strategic ideas. The lively discussions that led to this adjustment demonstrated the complexity of this market and theme. Indeed, the recent increase in Japanese market volatility and several key factors (yen level, BoJ interest rate policies, future elections, etc.) are worth watching, but the upside potential remains possible and interesting, depending on each investor's risk tolerance.

This measure is in line with our philosophy of precaution and anticipation and demonstrates the robustness of our committee's approach. The yen-denominated Japanese equity theme has generated a fine performance since its launch, and its removal from our strategic investments confirms our cautious vision and intention to reduce volatility in our portfolio.

« Core » Portfolio

	% SAA		%TAA
Cash	5%	=	**5.0%**
Fixed Income	45%	↗	**47.5%**
Investment Grade	20%	↗	22.5%
Sovereign Debt	15%	↗	17.5%
High Yield	10%	=	10.0%
Equities	50%	↙	**45.0%**
US markets	30%	↙	27.5%
European markets	15%	↙	12.5%
Emerging markets	5%	=	5.0%

« Strategic focus » investments

Themes	%	Since
Gold	5.0%	29.12.2023
Uranium	2.5%	29.12.2023
Defense	2.5%	30.04.2024

Balanced USD Portfolio

Thinking forward: China, its past, present and future

"Socialism with Chinese characteristics has entered a new era. We must firmly maintain our ideological leadership and never allow Western values to lead us astray".

XiJinping
(Speech at the 19th Congress of the Communist Party of China, 2017)

In July 2021, the Chinese government took the radical step of banning private tutoring companies from making a profit. This multi-billion-dollar sector played an essential role in the lives of Chinese families, particularly in preparing children for school and university examinations. The government, seeking to ease the pressure on students and families, struck a blow by banning this lucrative business. This decision proved costly for many international investors who had seen the sector as an opportunity to be seized. Companies like New Oriental Education, once valued at over $20 billion, saw their market capitalization plummet by over 90% in just a few months. This measure of an industry that was once considered a global leader has highlighted the Chinese government's growing influence in the economy, its willingness to reshape entire sectors according to ideological priorities, and the risks this poses for international investors.

This intervention reflects the broader evolution of China under Xi Jinping's presidency, characterized by increased centralization of power and steady state intervention in the economy. Since coming to power in 2012, Xi Jinping has consolidated his control over the Chinese Communist Party (CCP) and the state apparatus, imposing an authoritarian nationalist vision. One of his most symbolic decisions was the 2018 abolition of presidential term limits, allowing Xi to remain in power indefinitely. This concentration of power put an end to the tradition of collective governance established by Deng Xiaoping after the tumultuous period of Mao Zedong.

This break marks a turning point in Chinese politics and should have been a warning to foreign investors. Contrary to the initial expectations of international observers, who saw Xi as a reformer ready to open China up further to the West, his arrival has in fact marked a strengthening of state authority. One of the central features of this new era is a return to Marxist-Leninist fundamentalism. Since coming to power at the end of 2012, Xi has reaffirmed the ideological principles of the Communist Party. To many investors, this sounds so old-fashioned as to be almost impossible to integrate with the image of a modern, ambitious emerging power. When historian Stephen Kotkin had access to the minutes of the politburo meetings under Stalin, he quickly realized that "Stalin and the Soviet leaders around him were deeply communist".

It's important to integrate into our analysis that Xi's actions are not simply opportunistic political maneuvers, but part of an ideological continuum. His governance aims to strengthen state control over the economy and society, through a return to the Party's ideological roots, while using modern tools of surveillance and repression to maintain its authority.

Another striking example of this dynamic is the collapse of Evergrande in 2021. The company, one of the largest in China's real estate sector, found itself on the brink of bankruptcy after accumulating more than $300 billion in debt due to rampant real estate speculation. For years, Evergrande had financed massive real estate projects by borrowing heavily, betting on a steady demand for housing in major cities. When the company began defaulting on its obligations, many thought the state would step in to prevent a collapse that could destabilize the entire Chinese real estate sector, representing nearly 30% of the country's GDP.

However, the Chinese government surprised everyone by choosing not to rescue Evergrande directly, marking a change of direction in its handling of economic crises. Instead, Beijing allowed the company to go bankrupt, illustrating its desire to correct the excesses of the real estate sector and limit systemic risks. This choice has caused massive disruption in the sector, exposing millions of citizens who have already paid for housing that will probably never be delivered to them. The handling of this crisis demonstrates Xi Jinping's intention to curb real estate speculation and rebalance growth, but it has also considerably eroded investor and consumer confidence.

Evergrande is part of a broader strategy of increased regulation of key sectors such as real estate, finance and technology. Xi Jinping is seeking to strengthen the resilience of the Chinese economy in the face of excesses and avoid the formation of financial bubbles that could threaten the country's stability. However, this strategy is not without consequences: tighter regulation, combined with increased political centralization, has dampened economic momentum in several sectors, contributing to an erosion of foreign investor confidence. The treatment meted out to Jack Ma, founder of Ali Baba, would also have been a perfect example of this strategy.

At the same time, tensions between China and the United States have intensified, particularly in the technological field. Telecoms giant Huawei has become the symbol of this tug-of-war. In 2019, the company was placed on the U.S. Entity List, a blacklist limiting its access to American technologies. This decision, part of a broader strategy to contain China's technological rise, has severely affected Huawei's ability to source critical components, notably for its smartphones and networking equipment. As a result, the company has lost international market share, underlining China's technological dependence on the West.

In response to these sanctions, China has stepped up its efforts to develop its technological autonomy. In 2020, Beijing announced a colossal $1.4 trillion investment over six years in next-generation technologies, including semiconductors, to reduce its dependence on foreign imports. The aim is to strengthen local innovation and prevent China from falling into the "middle-income trap", where a country remains stuck at one level of economic development without being able to achieve advanced economy status.

However, these challenges are not the only ones facing the PRC, and perhaps not the most important.

It faces a major demographic challenge: the risk of growing old before becoming rich. The one-child policy, in place since 1979 and relaxed too late in 2016, has led to a rapidly ageing population, with a growing proportion of elderly people and a shrinking workforce. This imbalance is putting increasing pressure on the pension system and healthcare services, while reducing productivity and curbing domestic demand, a key driver of economic growth. An aging population tends to consume less, slowing the economic momentum needed to transition to a more advanced model.

The fall in China's population, which declined for the first time in 2022, with a net loss of 850,000 people, marks a historic turning point. This brings to an end decades of population growth that had fueled cheap labor and contributed to the country's rapid rise. By 2050, the working population could fall by almost 20%, leaving China with an alarming dependency ratio, where fewer and fewer workers will have to support a growing number of retirees.

Measures to stimulate the birth rate, such as tax incentives and subsidies, are slow to produce concrete results. Given the slowness with which such policies influence demographic behavior, it will probably take at least a generation before we see a significant impact. This time lag further complicates the situation, as a rapidly ageing population requires immediate responses to avoid a prolonged decline in the workforce and economic growth. If China fails to adjust its development model quickly enough, it risks aging before becoming truly wealthy, jeopardizing its economic future and increasing uncertainty for foreign investors.

Faced with growing demographic, economic and geopolitical challenges, investors need to approach the Chinese market with caution and discernment, broadening their analysis grid. Under Xi Jinping, economic decisions are increasingly influenced by ideology, making certain sectors unpredictable. However, opportunities remain in areas such as green technologies and infrastructure, supported by massive state investment. Although China has enjoyed a favorable development context over the past few decades, returns for foreign investors have not always lived up to expectations.

As China undergoes a period of transformation and new challenges, it is essential to reassess investment strategies in light of increased risks and long-term opportunities. China remains a key player on the world stage, and those able to navigate this complex environment may yet find significant growth potential.

Food for thoughts

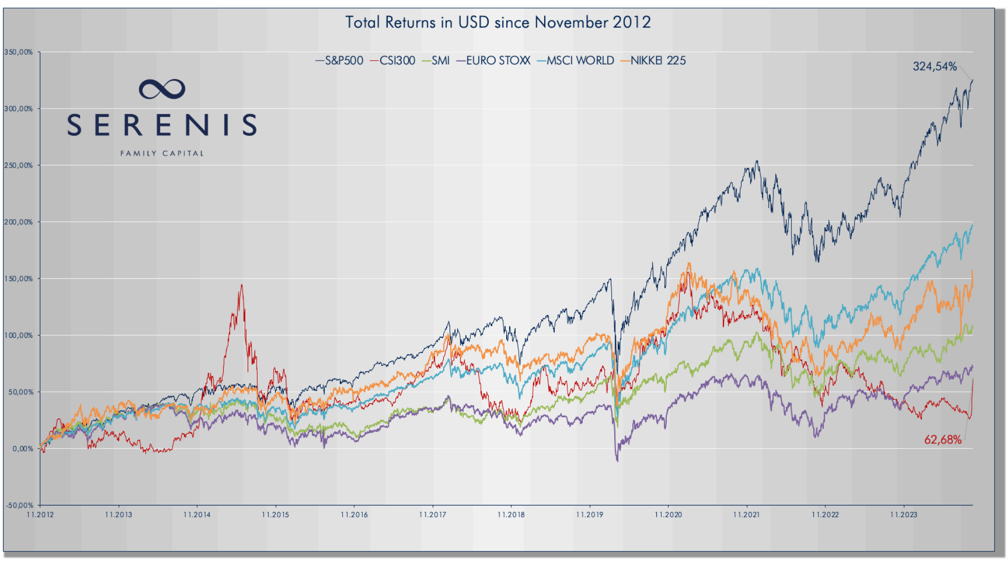
A lost decade

To put the topic of China back into the investment context, let's compare the world's major indices to see how they have performed over a 12-year period. Our observation takes into account the main indices: the S&P500, the EuroStoxx 50, the Nikkei 225, the SMI and the MSCI World. Since November 2012, the date of the investiture of Xi Jinping, the US index has gained 325.8%, topping the ranking. Next in line is the MSCI World with 196.93%, followed by the Nikkei 225 with 142.6%, the SMI with 106.30%, the EuroStoxx 50 with 71.59% and, last but not least, the CSI 300 with 62.68%. It should be noted that the effect of the interventionist measures announced on September 24 greatly improved the performance of the Chinese market, which stood at just 29.47% at the close of September 23.

Despite the strong rebound of the Chinese stock markets in the last few sessions of September, the performance posted is disappointing, particularly for a country whose GDP growth has until recently far outstripped that of the developed world. During this period, the risk/return ratio was nothing short of disappointing.

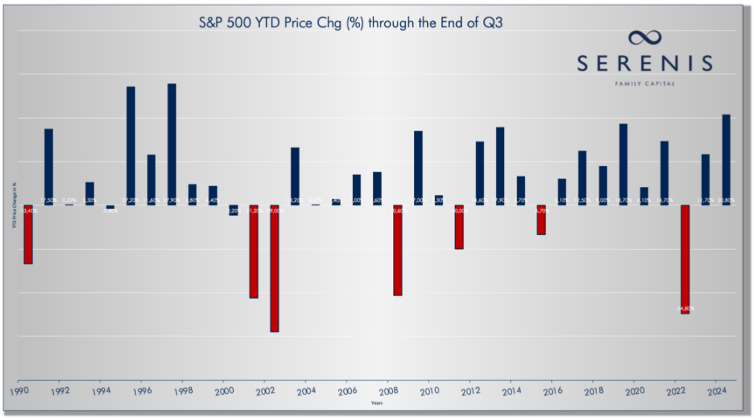
This month, we invite you to read " *The Red Emperor: Xi Jinping and His New China* ", which explores Xi Jinping's rise to power and his transformation of China into an increasingly authoritarian and centralized nation. The book examines Xi Jinping's political strategy, his consolidation of power within the Communist Party, and how he has shaped Chinese domestic and foreign policy. The author also analyzes Xi Jinping's ambitions to redefine China's position on the world stage, while exploring the consequences of his regime for individual freedoms and the country's economy.

[*The Red Emperor : Xi Jinping and His New China, Michael Sheridan*]

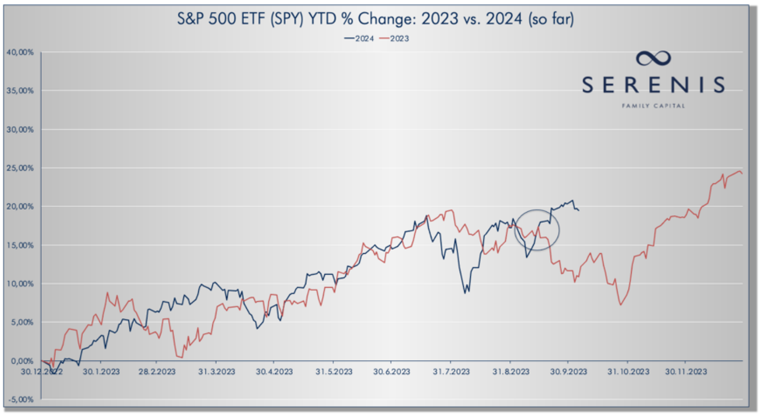


Three charts :

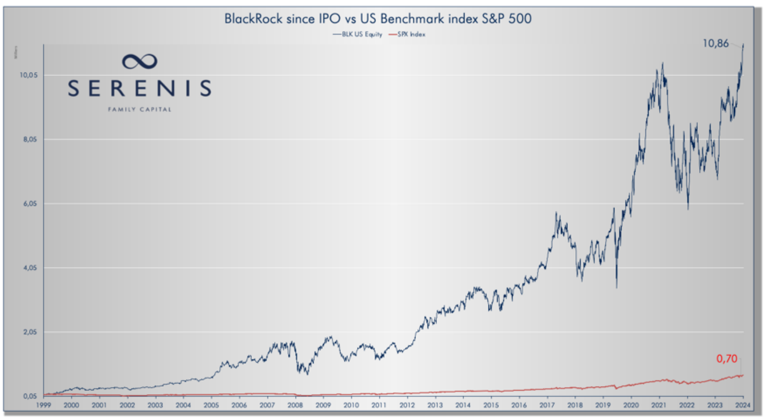
With the S&P500 posting a year-to-date performance of +20.8%, investors are looking forward to a flourishing year. This chart shows the performance of the index at the end of the 3rd quarter since 1990. Only 7 years have been negative at this point in the year in over 20 years. You have to go back to 1998 to find a superior performance of 2024 at the end of Q3.



Let's now look at the evolution of the same index between 2023 and 2024. Something special happened on September 12. After 176 trading days, the performance of the index was +17.6% in 2023 and +17.7% in 2024. The trend to the end of the year remains uncertain, but the S&P500 ended 2023 with a performance of +24.23%.



BlackRock, one of the world's largest asset managers, went public in October 1999. Since its IPO, BlackRock's shares have returned an average of 20.7% a year, compared with 8.2% for the S&P500 and 9.7% for the Nasdaq. The selection of individual stocks in a portfolio, and their long-term maintenance, is the key to success for many investors.



“Markets can only be understood backwards, but they must be invested thinking forwards”

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