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Jerome Powell made positive comments on the macroeconomy, indicating that the acceleration of growth has not been accompanied by a simultaneous decrease in unemployment or a reacceleration of inflation. Despite more optimistic forecasts for growth, the Fed believes that the disinflation trend continues. However, the latest inflation figures cast doubt, and some FOMC members could become more influential in the debate. We now expect up to 2, or possibly 3, rate cuts at most. The first rate cuts would occur this summer. It is possible that the Fed will wait at least until December or January 2025 for the third cut. The Fed is expected to slow down the reduction of its balance sheet starting in May. The upcoming American elections mean that the Fed faces "greater dilemmas than those of the ECB." If the Fed waits too long and cuts rates just before the election (September), it could be accused of aiding the current administration. If it does not cut rates until after the election, waiting for inflation to decrease further, it could be accused of aiding Trump's campaign. Economic indicators remain well-oriented. We believe that American growth should slow down throughout the year due to diminishing consumer confidence. The risk of recession is expected to materialize in 2025 and push the Fed to lower rates more significantly next year (4 cuts). The ECB should reduce its deposit rate by 25 basis points in June and July if it wishes to give itself time during the summer without immediately sparking speculation about the timing of future easing. These 50 basis points would justify a wait-and-see attitude for a few months before the next move. Unlike the Fed, the ECB would have no reason not to cut in June if its new projections confirm the March forecast for inflation at 2% in 2025 and below 2% in 2026, based on a yield curve incorporating a market rate cut in the coming months. Keeping rates higher for longer would imply a tighter monetary policy as inflation decreases, in view of a growth that is just starting to recover as indicated by recent leading indicators. The ECB is likely to remain data-dependent, even at the risk of lagging in easing. If the economy truly rebounds in the second half of this year and inflation remains around 2%, there might be little room to lower rates below 3% in 2025. The composite PMI surprised on the upside in March at 49.9, signaling almost stagnation in the zone (49.2 in February) after 9 months of contraction! China has announced that it filed a complaint against the United States at the WTO. Sino-American relations continue to deteriorate, which could intensify as the American presidential elections approach. Even though authorities announced a historic cut in the benchmark rate for mortgages, this is expected to have a relatively limited effect as the weakness in demand primarily reflects a loss of confidence. However, this announcement illustrates the Chinese authorities' intention to continue supporting real estate with actions that remain targeted but more resolute. Yet, as a sign of an economy facing a decline in household confidence, retail sales remained weak and slowed despite the New Year. Growth will remain much lower than in the past. Structural vulnerabilities will weigh on Chinese growth dynamics, which will be more limited than before (+4.2% growth expected in 2024). India's trade activity closed this fiscal year on a high note, expanding at the fastest pace in eight months in March.

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However, overall price pressures increased this month. The Indian economy shows remarkable signs of strength, driven by a dynamic manufacturing sector and robust demand. However, challenges related to inflationary pressures require ongoing surveillance to guide future monetary policies.
We are currently maintaining our neutral positioning on stocks between 20% and 30%. We are in line with last month's perspective: "We consider it appropriate to be carried by the bullish momentum of the equity markets, and logical to count on a catch-up in the 'cyclical' theme that is lagging." The coming decrease in real rates seems to be already largely integrated by the equity markets. The potential for upside is limited. Emerging indices, which are lagging, could now move in tandem with their global counterparts. The rebound phase continues, and equity markets have remained on a positive trend since Jerome Powell's speech on November 1, 2023, marking the end of an aggressive monetary policy to combat inflation. The catalysts for a correction are not yet present, even if doubts about inflation and some valuations in the US emerge. The theme of steady disinflation, providing leeway for the Fed for rapid rate cuts, is ending. In the US, the three major indices have been above their 50-day moving average for 19 weeks, longer than all but three brief periods over the last 20 years (early 2011, early 2014, early 2018), with average returns over 3 months being negative after these periods, which could weaken the momentum on the eve of the first rate cuts. Additionally, market concentration remains at a historical level, which at the same time could potentially weaken the market by directly linking it to specific themes (AI). Leading economic indicators show good dynamics in the manufacturing sector (versus stagnating services), which should lead the industrial sector to outperform. The market generally declines after the first rate cuts, leaving some time for a significant correction, but as we approach the presidential election debates, volatility will increase. In the eurozone, the story is quite different. Economic growth is barely recovering, and the ECB will need to be much more accommodative. The real story for now is a disinflationary process that is not being questioned, thanks, it is true, to very "measured" growth. Other good news: negotiated wages in the eurozone rose by 4.5% year-on-year in the fourth quarter of 2023, which would be slightly less than in the previous quarter (4.7%), suggesting that the peak of wage growth is now behind us. The indicator of hourly labor costs is significantly slowing down. As long as energy prices (gas and oil) do not show strong recovery signs, the risk seems contained. EPS for 2024 have not yet been raised to take this dynamic into account. Valuation multiples should progress as central banks enter a real cycle of rate cuts, especially considering Europe's historical discount compared to the US. We favor cyclical values and the financial sector, which benefits greatly from increased profitability and a clean-up of bank balance sheets. The political risk remains moderate for now. We remain positive on the area, continuing to overweight the zone. In the United Kingdom, stagflation is becoming evident. Lackluster economic growth and inflation more in line with that of the US than the eurozone is a difficult square to circle. Managing to contain inflation will prove more complicated across the Channel, which will force the Bank of England to remain restrictive longer than its European and American counterparts.

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This will continue to maintain the currency at a high level, despite ongoing structural issues.
In the United States, our year-end target for the 10-year US Treasury is 3.80%, taking into account the economic slowdown at the end of the year. The 2-year rate is expected to align with similar levels, marking the end of the inverted yield curve period. The Fed's reduction of monetary policy tightening should help to avoid too much pressure on sovereign rates. In the Eurozone, the spreads between countries have continued to narrow as the logic of "buyer flows" and expectations of cuts in key interest rates seem to prevail over the reduction of the ECB's balance sheet size. However, the potential for further decline is limited, especially in Italy, due to challenges with public finances in 2024 and beyond. We are less comfortable in Europe than in the United States. US sovereign rates could benefit from recession fears at the end of the year, whereas Euro rates could be impacted by budgetary drifts and fears of rating agency downgrades. The corporate bond markets, both Investment Grade and High Yield, present interest despite compressed spreads for the latter, with yields being attractive ahead of the rate cut mainly in Europe (Duration extension). In US Investment Grade, yields have risen since the beginning of 2024. We now anticipate a rate cut in the United States. The expected economic slowdown in the United States is materializing, indeed, but will remain contained without a recession. IG spreads remain above their historical lows, except for AA. We prefer to position ourselves in BBB zones. The resilience of the American economy allowed HY spreads to tighten at the beginning of 2024, with CCC bonds being more volatile. A scenario of the Fed disappointing the market regarding its monetary policy should allow the moderation of QT starting in May to benefit only sovereign titles. Conversely, maintaining higher than expected rates should weaken the most fragile segments. The risk of recession is expected to materialize at the end of the year. We remain cautious on US HY. In Euro Investment Grade, yields have risen by about 10 basis points since the beginning of 2024 against a backdrop of rising rates. Spreads are now expected to move laterally relative to current levels. The low point of growth has been reached, if not surpassed in Europe, the expected slowdown in the United States is materializing but will remain contained. IG spreads remain wide relative to their historical lows, incorporating the weakness of growth in Europe as well as the ECB's planned withdrawal. A credit risk generally well compensated by the yield. Lesser fears of recession in the Eurozone allowed spreads of B and BB-rated bonds to continue tightening, towards low points in the latter segment. The attrition of the HY segment further fuels the supply/demand imbalance, while liquidity remains very significant. Our growth expectations do not eliminate the risk of seeing default rates rise, particularly for HY category bonds. The risk on CCC remains high, especially related to refinancing issues that will intensify. The abundance of liquidity among investors, combined with a decrease in volatility on rates, benefits the primary market in 2024.

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Despite the year-end bond rally, investors continue to deploy their cash on primary operations, the absolute yield levels remaining attractive, especially as they should continue to appeal. Bank credits continue to benefit from the quality of balance sheets, and the Credit Suisse episode is now largely behind us. We continue to favor high-quality Hybrid and Subordinated bonds. OPEC's efforts have paid off, but countries will soon want to reap the benefits. Long under pressure due to the loss of credibility of OPEC+, Brent managed to rise thanks to much stronger oil demand than anticipated by investors and also due to the continuation of production cut efforts by cartel members. The latest cuts have been extended until the end of Q2, with an additional effort from Russia, but the return of Brent to higher levels should now encourage countries to discuss an increase in production, probably at the June meeting. We expect oil to be above 80 USD. Oil companies should benefit from this environment. Our latest interviews have demonstrated the productivity improvement of US companies over several years thanks to different crises.

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