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EXPERIENCE - DEDICATION - AGILITY

# Amber Lion Quarterly Outlook

## Q3 2024

*Geo-poly-ticks*

*12 July 2024*

# Amber Lion Key Calls – Q3 2024

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**01**

**Why we still like US stocks: resilience**
Economic growth and dynamism, demographics, and geopolitics all underpin US stocks vs. European stocks – the recent reaction of Euro Area equities to French political tumult is evidence of their relative fragility.

**02**

**Continue to hold US large-cap growth/tech**
We once again reaffirm our style preference for large-cap US growth (esp. tech), which continuously justifies its higher multiples with strong sales and earnings growth; a Trump victory might justify looking at small caps again.

**03**

**'Higher-for-longer' rates still under-feared**
A running theme of this monetary cycle has been the markets' underpricing of US Fed's willingness to raise and keep rates high; Powell's 'data dependency' mantra justified hawkish bias – no cuts until success or collapse.

**04**

**US CPI: still too high, and falling slowly**
The 'last mile' of US inflation for Fed to cut through to reach its 2% target might be the toughest – especially in light of still-strong labor bargaining power, persistent US deficits, and resilient economic growth.

**05**

**'King Dollar' still has a few aces to play**
We continue to like the USD vs. G10 currencies which will plausibly have widening interest rate differentials for the next 6 months (e.g. EUR, CHF) – no clear catalyst for a reversal in USD/JPY, but it will be sharp when it comes.

**06**

**USD high-yield is attractive – selectively**
High-yield has been one of the best-performing fixed income segments since 2022, driven by high coupons; credit spreads having increased recently, some selective bonds are attractive, premised on US macro resilience.

**07**

**Strong demand and geopolitics support gold**
It is now clearer that central bank and EMs demand was a big driver of this year's gold price jump; deteriorating geopolitics is another – we would suggest two strategies from here: sell contingently, or engage in risk reversals.

**08**

**Incredibly, equities volatility got cheaper**
After a brief jump early in Q2 2024 towards the 20s, the Cboe VIX Index closed the quarter lower than in March! Correspondingly, equities vol. remains cheap: buy outright, or go long optionality (via risk reversals?).

# Proposed asset allocation – Q3 2024

## Equities

**Overall NEUTRAL**
- **Regions:** Continue to favor US over Europe
- **Styles/factors:** Continue to favor growth
- **Sectors:** Remain neutral on cyclicals vs. defensives

## Fixed Income

**Overall NEUTRAL**
- **Duration:** Duration target maintained @ 5Y–10Y
- **Credit:** Slight preference for USD HY (selective) vs. IG

## Alternatives

**Overall UNDERWEIGHT**
- **Precious metals:** Gold vol. rich
- **Volatility:** EQ/rates/FX vol. now all quite cheap

## Cash & FX

**Overall OVERWEIGHT**
- **Rates:** Lock in near-term USD rates
- **FX:** Bullish vs. EUR and CHF over next 6M

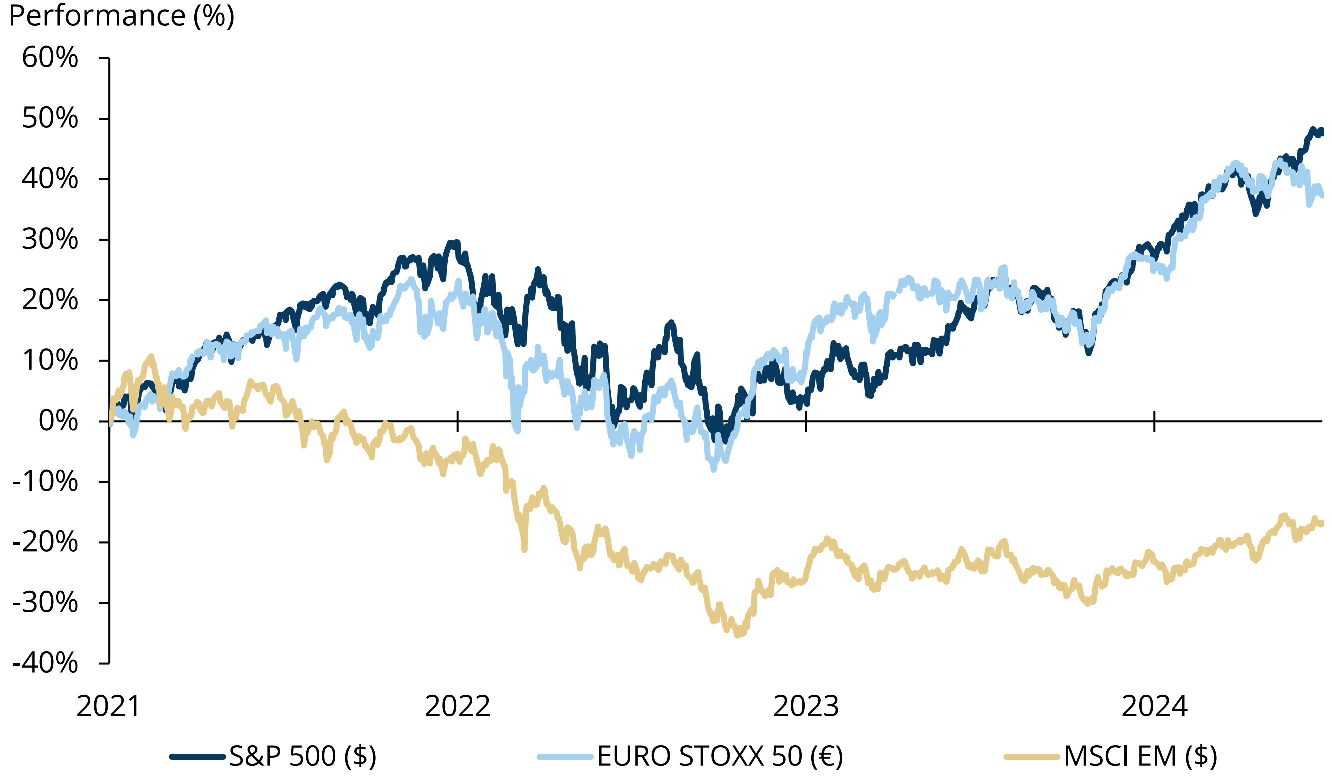
# Financial Markets Summary 1/2 – Equities

Despite a stumble early into the Q1 2024 earnings season, US equities continued their inexorable climb into the ‘new normal’ of higher interest rates – but the bigger surprise came from European politics.

After a bad start into the Q1 earnings season – mixed in with stagflationary anxieties – US stocks continued to be propelled higher, on the back of solid ‘Magnificent 7’ results and benign economic data.

The short-lived pause ended simultaneously on both sides of the Atlantic – though the convergence of US and European equities was hammered by the appearance of a mild geopolitical shock in the form of the European Parliament election results.

The ensuing political crisis and legislative elections in France reignited sovereign risk fears over debt and deficits – which also spilled over into Euro Area equity markets.




**Source:** Bloomberg Finance L.P.; as at close of 30 June 2024

# Financial Markets Summary 2/2 – Fixed Income

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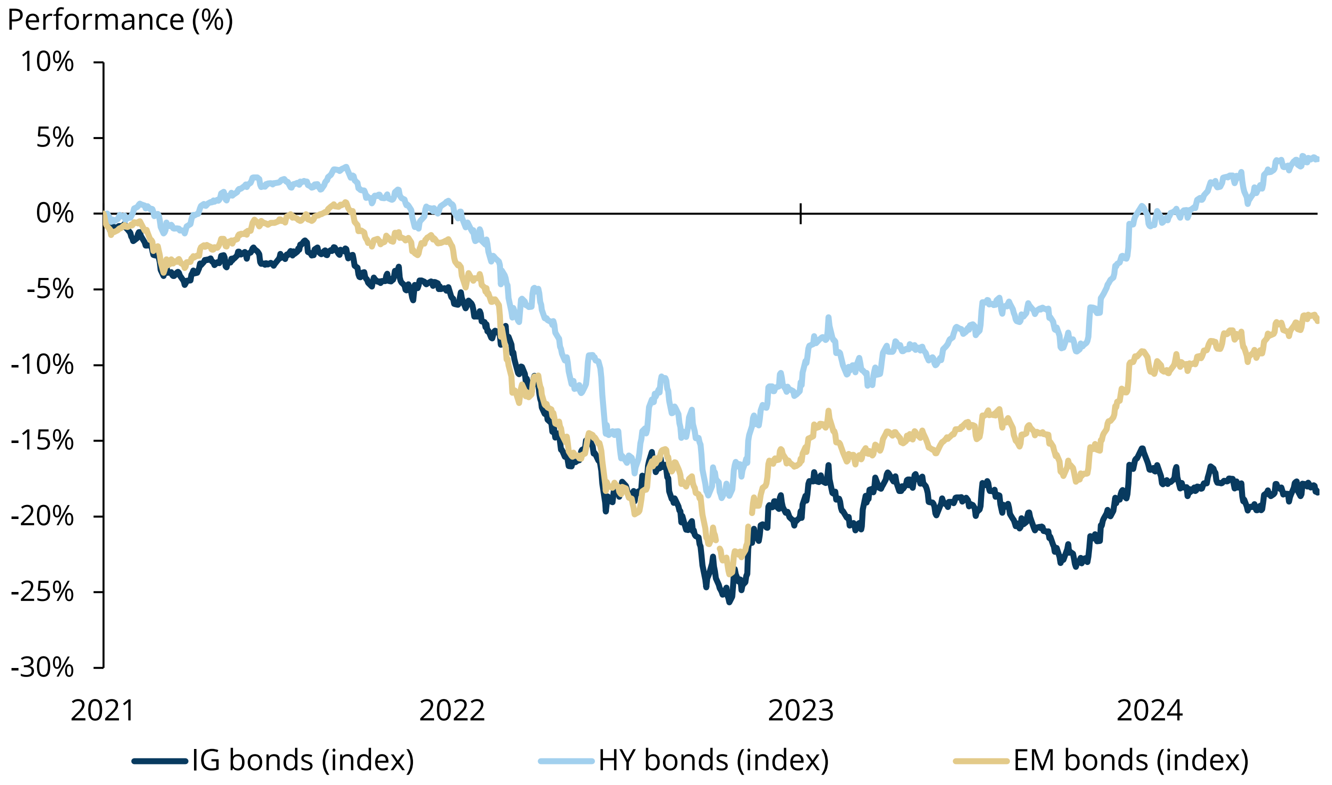
After the first G10 cut by the SNB in Q1 2024, it was the ECB's turn to start its rate-cutting cycle in Q2 – while the SNB cut yet again! The BoE – and especially the Fed – await more positive signs from their inflation data.

The hawkish pushback from Fed speakers remains the never-ending story of the past two years in financial markets – we note that the 10Y-2Y spread in the US Treasury yield curve has remained relatively fixed around an inverted -50bps for more than a year.

Fed futures markets now predict both first BoE and Fed rate cuts in the early to late autumn; given their track record during the Great Reflation which started in 2022, we maintain a rather skeptical stance.

Two further rates/credit stories stand out to us: the continued resilience of USD high-yield (with still-attractive spreads), and the JPY's continued collapse under BoJ supervision.




**Source:** Bloomberg Finance L.P.; as at close of 30 June 2024

# Amber Lion Macro Monitor (US, EA, UK) – Q3 2024

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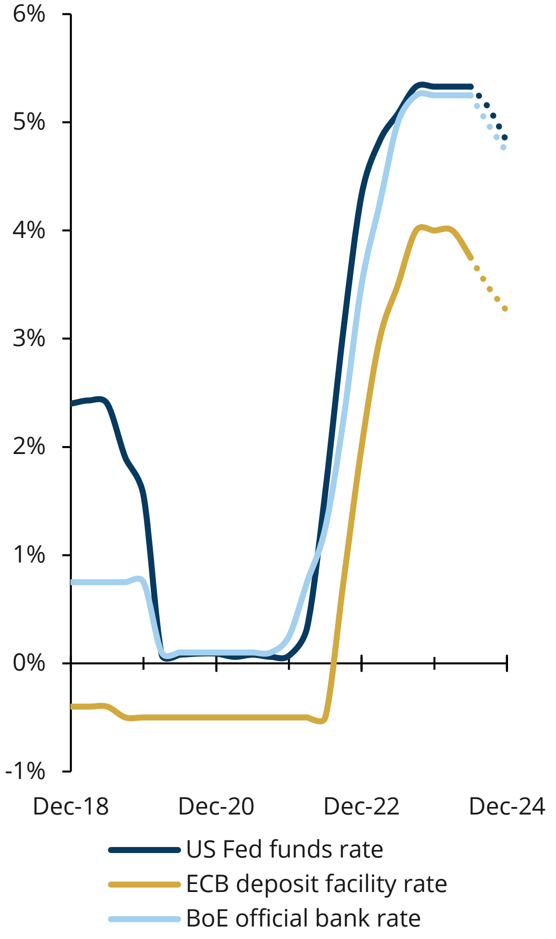
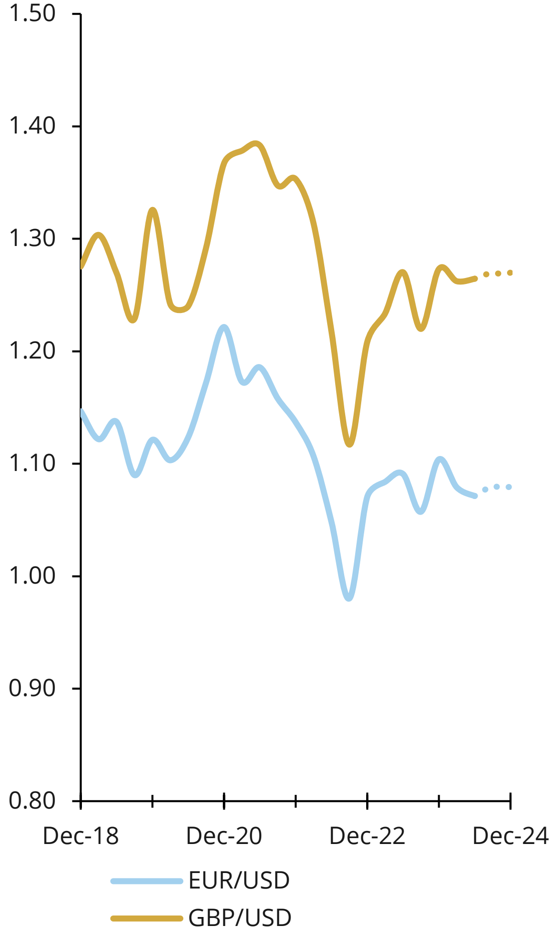
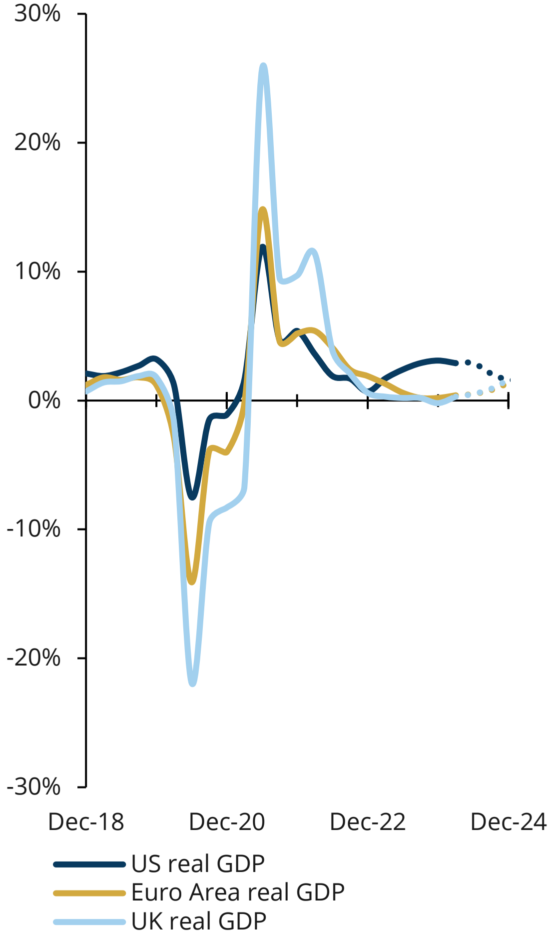
Interest rates (% p.a.; incl. cons. forecasts)



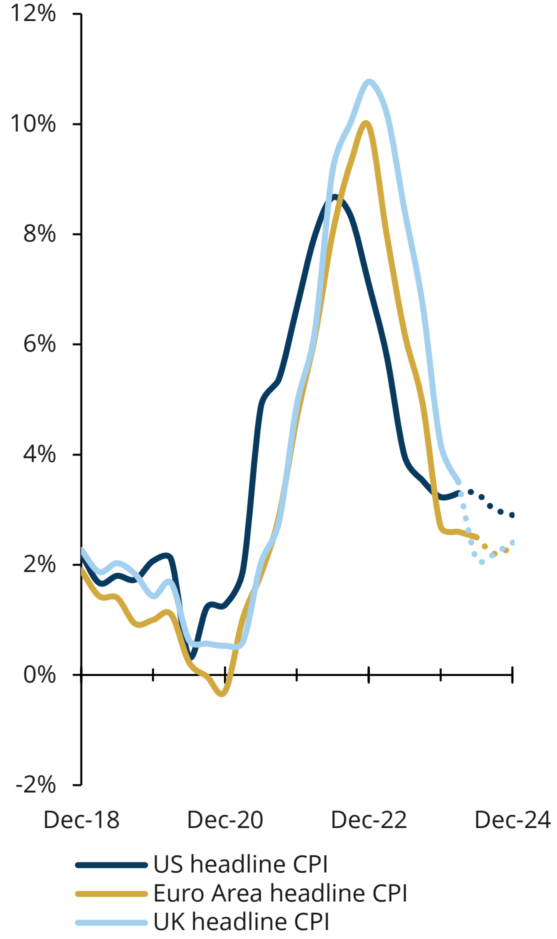

Exchange rates (USD; incl. cons. forecasts)




Growth rates (% y/y; incl. cons. forecasts)




Inflation rates (% y/y; incl. cons. forecasts)




**Source:** Bloomberg Finance L.P.

# Amber Lion Tactical Contrarian Indicator

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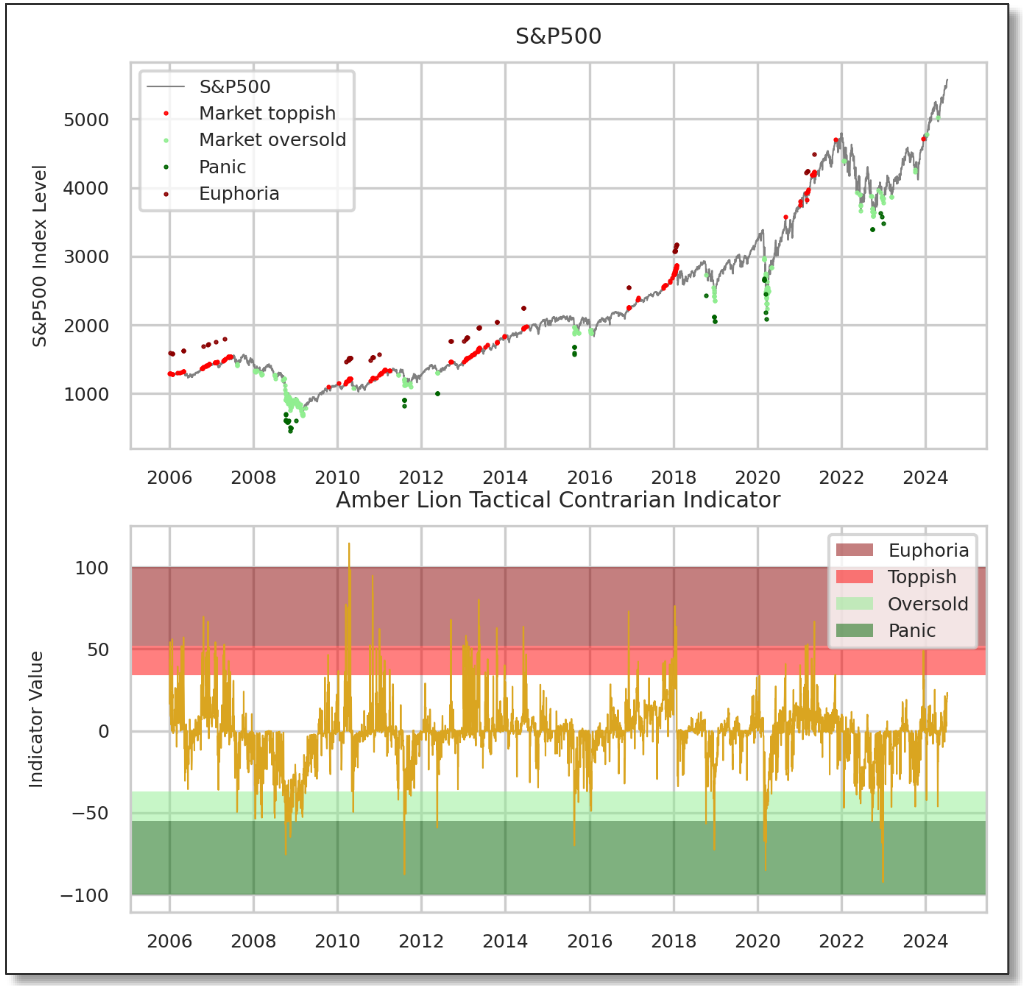
Our indicator again did not show any signal at all over Q2 2024, as risk assets experienced both an early mini-sell-off and a later, further low-vol. melt-up.

This continues to give us confidence in our assessment to maintain exposure to equities.

We will continue to monitor any sudden deterioration in the sub-components of our indicator – which could give us advance warning of truly euphoric conditions.




**Source:** Amber Lion Partners AG, Bloomberg Finance L.P.

# Chart of the Quarter: (Geo)political risk returns to Euro Area?

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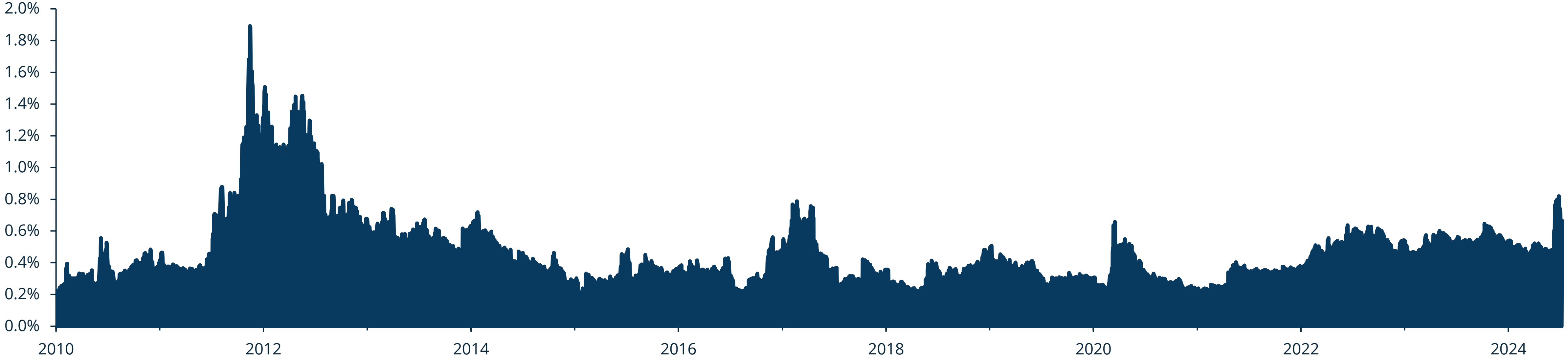
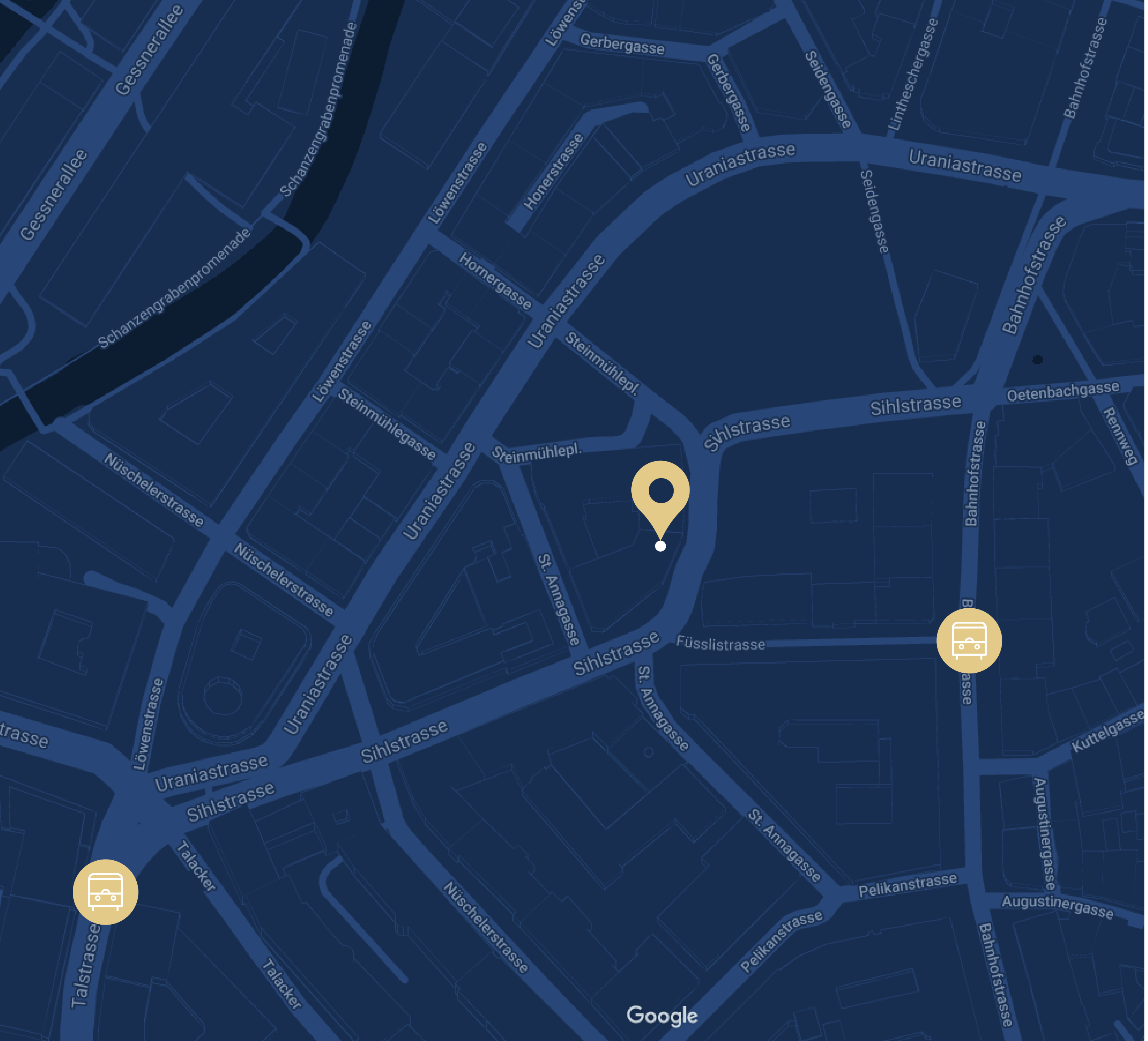
**Whereas recent developments have made the French political crisis milder, and we are nowhere near the heights of the Euro Area Crisis of the early 2010s, the whole episode highlights European fragility**

- French President Macron's legislative election gamble follows poor showing in June EU Parliament vote
- The legislature was set to be dominated either by more extreme left-wing or right-wing parties
- Correspondingly, market participants sold French sovereign bonds, triggering a yield spike
- Additionally, Euro Area-linked equity markets also corrected due to political contagion risks
- Market fears focused on the possibility of a Euroskeptic and/or illiberal government in France
- The ultimate outcome – plausibly parliamentary gridlock until 2027 – has been milder than feared
- Nevertheless, this episode highlights the fragility of European assets in an unstable geopolitical context

10Y OAT-Bund yield spread (%)




**Source:** Bloomberg Finance L.P.; OAT = *obligation assimilable du Trésor* (French sovereign/treasury bond), Bund = *Bundesanleihe* (German sovereign/treasury bond)

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# One Team.

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