EXPERIENCE - DEDICATION - AGILITY

Amber Lion Quarterly Outlook

Q4 2024

Duration transition

4 October 2024

Amber Lion Key Calls – Q4 2024

AMBER LION
PARTNERS

01

We believe in US equity resilience, with a pause
We continue to maintain a preference for US equities, on the back of relative geopolitical insulation, and this despite uncertain election outcomes – high Q3 earnings expectations might lead to a correction, however.

02

Tilting towards value and defensives in US
Contrary to popular belief, the early stages of the Fed rate-cutting cycle tend to favor value and defensives – irrespective of whether a soft landing is achieved or not; we shift our style and sector preferences accordingly.

03

The rates downcycle has started – it will be long
The Fed started the cutting cycle with a dramatic 50bps decrease, following a volatile Q3 in rates, FX, and equities; beware: Powell's 'data dependency' mantra still holds, so higher inflation will slow the downcycle.

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

USD upside and downside now evenly matched
The 'jumbo' Fed cut in September, combined with tariffs and inflation risks around the US election, now a strong counterbalance against USD's yield advantage in G10 – we expect more sideways trading over the quarter.

06

Time for duration to shine in investment-grade
Our biggest call this quarter, in the wake of the start of the Fed downcycle, is to reaffirm our duration target of 5Y–10Y in USD investment-grade – this is a sweet spot for yields and duration risk, capitalizing on further cuts.

07

Strong demand and geopolitics support gold
Our call for risk reversals on gold last quarter was quite timely, in view of ongoing appreciation and strong gold demand – we supplement our volatility outlook on gold with a call for attractive, asymmetric collar strategies.

08

Geopolitics threaten range-bound crude oil
After a 2022 surge following escalation in Eastern Europe, Brent crude managed to remain range-bound (midpoint: ~$75) for 2 years despite Middle East tensions – the current context is ripe for a potential upside break.

Proposed asset allocation – Q4 2024

AMBER LION
PARTNERS

Equities

Overall NEUTRAL

- **Regions:** Continue to favor US over Europe
- **Styles/factors:** Now favor value over growth
- **Sectors:** Now favor defensives over cyclicals

Fixed Income

Overall OVERWEIGHT (*was Neutral*)

- **Duration:** Duration target maintained @ 5Y–10Y
- **Credit:** Now favor investment-grade vs. high-yield

Alternatives

Overall NEUTRAL (*was Underweight*)

- **Precious metals:** Gold volatility still attractive (rich)
- **Volatility:** EQ/rates/FX volatility higher, but moderate
- **Crude oil:** Hedging and tactics (upside range-break?)

Cash & FX

Overall UNDERWEIGHT (*was Overweight*)

- **Rates:** Short-term USD rates still attractive
- **FX:** Countervailing forces on USD → sideways trading

Financial Markets Summary 1/2 – Equities

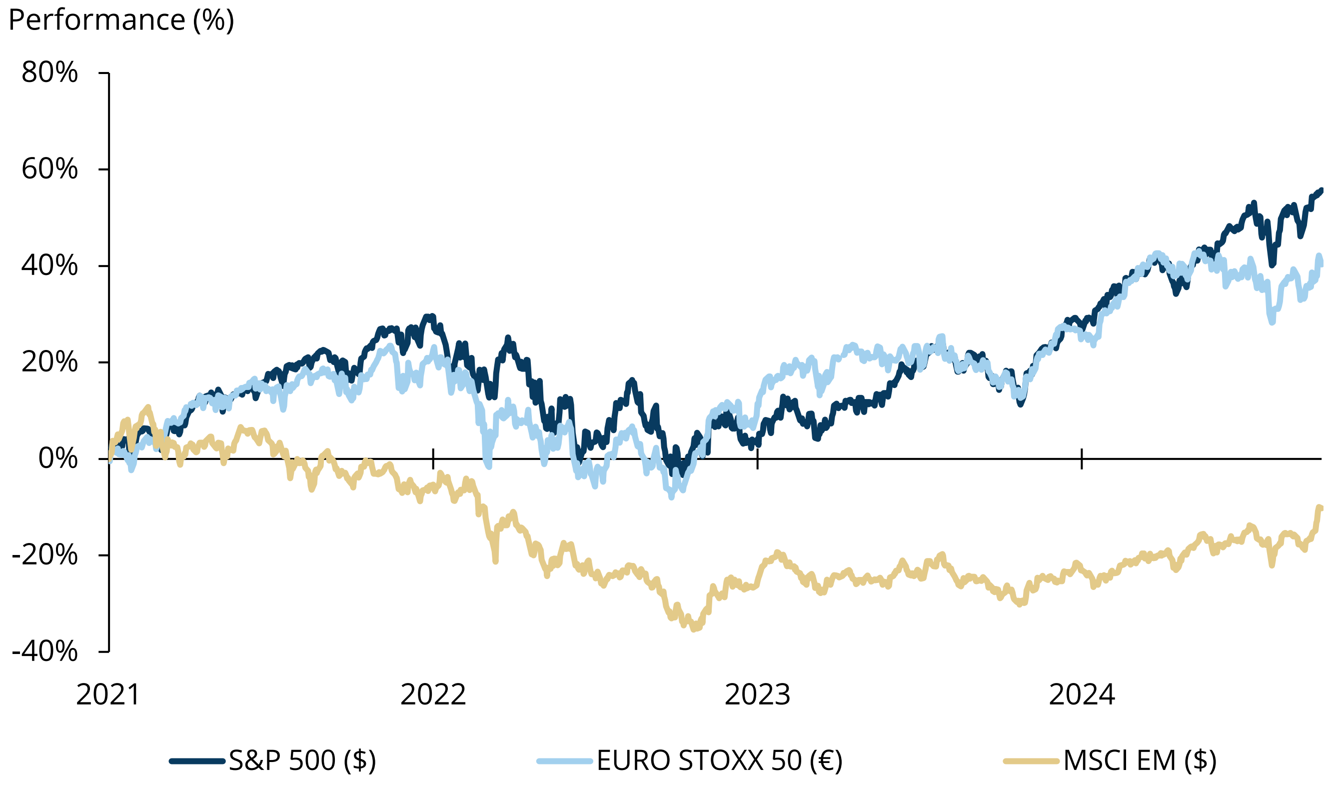
AMBER LION PARTNERS

We have had two equities 'mini-crashes' so far this year: one was related to the Q1 earnings season/EU politics, and the other one occurred when the global JPY carry trade partially unwound mid-summer.

After the tremors from the European and French elections in late spring, the low-volatility summer was shattered by an impressive -12.4% one-day drop in the Nikkei 225 index in early August.

The move came a few days after a +15bps hike from the Bank of Japan (BoJ), with the Japanese yen (JPY) surging through the psychologically-important 145 level (vs. USD). The turmoil was likely triggered by the partial unwinding of the global carry trade (short JPY) which had been a mainstay of Japan's negative-interest-rate-policy (NIRP) era. Global equities sold off as well, but developed-market stocks recovered swiftly over the next few weeks, boosted by Fed cuts.

The other impressive development late in the quarter was the euphoric revival in Greater China equities following the announcement of a policy support package.



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

Financial Markets Summary 2/2 – Fixed Income

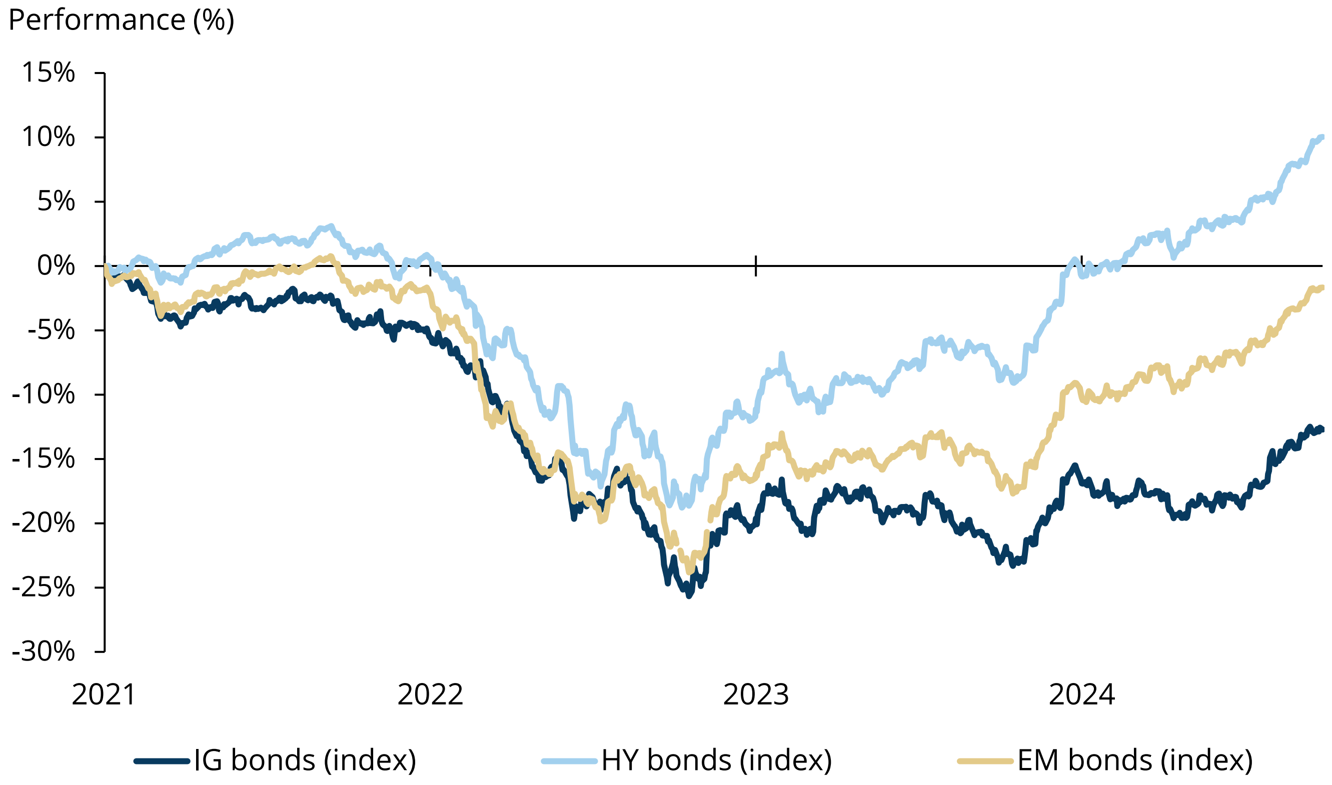
AMBER LION
PARTNERS

It finally happened: perhaps eager to quell markets in the wake of the BoJ-led sell-off, and with a slight slowdown in US macro conditions, the Federal Reserve delivered a 'jumbo' -50bps cut in the Fed funds rate.

At the Jackson Hole conference late in August, the Fed's Chairman Jerome Powell all but confirmed that cuts were due at the next FOMC meeting – generally a relatively bearish signal, with a tacit confirmation from the Fed that a US slowdown was incoming, and perhaps with a desire to quell markets in the wake of the BoJ-led sell-off in early August.

In the event, equities digested the sell-off and cuts relatively well, thanks to careful messaging at the September meeting. However, USD rates markets took the hint already in early August, with the 2-year US Treasury yield plunging from 4.5% to below 4.0% in a few days.

Importantly, since early September, the 10Y–2Y US Treasury yield spread has turned positive for the first time since mid-2022 – a classical recession indicator from the rates space has thus now materialized.

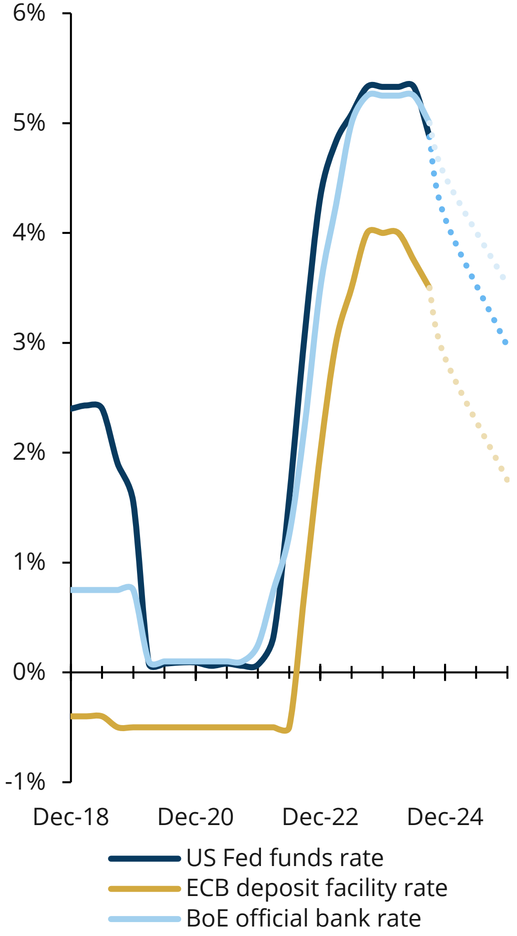


Source: Bloomberg Finance L.P.; as at close of 30 September 2024; **Note:** BoJ = Bank of Japan

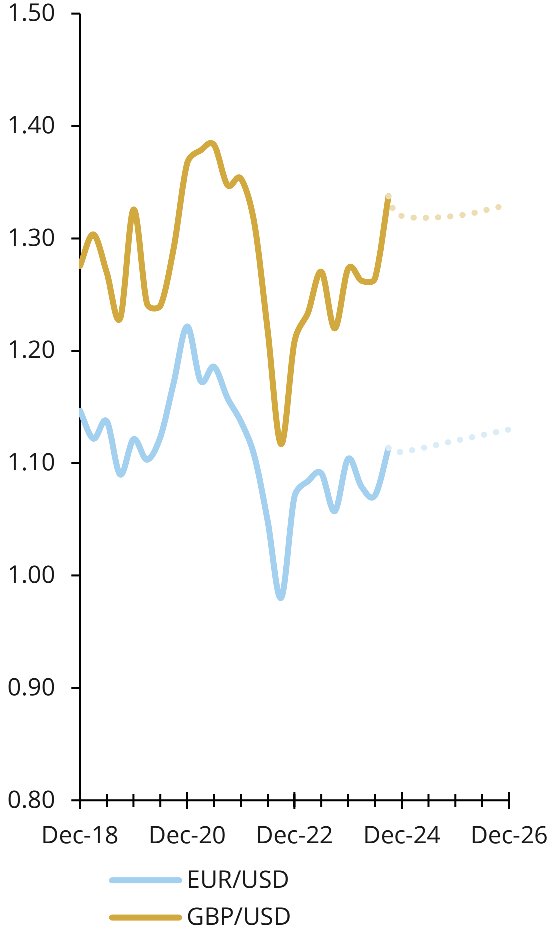
Amber Lion Macro Monitor (US, EA, UK) – Q4 2024

AMBER LION
PARTNERS

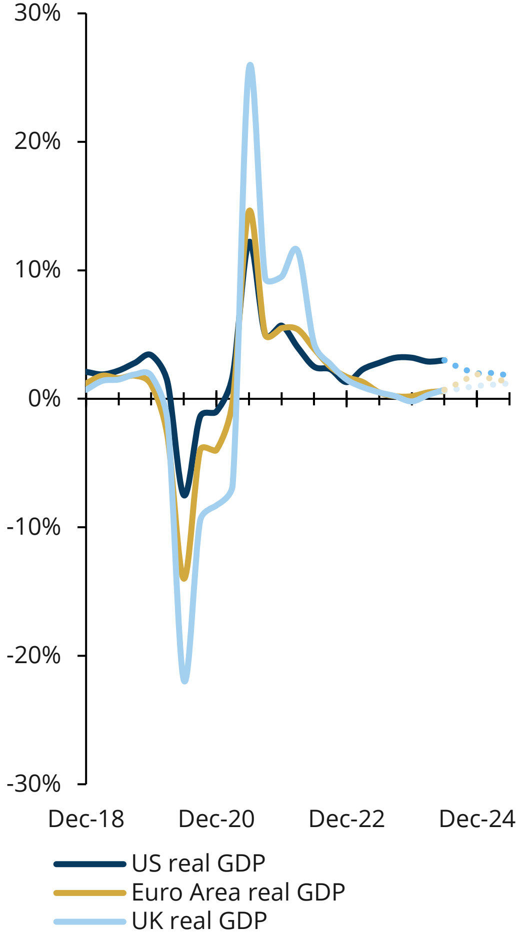
Interest rates (% p.a.; incl. cons. forecasts)



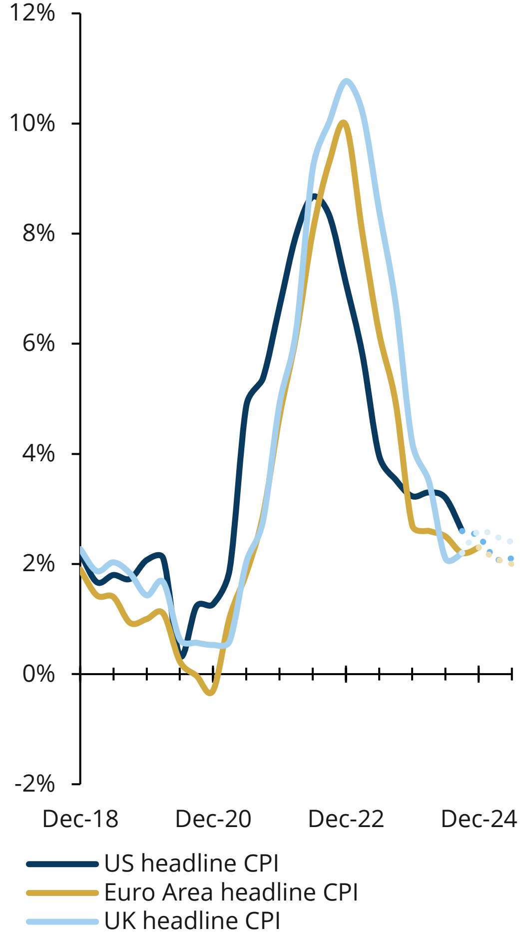
Exchange rates (USD; incl. cons. forecasts)



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



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



Source: Bloomberg Finance L.P.

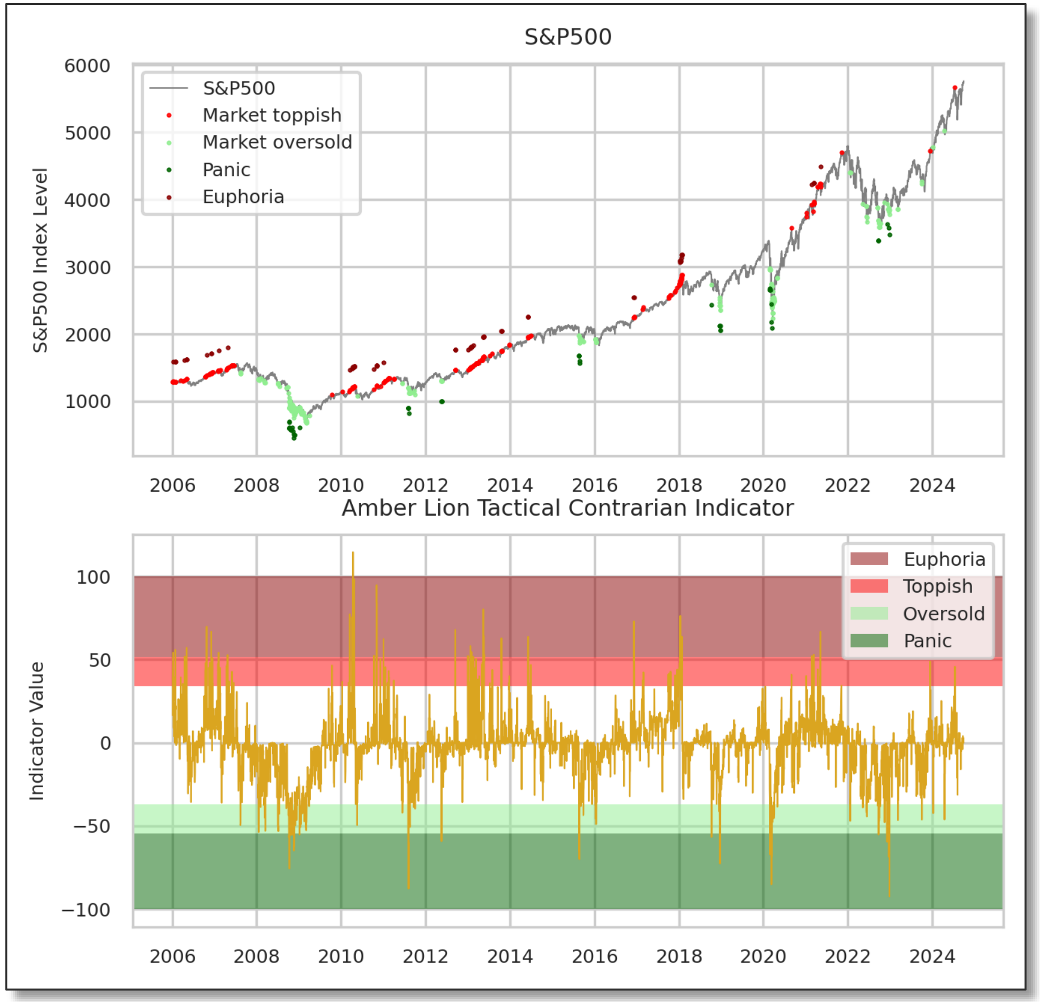
Amber Lion Tactical Contrarian Indicator

AMBER LION
PARTNERS

Our indicator, very interestingly, flashed a toppish signal just immediately prior (31 July) to the BoJ-triggered equity market selloff in mid-summer (2 August) – and thereafter flashed no ‘buy’ signal, despite the swift recovery in risk assets in September.

The absence of a weak or strong ‘buy’ signal since then reaffirms our cautious outlook on equities over the next quarter.

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.

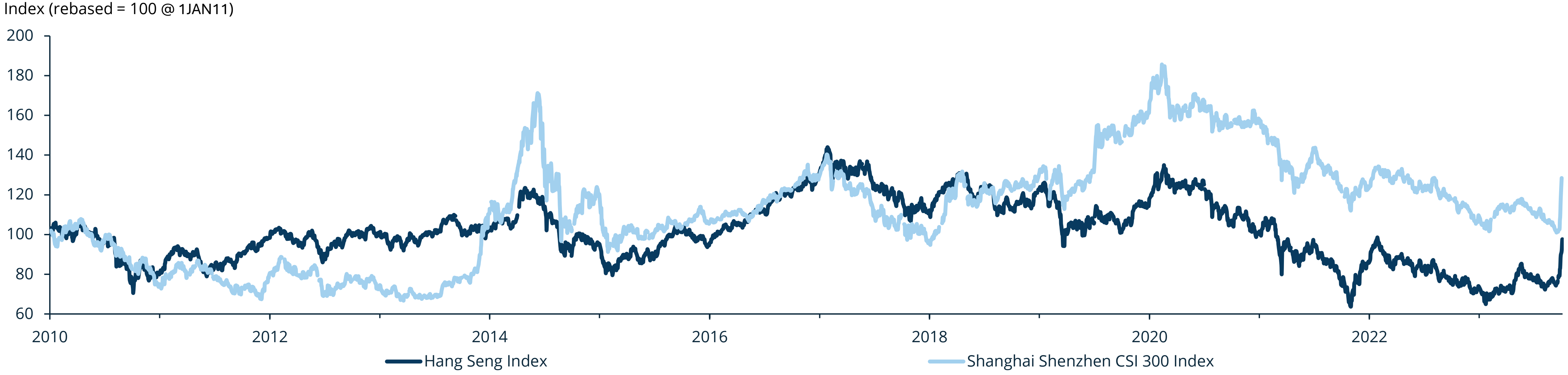


Source: Amber Lion Partners AG, Bloomberg Finance L.P.; **Note:** BoJ = Bank of Japan

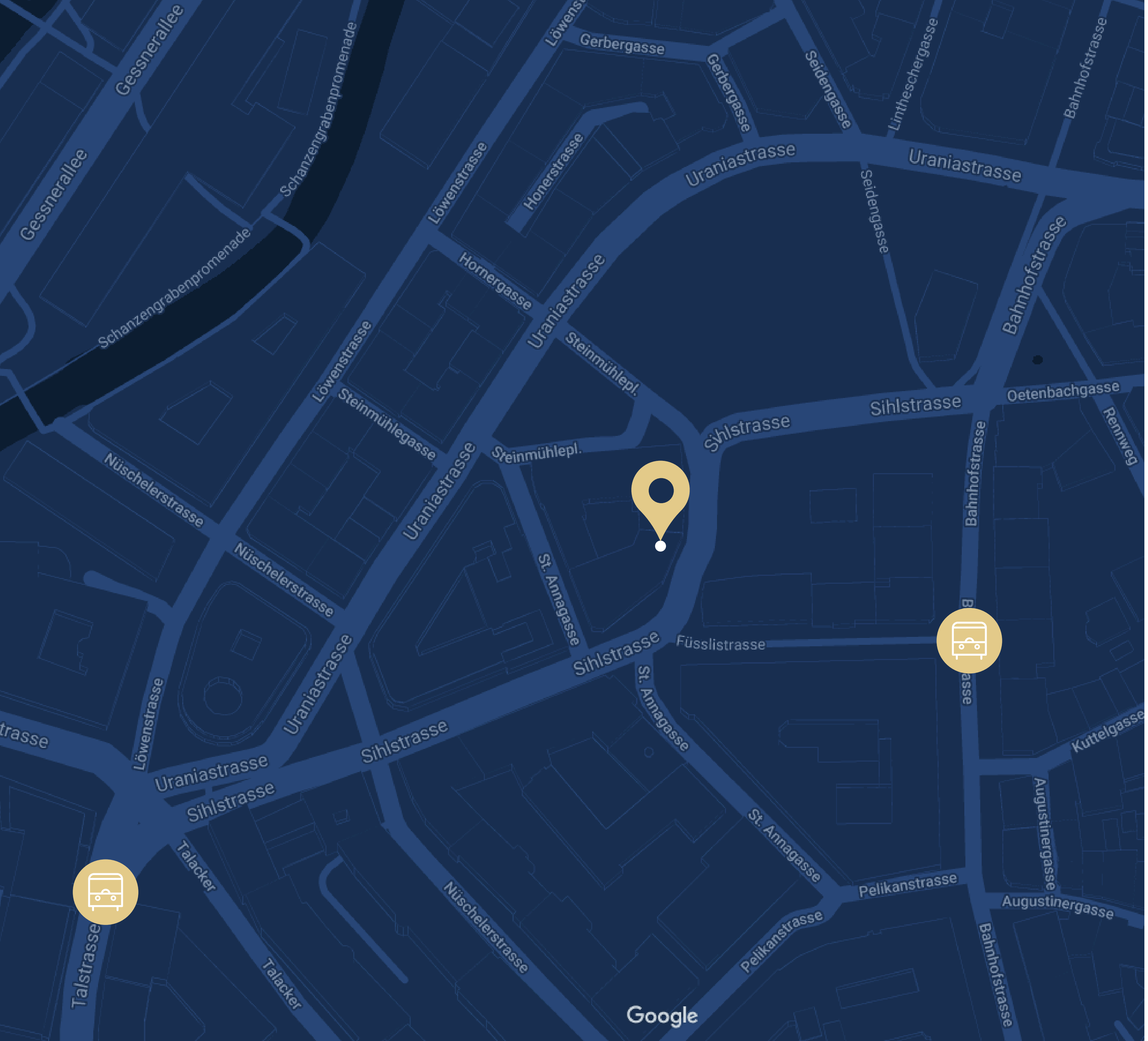
Chart of the Quarter: Greater China equities are boom-and-bust

The recent economic stimulus package released by the Chinese authorities led to a surge in China risk assets – though it looks rather unimpressive relative to history.

- Regulatory frenzy, pandemic, property credit bust, demographic decline: China investing has been hard
- After years of underperformance, China risk assets were boosted by September stimulus package
- The package included a variety of monetary, fiscal, and prudential measures aimed at reviving growth
- Though previous packages were unsucessful, this recent one seems to have triggered more confidence
- However, long-term returns have been lackluster for China equities – dotted by huge booms and busts
- For this reason, we believe China exposure via mainland or HK equities is at best a tactical trade



Source: Bloomberg Finance L.P.; **Note:** HK = Hong Kong



AMBER LION
PARTNERS

With You.
One Team.

Amber Lion Partners AG

Sihlstrasse 20
8001 | Zürich | ZH
Switzerland

+41 (0) 44 210 10 01

mail@amberlion.ch

www.amberlion.ch

Disclaimer

Information / forecasts referred to: Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. In particular, the information provided in this publication may not cover all material information on the financial instruments or issuers of such instruments.

Amber Lion Partners AG does not accept liability for any loss arising from the use of this publication. Important sources for the production of this publication are e.g. national and international media, information services (e.g. Thomson, Reuters, Bloomberg Finance L.P., Moody's), publicly available databases, economic journals and newspapers (e.g. Financial Times, Wall Street Journal, etc.), publicly available company information publications of rating agencies. Ratings and appraisals contained in this publication are clearly marked as such.

All information and data used for this publication relate to past or present circumstances and may change at any time without prior notice. Statements contained in this publication regarding financial instruments or issuers of financial instruments relate to the time of the production of this publication. Such statements are based on a multitude of factors which are subject to continuous change.

A statement contained in this publication may, thus, become inaccurate without this being published. Potential risk regarding statements and expectations expresses in this publication may result from issuer specific and general (e.g. political, economic, market, etc.) developments.

Risk: The price and the value of, and income from investments in any asset class mentioned in this publication may fall as well as rise and investors may not get back the amount invested. Risk involved in any asset class mentioned in this publication may include but are not necessarily limited to market risks, credit risks, political risks and economic risks. Investments in emerging markets are speculative and may be considerably more volatile than instruments in established markets.

Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. Particular risks in connection with specific investments featured in this publication are disclosed prominently hereinabove in the text of this publication. Any investment should only be made after a through reading of the current prospectuses and/or other documentation/ information available.