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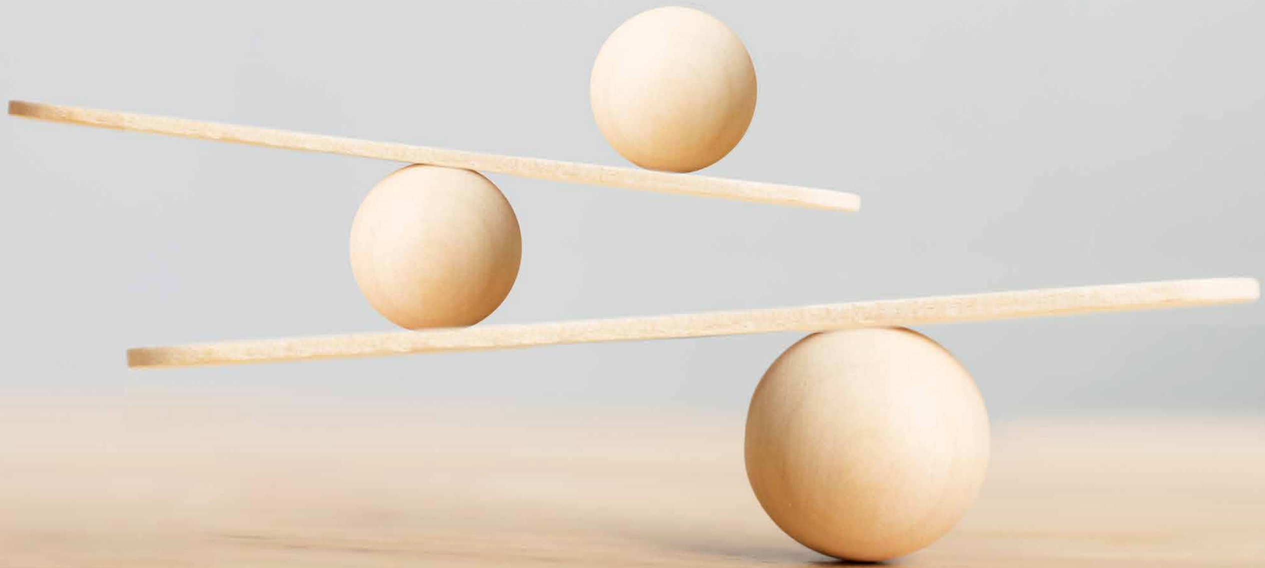


MONTHLY HOUSE VIEW

November 2024

A tightrope walker's journey

Architects of Wealth

• Table of contents

01 • Editorial — P3
A NOBEL STORY

02 • Focus — P4
A TIGHTROPE WALKER'S JOURNEY

03 • Macroeconomics — P6
CONTRASTING HORIZONS

04 • Fixed Income — P8
USD 100 TRILLION OF DEBT

05 • Equities — P10
THE PLANETS ARE ALIGNING FOR THE EQUITY MARKETS

06 • Forex — P12
THE RESURGENCE OF KING DOLLAR

07 • Asset Allocation — P14
INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

08 • Market Monitor — P16
OVERVIEW OF SELECTED MARKETS

09 • Glossary — P17

Disclaimer — P18

01 • Editorial

A NOBEL STORY

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

Will November be a month of significant change? The US presidential election on 5 November, highlighting a deeply divided America, may well contribute to it. The risks are clear:

- Internal tensions: The country is polarised, and this summer, the Texas Republican Party even raised the possibility of secession, advocating for a referendum on the "Lone Star State" becoming an independent nation. While a "Texit" seems improbable to us, it is significant to highlight that Texas was part of Mexico until 1836, after which it remained independent until joining the United States in 1845.
- External challenges: Geopolitical hotspots are intensifying, from the war in Ukraine at Europe's borders to the conflicts in the Middle East and growing tensions around Taiwan.

Somewhat counterintuitively, a Donald Trump victory could, from a certain perspective, ease both internal and external tensions. Domestically, the risk of contested election results would decrease, possibly averting another Capitol riot. Internationally, while Trump has threatened to withdraw the US from NATO, complicating Europe's defence, he could serve as a peace facilitator in the Middle East. Let us not forget that he was several times nominated for the Nobel Peace Prize for his role in mediating the Abraham Accords between Israel and the United Arab Emirates in 2020. Reportedly, Donald Trump has expressed a desire to pursue further peace efforts in the Middle East, with the ambition of finally winning the Nobel Prize.

It is worth noting that in mid-October, the Nobel Prize in Economics honoured three scholars—Daron Acemoglu, Simon Johnson, and James Robinson—for their research on the role of institutions in a nation's prosperity. Their findings showed that countries with inclusive institutions experience stronger economic development than those based on the enrichment of the elite.

This might help explain why the United States, colonised by Europe 500 years ago, has grown wealthy due to its robust institutional framework.

The rapid rise of China's economy, now the second-largest globally, without adopting democratic institutions raises an important question: to what extent does leadership stability play a key role, especially when it comes to implementing long-term social and environmental policies? Today, nearly 150 countries have pledged to achieve carbon neutrality, most by 2050 or 2060. In contrast, political shifts in the US can occur every two years, making it difficult to ensure continuity in critical policies, as we saw when Trump withdrew the US from the Paris Agreement at the start of his first term.

At present, financial markets are betting on continuity, not pricing in major shifts ahead of the election. Meanwhile, the "industrial revolution" of artificial intelligence (AI) is well underway. As we enter the third-quarter earnings season, the US stock market is seeing its best performance year since 1997[1]! The steady decline in interest rates adds further *momentum*, with the market seemingly embracing the possibility of a soft economic landing.

Yet, the markets' path is far from smooth. For this reason, in this edition, we explore what we call the "tightrope walker's journey", the delicate balance of market forces as economic data is constantly revised. And what if, ultimately, things don't turn out as expected?

On behalf of the entire team, I wish you an insightful and enjoyable read!

1 - Performance of the S&P 500 as of mid-October 2024.

A TIGHTROPE WALKER'S JOURNEY

Lucas MERIC
Investment Strategist

The market, like a tightrope walker, continues to anticipate a soft landing for the US economy, alternating between scenarios depending on the data. After a turbulent summer, marked by fears of a recession, expectations have now rebalanced, and the resilience of growth and inflation as the Federal Reserve (Fed) begins its rate-cutting cycle could prompt markets to reconsider the possibility of a "No landing" scenario in the medium term: a scenario that is not necessarily positive for the equity markets.

RATE CUT
expectations remain anchored

THE PENDULUM OF EXPECTATIONS

These growth concerns notably arose following the weak employment report at the beginning of the summer and led to a reaction from the Fed with an unexpected 50 basis points (bps) rate cut in September. Since then, macroeconomic data continued to improve, and employment figures have been revised upwards. Additionally, the savings rate, whose low level had caused pessimists to fear a significant slowdown in household consumption, has also been revised upwards. It is clear that American growth remains resilient, underlying inflation has shown some rigidity since the summer, in an economy where no macro-financial imbalances seem to be emerging, while financial conditions have significantly improved, to the point of questioning whether monetary policy is truly restrictive. It is in this context that the Fed has undertaken aggressive rate cuts. This dynamic reasonably raises questions about the possible return of the "No landing" narrative in the markets.

We continue to believe that growth should normalise to around 2% by 2025. The rebalancing of the labour market should particularly involve a slowdown in wages and a normalisation of consumption. This slowdown should also help alleviate pressure on service inflation while housing-related inflation components should continue to catch up, with a lag, to the already observed decline in rental prices. Similarly, the consumer goods component, currently in deflation, should normalise slightly, without justifying any particular upward pressure on overall inflation. The risks to the central scenario of a soft landing seem balanced to us today (see the Focus section of our "Sit back and relax" edition this summer). However, the cocktail described above could lead the expectations machine (markets) to lean more towards this no-landing scenario, as it did in the summer of 2023 and at the beginning of this year.

NO LANDING: A POSSIBLE RISK FOR EQUITIES

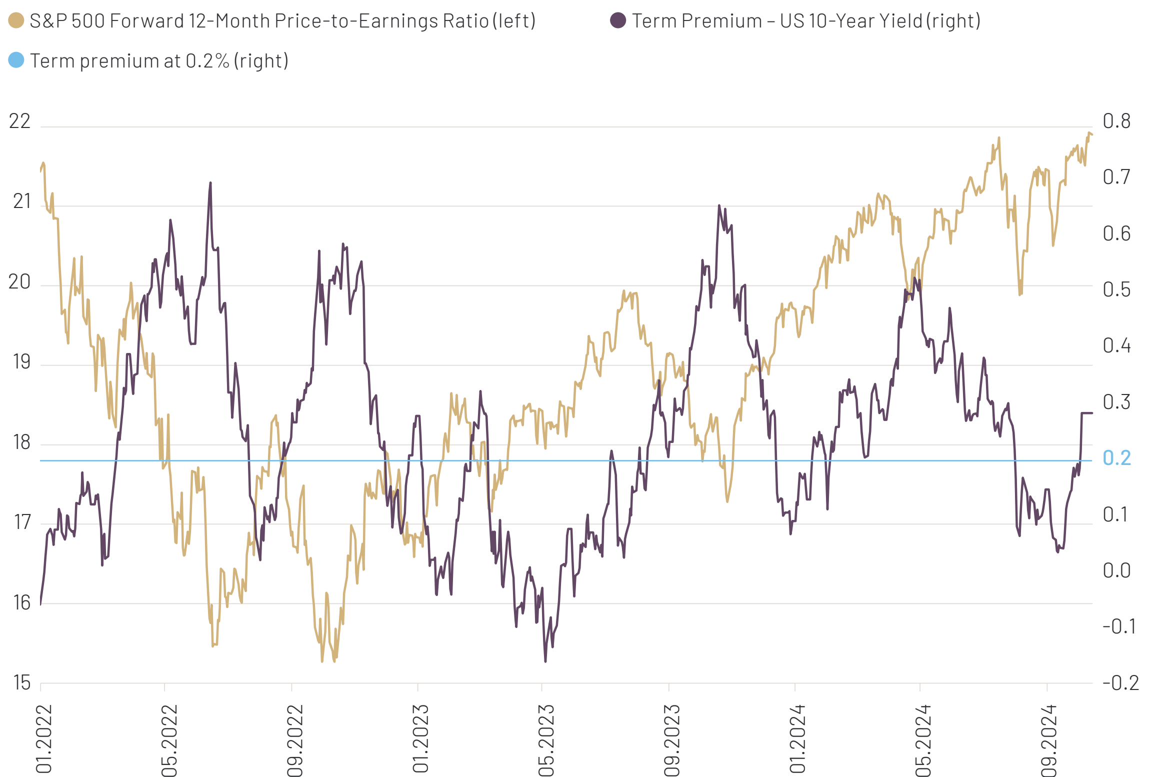
One way of identifying the beginning of such a dynamic would be to see the extent to which markets start to set aside the currently anticipated rate-cutting cycle. This would be reflected by a rapid rise to high levels in the US 10-year Treasury yield, a sequence that especially weighed on equity valuations during the last two "No landing" episodes (with a peak at 5% in October 2023 and 4.7% in April 2024). However, long-term rates decompose both into future short-term rate expectations (reflecting growth and inflation expectations) and the term premium: the premium received by investors who buy long-term bonds instead of continually reinvesting in short-term rates. This detail is important because while a rise in rates as a result of more positive nominal growth expectations is not necessarily negative for equities, an increase in the term premium tends to weigh directly on valuations, as was the case during the summer of 2023 (Chart 1, page 5). This increase in the term premium can, for example, reflect increased uncertainty about inflation and the Fed's monetary policy; current disagreements among Fed members about the real level of the neutral rate could fall into this category. Additionally, an increase in Treasury bond issuances on the long end of the US curve, reflecting either rising deficits or US Treasury arbitrages, would imply a further increase in this premium.

The upward movements observed since the summer in the US 10-year rate and the term premium could signal the beginning of a pressure zone for equity valuations. However, expectations of a rate-cutting cycle seem well anchored at present. Although equity markets have returned to historical highs after summer fears, risk appetite still seems modest in an environment where geopolitical uncertainties appear numerous. Investor positioning, though elevated, is still reasonable, suggesting that there is still room for further progress before genuinely fearing a return of a "No landing" scenario detrimental to equities. Finally, the dynamic of US earnings remains positively oriented, driven particularly by the theme of AI, and even if rising long-term rates were to constrain equity valuations, earnings growth should continue to support market performance.

STILL CONSTRUCTIVE PERSPECTIVES ON EQUITIES

Thus, while the market might refocus on a possible "No landing", such an evolution would not necessarily hinder an equity market rise, as long as the rate-cutting cycle is not called into question and any potential increase in long-term rates, particularly the term premium, remains limited. That said, as written above, our central scenario continues to outline the traits of a soft landing, combining an economy converging towards potential growth levels and continued disinflation allowing the Fed to undertake its rate-cutting cycle: a favourable context for risky assets, particularly equities, even if noisy employment data in October, uncertainty related to the presidential elections and the geopolitical situation could bring short-term volatility.

CHART 1: AN INCREASING TERM PREMIUM DIRECTLY WEIGHS ON EQUITY VALUATIONS



Source: Bloomberg, Indosuez Wealth Management.

CONTRASTING HORIZONS

Bénédicte KUKLA
Senior Investment Officer

While China embraces a more supportive policy stance, Europe faces a different reality, as the vibrant Olympic summer gives way to a more sobering autumn budget semester. Meanwhile, in the US, our soft-landing scenario is unfolding as anticipated, buoyed by a resilient consumer base and a still healthy labour market. However, with extreme weather conditions and the tight 2024 elections, some turbulence is expected.

EMERGING MARKETS: THE GLASS HALF-FULL

After introducing its first arrow of monetary policy actions at the end of September (including measures to boost the crisis-hit property market and stock market, reduce borrowing costs and increase bank lending capacity), Chinese policymakers have left economists "wanting more action", notably from the fiscal side (See our publication CIO Perspectives from 30 September, "Introducing XiNomics"). But maybe economists are missing the point: the key is the change in policymaker posture and the confidence it can enthuse in domestic mainland China. Even if offshore confidence in China's recovery remains limited, Chinese nationals are possibly beginning to see the light at the end of a long economic tunnel. During China's Golden week holiday season, Chinese consumers increased domestic travel (+6% year-on-year (YoY)) and spending (up 6.3%), but the latter remained below pre-pandemic levels according to data from the Ministry of Tourism. We await additional stimulus to be announced before revising up our gross domestic product (GDP) growth scenario for China in 2025.

For other emerging markets, the disinflation cycle is underway, allowing central banks to continue easing, including recently South Korea. Although still the engine of global growth, manufacturing surveys in Asia are weakening from lower export demand. Nevertheless, countries such as Vietnam and India continue to benefit from a shift in manufacturing away from China, a movement that would be accentuated if former President Trump returns to the White House. Outside of Asia, Mexico, may, ironically, have the most to gain from Trump's planned tariffs on China.

German savings rate at

22%

EUROPE: THE GLASS HALF-EMPTY

We have revised our 2025 GDP growth profile for the Euro Area (Table 1, page 7) downwards, deliberately below the consensus (at 1.3%). While third quarter figures should be boosted by the French Olympic one-off (adding +0.3 percentage points to the third quarter (Q3) of 2024 GDP), underlying growth in the Euro Area has been weaker than expected (+0.2% quarter-on-quarter (QoQ) in the second quarter (Q2) of 2024) with domestic demand falling below expectations. One notable exception has been Spain which, thanks to robust internal demand and tourism, is largely outperforming European peers (0.7% in Q2 2024).

In France and Germany savings rates have hit 17 and 22% respectively, as consumers have been driven to save rather than consume despite the fall in interest rates and prices (inflation is below 2% YoY in the Euro Area for the first time in over three years). We see consumers remaining cautious in the next months with heighted geopolitical concerns and a significant fiscal tightening to come in France, making consumers think twice before opening their wallets. In this context, the European Central Bank (ECB) is set to continue cutting rates, possibly at a faster pace than initially expected. However, it will be more challenging for President Lagarde to cut rates after her October meeting, as overall inflation is expected to rise again towards the end of the year. This is due to the reversal of favourable energy price base effects that have helped reduce total inflation this month. Finally, China's stimulus is good news for Euro Area services and tourism, but we do not believe it is a big game-changer for German production: Chinese exports to Germany (down 9% in July 2024) were already slowing before the pandemic and EU-China relations are set to enter a new era with the ongoing introduction of tariffs and regulatory restrictions.

US: MORE BALANCED, BUT TURBULENCE AHEAD

As highlighted in Focus (page 4), the US consumer remains resilient, supported by a still healthy labour market. Significant revisions to GDP data have revealed that the US recovery was even stronger than previously thought. Real disposable personal income is now estimated to have grown faster, and the historically low savings rate was substantially understated (5.2% currently against the previously estimated 3.3%). Moreover, non-farm payrolls exceeded expectations, with 254'000 jobs added in September. However, it is important to note that labour market data in the coming months may be temporarily affected by recent extreme weather conditions and worker strikes.

At a sector level, manufacturing remains weak (with the Institute for Supply Management (ISM) placing the Manufacturing Purchasing Managers' Index (PMI) at 47.2 in September, below the 50-point threshold), while services power on (at 54.9 from 51.5 in August). Combined with the solid jobs report, this has pushed the Atlanta Fed GDPNow indicator to a 3.2% annualised growth rate in Q3 2024.

Looking ahead, with a more balanced labour market (the number of jobs per unemployed person is now 1, compared to nearly 2 right after the pandemic), stable job growth and lower wages, US GDP growth is expected to soften to a 2% annualised quarterly growth rate. Inflation should also continue its downward trajectory. Lagged housing inflation is expected to keep slowing down, and increased labour market slack should help further soften services inflation, while goods inflation remains subdued. Finally, the 2024 US elections are contributing to economic uncertainty: according to a Duke University survey, 30% of chief financial officers (CFOs) in the US are scaling back investments amid election concerns. This suggests a potential catch-up in investment and employment early in 2025.

TABLE 1: MACROECONOMIC FORECAST 2024 - 2025, %

● Downward forecasts since September ● Upward forecasts since September

	GDP		INFLATION	
	2024	2025	2024	2025
United States	2.7%	2.0%	2.9%	2.2%
Euro Area	0.7%	1.0%	2.3%	1.7%
China	4.8%	4.2%	0.7%	1.6%
World	2.9%	2.7%	-	-

Source: Indosuez Wealth Management.

USD 100 TRILLION OF DEBT[2]

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

For the next few weeks, the predominance of economic data will give way to American politics: the composition of the chambers and, of course, the new administration. Against this backdrop is the question of future fiscal policy for the coming years. One certainty remains: more deficit in the United States. Until a wake-up call from the bond markets?

THE FISCAL WINTER will be harsh in EUROPE!

BOND MARKETS

The last quarter traditionally announces the budgetary measures for the upcoming fiscal year. For 2025, the new British and French governments are preparing budget cuts and tax increases. A corrosive cocktail for next year's growth. The concept of fiscal dominance is making a strong comeback. This is a context in which monetary policy becomes dependent on fiscal policy (see Vítor Constâncio, "The Return of Fiscal Policy and the Euro Area Fiscal Rule", *Comparative Economic Studies*, volume 62, number 3, September 2020). The decline in inflation will allow central banks to continue their monetary easing policies. What will be the reaction of the markets, particularly in terms of financing differentials between states? Since the summer of 2024, political noise in France has propelled the 10-year spread against Germany to a new level, sustainably higher than in the previous decade. Rating agencies are revising their outlooks, and unsurprisingly, those for France are being revised downwards. Conversely, Italy is benefiting from positive surprises regarding fiscal revenues, and the unemployment rate is at its lowest since 2008. Although behind the initial deployment plan, the Recovery and Resilience Plan (RRP) implemented with the European Commission since 2021 will support the country's transformation until 2027. This optimistic vision should be tempered by very high financing needs for 2025: 160 billion euros (HSBC estimate). Rating agencies might revise their outlooks for the country upwards.

On the other side of the Atlantic, the yield on the US 10-year Treasury has increased by 45 bps from the low of 3.62% (16 September 2024), representing a consolidation of 41% of this year's rally, which began with a peak yield of 4.71% on 25 April (Chart 2, page 9).

Should we be concerned about the direction of long-term rates? US long-term real rates are still close to the highest levels of the last decade, reflecting expectations of an equilibrium rate higher than that of the Fed. Moreover, the interconnected nature of rate markets requires observing outlooks in Europe, England, China, among others. Although local, cyclical and specific factors in the United States have driven yields higher, the structural driver of lower long-term rates presents a counterargument.

Maintaining an international approach, the rest of the world is in monetary easing mode. Almost all major countries have reduced their interest rates (China, India, the Euro Area) with the notable exceptions of Japan, Brazil and Russia. These actions accompany declining growth and disinflation, fuelled by deflation fears in China.

Long-term rates are expected to continue underperforming short-term rates in the coming months (curve steepening). There is no substantial change in the Fed's rate landing point, and consequently, the arguments that have supported the decline in bond yields over the past six months have not suddenly become invalid.

2 - Source: International Monetary Fund (IMF).

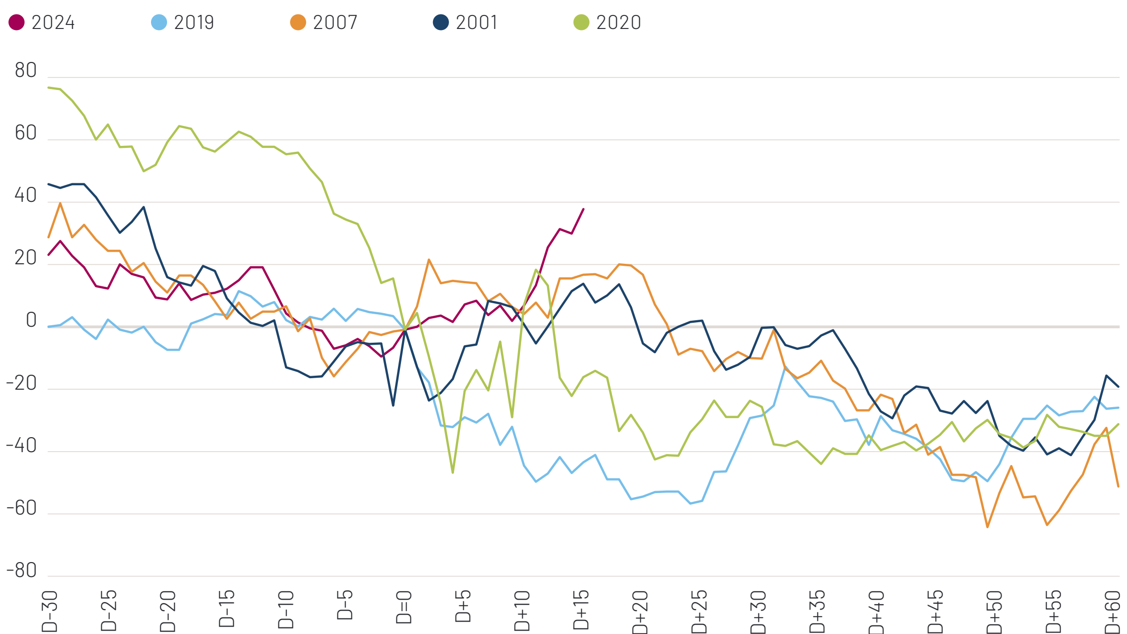
CREDIT MARKETS

The result of the US presidential elections will certainly bring its share of volatility in a currently well-oriented credit universe. The rise in yields compensates for the decline in the risk premium. Ultimately, investors have maintained roughly the same yields for several months.

Aircraft manufacturer Boeing was placed under negative outlook by Moody's and S&P within a few weeks of each other, teetering on the edge of high yield. The likely downgrade in the coming months will make it the largest fallen angel[3] in history in terms of debt volume (52 billion dollars). Does the market have the capacity to absorb such an amount?

This volume corresponds to more than a year's worth of new issuances in the US market. The issuer is relatively small in the investment-grade market (less than 1%) but will represent up to 3.5% of the high-yield market, becoming the largest weighting by default. There is no need to fear forced sales in the very short term, and an adjustment of positions over time should be anticipated based on the specific constraints of each investor profile.

CHART 2: US 10-YEAR YIELD BEFORE AND AFTER THE FIRST RATE CUT, BPS



Note: 10-Year US Treasury Yields - Days before and after the first fed rate cut. Variation in basis points of yields relative to the first rate cut.

Source: Bloomberg, Indosuez Wealth Management.

3 - "Fallen angels" are corporate bonds that have been downgraded from an investment-grade rating to high-yield status.

THE PLANETS ARE ALIGNING FOR EQUITY MARKETS

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

After the much-anticipated announcement from the US Federal Reserve to lower interest rates, China surprised the market with a massive stimulus plan aimed at revitalising its economy. Macroeconomic data and corporate earnings revisions are aligning, hinting at a possible "No landing" scenario for the economy. The US elections and the third-quarter earnings season remain the final uncertainties to be resolved before considering the traditional year-end rally.

The **FTSE 100** could benefit from China's stimulus

EUROPE

In Europe, market heterogeneity is becoming increasingly pronounced. The weight of the French deficit and the industrial slump in Germany continue to weigh on investor sentiment and tarnish the attractiveness of the Euro Area. Although peripheral countries are currently displaying better economic dynamism, recent easing measures announced by China could be more favourable to countries exposed to cyclical sectors sensitive to economic growth (industrial, oil/materials, chemicals). The oil sector, which has struggled to perform since the beginning of the year, also constitutes a good hedge against still-high geopolitical risks (Middle East, Ukraine). The UK market, through the FTSE 100 index, presents significant exposure to these sectors.

Since the 2016 Brexit, positioning on UK equities has been weak, but the change in government and policy has sparked renewed investor interest in the region.

From a fundamental perspective, the UK market is still trading at a record discount compared to other regions (even within Europe), while offering an attractive shareholder return profile (6% average yield including the world's highest dividend rate and share buyback programs, Chart 3, page 11).

UNITED STATES

US markets continue their upward trajectory, setting new historical records, driven by a broadening market that sees more stocks contributing to the rise. The Russell 2000, for example, an index of small and mid-cap stocks, is close to reaching a new high and has outperformed large-cap indices such as the Nasdaq and S&P 500 over the past two months. This broader participation in the market rally appears healthy and also reflects the continuously upward earnings revisions across the US market as a whole.

Early autumn seasonality is historically less favourable for equity markets, with companies halting share buybacks before the earnings season and uncertainties linked to the US elections acting as headwinds until the results in early November. However, expectations of a soft landing in the US, supported by the Fed's monetary easing and China's stimulus plan, could fuel the traditional year-end rally. Nonetheless, third-quarter corporate earnings will need to confirm the dynamism of macroeconomic data.

ASIA

At the end of September, China unveiled a vast stimulus plan aimed at supporting its growth and boosting investor sentiment. The initiatives include further monetary easing and a series of fiscal measures to support consumption and revitalise domestic demand, as well as financing infrastructure projects. Stabilising the real estate market also constitutes a structural and priority issue for the Chinese government.

Despite a significant rebound in the Chinese market following the announcements, we remain cautious and await further measures and quantified impacts on the domestic economy. In our view, it is still too early to anticipate a sustained recovery of the Chinese economy; future data on domestic consumption and real estate will need to be closely monitored. Similarly, the outcome of the US election could impact investor sentiment in the region.

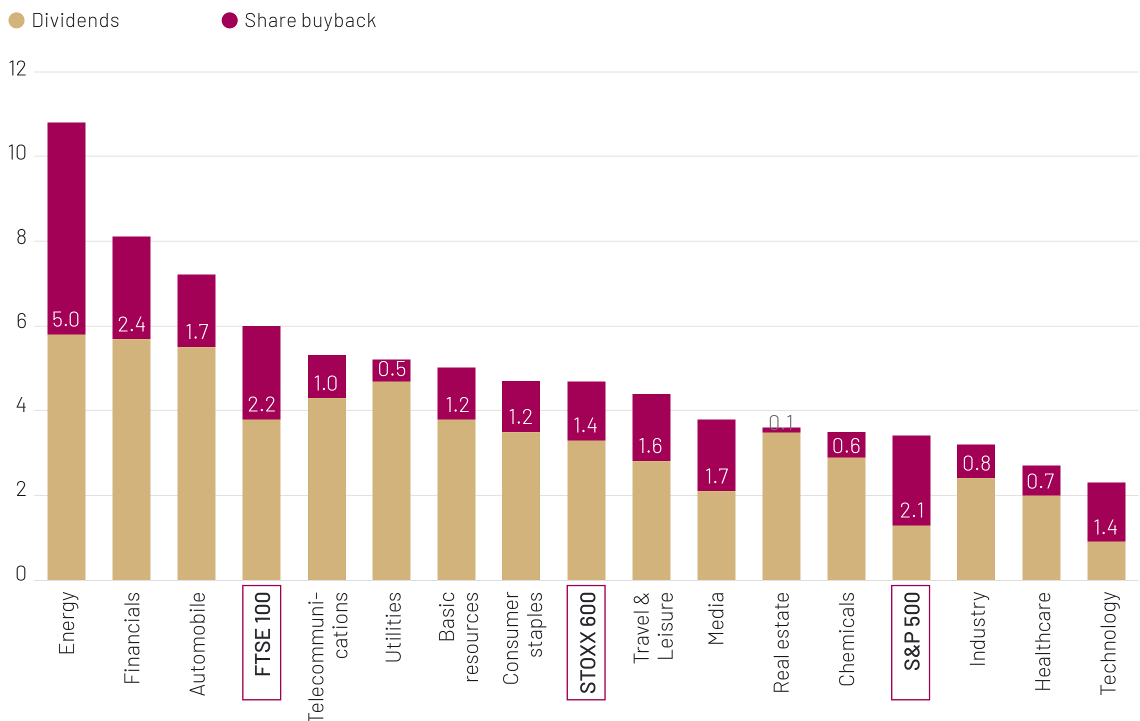
However, these initiatives should benefit the cyclical and industrial sectors of China's emerging market partners. Moreover, historically, after the first Fed rate cut, emerging markets tend to outperform developed markets over a 12-month horizon. Finally, investor positioning remains weak in the region.

INVESTMENT STYLES

Equity seasonality should become more favourable by the end of October, and better macroeconomic *momentum* coupled with earnings strength reinforces the idea of a less defensive approach. Moreover, the monetary easing cycle initiated by central banks and China's stimulus measures favour a soft-landing scenario, beneficial to "Value/Cyclical" stocks, as well as small and mid-sized enterprises, which are more sensitive to financing conditions.

Growth stocks remain well-positioned in terms of earnings, but investor positioning remains quite high in some companies. However, the major long-term secular trends (such as AI, electrification, data centres, etc.) support the idea of maintaining substantial exposure to this segment, especially since falling interest rates are generally positive for companies with recurring revenues, as well as for those with investment needs ensuring their long-term growth.

CHART 3: AVERAGE ANNUAL SHAREHOLDER RETURN ON THE STOXX EUROPE 600, %



Source: Bloomberg, Indosuez Wealth Management.

THE RESURGENCE OF KING DOLLAR

Lucas MERIC
Investment Strategist

After a challenging summer, the dollar has bounced back with the arrival of autumn, benefiting from a mix of strong US economic data, rising long-term interest rates and a resurgence of geopolitical risk. Meanwhile, the euro has suffered due to diverging macroeconomic dynamics with the United States, and gold has continued to hit new highs despite the increase in US real interest rates.

USD: SUMMER WORRIES PUSHED TO THE BACKGROUND

The greenback suffered significantly during the summer due to market recession fears, which led investors to strongly anticipate Fed rate cuts. During the September meeting, the Fed clearly emphasised its commitment to supporting employment with a 50-bps cut, while offering reassurance about the economy's health. This "Fed put" shifted market attention to the potential risk of an overly accommodative monetary policy and upward inflation pressures. This sentiment was reinforced by the strong September jobs report, which propelled US long-term rates and the dollar. A soft landing seems to be the market scenario once again, and the potential for a dollar increase still appears present, albeit more limited. Moreover, the greenback remains an attractive hedge, particularly against a "No landing" scenario for the US economy, which could see US rates rise substantially. Multiple conflicts in the Middle East and global trade tensions related to tariffs could also support the dollar in the event of an escalation.

EUR: DIVERGING FATES

The euro has suffered from the widening transatlantic spread and rising oil prices as consequence of renewed tensions in the Middle East. While some dynamics may raise concerns about the potential rigidity of US inflation and a less accommodative Fed than expected in the coming months, the situation is quite different in the Euro Area. Indeed, activity data have been disappointing investors, particularly in Germany, while disinflation continues smoothly across the old continent, falling below 2% in September.

EURO:
penalised by the rise in the transatlantic spread

Meanwhile, geopolitical and trade tensions remain contained but are still a point of concern for the euro, while the budgetary issues of some highly indebted Euro Area countries like France and Italy also need to be watched, especially during budget discussions when investors' attention could focus on sovereign credit risks. Thus, a mixed growth and inflation dynamic, particularly compared to the US, and a risky geo(political) context for the single currency compel us to maintain a negative outlook.

CHF: BEARISH PROSPECTS

The Swiss franc continues to benefit from a high-risk environment on multiple fronts (economic, geopolitical and budgetary), although it has suffered against the dollar following the strong US employment figures at the end of September. The Swiss franc remains richly valued, with the real effective exchange rate close to its highest levels in a decade, leading us to maintain our negative tactical view on the currency. This is in a context of modest growth, weak inflation (+0.8% in September) and a particularly accommodative Swiss National Bank, which continues to lean towards a lower monetary policy rate and does not rule out a return to negative rates in the future. A combination of high valuations and downward rate prospects could also make the Swiss franc an attractive alternative to the yen for carry trades, further weighing on the currency in the medium term.

JPY: CALM AFTER THE STORM

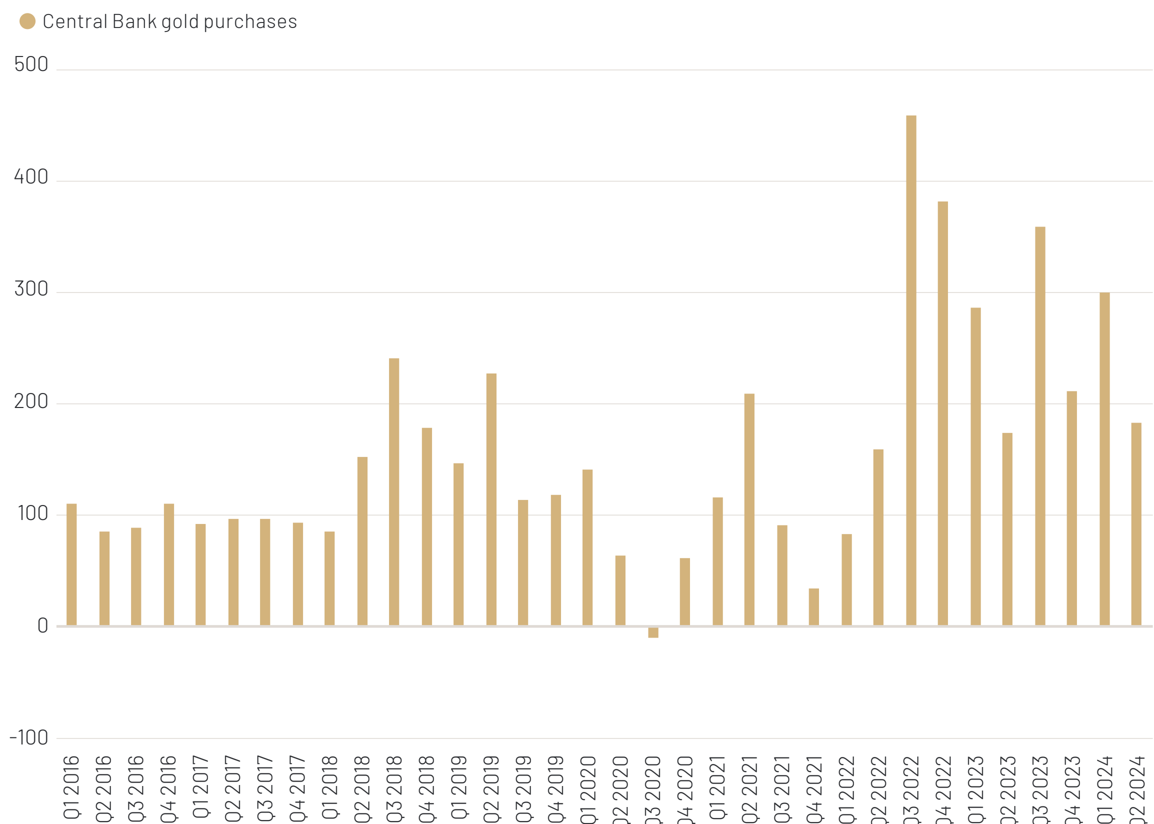
The yen has not escaped the resurgence of the dollar, with the differential between Japanese and US rates remaining particularly pronounced. The yen could continue to be penalised in the short term by a Bank of Japan that is likely to delay its rate normalisation process, the resilience of US economic data, and a US presidential election context. The yen has suffered against the dollar in the weeks following US elections in 2016 and 2020, especially if the trade tensions environment persists or intensifies. However, we maintain a rather neutral view on the yen, which should be supported in the medium term by the continuation of the Bank of Japan's rate hikes as inflation remains above the 2% target. Additionally, the new Prime Minister, Shigeru Ishiba, seems reluctant to continue the "Abenomics" strategy of very accommodative monetary and fiscal policies, which should support the yen.

GOLD: SEARCHING FOR ENTRY POINTS

Despite the rise in US real rates since the Fed's September meeting, gold continues to flirt with its historical highs. It is supported by a high geopolitical risk environment and central bank demand (Chart 4). Although this demand has decreased since last year due to the halt in purchases by the People's Bank of China, it remains supported in particular by purchases from Polish, Indian and Turkish central banks for diversification purposes. This structural factor should continue to support the yellow metal, with nearly 80% of central banks estimating in a recent survey[4] that central bank gold reserves should continue to increase by mid-2025.

However, the very strong rally in the yellow metal (over 30% in 2024) invites caution and leads us to remain opportunistic, waiting for entry points while the resilience of the US economy could pose a brake on this dynamic.

CHART 4: CENTRAL BANK GOLD DEMAND SUPPORTED BY EMERGING MARKETS, TONNES



Source: World Gold Council, Indosuez Wealth Management.

4 - 2024 Central Bank Gold Reserves Survey, World Gold Council.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

Strengthened Preference

FOR US EQUITIES

INVESTMENT SCENARIO

- **Growth:** The latest macroeconomic figures confirm our scenario of a soft landing for the US economy, which continues to show resilience amid strong domestic demand and a gradual return to balance in the US labour market. We remain more cautious about activity in the Euro Area, where uncertainty remains high, particularly regarding upcoming fiscal tightening in some countries and struggling manufacturing activity in Germany. Emerging economies are recording relatively strong growth rates and could benefit from the upcoming monetary easing cycle.
- **Inflation:** The disinflation process continues in developed economies, allowing for the initiation of the first rate cuts. However, risks to price dynamics remain upward in the United States, with inflation potentially stabilising at higher levels than in the past.
- **Central Banks:** After adjusting our rate cut forecasts last month, we are keeping them unchanged, targeting a terminal rate of 3.5% in the US and 2% in the Euro Area by the end of 2025.
- **Corporate Earnings:** The positive trend in earnings revisions continues, particularly in the US, and is spreading across geographies (excluding China) and certain market segments. We are more confident in the ability of US companies to deliver expected earnings growth for 2025 (around +15% for 2025) compared to European companies (earnings growth forecasts around +10%, as estimated by consensus).
- **Risk Environment:** From an investor's perspective, the wide range of possible scenarios regarding the US economic trajectory exacerbates market volatility ahead of macroeconomic releases, as evidenced by the rebound in the VIX since the end of summer. The US election could also lead to increased nervousness and significant sector rotation movements. In the medium term, risks associated with public debt trajectories remain a reality and could resurface.

ASSET ALLOCATION CONVICTIONS

Equities

- The normalisation of the global economy, accompanied by the start of rate cuts by central banks in developed countries (excluding Japan) and well-oriented earnings prospects for 2025, lead us to maintain a constructive view on equities for the coming months.
- This month, we reinforce our preference for US equities, which should continue to benefit from a supportive macroeconomic environment, particularly relative to Euro Area equities, where economic activity remains more subdued with expected growth below potential next year. Additionally, we believe that the continuation of the rally in US stock indices could now come from other segments of the market, particularly small and mid-cap stocks.
- Several factors could, in our view, favour emerging market equities in the medium term: the start of the monetary easing cycle, relatively high growth compared to advanced economies, support measures in China with potential spillover effects on adjacent Asian economies, and light investor positioning in the asset class.

Fixed-income and credit markets

- In our previous edition, we mentioned that expectations of rate cuts in the US seemed excessive given our outlook on the US growth/inflation dynamic. Since then, markets have indeed retraced some of these expected rate cuts. We believe the risk persists for a continuation of this dynamic in the coming months.
- We adopt an even more cautious stance on US government bonds, which are more vulnerable than their European counterparts to an upward revaluation of rate expectations, given the differential in economic trajectories between the US and the Euro Area.
- We continue to favour the shorter parts of the yield curves, as longer-term bonds are at risk of a term premium reconstruction, for example, due to a potential resurgence of tensions on public debt trajectories.
- In credit markets, we prefer bond carry strategies through high-quality corporate debt with diversification into the best high-yield segment and, to a lesser extent, subordinated debt. We also maintain our positions in local currency emerging market debt, which diversifies our exposure to traditional credit markets.

Forex market

- The US dollar has appreciated with the upward revision of Fed rate expectations for 2025 (now more in line with our macroeconomic scenario). We believe this dynamic could continue, particularly relative to the euro, given the growth outlook disparities between the two regions and the latent political risk and ongoing budget discussions in the Euro Area, which could weigh on investor sentiment.
- Despite the rise in real rates in early October, gold continues to hit new records. Although there is a risk of a potential extension of this rate dynamic, the yellow metal should continue to benefit in the medium term from the ongoing diversification of central bank foreign exchange reserves and a persistently pressured geopolitical context.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=	=/+
EUR 10-Year	=/-	=/-
EUR Periphery	=/-	=/-
US 2-Year	=	=/+
US 10-Year	=/-	=/-
EUR Breakevens Inflation	=/+	=/+
US Breakevens Inflation	=/+	=
CREDIT		
Investment grade EUR	=/+	=/+
High yield EUR	=	=
Financials Bonds EUR	=	+
Investment grade USD	=	=/+
High yield USD	=/-	=/-
EMERGING DEBT		
Hard Currencies	=	=/+
Local Currencies	=	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=/-	=/+
United States	=/+	=/+
Japan	=	=
Latin America	=/-	=
Asia ex-China	=/+	=/+
China	=	=/-
STYLES		
Growth	=	=/+
Value	=/+	=
Quality	=	=
Cyclical	=/+	=
Defensive	=/-	=/-
FOREX		
United States (USD)	=/+	=
Euro Area (EUR)	=/-	=/-
Switzerland (CHF)	=/-	=
Japan (JPY)	=	=/+
China (CNY)	=	=
Gold (XAU)	=	=/+

Source: Indosuez Wealth Management.

08 • Market Monitor (local currencies)
OVERVIEW OF SELECTED MARKETS

DATA AS OF 18 OCTOBER 2024

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.08%	34.15	20.37
France 10-year	2.90%	-6.50	34.10
Germany 10-year	2.18%	-2.40	16.10
Spain 10-year	2.87%	-12.40	-11.00
Switzerland 10-year	0.41%	-11.10	-28.80
Japan 10-year	0.97%	12.80	35.90

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	37.43	-2.04%	1.93%
Euro Government Bonds	209.34	0.77%	2.54%
Corporate EUR high yield	227.95	0.73%	5.37%
Corporate USD high yield	360.63	0.03%	7.67%
US Government Bonds	317.98	-1.07%	3.23%
Corporate Emerging Markets	45.57	-0.61%	3.26%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9399	-0.97%	1.19%
GBP/USD	1.3052	-2.02%	2.52%
USD/CHF	0.8648	1.74%	2.78%
EUR/USD	1.0867	-2.64%	-1.56%
USD/JPY	149.53	3.95%	6.02%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	18.03	1.88	5.58

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	5'864.67	2.84%	22.95%
FTSE 100 (United Kingdom)	8'358.25	1.56%	8.08%
STOXX 600	524.99	2.09%	9.60%
Topix	2'688.98	1.76%	13.63%
MSCI World	3'753.04	2.07%	18.42%
Shanghai SE Composite	3'925.23	22.62%	14.40%
MSCI Emerging Markets	1'155.12	4.40%	12.83%
MSCI Latam (Latin America)	2'189.39	-1.61%	-17.78%
MSCI EMEA (Europe. Middle East. Africa)	208.75	-0.65%	3.97%
MSCI Asia Ex Japan	752.87	5.71%	17.35%
CAC 40 (France)	7'613.05	1.50%	0.93%
DAX (Germany)	19'657.37	5.01%	17.35%
MIB (Italy)	35'204.26	4.27%	15.99%
IBEX (Spain)	11'925.20	1.46%	18.05%
SMI (Switzerland)	12'326.76	3.29%	10.68%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'252.00	3.96%	-19.50%
Gold (USD/Oz)	2'721.46	3.80%	31.92%
Crude Oil WTI (USD/Bbl)	69.22	-3.75%	-3.39%
Silver (USD/Oz)	33.23	6.60%	37.98%
Copper (USD/Tonne)	9'625.50	1.57%	12.46%
Natural Gas (USD/MMBtu)	2.26	-7.23%	-10.18%

Source: Bloomberg. Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS. PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

BEST PERFORMING ⊕

JULY 2024	AUGUST 2024	SEPTEMBER 2024	4 WEEKS CHANGE	YTD (18.10.2024)
3.39%	2.51%	19.79%	22.62%	22.95%
2.50%	2.28%	16.42%	5.71%	18.42%
1.70%	1.83%	10.58%	4.40%	17.35%
1.32%	1.75%	9.96%	2.84%	14.40%
1.13%	1.40%	8.91%	2.09%	13.63%
0.90%	1.33%	7.70%	2.07%	12.83%
-0.14%	0.46%	7.46%	1.76%	9.60%
-0.55%	0.10%	4.78%	1.56%	8.08%
-0.57%	-2.92%	-6.85%	-0.65%	3.97%
-0.59%	-3.51%	-14.59%	-1.61%	-17.78%

⊖ WORST PERFORMING

Source: Bloomberg. Indosuez Wealth Management.
Past performance does not guarantee future performance.

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI: An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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