Richelieu Global Innovation

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Markets

Reaching new all-time highs in March, the S&P 500 ended its best first quarter since 2019 propelled by relatively positive economic data. As fears of an economic recession in the US eased and investors shifted their attention to the timing of a pivot by the Federal Reserve. The four main US stock market indices ended the month in positive territory. The S&P 500 gained 3.2%, the Nasdaq 1.8%, the Dow Jones Industrials 2.2% and the Russell 2000 3.6% over the month. Year-to-date, the S&P 500 is up 10.6%, the Nasdaq 9.3%, the Dow Jones Industrials 6.1% and the Russell 2000 5.2%. In terms of investment styles, value (+4.6%) outperformed growth (+2.1%) in March, but growth (+12.8) continues to outperform value (8.1%) year-to-date.

In March 2024, European equity markets continued their upward trajectory. The Bloomberg Europe Developed Markets Large & Mid Cap Price Return Index was up 3.9% (+8.1% year-to-date). In the Eurozone, the disinflation process is moving closer to target, but at a slightly slower pace than before. In contrast to previous periods of disinflation, the main deceleration factors are no longer playing a major role. The persistence of domestic inflation is mainly due to strong wage growth and a solid labor market. Nevertheless, investors are expecting the ECB to begin easing monetary policy in the coming quarters.

The MSCI Emerging market rose by 2.2% in USD (2.3% in euros) in March. The index is up 2.1% in USD (+4.7% in euros) year-to-date. Emerging market equities were deemed attractive due to their valuation levels and the higher earnings growth expected in 2024 than in developed countries. This growth was largely driven by emerging Asian and IT companies.

Fund

The fund slightly underperformed its benchmark, the Bloomberg World Large & Mid Cap Net Return Index, in March. The product innovation bucket outperformed the process innovation bucket in March, thanks in particular to the US. The top contributors in product innovation were Mobileye, General Motors, Agco and Astrazeneca. The worst contributors were Lion Electric, Adobe, Dassault Système and Loop Industries. The best contributors to March performance in process innovation were Alphabet, JD.Com, Schlumberger and Tencent Holding. The worst contributors were Zscaler, Nouveau Monde Graphite, UPM-Kymmene and Integrated Ad Science. In terms of geographic allocation, we continue to underweight the US and overweight Europe and emerging markets. Nevertheless, we are monitoring the situation closely and are ready to adjust our allocation if necessary.

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Looking ahead

If we look at the latest Strategist forecast for the S&P500 year end, we have an average S&P500 target price of 4962 with a median target price 5100. If we look at the latest EPS forecast for 2024, which currently at 243,51$ and apply the current multiple of 21, we get a year end target price of 5 113,71. The S&P500 ended the month on a high of 5 254,35. What we saw over the last month is an outperformance of the equal weighted S&P500 versus the S1P500. I personally believe that if the rally is to continue, performance has to move away from tech and spread ro other sectors or styles. For others, you can take comfort in the fact since 1950, when the S&P 500 is up in each of the first three months of the year, it averages a 1.8% gain in April, a 3.1% gain in the second quarter and a 9.8% gain in the remaining nine months of the year. In addition, in years the S&P 500 has gained at least 10% in the first quarter, it has averaged a 6.5% gain over the final nine months of the year.

Growth in the eurozone should gradually exceed potential in the second half of this year, as inflationary pressures ease. This will probably enable the European Central Bank to lower interest rates in the coming months, which should support European markets. Another supportive factor is that flows seem to be gradually returning to the European zone.

Emerging markets remain one of the most attractive asset classes in terms of valuation. Discounts to developed markets are above their long-term averages. The sharp increase in the discount of emerging markets to global markets is largely due to China's low valuations. However, outside China, emerging market discounts are in line with the 10-year average.