MANENTIA WEALTH
CONSULTING GROUP

2024 Q1 QUARTERLY MARKET COMMENTARY

Commentary about the first quarter of 2024

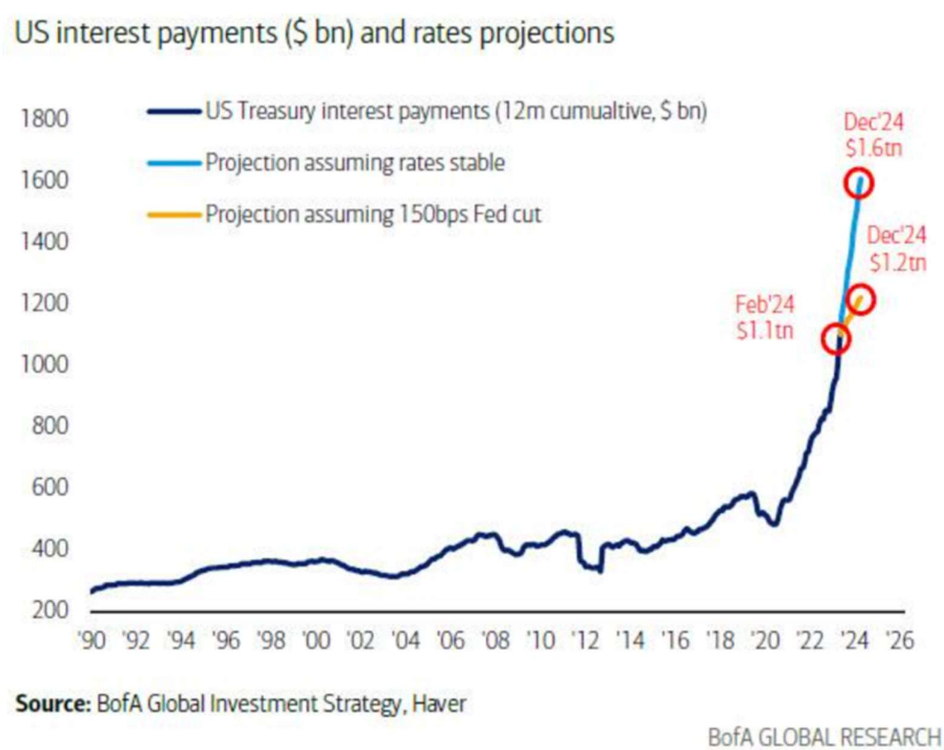
This quarterly commentary offers a comprehensive examination of the first quarter of 2024, focusing on the pivotal financial events that have shaped the investment landscape. Central to the discussion is the Federal Reserve's decision against interest rate cuts and its implications for US debt sustainability, market expectations, and equity valuations. The report delves into the resilience of US economic data amidst mixed global indicators, highlighting the notable increase in consumer loan delinquencies and commercial real estate pressures. In response to the evolving economic conditions, we outline strategic shifts in our investment approach, emphasizing renewed interest in fixed income and a recalibrated equity portfolio that navigates away from high-valuations in technology and energy sectors towards more promising investment themes identified for the year."

Interest Rate Cuts? Patience is Key

We started the year with a couple of days of mixed markets. Although everyone was expecting interest rate cuts by March 2024, these hopes were dashed by the Federal Reserve. Central banks around the world continued to navigate the delicate balance between supporting economic recovery and addressing inflationary pressures. As some recent data indicated higher-than-expected inflation readings, the Federal Reserve's first interest rate cut will have to wait a bit longer. While economic data are beginning to show improvement, the US interest payments on outstanding debt are unsustainable at current levels. As illustrated in the chart below, at the current interest rates, the US would face an interest payment of $1.6 trillion.

In this context, a reduction in interest rates would positively impact the country's debt.

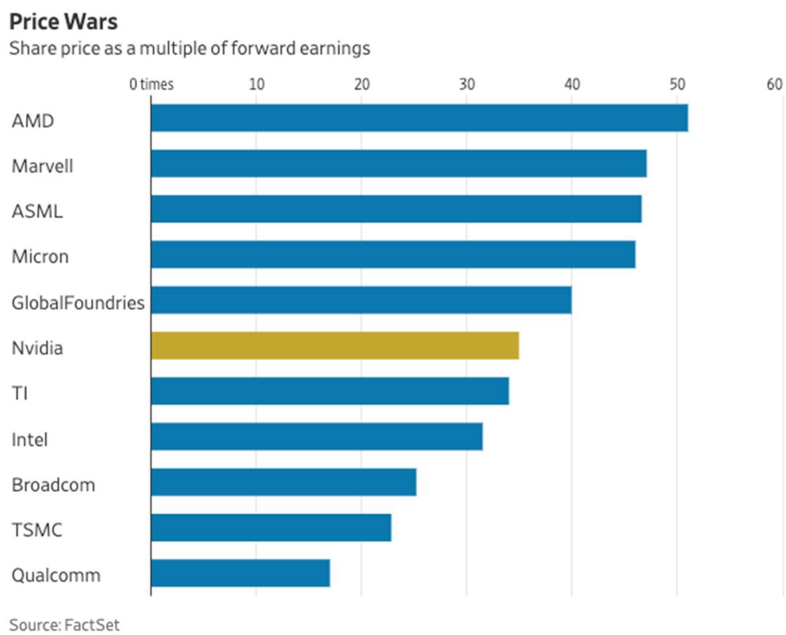
US Interest Payment Scenarios



Although we cannot predict current developments precisely, market expectations now suggest fewer than three cuts before the year's end, which is less than the 150 basis points (1.5%) assumed in this chart.

Fortunately, strong company reports have continued to bolster the equity markets and hopes for a soft landing for the economy. The "Magnificent Seven" have shown robust growth, but on closer inspection, only three remain: Nvidia, Meta, and Amazon. Microsoft, Apple, Tesla, and Google have not started the year as well. By mid-March, just before Developer's Day, even Nvidia began to show some vulnerabilities. Nvidia introduced a new line of GPU processors for Artificial Intelligence applications, which are expected to drive continued explosive earnings growth. However, the industry is beginning to experience supply chain bottlenecks, and the recent earthquake in Taiwan may cause further delays, although the initial reports from TSMC are encouraging in this regard.

Investor doubts are rising about whether this growth rate can be maintained. The valuation chart below, courtesy of the Wall Street Journal, paints a worrying picture. These stocks are priced for perfection; anything less could lead to problems.



Economic data, on the other hand, have shown that overall US data remain strong, while Europe has reported weaker-than-expected figures. Even here, a less positive outlook is emerging with signs of weakening.

The US economy is currently bolstered by personal consumption, which accounts for roughly 2% of the Gross Domestic Product (total 3.2%).

Since 2023, there has been a steep increase in auto and credit card loan delinquencies. By the end of 2023, 7.7% of auto loans and 8.5% of credit card loans had payment delays of over 30 days. The US unemployment rate slightly increased to 3.9% by the end of February 2024, but there was a significant reduction in JOLTS. (job openings and labour turnover summary)

Commercial real estate is also under pressure, with prices rapidly declining. Since the pandemic, workers have preferred working from home, reducing the demand for commercial properties.

Unfortunately, small banks in the United States have, on average, 44% of their loans directed towards commercial real estate. This is a sector we continue to monitor closely to avoid unpleasant surprises.

MWC Investment reviews

Throughout the quarter, we have and are implementing several important changes to adapt to the changing economic environment.

After years of negative or very low interest rates and an aggressive cycle of interest rate increases by the central banks, we have finally reached more appealing levels. Since November 2023, we have seen strong indications that this cycle is ending. Consequently, we have resumed investing in longer dated fixed income, primarily through investment funds with a rigorous selection of investments. This strategy allows us to lock in the current yields for investors.

On the equity side, given the weakening global economies, we have reduced our exposure to mining and energy companies. Although these investments have yielded interesting returns over the past few years, and many long-term investment cases remain valid, higher refinancing rates and reduced demand are dampening prospects in these sectors.

Semiconductor and other technology stocks have also performed well in recent months. However, as previously mentioned, valuations seem high. We prefer to reduce our positions in these sectors and gradually focus on market areas with good growth prospects and lower valuations.

In terms of equity investment themes, we identified four core areas at the end of 2023: India, Japan, US Small Caps Value, and US Small Caps Growth. We are gradually implementing allocations for clients as and when it makes sense.

Although equity markets had a strong start to the year, we would not be surprised to see a pause in the coming months, typically during the slower summer months.