SERENIS

FAMILY CAPITAL

Monthly Markets Chronicles

August 2024

Staying the course in a turbulent ocean

As 2024 continues its tumultuous course, it is clear that uncertainty reigns supreme on the financial markets. Between various geopolitical events and economic surprises, savvy investors know that the coming months will be full of shocks.

August was a veritable concentration of this dynamic, with the Nikkei 225 leading the way, reminding us that economic certainties are often as ephemeral as a summer breeze. Global markets seem to be caught up in a whirlwind of volatility, and it is becoming crucial to navigate with care.

Faced with these rough seas, our strategy remains simple: vigilance and anticipation. We favor in-depth, considered analysis, identifying underlying trends without attempting to predict the unforeseeable. Our aim? A robust positioning, capable of withstanding the turmoil while capturing present opportunities.

This month, we also considered the short- and long-term impact of major technological advances on markets. By comparing them to major revolutions of the past, we offer a balanced perspective that transcends simple cycles of euphoria and discouragement.

Our mission remains unchanged: to provide clear, solid analysis, the essential foundation for decision-making in a constantly changing world. More than ever, it's about anticipating rather than reacting, understanding rather than following, to provide a stable course in the midst of complexity.

Happy reading, and may the winds be kind to you.

Comments of the month of August

The first week of the month was turbulent, to say the least. On Monday August 5, the Japanese Nikkei 225 index closed down at a bad -12.86%, its worst daily performance since 1987. In its wake, the US stock markets tumbled by a cumulative -8% after three trading sessions, and cryptos lost 15% in 24 hours. The most frequently cited reason was the closing of carry trades positions between the yen and the dollar following the BoJ's rate hike announcement. However, other factors clearly contributed to an acceleration in this selling wave, leading to a disproportionate panic. This led to a spike in volatility never seen before, even in times of crisis - we'll come back to this later. Despite this event, which was as unexpected as it was violent in its magnitude, investors, or at least some of them, took the opportunity to buy back the market at its trough.

Equity Indexes	Value	MTD	2024
S&P 500 (USA)	5 648	2.3%	18.4%
Nasdaq 100 (USA)	19 575	1.1%	16.3%
Euro Stoxx 50 (Europe)	4 958	1.7%	9.7%
SMI (Switzerland)	12 437	1.0%	11.7&
Nikkei 225 (Japan)	38 648	-1.2%	15.5%
CSI 300 (China)	3 321	-3.5%	-3.2%
Currencies	**Value**	**MTT**	**2024**
EUR/USD	1.105	2.1%	0.1%
USD/CHF	0.850	-3.2%	1.0%
EUR/CHF	0.939	-1.2%	1.1%
GBP/USD	1.313	2.1%	3.1%
USD/JPY	146.170	-2.5%	3.6%
Bond Indexes		**MTD**	**2024**
Government USA		1.3%	2.6%
US Corporate IG		1.6%	3.5%
US Corporate HY		1.6%	6.3%
Government UE		0.3%	0.8%
UE Corporate IG		0.4%	1.2%
UE Corporate HY		1.2%	5.3%
Other Asset Classes	**Value**	**MTD**	**2024**
Gold	2 503	2.3%	21.3%
Brent Crude	79	-2.4%	2.3%
Bitcoin	59 045	-8.5%	40.8%
Rates / Indicators	**Value**	**Δ MTD**	**Δ 2024**
US 10 years rate	3.90%	-0.13%	0.02%
GER 10 years rate	2.30%	0.00%	0.28%
US Unemployement	4.3%	0.2%	0.6%
Volatility Index (VIX)	15.0	-1.4	2.6

As a result, the rest of the month saw an equally rapid decline in volatility and a record series of positive sessions in the USA (nine of the last ten sessions in the green).

The vast majority of indices therefore posted a positive performance in August, with the exception of Japan and China (again). Bitcoin also failed to recover its initial levels, posting a performance close to -10%. However, the biggest loser of the month was undoubtedly the dollar. It is losing ground against all the major currencies, especially the Swiss franc, which is playing an increasingly important role as a safe-haven asset. This depreciation is justified by the markets' near-certainty of a forthcoming rate cut in the USA, with analysts now forecasting a 50-point drop.

In addition, the revision of the total number of jobs created in the USA over the last 12 months raises serious questions about the quality of macroeconomic publications. Indeed, the total number has been revised downwards by -818,000 jobs, strongly suggesting that the US economy is not doing "so well" and therefore, according to some, that the specter of the next recession is increasingly likely.

Our current positioning

The events of August confirm our more conservative stance decided back in July, and although the markets ended the month positively, we consider that there is currently a certain fragility and growing nervousness in the equity markets. Historically, September is, on average, the worst month of the year and, to be more precise, the only negative month in the last decade. We believe the US market is at the end of the cycle, and we favor the "soft landing" scenario for the economy. However, the employment and consumer figures are not all that encouraging. We are therefore underweighting our exposure to US equities.

The situation in Europe is also a source of concern, but for different reasons. Political instability is still a source of concern for the markets. The inability to form a government in France, the outcome of the regional elections in Germany and the debacle in the United Kingdom are all factors calling for restraint.

As for emerging markets, we are maintaining a neutral position, with one caveat. China's weighting in emerging indexes is one point to bear in mind. The many uncertainties surrounding the health of the Chinese economy (and that of its General Secretary) are all negative points that make us shy away from this market. On the other hand, we believe that most other emerging markets will do well in the face of a depreciating dollar and capital flows that should increase towards these markets from profit-taking in the US and/or Japanese markets in particular.

We therefore favor the bond allocation, with an overweight in the "investment grade" and "sovereign debt" classes, which should still benefit from positive revaluations during the next rate cuts. We favor a slightly longer duration and prefer to look for quality rather than risk. On the "high yield" side, our position is currently neutral. The potential returns, combined with the risks inherent in this asset class, are no longer so attractive with much tighter spreads.

We also took a long, careful look at Japan, following the events of the beginning of the month, as well as numerous publications on what led to this extreme situation. As yen-denominated Japanese equities are one of our strategic investment ideas, we need to keep a close eye on the ins and outs of this theme. Indeed, in recent years, borrowing in yen "for free" or at a near-zero rate, and then investing in dollars (i.e. mainly in US equities) has been a very lucrative game for many investors. Now that the BoJ seems to be changing its monetary policy, and borrowing is costing debtors money, and US yields are falling at the same time, debtors are rushing to repay their debts. Is this a reason to pull out of Japanese yen equity investments? From our point of view, no. Or rather, not yet. Indeed, we still see interesting potential, and although the events of the beginning of the month took many investors by surprise, the Japanese market remains one of the cheapest, and the yen is still trading at historically low levels.

Similarly, our strategic investment in Uranium was discussed at length, as it has posted a significant negative performance this year. The investment committee unanimously maintains its position. It is perhaps even more interesting now than it was at the beginning of the year. Fundamentally, the story behind this theme remains entirely valid, and much more besides. Kazatomprom's recent publications, indicating a drop in production forecast for 2025, implying that they will not be able to supply their order book, is one of the many factors favoring this theme. We can also mention the Swiss Federal Council's decision to lift the ban on the construction of new nuclear power plants, and the inauguration in France of a brand-new Flamanville power plant (initially scheduled for 2012), all of which are factors in a forecast increase in demand for this metal.

As for gold, we are also maintaining this theme because, despite a year-to-date performance of 20%, it is likely to have entered a new super-cycle, at least from a technical point of view. But that's not all. In fact, the strategic reserves of many countries have risen sharply, and its role as a safe haven for many institutional investors is marked. The $3,000 target is now being evoked by many analysts and does not seem all that irrational.

« Core » Portfolio

	% SAA		%TAA
Cash	5%	=	**5.0%**
Fixed Income	45%	↗	**47.5%**
Investment Grade	20%	↗	22.5%
Sovereign Debt	15%	↗	17.5%
High Yield	10%	=	10.0%
Equities	50%	↙	**45.0%**
US markets	30%	↙	27.5%
European markets	15%	↙	12.5%
Emerging markets	5%	=	5.0%

« Strategic focus » investments

Themes	%	Since
Gold	5.0%	29.12.2023
Uranium	2.5%	29.12.2023
JAP EQ in Yen	2.5%	29.02.2024
Defense	2.5%	30.04.2024

Balanced USD Portfolio

Thinking forward: Technological euphoria and lessons from the past

In the 1840s, England was gripped by a veritable railroad frenzy. Projects such as The Eastern Counties Railway, designed to link London to the east of the country, captivated investors, lured by the promise of unlimited wealth. This speculative phenomenon led to a bubble that burst in 1847, leaving behind shattered hopes and shattered fortunes. This period teaches a valuable lesson: technological euphoria, however promising it may seem, can quickly turn into economic disillusionment. A century later, history repeated itself with radio. Radio Corporation of America (RCA), the market leader, became the symbol of a new era of communication, generating a craze that propelled its share price to unprecedented heights. But the Great Depression put an abrupt end to this momentum, causing RCA's value to plummet by 95%. This episode once again highlighted the dangers of excessive, poorly managed enthusiasm. In the late 1990s, the rise of the Internet triggered a new wave of speculation, epitomized by companies like Webvan. Promising to revolutionize retailing with advanced logistics systems, Webvan attracted massive investment. However, in less than two years, the company went bankrupt, burning through over a billion dollars and leaving a network of warehouses unused. This failure is a reminder that even the most visionary ideas cannot succeed without a solid business model and a clear understanding of the market.

Today, Artificial Intelligence (AI) is at the center of everyone's attention, with ambitious promises that are generating unprecedented enthusiasm: revolutionizing the healthcare sector, proposing innovative solutions to combat climate change, and automating whole swathes of the economy. These promises outline a future where AI could radically transform our daily lives. However, behind this widespread enthusiasm lie crucial aspects that are often overlooked or underestimated. History, rich in lessons, has shown us time and again that technological euphoria can prove deceptive, even dangerous, when expectations exceed reality. So it's essential to look at the challenges and realities that AI will have to face to realize these promises.

A first aspect to consider concerns the impending limits of data, an issue often sidestepped in discussions around AI. Current AI models are extremely data-intensive, exploiting the incredible volume of information available today: text, images, videos, and a myriad of online behaviors. This data has fueled the rapid and impressive progress of AI in recent years. But what will happen when every book has been digitized, every tweet analyzed, and every image explored? This continuous stream of data could dry up, and with it, the pace at which we've seen AI evolve. The rapid progress we've become accustomed to could not only slow down, but stagnate, confronting companies with an unexpected wall. In this scenario, AI models risk going round in circles, recycling variations of what they've already learned, without any real innovation or ability to generate new knowledge.

Another crucial aspect, often overlooked in the general enthusiasm, is the massive energy consumption that AI requires. Training an advanced language model, for example, can consume as much energy as a small town in the space of a month. At a time when energy costs are constantly rising and power grids are under increasing strain, this energy bulimia is becoming increasingly difficult to justify, both economically and ecologically. This exponential energy consumption raises an essential question: in a world faced with an ever-increasing shortage of energy (at a reasonable price), can we really justify the frantic race for computing power that seems to be becoming the norm in the development of AI? Data centers, which support AI and its applications, risk becoming the new polluting factories of the 21st century, absorbing precious resources and rejecting heat in considerable quantities. This prospect highlights a paradox: AI, which is supposed to help solve some of the greatest challenges of our time, could also contribute to worsening some of them if these issues are not proactively addressed.

Finally, despite the massive investments pouring into the field of AI, concrete, revolutionary breakthroughs are becoming increasingly rare. We are now witnessing a period of diminishing returns, where every improvement, no matter how marginal, requires exponentially greater resources. The early years of AI were marked by spectacular breakthroughs that captured the world's attention, but current advances often seem more cosmetic than truly fundamental. In image recognition, for example, early models made remarkable progress, moving from total confusion to impressive accuracy in just a few years. But today, improvements are measured in fractions of a percentage, requiring considerable investment for ever-smaller gains. This raises a pressing question: is this approach sustainable, or are we running up against the fundamental limits of current AI methods? If we continue along this path, do we run the risk of hitting a technological glass ceiling, where the resources and efforts deployed no longer deliver the expected results?

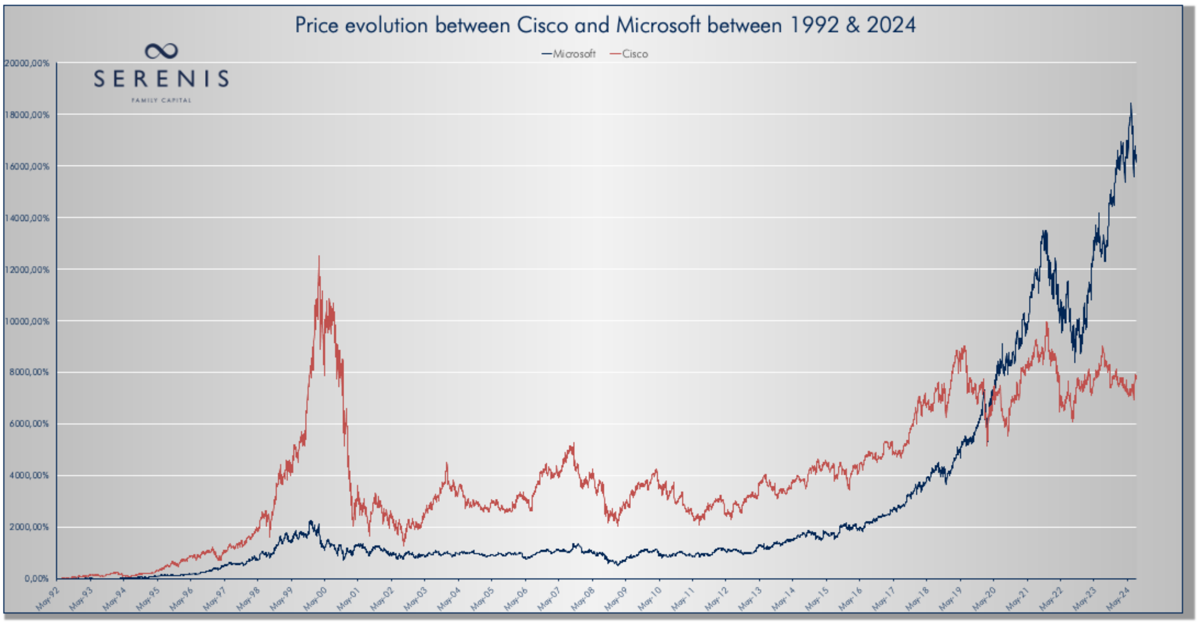
Nevertheless, it would be too easy to give in to cynicism. The real question is not whether an AI bubble will burst, but who will be the real innovators to emerge from its rubble? It is often in the ruins of past manias that the giants of tomorrow are forged. Google was founded in 1998, just before the dot-com bubble burst. Facebook was born in 2004, long after the dust had settled. These companies have learned from past excesses to build viable and sustainable business models.

Tomorrow's true AI pioneers will not be those who promise miracles, but those who tackle fundamental problems. How can we design AI systems capable of learning with less data? How can we drastically reduce the energy consumption of current models? How can we overcome the limits of deep learning to achieve a true understanding of the world?

Authentic innovation is rarely spectacular. It is not measured in press releases or viral tweets. It is born of the perseverance of entrepreneurs who refuse to ignore fundamental problems and seek solutions where others see only obstacles. It is the fruit of the patience of researchers who explore alternative avenues, far from the spotlight and ephemeral fashions.

In this new era of AI, it's essential to remain lucid. Let's not get carried away by collective enthusiasm. Let's look for companies that create real added value, rather than those that excel at marketing. And above all, let's remember that real revolutions often happen far from the limelight, when everyone else is looking the other way. AI will undoubtedly transform our world, but this transformation will be neither easy nor linear. It will require overcoming fundamental obstacles in terms of data, energy and economics. The real winners of this revolution will be those who have the courage to tackle these challenges head-on, rather than ignoring them in favor of unrealistic promises.

As we enter this new era, let's remember the lessons of the past. Technological euphoria is seductive, but it is in the sobriety of critical analysis and the audacity of genuine innovation that the future is forged. Let's not be blinded by exaggerated promises and concentrate on building an AI that truly serves humanity, in all its complexity and diversity. Therein lies the real challenge - and the real promise - of the Artificial Intelligence era.



Food for thoughts

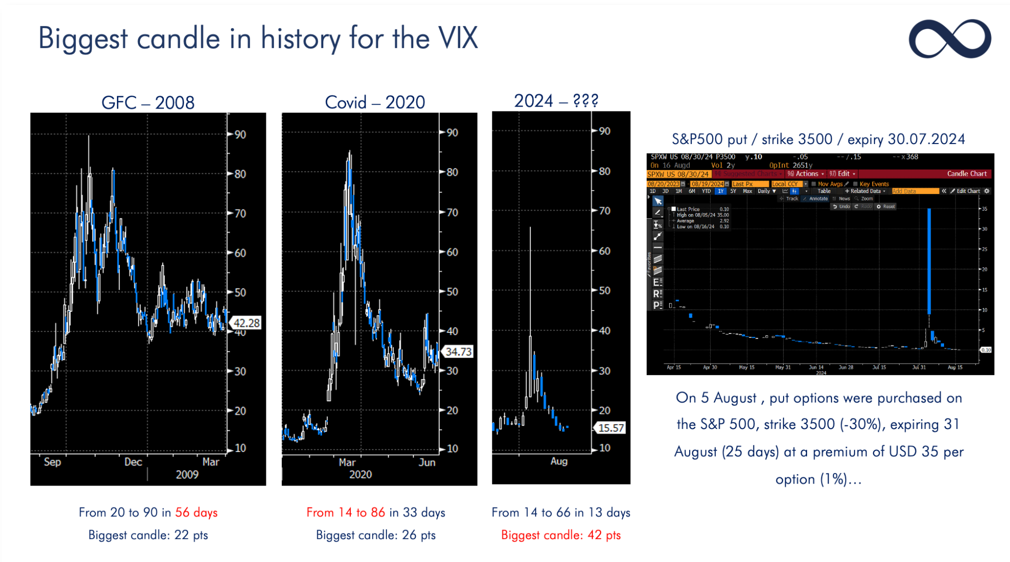
Extreme volatility

On August 5, during the market panic following the sharp fall in the Japanese stock market, we experienced an extraordinary event that few people even noticed or even talked about. The Volatility Index (VIX) reached record levels, topping 66, in a matter of hours, before falling back just as quickly.

Here's a concrete example: investors bought put options on the S&P500 at an execution price of $3'500, or -30% from the market price, with a 25-day maturity, at a price of $35.- (1%). In other words, with these transactions, investors protected themselves by paying a high price, betting on a market explosion during the month. On the other hand, of course, this market anomaly also created incredible investment opportunities, for those who were extremely quick and opportunistic, selling those same options or taking advantage to create strategies on the index. Indeed, the VIX has spent the vast majority of the year below 15 (currently at 20.50), and historically averages just below 20.

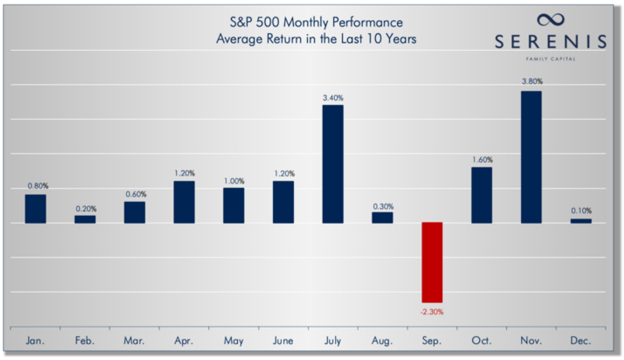
This raises the question as to the reasons for this phenomenon. Was it a simple market anomaly exacerbated by the automatic selling of algorithms all too present in today's financial system, or are there other, more rational reasons? Market manipulation, a player who needs to shed a very large position or is on a margin call? Perhaps history will answer these questions, which to date remain only partially explained.

By way of comparison, the VIX rose from 20 to 90 in 56 days during the 2008 financial crisis, and from 14 to 88 in 33 days during the 2020 Covid crisis. What's more, the biggest daily rise was just 22 points in 2008 and 26 points in 2020. As a result, the 42-point jump in the VIX on August 5 is a truly extraordinary event, both in terms of its amplitude and its short duration.

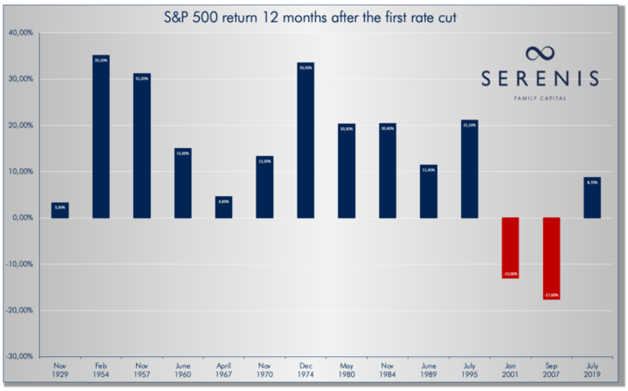


Three charts :

The seasonality effect is well known and often used by analysts. Although the value of this information is relative, it is interesting to note that, over the period from 2013 to 2023, the average monthly performance of the S&P500 has always been positive, with the exception of September, with an average negative performance of -2.30%.



Everyone is talking about it and everyone is waiting for it: the first rate cut in the United States. The consensus is overwhelmingly for it to come in September. Here's the performance of the S&P500 12 months after the 1rst rate cut since 1929. It's interesting to note that only in 2001 and 2007 is performance negative. All other observations give a positive performance. However, performance in the first few months following the 1st irate cute is very often negative.



Disney's share price performance has been particularly poor since its peak in March this year. The fairy tale is turning into a horror film for investors. The iconic symbol of the Mickey Mouse brand, the theme park castle, almost perfectly represents the share price trend since August 2023. Reality sometimes surpasses fiction.

“Markets can only be understood backwards, but they must be invested thinking forwards”

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