SERENIS

FAMILY CAPITAL

Monthly Markets Chronicles

November 2024

Market love red

Make no mistake: this title is deliberately catchy. In the language of the financial markets, red symbolizes a downturn, and nobody likes a bear market. However, in the United States, red is also the colour of the Republican Party, unlike in Europe, where it traditionally evokes socialist parties. This month, markets have shown real enthusiasm for this shade of red.

The "Trump effect", amplified by the influence of Elon Musk, has instilled a palpable optimism that could continue in the months ahead. We believe that this enthusiasm will translate into solid economic results in the US, and we have positioned ourselves to take advantage of this. The concrete policy orientations of the administration that takes office next January will be key elements to watch to confirm this trend.

In this column, we also address the most pressing challenge facing Europe. This uncertain political and economic context offers both major opportunities and risks. While the USA seems to be finding new momentum, Europe is going through a turbulent period marked by political instability and a subdued economic outlook.

For investors, this dichotomy between the two continents calls for strategic adjustments to protect their assets while seizing opportunities.

The coming months will be crucial, and we'll need to navigate with caution. Humility, responsiveness and flexibility will be essential. Identifying opportunities, anticipating future trends and adapting to a tense geopolitical context will be the keys to optimizing performance while preserving the serenity we hold dear.

Comments of the month of November

The US markets have been surfing all month on what we called the *Trump Tsunami* in our last column. Indeed, to the rhythm of the President-elect's announcements, investors in US equities enjoyed one of their best monthly performances in over 10 years.

However, not all sectors have benefited from this euphoria, and disparities are quite marked. While it's clear that the technology sector in the broad sense of the term is largely positive, it's the consumer discretionary sector that came out on top, with +13.2% in November.

Once again, the figures are misleading, as Tesla is in this category alone, posting a +38.1% performance. Once again, we need to put the index figures into perspective. The next two sectors are *Financials* and *Industrials*, following the *Make America Great Again* logic.

Equity Indexes	Value	MTD	2024
S&P 500 (USA)	6 032	5.7%	26.5%
Nasdaq 100 (USA)	20 925	5.2%	24.4%
Euro Stoxx 50 (Europe)	4 802	-0.5%	6.2%
SMI (Switzerland)	11 750	-0.4%	5.5%
Nikkei 225 (Japan)	38 208	-2.2%	14.2%
CSI 300 (China)	3 917	0.7%	14.1%
Currencies	**Value**	**MTT**	**2024**
EUR/USD	1.055	-3.1%	-4.4%
USD/CHF	0.882	2.1%	4.8%
EUR/CHF	0.931	-1.5%	0.2%
GBP/USD	1.270	-1.5%	-0.2%
USD/JPY	150.390	-1.1%	6.6%
Bond Indexes		**MTD**	**2024**
Government USA		0.8%	2.2%
US Corporate IG		1.3%	4.1%
US Corporate HY		1.2%	8.7%
Government UE		2.5%	3.2%
UE Corporate IG		1.8%	5.3%
UE Corporate HY		0.8%	8.4%
Other Asset Classes	**Value**	**MTD**	**2024**
Gold	2 643	-3.7%	28.1%
Brent Crude	73	-0.3%	-5.3%
Bitcoin	97 460	39.4%	132.4%
Rates / Indicators	**Value**	**Δ MTD**	**Δ 2024**
US 10 years rate	4.17%	-0.12%	0.29%
GER 10 years rate	2.09%	-0.30%	0.06%
US Unemployment	4.1%	0.00	0.4%
Volatility Index (VIX)	13.5	-9.7	1.1

The situation in the other stock markets was very different, with Europe finishing in the red, as did Switzerland and Japan. Political and structural problems in France and Germany are weighing heavily on the old continent. However, for some analysts, European stock market levels now represent a real investment opportunity.

On the currency front, the dollar strengthened significantly against all other currencies, outperforming the euro in view of the current political instability. Cryptocurrencies outperformed all other asset classes, and Bitcoin, with +39.4%, was almost a poor performer against many altcoins, which posted returns well in excess of 100%.

Finally, gold came under heavy pressure until mid-month, even falling below USD 2,500, before recovering in the second half of the month. However, it ended the month in the red with a performance of -3.7%, something we were no longer used to this year.

Our current positioning

It's not yet time to take stock of the year, and December could be a particularly busy month. Our investment committee has once again adopted a cautious stance to avoid any year-end slippage, while nevertheless attempting to continue generating alpha in our portfolios.

Our "*Core*" portfolio has posted a performance flirting with 8% since the start of the year, reflecting the current state of the market for a typical dollar-based balanced portfolio. We are now reducing our overexposure to investment-grade bonds and sovereign debt, to return to a neutral position in these two sub-asset classes. As a result, our current positioning in the bond portion of our *core* portfolio is totally neutral. Indeed, there is a certain amount of growing uncertainty as to the evolution of interest rates at the various central banks. Although a final rate cut by the FED and ECB in December is widely anticipated by analysts, its impact should be limited, as the market has already taken this into account.

For the "equities" part of our "*Core*" portfolio, our positioning remains unchanged from last month. Our neutral position on US equities indicates that we are comfortable with a positive but moderate behaviour, the main rally having already taken place in November. However, a Christmas rally is quite conceivable and could further improve the returns posted by the indices. We prefer to maintain an underweight position in European equities for the time being. Clearly, current valuations are attractive because they are historically low. However, this does not yet compensate for the political risks facing both the EU as a whole and individual countries. Germany, with early elections scheduled for January, and France, with its government in the hot seat, are just two examples of the difficulties currently facing the *Old Continent*. As far as emerging markets are concerned, although most of them will experience difficulties in the face of US foreign policies in terms of trade rules, we maintain a neutral view, with preferences for certain countries and a certain aversion to others.

As for our *Strategic Focus* investments, they have contributed and generated alpha in an excellent manner. In fact, they contributed almost 16% of our portfolio's total performance, representing only around 10% of the total. On an individual level, the defence theme has been the top performer both since the beginning of the year and in November alone. We continue to believe that this theme is all the more topical now, in view of the latest geopolitical developments and the prospects of massive investment by governments worldwide. Below, we'll look more closely at the issues specific to Europe and link them to this theme. More concretely, the defence theme has generated a performance of over 22% since its effective implementation in our portfolio on April 30, and +4.69% in November.

Uranium also had a good month in November (+8.30%), and although it has remained in negative territory since the beginning of the year, we are renewing our confidence in it, and even believe that it is all the more topical as it is likely to see renewed interest from the United States. Gold remains one of the best contributors to returns since the start of the year, despite a negative November. In our view, its uptrend is not yet over, and it remains one of our strategic investments.

Following the results of the US elections, our investment committee decided to strengthen our exposure to the US market, broadening our approach beyond the S&P 500 to include a wider swath of the US market. With the return of Donald J. Trump to the White House and the advent of his famous MAGA, the (real) US economy could experience renewed momentum, benefiting in particular so-called “Small & Mid Caps” companies, which are often more exposed to domestic dynamics. This sector, which has underperformed the main indexes in recent years, has considerable potential for catching up, which we believe is promising.

To take advantage of this potential, we opted for a more targeted, less diluted approach than a broad index such as the Russell 2000, representing all Small & Mid Caps. After analysis and discussion, we decided to invest in an ETF based on the S&P 400 Mid Cap, which focuses on the 400 largest U.S. capitalizations after the S&P 500. This ETF also incorporates a “Momentum” strategy, selecting only the 80 companies that have maintained solid upward trends over the past 12 months.

This approach offers the advantage of maximizing growth opportunities in a dynamic segment, while limiting risk thanks to reliable and persistent signals, thus enabling optimized and disciplined portfolio management.

« Core » Portfolio

	% SAA		%TAA
Cash	5%	↗	**7.5%**
Fixed Income	45%	=	**45.0%**
Investment Grade	20%	=	20.0%
Sovereign Debt	15%	=	15.0%
High Yield	10%	=	10.0%
Equities	50%	↙	**47.5%**
US markets	30%	=	30.0%
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
Defense	2.5%	30.04.2024

Balanced USD Portfolio

Thinking forward: European defense

"Europe can only be European if it stands up for itself"

Charles De Gaulle
July 23th 1964, speech at the Ecole Militaire, Paris

In July 1943, the scientific journal *Psychological Review* published one of the most influential articles in psychology, sociology and economics in contemporary history. While the world was in the midst of the Second World War, with the Allies launching Operation Husky (the invasion of Sicily) marking a crucial strategic turning point, in the United States, the war effort was in full swing, with a massive mobilization of industrial and human resources to support the European and Pacific fronts. American society, still marked by the repercussions of the Great Depression, underwent a rapid transformation of its economy and social structures under the impetus of war.

It was against this tumultuous backdrop that Russian-born New Yorker Abraham Maslow observed the behaviour of his contemporaries and pondered the motivations that drove individuals to act. From these reflections emerged the article that first introduced the world to his famous pyramid of needs, ranking human needs by showing that when fundamental needs such as security, survival or stability are not satisfied, higher aspirations-such as self-fulfilment, creativity or the quest for meaning-become secondary in the face of the urgency of the moment. This theory provides a framework for understanding human behaviour in times of great uncertainty and transformation.

Today, Maslow's pyramid is more present than ever in the minds of European leaders. Long focused on cooperation, economic prosperity, social progress and cultural integration, these nations are faced with a series of interconnected crises that bring them back to Maslow's fundamentals. Terrorism, the COVID-19 pandemic, the war in Ukraine, migratory tensions and energy instability are refocusing national and European priorities on the need for physical, economic and energy security, profoundly transforming the continent's political and strategic agendas.

For decades, the continent benefited from the "peace dividend" that came with the end of the Cold War, enabling resources to be diverted to priorities such as ecological transition, education, social development and the construction of a common European identity. However, the sense of security - already called into question by the COVID-19 crisis, which exposed vulnerabilities in healthcare systems and supply chains, undermining confidence in Europe's resilience - vanished abruptly with Russia's invasion of Ukraine in February 2022. This military act exposed deep-seated flaws in Europe's ability to guarantee its own security, energy autonomy and global strategic influence.

These shortcomings did not appear suddenly but are the result of structural choices made over several decades. In 1990, European NATO members were still devoting 2.5% of their GDP to defence, reflecting the fact that they were taking security issues seriously. By 2020,

this figure had fallen to 1.6%, well below the Alliance's 2% target. This budgetary reduction has led to a decline in military personnel, obsolescence of equipment and disinvestment in cutting-edge technologies. Europe's armed forces have fallen from over 4 million in 1989 to just 1.8 million today, reflecting an erosion of operational capabilities and increased dependence on allies, i.e. the United States.

The fragility is also material and technological. At the end of 2023, the UK had just 150 operational Challenger 2 tanks and a dozen long-range artillery pieces, insufficient for a high-intensity conflict. France had fewer than 90 heavy artillery vehicles, and Germany had only a few days' worth of ammunition for a high-intensity military engagement. These shortcomings extend to supply chains, industrial production, technological innovation and a fragmented, inefficient defence industry.

The invasion of Ukraine highlighted and converged all these vulnerabilities. Ukrainian ammunition stocks were rapidly depleted, forcing Europe to draw on its own insufficient reserves. The inability of European industries to produce rapidly in volume revealed that, despite its economic potential, Europe cannot sustain a prolonged war without relying on external suppliers. Currently, 78% of European defence spending is allocated to non-European suppliers, with the USA accounting for 63% of this total, undermining the continent's technological and military sovereignty.

At the same time, the energy crisis caused by dependence on Russian gas has exacerbated this fragility. By 2021, the European Union would be importing around 40% of its natural gas from Russia, with some countries like Germany even more dependent, with over 50% of their supplies coming from Moscow. The reduction in Russian supplies in response to Western sanctions has forced Europe to temporarily reactivate coal-fired power plants. This underlines the fact that without energy autonomy, there can be no strategic autonomy. Energy security, economic stability and defence capability are closely linked, forcing Europe to rethink its models of dependence.

To meet these challenges, the European Commission has launched two major initiatives: the European Defence Industry Strategy (EDIS) and the European Defence Investment Program (EDIP). Inspired by the American model of the military-industrial complex, these programs aim to strengthen arms production within the Union, stimulate industrial cooperation between member states, encourage technological innovation and reduce dependence on foreign suppliers. The goal is ambitious: by 2030, 50% of European defence spending should go to local suppliers, reinforcing the continent's industrial and strategic sovereignty.

However, these initiatives face major obstacles. The first is financial: with a current budget of barely 1.5 billion euros for EDIP by 2027, the resources allocated are grossly insufficient, if not laughable. There are plenty of figures to go around, but even if we're very optimistic, we'll need to mobilize at least 100 billion euros to build a credible, competitive industrial base. The second obstacle is political: national rivalries, lack of common leadership and divergent industrial interests are holding back cooperation. France and Italy, for example, favour their own industries to the detriment of joint projects, while the Baltic states and Poland, directly threatened by Russia, prefer to buy American armaments for their speed and reliability.

This division limits Europe's ability to act collectively and benefit from economies of scale. The European defence industry is scattered, with numerous duplications and champions absent in certain sectors.

Despite these challenges, some European countries are reacting proactively. In 2022, Germany set up a special €100 billion fund to modernize its armed forces, marking a turning point in its defence policy. Poland plans to increase its military spending to 4% of GDP, becoming one of NATO's biggest contributors. These efforts include massive purchases of modern equipment, such as Abrams tanks and American F-35 aircraft, strengthening their deterrent capability against Russia. However, these initiatives remain fragmented and insufficient to bridge the continent-wide capability gap, underlining the urgent need for Europe to develop a coherent common defence strategy.

If the Union does not reinforce its autonomy, it will continue to depend on the United States for its security via NATO, a risky situation. An American disengagement could leave Europe facing a strategic vacuum. This challenge is also an opportunity to redefine Europe as an autonomous power, capable of protecting its citizens, its values and its economic interests.

From an investor's point of view, it's important to realize that this challenge goes beyond politics or defence; it's a profound and historic transformation. Europe is at a turning point where security is becoming a central factor in resilience, competitiveness and long-term stability. The defence, cybersecurity, energy, industrial and critical infrastructure sectors are poised for considerable expansion and support beyond anything seen in the last thirty years. This transition offers unique opportunities to enter underinvested sectors, diversify portfolios and participate in a very long-term trend. This moment represents both a warning and a strategic opportunity. Diverse investment opportunities exist beyond defence, in technological innovation, securing supply chains, developing reliable energy solutions and financing the European Union's strategic initiatives. We believe that we are only at the beginning of this renaissance, and that ignoring it is a considerable risk.

Food for thoughts

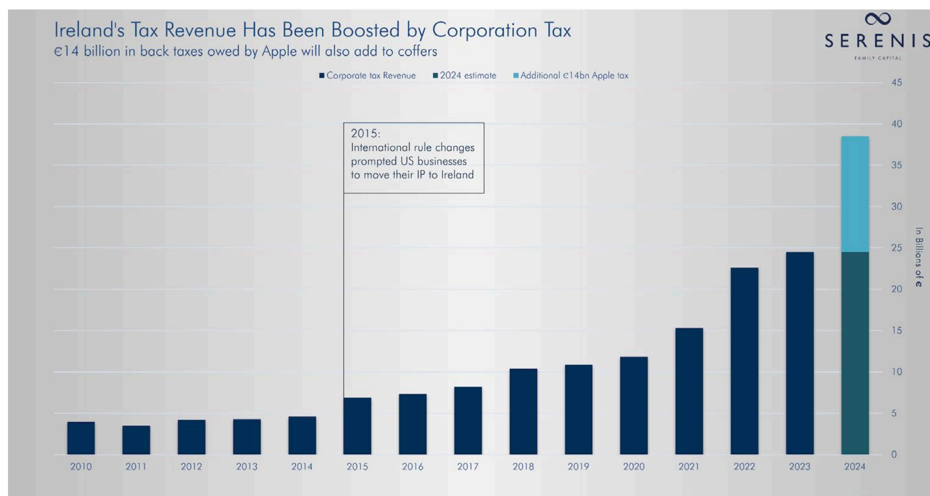
Ireland and its problem of too much cash

The management of public accounts is a perilous exercise, requiring a high degree of vision and anticipation. What's more, the evolution of state budgets is punctuated by many unknowns, as evidenced by the recent worldwide pandemic of COVID and the conflict between Ukraine and Russia, for which considerable sums have been allocated by Western countries, to name but two recent examples.

However, there is one country for which the real problem is how to empty its coffers in order to invest an extraordinary tax windfall, thanks to foreign contributors who have been posting pharaonic profits for years, but also thanks to a political decision, more than legal, on the part of the European Union. That country is Ireland.

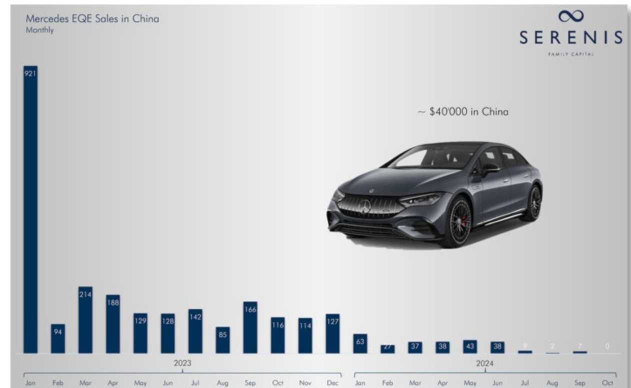
Home to numerous subsidiaries of American technology companies, including GAFAM, the tip of the iceberg, Ireland, with its advantageous corporate tax system, no longer knows how to spend its money. Worse still, with the European Union having forced Apple to pay a one-off €14 billion "tax catch-up", the state's coffers are overflowing.

Of course, with the arrival of these large companies, demographics have also exploded, bringing with them a considerable need for infrastructure. Hospitals, schools, freeways, energy production - everything was (is) undersized, because no one could anticipate such growth. These infrastructure investments are costly and often take a long time to complete. So it's all the more complicated to manage such projects, not being able to anticipate whether this situation will persist or whether the headquarters of the various companies will decide to fly to other climes. Hence the paradox and the complicated situation in Ireland: what to do, or rather, how to do it well with so many resources.

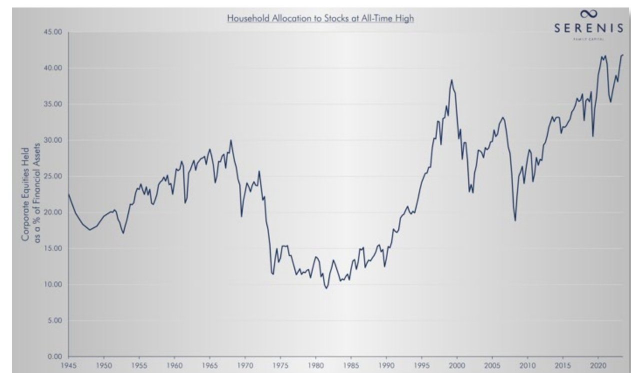


Three charts :

The automotive trade war between China and the rest of the world is in full swing. The market share of Chinese brands continues to grow in relation to traditional brands. The same is true of the so-called luxury brands. The number of Mercedes EQE vehicles sold in October 2024 is simply 0!



Given the general decline in purchasing power, particularly in the USA, this graph is surprising, to say the least. In fact, the percentage of US equities held by households, as a function of their financial assets, has never been so high since the beginning of this statistic in 1945. It currently stands at 41.8%. At the same time, credit card debt is also at an all-time high.



In the MSCI World index, US equities account for almost 74% of the global total. For a European investor, having no exposure to this market would be unthinkable, or inefficient. In fact, this is all the more true when comparing the evolution of the EuroStoxx50 with the SP500 before and after 2008. The difference in returns is stark and became even more pronounced after the latest Covid crisis.

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

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