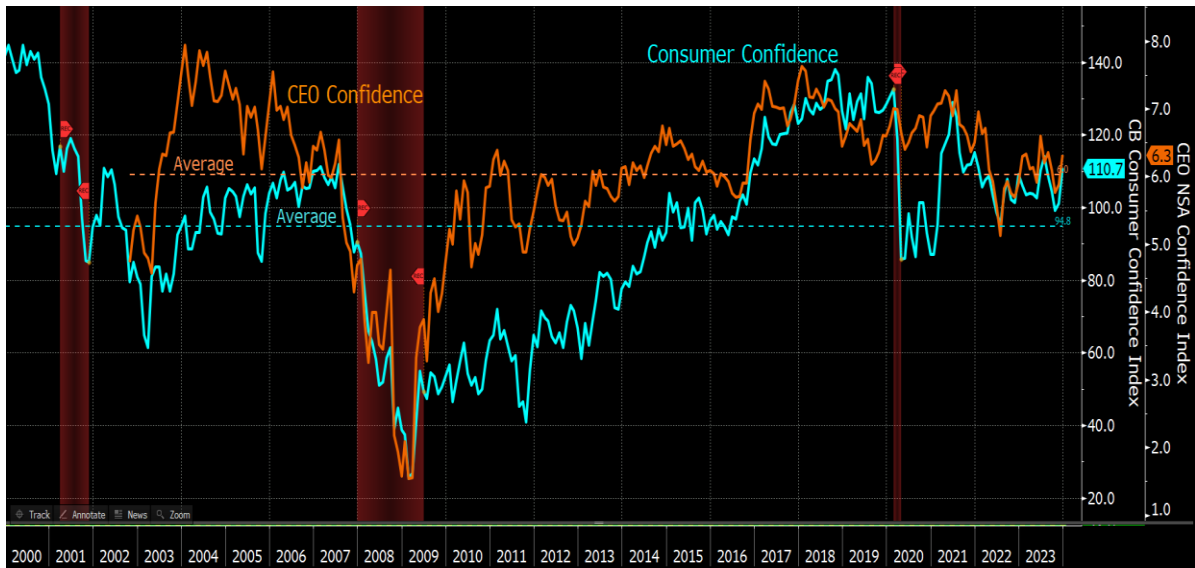


"There are answers worth billions in a \$30 history book."
Charlie Munger

1. PUBLIC CONFIDENCE

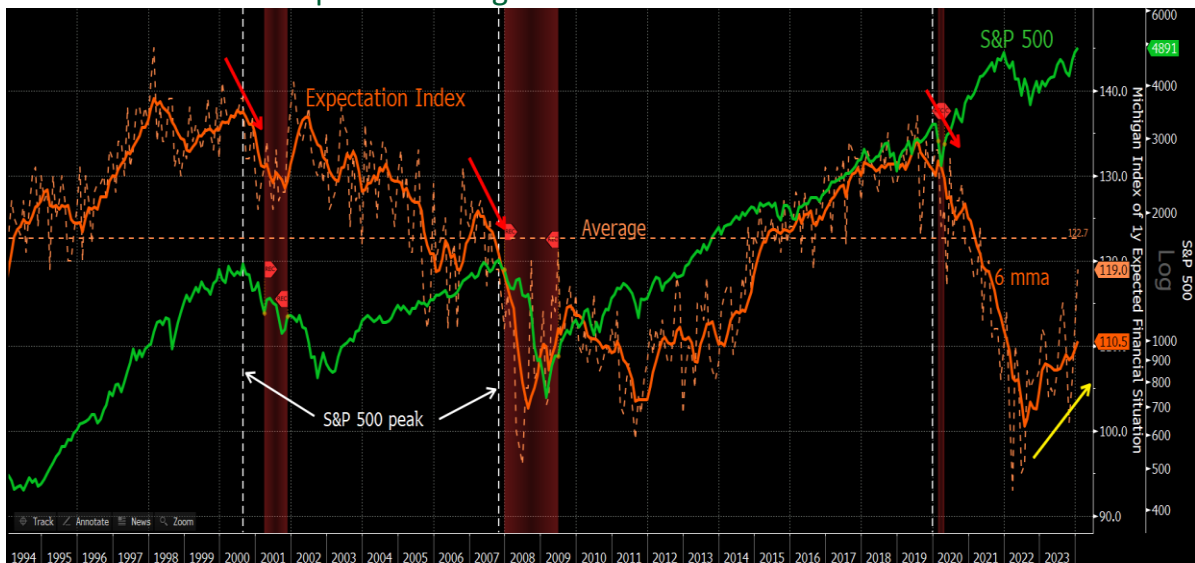
We consider the on-the-ground confidence of the US public:

US – CEO Confidence Index of Economy in One Year vs Conference Board Consumer Confidence Index



Both the CEO and Consumer Confidence Indices are currently above their respective averages, with the most recent readings for both increasing. These solid readings are currently also reflected in rising Retail Sales, and in Richemont’s and LVMH’s recent results.

US – Public’s Expected Change in Financial Position in a Year vs S&P 500

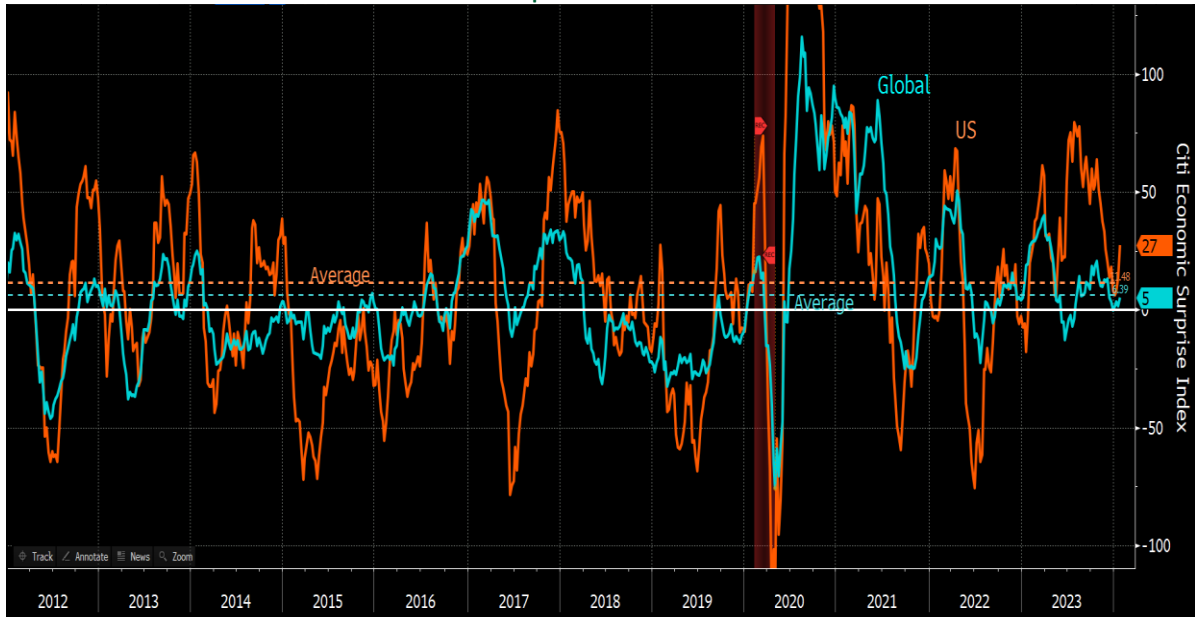


The public’s perception of the expected change in their financial position over the coming year is currently in a rising trend (the solid orange line), with the most recent reading rising sharply (the dotted orange line), being close to the long-term average. This bodes well for supporting consumer confidence - one of the most important issues for the US economy.

2. ECONOMIC OUTLOOK

The following two charts condense the mammoth task of describing the economic outlook:

Citi Economic Surprise Index – US and Global



The above Economic Surprise Index for the global economy seems to have stabilised above a neutral level, with a recent marginal uptick, currently fractionally below its long-term average. Against this, the corresponding Index for the US economy has risen quite sharply recently and is now well above its long-term average. This is quite striking, especially considering the New York Fed's Recession Within One Year Probability Index currently being close to its record level. Our perception is that the US consumer is seeing their economy through, and that lower inflation and lower interest rates gives them more comfort.

US - Expectation of No. of Fed Target Rate Cuts in 2024 vs 10-Year Treasury Yield (%)



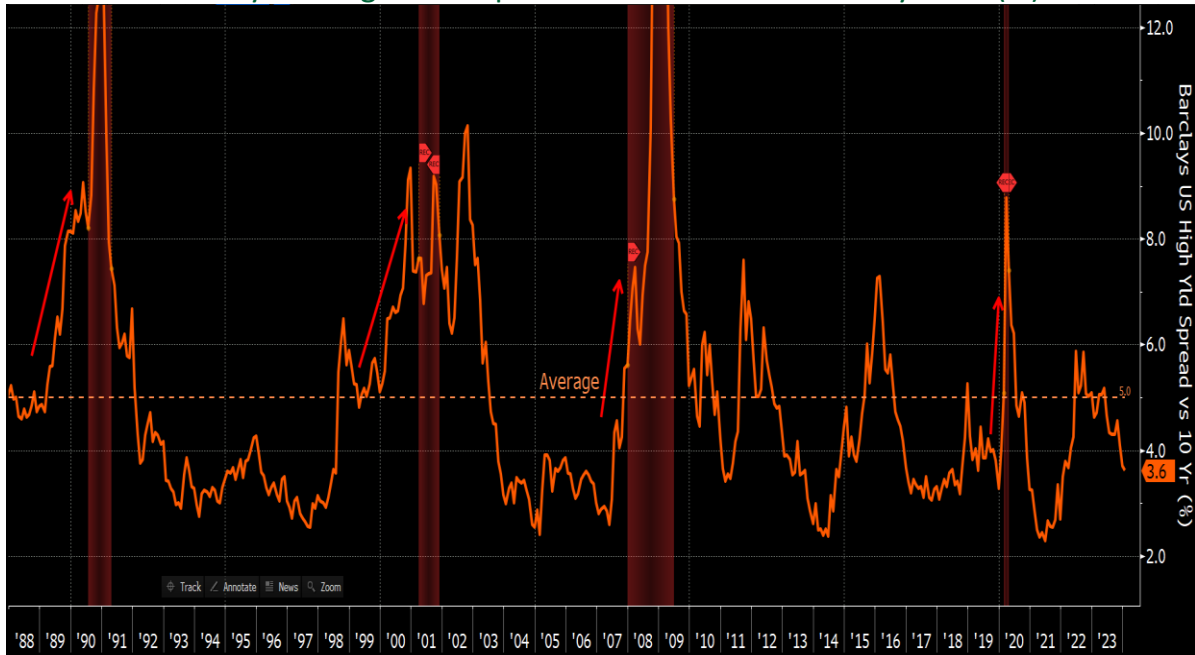
It is striking how the number of predicted Federal Reserve (Fed) rate cuts in 2024 (the green line) has recently dropped sharply, with the Treasury Yield (the orange line) rising. On the one hand, it may reflect the improving US economic outlook whilst on the other it may be factoring in Red Sea-related risks impacting world inflation, or most probably both. Nevertheless, our perception is that we can continue to have a glass-half-full approach to the economic outlook and budget for a mild rather than a deep US recession.



3. HIGH YIELD MARKET

The US Corporate Bond market also provides a helpful indication of the health of their economy:

Barclays US High Yield Spread with Ten-Year Treasury Yield (%)



The High Yield Bond Spread in the above chart is well below average with a lowering trend. This indicates a healthy US economy.

Barclays US High Yield Spread with Ten-Year Treasury Yield (%) vs S&P 500 P/E Ratio



The above chart presents the same High Yield Spread, but on an inverse scale (the orange line). The green line reflects the S&P 500 Twelve Month Forward P/E Ratio. They have a good correlation over time, and are both currently reflecting a positive economic outlook.

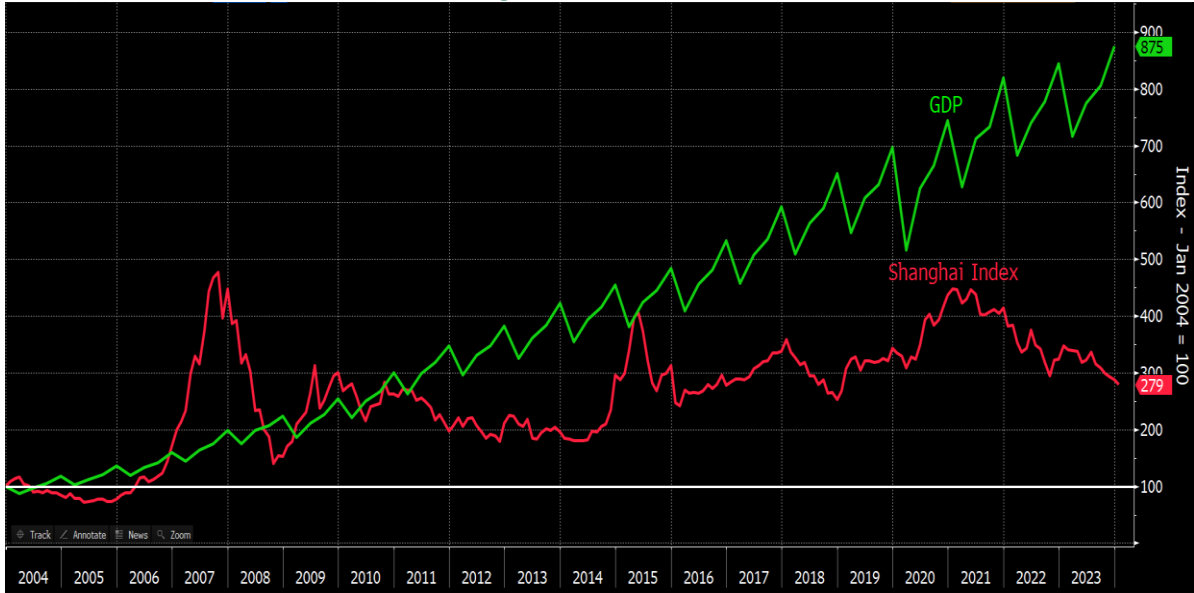
Whilst these indicators both reflect and support investor sentiment, we would also make the point that Valuations are to be seriously considered independently. Specifically on high valuations, we believe fundamental stock selection is currently most critical and that broad-brushed index buying may not render the best returns.



4. CHINA

China is one of the best examples where economic growth does not translate into stock market performance:

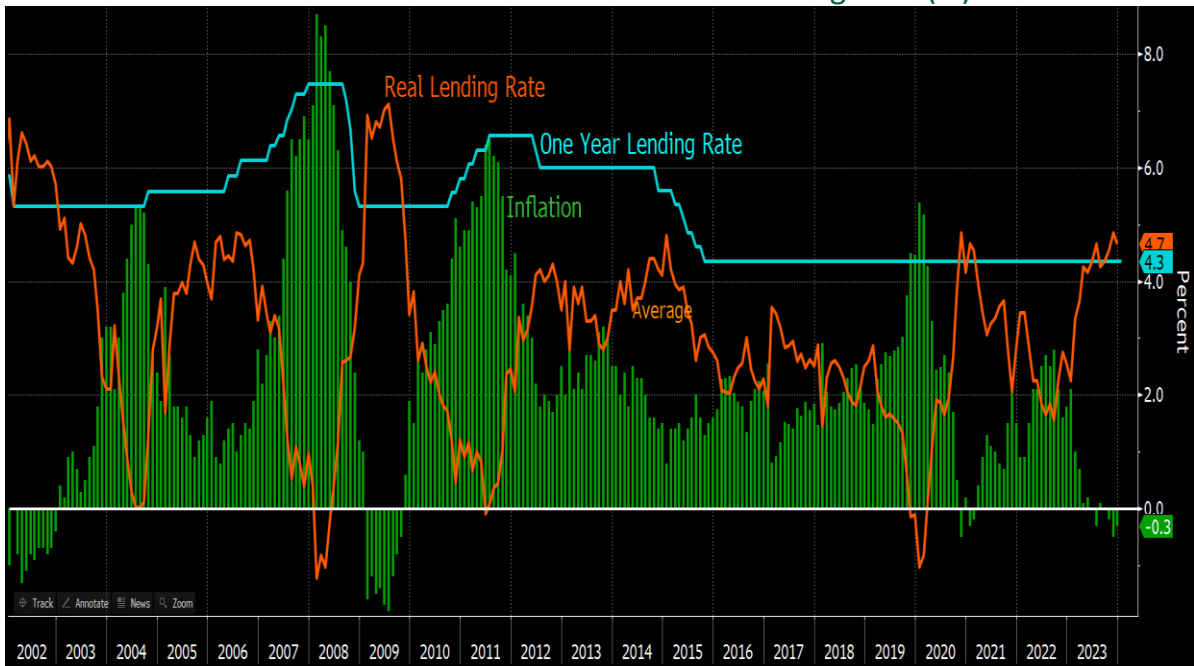
China – GDP vs Shanghai CSI 300 Index (Jan 2004 = 100)



Over the past twenty years their economy has grown 8.8 times, while their stock market index has grown only 2.8 times (+11% p.a. vs +5% p.a., both in nominal terms. Note – we use the better performing CSI 300 Index. The Composite Index delivered +3% p.a.). Whilst their economy grew +5.2% last year, their stock market continued de-rating. Whilst we have reservations about their structural position for long-term growth (a shrinking population, deflation, non-capitalist stance, regulatory clampdowns, and geopolitical issues/sanctions), we do not perceive economic growth as the main deterrent to stock market performance.

Apart from these structural issues, we perceive interest rates to be a limiting factor to their stock market performance:

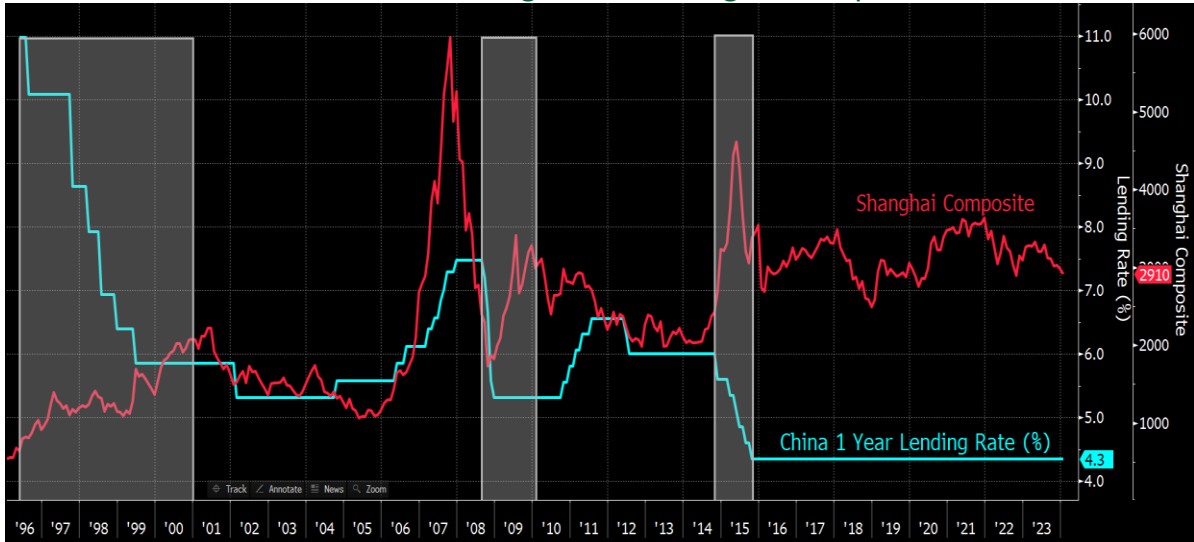
China – Inflation and Real One-Year Lending Rate (%)



China has moved into a deflationary environment (the green bars), while they keep their lending rates constant (one-year rate at 4.3%, five-year rate at 4.2%). The real lending rate (the orange line) is at an uncomfortable record level (excluding the Financial Crisis).



China – One-Year Lending Rate vs Shanghai Composite Index



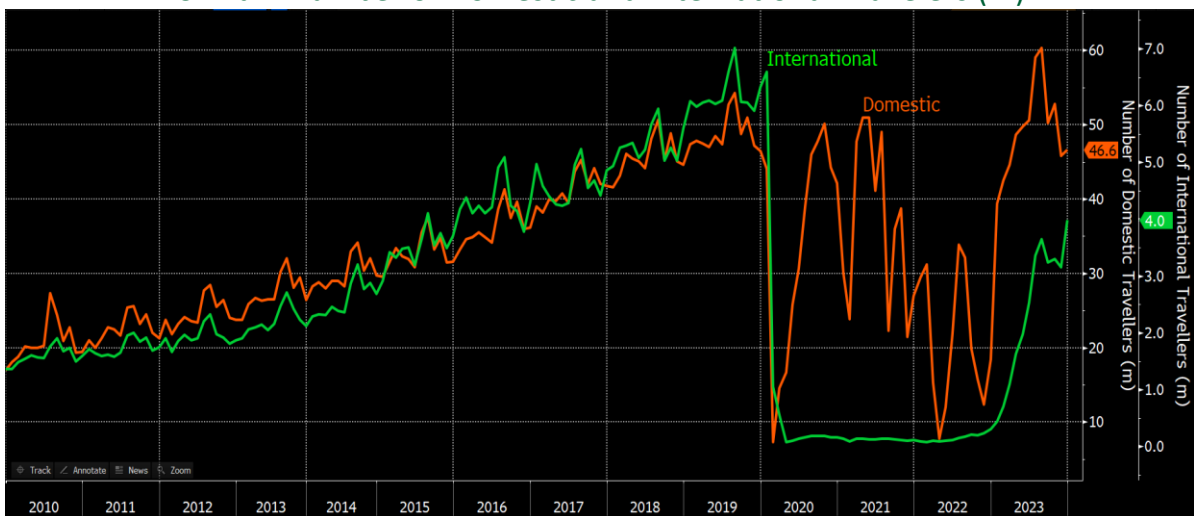
Historically, the stock market reacted favorably on rate cuts (the shaded areas in the chart)

China – Excess Liquidity vs Shanghai Composite Index



The above chart shows the excess liquidity in their economy (M1 Money Supply less GDP, the green line) against their stock market index. It has a positive correlation, and it seems the drain on liquidity is negatively affecting the market. These seem to be issues their policy makers can consider.

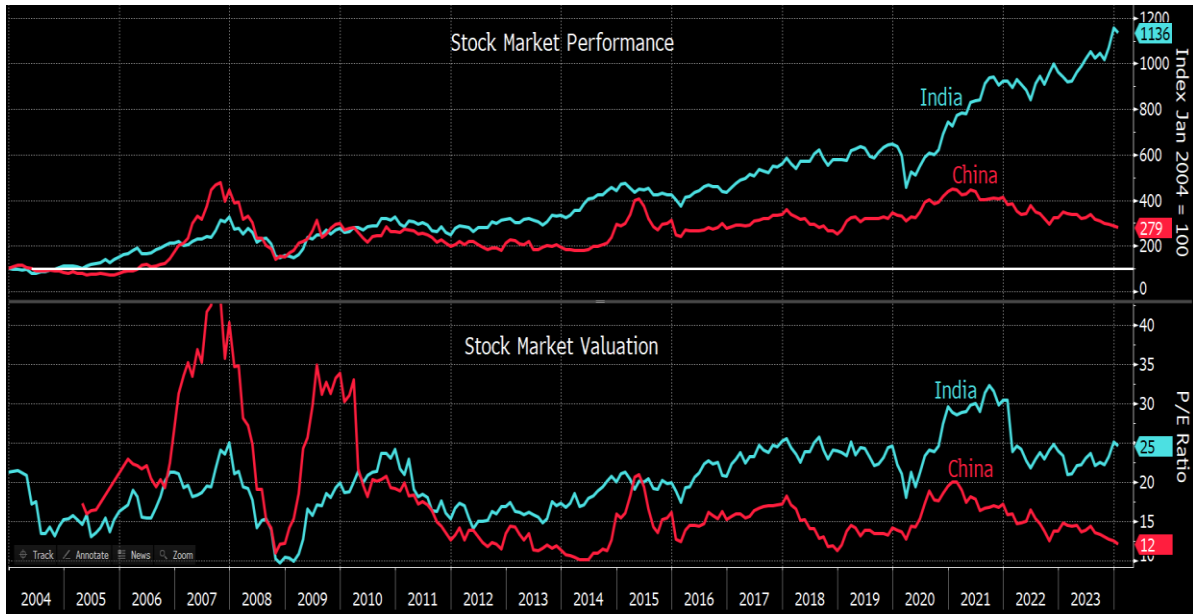
China – Number of Domestic and International Travelers (m)



The domestic travel market has fully recovered (with current seasonal weakness reflecting in the orange line), while international travel is recovering sharply. This is a positive economic indicator, with the latter important for many western businesses (e.g. Luxury, Cosmetics, etc.).



China vs India – Stock Market Performance vs Stock Market Valuation

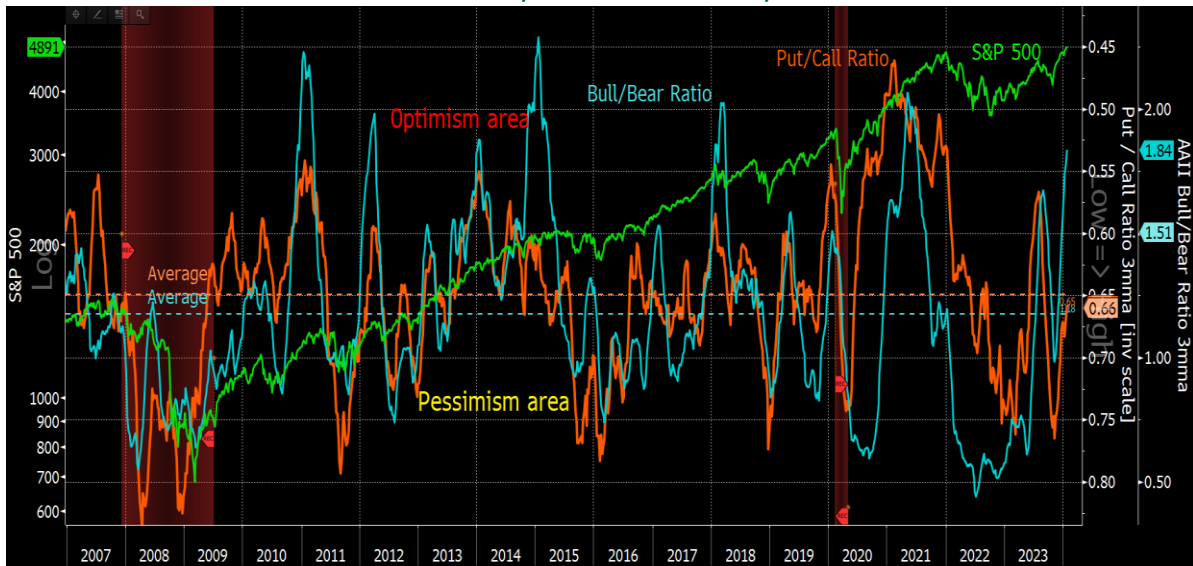


India has less of China’s structural complications mentioned earlier, attracting huge capital flows away from China. Using the India Nifty Index, it has over the past twenty years delivered a return of over +41% p.a. against China’s aforementioned +5% p.a. (top half of the above chart). India’s valuation multiple is double China’s. With a middle-class population larger than the entire US population, India is succeeding in converting strong economic growth into good stock market returns.

It would be interesting whether and how China plans to address these capital market discrepancies.

5. TECHNICAL PICTURE

US – S&P 500 Put/Call Ratio vs Bull/Bear Ratio



Considering the Bull/Bear Ratio (the blue line) in the above chart, individual investors are currently optimistic, while the institutional market reflects a neutral stance (considering the Put/Call ratio, the orange line). We perceive this as a fair to constructive technical picture.

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