Storebrand

Market Commentary

July 2024

Key Points:

- **The global stock market ended the first half of the year significantly higher due to upgraded growth prospects.**
- **French politics are coming into focus, with the risk premium on French government debt rising significantly.**
- **Political uncertainty is likely to come into focus in the second half, especially with the US presidential election.**

Market Outlook

Stock Market – Neutral Weight →
The global stock market has reached seven all-time highs in the past eight months. Growth prospects are unlikely to be upgraded as much in the next six months, and inflation rates may not fall as significantly. We maintain a neutral weight in equities.

Bonds – Neutral Weight →
Core inflation in the US has declined after three months of increases. Central banks are somewhat more cautious regarding future inflation prospects and further rate cuts. We remain neutral in duration and government bonds.

Money Market – Neutral Weight →

The allocation group notes that concentration risk has increased for the US stock market.

The allocation group in Storebrand Asset Management:
Søren Kærgaard Slipsager, *Senior Portfolio Manager*, **Olav Chen**, *Head of Allocation and Global Fixed Income*, **Tore Jørgen Rye**, *Senior Portfolio Manager*, **Dagfinn Norum**, *CIO*, **Lasse Theimann**, *Senior Portfolio Manager*, **Sigve Dagsønn Stabrun**, *Senior Portfolio Manager*

First Half-Year in Positive

The first half ended positively for the global stock market despite rising long-term interest rates and continually delayed rate cut expectations in the US. Falling inflation and upgraded growth prospects in the US offset higher rates, while strong corporate earnings also contributed to the rise in the global stock market. However, the gains have been dominated by a few American companies, increasing concentration risk and the potential for significant declines if momentum reverses. Companies have nonetheless delivered strong results and met high expectations, but the question going forward is whether the growth rate can be maintained. Similarly, on the macro front, the question is whether the pace of inflation decline can continue, as long as the growth outlook and labor market remain strong. This has major implications for monetary policy and the ability of the US Federal Reserve (Fed) to deliver the much-anticipated rate cuts, which have been repeatedly postponed. Patience is still good, and the first rate cut in the US is fully priced in November, although there is significant pricing for September as well.

France in Focus

While the Fed is holding off on rate cuts, the European Central Bank (ECB) cut rates as expected in June. However, the message from the press conference was somewhat more hawkish in that future cuts are more contingent on ongoing macro data than the market expected. Fewer than two rate cuts are now priced in for the rest of the year, which is also fewer than earlier this year. Macro data in the Eurozone has moved slightly more positively, although growth prospects have not been upgraded as much as in the US. Political developments in France may also influence the ECB's strategy going forward. So far, they have affected the risk premium for French government debt compared to German government debt, which now has the largest spread in seven years. The market is, in other words, uneasy about increased budget deficits and unpredictable budget policies that come with political uncertainty. Ultimately, how the ECB will act depends on how the election outcome will affect fiscal policy, growth and inflation prospects, and how the markets assess the situation with the risk premium for French government debt.

More Political Noise Ahead

Political uncertainty and its impact on financial markets are unlikely to diminish in the second half. The world's largest and most important economy is entering a presidential election to be decided in November, likely between Biden and Trump. The presidential debate in June gave a taste of what's to come, with financial markets reacting immediately. Similarly, US Treasury yields rose as Trump made a jump in the polls after the debate, believing that Trump's policies are more inflationary due to increased protectionism with tariffs and higher budget deficits due to more tax cuts and spending.

Market Outlook

Global Equities – Neutral Weight →

Global stocks, as measured by the MSCI World in local currency, rose by a full 13 percent in the first half. Upgraded growth prospects in the US, falling global inflation, and good company results contributed to the strong rise. The second half appears more challenging given that it is difficult to imagine similarly large upgrades in growth expectations and falls in inflation rates, although the Eurozone might surprise positively. Many markets are now at or near all-time highs. We maintain a neutral weight in global stocks.

Emerging Markets (EM) – Neutral Weight →

Emerging market stocks rose 11 percent in the first half. Stocks in China, as usual, were the swing factor and turned around in the winter after underperforming for a long time. However, momentum has waned again in recent months. The Indian stock market also contributed positively in the first half, while Brazil and Latin America moved in the opposite direction, contributing negatively. We remain neutral in EM stocks.

Global Bonds – Neutral Weight →

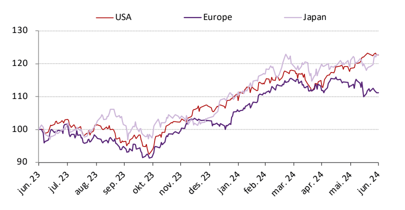
Global government bonds (JPM GBI) fell by just over 1 percent in the first half. Continually delayed rate cut expectations and rising long-term interest rates despite falling inflation contributed to this. The latest "super core" inflation figure in the US fell back and calmed markets, after rising for three consecutive months. The ECB was somewhat more hawkish and presupposes a "data-dependent" development for further rate cuts. We remain neutral in duration and global government bonds.

Key Figures as of 30.06.2024

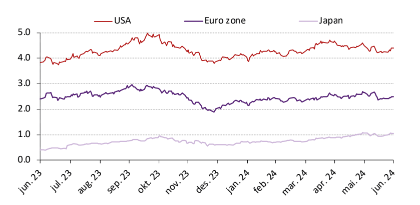
(measured in local currencies)

Global Stocks (MSCI)	June	2024
All Countries	2.5 %	13.2 %
Developed Markets	2.3 %	13.4 %
Emerging Markets	4.3 %	11.0 %
Regions (MSCI)		
North America	3.3 %	14.3 %
Europe	0.9 %	9.2 %
Asia and Oceania	1.4 %	14.8 %
Nordic	4.8 %	15.0 %
Countries		
USA (S&P 500)	3.6 %	15.0 %
Japan (Nikkei 225)	2.8 %	18.3 %
United Kingdom (FTSE 100)	-1.3 %	5.6 %
Germany (GDAX)	-1.4 %	8.9 %
France (CAC)	-6.4 %	-0.8 %
Finland (HEX25)	-2.9 %	-0.6 %
Denmark (OMXC25GI)	-1.4 %	8.5 %
Sweden (OMXS30GI)	-1.3 %	10.0 %
Norway (OSEBX)	-1.3 %	8.9 %
Currency (increase equals EUR appreciation)		
EUR pr USD	-1.3 %	-3.0 %
EUR pr GBP	-0.6 %	-2.2 %
EUR pr JPY	1.1 %	10.7 %
Currency (increase equals USD appreciation)		
USD pr EUR	1.3 %	3.1 %
USD pr GBP	0.7 %	0.8 %
USD pr JPY	2.3 %	14.0 %

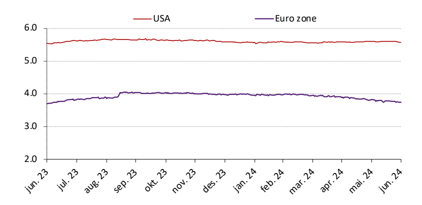
Stock Markets



10-Year Interest Rates



3-Month Interest Rates



Central Bank Rates