SAF & CO

Independent Wealth Management

October Monthly Review:

Brace: The most expected election

Geneva | October 2024

Overview

Saf & Co monthly global outlook and portfolio allocation

Overview

During October, as Trump odds increased to reach Harris' ones, the bond market experienced a strong yield increase while the Equity remained rangebound, initially benefitting from the "Trump Trade" but suffering a big-tech sell-off the last day of the month.

Today the American Citizens are heading to the polls for the long-anticipated US Elections. The race is very tight with virtually a 50-50 probability of winning among the two candidates. Given the close race, results may not be clear or official immediately, and we should prepare for significant market volatility in the coming days.

Allocation

In October we increased our Fixed Income Allocation using cash. Currently, we are exposed 44% to Fixed Income, 38% to Equities while keeping 8% in cash and 10% in gold and alternative strategies.

Bonds

We slightly lengthened the duration of our portfolio to benefit from the surge in yields. Furthermore, conscious of historical low levels of spreads, we reduced our exposure to High Yields and increased our allocation towards Investment Grade subordinated debt in order to decrease the risk and spread sensibility. Finally, we initiated a minor position in a sinkable Argentine government bond which presents a very appealing risk-reward profile.

Equities

We made no significant changes to the equity portfolio. Given the 50-50 scenario of this year's elections, we chose to remain on the sidelines and observe a largely rangebound equity market.

Alternatives

We made no changes to the Alternatives portfolio. We keep benefitting from our core position in Gold, while our Hedge Funds were flat during the month.

Monthly Review

October 2024 – Overview

As the U.S. elections draw closer, October has been filled with events that have significantly influenced the financial markets.

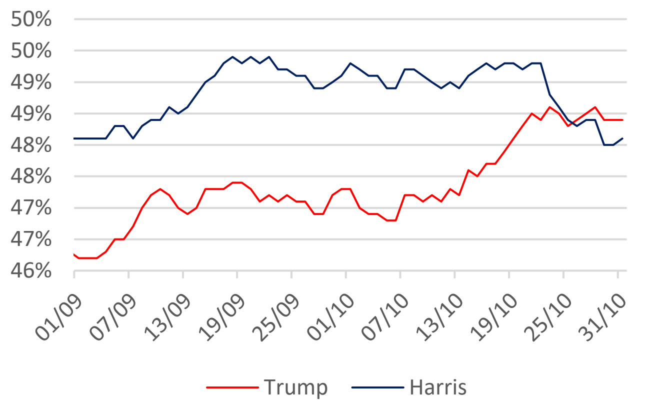
In the United States, although **official polls indicate a statistically close race** between Trump and Harris, **market sentiment currently favors a higher probability of a Trump victory**. Q3 earning season is quite mixed, with **banks registering a strong quarter, while tech and Magnificent seven beating forecasts on past earnings but lacking on guidance**. In Asia, the Chinese government is anticipated to introduce new monetary and fiscal stimulus measures, particularly if a **Trump win materializes, which could have adverse implications for China**. In Japan, political uncertainty is weighing on equity markets, spurred by the recent election of a new prime minister and the swift loss of his parliamentary majority.

Meanwhile, gold continues to attract strong inflows and reach new highs, while oil prices remain highly volatile amid events and tensions in the Middle East.

US Elections:

Today, American citizens head to the polls for the long-anticipated election. Average polls showed Harris's lead narrowing throughout October, ending in a nearly 50-50 race (see figure 1).

Figure 1: 2024 US Elections average poll



As results may not be clear or official immediately, given the close race, we **should prepare for significant market volatility in the coming days**, which could result in opportunities to adjust the portfolio.

As stated in the previous monthly letter, a Trump administration, would be friendlier with corporate taxes and would favor certain sectors.
With Harris in the White House, the outcome would likely be neutral for U.S. equities, even though an initial drop could be possible because the market is expecting Trump. However it could be positive for Chinese markets.

Trump	Harris
Oil & Gas	Renewables & EV
Defense	Real Estate
Cryptos	Oil & Gas
Renewables & EV	China Equity
China Equity	Financials
	Healthcare

Source: : SAF&CO, Bloomberg, Real Clear Politics

Rates & Fixed Income

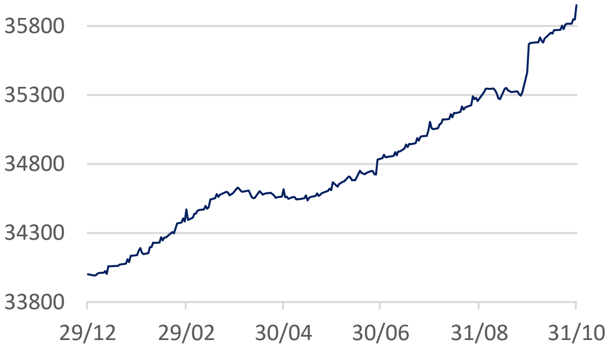
In October, the bond market faced a significant decline as the 10-year yield surged **from 3.78% to 4.28%** — an increase of 50 basis points, marking the largest rise since September 2022. Several factors contributed to this selloff:

1) The **unemployment rate dropped back to 4.1%,** and the Consumer Price Index **(CPI) rose to 2.4%**, surpassing the market's 2.3% expectation and stoking re-inflation worries.

2) **U.S. public debt,** now over $35 trillion, grew by $350 billion only between September 27th and October 1st, increasing concerns towards US fiscal health (see Figure 2).

3) There is also a sell off due to **the "wait and see" effect of the election** and the fact that many financial agents are locking profits made in the year.

Figure 2: US Government dept (in Billion $)



Equity markets:

United States

Historically, October in election years brings heightened volatility for equity markets due to political uncertainty. This year, the **"Trump Trade"** — reflecting optimism about Trump's business-friendly policies — **supported the U.S. equity market** until the last day of the month with **positive earnings, especially from banks and utilities** (see figure 3). On October 31st, S&P lost 1.21% and Nasdaq -1.66% and both indexes closed the month slightly negative -0.92% and -0.82% respectively. This was triggered by **Meta and Microsoft earnings, which highlighted concerns over big tech's enormous AI spending and its return on investment.**

Furthermore, in the last years US companies, and especially tech, **have increased buybacks substantially boosting EPS growth (See figure 4**), to one of the highest level in the past years.

Figure 4: Buyback Authorizations ($Billions)

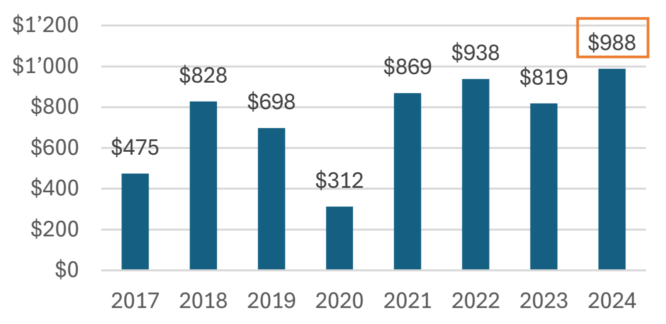
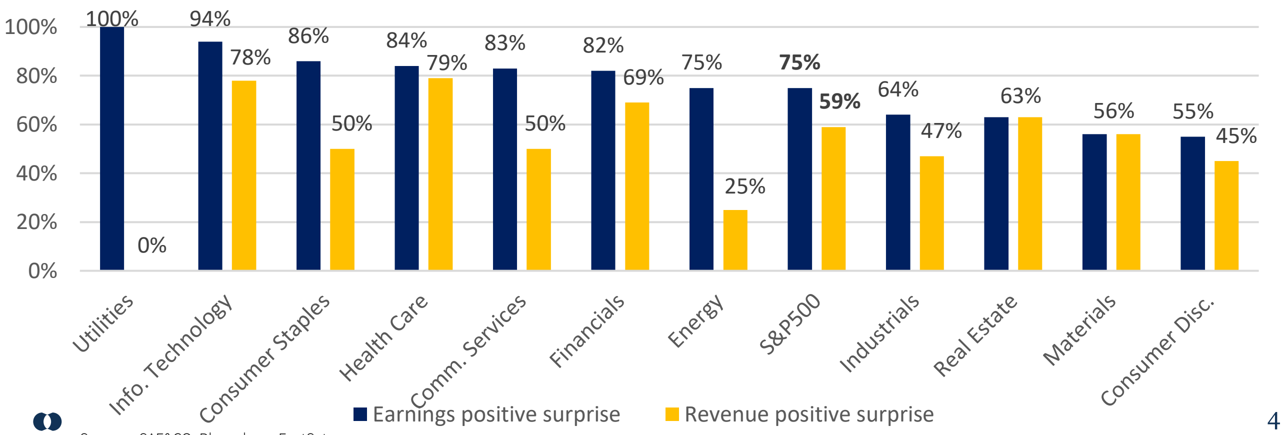


Figure 3: Earnings and Revenue positive surprise Q3 2024 (37% reported)



Source: : SAF&CO, Bloomberg, FactSet

Europe

European equities faced a challenging month, with **the Eurostoxx 50 down 3.3%**. Despite the ECB's recent 0.25% rate cut and a CPI of 1.7%, **Europe continues to struggle with structurally low growth**. Manufacturing remains in contraction with a PMI of 45.5, while services show only modest expansion at 51.2. In our view, **Europe keeps being among the least favorable economies**, hindered by nearby conflicts in Ukraine and Israel, political instability in France, and pressure on Germany's automotive sector from U.S. and Chinese competitors.

Asia

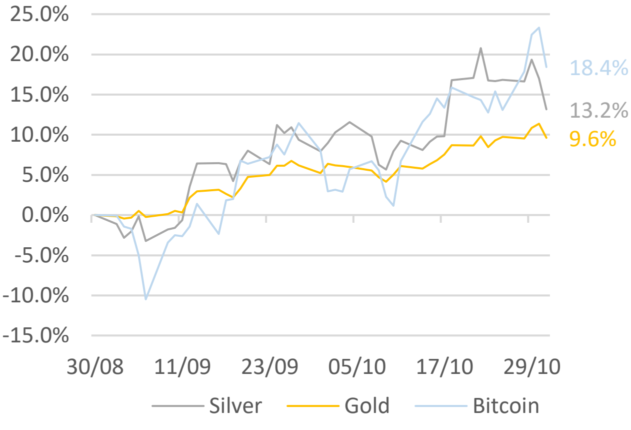
In Asia, Chinese equity initially fueled by the stimulus released by the government in September, **ended up also negative after they failed to keep up with market expectations on further stimuli.** Investors are awaiting the results of the National's people congress (NPC) standing meeting between 4 and 8 November where they expect even bigger government expenditures to sustain the economy.

Commodities

Gold continued to reach new all-time highs, driven by strong demand from central banks — particularly BRICS nations and Russia, whose reserves are at record levels. Since this summer though, also private and institutional investors joined the "gold rush", signalled by new net inflows into gold ETFs. This, in order to hedge against currency and inflation risks and to seek a safe haven amid falling U.S. interest rates (see figure 5)

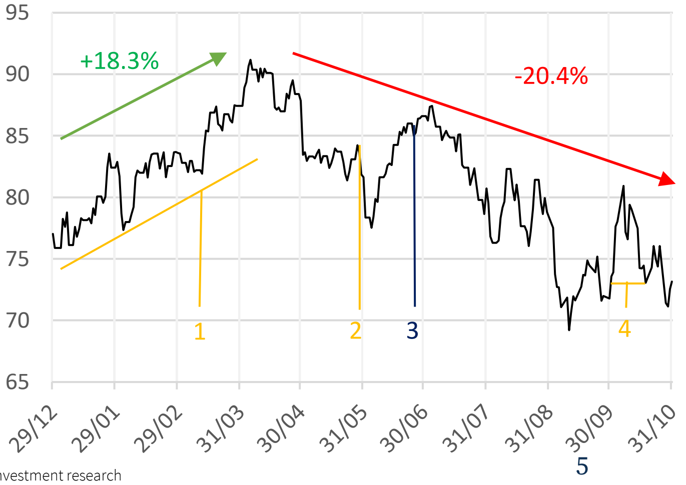
Bitcoin saw strong performance in October driven by lower interest rates, robust inflows into ETFs, and favorable seasonal trends that typically boost its value toward year-end

Figure 5: Gold, Silver and Bitcoin performance



Oil prices have seen substantial volatility this year (See figure 6). Started the year quite strongly with a 18.3% rise driven by geopolitical tensions, robust U.S. economic data, and OPEC+'s decision to extend supply cuts **(1).** In Q2, however, weaker data and OPEC+'s announcement to start easing production cuts **(2)** began to moderate prices. With ongoing volatility, **we exited our Energy Sector exposure in late June, (3).** Prices kept declining since then and experienced high volatility in October fuelled by threats of Israel attacking Iran on oil facilities. Price per barrel fluctuated between $70 and $80 but eased when the threat vanished and went back to initial levels : -10% **(4).**

Figure 6: Oil price development YTD

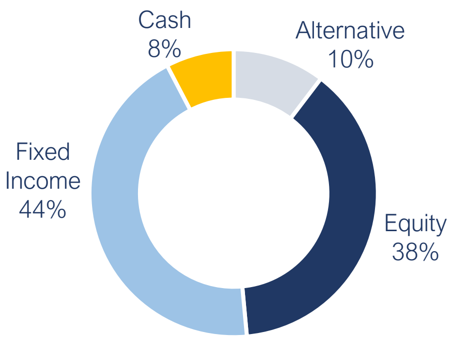


Source: : SAF&CO, Bloomberg, GS FICC ad Equities, Birinyi Associates,Goldman Sachs Global Investment research

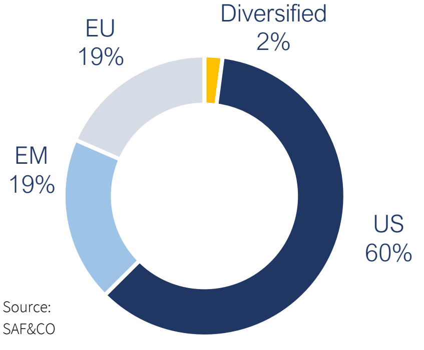
Asset Allocation:

Figure 7: SAF&CO's Fund Allocation (as % of total portfolio)

Asset classes



Geographical allocation



Source: SAF&CO

Fixed Income:

In October, **we observed consistently low spreads** across both Investment Grade and High Yield securities. In response, **we reduced our fixed income portfolio risk by selling part of our High Yield holdings and reallocating the proceeds into Investment Grade subordinated debts**. This new position complements our existing hybrid bond fund, enhancing our exposure to the sector while maintaining Investment Grade risk at a BBB. This adjustment has allowed us **to extend duration in alignment and seize the opportunity of the rise in long-term yields.**

Additionally, we initiated a minor position in **Argentina government bond**. The bonds are in restructuring and amortizes 10% of its nominal value each semester starting January 2025.

It presents a very **appealing risk reward profile projecting a 15% yield** to average life. Despite economic concerns, we see low default risk under the current administration, with potential election-related risks in December 2027 when the bond is likely to be already close to fully repaid. We will monitor this position closely, prepared to adjust as necessary based on evolving risk factors or opportunities for early profit.

Our duration is **now 5.17 with a YTM of 6.61% and an average rating of BBB**. Our exposure to Investment Grade increased to 44.9% while High Yield decreased to 25.5%. Finally, our Emerging Market allocation remained at 29.6%.

Equities:

In October, we made no significant adjustments, we remain underweight to equities - 38% vs a 50% target. With major indexes at all-time highs and the upcoming elections, **we chose to remain on the sidelines.**

Meanwhile, we are ready to enter the market in case of a drawdown and are closely monitoring the Indian market as a potential addition to our geographic mix.

Alternatives:

In October, we made no changes to the Alternatives Portfolio, which currently **comprises approximately 10% of the total allocation**. Performance was again **driven by gold**, while our different hedge funds were generally flat with the trend-following experiencing a decline of -2.78%. This drop was largely due to a reversal in the fixed-income trend, when the fund had a strong long position.

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