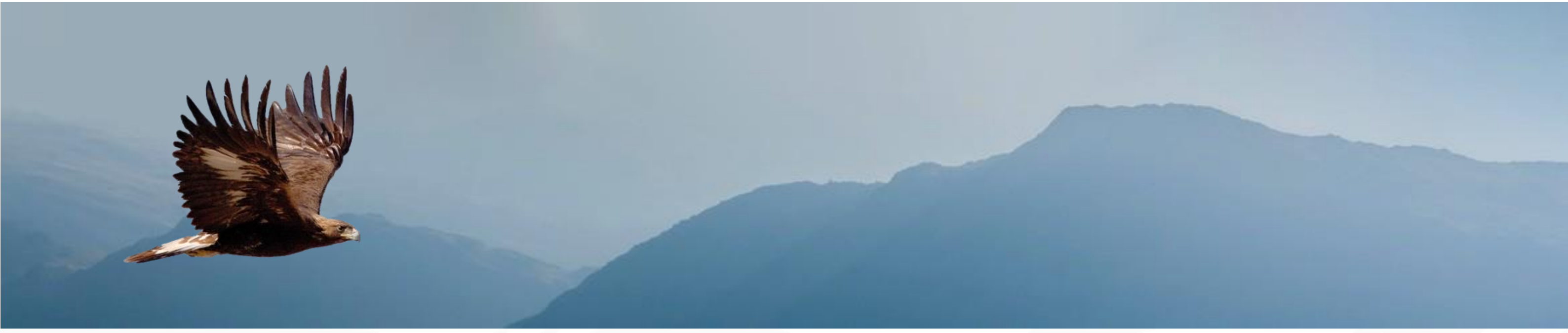

B CAPITAL SA
Rue Jean-Calvin 14
1204 Geneva
Switzerland

Tel +22 22 317 78 23

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B Capital Market Commentary August 2024

You may have noted that public equity markets are falling, with some outsized moves such as those seen in Japan overnight (**see here**). I wanted to provide a brief update on current market conditions and address some key questions we've been hearing from investors. This information is based on recent analysis from our investment team at B Capital.

Market Overview
Financial markets have experienced some weakness over the summer months, which is not uncommon heading into a presidential election year. This has been exacerbated by softer economic data releases, though it's important to note that summer economic slowdowns are a recurring phenomenon and not necessarily indicative of a broader downturn. For more information about the expected retracement and volatility for equities please see my 3Q2024 Market Outlook email which I sent to you in early July and which is also on our website (**click here**).

The Federal Reserve recently paused rate hikes again, with comments from Chair Powell suggesting a potential first easing step in September. While this pause and potential pivot is supportive for markets, it has coincided with some investor uncertainty around economic growth.

Key Economic Indicators
The July jobs report came in below expectations, with 114,000 jobs added versus consensus estimates. However, our analysis does not view this as the start of a recession, but rather a natural slowing in employment growth following the post-pandemic surge in hiring. We note that business output has been restrained, potentially leaving room for continued growth without overheating.

Interest rate sensitive sectors have already experienced weakness and may be poised to recover as rates eventually decline. B Capital continues to expect high single-digit earnings growth this year and next.

Election Impact & Tax Policy
With the U.S. presidential election approaching, there are questions around potential tax policy changes. Any major tax cuts would likely require a Republican sweep of the presidency, Senate, and House. The most realistic scenario may be an extension of the sunset provisions from the 2017 Tax Cuts and Jobs Act, which are set to expire at the end of 2025.

Fixed Income Strategy
For fixed income allocations, we recommend maintaining a duration of around 5-6 years, focusing on the "belly" of the yield curve. While short-term rates are expected to decline, longer-dated Treasury yields may not move lower as quickly once rate cuts begin. Intermediate bonds currently offer attractive yields relative to expected inflation.

Technology & AI Investment
The impact of artificial intelligence (AI) investment is starting to show up in operating margins and revenues for cloud and search services. However, capital expenditures are still outpacing monetisation for many large tech companies. B Capital favours AI as a sector and with a combination of infrastructure stocks and service providers in the near-term as this buildout continues. Our recent investments in Anthropic and Groq are part of an 'option on future tech' strategy and we will shortly be providing you with details of infrastructure opportunities in the data centre arena. We remain fully committed to investing in this sector on a selective and strategic basis as we expect investment in the AI sector to increase, as recently reported in the **press**.

Consumer Credit Health
While credit card debt has reached nominal record highs, it remains lower as a percentage of income than historical averages when excluding the pandemic period. Strong home prices have supported household wealth, allowing consumers to tap credit lines. Overall consumer balance sheets appear healthy relative to debt levels.

What Action Should I Take?
We have expected to see some volatility in the high summer months and our investment strategy is to remain invested with a balance of equities and fixed income, with an overweight to the US companies and with duration already extended in the first half of the year. We counsel remaining invested and to be comfortable with our asset allocation as it stands. We are of course alive to further deterioration in market prices but regard this period as an opportunity to buy the dips if under-allocated to equities.

Key Takeaways:
1. Recent market weakness is likely temporary and tied to seasonal factors and pre-election uncertainty.
2. Economic data has softened but does not point to an imminent recession.
3. The Federal Reserve may begin easing in the coming months, supporting both stocks and bonds.
4. Major tax changes are unlikely without a Republican sweep in November.
5. Fixed income investors should focus on intermediate duration bonds.
6. AI investment is ramping up but may pressure free cash flow in the near-term for some tech companies.
7. Consumer finances remain generally healthy despite headlines about credit card debt.

Looking Ahead
While short-term volatility may persist, the overall economic picture remains constructive. We continue to expect solid corporate earnings growth, which should support equity markets over time. The potential for Fed rate cuts in the coming year could benefit both stocks and bonds.

As always, we recommend maintaining a diversified portfolio aligned with your long-term goals and risk tolerance. Please don't hesitate to give me a call if you have any questions about market specifics or would like to discuss your investment strategy in more detail.

Lorne Baring
Managing Director