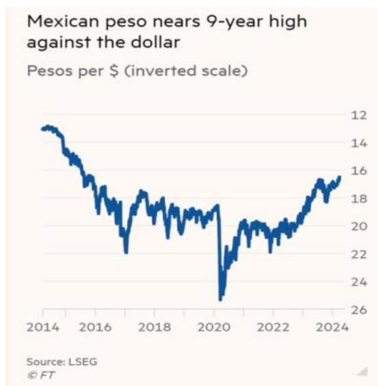
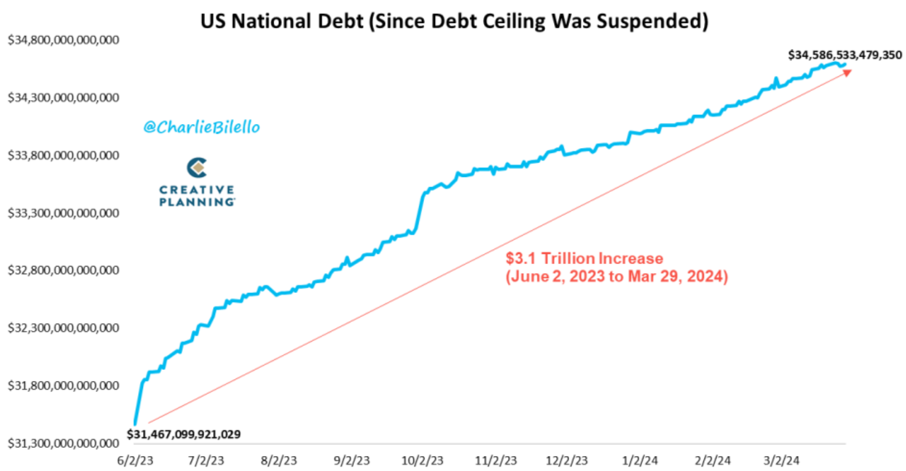
Global Macro News & Views

- The Swiss National Bank (SNB) became the first major central bank to cut interest rates in March. Mexico claimed that title among emerging market central banks with a cut, too. In a tale of two different FX markets amid rate-cutting paths, the Mexican peso has gained 2% versus the U.S. dollar in 2024 compared to a 7% drop for the Swiss franc. ENR Comment: Mexico continues to draw vast sums of foreign direct investment since 2019 as some multinationals reposition manufacturing away from China. According to *Macrotrends*, FDI into Mexico grew a combined 27% from $30 billion in 2019 to $38.6 billion in 2022. The peso hit a nine-year high vis-à-vis the USD dollar recently;



- The Federal Reserve (Fed) continues to dial back interest rate cut expectations as the American economy defies market calls for a slowdown. Recent gains in manufacturing, employment and wages might compel the Fed to nix interest rate cuts in 2024. After its biggest quarterly gain since 2019, U.S. stocks have begun a correction as the interest rate premium weights on high stock valuations;
- On March 19th the Bank of Japan hiked rates for the first time since 2007, after inflation seemed at last to have become entrenched. The interest-rate target for overnight loans, previously between minus 0.1% and 0%, will rise by a tenth of a percentage point. The central bank also scrapped its policy of yield-curve control, which capped long-term bond yields at 1%. Having kept monetary policy ultra-loose for years, Japan has now begun to follow the course set by other economies since widespread inflation surfaced;
- Technical recession has arrived in Germany, Holland, the United Kingdom, Sweden, Ireland, Finland and Austria – defined as two consecutive quarterly contractions of GDP. *ENR Comment*: The world economy certainly ain't booming. China is showing signs of economic resurgence, but still must contend with credit deflation in real estate and weak consumption. Germany is mired in a slow-growth environment driven by high interest rates, skilled labor shortages and the country's famed bureaucracy. In 2023, insolvencies in the construction sector rose more than 20%, according to the *BBC*;
- Approximately $585 billion was added to the U.S. national debt in just the first three months of 2024, according to *Statistica* and *Charlie Bilello*. Compared to six months ago, the size of the debt has mushroomed $3.5 trillion, and compared to 12 months ago in March 2023, up a staggering $3.1 trillion. Sadly, nobody on either side of the political aisle cares about debt;

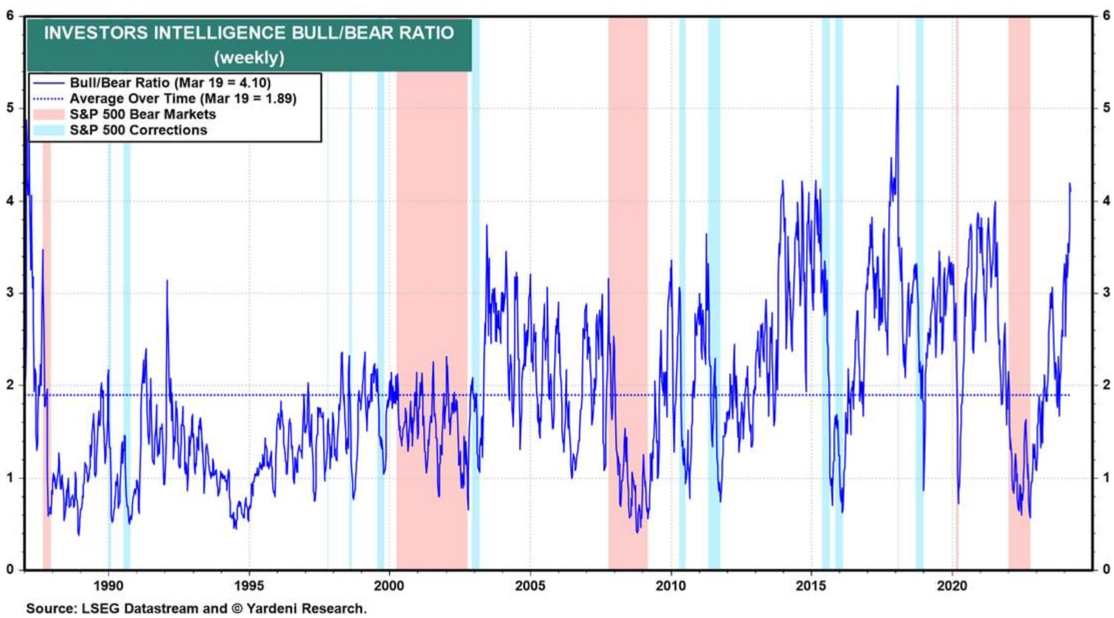


- U.S. household net worth rose to a record $156.2 trillion in Q4 2023 with almost half of that sum ($73.1 trillion) held by the Baby Boom generation in Q3-2023. One of the more compelling arguments for the U.S. economy's recent strength, especially in services, is the charged spending by Baby Boomers on restaurants, hotels, airlines, and cruises;
- U.S. credit card balances hit record $1.13 trillion. U.S. consumers paid almost 50% more in credit card expenses last year than in 2020, according to *The Financial Times*. Credit card interest and fees increased by $51 billion in that time to $157 billion, according to data provided by U.S. banks to the FDIC. Delinquencies on credit card loans are also running at their highest level in almost 13 years, according to *Moody's Analytics*. Over the past three years, consumer have gorged on credit card debt; The NY Fed reported that in Q4 2023, credit card debt hit a record $1.13 trillion, growing at one of the fastest rates in more than 20 years, though in real inflation-adjusted terms it remains below financial crisis levels;
- S&P 500 quarterly buybacks rose 18.0% quarter-over-quarter during Q4-2023 to a six-quarter high of $219.1 billion from $185.6 billion during Q3-2023. That's 22.0% below its record high of $281.0 billion during Q1-2022 but remains well above its 22-quarter low of $88.7 billion during Q2-2020 when companies were seeking to preserve cash amid the highly uncertain economic outlook caused by Covid-19. The four-quarter sum of buybacks posted its first gain in six quarters, rising 1.0% quarter-over-quarter to $795.2 billion from $787.3 billion in Q3-2023. That's still down 21% from its record high of $1.005 trillion during Q2-2022;
- Canada and most provinces are on course to posting long-term deficits unless politicians get serious about spending cuts — and soon. Back in the early 1990s, Canada was the envy of global debt markets (aka creditors) as the finance ministry recorded consecutive surpluses, mostly under Paul Martin and Jean Chretien. Rates declined and the CAD rallied. That's all history. All the spending that was used to fight the Covid-19 pandemic has become a permanent feature of the budgetary landscape. According to David Rosenberg of *Rosenberg Research* in Toronto, the level of program spending in Ottawa is 35% higher today than it was pre-Covid. On a per capital basis, government program spending is 27% higher than it was in 2019 and almost double the average of the past 40 years. In Q3 2023, the Canadian government spent $24.7 billion on interest, up 20.7% compared with the same quarter in 2022. Interest expenses incurred by federal government in the third quarter increased by 36.7%, while provincial-territorial government interest expense grew at a slower pace

(+10.7%), according to *StatsCan*. According to *Bloomberg News*, borrowing needs from provinces facing growing deficits and maturing debt are estimated to be $130 billion this fiscal year, the highest in four years.

GLOBAL EQUITIES

- Since 1929, the S&P 500 Index has gained 6.2%, on average, during the fourth year of presidential elections. The S&P 500 is up 10% in 2024. The average increases during the first, second, and third years were 6.7%, 3.3%, and 14.0%, respectively;
- In Q1, the top five best performing assets were: Cocoa (+133%), Bitcoin (+67%), NYMEX Gasoline (+31%), Lean Hogs (+27%), and the Tokyo Nikkei Index (+21%);
- The Top 5 worst performing assets in the first quarter belonged to: NYMEX Natural Gas (-30%), wheat (-11%), the Chilean peso (-11%), Turkish lira (-9%), and platinum (-9%);
- As the first quarter concluded, investor euphoria hit its highest levels since 2018 (see *Investors Intelligence* below). A high bullish reading is consistent with short-term market tops;



- As discussed last month, European bank stocks hit fresh 6-year highs this spring. The Stoxx Europe 600 Bank Index has rallied 34% in 2024 and outpacing rivals on Wall Street for the first time in more than a decade. Italian banks **UniCredit SA** and **Intesa Sanpaolo SA** have hit 13-year and 9-year highs, respectively. **UBS Group**, which last year assumed control of failed rival Credit Suisse, has surged more than 45% over the last 12 months. Even once poorly performing U.K. lenders are soaring, including **Lloyds Banking Group** and **Barclays PLC**. European lenders have promised to return €120 billion to shareholders this year, through €74 billion of dividends and €47 billion of share repurchases/buybacks. That marks a 54% increase on the previous year's capital returns and far higher than every year since at least 2007, according to UBS;
- Commodity giant's trim dividends and profits decline. **Rio Tinto** reported a 19% decline in annual profits for 2023 and reduced its total payout to shareholders as earnings declined 12% to $10.1 billion. The world's

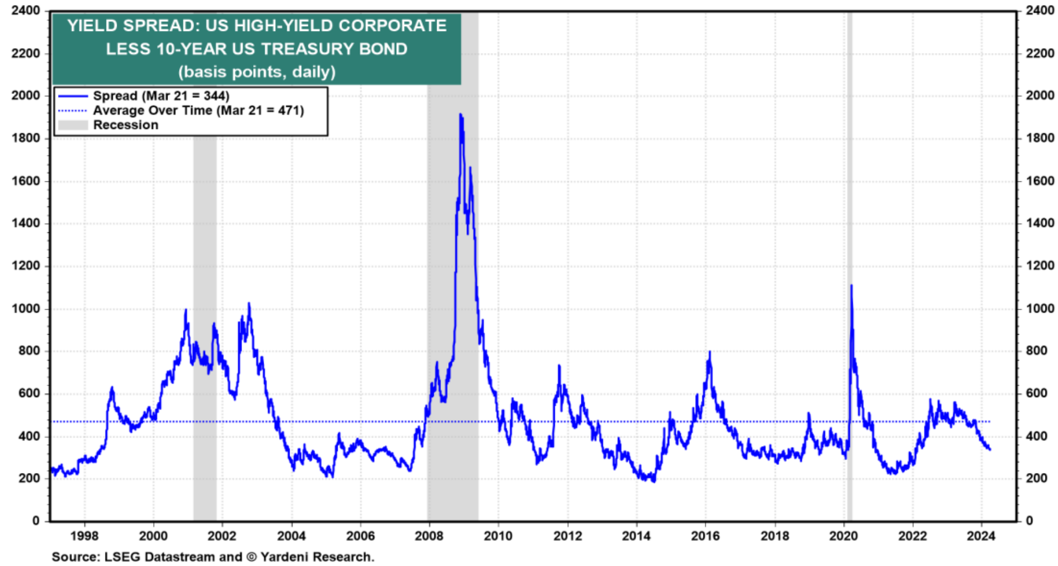
second-largest miner, Rio Tinto is a leader producing aluminum, iron ore, copper, uranium, and diamonds. The world's largest mining concern, **Glencore PLC**, also reported lower earnings after coal prices declined. Glencore saw earnings plunge from, $34.1 billion to $17.1 billion in 2023.

- *ENR Comment*: The growth rate of global manufacturing in March accelerated at its fastest pace since July 2022, broadening by both nation and sector. The *JP Morgan Global M-PMI* climbed for the third consecutive month, from 49.0 in December to 50.6 in March, its third straight reading of 50.0 or higher, following a 16-month string of gains below the breakeven point of 50.0. New orders, output, and employment all were in expansionary territory in March, while trends in supplier lead times and stocks of purchases continued to deteriorate. On a per country basis, 16 of the 32 countries for which data are available rose in March, with India at the number-one spot and Greece, Russia, Indonesia, and Brazil rounding out the top five spots. Meanwhile, growth in the U.S. and China accelerated at the fastest rates in 22 and 10 months, respectively. China is the world's largest importer of raw materials. Any significant acceleration of demand will boost earnings for mining companies;

- This month, we are plugging **Rio Tinto** (NYSE-RIO), trading near a 52-week low and yielding 6.8%. The stock trades at 10.36x trailing earnings. Debt to equity is only 26%. The stock is down more than 14% this year. I expect China to recover over the next 6-12 months, boosting commodity prices. The asset class appears to have already bottomed out as a cyclical upswing possibly arrives amid a recovering global economy.

FIXED-INCOME

- Despite a ratcheting of interesting rates in the Treasury market and other international bond markets, corporate credit has seen spreads tighten over the past several months, approaching their lowest levels in a decade and not far from record lows before the financial crisis in 2008. The spread between T-bonds and the *ICE Bank of America High Yield 100 Index* (junk debt) is just 254 basis points;



- The average investment-grade bond spread sits at just 0.93 percentage points, according to *ICE Bank of America* data. That is around its tightest level since November 21 and just 14 basis points away from the narrowest spread in 19 years;

- *PIMCO* turns bullish on UK Gilts. Believing inflationary pressures will result in slower interest rate cuts in the United States, PIMCO is arguing UK, Canadian, Australian and New Zealand government bond markets offer better value as price pressures ease faster elsewhere. CIO Andrew Balls told *The Financial Times* he prefers longer-dated government bonds outside the United States. He also warned that America's growing budget deficit would probably push up long-dated Treasury yields, reflecting a fall in prices.

CURRENCIES

- The **ENR Global Currency Sandwich**, investing equally in gold, the Japanese yen, Brazilian real, Singapore dollar, and the Norwegian krone, declined 0.50% over the past month and is off 2.7% in 2024. Apart from gold – trading at an all-time high – the remaining four currency constituents in our basket are down sharply. The Japanese yen remains a 'punching bag' for FX traders as the Bank of Japan cautiously delays imminent rate hikes. The yen is down another 7.5% this year and trades at a 30-year low. The NOK, an energy sensitive currency, has weakened almost 8% in 2024, despite a recent uptick in Brent crude. And the Brazilian real is also down, off 4% amid dollar strength. The Singapore dollar, one of the best-managed currencies in Asia, is down 2.5% this year.

COMMODITIES

- Over the past month, global commodities prices have rallied 6.6% based on the *Reuters/Jefferies CRB Index* and up over 14% year-over-year. The CRB Index has gained more than 11% in 2024. Brent crude prices have soared 9.4% over the last four weeks, gasoline up 7.5% and heating oil rising 6%. Gold and silver are up 8% and 12%, respectively, over the past month;
- Commodities used to power renewables, however, have mostly crashed over the past year: the *Trading Economics Solar Energy Index* is down 43% since April 2023, EU Carbon Permits off 40% year-over-year and the Wind Energy Index has fallen 14%. Among renewables, only the Nuclear Energy Index is up over the past 12 months with a 60% gain. Prices for solar panels have collapsed as a glut forces lower prices;
- In April, we're recommending **Rio Tinto** (NYSE-RIO) as a proxy for a recovery in base metals and other raw materials. Following huge rallies, I've placed a HOLD on **Freeport McMoRan**, **Energy Select Sector SPDRs** and **ConocoPhillips**. FCX is up over 25% over the past four weeks, XLE up 13%, and COP rallying 17%;
- **Albermarle Corp**. (NYSE-ALB) is also a BUY. This leading lithium producer remains cheap, bombed-out and down a dizzying 60% from its all-time high in 2023.

ENR MODEL PORTFOLIO

- My advice from last month remains mostly unchanged: The best macro values for a stock investor today are in global natural resources, including energy, European insurance companies and select consumer staples. Most of the rest of the global market remains historically expensive with bubbles clearly evident in semiconductors and drug stocks focused on weight loss;
- After a blistering five-month rally, global equities have begun to pull back modestly in April. From a macro perspective, we continue to carefully monitor the price of oil and commodities as they potentially threaten stocks and bonds, if inflation accelerates. The interest rate premium for stocks compared to bonds has diminished over the past several weeks as bond market rates climb to their highest levels since last fall. A stronger dollar is also bearish for most risk assets;
- We continue to avoid most banks because of the potential threat to rising delinquencies in commercial real estate in the United States, Canada, and Europe. Banks have generally performed strongly in 2024, but that can change as the year progresses and defaults accelerate. Lower rates in Europe would also cut interest rate margins. In the United States, commercial real estate values have tumbled 33% since early 2020 and by -60% in the office sector. Gillian Tett of *The Financial Times* pegs about $2 trillion of commercial real estate assets sitting on regional bank balance sheets;

- *Best buys* in April include Swiss-based food giant, **Nestlé SA** (Zurich-NESN) trading at its lowest levels in 18 months and down 22% from its all-time high. Skyrocketing cocoa prices, resilient food input costs, and general malaise in the food sector has tilted this company into bear market territory. **Apple, Inc**. (NASDAQ-AAPL) is also a *best buy* as it hovers near a low for the year;
- As we commence seasonal weakness for stocks in May (through September), investors are strongly advised to keep some 'dry powder' as interest rate cuts won't be coming any time soon, unless a major dislocation occurs

somewhere in the financial system. Stocks remain expensive and higher bond yields won't help the bull market over the short-term. Also, election year risk is approaching in November.

Eric N. Roseman
Montreal, Canada
April 3, 2024

Market Outlook Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
Rio Tinto Group	NYSE	RIO	$39.26	Apr 2/24	6.72%	$64.71	NEW	BUY
Nestlé SA*	VTX	NESN	CHF 65.15	Dec 7/16	3.16%	CHF 94.88	78.31%	BUY
Apple Inc*	NASDAQ	AAPL	$23.20	May 9/16	0.56%	$168.91	653.77%	BUY
Newmont Corporation*	NYSE	NEM	$17.99	Dec 31/15	3.98%	$36.53	156.78%	BUY
Albemarle Corporation	NYSE	ALB	$61.01	Sep 4/19	1.24%	$125.83	118.40%	BUY
Marubeni Corporation	TYO	8002	¥2,215.00	Dec 22/23	3.24%	¥2,563.00	2.88%	SELL
Wheaton Precious Metals	NYSE	WPM	$22.78	Jun 5/19	1.26%	$48.44	123.05%	HOLD
Berkshire Hathaway*	NYSE	BRK.B	$197.73	Aug 5/19	0.00%	$418.71	111.76%	HOLD
ConocoPhillips*	NYSE	COP	$67.56	Sep 29/21	1.92%	$129.81	104.50%	HOLD
Microsoft Corporation	NYSE	MSFT	$256.72	Jul 5/22	0.67%	$421.13	65.93%	HOLD
HSBC Holdings plc	LSE	HSBA	£4.74	Nov 9/22	7.72%	£6.22	63.99%	HOLD
iShares Russell Top 200 Value Index	NYSE	IWX	$52.46	Jan 2/18	2.00%	$75.70	61.65%	HOLD
Alphabet Inc.	NASDAQ	GOOGL	$104.65	May 5/23	0.00%	$153.15	46.34%	HOLD
WisdomTree India Earnings Fund	NYSE	EPI	$32.42	Mar 3/23	0.14%	$43.91	35.63%	HOLD
Zurich Insurance Group	VTX	ZURN	CHF 411.20	Oct 4/22	5.38%	CHF 483.10	33.73%	HOLD
AbbVie Inc	NYSE	ABBV	$140.24	Nov 30/23	3.31%	$180.16	29.57%	HOLD
Freeport-McMoRan Inc.	NYSE	FCX	$39.26	Mar 29/23	1.27%	$47.77	23.20%	HOLD
Lazard Global Listed Infrastructure Portfolio	NASDAQ	GLIFX	$14.04	Aug 4/20	3.01%	$15.61	21.89%	HOLD
Vanguard Small Cap Value Index Fund	NYSE	VBR	$157.50	Oct 2/23	2.01%	$187.56	20.42%	HOLD
Sprott Physical Uranium Trust Fund	TSE	U-UN	CAD 24.96	Nov 1/23	0.00%	CAD 29.02	18.63%	HOLD
The Southern Company	NYSE	SO	$66.47	Dec 7/21	3.94%	$71.61	17.03%	HOLD
Energy Select Sector SPDR	NYSE	XLE	$86.74	Feb 7/23	3.09%	$95.68	14.58%	HOLD
iShares Core U.S. Aggregate Bond ETF	NYSE	AGG	$92.78	Nov 1/23	3.28%	$96.76	5.52%	HOLD
Northrop Grumman Corporation	NYSE	NOC	$460.86	Mar 29/23	1.59%	$469.71	3.54%	HOLD
iShares J.P. Morgan EM Local Currency Bond ETF	NYSE	LEMB	$35.63	Sep 7/23	1.36%	$35.97	2.34%	HOLD

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