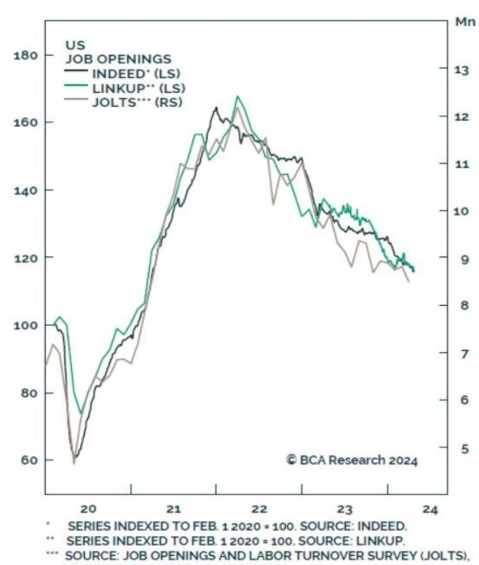
Global Macro News & Views

- April marked the first losing month since last October for global equities. After an impressive 5-month rally, most risk assets corrected sharply last month. Bonds also declined. Commodities prices were flat, and gold rallied. The U.S. dollar ranked as one of the top performing assets;
- Geopolitical concerns continue to weigh on some markets. The first half of April saw most commodities, including oil, soar as fears of conflict escalation in the Middle East triggered selling of stocks, risky credit and foreign currencies;
- Global military spending hits $2.4 trillion record in 2023, the steepest annual increase in 15 years, according to *The Financial Times*. European military procurement rose 16% overall to $588 billion as the Ukraine war fundamentally changed the security outlook and Europe scrambles to deter further Russian aggression. The United States remained the largest military spender at $916 billion. China, the second largest, allocated an estimated $296 billion and Russia spent an estimated $109 billion, a 24% increase, according to the *Stockholm International Peace Research Institute*;
- *The Financial Times* reports (April 26) that European commercial real estate deals sank to a 13-year low at the start of this year as fading expectations of imminent rate cuts prolonged the slide in property prices. Transaction volumes in Q1 were 26% lower compared to 12 months earlier at €34.5 billion – the seventh straight quarterly decline, according to *MSCI Real Estate*. European office values have sunk 37% on average from their peak in 2022, according to *Green Street*. Residential and industrial property prices are down about 20%. London, however, is seeing cash buyers return first. A faster correction in prices in the United Kingdom, relative to elsewhere in Europe, has encouraged investors to return to the market in search of bargains;
- According to Peter Berezin of the Montreal-based *Bank Credit Analyst*, "The drop in job openings in today's JOLTS release is no blip. Private-sector sources on job openings such as Indeed and LinkUp have been flagging it for a while. The labor market is cooling and will freeze over by late this year or early 2025. A recession is coming."



- Consumer confidence deteriorated for the third successive month in April to its lowest level since July 2022, The Conference Board's consumer confidence index retreated to 97 in April, below economists' expectations for 104 and lower than March's reading of 103.1.Consumers became less positive about the current labor market situation, and more concerned about future business conditions, job availability, and income*,"* said Dana Peterson, chief economist at the Conference Board, in a release. According to April's write-in responses, elevated price levels, especially for food and gas, dominated consumer's concerns, with politics and global conflicts as distant runners-up;
- Bank of England (BOE) flags private equity systemic risk. The newly appointed Executive Director for Financial Strategy, Nathanael Benjamin, has taken up scrutinizing private equity investments and risks to public markets. Benjamin highlights two big challenges facing the industry: higher funding costs putting pressure on the companies in private equity portfolios, and second, private equity firms are finding it difficult to offload companies and realize gains. The BOE executive contends that private equity firms are responding to those challenges by piling up "leverage on leverage." Benjamin makes the case that there are serious risks to the broader financial system building within the private markets industry;
- Princeton's endowment fund sheds 1.7% in 2023, mainly on poorly performing private equity holdings. Soon to retire after 30 years, Princeton's Andrew Golden runs $34 billion in assets. Princeton's investment boss concedes the endowment was too heavily invested in private equity (40%) – double the average allocation of endowments. He's not alone. Many investors have piled into private equity over the past decade and enjoyed big returns. But that party ended in 2022 as rates shot higher and deal-making plunged;
- The International Monetary Fund (IMF), a conduit for U.S. foreign economic policy, warns that U.S. deficits pose significant risks to the world economy. In an April memo, the IMF warned that the United States has stoked inflation because of huge lingering fiscal deficits. The IMF stated it expected a fiscal deficit of 7.1% in 2025 – more than double the 3.7% average for other emerging markets. The agency warned that the United States and China were among four countries that critically need to take policy action to "address fundamental imbalances between spending and revenues." The others were Britain and Italy. Separately, a *Barron's* article on April 23 quotes *Morgan Stanley's* CIO, Mike Wilson, claiming that "*gold is telling you that the market is starting to worry a little bit about fiscal sustainability, maybe more than you're hearing in the press."*
- *CNBC* (April 10) reports that a growing number of Americans are looking for second citizenship. Many wealthy Americans are shopping around for an added visa or citizenship program to supplement their U.S. passport. According to *Henley & Partners* (Zurich, Switzerland), the top destinations for supplemental passports among Americans are Portugal, Malta, Greece, and Italy. Portugal's 'Golden Visa' program is especially popular since it provides a path to residency and citizenship -- with visa-free travel in Europe -- in exchange for an investment of 500,000 euros (roughly $537,000) in a fund or private equity. Malta offers a Golden Visa for 300,000 euros invested in real estate, which has become especially popular with Americans;
- Globally, millionaire migration is expected to hit a new high in 2024, as wars, government crackdowns on wealth, and political uncertainty drive more wealthy residents to other countries. An estimated 128,000 millionaires are forecast to move to a new country this year, up from 120,000 in 2023 and up from 51,000 in 2013, according to Henley. The U.S. remains a top destination for global millionaires leaving other countries, with a net inflow of 2,200 millionaires in 2023 and a projected inflow of 3,500 in 2024, according to Henley. China remains the biggest source of millionaire out-migration, losing a net 13,500 millionaires last year.

GLOBAL EQUITIES & REAL ESTATE

- The geopolitical risk premium in the price of oil has dropped sharply since early April. The price of a barrel of Brent crude oil slipped to $82.96 from a recent peak of $91.17 on Friday, April 5. Stock market sentiment indicators have turned less bullish, which is bullish from a contrarian perspective. Investor sentiment as measured by *Investors Intelligence* shows a big drop in the number of bullish advisors since early April;

- The Shenzhen Real Estate stock price index remains depressed. It is down about 50% from two years ago. The Shanghai Shenzhen CSI 300 has been falling since February 2021. China's 10-year government bond yield is down from 3.33% during November 20, 2020, to 2.37%. In other words, China's financial markets are signaling that China is in a recession. However, Chinese equities, in a bear market since Covid-19, have rallied a cumulative 19% since hitting a bottom on February 5;

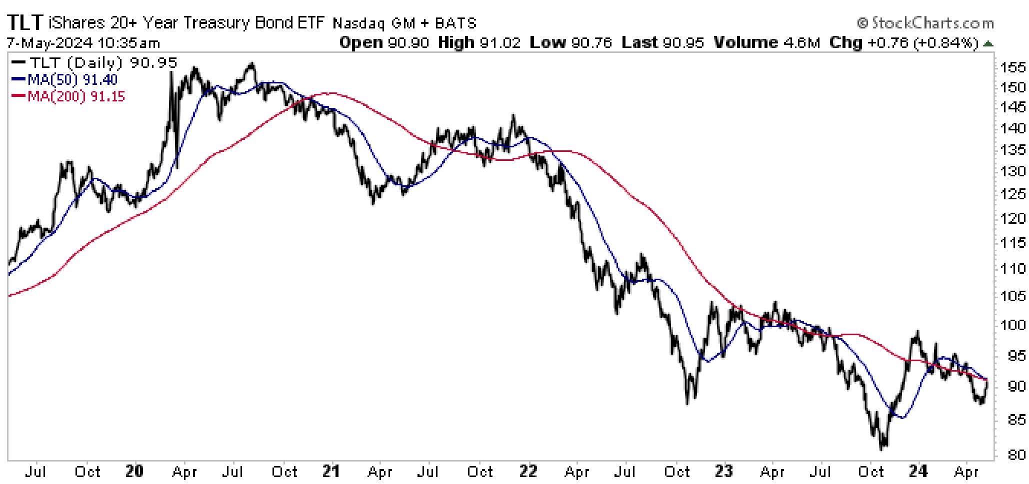
- Some food and beverage companies struggle amid changing consumer behavior and high prices. **Starbucks Corp.** (NYSE-SBUX), the world's largest specialty coffee chain, reported horrendous numbers last week driving the stock to a fresh 18-month low. The company posted one of its largest sales misses in years and slashed its full year outlook. China, its second largest market, is also extremely competitive as **Luckin Coffee** takes market share. But results at **Nestlé SA** (Zurich-NESN), one of **ENR's** largest client holdings for years until earlier in 2023, have been disappointing. In Q1, the world's largest food company reported a 5.9% sales decline compared to 12 months earlier; Nestlé raised prices an average 7.5% last year, which pushed some shoppers to move to cheaper store brands. The portion of U.S. consumers' income spent on food has reached the highest level in thirty years, according to *The Wall Street Journal;*

- In fact, generic brands in most countries are attracting more consumers as high prices deter cost-conscious individuals in a higher inflationary environment since 2022. A gauge for the foods industry, Nestlé's segmented sales declined the most in its prepared dishes (-4.2%) division; milk products and ice cream both fell (-0.6%). Confectionary, pet care and water saw the biggest volume growth;

- Blackstone takes aim again at residential housing. After the financial crisis in 2008-2009, **Blackstone Group** (NYSE-BX) purchased a swath of residential housing. So did other investment groups and hedge funds. In April, BX agreed to buy Apartment Income REIT (NYSE-AIRC) at a 25% premium. Though rents aren't surging, they are still rising. Home and apartment rents grew 5.7% in March compared to a year earlier and one of the most stubborn components remaining in elevated inflation. Apartment values, however, are down 28% from their early 2022 peak, according to *Green Street's Commercial Property Price Index*. AIRC provides BX with a buffer because its tenants are higher end; it specializes in apartments for wealthy tenants and charges an average of $2,900/month in rent – nearly double the national rate;
- In late April, following the Blackstone announcement to buy AIRC, the federal government warned it is looking to curb the home-buying frenzy among big institutions; the Feds might follow some states' plans to rule against institutional owners through heavy taxation. At the 2022 peak, they bought more than one in every four single-family homes sold in the United States;
- Chip design company **Arm Holdings'** (NASDAQ-ARM) CEO recently exclaimed the need for Artificial Intelligence's insatiable appetite for energy and believes AI data centers could one day consume up to 25% of U.S. power requirements. The power issue has drawn growing attention from tech executives in recent months and helped drive up the stock prices of companies that own and operate electric-power plants.

FIXED-INCOME

- The wrong way to own bonds since 2021. Jason Zweig, in an editorial in *The Wall Street Journal* (May 4) makes the case for owning individual bonds and avoiding long-term bond ETFs. I couldn't agree more. The bond bear market, which started in 2021, has erased big dollars from diversified portfolios. The rally in 2023, is increasingly looking like a bear market rally in the absence of an economic recession and sticky inflation. According to Mr. Zweig and *Morningstar*, in 2023 investors poured a record $54 billion into mutual funds and ETFs specializing in long-term U.S. government debt. More than half of the **iShares 20+ Year Treasury Bond ETF's** (TLT) $46.1 billion in total assets, for example, came in during the last year alone;
- TLT is down over 7.5% this year. The long-term bond fund has shed a cumulative 16% over the past five years and 25% over the last three years – its biggest draw-down since inception in 2002. Instead, Mr. Zweig makes the case for owning *individual bonds* instead amid the highest interest rates in 20 years*:* "If you predict that rates will fall and you turn out to be right, you'll hit a home run with long-term bonds. Hold individual Treasury bonds until they mature in 2044 or beyond, and you're guaranteed to earn the yield to maturity (about 4.8%) with no loss to principal. If you turn out to be wrong and rates rise, you'll still get all your principal back." That's not the case for investors in TLT or any other bond mutual fund or ETF. Bond funds and ETFs don't guarantee the principal. For **ENR** managed accounts, however, we prefer 12, 24 and 36-month Treasury notes yielding between 5.15% and 4.63% over longer term securities because inflation remains high, and the Fed might not cut interest rates as widely expected in 2024;



- Falling loan demand increases pressure on European Central Bank: In April, banks in the euro-zone reported a substantial drop in load demand from companies, prompting calls for the ECB to signal it will start cutting rates this spring. Though euro-zone bank stocks have surged this year amid higher interest rates and stronger financial results, the fall in borrowing is a warning sign. Last month, I pointed to **PIMCO** making bets on UK and other non-U.S. government bond markets this year as credit conditions outside the United States appear to be too tight. Increasingly, the Fed might not be the first central bank to loosen monetary policy. Already, the Swiss National Bank, and the Swedish central bank might be next.

CURRENCIES

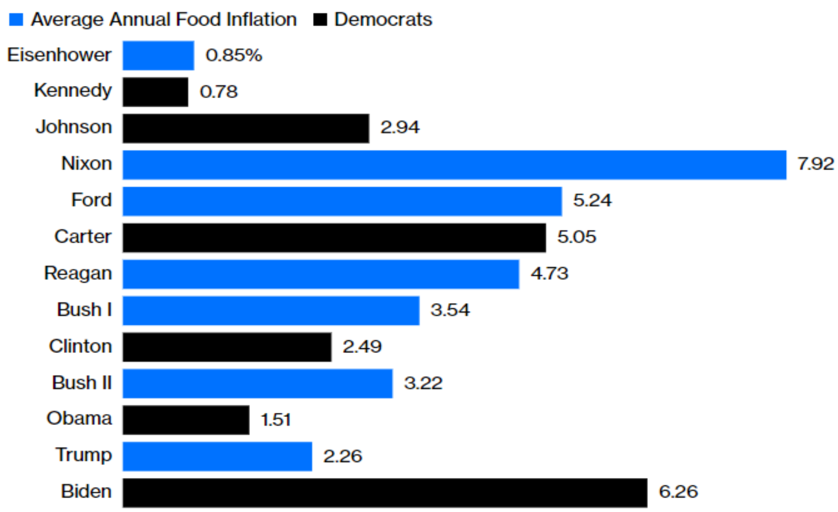
- The U.S. dollar continues to railroad most currencies this year as the secular bull market that commenced in late 2011 continues. Since President Nixon ended the gold standard in August 1971, the USD has never enjoyed such universal bullishness and widespread euphoria. Since bottoming at 71.33 in 2008, the USD Index has gained a cumulative 47%. In 2024, the USD Index is up 4%;
- Among the world's major currencies this year, the EUR has managed to decline a respectable 2.5% vs. the dollar. The Japanese yen trades at 1990 levels, down another 8.5% this year, the Swiss franc is off 7.5%, and the British pound is down just 1.5%;
- The **ENR Global Currency Sandwich**, investing equally in gold, the Japanese yen, Brazilian real, Singapore dollar, and the Norwegian krone, gained 0.9% over the past month, mainly because of the rally in gold bullion and the Brazilian real. The basket is down 1.6% in 2024;
- The Japanese yen remains the biggest FX contrarian currency trade of the decade. Markets continue to push the yen lower, testing the BOJ's resolve to aggressively intervene in FX markets. At some point, the BOJ will hike interest rates, triggering a violent global correction.

COMMODITIES

- Commodity equities have rallied sharply since March and are now rated a HOLD;
- President Biden now holds dubious distinction of being the most expensive 'food inflation' President since Richard Nixon. He might overtake Nixon if he's re-elected in November. Some of the biggest commodity price gains over the past year include cocoa (+161%), eggs (+112%), orange juice (+32%), butter (+28%), and lean hogs (+23%). The CRB Reuters Commodity Index has rallied 18.5% over the last 12 months;

Presidential Food Fight

Biden has presided over the fastest food inflation since Nixon



Source: Bloomberg

- Australian billionaire builds 6% stake in **Lynas Rare Earths Ltd**. (Sidney-LYC). Gina Rinehart, an Australian mining magnate, has built nearly a 6% stake in Lynas Rare Earths and 5% in U.S.-listed **MP Materials** (NYSE-MP). The companies are the two largest non-Chinese rare-earth developers and recently held merger talks. Rinehart's moves come against the backdrop of a strategic push by the United States and Australia to build minerals supply and refining capacity to reduce dependence on China. China accounts for 60% of the world's rare-earth mining and close to 90% of processing ands refining, according to the International Energy Agency;

- Copper futures rally - hit two-year high. Copper futures are up more than 18% this year gaining from sanctions on Russian metals, tight market fundamentals and increasing structural demand from secular forces feeding the renewable energy theme. **Freeport McMoRan** (NYSE-FCX) has surged over the past two months is a HOLD.

ENR MODEL PORTFOLIO

- The renewed spike in long bond yields since early March has pressured equity multiples, stalling the advance in stock prices. However, Federal Reserve Chair Jay Powell's press conference last week calmed the bond market and helped push stocks higher. Broadly speaking, the combination of a resilient economy, strengthening corporate earnings and a cooling labor market suggests that the bull market in stocks remains intact;
- The brief sell-off in April is probably not over. As earnings season concludes, investors should look to add hedges to offset volatility this summer. The market remains expensive and though corporate earnings were largely favorable in Q1, a strong dollar and volatile oil remain important wildcards that can derail the bull market over the near-term. Also, upcoming U.S. elections this fall will lend to more profit-taking, if Biden gains in the polls ahead of potentially higher tax rates;
- The United States is still home to the best long-term stock-market opportunities but is no longer fairly valued compared to the risk-free rate of 5% in T-bills. Bond yields must come down further to legitimize an over-weight in U.S. equities. Overseas stocks are much cheaper. Look to Europe and Japan for excellent values. Emerging markets are also attractive but remain hostage to a strong dollar and high U.S. rates;
- This month, we're buying fashion powerhouse **LVMH Moet Hennessy Louis Vuitton** (Paris-MC). This fashion and real estate mega-cap stocks ranks as one of the best performing stocks in Europe over the past 20 years. With a market-cap of $421 billion, this diversified fashion house remains the best-managed retail specialty stock in the

world. LVMH operates through the following business segments: Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing. Some of its best-known brands are Louis Vuitton, Christian Dior, Givenchy, Tiffany's, Fendi, Tag Heuer, Dom Perignon, Sephora and many other that dominate the fashion and high-end sectors of retailing;

- LVMH trades 9% below its all-time high last year. Slowing Chinese sales, and generally lower sales amid a luxury slowdown might be temporary ahead of central bank rate cuts. Europe will be cutting ahead of the Fed.
- In May, Best Buys include: **LVMH Moet Hennessy Louis Vuitton** and **Nestlé**.

Eric N. Roseman
Montreal, Canada
May 7, 2024

Market Outlook Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
LVMH Moët Hennessy Louis Vuitton SE	XPAR	MC	€ 789.40	May 7/24	1.65%	€ 789.40	NEW	BUY
Nestlé SA*	VTX	NESN	CHF 65.15	Dec 7/16	3.26%	CHF 92.16	78.71%	BUY
Apple Inc*	NASDAQ	AAPL	$23.20	May 9/16	0.53%	$182.45	712.13%	HOLD
Newmont Corporation*	NYSE	NEM	$17.99	Dec 31/15	3.50%	$41.29	183.24%	HOLD
Wheaton Precious Metals	NYSE	WPM	$22.78	Jun 5/19	1.13%	$53.65	146.62%	HOLD
Albemarle Corporation	NYSE	ALB	$61.01	Sep 4/19	1.22%	$132.77	129.77%	HOLD
Berkshire Hathaway*	NYSE	BRK.B	$197.73	Aug 5/19	0.00%	$404.38	104.51%	HOLD
ConocoPhillips*	NYSE	COP	$67.56	Sep 29/21	2.00%	$124.60	96.79%	HOLD
HSBC Holdings plc	LSE	HSBA	£4.74	Nov 9/22	6.74%	£7.13	84.44%	HOLD
Alphabet Inc.	NASDAQ	GOOGL	$104.65	May 5/23	0.00%	$171.20	63.59%	HOLD
Microsoft Corporation	NYSE	MSFT	$256.72	Jul 5/22	0.69%	$412.21	62.45%	HOLD
iShares Russell Top 200 Value Index	NYSE	IWX	$52.46	Jan 2/18	2.08%	$74.60	59.55%	HOLD
WisdomTree India Earnings Fund	NYSE	EPI	$32.42	Mar 3/23	0.13%	$44.44	37.26%	HOLD
Freeport-McMoRan Inc.	NYSE	FCX	$39.26	Mar 29/23	1.18%	$51.23	32.40%	HOLD
Zurich Insurance Group	VTX	ZURN	CHF 411.20	Oct 4/22	5.76%	CHF 451.60	32.08%	HOLD
Sprott Physical Uranium Trust Fund	TSE	U-UN	CAD 24.96	Nov 1/23	0.00%	CAD 31.03	25.52%	HOLD
The Southern Company	NYSE	SO	$66.47	Dec 7/21	3.71%	$76.60	24.54%	HOLD
Lazard Global Listed Infrastructure Portfolio	NASDAQ	GLIFX	$14.04	Aug 4/20	3.11%	$15.51	21.18%	HOLD
Vanguard Small Cap Value Index Fund	NYSE	VBR	$157.50	Oct 2/23	2.14%	$187.15	20.16%	HOLD
AbbVie Inc	NYSE	ABBV	$140.24	Nov 30/23	3.72%	$162.26	17.91%	HOLD
Energy Select Sector SPDR	NYSE	XLE	$86.74	Feb 7/23	3.12%	$93.72	12.33%	HOLD
Rio Tinto Group	NYSE	RIO	$64.71	Apr 2/24	6.23%	$70.27	8.59%	HOLD
iShares Core U.S. Aggregate Bond ETF	NYSE	AGG	$92.78	Nov 1/23	3.41%	$96.54	5.60%	HOLD
Northrop Grumman Corporation	NYSE	NOC	$460.86	Mar 29/23	1.60%	$473.34	4.33%	HOLD
iShares J.P. Morgan EM Local Currency Bond ETF	NYSE	LEMB	$35.63	Sep 7/23	1.38%	$36.14	2.81%	HOLD

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