Julius Bär

# THE WIRE

## Europe Bell

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- European equity futures are lower ahead of the opening, following mostly weaker levels in Asia.
- The 10-year US Treasury yield is at 4.35% and the USD is little changed on major crosses.
- WTI crude oil is flat, gold marginally higher.

Source: FactSet, Julius Baer

### KEY EVENTS TODAY

| Time (CET) | Country | Event / indicator | Period |
|---|---|---|---|
| 11:00 | EZ | Inflation | Mar |
| 11:00 | EZ | Unemployment rate | Feb |
| 14:15 | US | ADP employment | Mar |
| 15:45 | US | Services PMI | Mar F |
| 16:00 | US | ISM services PMI | Mar |

Source: Bloomberg Finance L.P., Julius Baer.

# TOP STORIES

## **NEW** EQUITY STRATEGY: UPGRADE GLOBAL INDUSTRIALS TO OVERWEIGHT

We see relative upside for industrials stocks as the manufacturing PMI has bounced back into expansionary territory while the destocking cycle appears to be nearing its end. Within the sector, we have a relative preference for the machinery and equipment subsector, which would be a main beneficiary of a cyclical recovery, with the subsector's growth momentum already supported by secular growth themes.

Over the past 12 months, the industrials sector slightly underperformed cyclicals (+24.64% vs +30.11% in total return terms) on the back of a weak manufacturing backdrop globally as well as one of the largest destocking cycles following the Covid-19-related distortions. Going forward, we see early signs of a turnaround for the sector. The recently released ISM manufacturing PMI index, which usually leads industrial activity by one to two quarters, has finally bounced back into expansionary territory (50.2) for the first time since October 2022, signalling that one of the worst stretch for manufacturing in the US is probably behind us. Historically, the relative performance of the industrials sector is closely linked to the level of the ISM manufacturing PMI index and, assuming our cyclical growth recovery thesis for H2 2024 bears fruit, points to an outperformance of the sector ahead. Moreover, we also see tentative signs that the destocking cycle is finally nearing its end. The new orders/inventory ratio has recently stabilised and started to tick up again from a low base. While valuations for the sector are not cheap (nor expensive), we would argue that the sector should trade at a premium compared to its history as the sector has become less cyclical over time. For instance, industrial companies have added recurring revenue items to their business streams, as well as selling off the more volatile business segments. As such, the earnings volatility of the sector should be lower than in the past, in our view, justifying a premium valuation. Moreover, the sector is also heavily exposed to secular growth themes including artificial intelligence, electrification, automation and robotics. While consensus is expecting 8% of earnings growth for the sector for 2024 on a year-over-year basis, we see upside to that number on the back of operating leverage. Within the sector, we have a relative preference for the machinery and equipment subsector, which would be a main beneficiary of a cyclical recovery, with the subsector's growth momentum already supported by secular growth themes. This is followed by the transportation subsector, as overall freight flows would benefit from strengthening industrial activity. However, the Q4 2023 earnings season has not yet shown a broad-based freight recovery.

Mathieu Racheter, CFA, CAIA
Head of Equity Strategy Research

Britta Simon, CEFA
Equity Research

**Equity Top Picks of industrials stocks:**
Eaton Corporation
(Buy, Price/Target: USD314.8/335)
Emerson Electric
(Buy, Price/Target: USD113.3/125)
Norfolk Southern
(Buy, Price/Target: USD250.8/285)
Siemens
(Buy, Price/Target: EUR175.6/195)
Alstom
(Buy, Price/Target: EUR14.1/18)

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## **NEW** CHILE: CENTRAL BANK CUTS 75BPS TO 6.5%

Chile's central bank unanimously cut the policy rate by 75bps to 6.5%, slowing the pace on higher-than-expected inflation, stronger activity, and weaker currency. Further cuts will be delivered at the upcoming meetings, but the magnitude and timing will depend on incoming data. We maintain our Hold/Quality rating on Chile sovereign bonds and our Overweight rating on Chilean equities.

In line with analyst expectations, Chile's central bank unanimously cut its policy rate by 75bps to 6.5% at their meeting yesterday. The pace was decelerated (vs 100bps cut in January) on higher-than-expected inflation, stronger activity, and weaker currency. In their communiqué, the board noted the progress in closing the significant macroeconomic imbalances of past years and inflation standing closer to the 3% target. Inflation for January and February exceeded expectations due to CLP depreciation and external pressures and needs close monitoring. However, the central bank takes comfort from the fact that inflation has declined overall, and inflation expectations remain anchored. Economic activity has surprised to the upside, while the labour market continues to improve. In contrast to past statements, in this instance, the central bank did not mention convergence to a neutral rate in the second half of the year. In terms of forward guidance, the central bank stated that more rate cuts will follow, but that the timing and magnitude will depend on incoming data. More information on macro projections and the policy rate range will be available in the monetary policy report for Q1 2024, to be published today (Wednesday 3 April). We maintain our Hold/Quality rating on Chile sovereign bonds and our Overweight rating on Chilean equities.

Eirini Tsekeridou
Fixed Income Research

- Policy rate: 75bps to 6.5%
- Next central bank meeting: 24 May 2024
  February headline inflation: 3.6% y/y
  February core inflation: 4.2% y/y
- Issuer rating: Hold/Quality
- Equity rating: Overweight
- USD/CLP: 975 (spot), 995 (3m), 1000 (12m)

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## MARKET REVIEW & FORECASTS

### CURRENCIES

| | Spot | +3mE | +12mE |
|---|---|---|---|
| EUR/USD | 1.08 | 1.08 | 1.08 |
| USD/JPY | 151.7 | 145.0 | 140.0 |
| EUR/GBP | 0.86 | 0.85 | 0.87 |
| GBP/USD | 1.26 | 1.27 | 1.24 |
| EUR/CHF | 0.98 | 0.97 | 0.97 |
| USD/CHF | 0.91 | 0.90 | 0.90 |
| EUR/SEK | 11.57 | 11.40 | 11.00 |
| EUR/NOK | 11.68 | 11.20 | 11.00 |
| USD/CAD | 1.36 | 1.34 | 1.30 |
| AUD/USD | 0.65 | 0.66 | 0.69 |
| NZD/USD | 0.60 | 0.63 | 0.65 |
| USD/BRL | 5.06 | 4.95 | 4.90 |
| USD/MXN | 16.58 | 17.00 | 17.40 |
| USD/TRY | 31.99 | 33.50 | 35.00 |
| USD/RUB | 92.5 | 90.0 | 90.0 |

### COMMODITIES

| | Last | Δ1d | +12mE |
|---|---|---|---|
| Crude oil | 89.0 | 0.1% | 72.5 |
| Natural gas | 1.85 | -0.9% | 3.00 |
| Aluminium | 2338 | 1.9% | 2325 |
| Copper | 8888 | 1.4% | 9750 |
| Iron ore | 100.9 | -1.4% | 97.5 |
| Gold | 2281 | 0.0% | 1900 |
| Silver | 26.3 | 0.6% | 21.5 |

| | Spot | +3mE | +12mE |
|---|---|---|---|
| USD/CNH | 7.26 | 7.20 | 7.10 |
| USD/KRW | 1349 | 1300 | 1260 |
| USD/THB | 36.7 | 36.0 | 34.5 |
| USD/IDR | 15925 | 15500 | 15000 |
| USD/INR | 83.4 | 82.5 | 81.0 |
| USD/ZAR | 18.8 | 19.0 | 18.5 |

### EQUITY MARKETS

| | Last | Δ1d | YTD |
|---|---|---|---|
| MSCI World | 3403 | -0.6% | 7.4% |
| S&P 500 | 5206 | -0.7% | 9.1% |
| Dow Jones | 39170 | -1.0% | 3.9% |
| Nasdaq | 16240 | -1.0% | 8.2% |
| Euro Stoxx 50 | 5042 | -0.8% | 11.5% |
| Dax 30 | 18283 | -1.1% | 9.1% |
| MSCI UK | 2273 | -0.2% | 2.6% |
| CAC 40 | 8130 | -0.9% | 7.8% |
| SMI | 11595 | -1.2% | 4.1% |
| SPI | 15267 | -1.1% | 4.8% |
| Nikkei 225 | 39452 | -1.0% | 17.9% |
| ASX 200 | 7783 | -1.3% | 2.5% |

| | Last | Δ1d | YTD |
|---|---|---|---|
| Hang Seng | 16739 | -1.1% | -1.8% |
| Shanghai SSE | 3068 | -0.2% | 3.1% |
| Taiwan Index | 20338 | -0.6% | 13.4% |
| Singapore STI | 3225 | -0.7% | -0.5% |
| Kospi | 2713 | -1.5% | 2.2% |
| Kuala Lumpur | 1541 | -0.5% | 5.9% |
| Indonesia JCI | 7183 | -0.7% | -1.2% |
| BSE Sensex | 73942 | 0.1% | 2.4% |
| Russia RTS | 1148 | 0.0% | 6.0% |
| Bovespa | 127549 | 0.4% | -4.9% |

Source: Bloomberg Finance L.P., Julius Baer. E =Julius Baer estimate
Data as at: 03/04/2024 08:29 CET

# ECONOMIES & MARKETS

## JAPAN STRATEGY: RISING TREND OF STOCK SPLITS

In the last year, there has been a significant rise in companies announcing stock splits. We see this as an effort to attract the local retail investor to local stocks via the revamped NISA programme.

There is a rising popularity in stock splits in Japan. The Nikkei news counted 191 split announcements in FY3/2023, up about 60% from the previous year. On 1 April 2024, the typical start of the new financial year for Japanese companies, saw a further 62 announcements, the highest number at the start of the fiscal year in a decade. Stock splits lowers the minimum entry point for individual investors. This is because most stocks in Japan still require a minimum purchase of 100 shares compared to places like USA where an investor can buy just 1 share. This helps the Nippon Individual Savings Account (NISA) program gain traction. Currently, the average minimum investment in the prime market names has dropped to about JPY 300,000 (ca USD 2,000). This is well below the JPY 500,000 targeted by the Tokyo Stock Exchange (TSE) but still is still higher than the US stock market. Due to the weakening currency, this is still less than one-sixth of the 1989 average investment quantum needed when the index was last at its record highs. The Nikkei also noted that the liquidity boost can be substantial. Tracking 138 companies that split shares between 1 April 2023 and 1 January 2024, the daily trading volume in Q1 2024 was seven times from a year earlier. This compared with ca 50% rise in volume traded for the overall Prime Market aggregate. *Nippon Telegraph and Telephone Corporation*[1] (split on 29 June 2023) stood out with a 33-fold surge. Further analysis also shows a ca 70% jump in shareholders to 1.57 million. With such positive precedence, it is likely that we would see more of such stock splits during the upcoming month when corporates report their full year earnings. A more structural and systematic method would be for the stock exchange to reduce the lot size further. The NISA programme has so far seen local investors buy investment trusts for exposure to global and US stocks and the smaller investment quantum required. A rising trend of splits could pull some funds back into local stocks.

[1] Reference to this Morningstar-covered stock does not constitute a recommendation by Julius Baer. Relevant information (e.g. analyst name) may be found in the annex. The Morningstar Equity Research Report can be requested free of charge via your Julius Baer Relationship Manager.

Kelly Chia
Equity Research Asia

Overweight rated markets

- Japan, Taiwan, South Korea, India, Indonesia and Philippines

Neutral rated markets

- China onshore, Hong Kong, Australia, Singapore, Malaysia and Thailand

- *Nippon Telegraph and Telephone Corporation*[1] (★★, Price/Fair Value: JPY 177.40/172)

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## THAILAND: PLANS TO WIDEN FISCAL DEFICIT TO BOOST ECONOMY

Thailand's plan to widen the budget deficit in FY 2025 to spur growth was of little help to the THB, weighed down further by USD strength and risk aversion after stronger-than-expected US data. Thailand's economic data point to still sluggish and uneven recovery, putting pressure on the BoT to shift towards easing at its next meeting to aid the economy. The BoT has so far not caved to political pressure to cut rates and has maintained that the slow growth stems from structural issues and structural reforms are needed to address this.

Thailand's cabinet yesterday approved a plan to widen the budget deficit target by THB152.7bn to THB865.7bn (4.42% of GDP) for the fiscal year 2025 (FY 2025 starting 1 October) to boost the economy. Using a revised GDP estimate of 2.7% under the revised medium-term budget framework for FY2025–FY2028, the public debt to GDP ratio is forecasted to rise to 66.93% but below legal ceiling of 70%. The higher deficit, to be funded via borrowing, is seen to be due to funding needs for the digital wallet scheme. The prime minister (PM) has declined to comment and said that the details will be announced on 10 April. The THB500bn digital wallet scheme, initially set for roll out in May, has been pushed back to the fourth quarter amid disputes over how the program will be funded. The PM last week said stimulus measures are extremely necessary given sub-2% growth in the past decade, with uneven recovery post pandemic and high borrowing costs holding back economic recovery. Meanwhile, the Bank of Thailand (BoT) last Friday said economic recovery continued at a slow pace in February, driven by the service sector, helped by higher foreign tourist arrivals and tourism revenue, offsetting the fall in exports. Thailand received 8.73m foreign tourists up to 24 March (+44% y/y), with rising numbers from China (1.63m), Malaysia and Japan. Private consumption rose 2.1% y/y in February (January: 1.5%) on higher fuel consumption, while private investment improved slightly to 0.0% y/y (January: -0.2%) and manufacturing production growth remained negative but improved to -2.8% y/y (January: -2.9%) as some refineries resumed production after maintenance works in January. However, export growth (excluding gold) fell to -2.9% m/m (January: 0.7%) due to sluggish exports in several industries, which the BoT attributed to subdued recovery in global demand, high inventory levels and Thailand's structural factors. The current account swung to a surplus of USD2bn in February from a deficit of USD0.2bn in January, mainly owing to a surplus in the trade balance.

Sok Yin Yong
Fixed Income Research Asia

- Thailand issuer rating: Hold/Opportunistic
- BoT has hiked rates eight times (200bps in total) to 2.50% since August 2022, but remains among the lowest globally.
- Headline inflation was -0.77% y/y in February (January: -1.11%), its fifth straight month of negative reading. BoT sees this as temporary and largely driven by government energy subsidies. It expects inflation to stablise close to 1% in 2024 and gradually rise next year.
- Core inflation rose slightly to 0.43% y/y
- The government aims for 40m foreign tourist arrivals this year, close to pre-pandemic level (2023: 28m). Foreign tourist arrivals reached 9.37m in Q1 2024.
- Thailand's public debt was 40%–50% of GDP for over two decades before rising to 58.3% in 2021. It rose further to 62.4% in 2023 and 62.5% in February 2024. Debt ceiling at 70%.
- Next monetary policy committee meeting: 10 April
- 10-year Thai government bond yield rose to 2.512% on Tuesday, up 1.7bps from the previous day.
- USD7THB was at 36.645 on Tuesday, +0.20% from the previous day. The THB has fallen nearly 7% against the USD this year, the most in emerging Asia.

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## DIGITAL ASSETS: THE BUOYANCY

Lately, it has been all about Bitcoin. The new spot exchange-traded funds (ETF) are amassing tens of billions and the fourth halving is approaching amid a backdrop of remarkably low levels of token liquidity. US spot ETFs have indeed been the fundamental drivers of, not only Bitcoin markets, but also broader digital assets markets. Meanwhile, expectations of a launch of spot Ethereum ETFs in the US are standing on a much softer footing, as reflected in the recent underperformance of Ethereum versus Bitcoin. That said, the market mood remains upbeat across digital assets and as long as USD liquidity continues to increase, investors and speculators alike will continue looking at the rest of the blockchain ecosystem with little discrimination on what has value and what does not.

Lately, it has been all about Bitcoin. The new spot exchange-traded funds (ETF) are amassing tens of billions, and the fourth halving is approaching amid a backdrop of remarkably low-levels of token liquidity. US spot ETFs have indeed been the fundamental drivers of, not only Bitcoin markets, but also broader digital assets markets. They have been the tide that lifts all boats, and there is no question about that. So, everything else has rallied as well in the crypto space, but is it backed by sound analysis? On Ethereum, foundations for an approval of physically-backed Ethereum ETFs in the US stand on a much softer footing. Regulators from the Securities Exchange Commission (SEC) have not displayed the same proactivity in the matter. Lastly, the Howey Test's definition of an investment contract might give the SEC grounds to cling to the asset's burning mechanism and its qualities as an investment contract. In short, if the burning mechanism does not offset the staking emissions, the blockchain enters an inflationary state. The asset has primarily rallied on expectations of a potential approval of the spot ETFs in the US (the likelihood of which is not as high as it was at the beginning of the year), something investors can easily see in the 25% discount against the net-asset value of the largest closed-end Ethereum fund in the US, which has acted as a live-betting line for the approvals. Nonetheless, Ethereum successfully underwent the Dencun upgrade, and the likes of institutional interest have been largely pointing towards the asset. Institutional interest has come in many forms, but the highest growth use case was that of tokenisation of financial assets; similar to what Blackrock recently announced with 'BUIDL'. Tokens related to this subject have experienced considerable upside, the 'fear of missing out' is kicking in, and speculation is rampant. The rising speculation can be seen in Solana as well; the blockchain has enabled a strong user base, and the activity has skyrocketed since late last year. Unfortunately, a good chunk of the trading volume is generated from memecoins, whose upside has been merely parasitic. Crypto cycles are indeed interesting, as gains from Bitcoin spillover into the larger alternatives, and cascade down into the riskier and less-sound plays. As long as US dollar liquidity continues to increase, investors will continue looking at the rest of the blockchain ecosystem, with little discrimination on what has value and what does not. Due diligence is of the essence.

Note: Investments in digital assets are exposed to elevated risks of fraud and loss and to price fluctuations.

Manuel Villegas Franceschi
Next Generation Research

**Crypto market overview**
Total market capitalisation: USD2.47tn*
Share of listed financial assets: 1.6%

Top five coins by market capitalisation:

1. Bitcoin (BTC): USD1283.9bn
2. Ethereum (ETH): USD395.8bn
3. Tether (USDT): USD104.6bn
4. Binance (BNB): USD82.8bn
5. Solana (SOL): USD79.6bn

* Values as at 02.04.2024, 15:00 CET

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## US DATA: GOOD ECONOMIC DATA CHALLENGES RATE-CUT EXPECTATIONS

US manufacturing activity returned to expansion after 16 months, and US inflation remained sticky, at close to 3%, at the start of the year. The better-than-expected data challenges expectations that the Federal Open Market Committee (FOMC) will start cutting interest rates at its June meeting. At the same time, labour market data in February, such as job openings and the quit rate, provides some support for a first Fed rate cut at the June FOMC meeting – which is what we continue to expect, followed by two more rate cuts of 25 basis points each at the July and September meetings. Fewer and later rate cuts by the Fed are possible but are unlikely to undermine the risk appetite in financial markets so long as better economic data is the reason for the prolonged period of tighter US monetary policy.

US manufacturing activity, as measured by the Institute of Supply Management's (ISM's) survey, returned to expansion in March after 16 months of contraction. The better-than-expected data challenges expectations that the FOMC will start cutting interest rates at its June meeting. Prices paid by manufacturers also rose in March, according to the same survey, suggesting that inflation will remain above 2.5% in the coming months. The strong economic data follows the release of the February deflator for private consumption expenditure, which confirmed that US inflation remained sticky, at close to 3%, at the start of the year. The core rate, which excludes the volatile food and energy components, remained at 2.8%, while the monthly increase in prices according to this measure slowed from 0.5% to 0.3% in January. US labour market data in February, such as job openings and the quit rate, provide some support for a first Fed rate cut at the FOMC meeting in June. Job openings slowed to 8.756 million, and the quit rate stayed at 2.2%, which points to lower wage growth over the next 12 months, contributing to weaker demand and lower inflationary pressure, especially for labour-intensive services. We continue to expect the first rate cut by the Fed at the June FOMC meeting, followed by two further rate cuts of 25 basis points each at the July and September meetings. The US presidential election on 6 November will make the Fed reluctant to change rates at its FOMC meeting on 7 November and at their last meeting in December 2024. In our view, stronger economic growth data is the biggest risk, and it could force the Fed to start cutting rates later and less sharply. A prolonged period of tighter US monetary policy on the back of better-than-expected growth is unlikely to damage the risk appetite in financial markets. We recommend staying invested in this environment.

David Kohl
Chief Economist

Private consumption expenditure deflator, February 2024 (consensus expectations)

- PCE deflator y/y +2.5% (+2.5%)
- PCE deflator m/m +0.3% (+0.4%)
- PCE core deflator y/y +2.8% (+2.8%)
- PCE core deflator m/m +0.3% (+0.3%)

ISM manufacturing survey, March 2024 (consensus expectations)

- Factory index 50.3 (48.3)
- New orders 51.4 (49.8)
- Prices paid 55.8 (53.0)

JOLTS job openings, February 2024 (consensus expectations)

- Factory index 8.756m (8.730m)

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## ECONOMIC FORECASTS

### ECONOMIC GROWTH

| | 2023 | 2024E | 2025E |
|---|---|---|---|
| World | 3.1 | 2.6 | 3.1 |
| United States | 2.5 | 2.1 | 1.8 |
| Eurozone | 0.5 | 0.3 | 1.6 |
| Germany | -0.1 | 0.1 | 2.0 |
| United Kingdom | 0.1 | 0.3 | 1.5 |
| Switzerland | 0.8 | 1.1 | 1.6 |
| Japan | 1.9 | 0.6 | 1.2 |
| China | 5.2 | 4.4 | 4.2 |
| India | 6.7 | 5.3 | 7.0 |
| Brazil | 2.9 | 1.5 | 2.0 |

Gross domestic product, % year-on-year

### INFLATION

| | 2023 | 2024E | 2025E |
|---|---|---|---|
| World | 5.6 | 4.2 | 3.4 |
| United States | 4.1 | 2.6 | 2.4 |
| Eurozone | 5.4 | 2.2 | 2.0 |
| Germany | 5.9 | 2.1 | 2.0 |
| United Kingdom | 7.3 | 2.4 | 2.1 |
| Switzerland | 2.1 | 1.4 | 1.0 |
| Japan | 3.3 | 1.8 | 1.5 |
| China | 0.3 | 0.7 | 1.7 |
| India | 5.7 | 4.7 | 4.5 |
| Brazil | 4.6 | 3.7 | 3.5 |

Consumer price index, % year-on-year

### CENTRAL BANK POLICY RATES

| | Spot | +3mE | +12mE |
|---|---|---|---|
| US Fed funds | 5.50 | 5.25 | 4.25 |
| ECB main refi. | 4.50 | 4.25 | 3.75 |
| BoJ overnight | -0.10 | 0.10 | 0.10 |
| UK base rate | 5.25 | 5.25 | 4.25 |
| SNB policy rate | 1.50 | 1.25 | 1.00 |

### 10Y GOVERNMENT BOND YIELDS

| | Spot | +3mE | +12mE |
|---|---|---|---|
| US Treasuries | 4.36 | 4.20 | 4.20 |
| German Bunds | 2.40 | 2.35 | 2.40 |
| Japanese gov't | 0.77 | 0.70 | 0.90 |
| UK Gilts | 4.09 | 4.05 | 3.90 |
| Swiss Confed. | 0.77 | 0.80 | 1.00 |

Source: Bloomberg Finance L.P., Julius Baer. E =Julius Baer estimate
Data as at: 03/04/2024 08:29 CET

## COMPANY NEWS

### CHINA MENGNIU DAIRY: TIME FOR A RESET

Mengniu's share price has traded down since last Thursday, as it reported an earnings miss, driven by higher expenses and large inventory write-down. Mengniu announced a CEO change and provided FY 2024 guidance. Valuation and expectation have been reset but investors are likely to sit on the sideline until they see stronger evidence of earnings recovery and if the company announces a larger than expected shareholder's return policy.

For H2 2023, sales grew 6% y/y (a small deceleration vs 7% in H1). With higher selling, general and administrative (SG&A) expenses (+17% y/y), Mengniu reported flat y/y operating profits. Adjusted net profits were down 15% y/y to CNY1.8bn, further dragged by a CNY300m impairment of milk powder inventory and the increase of withholding tax. Management has raised the dividend payout to 40% in FY 2023 (from 30% in FY 2022), but this is still lower than over 50% paid by a key competitor and other major consumer companies. Mengniu also did not reveal any plan of stock repurchase. This may cause some disappointment among shareholders and investors. Post results, Mengniu announced that its Chief Executive Officer (CEO), Mr Lu Min Fang, has stepped down and will assume the appointment as the company's Vice Chairman. Mr. Gao Fei (a 24-year Mengniu veteran) will take over from Mr Lu as the new CEO. Management has guided for a low to mid-single digit sales growth with a 30–50bps operating margin expansion in FY 2024.

Eric Mak, CFA
Equity Research Asia

China Mengniu Dairy (Mengniu)

- Equity rating (relative): Hold
- Price/Target: HKD 17.32/32 [under review]

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### TESLA: DISAPPOINTING Q1 2024 VEHICLE DELIVERIES

Tesla delivered 386,810 vehicles in Q1 2024, well below analyst expectations and down from the same quarter a year ago. This will trigger lower full-year 2024 delivery and earnings estimates after the plunge of forecasts over the past 12 months. Importantly, 2025 analyst estimates are still way too high in our view.

In Q1 2024, Tesla delivered 386,810 vehicles, down 20% vs Q4 2023, down 9% vs the same quarter a year ago, and 14% below the analyst consensus estimate, which had already declined 10% YTD. The full-year consensus estimate of 2.02m vehicles will continue to decline to a mid-single-digit percentage growth rate vs 2023. The picture is not brighter for earnings estimates. The consensus EPS estimate for 2024 has now dropped almost 50% over the past 12 months and is still clearly trending down. Importantly, the EPS estimate for 2025 is, in our view, still way too high, even after already dropping 40% over the past 12 months. Model S/X and Model 3 are now in decline, Model Y is only significantly growing in China, and Cybertruck will not be accounting for more than 2%–3% of total deliveries in 2024 and 5%–7% in 2025. The new Model 2, which will provide the next growth leg for the company, is likely to start production in late 2025 and will not reach material volumes before 2026. Last week, Tesla offered a one-month free trial for its US 'full self-driving' (FSD) option. This and the improved performance of the software might positively impact take-up rates for FSD. However, without full autonomy (level 4 or 5 necessary for robotaxis), the value of FSD will be limited. The company will announce detailed Q1 results on 23 April 2024, which could be negatively impacted by high costs for the ramp up of the Cybertruck.

Roberto Cominotto
Equity Research

- Equity rating (relative): Hold
- Price/Target: USD 166.63/150
- Consensus P/E 2025E: 44.5x

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## STOCK OF THE WEEK: ROCKWELL AUTOMATION – ORDER CYCLE SET TO RECOVER

The industrial automation market has been under pressure in recent quarters, which also led to Rockwell Automation's valuation being derated. We expect that the automation order cycle will start to recover in H2 2024, which should help the company's growth momentum and drive a rerating of the stock.

Rockwell Automation is a US-based, global leader in industrial automation control and information solutions. As such, the company is exposed to attractive megatrends such as the reshoring/nearshoring of manufacturing to North America and Europe, offering robust long-term growth potential. Industrial automation, and herein discrete/factory automation, has been under pressure in recent quarters, reflecting the impact of normalisation due to destocking after the Covid-19-related distortions. We expect that the automation order cycle will begin to recover in H2 2024, albeit possibly at a slower pace than previously expected. For the company's last quarter (quarter-end December 2023), Rockwell Automation reported a positive inflection in order intake in all segments and regions, with order intake up by double digits quarter-on-quarter. This was a positive surprise after a significant order slowdown in the penultimate quarter. Results for the current quarter (quarter-end March 2024) should likely show continued pressure on order intake, and management recently said that order growth is taking longer to accelerate than initially expected, as machine builders are taking longer to normalise inventories. In this context, management also stated that full-year (year-end September 2024) revenues and EPS are likely to be at the lower end of the current guidance range; this, however, was already reflected in consensus forecasts. Given the potential for growth acceleration and for a rerating, we upgraded Rockwell Automation from Hold to Buy on 21 March 2024.

Britta Simon, CEFA
Equity Research

- Equity rating (relative): Buy
- Price/Target: USD 280.23/340
- Addressable market size: USD90bn+
- FY 2024 adjusted EPS guidance: USD 12.00 to USD 13.50 vs consensus of USD 12.16
- FY 2023 adjusted EPS: USD 12.12 (+28% y/y)
- Valuation below long-term average

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## **NEW** TECHNICAL ANALYSIS: EQUITY AND US HIGH YIELD TOO STRONG FOR MEANINGFUL CORRECTION

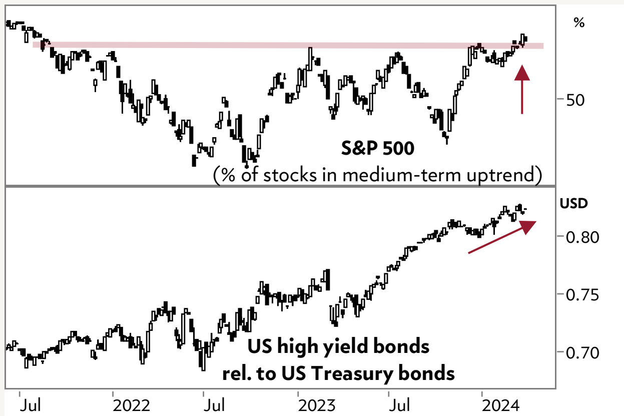
The US equity market breadth and US high yield relative performance remains too strong for any correction. Stay invested.

Equity markets have started with minor losses into April, but still April has been the best month for the S&P 500 in the current century. Looking at market breadth, we see that the percentage of stocks in the S&P 500 trading with a medium-term uptrend rose last week to a two-year high. At the same time, the relative performance of US high-yield bonds to US Treasury bonds is close to all-time highs. Thus, most likely the short-term rebound in US Treasury bond yields dampens short-term enthusiasm and  puts pressure on the most interest-rate-dependent segments: US small caps. Nevertheless, investors should not expect anything more than a minor consolidation as market breath. The performance of US high yield remains too strong.

Mensur Pocinci, MFTA
Head of Technical Analysis

Technical Analysis may be inconsistent with and reach different conclusions to fundamental analysis.

EQUITIES AND US HIGH YIELD REMAIN STRONG



**Source:** Bloomberg Finance L.P., Julius Baer. Please see information on abbreviations/charts at the end of this document. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations. The chart displays 20 months of data to show relevant patterns.

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## TECHNICAL RECOMMENDATIONS

### TECHNICAL ANALYSIS: MEDIUM-TERM TRENDS

| | Last | Trend | Sup | Res | 5d% |
|---|---|---|---|---|---|
| S&P500 | 5206 | ↗ | 5200 | 5300 | -0.2 |
| Nasdaq100 | 18122 | ↗ | 17985 | 18500 | -0.8 |
| DAX | 18283 | ↗ | 18250 | 18590 | 0.4 |
| SMI | 11595 | ↗ | 11610 | 12000 | -0.5 |
| EuroStoxx50 | 5042 | ↗ | 5000 | 5135 | 0.2 |
| Nikkei 225 | 39452 | ↗ | 39000 | 40700 | -3.2 |
| US 10yr yield | 4.36 | ↘ | 4.10 | 4.40 | -0.8 |
| German 10yr yield | 2.40 | ↘ | 2.20 | 2.45 | -0.1 |
| Dollar Index | 104.78 | ↗ | 105.00 | 105.50 | 0.5 |
| EUR/USD | 1.0770 | ↘ | 1.0630 | 1.0740 | -0.5 |
| USD/CHF | 0.9093 | ↗ | 0.9000 | 0.9150 | -0.6 |
| EUR/CHF | 0.9793 | ↗ | 0.9660 | 0.9840 | -0.1 |
| USD/JPY | 151.65 | ↗ | 150.00 | 152.85 | -0.2 |
| Crude oil | 89.83 | → | 83.40 | 90.00 | 4.3 |
| Gold | 2281 | → | 2200 | 2260 | 3.9 |

Source: Bloomberg Finance L.P., Julius Baer; Note: * Roll-adjusted
Data as at: 03/04/2024 08:29 CET; E = Estimate

### EQUITY RECOMMENDATIONS

| | Last | Entry | Stop | Since | PnL |
|---|---|---|---|---|---|

### FIXED INCOME, CURRENCIES & COMMODITIES

| | Last | Entry | Stop | Since | PnL |
|---|---|---|---|---|---|

# IMPORTANT LEGAL INFORMATION

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### Table of Morningstar covered equities mentioned in this publication

| Topic | Equity | Rating | Fair value | Closing price | Analyst name | Date of issuance of Morningstar Qual./Quant. Equity report |
|---|---|---|---|---|---|---|
| Japan Strategy | Nippon Telegraph & Telephone Corp | ★★ | JPY 172.00 | JPY 177.40 | Dan Baker[1] | 01.04.2024 |

[1] The conduct of Morningstar's analysts is governed by a Code of Ethics/Code of Conduct Policy, Personal Securities Trading Policy (or an equivalent thereof), and Investment Research Policy. For information regarding conflicts of interest, please visit: http://global.morningstar.com/equitydisclosures

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Contents under 'Morningstar Research Methodology For Valuing Companies' below have been produced by Morningstar; therefore, the first person (e.g. "we" and "our") refer to Morningstar.

### Morningstar Research Methodology and important legal information

https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted. Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star ★★★★★ stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating. We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust). Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors. The Morningstar Star Ratings for stocks are defined below.

### MORNINGSTAR RESEARCH METHODOLOGY QUALITATIVE EQUITY RATINGS

### Morningstar Qualitative Star Rating

| | | |
|---|---|---|
| Five-Stars | ★★★★★ | We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential. |
| Four-Stars | ★★★★ | We believe appreciation beyond a fair risk-adjusted return is likely. |
| Three-Stars | ★★★ | Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity). |
| Two-Stars | ★★ | We believe investors are likely to receive a less than fair risk-adjusted return. |
| One-Star | ★ | Indicates a high probability of undesirable risk adjusted returns from the current market price over a multiyear timeframe, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss. |

Qualitative investment rating allocation as of 03/04/2024
(calculated by and derived from the investment universe of Julius Baer)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ★★★★★ | 5 Stars | 12.4% | ★★★★ | 4 Stars | 31.0% | ★★★ | 3 Stars | 37.5% |
| ★★ | 2 Stars | 15.3% | ★ | 1 Star | 3.8% | | | |

## IMPRINT

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The analysts have financial interests in the digital assets discussed in this publication.

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### Price information

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## METHODOLOGIES & GLOSSARY

### Overview of methodologies and glossary

www.juliusbaer.com/en/legal/methodologies-and-glossary/

### Research methodology

Please refer to the following link for more information on the research methodology used by Julius Baer analysts:

www.juliusbaer.com/research-methodology

## DISCLOSURES

### Disclosures & recommendation history

www.juliusbaer.com/disclosures

## EQUITY STRATEGY

### Rating system

Countries, sectors and investment styles are rated ‘Overweight’, ‘Neutral’ or ‘Underweight’. These ratings are based on our expectations for relative performance versus regional and global benchmark indices.

| | |
|---|---|
| Overweight | Expected to outperform regional or global benchmark indices in the coming 9-12 months, unless otherwise stated. |
| Neutral | Expected to perform in line with regional or global benchmark indices in the coming 9-12 months, unless otherwise stated. |
| Underweight | Expected to underperform regional or global benchmark indices in the coming 9-12 months, unless otherwise stated. |

### Risk segments

Equity investments are divided into three different risk segments. Risk here is defined as the historical five-year volatility based on monthly returns in CHF. Based on the data of all segments considered (developed markets, emerging markets, global sectors, investment styles) the following distinction is made:

| | |
|---|---|
| Conservative | Investments whose historical volatility is in the bottom quartile of the universe described above. |
| Medium | Investments whose historical volatility is in the middle two quartiles of the universe described above. |
| Opportunistic | Investments whose historical volatility is in the top quartile of the universe described above. |

## EQUITIES

### Equity rating allocation and recommendation history

Please refer to the following link for more information on the allocation of ratings and the current and 12-month historical investment recommendations made in relation to equities covered by Julius Baer Research.
www.juliusbaer.com/disclosures

### Rating system

| | |
|---|---|
| Buy | Expected to outperform the regional industry group by at least 5% in the coming 9-12 months, unless otherwise stated. |
| Hold | Expected to perform in line (±5%) with the regional industry group in the coming 9-12 months, unless otherwise stated. |
| Reduce | Expected to underperform the regional industry group by at least 5% in the coming 9-12 months, unless otherwise stated. |

### Risk rating system

The risk rating (High/Medium/Low) is a measure of a stock’s expected volatility and risk of losses in case of negative news flow. This non-quantitative rating is based on criteria such as historical volatility, industry, earnings risk, valuation and balance sheet strength.

### Frequency of equity rating updates

An update on Buy-rated equities will be provided on a quarterly basis. An update for Hold and Reduce-rated equities will be provided semi-annually or on an ad-hoc basis.

## FIXED INCOME

### Issuer rating allocation and recommendation history

Please refer to the following link for more information on the allocation of ratings and the current and 12-month historical investment recommendations made in relation to fixed income issuers covered by Julius Baer Research.
www.juliusbaer.com/disclosures

### Issuer rating system

Fixed Income Research assigns one of the following investment ratings to each issuer of the active universe:

| | |
|---|---|
| Buy | The issuer has low default risk, strong fundamental data and/or its bonds are an attractive investment from a risk/return perspective, expected to outperform the comparable fixed income segment in the next six months. |
| Hold | The issuer has stable fundamentals and its bonds remain an attractive investment from a risk/return perspective although expected to perform in line with the comparable fixed income segment in the next six months. |
| Sell | The issuer’s fundamental data has deteriorated significantly, with high default risk, and/or its bonds are no longer an attractive investment from a risk/return perspective. |

### Frequency of issuer rating updates

Financial or corporate issuers will be updated as events warrant and at least once semi-annually. Sovereign or supranational issuers will be updated as events warrant and at least once annually.

### Market segment ratings

| | |
|---|---|
| Overweight | Expected to outperform the broad fixed-income market over the next 3-6 months. |
| Neutral | Expected to perform in line with the broad fixed-income market over the next 3-6 months. |
| Underweight | Expected to underperform the broad fixed-income market over the next 3-6 months, |

### Risk categories

| | |
|---|---|
| Conservative | Issuers most likely to preserve their top rating throughout the business cycle. |
| Quality | Issuers very likely to service and repay debt within a five-year credit scenario. These issuers are likely to preserve their investment-grade rating throughout a normal business cycle. |
| Opportunistic | Issuers quite likely to service and repay debt within a five-year credit scenario. They have an attractive risk/return profile but are subject to rating downgrade risk and might thus be periodically replaced. |
| Speculative | Sub-investment-grade issuers likely to service and repay debt in the current credit scenario. These issuers are subject to a higher downgrade and default frequency, requiring active management. |

### Credit rating definition

Following the definitions and methodology of credit rating agencies.

| | Moody's | Standard & Poor's | Fitch Ratings | Credit rating definition |
|---|---|---|---|---|
| Investment-grade | Aaa | AAA | AAA | Obligations are of the highest quality, with minimal credit risk. |
| | Aa1, Aa2, Aa3 | AA+, AA ,AA- | AA+, AA, AA- | Obligations are of high quality and subject to very low credit risk. |
| | A1, A2, A3 | A+, A, A- | A+, A, A- | Obligations are subject to low credit risk. |
| | Baa1, Baa2, Baa3 | BBB+, BBB, BBB- | BBB+, BBB, BBB- | Obligations have certain speculative characteristics and are subject to moderate credit risk. |
| Non-investment-grade | Ba1, Ba2, Ba3 | BB+, BB, BB- | BB+, BB, BB- | Obligations are subject to substantial credit risk. |
| | B1, B2, B3 | B+, B, B- | B+, B, B- | Obligations are speculative and subject to high credit risk. |
| | Caa1, Caa2, Caa3 | CCC+, CCC, CCC- | CCC+, CCC, CCC- | Obligations are of poor standing and subject to very high credit risk. |
| | Ca | CC, C | CC, C | Obligations are highly speculative and are likely in or close to default, with some prospect of recovery of principal and interest. |
| | C | D | D | Obligations are typically in default, with little prospect of recovery of principal or interest. |

## COMMODITY RESEARCH

### Rating system

| | |
|---|---|
| Bullish | Upward-sloping price path, taking into account historical volatility. |
| Constructive | Future price path has more upside than downside. |
| Neutral | Sideways-trading prices, taking into account historical volatility. |
| Cautious | Future price path has more downside than upside. |
| Bearish | Downward-sloping price path, taking into account historical volatility. |

## CURRENCY RESEARCH

### Rating system

| | |
|---|---|
| Bullish | Volatility-adjusted total expected return ranks in the upper quartile of a normal distribution-scaled ranking of covered currencies. |
| Neutral | Volatility-adjusted total expected return ranks between the upper and lower quartile of the normal distribution-scaled ranking of covered currencies. |
| Bearish | Volatility-adjusted total expected return ranks in the lower quartile of a normal distribution-scaled ranking of covered currencies. |

## NEXT GENERATION RESEARCH

### Structural exposure scores

Companies are analysed to determine their exposure to one of the Julius Baer Next Generation (NG) themes and are assigned with a structural exposure score (‘Next Generation score’, ‘NG score’, or ‘thematic exposure score’). The score provides a comprehensive assessment of whether a company is projected to benefit from or be threatened by structural change and ranges from -3 to +3, whereby the top two scores are associated with thematic leaders, while the bottom two are associated with thematic laggards.

| | |
|---|---|
| +2 and +3 | Thematic leaders: the businesses of these companies should strongly (+2) or very strongly (+3) benefit from the identified structural trends, leading to above-average or well-above-average sales and earnings growth as well as resulting in significant market-share gains versus its competitors. |
| -1 to +1 | The businesses of these companies are unlikely to be affected strongly by the identified structural trends, causing minor headwinds (-1) or tailwinds (+1) to sales and earnings or having hardly any impact (0). |
| -3 and -2 | Thematic laggards: the businesses of these companies should be strongly (-2) or very strongly (-3) threatened by the identified structural trends, leading to below-average or well-below-average sales and earnings growth as well as resulting in significant market-share losses versus its competitors. |

### Thematic rating

The Next Generation research team maintains a thematic rating on all of its themes under coverage, which outlines its current assessment of the theme's attractiveness from an investment point of view over a twelve-month horizon:

| | |
|---|---|
| Bullish | Strongly positive expected returns at the upper end of historic norms, i.e. >15% for benchmark equity investment themes and >30% for more volatile and higher-risk themes. |
| Constructive | Moderately positive expected returns that are in line with historic norms, i.e. around 7.5% for benchmark equity investment themes and around 15% for more volatile and higher-risk themes. |
| Neutral | Flat expected returns subject to ranges between +/-10% for benchmark equity investment themes and +/-20% for more volatile and higher-risk themes. |
| Cautious | Moderately negative expected returns, reflecting a consolidation, i.e. around -7.5% for benchmark equity investment themes and around -15% for more volatile and higher-risk themes. |
| Bearish | Strongly negative expected returns at the lower end of historic norms, reflecting a sell-off, i.e. <-15% for benchmark equity investment themes and <-30% for more volatile and higher-risk themes. |

## TECHNICAL ANALYSIS

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### Rating system for global technical analysis (absolute)

| | |
|---|---|
| Buy/Bullish | Expected to advance by at least 10% in the coming 3-12 months, unless otherwise stated. |
| Hold/Neutral | Expected to perform in line (±5%) in the coming 3-12 months, unless otherwise stated. |
| Reduce/ Bearish | Expected to decline by at least 10% in the coming 3-12 months, unless otherwise stated. |

### Rating system for global technical analysis (relative)

| | |
|---|---|
| Overweight | Expected to outperform its benchmark by at least 5% in the coming 3-12 months, unless otherwise stated. |
| Neutral | Expected to perform in line (±5%) against its benchmark in the coming 3-12 months, unless otherwise stated. |
| Underweight | Expected to underperform its benchmark by at least 5% in the coming 3-12 months, unless otherwise stated. |

### Technical analysis recommendation history

For the history of technical analysis equity recommendations over the previous 12 months please view the document at:
https://www.juliusbaer.com/en/legal/general-disclosures/

## APPENDIX

### Frequently used abbreviations

| | | | | | |
|---|---|---|---|---|---|
| adj. | adjusted | bps | basis points | c.c. | constant currencies |
| capex | capital expenditure | consensus | average analyst expectation | DM | developed market(s) |
| E | estimate | ECB | European Central Bank | EM | emerging market(s) |
| Fed | US Federal Reserve | FX | foreign exchange | FY | Fiscal year |
| GDP | gross domestic product | H1; H2 | first/second half of the year | ISM | Institute for Supply Management |
| l.h.s. | left-hand scale | m/m | month-on-month | market cap. | market capitalisation |

| | | | | | |
|---|---|---|---|---|---|
| p.a. | per annum | PMI | purchasing managers' index | PPP | purchasing power parity |
| Ppt | percentage point(s) | q/q | quarter-on-quarter | Q1; Q2 | first/second/third/fourth quarter |
| REIT | real estate investment trust | r.h.s. | right-hand scale | WTI | West Texas Intermediate |
| y/y | year-on-year | YTD | year-to-date | | |

## Equity research

| | | | | | |
|---|---|---|---|---|---|
| CAGR | Compound annual growth rate | DCF | Discounted cash flow | EBIT | Earnings before interest and taxes |
| EBITDA | Earnings before interest, taxes, depreciation and amortisation | EPS | Earnings per share | EV | Enterprise value |
| FCF | Free cash flow | MV | Market value | PEG | P/E divided by year-on-year EPS growth |
| P/B | Price-to-book value | P/E | Price-to-earnings ratio | P/TBV | Price-to-tangible book value |
| ROE | Return on equity | ROI | Return on investment | ROIC | Return on invested capital |
| RoTE | Return on tangible equity | | | | |

## Fixed income research

| | | | | | |
|---|---|---|---|---|---|
| FCF | Free cash flow | CFI | Cash flow from investing | EBIT | Earnings before interest and taxes |
| CFO | Cash flow from operation | FFO | Funds from operation | EBITDA | Earnings before interest, taxes, depreciation and amortisation |
| CFF | Cash flow from financing | RCF | Retained cash flow | EM | Emerging Markets |

## Technical analysis

| | | | | | |
|---|---|---|---|---|---|
| C | Closing price | H | High price | L | Low price |
| ST | Short-term (2-8 weeks) | MT | Medium-term (8-26 weeks) | LT | Long-term (> 26 weeks) |
| MAV | Moving average | | | | |
| Momentum | Momentum is derived from different rate of change calculations based on the underlying instrument. | | | | |

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