# A NEW STAGE
# IN THE BULL MARKET

April was the first negative month for stock markets in 2024. The world benchmark index (MSCI World) lost 2.27%, the US S&P 2.6%, the Nasdaq 4.5%, the Eurostoxx50 2.7%, and the usually conservative and cautious Swiss SMI even 4%. Since November last year, the markets have decided, aided by the words of Federal Reserve (FED) Chairman Jerome Powell, to stop catalysing all their attention solely on rising prices. The sharp rise in interest rates from almost 0 had reached 5.25 per cent, prompting many analysts to believe that to bring inflation back close to the 2 per cent target, high rates were needed, which would almost inevitably, not to say naturally, lead economies into recession or at least towards a significant slowdown. But the final September statement of the world's largest issuing institution emphasised that 'recent indicators suggest economic activity is proceeding at a solid pace', adding the term 'solid' to the 'moderate' assessment adopted previously. This seemingly simple change of terminology lit the fuse on the stock markets: the world index (MSCI World) from November 30 2023 to March 29 this year even appreciated by more than 24%. Who cares if inflation cannot even keep below 3% (while maintaining a downward trend or relative stability), if economic growth (Gross Domestic Product, GDP) reaches 3.4%. The first quarter has therefore been one of *Goldilocks*, a positive fairytale that sweeps the souls, even those usually considered more thoughtful and competent, who, at times incredulous, have had to bend their doubts to the overwhelming force of the market, buoyed by data they had not foreseen.

Towards the end of April, the context shrank. First quarter US GDP grew by 1.6% annualised against estimates of 2.5%: the slowest pace since the second quarter of 2022. This is a major deviation from forecasts that has few precedents in history. But the worst news comes from the PIL[1] price index which grew by 3.1%, slightly above estimates but much more than the 1.6% in the previous period. Adding fuel to the fire is also the 'core' price index, without the more volatile components (food and energy), which rose to 3.7% against an estimated 3.4% against a previous increase of 2%. In short, if before these data the euphoria led to the idea of a soft landing being dismissed, even betting on a no-landing, i.e. on an economy that continues to grow with moderate inflation despite rates above 5%, now the idea of stagflation is creeping back in: a scenario in which the disadvantage of seeing prices rise is not offset by the benefit of a sparkling economy.

The markets are now going through a re-processing path.[2] The first phase of the bull market is probably over. It had started in the second half of last year, characterised by relative pessimism, while economic data and corporate results turned out to be extraordinarily positive. This led to a revision of expectations and strong stock market dynamics. Now a second bullish phase is likely to begin with an optimistic market and higher expectations. It is precisely the level of expectations that will produce a volatile quarter because it will take little to disappoint. However, there will always be buyers ready to bet on sudden recoveries.

For the time being, geopolitics does not seem to frighten the markets too much. The ongoing conflicts have not been the direct cause of inflationary phenomena, especially if one looks at the oil price trend. The key to energy dynamics lies in the Strait of Hormuz, through which 20% of the global supply of black gold transits and which, despite the increased dangers, has remained largely unaffected: in April, the price of oil remained between USD 80 and 85 per barrel (WTI) despite the strong tensions in the region. Inflation has fallen from a peak of 9% in 2022 to 3.5% today: although it is rebounding, the impact on the broader trend is not yet significant. An

[1] The US GDP price index is a measure that evaluates the average change in the prices of goods and services produced within the US economy. This indicator is used to understand inflation or deflation associated with the country's total output. It is a crucial index for economists and policymakers because it reflects the real cost of inflation affecting the economy as a whole, thereby influencing policy and investment decisions.

[2] Not surprisingly, the American Association of Individual Investors (AAII) sentiment indicator is evenly split between bull (32.1%), bear (33.90%), and neutral (33.9%).

important component of high prices in the US (almost one-third of the total) relates to real estate rents. It is possible that in this area the effect of the rate hike will be delayed and thus markets may soon discount future declines. Especially since the prospect of the Fed intervening with six rate cuts (imagined by the markets at the beginning of the year) has now been reduced to perhaps one or two cuts, the first not before September.

But while the United States tends to wait on monetary easing, other regions of the world such as Europe, with growth restarting with difficulty but keeping inflation under control, may soon reduce the cost of money. China, for its part, is trying to recalibrate its growth dynamics in the new geopolitical framework. It is no coincidence that the Hong Kong stock exchange is among the few to show growth in April. This second phase of the bull market is likely to be a little better distributed globally, reducing, if only partially, the centrality of Wall Street. We are also in a powerful election year. In the United States in November there will be a vote for a new president. In Europe, in June, for the renewal of the European Parliament. Budget deficits will not be the main concern in this first part of the year, although contrary to the past months there is some concern about the sustainability of the large mass of accumulated public debt.

If the medium-term slowdown in globalisation has a negative impact on growth and inflation, artificial intelligence (AI) could have the opposite effect. A model created by the monetary department of the Bank for International Settlements notes that AI has a permanent effect on productivity, which differs by sector, but is capable of significantly increasing production, consumption and investment in the short and long term. Of course, much depends on the expectations placed in the new technologies. If these do not anticipate strong productivity growth, the adoption of AI is initially deflationary, before the balance of forces in the field leads to moderate inflation through demand. However, the model leads to estimate an initial impact on GDP of 3 per cent due to the introduction of AI: over time, the expected increases are of the order of 12 per cent due to the expansion of productive capital and the increased production of intermediate inputs.[3]

The US market is already cashing in on some of these expectations thanks to the centrality of Apple, Amazon, Google, Microsoft, Nvidia, Tesla, etc. But now the search will increase for those stocks and sectors that will be able to monetise the introduction of new technologies better and sooner than others. This is also why the second phase of the bull market will be more widespread sectorally and internationally.

*Translated with ww.DeepL.com/Translator/CSM*

[3] Inãki Aldasoro, Sebastian Doerr, Leonardo Gambacorta, Daniel Rees, "The impact of artificial intelligence on output and inflation, *BIS Working Papers*, No. 1179, April 2024.