Just a fix

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Do not misinterpret market sentiment.

The fact that stock prices have increased by 20% since October 2022 is more remarkable than appreciable and not exceptional, especially in terms of duration and intensity. And what is decisive is that there should be no illusion that this rise in prices is the start of a long-term bull market. These price increases are nothing less than a correction in a bear market, which will end sooner rather than later.

THE MODEL RECOMMENDS AN OVERWEIGHT IN OCTOBER

This rise in prices is obviously not a surprise. Our algorithm-based models signaled in the fall that macroeconomic conditions, interest rate conditions and credit risk premiums were the right time to overweight. It became clear that the worst fears about interest rates, energy prices, the economic situation and geopolitics would not come true. It is precisely this mix that is reflected in the price increases recorded since October.

The reasons for these increases are interesting. But what is even more interesting is the answer to the question of how the economy and the markets will evolve. We must beware of any euphoria. We continue to expect economic growth to slow over the next few weeks and months. Corporate earnings estimates have certainly already been revised downwards somewhat, but not in proportions that seem realistic.

Consumer sentiment and the economic situation are better than expected. Market participants are clearly expecting a soft landing for the economy or no recession. However, this scenario seems to be already integrated into the courses. There are no more upside surprises.

RETAIL INVESTORS GIVE IMPETUS

Caution is also called for if we observe that the rise, particularly in the United States, is largely driven by retail investors. Institutional investors have so far steered clear, which is why the oft-used phrase “most hated bull market” might indeed apply this time around.

However, all this does not exclude that the undeserved good mood can still last a few days or even a few weeks. It remains to be seen whether the bullmarket will survive the traditionally difficult month of May. We doubt it.

In such a context, it is advisable to remain selective on the markets. In terms of sectors, energy, IT and commodities are in the foreground. These sectors should continue to outperform the broader market in the weeks and months to come.

As for individual stocks, we would currently recommend buying Air Liquide, SAP and BP.

A SOLID CASH FLOW

Air Liquide's geographic diversity and strong pricing power continue to ensure strong cash flow, with continued encouraging investment opportunities and the start-up of new assets. In addition, the company is expected to experience a structural increase in organic growth over the medium to long term, also considering the continued decarbonization trend in several important end markets.

Financial debt has been reduced to its pre-Airgas acquisition level, allowing the focus to once again be focused on growth investments. A slower macroeconomic recovery, less than expected improvement in margins and lower yields are, however, risk factors.

A DIVERSIFIED CLOUD PORTFOLIO

SAP has a diverse cloud portfolio which, with its product breadth and ability to improve customer efficiencies, should weather a macroeconomic downturn and provide the company with opportunities to cross-sell and upsells. 2022 has been a year of transition for SAP, as evidenced by accelerating cloud growth.

Now the focus is on EBIT growth, which should support a revaluation of the stock. A possible sale of SAP's stake in Qualtrics should improve margins. However, macroeconomic conditions could be more challenging than expected (including supply chain issues, wage inflation, rising interest rates and economic growth), which could impact budgets. IT companies and directly influence SAP stock opportunities.

GROWTH WITH RENEWABLE ENERGIES

BP is pursuing rapid growth in renewable energy and nearly 40% reduction in oil and gas volume by 2030, reflecting its status as a latecomer in the energy transition, which is rapidly catching up. The problem of excessive leverage has been resolved, paving the way for share buybacks and the resumption of dividends.

BP's strong operating performance and commercial strength, at a time when raw material prices and refining margins have reached multi-year highs, will support strong revenues and cash flow in the near term. The potential increase in conversion and profitability risk in a congested wind and solar market is, however, a risk.

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George Alevrofas has been dedicated for more than 20 years to the follow-up of private and institutional clients. First with one of the largest Swiss pension funds and a subsidiary of the Credit Suisse Group, he has worked since 2017 for VT Wealth Management. The symbiosis between traditional, modern and digital management, proximity to the client, investment quality and risk diversification are for him central elements of successful asset management.

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