THE SACRED GRAIL

Now it is known. The holy grail of financial investment is there. It is there, available to even the most sceptical. Those who seek it also find the symbolic comfort of the number '7'. Seven are the brightest stars in the firmament of artificial intelligence (AI): Apple, Microsoft, Amazon, Alphabet, Meta, Tesla, NVIDIA. They take turns competing for the limelight. But it is always them. Apple has been disappointing for months, unable to compete with Microsoft which, with Open AI, had let the genie out of the bottle. Well, in June, at the Worldwide Developers Conference (WWDC), it unleashed and redefined AI, which no longer just stands for Artificial Intelligence, but now also for Apple Intelligence; the stock soared 9.5 per cent in June. The ugly duckling seemed to be Tesla. The market had focused on the issues of electric cars and Elon Musk's bonuses. The 56 billion dollars that 'Technoking' or 'Iron Man', as the American billionaire is often called, has become a show of confidence in his ability to promote autonomous driving by integrating advanced AI algorithms that, like iPhones, quickly enter the daily lives of many: the share has appreciated by 12%, even though it has still been in negative territory since the beginning of the year (-20%). But the real star, towering above them all, because they all need her, is NVIDIA, which has risen in the stock market over the period by 12% and since the beginning of the year by 150%. Its chips and architectures continue to amaze the markets. The company surprises with its innovative capacity which translates into steadily increasing profits that, prospectively, support the copious valuations (P/E of 72, next estimate 45).

The Magnificent 7 alone feed themselves and promote the overall growth of many indices that adjust the share of stocks on the basis of capitalisation: Microsoft, Apple, NVIDIA, Amazon, Meta and Alphabet account for 28% of the S&P. And this phenomenon also involves the sub-indices: those of semiconductors, software, etc., for which there are billion-dollar ETFs that also continue to grow by spontaneous induction. In fact, while the

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S&P has risen 14.5% since the beginning of the year, the equity-weighted S&P is only 4% higher than its level at the beginning of January, while the Nasdaq has risen 18% since the beginning of the year, with a rise of 6% in June.

The month of June was not as generous for European markets. The results of the European parliamentary elections and Macron's decision to call early elections just now spooked the markets. The Eurostoxx 50 left almost 2% (+8.2% since the beginning of the year) on the ground in June, the French CAC 40 even over 6% (+8.8%). Tokyo gained 2.85% (+18.3%). Hong Kong lost 2% (+3.9%). The Swiss SMI index remained stagnant, but with +7.7% since the beginning of the year it is catching up with the old continent's listings.

However, market sentiment remains optimistic. Geopolitics does not seem to affect traders' sleep much. Oil has appreciated, but for seasonal reasons. Certainly, given the levels reached by some benchmark stocks, such as NVIDIA, some concern is creeping in. Since options are cheap (and there's a reason for that), some investment banks are suggesting, but without pushing too hard, that it might be worth protecting portfolios a little. We are in a bull market with markets that tend to self-feed. Corrections are not to be excluded. But for now they are still seen as opportunities to buy. The marked exaggeration of AI stocks indicates a belief that we are only at the beginning of a secular transformation. Of course, over-optimism can lead to a loss of grip on reality. But for now we are rather in the frame of underestimation of what is happening: too many have been underexposed in AI stocks.

There are three levels that need to be closely monitored. The first is the macroeconomic level. Here, growth is holding up and inflation, although struggling a bit in the last mile, is slowing down. The probability of a global recession is low, estimated at 28 % (MicroMacro MM Global Recession Probability). The JPMorgan Global Composite indicator, which gathers companies' expectations and thus anticipates GDP trends, accelerated in May to 53.5 (data above 50 indicate expansion). The second concerns earnings. According to the authoritative Yardeni Research, earnings, at least for the S&P, are seen growing (270 usd per share in 2024, 300 usd in 2025 and 325 usd in 2026). The third is centred on liquidity, which has contracted in the last ten days. But it most likely relates to end-of-month transactions, which overlap with end-of-quarter and half-year transactions. A return of flows is to be expected in early July. In addition, global interest rate expectations continue to fuel hopes for cuts: in the US, perhaps as early as September.

That leaves politics and geopolitics. It will be important to see what happens in France at the beginning of this month and then in the UK, not to mention the risks to the coalition government in Germany. Europe's weakness is clear. But it will not have a decisive impact as long as the EUR is not challenged. It will also have to be assessed how much a possible excess of political fragmentation of the Old Continent impacts the determination to support the war in Ukraine. The centre of the galaxy remains the United States where the Magnificent 7 are based. Strong spending in the military (886 billion in the 2024 budget) also fuels investment in the private economy, driven by the most capitalised companies. It is probably this combination that has laid the foundations for the AI explosion of recent years and the strengthening of Wall Street's centrality. It is probably for this reason that the markets for now do not seem overly concerned about the competition between octogenarians for the US presidency. Where is the Black Swan? One does not know, otherwise it would not be one. What is known is where the Holy Grail is: many have already found it; others are still searching for it.

Last year, at the end of July, the markets took their cue to correct from Fitch's downgrade of US debt. We will see what happens this summer. But the debt overhang issue sleeps under the carpet.

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