*February was a month of **dichotomies in financial markets**.*

On the one hand, sovereign rates continued to rise sharply having factored in higher inflation data suggesting monetary policies would remain restrictive for a longer period.

And on the other, equity investors were determined to overlook these factors, boosted by stronger-than-expected Q4 2022 earnings publications.

***David TAIEB**, Member of the Board – Chief Investment Officer.*

SUMMARY

Growth

The recovery in China could be substantial; an annual growth rate of 5% or more now seems a realistic projection. The **end of the zero-Covid policy** will have a considerable impact on the Chinese (and global) outlook with **positive implications for the global economy** thanks to the boost in activity. In the United States, consensus growth estimates for 2023 currently stand at +0.5%.

Inflation

We believe that **inflation in Europe is likely to peak during Q1 2023**. Wage increases will only have an impact in H2, but this will be offset by a base effect. In France, the 15% increase in gas and electricity prices at the start of the year is likely to generate a new peak in inflation.

Monetary policy

The positive news flow on growth has begun to point towards **a firmer and potentially more durable tightening from central banks**. The Fed will therefore continue raising its key interest rates (terminal rate revised upwards from 5.25% to 5.5%), effectively pushing back any easing in its monetary policy by several months.

SUSTAINABLE

Do you speak SFDR?

Jean-Marie PÉAN,
Director - Responsible Finance.

Effective from January 1st, 2023, all funds distributed in Europe are now subject to transparency requirements regarding the **extra-financial integration of financial products**. These are the much-awaited Level 2 measures under the Sustainable Finance Disclosure (SFDR) regulation, introducing **systematic and detailed disclosure requirements on the ESG** (Environment, Social and Governance) characteristics of a fund.

This information is to be made available to clients in the pre-contractual appendix documents or the regular performance reports. Level 1 SFDR, enforced in March 2021, **requires asset managers to self-classify** their financial products into 3 categories:

- **Article 6 under SFDR:** a fund that does not promote environmental and/or social characteristics and does not integrate any kind of sustainability in its investment objective.
- **Article 8 under SFDR** : a financial product that promotes environmental or social characteristics.
- **Article 9 under SFDR** : the fund must present a sustainable investment objective, thereby contributing to the achievement of an environmental or social goal, without causing significant harm to other ESG objectives.

SUSTAINABLE (continued)

Do you speak SFDR?

Although the goal of the regulation is to provide more clarity, some aspects remain rather vague, including the definitions of several sustainability related terminology and the minimum threshold to be met within each SFDR article. The enforcement of level 2 SFDR and the stricter criteria applied to "sustainable" funds opens the door to AMF controls on ESG aspects. Indeed, in February, the AMF published a "position paper" proposing minimum criteria and thresholds for article 8 and 9 funds, to be implemented in European law.

Further clarifications via a FAQ are also eagerly awaited early 2023. **We expect to see further changes to ESG regulation and detailed explanations in the months to come, which will help clarify and standardise practices**.

TREND

Inflation, growth, employment, investments: a look at what's ahead for 2023.

The global recession has been avoided. The reopening of the Chinese economy has reassured investors. European stock markets are up 30% since September 30th, 2022, and 12% year-to-date. However, **many investors are wary of this early 2023 rally**, as markets are faced with mixed corporate earnings, high inflation readings and interest rates trending upwards. As the earnings season draws to a close, we feel that profit taking in equity markets is likely to accelerate.

During the first five weeks of 2023, investors remained upbeat, hoping for a modest economic slowdown which would enable inflation to abate sufficiently to allow central banks to stop tightening monetary conditions any further and begin lowering interest rates from 2024.

However, after the publication of a very positive report on the job market, notably in the United States, the reverse scenario is now more popular. Considering the strength of the job market, with unemployment rates at their 50-year lows in most parts of the world and governments implementing expansionary fiscal policies, it seems that the economic slowdown will be too feeble to enable inflation to return to the target range set by central banks. And the latter may have no other option than to **raise interest rates further** and pursue their restrictive policies for a longer period of time.

"On this subject, we believe that activity will remain weak throughout 2023. Excess household savings are dwindling, and the savings rate has stopped rising. Lending conditions for mortgages and consumer credit have deteriorated, and importantly, soaring inflation is impacting purchasing power".

TREND (continued)

Inflation, growth, employment, investments: a look at what's ahead for 2023.

Companies are suffering from tighter financial conditions, wage increases, and the end of their "pricing power" – causing a squeeze on margins, which will impact their future earnings.

As the earnings season draws to a close, the first signals reveal that **the slowdown in growth has begun to erode corporate profitability**. We believe this trend will deepen in coming months. Many tech sector companies – most and foremost the GAFAM (Google, Apple, Facebook, Amazon and Microsoft) – have announced major redundancy plans ahead of an anticipated slowdown in demand, despite reporting robust earnings at the end of last year. A similar trend can be observed among large US banks (JP Morgan, Citigroup, Bank of America), which raised their provisions substantially despite a strong earnings momentum in Q4 2022, in anticipation of rising default risks in a higher interest rate environment.
These conditions will weigh on the recovery of economic activity in the second quarter of 2023.

Today, **with market valuations having already factored in a great deal of optimism,** the resilience of economic growth may **prompt central banks to take an even firmer stance**. With tougher lending conditions, a turnaround on the real estate market, geopolitical uncertainties, persistently high inflation - despite a recent easing, the end of fiscal transfers from governments to households... our view is that **equity markets cannot continue rising over the next few weeks**.

Close attention will need to be paid to the next inflation readings, employment, and retail sales data in the United States and Europe in particular.

CONVICTIONS

Every month, our Allocation Committee brings together our entire investment team to determine our asset allocation strategies, which are then implemented in the daily management of our funds.

EQUITIES

EUROZONE

Small Caps are lagging Large Caps due to several factors, including the Covid crisis, the war in Ukraine, inflation, rising interest rates, volatility, and poor visibility. However, we expect European small and mid-caps to rebound in 2023.

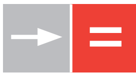
UNITED STATES

According to a model developed by the New York Fed, the odds of a recession within the next 12 months have risen to well over 50%. This is the highest probability recorded since the 1980s (much higher than in 2000 and 2008). Companies are also suffering from the tighter financing conditions.

EMERGING COUNTRIES

Emerging markets should fare better than developed countries this year in growth terms. Few countries have posted negative returns during the month. Emerging bonds have become a consensus market, displaying highly attractive valuations.

FIXED INCOME



SOVEREIGN BONDS

Our view is that emerging bonds remain attractive. In absolute terms, yields are compelling, with hard currency sovereign bonds yielding 8.1% on average at the end of January, local currency bonds yielding 6.6%, and emerging corporate bonds yielding 5.6%.

CREDIT

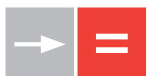
The Investment Grade segment offers opportunities in terms of risk/return. Our view is that returns have returned to attractive levels thanks to renewed optimism on the CDS markets, after a robust earnings season in Q4 2022.

Change in view versus previous month.

Investment team's asset class views.

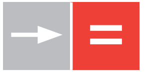
CONVICTIONS (continued)

EURO/USD



After rising at the start of the year, the Euro is under pressure relative to the dollar. However, we believe that the dollar remains one of the most overvalued currencies in the developed world.

COMMODITIES



China accounts for 15% the world's demand for oil. With the end of the zero-Covid policy and the fast increase in mobility, demand for oil can be expected to grow at a pace of 4% in 2023. This additional 2% shock on demand would impact the price per barrel by around 25% (+20 dollars approximately).

Change in view versus previous month.

Investment team's asset class views.

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