Is April's stock market optimism justified? And is the banking crisis truly behind us?

*Investors like to think so and have brought economic fundamentals back to the forefront. Admittedly, **economic activity is showing signs of resilience** and hinting at a rebound as we enter the second quarter, a scenario that is far removed from the consensus doom and gloom of a few months ago. In this environment, we expect companies to report **high quality Q1 earnings**. We also believe that **central banks are very likely to pursue their restrictive, inflation-curbing policies** until the summer, by rising their key rates even further.*

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

SUMMARY

Growth

The global PMI index came in at 53.4 - its highest level since June 2022, pointing towards an **acceleration in global economic growth**. The index is now clearly above the 50 threshold which determines whether the economy is expected to expand or contract. Consensus global growth forecasts have therefore been revised upwards with estimates now reaching 2.4% for 2023 (versus IMF estimates of 2.8%).

Inflation

Global inflation should decelerate gradually in 2023, easing to 4-4.5% in Q2, and to 3-3.5% in Q4. Headline inflation slowed in March to +6.9% year-over-year (change over the past 12 months), down from +8.5% in February, notably thanks to the measures taken to limit the rise of gas and electricity prices.

Monetary policy

The **ECB has raised its key rates to 3%** (+50 basis points) while the **Fed's benchmark federal funds rate is now in a range of 4.75 to 5%** (+25 basis points). A further 25 basis point hike was agreed at the Fed's meeting on May 3rd. Once these rates have peaked (at 5.25% for the Fed and 3.5% for the ECB respectively), we expect central banks to put an end to their interest rate hiking cycle.

SUSTAINABLE

The French SRI Label has unveiled its much-awaited proposals.

Astrid LIEDES,
Analyst - Responsible Finance.

Created in 2016, the French SRI Label has since been **granted to over 1,000 funds**, weighing **over 700 billion euros in assets under management at end March**. With the label's technical specifications up for review, the proposals were published on April 18th, 2023. **Several major changes were put forward** for this third version of the label:

- **Systematic integration of climate change issues**, including:
  - The exclusion of fossil energies (coal and non-conventionnas fossil fuels).
  - Support with conventional fossil exit strategies, including tracking the targets for cutting greenhouse gas emissions and the transition plans for alignment with the Paris Agreement.
- **Stronger selectivity criteria.** An emphasis will be placed on demonstrating how the initial investment universe is reduced based on ESG criteria (Environment, Social, Governance). The current 20% reduction threshold will be raised to 30%. Confirming the label's broad coverage, weightings of 20% minimum will be imposed for each of the E, S and G dimensions.

SUSTAINABLE (continued)

The French SRI Label has unveiled its much-awaited proposals.

- **Alignment with European regulation (SFDR)** through:
  - Demonstration that the double-materiality[(1)] principle is applied.
  - Standardised and consistent practices, with indicators monitored based on PAI (Principal Adverse Impact)[(2)].
- **Stricter voting requirements.** As responsible shareholders, voting rights shall be exercised on a quasi-systematic basis; the label expects a 90% AGM vote ratio for all certified funds.

The consultation period on these proposals runs until the end of May and will be followed by an official publication in September, for enforcement early 2024 in the case of new funds. Funds that have already received the label will have until September 2024 to make the necessary adjustments.

Reviews will also be conducted on a more frequent basis to extend the label's technical specifications to thematic funds and/or asset classes, to ensure it is better suited to these approaches.

[(1)] The concept of double-materiality covers both:
- ESG risks that have an adverse impact on the value of an investment
- And the impacts that investments have on ESG factors.

[(2)] PAI - or Principal Adverse Impacts on investments, are defined as the impact of a given activity on its environment. The PAIs are measured according to a list of indicators determined by the SFDR.

TREND

The global economy is on the right track.

Risk aversion has eased across financial markets, which is welcome news! Investors have now factored in the persisting resilience of the global economy and the end of central bank rate hikes, now firmly on the horizon. **Growth-related macroeconomic data is also improving throughout the world**, including in emerging countries which contributed to most of the improvement recorded in April.

This improvement reflects:

- The **lower risk of recession, easing production costs**, the **normalisation of supply chains** and the **reopening in China**.
- The strength of the labour market, with the unemployment rate nearing a 40-year low.
- The **slowdown of headline inflation in the Eurozone** in March. On this subject, though still "very high", global food prices have fallen for the 12th consecutive month and are now down 20.5% from a record high hit one year ago, according to the FAO (Food and Agriculture Organization of the United Nations).
- Household confidence **is recovering**, and consumer spending has remained resilient.

According to the IMF's most recent estimates, the **global economy should grow at a pace of 2.8% in 2023** (-0.1 point compared to January). Forecasts were revised slightly upwards for the United States but remained stable for the Eurozone (+0.8% in 2023) – notwithstanding France, where growth is expected to be rather weak (+0.7%).

TREND (continued)

The global economy is on the right track.

On the market side, **equities resisted well to the shock caused by the recent bank failures**. Since the beginning of the year, European stock markets have performed well, making up for their 2022 losses. Investors have now factored in the "perfect" scenario which involves declining inflation and no recession.

Within our global mixed asset strategies, we took some profits on our tactical US growth position (Nasdaq index, with currency risk hedged) after the index rose by over 19% since the end of December last year.

As far as **rates** are concerned, **yields are back to attractive levels over the mid-term**. We have switched from underweight to neutral with 10-year German and French yields at 2.5% and around 3% respectively.

Finally, while the **EUR/USD rebounded sharply recently**, the move is consistent with our scenario of **€1 for $1.13 by the end of 2023**. Note that emerging countries stand to gain the most from a weaker dollar, notably Brazil, China, and India.

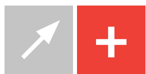
CONVICTIONS

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

In valuation terms, European equity markets are becoming rather less attractive than other global equity markets. We believe the Europe/US earnings gap should close by the end of this year, after a sustained outperformance by European companies.



UNITED STATES

We feel that US equity markets could regain the upper hand over Europe. We have therefore switched to overweight on US equities, a decision driven by the resilience of economic growth, the declining dollar, and the end of the monetary tightening cycle in the country.

EMERGING COUNTRIES

We are overexposed to the Chinese equity market which is benefiting from a sustained economic recovery and accommodative monetary policy. Relative valuations remain attractive, and the earnings outlook is positive. We also initiated a position in Indian stocks via the MSCI India index.

FIXED INCOME

SOVEREIGN BONDS

Yields are back to attractive levels over the mid-term and a modest easing in rates from current levels could generate additional performances for this asset class. Furthermore, the likelihood of rates rising above sovereign yields appears limited to us, with the end of central bank's tightening policies now in sight.

CREDIT

If economic growth turns out stronger than expected, credit risk premia will fall in 2023. In addition, if an unfavourable scenario plays out, IG (Investment Grade) credit does appear more robust than High-Yield. We are therefore constructive on credit (IG) and remain neutral on European and American High-Yield credit.

Change in view versus previous month.

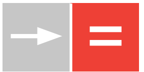
Investment team's asset class views.

CONVICTIONS (continued)

EURO/USD

With investors no longer using the dollar as a safe-haven, a growing trade deficit in the Eurozone, and adjustments made to ECB expectations, we are comforted in our scenario of a rising euro. The dollar has continued to fall, sinking to a one-year low against the euro. We continue to expect the euro to climb back to 1.13 dollar by year end.

COMMODITIES



The price of gold is now close to its all-time highs of August 2020. At these levels, we shall remain neutral on the asset class. As far as oil is concerned, growing demand and a slowdown in supply will support a rise in the price of crude oil. We see Brent prices rising to 95 dollars/barrel by the end of the year.

Change in view versus previous month.

Investment team's asset class views.

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