Marketing Material

MONTHLY HOUSE VIEW

June 2023

The worst is never certain

Architects of Wealth

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THE WORST IS NEVER CERTAIN

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

For several months now, risks have been increasing in the United States. The banking crisis is dreading water. US banks with less than USD 250 billion in assets are not considered systemic and therefore are theoretically not too big to fail by US standards. Yet these banks account for 80% of commercial real estate loans and provide about half of all consumer and non-real estate loans. The good news is that this crisis, by causing credit rates to rise, is in a way substituting for a further increase in the central bank rate, slowing the economy and consequently inflation. This is exactly what the Federal Reserve (Fed) has been trying to do by raising rates. This tightening effect, coupled with a slowdown in job creation and the first signs of weakening core inflation[1], leads us to believe that the Fed's limit has probably been reached. After ten consecutive rate hikes, policy rates are likely to have peaked, having risen from 0% (lower bound) in early 2022 to 5% on 3 May.

In addition to this US banking crisis, there is now the fear of the US debt ceiling. Janet Yellen, Secretary of the Treasury, has stated that a US default on its debt would lead to "financial and economic chaos", while the Republican opposition still refuses to raise the debt ceiling without drastic cuts in government spending. This is not a new story and it comes up a bit like the tale of the boy who cried wolf. Indeed, this recurring procedure has been initiated 78 times since the early 1960s. After collecting less taxes than expected this year, the US could hit the debt ceiling as early as 1 June. Uncertainty around the ceiling has consistently been unfavourable to the dollar and a source of volatility. In 2011, the S&P rating agency downgraded the US from AAA to AA+ and justified its decision by the impact on "political risk" of the country taking insufficient measures against its budget deficit. At the time, its debt was half of what it is today (USD 14.5 trillion vs. USD 31 trillion). Even if the risk is real - this is the first time since 2008 that we have seen such tension on the US CDS[2] - it is quite probable that a last minute agreement will be found.

The other ceiling that is likely to be raised by the end of the year will be at the COP28 in Dubai and concerns the 1.5 degree threshold for limiting temperature increase over pre-industrial levels. It was set in 2015 during the Paris Agreement to combat global warming at the COP21. Nevertheless, political action in advanced economies has never been so strong for the energy transition, both in the US (IRA[3]) and in Europe (REPowerEU[4]).

In this context, our macroeconomic scenario remains constructive. While we were more optimistic than the consensus at the beginning of the year, it is now the market consensus that has moved closer to our forecast. We do not see a recession in the US, only a modest and temporary contraction in activity in the second half of 2023. The global economy will be driven this year by China and India, which will account for half of global growth. Inflation should continue to normalise.

We have moved from a negative interest rate environment known as "TINA" (there is no alternative to stocks) to "TARA" (there are reasonable alternatives to stocks) because this new high rate environment is now conducive to low volatility high yielding short-term or secured solutions. This is good news for investors. The market adage says "sell in May and go away" maybe this year May will be the month of opportunity?

I hope you enjoy reading this issue, in which we take a closer look at the macroeconomic divergences within the Euro Area, but also between the US and China, and their impact on our various asset classes in a context of still significant uncertainty.

1 - Excluding food and energy prices.
2 - Credit Default Swap: A credit derivative insuring against payment default.
3 - Inflation Reduction Act: One axis of this plan is dedicated to the development of the energy transition in the US.
4 - European plan to rapidly reduce dependence on Russian fossil fuels and accelerate the green transition.

EURO AREA: STABILITY IS GOOD

Bénédicte KUKLA
Senior Investment Strategist

After a major energy shock, the Euro Area economy is underperforming compared to market expectations, but is managing to avoid recession in 2023. Our Euro Area 2023 GDP growth forecast remains modest and hides a great deal of divergence, but has not changed since the beginning of the year. Sometimes stability is good. In this context, can we still be in favour of investments in the Euro Area?

The Euro Area should AVOID RECESSION in 2023

EURO AREA GROWTH: INCREASED DIVERGENCE

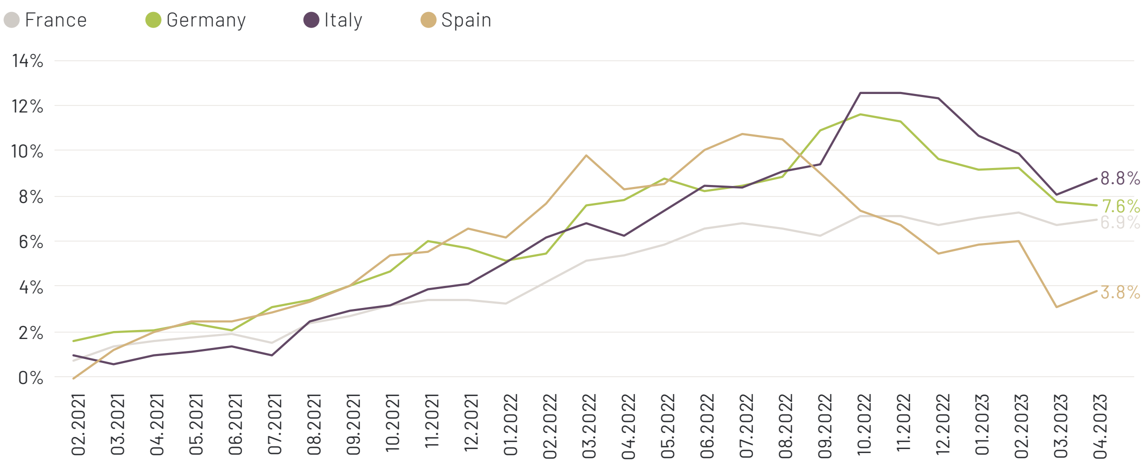
Having avoided recession at the end of 2022, the Euro Area enjoyed a better starting position for 2023 with markets continually surprised to the upside by the stronger figures as the Euro Area began to stabilise along with energy prices. Today, surprises are more to the downside in the Euro Area, but with increased divergence among member states, depending on their energy mix, policy responses and the weight of services in their economies. The performance of the German economy has been our greatest disappointment thus far, having only marginally benefitted from the reopening of the Chinese economy and with consumers remaining hesitant after the massive 2022 energy shock. In France, first quarter industrial and services figures were tainted by the up rise in social tensions from recent pension reforms, which should admittedly lead to a rebound in the second quarter. Southern European countries are now the leaders of growth in the zone.

With political uncertainty eased, Italian GDP expanded by 0.5% quarter-on-quarter (QoQ) in Q1 2023, above market expectations (of 0.2%). Growth was led by the industry and services sectors, and export demand thanks to strong winter tourism. Finally, Spain is the new growth story for 2023, benefitting from still strong domestic private consumption, while also seeing an influx of tourist arrivals. Fiscal policy has also cushioned the rise in Spanish inflation, even if the latter was among the lowest in the Euro Area in April.

CORPORATE MARGINS: AN ELEMENT TO WATCH

Euro Area divergence has not helped policy makers on either the fiscal or the monetary front. Fiscal policy remains neutral for the zone as a whole, but tough budget discussions are ahead this autumn. On the inflation front, prices are currently rising at 7% year-on year (YoY) in April, ranging from 15% to 2%, with a five point difference between the four major economies (Chart 1).

CHART 1: EURO AREA BIG-4 ECONOMIES' INFLATION, YOY, %



Source: Reuters, Indosuez Wealth Management.

This makes any easing in the European Central Bank's (ECB) policy difficultly justifiable from a macroeconomic point of view. From a sector standpoint, the decrease in industrial goods prices has so far been compensated by an increase in services inflation, showing no signs of slowing and adding to the ECB's discomfort.

Corporate behaviour will have an impact on the durability of inflation. Thus far, inflation has not impacted company margins as prices have passed-through to consumers. However, with the easing of supply tensions, phasing out of fiscal support, exhaustion of the excess private savings and weaker global economic activity, companies should have less leeway to raise prices and more pressure to reduce margins in 2023. Recent credit tightening should also add pressure to demand. Nevertheless, as recently underlined by the European Commission, if profit shares do not adjust, wage increases will ultimately lead to higher inflation, increasing concerns of a wage-price spiral. Food prices are also a growing risk given harsh weather in Europe. All in all, energy prices and industrial goods should help dampen inflation, but as the ECB underlines the inflation outlook continues to be "too high for too long".

TOURISM UPSIDE

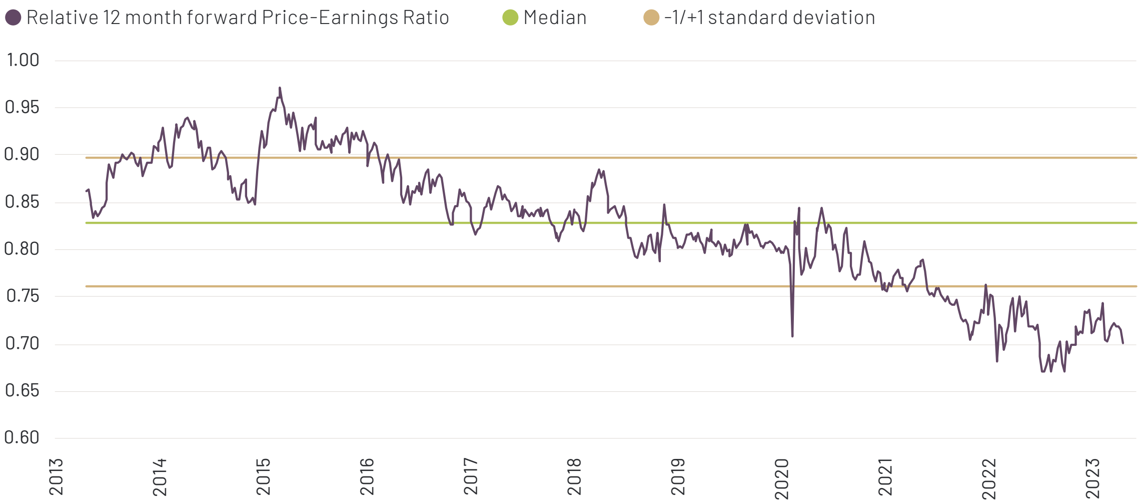
Finally, tourism (directly representing 5% of the Euro Area economy) still has room to improve in the Euro Area. The latest data from European aviation on air traffic shows that flights in March reached 88% of March 2019 levels.

Importantly, these figures do not yet take into account the full recovery of long-haul tourists, who are more profitable because they spend more and stay longer than regional tourists. US travellers have made a comeback, but China to European destinations are projected to remain 60%-70% lower than pre-pandemic levels in 2023. Delayed passport renewals, political uncertainty and increased domestic tourist attractions have delayed the full recovery of Chinese travel to Europe.

KEY INVESTOR TAKEAWAYS

Despite this underwhelming outlook, European equities still remain undervalued compared to their US counterparts (Chart 2) and benefit from a quality bias (notably through luxury goods). Investing in European exporters has been a key investment theme since mid-2022 allowing for a quality bias and benefitting from a China upside (even if this has weakened recently, see Macro Economics, page 6). European bond investors will need to remain patient as the ECB has not quite finished its tightening cycle. On a more long-term perspective, however, the new European Green Deal investment plan[5] goes in the right direction, helping the region to compete for investments in sustainable initiatives.

CHART 2: EUROPEAN EQUITIES REMAIN UNDERVALUED COMPARED TO THE US



Source: Bloomberg, Indosuez Wealth Management.

5 - A plan currently reviewing existing laws on its climate merits, and also introducing new legislation on the circular economy, building renovation, biodiversity, farming and innovation. It mobilise 25% of the European Union (EU) budget for climate financing.

TWO WORLDS APART

Lucas MERIC
Investment Strategist

On the one hand, in the US, the economy is expected to contract in the second half of 2023, as the Fed's monetary tightening cycle comes to an end, while inflation remains at historically high levels. On the other hand, China's economy is expected to grow by 5.6% in 2023, in a context absent of inflation with accommodative economic policies.

4.5%: uncomfortable US 1-YEAR INFLATION expectations

UNITED STATES: A SEEMINGLY INVINCIBLE LABOUR MARKET

US GDP disappointed strongly in Q1 2023 growing only at 1.1% annualised rate (vs. 1.9% expected by the consensus), slowed by the drop in inventories and despite a still strong performance by private consumption (3.7%).

For the time being, the tightening of financing conditions seems however to be limited, with the proportion of small businesses reporting "credit harder to get" declining from their peak levels in April (NFIB[6] survey) while the latest Fed survey shows a sharp slowdown in the tightening of bank lending conditions in Q1 2023. Activity data rebounded slightly in April, but continued to highlight a dichotomy between a manufacturing sector in recession since the beginning of the year (the PMI[7] index is indeed under the 50 threshold mark, at 47.1) and a slowing, but resilient services sector (at 51.9) supported by strong new orders.

Consumer confidence fell sharply in April on concerns about the trajectory of the US economy, with 1-year consumer inflation expectations sitting at a very uncomfortable 4.5% level. In this challenging context, we continue to see weakening consumer spending weighing on US growth in H2 2023, without expecting a prolonged contraction like some analysts. The US labour market continued to show signs of post-pandemic normalisation; the ratio of job openings per unemployed person having declined to 1.64 (from 1.96 in December 2022), but job creation remains resilient. The unemployment rate at an all-time low of 3.4%, putting pressure on wages (unit labour costs rose by 6.3% in Q1 2023). This wage persistence continues to act as a floor for services inflation (excluding housing which slowed for the first time in two years in April), while the food component continues to decelerate due to base effects. Core inflation (5.5% YoY) now remains above headline inflation (4.9%), due to the negative contribution from energy.

6 - National Federation of Independent Business.
7 - Purchase Manager's Index.

Inflation of
0.1% YOY
remains
well below
THE PBoC
TARGET

For 2023, we have revised our growth figure to 1.1% based on a weaker than expected Q1 2023 (Table 1).

We still expect the US economy to slightly contract in H2 2023 on the basis of a less supportive labour market and credit conditions. For 2024, we expect a recovery in growth driven by the return of household purchasing power, still high capacity utilisation rates and the end of the residential property purge. Nevertheless, with a strong negative end of 2023 carry over effect, GDP growth will stand at 0.4% in 2024.

CHINA: ON THE OTHER SIDE OF THE ECONOMIC CYCLE

In China, the rebound in services (Caixin PMI at 56.4 in April) confirms the domestic nature of the reopening. Domestic flights are already at higher levels than in 2019 and retail sales have surged. The manufacturing sector has, as expected, remained behind the recovery, slipping back into recession while imports fell by 7.9% YoY in April. All in all despite the rebound in economic indicators, the momentum is already starting to fade. The economic surprises indicator slumped in May after reaching its highest level since 2006 in April, but this can also be explained by overly optimistic economists (retail sales were expected at 21% in April).

That being said, as we wrote in the last issue, once the reopening effect is over, it is essential that the currently weak Chinese consumer sentiment picks up in order to give a second wind to Chinese growth. In this sense, the beginning of a recovery in the property sector is a good sign for consumption. In April, China's new home prices rose for the third consecutive month with almost 90% of cities recording prices increases. In the meantime, retail sales jumped by 18.6% YoY in April. Unemployment among 16-24 year olds remains a drag, coming in at above 20%. Another point of attention is inflation at only 0.1% YoY (well below the People's Bank of China (PBoC) 3% inflation target) and at the same time new loan applications which slowed sharply in April, a sign that consumption does not seem to be fully recovered at the moment. Encouragingly however, these bad news could trigger better prospects. The Chinese situation differs from most developed economies in that the Chinese authorities have room to manoeuvre in a context of economic recovery and almost neutral inflation. We expect monetary and fiscal policy to remain supportive this year, which will allow the Chinese economy to grow by 5.6% in 2023.

TABLE 1: MACROECONOMIC FORECAST 2023 - 2024, %

● Revised down since last month ● Revised up

	GDP		INFLATION	
	2023	2024	2023	2024
United States	1.1%	0.4%	4.0%	2.6%
Euro Area	0.5%	1.0%	5.7%	3.0%
China	5.6%	4.7%	1.3%	2.5%
Japan	1.1%	1.3%	2.7%	2.2%
India	5.4%	6.0%	6.0%	6.0%
Brazil	0.9%	1.2%	5.0%	5.0%
World	2.4%	2.8%	-	-

Source: Indosuez Wealth Management.

04 • Fixed Income
KEEPING THE FAITH

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

How to re-invent oneself month after month when you are working on the supposedly most boring asset class: bonds? Well, the answer is simple: rate markets have been shaken for more than a year now, and prospects are tied to the ability or willingness of developed market central banks to restore inflation regimes close to 2%. We keep the faith in our asset class by limiting investments to the short end of the curve and avoiding duration risk for now.

THE FED RAISED
its benchmark by
500 BPS
since March 2022

CENTRAL BANKS

Volatility is a new factor to take into account for fixed income investors. Central banks played a key role in this episode: the Fed has raised its benchmark rate by 500 basis points (bps) since March 2022, the fastest pace since the 70s. It is now entering a wait and see mode. Being "data dependent" means M. Powell is keeping the option open on his side to continue hiking, but our baseline scenario is for a plateau. This is the opposite of what markets are pricing, with a first cut expected as early as September 2023. This market scenario is consistent with a US recession, coming soon and loud, far from our expectations and the consensus of economists.

The shape of the yield curve is another question mark for investors. The Fed is deliberately running an inverted yield curve (as recently explained by Minneapolis Fed President Neel Kashkari). Hence, the term premia remains very low and long-term rates at risk in the case of a not too pessimistic growth scenario. Accordingly, we favour investing on the short end of the US curve for the following reasons: the carry and the roll down[8] protects investors against rising short-term rates.

8 - A roll down for bonds consists in the change in value due the passage of time. As a bond approaches its maturity, its value converges to reimbursement price .

DEBT CEILING

What about the debt ceiling and the default risks for the US Treasury? The debt ceiling is a legislative limit on the maximal amount the administration can borrow (in short). With USD 31.5 trillion debt outstanding, the Treasury reaches this limit very often. This time around, divergences between Democrats and Republicans at the Congress are too wide to settle a deal. It reminds investors of the 2011 episode, when the US lost its AAA rating on a weak agreement. As of today, the default probability, derived from the CDS market (Chart 3), stands at the time of writing below 4%.

CREDIT

As in 2011, the absence of agreement and/or a weak resolution will weigh on every asset class, notably credit markets. The new thermometer to price interest rates will become the swap market. The treasuries curves will price accordingly, and then corporate debt.

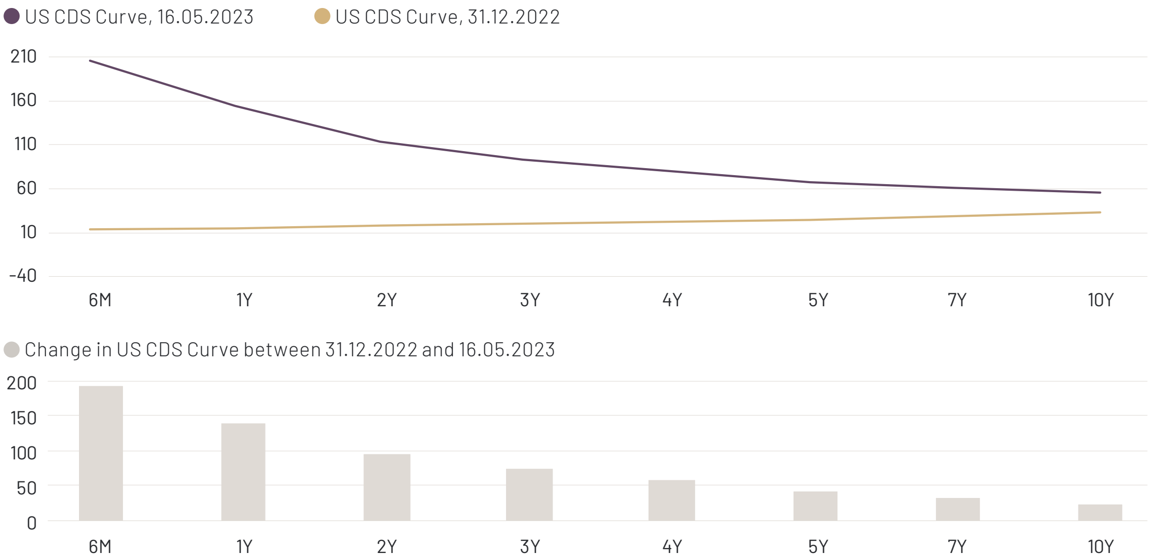
Finally, regarding banking tensions, investors are now searching for evidence of credit tightening across the economy. However, there is no obvious hard evidence at the moment.

This drives us in the Euro Area, where the story looks easier. Weakening hard data, surprising on the downside, the ECB's next monetary step is about quantitative tightening (QT). The demand for loans stumbled in the first quarter. After ten years in a very low or negative rates environment, the wakeup call looks indeed hard for European economies.

The European credit market retraced part of its March underperformance in April, thanks to higher yields, strong balance sheets and no disturbing signal coming from increased volatility on equity markets. Interest rates on one to three year high quality credit investments are surpassing yields on longer maturities. Consequently, carry investors can stay safe on these short-dated investments, taking on the re-investment risk, but avoiding the duration risk (cf. to the volatility mentioned in the first paragraph).

It is generally considered good management to be too cautious as opposed to taking on too many risks on the fixed income asset class. As a team, we tactically reduced the exposure to the riskier parts of credit, namely subordinated debt, high yield and Asian credit. Once again, we hardly expect capital gains on lower rates or spreads compression.

CHART 3: EVOLUTION OF THE CDS CURVE IN THE US, BPS



Note: there are 9 AAA rated countries left in the world, taking into account the 3 rating agencies.
Source: Bloomberg, Indosuez Wealth Management.

SOME DICHOTOMY IN EQUITY MARKETS?

Laura CORRIERAS
Equity Portfolio Manager

With the contribution
of the Equity Team

This Q1 2023 earnings season was globally satisfying and above expectations. However, this positive catalyst seems to be underappreciated by investors who appear more focused now on the US debt ceiling risk. Moreover, there is a clear dissonance between the Fed, which is not seeing any rate cuts, the resilience of the equity markets and bond market expectations which integrate rate cuts this year.

INVESTORS
paying close
attention to
Q1 EARNINGS

UNITED STATES

The US equity market is currently marked by a very high concentration of performance since the beginning of the year, with the 15 largest capitalisations contributing 97% of the S&P 500's performance (Chart 4). In the same spirit, since the launch of ChatGPT in November 2022, the NYSE FANG+[9] Index has outperformed the Russell 2000 Index by more than 50%!

For the past month, investors have been paying close attention to the earnings releases for Q1 2023, and there have been several positive developments, including: earnings beating market expectations, a number of positive forecasts from companies, and finally, analysts beginning to raise their expectations. However, the price reaction of companies to these good publications has been rather disappointing. We should indeed bear in mind that earnings are now down by around 3% for the quarter compared to year end. This earnings season strengthens our conviction to favour quality stocks with healthy balance sheets and stable margin levels.

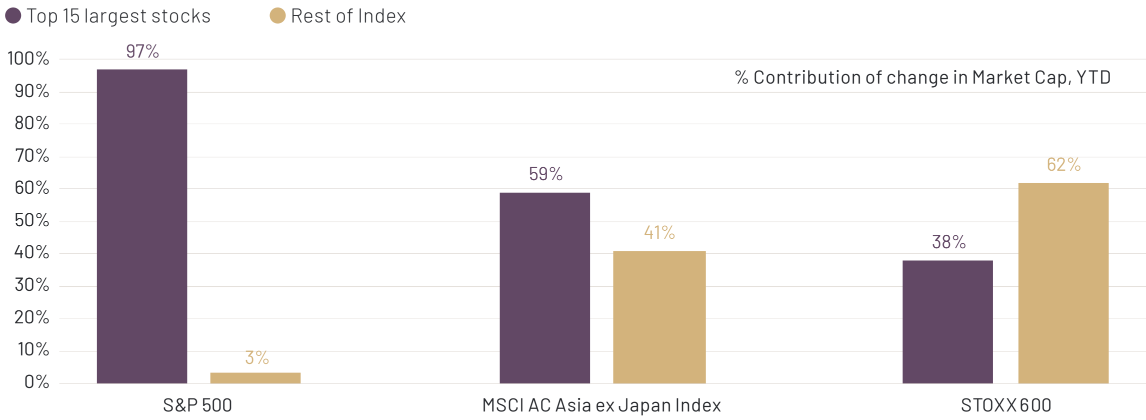
Indeed, on the one hand, some companies are talking about difficulties in accessing credit, while other companies are announcing share buyback programs because they have lot of cash.

EUROPE

Over the last month, European equities continued to outperform US equities. The Euro Area is still supported by several factors such as lower energy prices and the reopening of China (both directly with the recovery of exports to China and indirectly, as many investors played the China reopening via European stocks).

Regarding valuations, European equities are still attractive, trading near a record discount versus the United States. Furthermore, the Q1 2023 earnings season that is coming to an end is a quite good one, with a proportion of companies beating sales and earnings-per-share (EPS) estimates has risen sharply this quarter.

CHART 4: MEGACAP AS CLEAR WINNERS



Note: The extreme divergence in performance where 97% of contribution of change comes from the top 15 largest stocks for the S&P 500 Index.
Source: Goldman Sachs, Indosuez Wealth Management.

9 - Refers to the stocks, among others, of four prominent American technology companies: Meta (formerly Facebook), Amazon, Netflix and Alphabet/Google.

Of the over 80% of STOXX 600 companies having report Q1 2023 earnings thus far, 70% beat EPS market estimates (well above the previous quarter at around 55%). Overall earnings surprised positively by 10%. We remain constructive on Euro Area equities and still favour quality names which is typical of a part of the Euro Area market that can be found in sectors such as luxury or healthcare.

EMERGING MARKETS

So far, 2023 has been a very volatile year on Asian equity markets. Uncertainty and concerns remain elevated in the region at this time. Ongoing US/China tensions also keep global investors worried. There is currently a deep disconnection between actual economic and corporate fundamentals in China and actual equity market performance. We believe this is temporary. Local Chinese investors have yet to fully deploy their excess savings and go back to equity markets. Western investors' perception of China-linked risks maintains an overhang over the near-term. Further improvement in actual numbers seems to be necessary to go past this.

At this time, we continue to favour China among Asian equity market for 2023 on the back of attractive valuations, substantial economic rebound, potential massive consumer spending (strong savings support and credit cycle) still to materialise in all consumption sub-segments. Nevertheless, further improvement in consumer sentiment is needed at this stage.

INVESTMENT STYLE

We are still focused on quality stocks which tend to outperform both in periods when the Fed hits its peak rate and also when US debt ceiling risks are high.

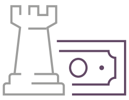
After the strong underperformance of Value versus Growth in Q1 2023, the relative performance is now more range bound. We still expect a substantial rebound of Value stocks in order to find the opportunity to take some profits and increase our exposure to Growth. Among Growth stocks, we still favour large and profitable companies, exposed to Artificial Intelligence (AI) or with subscription models that could benefit from weaker long term interest rates and do not need credit.

06 • Forex

THE SAFE HAVEN SEASON

Maxime GARCIA
Investment Strategist

While the USD could show some resistance in the near-term, we remain positive on the EUR/USD long-term trend as rate differentials should move in favour of the EUR. AUD and CNY remain closely linked to China's reopening. CHF, gold and JPY should benefit from macro-economic uncertainties.



Long-term trend of USD WEAKNESS remains intact

USD

Resistance in the short-term

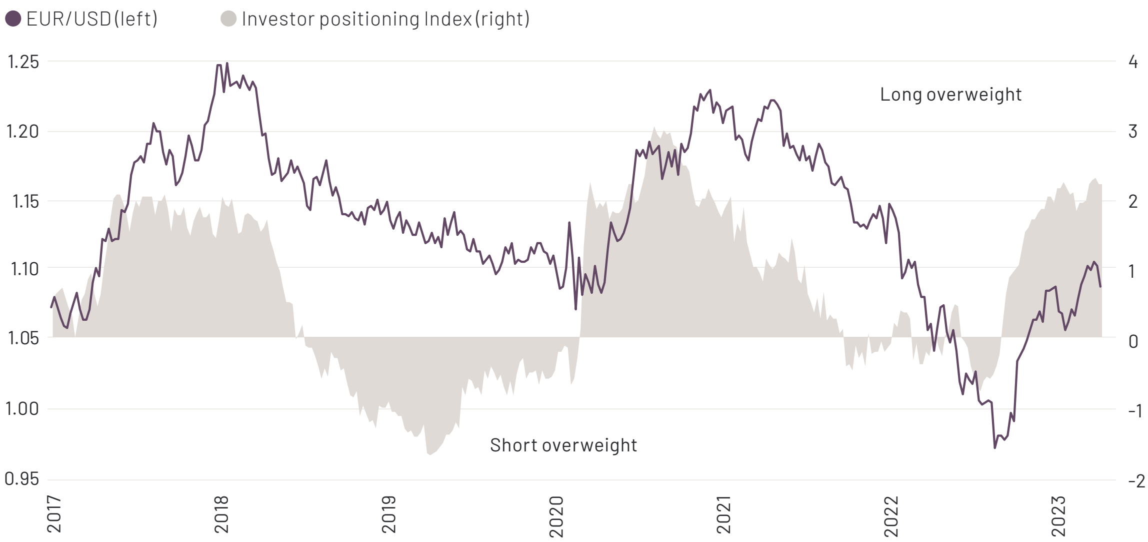
The USD could regain strength in the comings weeks helped by a positive macro momentum, which could possibly lead to an upward repricing of the Fed's rate expectations following the aggressive cut priced by the market since March. The safe haven status of the US currency remains clouded by concerns over the US regional banks and the debt ceiling. Nevertheless, history shows that successful negotiations or a temporary suspension of the ceiling could provide a boost to the USD, but the long-term trend of USD weakness is however intact.

EUR

Euro loses momentum

The EUR could lose ground in the short-term as much of the positive has already been priced in. With the nominal effective exchange rate of the EUR close to its historical highs and investors positioning showing a large overweight stance long EUR (Chart 5), the upside potential seems to be exhausted for now. In addition, less negative surprises in the US should weigh on the EUR/USD in the short-term. Looking forward we are maintaining our 1.08-1.12 target on the EUR with a more hawkish ECB which should support the EUR vs. USD as rate differentials move in favour of the euro. It is not excluded that the euro breaks the range to go towards 1.15 or even higher but for that, we would need a much more dovish Fed.

CHART 5: LARGE OVERWEIGHT STANCE OF INVESTORS ON THE EURO



Source: Bloomberg, CACIB, Indosuez Wealth Management.

AUD

Inflation dynamics and China reopening

The Reserve Bank of Australia (RBA) surprised the market by raising the interest rate by 25 bps, after pausing in April, and the markets are now pricing in about a 50% chance of a further increase from 3.85% to 4.10% by August. The central bank wants inflation to return to a 2-3% range within a reasonable period (7% in Q1 after a peak of 7.9%). Chinese imports from Australia remain strong (+22% YoY, vs. -7.9% for total Chinese imports in April). China remains a major buyer of Australian raw materials such as iron ore and coal. Barring a significant downturn, the Australian dollar's decline is limited. Support lies near 0.6630 before the RBA hike and critically at 0.6560, the pivot of the recent double bottom.

CNY

Spots of strength and weakness

CNY is currently under short-term pressure as markets are concerned that China's reopening runs out of steam. Services are boosted by pent-up consumer demand, but industrial activity is facing stronger external headwinds. The PBoC remains in easing mode, but no additional stimulus has been announced for now. However, we remain positive in the long term with USD/CNY between 6.8-6.6 for 2023/24, supported by an economy that shows the top global growth expectations for 2023.

CHF

Strength should persist

Since the beginning of the year, the Swiss franc has been a strong performer despite the turmoil at Credit Suisse. While this reduces the potential for further gains in the near-term, we expect the CHF strength to persist supported by further rate hikes and currency intervention, as core inflation remains well above the Swiss National Bank's (SNB) target. In addition, the safe haven status of the CHF remains attractive in an environment marked by many uncertainties. We expect the EUR/CHF to trade between 0.97 and parity and the USD/CHF to trade around 0.90.

JPY

Waiting for a change in monetary policy

The new governor, Kazuo Ueda, pledged to maintain an accommodative stance, linking any change in the control of the yield curve to the underlying trend in inflation. This rhetoric has put downward pressure on the yen. However, as recession fears increase in the US and core inflation in Japan accelerates, the Bank of Japan's (BoJ) monetary policy will be revised in the coming months. We maintain our positive medium-term view on the yen, which should regain its safe haven appeal.

GOLD

Still robust demand

Despite the recent correction from the recent high of around USD 2'070 per ounce in early May, the yellow metal remains near historically high levels and its long-term uptrend remains intact, supported by the risks weighing on the US economy. Fears of recession and the US debt ceiling could indeed allow gold to continue to flirt with its highs. Analysts at Bank of America are looking at a price close to USD 2'500 per ounce this year in the event of a US default. On the other hand, in view of historically high prices, some emerging central banks that had targeted gold for strategic/geopolitical reasons may indeed stop buying, which would reduce some upside potential.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

NO CHANGE
in the Euro Area overall scenario

INVESTMENT SCENARIO

- **Growth:** a modest global growth in 2023 driven by emerging markets, especially China. US growth continues to slow with two quarters of contraction forecasted for H2 2023 followed by a slight rebound in 2024. For the Euro Area, no change in the overall scenario but increased divergence with Southern Europe benefiting from the recovery in services.
- **Inflation:** disinflation is underway in advanced economies, especially on the industrial front (helped by easing of supply chains) while shelter, energy and food inflation are starting to show signs of slowing. Conversely, services inflation should remain sticky, as long as wage dynamics do not break, justifying the square-root shape of the expected inflation path.
- **Central banks:** we do not buy the market scenario of the Fed pivoting by summer 2023, but rather call for interest rates to reach a plateau for a longer period of time. Financial stability has been brought back to the forefront with recent US banking turmoil and has for the time being become a key focus of the Fed. The ECB has not yet completed its rate-hiking cycle and should proceed to another 25 bps hike in June.
- **Earnings:** Q1 2023 earnings season has shown relatively good resilience from companies with positive earnings surprises. However, companies have not been rewarded accordingly by markets. Meanwhile, guidance appears to be better than average, but there is still risks as to whether companies will be able to maintain high margins in the future.
- **Risk environment:** the likelihood of the alternative risk scenario is increasing due to the consequences of recent banking turmoil (even if stress has abated), deteriorating lending conditions, and increasing the market focus to the US debt ceiling issue. Meanwhile, external risks, particularly geopolitical risks, remain elevated. The low level of the equity volatility index argues for additional option strategies, either to protect on the downside or to enhance the participation to the upside.

ALLOCATION CONVICTIONS

EQUITIES

- Overall neutral on equities, but tactically slightly underweight, taking into account: the jump of European markets over the past two quarters, seasonality becoming unsupportive and the lack of clear catalysts for further upside, leading to a decrease of the risk-return asymmetry. We stand, nevertheless, ready to redeploy cash buffers in the event of a market correction.
- A mixed bag for developed market equities, with a weaker macroeconomic outlook going forward offset by good corporate fundamentals at this stage. Despite being unloved by global investors thus far, China remains a strong conviction especially on domestic shares. This segment appears attractive from a valuation standpoint and should benefit from the ongoing economic rebound and consumer recovery.
- Preference for Quality companies with high earnings visibility in this complex macroeconomic environment. The growth style could be vulnerable to rising rates in the near-term, but a consolidation in technology stocks could provide interesting entry points as we approach the end of the tightening cycle while the rise of artificial intelligence narrative should continue to benefit the investment style. Cautiousness on small and mid-cap stocks maintained as they tend to be more correlated to the economic cycle.

FIXED INCOME

- Underweight duration has been maintained as risks on interest rates are still oriented to the upside as long as core inflation dynamics are far from central bankers' comfort zones. The decorrelation effect of government bonds against risk assets seems limited compared to cash.
- As such, we are more positive on the short end part of the yield curve on both sides of the Atlantic which provides an attractive carry, while the longest part is penalised by higher volatility and could suffer from the reconstitution of the term premium.
- We continue to find value in the US yield curve steepening strategies: the level of inversion is abnormally high by historical standards, offering these types of strategies significant upside potential in the event of normalisation, while providing positive carry without duration risk and macro hedging in the event of a more pronounced economic downturn.
- Within credit, we prefer short-term investment grade (IG) over high yield (HY) as funding conditions for issuers deteriorated. We downgraded our recommendation on US IG as the pickup of yield compared to cash has become less attractive.

FOREX MARKETS

- Euro appreciation could lose steam in the near future after two quarters of outperformance against the US dollar on the back of less negative macroeconomic surprises in the US and an overweight positioning by global investors. In the long run, a more hawkish ECB is obviously a supportive factor.
- A recent statement by the new BoJ governor has put pressure on the Japanese yen and potential changes by the new governor on the yield curve control seems to have been pushed forward. Nonetheless, underlying inflation dynamics in Japan could push the financial institution to act and be more vocal on a potential policy change which would support the currency.
- While the rise in interest rates could weigh on the price of gold in the near-term, we remain constructive on the bullion for structural reasons (still solid purchases by central banks) and for its insurance role in portfolios.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=	=/-
EUR 10-Year	=/-	=/-
EUR Periphery	=	=/-
US 2-Year	=/+	=/+
US 10-Year	=/-	=
EUR Breakevens Inflation	=	=/+
US Breakevens Inflation	=	=/+
CREDIT		
Investment grade EUR	=/+	+
High yield EUR	=/-	=
Financials Bonds EUR	=/-	=
Investment grade USD	=	+
High yield USD	-	=
EMERGING DEBT		
Hard Currencies	=/-	=/+
Local Currencies	=/+	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=	=/+
United States	=	=
Japan	=/-	=/-
Latin America	=/-	=
Asia ex-China	=/+	=/+
China	=/+	=
STYLES		
Growth	=/-	=/+
Value	=/+	=/-
Quality	=/+	=
Yield	+	=/+
Cyclical	=/-	=/+
Defensive	=	=/-
FOREX		
United States (USD)	=	=/-
Euro Area (EUR)	=	=/+
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=/+	=/+
Japan (JPY)	=/+	=/+
China (CNY)	=	=
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 19 MAY 2023

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	3.67%	10.08	-20.22
France 10-year	3.00%	-3.90	-10.40
Germany 10-year	2.43%	-5.40	-14.00
Spain 10-year	3.47%	-4.70	-18.00
Switzerland 10-year	1.03%	-10.90	-58.80
Japan 10-year	0.39%	-7.40	-2.10

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	36.57	2.04%	5.36%
Euro Government Bonds	195.78	0.56%	1.62%
Corporate EUR high yield	201.27	0.67%	4.00%
Corporate USD high yield	306.62	-0.54%	3.34%
US Government Bonds	301.31	-0.16%	2.01%
Corporate Emerging Markets	43.10	-0.76%	0.80%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9721	-0.87%	-1.76%
GBP/USD	1.2445	0.10%	3.00%
USD/CHF	0.8997	0.83%	-2.68%
EUR/USD	1.0805	-1.65%	0.93%
USD/JPY	137.98	2.85%	5.23%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	16.81	0.04	-4.86

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'191.98	1.41%	9.18%
FTSE 100 (United Kingdom)	7'756.87	-1.99%	4.09%
STOXX 600	468.85	-0.03%	10.35%
Topix	2'161.69	6.22%	14.27%
MSCI World	2'842.76	0.70%	9.22%
Shanghai SE Composite	3'944.54	-2.18%	1.88%
MSCI Emerging Markets	977.24	-0.36%	2.18%
MSCI Latam (Latin America)	2'299.84	3.16%	8.06%
MSCI EMEA (Europe, Middle East, Africa)	188.13	-2.84%	-2.01%
MSCI Asia Ex Japan	628.46	-0.82%	1.49%
CAC 40 (France)	7'491.96	-1.12%	15.73%
DAX (Germany)	16'275.38	2.48%	16.89%
MIB (Italy)	27'520.33	-0.81%	16.09%
IBEX (Spain)	9'251.50	-1.74%	12.42%
SMI (Switzerland)	11'571.16	0.96%	7.85%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'629.00	-6.40%	-11.38%
Gold (USD/Oz)	1'977.81	-0.26%	8.43%
Crude Oil WTI (USD/Bbl)	71.55	-8.12%	-10.85%
Silver (USD/Oz)	23.92	-4.54%	-0.50%
Copper (USD/Tonne)	8'251.50	-6.17%	-1.44%
Natural Gas (USD/MMBtu)	2.59	15.76%	-42.23%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

BEST PERFORMING

FEBRUARY 2023	MARCH 2023	APRIL 2023	4 WEEKS CHANGE	YTD (19.05.2023)
1.74%	3.51%	1.46%	6.22%	14.27%
1.35%	3.29%	3.13%	3.16%	10.35%
0.91%	2.83%	1.92%	1.41%	9.22%
-2.10%	2.73%	2.69%	0.70%	9.18%
-2.53%	0.51%	1.59%	-0.03%	8.06%
-2.61%	0.36%	-0.54%	-0.36%	4.09%
-4.41%	0.04%	-1.34%	-0.82%	2.18%
-6.36%	-0.46%	1.63%	-1.99%	1.88%
-6.54%	-0.71%	3.48%	-2.18%	1.49%
-6.86%	-3.10%	-2.19%	-2.84%	-2.01%

WORST PERFORMING

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI : An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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