



Will capital markets have a tougher ride in the second half of 2023? As **central banks continue to tighten monetary policy** and the **economic slowdown looks increasingly pronounced**, dark clouds are gathering as we head into H2. Companies will undoubtedly publish robust and resilient earnings from July. But guidance and earnings forecasts could be a different story.

We have begun **reviewing our allocations**; while these episodes can sometimes generate opportunities, we have **taken our prudent stance up a notch** by heightening **selectivity within our portfolios**.

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

SUMMARY



Growth

In the US and other leading economies, growth has proven more resilient than expected. The **World Bank has upgraded its global growth forecasts for 2023 to 2.1%**, up from the previously announced 1.7%. For the Eurozone, GDP growth forecasts have been revised to 0.4% in 2023, while the consensus was expecting stability. The OECD was somewhat more optimistic on the outlook for global economic growth. Meanwhile, the global composite PMI also continued to rise.



Inflation

After peaking at 8.5 % in October 2023, **global inflation has continued to ease** and has now reached 6.4%. In France, inflation has subsided to 5.8% thanks to the falling price of energy, despite a 0.3% rise in food prices. France has one of Europe's lowest **inflation rates – as price increases average 6.1% year over year in the Eurozone**.



Monetary policy

The hiking cycle on key rates is not yet over. As expected, the ECB has decided to raise its interest rates by 25 basis points for the 8th time in a row, and is already considering further increases, **proceeding with its monetary tightening policy** despite the economy showing signs of weakness in the Eurozone. A further hike in July is very likely. expect the ECB to raise its key rates further, but in a more cautious manner.



SUSTAINABLE

The Green Industry Law – a new package designed to revive and put French industry on sounder footing



Jean-Marie PÉAN,
*Director -
Responsible Finance.*

Over the past 50 years, French industry has lost 2.5 million jobs and seen its weight in the nations' wealth slashed by half (from 22% to 11% of GDP). But the sector still produces 18% of the country's greenhouse gas emissions. Keen to introduce new regulation, the French government unveiled the **Green Industry** bill in mid-May. The draft law was adopted by the Senate on June 22nd and will now be reviewed by Parliament in July.

The purpose of the bill is to **encourage the creation of industrial sites in France to support the environmental transition**. The government's intention is to foster a low-carbon reindustrialisation of the country and turn France into Europe's green industry leader. To achieve this goal, 15 measures were drafted and address **four priorities**:

- ▶ To facilitate and accelerate the development of industrial sites in France
- ▶ To finance the green industry by harnessing public and private capital
- ▶ To favour virtuous companies in all government-related undertakings
- ▶ To train staff on new 'green industry' skillsets and occupations



SUSTAINABLE (continued)

The Green Industry Law – a new package designed to revive and put French industry on sounder footing

In terms of impact, the government expects the bill create **40,000 direct jobs**, cut the country's CO2 emissions by **41 million tons**, and enable investments worth **23 billion euros by 2030**.

To finance the green industry, **measures include tax credits** on photovoltaic solar panels, wind energy, batteries and heat pumps (6th provision), supporting the decarbonisation of existing industries (7th provision) and leveraging private savings (8th provision).

The package also includes the launch of a **"Climate Future" savings plan** for under 18s. This savings scheme, which can be opened from birth, will be frozen until the holder's 18th birthday. Limited in size, the scheme pays a higher yield than the classic "livret A" savings plan. The capital is guaranteed, and returns are tax exempt. The locked-in capital will be directed towards long-term investments in areas such as renewable energy, the decarbonisation of industry, and innovative companies.



TREND

Have central banks' key rates reached their peak?

At the end of the first half of 2023, capital markets received the positive news flow they were hoping for: **receding inflation and a resilient economy**. But how far have central banks come in their tightening cycle? The next meetings to be held by the world's central banks – FED, ECB and BOJ – will take place on 26, 27 and 28 July. Could key rates have peaked?

In June, the **American central bank held its rates steady** for the first time since introducing its tightening cycle over a year ago. However, over one third of the economists polled by Reuters expect at least one more hike this year. During its meeting on June 14th, the Fed projected that **two further increases were necessary**. We believe in a hike at the next meeting held at the end of July but think this will be the last move in the US.

As far as the **ECB** is concerned, 43 economists out of the 59 polled by Reuters expect **an additional 25 basis point hike in July**. We are expecting a final 0.25% increase at the end of July (which will bring the deposit rate to 3.75%). These levels appear necessary considering the level of underlying inflation. We believe that the ECB's optimism on growth will be disproved in the days to come, prompting the central bank to put its interest rate hiking policy on pause in September.



TREND (continued)

Have central banks' key rates reached their peak?

Finally, the **Bank of Japan (BOJ) should tighten its monetary policy, with a distinctive lag relative to its international counterparts.** The recent trend observed on domestic interest rates suggests that a large proportion of investors are anticipating a prolonged status quo from the BOJ. We do not share this viewpoint. We believe that the statistics confirming the annual wage increases negotiated in H1 2023, the rise in underlying inflation, and the resilience of growth will coerce the BOJ into easing its yield curve control policy and raising its key rates at the end of the 3rd quarter.

The pace of disinflation could **sanction the end of the hiking cycle for all central banks (except the BOJ) after a final raise at the end of July** to 5.25% or 5.50% for the Fed, and 3.75% for the ECB. We believe these levels will be maintained durably.

In the days to come, we shall be attentive to Q2 corporate earnings publications and the next inflation readings.









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**
Our view on Eurozone equities is neutral. We feel that 2023 earnings per share (EPS) forecasts are over-optimistic. We are keeping our exposure to European small and mid-caps, which continue to offer a compelling risk/return combination – particularly in the wake of the recent correction.

  **UNITED STATES**
We continue to be overweight on US equities compared to the Eurozone. While relative valuations are unfavourable in the US, earnings revisions are milder than they are in Europe. We therefore believe that US equity markets offer an attractive ‘catch up’ potential over their European counterparts.

  **EMERGING COUNTRIES**
We remain selective on emerging equities and are overexposed to the Chinese and Indian markets.

FIXED INCOME

  **SOVEREIGN BONDS**
We have maintained our exposure to sovereign bonds. The risk of a *repricing* on short-term rates is now rather low. The macroeconomic slowdown and disinflation would justify a decline in long-term rates in H2, materialised via a drop in real rates.

  **CREDIT**
We are constructive on Investment Grade credit, which has performed rather well over the past few weeks thanks to a modest contraction in spreads. Our view remains neutral on the High-Yield segment where default rates could rise to around 10% – prompting a cautious approach in a recession environment.

   Change in view versus previous month.

   Investment team’s asset class views.

CONVICTIONS (continued)

EURO/USD



While the EUR/USD rebounded sharply over the past few days, the move is consistent with our scenario that expects one euro to be worth \$1.13 by the end of year.

COMMODITIES



With gold now trading at 1,950 dollars per ounce, the commodity is less attractive on the valuation front. At these levels, our view remains neutral on the asset class. Oil prices should continue to rise, and we expect the Brent to reach \$85/b at the end of the year.



Change in view versus previous month.



Investment team's asset class views.



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