Monthly review

Macro

"The permanent temptation of life is to confuse dreams with reality. The permanent defeat of life occurs when dreams are abandoned to reality." James A. Michener.

Last month we were amazed at the strength of the rally in the equity indices while the interest rate markets were collapsing, the war in Ukraine was still going on, and inflation was rampant. It appears that the dream has been shattered by reality and that the fixed income markets are rarely wrong.

Although the US earnings season shows less meteoric progress than in past quarters, but still positive, corporate forecasts have left investors cold, and the penalties are severe for some stocks. Apple -8%, Amazon -14%, Netflix -35% after their results.
The stars of yesterday's markets are stumbling, but the real losers are hidden in the Nasdaq. 45% of the stocks in the index lost 50%, 20% lost 75%....

China is going to put some will to support its economy. It will deploy a package of measures to help industries and small businesses affected by the pandemic, state media reported, as the country's strict lockdowns weigh on consumption and disrupt production. Early analysis suggests that it may take time for these stimulus measures to translate into a recovery in real activity, as more and more people enter quarantine. However, it is possible that we will see a more sustainable recovery in the second half of the year, provided the authorities live up to the rhetoric.

Finally, here we are in May with the famous saying "Sell in May and go away", the war is still on... China is still closed, inflation is still rampant, Credit Suisse still manages to surprise us and Lake Geneva is suffocating...

Outlook

We will start this month with the inevitable (late?) Fed rate hike, so we will follow the Fed's speech as they are forced to raise rates no matter what. We will follow the reopening of the world's second largest economy with potentially a huge stimulus package and of course the sad news of this endless war.

We remain under-exposed with a significant amount of cash, and we are wondering about the trajectory of the economies: Stagflation, Recession?

On this subject, you will find an explanation (page 6) of the terms that we will hear in the coming months...

Equity markets

The markets took a hit in April. CAC40 down 2.25%, DAX -2.41%. SMI resists thanks to the pharma sector, falling only 0.41%. The most resilient index, the Footsie, gained 0.09% in the month of April. But it is mainly the American indices that are falling sharply: : SP500 -9.11%, DJ - 5.29% and Nasdaq -13.51% over one month! Hang Seng -4.31% and Shenzhen Composite -11.70%!.

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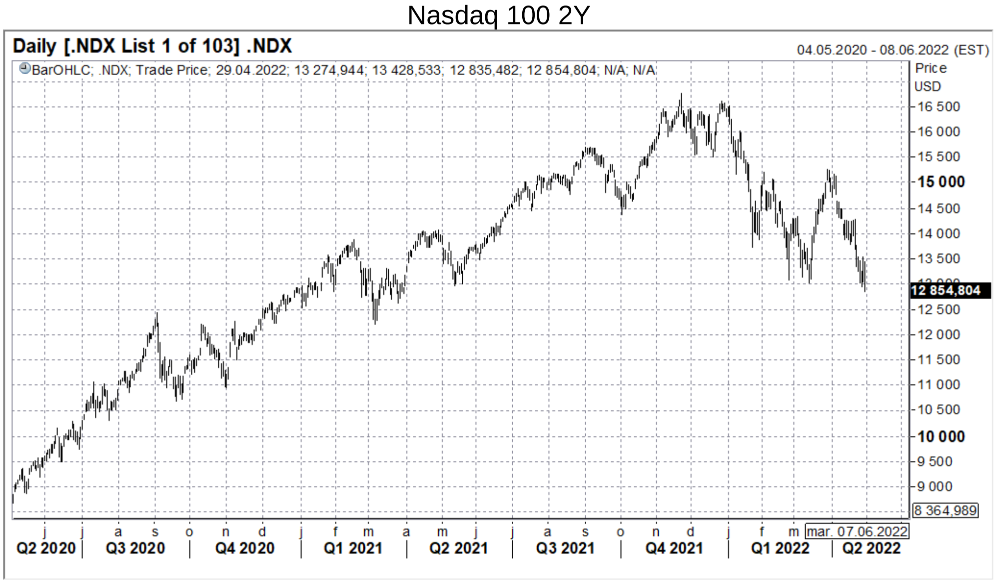
Nasdaq 100 2Y



Foreign exchange market

EUR USD

The euro had not fallen back below USD 1.05 since 2017. This happened in late April, before a modest rally in the single currency to 1.0521. Overall, the greenback continues to show its muscle in these more uncertain times. The dollar has reached a 20-year high and is contributing to the tightening of financial conditions. The Fed is expected to raise rates by 50 basis points this week and at its next two meetings. It has gained 13 percent since Jan. 1 against the yen to JPY130.056, but also 7.4 percent against the euro.

EUR CHF

The euro-Swiss franc had it all in April. In mid-April it touched parity before rebounding to 1.038. Finally, on the last days of the month the pair stabilized around 1.025. The euro is still facing the fear of the impact of the war on the economy of the single market.

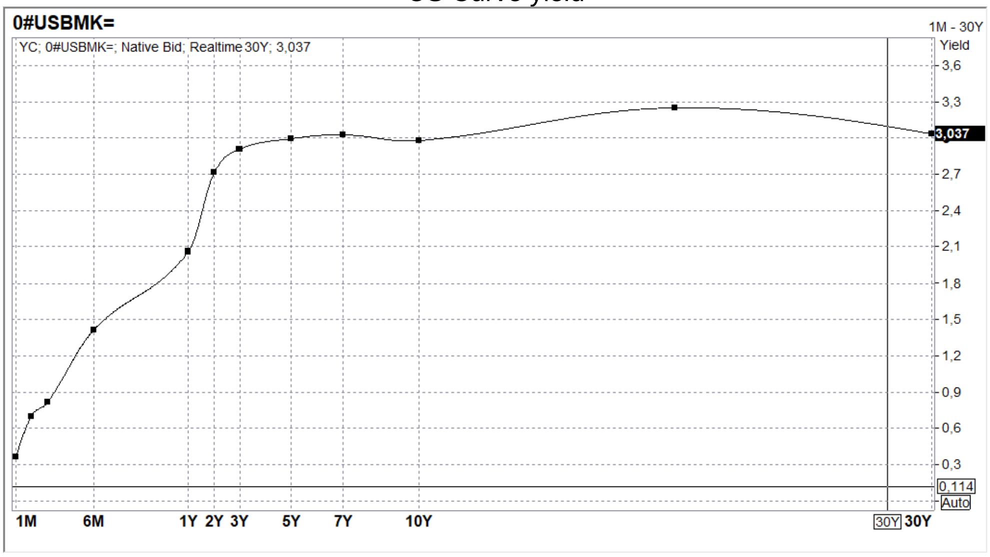
On the side of the Swiss National Bank, true to its recent convictions, it sees no reason to justify a rate hike. According to its president Thomas Jordan, inflation remains sufficiently moderate not to require a change in monetary policy, and it should return to stable proportions in the "foreseeable" future.

The SNB's forecast calls for Swiss inflation to average 2.1 percent this year before falling in 2023 and 2024. So far, there have been no signs of energy and commodity inflation translating into more expensive goods and services, Jordan said. "So monetary conditions are appropriate at this time," Jordan said. "However, if there were signs that inflationary pressures were building and spreading, we would not hesitate to take appropriate action."

Bond market

US 10y 2Y

US Curve yield



At the beginning of the year, the Fed was leaning towards raising the Fed funds rate in 25bp increments. In recent weeks, one after another, FOMC members have started to favor a 50bp step, at least at the next meeting on May 4, and possibly at the next one on June 15. The latest to rally to the 50bp option are John Williams (New York Fed), Charles Evans (Chicago Fed) and Jerome Powell himself. We wondered who was going to put the question of a 75bp increase on the table, which has not happened since November 1994. Unsurprisingly, it was St. Louis Fed boss James Bullard who raised the possibility on April 18, noting however that he was not favoring it at this stage.

Commodities

Gold 2Y

Brent

Oil markets hovered around $105 in April. It is especially the Chinese demand that still worries the operators because of the intensification of the containment measures. A new round of sanctions. The European Union is finalizing a gradual halt to its purchases of oil and petroleum products from Russia as punishment for the war in Ukraine.

Glossary

To better understand the current state of our economies, we provide you with the following definitions of economic terms:

Inflation

If there is inflation, it means that with the same salary, one cannot buy as many goods as before. In investment terms, we talk about money erosion and prefer to talk about real rates, which are nominal rates of return minus the rate of inflation. Excessive inflation has several effects. First, it blurs price signals and can therefore disrupt the purchasing or investment decisions of households and companies and lead to a misallocation of resources. Second, it pushes lenders to increase the interest rates they charge. Finally, it has redistributive effects among the various economic agents, to the detriment of the purchasing power of those who cannot increase their income accordingly or protect the value of their savings.

Disinflation

Disinflation means that there is a period of inflation, but that this inflation, while remaining positive, is decreasing. Disinflation therefore characterizes a situation of deceleration of inflation, a decrease in the pace of price increases.

Stagflation

The notion of stagflation refers to an economic situation without economic growth but with inflation. One of the worst adversaries of central banks.

Deflation

Deflation is negative inflation. Deflation causes a drop in prices that encourages people to postpone spending in the future. Deflation is when prices fall in a generalized and continuous manner. Deflation would encourage consumers to postpone their purchases in the future in the hope of benefiting from this generalized and continuous drop in prices, they hope to pay less tomorrow for their purchases. Some large groups specialized in trade are thus losing market share. Moreover, this situation leaves little room for companies to increase their margins. The economic climate is becoming uncertain. There is also the fear of losing one's job, which slows down consumption. The employment contracts offered to young people are increasingly fixed term, which also curbs spending on long-term goods.

Reflation

What about reflation? Reflation is a term that expresses the revival of inflation after a period of deflation. This revival of inflation is achieved by implementing certain economic policy instruments such as increasing the money supply and reducing taxes or lowering interest rates. Monetary injection aims at boosting the economy. Reflation can be very costly for governments, especially if the reflation is done by reducing taxes.