Monthly review

Macro

"*The quest for paroxysms forces to confront the essential that is ordinarily hidden*."
« *La quête des paroxysmes oblige à se confronter à l'essentiel qui est ordinairement caché.* »
Fred Vargas

The essential is however clear: inflation is on levels not seen since 1982 forcing central banks to raise their rates no matter what. China is reconfiguring, increasing the pressure on supply chains and weighing on its economy. Unemployment reached lows not seen since 1969 in the US. Hourly wages are rising, but consumer confidence is falling. Commodity prices remain high and the dollar is strengthening (unfavorable for emerging countries). The war in Ukraine remains topical, although a de-escalation may be possible. No one knows what will happen to relations between Russia and the rest of the world (continued sanctions?).

With all these worries, two worlds are clashing in the financial markets: stocks and bonds.

Most of the major equity markets have risen to around 6% of their historical highs. Optimism is the order of the day and here are a few examples:
Apple is recording an 11-day winning streak (the longest since 2010) despite announcing a reduction in production of various products. The Apple company's weight is now 7.1% in the S&P 500 which is the highest weighting we've seen for an individual company since 1980. Tesla (+60% in one month!) announced that it is considering a stock split which makes the stock take in one session the equivalent of 1.5 times the market capitalization of General Motors or 1 time the capitalization of Volkswagen, which makes Morgan stanley analysts say that no fundamental can justify this and that we are in full defiance of the laws of gravity...
Gamestop (+150% in one week) AMC (+117% in 5 days) 2 US companies with catastrophic balance sheets (AMC which manages movie theaters has just taken a stake in a gold mine!).

As for the bond markets, they are crying recession. We have lost count of the number of yield curves that have inverted in the United States: 5-year/10-year, 5-year/30-year, 7-year/10-year, 20-year/30-year and finally last night the 2-year/10-year. This phenomenon has called investors to bet on an upcoming recession.
While it is difficult to predict the future course of the economy, the interest rate spread is surprisingly accurate when it comes to predicting recessions. Periods when the yield curve is inverted are reliably followed by economic downturns and almost always by a recession. That said, historically the negative impact of the curve inversion arrives 12 to 15 months later on average in the equity markets.

Outlook

Irrational exuberance?
No doubt for some markets and sectors. We will have to be very cautious before the quarterly publications, as companies' margins will be affected by rising wages, rising commodity prices, rising interest rates and falling consumer purchasing power.

It will be important to select the right stocks in the right sectors (visibility, cost control, pricing power).

Equity markets

The equity markets have been through everything in March. They bottomed out on March 7. Since then, they have recovered between 10 and 16% supported by good news in the negotiations between Ukraine and Russia.

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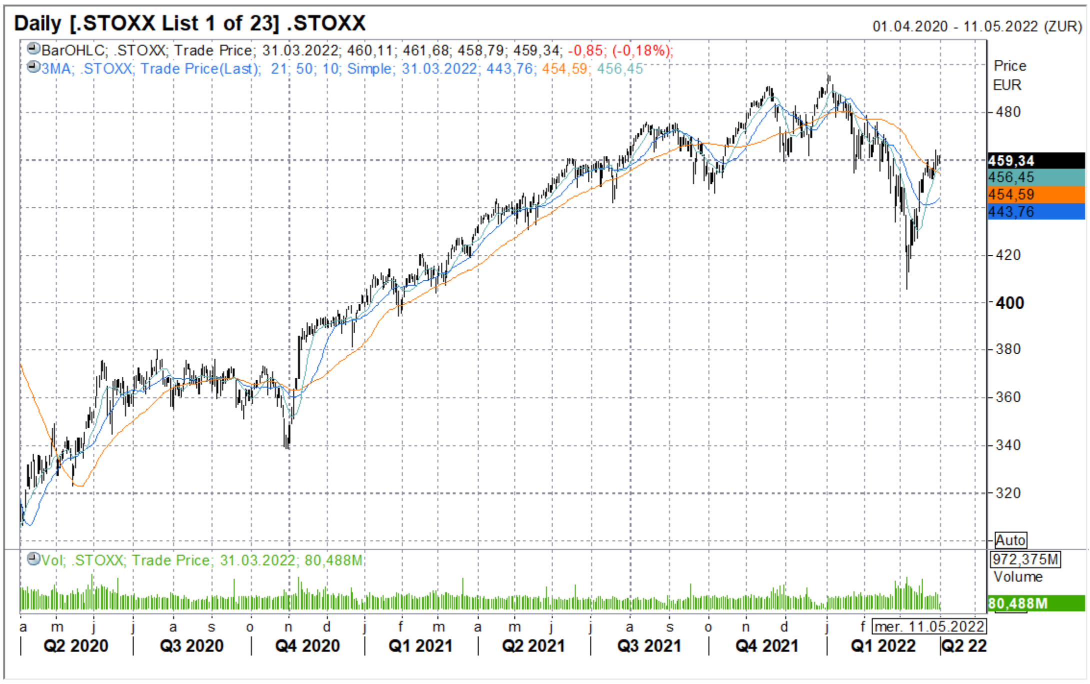

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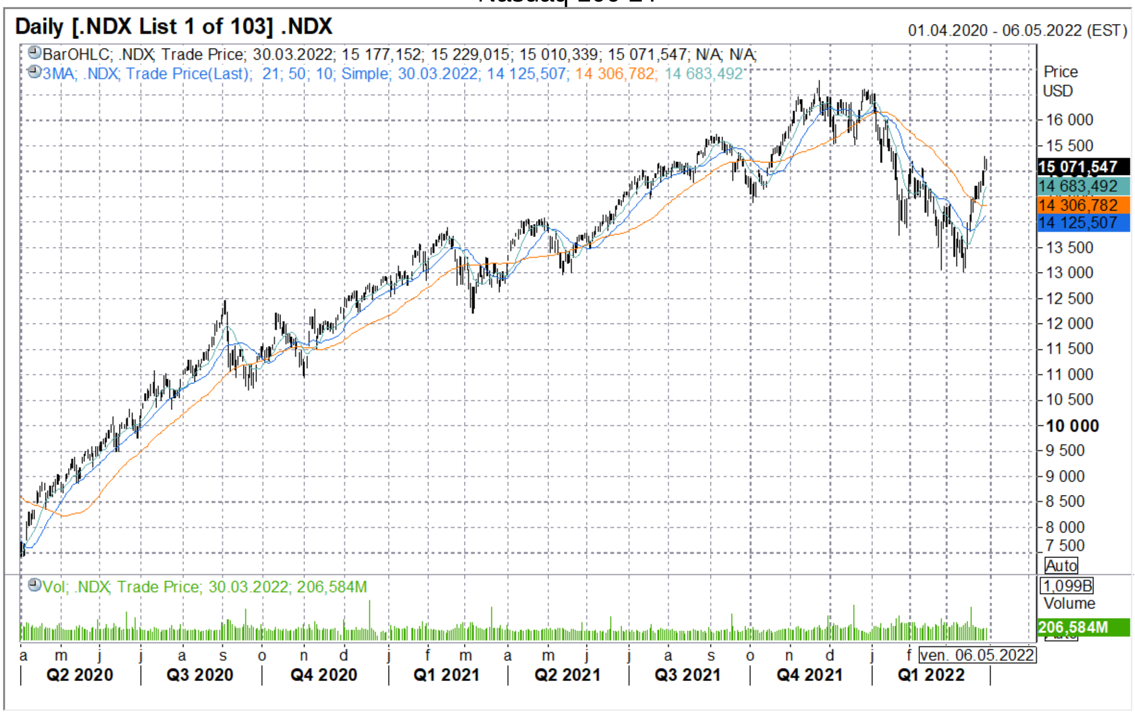


Foreign exchange market

The euro has been heavily impacted by the conflict. Earlier this month it hit 1.088 against the dollar and even parity against the Swiss franc. The conflict will continue to be the main focus for Forex traders in the coming weeks.

EUR USD

EUR CHF

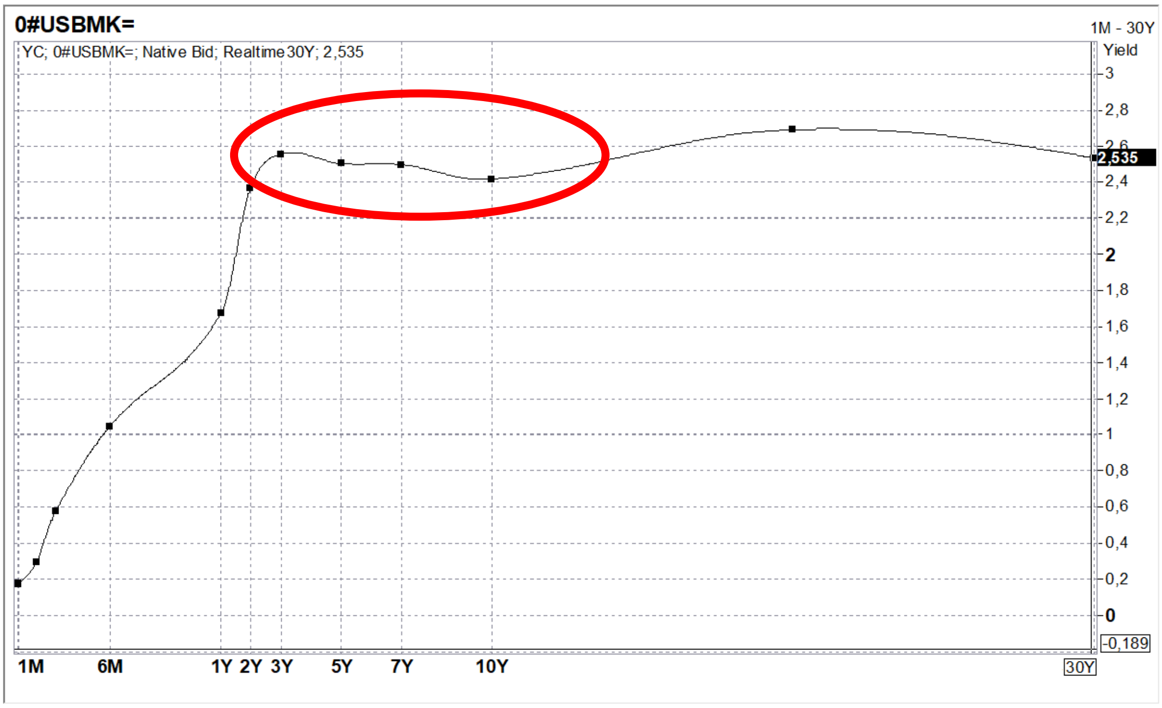
Bond market

Higher and more persistent inflation than the U.S. Federal Reserve had anticipated has forced it to change its tune. The Fed has even announced its willingness to raise interest rates faster and higher than expected starting in early 2022.

This massive increase reflects an error by the Fed regarding its inflation expectations a month ago. It is correcting its speech. Thus, the first rate hike was initiated.

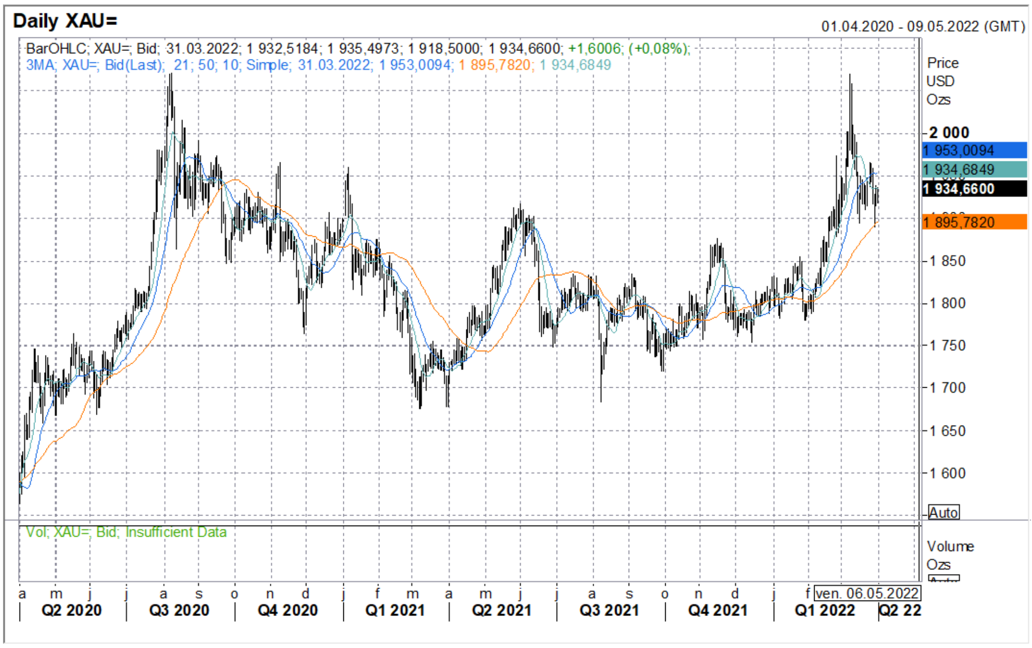
The flattening of the U.S. curve shows us a lesser economic momentum or a low confidence of economic actors in the future.

US yield curve



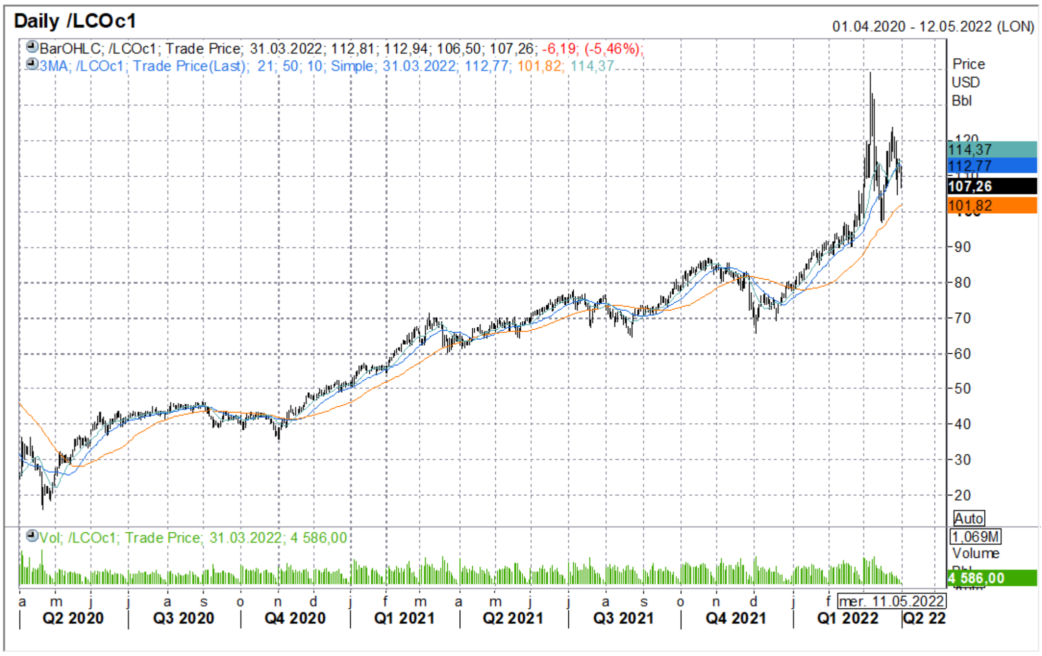
Commodities

Gold 2Y



The gold has risen steadily in recent months in the wake of inflationary pressures and then in the face of the war in Ukraine. Gold has risen steadily since the end of October, rising from $1,750 an ounce to $2,050 on March 8 before retreating. We believe that a range phase should be established between 1'900 and 1'950

Brent



The price of oil has exploded since the beginning of the conflict. On March 7, Brent crude reached a high of $139! Since then, the markets have integrated the risk and oil has stabilized around $110. Basically, the market is still suffering from a disruption between supply and demand. OPEC producers still do not want to increase production which could relieve the pressure on the price. Without their intervention we can still insist on a higher price in 2022.