Monthly review

Macro

Have we reached a peak in inflation?

The deterioration of a few macroeconomic indicators recently has mitigated the extreme scenario. Since the economy seems to be doing less well, the Fed may not have to raise rates as violently as feared, which will make liquidity less dry. This is the bet that investors have been making for the past 10 days. In other words, things are bad, so things are good. The real job of the central bank will be to get to the neutral rate zone: the perfect level that brings economic aggregates back into the comfort zone without derailing activity.

In Europe, the German inflation figures make you dizzy

In Europe, the peak does not seem to have been reached yet in view of the price increases, and oil prices have risen again in May with a 20% increase in the price per barrel.

Outlook

After the ferocious decline of the past two months, extreme levels of investor pessimism are now evident in various sentiment indicators as well as in the financial markets. In the markets, a rebound of relief is likely.

While most economists are still dismissing the possibility of recessions in the U.S. and Europe, we believe that corporate valuations do not yet fully reflect the current uncertainties. And let's not forget, the Fed will start with balance sheet reduction at the end of June! The central bank is pulling back at a time when the market is already experiencing periods of choppy trading.

Equity markets

Another notable fact is that on May 20 the S&P 500 had fallen into a bear market (-20% since its historical record). It is "crazy" to see how fast the markets have collapsed: the S&P 500 was at 4,546 on April 1 and plunged to 3,901 (May 20), a drop of -14.2% in a month and a half. During this period, energy was the only positive sector in the S&P 500, up 5%, while technology was the biggest drag, with Apple, Amazon, Google, Netflix and Tesla all losing at least 20%.

But the mood seems to have changed a bit over the last 10 days of May in the financial markets. Between May 23 and 27, the indices signed their first weekly increase in two months. A nice progression in addition, since the broad S&P500 index rebounded by 6.6%, removing at the same time the spectre of the "bear market". The VIX index, which measures the nervousness of the markets, is again flirting with its lows of the month, under 26 points.

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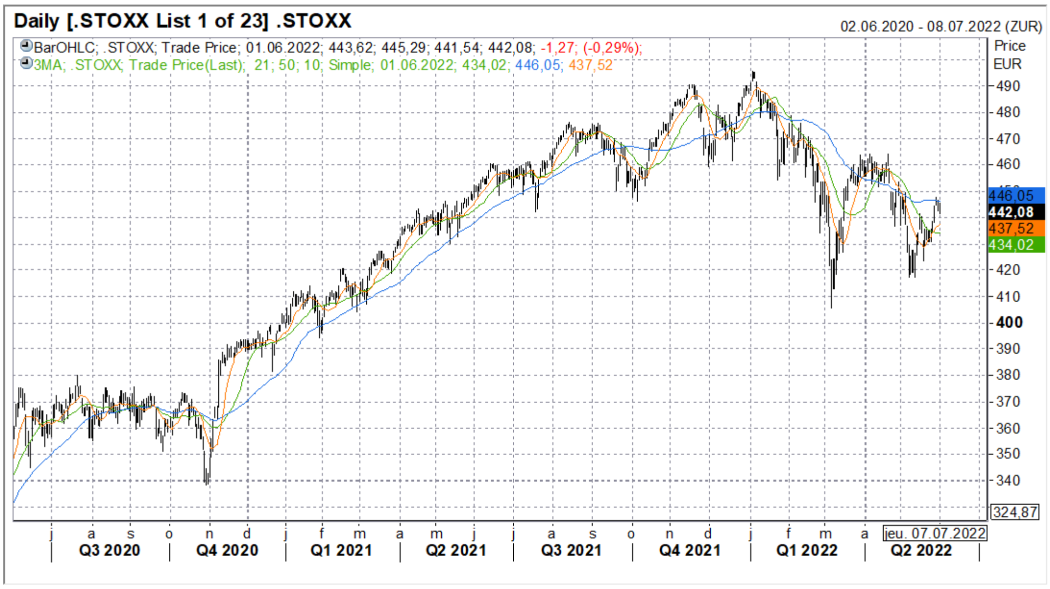

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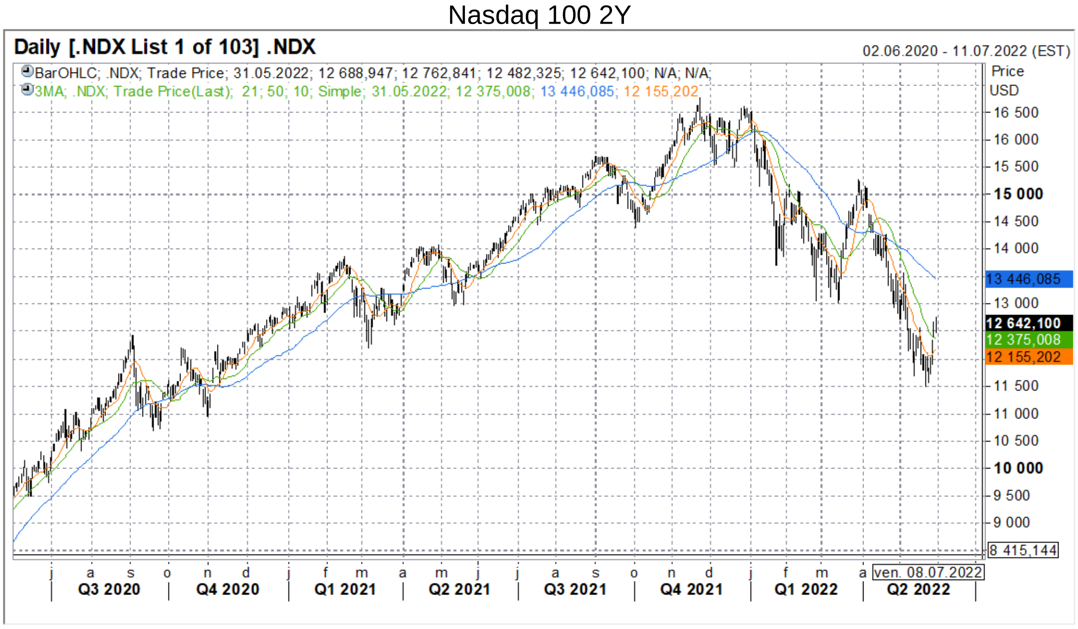


Foreign exchange market

In recent weeks, markets have become increasingly concerned that rising interest rates in the U.S. could significantly slow the U.S. economy. As a result, U.S. inflation expectations and market interest rates have fallen in recent weeks - more than inflation expectations and market interest rates in Europe. This is why the EUR/USD has risen somewhat recently. A decisive break above the initial resistance around 1.076 would indicate a further rebound to the next resistance near 1.093, or an even bigger rally - counter-trend - to significant resistance around 1.118. Nevertheless, as long as the latter level holds, the medium-term trend is down.

EUR USD

EUR CHF

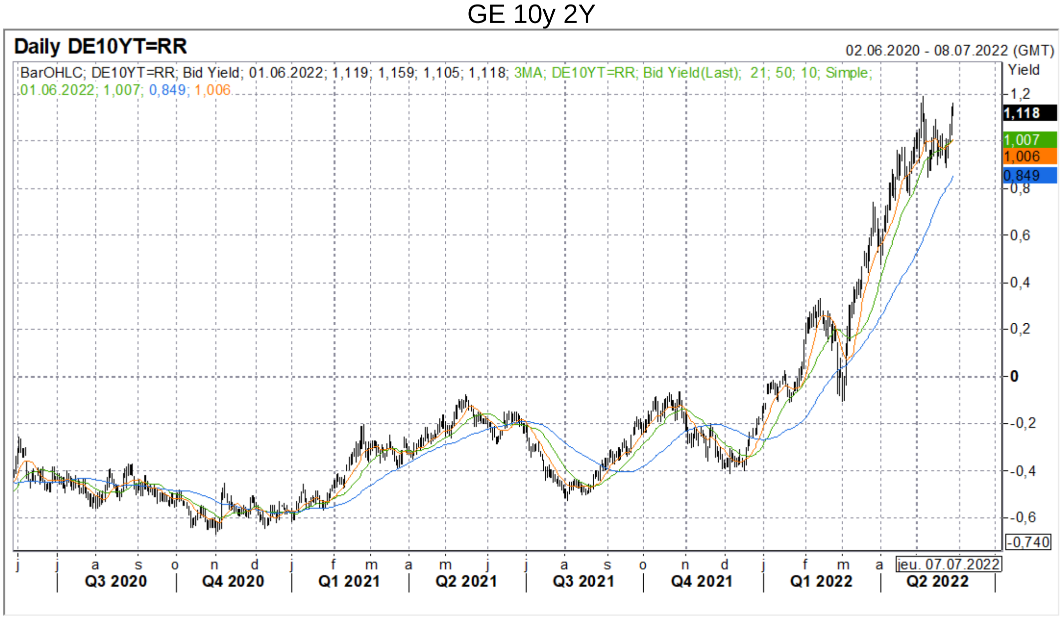
Bond market

US 10y 2Y

In April, the annual inflation rate reached 8.3% in the United States and 7.5% in the Eurozone. One thing is certain: inflation remains very high for the time being. What is not known is how high it will continue to rise in the coming months.

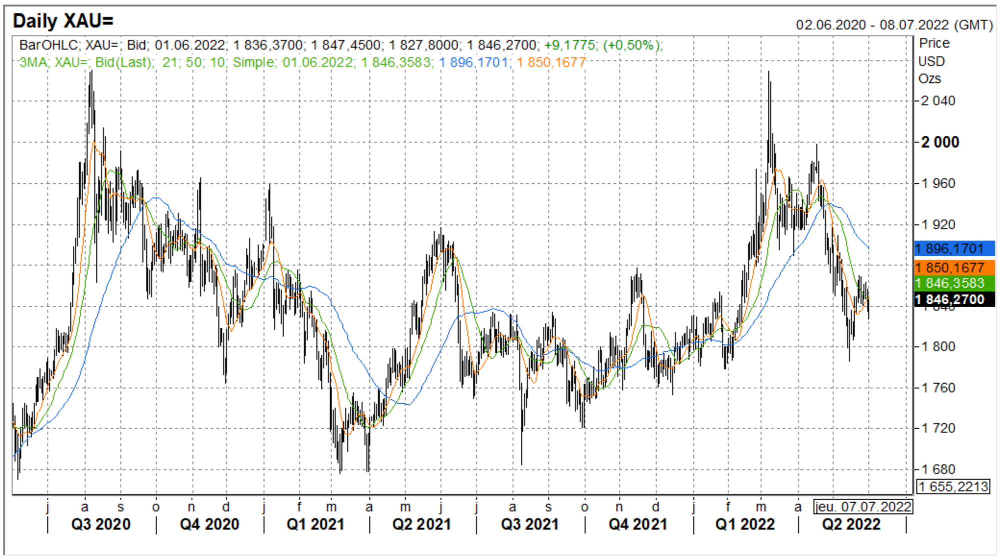
The current yield increases are impressive and the uncertainty surrounding the development in 2023 is immense. In any case, an economic recovery is out of the question, whether in the US or in the Eurozone, given the stratospheric levels of inflation.

GE 10y 2Y



Commodities

Gold 2Y



The price of gold, which had suffered in recent weeks from the strength of the U.S. dollar, has recovered since the second half of May.

The price of an ounce had sunk to $1,786.90 on Monday 16 May, a low since early February, before recovering. Gold has undoubtedly suffered from the double whammy of a strong dollar and an FOMC (Federal Reserve's monetary policy committee) signaling an aggressive pace of rate hikes to combat inflation.

Brent

China dictated the price of oil during the month of May. Chinese authorities began easing health restrictions in mid-May, which has resulted in oil prices continuing to recover with WTI and Brent crude oil prices rising to their highest levels in two months.

Oil prices are also being supported by the growing prospect of an EU embargo on Russian oil. Against this backdrop, oil prices are also supported by the OPEC+ production freeze, and the dimming prospects of an Iranian nuclear deal. One of the latest hurdles is Tehran's demand that the United States remove the Revolutionary Guard, its ideological army, from the U.S. blacklist of "foreign terrorist organizations.