# MONTHLY REVIEW

## MACRO

### IMPROVEMENT OF INDICATORS AND THE "BLUFF

In Europe, economic confidence continues to rise from its 2022 lows. Business sentiment rose to its highest level since June, and a fourth consecutive increase. Earlier this month, European inflation began to decline, showing signs of slowing. Expectations for the coming months are much less pessimistic. The economy will probably contract slightly this quarter, but a recession is no longer expected.

The outperformance of European equities over the past 90 days relative to U.S. equities is the best since 2000. Europe's rally is due to four main catalysts: economic news flow is holding up better in Europe than in the U.S., gas prices in the EU are falling, Europe is more China-oriented than the U.S., and earnings revisions are better in Europe than in the U.S.

On the other side, the US economy is in a mixed state right now, pulled in different directions. At earnings presentations CEOs and even economists strongly emphasize the uncertain outlook ahead of us.

But the main anticipation of the market was Jerome Powell's speech on Wednesday, February 1st. The Fed raised its policy rate by 0.25% as expected to 4.75%. During the press conference, stocks began to rise as the chairman stated that the "disinflation process has begun." Powell also did not emphasize that markets are expecting rate cuts this year, saying that this reflects the view whereby inflation will fall faster than the Fed expects. The market thinks he's bluffing! Whether it was Powell's intention or not, the market was swayed by the fact that the Fed is relaxed about easing financial conditions and that cuts could occur if inflation performs as the market expects!

## OUTLOOK

Following the release of economic indicators and the resilience of corporate earnings, we have become more optimistic than before. Our main focus is on stock selection and arbitrage in our portfolios. We believe that central bankers have been playing with words and have not changed course in monetary policy, let alone made a pivot!

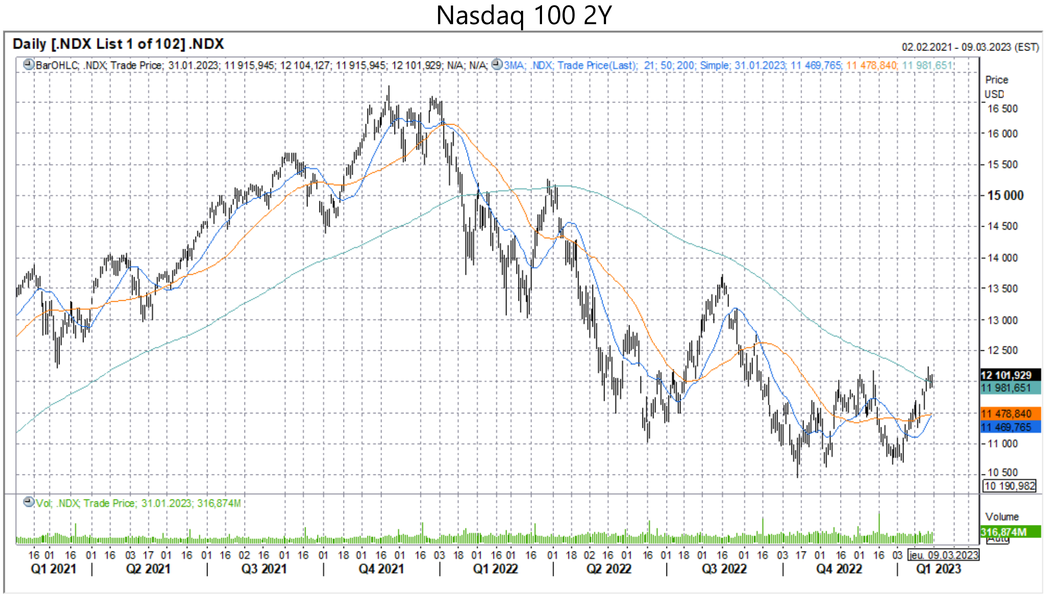
# EQUITY MARKETS

## MARKET RECOVERY

January was a positive month for all major stock market indices. S&P 500 (+6.3%), STOXX 600 (+6.8%), Nikkei (+4%) and Shanghai Composite (+5.4%). Some sectors like technology performed particularly well, with the Nasdaq up +10.7%. European banks also outperformed, with the STOXX 600 Banks index up 14.1%. Emerging markets had a good January, with the MSCI EM Equity Index +7.9% for its strongest start to the year since 2019.

Stoxx600 2Y


Nasdaq 100 2Y



# FOREIGN EXCHANGE MARKET

Improving economic indicators and the dissipation of dark clouds (gas prices, gas inventory and energy prices) in Europe are allowing the single currency to recover. Coupled with falling U.S. yields that are attracting less investors to the dollar, the euro is moving from parity in mid-December to 1.09 at the end of January 2023. In terms of technical analysis, the EUR/USD continues to trend higher, but momentum is slowing as it approaches the symbolic $1.10 mark.

EUR USD YTD


The observation is the same, the Euro is recovering against all currencies including the Swiss Franc. Moreover, this pair is also an indicator that some pessimism has disappeared towards the European markets. We are approaching a level of 1.01-1.02 which will be a strong resistance because the SNB uses the strong franc in its fight against inflation too.

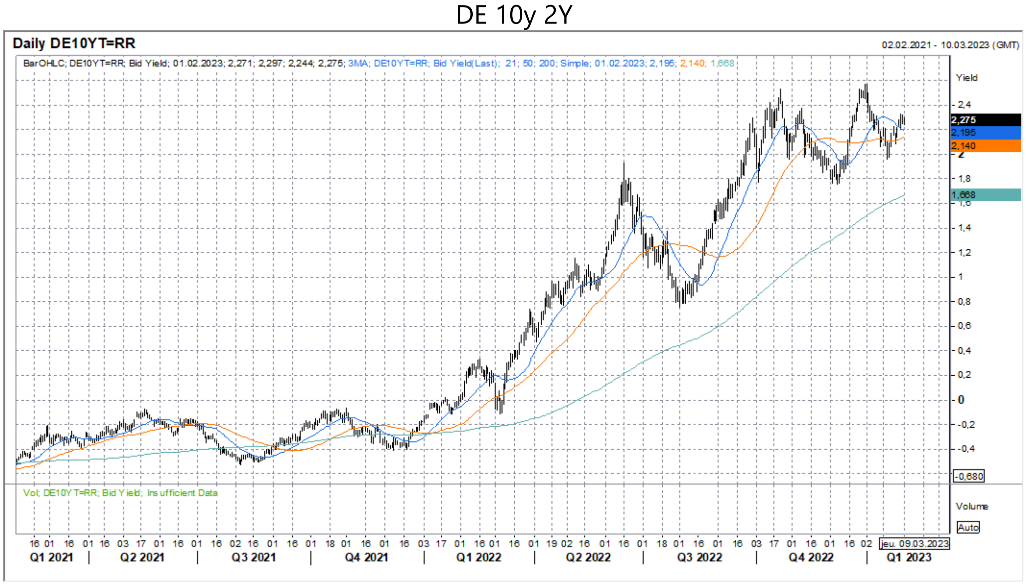
EUR CHF YTD

# BOND MARKET

After a disastrous performance in 2022, sovereign bonds have had a very good start to the year, with gains for U.S. Treasuries (+2.8%), Euro sovereign bonds (+2.4%) and British Treasuries (+2.5%). It must be said that economic indicators as well as lower inflation have pushed rates lower as the market believes that central banks will start cutting rates by the end of the year.

US 10y 2Y


DE 10y 2Y



# COMMODITIES

We described in our November report that gold would benefit in the short term from a rally in the equity market and this was the case. Gold has benefited for several weeks from the weakness of the dollar and U.S. bond yields to return to pre-Ukraine war price levels.
In terms of technical analysis, the outlook for gold prices is beginning to turn bearish again in the short term, with the first supports to watch being the former high of $1877, which was breached in January, and then the symbolic threshold of $1800, which was breached in late December. This bearish outlook would be invalidated in the event of a rebound above the recent high at $1,960.

Gold 2Y


During the month of January, oil rebounded by 15%, benefiting from the reopening of the Chinese economy as well as the diminishing likelihood of a recession in Europe and the United States. For the past two months, oil prices have been torn between bad data and optimistic Chinese demand. According to the fundamentals, nothing has changed and structurally demand is higher than current production.

Brent

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