MONTHLY REVIEW

MACRO

Recent figures suggest that the 2% inflation target remains out of reach for central banks, while price increases continue to be supported by strength in services and the labor market. In the Eurozone, preliminary purchasing managers' indices for February highlighted persistently high prices - particularly in services - while consumer confidence reached its highest level in a year. The improvement in indicators since the beginning of the year should encourage the ECB to continue raising deposit rates.

In the U.S., the FOMC minutes from earlier this month also highlighted continued pressure in services, mentioning "inflation" in front and "recession" only a few times.

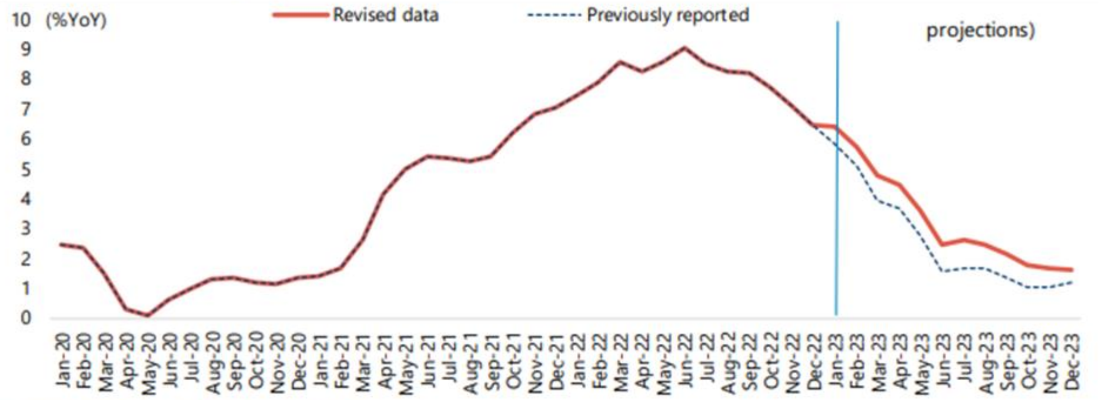
Last week, Goldman Sachs estimated that the S&P500 could end the year at 4,300 (7.5% increase from current levels) in case of a soft landing of the economy, but on the contrary valued the index at 3,150 in case of a strong recession (20% decline).

SCENARIOS

OUR MAIN SCENARIO, RECESSION

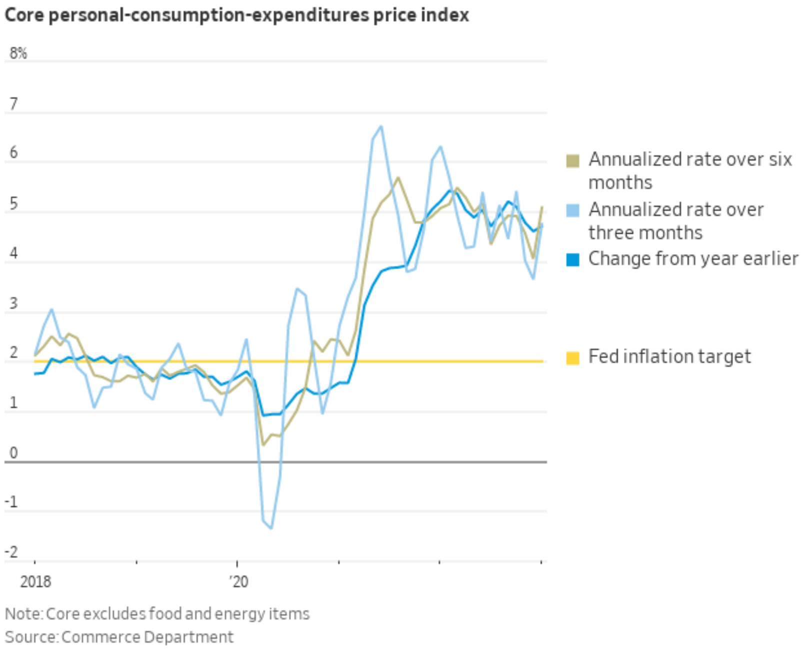
- U.S. consumer inflation remains "sticky" and not falling according to equity market forecasts. Household consumption expenditures (PCE) rose 4.7% on an annualized basis (well above expectations)
- European inflation for February also shows signs of resistance
- Markets are revisiting the Fed's rate path upwards (see chart)
- Central banks will be "higher for longer"
- Historically, such an abrupt rate hike is always followed by a recession
- Manufacturing PMIs remain in contraction since October 2022
- Purchasing Managers Survey showed business sentiment remained deteriorated in energy-intensive sectors such as chemicals and plastics, as well as in basic resources

Exhibit 4: US CPI inflation projections assuming 0.1% MoM increase going forward

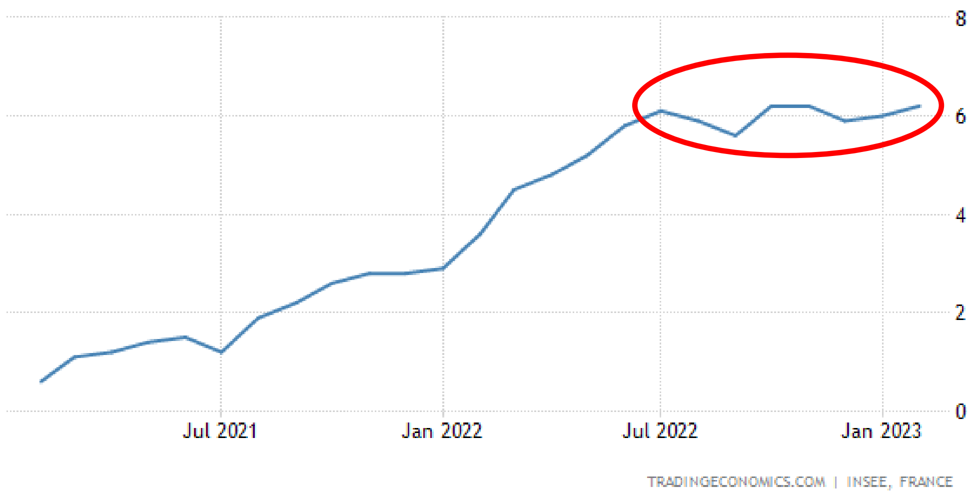


Source: Bureau of Labor Statistics, Jefferies

Core PCE Inflation

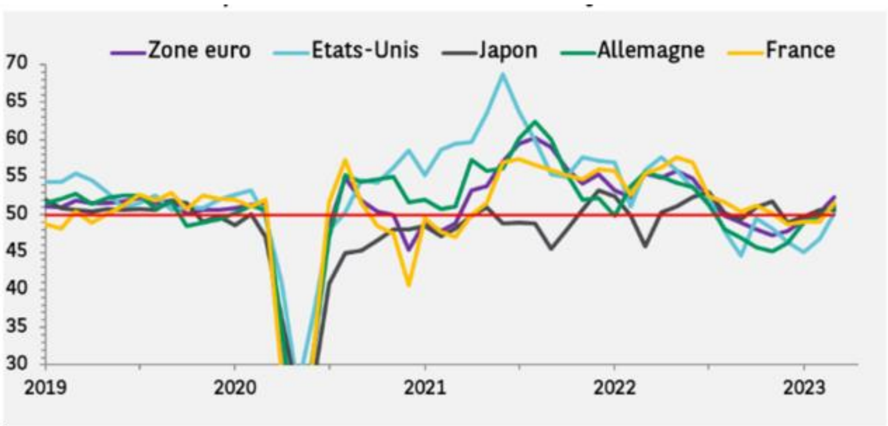


French inflation Y/Y



OUR SECONDARY SCENARIO, SOFT LANDING

- Thanks to lower energy prices and improved confidence from the reopening of China, S&P Global's composite PMIs for the eurozone recovered in January. The improvement is particularly noticeable in services
- European business and consumer confidence is improving
- The movement in the earnings outlook appears to be starting to reverse, which can be interpreted as a sign that analysts are not forecasting a recession



Données au 23 février 2023. Sources: S&P Global, Bloomberg, BNP Paribas Asset Management.

* Etats-Unis (=United States) ; Allemagne (=Germany)

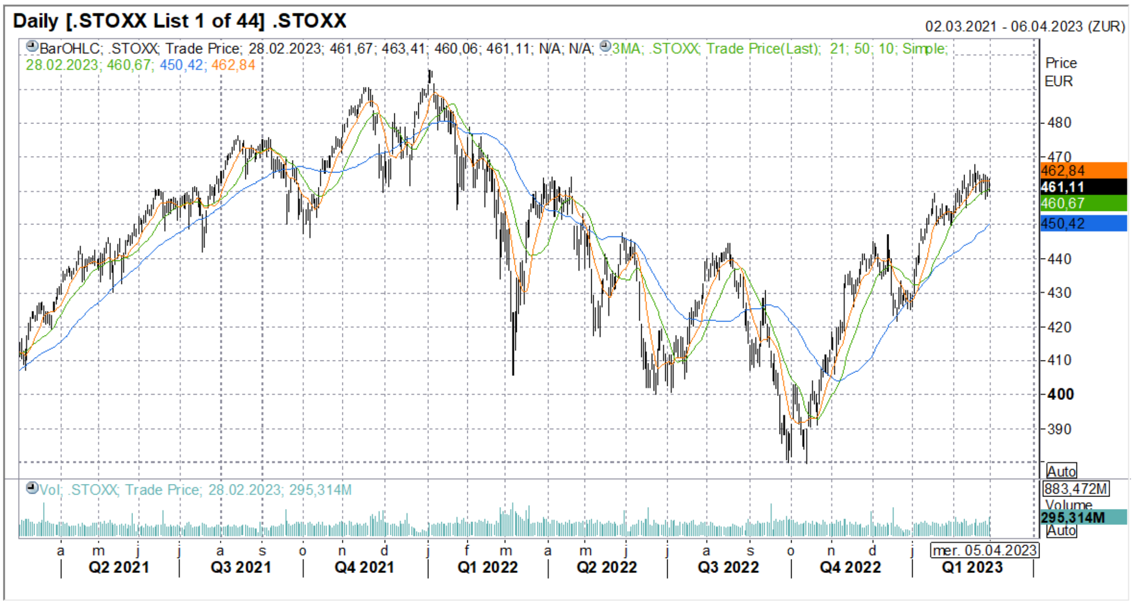
OUTLOOK

We believe that inflation will eventually come down, but at a slower pace than the equity market has been saying for the past few months. The impact will be significant because central banks will keep their policy "higher and longer". Our basic scenario is that this policy and the aggressive rise in rates for 10 months will probably translate into an impact in the economy that the equity markets are not anticipating at the moment. That is why we remain "neutral" in our equity positioning, cautiously monitoring the outcome of central bank policy.

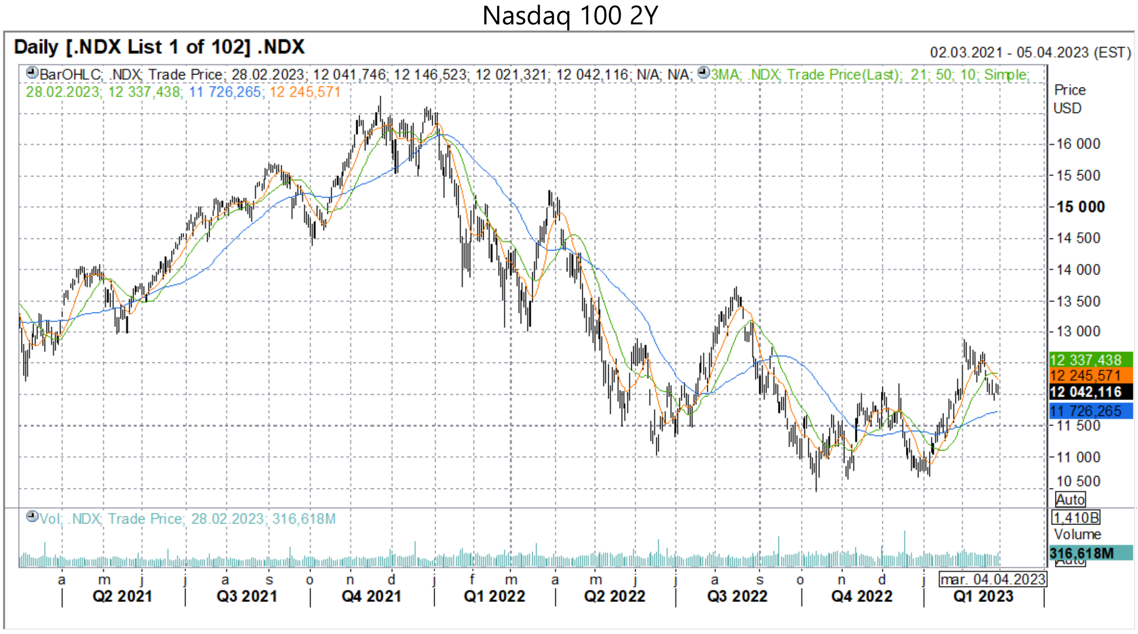
EQUITY MARKETS

After the euphoric month of January, the stock markets lacked dynamism and stabilized in February. Europe confirmed its good performance compared to other regions and resisted more than other markets thanks to better corporate results and good PMI indicators as explained above. CAC40 +2.70%, Stoxx600 +1.77%, DAX +1.21%. Only SMI is down 0.92%. On the other hand, the US had a bad month of February as macroeconomic figures were disappointing for investors. S&P500 -3.62%, Nasdaq -3.05%. The Dow Jones is -4.21% which has shown a negative performance since the beginning of the year (-1.48%), marked by sector rotation (In Technology, Out Energy). China also marked the step during this month with Hang Seng at -10.36% and Shenzhen at -3.08% following profit taking.

Stoxx600 2Y



Nasdaq 100 2Y



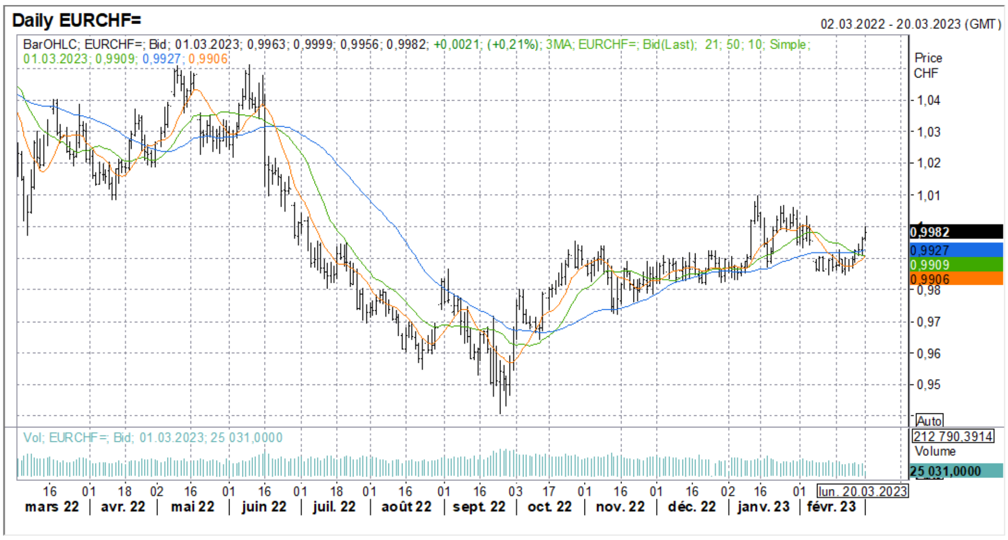
FOREIGN EXCHANGE MARKET

The dollar has risen nearly 4% from its recent lows and stands near a seven-week high against a basket of other major currencies, driven by bets the Federal Reserve will need to raise rates higher than many investors had previously forecast to cool inflation. The U.S. currency remains some 8% below the twenty-year high it attained last year. Yet its rebound, along with a surge in Treasury yields, has already complicated the outlook for a range of trades that prospered as the dollar tumbled in the latter half of 2022. Because of the dollar's central role in the global financial system, its fluctuations have widespread repercussions. A stronger dollar tends to tighten global financial conditions while diminishing appetite for risk-taking and weakening global trade, the Bank for International Settlements said in a report in November.

US Dollar Index

Since October 2022 the Euro/Swiss Franc pair has been in a range around 0.99. After reaching an all-time low of 0.9407 in September, the pair created an upward formation. The EUR/CHF peaked at 1.0097 in January. These levels may continue to offer resistance as much of the positive news has been priced in. On the other hand a deterioration in the markets could support the 0.97 level again.

EUR CHF 1Y

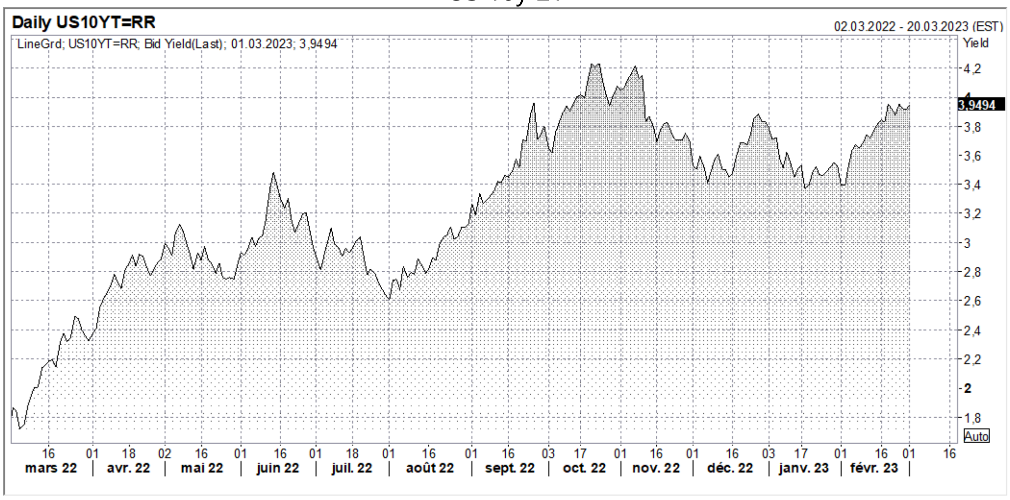


BOND MARKET

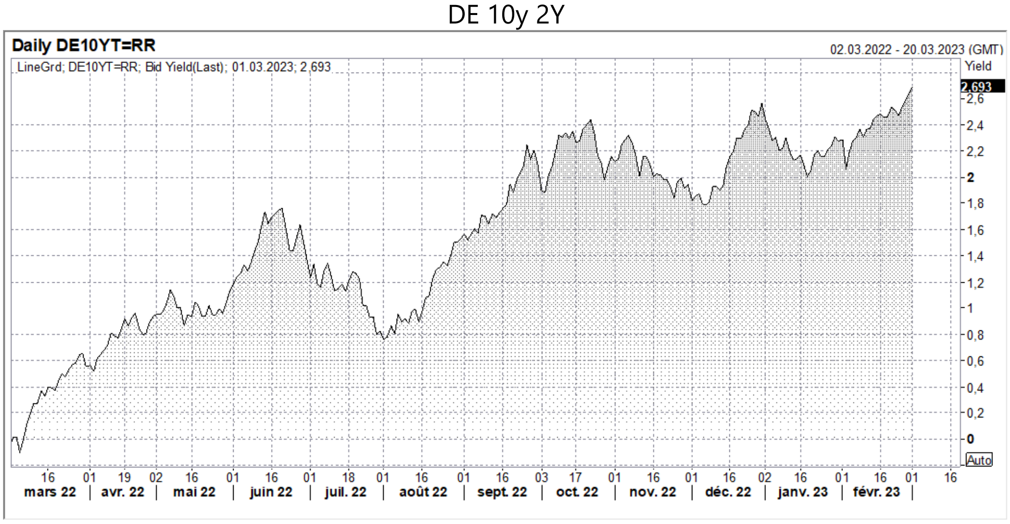
Rates rebound in February. During the month, investors were surprised in the U.S. by the strength of the labor market, the resilience of economic activity as measured by the February PMI and the unexpected acceleration of the PCE price index in January, the Federal Reserve's (Fed) preferred measure of inflation. In the U.S., traders estimate a 23% probability of a 50 basis point Fed rate hike in March and expect rates to peak at 5.41% in September. BofA Global Research sees the rate peaking at nearly 6%, up from 4.50%-4.75% currently.

In Europe, inflation data published at the end of February in France and Spain also showed an unexpected acceleration in February, to 7.2% and 6.1% respectively over one year, leading to an upward revision of expectations for key European Central Bank (ECB) rates. The markets are now expecting the ECB to raise rates by another 150 basis points by the end of the year, which would bring the deposit rate to 4%.

US 10y 2Y



DE 10y 2Y

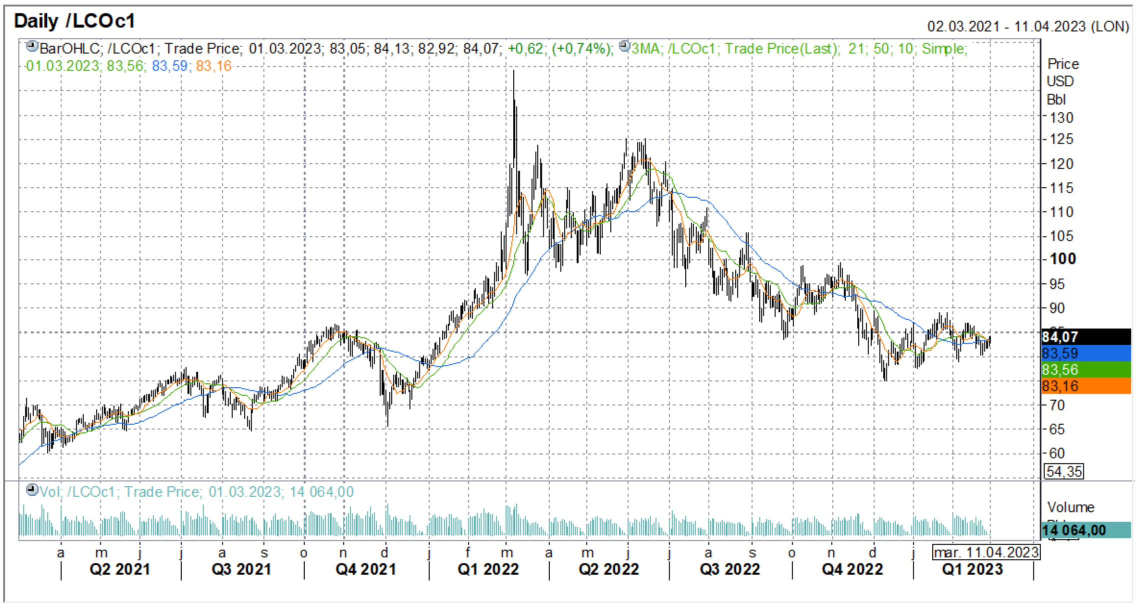


COMMODITIES

It is interesting to note a correlation between gold and the stock market. Or should we say the fundamental link with US interest rates. Since mid-October, the price of the gold has risen by about 18%, which adequately matches the performance of stocks. This can be attributed to investors' interest rate expectations. On the other hand, since the beginning of February the US 10-year rate has risen from 3.40% to 4% which has resulted in a 7% decline in the ounce of gold during the month (see also the chart on page 6, US 10-year rate).

Gold 2Y

Brent



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