MONTHLY REVIEW

MACRO

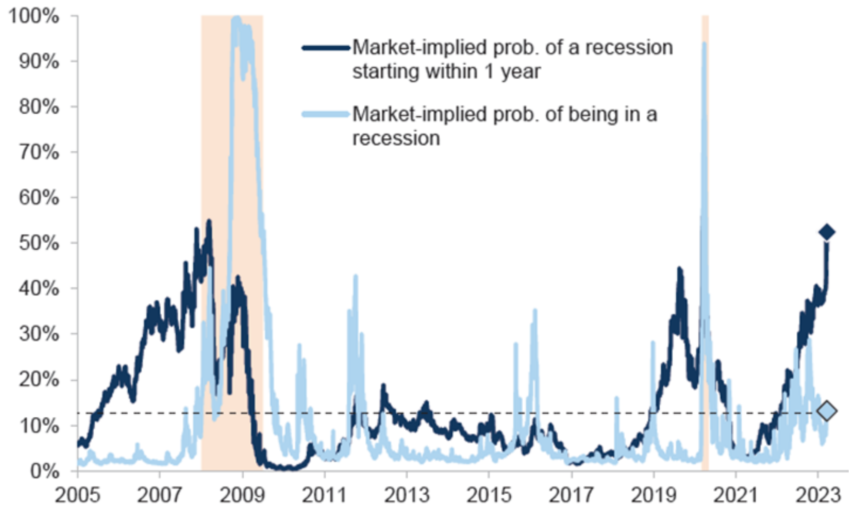
View 1: The market predicts a 75-basis point reduction in rates before the end of 2023.

View 2: Jerome Powell on Wednesday, March 22, 2023: "Fed officials do not foresee rate cuts this year."

For the past four months, the stock market and central banks (Fed and ECB) have been playing a game of cat and mouse. Market expectations for interest rates continue to decline while central bankers insist on fighting inflation by increasing rates. This divergence in expectations has intensified over the past two weeks, marked by the liquidity crisis that hit banks. This has made it difficult for investors to adopt a clear position in response to these conflicting movements. On one hand, the stock market is stimulated by the prospect of lower rates, which is beneficial for business growth and stock prices. On the other hand, central banks seek to avoid any form of economic overheating by raising interest rates to contain the inflationary spiral.

Although the effects of banking tensions have been relatively limited so far, the risk of recession has increased due to the slowdown in growth caused by tightening lending standards. At the beginning of March, we wrote that our main scenario is an economic slowdown. Markets have also reassessed the risk of recession: the implied probability of a recession in the next year has exceeded 50%, mainly due to the reassessment of the FOMC's policy. However, the risk of an imminent recession evaluated by the stock market remains relatively low at only 13% (see chart). This increases the risk of a brutal "risk off" in case of growing end-of-cycle concerns.

Exhibit 4: The probability of going into a recession in the next 12 months has increased above 50%



Source: Haver Analytics, Datastream, Worldscope, Bloomberg, Goldman Sachs Global Investment Research

OUTLOOK

The current situation in financial markets is complex and uncertain. Divergent expectations between the stock market and central banks create tension that makes short-term projections difficult for investors. In this disparity and uncertainty in the face of risk, we remain defensive and our positioning is neutral. In these conditions, cash is king to be ready to seize opportunities.

OUR MAIN SCENARIO, RECESSION

- US consumer inflation remains "sticky" and does not decline according to market expectations
- European and British inflation also shows signs of resilience
- Historically, such a sudden rise in rates has always been followed by a recession
- The banking crisis increases the risk even further
- Goldman Sachs estimates that the S&P500 could end the year at 4,300 (6% increase from current levels) in the event of a soft landing of the economy, but values the index at 3,200 in the event of a strong recession (20% decrease)
- Citi predicts a 1% increase in European GDP and a deterioration in earnings growth per share in the Eurozone caused by credit tightening

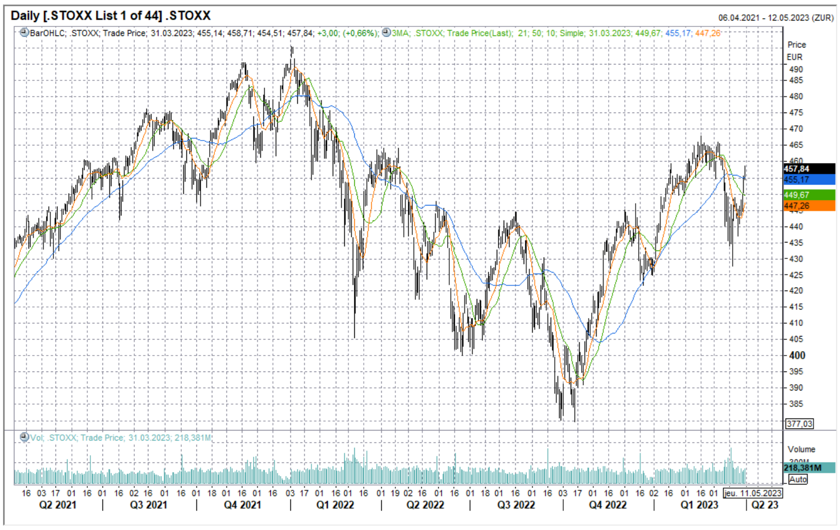
EQUITY MARKETS

March was a tumultuous month for the stock market, due to the banking crisis. The Stoxx600 even erased the gains of the year on Monday, March 20, while the S&P500 fell to 3,800 points. However, the situation quickly improved, with markets rebounding in just 10 days, thanks to investor relief supported by the intervention of central bankers and even governments, as in the case of Credit Suisse. Indeed, the measures taken by authorities helped reassure investors about the stability of the market.

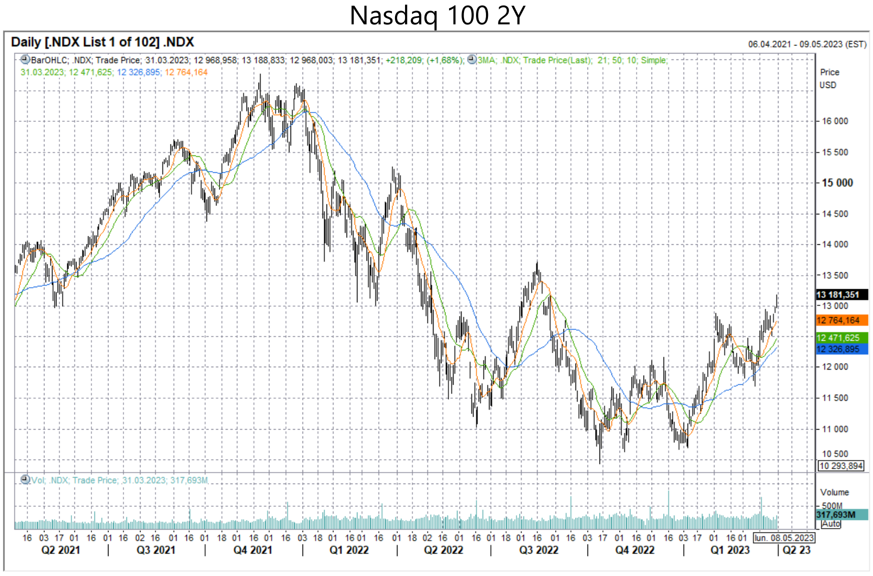
During the month of March: CAC40 +1.22% (YTD +13.11%), Stoxx600 +0.03% (YTD +7.75%), SMI +0.45% (YTD +3.51%). Nasdaq +10.41% (YTD +20.49%), S&P500 +4% (YTD +7.03%). Hang Seng -1.07% (YTD +4.63%), CSI 300 -1.84% (YTD +3.13%).

It is interesting to note that the rise in the S&P 500 in the first quarter can be attributed solely to the performance of... 15 stocks! According to Bianco Research, Meta, Apple, Amazon, Netflix, Google, Microsoft, Nvidia and Tesla account for the entirety of the S&P 500's performance since the beginning of the year. They are up by +4.6%. The other 492 stocks are collectively down for the year (-0.99%).

Stoxx600 2Y



Nasdaq 100 2Y



FOREIGN EXCHANGE MARKET

The USD is expected to trade in a range as investors monitor the impact of recent financial sector volatility on growth and inflation expectations. The currency remains particularly sensitive to changes in interest rates and risk sentiment. In the aftermath of the turbulence, market expectations for rate cuts by the Federal Reserve have increased. If these cuts materialize, the USD is likely to weaken, whereas if rates stay high, the currency may fluctuate within the range of 101-103.

US Dollar Index

In the past few days, the Swiss franc has come under pressure due to Credit Suisse's difficulties. The single currency has strengthened by 2.5%, rising from 0.9720 to 0.9950. In the short term, the exchange rate between the euro and the franc is expected to remain at this current level, oscillating between 0.9850 and 0.9950 euros per franc. EUR/CHF remains highly sensitive to market expectations regarding the growth prospects of the eurozone. An improvement in the region's outlook is a medium-term supportive factor for the euro. However, if the global economic situation deteriorates, the Swiss franc will continue to benefit from its safe-haven status. Switzerland's current account surplus remains one of the highest in the G10, driven by a high surplus of goods.

EUR CHF 1Y

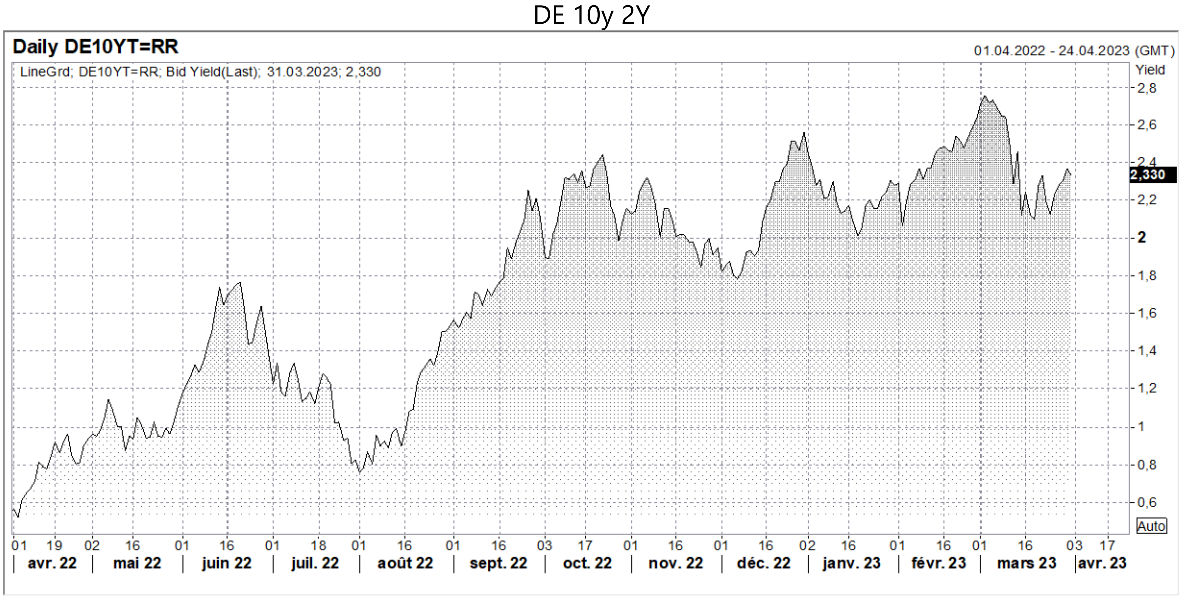
BOND MARKET

The bond market experienced a major disruption on March 8th following the bankruptcy of several regional banks in the United States. This situation led to an influx of investors towards state bonds in order to protect themselves against any potential risks. This is evidenced by the drop in the US 2-year rate from 5.10% to 3.80% in just one week, as well as the drop in the European 2-year rate, which went from 3.40% to 2.20%.

Forecasts regarding the Federal Reserve's next interest rate hike and when it might eventually be necessary to lower them again have seen significant fluctuations in recent weeks. The considerable gap between bankers' projections of rates and the market's perception is striking. While bankers insist that rates will remain unchanged until the end of the year, investors anticipate rate cuts starting in the summer of 2023.

US 10y 2Y

DE 10y 2Y



COMMODITIES

Like any other asset, gold has not been spared by the tumultuous events that have shaken the banking sector. Gold recorded a spectacular 9% increase in March, even reaching the peak of $2,000 per ounce. This level is the highest since the beginning of the war in Ukraine, reflecting the growing appeal of investors for this precious metal in times of economic and financial uncertainty. This bullish trend is also fueled by expectations of lower interest rates and a depreciation of the US dollar, which further enhances the attractiveness of gold as a safe haven.

Gold 2Y

The oil sector has also experienced a tumultuous period, subject to unpredictable fluctuations. Indeed, the price of Brent recently reached its lowest level since December 2021, dropping to $72. This decline in value is largely due to fears of an economic slowdown, which have put downward pressure on oil prices. Indeed, uncertainties related to the evolution of the banking system have repercussions on the entire global economy, which notably affects the oil sector.

OPEC+ has announced a significant production cut. The total reduction will be 1.66 million barrels per day in May, mainly from Russia and Saudi Arabia (500 million barrels each). Higher oil prices also complicate the task of central banks, which have drastically raised interest rates to curb persistent inflation. Overall, markets have reacted calmly. There was already a sense that OPEC would not have cut production if it were not concerned about a slowdown in demand and a decline in crude oil prices. In the short term, the Bent price will trade around $85, pulled between the consequences of the reduction and fears of an economic slowdown.

Brent

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