APRIL 2018

Edouard Carmignac writes on current economic, political and social issues each quarter.

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Dear Investor,

Most stock market indices have been in the red since the beginning of 2018. And yet. Remember how they started out the year with such a bang? Investor sentiment was buoyed by strong global growth figures and upward revisions to corporate earnings guidance, while inflation expectations remained so low that ongoing abundant liquidity could practically be taken for granted.

So what went wrong? Investors "rediscovered" just what a crackpot Donald Trump really is – that's what. Though initially bridled by a team of competent advisors, his crude outbursts finally began upending financial markets. The mind now boggles at the thought that a major military spending programme – coming on the heels of huge tax giveaways – will likely double the Federal budget deficit by year-end to 5% of GDP! Or at

Trump's campaign to bully his country's trading partners – mainly China. Or at the spectacle of Silicon Valley (with Amazon as proxy) being scapegoated for what has been judged inadequate economic growth.

The key question, of course, is how worried we should be about this new round of instability. Unfunded tax cuts – implemented moreover at the peak of the business cycle – are admittedly a cause for concern. On the other hand, the extra debt that will have to be issued to pay for them won't necessarily drive interest rates up very far, particularly if and when the slowdown that we anticipate gets going in earnest, after being temporarily postponed by higher deficit spending. We have even greater doubts about a trade war between the US and China. The two countries are highly interdependent, both as trading partners and in terms of how the US national debt is financed. And then there's Beijing's crucial role in dealing with the geostrategic challenge posed by North Korea. As to Trump's hysterical Twitter attacks on Silicon Valley, they're clearly far from over, but they won't do much damage to today's artificial intelligence powerhouses, either.

It follows that those sources of uncertainty shouldn't be overstated. But do we plan to change our investment strategy in response to them? The answer is: not substantially. An increasingly discredited Trump administration, combined with a gradual economic slowdown in the United States, will further weaken the greenback. In our equity portfolios, we will therefore continue to steer clear of European companies that are exposed to both further dollar depreciation and the growth-trend reversal signalled by any number of leading economic indicators. On the brighter side, reduced upward pressure on US bond yields will still be good news for US equities with predictable earnings – including tech stocks – and assets from an emerging world bolstered by a robust Chinese economy. Similarly, oil stocks stand to benefit further from the likely extension of OPEC's output-cut agreement into next year.

As a result, the current market volatility hasn't led us to modify our positions significantly. However uncomfortable the prevailing instability may be – for you and for our fund managers – we intend to take advantage of the market overreactions it is bound to trigger, both in how we manage risk and in seeking out attractive buy opportunities.

So in the final analysis, this all points to a rather reassuring outlook.

Yours truly,

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