

EDOUARD CARMIGNAC'S LETTER

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

Paris, April 19, 2023

Dear investor,

Six months ago, I wrote that the prevailing pessimism among investors was not justified. Although the areas of uncertainty contained - and still contain - underlying investment opportunities, their accumulation was an incentive to be cautious.

Where do we stand today? While those market uncertainties remain, the shadow they cast has lightened in recent weeks.

As a reminder, the principal areas of concern are focused on three main pillars:

Central banks' fight against inflation. As restrictive monetary policy on both sides of the Atlantic has the dual effect of contracting liquidity and reducing activity, one must question how much is needed to dampen inflation expectations. We dismissed - and still do - the risk of a severe recession, as political appetite for a sharp rise in unemployment is low. Furthermore, the risk of a deep economic slowdown, induced by the continuation of restrictive monetary policy, is substantially reduced due to the threat of a financial crisis in the United States. Indeed, the sharp rise in interest rates landed many medium-sized banks in trouble, reducing their deposits and the value of their assets. It is likely these banks, which alone generate nearly 50% of all lending, will severely restrict their activity. The resultant deterioration in financial conditions makes it problematic for the FED to raise interest rates further. The fight against inflation, therefore, goes on the back burner.

What are the consequences for asset management? The continued fall in real rates, coupled with a moderate economic slowdown in the United States, will favour equities with good earnings visibility and prompt the euro to rise further against the dollar. Gold will benefit from an environment of moderate growth with continued significant inflation.

Europe and geopolitical risks. While valuations of European assets will be unequivocally helped by a relaxing in the pace of US monetary policy tightening, the crux of the matter could lie elsewhere. If successful, the Ukrainian offensive we expect in the coming weeks would further weaken V. Putin's mandate, making a palace revolution possible. This could result in a lasting resolution of the European energy crisis and a sharp cut in European inflationary pressure.

The awakening of the Chinese economy. Contrary to our initial expectations, China's exit from its zero covid policy has not translated into a revival of activity commensurate with the deprivation of the Chinese consumer, in particular, has endured for the past two years. Chinese stocks could nevertheless enjoy a revival of interest if a change of leadership in Russia encourages Xi Jinping to pursue a less autarkic policy and greater liberalisation of the Chinese economy.

The uncertainties plaguing the investment outlook since last October thus continue to be removed. We may even experience some unexpected favourable developments.

Truly yours,



Edouard Carmignac