

Macro

- In the background, let's not forget the primary mission of the FED which is clearly to curb this high inflation whatever the cost for the economy (recession) and its consumers (unemployment): [J Powell Speech](#)
- The successive and historically fast rate hikes of our central banks impact our economies (graph below)
- For reference, the FED raised its key deposit rate from 0.25% last March to 3.25% today and the market is anticipating a further +1% increase by June 2023
- In Europe we have gone from -0.5% to +0.75% with 2 rate hikes and the market is anticipating an ECB rate of 2.25% for March 2023
- The inflation phenomenon persists for the time being, but we are already seeing a lull in several sectors (maritime freight, supply chains, etc...)
- It is the cost of money and therefore of credit that governs the speed of growth of our economies / if this cost increases, growth decreases : [as a reminder, a very well done video on this essential subject / Bridgewater R Dalio](#)
- The job market remains very tight with historically low unemployment rates but the first signs of a downturn are also being felt: [Open positions - US Jolt](#)
- Geopolitical tensions are still in the spotlight, with North Korea joining the fray ([Japan](#))
- Concerning the war in Ukraine, it is more than worrying to observe that one of the main negotiation factors (gas supply from Russia to Europe) cannot even be put on the table anymore
- The [sabotage of Nord Stream 1 and Nord Stream 2](#) excludes and for a long time (at least 2 years of work for the repairs) the return of Russian gas in Europe in significant quantity
- The situation in the UK shows the lack of competence of our politicians and the strength and intransigence of the financial markets: [Liz Truss Reverse](#)

Convictions

- Europe wakes up with the bitter realization that it has no more energy (which has been well publicized by the media) but above all that it must pay for its substitute energy from Russia in USD... EUR/USD result at its lowest
- Historically, when a country's currency weakens, its trade balance strengthens through more advantageous export prices
- Unfortunately, this is not the case for Europe, which must import energy in USD and in significant quantities
- These geopolitical conflicts are today a real "energy war".
- For the moment, our politicians have made the strategic choice of imposing a "cap" on the price of raw materials and overtaxing energy producers (the famous "super profits") in order to respond to the concerns of their fellow citizens (and electorates): [Europe and Energy crisis](#)
- For the time being, the first effects of these restrictions are clearly to the advantage of our belligerents: the ruble has appreciated by 20% against the USD since the beginning of the year (for reference our EUR has lost 13% against the USD) and the price of gas in Europe has largely appreciated
- Historically, these "energy wars" have almost always been phases of significant inflation for our economies, and the same is true today
- This same historical analysis shows us that these tensions and wars end when more energy is produced to lower its price (massive investment phase)

Markets & Convictions

October 2022

- In fact, exactly the opposite of what our politicians have just decided today. It is not by setting a maximum price, nor by taxing more that we will encourage these companies to invest more
- It is enough to see that instead of investing, these same companies decide on the contrary to return their profits to their shareholders (dividends + share buybacks)
- This is why the energy theme remains at the heart of our convictions with large groups such as TotalEnergies which has just announced an additional dividend as well as a very important financing plan in alternative energies ([Investor Day TotalEnergies](#))
- The latest decision of OPEC+ argues for a higher oil price to encourage more investment in new energy sources, which is the core of our conviction
- On the consumption side, we are seeing a significant dual effect: instead of buying/ordering goods (as when we were stuck at home), today's consumer has turned to experience
- The sectors that are at full capacity are hotels / travel / restaurants / entertainment & leisure etc This is true both geographically and according to the type of consumer ([recent example with Ryanair](#))
- This phenomenon also explains the easing of tensions on the production lines (less consumption of goods in favour of services)
- We could therefore have a few days/weeks of calm on the markets with lower inflation publications + a drop in long-term interest rates (the US 10y goes from 4% to 3.65%) + not-so-bad corporate results publications
- In the short term, an equity rebound is therefore possible.
- We are also taking advantage of this strong rise in interest rates to invest part of the cash in good quality bonds with very short maturities (6-18 months)
- For the time being, we remain cautious, as geopolitical tensions and monetary and fiscal policy "mistakes" (as in the UK) will not abate and are weakening financial markets
- We are very concerned about the deleveraging of the private equity and real estate bubbles. These are the most leveraged assets, and the correction has only just begun
- The rebounds can be very powerful and rapid, but the global picture does not give us enough confidence and the risk/return ratio are not yet adequate to redeploy capital
- We remain vigilant, diversified, and humble in these periods of doubt

Chart of The Month : Rate Hikes in Modern History

