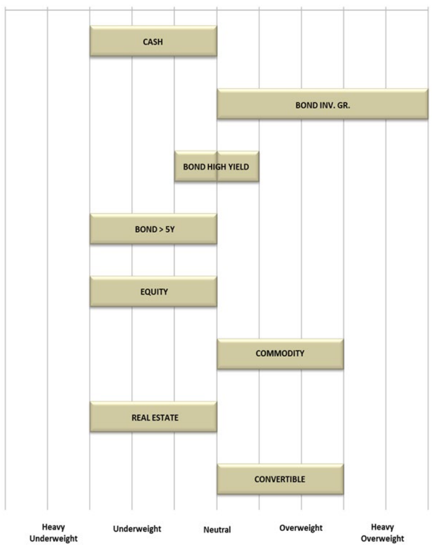
Stable markets with reduced potential

After a positive but volatile start to the year, we believe the equity markets will have fulfilled most of their growth potential by mid-year, chiefly as a consequence of the fall in inflation.
Global economic growth will stay positive, in our opinion, but is not expected to strengthen, whilst interest rates will remain high.
Short-term investment grade bonds continue to offer a good risk-return profile.

ASSET ALLOCATION



- Following the last interest rate hikes by the main central banks in the first part of the year, we have minimised the amount of **CASH** on accounts and invested in short-term bonds.
- We estimate that interest rates on the short end of the curves are now close to the maximum levels of the current economic cycle, making investment in short-term **GOVERNMENT and INVESTMENT-GRADE CORPORATE BONDS** particularly attractive. Given the shape of the interest rate curves (flat or inverted), we remain underweight on the medium/long end.
- The **HIGH YIELD BONDS** sector offers attractive returns, but, given the uncertain macro context, we prefer to avoid significant exposures.
- In the first few months of the year, we increased the **EQUITY** exposure but remain generally cautious and anticipate corrections as the potential of the sector seems limited, from these levels.
- We are slightly overweight on **COMMODITIES** as they are supported by the positive cycle of public investments. Gold, although sustained by the weakness of the dollar, seems expensive compared with the general level of interest rates.
- We are negative on **REAL ESTATE**, as rising interest rates make these investments less interesting from a financial point of view.
- **CONVERTIBLE BONDS** are a valid means of exposure to the equities market, with greater downside protection.

MACRO VIEW

Global growth remains underpinned by services, whilst manufacturing is struggling to recover. Industry remains weak as reportedly the stock accumulated in some sectors (retail and tech) over recent years has not yet been fully absorbed. Consumer price inflation, excluding food and energy, is at fairly high levels compared with 2022, exceeding the objectives of the Central Banks; however, the trend is downwards. The Central Banks are pursuing the route of interest rate rises despite some changes in communication owing to problems emerging in the banking sector.

FIXED INCOME

Earlier in the year, the main government interest rate curves continued to accentuate the "inverted" shape in the 1–5 year bracket. The Central Banks continued to raise interest rates, in fact, whilst markets took for granted a further increase in the likelihood that there will soon be rate cuts (by the end of 2023).
Within this context, we believe there is considerable value in the short end of the curves as the interest rate peak seems close, whilst the medium/long end of the curves offers little protection if the projected cuts do not take place. In terms of credit, financial bonds are interesting after March's vicissitudes (insolvencies in the USA and purchase of Credit Suisse) increased their yields to maturity.

FX VIEW

The different phase of the cycle of rises between USA, with markets that expect considerable cuts towards the end of 2023, and Europe, with further rises projected, drove the EURUSD above 1.10, levels which haven't been seen since January 2022. The financial turbulence that also hit Switzerland only impacted the Swiss franc temporarily. The currency withstood the impact and came back strong: it continues to trade below par against the Euro. The Yen was highly volatile, losing value early in the year, due to a still expansive monetary policy, but then rallied following the "banking crisis" thanks to its safe haven currency status.

EQUITY MARKETS

Equity markets profited from a positive economic growth context, in the face of the decline in inflation that brings the peak in interest rates rises increasingly close. Turbulence due to the collapse of Californian regional bank SVB created considerable daily losses on listings. Ultimately, it was short-lived if we consider how serious the situation would have been if the loss of confidence were extended to other institutions. After this significant recovery, we expect a few more months of stability for the Stock Markets before companies' profitability is affected by the economic slowdown. We therefore remain invested in the equities market, whilst still maintaining a degree of caution.

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