AURIS
WEALTH MANAGEMENT

Market Insight

Autumn 2022

Economic context

Global growth forecasts have been revised downwards again over the past month on the back of a marked slowdown in trade **#1**, as well as manufacturing activity. This downturn is quite notable in view of the downward trend in commodity prices and the price component of output.

In the United States, activity in the services sector remains buoyant benefiting the job market which remains well supported. Nevertheless, there has been a sharp decline in the number of job openings, particularly in sectors that were overheated following the reopening of the post-Covid economy. Nonetheless, US growth in Q3 was surprisingly strong, limiting the potential for lower inflation, as illustrated by the September CPI figures **#2**. The latter seems to indicate more widespread inflation in services. It is again mainly rents which inflate the statistics. Looking beyond a few months we see a gradual moderation in wages, and more restraint in price increases by businesses. Moreover, the rise in mortgage rates is already having a major impact on property prices, and therefore on rents in the long term.

European activity continues to contract with the German engine still at a standstill due to the energy crisis and the euro zone trade deficit continuing to deteriorate.

However, the worst of the crisis is behind us. The price of electricity and gas is starting to fall **#3** due to falling demand and the forthcoming increase in French nuclear production.

In China, the downturn in activity is significant and is forcing the government to revive credit, while the weakness in world trade is also weighing on the world's factory. Finally, the zero Covid strategy continues to weigh and there is no change in course to be expected from the Chinese government if Xi Jinping's speech to inaugurate the 20th Communist Party Congress is anything to go by.

Central banks

Given US inflation, the FED is obliged to continue its monetary tightening, even if it means putting other central banks in difficulty. J. Powell raised rates by 75bps in September and is expected to do the same in November and December, with US rates expected to peak at around 5% in 2023 **#4**. With rates rising, real yields are now clearly restrictive and close to the levels of 2008. The ECB is forced to follow the FED to avoid a depreciation of the EURO, which increases the cost of imports into the EU and thus fuels inflation further. However, teeth are beginning to grind among the heads of state, led by E. Macron, as they find that the ECB is now acting alone and that the monetary crutch is no longer supporting budgetary spending at a time when governments once again need it.

Finally, two central banks are particularly in trouble at the moment. Following the presentation of their "mini budget" by L. Truss and K. Kwarteng, British rates soared, causing a major risk to UK pension funds, and forcing the Bank of England to activate temporary quantitative easing even though it had planned to reduce the size of its balance sheet. In Japan, the country's central bank had to intervene directly in the foreign exchange market to halt the depreciation of its currency. An intervention

equivalent to USD 21 billion that will have served no purpose.

Financial markets

In almost a century, this is only the 3rd time that equity and bond markets have been in the red at the same time, with bonds temporarily losing their diversification status **#5**.

US equities have broken through the lows reached in June and are heading towards pre-Covid **#6** levels, having erased the excesses associated with anti-Covid fiscal and monetary policies. Other regions are already well below these levels, so there is still some downside potential in the US markets **#7**, especially as earnings are just starting to be revised downwards. We remain constructive, however, as current valuations already incorporate much of the bad news, particularly outside the US. These valuation levels offer attractive performance prospects over a one-to-five-year horizon. Moreover, business leaders are buying back their company's shares which is a good indicator.

Investment policy

With US inflation remaining at historically high levels, it is difficult to anticipate any hint of a pivot by the FED before the end of the year. The current momentum in the markets is therefore likely to persist despite what are now clearly attractive valuations and cautious investor positioning.

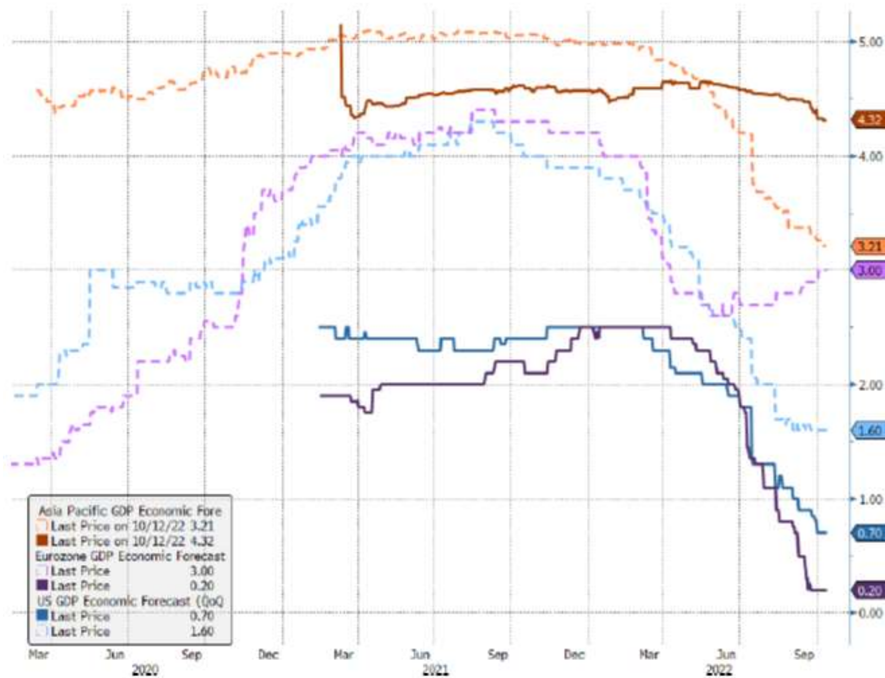
- We believe that there is a potential for a further 6% decline in US indices before a recession is fully priced in.

- The US 10-year seems to have found a level of equilibrium around 4%, while European rates could continue to rise as the ECB considers monetary tightening.

- It is difficult to expect the markets to turn around until the FED has completed its rate hikes.

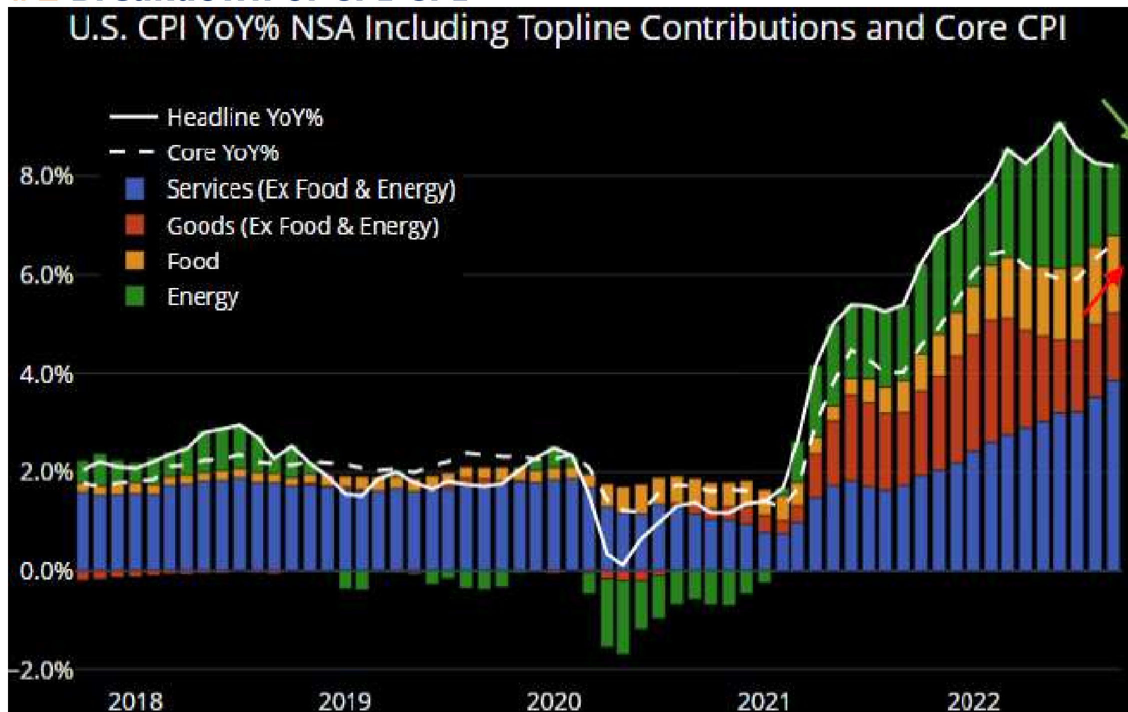
Graphics

#1 Growth forecasts for 2023 do downgraded further

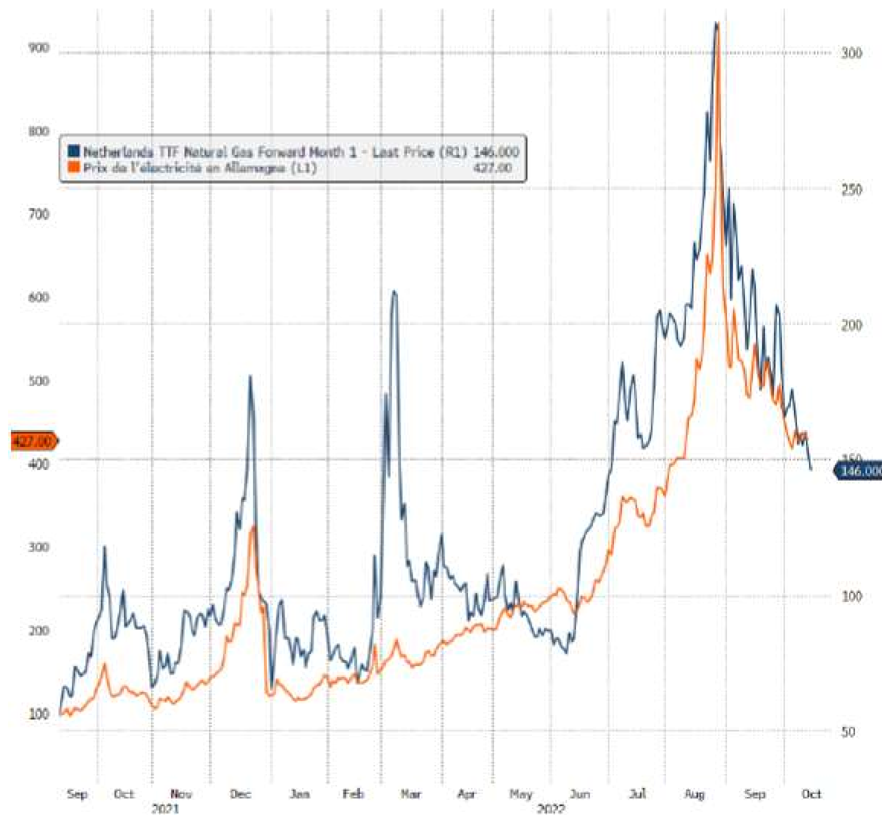


Sources : Bloomberg, BCA

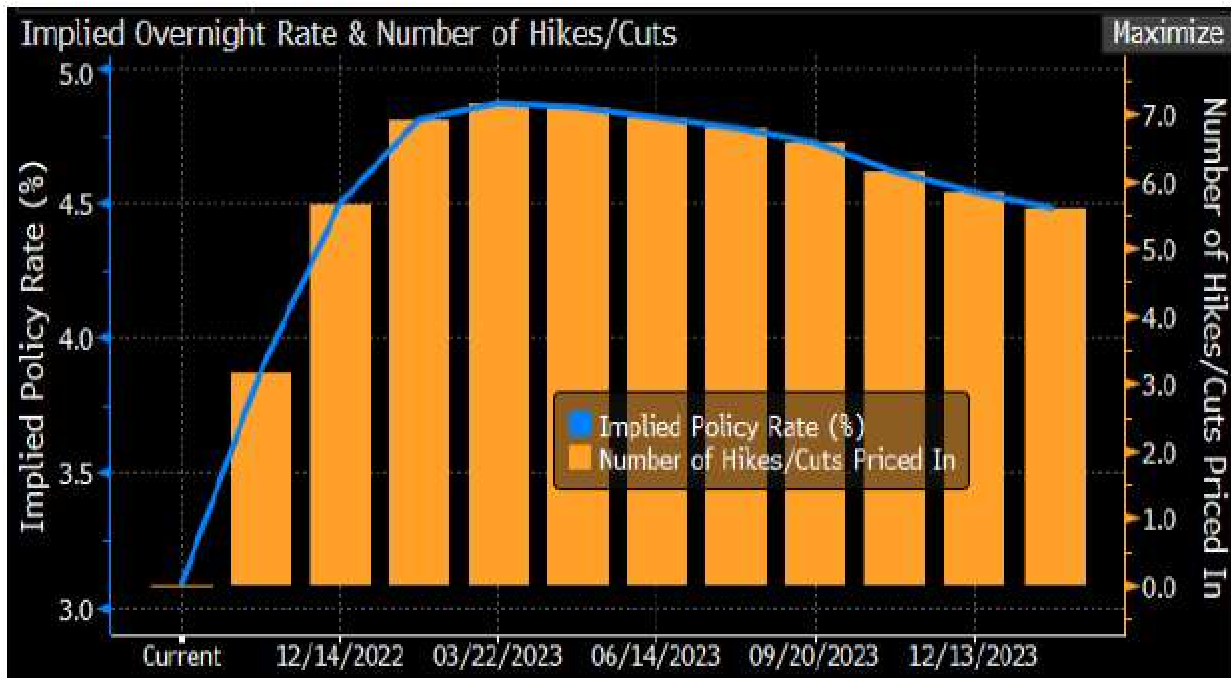
#2 Breakdown of CPI CPI



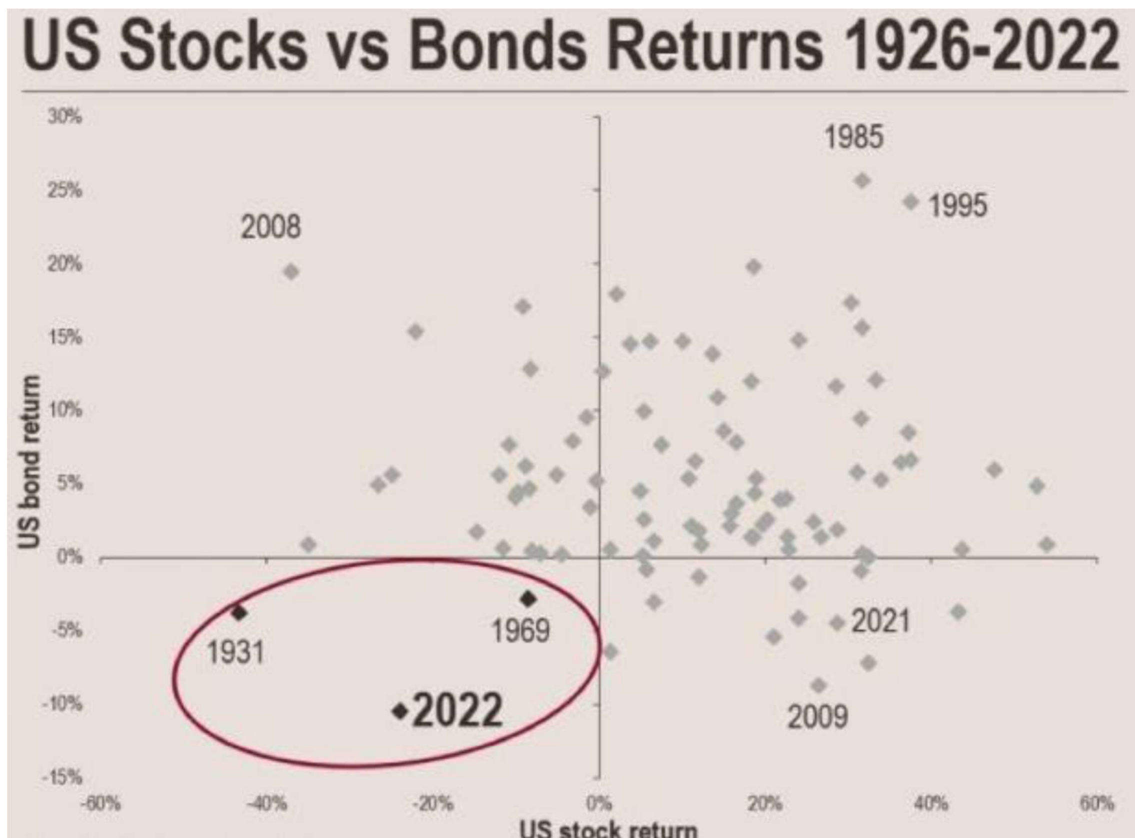
#3 Electricity and gas prices



#4 Fed Funds anticipated by the market



#5 Stock and bond returns from 1926 to 2022



#6 Evolution of the S&P 500

#7 P/E and 10-year real rates

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