Markets
& Convictions

February 2023

RJ Management

Macro

- Mr. Powell's press conference following the recent FED rate hike was certainly one of the strangest in many years
- The stated goal of Mr. Powell and the unanimous FED committee is to bring inflation back to 2% by raising its key rate
- However, following his decision and especially his speech, the markets have concluded a relatively good news
- “Indeed, there may still be interest rate hikes, but inflation is under control and is only falling" => In short, mission accomplished and without apparent catastrophe
- Equity markets have rebounded, interest rates and credit spreads have compressed
- These movements in the appreciation of financial assets and the decrease in the cost of credit are creating a wealth effect and a lull in "financial repression" which ultimately has the effect of recreating inflation (oops)
- In short, the FED is not likely to get away with this type of communication … a reflexive scenario a la G Soros a reflexivity scenario a la G Soros
- Nevertheless, for the moment, inflationary pressure is weakening globally : Germany (CPI 10.4% in October 22 / 8.7% in January 23) / UK (11.1% vs 10.5%) / US (7.7% vs 6.4%)
- The job market remains tight, with the US unemployment rate reaching 3.4%, the lowest level since 1969!
- With a record number of new jobs created in the US and retirees leaving sooner than expected , the labor shortage seems to be taking hold.
- The Chinese reopening is well underway, and the economy is picking up strongly / potential impact on inflation as well...
- For the time being, inflation seems to be under control, consumers are benefiting from wage inflation, and the long-awaited recession is still not here
- Equity markets are therefore booming at the beginning of the year: S&P +6.5% / Nasdaq +11.96% / Europe Stoxx600 +8.02%/ CAC +10.66% / SMI +4.02% / China CSI 300+ 7.02%

Convictions

- The earnings season is always an opportunity for us to challenge our main sectoral convictions
- The scenario of rising interest rates continues to drive our focus on European banks. For example, Unicredit announced a 15% return to shareholders in 2023 between its dividends and share buybacks!
- These companies are taking advantage of an environment that has not been well understood by the markets until now: they are benefiting from the rise in interest rates through the cash/deposits they have on their balance sheets. And on the other hand, a large part of the credits they have granted are guaranteed by the states following the COVID
- The same goes for our Energy theme where the publications of BP / Shell or TotalEnergies were excellent. For example with BP, which already offers a dividend yield of 5% and a valuation still very low with a PE below 4X for 2022
- The company announces a share buyback program equivalent to USD 2.75 BLN over Q1 2023
- To reach this amount in 1 quarter, BP will have to buy back 15% of the daily volume traded on the stock market!!!

- Low valuation + strong debt reduction + rising dividend + increased share buybacks are still arguments to keep our energy theme after a good performance over the last 2 years (in addition to the fundamental arguments, already widely discussed in past comments)
- Another important news is that Google is historically taking advantage of a dominant position which could be challenged today by the famous ChatGPT
- A "small company" like OpenAi has managed to take on the GAFA fortress..." Nokia Moment??"
- The geopolitical situation is an amalgam of events and tensions that keep adding up
- A certain American press is very "va-t'en guerre": Is the Biden administration late to WWIII
- While another one highlights an American administration (& friends) in a very different light How America Took Out The Nord Stream Pipeline
- If this last article is still little reported, it could largely feed the current tensions within the Western front
- The war in Ukraine is about to flare up massively and rapidly with a considerable war effort on the Russian side
- The US and Europe decide to further arm the Ukrainians in order to counter this offensive
- We should also see Europe launching a massive war effort in order to feed this front with weapons
- Concerning inflation we think it is quite easy to go from 10% to 5%
- But the path should be more complicated from 5% to 2%
- In the coming weeks, the markets could be surprised by a more persistent inflation than expected
- While at the same time, signs of economic slowdown should be more visible
- The most optimistic still point to strong consumer savings and wage inflation as a support factor
- But it is exactly for these reasons that central banks will have to be more restrictive AND longer
- Wage inflation must come down and this will mean less spending and more unemployment
- Unemployment increases when nominal GDP growth is lower than wage inflation (= companies lose their margins)
- And this negative context has to be in place long enough to reach its objective => Lower inflation
- In this context we remain cautious with an equity allocation still below 30%
- We favour energy / commodities / European banks
- Our fixed income allocation remains very short in duration, both in emerging markets and credit
- Our hedge fund part is performing well (example with this long short US stock: Invenomic already up +8% ytd)

This chart summarizes why we think the TECH boom is over: we favor energy and raw materials