



# The Macroscope.

## Candriam Financial & Economic Outlook

JUNE 2023

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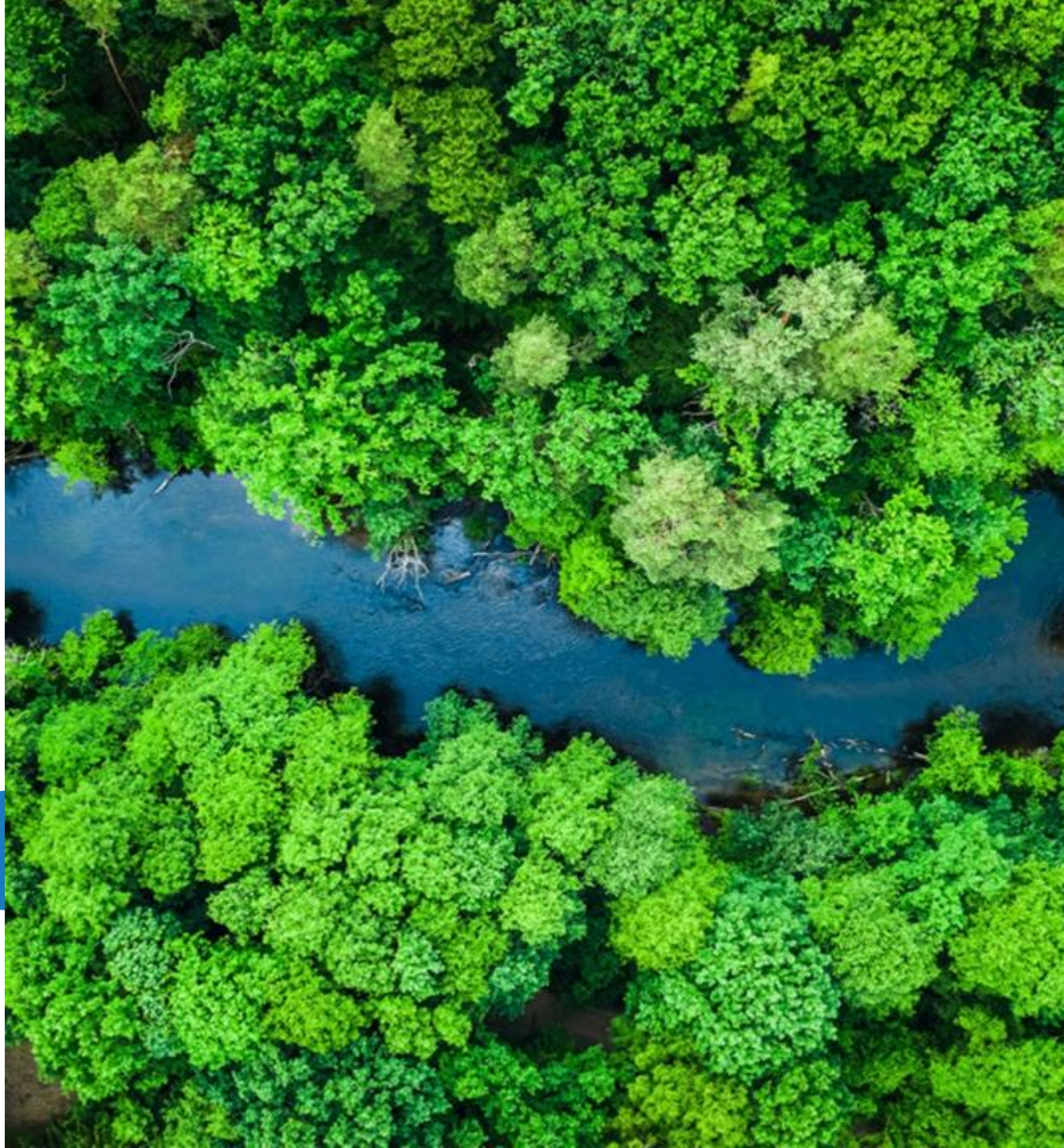




# Economic and Financial Outlook

JUNE 2023

Anton Brender & Florence Pisani

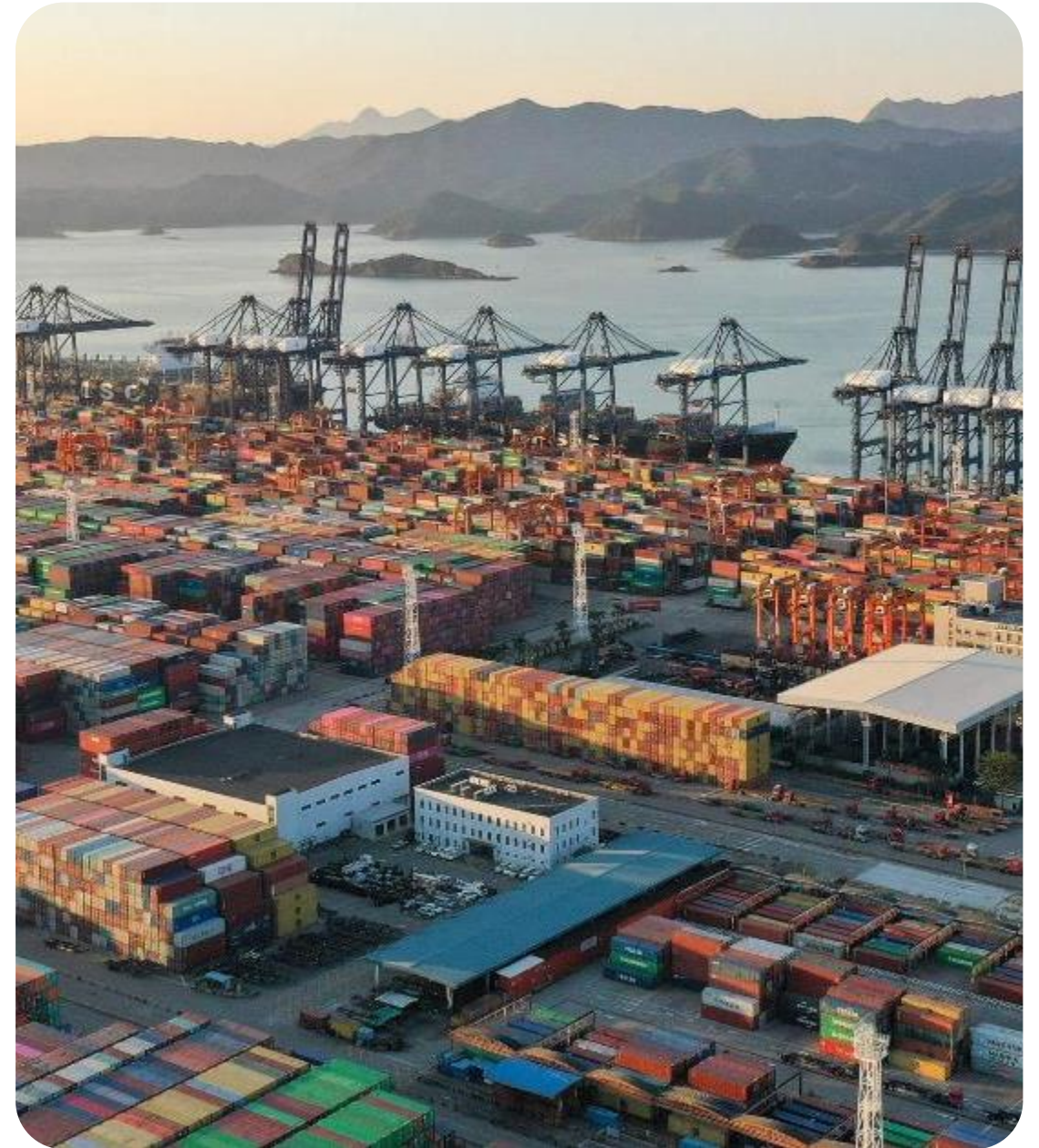




# 01

## Global economy

Activity is holding...  
inflation may have peaked

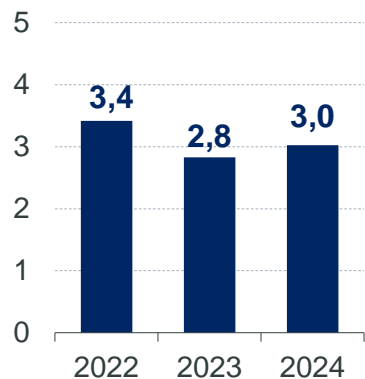
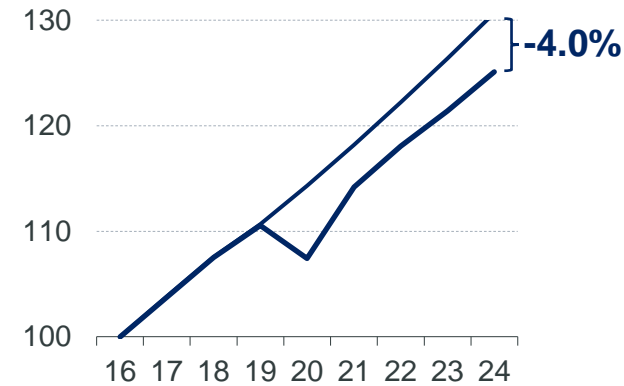




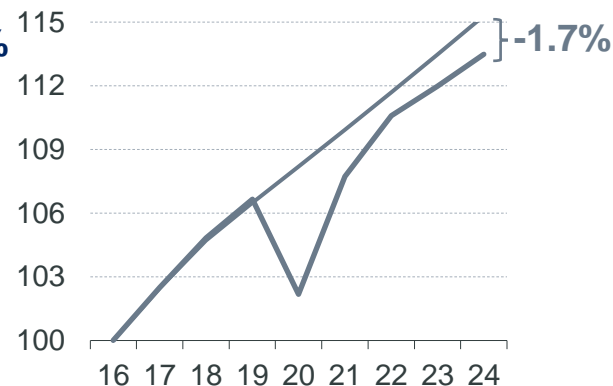
# The IMF now expects world growth to reaccelerate somewhat, while inflation proves stickier than expected

**April 2023 IMF GDP growth forecast**  
(2016 = 100)

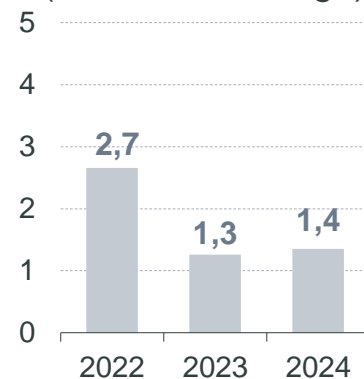
**World**



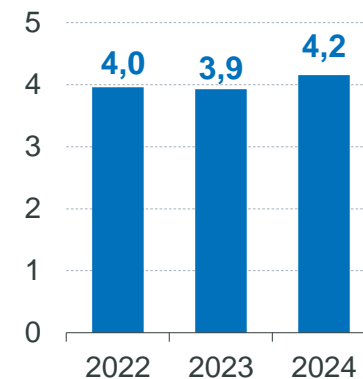
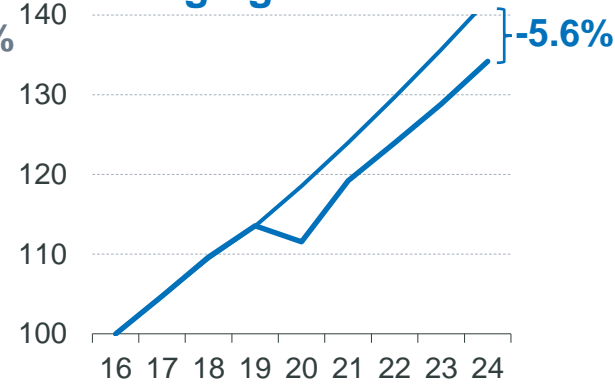
**Advanced economies**



(% annual average)



**Emerging economies**

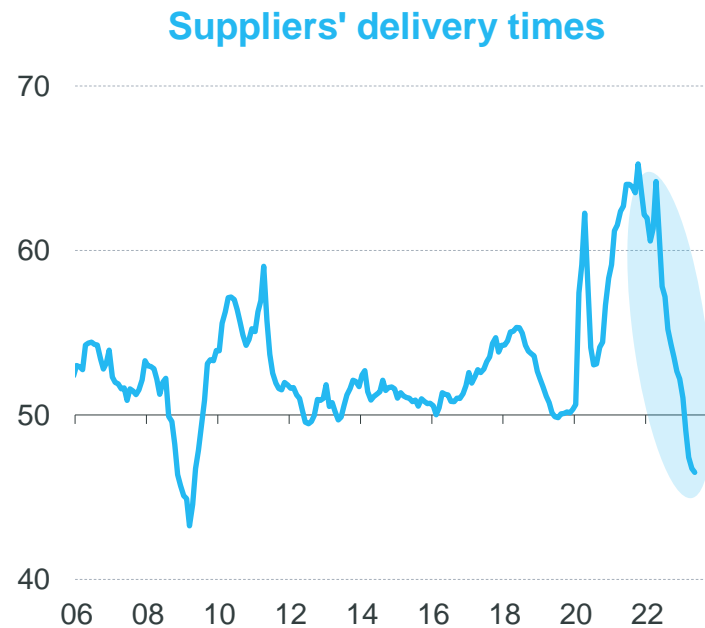
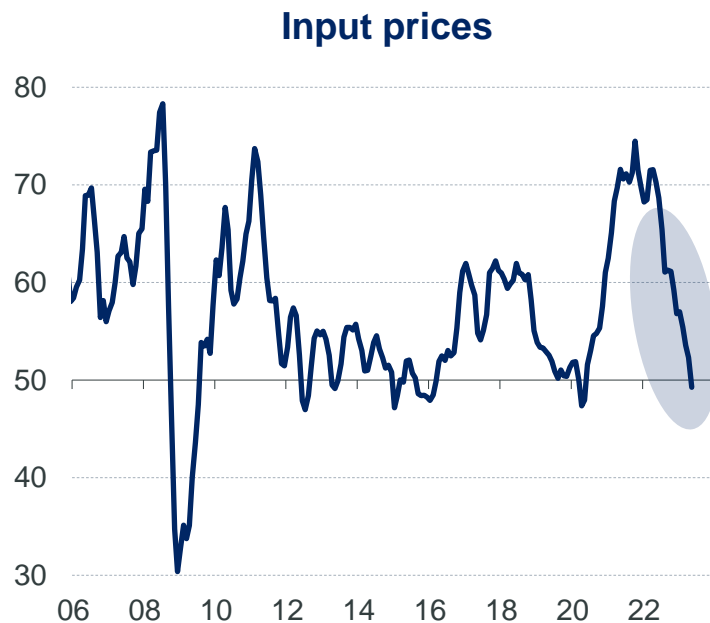


**World total inflation**  
(% year on year)

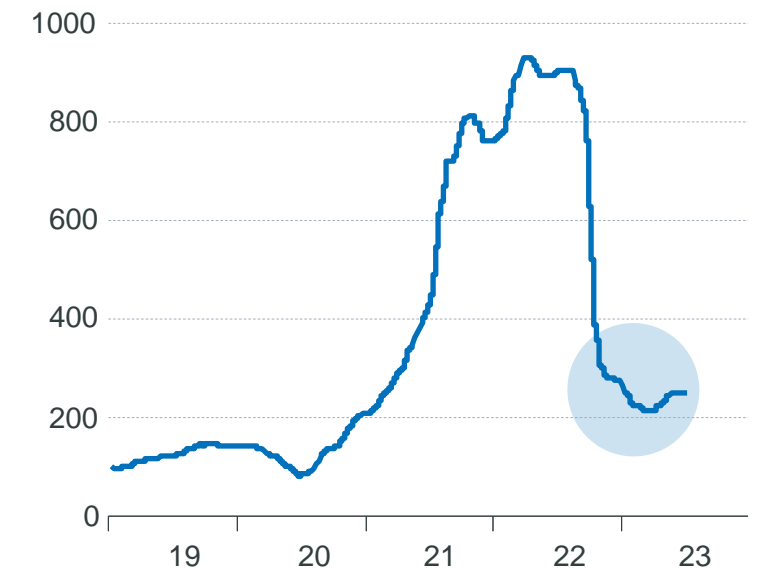


# Global supply chains' tensions have mostly receded

## Global manufacturing PMI



## Harper shipping index (January 2019 = 100)





# Commodity prices are now back to their pre-Ukraine war levels

## GSCI commodity prices

(January 2020 = 100)



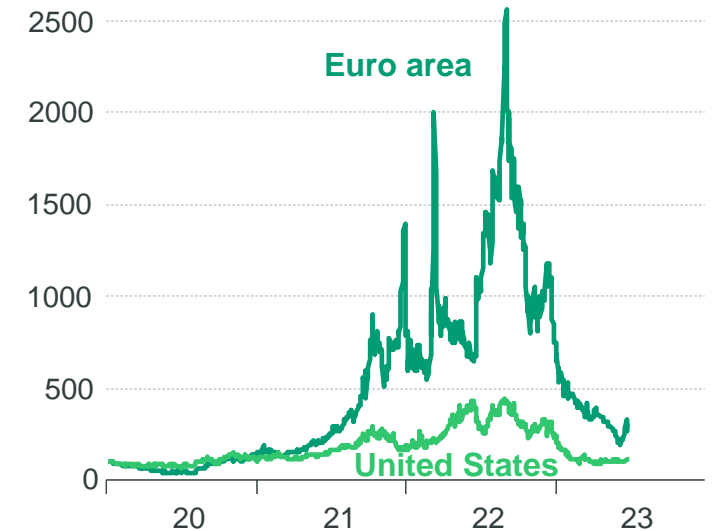
## Crude oil price

(Brent, \$ per barrel)



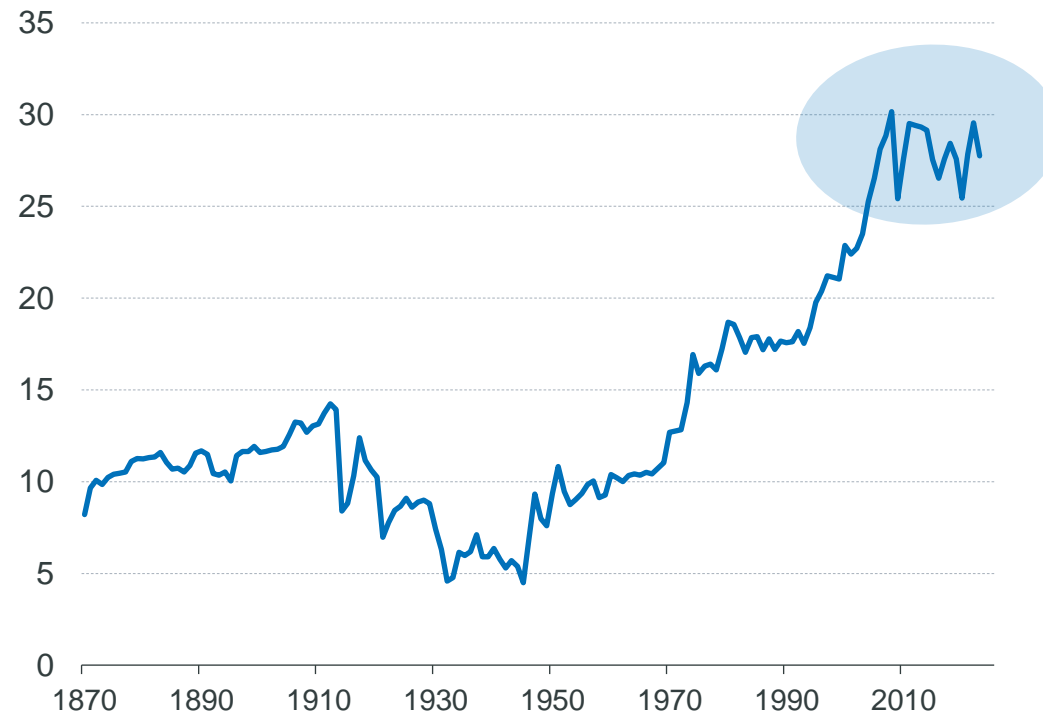
## Natural gas price

(January 2020 = 100, in local currency)



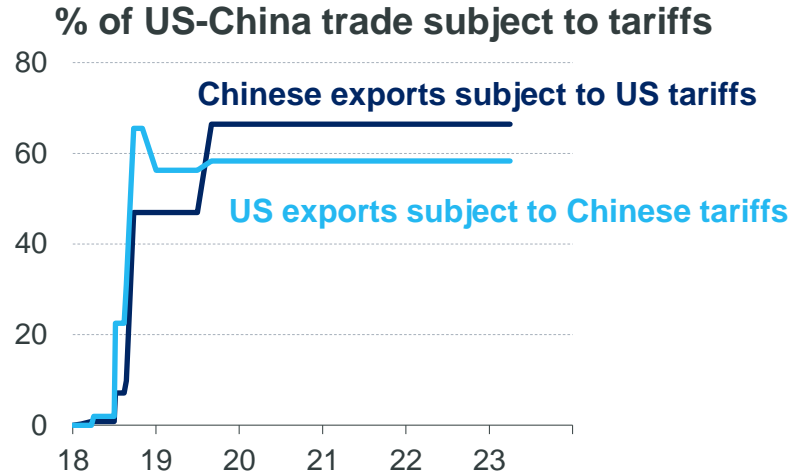
# Despite geopolitical tensions, de-globalization has hardly materialized

**A measure of globalization**  
(average of world exports and imports as a % of GDP)

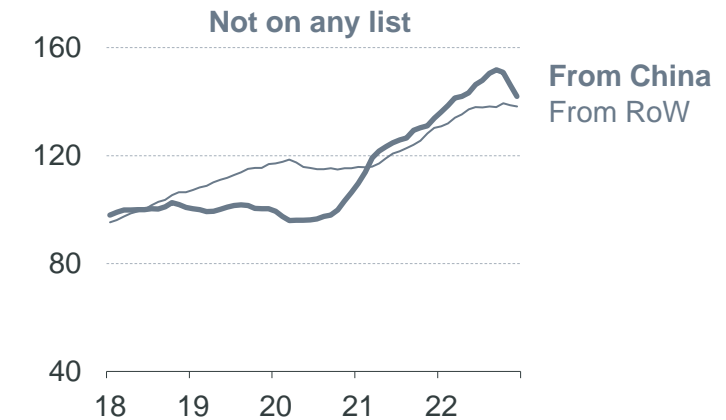




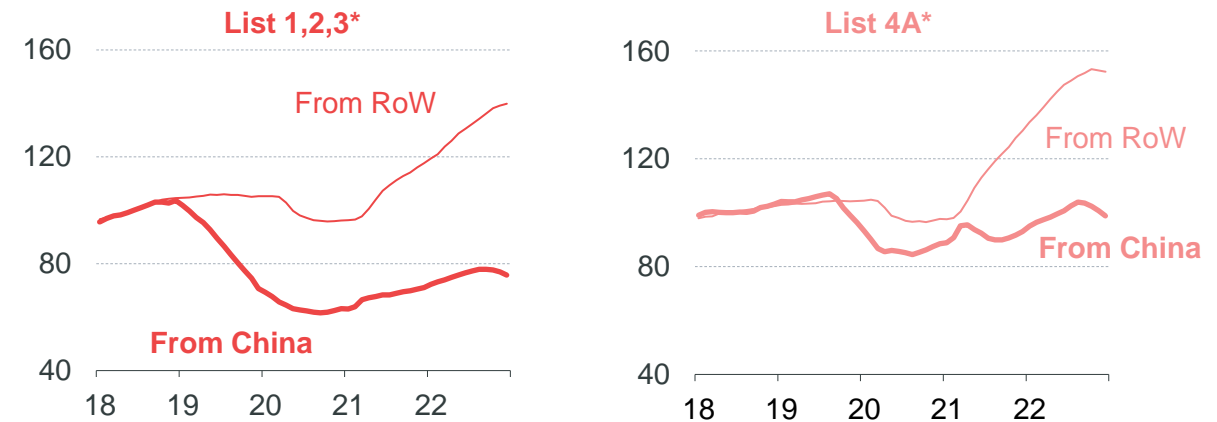
# The trade war initiated by Donald Trump has led to a redirection of trade



**US monthly goods imports from China and rest of the world by tariff list**  
(June 2018 = 100, nominal)



**US-China tariff rates towards each other and rest of the world (%)**



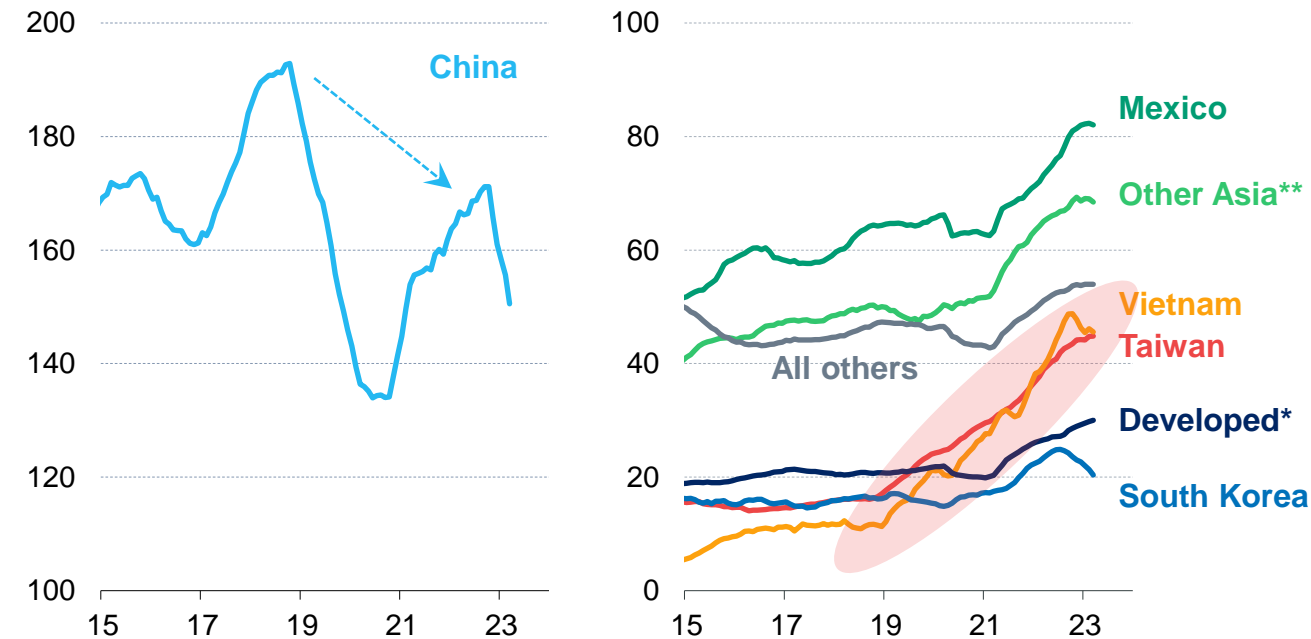
(\*) Chinese products subject to list 1,2,3 include semiconductors, furniture, IT hardware, and some consumer electronics. List 4A goods were initially subject to a 15% additional tariff effective September 2019, subsequently lowered to 7.5% in February 2020.



# US reliance on China for “strategic goods” has diminished

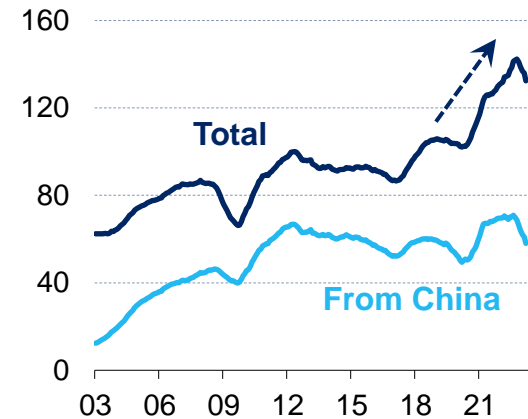
## US imports of computer & electronic products (\$ billion, annual rate)

### Imports of computer & electronic products by country

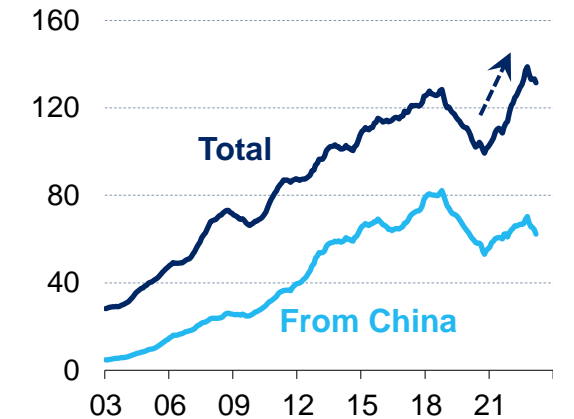


(\*) Germany, Switzerland, Ireland, Israel  
(\*\*) Malaysia, Thailand, Philippines, India, Singapore

### Computer equipment



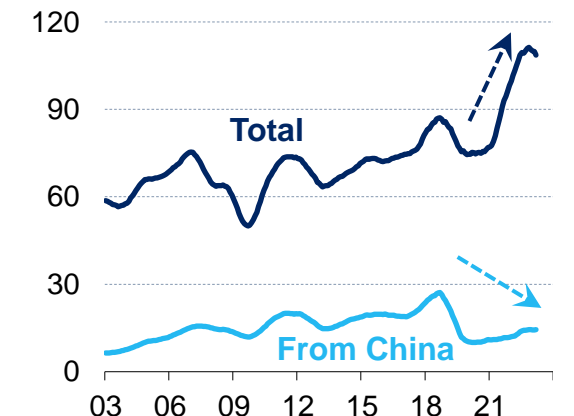
### Communication equipment



### Audio and video equipment



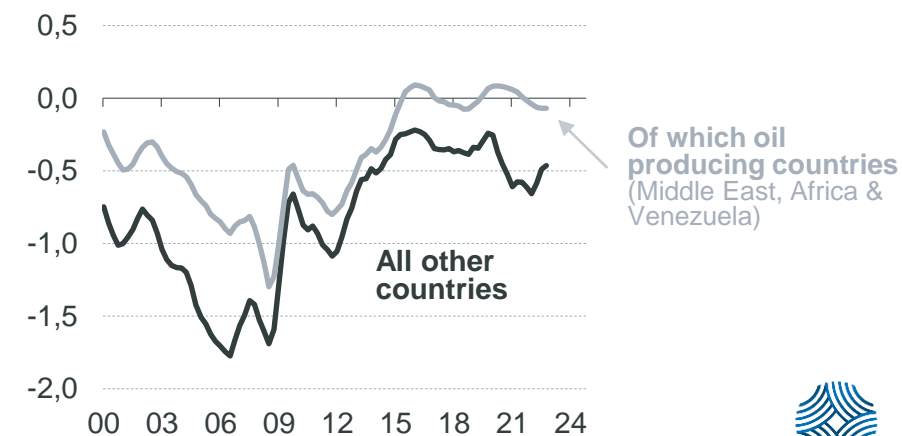
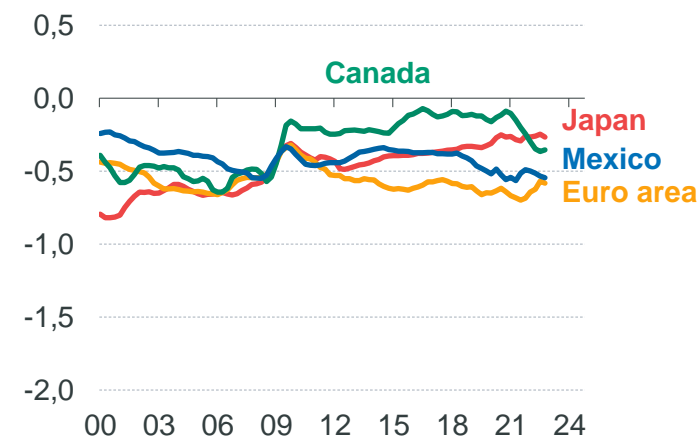
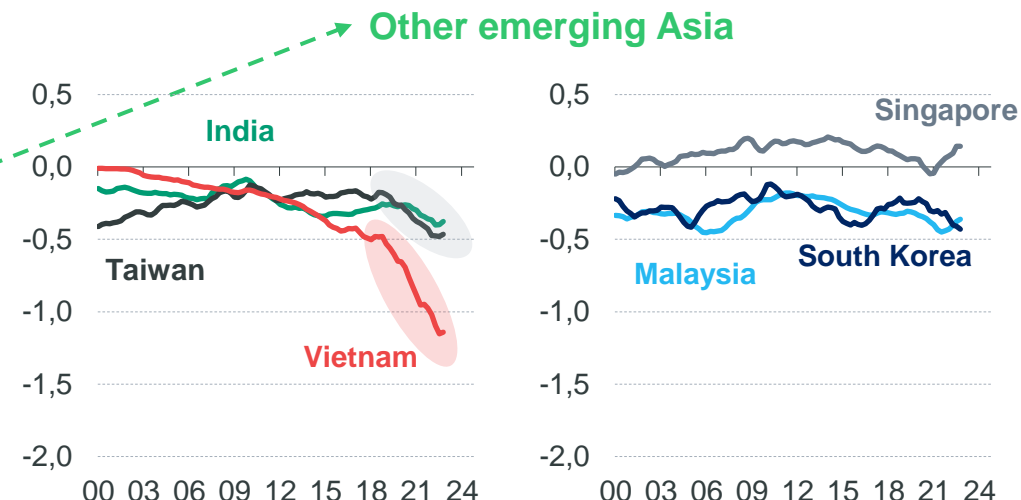
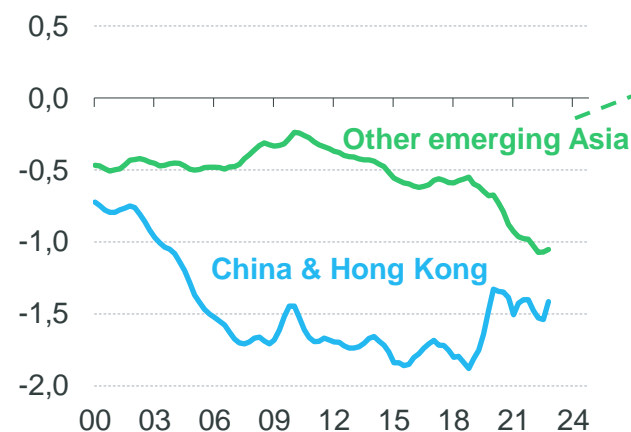
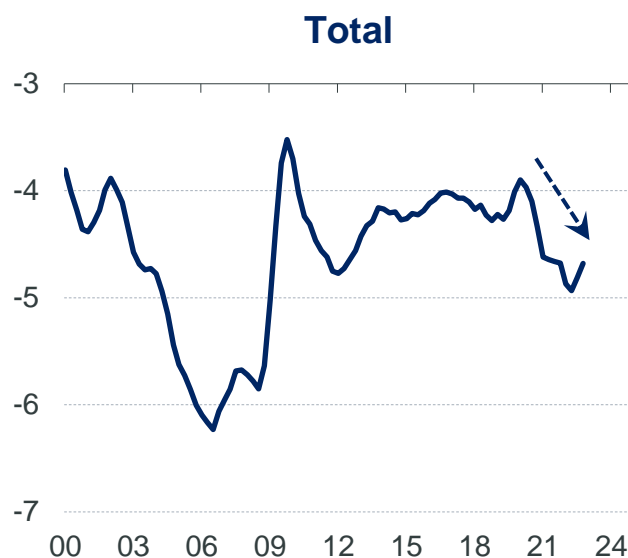
### Semiconductors





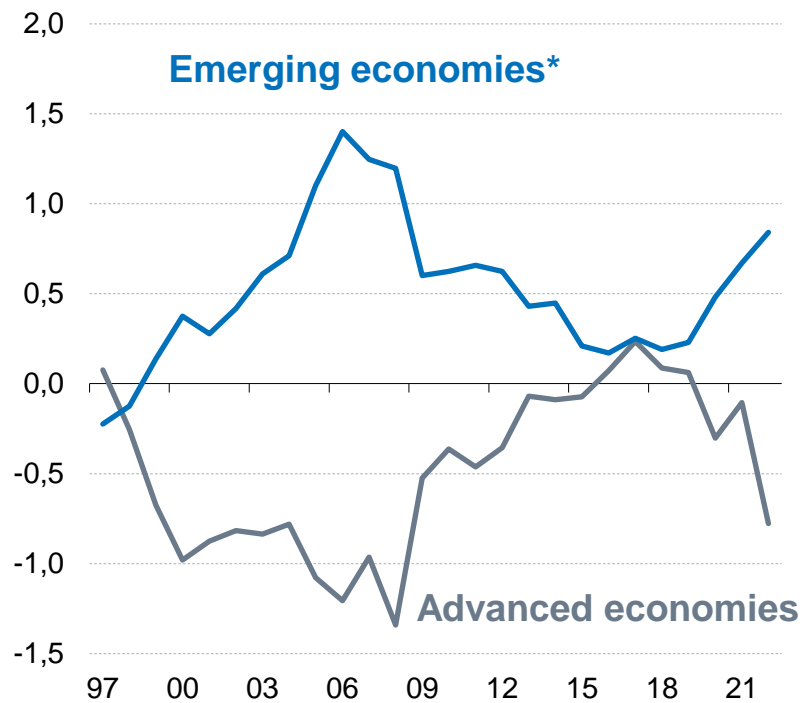
# All in all, the US trade deficit has widened: it shrank with China... but increased with other Asian economies

United States goods trade balance  
(% of GDP, 4qma)

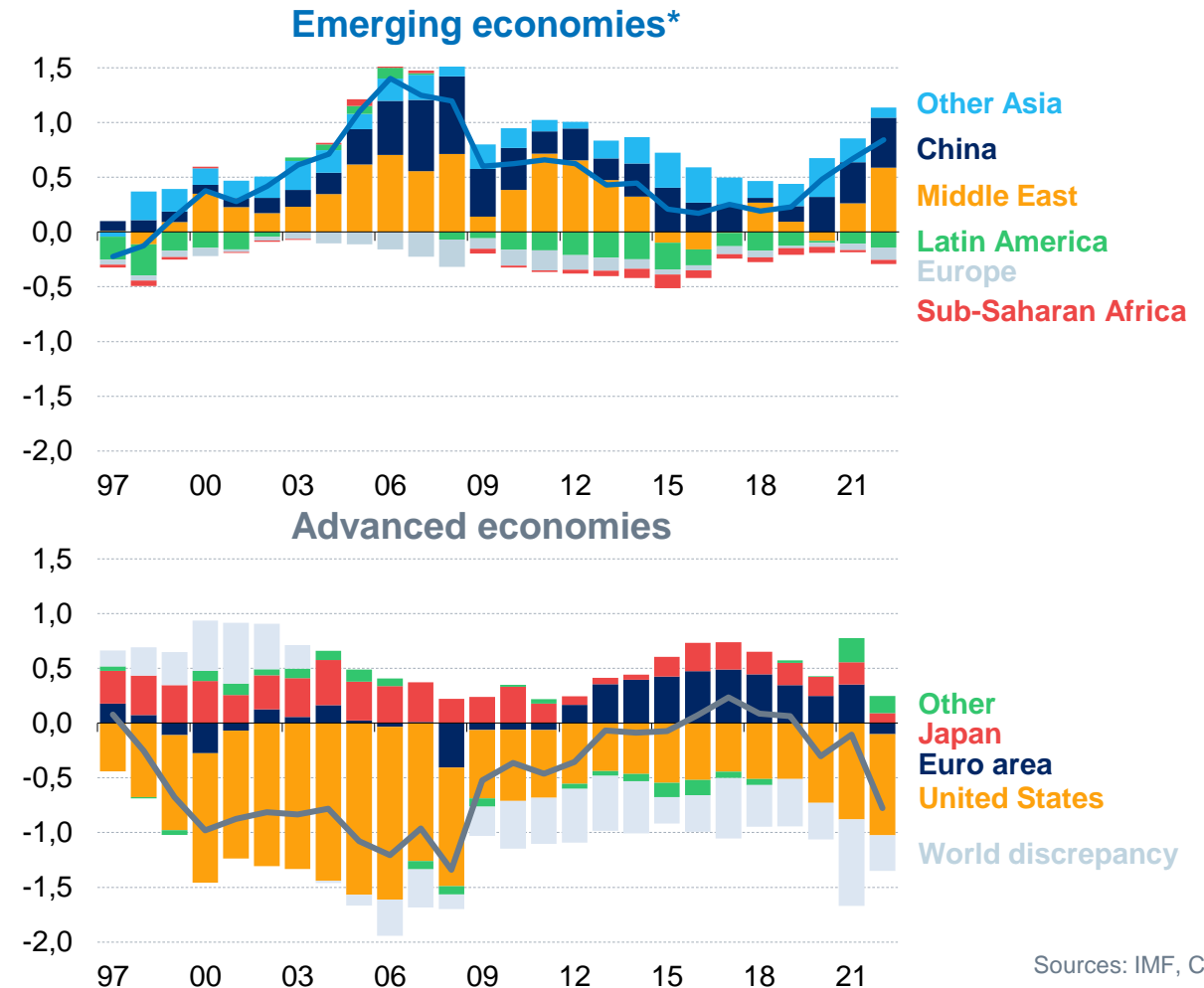


# The intensity of international saving transfers has increased since the pandemic

## Current account balances (% of world GDP)



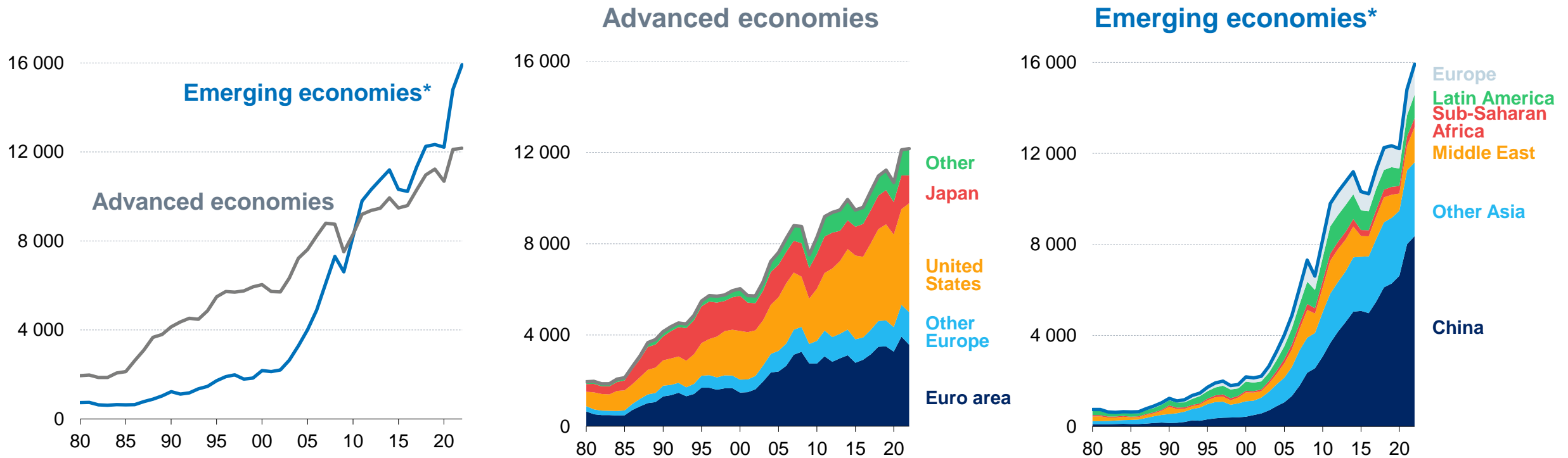
(\*) Including South Korea, Singapore, Taiwan and Hong Kong





# Emerging economies keep on generating more savings than they can absorb

Gross savings by region  
(\$ billion)



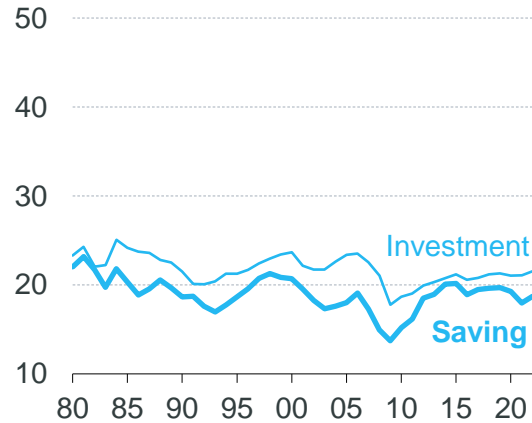
(\*) Including South Korea, Singapore, Taiwan and Hong Kong



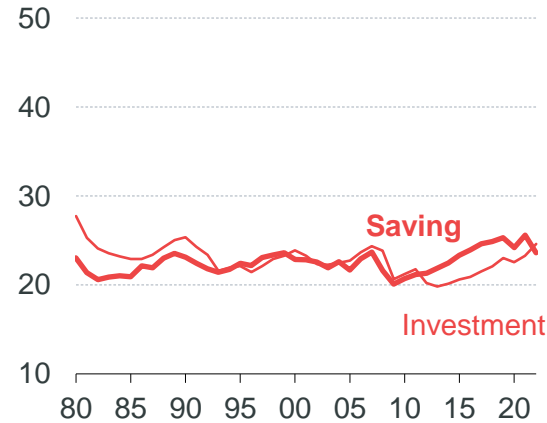
# This is particularly true in Asia!

## Gross savings by region (% of country or area GDP)

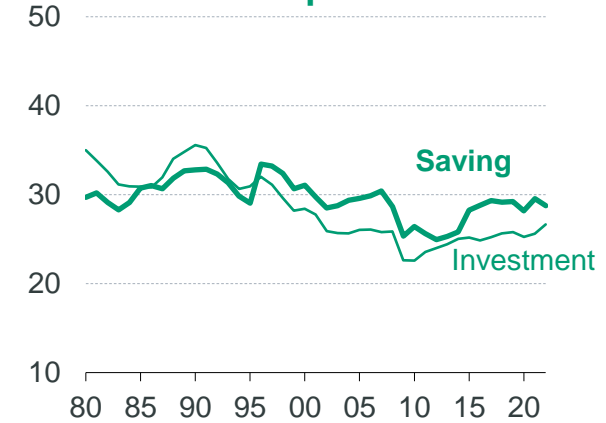
United States



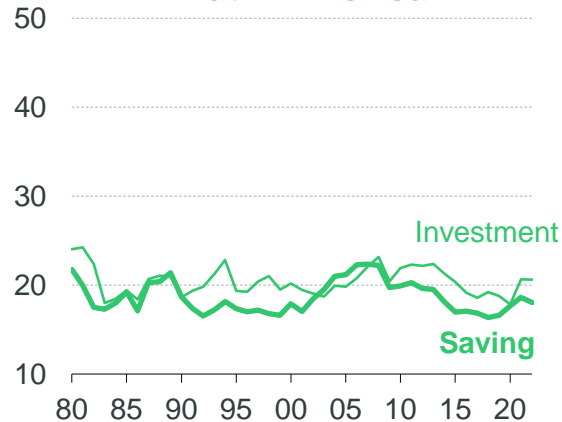
Euro area



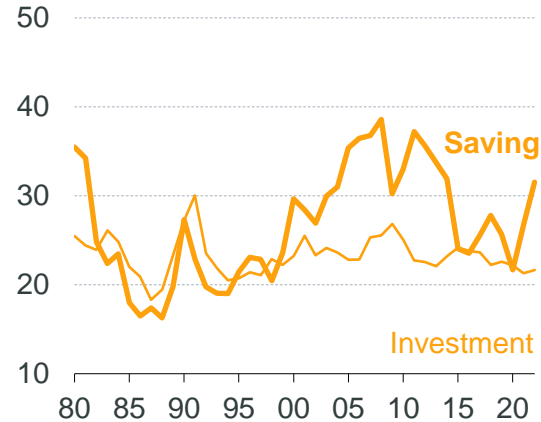
Japan



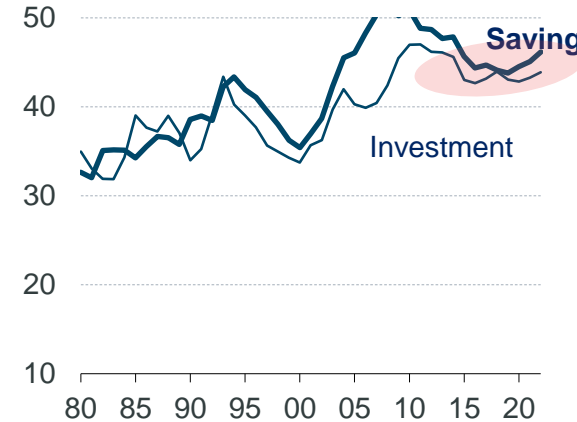
Latin America



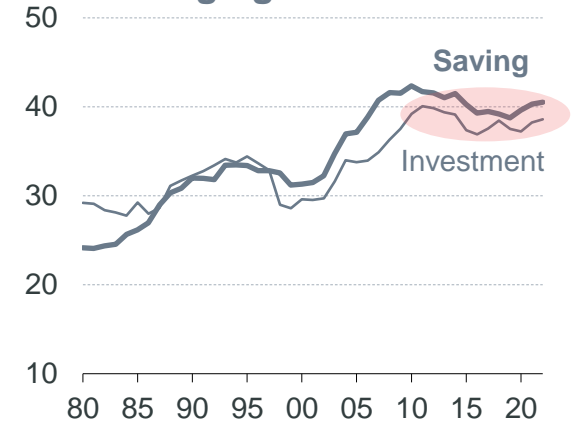
Middle East



China



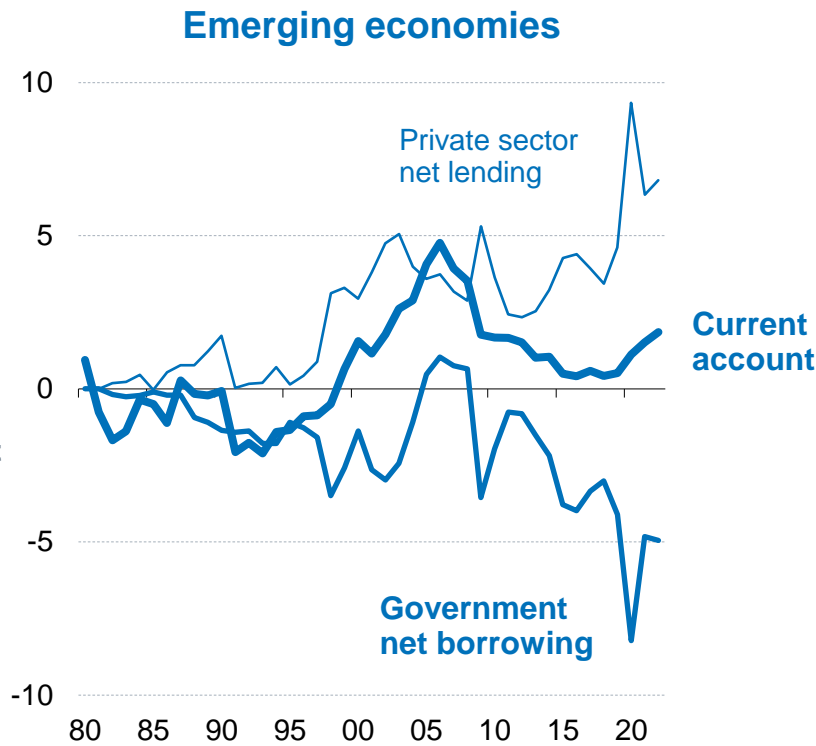
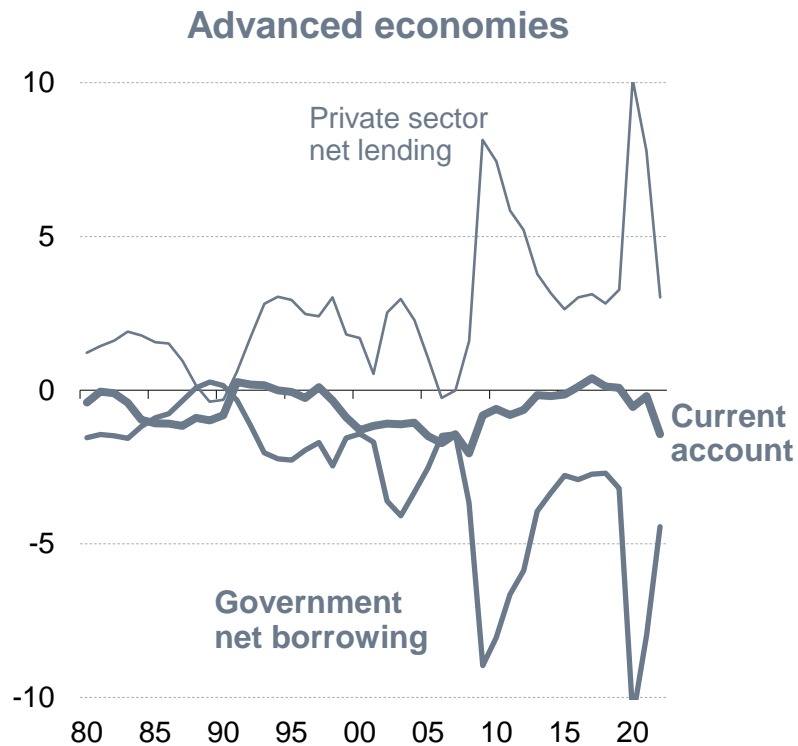
Emerging Asia ex China





# Developed economies' government deficits have provided a counterpart to the excess of emerging economies' savings

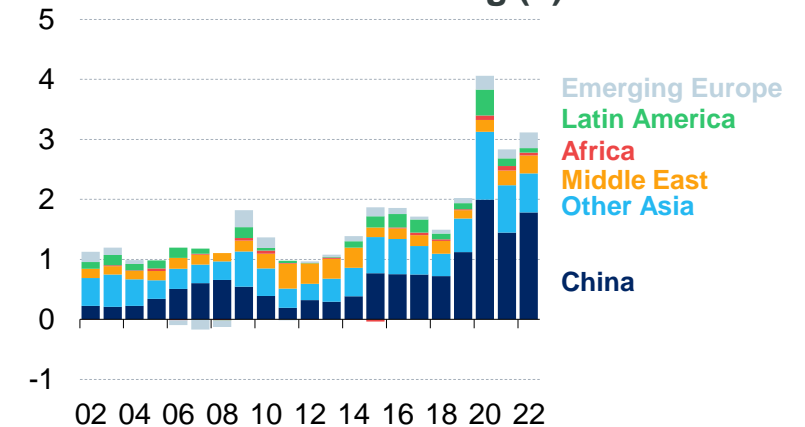
**Net lending (+) or borrowing (-) by sector**  
(% of region GDP)



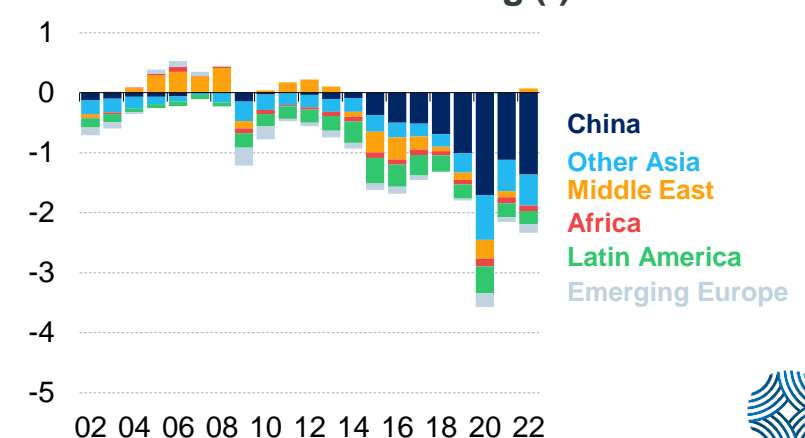
(\*) Including South Korea, Singapore, Taiwan and Hong Kong

**Emerging economies**  
(% of world GDP)

**Private sector net lending (+)**



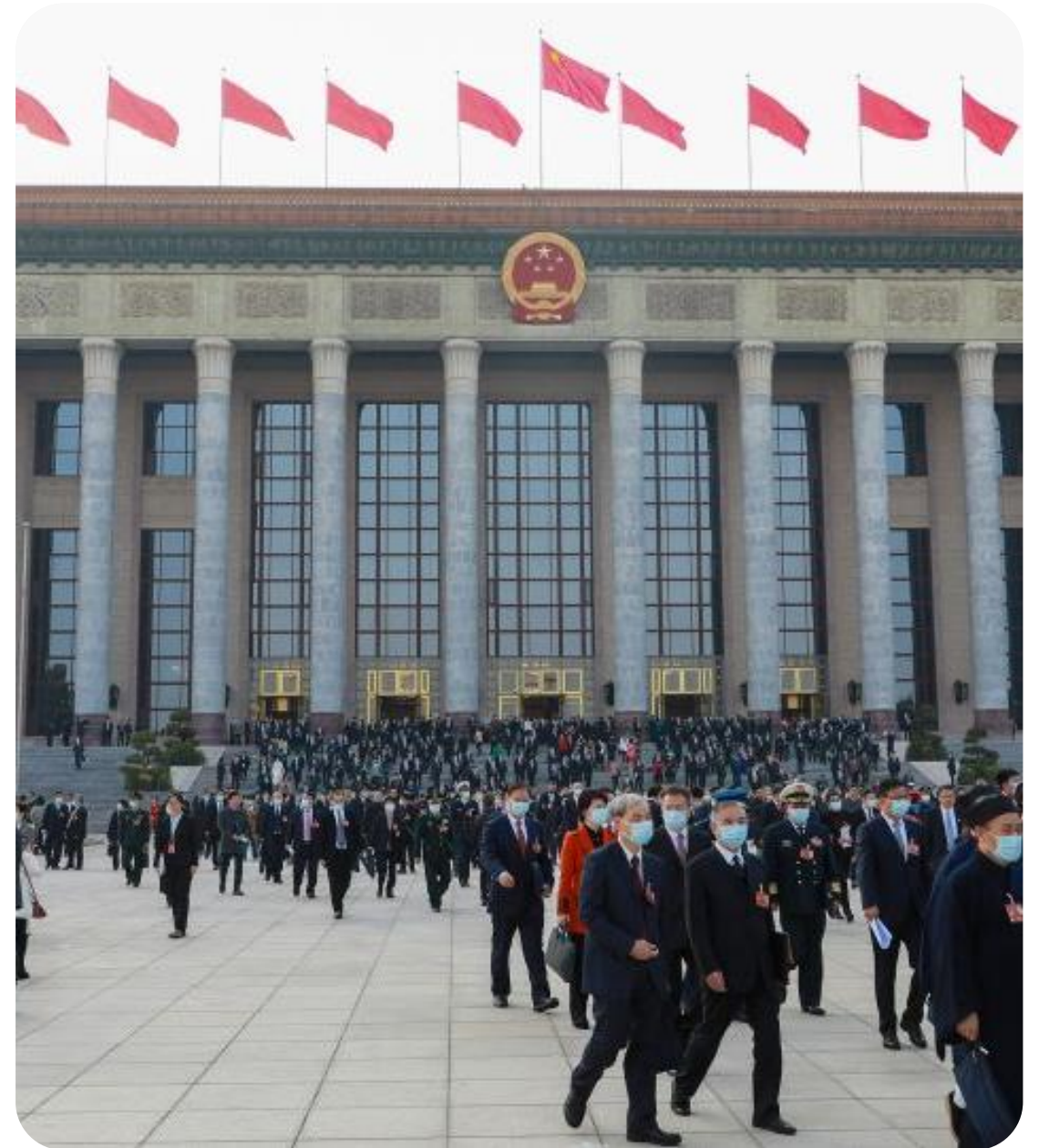
**Government net borrowing (-)**



# 02

## China

**Short term rebound...  
medium term challenges**



Great Hall of the People on March 4, 2023, in Beijing.

# In Q1 2023, GDP was still significantly below its pre-covid trend... in the services sector in particular

## Total GDP



## GDP by industry (2019 Q4 = 100, volume)

### Industry & construction (40% of GDP)

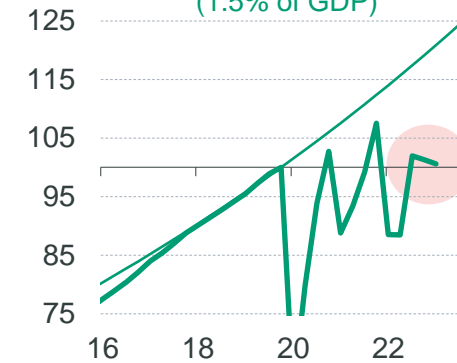


### Services (53% of GDP)

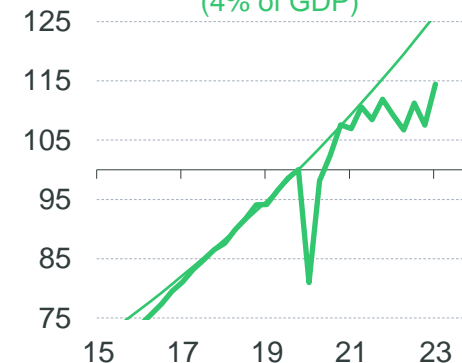


## Selected services sectors

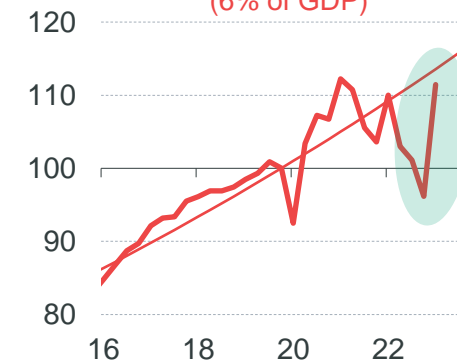
### Hotels & catering (1.5% of GDP)



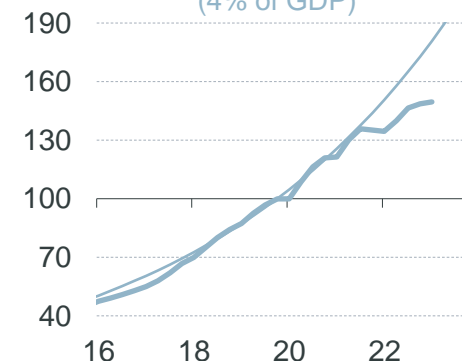
### Transports (4% of GDP)



### Real estate (6% of GDP)

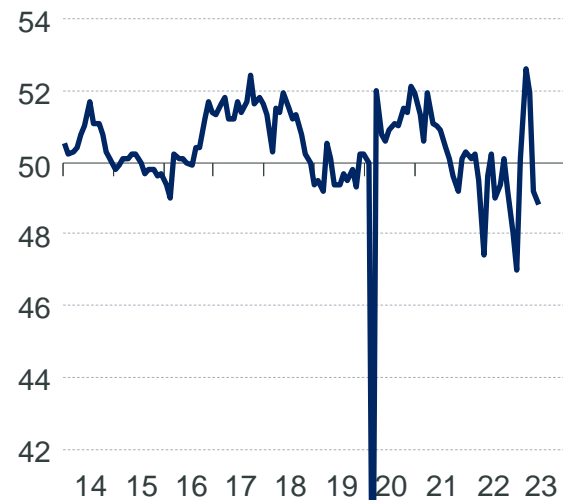


### IT (4% of GDP)



# Activity in the services sector should however continue to catch up

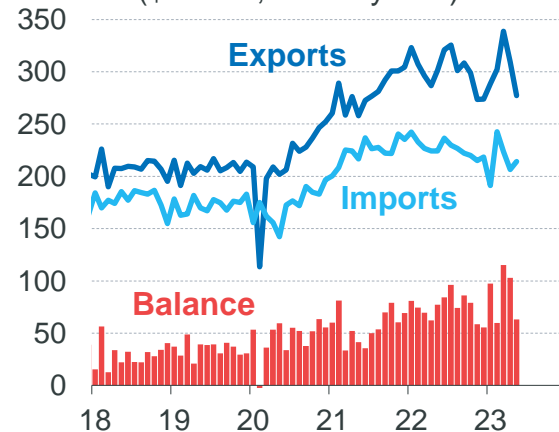
**Manufacturing PMI**  
(NBS)



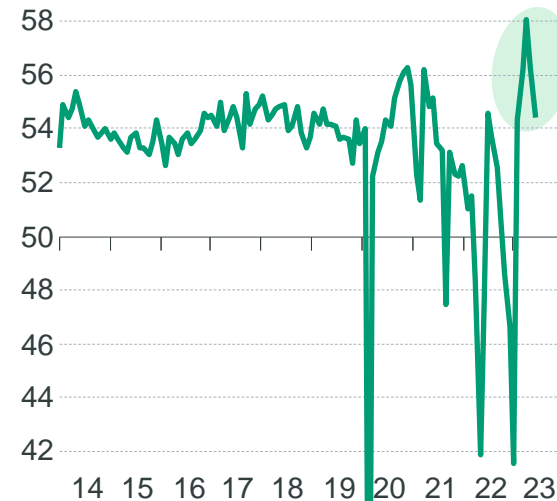
**Manufacturing PMI components**



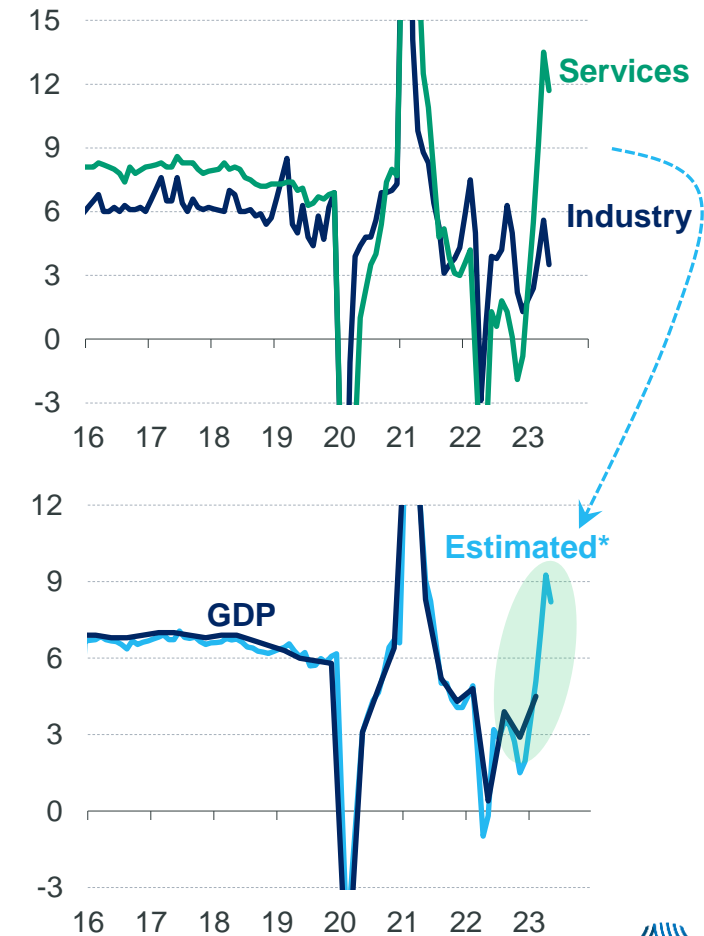
**External trade**  
(\$ billion, monthly rate)



**Non-manufacturing PMI**  
(NBS)

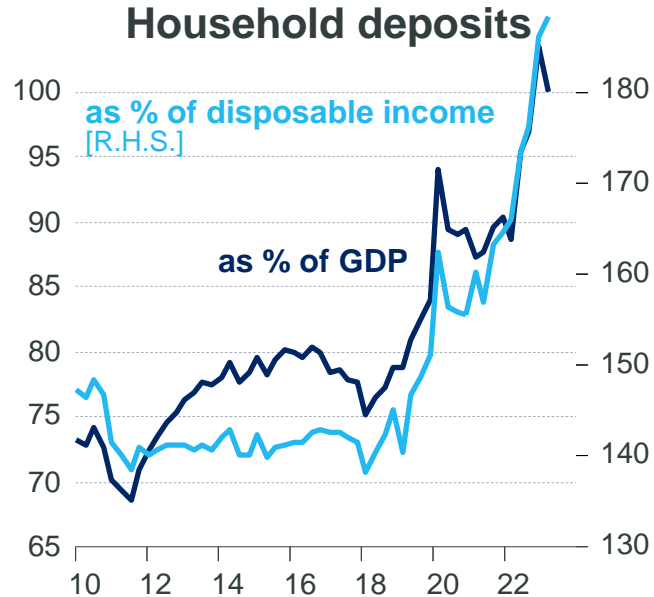


**Monthly output and GDP**  
(% year on year)

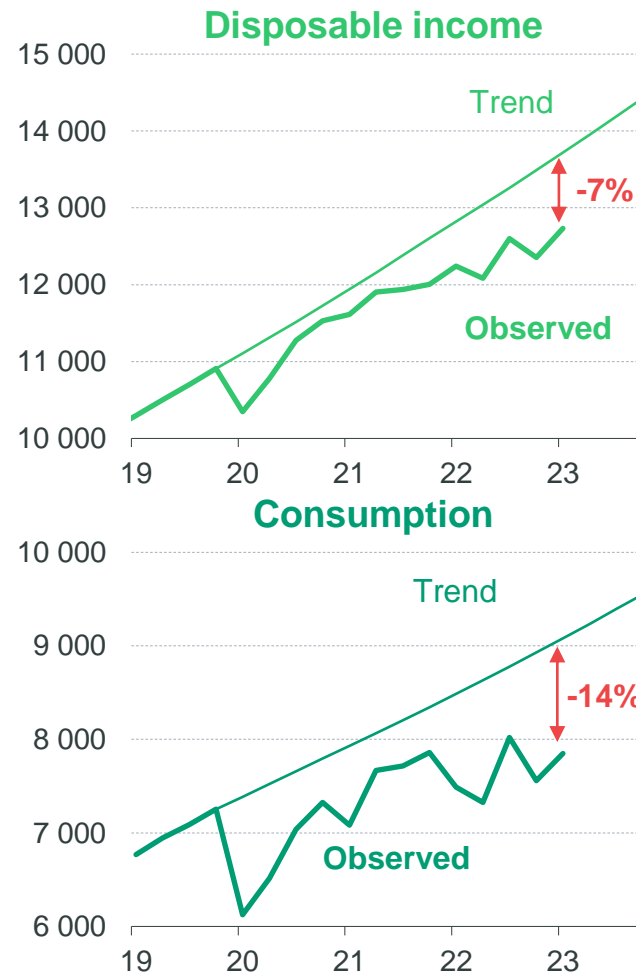




# The sharp rise in bank deposits since the pandemic could support consumption...



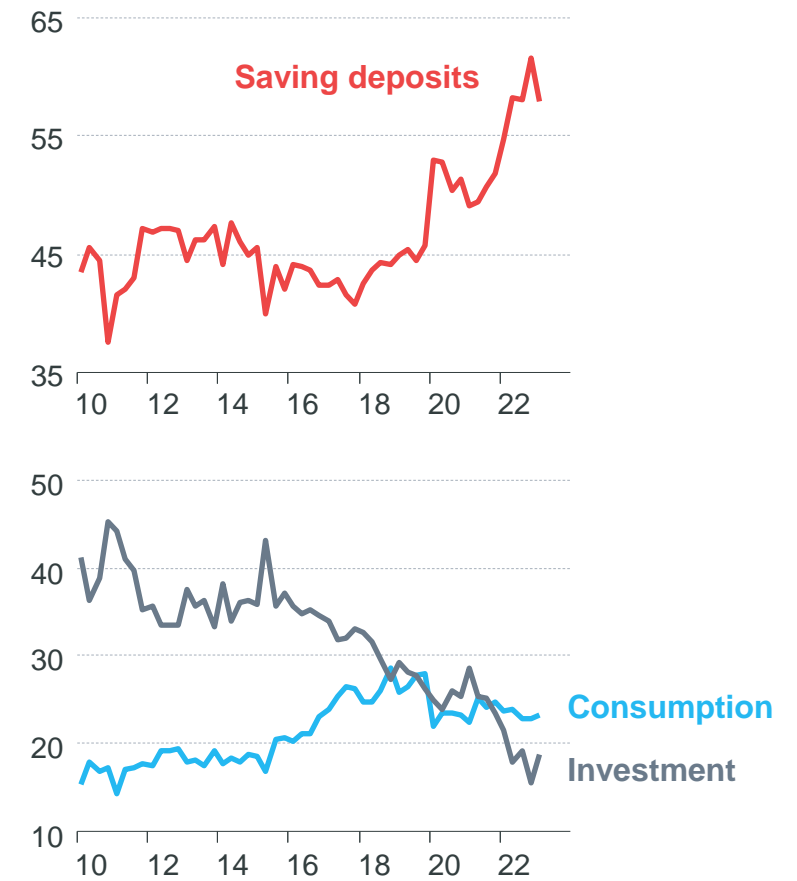
### Urban per capita disposable income and consumption (Yuan)



# ... but with weak confidence and an elevated youth unemployment rate...



### Households' preference for more... (%)

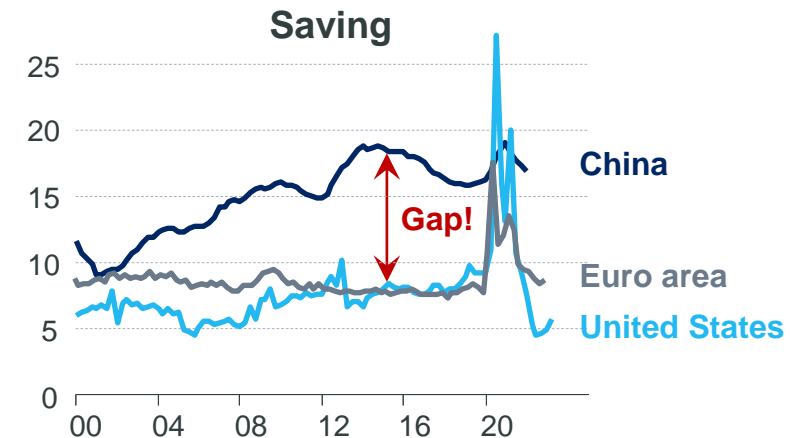
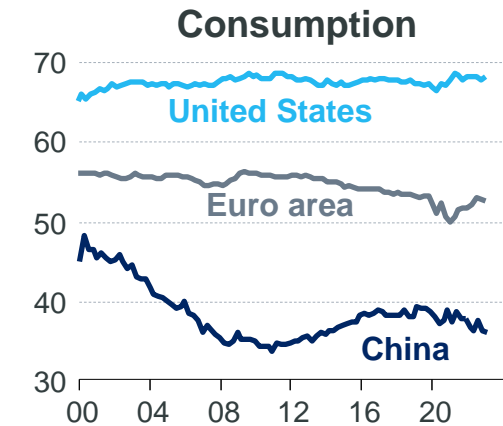
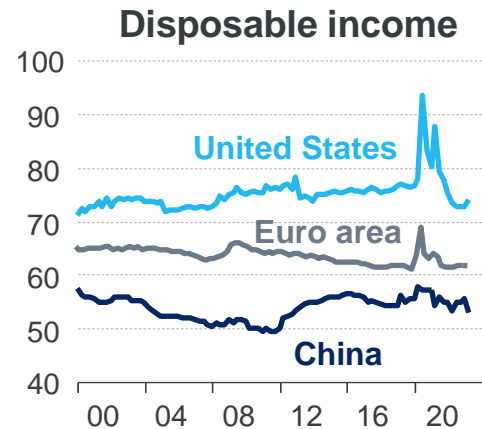


# ... the household saving rate is likely to stay elevated

**Household saving rate**  
(% of disposable income)



**Disposable income, consumption and saving**  
(% of GDP)

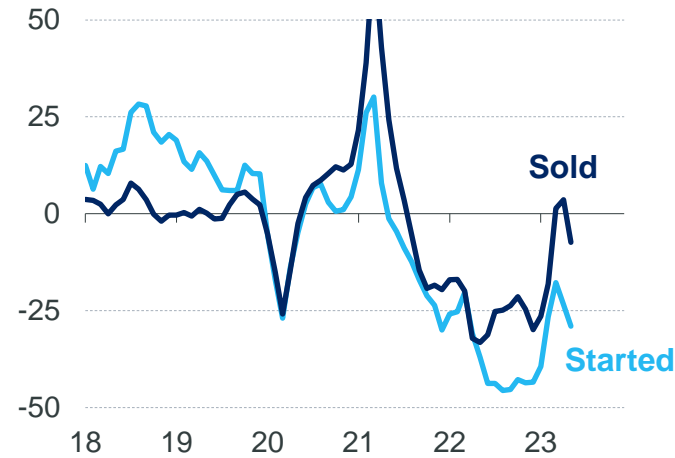


# After a significant decline in 2022, residential construction is showing tentative signs of stabilization...



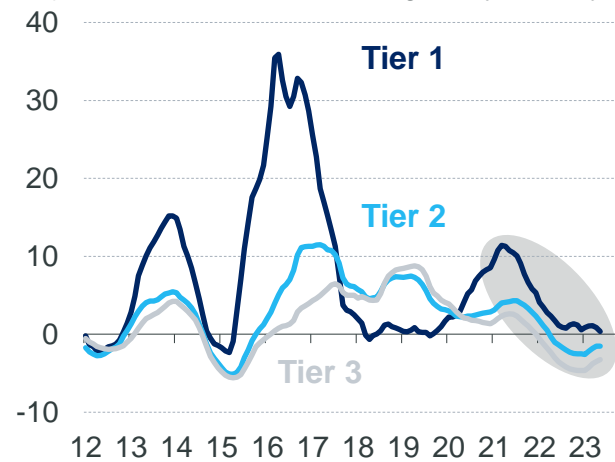
### Residential building started and sold

(% year on year)



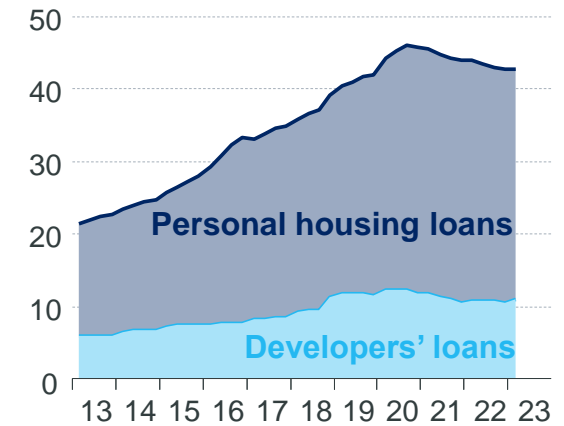
### Housing prices

(2<sup>nd</sup> hand residential buildings, % year on year)



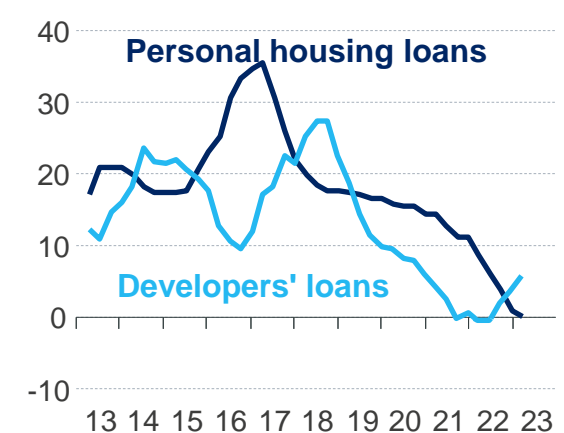
### Bank loans

(% of GDP)



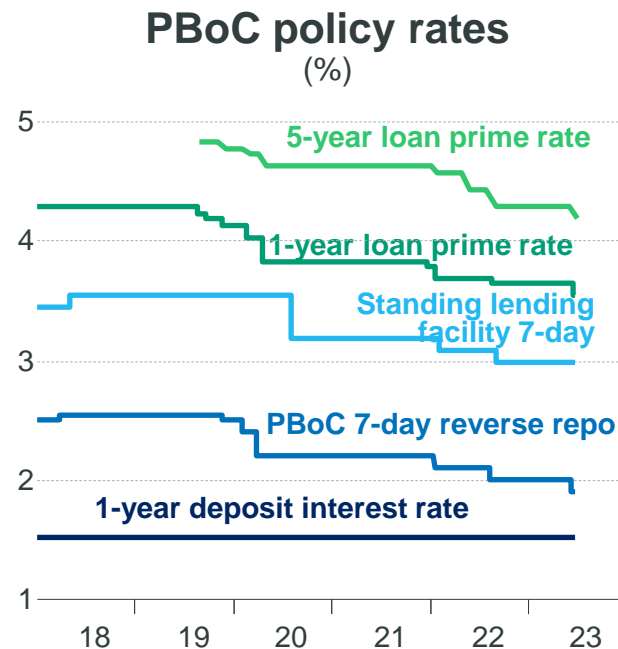
### Real estate loans

(% year on year)





# ... as authorities have taken wide-ranging measures to support the real estate sector



**Pledged Supplementary Lending\***  
(Yuan billion)



(\*) The program is meant to fund targeted lending through policy banks.

**Refunds for taxes on individual's capital gains derived from the sale of property**, from 1 October 2022 to end-2023. To claim the refund, the taxpayer needs to purchase another new property in the same city within one year.

Regulators asked state-owned banks to **provide a total of RMB800bn of new financing for the property sector**.

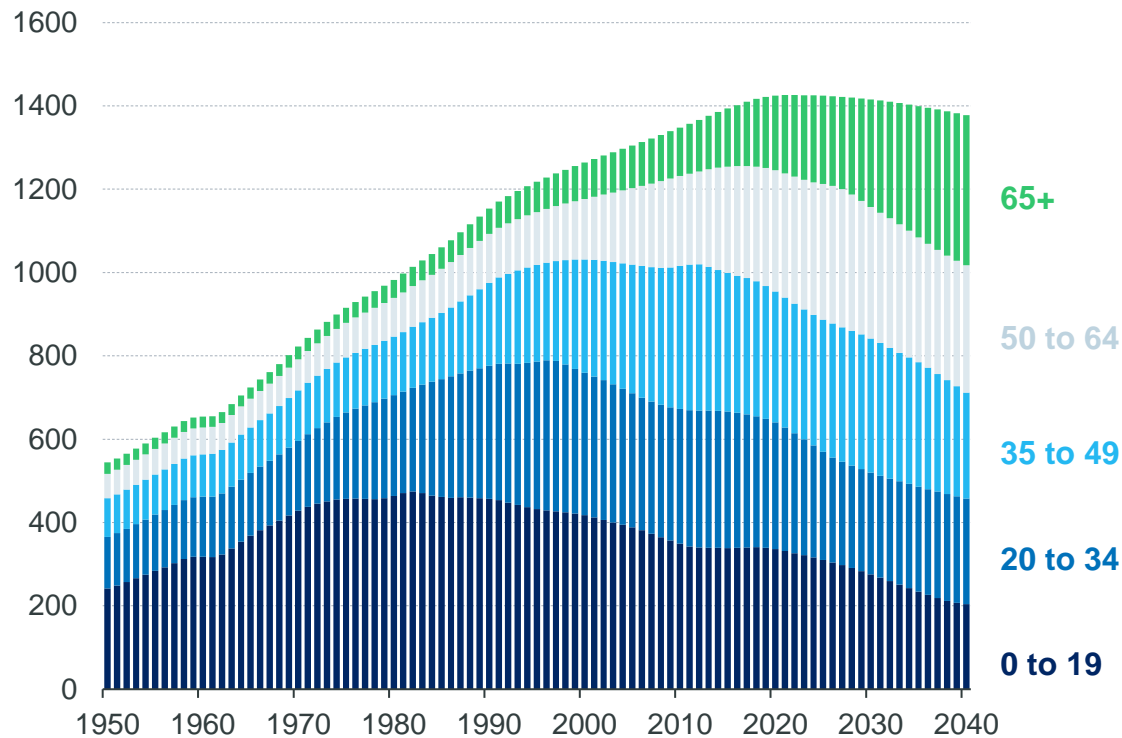
The PBoC and CBIRC\*\* announced **measures to ease the cap on bank's property loans**. New measures cover a wide range of topics: property development loans, mortgage loans, bond financing, special loans to ensure pre-sold home delivery, loans to construction companies, trust loans...

(\*\*) China Banking and Insurance Regulatory Commission



# Still, in the medium term, demographics is not very supportive for the real estate market!

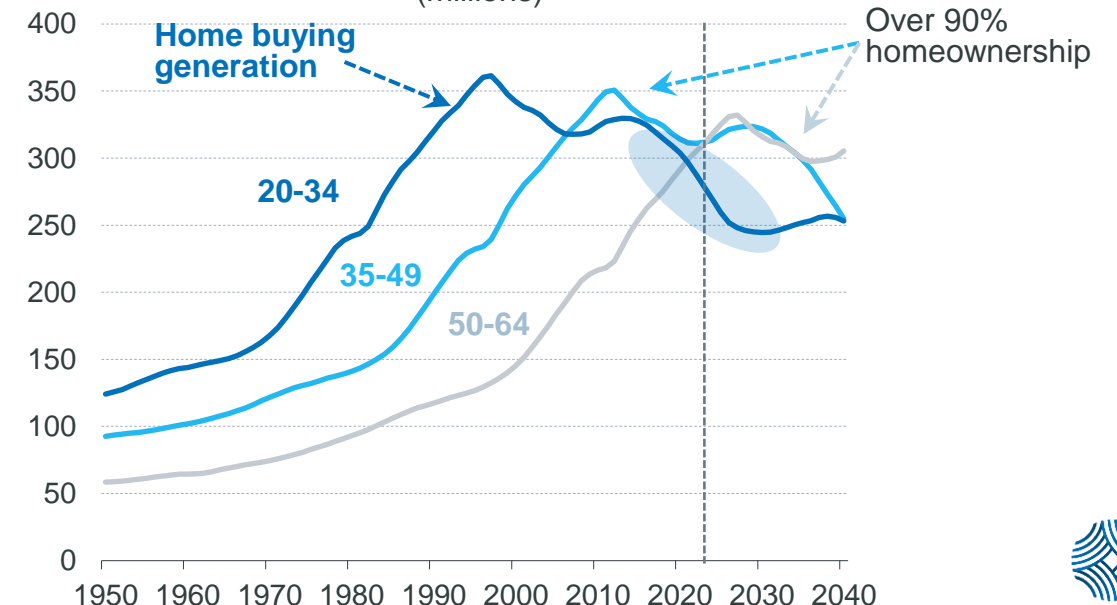
Population by age  
(millions)



China millennials lead home ownership  
Percentage of millennials who own their own home



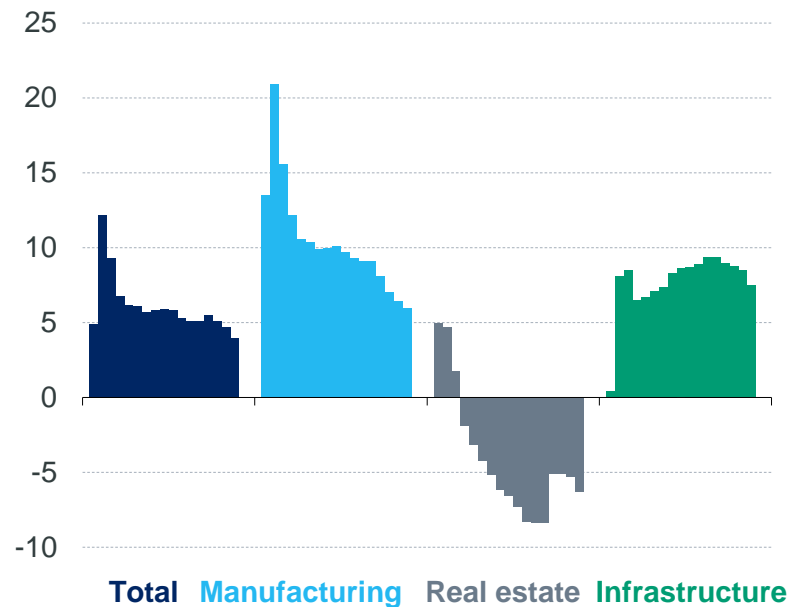
Population by age  
(millions)



# Moreover, the fiscal leeway to support the economy keeps diminishing

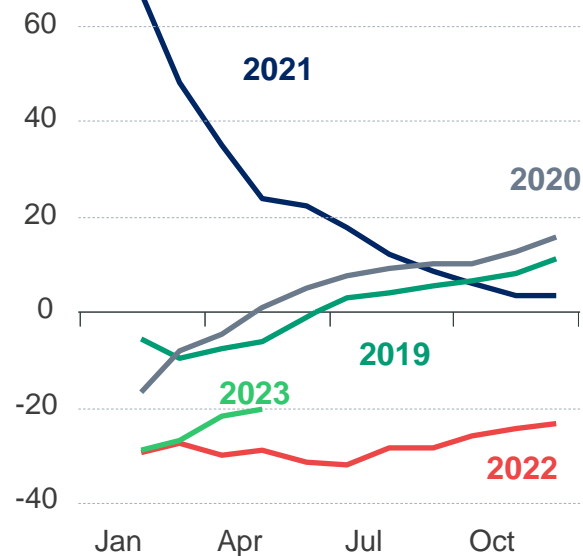
## Fixed asset investment

(% year on year cumulated growth since beginning of year, Jan. 2022 – May 2023)



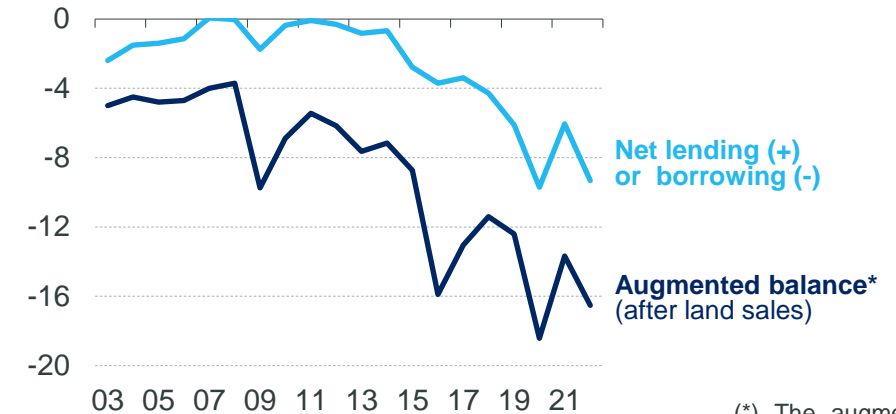
## Local governments land sale revenues

(% year on year)



## Government balance

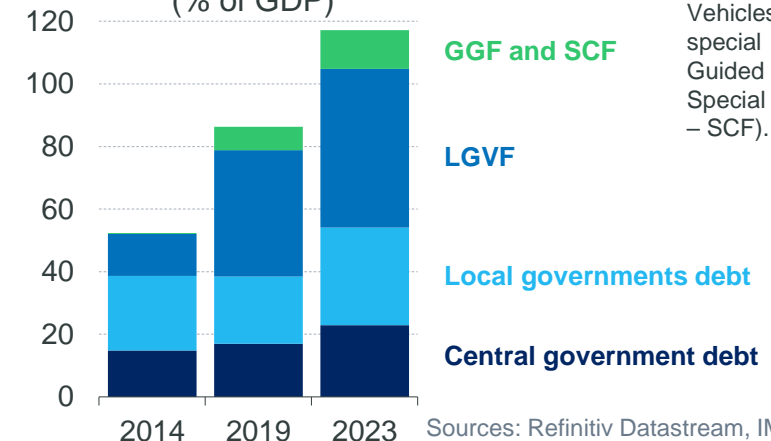
(% of GDP)



(\*) The augmented balance includes infrastructure spending financed by Local Government Financing Vehicles (LGFV) debt and special funds (Government Guided Funds – GGF – and Special Construction Funds – SCF).

## Public debt

(% of GDP)

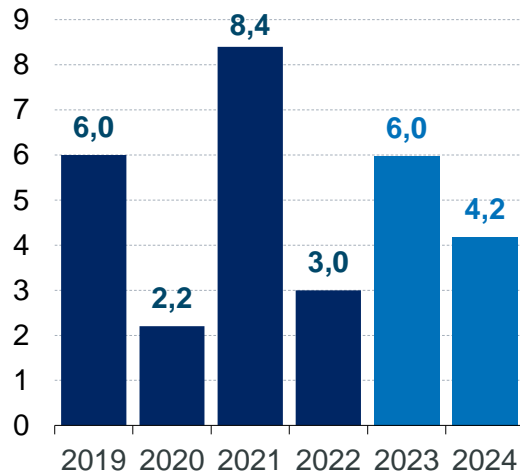


Sources: Refinitiv Datastream, IMF, Candriam

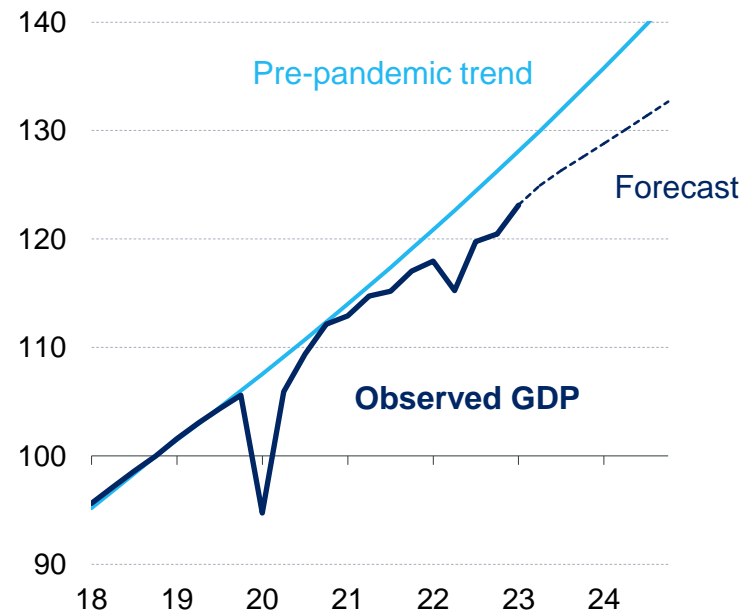


# Even with pent up demand temporarily boosting activity, GDP growth is on a downward trend

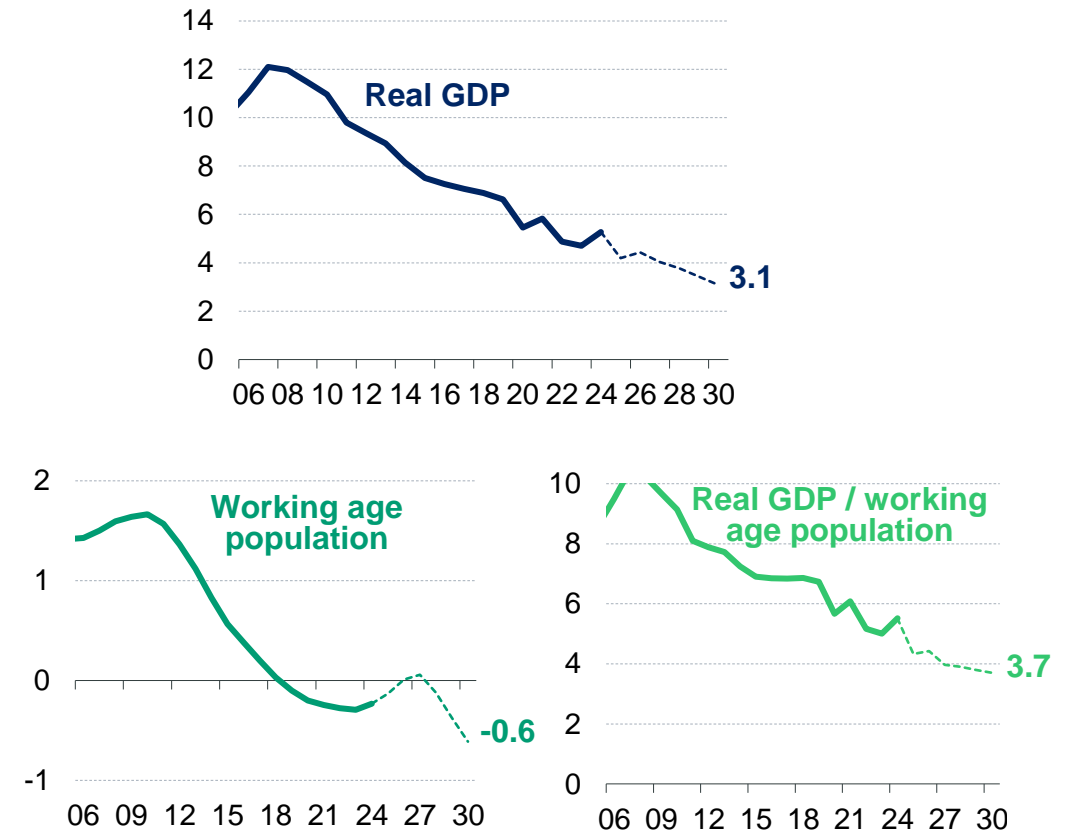
**Real GDP growth**  
(%, annual average)



**Real GDP trajectory**  
(2018 Q4 = 100)



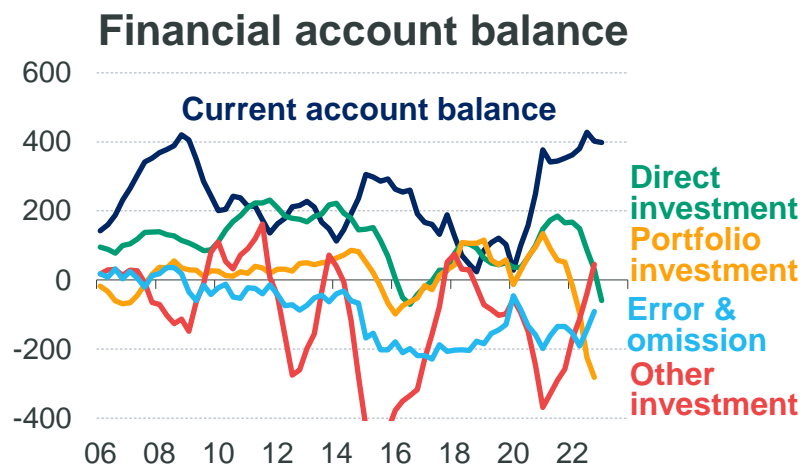
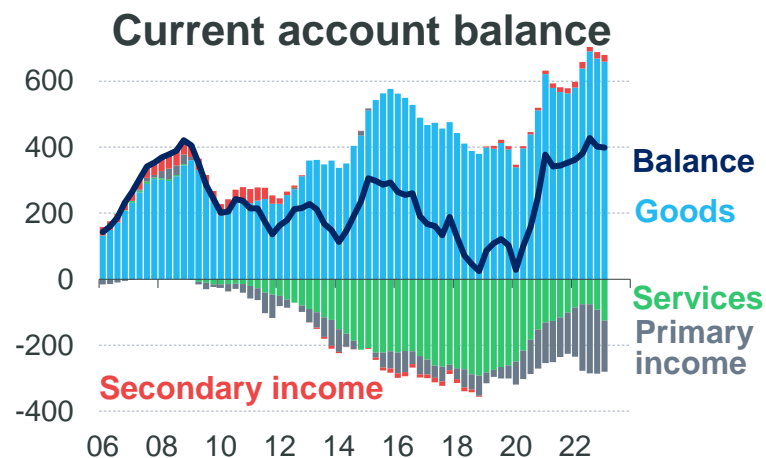
**Medium term perspectives**  
(% over 4 years, annual rate)



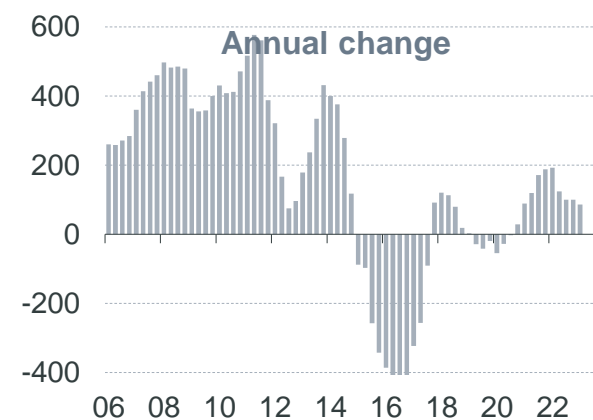
# Memo. Foreigners have stopped buying Chinese securities

## Balance of payments

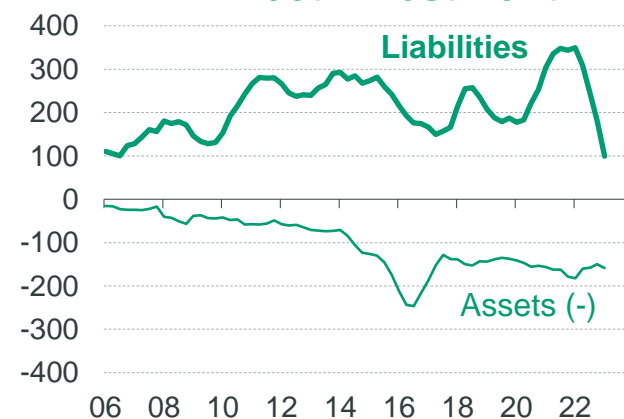
(\$ billion, smoothed over 1-year, annual rate)



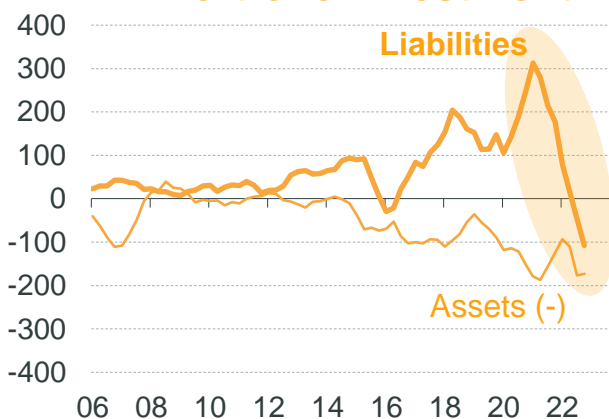
## FX reserves (\$ billion)



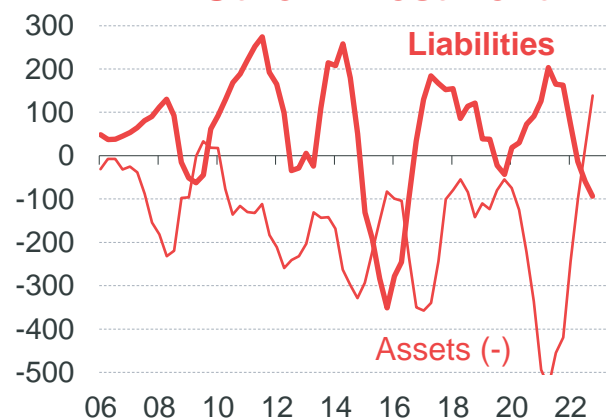
## Direct investment



## Portfolio investment



## Other investment

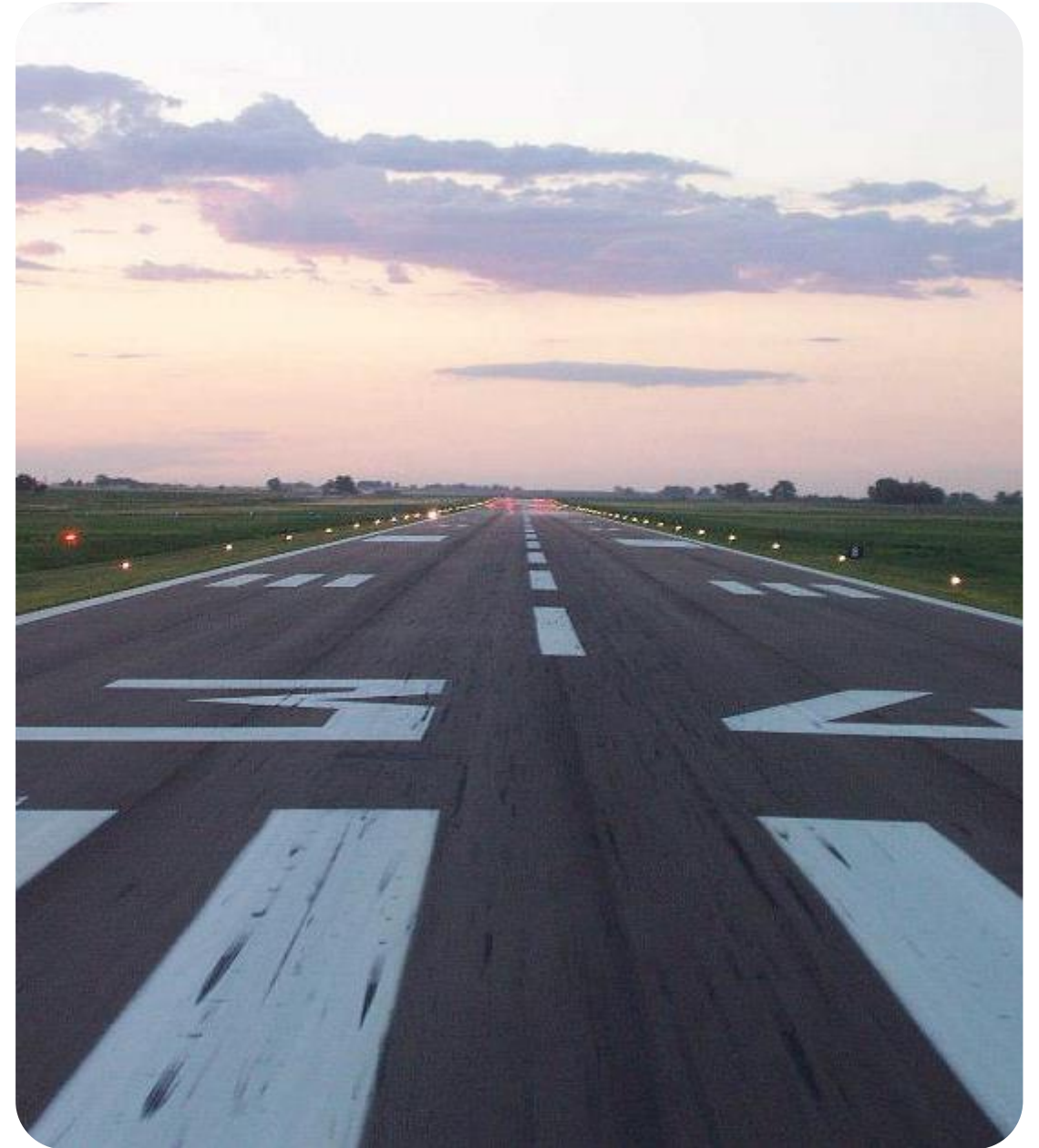




# 03

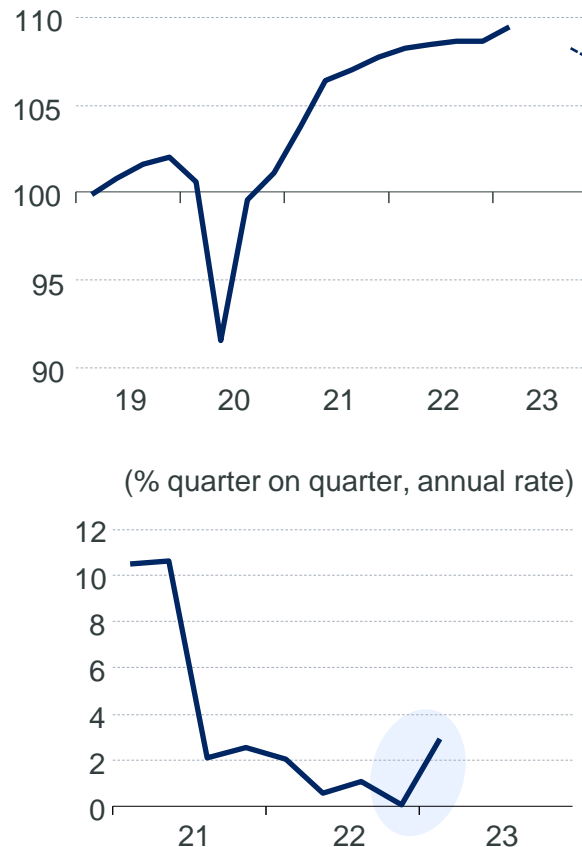
## United States

**After touchdown...  
the plane is moving a bit too fast!**

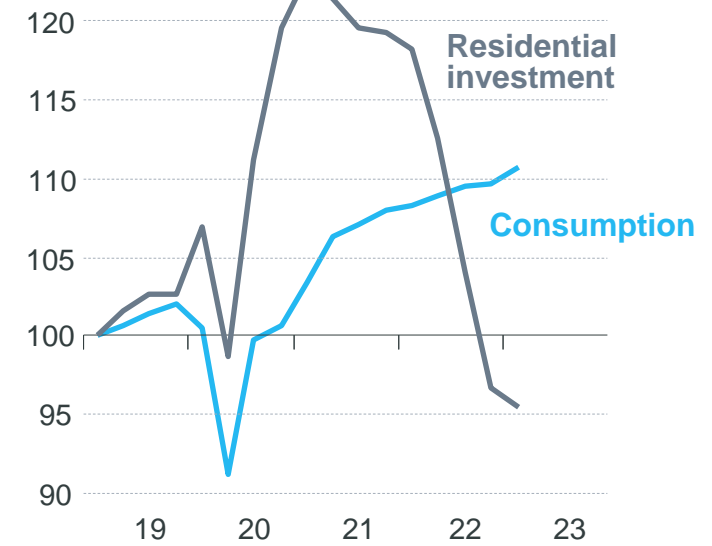
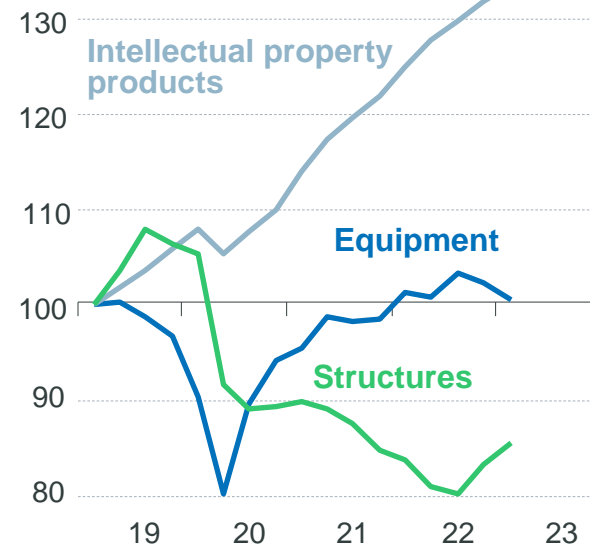


# Final domestic demand has reaccelerated in Q1, mainly supported by consumption

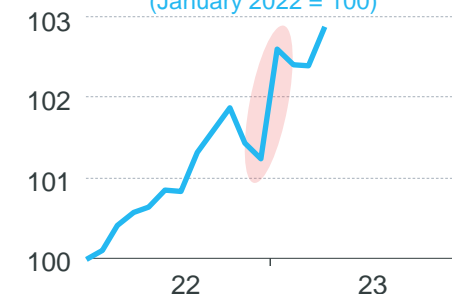
**Private final demand**  
(2019 Q1 = 100, ex inventories)



**Private domestic demand components**  
(2019 Q1 = 100)



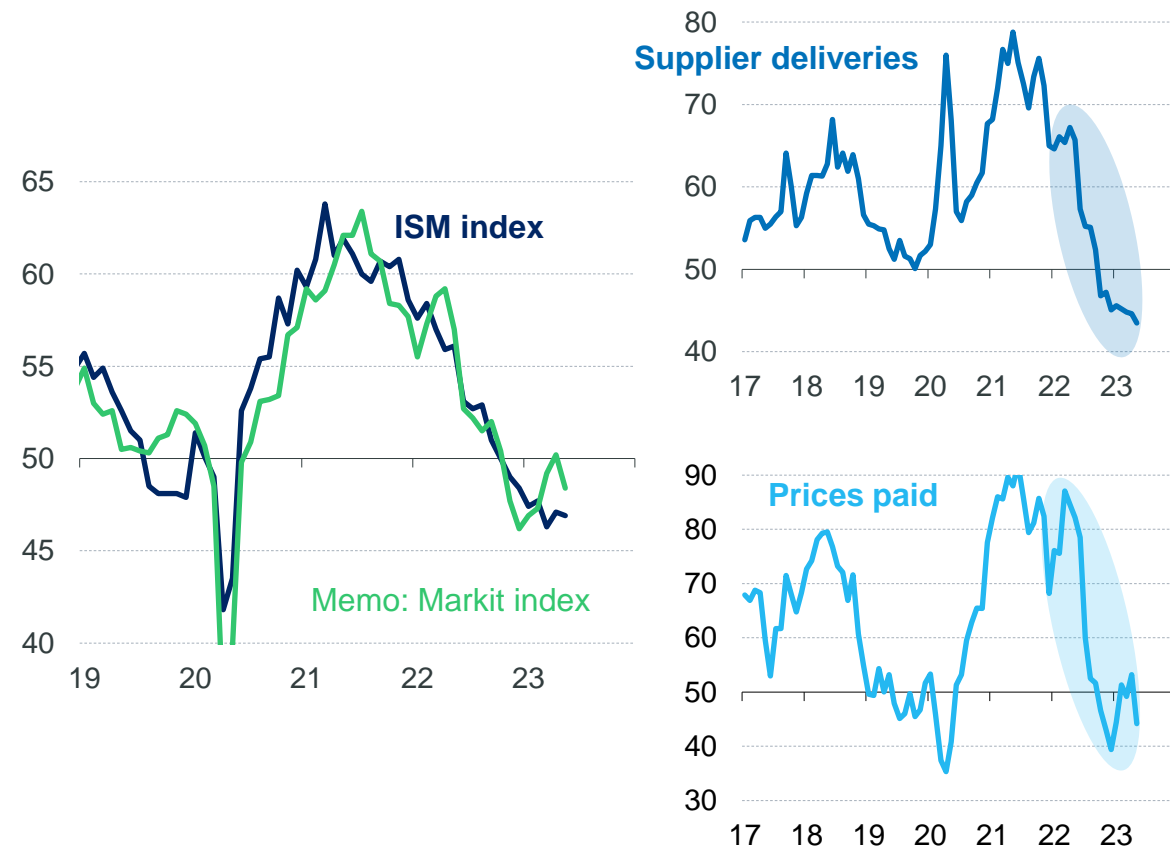
**Memo: monthly consumption**  
(January 2022 = 100)



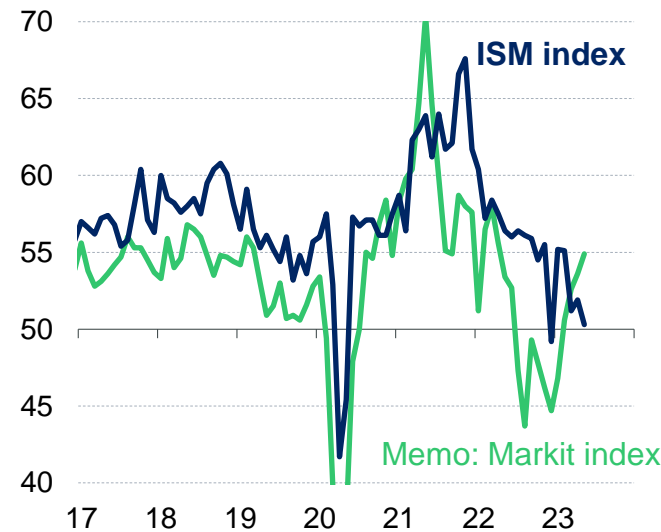
# Monthly surveys suggest growth has moderated in Q2 but is still in positive territory

## Purchasing managers indices

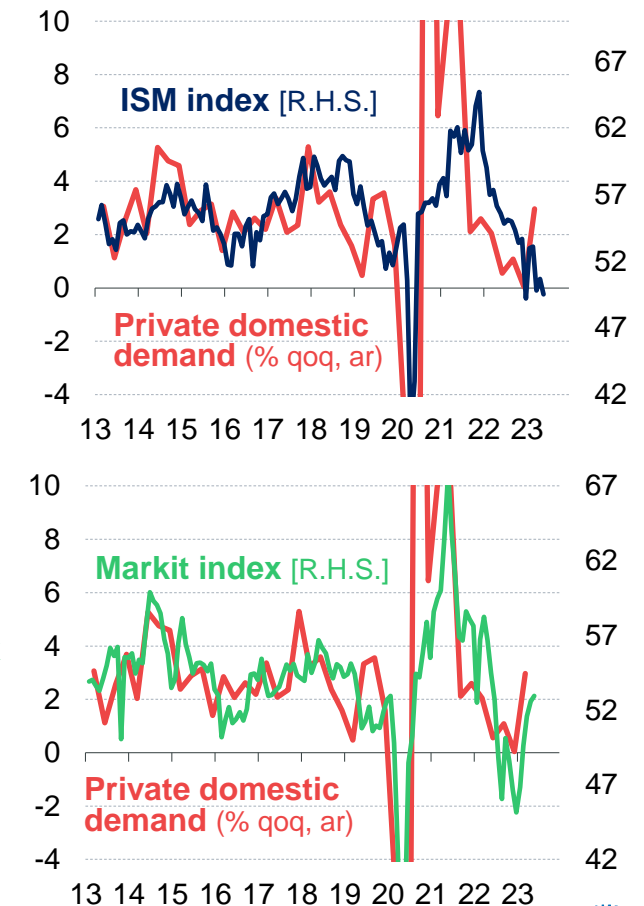
### Manufacturing



### Services



## Composite PMIs and private domestic demand

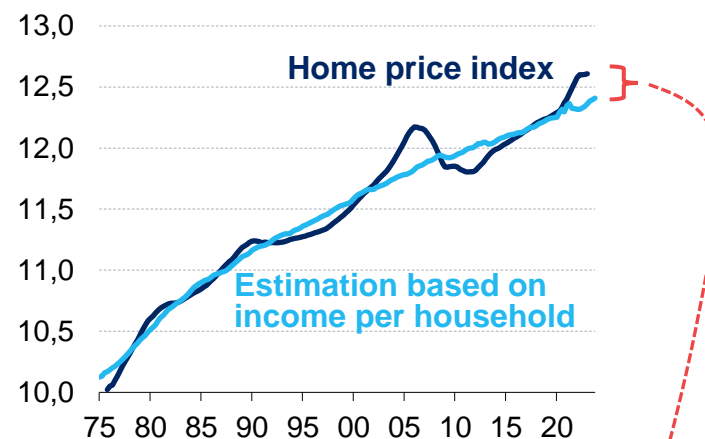


# Housing affordability has sharply deteriorated...

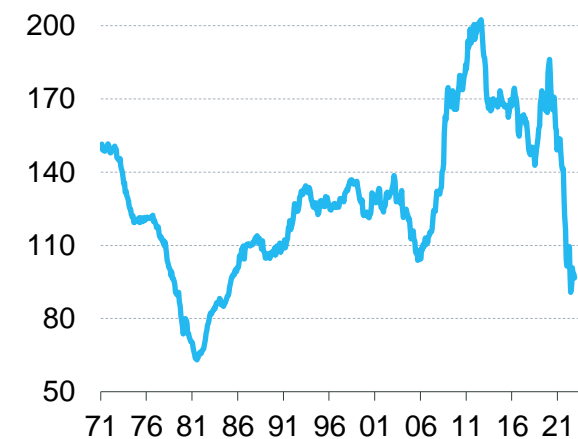
30-year mortgage rate  
(%)



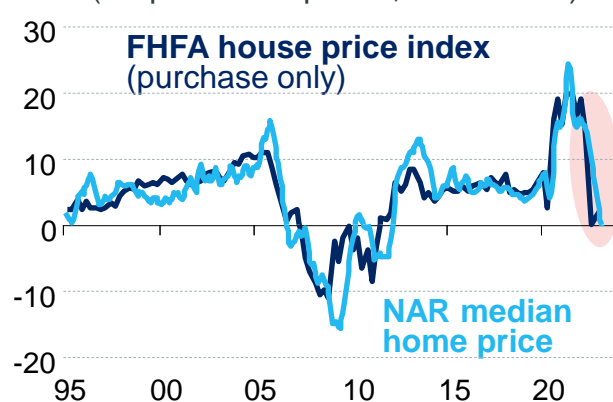
CoreLogic home price index  
(in log)



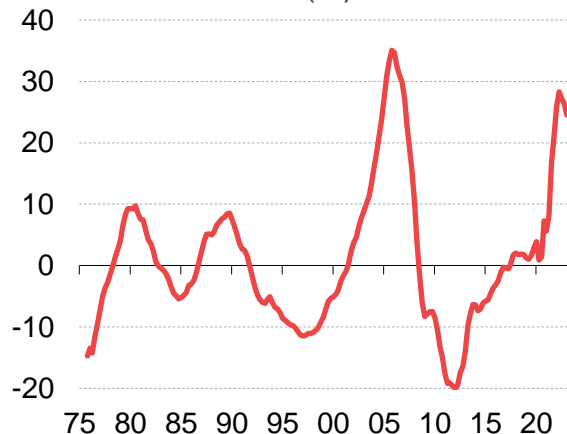
Housing affordability index



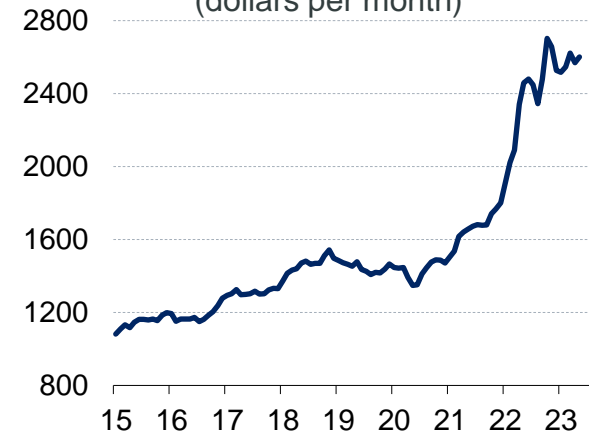
Home prices  
(% quarter on quarter, annual rate)



Over- / under-valuation  
(%)

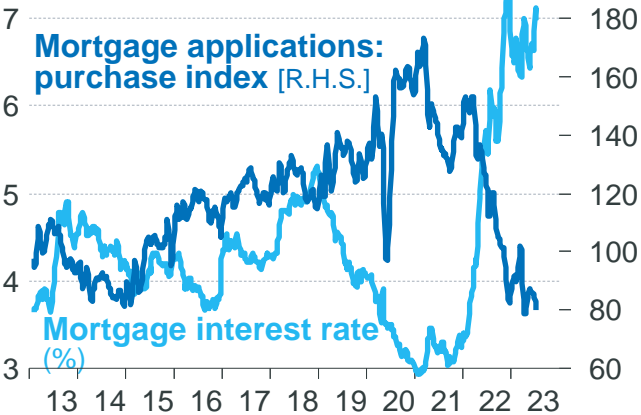


Homebuyer mortgage payment  
for median price existing homes  
(dollars per month)

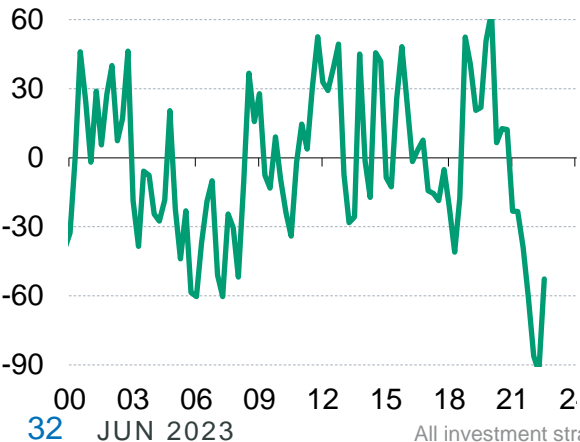


# Unless bank lending conditions tighten much further...

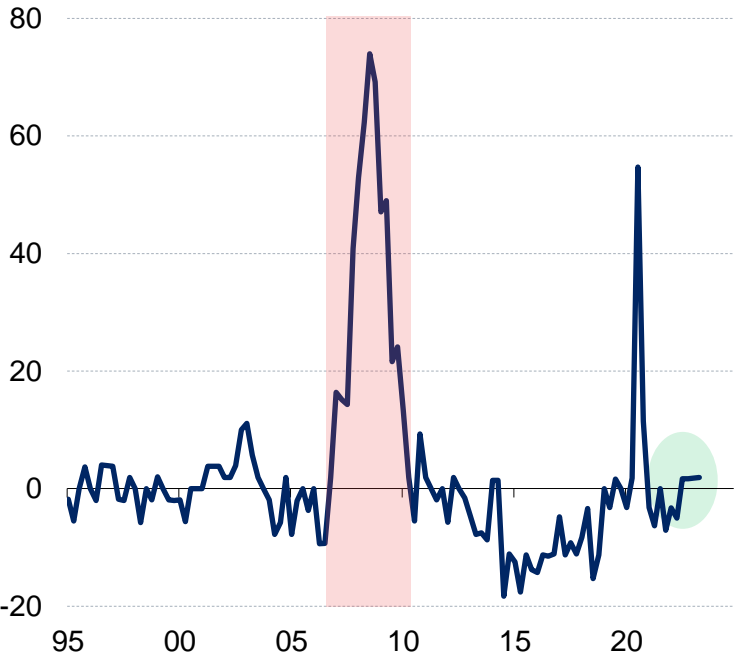
Interest rates and mortgage applications



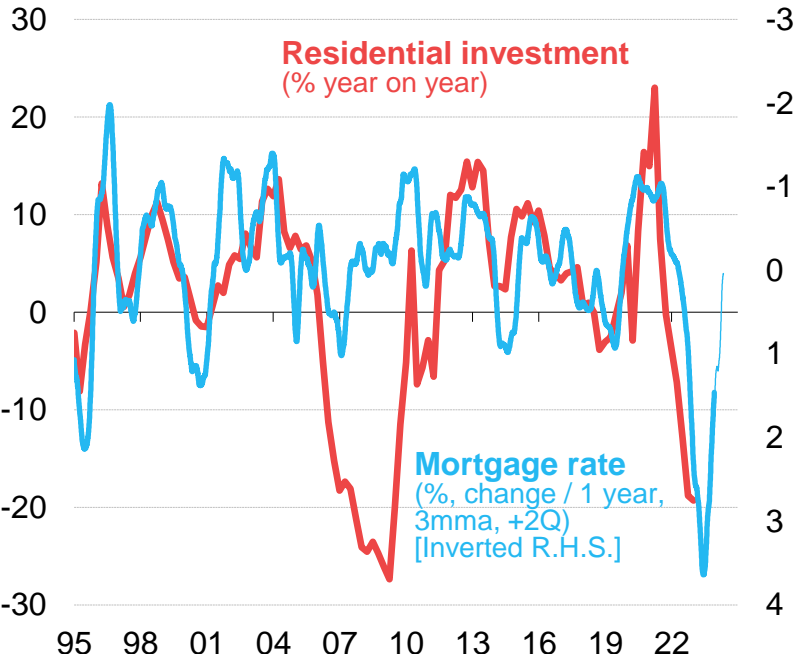
Net % of banks reporting stronger demand for mortgage loans



Net % of banks tightening mortgage lending conditions (%)



Residential investment and mortgage interest rate



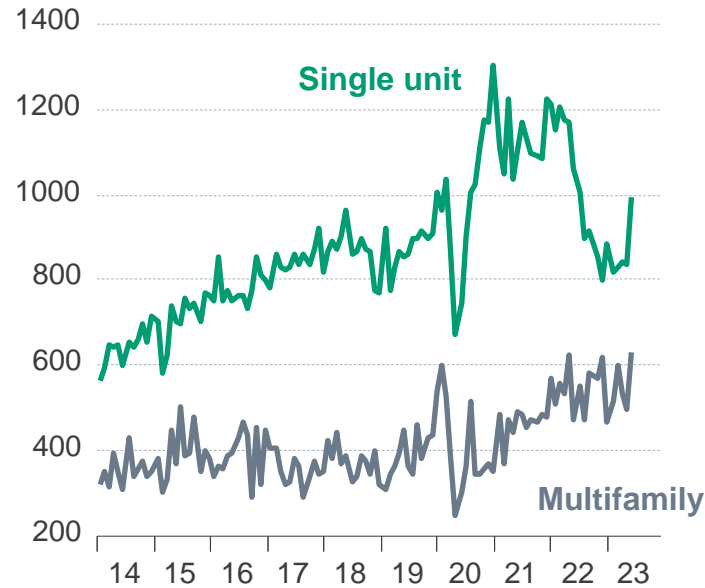


# ... residential investment should stabilize

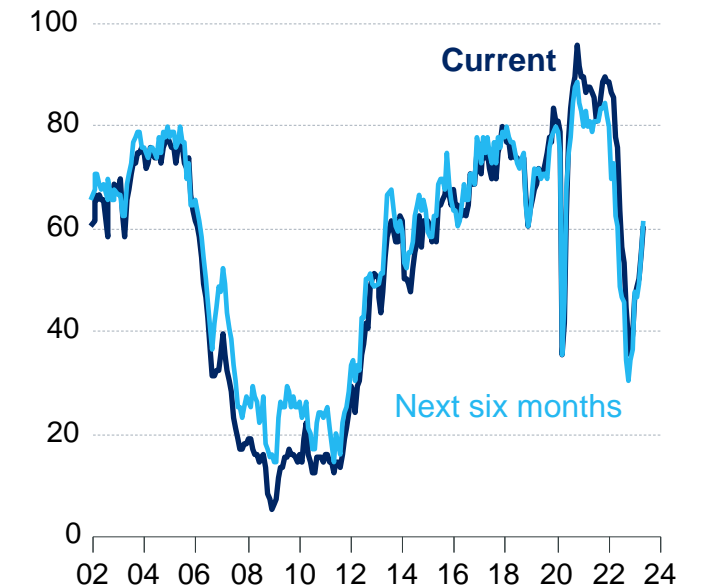
**Existing and new home sales**  
(thousands, annual rate)



**Housing starts**  
(thousands, annual rate)

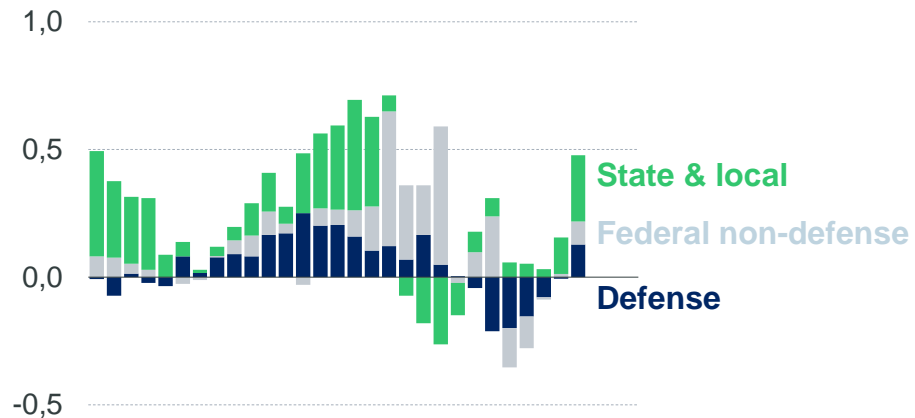


**NAHB survey**  
(new home sales)

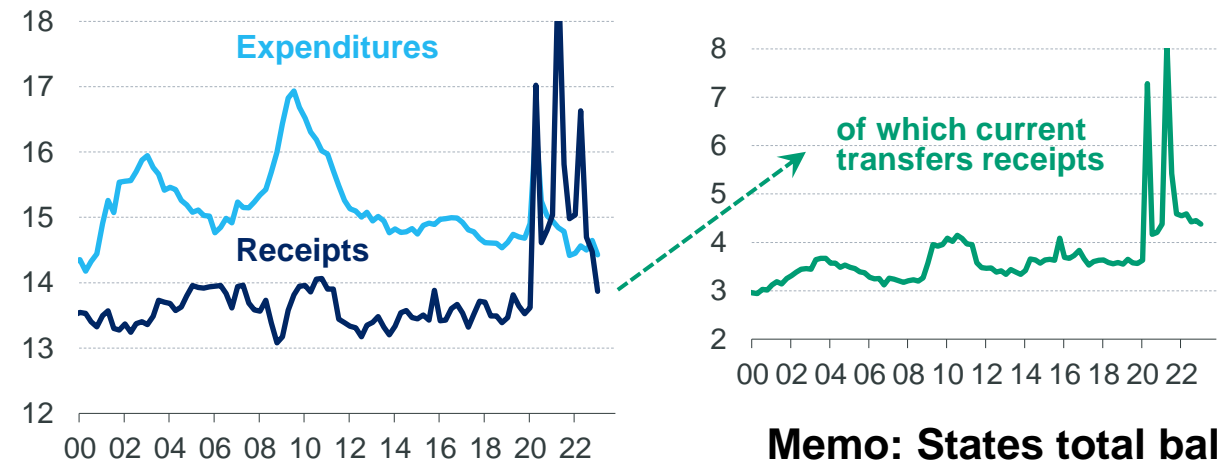


# State & local governments' spending should keep supporting growth, helped by accumulated rainy-day funds

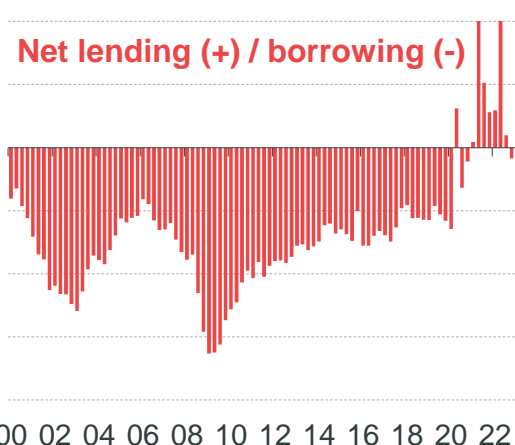
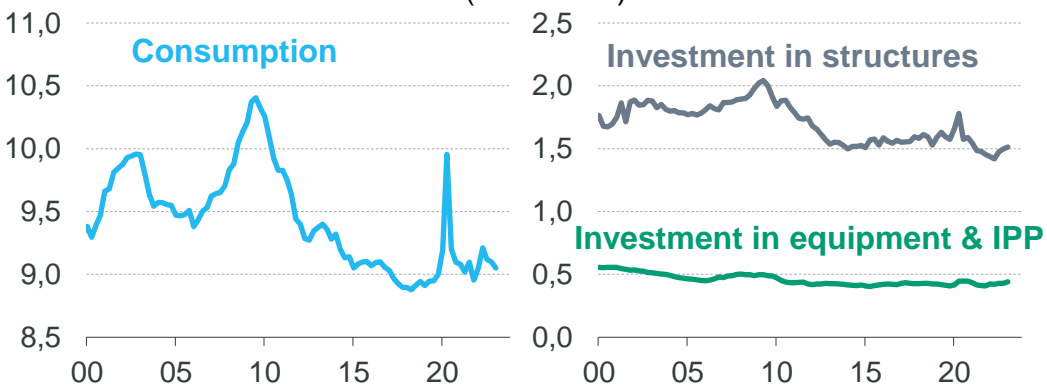
**Government consumption and investment**  
(contribution to real GDP, % year on year)



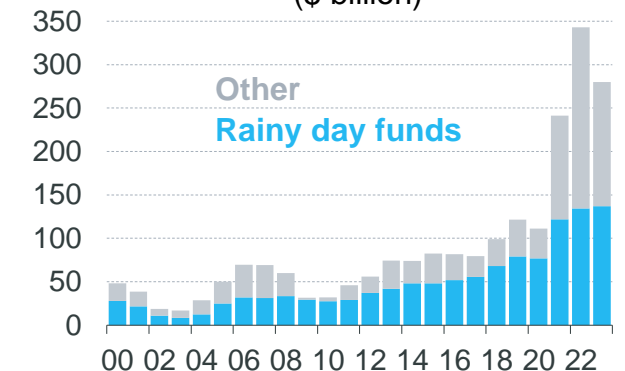
**State & local government receipts and expenditures**  
(% of GDP)



**S&L consumption and investment**  
(% of GDP)



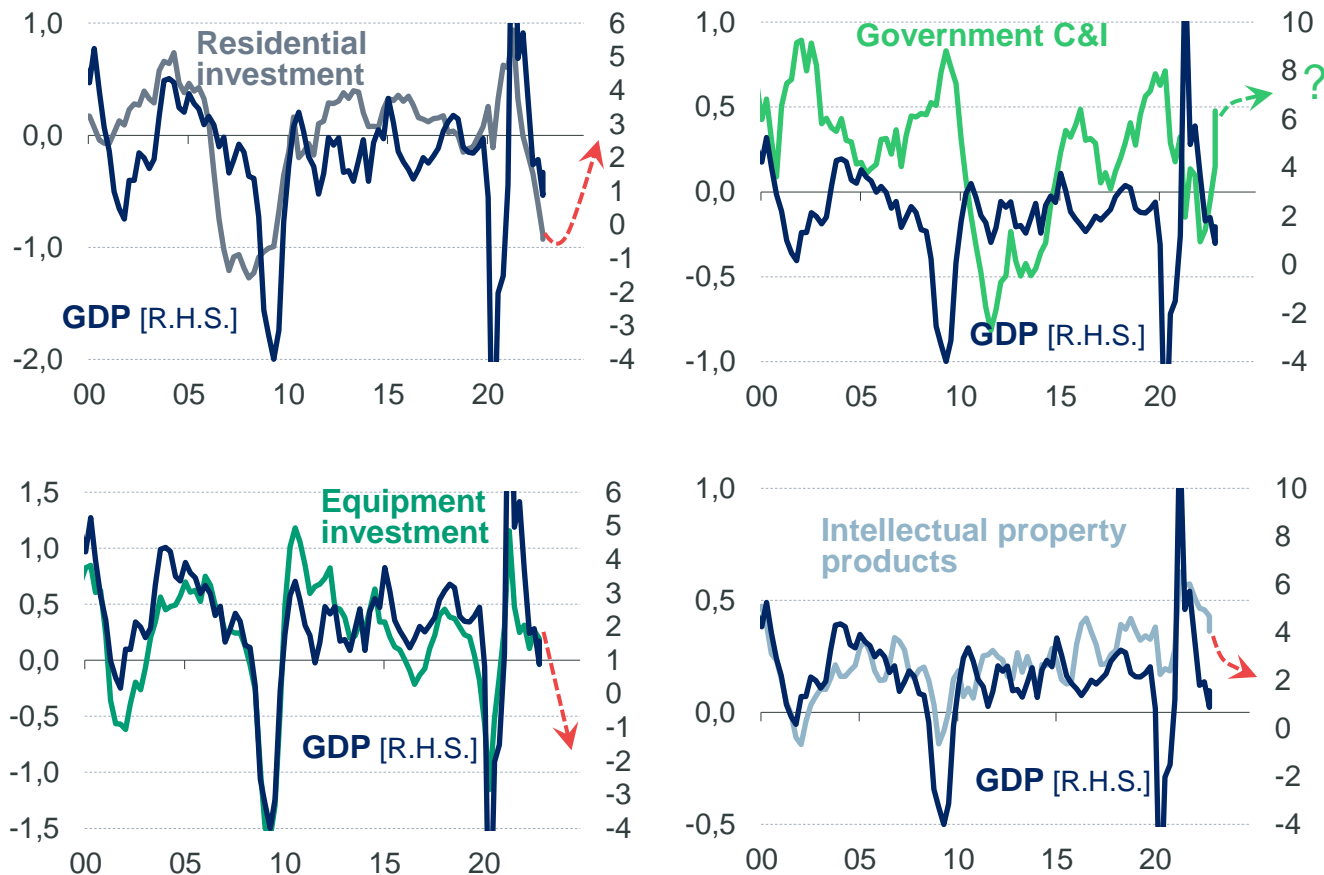
**Memo: States total balance**  
(\$ billion)



# Consumption should provide a cushion to help soft-land the economy

## GDP components

(contribution to real GDP, % year on year)



## Contributions to GDP growth in 2023

(% year on year)

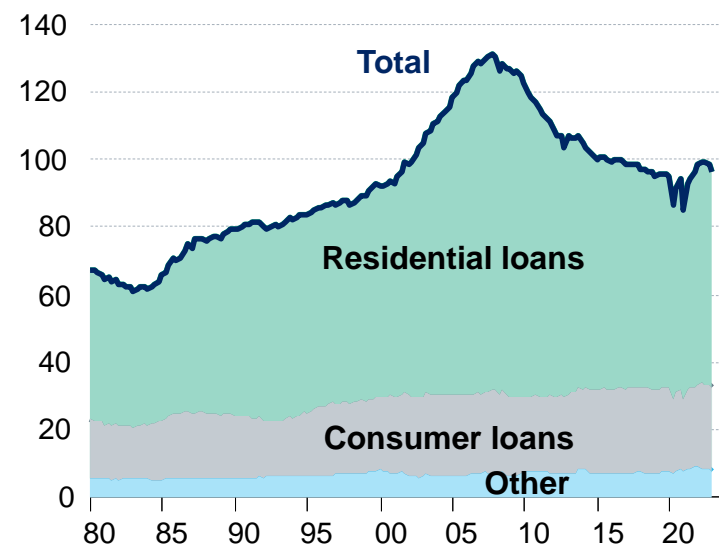
	Shares in GDP	Growth	Contributions to GDP growth
Residential investment	3.9	0.0	0.0
Equipment investment	5.1	-10.0	-0.5
Intellectual property products	5.5	2.0	0.1
Structures investment	2.7	-5.0	-0.1
Government consumption & investment	17.6	3.0	0.5
Private consumption	68.4	1.5	1.0
<b>Total</b>			<b>1.0</b>

**Even if equipment were to slow down, a recession can be avoided if consumption holds.**

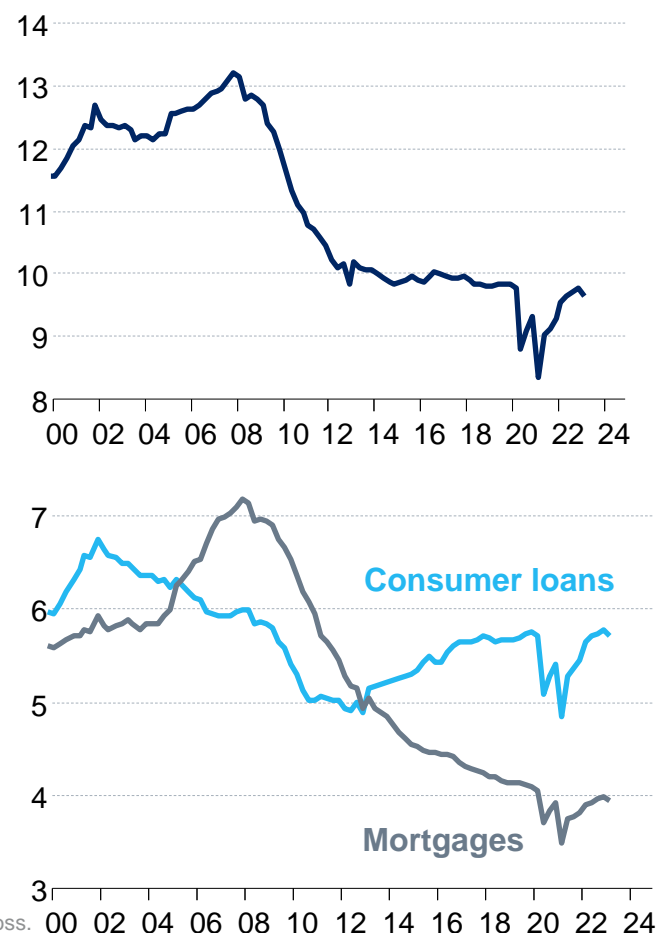


# The household sector balance sheet is solid

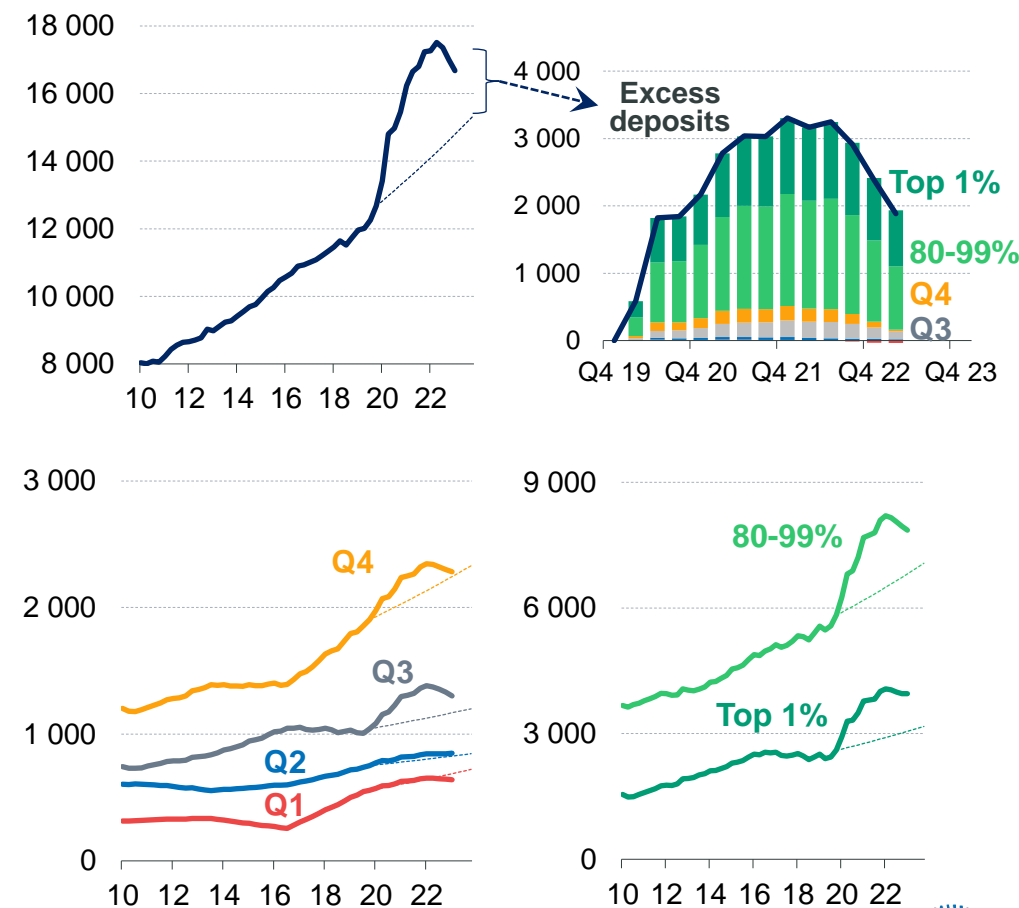
**Household debt**  
(% of disposable income)



**Household debt service**  
(% of disposable income)

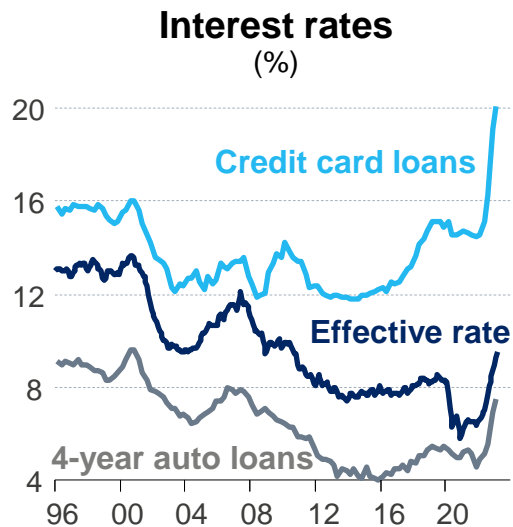


**Household deposits**  
(\$ billion)

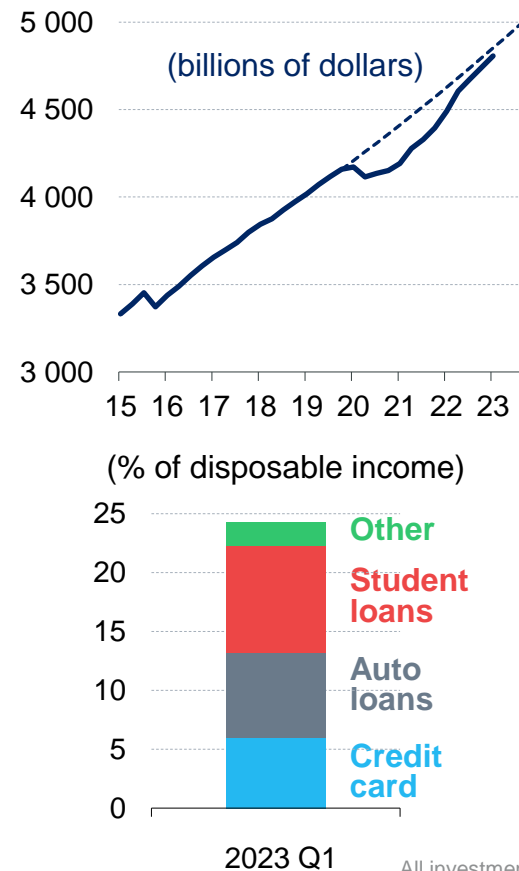


# Given the jump in interest rates, the rebound in consumer credit should be short lived

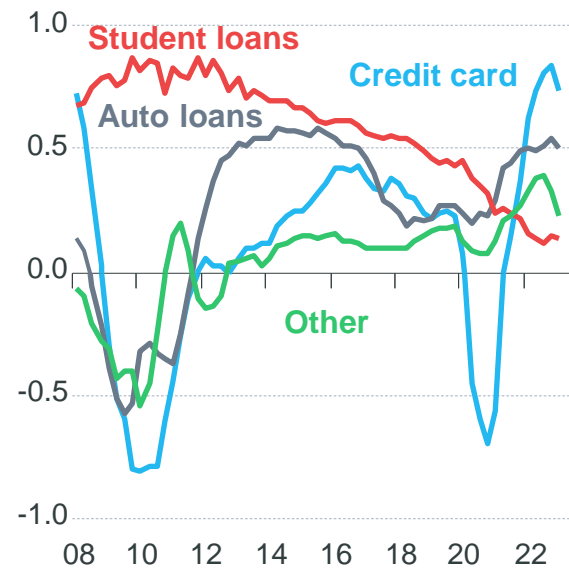
## Consumer credit



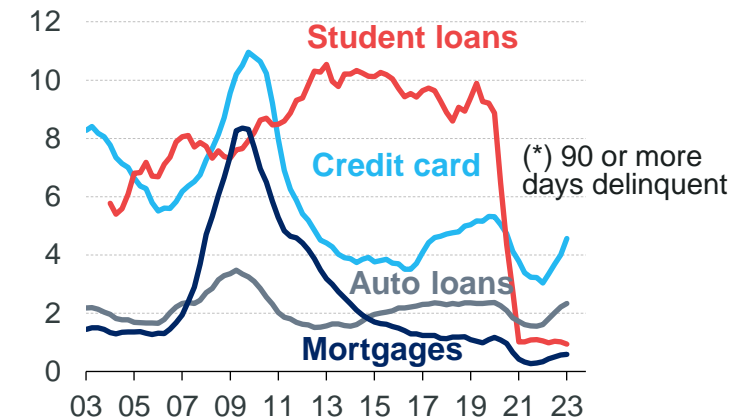
## Amounts outstanding



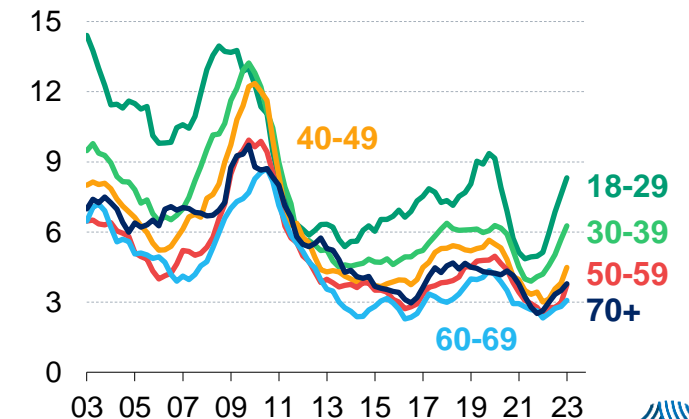
## Change over one year (% of disposable income)



## New seriously delinquent balances\* (% of outstanding loans)



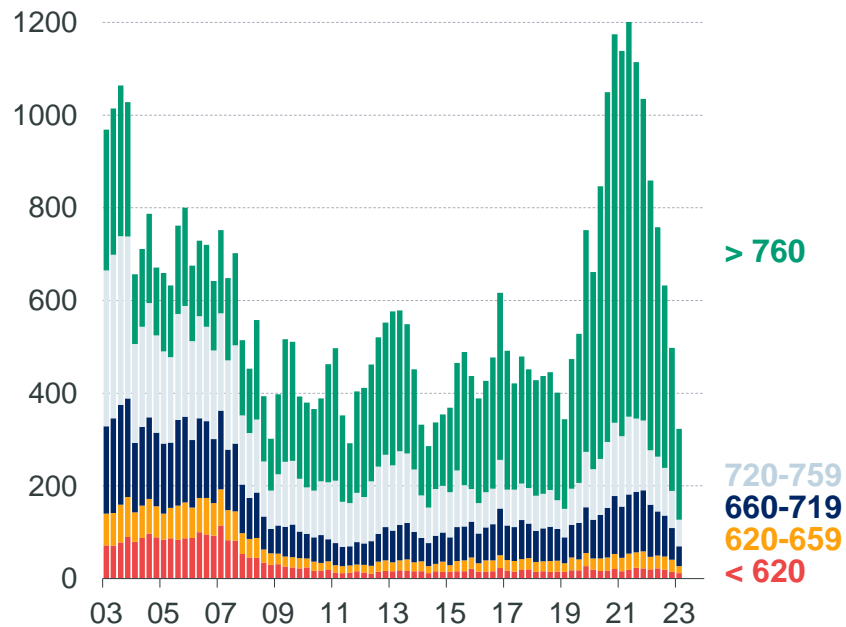
## New seriously delinquent balances for credit cards, by age



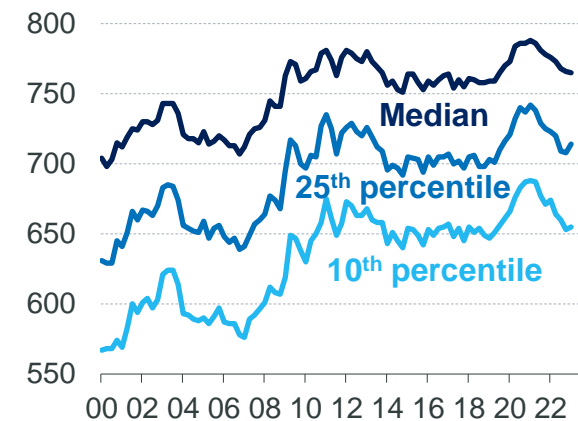


# Most of the loans have been made to high credit score borrowers

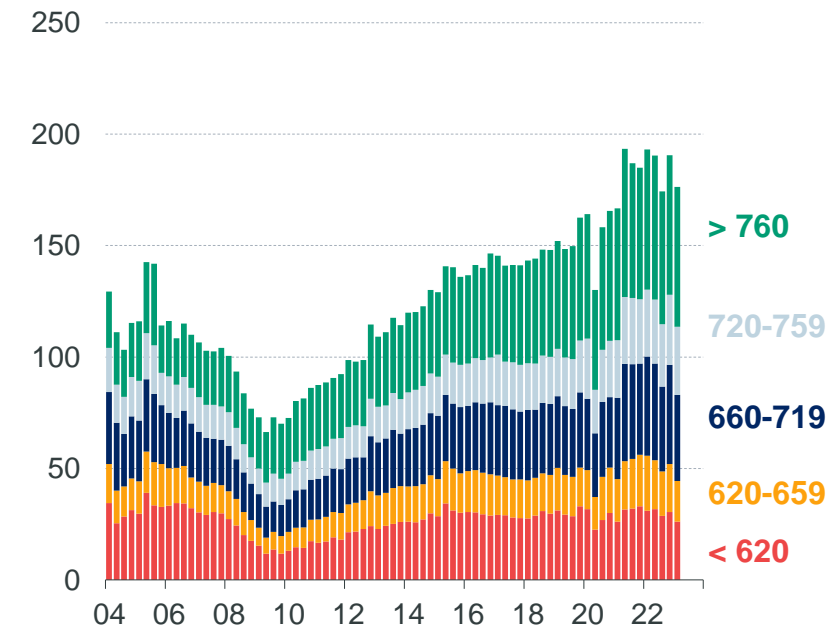
**Mortgage origination volume by Equifax credit score**  
(\$ billion)



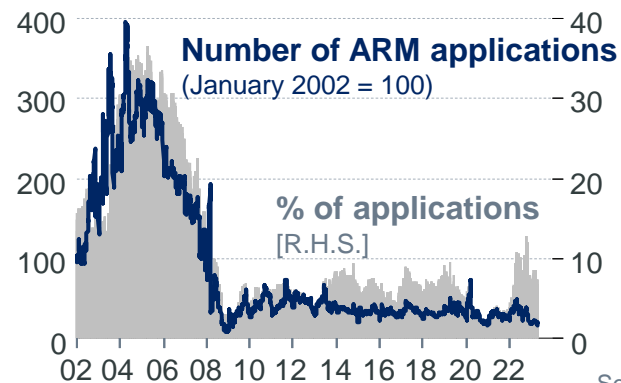
**Mortgage origination distribution by Equifax credit score**



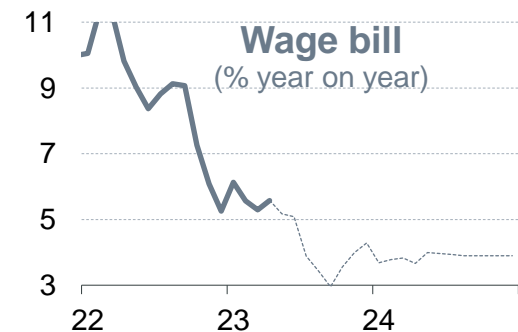
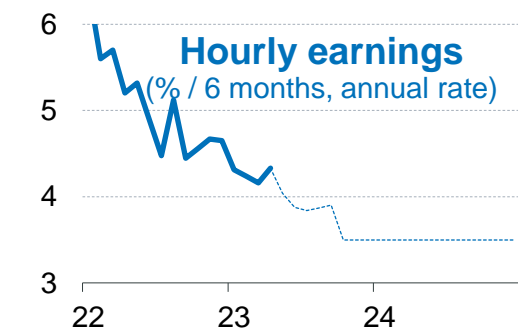
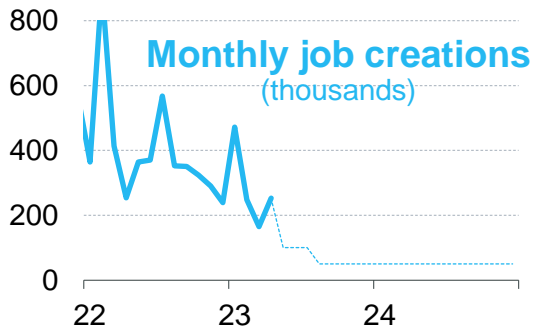
**Auto loans origination volume by Equifax credit score**  
(\$ billion)



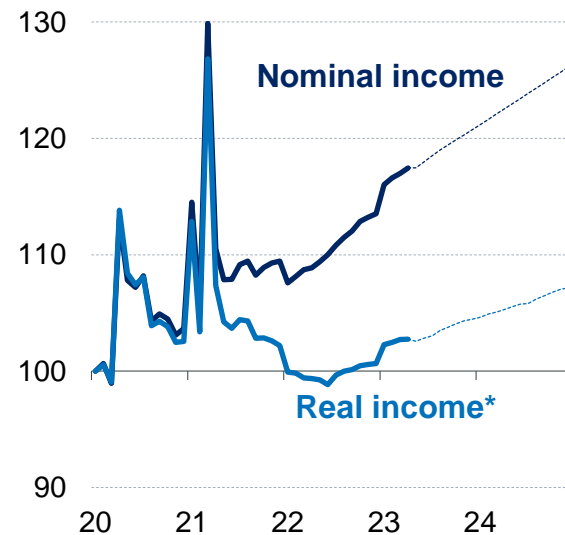
**ARM applications**



# Even with a cooling labor market, consumption can keep growing provided inflation recedes

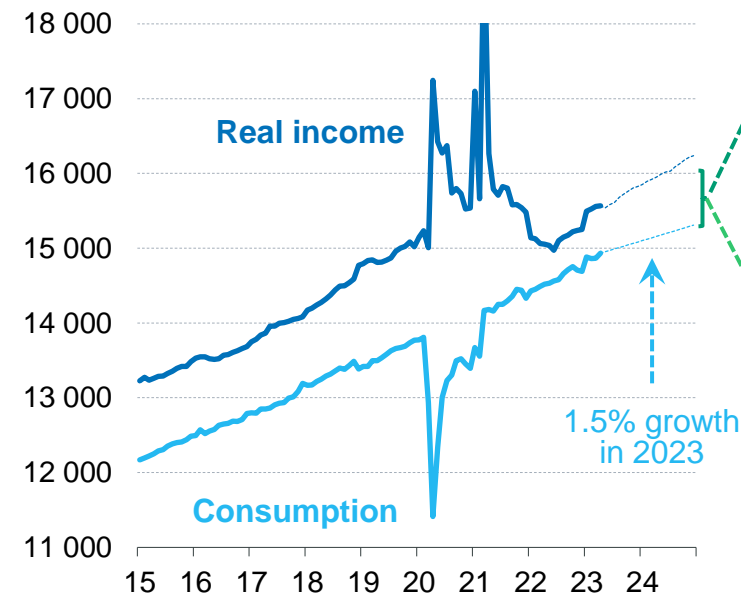


**Household disposable income**  
(January 2020 = 100)



(\*) assuming inflation falls from 8% in 2022 to close to 4.0% in 2023

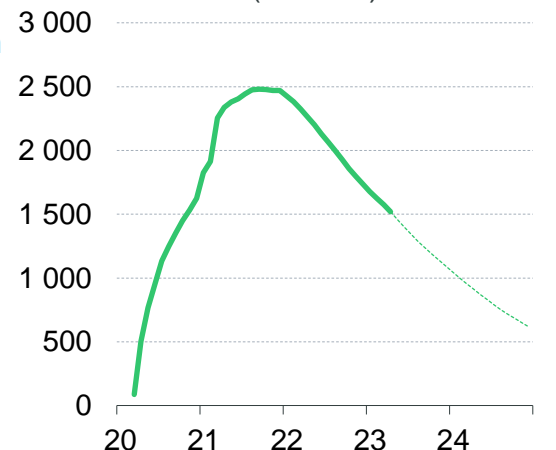
**Real disposable income and consumption**  
(billions of constant dollars)



**Household saving rate**  
(%)

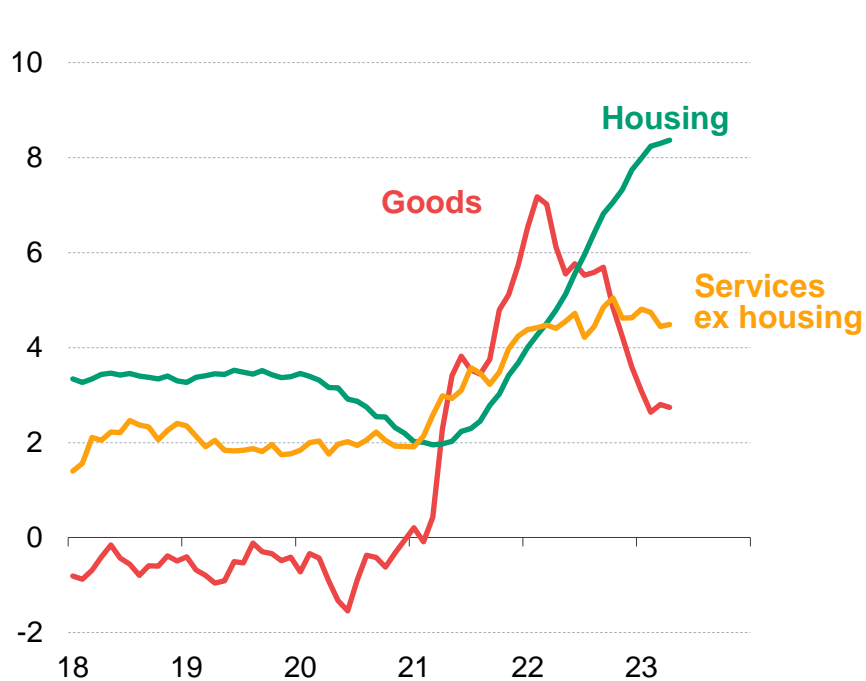


**Household excess saving**  
(\$ billion)

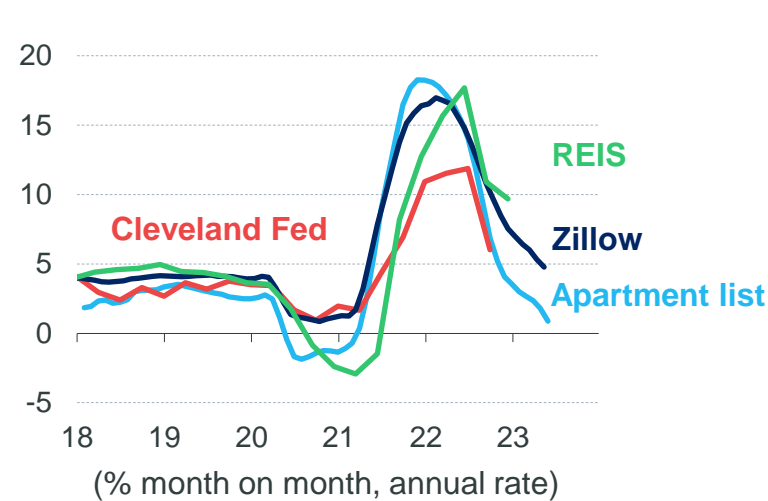


# With the price of goods on a clear downward trend, the Fed will now be focused on wages

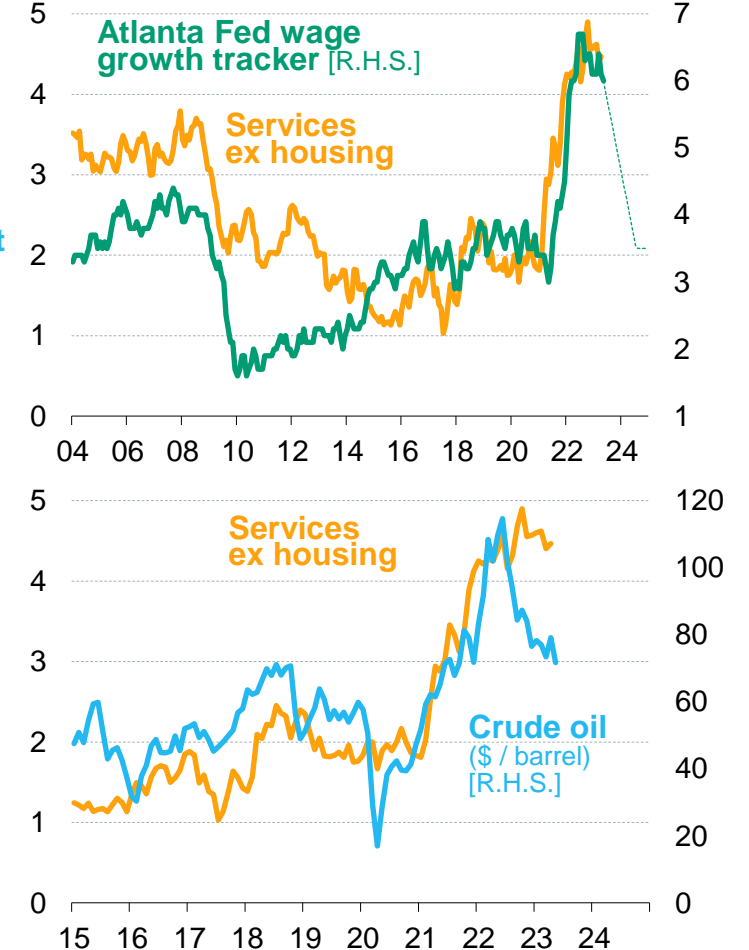
**Core market-based PCE deflators**  
(% year on year)



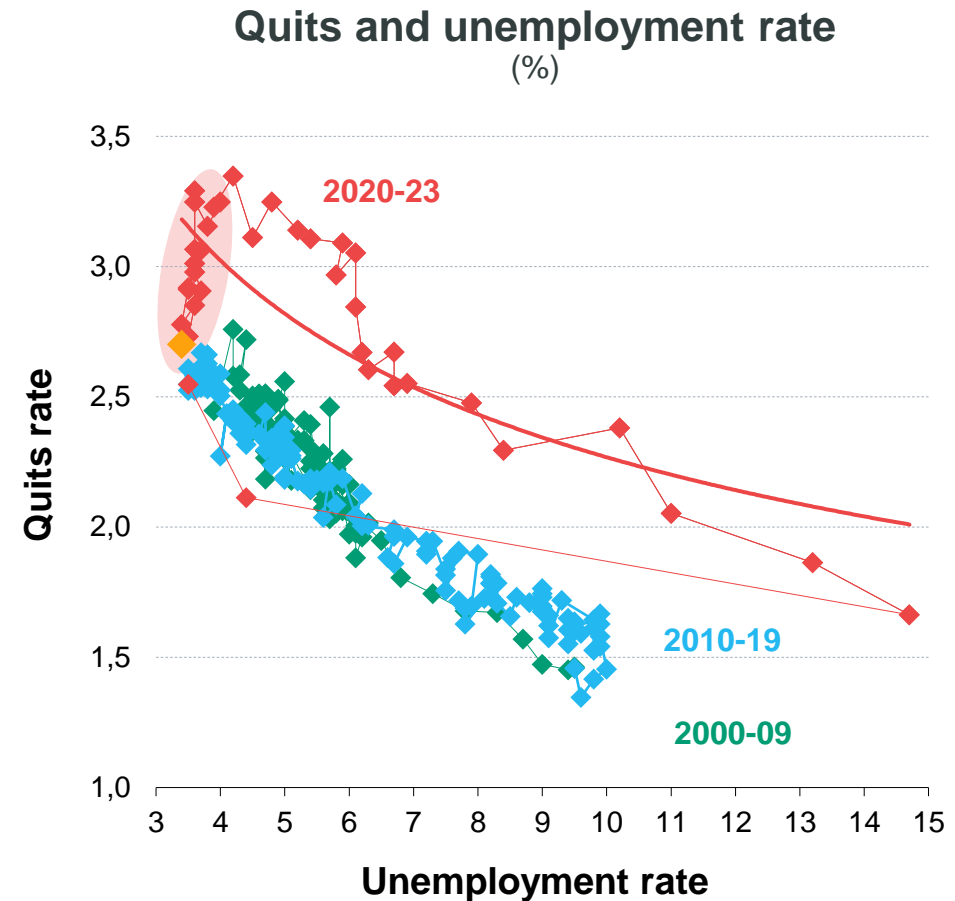
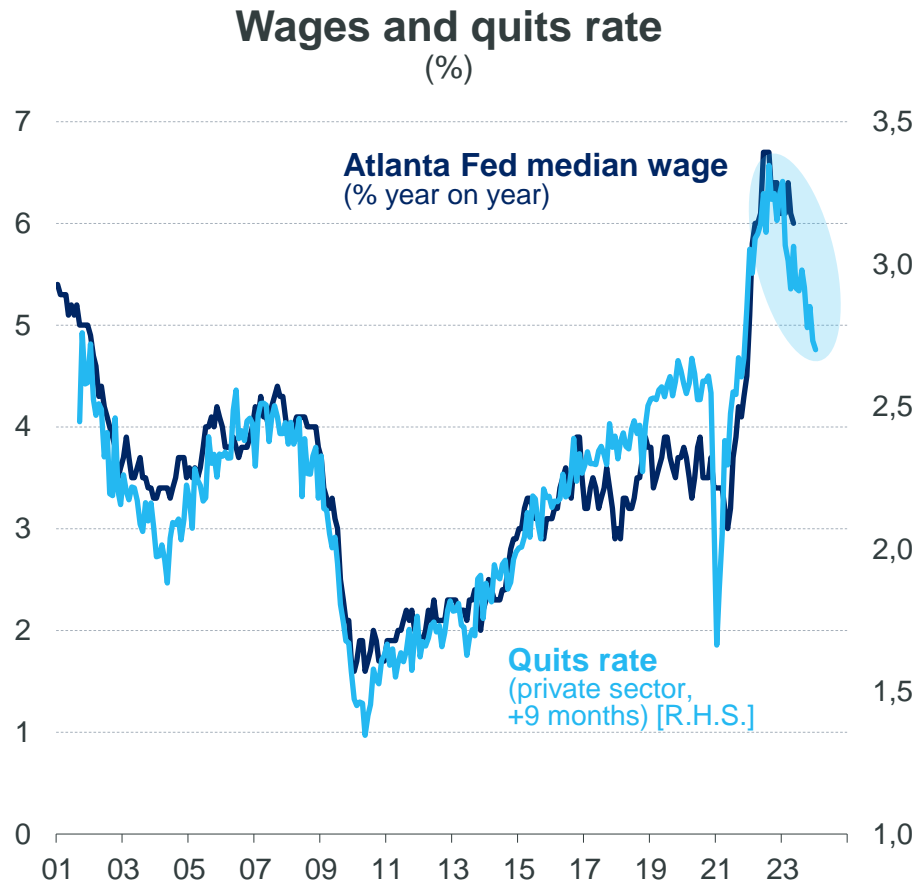
**Different measures of new leases**  
(% year on year)



**PCE core market-based services ex housing prices**  
(% year on year)

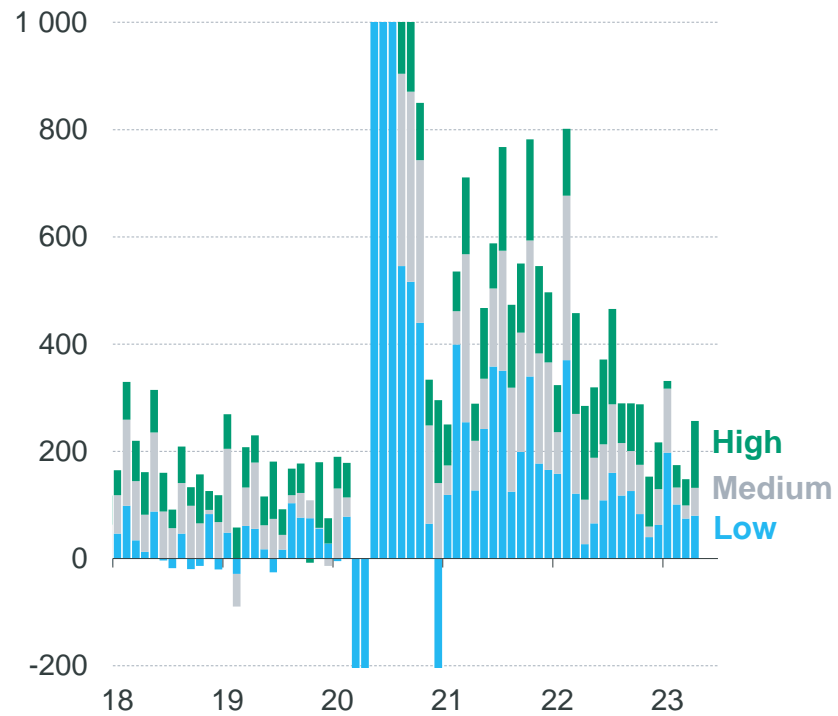


# Up to now, wages are tracking the quits rate... and the quits rate continues to fall!

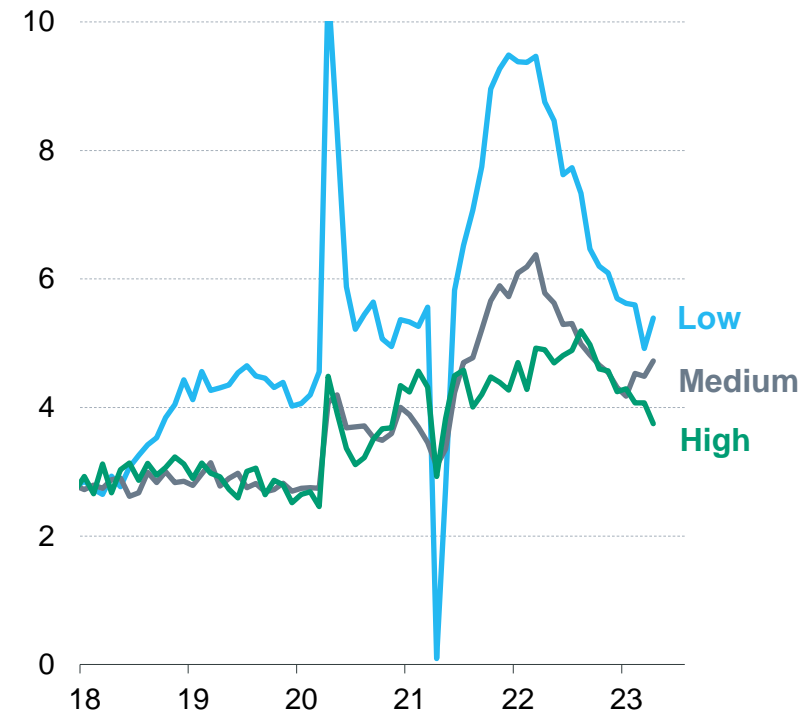


# The deceleration in wages has been broad-based

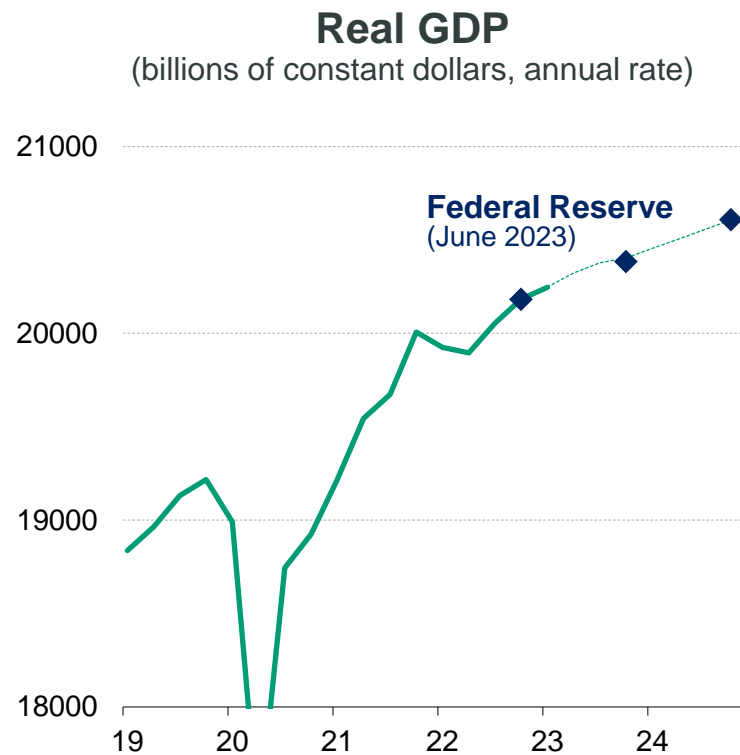
**Job creations by wage levels**  
(thousands, monthly rate)



**Hourly earnings by wage levels**  
(% year on year, fixed composition)



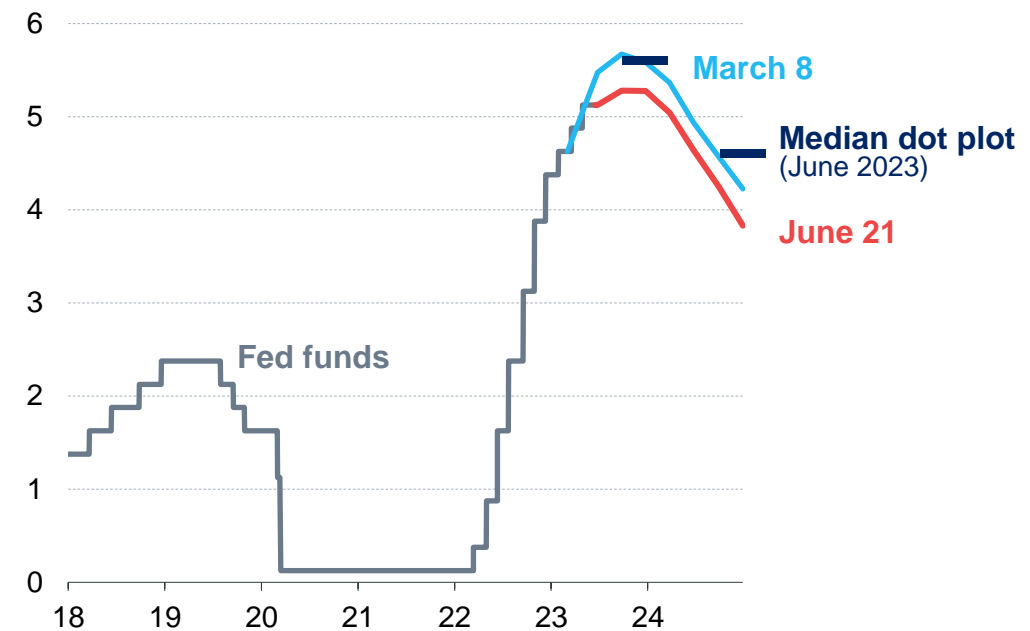
# As expected, the Fed has paused in June



## Our scenario

2022 = 2.1%  
2023 = 1.6%  
2024 = 0.9%

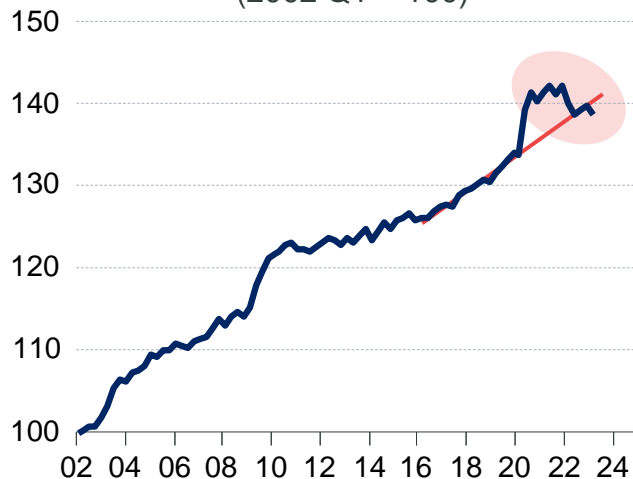
## Fed funds rate expectations (%)





# Still strong labor market data and weak potential growth should lead the Fed to keep rates elevated for some time

From output per hour...  
(2002 Q1 = 100)



**Output per hour** seems now back on its recent trend of 1.6%. This is consistent with a trend in **GDP per employee** of 1.2%.

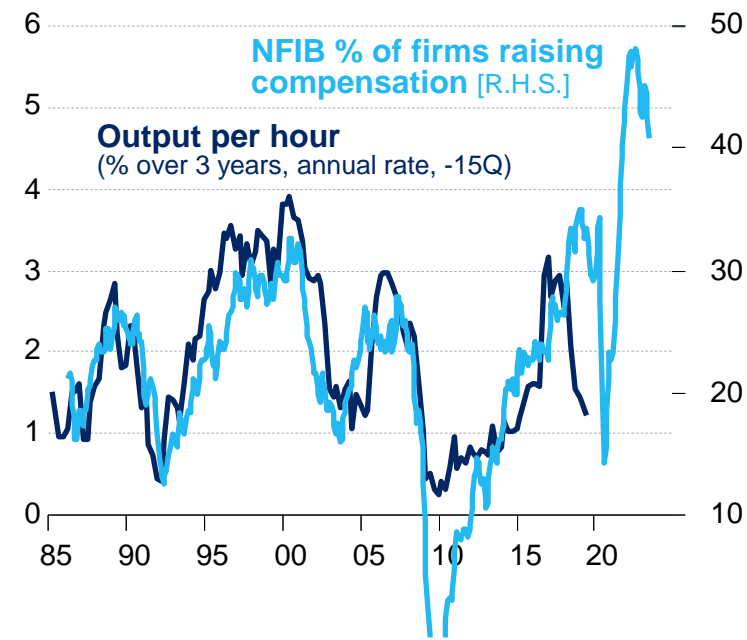
Adding a rate of growth of employment of 0.2% to 0.3% leads to **an annual potential rate of growth of GDP of around 1.5%**.

... to GDP per employee  
(% over 3 years, annual rate)

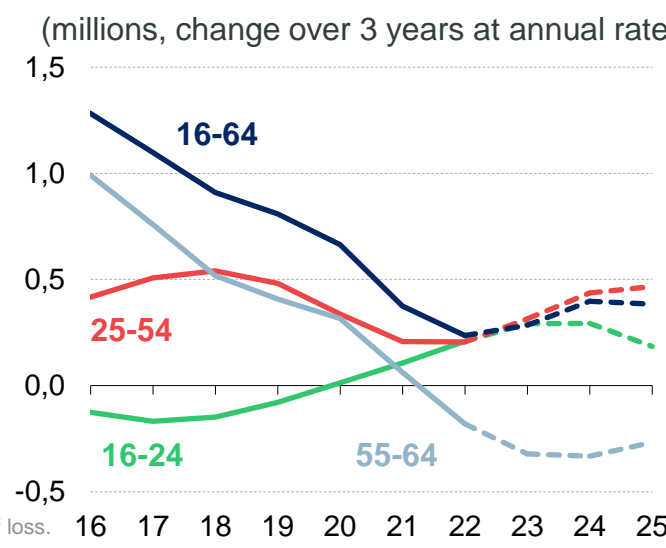
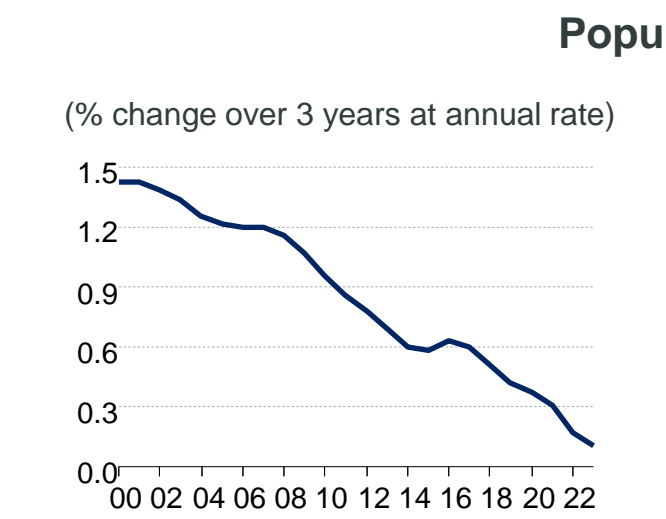
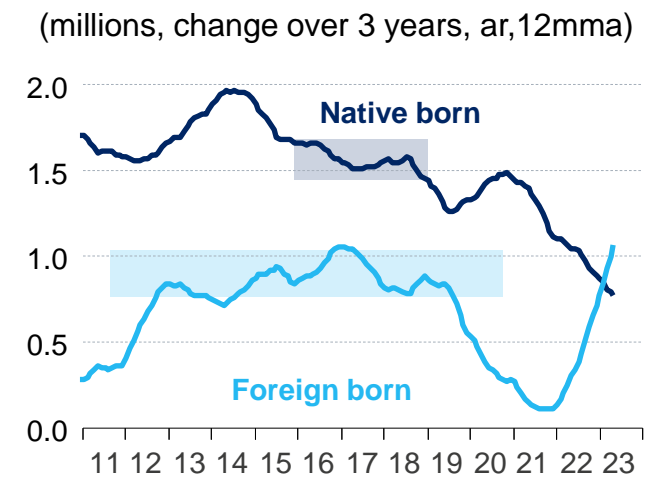
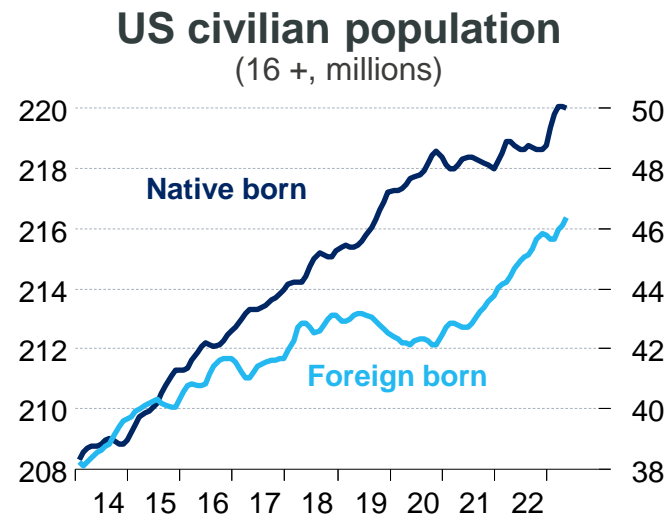


This constraint on growth could be loosened either by **an additional inflow of migrants...** **... or by a pickup in productivity gains**, triggered by the recent sharp rise in compensations.

## Productivity and wage increases



# By normalizing US immigration policy, the Biden Administration has allowed working age population to grow a bit more rapidly...



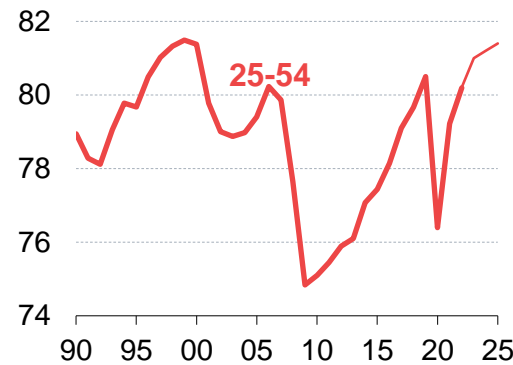
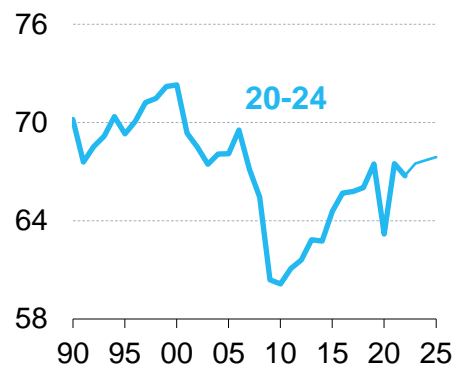
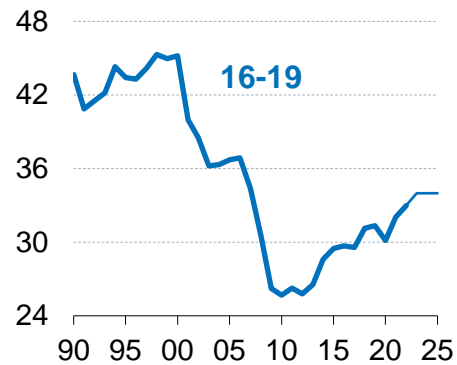
(change over the period, annual rate)

	millions	%
2015/18	0.9	0.4
2020/22	0.2	0.1
2022/25	0.4	0.2

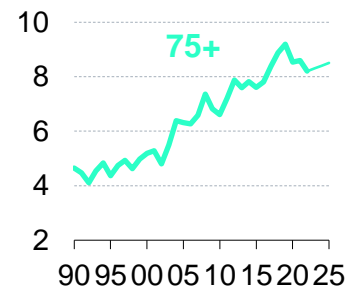
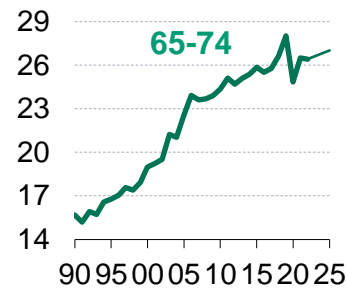
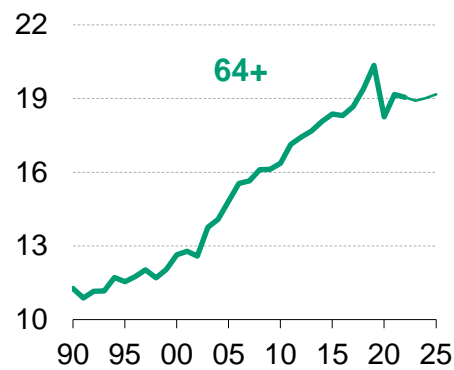
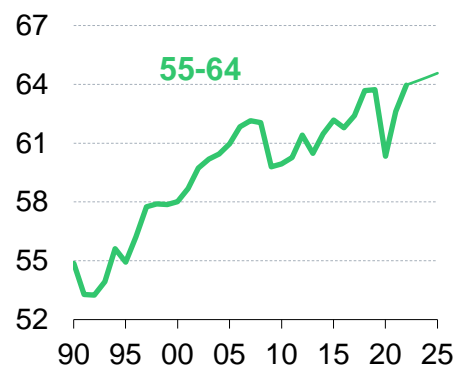
For the next years, it seems reasonable to expect the working age population to grow at an annual rate of 0.2%.

# ... but aging is hindering the rise in the employment to population ratio

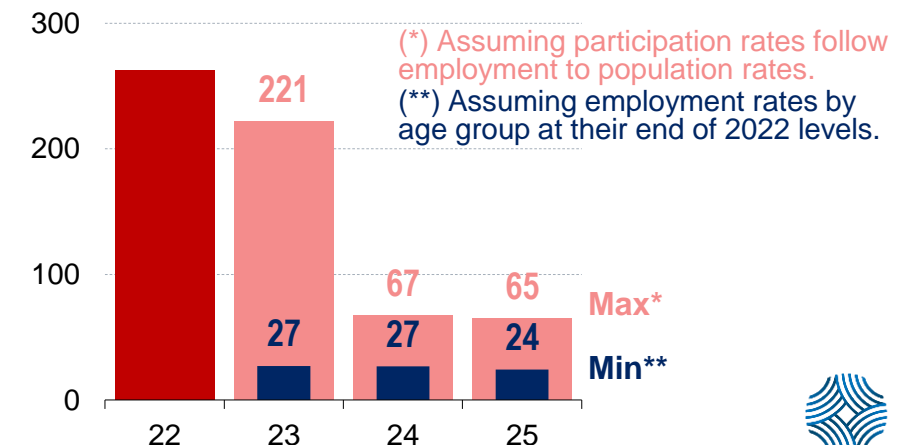
Employment to population rates by age (%)



Employment to population rate (%)

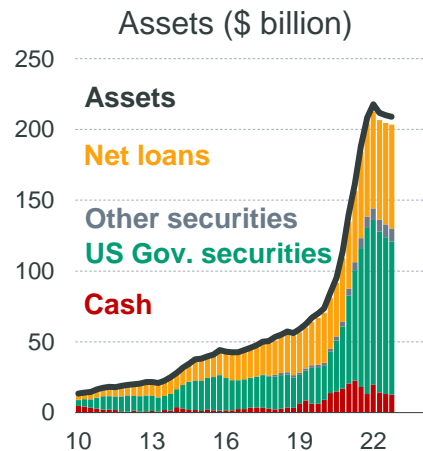


Maximum increase in employment consistent with a stable unemployment rate (average increase per month, thousands)

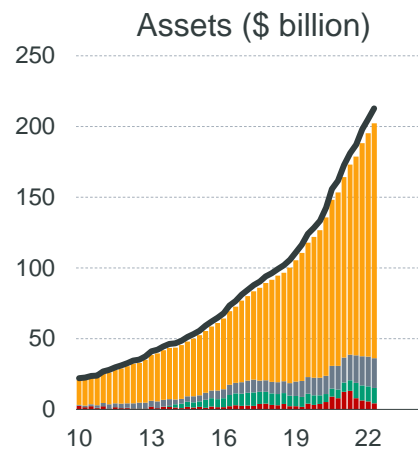


# Persistent tensions in the banking sector could jeopardize the soft-landing of the economy

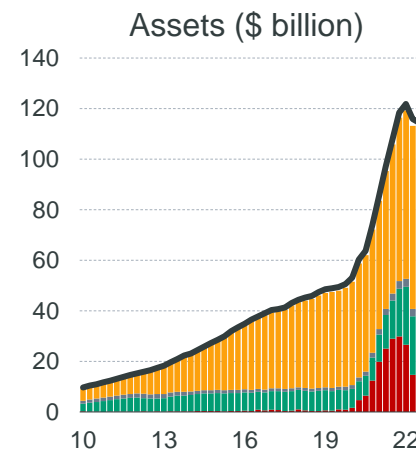
**Silicon Valley Bank**



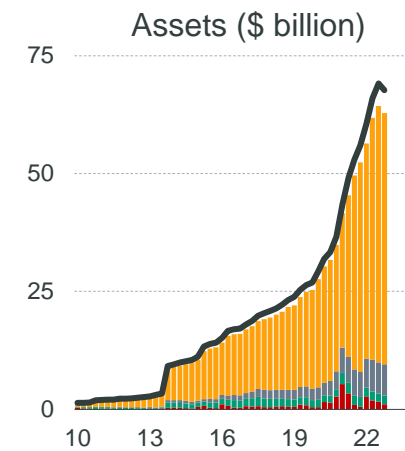
**First Republic Bank**



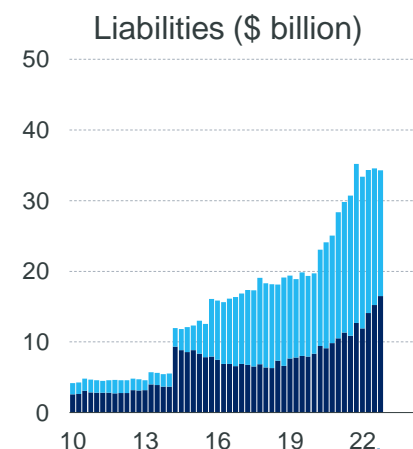
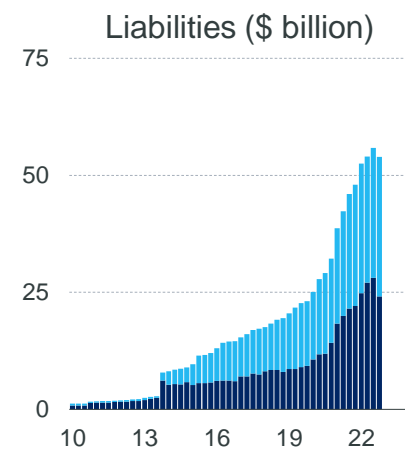
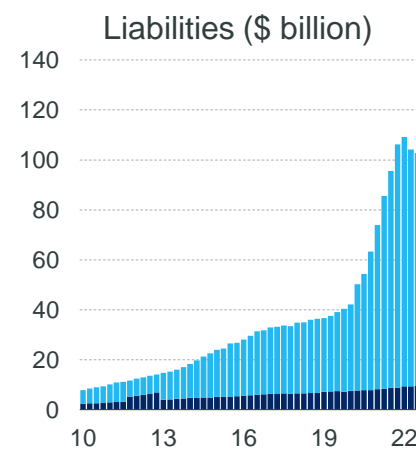
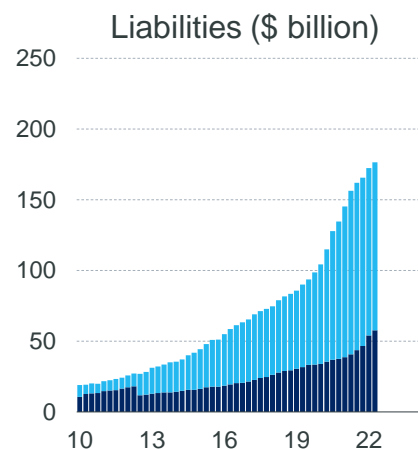
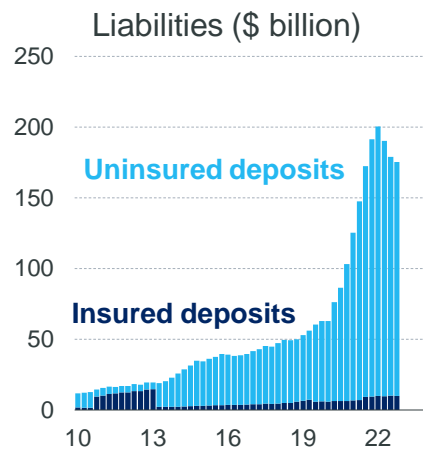
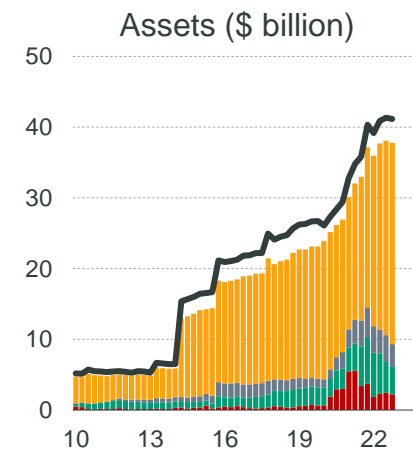
**Signature Bank**



**Western Alliance Bank**



**Pacific Western Bank**



# Memo. Existing and potential Federal deposit protections

## Existing and potential Federal deposit protections

	Agency
<b>Deposits under \$250k</b>	
Standard policy ("Least Cost Method")	FDIC
<b>Deposits over \$250k</b>	
Standard policy ("Least Cost Method")	FDIC
"Systemic Risk Exception"	FDIC
"Liquidity Event Determination"	FDIC
Potential Treasury program	Treasury
Raise \$250k cap to cover more deposits	FDIC

"I have not considered or discussed anything to do with blanket insurance or guarantees of deposits"

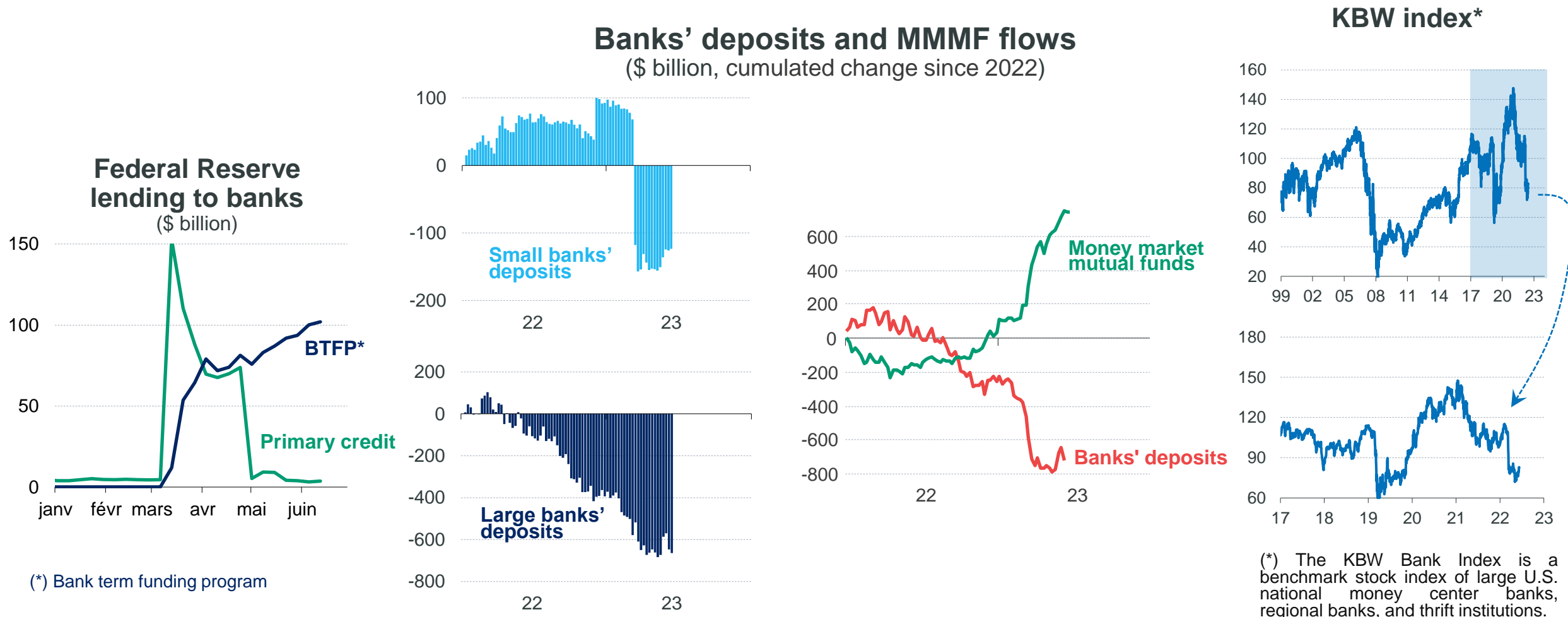
"Similar actions [to the SVB guarantee] could be warranted if smaller institutions suffer deposit runs that pose the risk of contagion"

- Treasury Secretary Janet Yellen

- A least cost resolution** is one that results in the lowest cost to the deposit insurer and/or the government. In general, only insured depositors are fully reimbursed or protected under a strict least-cost resolution.
- The **"Systemic Risk Exception" (SRE)** allows the FDIC to take additional measures if the least-cost method would have "serious adverse effects on economic conditions or financial stability". Regulators are likely to deem any near-term bank failure a systemic risk. However, this is only an ex-post guarantee (once the bank is under conservatorship).
- In the case of a **"liquidity event determination"**, the FDIC could rely on the SRE to broadly backstop bank debt and uninsured deposits. The President must request congressional approval and the FDIC can only use the LED for broad guarantee
- With the **Exchange Stabilization Fund (ESF)** the Treasury has authority to "deal in gold, foreign exchange and other instruments of credit and securities the Secretary considers necessary". The Treasury has broad discretion over how to use funds without congressional approval. The Congress prohibited ESF funds from being used to back MMMFs, but that prohibition is silent on other types of guarantees. Unlikely given that it is tax-payers funds.
- This solution would need to follow the normal legislative process and is unlikely to find broad political support given the Congress diverging positions on the subject.



# Up to now, tensions have been managed, but the situation has not fully stabilized

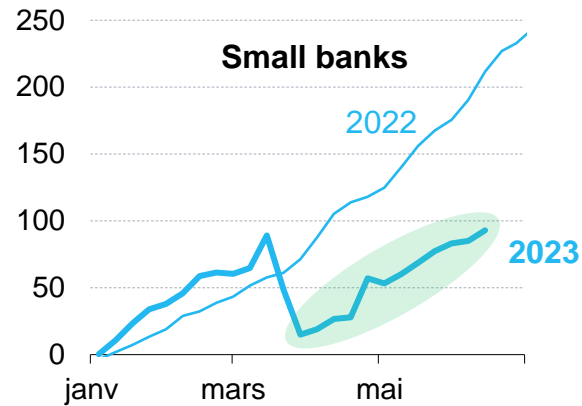
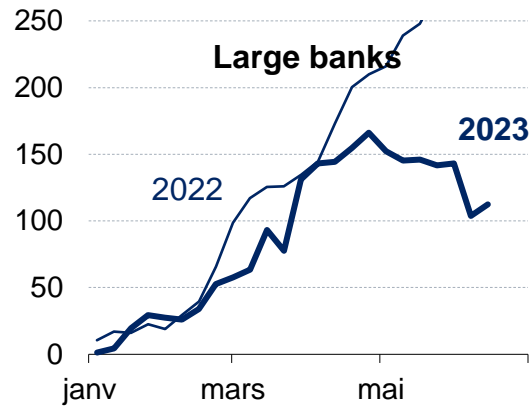




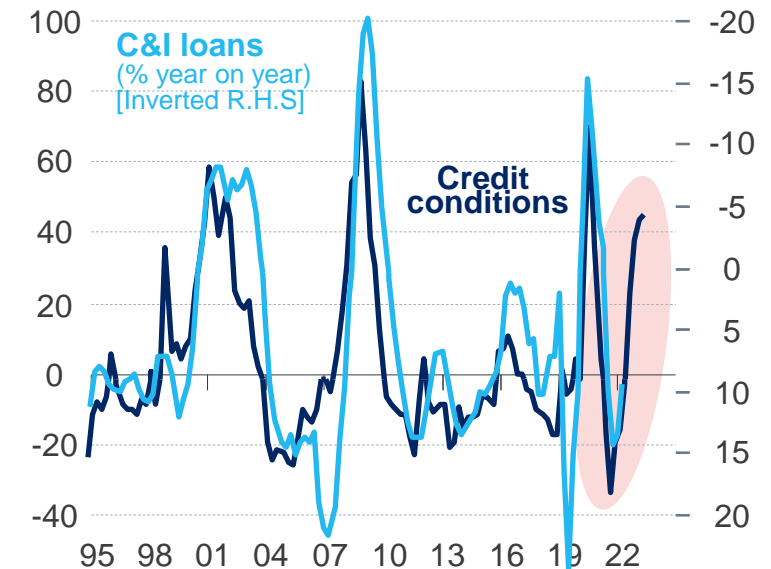
# A further tightening in credit conditions could curb lending, in particular to the commercial real estate sector

## Loans and leases

(\$ billion, cumulated since January)

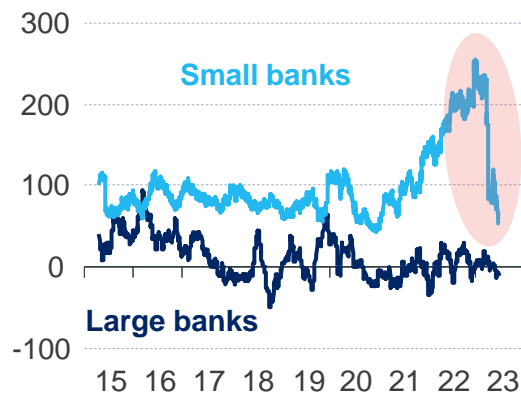


## Credit conditions for commercial and industrial loans



## Commercial mortgage flows

(\$ billion, quarterly flows, annual rate)



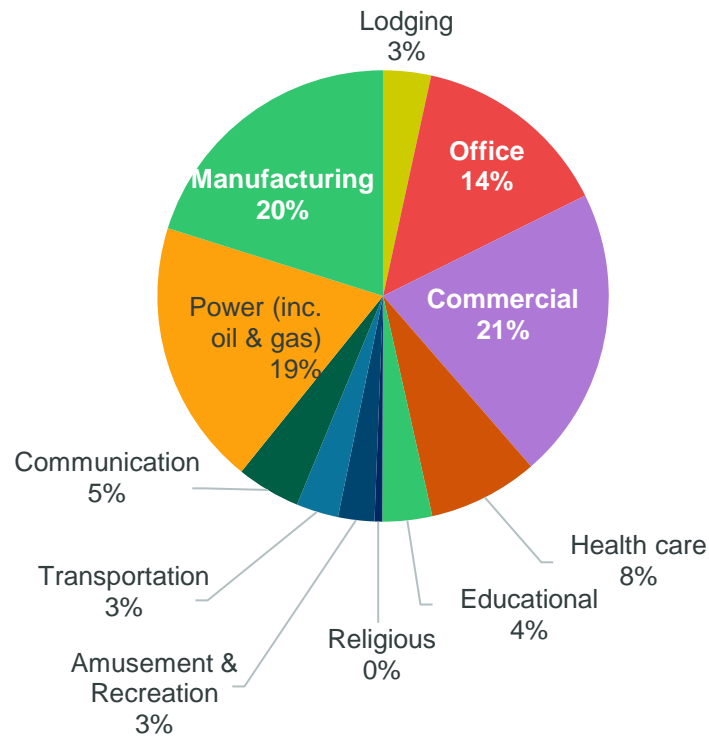
## Building vacancy rates

(%)



# But structures will remain buoyed by investment of manufacturing companies!

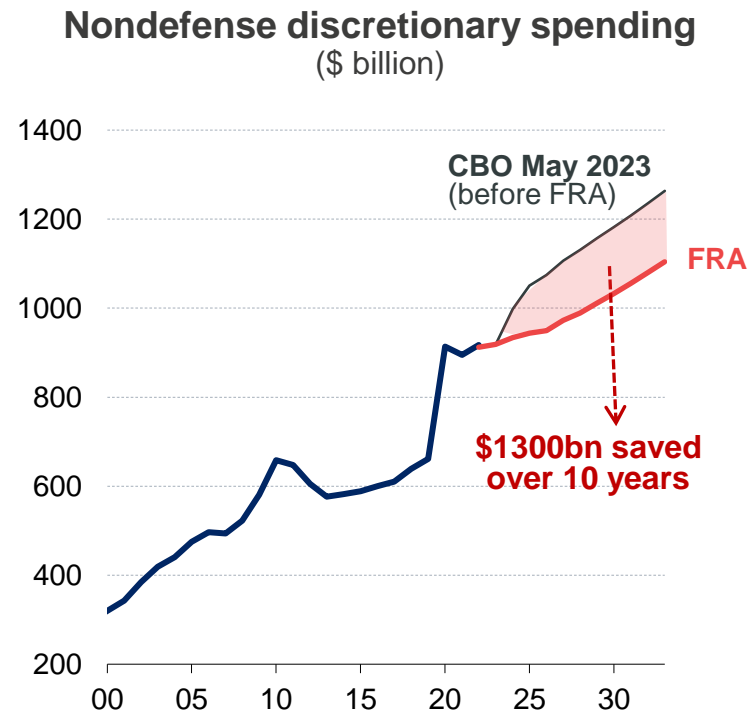
## Private investment in non-residential structures (\$ billion, annual rate)



# The effect on GDP growth of the recently voted Fiscal Responsibility Act (FRA) should be contained

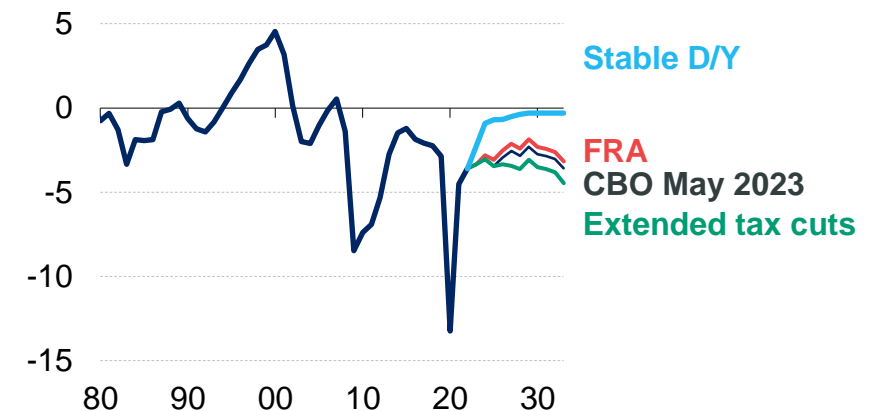
The Fiscal Responsibility Act (FRA) suspends the debt ceiling until January 2025, and provides for:

- A **cap on discretionary spending (excluding defense)** for fiscal years 2024 and 2025. The effect on growth would be modest (-0.1% in 2023 and -0.3% in 2024).
- A ban on extending the suspension of student loan repayments beyond August 31.



## Federal government net lending and debt (% of GDP)

### Primary balance



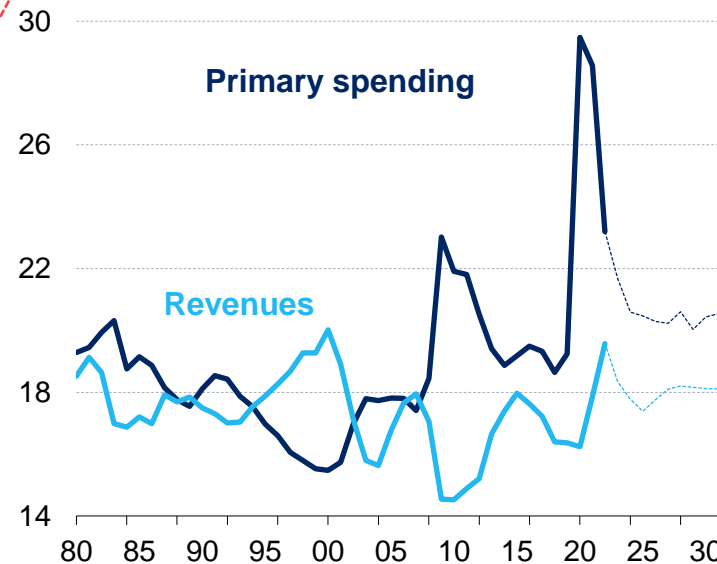
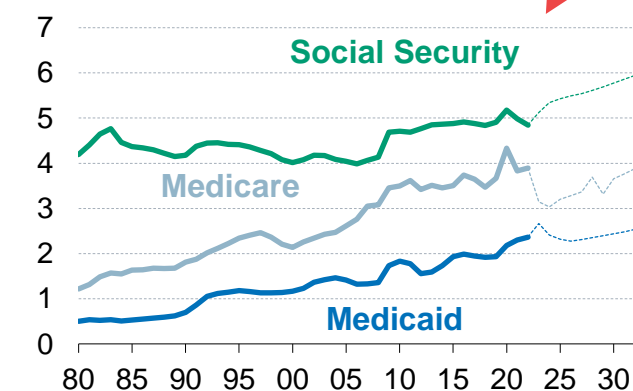
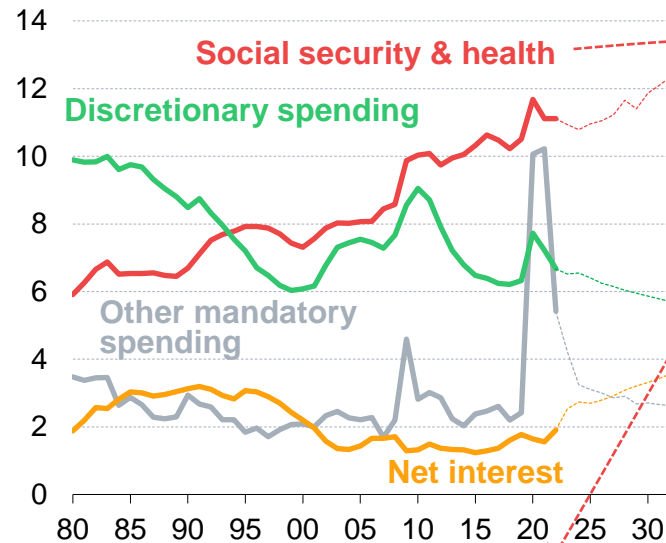
### Public debt



# Memo. Fiscal trajectory after the FRA

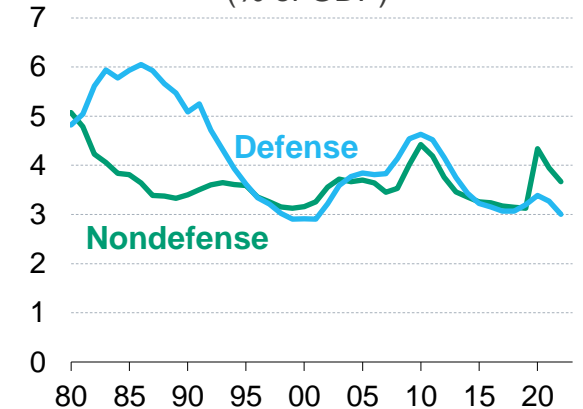
## Federal government spending and revenues

(% of GDP)



## Discretionary spending

(% of GDP)



## Net interest paid



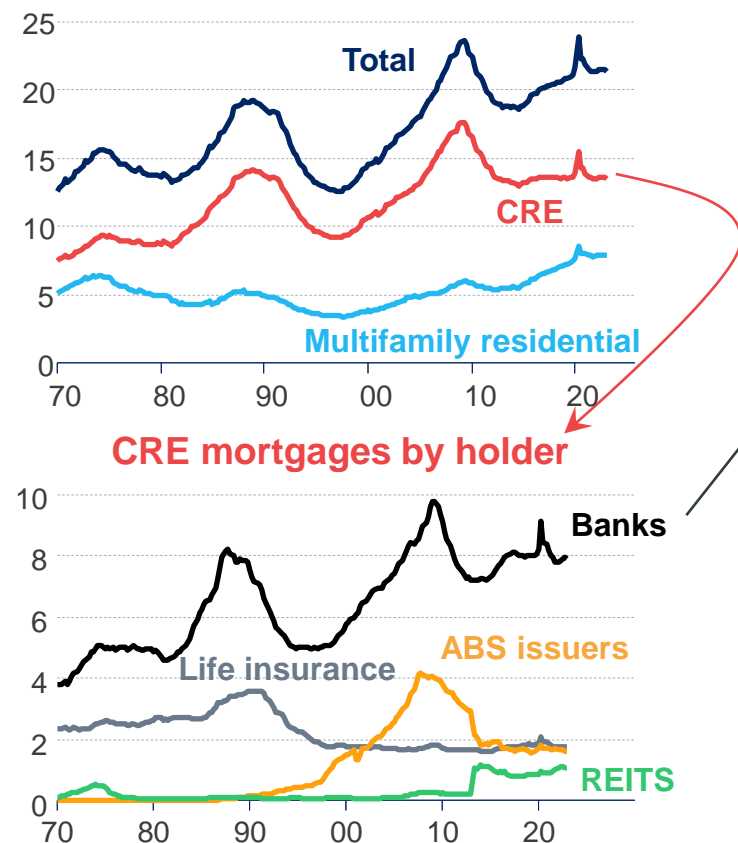
# Focus

Some elements on the  
US commercial real estate market

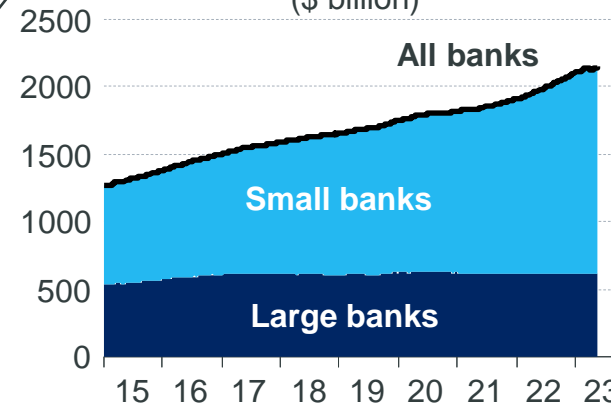


# A tightening of credit conditions by small banks would heavily weigh on non-residential CRE funding

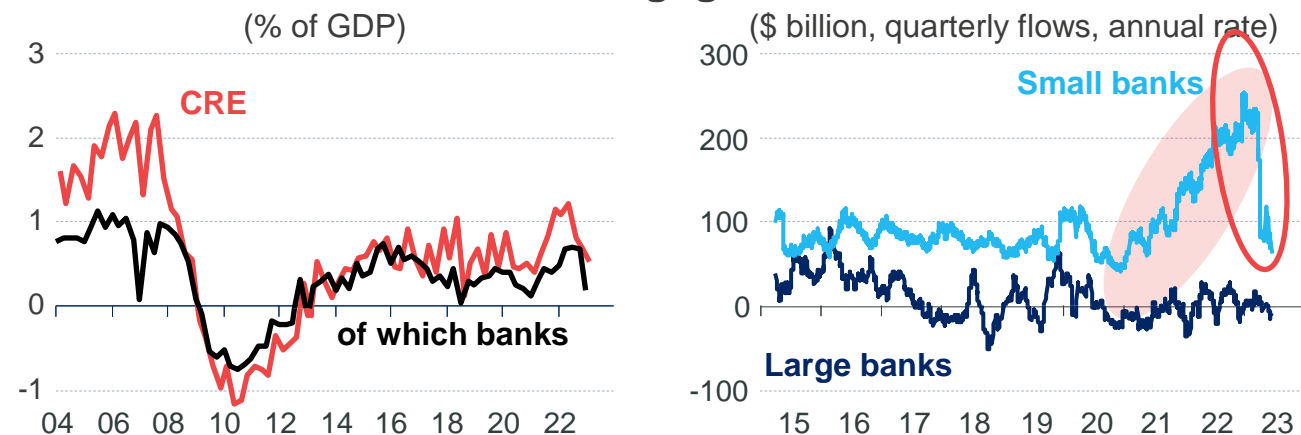
**Multifamily and CRE mortgages**  
(outstanding amount as a % of GDP)



**Banks direct holding of CRE mortgages**  
(\$ billion)



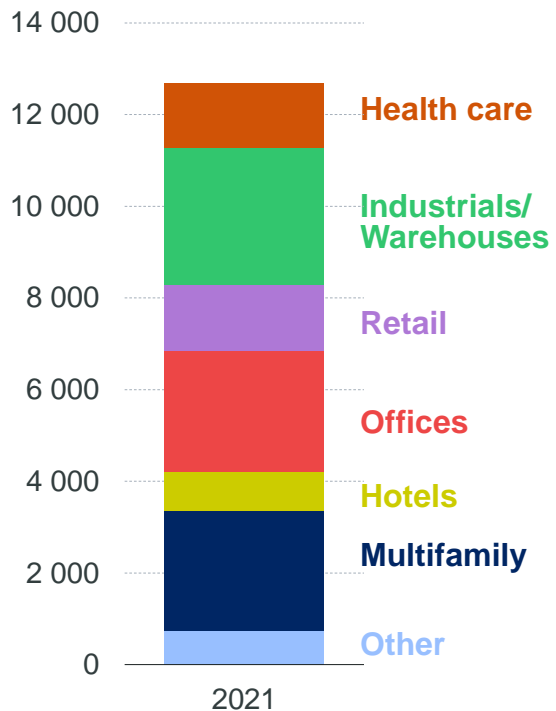
**CRE mortgages flows**



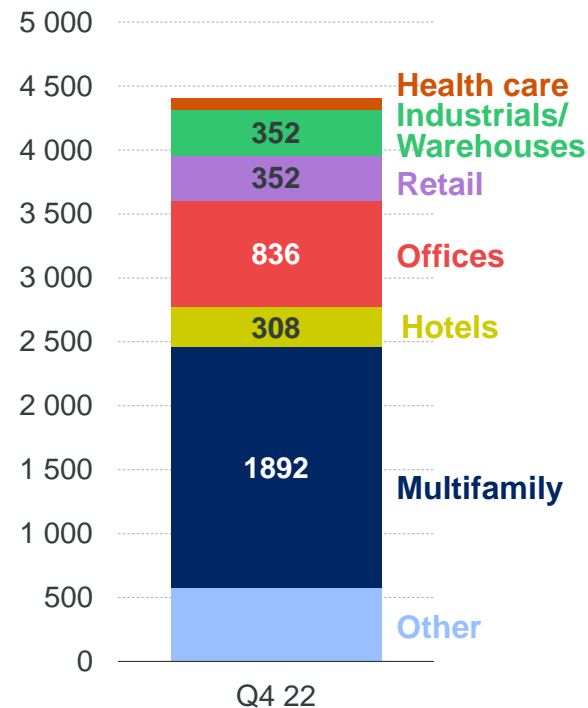


# Offices have the biggest share in non-residential CRE lending

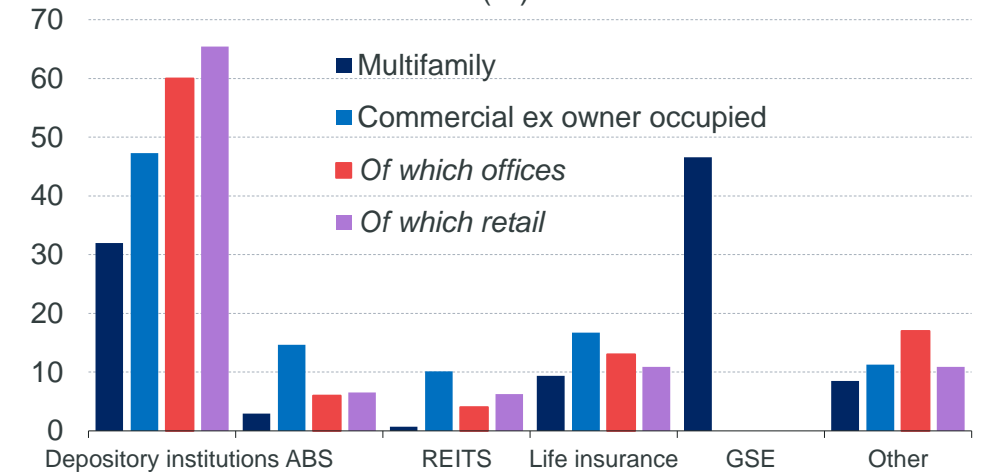
**Net stock of non-residential structures**  
(\$ billion, at current cost)



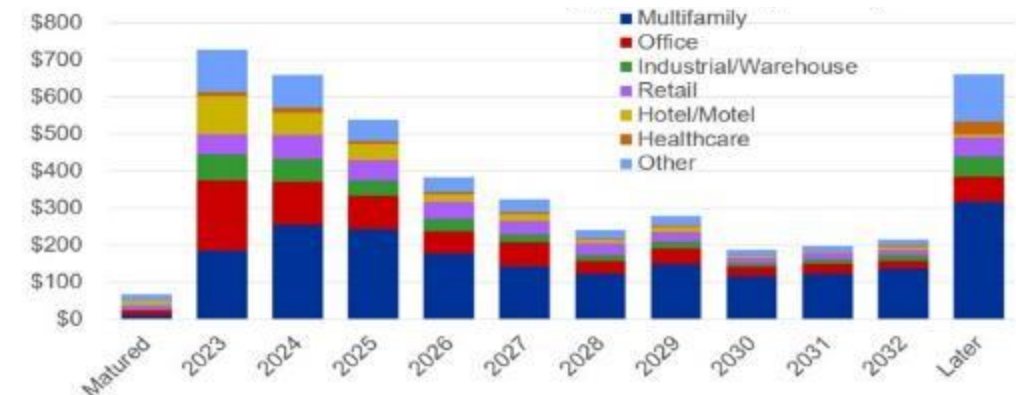
**Amount outstanding of income producing CRE loans and CMBS**  
(\$ billion)



**Holders of the income producing CRE loans and CMBS (%)**

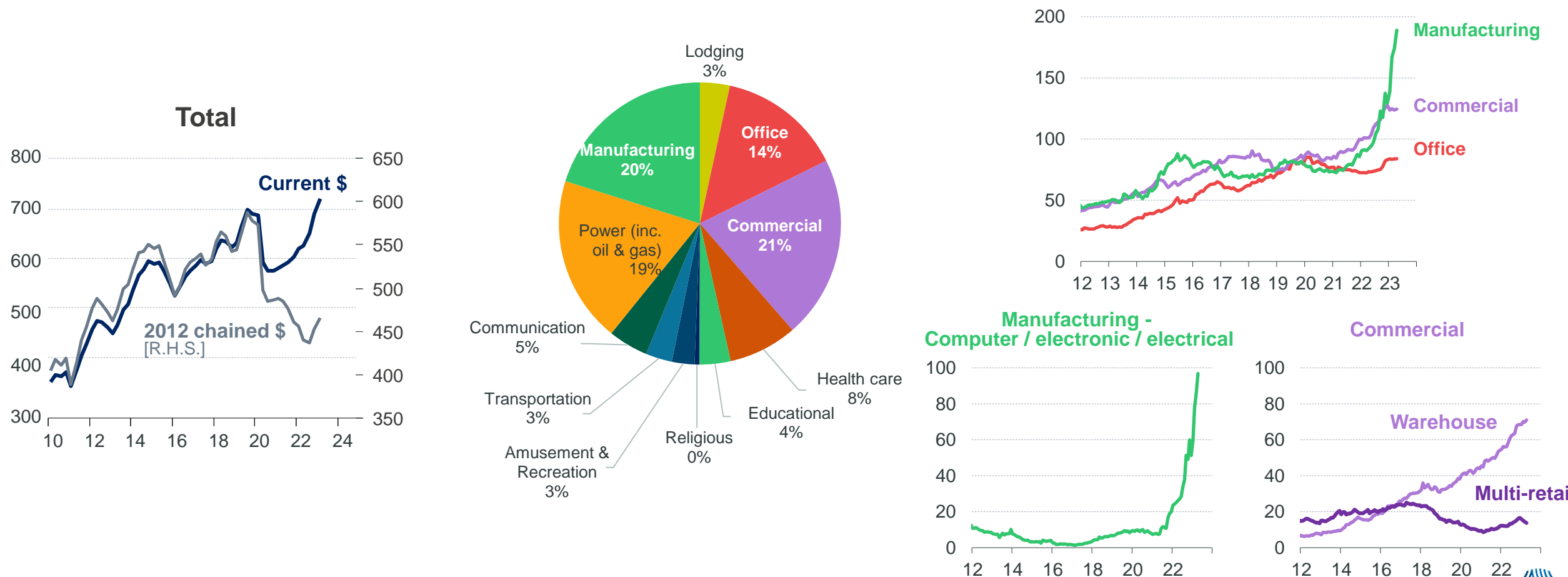


**Estimated total commercial mortgages maturities (\$ billion)**

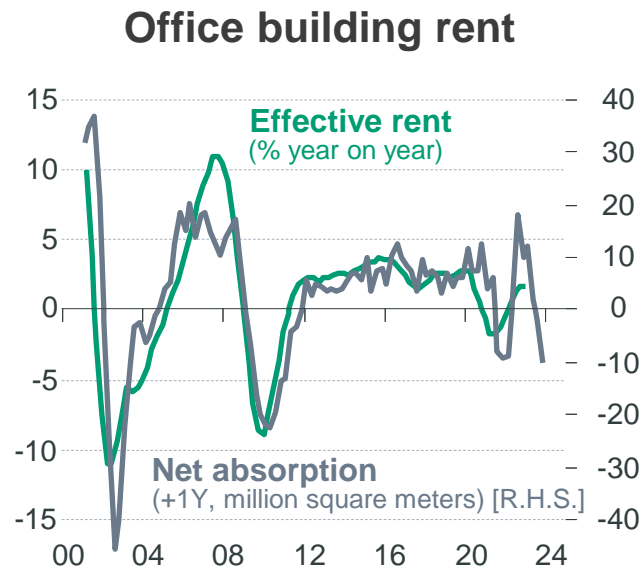


# Memo. Decomposition of private investment in non-residential structures

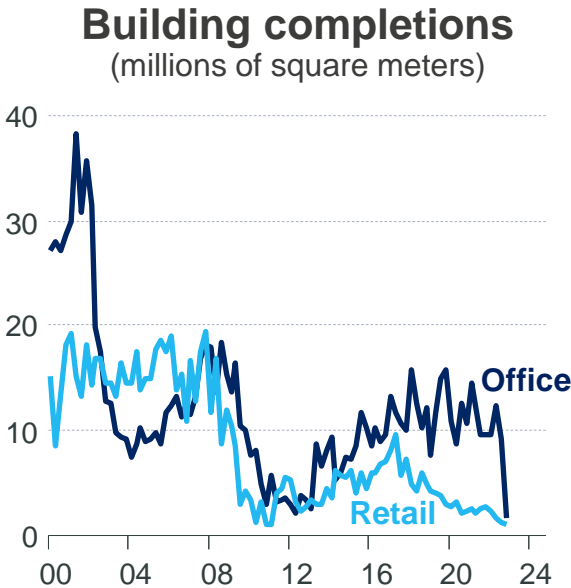
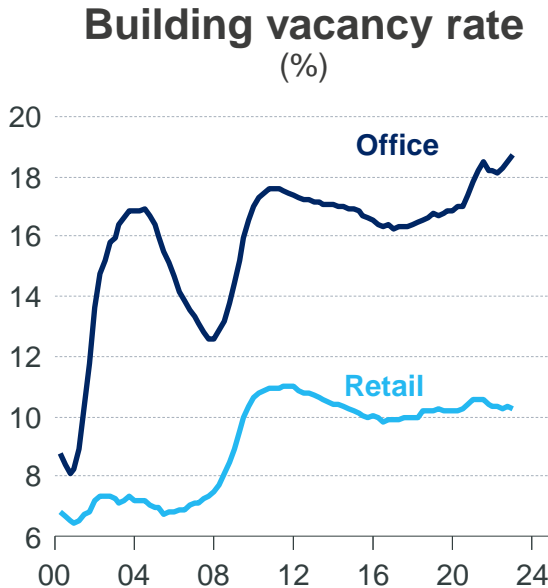
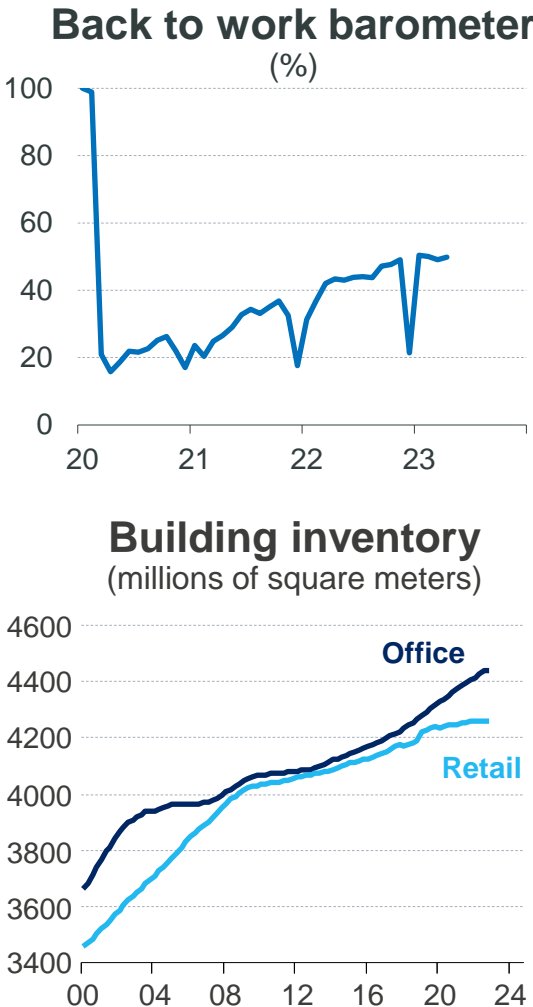
Private investment in non-residential structures  
(\$ billion, annual rate)



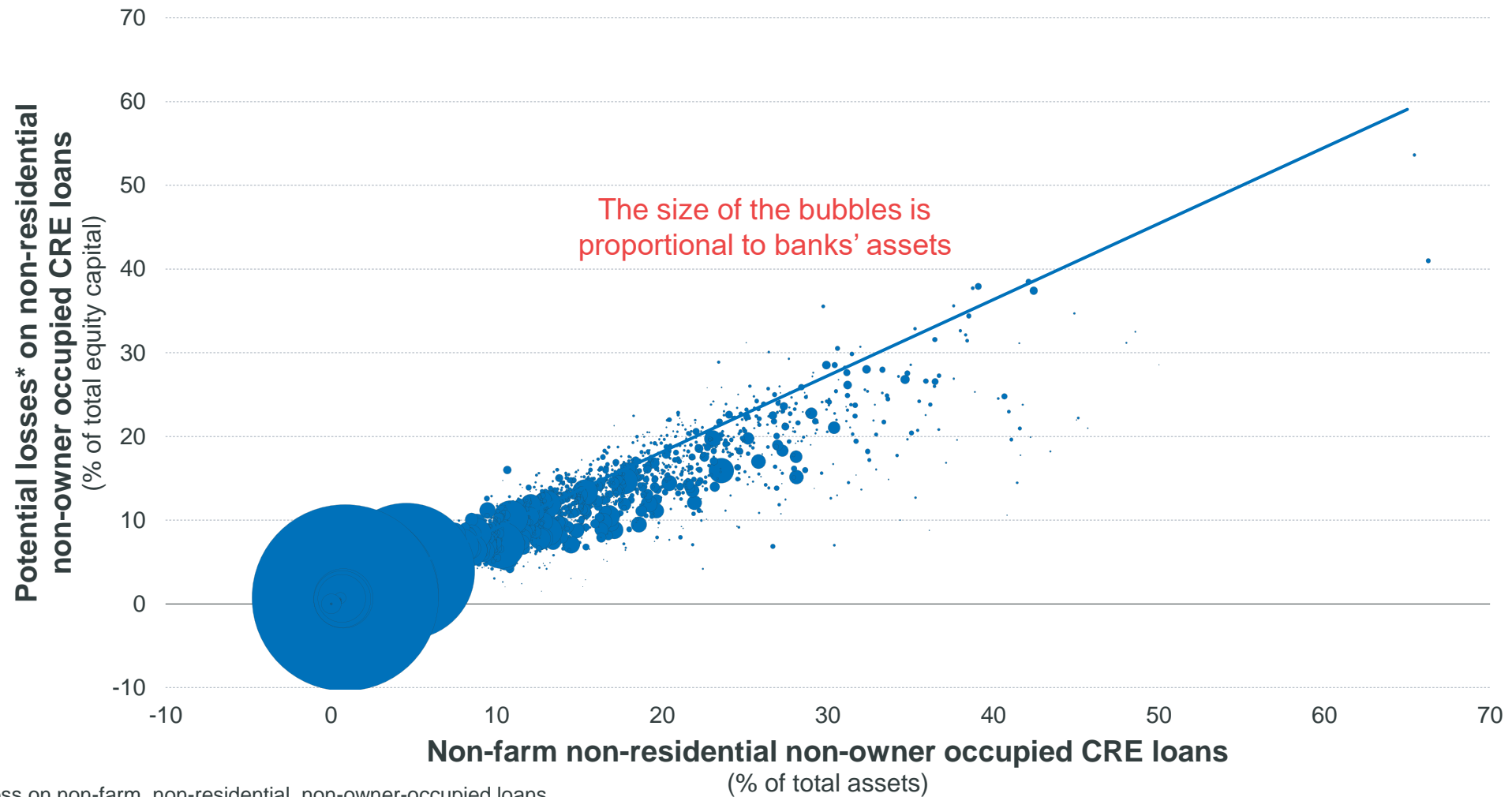
# From here on, falling rents and rising delinquencies on CRE loans for offices could be a threat for some small banks



(\*) Net Absorption is the net change in physically occupied space (taking into consideration office space vacated and newly constructed office space).



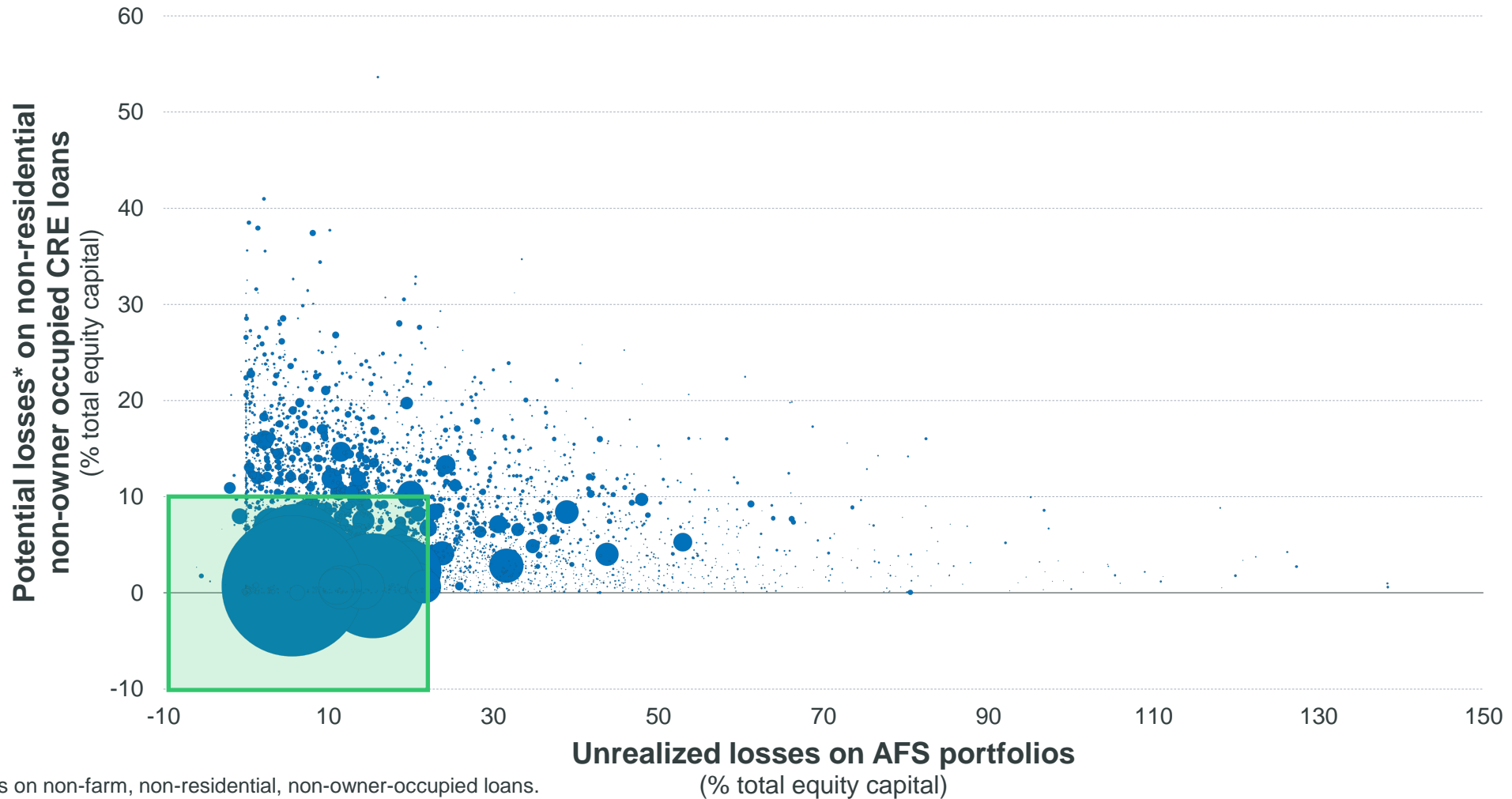
# Most potential CRE loans losses seem concentrated in smaller banks



(\*) Assuming an 8.6% loss on non-farm, non-residential, non-owner-occupied loans.



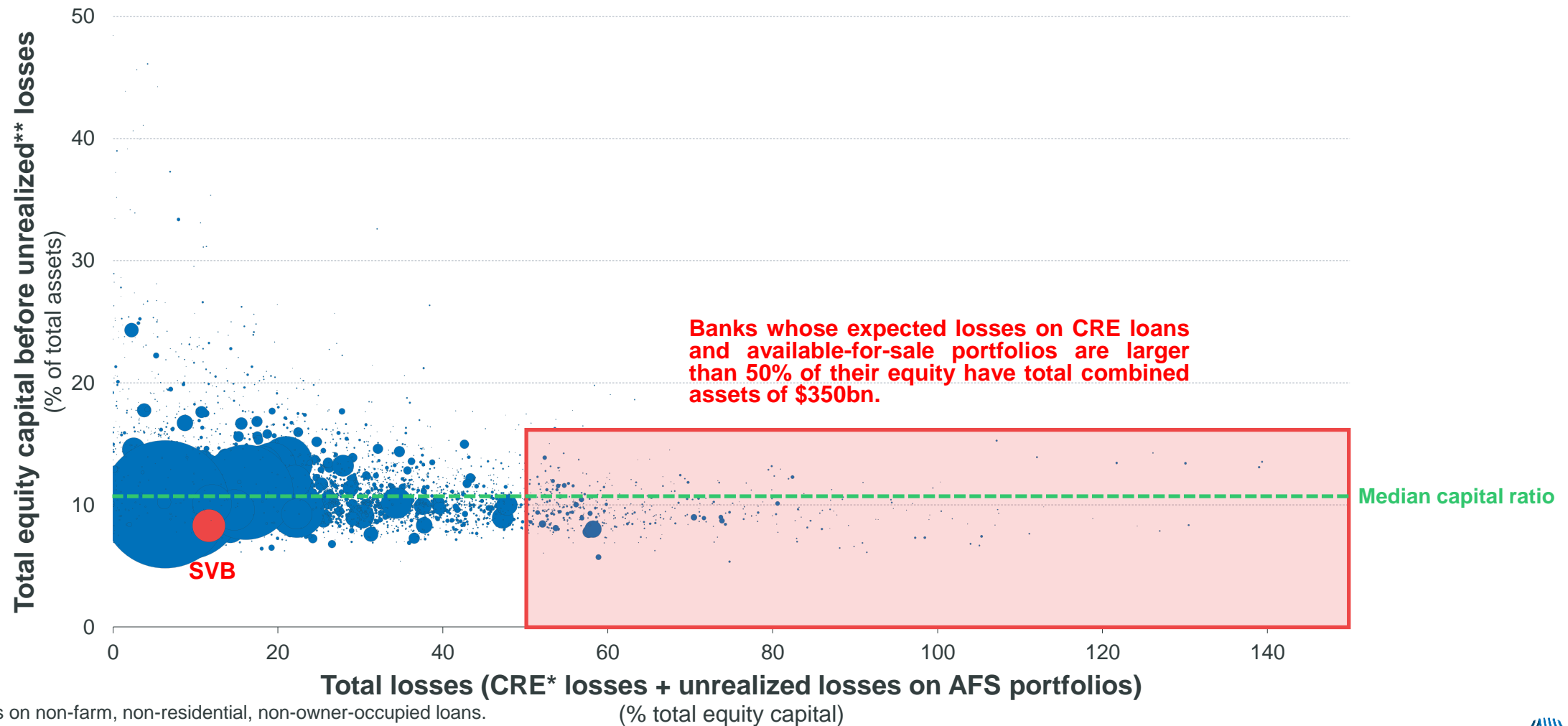
# Smaller banks with potential CRE losses are not necessarily those with unrealized losses on their “available for sale” portfolio



(\*) Assuming an 8.6% loss on non-farm, non-residential, non-owner-occupied loans.



# Banks cumulating potential CRE and AFS portfolio losses account for less than 1.5% of total banks' assets

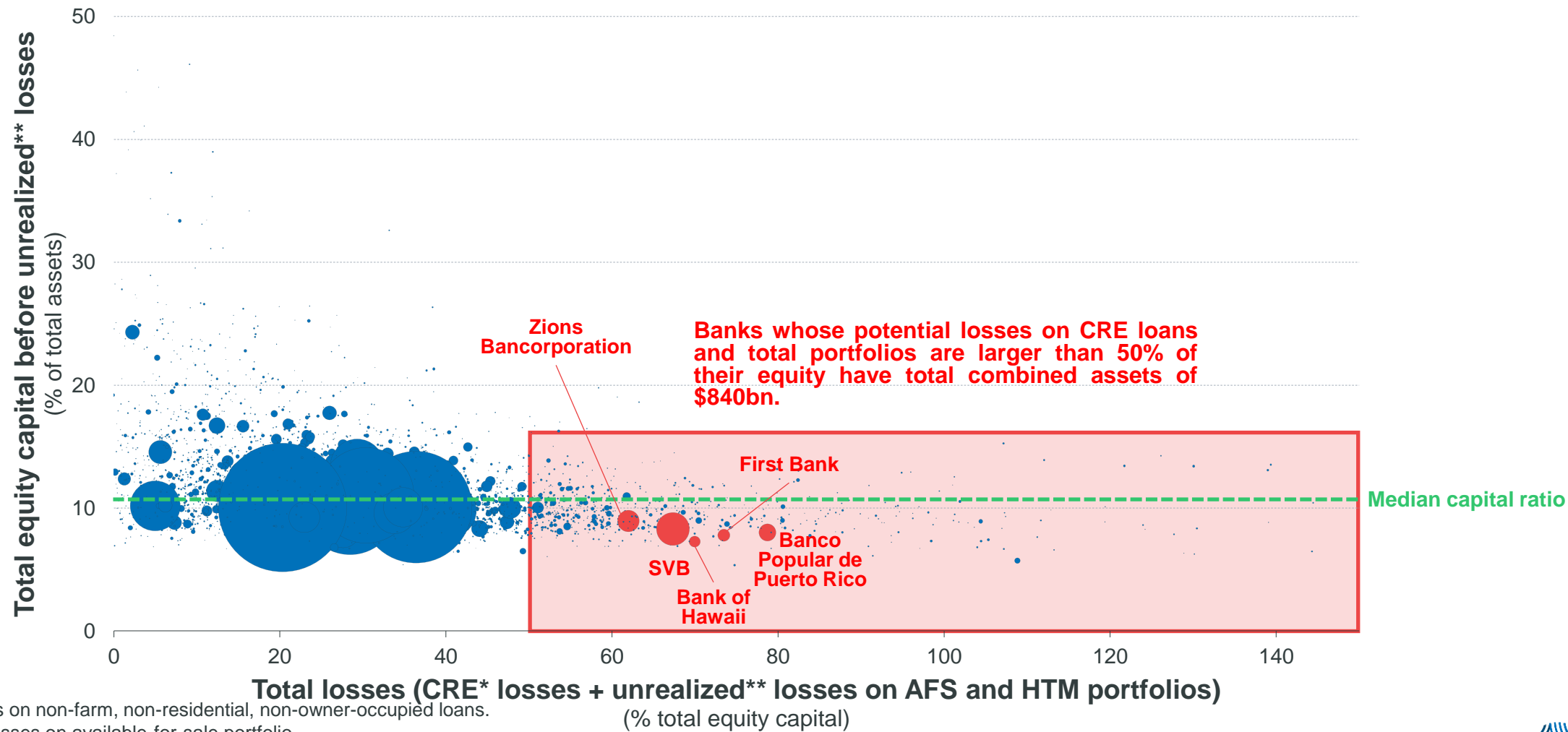


(\*) Assuming an 8.6% loss on non-farm, non-residential, non-owner-occupied loans.

(\*\*) Of which unrealized losses on available-for-sale portfolio.



# Adding “held to maturity” portfolio’s unrealized losses, vulnerable banks would account for 3.7% of total banks’ assets



(\*) Assuming an 8.6% loss on non-farm, non-residential, non-owner-occupied loans.  
(\*\*) Of which unrealized losses on available-for-sale portfolio.





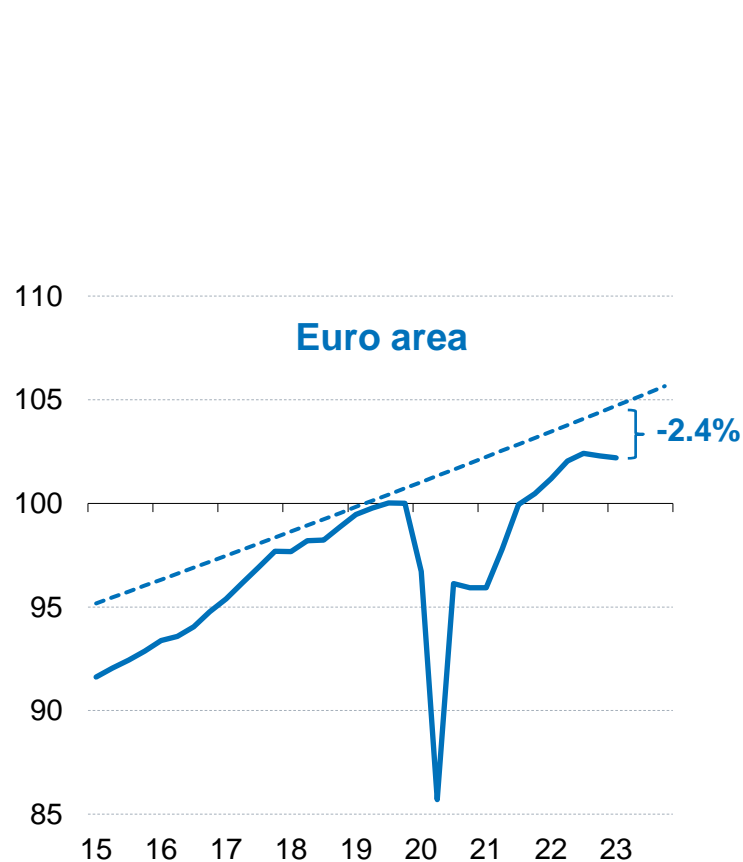
# 04

## Euro area

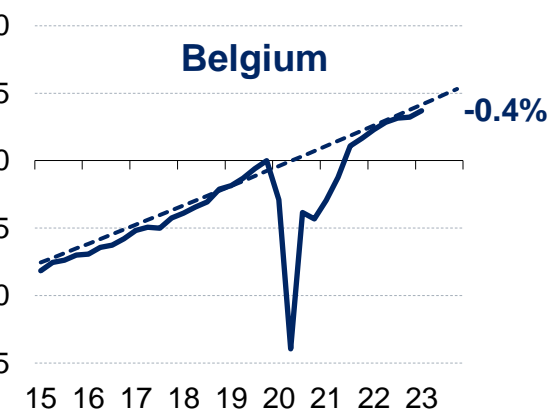
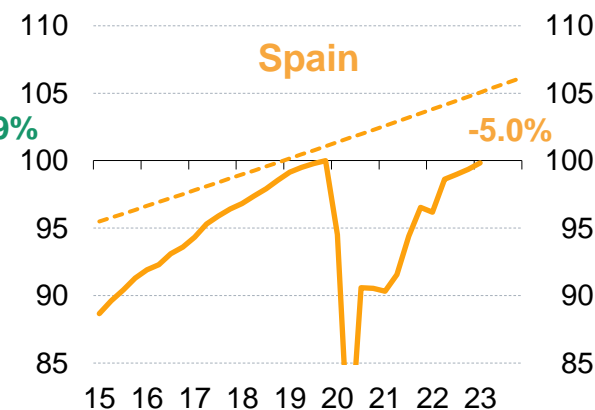
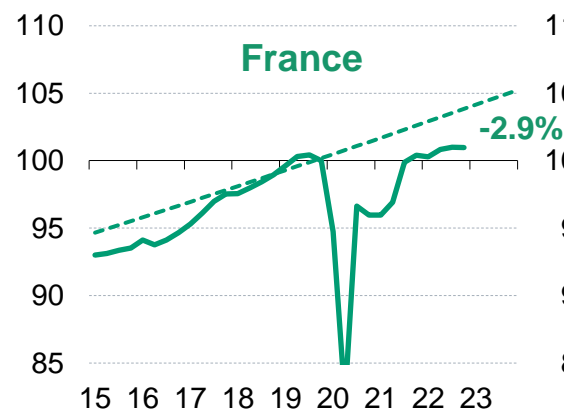
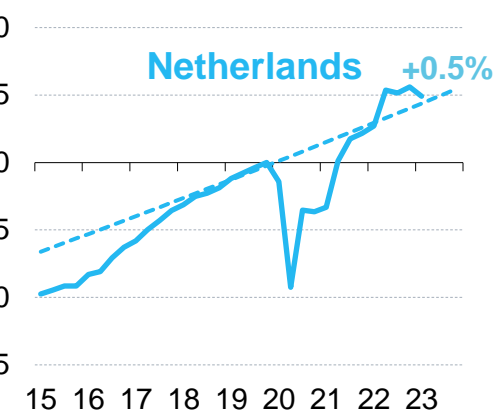
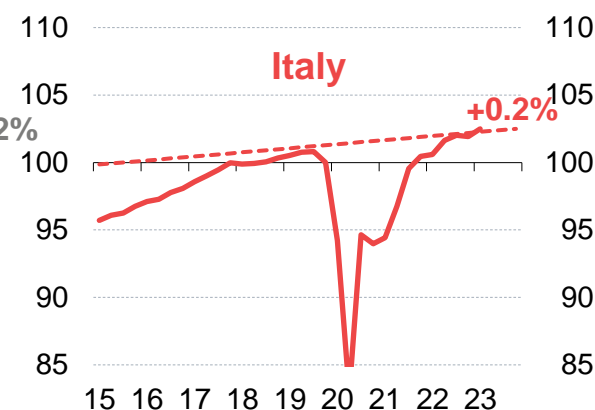
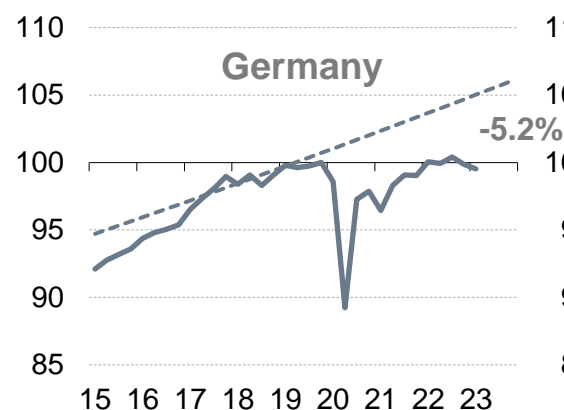
**“We are not pausing”**  
Christine Lagarde, May 4th



# Activity was again lackluster in Q1...



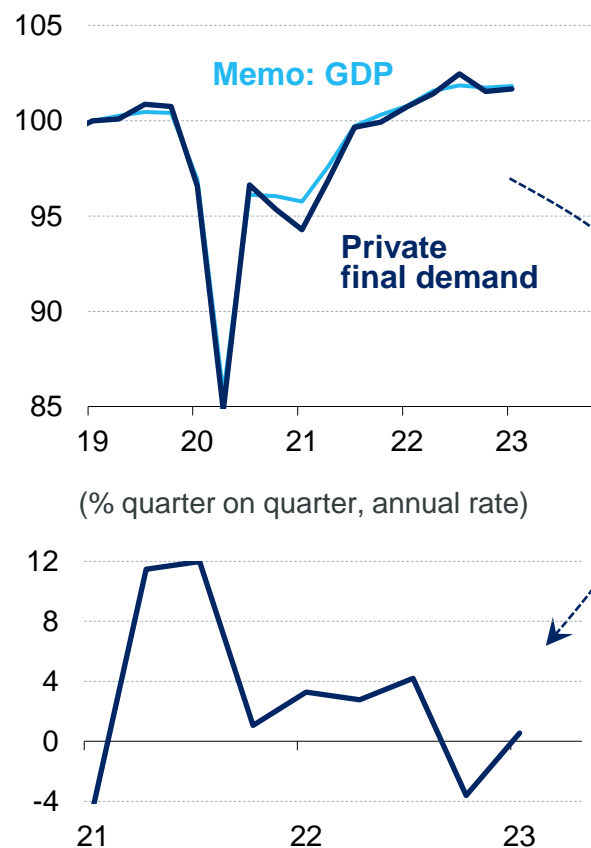
**Real GDP**  
(compared to 2004-2019 trend, 2019 Q4 = 100)



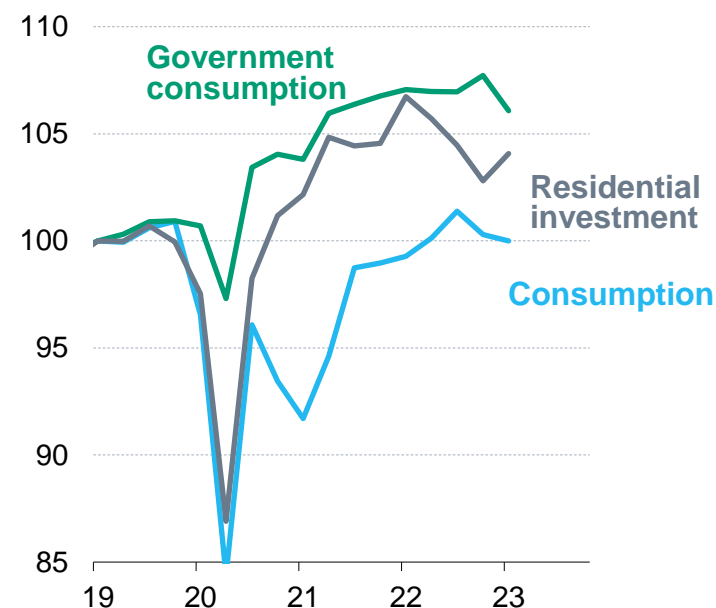
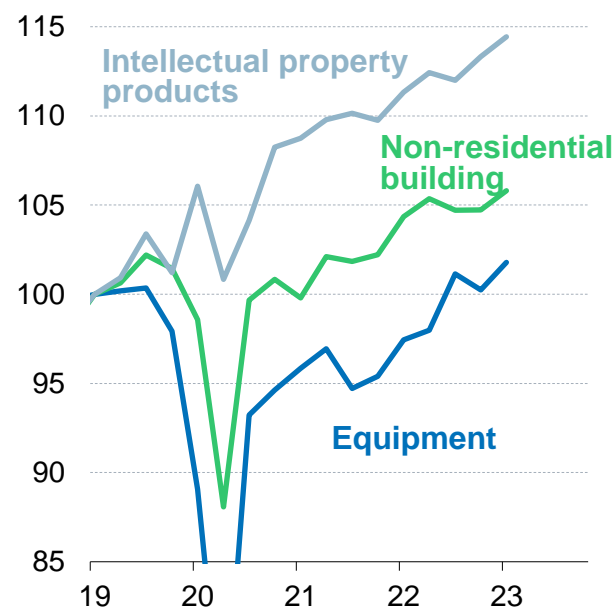
# ... with most private demand components moving either sideways or declining

## GDP in the euro area ex Ireland

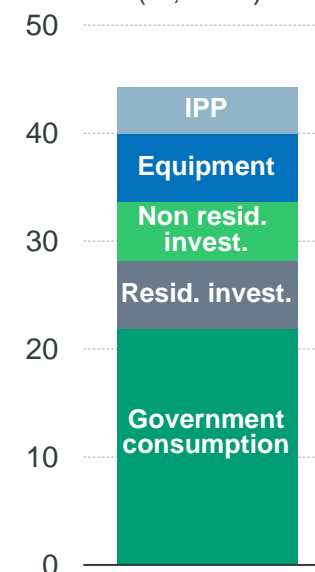
**GDP and private final demand**  
(2019 Q1 = 100, ex inventories, volume)



**Private domestic demand components**  
(2019 Q1 = 100, volume)

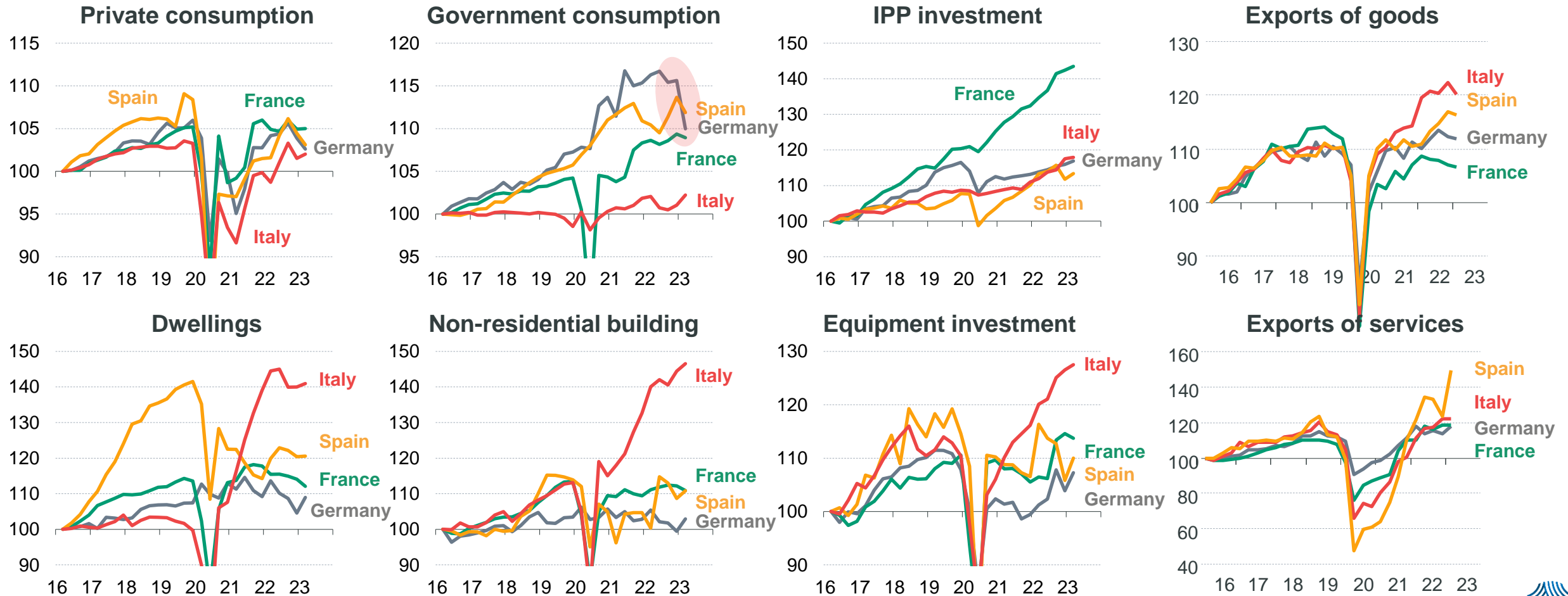


**Memo: weights in GDP**  
(%, 2022)



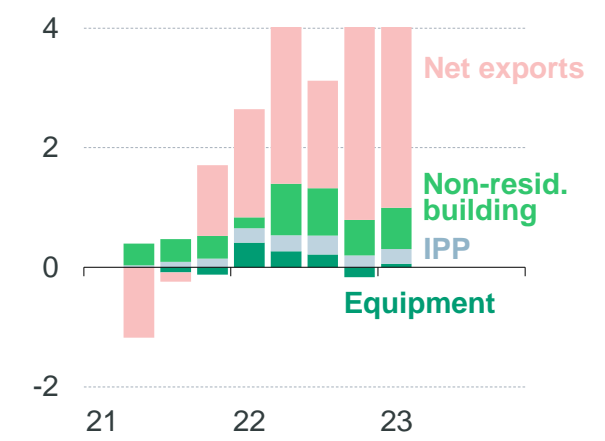
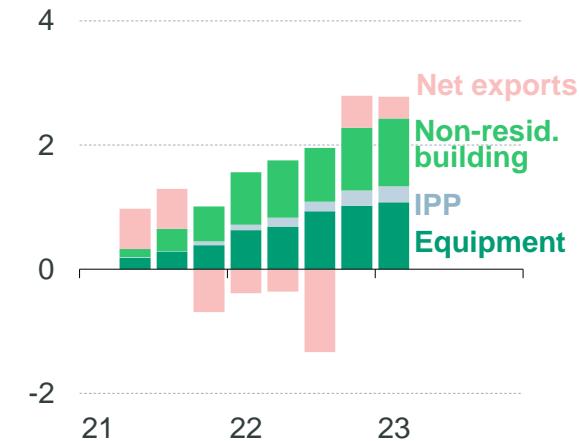
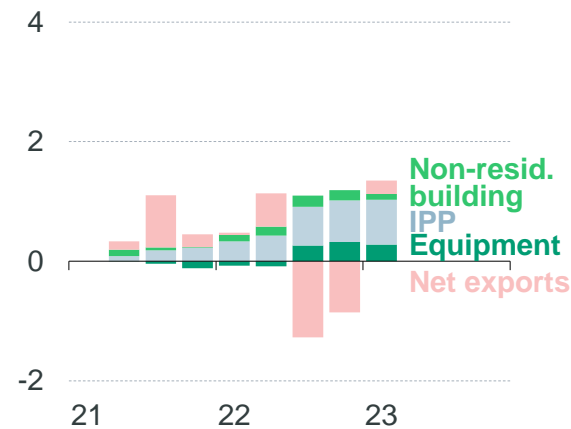
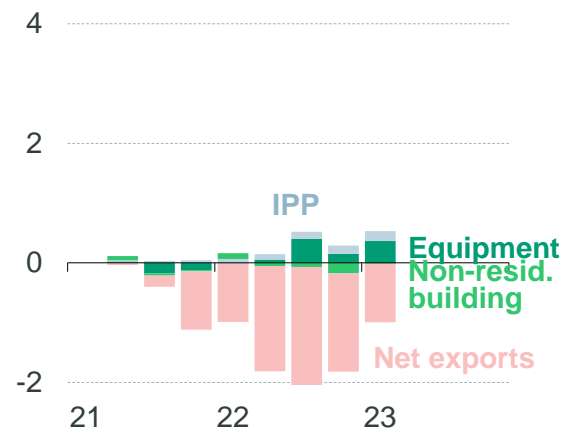
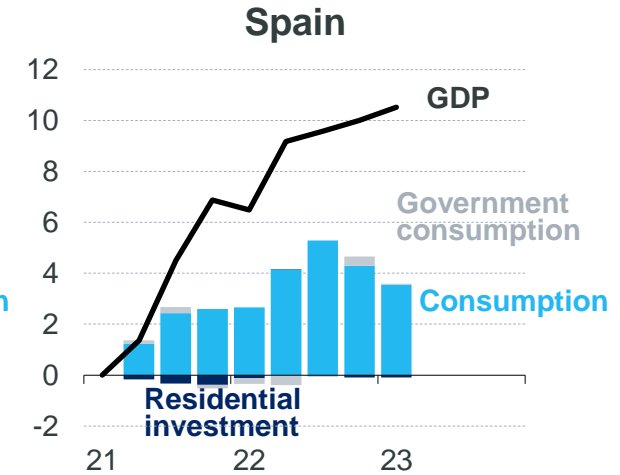
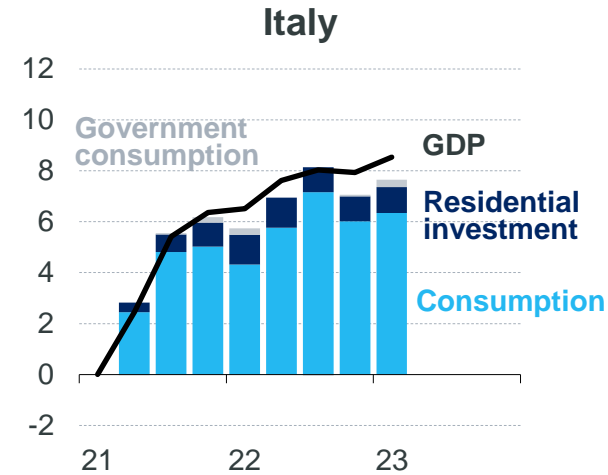
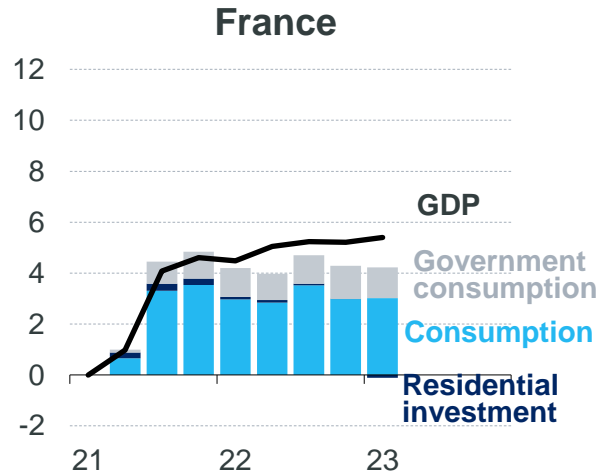
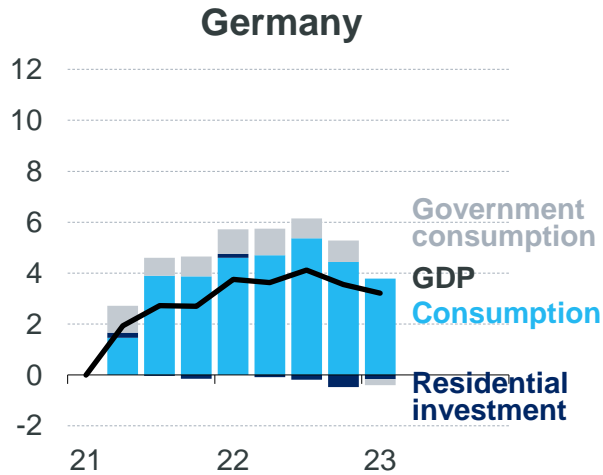
# The composition of growth has been rather different across the area...

**GDP components by country**  
(2016 Q1 = 100, volume)



# ... so have been the forces behind the post covid rebound

Cumulated contribution to real GDP growth since 2021 Q1

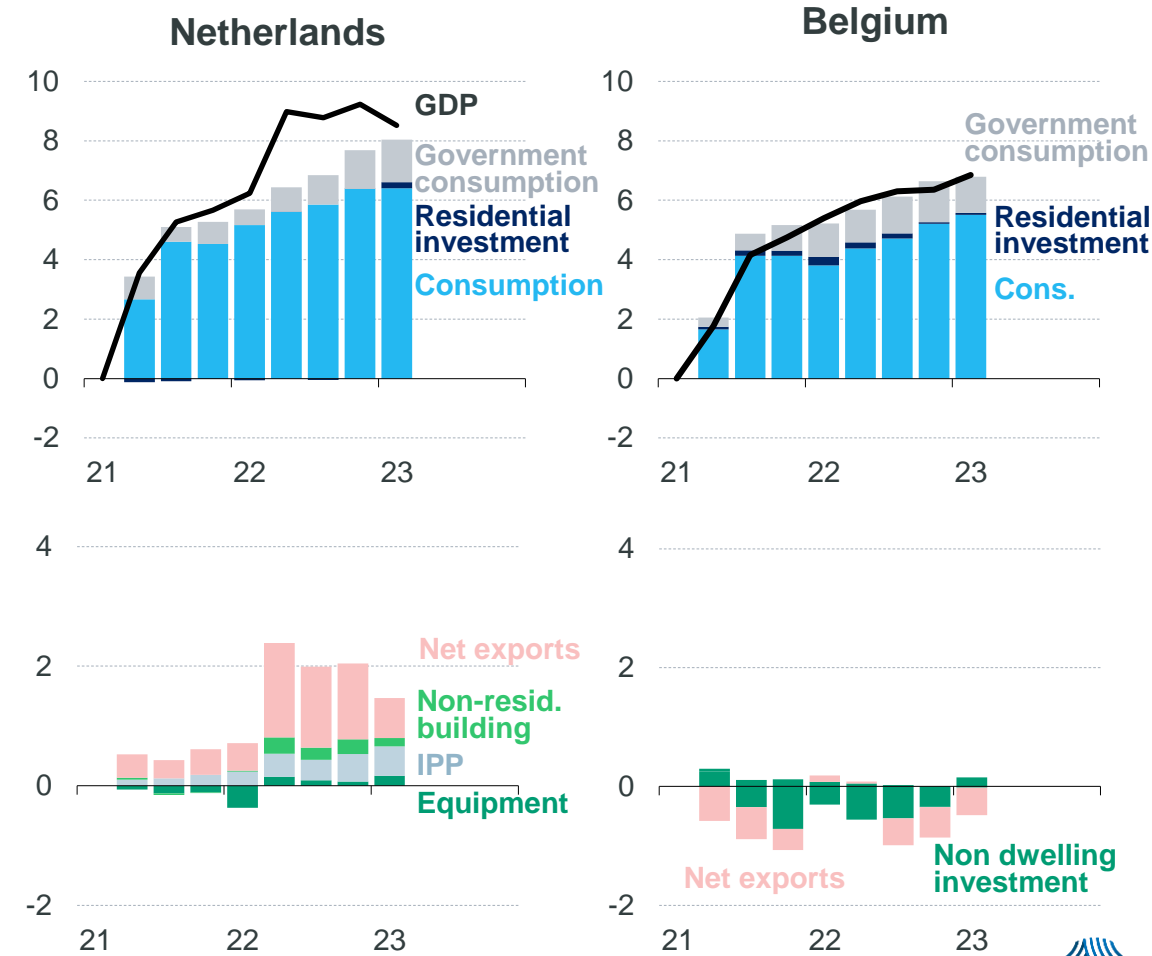
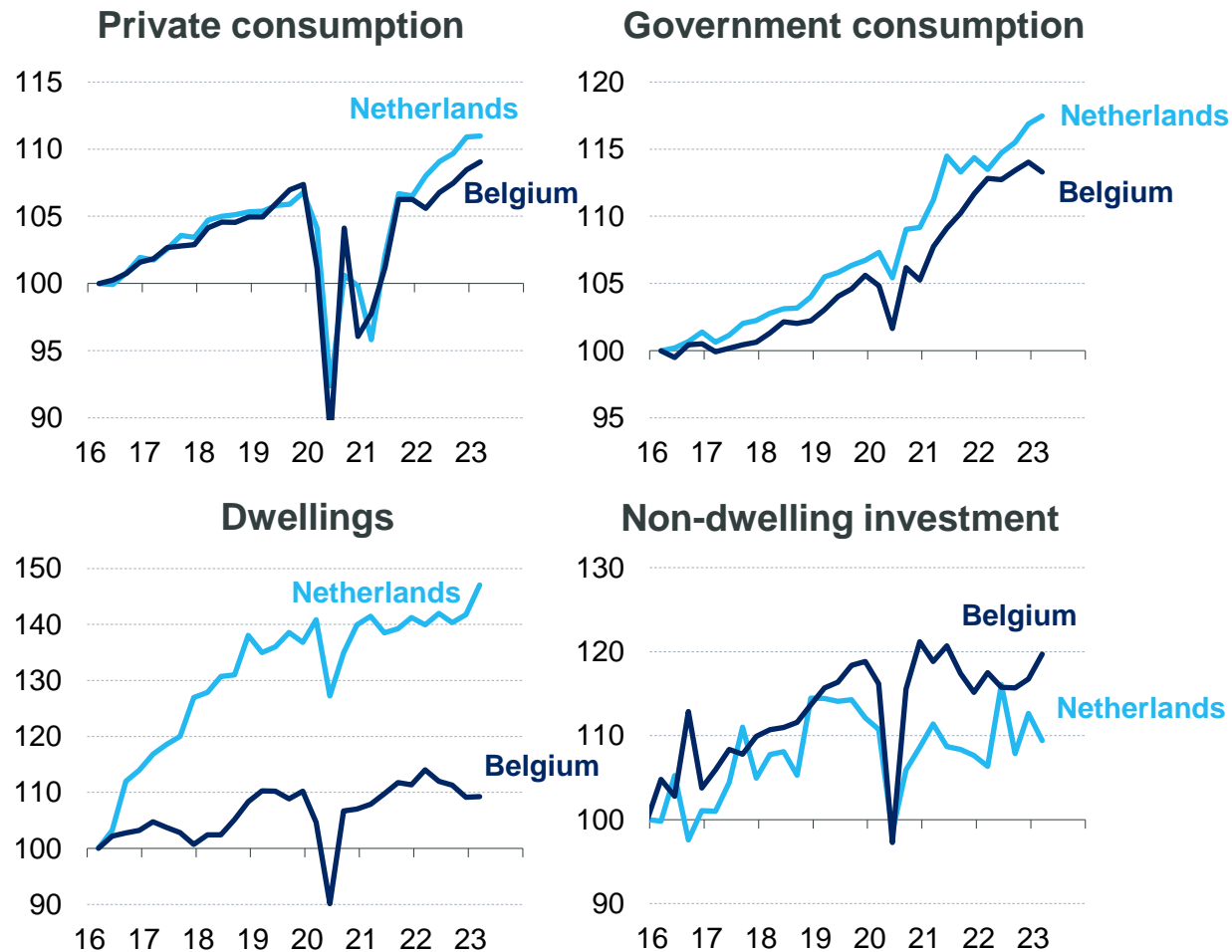


# Memo. Composition of growth in the Netherlands and Belgium

## GDP components by country

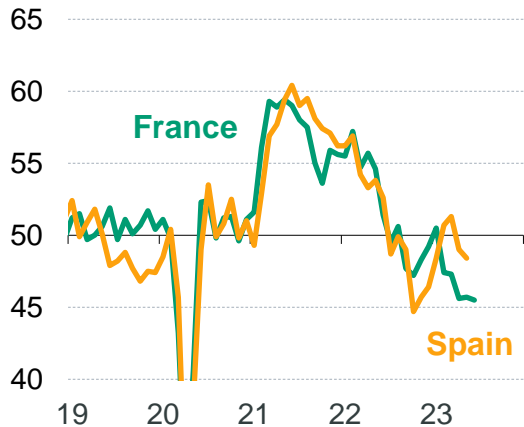
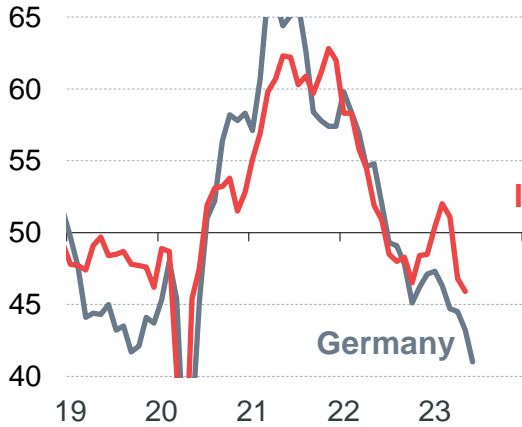
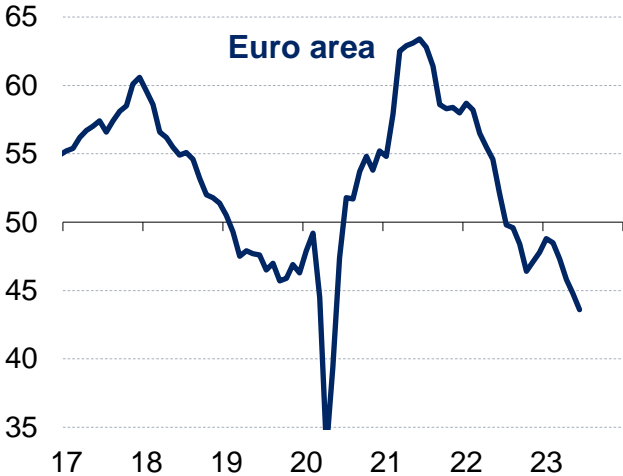
(2016 Q1 = 100, volume)

(cumulated contributions to real GDP growth)

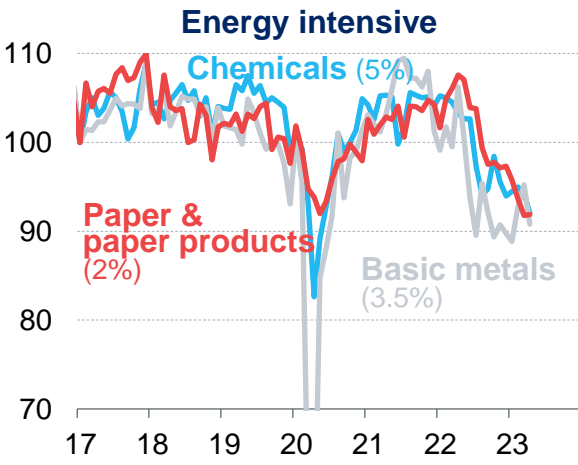
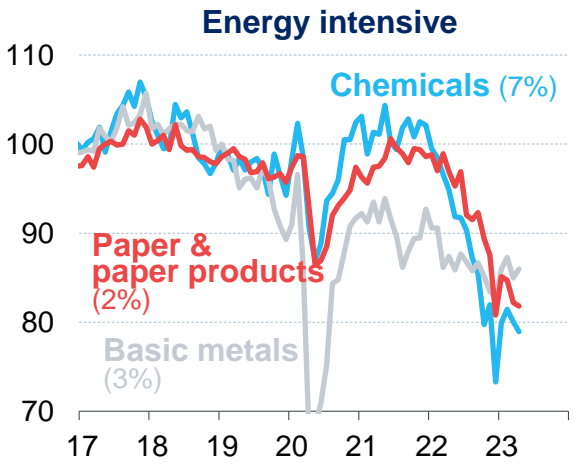
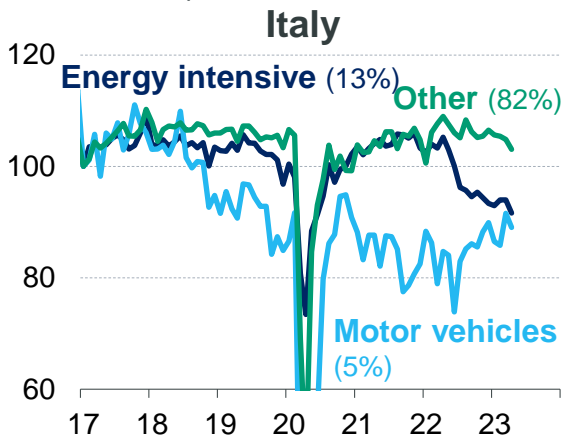
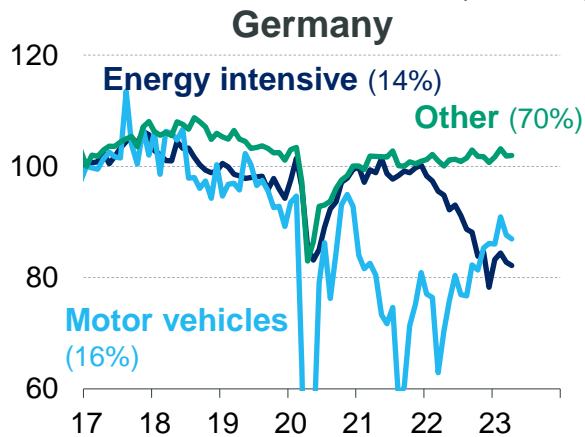


# Activity has continued to decline in the manufacturing sector...

Manufacturing PMIs



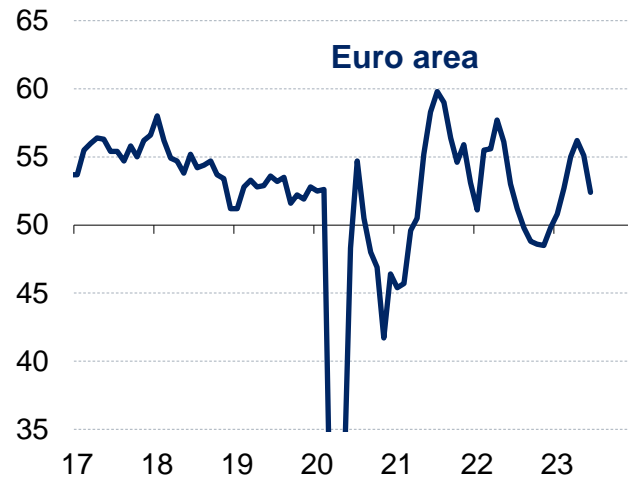
Industrial production by sector  
(January 2017 = 100)





# ... but has accelerated in the services sector

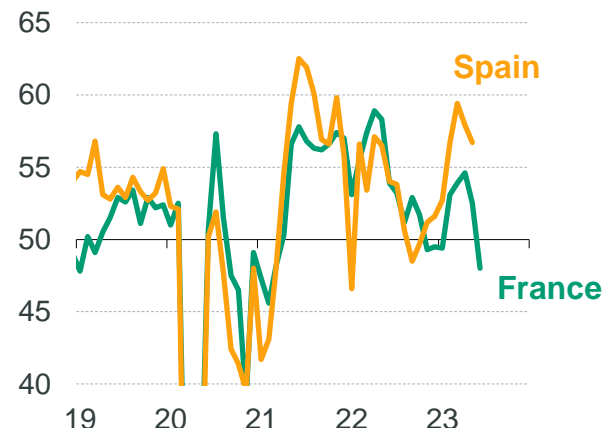
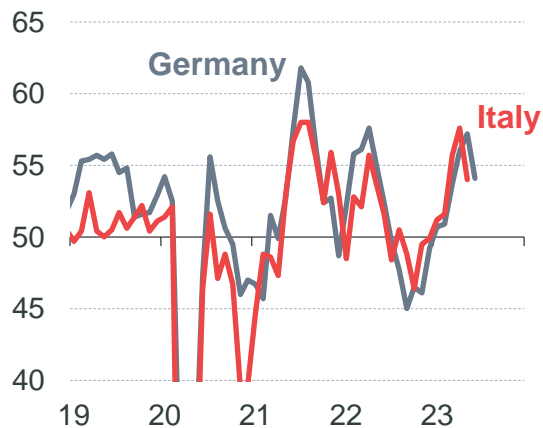
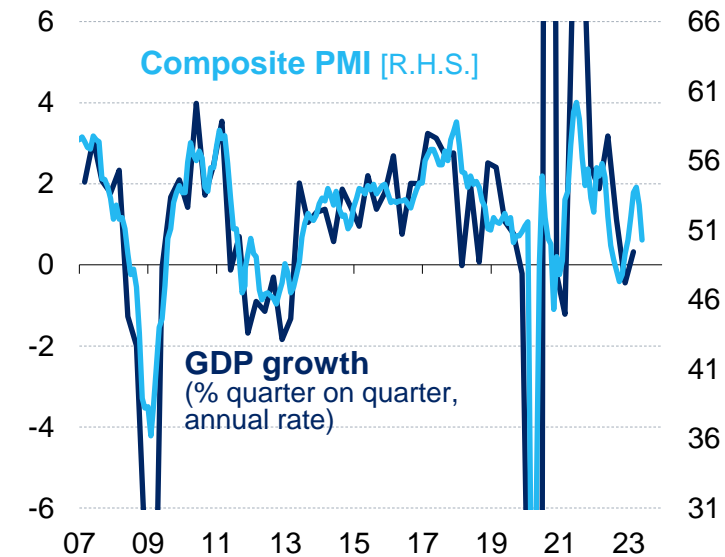
## Services PMIs



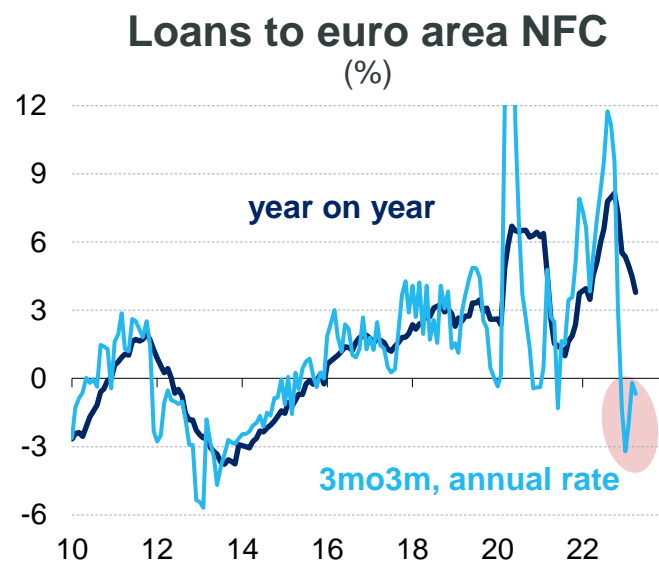
## EC services survey



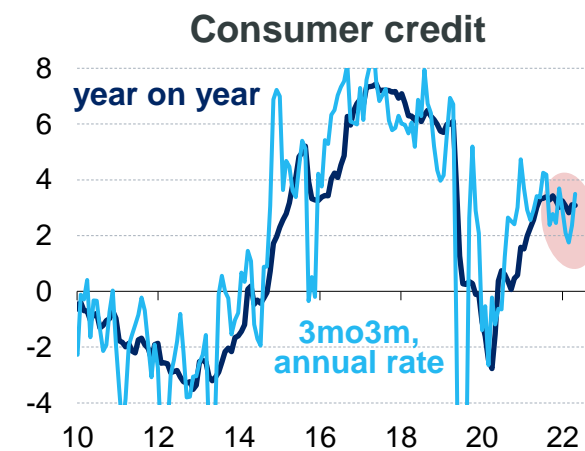
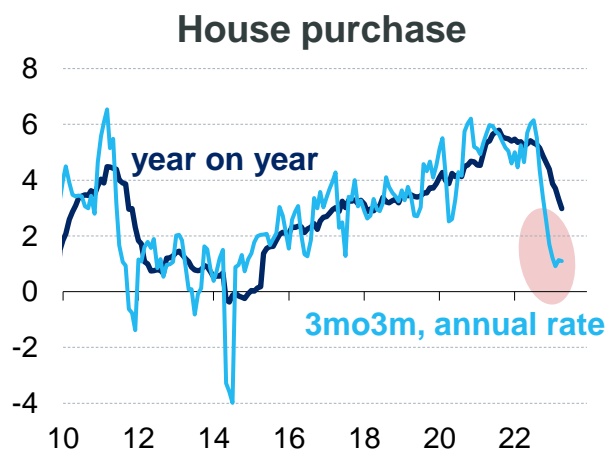
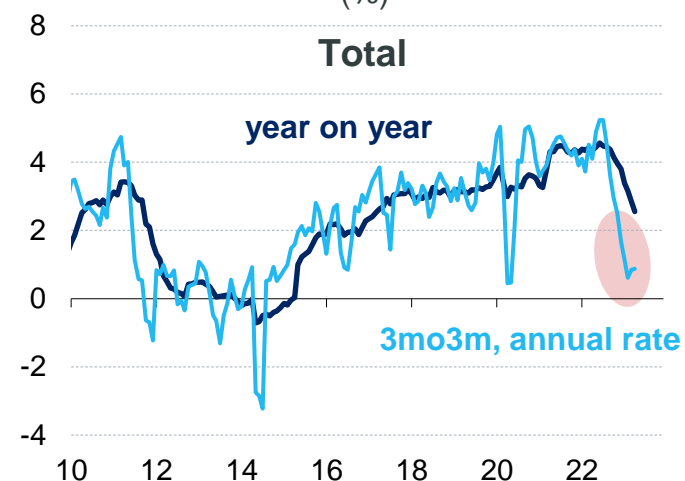
## Euro area GDP growth and composite PMI



# Still, bank loans are decelerating fast



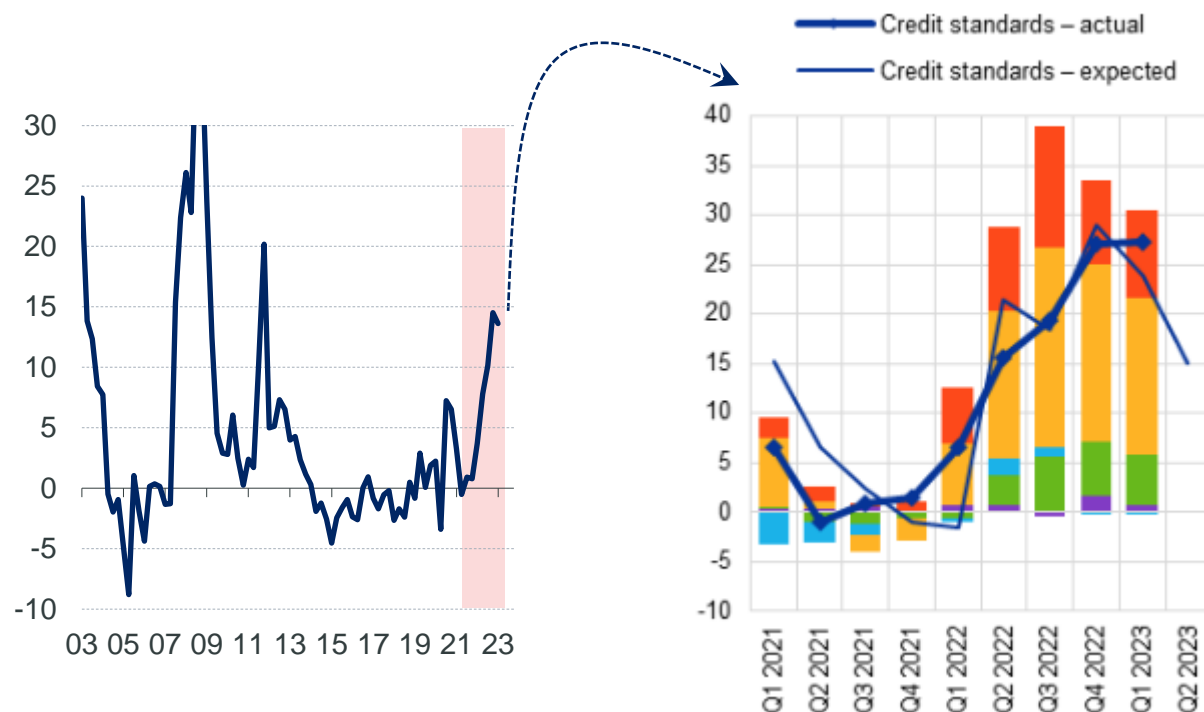
### Loans to euro area households (%)



# Credit standards for firms continued to tighten... while demand weakened largely because of higher interest rates

## Changes in credit standards for loans to enterprises

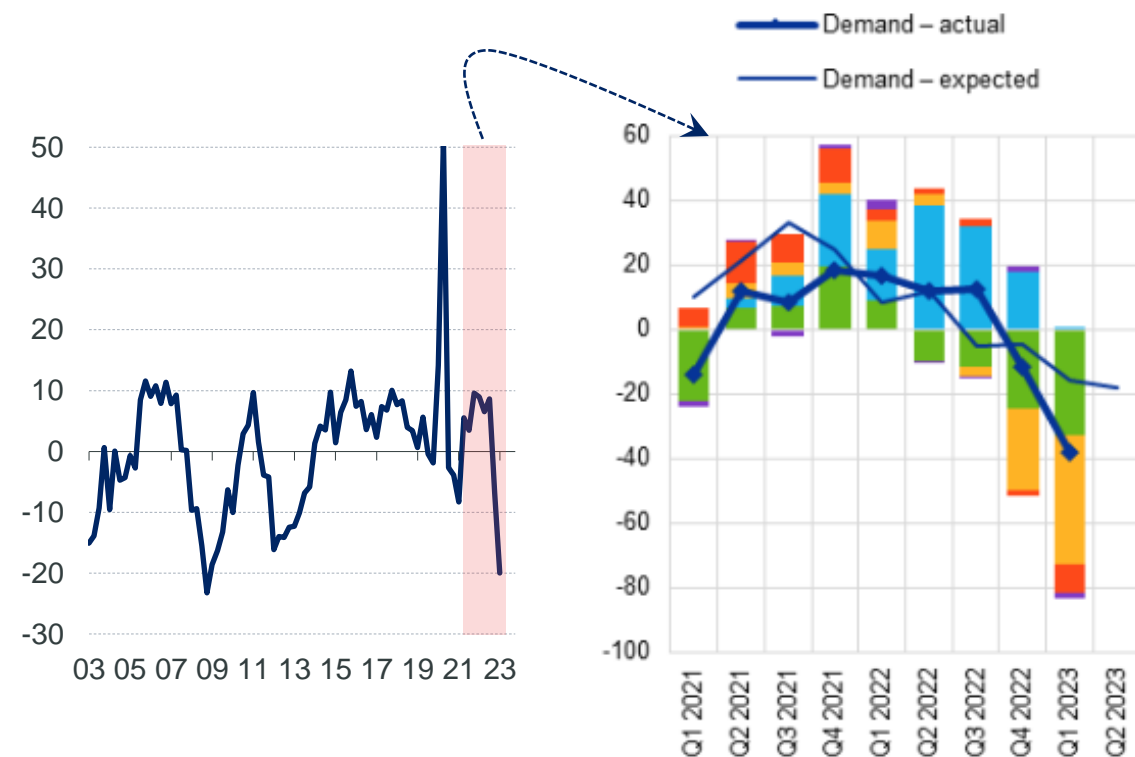
(net percentages of banks reporting a tightening of credit standards)



**Banks' risk tolerance**  
**Risk perception**  
**Competition**  
**Cost of funds and balance sheet constraints**  
**Other factors**

## Changes in demand for loans to enterprises

(net percentages of banks reporting an increase in demand)



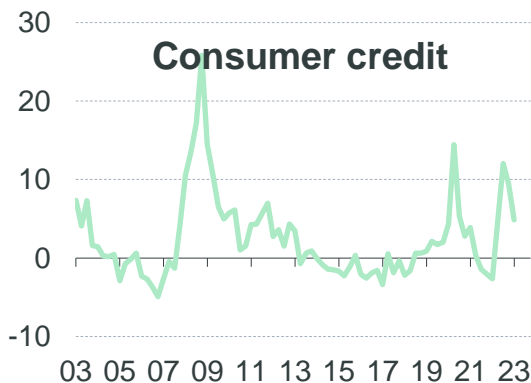
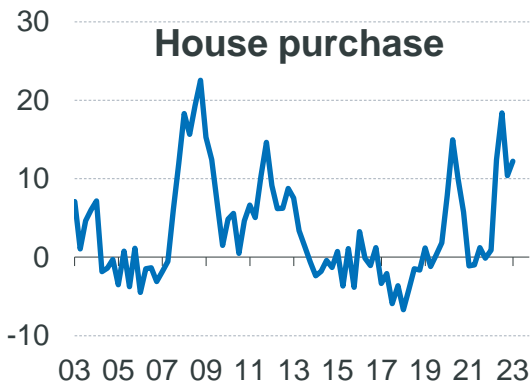
**Other financing need**  
**Interest rate level**  
**Inventories**  
**Fixed investment**  
**Use of alternative finance**



# Financial conditions are also getting tighter for households...

## Changes in credit standards for loans to households

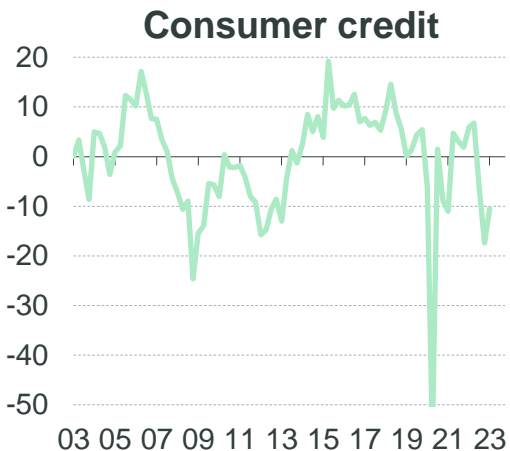
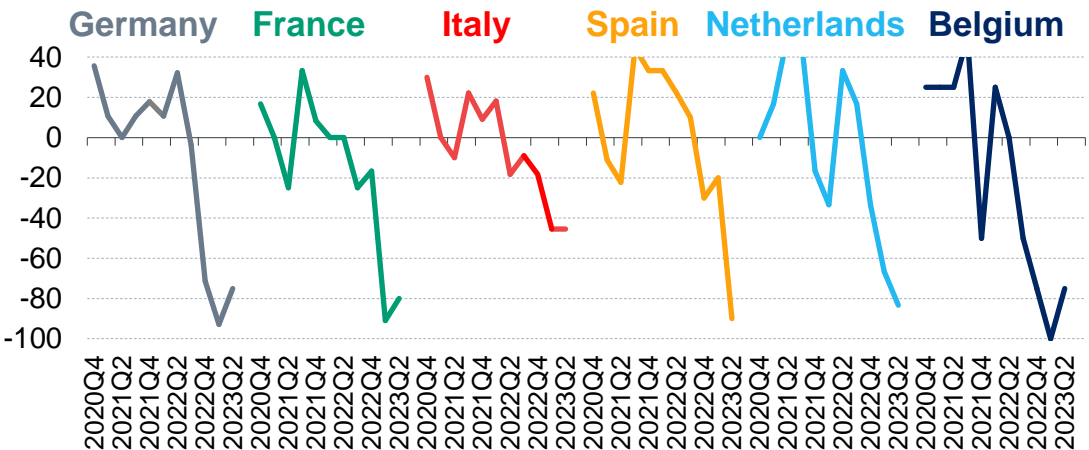
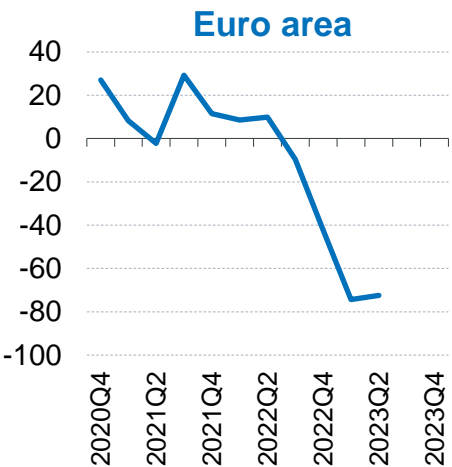
(net percentages of banks reporting a tightening of credit standards)



## Changes in demand for loans to households

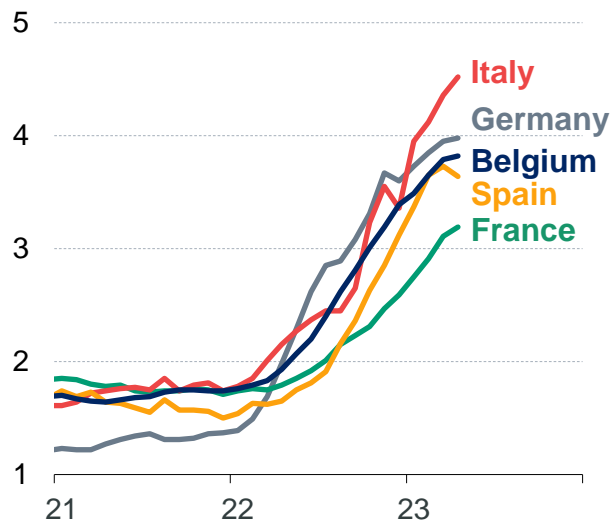
(net percentages of banks reporting an increase in demand)

### House purchase

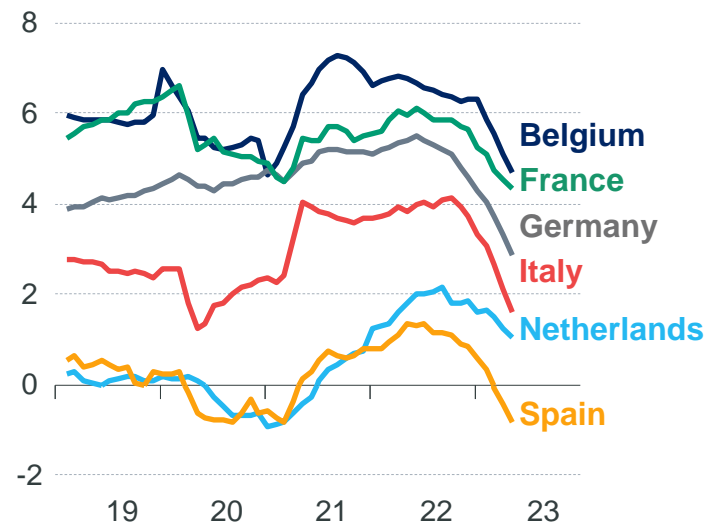


# ... and will continue to curb residential investment

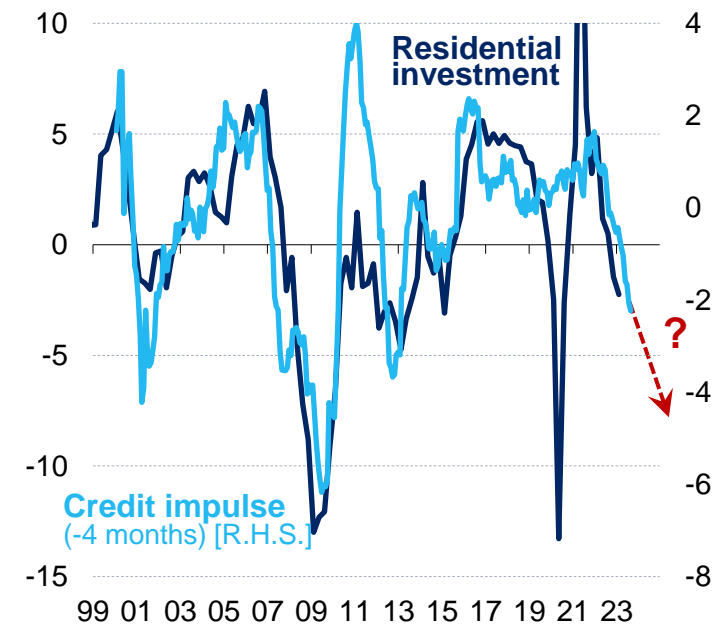
**Housing loans interest rates**  
(%, new business)



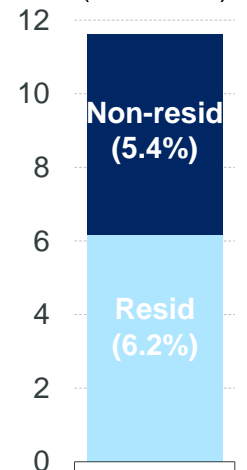
**Loans to households**  
(% year on year, adjusted for securitization)



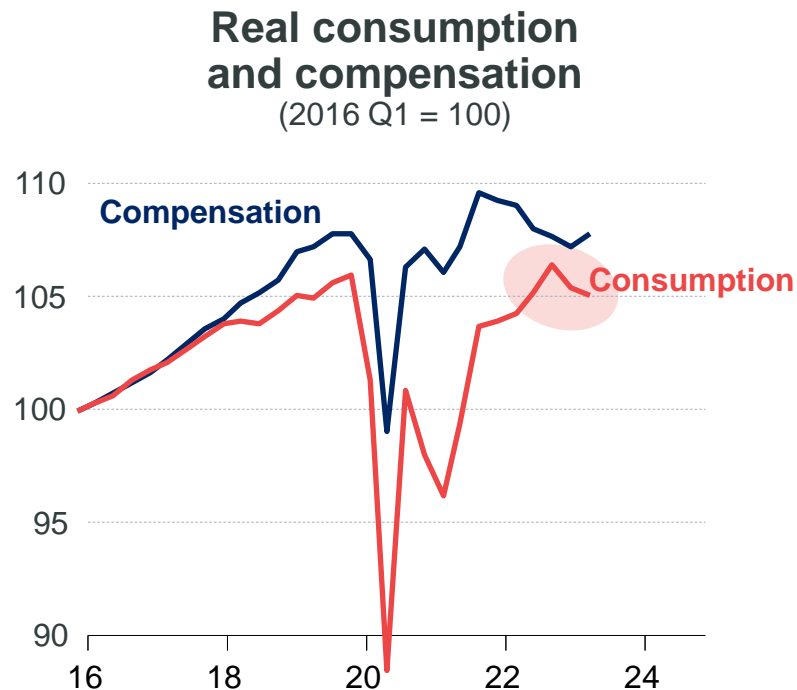
**Residential investment and credit impulse**  
(% year on year)



**Construction investment**  
(% of GDP)

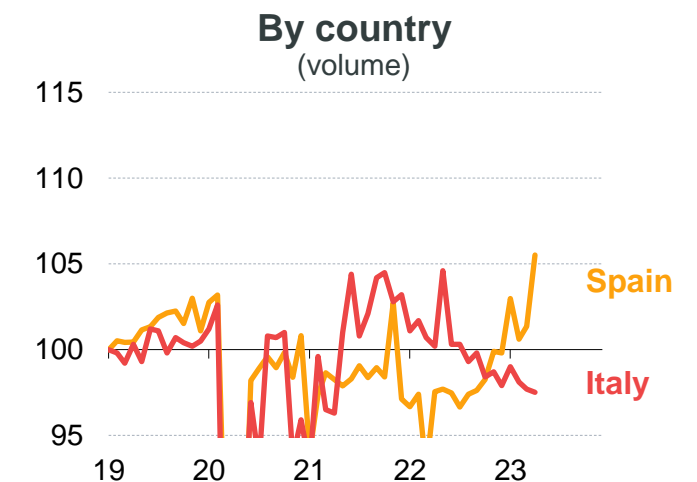
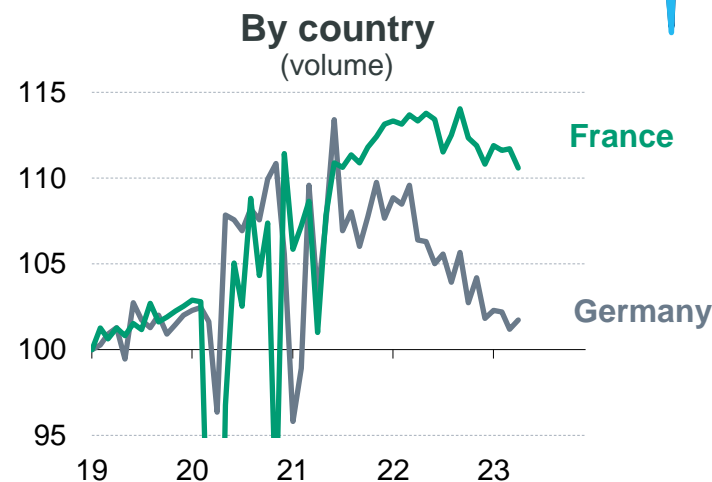
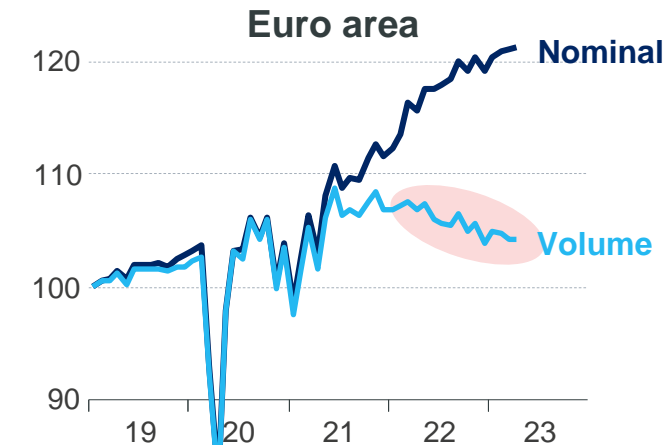


# Consumption has weakened as households' purchasing power has been squeezed (I)



(\*) Germany, France, Italy and Spain

**Retail sales ex motor vehicles**  
(January 2019 = 100)



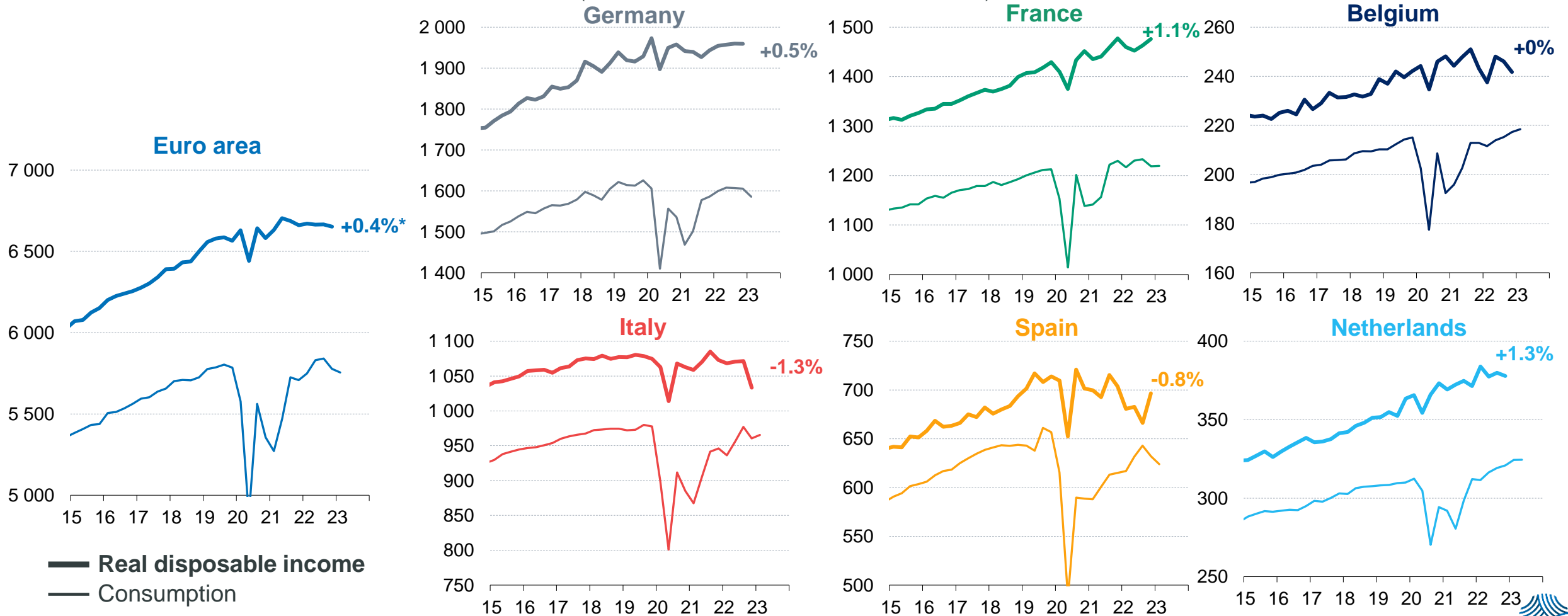
Sources: Refinitiv Datastream, Candriam



# Consumption has weakened as households' purchasing power has been squeezed (II)

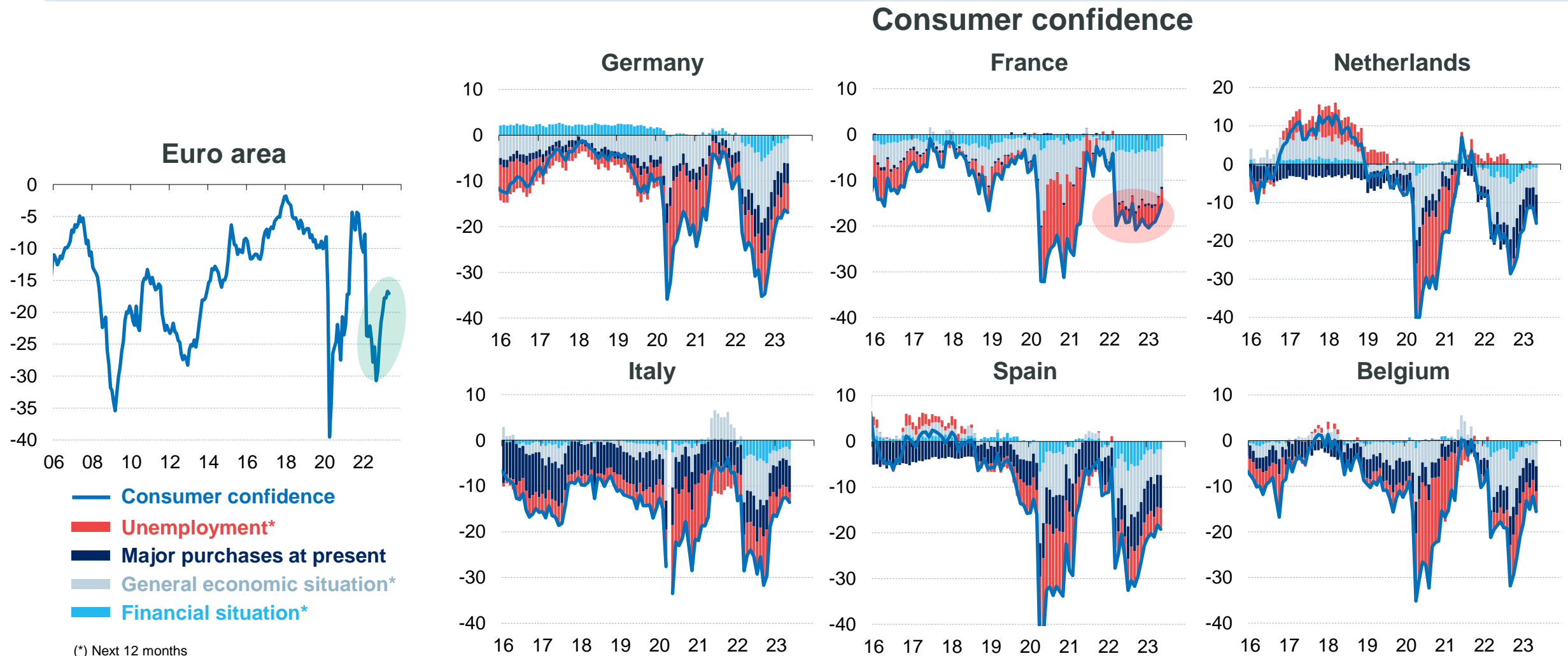
## Real disposable income and consumption

(billions of constant 2010 euros at annual rate)



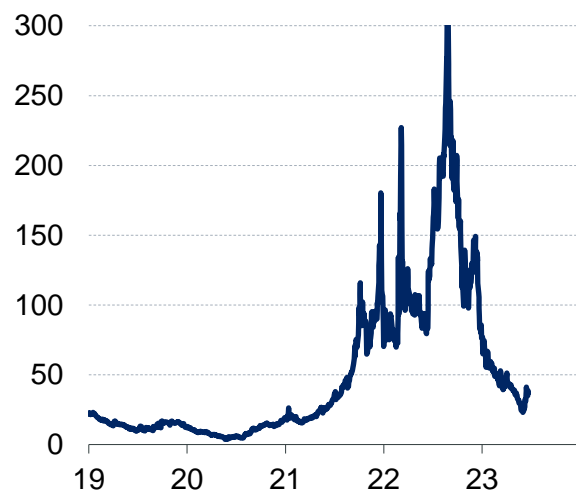


# Over the last months however, consumer confidence has continued to recover...

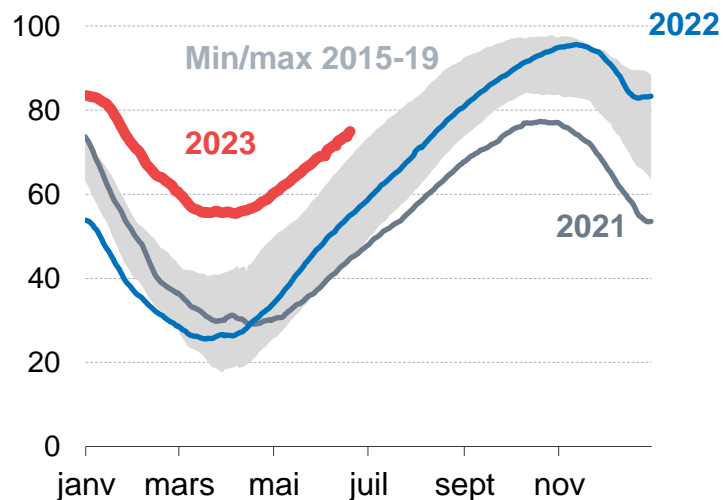


# ... notably thanks to the fall in natural gas prices

**Natural gas**  
(€ per MWh)

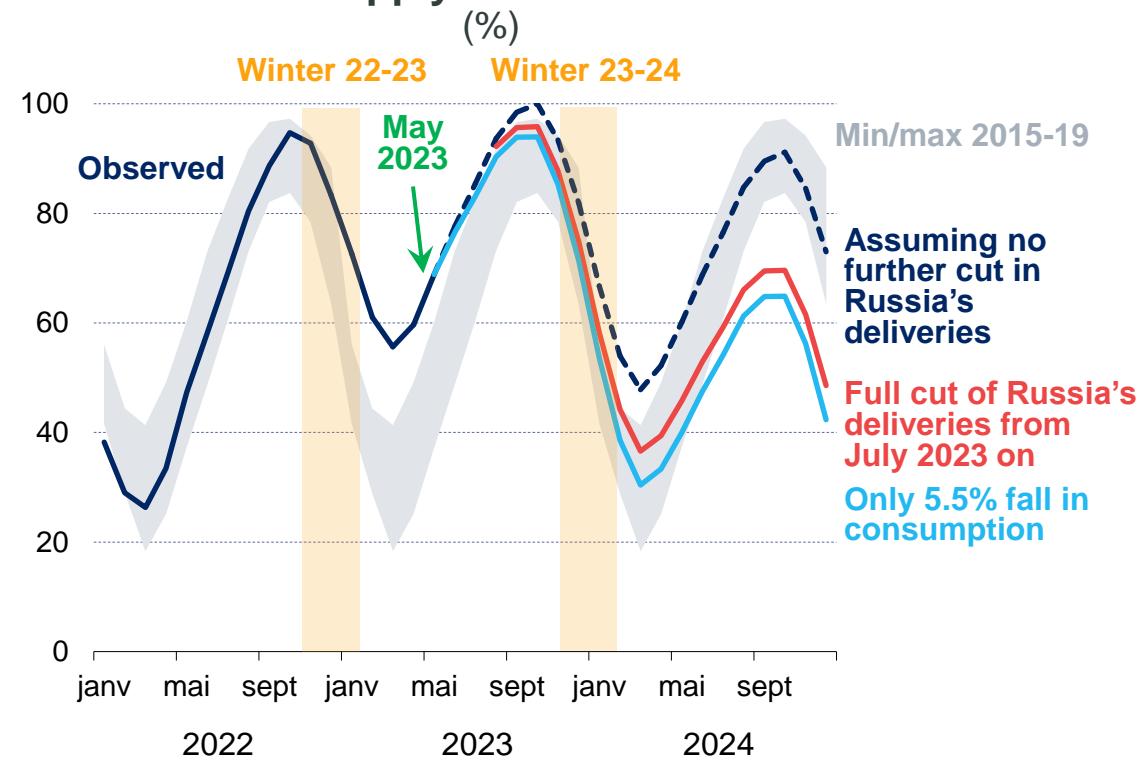


**European Union natural gas storage**  
(% of storage capacity)



Full storage capacity corresponds to slightly more than 25% of EU annual natural gas consumption.

**Evolution of storage in the EU**  
with an 11% fall in consumption\* and  
non-Russian supply at its 2022 level in 2023



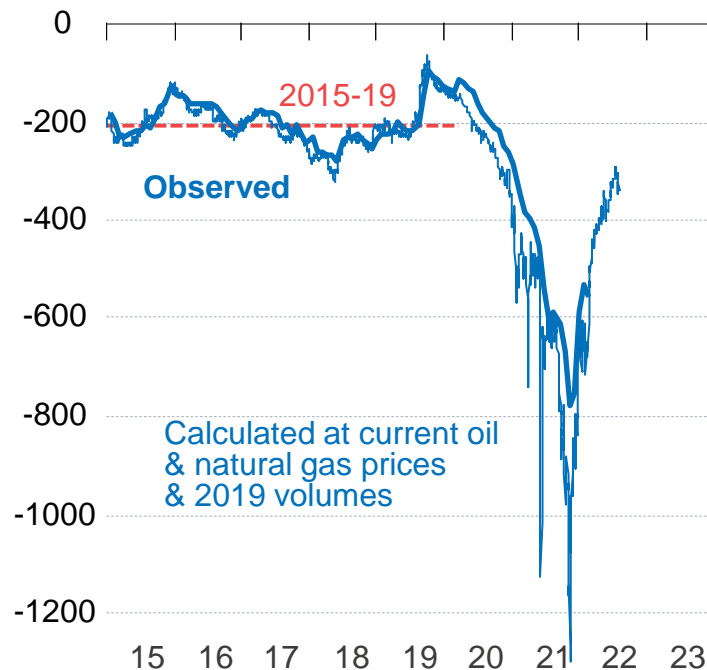
(\*) Decrease compared to 2017-21 average.



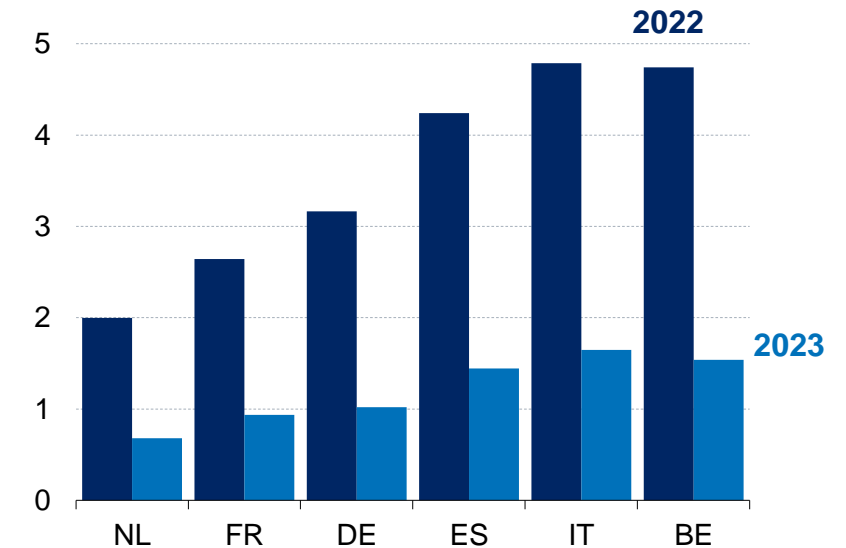
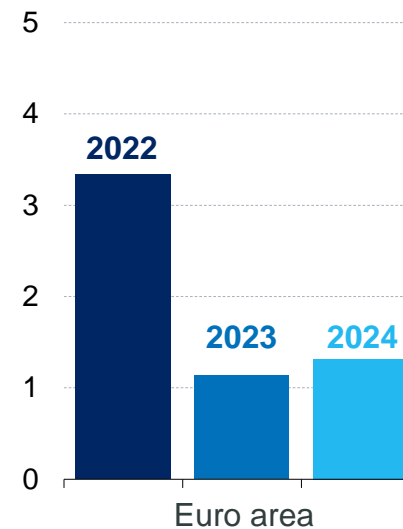
# Memo. The size of the income transfer to the rest of the world is much lower than feared a few months ago

## Euro area energy balance

(€ billion, monthly data at annual rate)



## Income transfer to the RoW compared with the average of 2015-19\* (% of GDP)



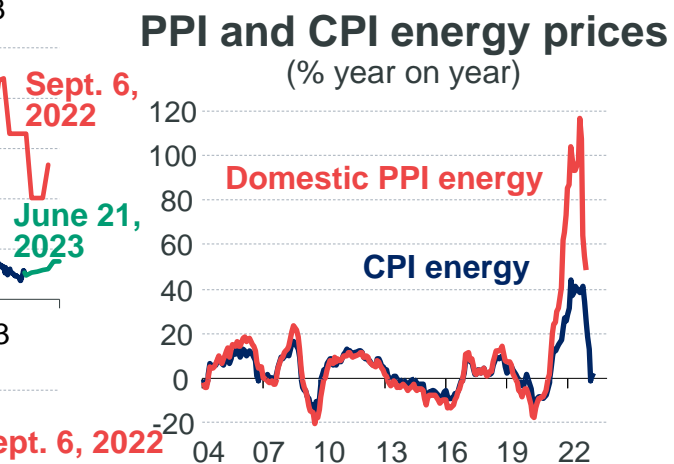
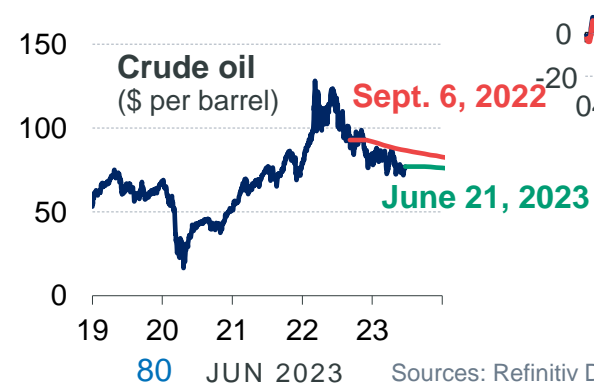
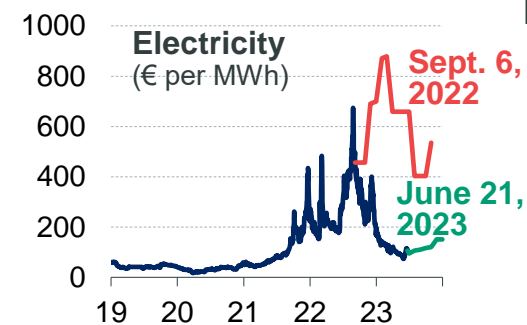
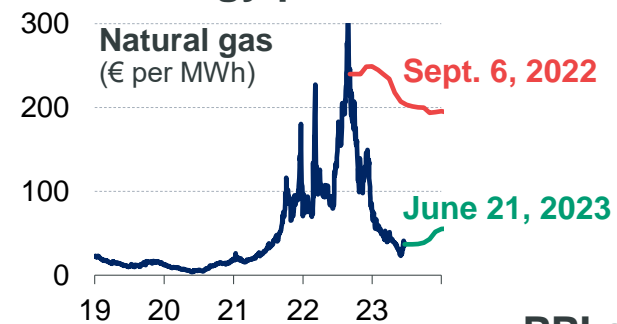
The fall of the income transfer could leave some room for a moderate public deficit reduction.

(\*) Assuming natural gas at €65 and oil prices at \$90 per barrel from mid-2023 on.

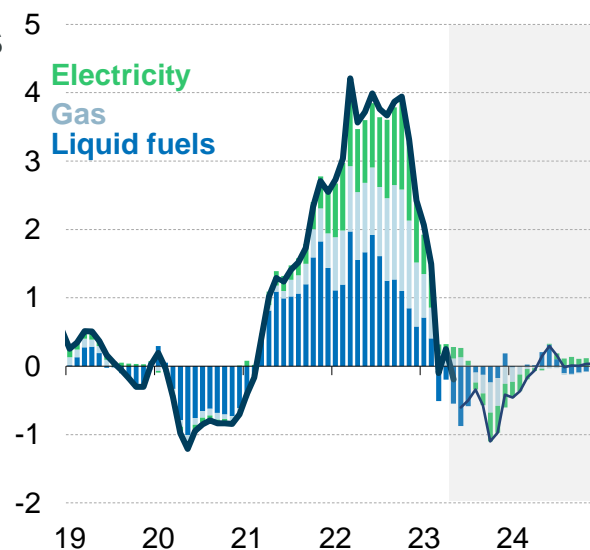


# Falling energy prices are easing inflationary pressures

## Energy prices

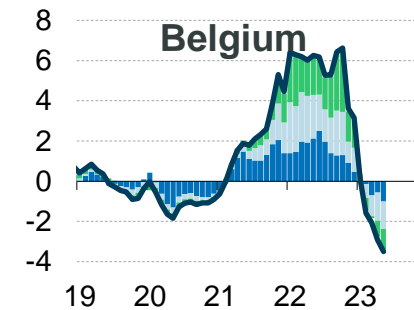
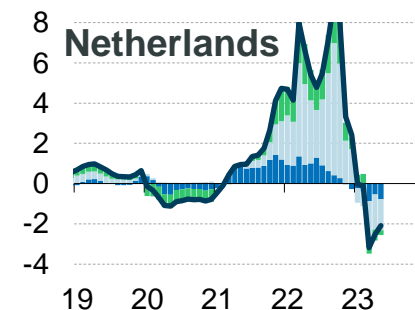
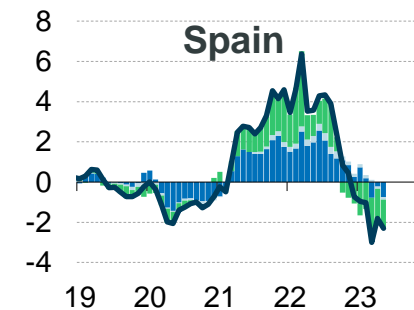
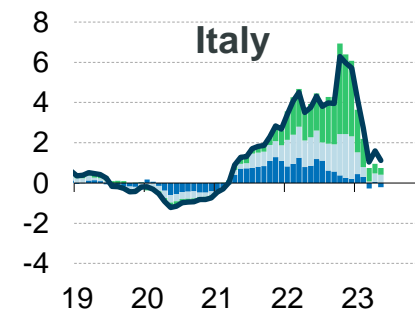
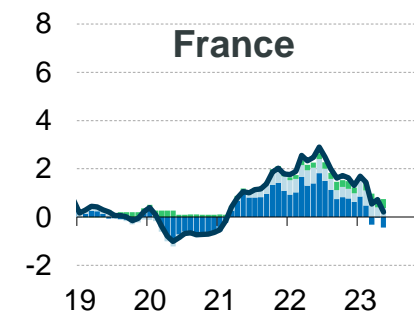
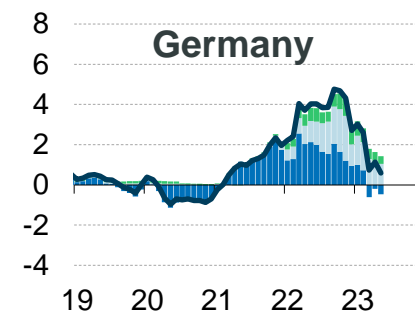


## Euro area



## Energy contribution to euro area inflation

(% year on year)



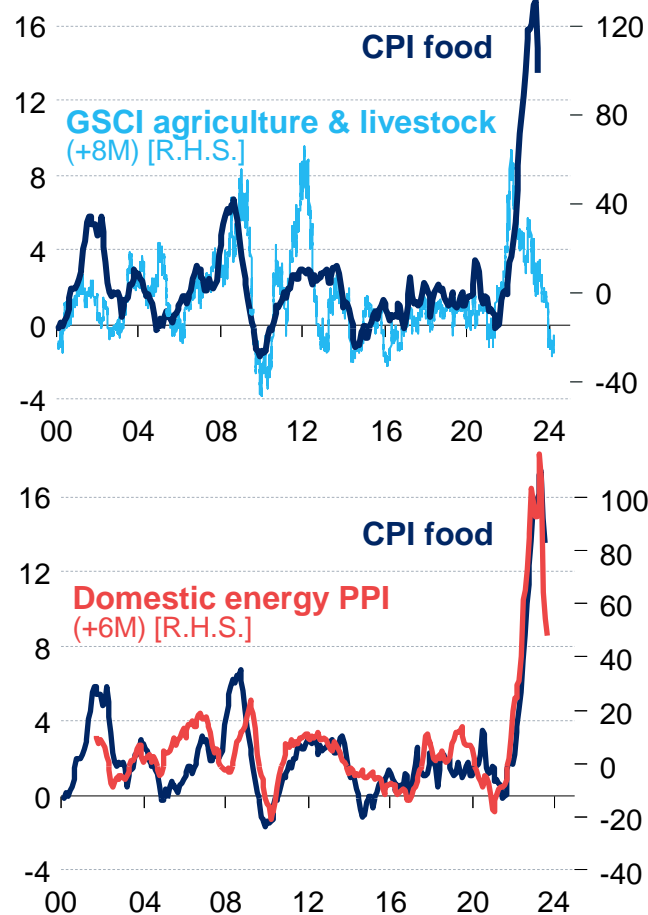
Sources: Refinitiv Datastream, Candriam

All investment strategies involve a risk of loss.

# Food inflation may take a little longer to come down

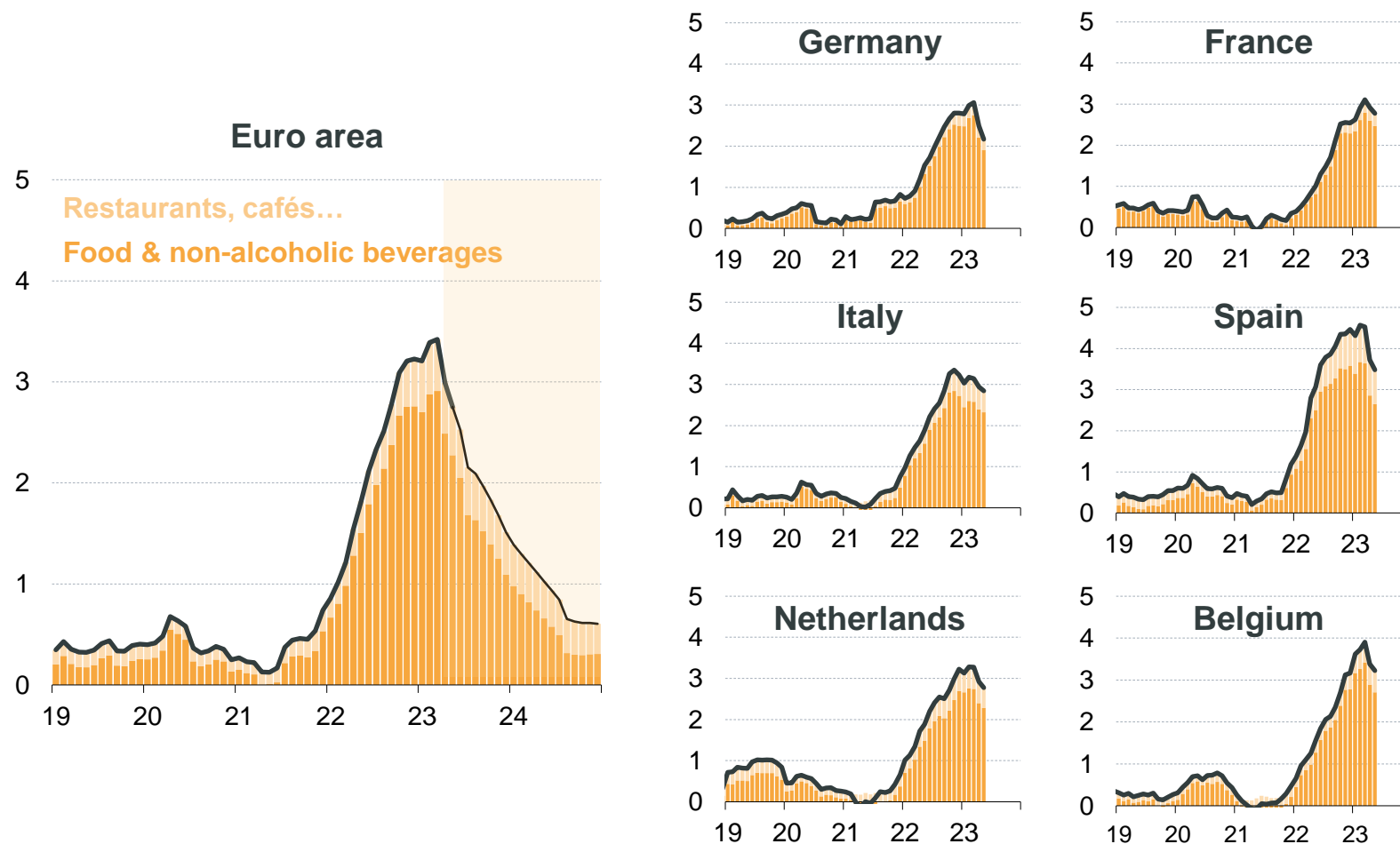
## Food prices in the euro area

(% year on year)

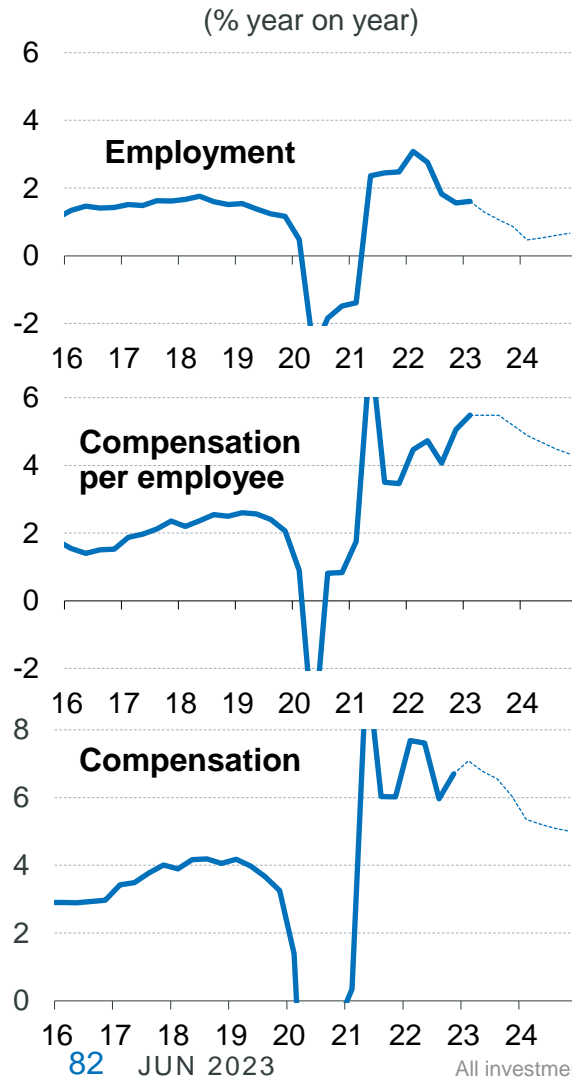


## Food and restaurant contribution to inflation

(% year on year)



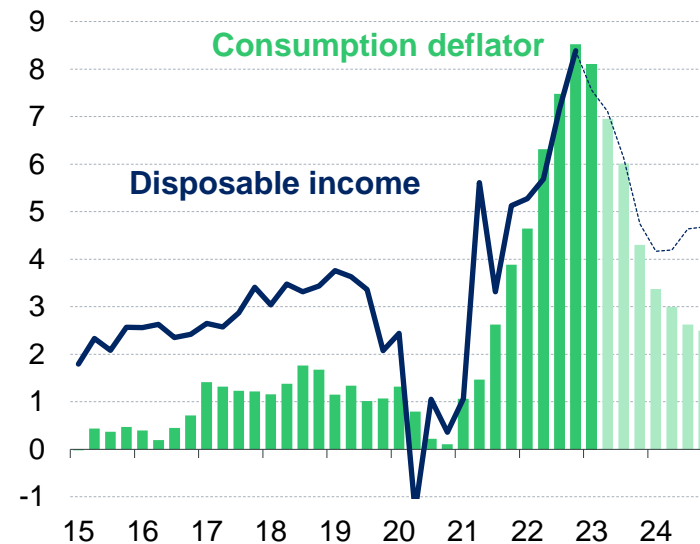
# With lower inflation, household purchasing power should start growing again in 2023H2



All investment strategies involve a risk of loss.

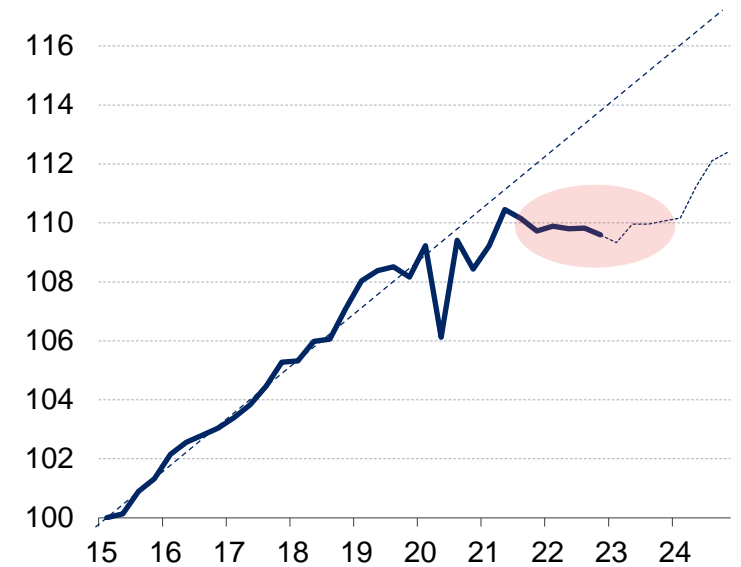
## Disposable income and inflation

(% year on year)



## Real disposable income

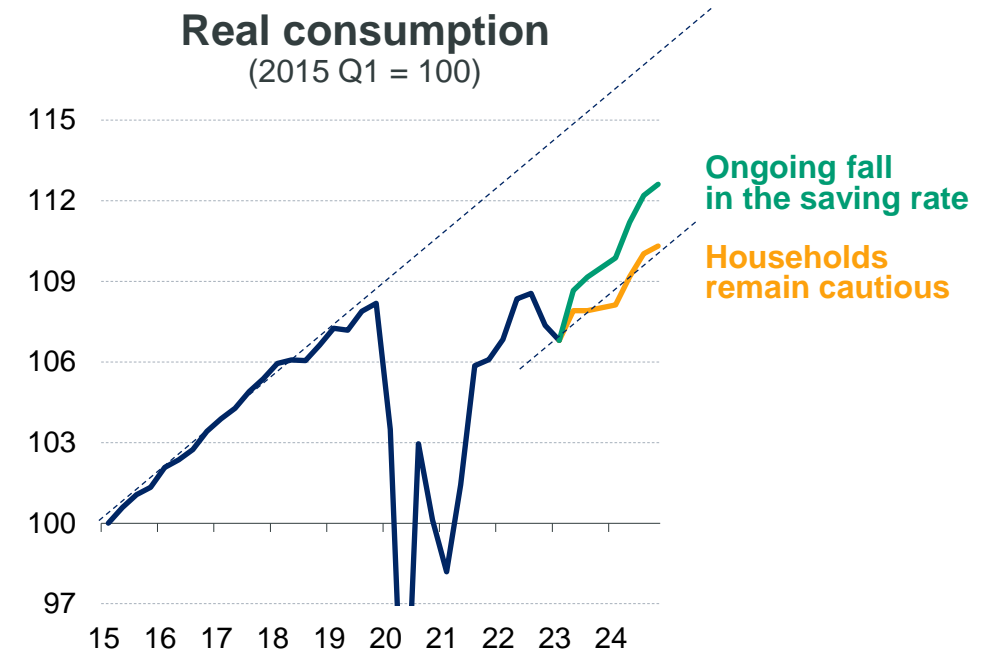
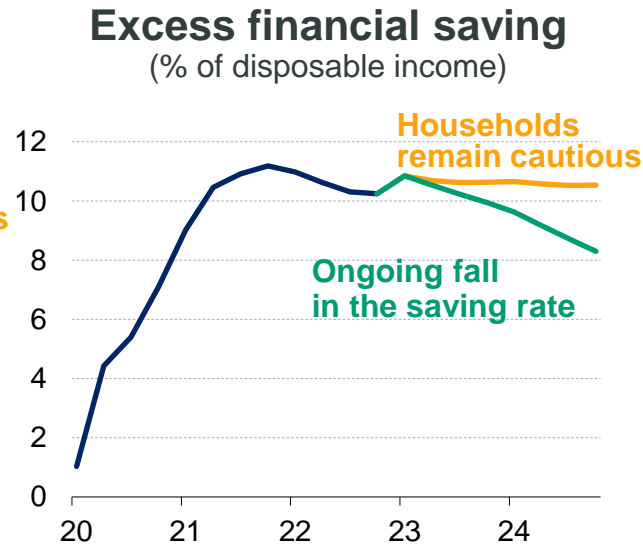
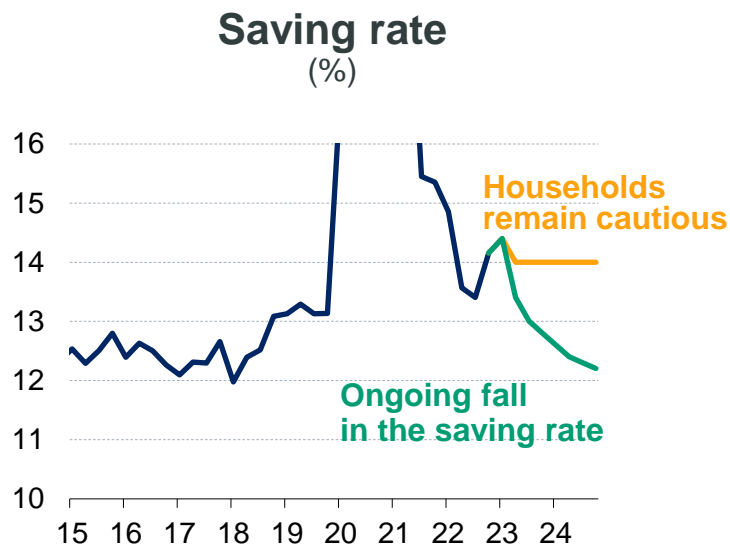
(2015 Q1 = 100)



Sources: Refinitiv Datastream, Candriam

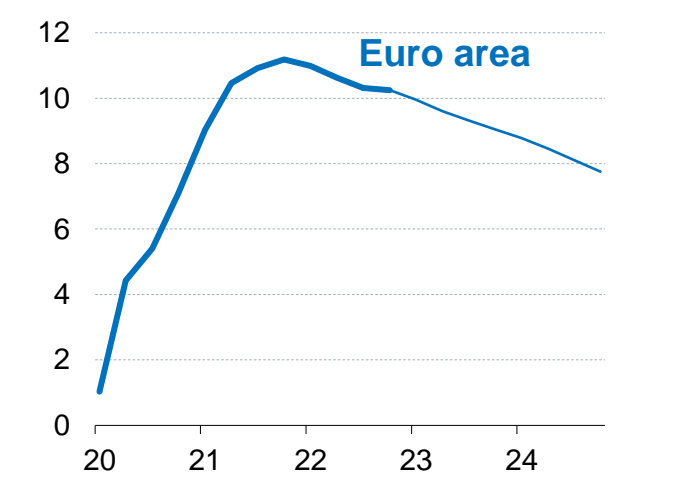
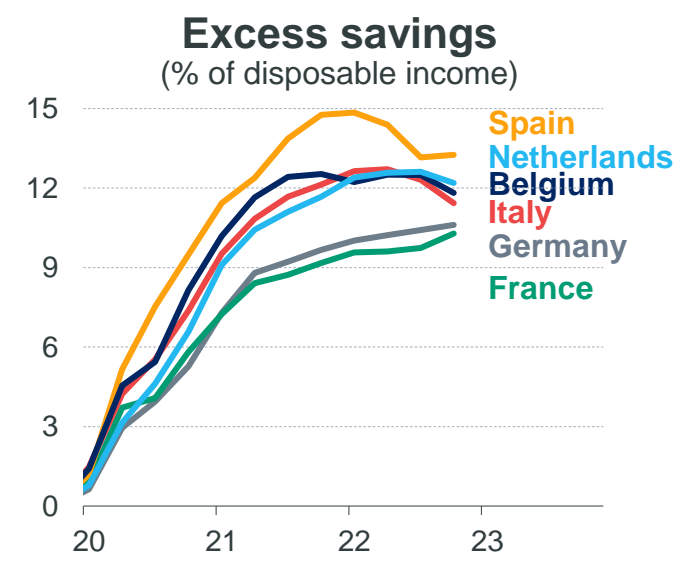
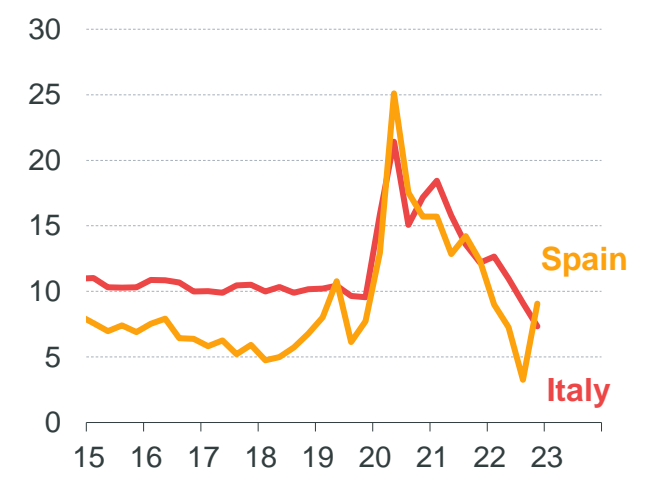
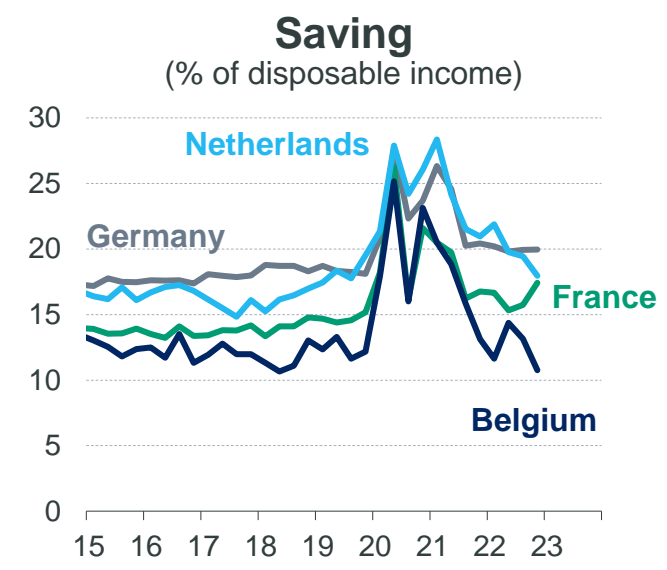
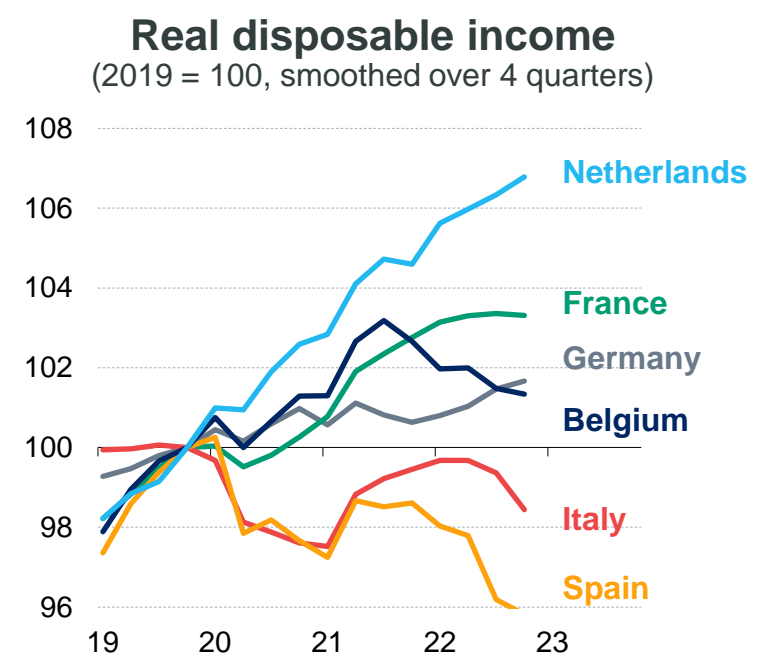


# For consumption to grow again at its past trend, households will have to keep depleting their excess savings

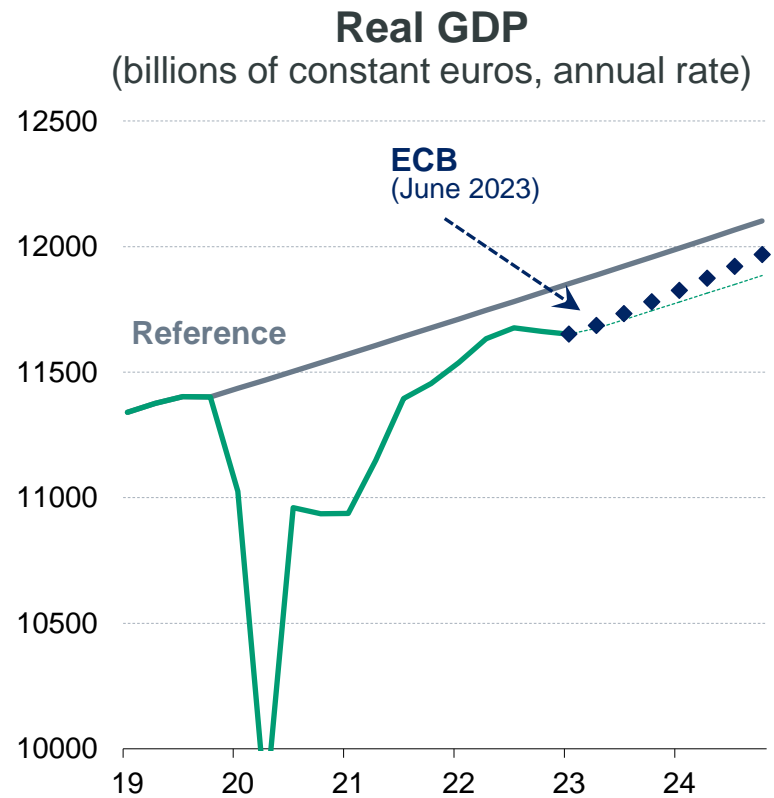




# The pace of depletion of excess saving is likely to be uneven

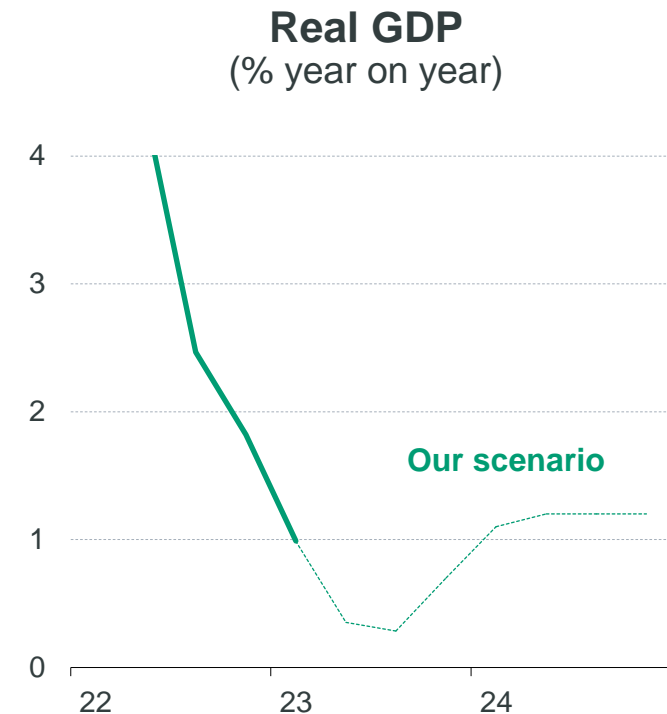


# In this environment, growth could hover around 1% both in 2023 and 2024



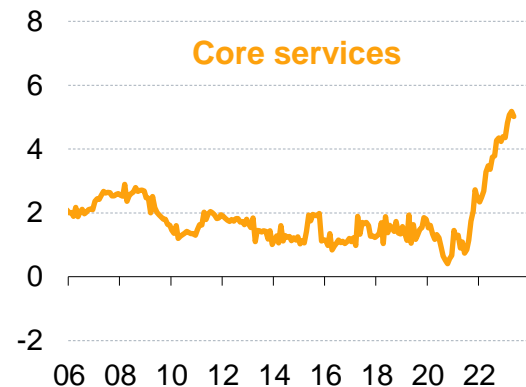
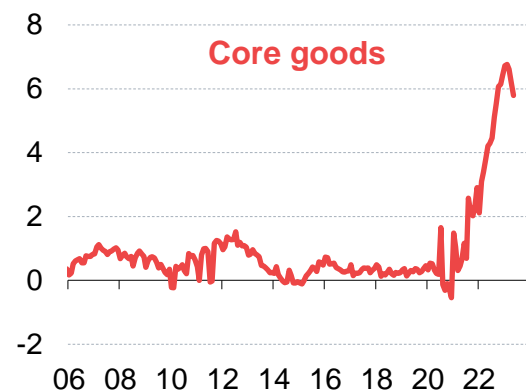
## Our scenario

2022 = 3.5%  
2023 = 0.6%  
2024 = 1.2%

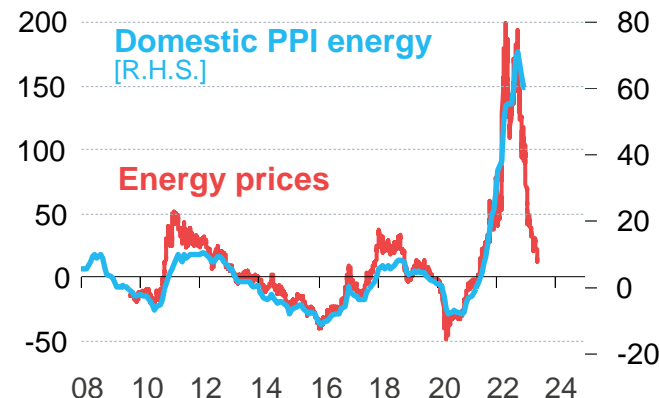


# Core inflation may take longer to return to the ECB target

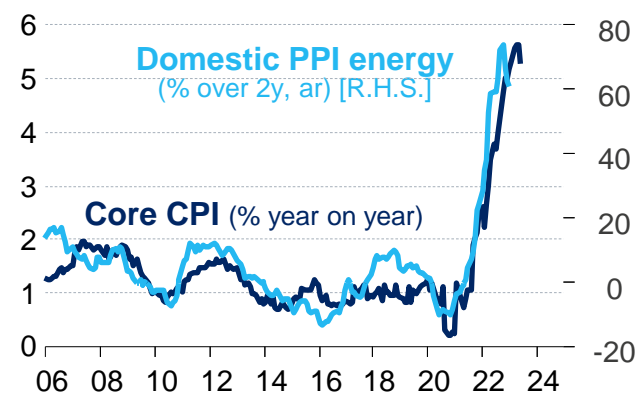
**Euro area core CPI inflation**  
(% year on year)



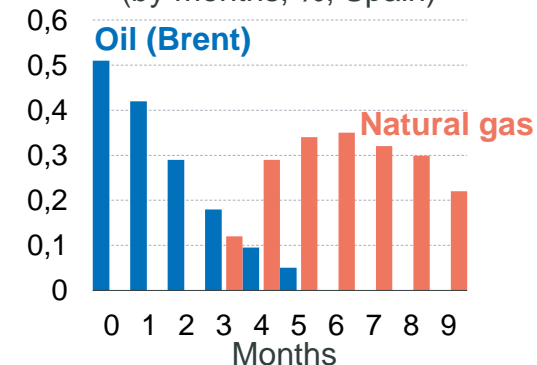
**Domestic PPI energy prices**  
(% over 2 years, annual rate)



**Energy prices and core CPI**

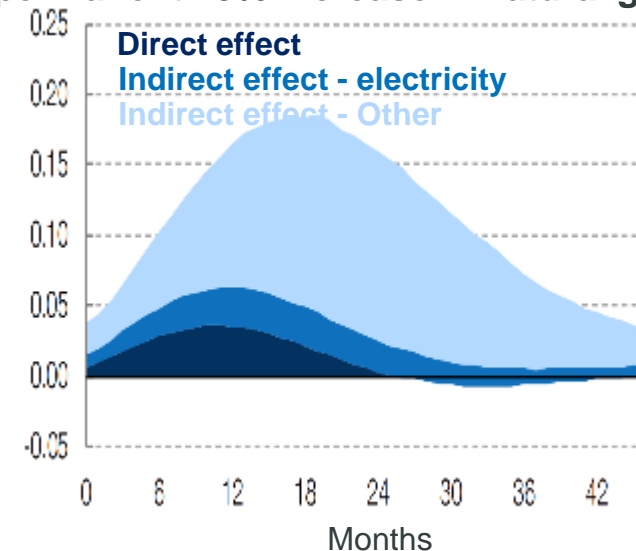


**Illustrative impact of energy prices on industrial prices\***  
(by months, %, Spain)



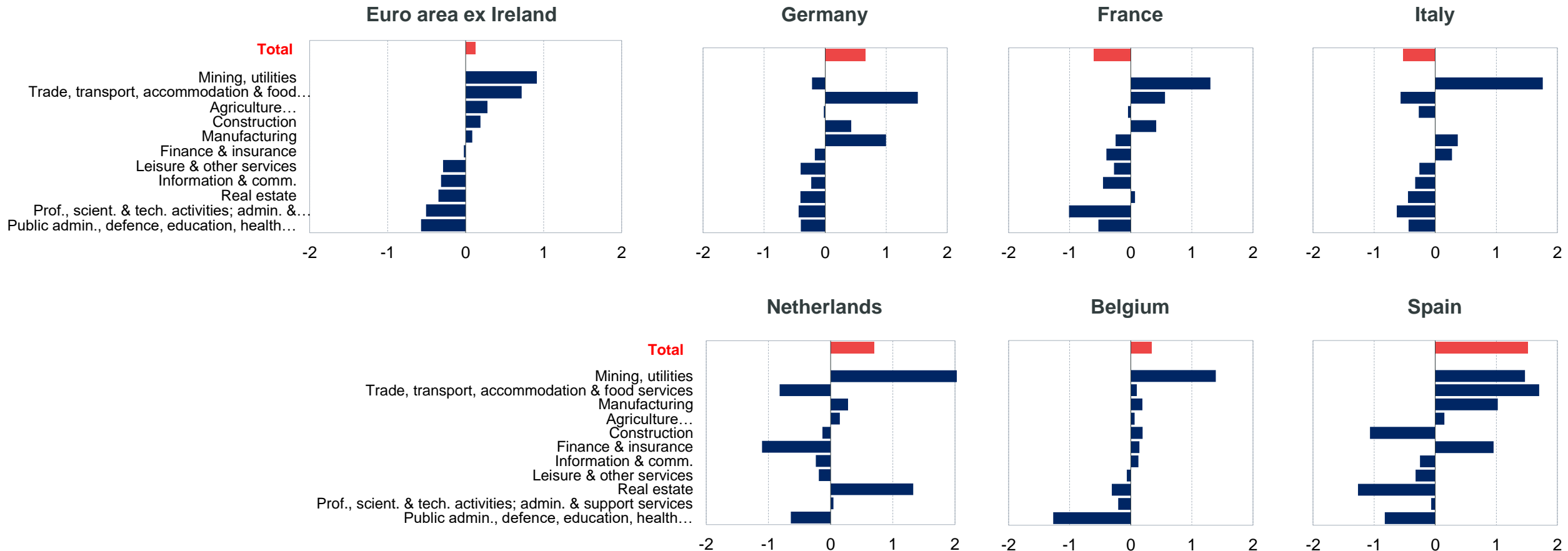
(\*) Estimated impact of a 100% increase in the price of Brent oil or the MIBGAS index on the month-on-month rate of growth in the producer price index, excluding energy, after the number of months indicated.

**Effects on euro area's HICP inflation of a permanent 10% increase in natural gas prices**



# The rise in firms' margins has added to inflation, but was largely “passive” (I)

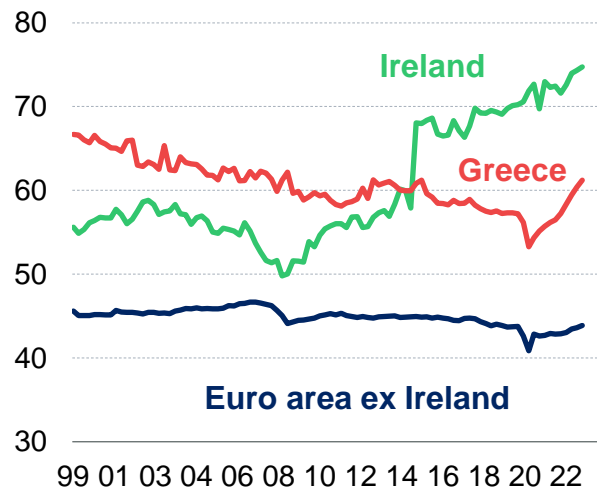
**Change in margins by sector and country**  
(% of countries' or region's total VA, Q4 2022 compared to Q4 2019)



# The rise in firms' margins has added to inflation, but was largely “passive” (II)

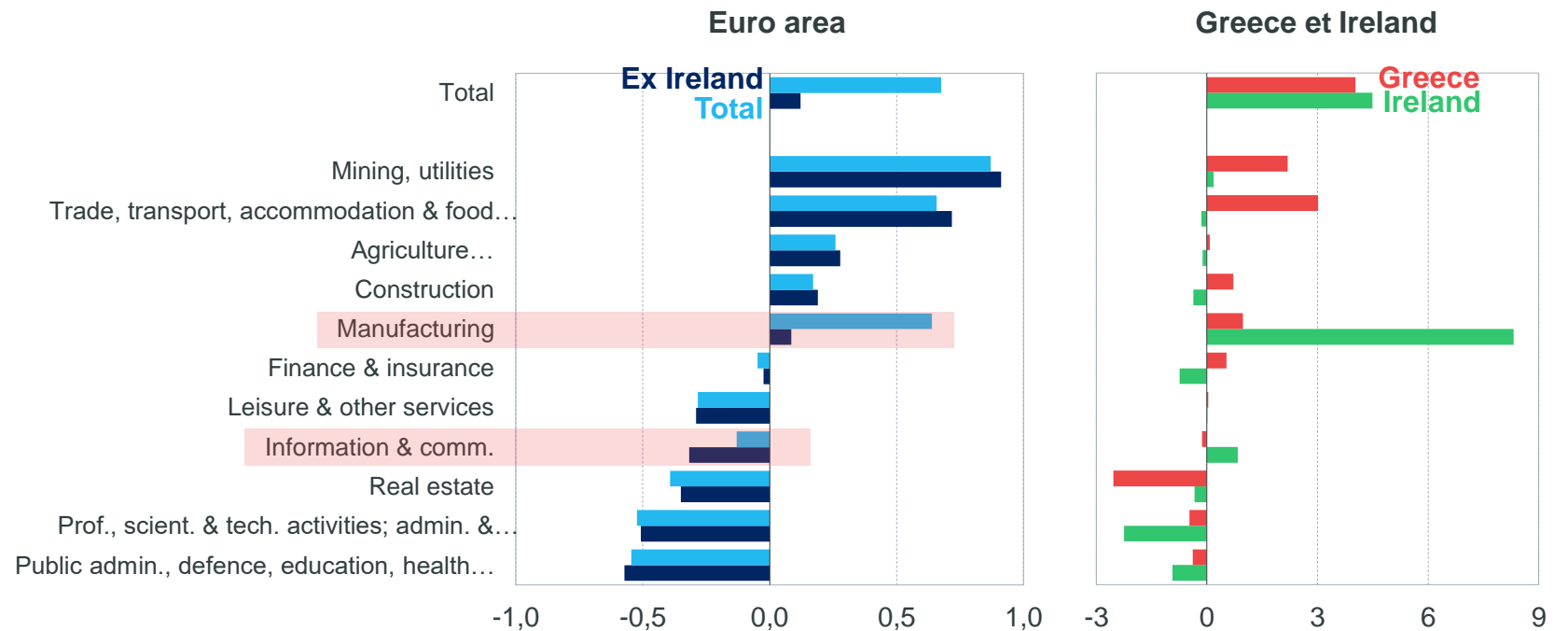
## Margins

(% of countries' or region's total VA)



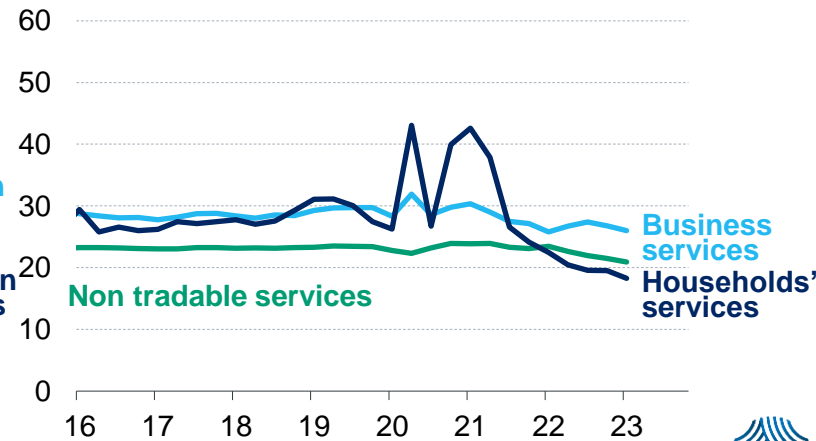
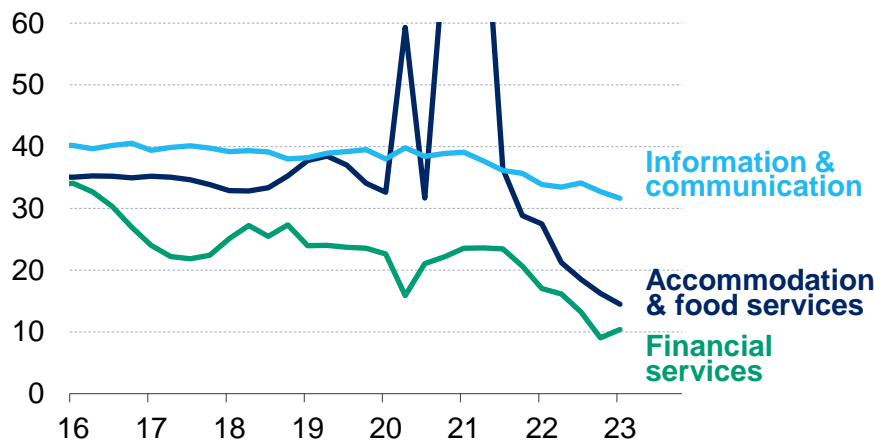
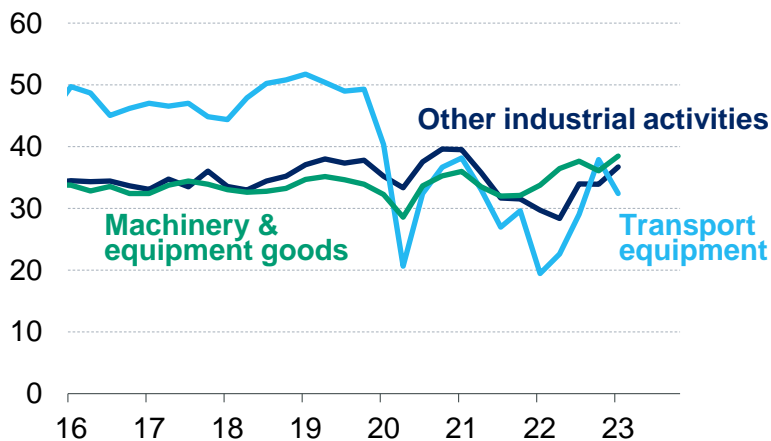
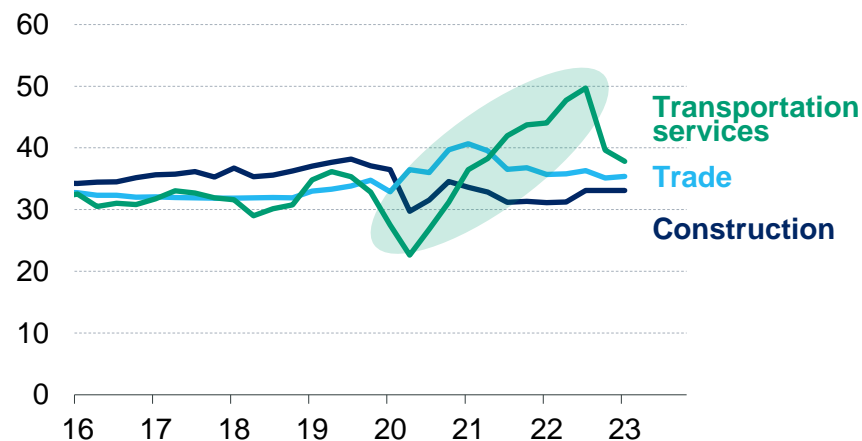
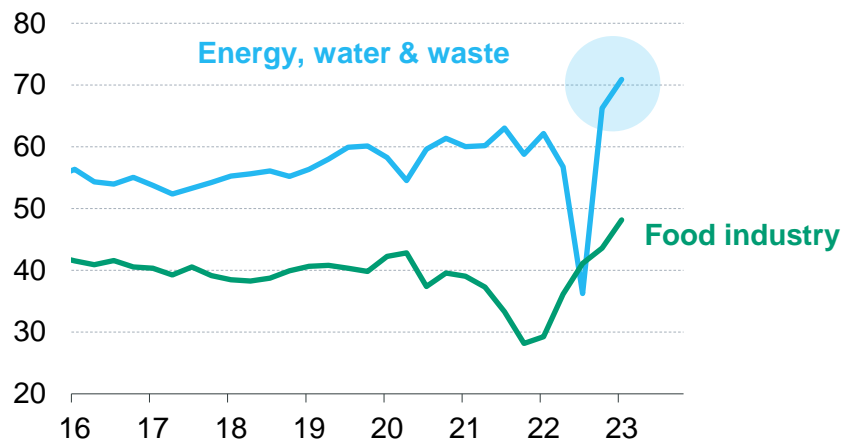
## Change in margins by sector and country

(% of total countries' or region's total VA, Q4 2022 compared to Q4 2019)

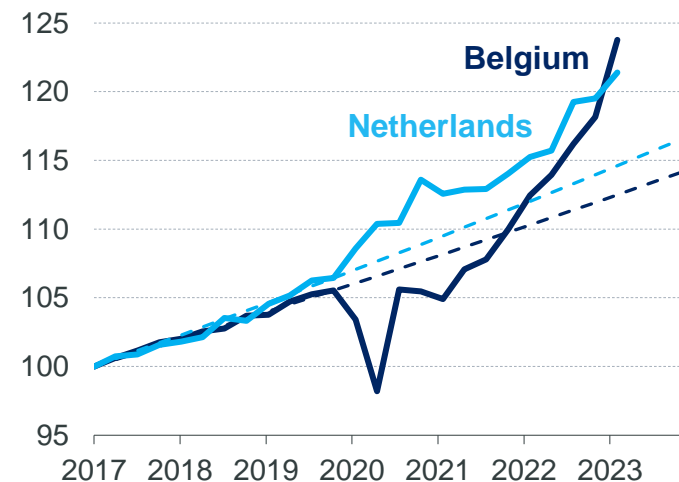
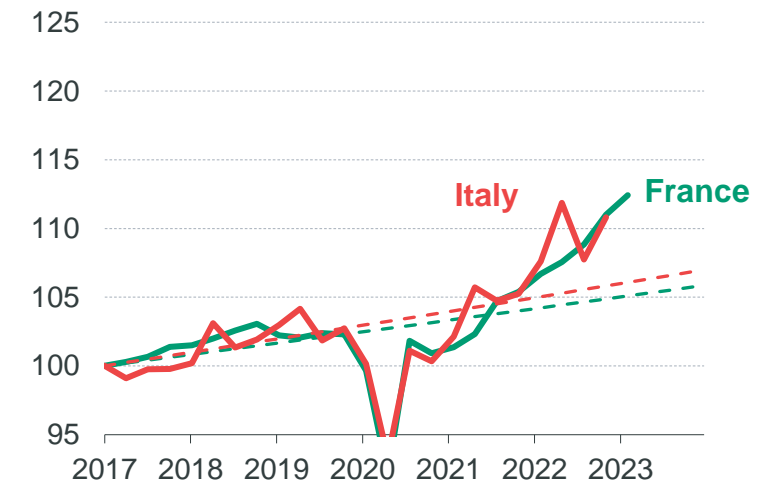
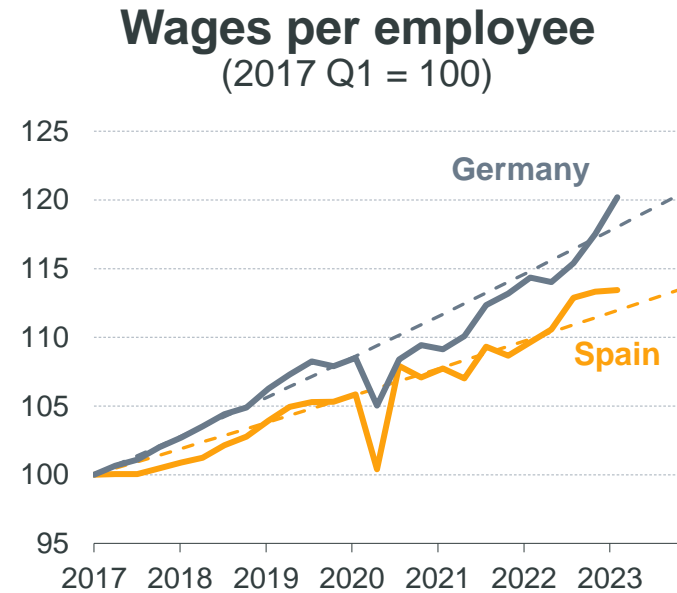
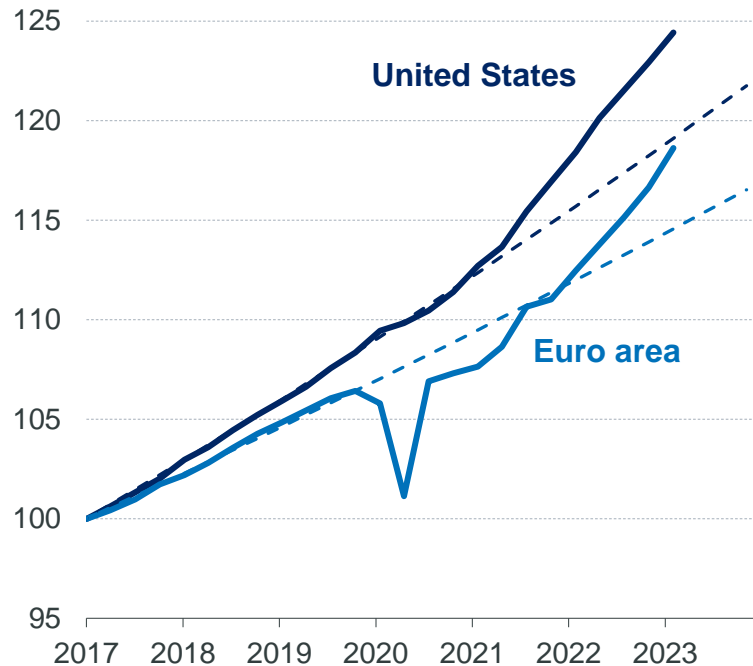


# N.B. Evolution of firms' margins in France

Margins by industry in France  
(% of each industry value added)



# Wages have clearly accelerated...

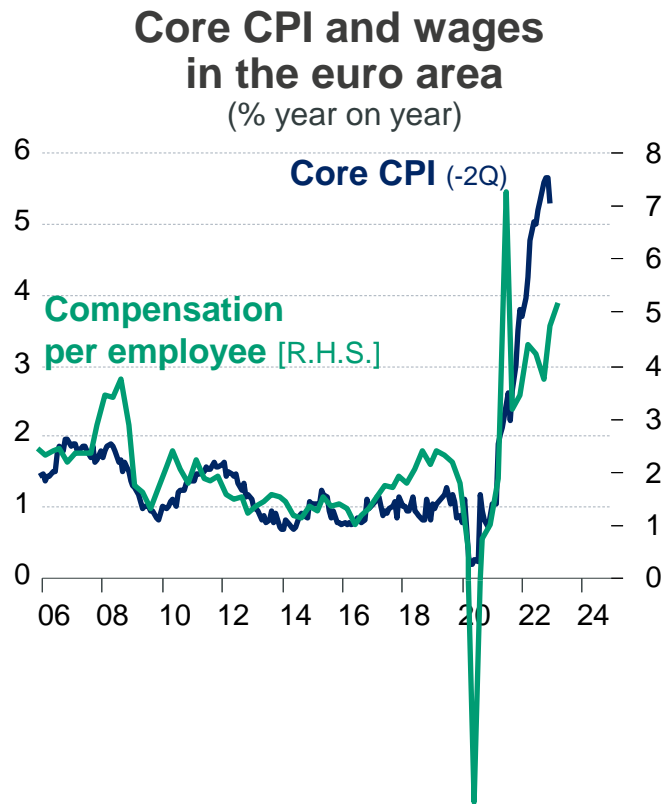


NB. The dotted lines are the trends observed during years 2017 to 2019.



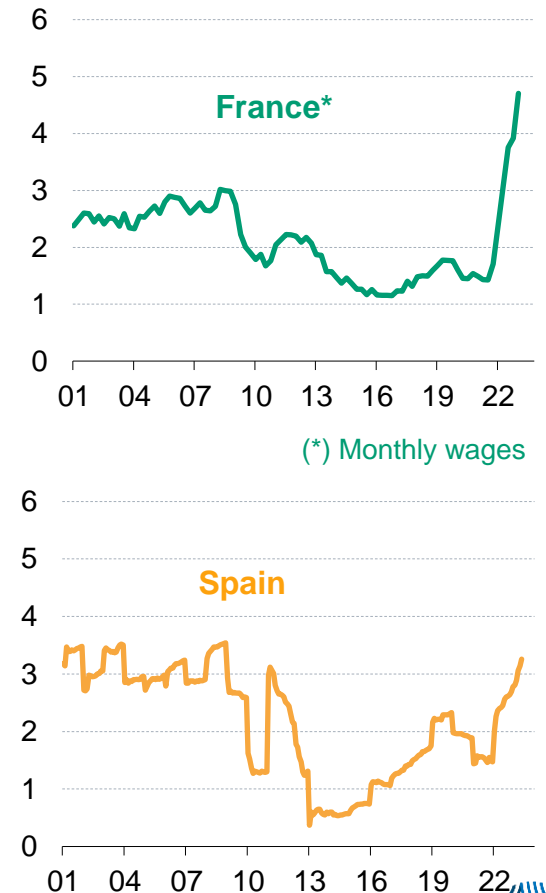


# Wages may be slow to decelerate...



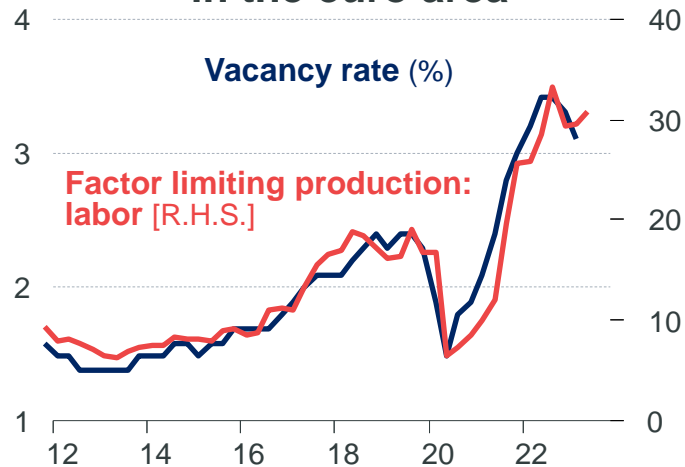
## Negotiated wages

(% year on year, ex one-offs, 3-month moving average)



# ... since the labor market has never been so tight...

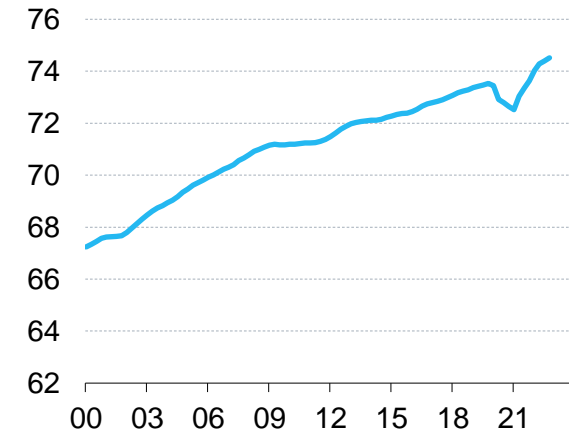
## Job vacancy & labor shortage in the euro area



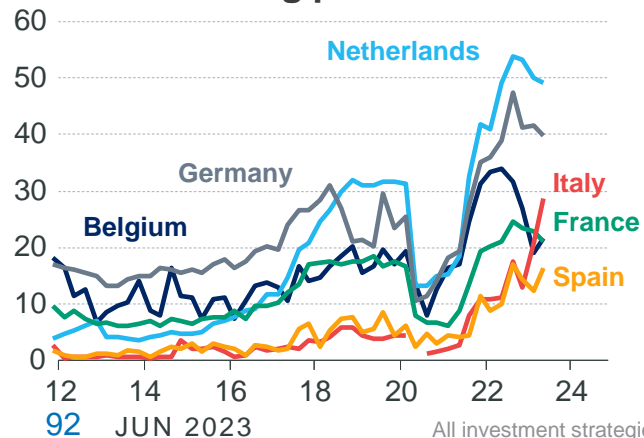
## Unemployment rate (%)



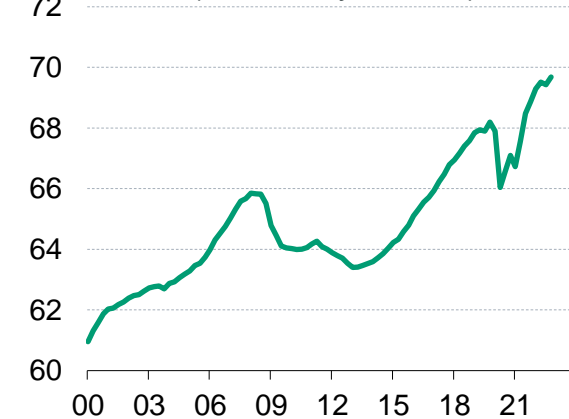
## Participation rate (% , 15-64 years old)



## Factor limiting production: labor



## Employment rate (% , 15-64 years old)

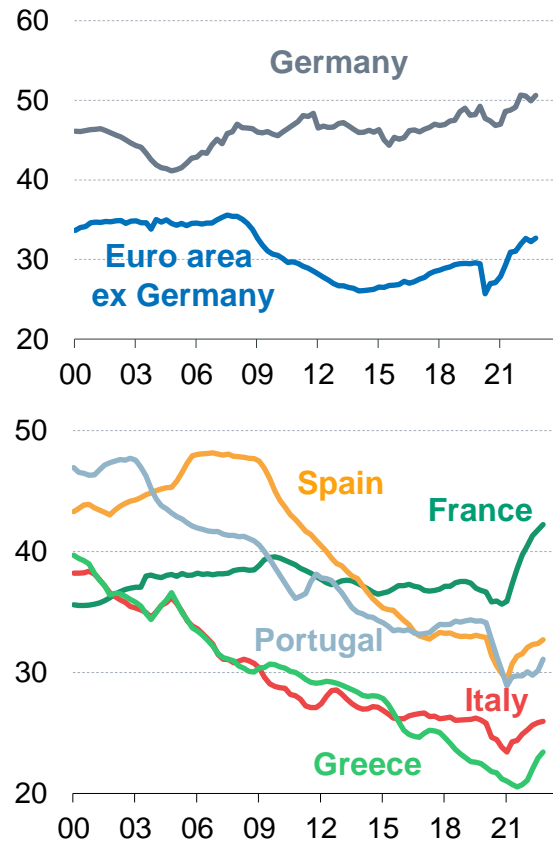


Sources: Eurostat, Refinitiv Datastream, Candriam

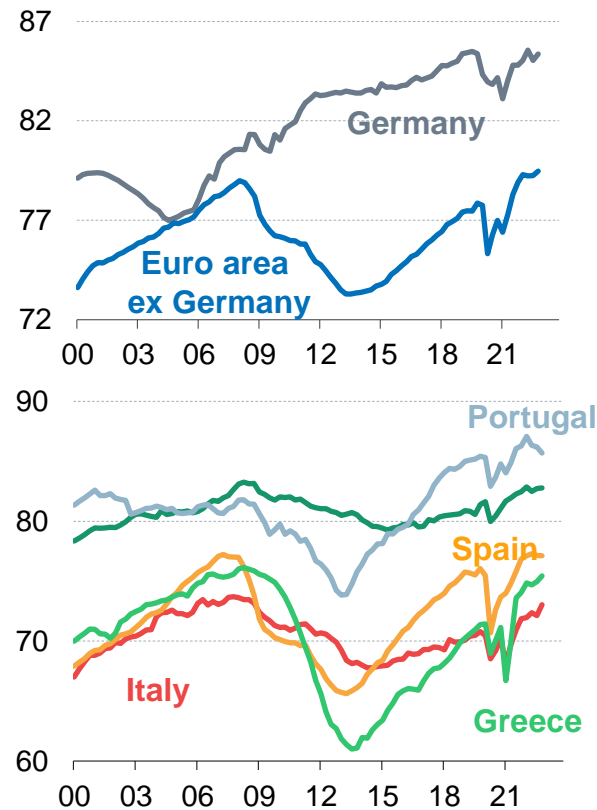


# ... all across the euro area!

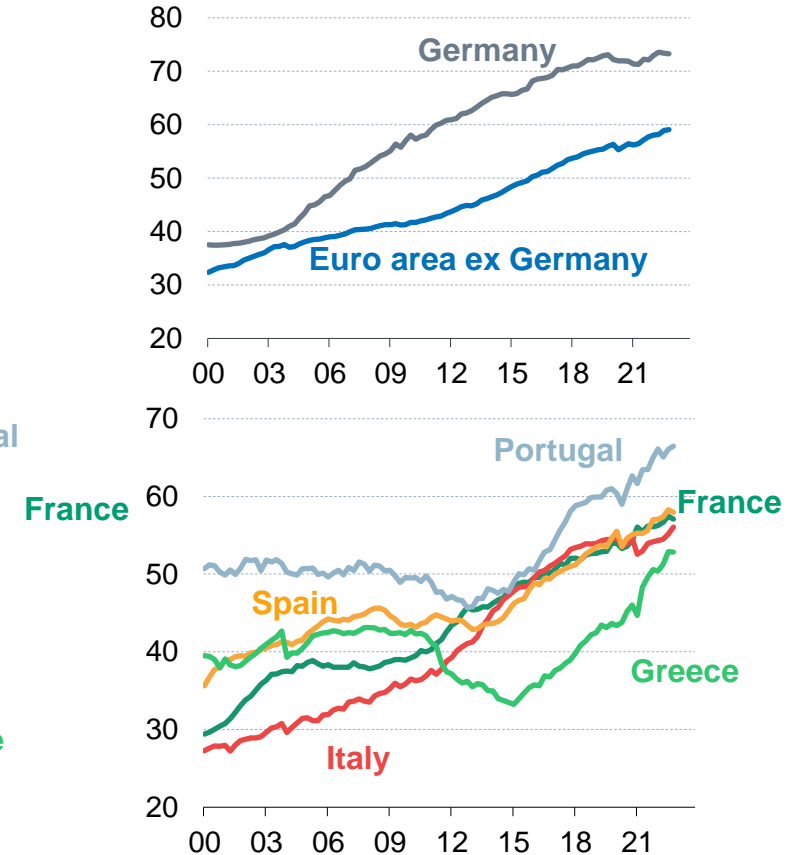
Employment rates  
for people aged 15 to 24  
(%)



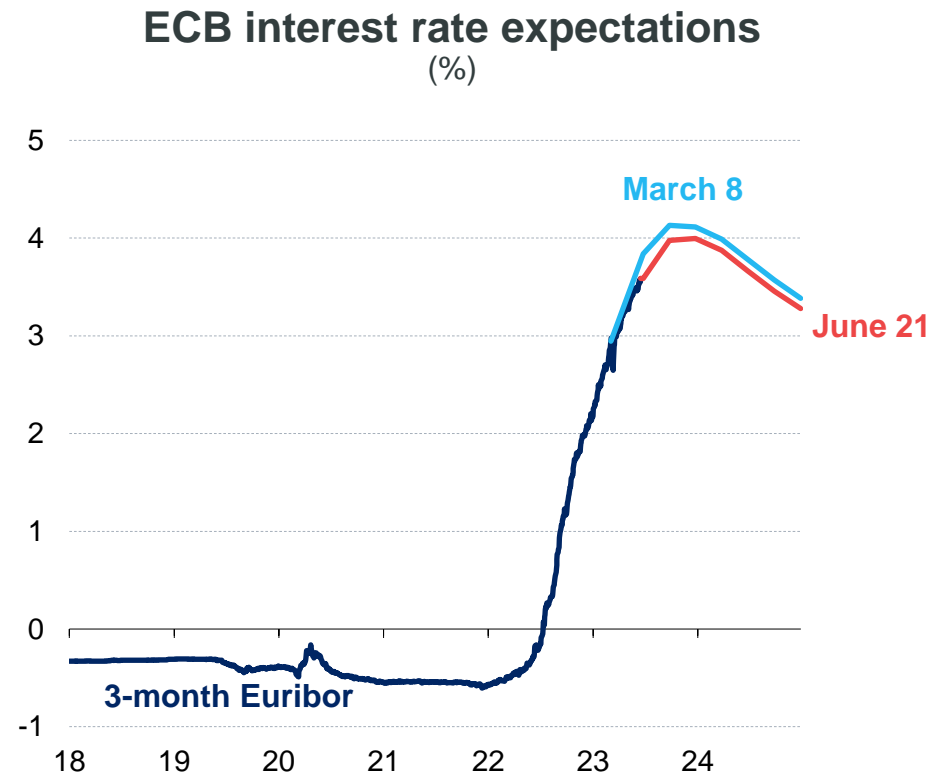
Employment rates  
for people aged 25 to 54  
(%)



Employment rates  
for people aged 54 to 65  
(%)

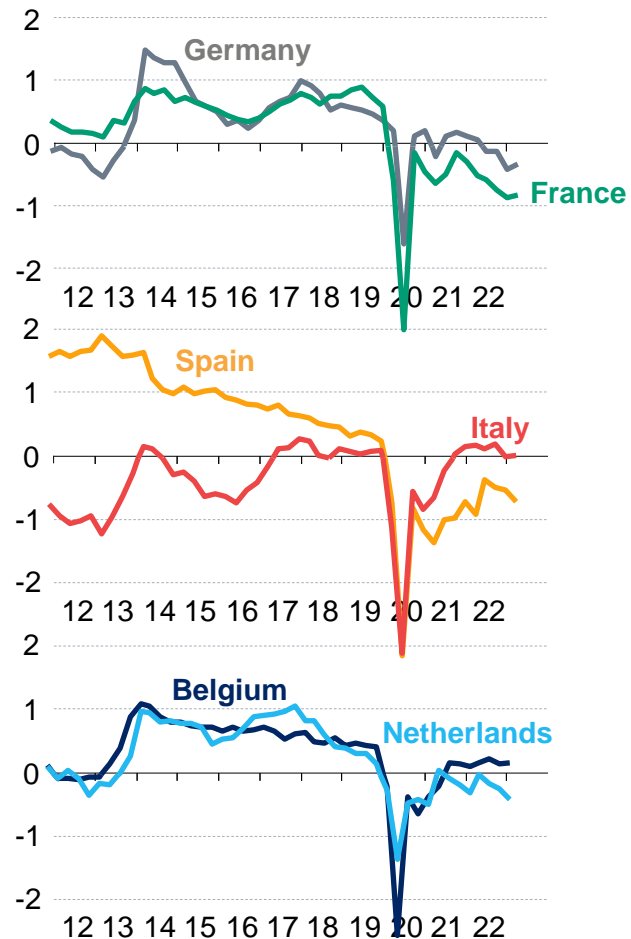


# With inflation proving stickier, the ECB tightening cycle is not over yet!

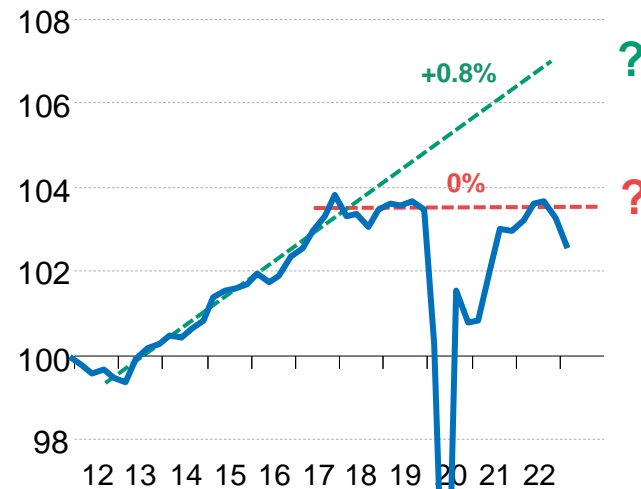


# The more so since the euro zone's growth potential seems particularly low

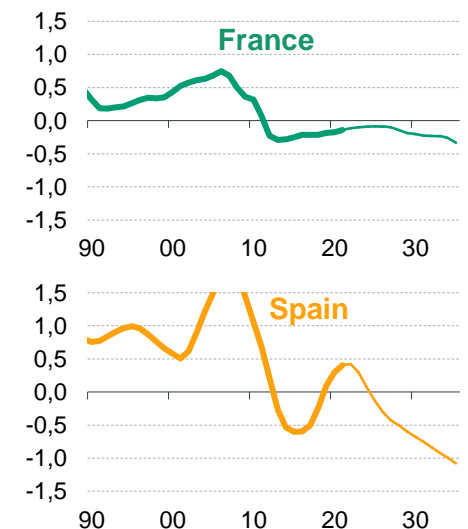
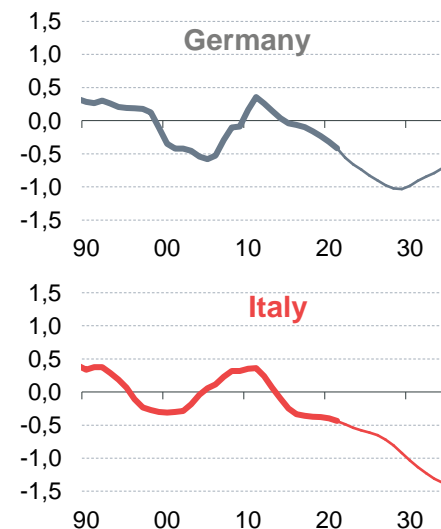
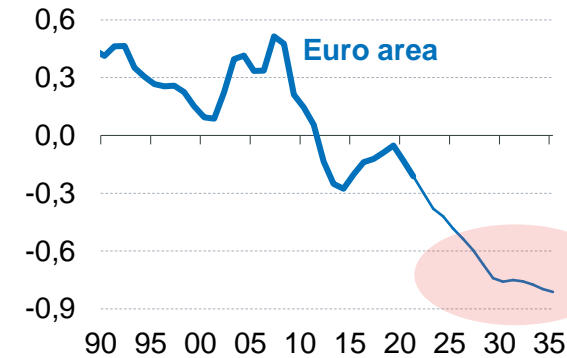
**GDP per employee**  
(% over 5 years, annual rate)



**Euro area productivity trend**  
(GDP per employee, 2012 Q1 = 100)

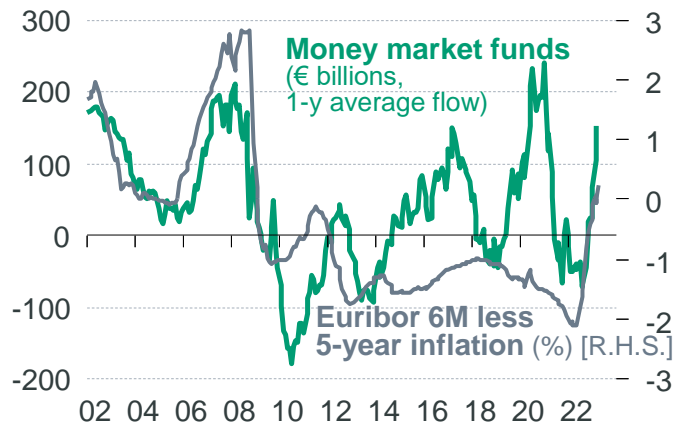


**Working age population**  
(15- to 64-year-old, % year on year)

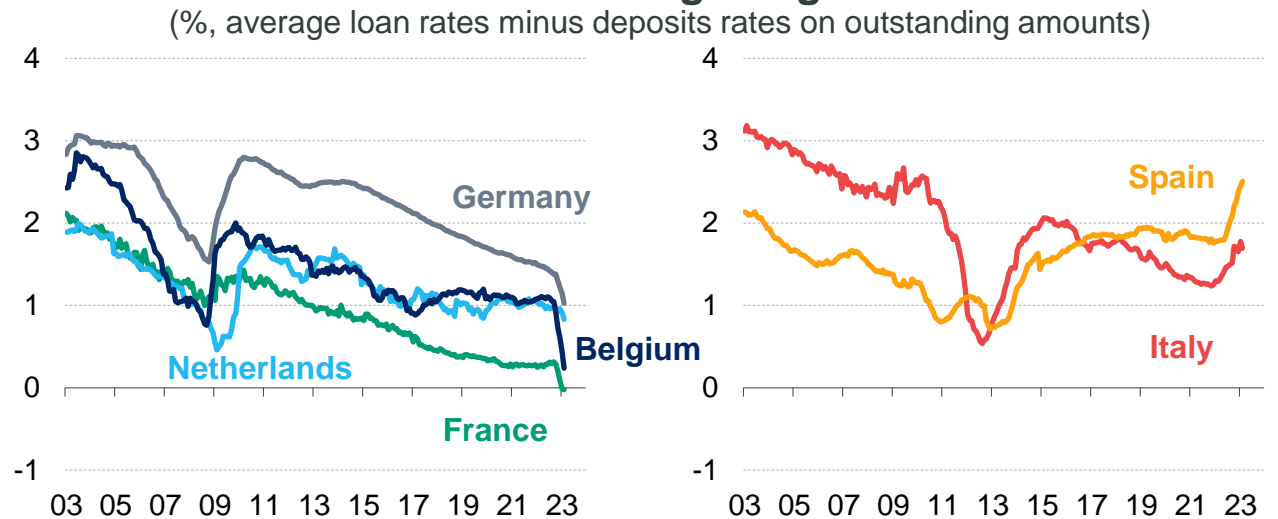


# Still, downside risks should force the ECB to act cautiously

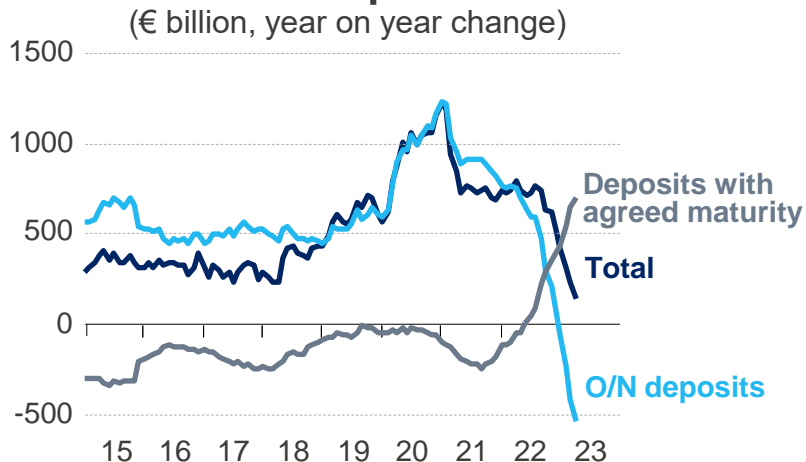
## Net flows in money market funds



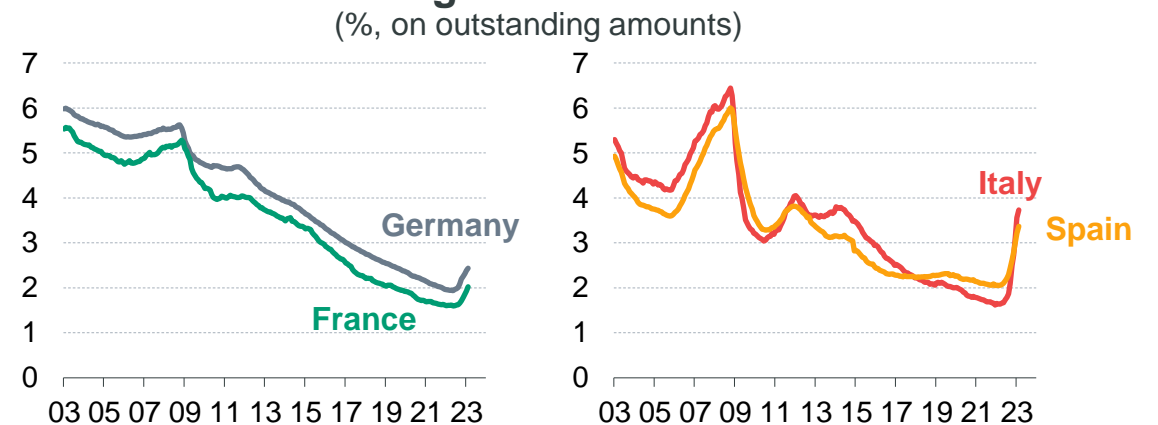
## Bank lending margins



## Bank deposits

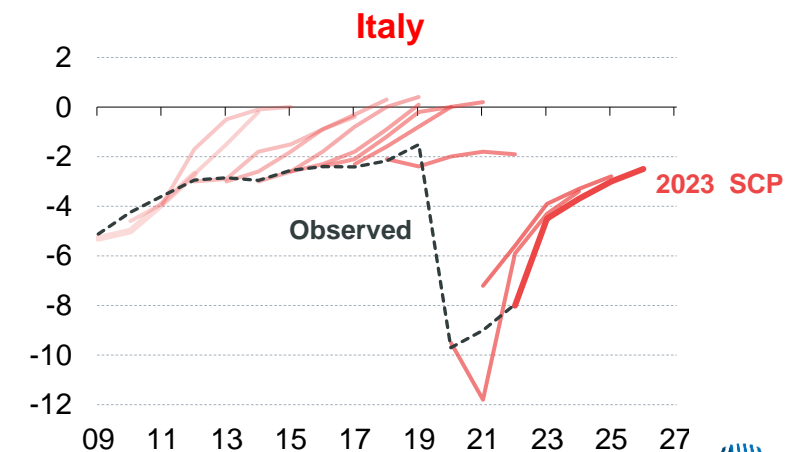
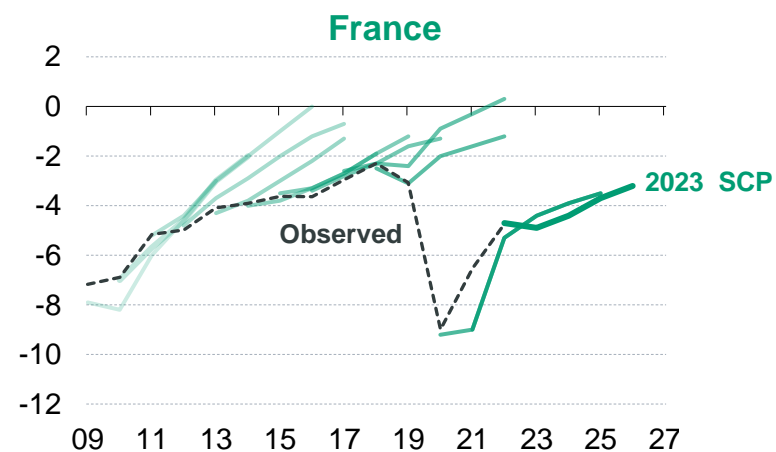
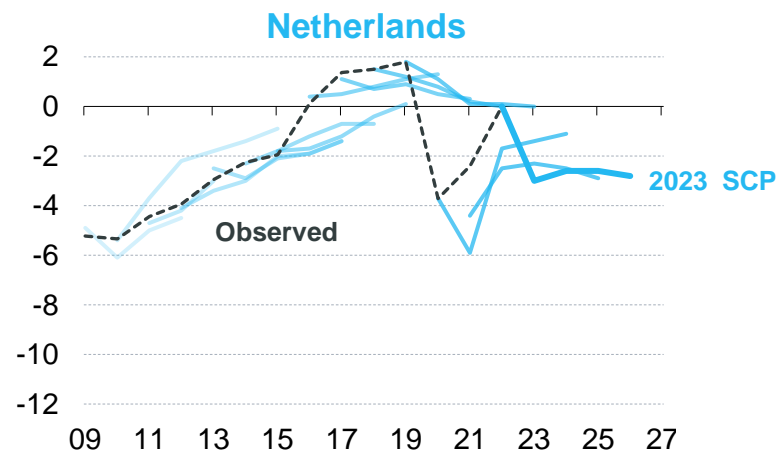
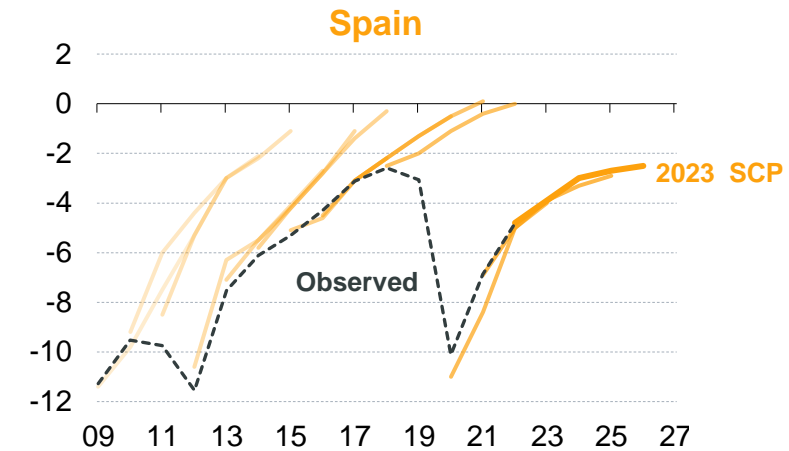
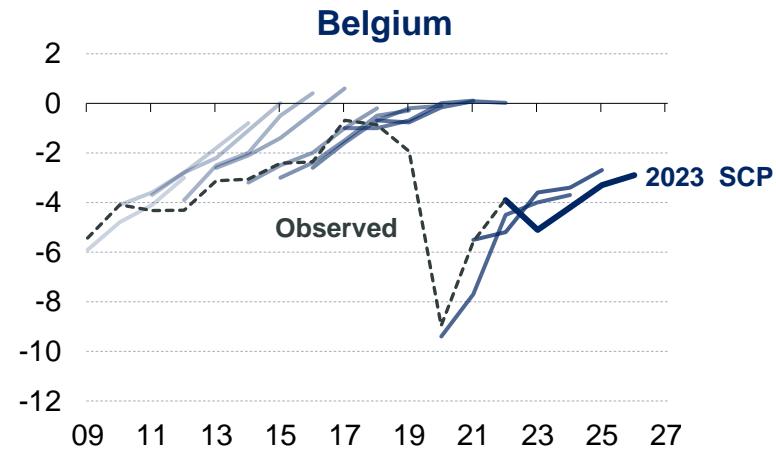
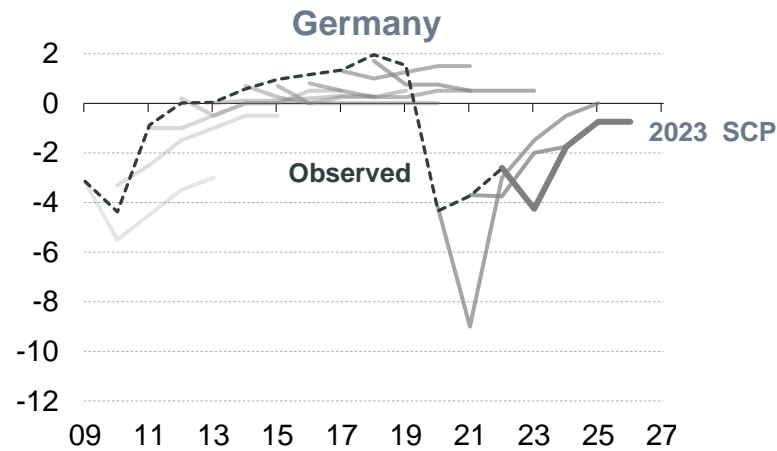


## Average rate on loans



# The more so since governments plan to rebalance their deficits...

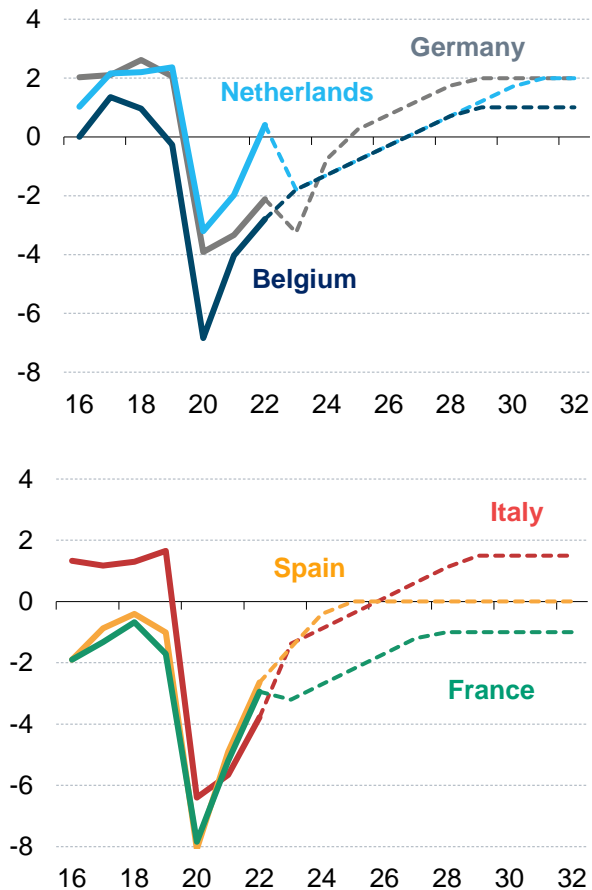
General government total balance as reported in Stability and Convergence Programs  
(% of GDP)



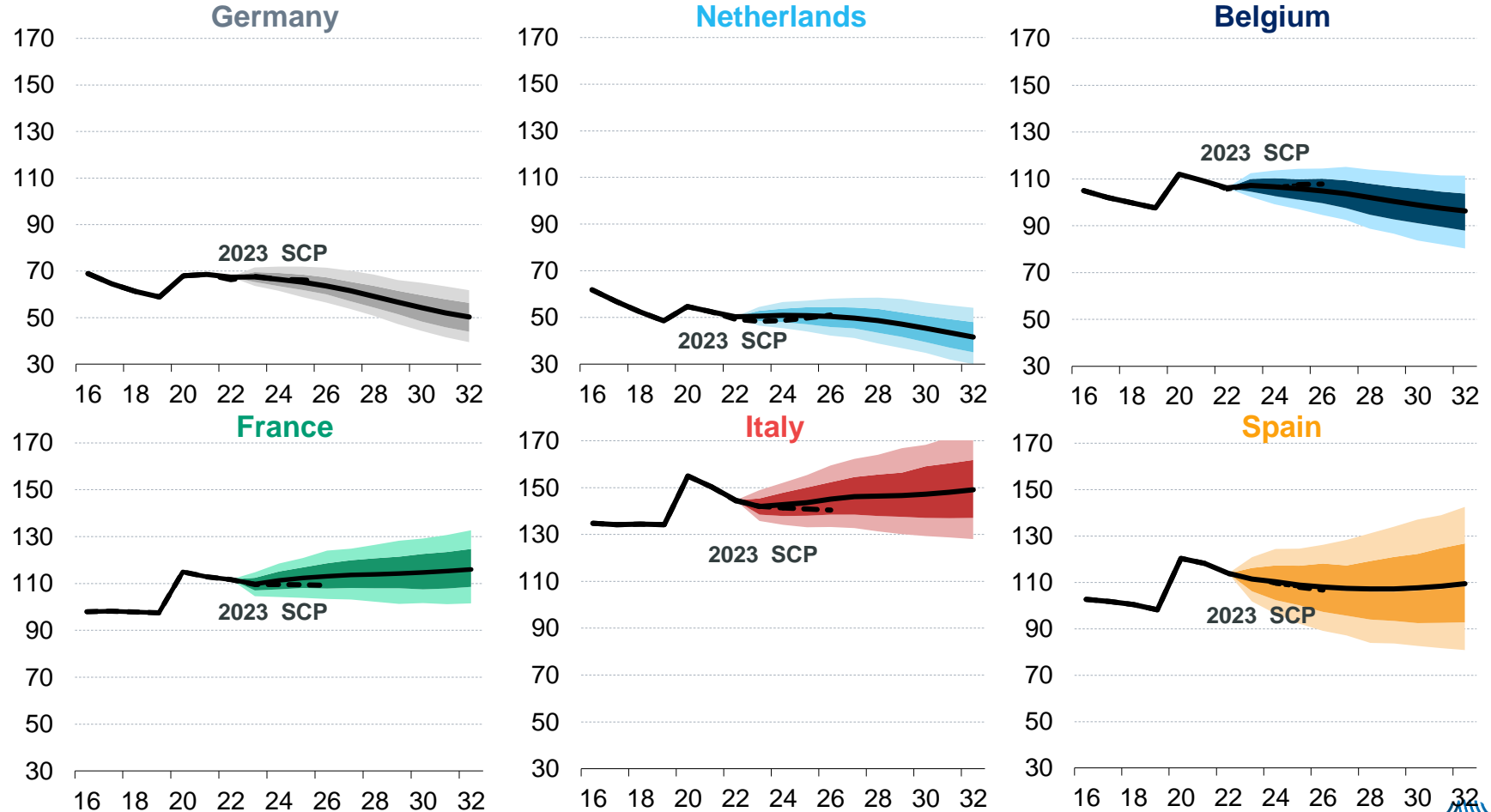


# ... with some of them struggling to stabilize their debt to GDP ratios

**Primary balance**  
(% of GDP)



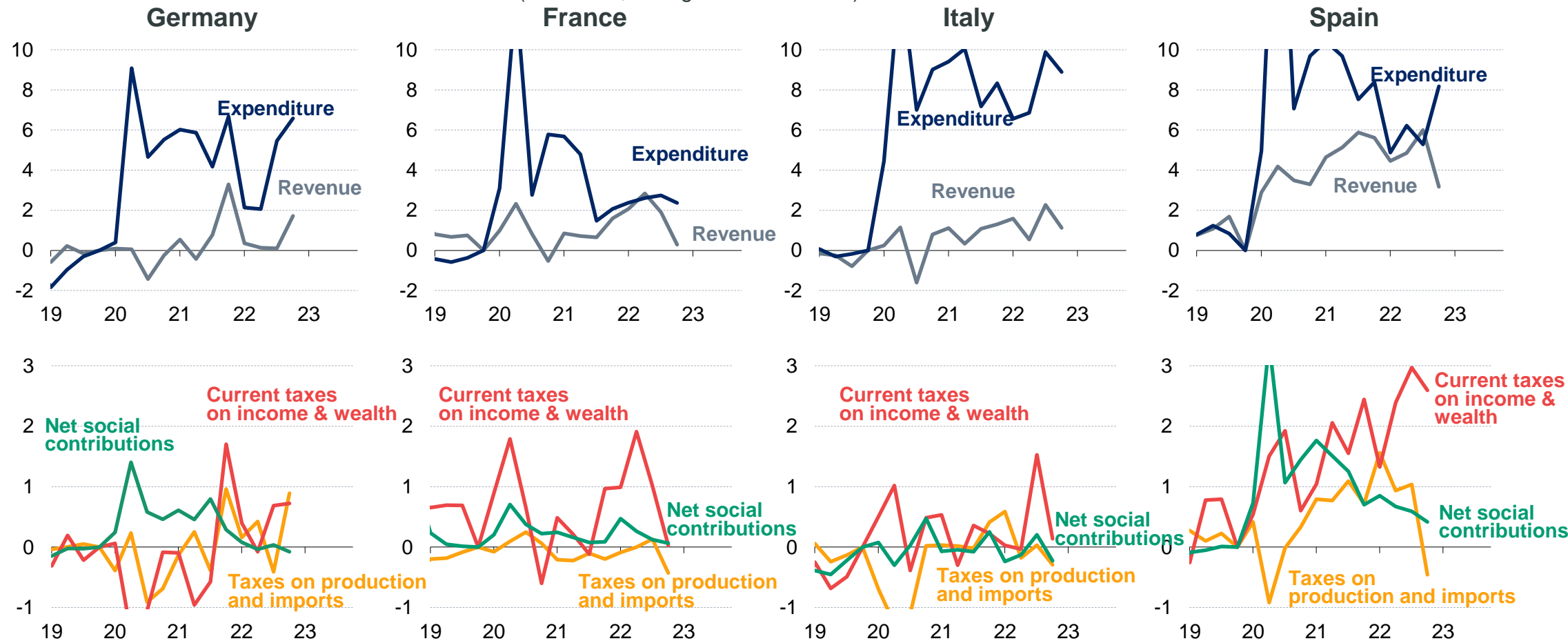
**General government gross debt**  
(% of GDP)



# Memo. General government revenue and expenditure (I)

General government revenue and expenditure  
(% of GDP, change since 2019 Q4)

Revenue & expenditure

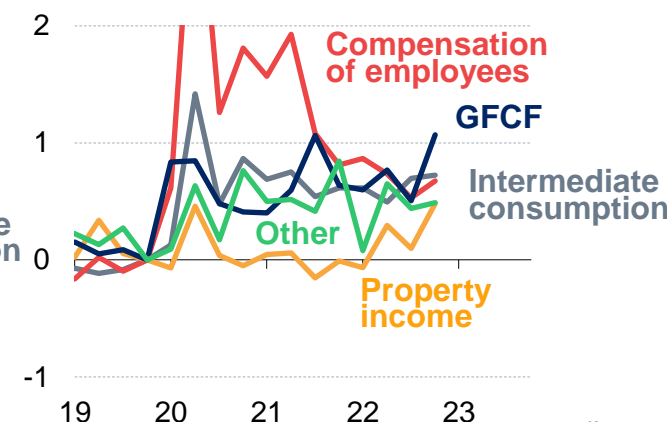
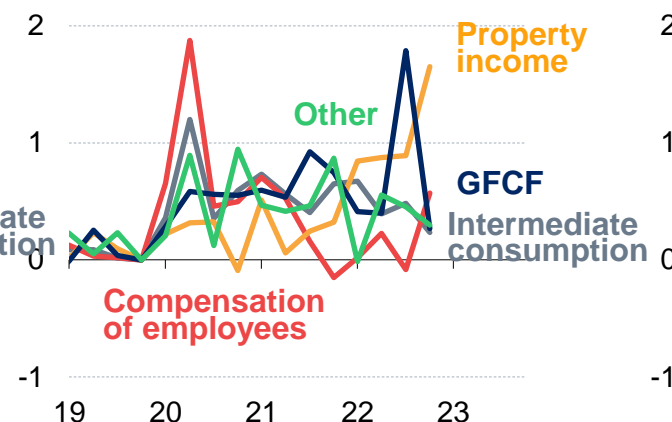
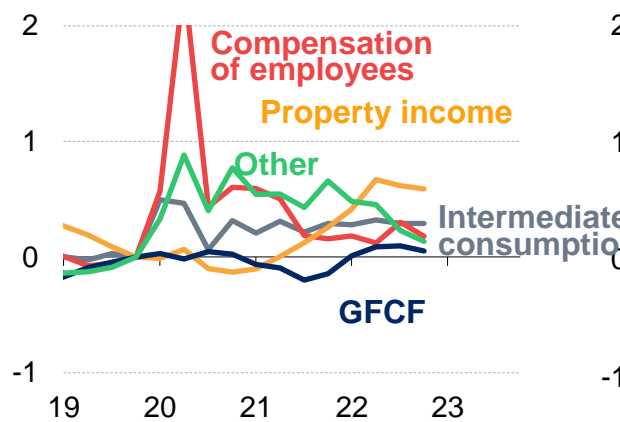
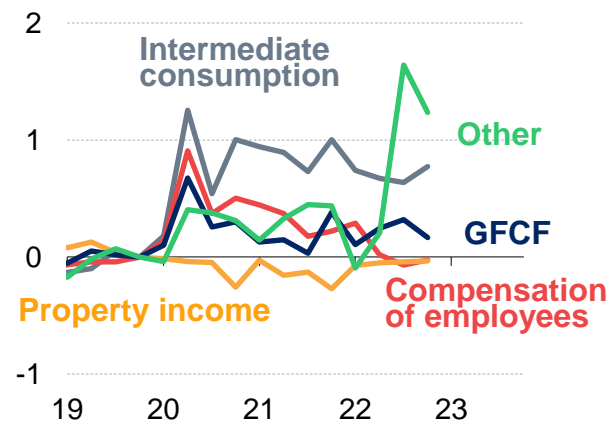
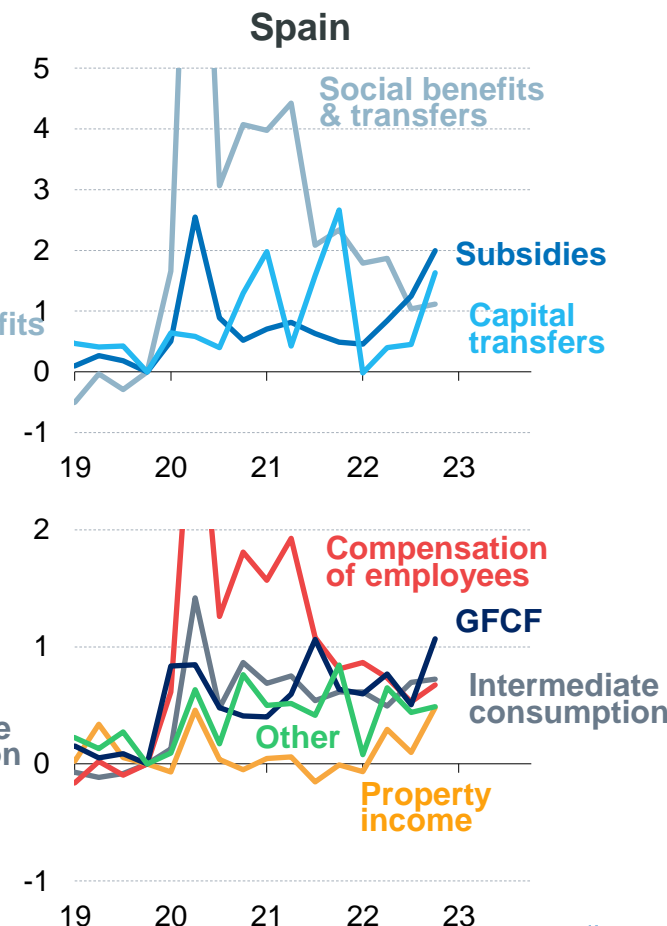
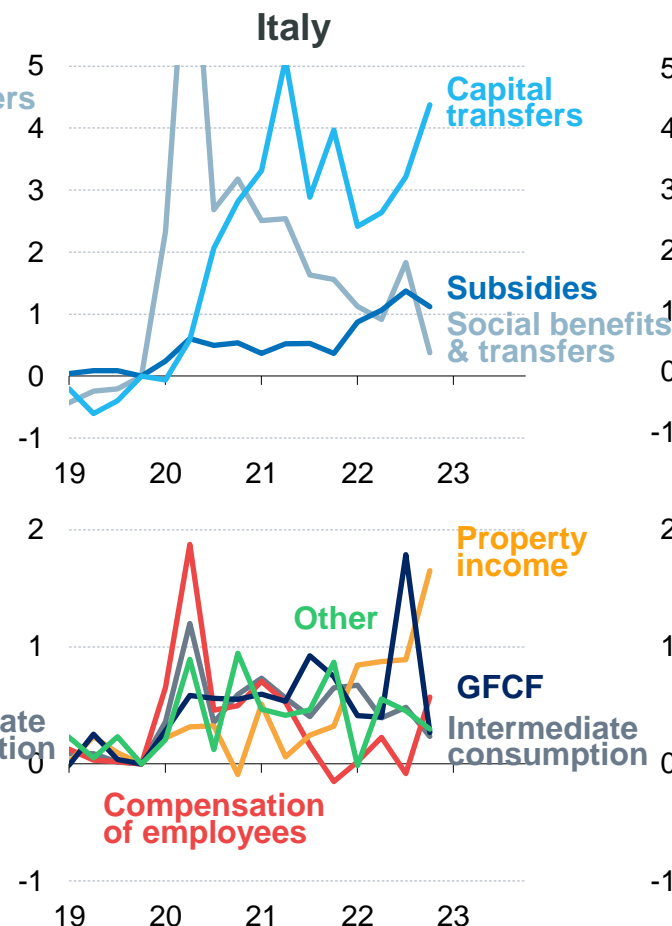
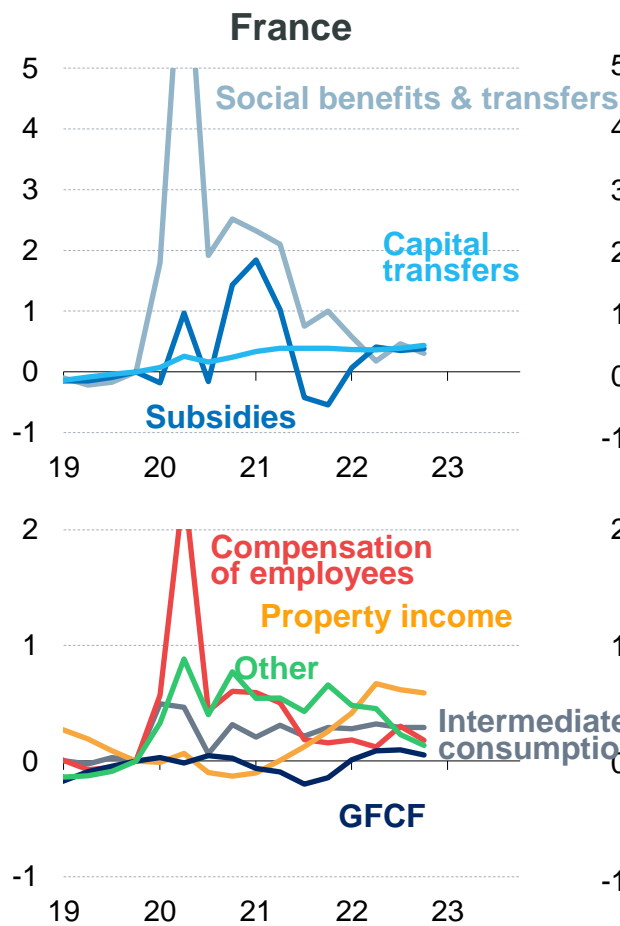
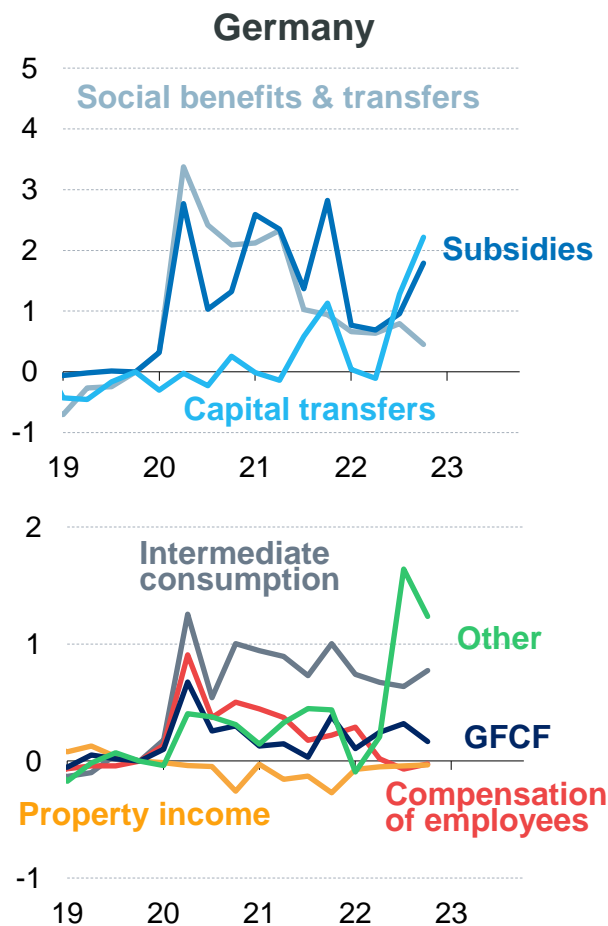


Revenue



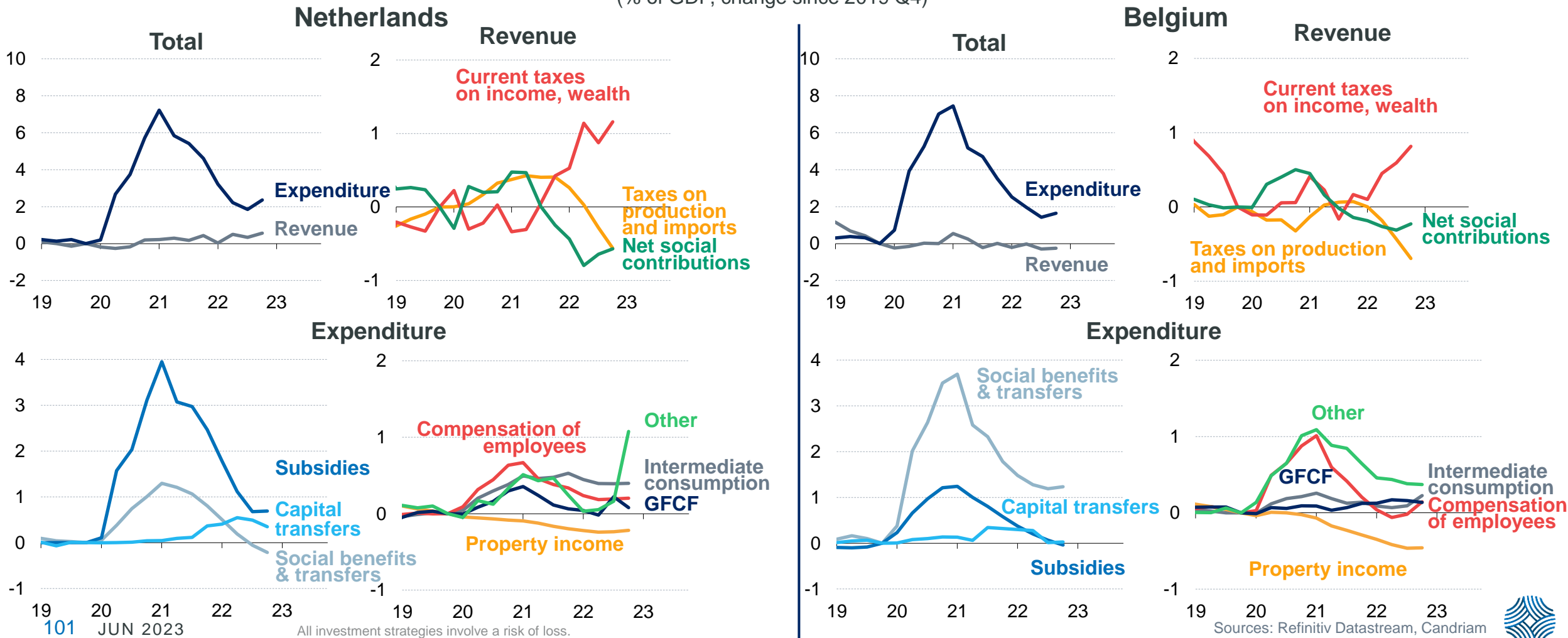
# Memo. General government revenue and expenditure (II)

## General government expenditure (% of GDP, change since 2019 Q4)



# Memo. General government revenue and expenditure (III)

General government revenue and expenditure  
(% of GDP, change since 2019 Q4)



# Outlook H2 2023

**Take me  
to the next stage**

JUNE 2023

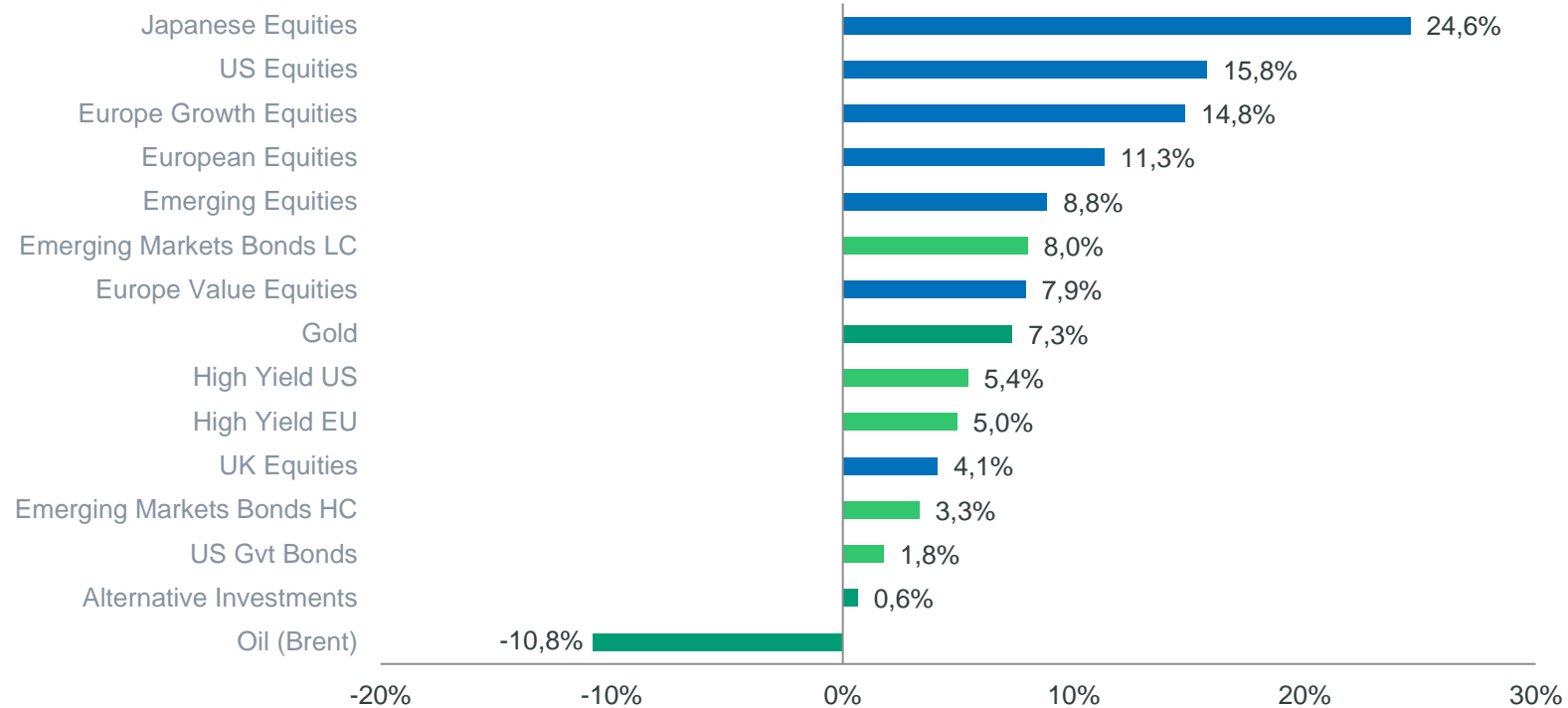




# Performances

2023 cross-asset class performances in local currency as of 16/06/2023

YTD Performances (as of 16/06/2023)



US: United States  
Gvt: Government  
EU: Europe  
LC: Local Currency  
HC: Hard Currency

Performances as of 16/06/2023

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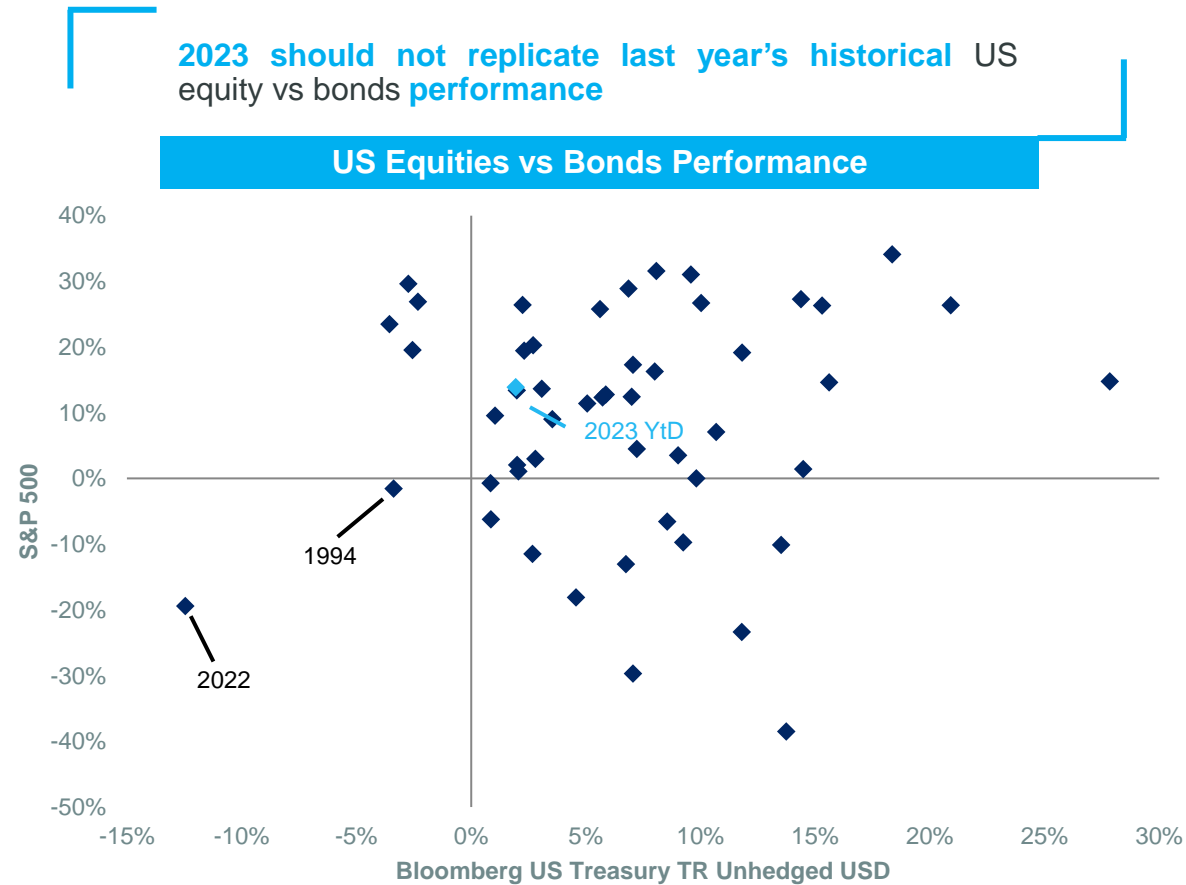
Sources: Datastream©, Bloomberg©, Candriam





# Performances

Equity and bond markets' performances recover from last year's Annus Horribilis



Performances as of 16/06/2023

Past performances, or forecasts of future performances are not reliable indicators of future performances and are not guaranteed.

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Sources: Datastream®, Bloomberg®, Candriam







# Performances

Mega-cap quality stocks have been the drivers of the recent equity performance



FANGMAN: Facebook, Amazon, Netflix, Google, Microsoft, Apple, and NVIDIA  
GRANOLAS: GlaxoSmithKline, Roche Holding, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP and Sanofi

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# Performances

Forward looking: How much higher can it go?

US **Defensives** can keep on outperforming **cyclicals**, in particularly during a slowdown

US Defensives / Cyclicals 3M perf vs. Recession



MSFT: Microsoft  
GE: General Electric  
XOM: Exxon Mobil Corp  
WMT: Walmart  
AAPL: Apple

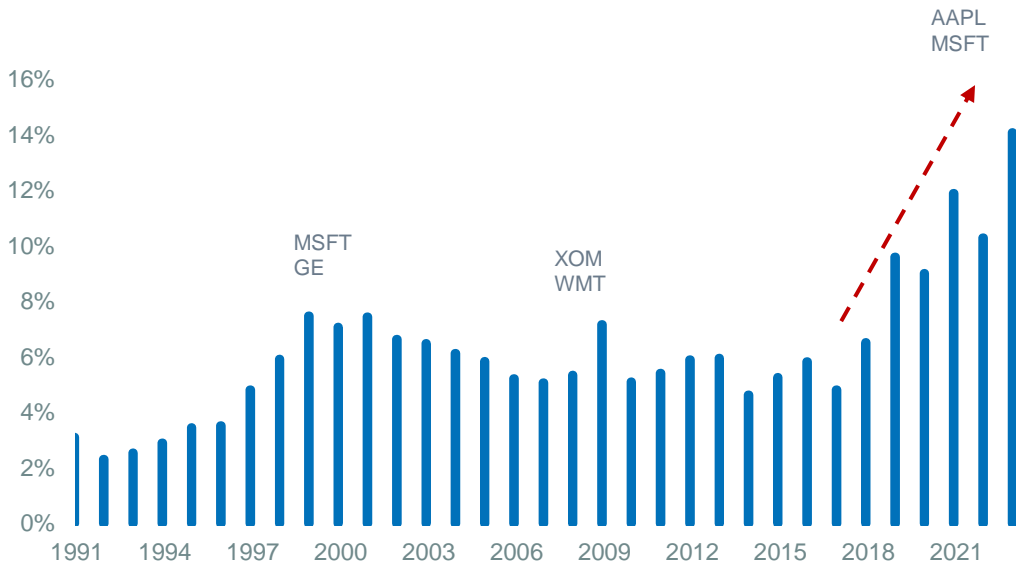
US recessions  
Perf 3M Def/Cycl

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All investment strategies involve a risk of loss.

US **concentration** has jumped!

S&P500: Weighting of Top 2 Holdings



# Overview of the situation – markets have been resilient so far...

- 
- ▶ Inflation deceleration / Growth resilience
  - ▶ Central Banks will turn less hawkish
  - ▶ Interventionism in case of major failure



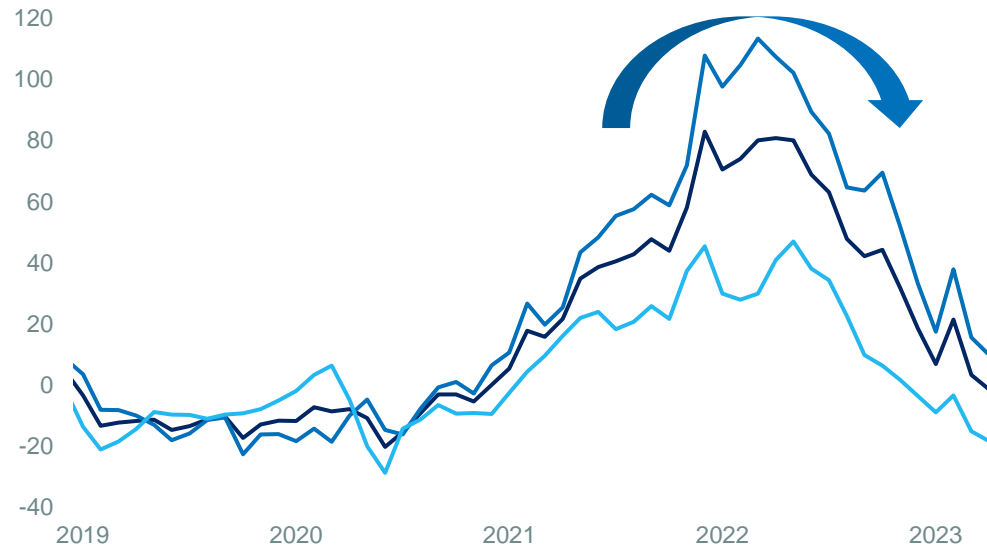


# Overview - inflation deceleration / growth resilience

Inflation has started to decrease on a global scale

Inflation is **no longer surprising on the upside** and on a global scale

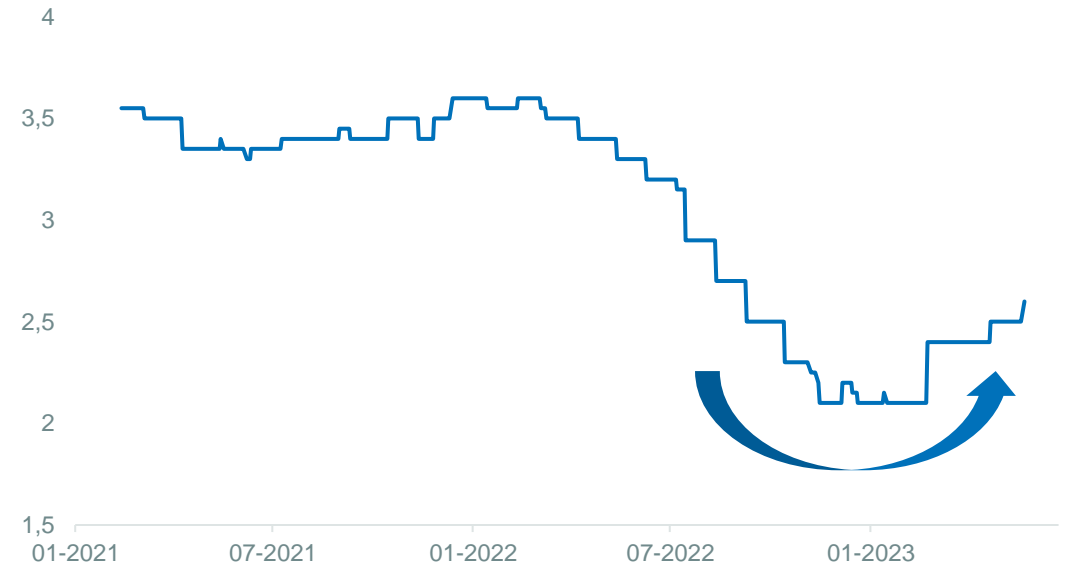
Citi Inflation Surprise Index



— Global Citi inflation surprise index  
— G10 Citi inflation surprise index  
— Emerging markets Citi inflation surprise index

Global consensus 2023 GDP **growth expectations** have hit a trough

World GDP Economic Forecast



— World GDP Economic Forecast (Annual YoY %) Survey Median

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# Overview - Central Banks will turn less hawkish

As inflation and growth decrease on a global scale, the pace of central bank tightening will decelerate from now on

The expected Fed funds rate peak **is in a tight range since last October...**

Market-implied Fed Terminal Funds rate



...so are expectations **for the ECB**

Market-implied ECB Terminal Rate



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# Overview - interventionism in case of major failure

US political and monetary institutions in the lead

Financial crises are part of tightening cycles. They last until the Fed reacts, even with just a pause

Fed Funds Rate and various crises



Year	Financial turmoil or crisis	Fed reaction
1971	Penn Central	Easing
1974	Franklin National	Easing
1984	Continental Illinois	Easing
1987	Black Monday	Easing
1990	S&L Crisis	Easing
1994	Tequila Crisis	Easing
1997	Asia	Pause
1998	Russia/LTCM	Easing
2000	Tech Bubble	Easing
2007	GFC	Easing
2012	Eurozone Crisis	More QE
2016	Oil Collapse	Pause
2023	SVB, SBNY, CS, FRC	Towards a Pause

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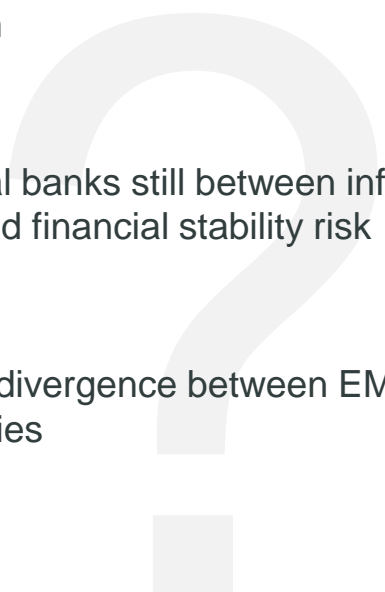
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## ...but challenging perspectives

- 
- ▶ Gradual inflation deceleration and weak growth
  - ▶ Central banks still between inflation risk and financial stability risk
  - ▶ Cycle divergence between EM and DM countries
  - ▶ Geopolitics







# Perspectives – only gradual inflation deceleration likely

Rise in compensation and forward-looking market pricing point to a higher inflation anchor

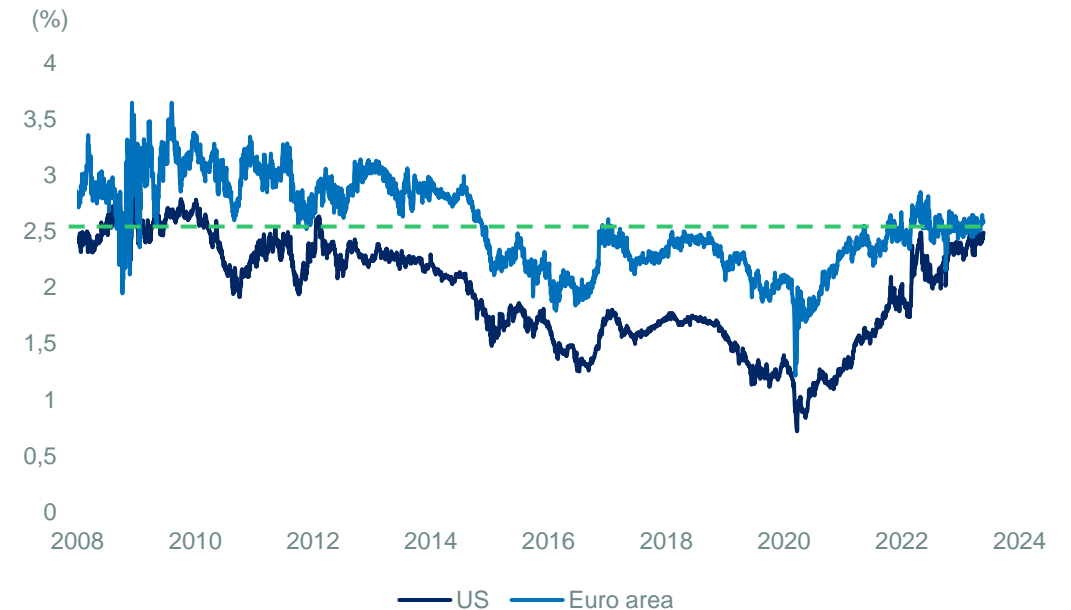
An **unprecedented rise in recent history** in total private compensation in the US

US Wages and Salaries – YoY Change (%)



Both US and Euro area long-term inflation swaps are now settling at levels rarely seen in the past decade

5y5y inflation swaps



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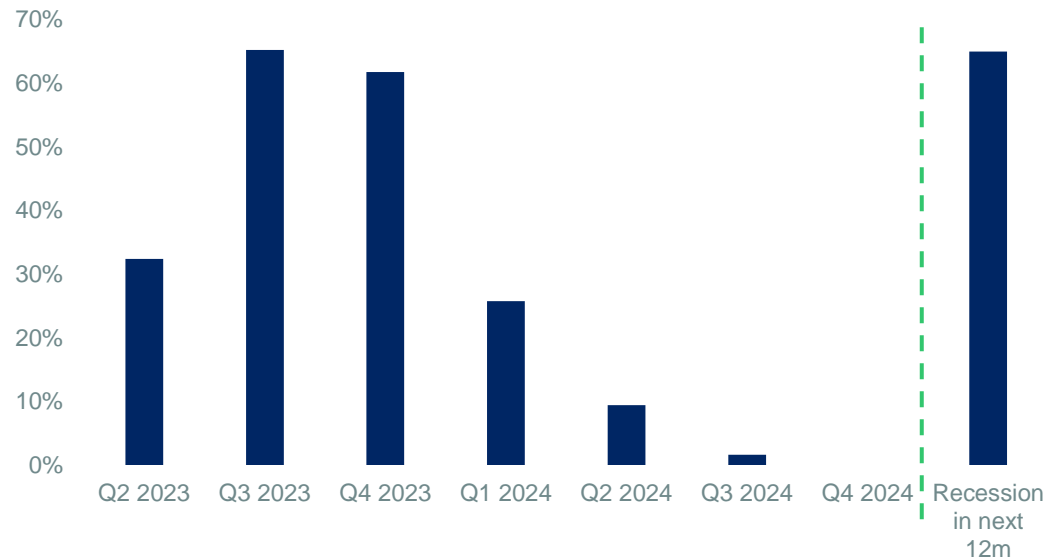


# Perspectives – growth deceleration widely expected

Growth has started to decrease, with a consensus (65%) now expecting a US recession

Percentage of contributing economists on Bloomberg (66 firms) with **negative QoQ growth forecasts**

**Economists' consensus on future US recession**



Lending standards (small firms) are pointing to **slower growth ahead**

**US Lending standards vs. ISM Manufacturing**



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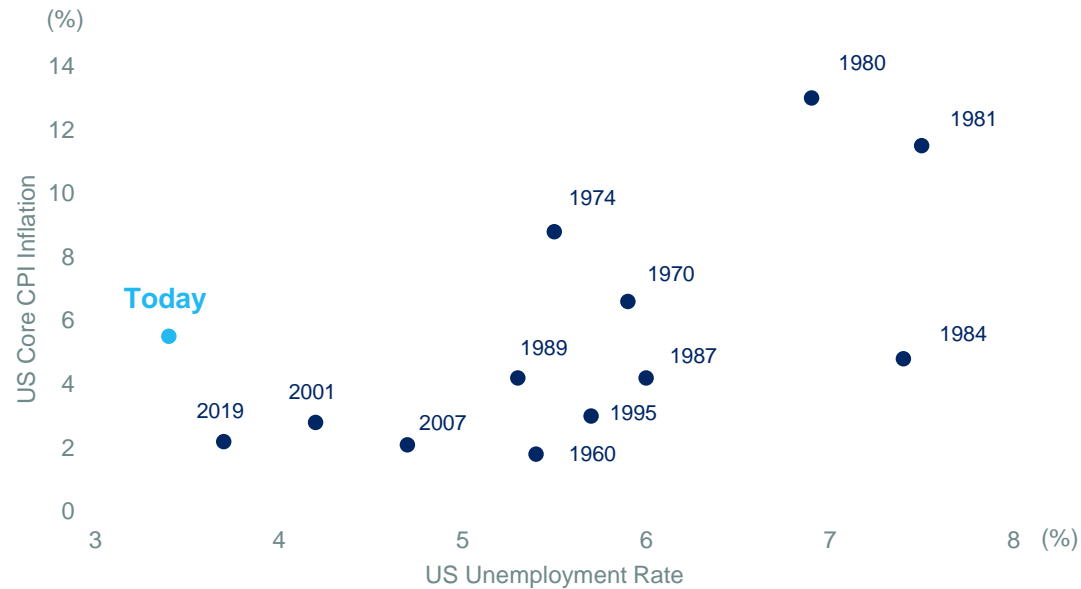


# Perspectives – uncertain monetary policy adjustments

Central banks could be less dovish than markets hope, depending on where inflation settles

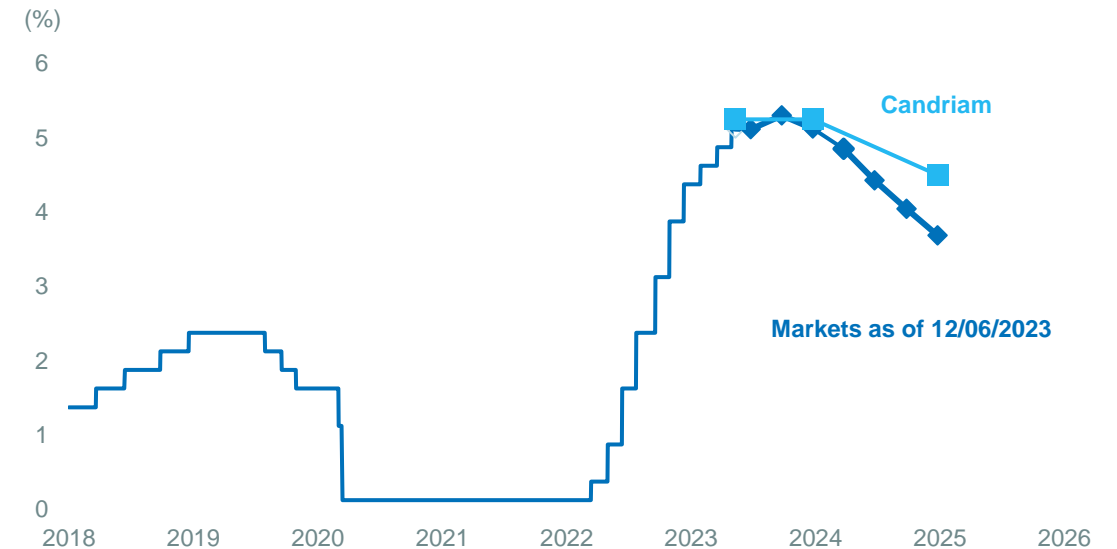
Core CPI (too high) and the Unemployment Rate (too low) **not at levels where the Fed has historically started to cut rates**

US Core CPI Inflation vs Unemployment Rate



Current forecasts of **Fed's rate cuts early 2024** may be too sharp

Forecasts of Fed's rate cuts



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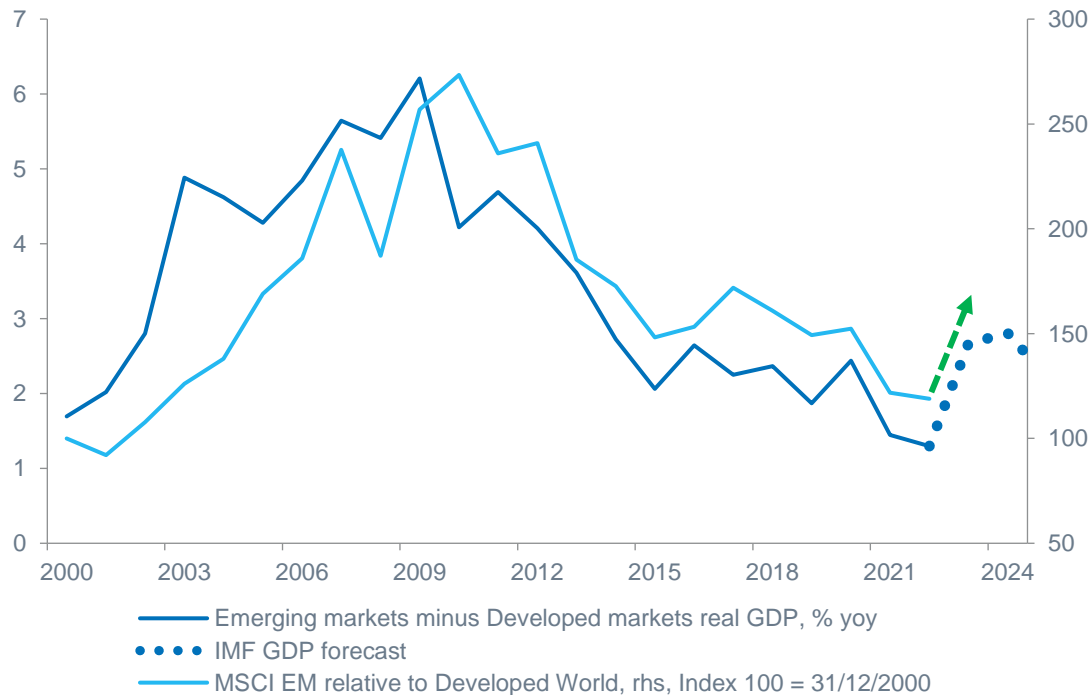


# Perspectives – growth gap

A cycle divergence between Emerging and Developed markets countries

The **EM / DM growth gap is set to widen** again  
(IMF forecast)

## Emerging Markets vs Developed Markets



**EM growth surprises are more resilient than DM**

## Citi Economic Surprise Index



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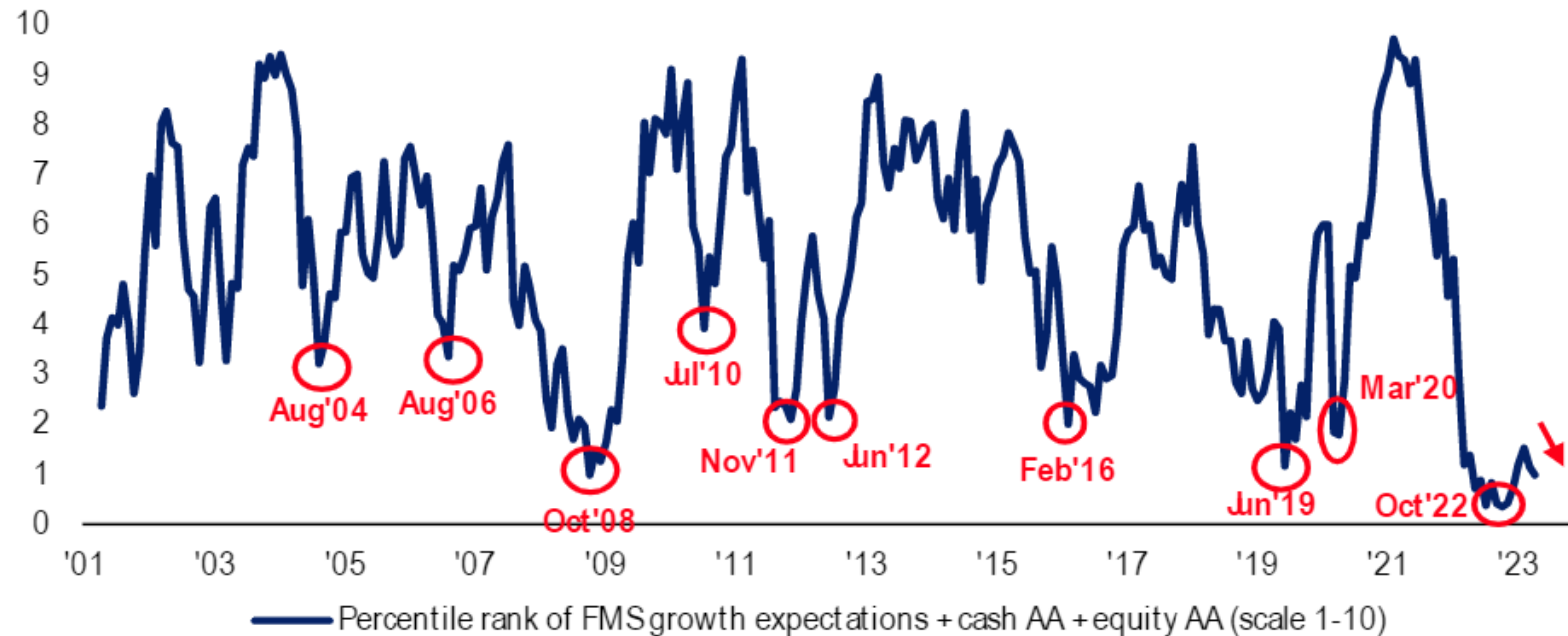


# Investor's sentiment is deeply negative

This is supportive news from a contrarian point of view

The Bank of America Fund Manager Survey shows that **investors remain bearish**

Bank of America Fund Manager Survey



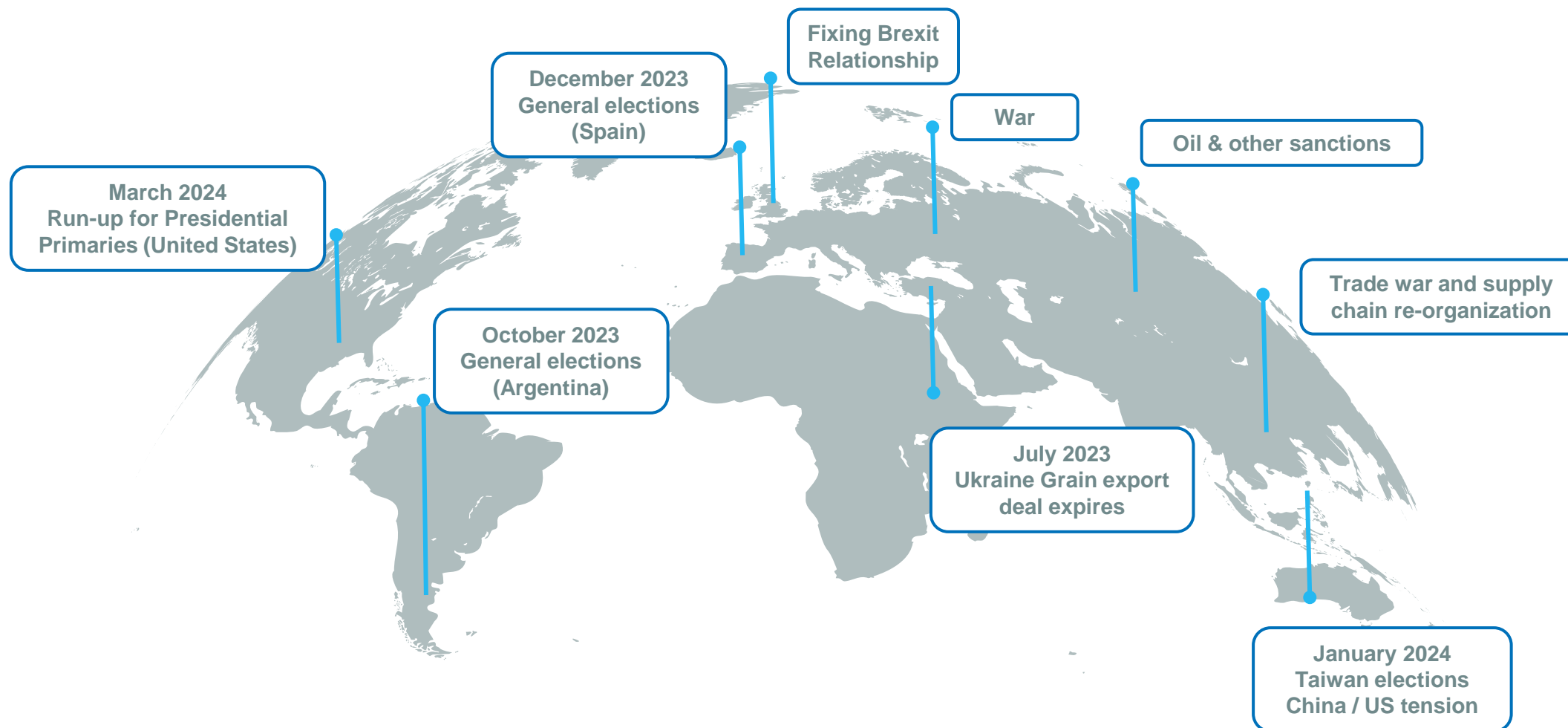
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# Uncertainty - Geopolitics

Vigilance over (geo)political shocks impacting financial markets



# Key views & positioning going forward

## Our Central Scenario

- › Gradual inflation deceleration
- › Lower growth
- › Decline in yields
- › Central banks keeping rates steady

**1** Benefit from **Carry**  
Buy **Duration** and **Euro Investment Grade Credit**

**2** **Cautious on equities** as upside is limited  
Negative on EMU equities, positive on Emerging markets

**3** A preference for **Quality-Defensive**  
at this stage of the cycle: **Healthcare, consumer staples**

**4** Buy **long-Term Investment Themes**  
Energy transition, Automation, Pricing power

**5** Buy **EM FX, JPY**  
US economy deceleration a headwind for USD

**6** Keep **hedging Strategies**  
**Gold, Alternative assets** (hedge funds)

The scenarios presented are an estimate based on evidence from the past, and/or current market conditions and are not an exact indicator.

CANDRIAM ASSET ALLOCATION OUTLOOK H2 2023

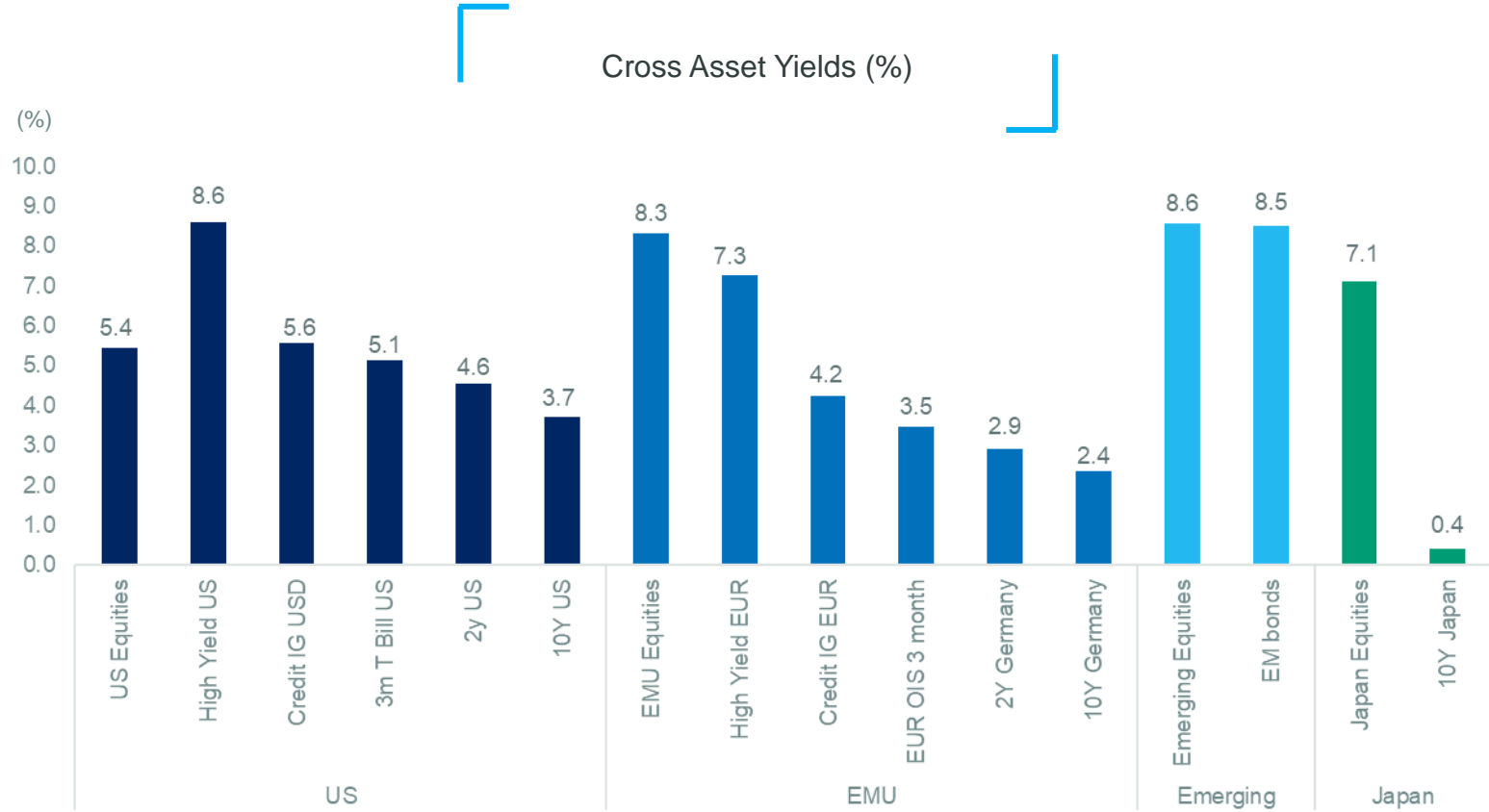






# Benefit from the new paradigm – add carry

Safer alternatives to equities



US: United States  
EU: Euro Area  
EM: Emerging Markets  
EMU: European Monetary Union  
IG: Investment Grade  
OIS: Overnight Index Swap

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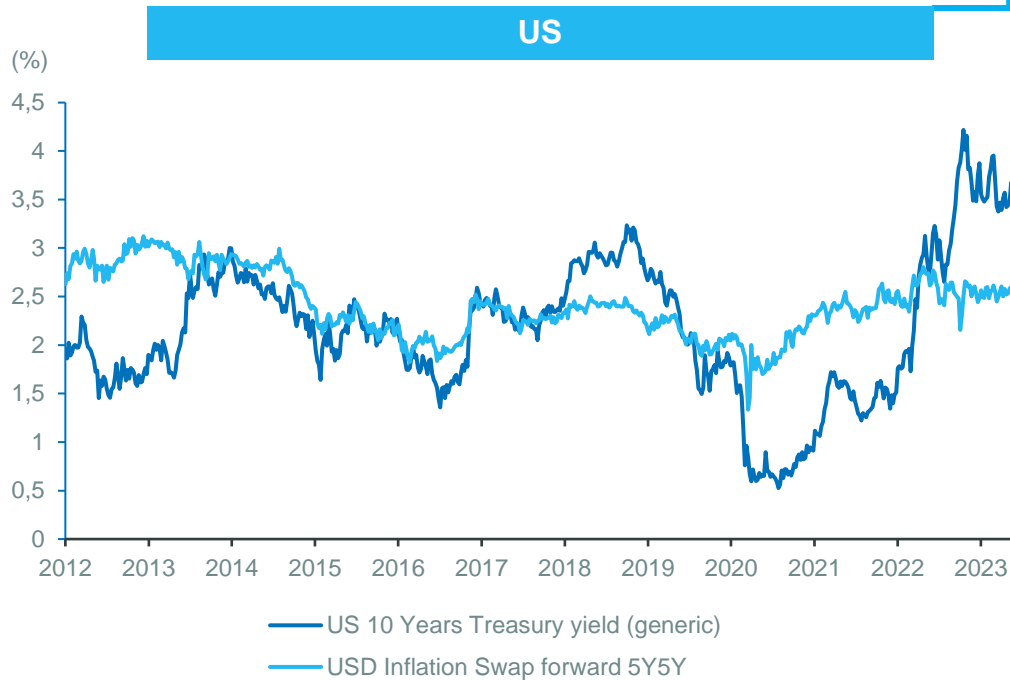




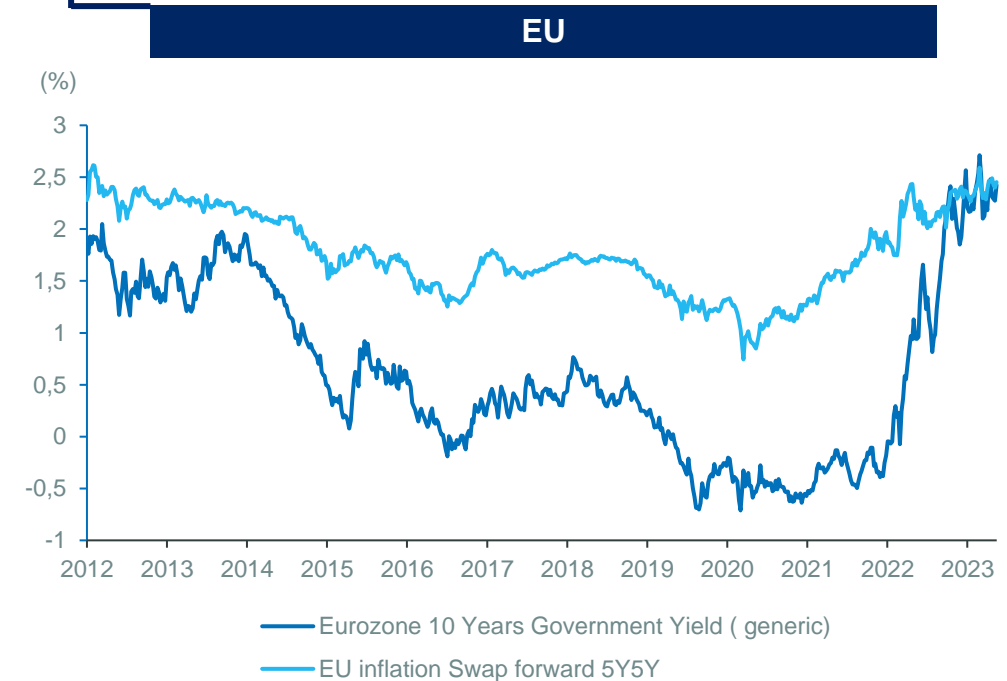
# Duration

Long-term yields could continue to benefit from less buoyant inflation anticipations and uncertainties (regional banks, recession fears)

The US inflation anticipations now seem steady.  
**The US 10-year bond has already anticipated some deterioration**



The EU inflation anticipations have recently calmed down after moving up for the last 2 years.  
**The 10-year yield has already reflected this increase**



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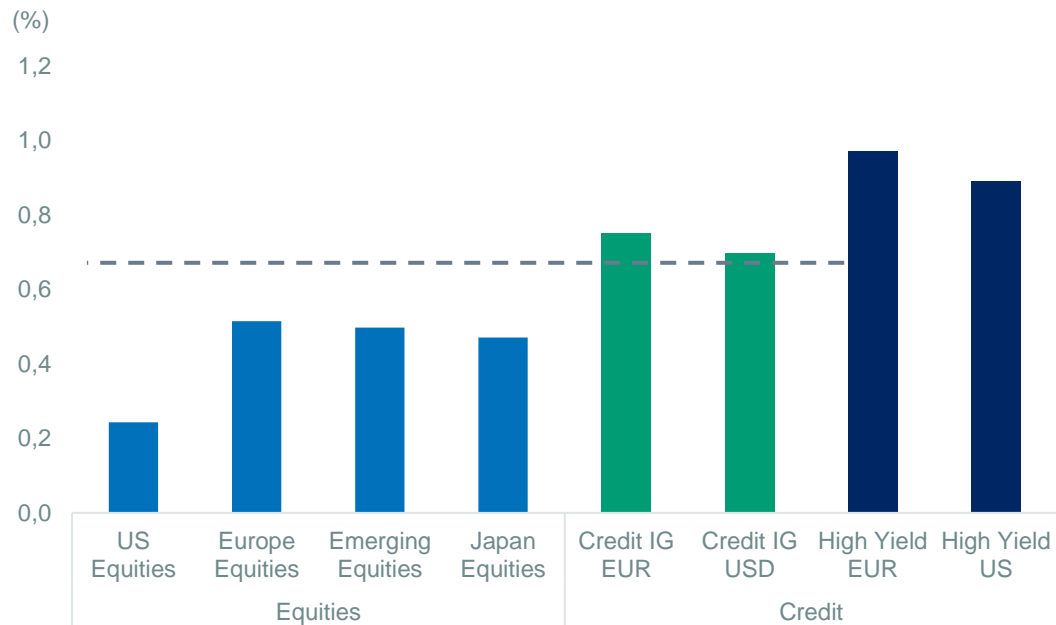


# Credit Investment Grade

Europe Investment Grade Credit offers an attractive carry to volatility ratio

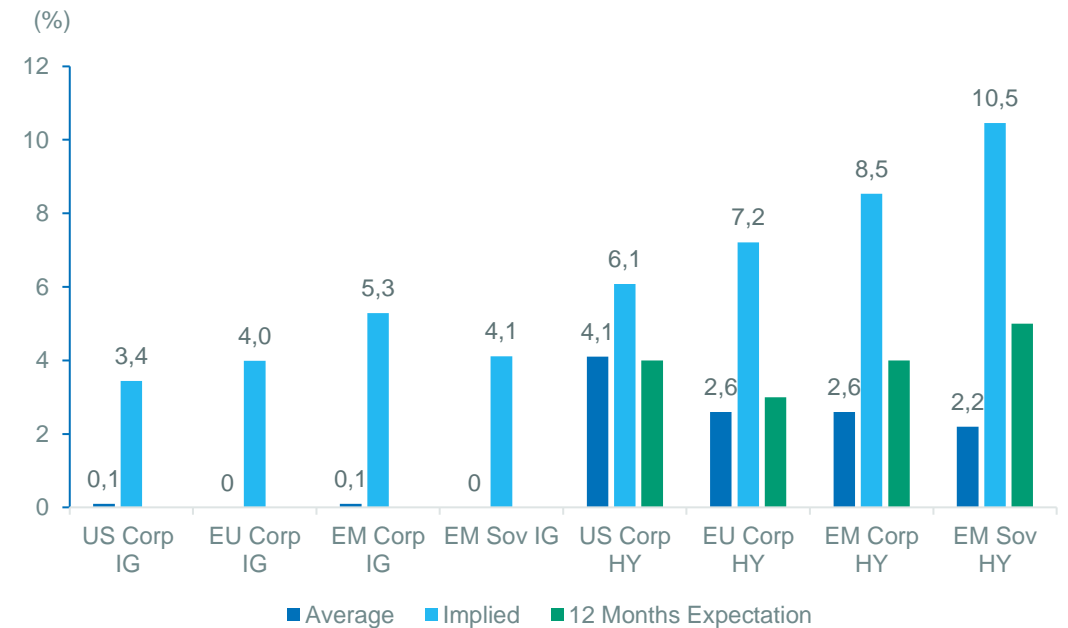
With an **above-average spread** and a relatively **attractive carry to volatility**, the **Investment Grade credit is an opportunity**

Cross Asset Carry to volatility (%)



Implied **default rates** are **high** compared to **historical ones** and expectations

Default rates



US: United States  
EU: Euro Area  
EM: Emerging Markets  
IG: Investment Grade  
Corp: Corporate bond  
HY: High Yield

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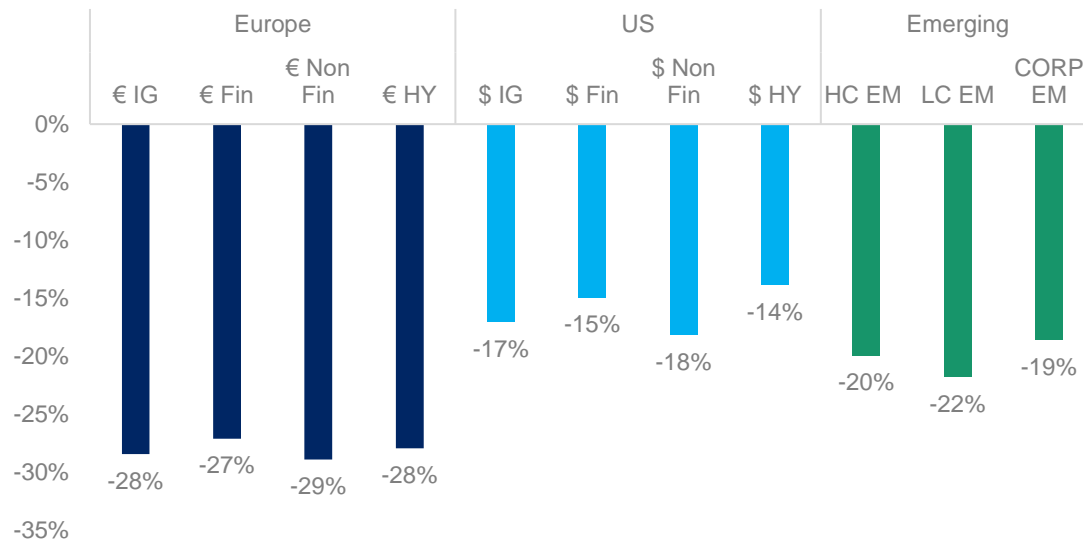


# Credit Investment Grade

2023 – Large spread tightening but still value

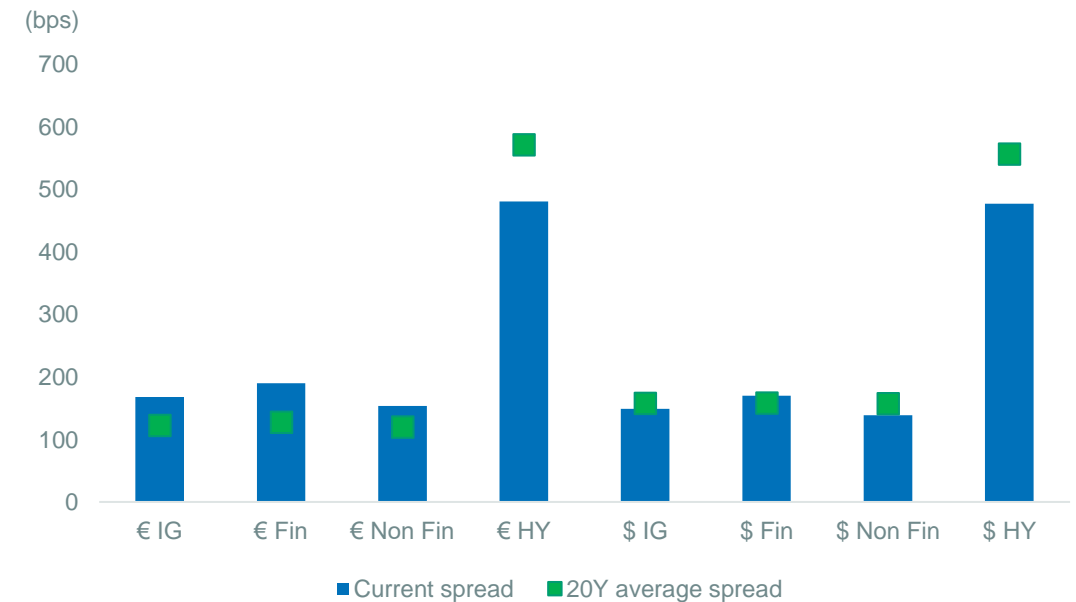
European spreads have tightened more than US counterparts with a strong impact of US non financials...

Spread evolution YtD (%)



European spreads are still wider than their historical average, in absolute and relative terms

Spread levels vs historical average



US: United States  
EU: Euro Area  
EM: Emerging Markets  
Fin: Financials  
IG: Investment Grade  
Corp: Corporate bond  
HY: High Yield

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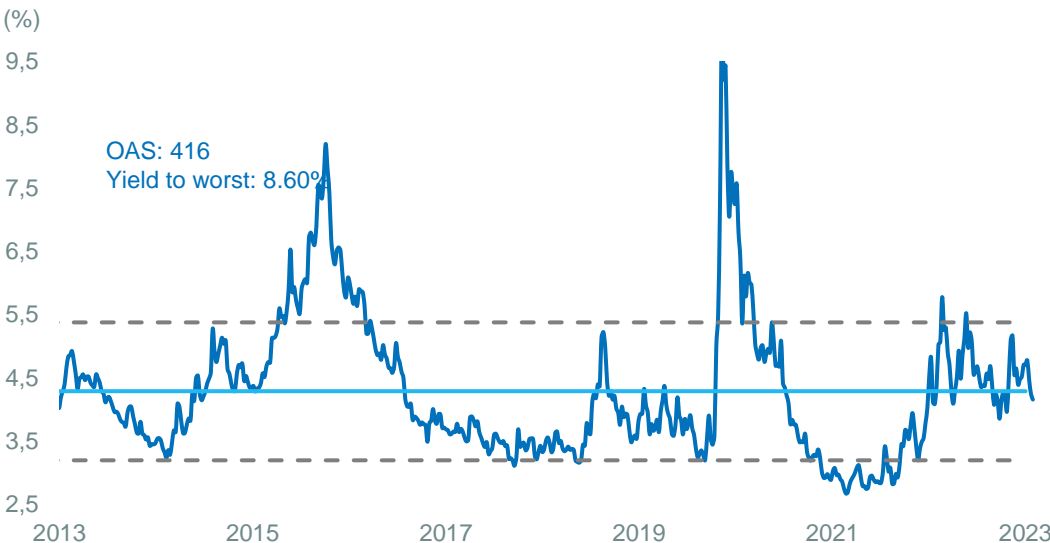


# Credit High Yield

High yield spreads offer some cushion but tightening credit conditions are a headwind

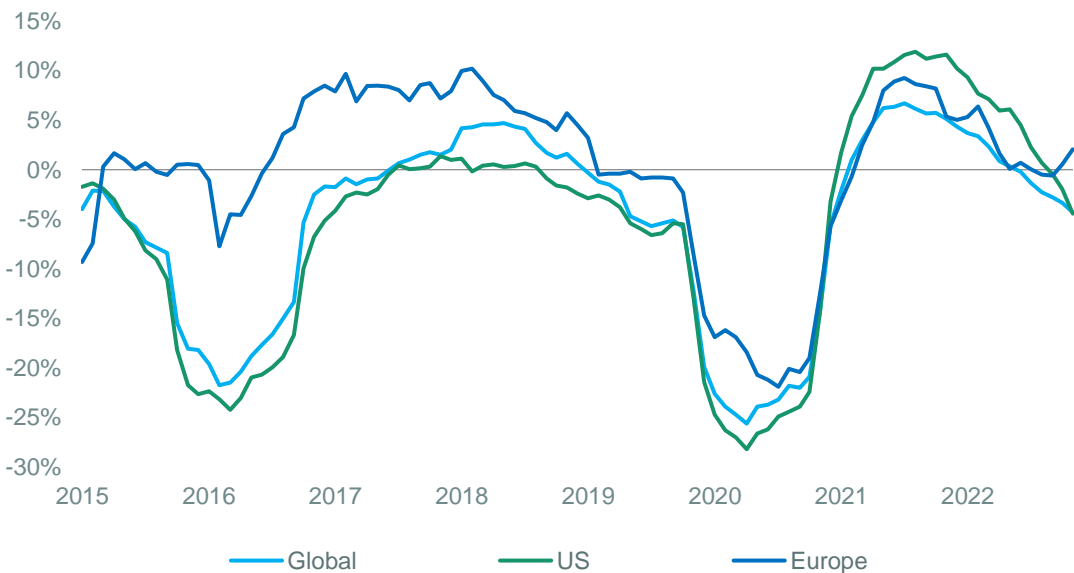
**Spreads** are close to their **10Y historical average**, offering some cushion...

**Bloomberg US High Yield index - OAS**



...however, **rating drift acceleration** should be a headwind

**High Yield rating drift**



\*Rating drift = (notches upgrades - notches downgrades)/rated issuers

OAS: Option-Adjusted Spread  
BofA: Bank Of America  
US: United States

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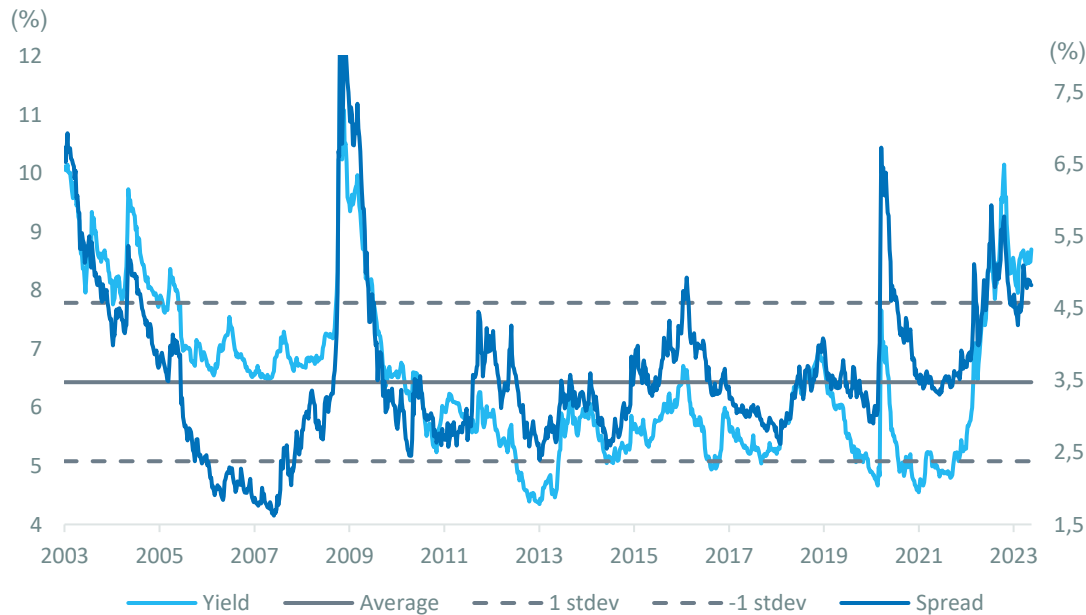


# Emerging debt

EM inflation has peaked, and EM central banks are ending their tightening cycle

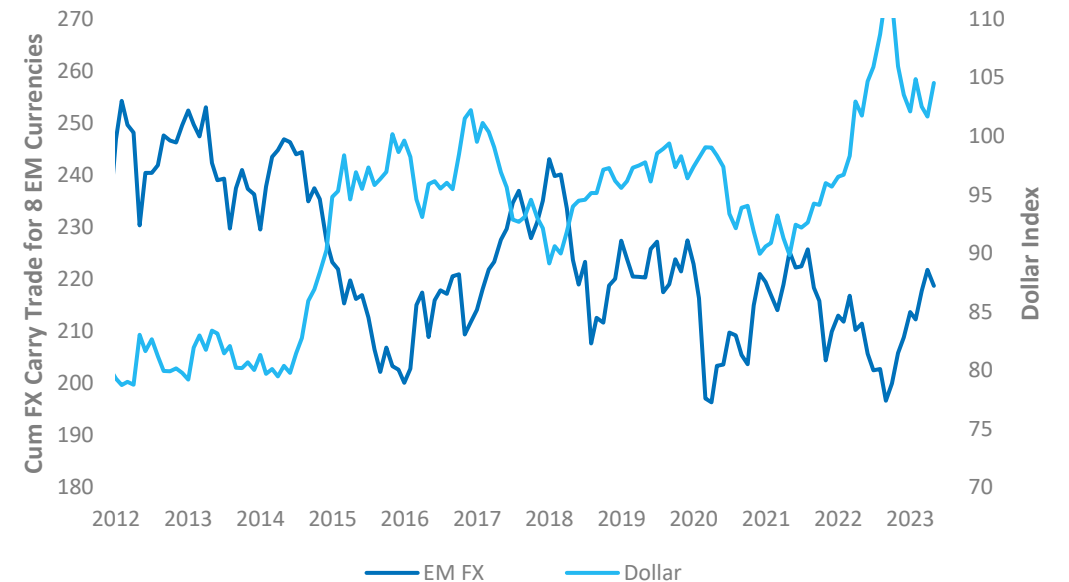
While **EM Central bank are nearing the end of their tightening cycle**, historical high yields and spreads **should be supportive for the asset class**

**Local currency - Yields and Spreads above 1 SD**



**EM FX performs well** during **USD weakness**, while historical positioning still looks rather light

**FX Carry Trade for 8 EM Currencies vs Dollar**



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# Equities - We are in a range

## Our economic scenario is close to be fully priced

- › Slowing economy but hard recession avoided
  - › Central banks keep rates steady
  - › Increasing selectivity
- ▶ low potential for higher EPS growth
  - ▶ limited rerating to expect for the whole market
  - ▶ may become a vulnerability

## Risks are mostly to the downside, although floored by central banks

- › Increased stress in the financial system triggers a harder recession
- ▶ EPS will get impacted and the Fed will reply with a rapid pivot in H2 (soft landing)

EPS: Earnings per share





## ...with limited upside



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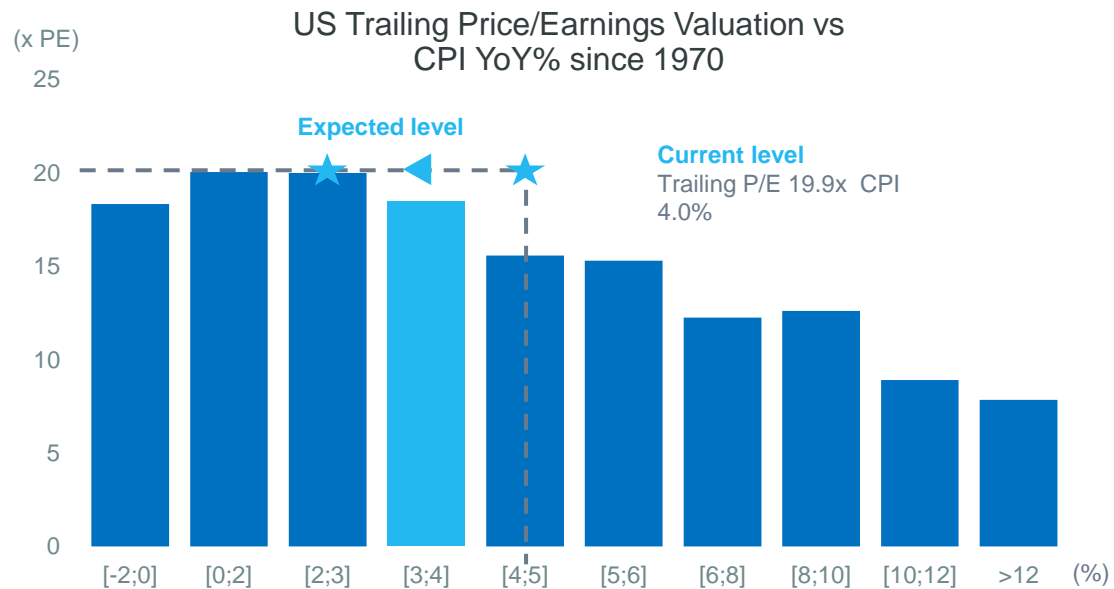


# Equities

Valuation already integrates lower yields...

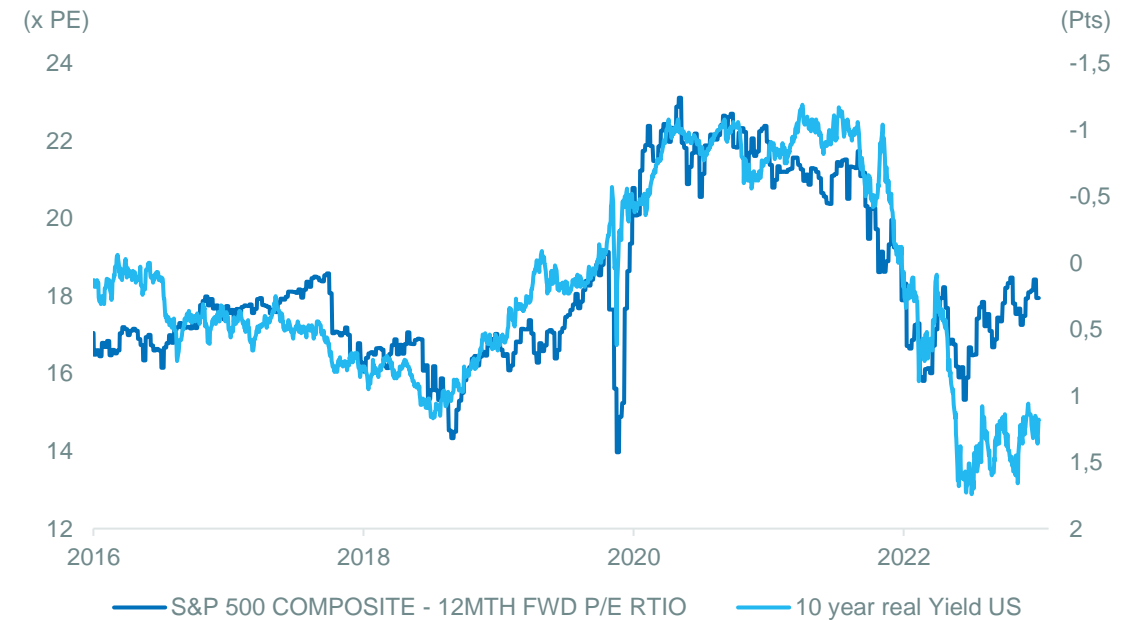
Current recovery in **valuation** is already **discounting lower inflation** going forward...

## US Trailing P/E Valuation vs CPI YoY% since 1970



...so are lower real yields

## US Real Yields vs US Forward P/E



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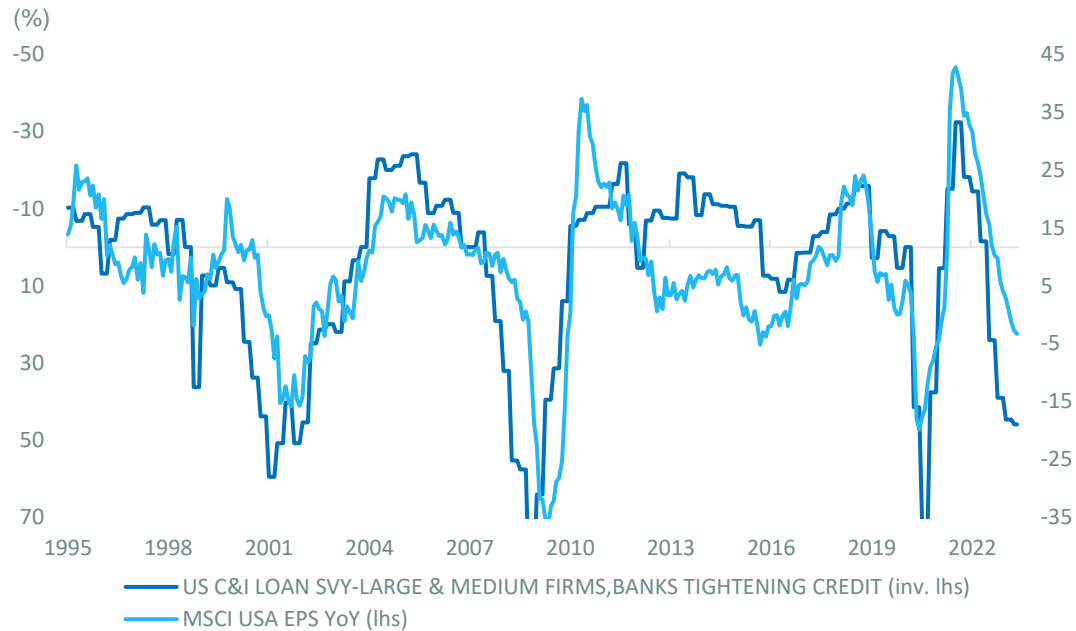


# Equities

...while EPS growth should be at best slightly positive over the next 12 months

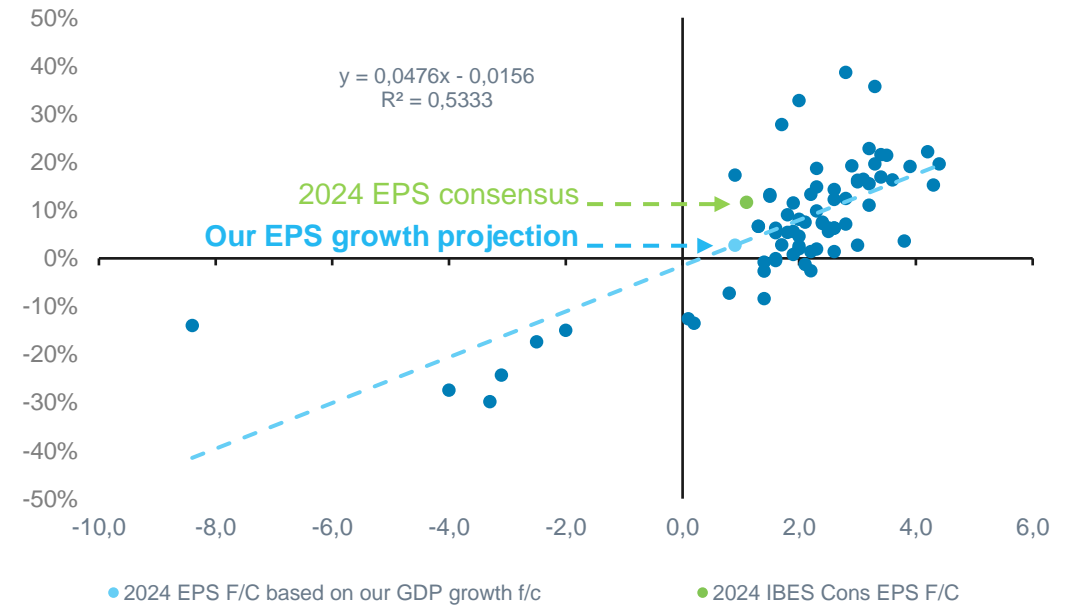
Tightening credit conditions are not showing EPS improvement going forward...

## US EPS growth vs Senior Loan Officer Survey



...while our 2024 US GDP projection is consistent with muted EPS growth next year, below current consensus

## 2024 EPS Consensus vs Candriam Projections



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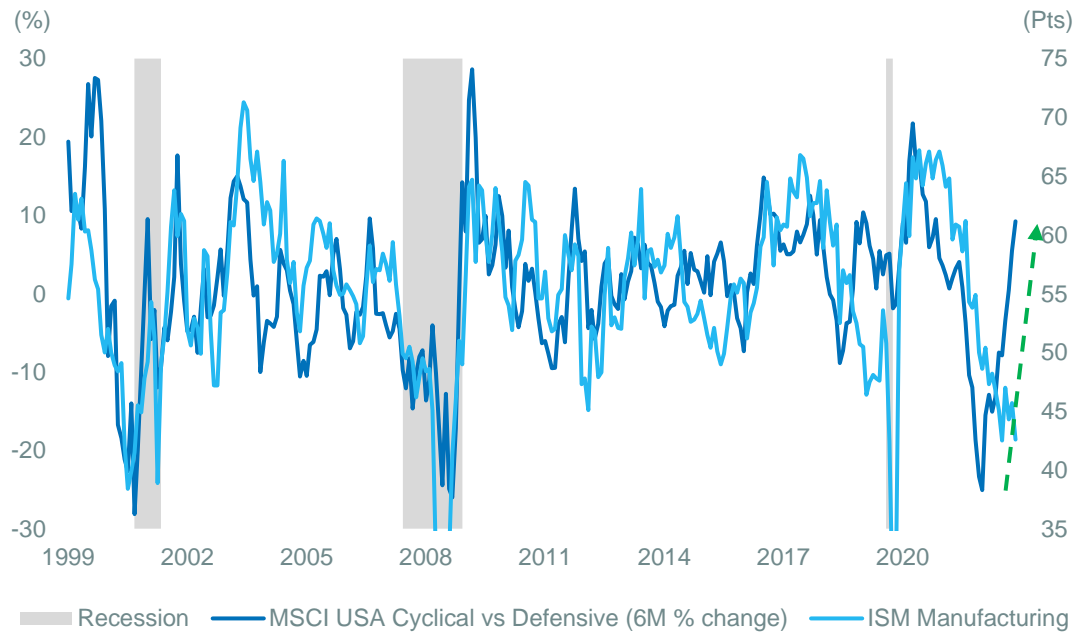


# Equities

Preference for defensive equities as cyclicals are already discounting a recovery

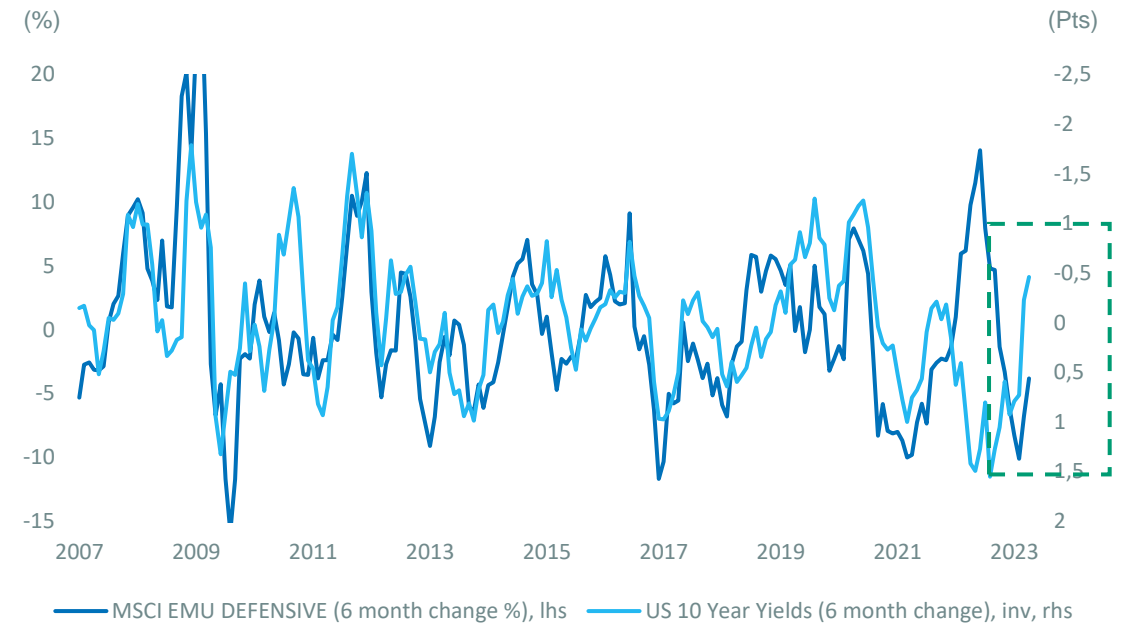
ISM trough rhymes with cyclical rotation which is already largely discounted...

Manufacturing New Orders vs Cycl. & Defensive



...with defensive sectors specifically lagging the evolution of US Yields

Defensive sectors vs US 10Y Yield



Cycl: Cyclicals

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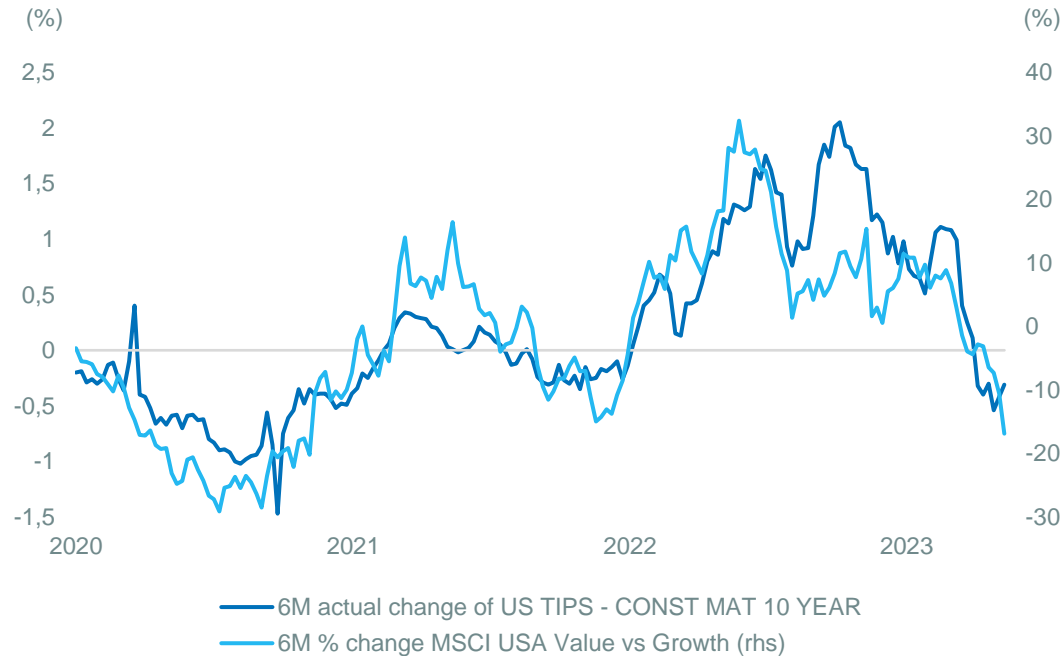


# Equities

...but be mindful of the style rotation

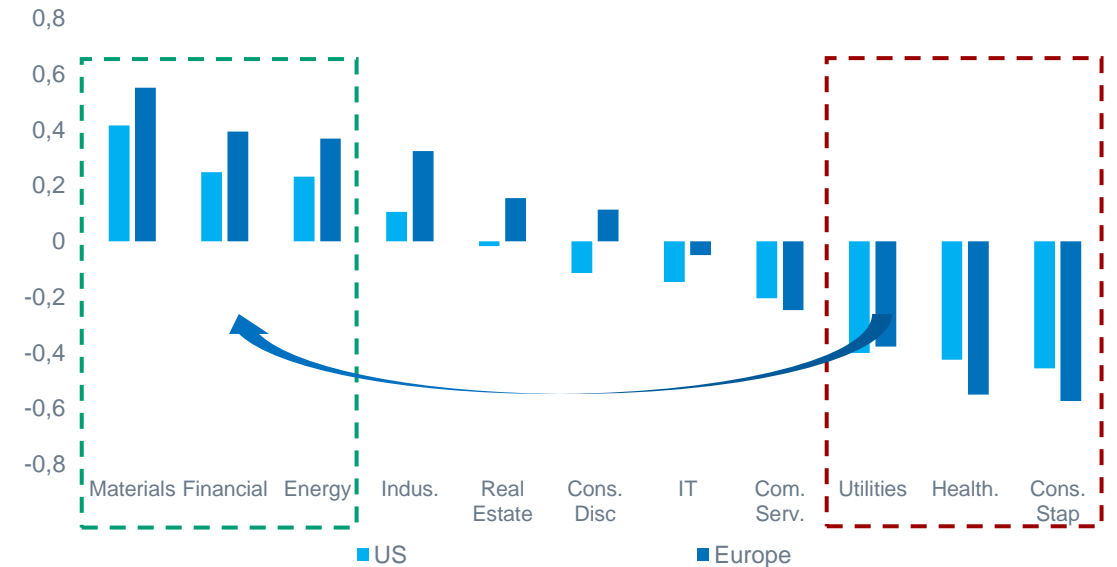
The relative performance of value sectors is closely related to the evolution of real rates...

## US Value/Growth vs Real Yields



...leading to a rotation between styles and sectors

## Sector correlation to Real Yields evolution, 10y



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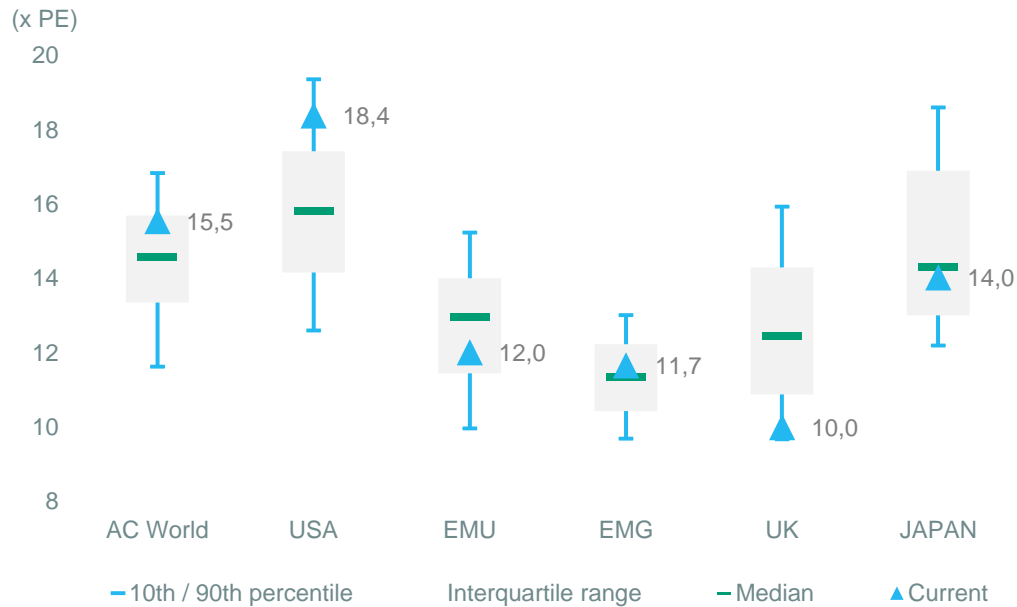


# Equities - US

Expensive Valuation offering a negative skewness

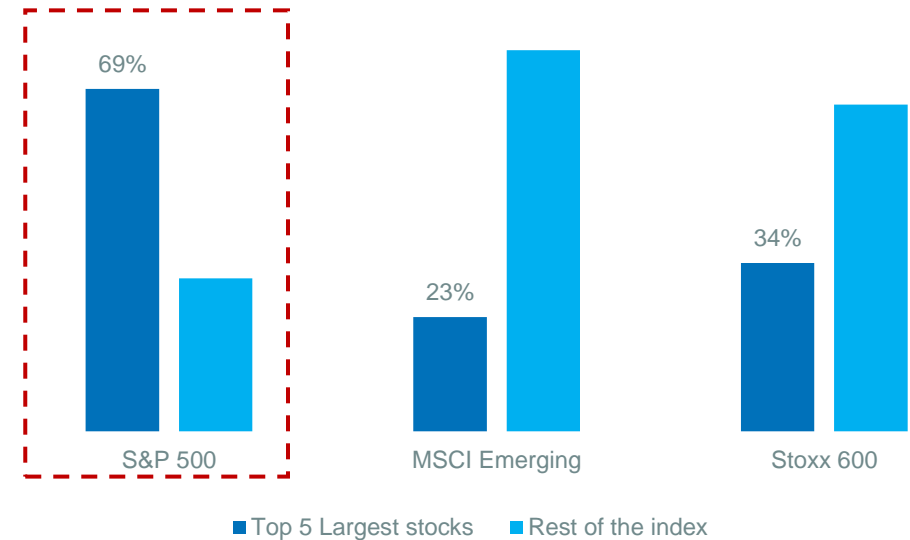
US Equity markets remain particularly **expensive** vs history

12M fwd P/E valuation percentiles over 20Y



Year-to-date market breadth has sharply **declined** in recent weeks with only very few stocks contributing to the performance

Top 5 stocks contribution to change in Market Cap



P/E: Price-Earnings ratio

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# Equities - US

...with current levels already pricing our core scenario

Current US equity market pricing is consistent with Candriam's main scenario of **2023 & 2024 GDP growth** respectively at **1.6% and 0.9%**.

**Adverse scenario would be consistent with a target at 3600**

Approximate index price sensitivity to P/E & EPS assumptions: S&P500									
Real rates implied by different P/E's	P/E	-2.8	-1.7	-0.7	0.3	1.2	1.8	2.8	Implied GDP Growth backed out from different EPS growth rates
		-15%	-10%	-5%	0%	4%	7%	12%	F12m EPS Growth
2.05	14	2568	2719	2870	3021	3143	3232	3383	
1.63	15	2751	2913	3075	3237	3368	3463	3625	
1.20	16	2934	3107	3280	3452	3592	3694	3867	
0.78	17	3118	3301	3485	3668	3817	3925	4108	
0.35	18	3301	3496	3690	3884	4041	4156	4350	
-0.08	19	3485	3690	3895	4100	4266	4387	4592	
-0.50	20	3668	3884	4100	4315	4490	4618	4833	
-0.93	21	3852	4078	4305	4531	4715	4848	5075	
-1.36	22	4035	4272	4510	4747	4939	5079	5317	
-1.78	23	4218	4466	4715	4963	5164	5310	5558	

Current pricing

Recession pricing

GDP: gross Domestic Product  
P/E: Price-Earnings ratio  
EPS: Earnings per Share

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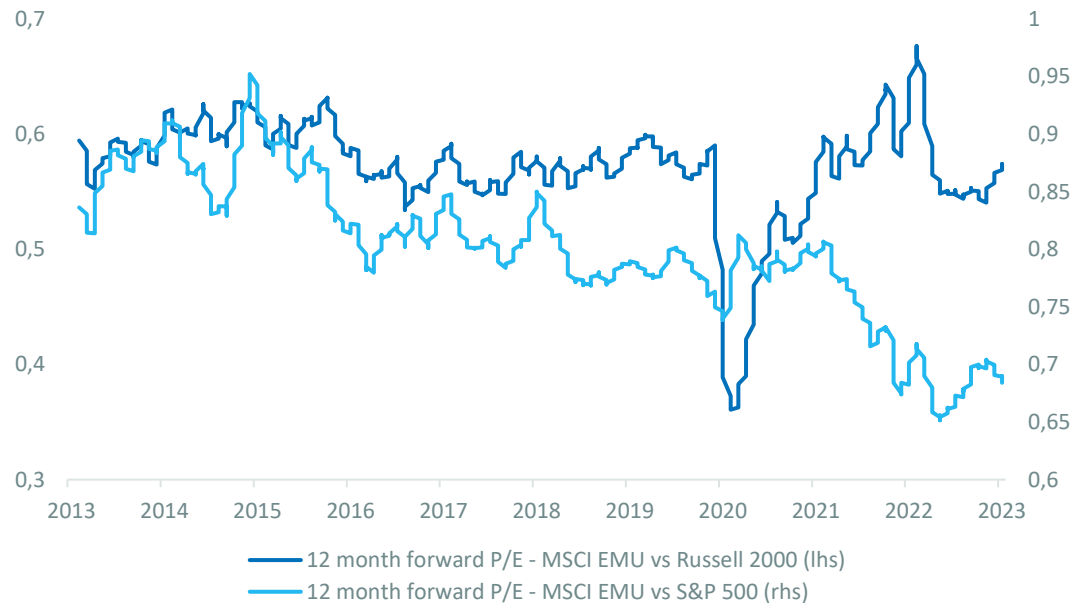


# Equities - Europe

Despite a more attractive valuation, Europe has already discounted a rebound in activity

The discount between European and US equities has widened, particularly vs large caps

Relative P/E valuation EMU vs US Equities



European equities and specifically cyclicals have already integrated a rebound in the activity

Euro PMI vs MSCI Europe Cyclical vs Defensive



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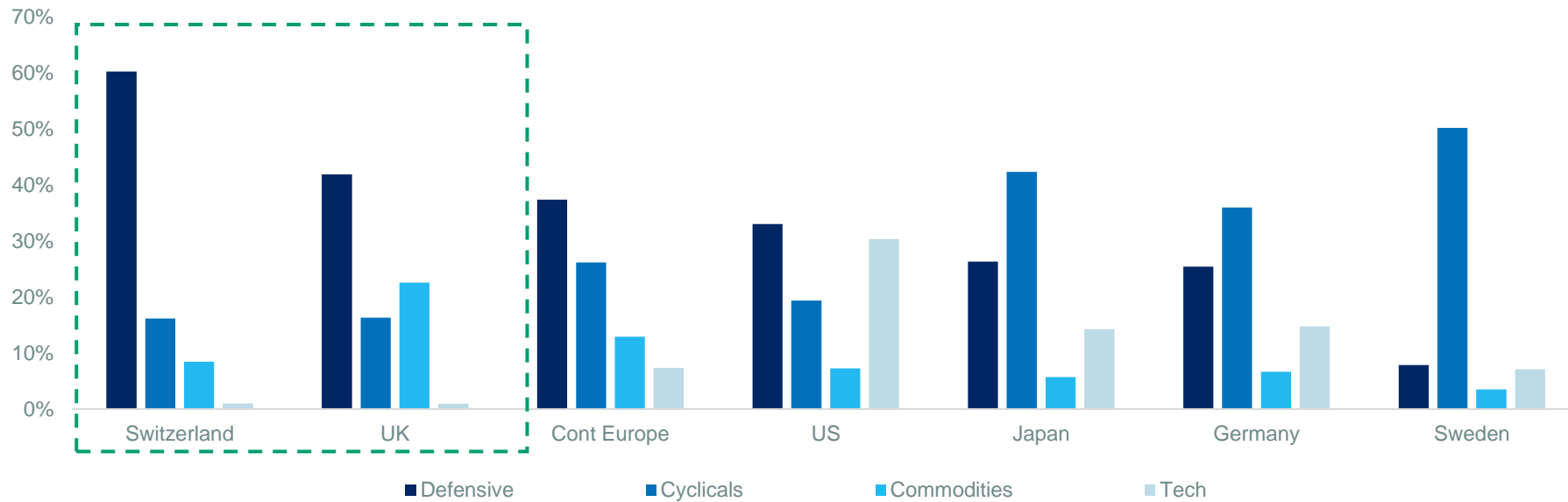


# Equities - Europe

Looking for Defensive exposure

Switzerland and the UK are relatively defensive plays that have lagged the most in the recent recovery

Style weights (% Market Cap)



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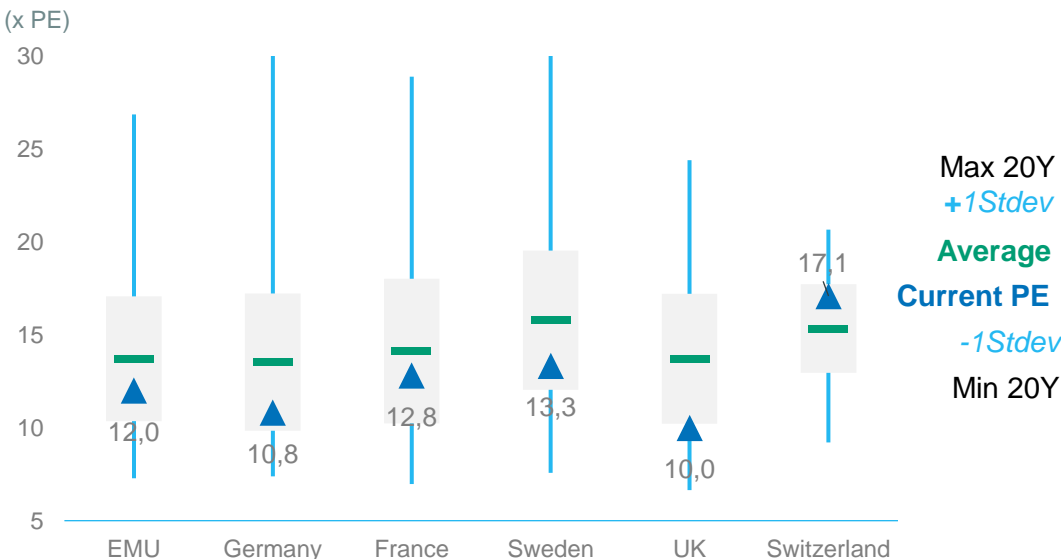


# Equities - Europe

Looking for Defensive exposure

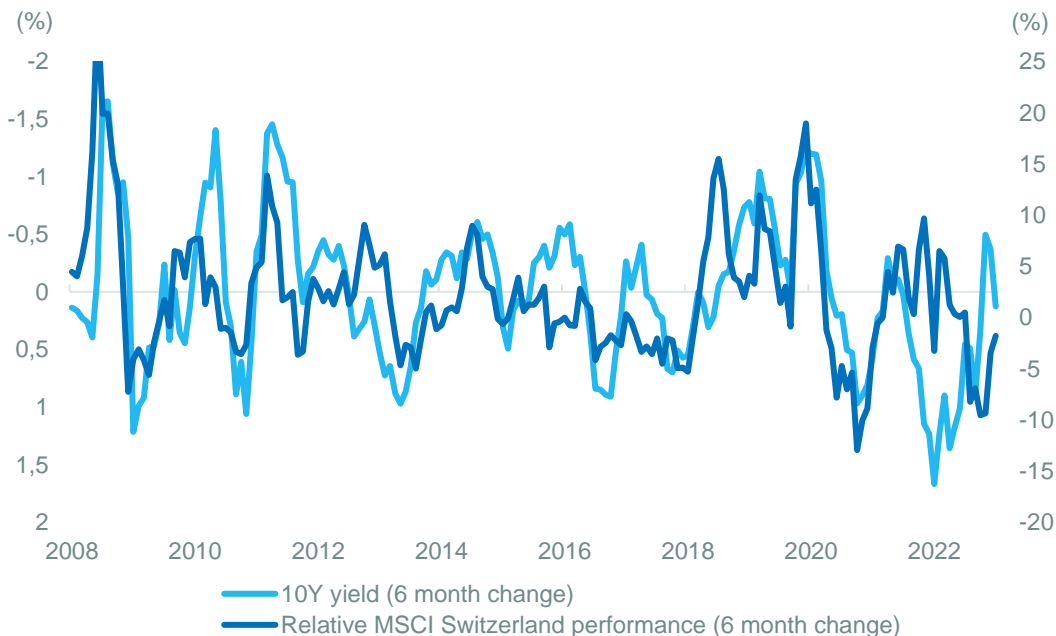
UK is very attractively priced, with a historically low beta to global equities

12M Fwd P/E - Regions



Switzerland is a significant low beta, and it has inverse correlation to bond yields.

Swiss index performance vs 10 US Year yields



P/E: Price-Earnings ratio

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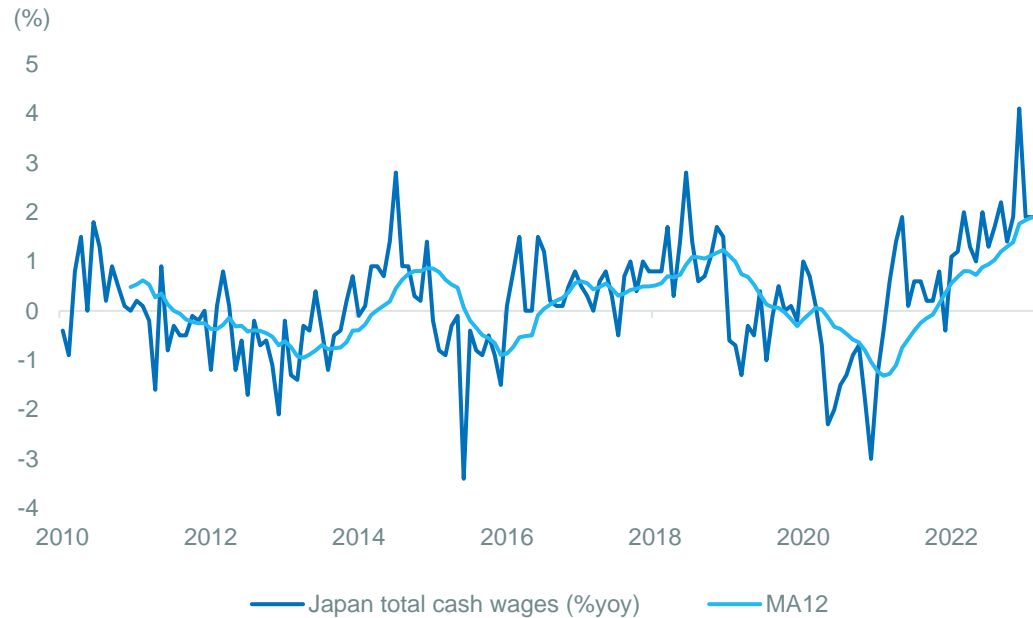


# Equities - Japan

Japan equities remain attractive, even if the Yen appreciation can be a headwind

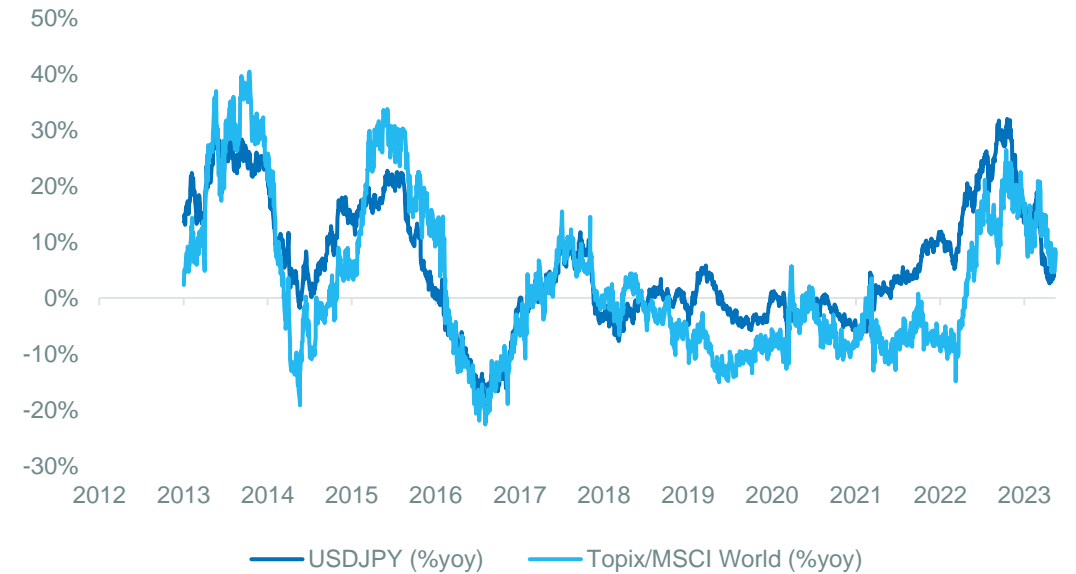
Japanese equities can be supported by domestic consumption and Asian reopening

Japan total cash wages (%yoy)



Japan has largely benefited from a weaker JPY...  
...but Yield Curve Control ending could be a headwind

Topix outperformance vs. Yen



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# Equities – Emerging Markets

Emerging assets should benefit from a better economic cycle vs. DM and the USD depreciation

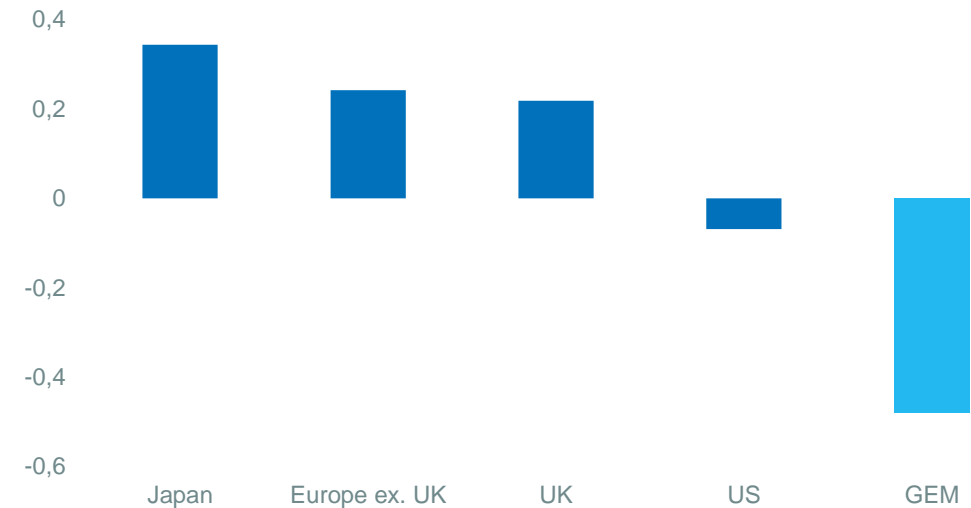
Emerging markets are lagging **despite a low Chinese stimulus level** - with potential for more. We expect GDP growth in EM to accelerate vs. DM

## China Credit impulse vs EM equity performances



**USD depreciation is supportive** for Emerging equities

## Correlation with USD trade-weighted Index



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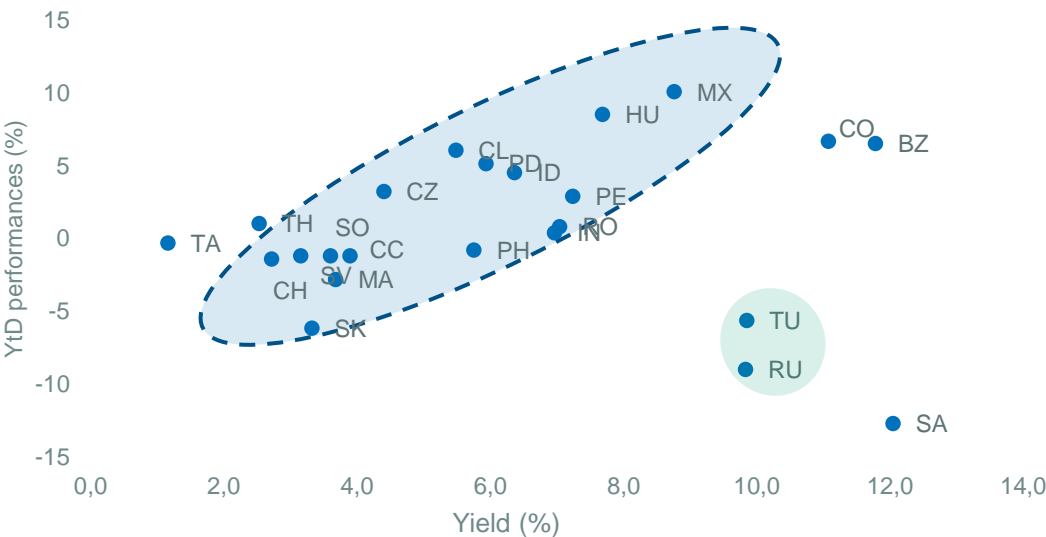


# Currencies

Emerging currencies remain attractive in terms of carry or valuation

EM Currencies have been supported by their attractive carry

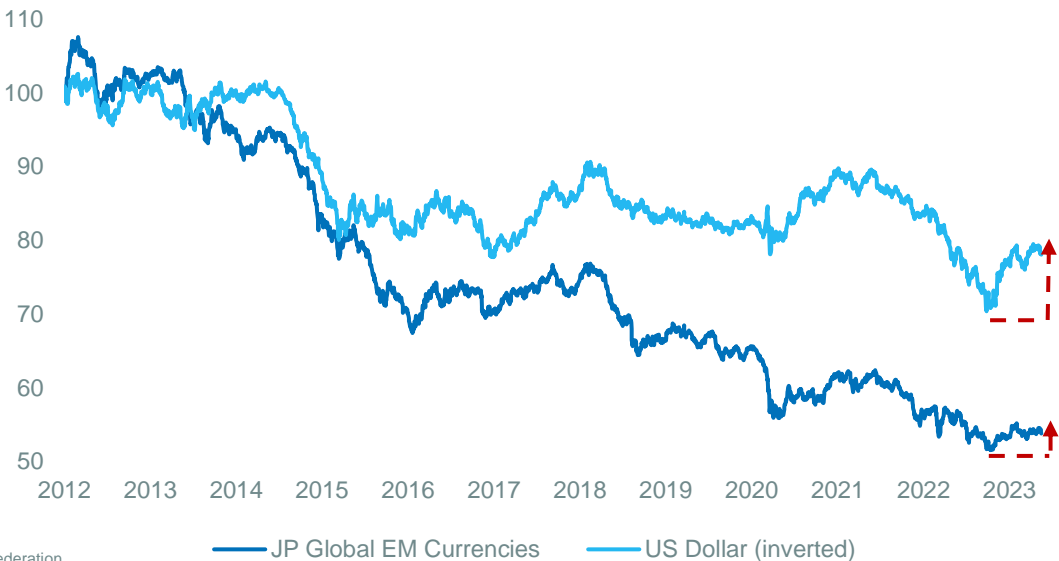
EM FX YtD Performances vs. Yield



TA: Taiwan  
TH: Thailand  
CH: China  
SV: Slovenia  
SK: South Korea  
MA: Malaysia  
CC: Cyprus  
SO: Slovenia  
CZ: Czech Republic  
CL: Chile  
PD: Poland  
ID: Indonesia  
PH: Philippines  
PE: Peru  
IN: India  
RO: Romania  
HU: Hungary  
MX: Mexico  
CO: Colombia  
BZ: Brazil  
TU: Turkey  
RU: Russian Federation  
SA: South Africa

Emerging currencies have only slightly rebounded compared to Dollar depreciation

EM Currencies



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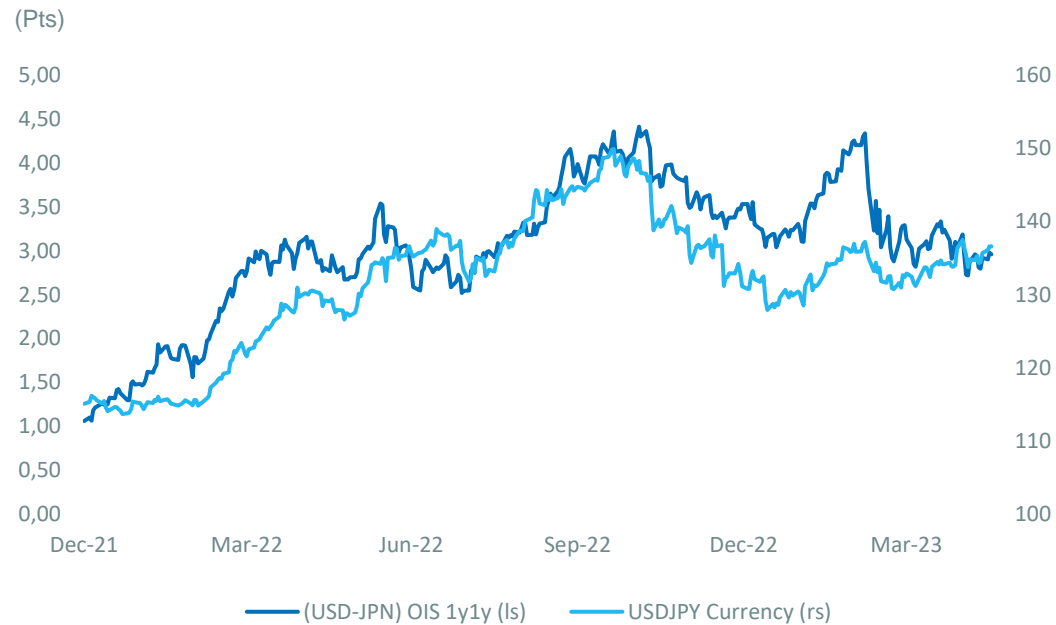


# Currencies

CHF and Yen usually bring value in risk-off environments

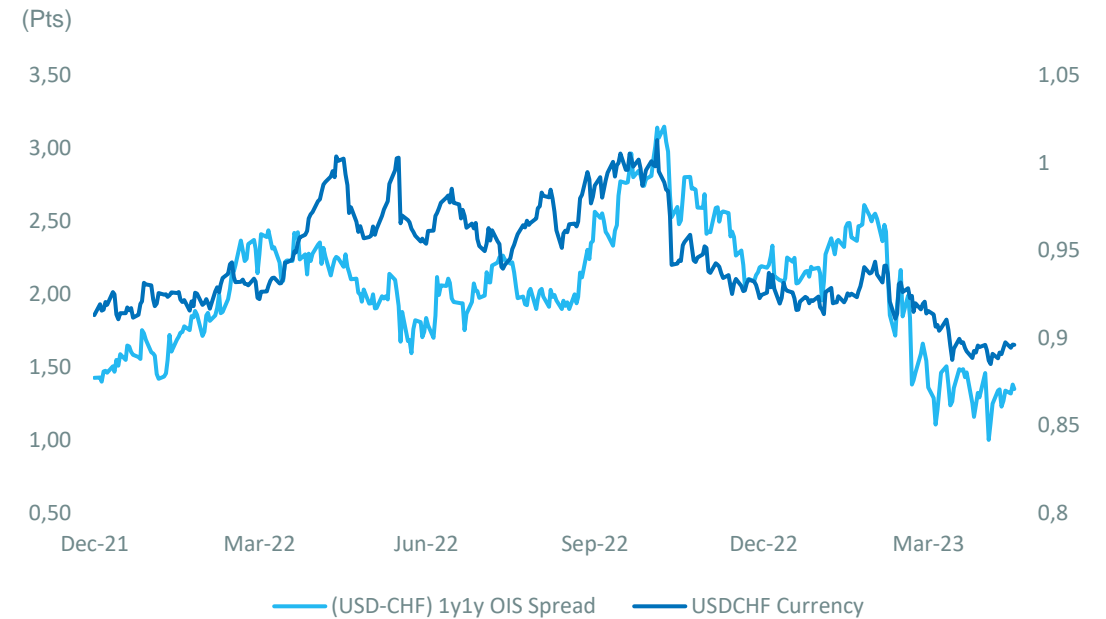
The short-term yields spread stopped being a support level to the USD

## US Dollar-Yen currency



...and the Swiss National Bank remains very hawkish

## US Dollar- CHF currency



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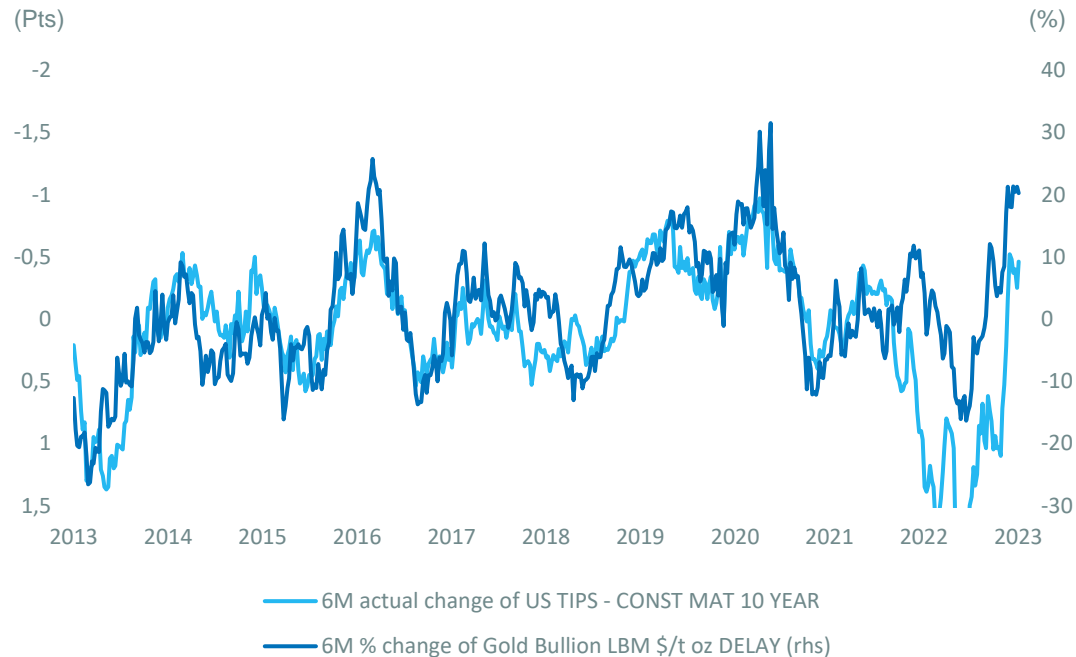


# Commodities – Preference for Gold

Gold may benefit from lower real rates and Central Banks flow

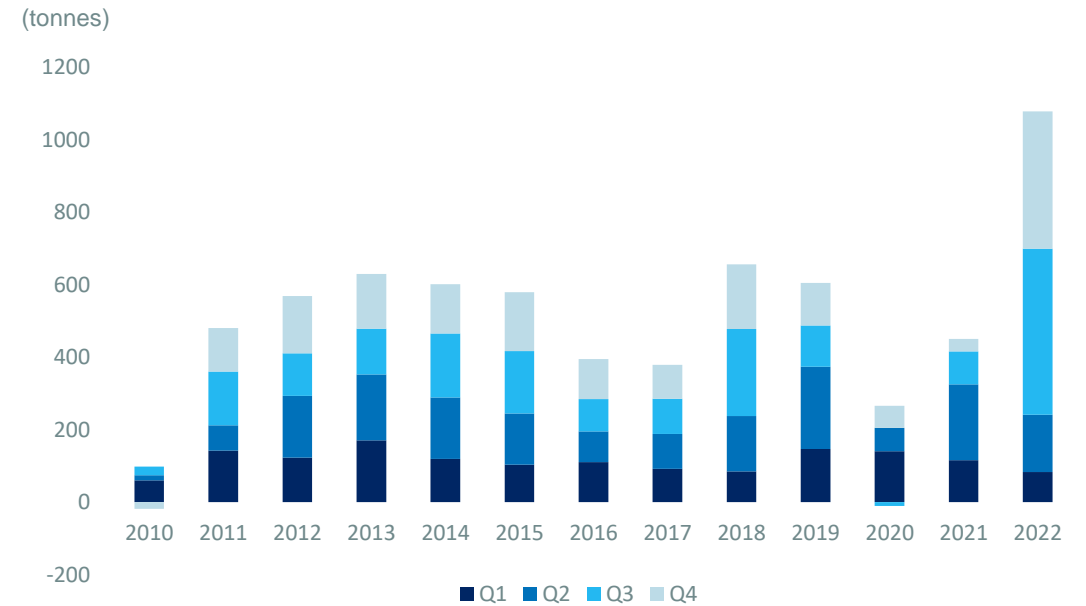
Lower real rates and the decline in yields volatility should be beneficial to Gold

US 10Y Real yields vs Gold (6m change)



De-dollarisation is set to continue

Central banks bought 1136 tons of gold in 2022



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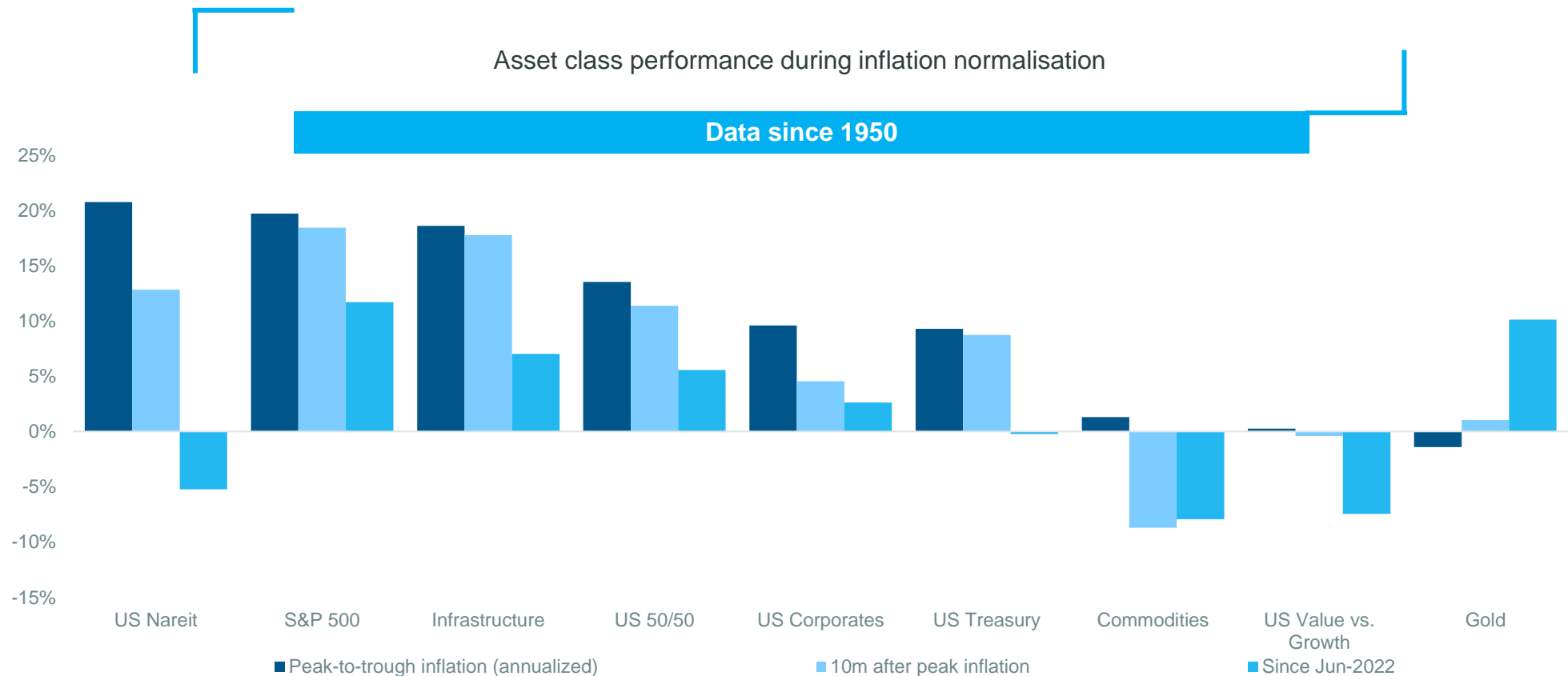
# Upcoming challenges in managing a cross-asset portfolio





# Cross-asset performance during inflation normalisation

Commodities tend to be the worst performing asset class as inflation normalises



Nareit: National Association of Real Estate Investment Trusts

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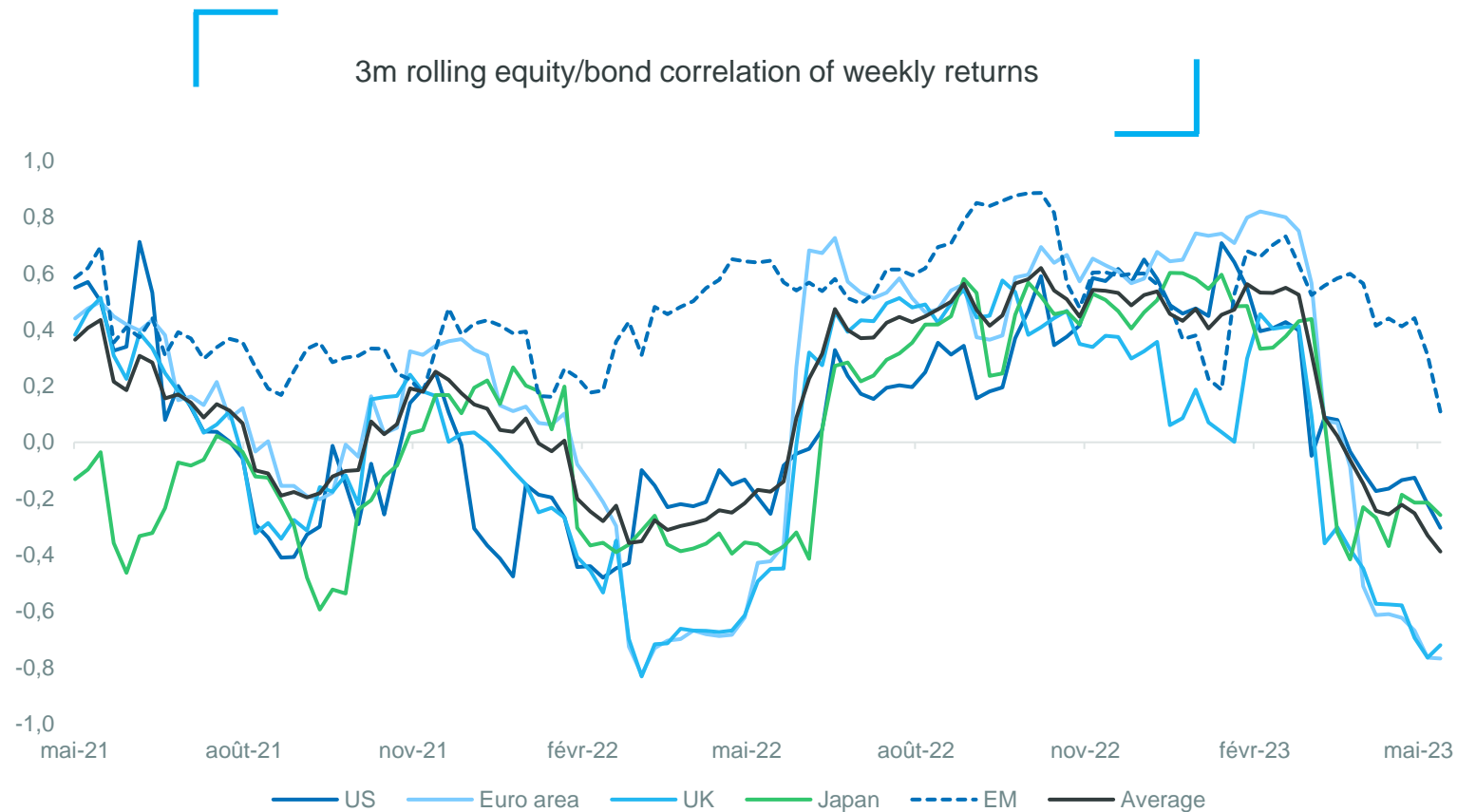
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# Cross-asset correlation

The correlation between equity and bonds is negative again



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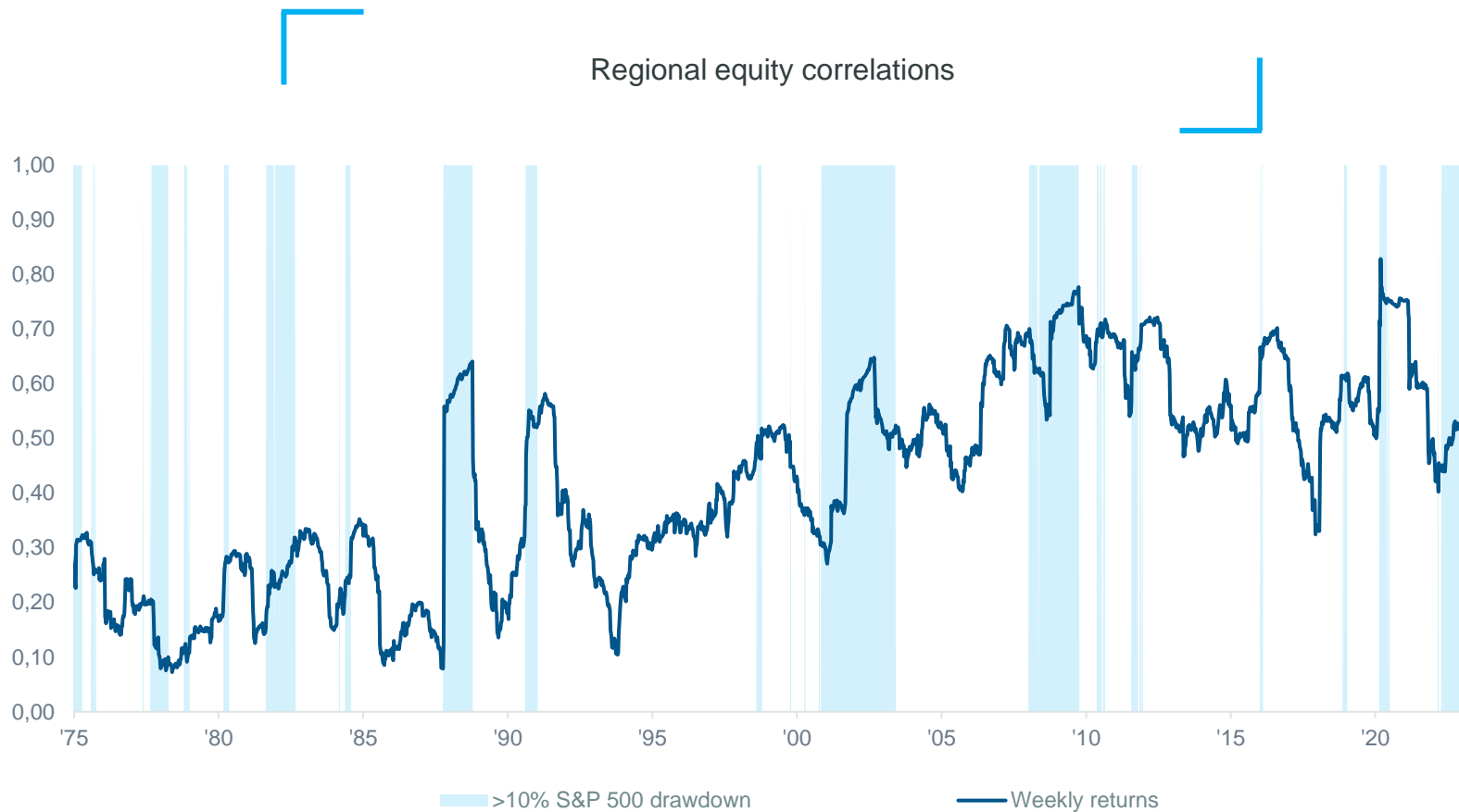
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# Cross-asset correlation

Regional equity correlations remain relatively low



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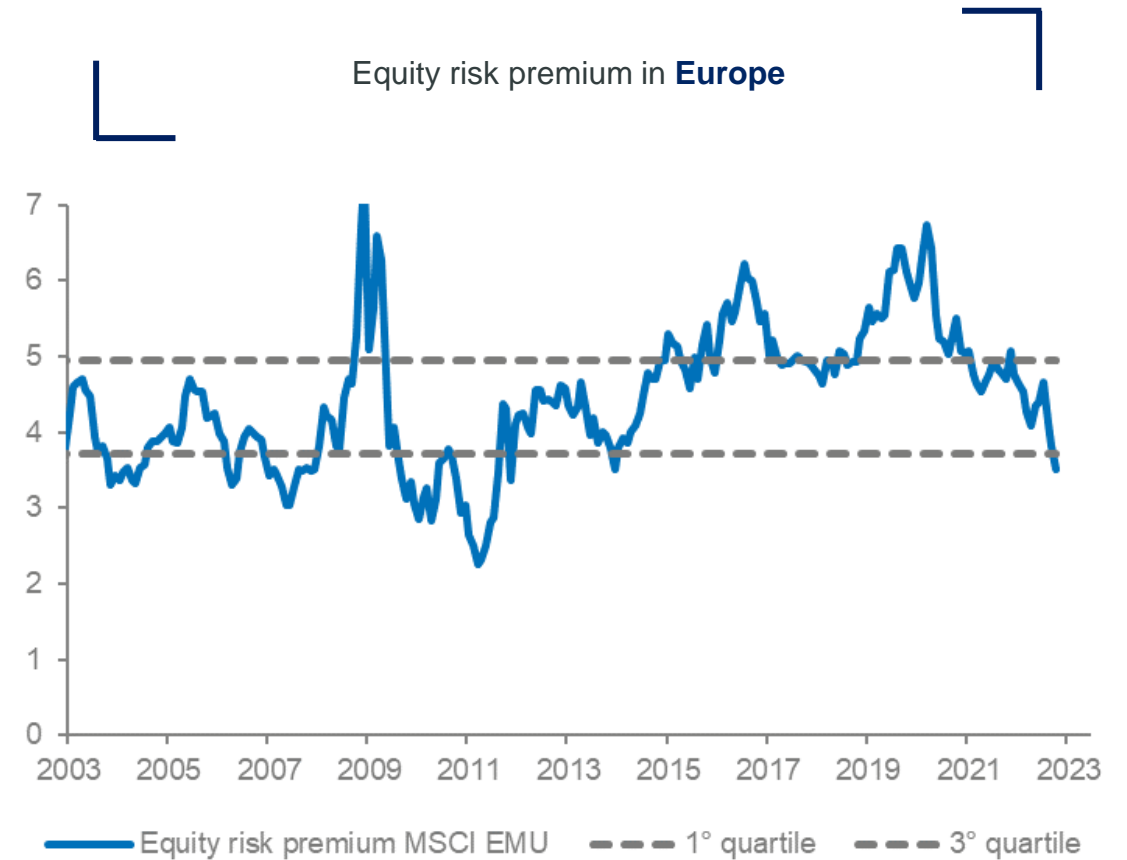
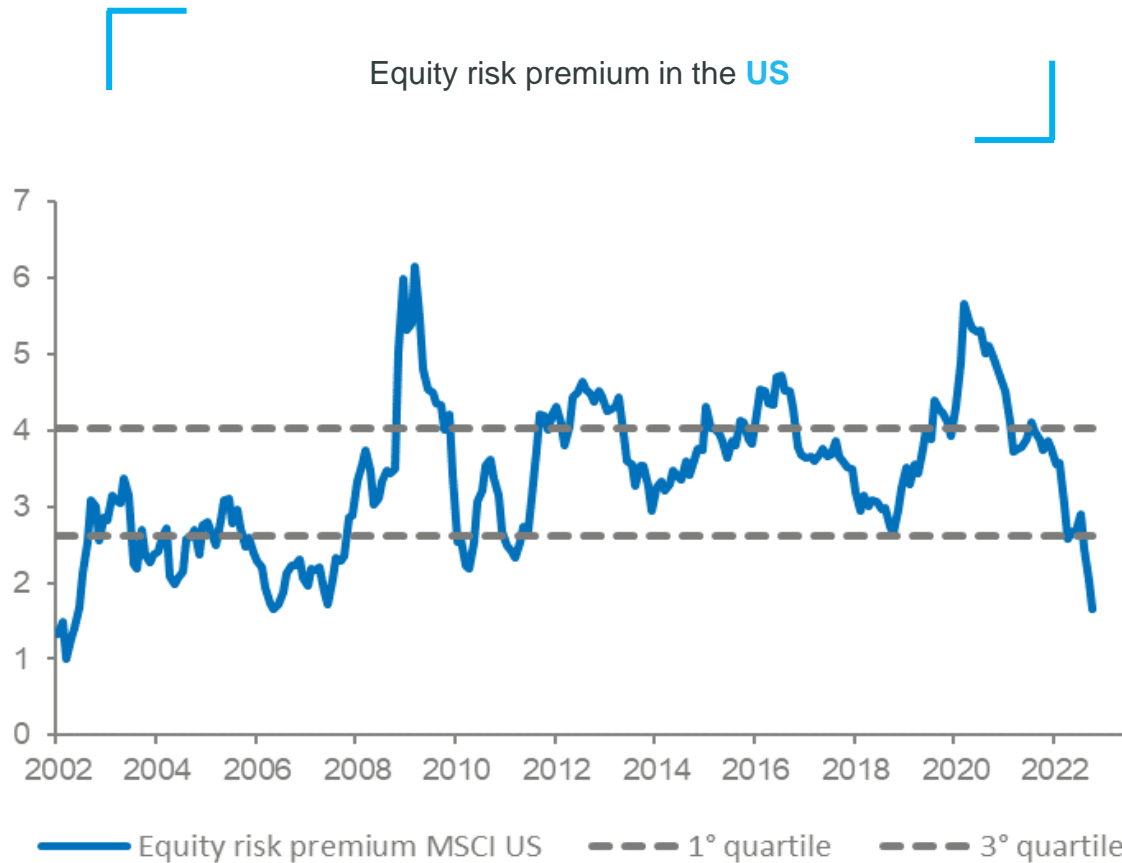
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# Equity risk premium is at a 15-year low

The equity risk premium has fallen sharply in the US and in Europe



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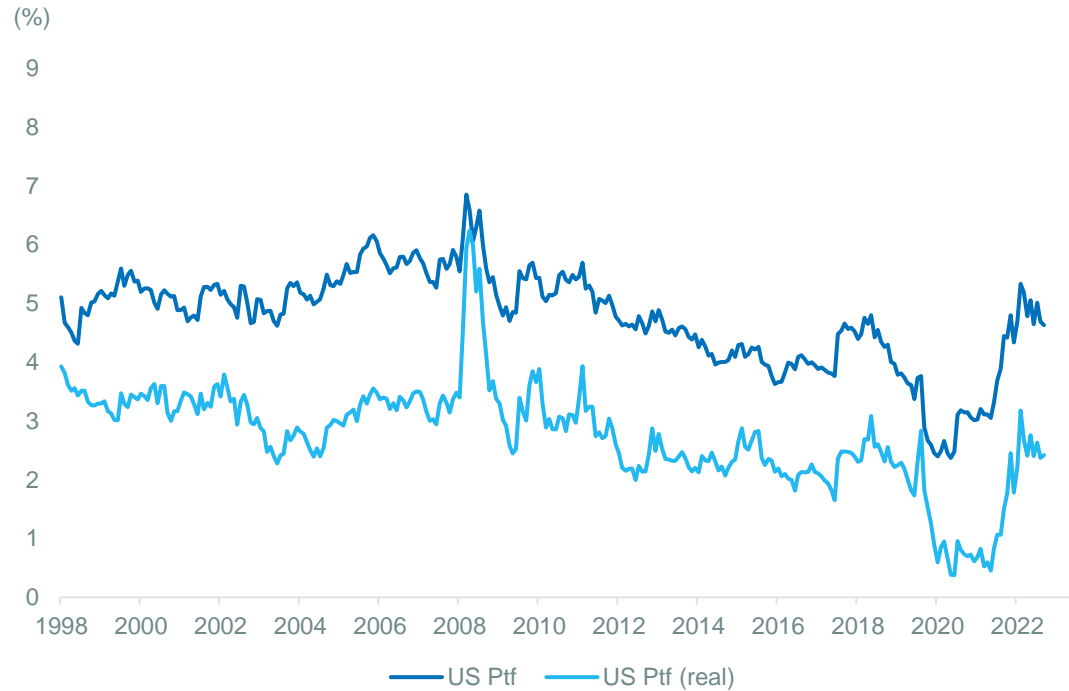




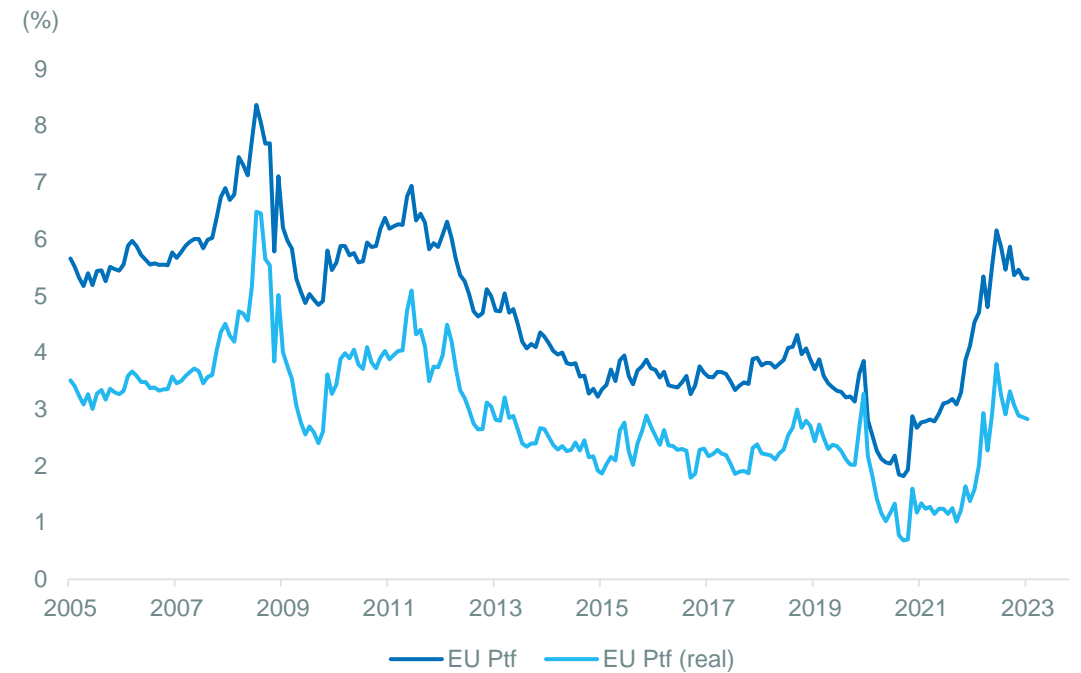
# Long-term expected returns are now much more attractive

In real terms, we are back at 2019 levels

Medium-term expected return of a **US balanced portfolio** (50% equities and 50% bonds)



Medium-term expected return of a **European balanced portfolio** (50% equities and 50% bonds)



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# Key views & positioning going forward

## Our Central Scenario

- › Gradual inflation deceleration
- › Lower growth
- › Decline in yields
- › Central banks keeping rates steady

**1** Benefit from **Carry**  
Buy **Duration** and **Euro Investment Grade Credit**

**2** **Cautious on equities** as upside is limited  
Negative on EMU equities, positive on Emerging markets

**3** A preference for **Quality-Defensive**  
at this stage of the cycle: **Healthcare, consumer staples**

**4** Buy **long-Term Investment Themes**  
Energy transition, Automation, Pricing power

**5** Buy **EM FX, JPY**  
US economy deceleration a headwind for **USD**

**6** Keep **hedging Strategies**  
**Gold, Alternative assets** (hedge funds)

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CANDRIAM ASSET ALLOCATION OUTLOOK H2 2023







**THANK YOU!**

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