By Prime Partners

Macro & Markets Outlook

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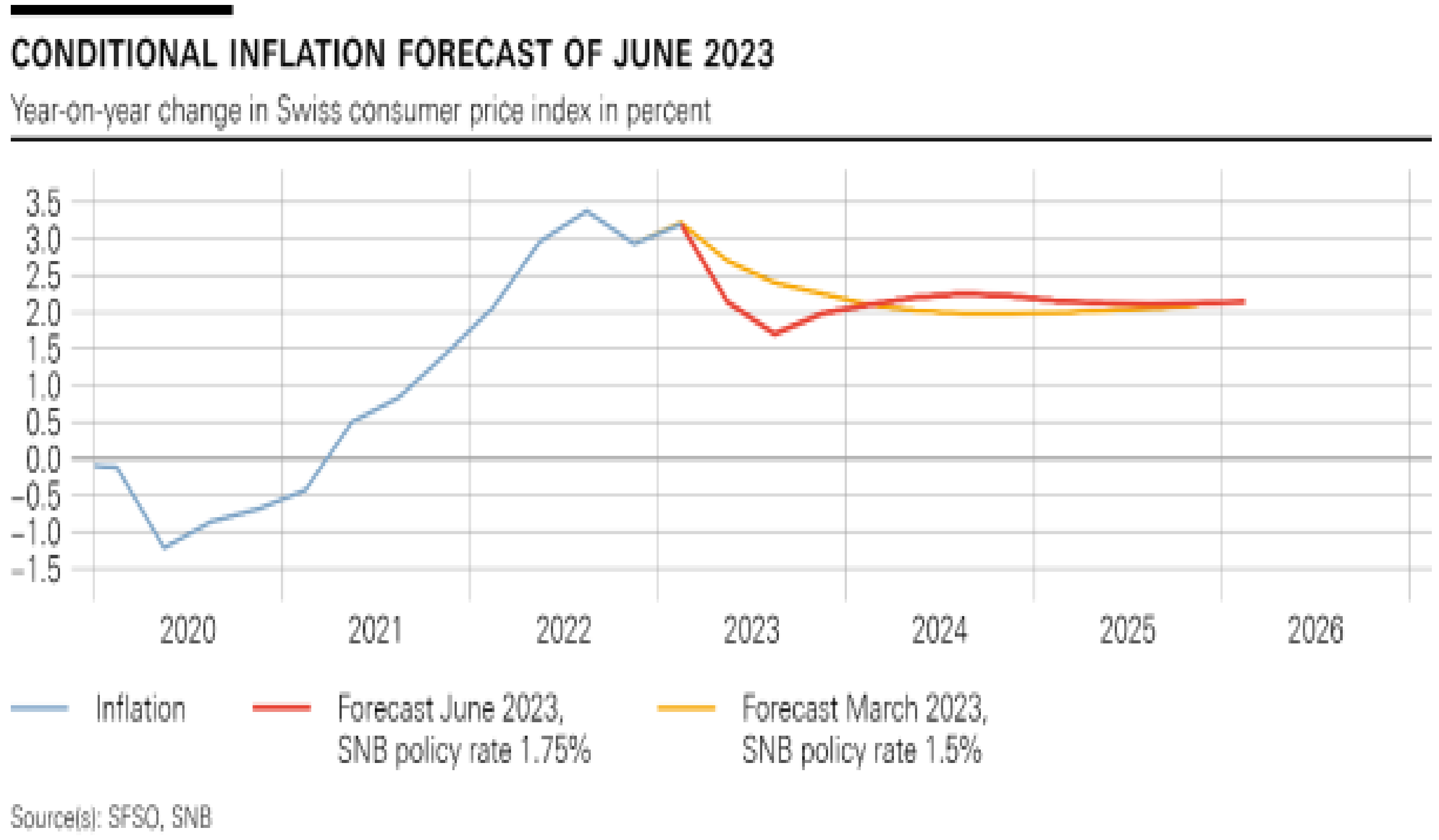
Following the Fed and the ECB, other major central banks in Switzerland, the UK and Norway all increased rates to fight inflation. Even in Japan, the Central bank mentionned that the level of the CPI is now too high



OBSERVED INFLATION IN JUNE 2023

	2020				2021				2022				2023				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	−0.1	−1.2	−0.9	−0.7	−0.4	0.5	0.8	1.4	2.1	3.0	3.4	2.9	3.2				−0.7	0.6	2.8

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2023

	2023				2024				2025				2026				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2023, SNB policy rate 1.5%	3.2	2.7	2.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1					2.6	2.0	2.0
Forecast June 2023, SNB policy rate 1.75%		2.1	1.7	2.0	2.1	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1				2.2	2.2	2.1

Source(s): SNB

The SBN slightly increased its CPI expectations for 2024. The level should also remain above 2.0% in 2025. A new rate hike in September is possible.

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CPI to stay higher and for a longer period of time. Rate hikes politics clearly bad for the industrial part of the economy. On the other hand, a better control on the CPI is a good news for consumers and consumption !

- US May CPI and Core CPI were nearly in line with expectations and confirmed the slowdown of the inflation in the US: Core CPI at 5.3%, topping last September. CPI at 4.0% thanks to positive impact of energy prices.

- Fed sees core PCE inflation ending at 3.9% in 2023 vs prior 3.6%. A good sign that the Fed thinks that the core inflation is under control but in the statement **it indicated that "inflation remains elevated".** The new rate projection (5.5%-5.75% vs 5.0%-5.25%, that means perhaps 2 hikes of 25 bps) is above economists expectations.

- Euro Zone May CPI at 7.0% (7.1% in April) and core CPI at 5.3% (expected 5.5%).

- Compared to its latest estimates, ECB has slightly reduced its 2023 inflation excluding energy and food anticipations (from 5.1% to 5.0), those regarding 2024 are unchanged (3.0%) but revised up the projection for headline inflation to 3.1% vs 3.0% before. Main explanation : the implication of a robust labor market. **Christine Lagarde said "we are not thinking about pausing", "ECB likely to continue increasing rates in July". Contrary to the Fed, ECB has slightly lowered its economic growth projections for this year and next year.**

- **We do not anticipate any rate cut before Spring 2024.**

- On the industrial part of the economy, **the two indicators the Empire and the Philly Fed were weak again but seem to bottom**. But at the same time, **the industrial production was weak and back in negative territory.** Do not expect any rapid recovery of the industrial part of the US economy. First profit warnings coming from cyclical stocks like Lanxess. Weak performances of commodities prices and mining stocks following the wave of rates hikes in Europe.

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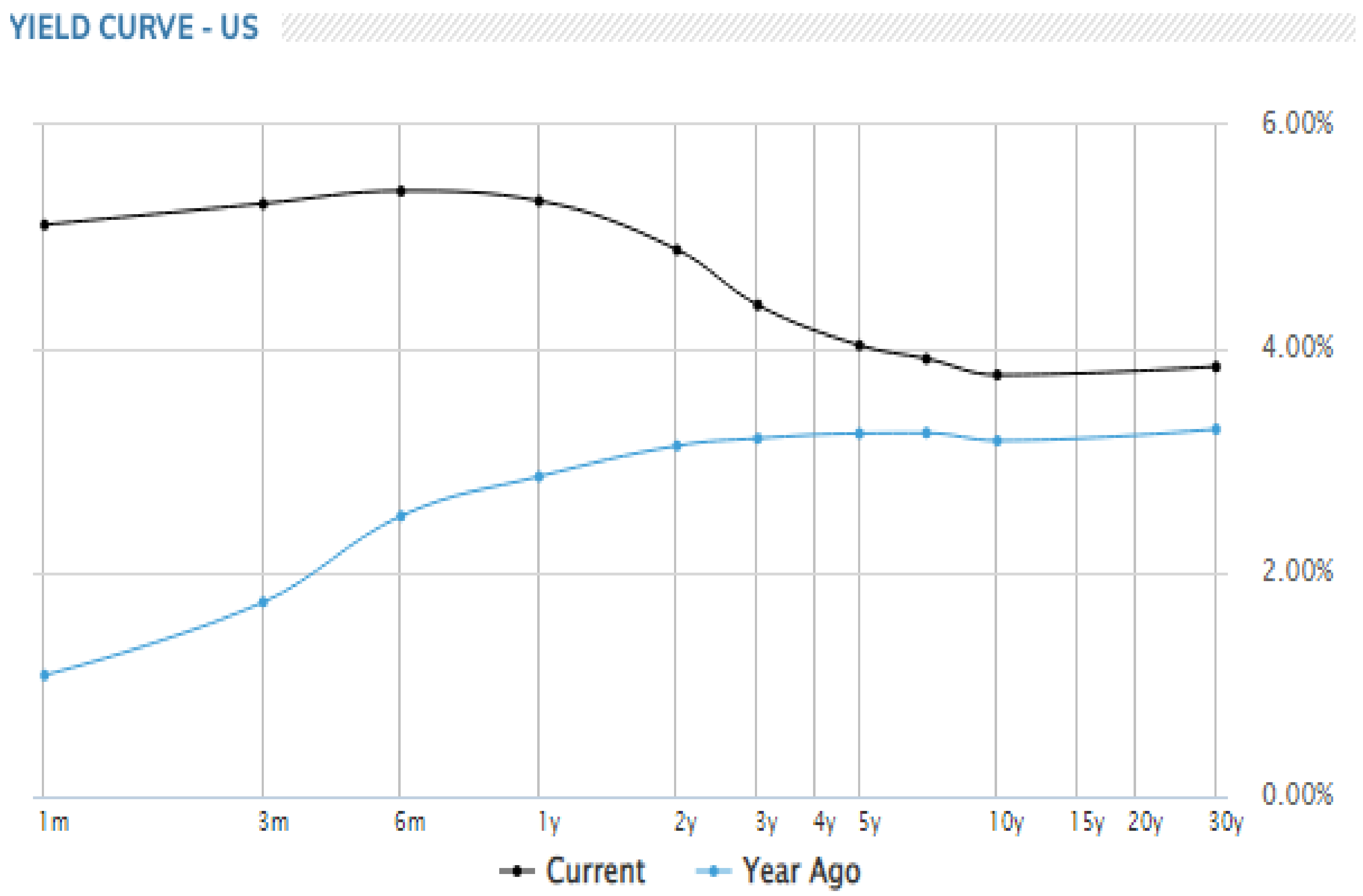
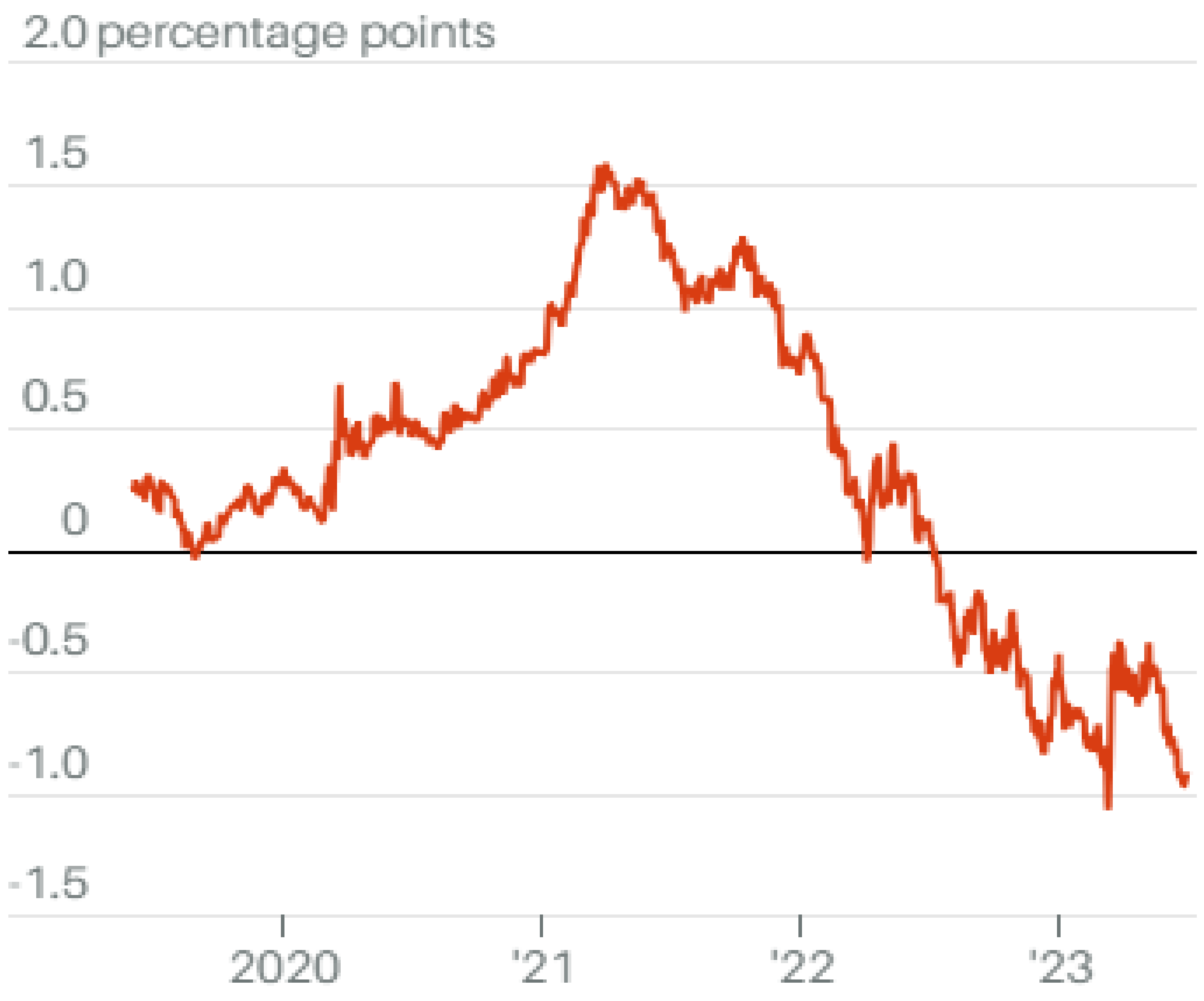
Yield spread between 10y and 2y Treasury notes (slide on the right) : it still indicates a recession





Source: Federal Reserve Bank of St. Louis.

US short term Treasury notes continue to be very attractive in terms of yields. Further increase(s) expected and no rate cuts before next Spring. Last data regarding durable goods orders, new home sales and June consumer confidence, all better-than-expected, may also indicate that the Fed should be forced to keep its rates high for a longer period than ancipated to really control the core inflation.

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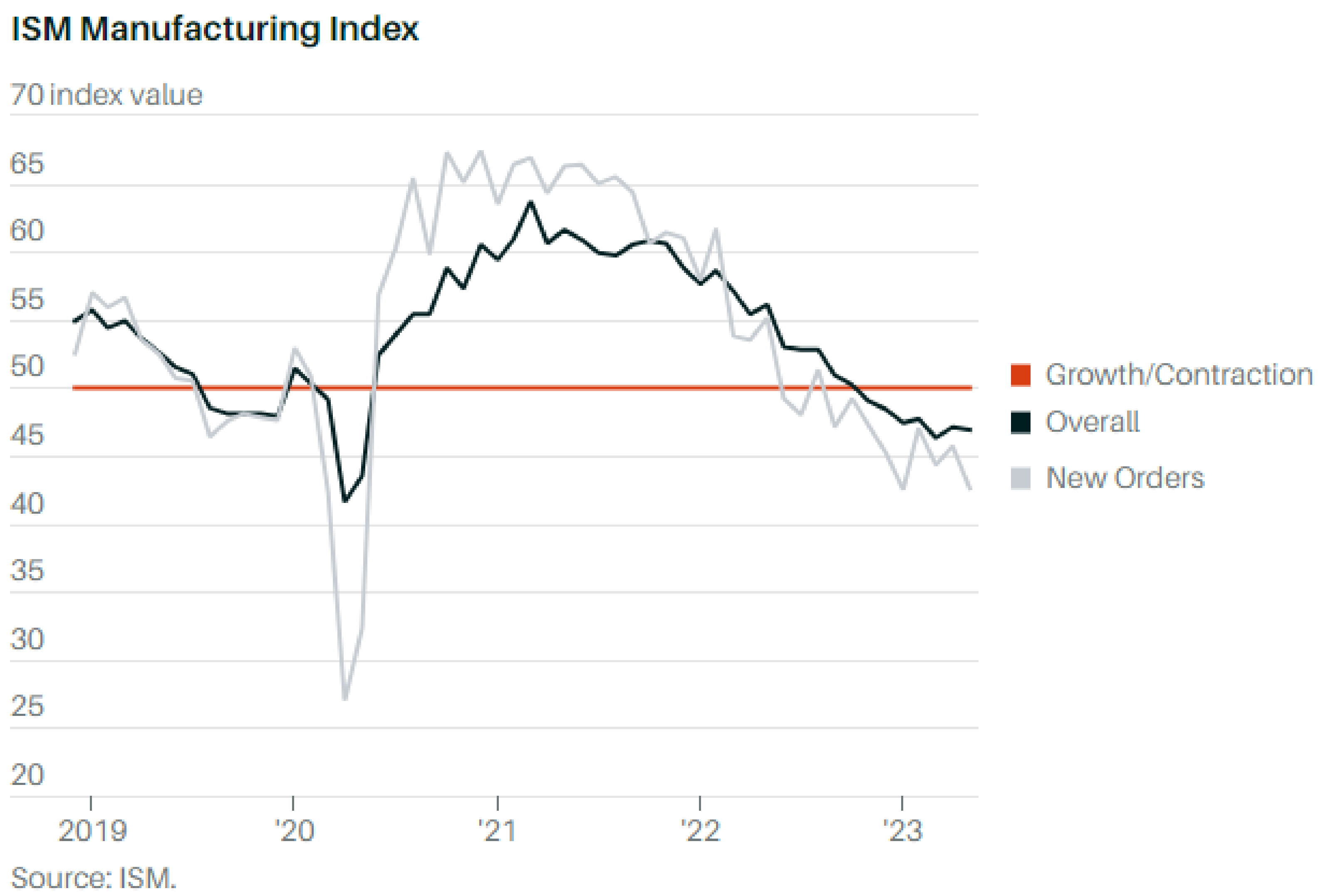
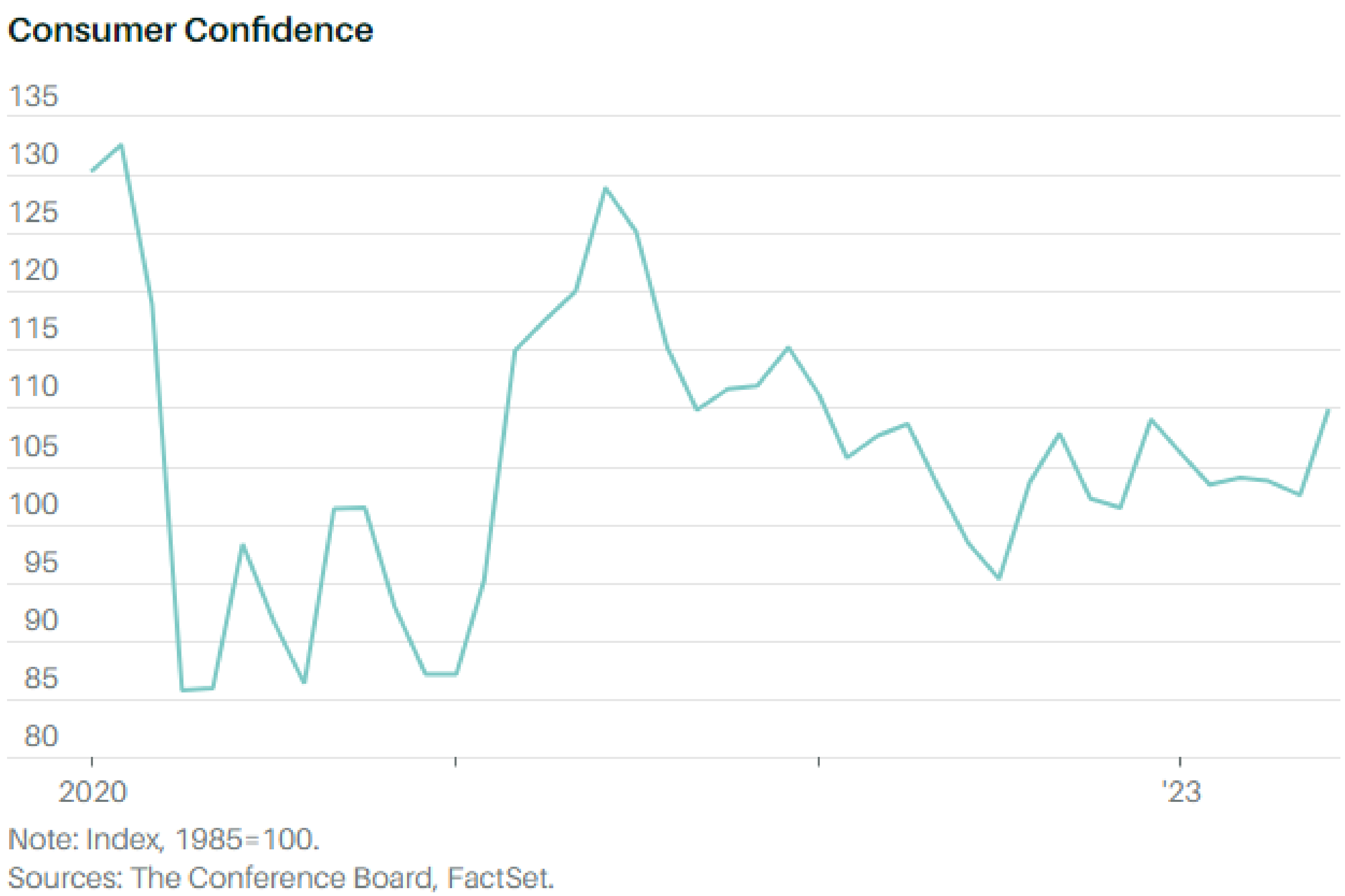
Negative & positive impacts of the hawkish Central banks strategy on the economy





The US Manufacturing PMI (Purchasing managers index) touched 46.3 in June. Same story in Europe. Germany's manufacturing PMI fell to 41 in June. A level below 50 indicates a contraction. The impact of rates hikes in clear. But as the same time, the US Consumer confidence improved in June, well above expectations. Employment conditions remain favorable and the decrease of the CPI is positive. A recession should be avoid in 2023 both in the US & the Euro Zone.

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High interest rates – Still high level of inflation – Recession in the industrial part of the economy

	Equities	Bonds
Willingness to fight inflation remains flawless	=	=
The hiking process in not over (but close to the end !)	=/+	=/+
Highest level of core inflation in the US and EU behind us	++	++
Central banks rates will remain high for a long period of time	-/=	=
US GDP growth expectations revised slightly up	+	=
EU GDP growth expectations revised slightly down	-/=	=

We think that this year in US and EU markets it is a question of sector allocation, as the business of all companies is clearly not evolving the same in this macro-economic environment

Last year was dominated by an impressive P/E compression due to some high valuation (Tech) and very fast interest rates increase. The situation is not the same this year ! Yes Central banks rates are still increasing BUT what is now important is how companies can grow their businesses in this environment

US and EU short term notes will continue to be attractive. Corporate Bond picking with duration of 4-7 years