

NABE video conference Washington DC. Report by Catherine Huguel, a member of the National Association for Business Economics.

Main speakers :

Charles Evans Chicago Fed chairman, David Altig, Director of Research, Atlanta Fed, Lael Brainard, Federal Reserve Board governor, Janet Yellen, US Treasury Secretary

Main points: The surge in Delta variant cases over the summer had a bigger-than-expected impact on the US economy. Lael Brainard said that as of September 20 a little over 2,000 schools were still closed in a total of 470 districts in 39 states. As a result, the Fed cut its growth forecasts from 7% (June) to 5.9% (September) and the NABE from 6.7% to 5.6% in its September survey (see Table 1 page 3). This slowdown was reflected in August’s job data (only 235,000 jobs created compared to 1.05 million in July and 962,000 in June), retail sales, auto production (due to a component shortage) and, especially, a drop in household confidence indicators. The much-anticipated momentum switch from goods to services has therefore been put back. Hotels, restaurants, travel and entertainment are once again suffering from reduced demand.

The NABE now expects third-quarter GDP to rise 4% compared to previous estimates in June of 6.2% but consumer prices were still up by a sharp 5.3% over a year in August and 4% excluding energy and food. The Fed has consequently revised up its consumer expenditure deflator for 2021 from 3.4% to 4% and the NABE from 2.6% to 4.3%. Most importantly, the idea that inflation is merely temporary has been slightly dented. Steep rises in oil and other commodity prices and freight rates as well as numerous Covid-induced distortions could last longer than expected. Building additional capacity will take time, as much as several years in the case of semiconductor plants.

USA/ University of Michigan: Consumer sentiment fell to 81.2 in July from 85.5 in June



For Chicago Fed chairman Charles Evans, the question now is how long the Fed will accept overshooting inflation targets. What exactly does the Fed mean by “temporary”? Based on the 2.2% inflation for 2022/23 expected by the latest FOMC (September 22), “temporary” could be taken to mean 12 months. However, given today's lack of visibility (Lael Brainard said we have to remain humble) and the fact that wages are also rising sharply, the Fed has already started to move, albeit cautiously. **Lael Brainard summed up future monetary policy very well by describing it as “an implementation step by step in our new framework”**, in other words gradually and flexibly respecting the Fed's new objectives, i.e. maximising jobs (the unemployment rate is no longer referred to) and price stability at, or slightly above, 2% for some time. Jerome Powell once again said the US was still a long way

from full employment. Even with the jobless rate at 5.2% in August, the participation rate is still low, especially among the non-white population.

USA/ Unemployment rate fell to 5.2% in August



At its next FOMC on November 2/3, the Fed may well vote to start tapering its \$120bn monthly asset purchases between end 2021 and mid-2022, thereby ending the quantitative management it used to steer long rates when short rates were at zero. But it will insist that the decision has no bearing on how benchmark rates are managed. So we can definitely say that there is no chance of a rate hike in the near future. Any move up will depend on the state of the economy in 2022.

However, there are periods when markets do not necessarily believe central banks. Clearly, September was an example. Long bond yields rose and equity markets fell. Yields on 10-year US Treasuries jumped from 1.31% at end August to 1.49% on September 30. German Bund yields moved from minus 0.38% to minus 0.2% and French government bond yields from minus 0.003% to +0.16%. Over the month, the Dow Jones lost 4.3%, the S&P500 4.76%, and the Nasdaq 5.3%. In Europe, the STOXX 600 ended the month 3.4% lower, the CAC shed 2.4% and the DAX 3.6%. Hong Kong tumbled 5.04% but falling Covid cases helped Tokyo gain 4.85% and India 2.73%. Shanghai edged 0.68% higher.

It is therefore vital for central banks to restore total credibility in their pronouncements on 2022. (Will the Fed focus on jobs or inflation, for example?) If not, today's apparent contradiction between a Covid-induced slowdown and rising inflation will make it difficult to manage monetary policy, leaving the field wide open to speculation on bond yields and the US dollar going higher.



Table 1 Comparative Surveys *(Median Forecast Reported)*

	ACTUAL	FORECASTS				
	2020	2021			2022	
		March 2021	May 2021	September 2021	May 2022	September 2022
Real Gross Domestic Product, % change, Q4/Q4	-2.3	4.8	6.7	5.6	2.8	3.5
Real Gross Domestic Product, % change, annual average	-3.4	4.8	6.5	5.7	4.4	4.2
Personal Consumption Expenditures, % change, annual average	-3.8	5.4	7.4	7.8	4.2	3.6
Nonresidential Fixed Investment, % change, annual average	-5.3	6.6	7.9	7.9	5.6	5.9
Residential Fixed Investment, % change, annual average	6.8	12.4	14.0	10.2	4.5	2.1
Change in Business Inventories, billions of chained 2012\$	-42	71	40	-53	91	98
Net Exports, billions of chained 2012\$	-943	-1,140	-1,222	-1,247	-1,234	-1,263
Exports, % change, annual average	-13.6	8.0	6.0	4.7	7.7	6.6
Imports, % change, annual average	-8.9	12.2	13.0	13.0	5.5	4.6
Government Consumption Expenditures & Gross Investment, % change, annual average	2.5	0.7	2.3	1.0	1.7	1.9
GDP Price Index, % change, annual average	1.3	1.9	2.7	3.8	2.3	2.9
Foreign Exchange Rate, US\$ per Euro, December average	1.20	1.22	1.20	1.19	1.21	1.20
Consumer Price Index, % change, annual average	1.3	2.1	2.8	4.3	2.4	3.1
Consumer Price Index, % change, Q4/Q4	1.2	2.2	2.8	5.1	2.3	2.4
Personal Consumption Expenditures (PCE) Price Index, % change, Q4/Q4	1.2	2.0	2.6	4.3	2.2	2.2
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	1.4	1.8	2.2	3.8	2.1	2.2
Nonfarm Employment, average monthly change, thousands	-785	351	566	558	281	321
Nonfarm Business Compensation Per Hour, % change, annual average	7.0	3.0	3.3	4.0	2.9	3.5
Nonfarm Business Output Per Hour, % change, annual average	2.4	1.8	2.7	2.2	1.9	2.0
Federal Funds Target, % year-end	0.125	0.125	0.125	0.125	0.125	0.125
10-Year Treasury Note Yield, % year-end	0.93	1.45	1.90	1.50	2.10	1.97
Federal Deficit, FY, unified, \$ billions	-3,129	-3,200	-3,200	-2,893	-1,500	-1,460
Corporate Profits After Tax, without IVA and CCAadj., % change, annual average	-2.3	9.2	12.2	19.0	5.0	3.0
Civilian Unemployment Rate, % annual average	8.1	5.8	5.6	5.6	4.3	4.3
Industrial Production, % change, annual average	-7.2	5.5	5.9	5.7	4.3	4.2
Light Vehicle Sales, millions of units	14.5	16.5	16.9	15.8	16.8	16.7
Housing Starts, millions of units	1.38	1.49	1.60	1.58	1.55	1.58
Home Prices, FHFA, % change, Q4/Q4	6.2	5.3	7.9	12.4	5.4	5.0
Oil Price (WTI spot), \$ per barrel, December average	47	55	62	66	60	63

Historical data from Haver Analytics (9/2021)

NAV OF THE FUNDS

NAV Date	UCITS	NAV	Cumulated Performances							
			% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%2 Years	%3 Years	%5 Years
30/09/2021	HUGAU MONETERME I	120 573,99	0,00	-0,02	-0,05	-0,09	- 0,03	- 0,20	- 0,24	- 0,24
30/09/2021	HUGAU OBLI 1-3 I	1 420,98	-0,11	0,00	0,29	2,50	4,38	1,97	2,80	4,57

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