2022 May Review

May finished just as it started: at the mercy of central banks.

- On May 4, Jay Powell announced a 50bp hike in the Fed Funds rate.

- At the same time, the ECB's wait-and-see stance sent the euro down to its lowest level ever against the US dollar (1.04 on May 12).

- This week, the release of the latest FOMC minutes looked like rekindling some optimism. Equity markets rebounded. The S&P500 jumped 4.8% (leaving it unchanged over the month), the Nasdaq bounced 7.3% (-2.1%) and the Dow gained 3.3% (also flat). Yields on 10-year US Treasuries fell back to 2.84% on May 31, down from the 3.13% peak hit on May 6. Investors seemed to have gone overboard, at least briefly, for the probability of a soft landing. The latest GDP and inflation data from the Bureau of Economic Analysis in the US confirmed that household spending was still buoyant: the second estimate said it had risen 3.1% QoQ, or better than the 2.7% increase in the flash estimate. PCE (Personal Consumption Expenditure, the Fed's preferred inflation gauge) suggested that inflation was losing momentum as it rose 0.2% in April and by an annualised 6.3% compared to peak levels of 0.9% and 6.6% in March. And the latest forecasts from the Congressional Budget Office (CBO) ruled out the possibility of a recession.

- In Europe however, with a more hawkish approach from Christine Lagarde -the ECB chair is arguing for an end to negative rates to stop in September- yields on the German Bund rose to 1.12% at the end of May, with the equivalent French government bond yield rising to 1.64%. The euro, meanwhile, edged higher to 1.07 against the US dollar on May 31.

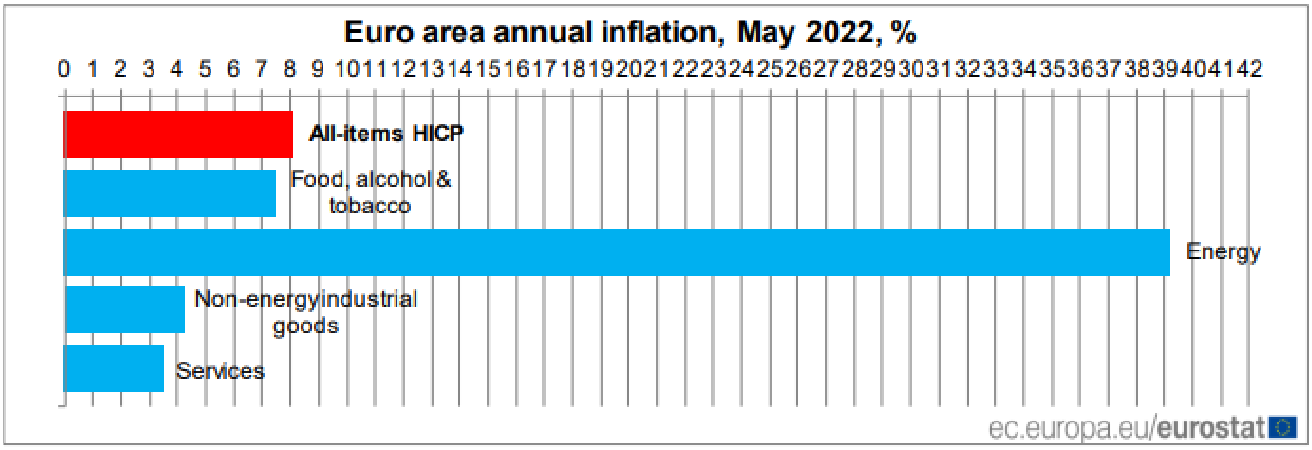
This about-turn is not easy to understand and will not necessarily last. There is still a lot of uncertainty and **a number of factors could result in inflation persisting:**

- First, the war in Ukraine has worsened, driving up cost inflation. The agreement in Brussels on May 30 to inflict a partial embargo on Russian oil immediately had the dire effect of pushing Brent crude up 4.4%. The war has also rekindled food protectionism, another negative factor. According to the International Food Policy Research Institute (IFPRI), 17% of the global trade in food was already restricted by the beginning of April, up from 6% before the war started. And any **recovery in China** in the second half could accentuate supply/demand imbalances in some commodities, especially if Beijing were to try to make up for time lost to meet its official growth targets.

- Second, higher wages could drive inflation. Increasing demands for wages to be inflation-indexed make this scenario more probable in Europe. In France, for example, pensions are set to rise in July and on May 23, Bruno Le Maire, the economy and finance minister, urged companies to increase wages if they could.

In this challenging environment, **May's flash consumer price index in Europe** headed north again, rising 0.8% over a month and 8.1% over a year. (See graph below)

<u>**Euro area annual inflation up to 8.1%**</u>



Conclusion.

Central banks have practically no hold over cost inflation but they are keen to stop inflation becoming embedded as in the 1970s following the oil shocks in 1973-74. This means they have to focus on criticising any moves towards indexation. The assumption is that radical tightening will prevent a wage-price spiral taking root and that prices will fall back once the Ukraine war ends and China's economy reopens. Inflation will truly have been transitory.

If this optimistic scenario comes about, 10-year government bond yields will be close to peaking, at around 3% in the US, 1-1.3% in Germany and 1.6-1.7% in France. If, however, the scenario proves unfounded, inflation would take root due to rising wages in tight labour markets and long bond yields would continue to push higher. We will only start to have some real visibility on which scenario wins out when the Russo-Ukrainian war has ended.

NAV OF THE FUNDS

						Cumulated Performances				
NAV Date	UCITS	NAV	% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%2 Years	%3 Years	%5 Years
31/05/2022	HUGAU OBLI 1-3 I	1 368,00	0,32	0,47	-1,32	**-3,51**	**- 3,10**	**2,03**	**- 1,00**	**- 1,49**
31/05/2022	HUGAU MONETERME I *	114 715,86	-0,003	-0,036	NA	**NA**	**NA**	**NA**	**NA**	**NA**
31/05/2022	HUGAU MONETERME SP I	3 878,11	NA	NA	NA	**NA**	**NA**	**NA**	**NA**	**NA**
* On April 22nd, 2022, Hugau Monterme has been split into 2 ucits to isolate GAZ CAPITAL bonds in HUGAU MONETERME SP, a segregated fund.										
* Performances are retreated from GAZ CAPITAL securities impact										

Past performances are not a guarantee of future performances

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