A convalescence or a reprieve?

With no monetary policy meetings scheduled in April, the Fed and ECB had plenty of time to observe events. In fact, in formulating the appropriate diagnosis, a convalescent economic environment or simply, a reprieve, there was a lot to do in the past few weeks.

On the one hand, trading on markets was calm. The S&P 500 rose 1.46%, the Stoxx Europe 600 1.92% and the Shanghai Composite 1.54%. Yield curves remained inverted, unchanged compared to the end of March, signaling investors are still betting on an imminent recession. What's more, volatility fell.
The two dominant themes over the month were first quarter results and banks' performances. Pricing power remained intact for consumer product companies like Procter & Gamble and Coca Cola as well as for industrial ones like Caterpillar and General Motors. Raising prices often helped them offset falling volumes but **the downside is that this fuels concerns over inflation lasting. The banking sector had a more mixed month**. On a positive note, an improvement in USD funding conditions was observed, enabling central banks to revert to the weekly frequency of their 7-day USD operations (after it had been adjusted to a daily frequency following the collapse of SVB mid-march). However, fears resurfaced over the solidity of US regional banks, and notably First Republic Bank. As a result, weekly recourse to the Fed's Discount Window and Bank Term Funding Program started rising again from the middle of April. The amounts in question hit $155.2bn in the week ending April 26, their highest level since March 29.
From now on, central banks' decision making process will be trickier. Additionally to fighting inflation, they will have to continue efforts to maintain financial stability.

Meanwhile, in the real economy, growth was confirmed for the first quarter of 2023 (see table 1 and 2) even if it decelerated due to falling purchasing power and a deceleration of credit. **At the same time, there were some indications that inflation was proving sticky**. In Germany, consumer prices rose by an annualised 7.6% in April and in France they even accelerated to 6.9%. In the US, the personal consumption expenditures price index rose by another 0.1% MoM overall (+0.3% ex-food and energy), or +4.2% over 12 months (+4.6%). Labour costs continued to rise in March, up 1.2% QoQ (vs. +1.1% in December), and +4.8% over 12 months. Overall, the combination of a persistent inflation and a weaker economy has rekindled concerns over stagflation.
Consumer confidence also proved mixed in the past month. The Conference Board indicator showed it falling in the US, due to the gloomy outlook for jobs and wages, in keeping with the economic slowdown scenario. On the contrary, in Europe, the European Commission business survey showed it rising again (it has been on an upward trend since the September 2022 low). This geographical divide is yet another sign of the lag in the economic cycle in the Eurozone as compared the US, one that we have already described in previous in-house publications. In our view, there is more scope for key central bank rate rises in the Eurozone than in the US.

On a final note, political uncertainty and volatility remained very much with us. In the US, Republicans are on the march in their debt ceiling battle with the Democrats. The Republican motion to raise the ceiling by $1.5 trillion in exchange for $4.8 trillion in spending cuts was narrowly approved in Congress on Wednesday with a two-seat majority. However, the Democrats control the Senate so the bill's chances of success are slim.

To sum up, the fight against inflation is not finished yet and uncertainty is still high. The economic slowdown is undeniable but there are almost no signs of an imminent recession. As a result, monetary policy will remain restrictive at least until the end of 2023 and the chances of other rises in key central bank rates are higher in the Eurozone than in the US.

Table 1 - GDP increased by 0.1% in the first quarter of 2023 in the Eurozone

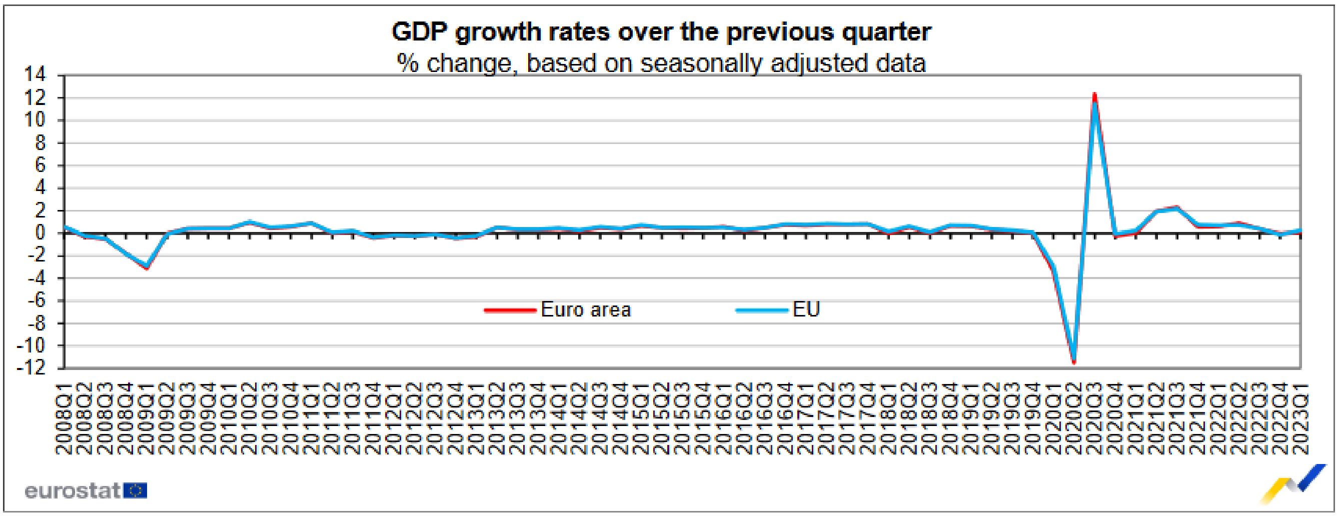
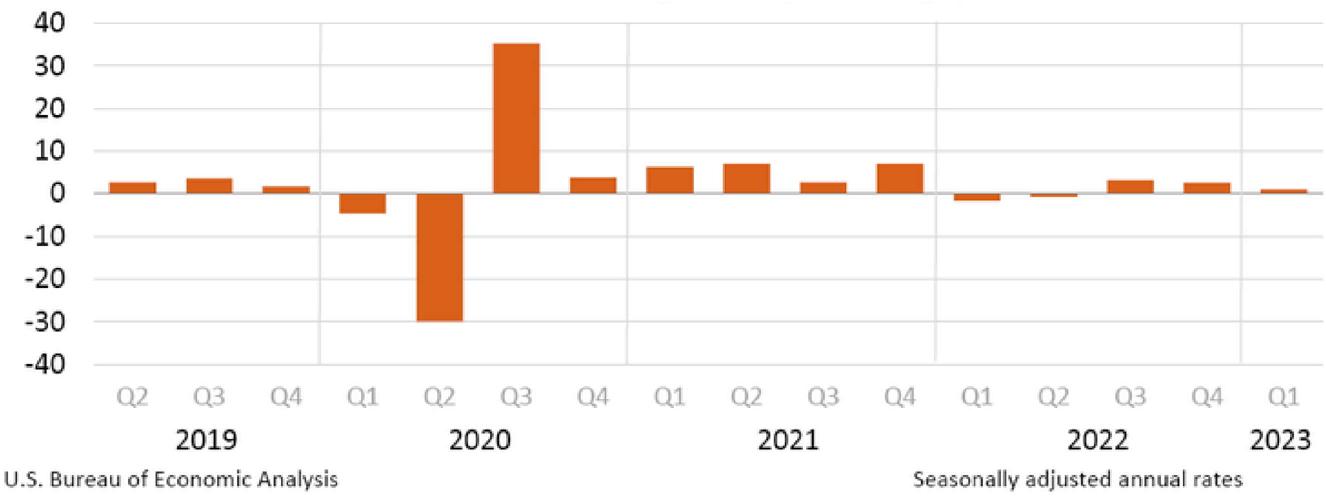


Table 2 - GDP increased at an annual rate of 1.1% in the 1Q2023 in US



NAV OF THE FUNDS

NAV Date	UCITS	NAV	% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%3 Years	%5 Years
						Cumulated Performances			
28/04/2023	HUGAU MONETERME I	115 953,88	0,07	0,26	0,68	**0,87**	**1,04**	**1,02**	**0,36**
28/04/2023	HUGAU OBLI 1-3 I	1 395,55	-0,01	0,67	0,48	**1,93**	**2,49**	**4,57**	**- 0,10**
28/04/2023	HUGAU OBLI 3-5 C	1 450,83	-0,04	0,66	0,34	**1,91**	**1,98**	**4,14**	**- 0,79**

Past performances are not a guarantee of future performances

SOCIÉTÉ DE GESTION DE PORTEFEUILLE | AGRÉMENT AMF N° GP06 000008 DU 27 JUIN 2006

60, rue Saint-Lazare 75009 PARIS France Tél. 01 78 09 83 20 Fax 01 78 09 83 30
SAS au capital de 1 143 750 euros RCS Paris 490 485 422 TVA intra-communautaire FR 34 490 485 422

www.hugau-gestion.com