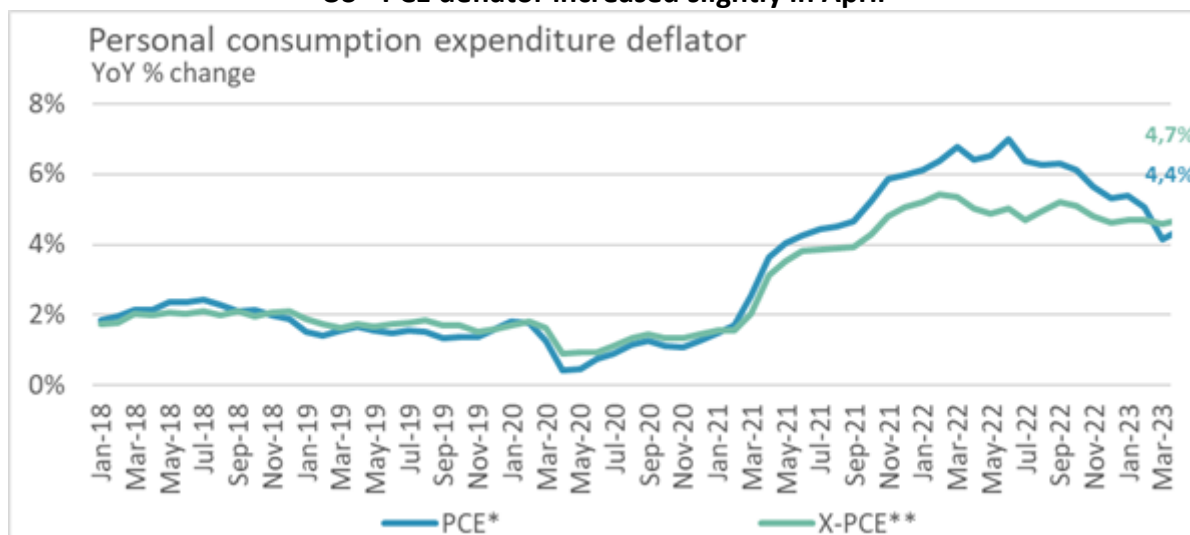


What is the score in the inflation vs. recession match?

May finished with Congress finally approving the lifting of the debt ceiling at the eleventh hour. However, bond yields barely edged lower and yield curve inversion continued with yields on 10-year Treasuries as of May 31 76bp lower than on the 2-year and the yield on the 10-year Bund 44bp lower than the 2-year.

Investors are now recognising that the fight against inflation is not yet over. In the US, the Personal Consumption Expenditure Deflator started trending higher again. Consumer expectations are worsening with average inflation over 5 years now seen at 3.1% according to Michigan University, a level not seen since June 2022. Opinions vary on the next FOMC. Some see the Fed raising rates by 25bp while others are betting on a pause until July. The latest FOMC minutes stressed the risk of higher inflation and said benchmark rates should be kept at their high until January 2024. Inflation is also a big talking point in the Eurozone, especially in the context of climate change. ECB research said global warming could add 0.92% to food prices and, depending on the models used, up to 3.23% a year up to 2035. Its impact on overall inflation could be between 0.32% and 1.18% (Maximilian Kotz et al., May 2023, the impact of global warming on inflation: averages, seasonality and extremes, ECB Working Paper Series). In France, a government-commissioned report by Jean Pisani-Ferry and Selma Mahfouz even called the ECB's 2% inflation target into question.

US - PCE deflator increased slightly in April



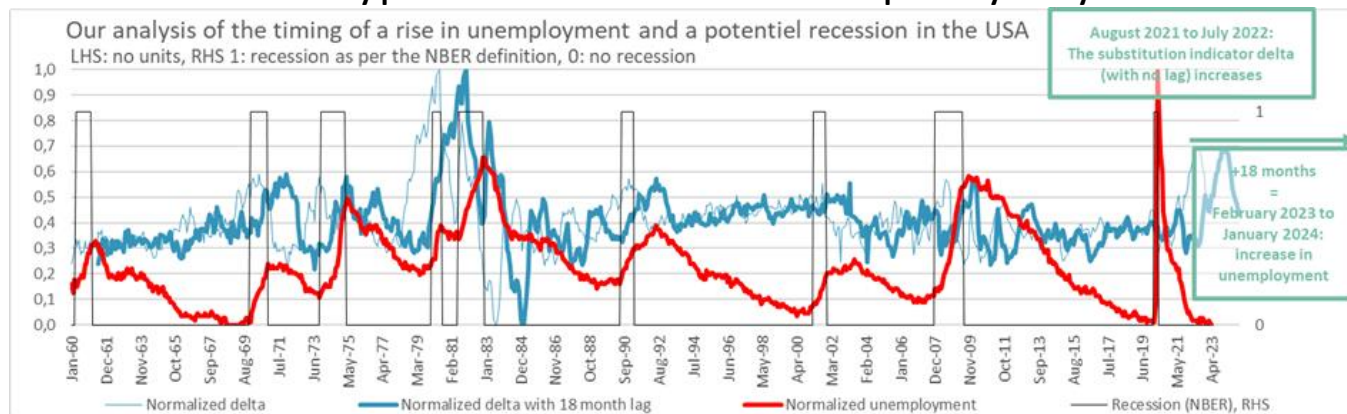
Economic growth is slowing amid persistent inflation (ex-energy) and ongoing monetary tightening. Even so, activity has held up better than was expected as recently as end December. This is especially the case in the US with strong levers like services and technology like Natural Language Processing. Hence the rebound in indices, and particularly the Nasdaq which gained 5.8% in May.

Against this backdrop, the timing of any US recession is on everyone's mind. Our basic scenario is that after households have tried everything, including substitution, to maintain spending, they will inevitably end up being reined in by falling purchasing power. At the same time, companies will reduce headcount to maintain margins. Unemployment will rise and eventually push the economy into recession.

To show the impact of substitution on consumption, we have set up a delta indicator (the difference between annual changes in consumer prices and the PCE deflator). We also look at it with an 18-month lag vs. the unemployment rate and recessions. It shows that delta has a lagging correlation with rising unemployment. (see graph down below)

To sum up, the link between inflation and recession is still valid. The US labor market is still stretched: the Bureau of Labor Statistics said that the job openings/jobless ratio rose to 1.8 in April and the ECB wage increase indicator moved above 5% in the Eurozone in the first quarter. **But any recession still looks some way off. If there is to be a recession, our visual analysis shows it will probably happen in 2024.**

According to our analysis, unemployment could rise between now and January 2024, which could ultimately push the United States into recession probably next year.



NAV OF THE FUNDS

NAV Date	UCITS	NAV	Cumulated Performances						
			% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%3 Years	%5 Years
31/05/2023	HUGAU MONETERME I	116 288,69	0,07	0,29	0,78	1,16	1,37	1,32	0,77
31/05/2023	HUGAU OBLI 1-3 I	1 400,90	0,05	0,38	0,55	2,32	2,40	4,48	1,32
31/05/2023	HUGAU OBLI 3-5 C	1 458,46	0,09	0,53	0,73	2,45	2,60	4,07	0,85

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