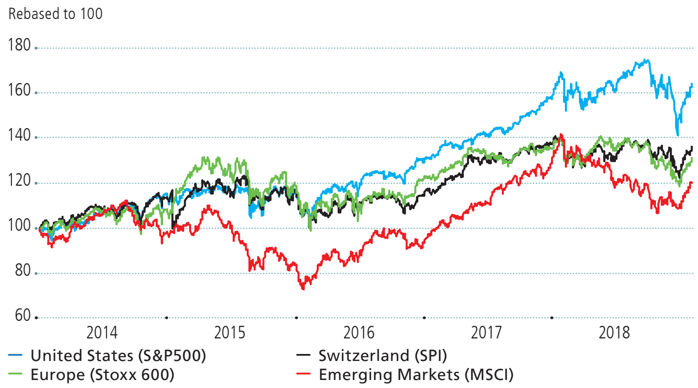
Economic overview

February 2019

The New Year began with an easing of the tensions that had gripped investors since last autumn. On the trade relations front, the main protagonists expressed their willingness to negotiate. Although it is too early to speak of a permanent ceasefire at this stage, China has committed to import more products from the United States. The commitment mainly concerns agricultural and energy products, although China has not provided specific figures yet. The biggest stumbling blocks remain intellectual property and technology transfer. These are issues that are not only causing concern in the United States. Some countries in Europe have recently banned the use of Chinese components in the development of their communication networks. Tensions therefore remain high and caution is called for. If the discussions between the two world leaders suggest that a solution can be found, it is a race against time, as the truce decided on 30 November is expiring at the end of February.

On the liquidity front, the Fed's statements at the beginning of the year have also calmed the mood. The Fed's president confirmed his intention to follow the economic environment closely, which calls into question an automatic reduction in the balance sheet and a restriction on liquidity circulation. There is much to suggest that this particular attention by Fed governors is due to the high volatility of financial markets last December. Given an inflation rate below 2% and an economic slowdown after the acceleration, the Fed's new tone is understandable. In this context, the impact of the "Shutdown" (temporary closure of US administrations) should not be significant, but it could still affect the mood of domestic economic operators. The prospect of an economic slowdown or a pause in monetary tightening was all it took for the market to revise its interest rate forecasts for 2019.

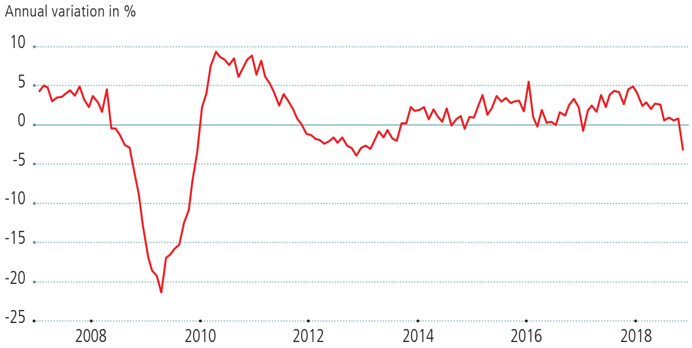
Equity Price Indices



Source: Thomson Reuters Datastream

The markets seem to have welcomed these recent developments. After the violent setback in the last quarter, equity prices and some bond prices rebounded sharply. The global average of the largest caps rose by nearly 8% in January on both sides of the Atlantic. Most regional indices recorded significant growth. However, the London Stock Exchange's advance remained more modest due to Brexit concerns. For their part, emerging market assets benefited from the words of the Fed suggesting an end to the pressures of the rising dollar and US interest rates.

Eurozone: industrial production (excluding construction)



Source : Thomson Reuters Datastream

The economic outlook therefore remains firmly on track. The mood of economic operators is certainly much less euphoric and some indicators, such as the German manufacturing SMI below 50, give cause for concern, given that the automotive sector has a significant impact on this negative mood. In addition, industrial production in Europe has come to a standstill. Compared to the boom year 2017, the annual growth figures are falling. By November 2018 they had fallen by more than 3% compared with the previous year, with a 5% drop in production in the manufacturing sector in Germany. In contrast, the business climate in construction and services is resilient, reflecting the mood of households whose purchasing power is supported by a booming labour market and low energy prices. The industrial downturn is therefore not automatically a sign of a possible recession. Lastly, the widening gap between economic dynamics and the return on capital in Europe and the United States calls for differentiated asset allocation strategies. Since the beginning of the year, the investment strategy has increased its focus on US equities at the expense of European equities.