

Perspectives

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May 2022

“Slowflation” is becoming a reality

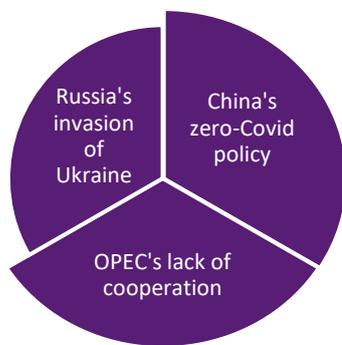
- New risks have added more stress to the market environment, increasing the implied volatility of bonds.
- Investors are questioning economies’ resiliency to the multiple shocks they now face.
- Equity markets recorded their worst April in over 20 years while bond markets failed to act as a valid diversifier, hence balanced portfolios are significantly negative year-to-date.

Macro Outlook

Risk factors are piling up

The chance to see a positive resolution between Russia and Ukraine has continued to decline. Conversely, ongoing geopolitical tension appear to be the new reality – so market participants will just have to get used to it. Unlike in recent history, this backdrop of sustained confrontation between superpowers is likely to markedly shape policy going forward. In addition, the already elevated uncertainty has been reinforced by the appearance of new risk factors (see Figure 1), which are likely to produce more volatile markets and economic cycles than in the past.

Fig. 1: Main Risk Factors
(Sources: NIM solutions)



In China, President Xi has decided to stick to his zero-Covid policy to contain the spread of the Omicron variant. Restrictions like those observed during the first wave of Covid-19 have been put in place, limiting activity in several key economic regions. Companies have been forced to halt production which has added further stress on supply chains, and households have been deprived of their ability to consume goods and services. The repercussions of this policy are already visible (see the section on China) and should weigh on global activity in H1.22.

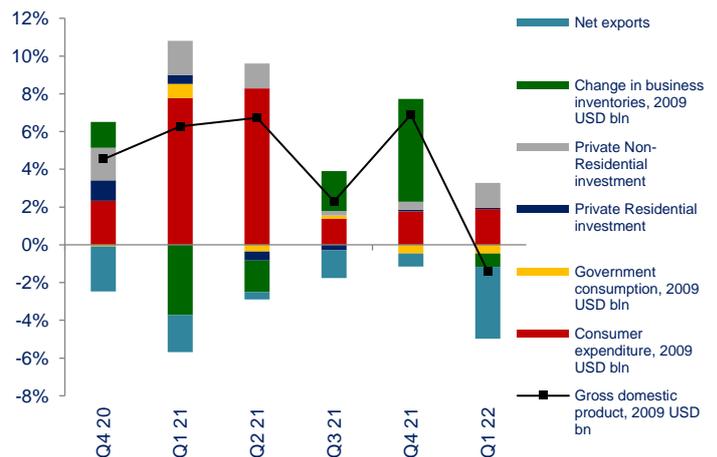
Moreover, the refusal of OPEC member countries to increase their crude oil production continues to support the high energy prices that Russia’s invasion of Ukraine has induced. The cartel members appear to have no intention to make up for the Russian oil that is already been left aside due to concerns on additional sanctions. Indeed, Russia’s average oil production during the first four months of the year already shows a one million barrels per day deficit compared to 2019.

Although the main economies are not there yet, the combination of these negative factors is tilting stagflation – more inflation and suppressed activity – risks to the upside.

Is there a recession on the horizon?

The first indicators available at this stage confirm that momentum is indeed deteriorating. Eurozone’s preliminary growth estimates showed that activity increased by only 0.2% in Q1.22, primarily supported by the increase in activity in Germany and Spain. Italy’s growth was negative while France’s was flat; consumer spending weighed heavily on economic growth (-1.2% quarter-over-quarter), giving an early indication of the negative effects of inflation on household income. Furthermore, the US economy contracted at an annualized rate of -1.4% (see Figure 2) during the same period. The US underperformance was mainly driven by foreign trade as imports of goods and services increased by 11.7% during the quarter, likely attributable to the stronger USD and solid demand.

Fig. 2: US GDP Growth Breakdown
(Sources: NIM solutions & Refinitiv)

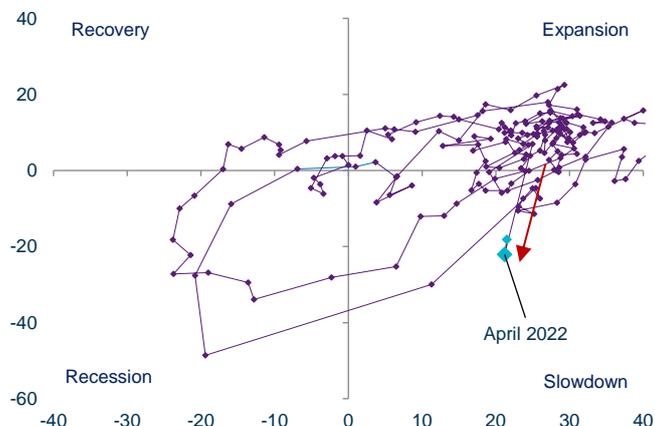


Indeed, excluding net exports and changes in inventories, activity in the US advanced by +2.7%, implying that domestic demand remains solid (see Figure 2). By looking at these initial growth estimates, we obtain a first glimpse of the current heterogeneity of the growth profiles across economies.

If we analyse, however, the macroeconomic indicators that have been published during the second quarter, caution is being warranted – particularly in Europe. Germany’s IFO index, which reflects the state of business sentiment, fell sharply in April as the economic expectations component of the index dipped.

Additionally, industrial production and durable goods surprised most economists as they both indicated contraction. This suggests that the Eurozone's leading economy is likely to experience a slowdown in activity, or even a hypothetical recession, in Q2.22 (see Figure 3).

Fig. 3: IFO Business Index Clock – German
(Sources: NIM solutions & Refinitiv)



Similarly, April's household confidence in the UK collapsed to levels that even exceed those seen during the Covid-19 crisis. Both the increase in consumer prices – expected to reach 10% year-on-year in the near-term – and the risk of recession mentioned by the Bank of England's governor, Andrew Bailey, are undoubtedly at the origin of the deterioration of household's morale.

In the US, the economic environment remains robust so far as demand shows signs of resilience. Nevertheless, we acknowledge existence of numerous headwinds that could damage the American business cycle (purchasing power weakening, credit conditions tightening) forcing households to dip into their savings. The high-frequency indicators that are produced by the regional Federal Reserves¹ are also showing deceleration in activity, but much more gradual and consistent with the idea of achieving an economic soft-landing.

The concerning part of the US economy continues to be its labour market. In this sense, although the level of job creation remains very high compared to historical standards, the labour participation rate remains below its pre-pandemic level, as people are not coming back to work. This has produced one of the tightest labour markets ever; the high level of activity coupled with the current labour supply shortage is mechanically resulting on a record number of job vacancies. In fact, April's NFIB survey showed that the number of job vacancies reached 11.2 million - a record level since the series began. This tightness in the labour market, which has repeatedly been alluded to by FOMC members, presents the main risk to the US economy as it is can be the main channel for inflation's second round effects, such as a wage-price spiral. The same is true, although to a lesser extent, in Europe's labour market, where conditions continue to tighten. Surveys show that businesses in the Eurozone have continued to hire at a steady pace in the two months following Russia's invasion of Ukraine. As a result, the share of companies reporting labour shortages as a factor limiting production is now higher than ever before.

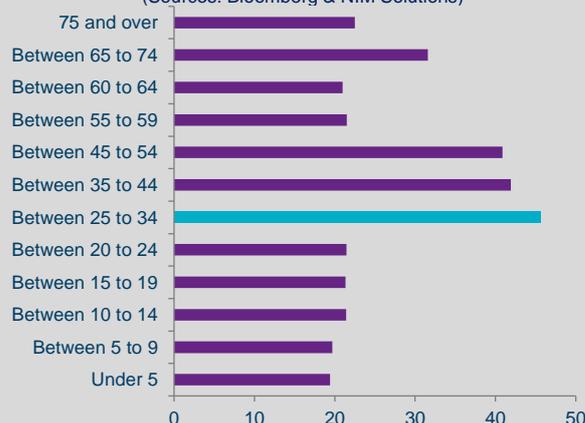
Do we have to fear the US housing market?

The uptrend observed in US housing prices during the last two years has been more pronounced than that one seen in 2008. Last February's S&P Case-Shiller National Home Price index indicated that prices had increased by 34.4% since February 2020. But now that the Fed is expeditiously moving towards a less accommodative monetary policy, mortgage rates are rapidly heading north. The 30-year mortgage has already increased over 200bp this year to around 5.6%, a level not seen in over a decade, and is already resulting in lower mortgage. The magnitude and rapidness of this move in mortgage rates has triggered concerns about the healthiness and the resilience of the US housing market.

Unlike the housing crash of a decade ago, the recent increase in housing prices has been very much driven by supply-demand imbalances and not by a credit boom with excessive leverage and loose underwriting standards. The inventory of houses available for sale stands at historically low levels, around 950,000 compared to around 2.5 million in 2006. The reason behind this supply shortage is two-fold. On one side, supply chain disruptions have materially delayed the construction of new houses as homebuilders have struggled to get building materials. On the other, interest rate hikes are likely incentivizing homeowners to stay put and not sell their property as they have locked-in very low rates. In fact, renting has become significantly attractive for them as it can serve as an effective inflation hedge.

However, it should be noted that there is an important source of future demand. The portion of the US population in prime ages to buy property is the largest it has ever been (see Figure 4). Meaning that home prices are very likely to remain structurally underpinned, especially in the context of very short supply described above.

Fig. 4: US Population by Age – In Millions
(Sources: Bloomberg & NIM Solutions)



Overall, it seems likely that it will take time for supply to get back in line with demand and, thus, we believe that current housing prices are less prone to experienced significant corrections due to rising interest rates.

China is a concern

After having pretended to successfully contain Covid cases for almost two years, Chinese authorities have been struggling with an Omicron outbreak that has triggered the biggest national wave of infections seen so far. The spread has taken place in regions

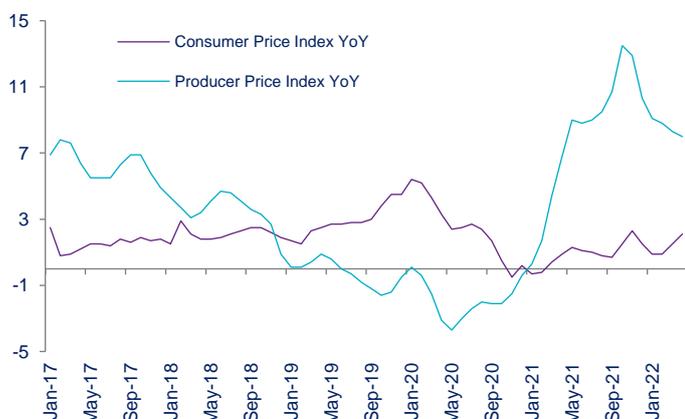
¹ Aruoba Diebold and Scotti (ADS) and Weekly Economic Index (WEI) published respectively by the Fed of Philadelphia Fed and the Fed of New York
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that account for 40% of China's GDP and for 80% of the country's shipped exports². This situation, together with authorities' zero-Covid policy, has unavoidably raised concerns on the negative spill-overs for both the national and global economic outlooks.

Although China's GDP growth during the first quarter of 2022 came in above market expectations and stood at 4.8% year-on-year, it still was below the 2022 official growth target of 5.5%. In addition, growth in the second quarter is set to deteriorate markedly following April-May lockdowns. This slowdown is already being reflected by April's official NBS PMI surveys, which show the services sector sinking to 41.9 from 48.4 in March and the manufacturing sector falling to 47.4 from 49.5 in the same month. Going forward, current lockdowns are likely to further disrupt manufacturing activity and to add to global inflationary pressures.

However, a by-product of this backdrop of weakening domestic demand has been that, in contrast to the high inflation elsewhere, China's consumer inflation has remained muted, reaching 1.3% year-on-year during the last 12-months. This has been the case not only because of weakening retail sales and cooling property prices, but also due to plunging pork prices, which have helped offset the pass-through effect from high, yet declining, PPI which stood at 8.3% year-on-year in March. Indeed, thanks to the authorities' efforts to increase the supply of reserved commodities, China's PPI has been moderating in recent months (see Figure 5).

Fig. 5: CPI & PPI – China
(Sources: NIM solutions & Bloomberg)



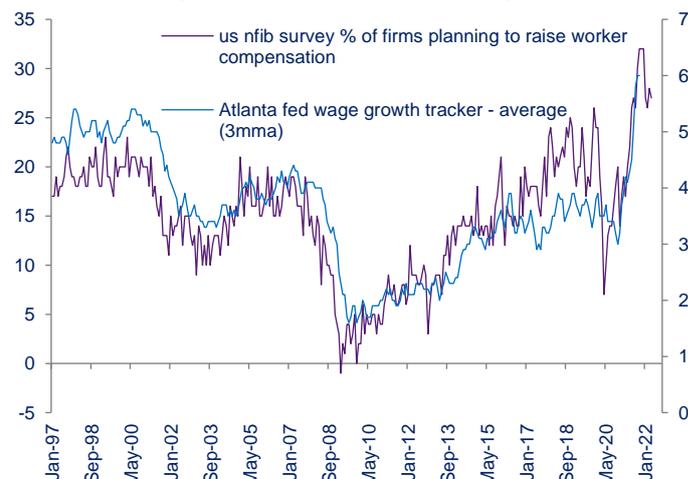
This low inflation environment is leaving Chinese policymakers more wiggle room and, accordingly, they have been gradually pivoting towards a more accommodative stance. The PBoC has already conducted two Prime Loan rate cuts and three Reserve Requirement Ratio cuts in the past few months and is expanding its targeted credit tools to support SMEs. On the fiscal side, the stimulus package announced last March expects total fiscal deficit in 2022 to be more expansionary than in 2021 (once accounting for fiscal transfers from that same year) and local government bond issuance to be the same scale as of 2021 (about USD 550 billion), and to target infrastructure investments. These policy moves, which are expected to intensify in the remainder of 2022, display an increasing unsynchronized cycle between China and the rest of the world that can already be observed by the growing sovereign bond yields' differential in favour of the US. However, uncertainty remains on whether these

measures can feed through the economy fast enough to reach the 5.5% growth target, especially in a context of global slowdown and ongoing mobility restrictions. Overall, we believe that the deteriorating growth outlook and the uncertainty around the timing of the policy support, will keep investors cautious despite the attractive valuations.

Can inflation subside in the near-term?

The inflation rate in the US fell to 8.3% in April – only slightly below its March 8.5% print, revealing broadening price pressures across non-energy and non-food items. US core inflation rate came in above expectations and showed a 0.6% month-over-month acceleration in April. Alternative measures for core inflation produced by regional Federal Reserves also pointed in the same direction. However, high-frequency economic data is now showing a deceleration in activity which, together with the Fed's policy normalization, should gradually ease the current elevated price pressures. Last but not least, the NFIB survey component (percentage of firms planning to raise compensations) shows signs of decelerations, suggesting no additional room of improvement on the wages front in the US (see Figure 6). Inflation rates (both headline and core) have likely reached their peak. Inflation is expected to stay elevated and could decline more significantly in the second part of the year.

Fig. 6: Atlanta Fed Wage Tracker and NFIB Survey
(Sources: NIM solutions & Refinitiv)



Concerningly, the Eurozone's last trimmed-mean inflation print, which removes those items with extreme monthly price changes from the calculation, has suggested that underlying price pressures are accelerating at a relatively similar pace to the US. This is explained by the fact that the high energy prices in Europe are likely playing a similar role to that of used-vehicles prices in the US, pushing overall price gauges up.

These dynamics are of key importance for the ECB, whose main focus remains to prevent a de-anchoring of inflation expectations; the longer inflation remains high, the more likely it is to become embedded in economic agents. In fact, setting aside short-term expectations, whose behaviour is closely linked to energy prices, both US and Europe's consumer medium-term expectations appear to be ticking higher. In April, more firms than ever in the Eurozone said they were planning to raise selling prices over the next few months. However, Russia's invasion of Ukraine has accelerated the deterioration of Europe's real

² Sources: CEIC and Capital Economics
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incomes, confidence, and financial conditions, which should contribute to curb excess demand, bringing it back to pre-pandemic levels and reducing the risk of seeing the current high inflation becoming entrenched in expectations.

Global growth to fall below 3.0% in 2022

The accumulation of negative news has led us to revise our growth projections downwards and our inflation projections upwards. Global growth is expected to be 2.9% in 2022, over two percentage points lower than in last year. Developed economies are expected to grow by 2.7% while emerging ones by just 3.1% as the collapse of the Russian economy and the underperformance of the Chinese economy weighs on the universe. We doubt that the official growth target presented by President Xi (+5.5% in 2022) can be reached.

Moreover, in the absence of further monetary or fiscal stimulus, and all else being equal, we expect growth in developed countries to be even weaker in 2023 (+2.3% vs +2.7%). However, global growth could come above the 3.0% mark if China rebounds (see Table 1).

Table 1: Global Growth Projections NIM Solutions

Central Scenario : Real GDP forecasts				
	2020*	2021	2022	2023
World	-2.9%	5.0%	2.9%	3.3%
Advanced Economies	-5.0%	5.0%	2.7%	2.3%
United States	-3.5%	5.4%	3.0%	2.3%
Euro Zone	-6.8%	4.9%	2.4%	2.5%
United Kingdom	-10.0%	6.3%	3.6%	2.3%
Japan	-5.2%	2.0%	1.4%	1.5%
Emerging Economies	-1.3%	4.9%	3.1%	4.4%
China	2.3%	7.8%	4.0%	5.0%
Brazil	-4.1%	2.3%	2.5%	2.1%
India	-8.0%	9.2%	7.1%	6.0%
Russia	-3.0%	3.1%	-8.7%	1.1%

*Natisix IM - Solutions and Refinitiv

This deterioration of global growth comes amid severe inflation pressures (see Table 2), whose persistence leads us to raise our inflation forecasts across regions. Global inflation is now expected to reach an average of 5.8% in 2022, two percentage points higher than in last year.

Table 2: Global Inflation Projections – NIM Solutions

Central Scenario: Inflation forecasts (headline)					
	2020	2021	2022*	Revisions 2022	2023*
World	1.6%	3.8%	5.7%	0.6%	3.5%
Advanced economies	0.8%	3.5%	6.2%	0.7%	3.7%
United States	1.2%	4.6%	7.0%	0.5%	4.4%
Euro Zone	0.3%	2.5%	5.9%	0.9%	3.2%
United Kingdom	0.9%	2.7%	6.2%	0.7%	4.8%
Japan	0.0%	0.2%	1.7%	0.7%	0.6%
Emerging Economies	2.3%	4.0%	5.3%	1.5%	3.3%

*Natisix IM - Solutions and Refinitiv

Headline inflation is expected to rise above 6% in 2022, driven by both energy and non-energy commodity price pressures, as well as possible second-round effects from existing labour market pressures – as it is starting to be the case in the US. The expected inflation in emerging countries is also concerning, especially through its agricultural commodities channel, where rising food prices threaten to trigger social unrest and destabilise economies that are heavily dependent on agricultural imports.

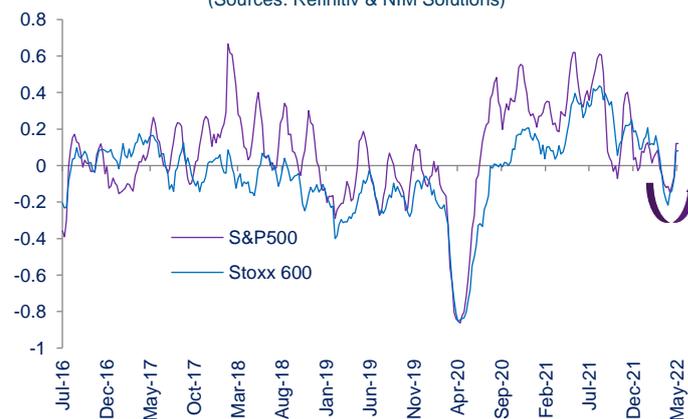
Inflation is expected to begin subsiding in 2023 mainly due to the presence of strong base effects that will follow the stabilization of energy prices. The slowdown in economic activity is also expected to ease the price pressures coming from domestic demand, which continues to be high in 2022.

Financial Markets' Outlook

Q1 2022 Earnings' Season

By mid-May, most of the companies had reported their results (nearly 80% of the European companies reported their results and 90% in the US). Overall, the Q1 earnings season has proved reasonably better than expected with a high percentage of beats, encouraging a near-term reassessment of equity prices after the large declines posted YTD. Earnings growth in the US and Europe came in around 10% and 35% year-over-year, respectively. However, we should note that Europe's outperformance is mainly explained by commodity sectors, consistent with the shock the region is experiencing. Excluding the Energy sectors, Europe's earnings grew by 12% year-over-year and, excluding both Energy and Material sectors, they grew by 9% year-on-year. Following their slump in March, EPS revisions have been broadly upgraded thanks to these robust earnings. In fact, EPS revisions both in the US and Europe have returned to positive territory (see Figure 7).

Fig. 7: Difference Between +ve/-ve Revisions to EPS – US & Europe (Sources: Refinitiv & NIM Solutions)



More importantly, companies continued to exhibit a relatively high degree of pricing power in Q1, which, together to a still healthy level of consumption, is helping to protect profit margins despite higher overall costs. The same but a lesser extent is true in Europe. However, in April, more firms than ever, and across all economic sectors, said they intended to raise selling prices over the next few months and pass-on higher costs to customers³. This warrants caution as it remains uncertain as to how long consumers can remain spending while their purchasing power diminishes, and their sentiment sits at multi-year record lows.

³ Sources: European Commission
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Therefore, although the earnings reported in Q1 were generally good, we think it's very likely that corporate profitability will start to be hit from Q2 onwards, both in Europe and in the US.

Against this background, in which fundamentals continue to get increasingly skewed to the downside, defensive stocks should keep outperforming cyclicals, whose collapse has been strongly led by Consumer Discretionary. Low-beta, non-cyclical stocks (ie defensives), such as Utilities, Telecommunication and Media will keep holding better. Moreover, although we have reached key support levels in the US equity market, the predominance of growth stocks in US large-cap space is likely to keep weighing on performance. European major indices, however, should do better from here on a relative basis since they are generally more value- and defensive-biased than their US counterparts. Europe's small and mid-cap spaces, however, present the highest risk of de-rating as their high concentration of low-quality stocks increases the spaces' exposure to the squeeze on households' disposable income.

Where is the bond market headed?

The magnitude of the move observed so far in the bond market is posing the question as to how much tightening has already been priced in. Especially given that the Fed is still set to deliver between 150 to 200bp additional rate increases this year, and that the reduction of its balance sheet, which is expected to decline by USD 500 billion (or 5.5%) in 2022 and by USD 1.1 trillion (or 13%) in 2023, has not yet begun.

One intriguing cause that explains this market behaviour is that central banks are struggling to hold their credibility. Investors could very well be doubting central bank's commitment to induce the necessary slowdown to bring price stability back. The increase in financial stress observed so far has prompted concerns over whether rate hikes may eventually end up intensifying economic problems. After all, the Fed's mandate is dual-price stability and maximum employment, and it is the uncertainty around how policymakers would react if they start to jeopardize the latter, which has likely been driving bond prices lower.

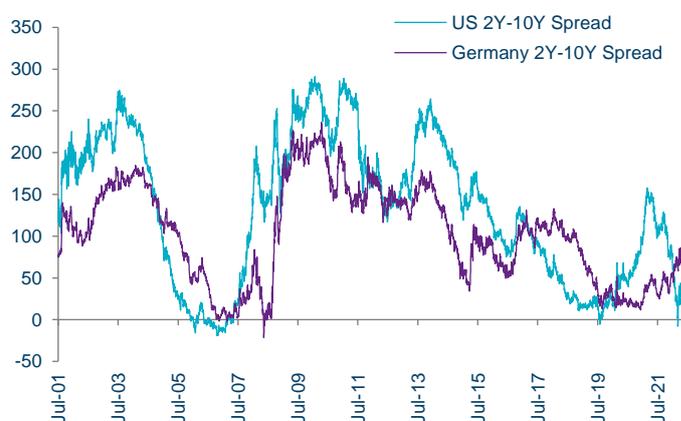
In this sense, although the US 10-year Treasury yield has reached the 3% level with unprecedented velocity, the increase financial stress should generate sufficient growth concerns to stabilise long-dated yields. Therefore, we agree with the narrative stating that the 10-year yield is unlikely to consistently move above the 3-3.25% range that has marked its ceiling for the last decade. However, barring a negative growth surprise, we do not see it abruptly falling back either, at least in the short-term, and instead see it trading around the 3% area.

We continue to believe that Fed hiking expectations are too aggressive as they see the Fed Funds rate above neutral by year-end.⁴ The main reason to back this view is that the global slowdown that is starting to unfold coupled with the negative real income growth in the US will eventually bring down the demand-driven side of inflation. This will, in turn, leave the supply-driven side of inflation at the forefront of price increases, making the Fed's toolkit less effective, as this side is mostly dependent on external factors. As such, we reiterate our belief that the Fed, and

other central banks, will have to get used to living with higher inflation levels, since dealing with supply-driven inflation would require raising rates to levels that destroy demand and, hence, jobs.

Moreover, after peaking last March, US market derived inflation expectations have been coming down. The two and ten-year breakevens are trading around 4.9% and 2.6%, respectively, over 95bp and 40bp lower than their respective peaks two months ago. This should be consistent with a somewhat steeper yield curve in the short-term, especially if long-term yields hold steady. Moving into H2.22, we see inversion concerns surging again as the Fed will have to stick to its hawkish rhetoric while markets will increasingly focus on growth's slowdown (see Figure 8).

Fig. 8: 2Y-10Y Yield Curve Spread – US & Germany
(Source: Refinitiv & NIM Solutions)



Along similar lines, US 10-year real rates have been aggressively repriced from around -1% in March to above 0% currently, largely driven by nominal rates. A further increase can still be expected given the solid demand backdrop, excess savings, and subsiding inflation expectations. However, we see real rates turning back to 0 or in negative territory in the second part of the year as investors will anticipate the end of the monetary policy tightening.

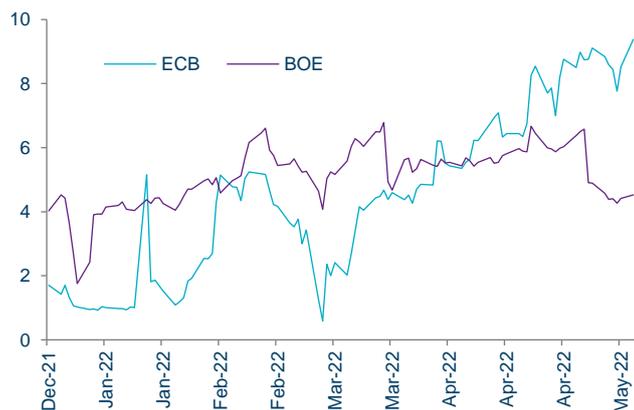
Outside the US, the situation is relatively more challenging for ECB and BOE's policymakers. While the labour market in Europe and in the UK are also tight, which significantly tilts second-round effects' risks to the upside, their inflation profiles are supply driven (instead of demand driven like in the US). Indeed, since the Eurozone is a net importer of energy, the current increase in the area's headline inflation has often been referred to as 'imported inflation'. This makes it particularly difficult for monetary policy to deal with the price pressures it faces.

In the meantime, however, the impact of Russia's invasion on confidence and China's ongoing slowdown have arguably given some time to the ECB to delay rate hikes. But as the recent statements from ECB officials stress, the economic and credibility cost of further delaying policy normalization and risk de-anchoring of inflation expectations, is getting bigger by the day. Thus, rates are likely to begin lifting this summer, soon after net asset purchases are concluded.

⁴ The neutral rate is the theoretical federal funds rate at which the stance of Federal Reserve monetary policy is neither accommodative nor restrictive.
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Having said that, we remain steady in our belief that markets' expectations for the ECB and, to a less extent, for the BOE's rate hikes are also too aggressive (see Figure 9). Primarily because the energy shock is significantly impacting Europe and the UK. On this regard, we believe that the German yield curve should start flattening out as the region's growth concerns gain further steam (see Figure 8). This backdrop should make policymakers proceed slower when normalizing their policy. But it is true that the continued depreciation of the EUR and GBP against the USD can pose an additional headwind for the region's energy imports, making rate hikes relatively more attractive.

Fig. 9: Number of Expected Policy Rate Hikes in 2022 – Futures
(Source: Bloomberg & NIM Solutions)



Strong tailwinds for the USD; can they last?

The strong appreciation of the USD has been the most visible consequence of the current world-wide risk-off environment. The interest rate differential, geopolitical tensions and growth concerns are all likely to hold the USD at its current levels. The growth shock that has hit Europe following the start of the war, has significantly complicated the task of the ECB to normalize its policy. Although markets are expecting the policy rate adjustment to begin by summer, we believe that the magnitude of the slowdown we are about to see will force markets to price out some of the rate increases that are currently priced in. The ECB

has so far limited itself to shift its guidance to increasingly hawkish, what seems logical against a weakening EUR and a rising energy bill. Thus, if the ECB's readjustment policy does not convince markets, we see the EUR falling to parity with the USD, further increasing the region's energy bill (see Figure 10).

However, the level reached already in US Treasury yields makes us believe that most of the move should be already behind us, at least in the short-term. On a longer-term basis, the USD is likely to arise as a relative beneficiary of de-globalisation to the extent that a higher risk premium is required to hold USD non-denominated assets.

Fig. 10: EURUSD Spot
(Source: Bloomberg & NIM Solutions)



As expected, the strong USD outperformance has significantly weighed on non-commodity-linked emerging markets currencies, notably the CNH. The Chinese currency, which had so far remained isolated from the global increase in financial stress, saw a sharp fall in late-April. This move has likely been driven by the sustained USD strength and China policymakers' decision to stick to their zero-covid policy amid slowing growth. Going forward, we believe that concerns on China's links to Russia has become an additional risk for foreign investors and, thus, will demand a relevant risk premium for CNH exposure.

Asset Allocation Views

Asset Class	Tactical View	Comments
Overall View	0	
Developed Equity	EMU	-1 We have maintained our moderate underweight (-1) in view of the geopolitical tension that is weighing on Europe's economic outlook. Possible downward revisions of corporate earnings projections justify this positioning. However, have kept our exposure to the banking sector.
	Europe ex-EMU	0 We have maintained our neutral position (0) for two reasons. Ex-EMU Europe should continue to benefit from high energy prices and, it presents a source of diversification for investors with European exposure.
	North America	0 We have maintained our neutral position (0) since the resilience and depth of the US equity market is an asset in terms of diversification. The tightening of monetary policy (rates + QT), however, should reduce the upside potential of risky assets in the short term, regardless of style (value or growth).
	Japan	0 We have maintained our neutral position (0) due to the diversification potential that Japan can provide (limited trade exposure to Russia and incoming additional fiscal stimulus).
Overall View	-1	
EM Equity	Emerging Asia	-1 We have maintained our moderate Underweight (-1) given the lack of significant improvement in China on the health front and the continuation of their zero-Covid policy. President Xi's approach keeps getting his economy farther away from achieving the official 5.5% growth target for 2022.
	Latam	0 We have maintained our neutral position (0) due to the region's high exposure to commodities. However, the appreciation of the USD is limiting the upside potential of the region's equity market.
Overall View	-2	
Sovereigns	Euro	-2 We have maintained our significant underweight (-2) position. However, we believe that European yields have reached levels that start to justify reducing the short duration exposures. ECB's narrative in the coming few weeks will be key.
	US	-2 → -1 We have reduced our large underweight to a moderate underweight (-1) as rates are approaching a level close to our expected target. However, we remain moderately underweight as the risk of seeing further rate rises cannot yet be ruled out.
Overall View	-2	
Corporate Debt	Euro Credit	-2 We have maintained our strong underweight (-2) as the lack of visibility is weighing on market liquidity and should lead to a widening of credit spreads.
	US Credit	-2 We have maintained our strong underweight (-2) as the tightening of financial conditions is likely to put pressure on the asset class. In addition, expected default rates are picking up.
	EM Credit	-2 We have maintained our strong underweight (-2) on EM credit. The strength of the USD is a key factor weighing on the asset class.
Overall View		
Cash	Euro	← 1 2 The short duration covering we have conducted in the US bond market, has led us to reduce the proportion of liquidity. It nevertheless remains high, awaiting more favorable entry points.
Overall View		
Currencies	USD/EUR	1 We maintain a positive view on the USD against the EUR, believing that the greenback still has further appreciation potential. The magnitude of the monetary tightening expected in the US this year and the continued international tensions are both tailwinds for the USD.
	EUR/GBP	0 Despite UK's macroeconomic difficulties (double-digit inflation and the risk of recession), the BOE has reaffirmed its intention to keep raising its key rate to tackle price pressures, which are still mounting. The GBP is therefore expected to hold its ground against the EUR.
	USD/YEN	-1 The strong depreciation of the YEN due to growing policy divergence between the BOJ and the FED should continue to weigh on the YEN.

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