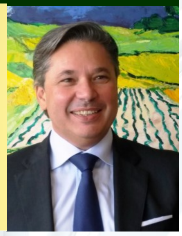
WEEKLY ANALYSIS



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INFLATION AT ITS HIGHEST SINCE 2008 MAY WELL CAUSE A SHOCK TO EQUITY MARKETS

Equity markets are threatened by rising interest rates following the historic rebound in inflation. Trend change in the "Growth" vs "Value" match. Complicated outlook for US equities. European equities are already approaching their 2021 targets.

Key Points

- Rising US inflation and long rates threaten equity markets
- Trend change in the "Growth" vs "Value" match
- Complicated outlook for US equities
- European equities are already approaching their 2021 targets

Rising US inflation and long rates threaten equity markets

The acceleration of global economic growth is clearly a favourable factor for the evolution of the outlook for corporate sales and revenue growth. However, the rise in long-term interest rates, which could intensify and become more widespread following the release of the latest US inflation figure for April of +4.2%, the highest since 2008, could pose a valuation problem for equities. The investment climate has so far remained optimistic due to the better economic outlook and was only slightly influenced by high valuation issues. In this rather constructive and positive stock market environment many risky assets were already quite generously valued and were often already trading at high valuation multiples that could trigger value corrections. Indeed, a rational analysis of valuations already suggests risks of overvaluation of assets that benefited from a euphoric stock market climate at the end of the year. The acceleration of inflation well above economists' expectations could cause long rates to rise above 2% again and call this optimism into question. The economic situation should nevertheless remain favourable for listed companies and other cyclical assets in particular. However, given the current level of valuation, we believe that caution is once again warranted in anticipation of better short-term reinvestment opportunities. Over the year as a whole, economic conditions and the flow of funds probably increasingly directed towards remunerative assets should contribute to a positive performance of "risky" assets.

Trend change in the "Growth" versus "Value" match

For the past three months, technology stocks and, more broadly, the growth stocks and sectors previously favoured by the fall in interest rates have not benefited as much from the influx of investor funds.

The upward trend is losing steam, with the Nasdaq index already having slipped nearly 10% after retesting its previous peak in April. The doubling of US ten-year rates from 0.9% in December 2020 to nearly 1.8% at the end of the year had caused a slight decline before returning to this level after the publication of US inflation figures for April, which effectively weighed on these stocks, whose valuations are often extremely high. During the same period, the Dow Jones index followed a similar trend and was also influenced by rising interest rates, although to a lesser extent. A pause in the rise in interest rates has given some support to growth stocks, but the expected further rise in 10-year dollar rates above 2% could instead trigger more profit-taking affecting growth stocks and Nasdaq stocks in particular.