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Investments - Flash

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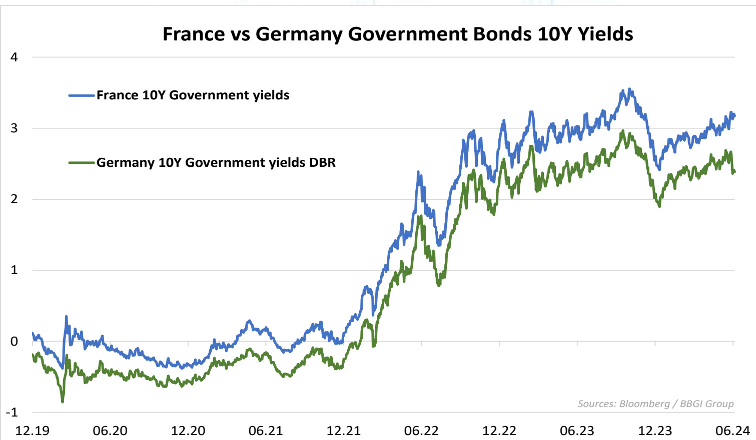
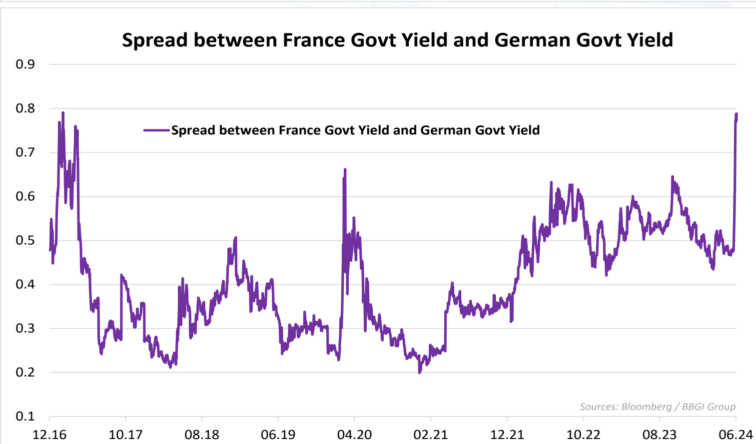
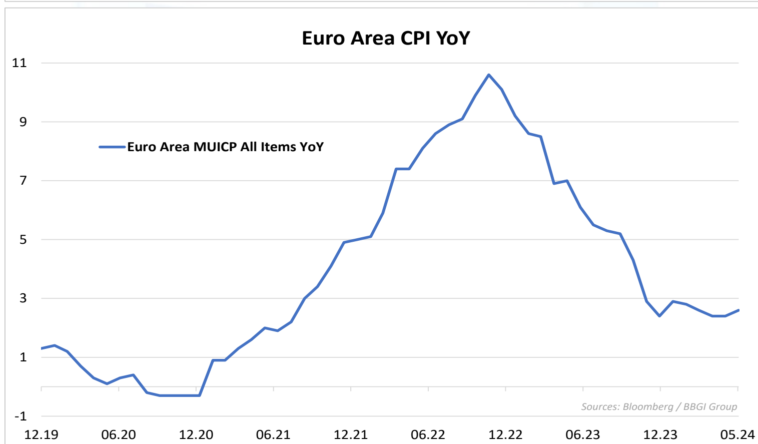
THE FRENCH POLITICAL CRISIS CREATES OPPORTUNITIES

Equities to benefit from lower interest rates and attractive valuations

Inflation in the eurozone is no longer falling, and is stabilizing slightly above 2%, as indicated by the latest eurozone CPI published today. Services, housing and energy have returned to reasonable levels, and no longer seem to represent an immediate risk of slippage. As a result, the ECB was able to adjust its policy in June, and Bund long rates slid from 2.66% to 2.38% in the process. This ten-year rate cut by the German government will probably mark the start of the expected phase of downward adjustment of yield curves in some eurozone countries, while the French political crisis is pushing Treasury yields in the opposite direction from 3.13% to 3.2%. The yield spread between the two main eurozone countries has therefore widened over the past few days (+30bp) from 48bp to 78bp, and is now back at its highest level reached in 2017. The French crisis also had a significant impact on equity markets, which reacted rather negatively to the sudden return of uncertainty. The economic programs of the various political parties are getting out of hand, and are worrying investors with their expensive, investment-unfriendly nature. On the currency markets, however, the euro's fall against the dollar is not a sign of a significant resurgence of risk for the European currency. Against this backdrop, uncertainty is likely to dominate the markets until July 7, but we believe that the attractive valuations of European companies by international comparison, coupled with further downward momentum in interest rates, should provide a still positive environment for equity markets. The current consolidation creates medium-term opportunities, with the probable downside risk limited to -5%.







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