HIGHLIGHTS

Monthly market analysis **June 2022**

The global economy is showing initial signs of a slowdown, impacted by rising long-term interest rates and a general rise in prices. In the United States, weaker activity levels are most evident in the key sector of construction, following the sharp rise in mortgage rates. Household consumption and business investment are nevertheless continuing to grow at a fairly robust pace. In Europe, the slowdown is primarily hitting the manufacturing sector, which is particularly affected by supply chain disruption and soaring energy costs, while service activities are benefiting from the gradual easing of covid restrictions. In China, the near-closure of entire metropolitan areas such as Shanghai has caused almost all activity indices to collapse, jeopardising the official GDP growth target of 5.5% for the year as a whole. In Japan, stagnant wage growth is eroding household purchasing power in real terms despite lower inflation than in Europe and the US. Globally, persistent inflation and the post-pandemic normalisation of public spending are raising fears of stagflation and even recession.

In the United States, inflation figures are starting to show signs of stabilisation. Headline inflation fell from 8.5% in March to 8.3% in April, the first year-on-year decline since August 2021. Excluding energy and food, inflation dipped from 6.5% to 6.2%. The Federal Reserve's preferred price indicator, the PCE (personal consumption expenditures) deflator excluding energy and food, declined from 5.2% to 4.9%. In the eurozone, inflation is continuing to climb to new record levels since the introduction of the single currency. From April to May, headline inflation increased from 7.5% to 8.1%. Excluding energy and food, it rose from 3.5% to 3.8%.

After the Federal Reserve raised its key interest rate by 50 basis points at the last Monetary Committee meeting at the beginning of May, Fed Chair Jerome Powell made it clear during the month that the process of reducing inflation to 2% may be painful but there is no other way to prevent inflation from getting entrenched in the economy at high levels. In the eurozone, the ECB keeps saying that the asset purchase programme will end at the beginning of the third quarter and that interest rates will start to be raised at the Governing Council meeting on 21 July. This line is expected to be reiterated at its next meeting on 9 June in order to avoid any surprise effect when the first rate hike is implemented.

In the United States, the first signs of inflation stabilising have, at least temporarily, halted the upward movement in government bond yields. During May, the benchmark 10-year yield fell from 2.93% to 2.84%. In the eurozone, record inflation figures pushed up long-term interest rates. The 10-year government bond yield increased from 0.94% to 1.12% in Germany, from 1.46% to 1.64% in France, from 2.77% to 3.12% in Italy, and from 1.97% to 2.22% in Spain. As a result, the JP Morgan EMU Government Bond Index has fallen significantly (-10.4%) since 1 January.

Equity market volatility was contained in May, with most equity indices posting little change over the month as a whole. The 1.4% decline in the global equity index, the MSCI All Country World Index Net Total Return, in euros, was mainly due to the appreciation of the single currency after its weak performance in previous months. Regional divergences were minimal, with the S&P 500 unchanged (in USD), the Stoxx 600 in Europe down 1.6% (in EUR), the Topix in Japan adding 0.7% (in JPY) and the MSCI Emerging Markets edging up by 0.1% (in USD). In terms of sectors, energy stood out once again, gaining almost 10% over the month and up 40% year-to-date. Consumer stocks were particularly weak, with consumer discretionary trailing the sector performance rankings since 1 January.

The euro strengthened against the dollar in May, with the euro/dollar exchange rate rising from 1.05 to 1.07. Investors reacted to statements by the European monetary authorities suggesting that interest rates would be raised in the second half of the year. The prospect of monetary tightening on both sides of the Atlantic weighed on precious metals prices, which fell for the second month in a row. The gold price fell by 3.1%, from $1,897 per ounce to $1,837. Silver was down 5.4%, from $22.8 per ounce the previous month to $21.6.