DORVAL ASSET MANAGEMENT
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A more turbulent environment – but how much more?

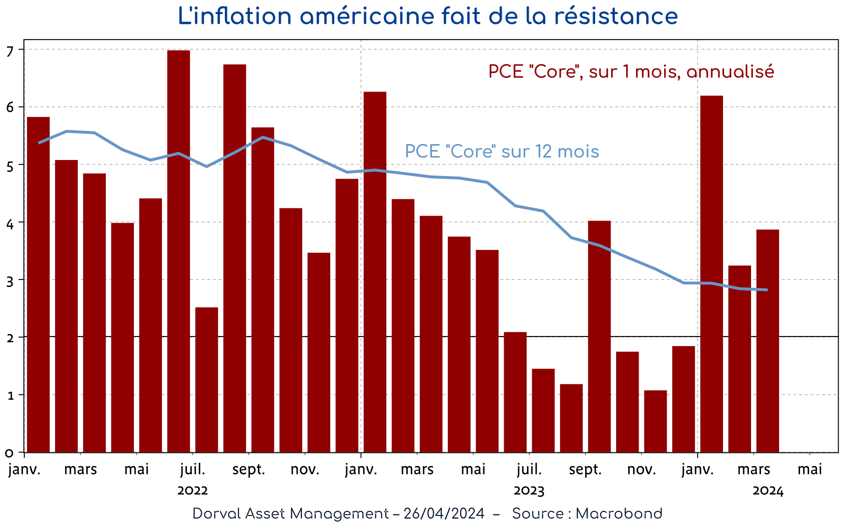
29 April 2024

Dear Clients and Partners,

With rate cuts in the US increasingly unlikely, unrest is stirring on the markets. Are we now veering towards a more perilous scenario?

A dynamic economy and resilient inflation in the US during the first quarter (cf. chart 1) have pushed back prospects of an initial rate cut there. Despite a robust start to the year, financial markets are starting to show signs of nervousness. Bond markets are flagging, with long-term rates rising above 4.5% in the United States and 2.5% in Germany. The yen has seen a sharp downturn, while some emerging currencies have plummeted. One such case is the Indonesian rupiah, forcing the country's central bank to raise its rates.

Stubborn US inflation

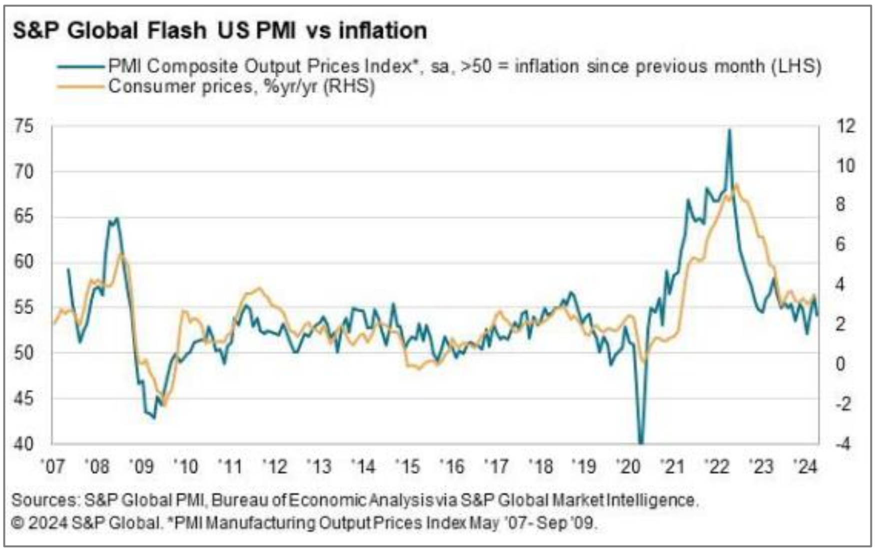


- *Core PCE over 1 month, annualised / Core PCE over 12 months*

These signs are far from innocuous and must be monitored. Yet according to our analysis, the central issue for equity markets is not so much whether the Federal Reserve's key interest rates will fall as why they are being kept high. If it is because the economy is strong, with moderate inflationary pressures, then there is little to fear. If inflationary pressures intensify, the Fed will express its desire to see the economy slow down significantly, which would be more concerning. Although this second scenario has become more likely since the beginning of the year, we still do not expect it to materialise.

Indeed, the various indicators that measure inflationary pressures do not (yet) suggest that inflation is once again escaping too far from the Fed's targets. This is what the companies surveyed by S&P Global each month are telling us. Their sales price outlooks do not appear to be under significant upward pressure at this stage (cf. chart 2). Like other indicators, these surveys suggest that US core inflation is likely close to 3%. This is above the Fed's target, but is still close enough to prevent an already restrictive monetary policy being tightened further.

US companies
are not reporting a recovery in prices



Finally, while some emerging markets are beginning to suffer from a strong dollar and a still-cautious Fed, Europe is in a different position. The size of its economy and the status of its central bank make it significantly less dependent on the Fed. What's more, the balance between growth prospects – which are poor but starting to improve – and interest rates – due to be cut by the ECB on 6 June – is allowing investors on the equity markets at any rate) to remain positive. In this weaker yet still favourable environment, we remain overweight equities in our flexible funds.

Our exposure rates are as follows:

- **Dorval Convictions:** The equity exposure rate is 65%.

Dorval Asset Management

Public limited company with share capital of €303,924

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