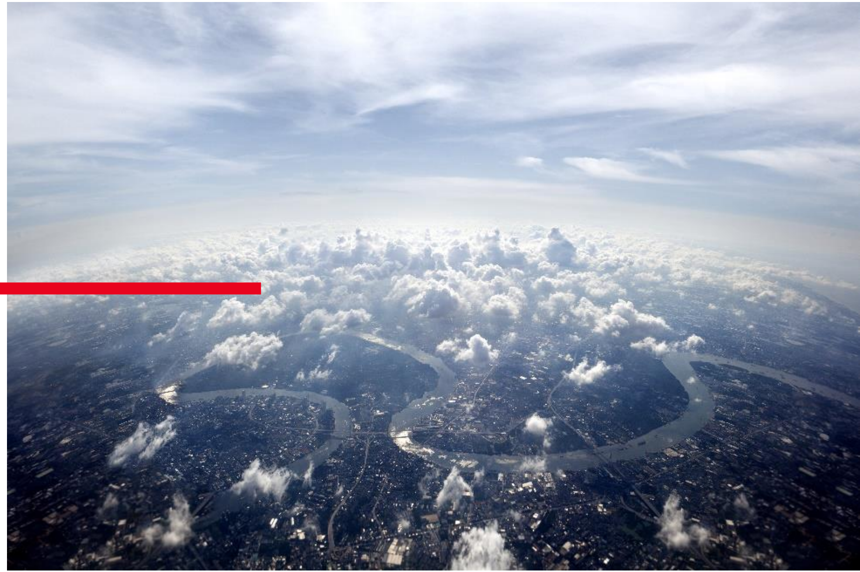
SOCIETE GENERALE
Private Banking

16 May 2022



CIO VIEWS

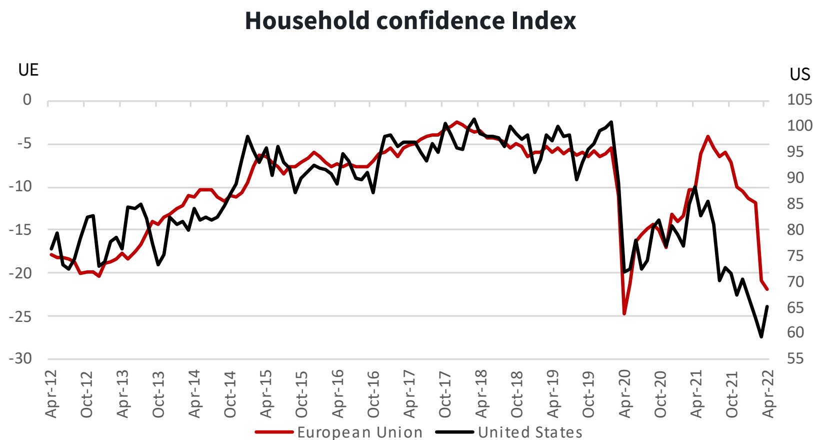
Clouds in Spring

In a year shaped by an almost mechanical recovery from the Covid period, clouds are gathering on the economic and financial outlook. While the overall economic scenario remains supportive, the burgeoning recovery has been rapidly morphed into a slowdown with both developed and emerging countries entering a downward spiral. The war in Ukraine with its attendant suffering, is still unfolding, driving uncertainties on demand growth, supply disruption and the price of commodities.Indeed Inflation is the main feature of the post covid era challenging economic and monetary policy. In this environment, maintaining a disciplined approach is the utmost important in particular through diversification and maintaining magins of safety.

Supply constraints and collapse of consumer confidence

The year 2022 started on a high note, given the strong rebound in activity anticipated after the Covid-19 pandemic. However, supply chain disruptions, with multiple bottlenecks, continue to constrain output. The war in Ukraine and the new strict containment measures implemented in China further weigh on the outlook. In the service sector, which paid a heavy price during the lockdowns, the business outlook is rapidly normalizing but is still suffering from the low availability of labour, as workers turned away from these jobs. In addition, consumer confidence is collapsing around the world to levels close to the lows seen during the Covid-19 crisis or the great financial crisis of 2008. The main reason for this fall is concerns about purchasing power, exacerbated by the surge in oil prices while concerns on Security is also contributing to the decline in household confidence in Europe.

Household confidence Index



Source: Societe Generale Private Wealth Management, Bloomberg, May 2022
Past performance is not a reliable indicator of future performance.

A sharp decline in growth forecasts

The consensus of economists' forecasts now foresees growth of 2.8% in the Eurozone and 3.1% in the US. This level, while it may seem elevated, marks a clear reduction compared to expectations at the beginning of the year, when growth forecast was as high as 4.5% and 4.2% respectively at the end of January. The consensus is now forecasting activity to stabilize on a quarter-to-quarter basis compared From the second quarter onward. As it happens, growth is now essentially explained by the carry-over from last year. In China, the zero covid policy is severely restricting activity and is putting a major strain on the outlook for production and consumption. The revision momentum is therefore clearly negative and the level of uncertainty weighs on economic forecasts.

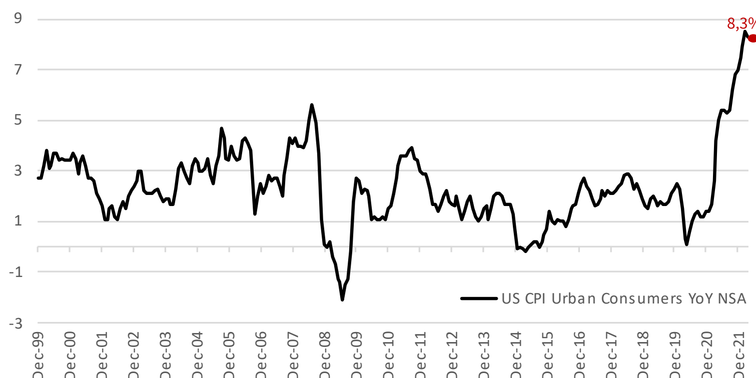
Inflation is clearly revised upwards

Inflation is main feature of the current recovery and, symmetrically to the downward revision of the growth outlook, there has been a sharp rise in inflation forecasts since the start of the year. The consensus forecast is for inflation to hover around 6.5% in the Eurozone on an annual average. At the end of April, the consumer price index reached a 40-year high of 7.5% in the euro zone and 8.5% in the US. The inflationary environment is further reinforced by the surge in oil prices in an unstable geopolitical environment. Nevertheless, the risks of a second round of inflation are rapidlyrising. In the US in particular, wages are accelerating sharply, raising fears of a price-wage loop. There are also a growing number of sectors that are raising prices. It very much seems like we are now paying the price for the huge expansion of central bank balance sheets to counter the effects of the pandemic. Since April 2020, the US money supply has grown by over 40%. While this increase was initially offset by a fall in the velocity of money (number of transactions carried out by one unit of money), the recovery has led to very strong pressure on prices.

Consumers absorb most of the price shock

The sharp fall in consumer confidence is not reflected in the production surveys. Business prospects in industry and services remain at very high levels. Confidence measured in the business surveys is therefore in total contrast to what is observed among consumers, and for good reason: businesses retain a strong price setting capacity. The growth "felt" by companies, the sum of real growth and inflation, is still accelerating strongly since the beginning of the year. Conversely, purchasing power is falling by almost 7% in the developed countries, even though employment is rising. There is now a positive relationship between employment and inflation, an updated version of the Taylor rule, where rising prices lead to rising employment.

US CPI Urban consumers Index



Source: Societe Generale Private Wealth Management, Bloomberg, May 2022
Past performance is not a reliable indicator of future performance.

Tighter monetary policy risks derailing growth

In a move aimed at curbing inflation, the US Federal Reserve (Fed) sharply adjusted its monetary policy stance , combining rate hikes and balance sheet reductions at a high pace. Short-term rates have risen sharply as a result. Given the pace of inflation, the path to positive real interest rates (nominal interest rates adjusted for inflation) is high. The inversion of the yield curve observed during the quarter raises fears of a recession. Indeed, the slope of the curve has historically been an effective recession indicator , predicting the last recessions in the US. These investor fears were echoed by the Bank of England in the minutes of its monetary policy committee. Nevertheless, household's debt has fallen sharply since the 2008 crisis, and excess savings were built up during the crisis in Covid-19. The effect of monetary tightening should therefore be measured on activity. The ECB (European Central Bank) is facing the similar challenges in fighting inflation but to a lesser extent with lower salary increases. On the other hand, the war in Ukraine and the risks of gas supply disruption complicate the institution's agenda. Rate hikes will therefore be more gradual in the euro zone.

Increase in volatility and valuation correction

With US 10-year yields flirting with 3% and German yields having moved out of negative territory, the relative preferences of investors are being affected. Tighter liquidity conditions also imply a higher volatility regime. Equity markets arechallenged by a valuation adjustment on the one hand and a drying up of buying flows on the other. The valuation correction affects all equity markets, but is more pronounced in market segments with high valuations. The US market and the technology sector are the most affected. Rising interest rates are making bond assets more attractive and will necessarily lead to a reallocation out of equities and into fixed income markets. The TINA ("There is no alternative") narrative, by which investors were forced to move up the risk scale, thus seems to be coming to an end. Incidentally, the US central bank's pivot to monetary policy implies that the FED's Put no longer exists.

Asset allocation: a prudent and diversified approach is required

In this cloudy environment of growth and high inflation, asset allocation choices are crucial. A diversified approach is certainly in order. Gold and commodities have historically shown their qualities in inflationary environments and occupy an important place in an asset allocation. Gold in particular retains a safe haven status that makes sense as geopolitical risks continue to dominate the news. During the period of high inflation in the 1970s, the yellow metal particularly stood out, posting the best performance of all assets. Today, although gold is still present on the balance sheet of central banks, its weight in the financial economy has largely declined and the same performance should not be expected. Industrial metals, at the heart of the energy transition, also remain an interesting diversification alternative.

Equity markets are in a correction phase in the main geographical areas with more or less advanced levels. More than geographical allocation, the key word is to adopt a strong discipline in terms of valuation and to focus on companies that generate high cash flow. The value segment of discounted stocks has performed well since the beginning of the year and should continue to make up for the colossal performance gap accumulated over the last ten years. Conversely, the technology sector, which had distinguished itself during the covid period, is facing a marked slowdown in earnings growth.

The bond market had its worst start to a year in over 40 years and some segments are beginning to offer value. This is particularly the case in the US market. Floating rate bonds, which are naturally protected in the event of a rate hike, make sense. Similarly, short maturities of less than 3 years offer relatively high yields. Conversely, while the Chinese bond market offered relative value, US Treasury yields are now higher on maturities of 5 years and above. The convertible bond segment is also regaining its appeal, as rising yields have allowed investors to find a secure bond floor.

Disclaimer

Societe Generale Private Banking ("SGPB") is the business line of the Societe Generale group dedicated to wealth management, operating through its headquarters within Société Générale S.A. and its network (departments or separate legal entities (branches or subsidiaries)) located in the territories mentioned below, acting under the brand name "Société Générale Private Banking", and distributors of this document.

General Disclaimer

This promotional document, subject to change, is provided for informational purposes only and has no contractual value. The content of this document is not intended to provide investment advice or any other investment service, and does not constitute, on the part of any entity of Société Générale Private Banking, an offer, a personalized recommendation, or advice with a view to the purchase or subscription or sale of an investment service or the product(s) concerned, nor to invest in the asset class mentioned. The information contained in this document does not constitute legal, tax or accounting advice. Some heritage products, services and solutions may not be implemented within all Societe Generale Private Banking entities. They depend on locally applicable laws, and depending on the applicable tax laws and regulations, these solutions, products and services may not be adapted or authorized in certain countries and must comply with the Société Générale Group's Tax Code of Conduct. Some of the investment products and/or services mentioned may present various risks, involve a potential loss of the entire amount invested or even an unlimited potential loss, and therefore be reserved only for a certain category of investors, and/or suitable only for investors who are knowledgeable and competent for these types of investment products/services/asset classes. In addition, access to some of these products, services and solutions is subject to conditions such as eligibility. Your private advisor is at your disposal to discuss with you these solutions, products and services to check if they meet your needs and if they are adapted to your investor profile. Consequently, before taking an investment decision, as the case may be and the applicable legislation, the potential investor will be questioned by his private advisor within the Societe Generale Private Banking entity of which he is a client about his knowledge, experience in investment matters, as well as his financial situation and investment objectives, in order to determine with him whether he is competent to subscribe to the financial product(s) and/or investment service(s) envisaged and whether the investment product(s) or service(s) is/are compatible with his investor profile and investment objectives. The potential investor is also required, before any investment, to contact his independent external legal, tax and financial advisors in order to obtain all the financial, legal and tax information that will allow him to assess the characteristics and risks of the product(s)/service(s) envisaged, as well as their tax treatment, in the light of his personal situation. The provision by a Societe Generale Private Banking entity of an investment service and/or the subscription of product(s) by a potential investor, requires the latter to first acquaint himself, understand and sign the contractual and informative documentation relating thereto, in particular on the associated risks (prospectus, document entitled "Key information document for the Investor", Term sheet etc.). This documentation is available upon request from his privy advisor. The potential investor should not base his investment decision and/or give an investment instruction solely on the basis of this document. Any subscription to investment products or services may have tax consequences and no Societe Generale Private Banking entity provides tax advice. The potential investor should also rely on independent tax advice (if necessary). It is the responsibility of any person in possession of this publication to inform themselves and to comply with the legal and regulatory provisions of the jurisdiction concerned. This publication is in no way intended to be disseminated to any person or in any jurisdiction for which such dissemination would be restricted or illegal. This document is in no way intended for distribution in the United States, nor to any U.S. tax resident. The price and value of investments and the income derived from them can fluctuate, both upwards and downwards. Changes in inflation, interest rates and exchange rates can have negative effects on the value, price and income of investments denominated in a currency other than the client's. Any simulations and examples contained in this publication are provided for illustrative purposes only. This information may be modified in the light of market fluctuations, and the information and notices referred to in this publication may change. No Societe Generale Private Banking entity undertakes to update or modify this publication, and will not assume any responsibility in this regard. The sole purpose of this publication is to inform investors, who will make their investment decisions without over-reliance on this publication. No Societe Generale Private Banking entity shall be liable for any direct or indirect loss related to any use of this publication or its content. No Societe Generale Private Banking entity offers any guarantee, express or implied, as to the accuracy or completeness of this information or as to the profitability or performance of any asset class, country or market. This document is not intended to list or summarize all the terms and conditions of financial products, nor to identify all or any part of the risks that could be associated with the acquisition, disposal of a financial product/investment in any of the above-mentioned asset classes. The historical data used and the information and opinions cited come from or are based in particular on external sources that the Societe Generale Private Banking entities consider reliable but that they have not independently verified. No Societe Generale Private Banking entity will assume any responsibility for the accuracy, relevance and completeness of this data. Any information on past performance reproduced does not guarantee future performance and may not be repeated. The value of an investment is not guaranteed and the valuation of investments can fluctuate. Forecasts of future performance are based on assumptions that may not materialize and therefore do not constitute any assurance or guarantee with respect to the expected results of investments in the asset classes mentioned.
This document is confidential, intended exclusively for the person to whom it is given, and may not be communicated or brought to the attention of third parties (with the exception of external counsel and provided that they themselves respect its confidentiality), nor reproduced in whole or in part, without the prior written consent of the Societe Generale Private Banking entity concerned.

Conflicts of interest

As a general rule, companies in the Societe Generale group may be market makers, carry out transactions concerning the securities referred to in this document, and may provide banking services to the companies mentioned in this document, as well as to their subsidiaries. The companies of the Société Générale group may, from time to time, carry out transactions, generate profits, hold securities or act as advisors, brokers or bankers in connection with such securities, or derivatives of such securities, or in connection with the asset classes mentioned in this document. The companies of the Société Générale group may be represented on the supervisory or administrative board of these companies.
Employees of the Societe Generale group, or persons or entities related to them, may, from time to time, hold a position in a security or asset class mentioned in this document. Societe Generale group companies may acquire or liquidate, from time to time, positions in the securities, or underlying assets (including their derivatives) mentioned in this document, or in any other assets as the case may be, and therefore any return to a potential investor may be directly or indirectly affected. Societe Generale group companies have no obligation to disclose or take this document into account in the context of advice or transactions with a client or on behalf of a client. The Societe Generale Group effectively maintains an administrative organization taking all necessary measures to identify, control and manage conflicts of interest. To this end, Societe Generale Private Banking entities have put in place a conflict of interest management policy to prevent conflicts of interest. For more details, PIMS clients may refer to the conflict of interest management policy provided to them by the PIMS entity of which they are clients.

Risk Level

In order to draw the attention of potential clients to the risk associated with each investment solution, Societe Generale Private Banking has classified each product according to its specific level of risk, on a risk scale ranging from the least risky level to the riskiest level.
This risk classification represents an internal risk indicator at Societe Generale Private Banking. There are five levels of risk, from R0 (lowest risk) to R4 (highest risk).
Risk Profile: R0: Very Low - R1: Low - R2: Medium - R3: High - R4: Very High
For example, the words "Risk Level R1" correspond to a defensive risk profile. These indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio considered is likely to lose under normal market conditions over a given period with a given probability. If the 95% 1-year VaR is y%, this means that the probability that the portfolio will not lose more than y% of its value in 1 year is 95%.

Potential risk in the event of an investment

Capital loss risk, volatility risk, small and mid-cap risk, credit risk, counterparty risk, issuer risk, liquidity risk, discretionary management risk, foreign exchange risk and market risk.

Specific Disclaimers by jurisdiction

Luxembourg: This document has been distributed in Luxembourg by Société Générale Bank and Trust ("SGBT"), a public limited company registered with the Luxembourg Trade and Companies Register under number B 6061 and a credit institution authorised and governed by the Commission de Surveillance du Secteur Financier ("CSSF"), under the prudential supervision of the European Central Bank (ECB), and whose registered office is at 11 avenue Emile Reuter – L 2420 Luxembourg. Further details are available upon request or on www.sgbt.lu. No investment decision whatsoever could result from a reading of this document alone. SGBT accepts no responsibility for the accuracy or other characteristics of the information contained herein. SGBT accepts no responsibility for the actions taken by the addressee of this document solely on the basis of this document, and SGBT does not present itself as providing advice, in particular with regard to investment services. The opinions, views and forecasts expressed in this document (including its annexes) reflect the personal opinions of the author(s) and do not reflect the opinions of others or SGBT, unless otherwise stated. This document was prepared by Société Générale. The CSSF has not carried out any analysis, verification or control over the content of this document.
http://www.privatebanking.societegenerale.com
© Copyright Societe Generale Group 2016. All rights reserved. The unauthorized use, reproduction, redistribution and disclosure of all or part of this document is prohibited without the prior consent of Société Générale S.A.
The key symbols, Société Générale S.A., Société Générale Private Banking are registered trademarks of Société Générale S.A. All rights reserved.

SOCIETE GENERALE PRIVATE WEALTH MANAGEMENT
11 avenue Emile Reuter
L-2420 Luxembourg
www.sgpwm.societegenerale.com