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Creating Sustainable Value

MONTHLY MARKET REVIEW & OUTLOOK

May 2026

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in a nutshell

Key events – April 2026

- **Iran:** Neither war nor peace; a conflict marked by announcements of ceasefires, but with no clear resolution. The Strait of Hormuz remains effectively blocked.
- **Markets:** Indices have rebounded strongly, driven by investment in AI and strong corporate earnings: the S&P 500 is up 10.5%.
- **Central banks:** Faced with rising energy prices and fears of rising inflation expectations, central banks are adopting a more hawkish stance. The ECB paves the way for a rate hike in June.

Number of the month¹

38%

US semiconductor index rises in April. Best monthly performance since February 2000.

Macro outlook

- **Iran:** The question is when the situation will become sufficiently untenable for both sides to force them to make concessions. In the meantime, the energy crisis drags on and weighs on global growth.
- **United States:** Headline Inflation reaches 3.8%, but no spillover or wage-price spiral at this stage. The Fed is monitoring the labour market, which continues to prove its resilience.
- **Eurozone** Europe's exposure to the energy shock is beginning to be felt. Economic indicators are slowing and household confidence is deteriorating. The ECB is monitoring a potential stagflationary shock.
- **China:** The giant is consolidating its lead in strategic industrial sectors.



The Long View

The UK: gilt or break

- The UK refused to adopt the single currency over thirty years ago
- This monetary autonomy has its advantages, but also a cost that is being exacerbated by the Strait of Hormuz crisis
- Combined with the ongoing reshaping of the UK electoral landscape, the pressure from interest rates will force the country to reform

¹ Source: Bloomberg, April 2026.



Hide and seek with peace

April began with a bang, as the conflict between Iran and the United States escalated. This had an immediate impact on oil prices. The prospect of a stagflationary¹ shock was then on everyone's mind, particularly that of central bank governors.

On 8 April, the tone shifts, with a ceasefire agreement set to last two weeks – enough time to find a way out of the conflict. Pakistan hosts the negotiations, and US and Iranian officials spend the month travelling there, meeting up, cancelling their visits... The ceasefire is extended, but no peace agreement is in sight. Instead, the United States imposed a naval blockade on Iranian oil tankers, whilst the Islamic Republic maintained its blockade of the Strait of Hormuz, preventing the passage of ships and the transport of oil and gas.

The possibility of a US ground intervention – an extreme scenario – has therefore receded over the course of the month, but the prospect of a return to peace also seems distant. Iran shows no intention of abandoning uranium enrichment and is demonstrating its capacity to cause disruption on a global scale.

Faced with the ongoing conflict, the markets have chosen to focus on the month's positive developments. They have fully embraced the de-escalation, even though it remains laborious, not to say chaotic. The real turning point now would be a reopening of the Strait of Hormuz. Iran seems reluctant to do so, but as the war drags on, the situation is becoming increasingly untenable for both the country and the United States. One is deprived of its oil windfall, whilst for the other, the rise in the price of a gallon of petrol to \$4.50 and voter discontent are beginning to take their toll.



Sources: Mirova, Bloomberg.

¹Stagflation: an economic situation in a country characterised by stagnation in economic activity and production, coupled with rising prices.



Equity rally

Opting for optimism was therefore the path chosen by investors from 7 April onwards. The indices followed a strong upward trajectory, finding further solid support in the second half of the month thanks to the release of earnings results. Two-thirds of US listed companies have already published their results, which have proved to be very solid. The AI theme continues to drive markets and companies, as demonstrated by rising turnover, margins and upward revisions to profit forecasts. The S&P 500² recorded a 10.5% gain over the month. This seems almost modest compared to the incredible surge in the US semiconductor index: +38%, the best monthly performance since February 2000. By contrast, the leisure, luxury and consumer discretionary sectors in general suffered.

In Europe, the rise was more modest, with the Stoxx Europe 600³ up 5.6%, underperforming relative to the rest of the world. Europe is indeed more exposed to the repercussions of the energy crisis, and fears of a resurgence in inflation are high, against a backdrop of virtually stagnant growth.

The outlook is also optimistic in emerging markets, where indices rose by 14.7%, the best monthly performance since 2009. Here, it was the initial fall in interest rates and the weakening of the dollar that were viewed favourably against a backdrop of a general decline in risk aversion. The greenback has indeed fallen by 2% against a basket of currencies and against the euro. Also worth noting is a 3% fall in the price of gold.

These developments signalled a return to risk-on sentiment in the markets. Investors are choosing to focus on the good news represented by the (fragile) ceasefire in the Middle East and are welcoming positive corporate results, particularly from companies benefiting from AI investments.

Central banks are none too happy

The picture in the bond markets, however, is quite different from that in the equity markets. They remain concerned about the persistence of the energy shock and the prospect of a deterioration in private sector inflation expectations. Headline inflation⁴ is indeed rising, standing at 3.3% in the US in March (3.8% in April) and around 3% in Europe. This is the sharpest monthly rise since June 2022 and the effects of the war in Ukraine. Sovereign bond yields have risen in April, approaching new highs: 3.11% for the German Bund, the highest level since 2011; 4.37% for the 10-year US Treasury, which is rising steadily; 2.5% for the 10-year Japanese government bond; 5.07% for the 10-year UK Gilt.

Faced with the stagflationary repercussions of the conflict, central banks have shifted their tone to adopt a more hawkish stance, even though key interest rates remain unchanged for the time being. The ECB has implicitly endorsed the principle of a rate hike in June. This is a pre-emptive measure, aimed at preventing inflation expectations from spiralling out of control, whilst the bond market remains traumatised by the consequences of the war in Ukraine in 2022. The dichotomy between the equity and bond markets therefore appears to be a fait accompli, in the face of a war whose outcome is difficult to predict.

Sources: Mirova, Bloomberg.

² S&P 500 (Standard & Poor's 500): Stock market index based on 500 large companies listed on US stock exchanges.

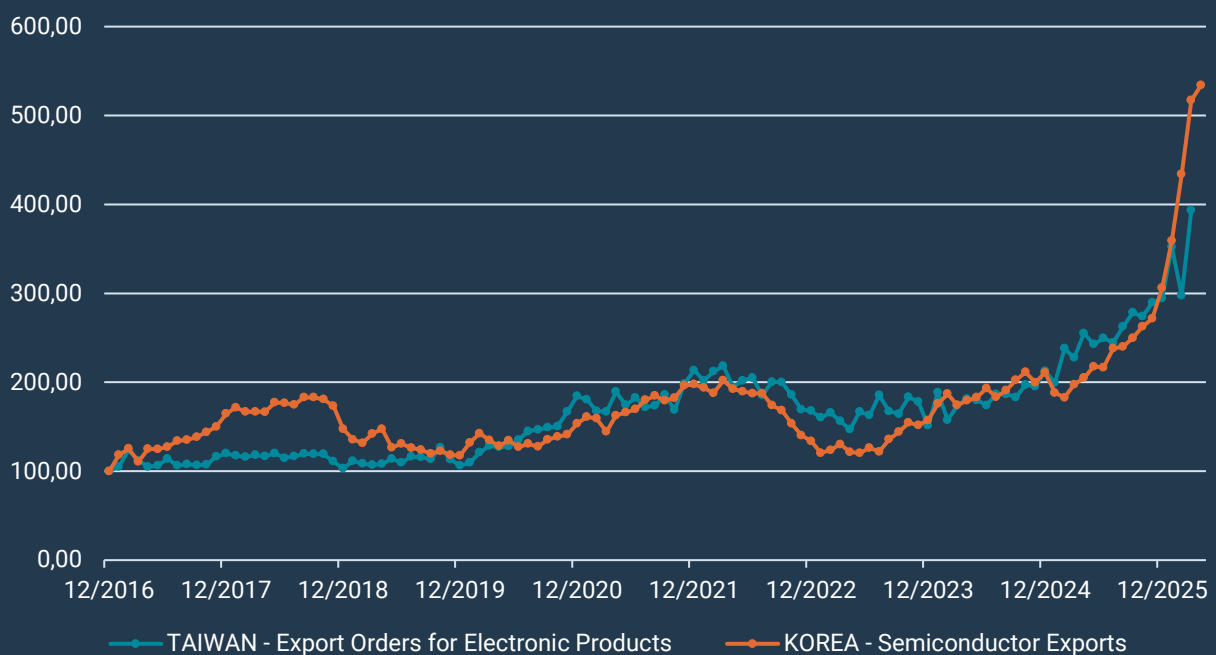
³ STOXX Europe 600 or STOXX 600: Stock market index made up of 600 of Europe's leading market capitalisations.

⁴ Headline inflation (or overall inflation): refers to the inflation rate measured across all consumer prices, including all items in the basket, particularly highly volatile ones such as energy and food.



Graph of the month

Korea and Taiwan - electronics cycle
(base 100: December 2016 - in value and in local currencies)



Source: Bloomberg.



Macro review and outlook

After more than two months of conflict, the Strait of Hormuz remains blocked and the prospect of a temporary energy crisis is receding. Does this mean we are heading towards a resumption of hostilities (ground operations, bombing of oil and civilian infrastructure)? The cost seems too high for both sides at this stage. Meanwhile, headline inflation is rising, but without any impact on core inflation at this stage. This data is being closely monitored by central banks, which could abandon their wait-and-see stance and take pre-emptive action. It remains to be seen how long the market will put up with this situation.

United States: once again, they're the ones coming out on top

The United States managed to achieve 2% GDP growth in the first quarter on an annualised basis, a rebound from the +0.5% recorded in Q4 of last year (which was itself skewed by the shutdown). This is despite the conflict in the Middle East and inflationary pressures. It is true that federal spending, particularly on defence, has played a part, contributing 0.7 percentage points, not to mention the effects of the Big Beautiful Bill⁵, which injected nearly \$100 billion into the economy in Q1-Q2 through tax rebates and one-off transfers.

In private investment, the picture is more nuanced, excluding IT equipment, software and AI-related infrastructure.

Household consumption is holding up (+1.6% annualised in Q1), but mainly thanks to petrol consumption in March, boosted by rising energy prices). Excluding energy, consumption appears more moderate, particularly as the wealthiest households are making a significant contribution. The sustainability of US consumption will need to be monitored closely as fiscal support fades.

The labour market also remains robust, with 178,000 jobs created in March and low levels of jobless claims. The 'no hire – no fire' approach prevails. Wage increases are reasonable, raising no concerns about a potential wage-price spiral. And this is important in the eyes of the Federal Reserve⁶, at a time when inflation is indeed on the rise. At the same time, the slowdown in immigration automatically lowers the employment break-even point.

Headline CPI inflation came in at 3.8% in April, compared with 3.3% in March and 2.4% in February – a one and half point rise in two months, driven by energy prices).

Core CPI inflation remains at 2.8%, and Core PCE slightly above 3%. Second-round effects remain very limited at this stage.

The Fed kept rates unchanged at its meeting in late April, but with the FOMC more divided than before. Three hawkish dissenting votes emerged in addition to the usual dissent from Miran (who advocates rate cuts), reflecting a shift in tone regarding the perception of inflation in official communications. Jerome Powell, nearing the end of his term, has also said he is prepared to remain as Chair until 2028, effectively sidelining Miran and ensuring a degree of independence from Trump. Warsh, confirmed by the Senate, will take over as Chair on 15 May. He has announced his intention to scrap forward guidance – a new development that could create uncertainty, although this remains to be confirmed.

Sources: Mirova, Bloomberg.

⁵ **Big Beautiful Bill:** US budget reconciliation bill passed in 2025 under the Trump administration.

⁶ **Federal Reserve (Fed):** United States Central Bank.



Against this backdrop, our view on the Fed remains one of the status quo, in principle until the end of the year. However, the risks now appear more balanced than at the start of the year.

Eurozone under close scrutiny

In Europe, GDP grew by just 0.1% over the quarter (0.2% excluding the Ireland effect). Spain continues to lead the way, whilst France is stagnating. Germany is beginning to benefit from its stimulus plan, with 0.3% growth. Among the bad news is the slump in services: the services PMI remains below the 50 mark, with a negative employment component. The manufacturing index remains artificially above this critical threshold due to precautionary stockpiling caused by the war in Iran, as companies anticipate longer delivery times or even supply chain disruptions.

The conflict is weighing on business and household sentiment. Their confidence has returned to levels similar to those seen in April 2022, at the time of the war in Ukraine. In Germany, business sentiment has fallen back despite the plan. Inflation is fuelling concerns (the sharpest monthly rise in the headline component since June 2022). We are also seeing the first signs of disinflation in surveys (4% over a one-year horizon), even though inflation currently remains limited to goods and energy prices, with no real impact on core inflation.

In any event, the ECB appears concerned. It is still marked by the events of 2022 and its delayed reaction at the time, and may be inclined to overreact in order to anchor inflation expectations; a pre-emptive rate hike in June remains possible. The market has priced in up to three rate hikes by the end of 2026 – which we believe is clearly excessive. The pass-through of this energy inflation to wages remains limited and growth is too weak.

China is preparing for the future

Obviously, the blockade of the Strait of Hormuz and the conflict in Iran pose a problem for China, which imports Iranian oil. But this conflict also serves to validate China's long-term economic strategy. It will indeed help to accelerate the electrification of countries, and China has a clear lead in this sector. Not to mention that any move towards electrification also means a loss of influence and dependence on petrodollars – and therefore on the United States. This is cause for celebration for its Asian rival.

The penetration of Chinese products is likely to accelerate further, as we have seen with electric and hybrid vehicles. This is not good news for Europe, especially as China benefits from control over all its supply chains, particularly for strategic raw materials. This is a challenge Europe will have to face as it seeks to develop sovereign economic strategies.

The rest of Asia remains highly vulnerable to the energy shock, particularly Japan, Korea and South-East Asia. They are exposed to both energy imports and disruptions to global trade. For the time being, however, AI momentum is largely taking the upper hand.

FOCUS – Earnings season: an exceptional first quarter in the US

The first-quarter earnings season was the key driver for US equity markets in April/May. Expectations were high, at levels not seen since 2021 for the start of the season: the consensus forecast earnings growth of 12% on a rolling-year basis. At this stage, nearly two-thirds of companies have reported their results and the positive surprise rate has reached almost an all-time high, as have revenue figures.

Sources: Mirova, Bloomberg.



Earnings growth for the S&P 500 is expected to accelerate to around 25% in Q1, compared with 13.4% in Q4 2025. This is likely the strongest growth since 2004 – that is, in 20 years – excluding a few very specific episodes (post-Covid rebounds, Trump’s 2018 tax cuts, and the post-financial crisis period of 2008–2009). Also noteworthy is that, for the first time in four years, all 11 sectors of the S&P 500 are posting positive earnings growth.

These results demonstrate strong resilience and margin growth, particularly in the technology (see focus on AI), semiconductor and AI-related services sectors, which have contributed significantly to the S&P 500’s performance of over 10%. The surge in semiconductor performance, up 60% since the end of March, is largely due to the very strong growth in expected earnings over the next 12 months, up 82%. The sustainability of this rate of growth may be questioned, but the issue remains confined to the semiconductor sector.

In Europe, earnings have also been revised upwards, but to a lesser extent. With half of the market having reported its figures, the trend is reminiscent of 2022: the consumer discretionary and consumer staples sectors are revising their forecasts downwards, whilst other sectors such as materials, technology and banking are performing strongly.

FOCUS – Is the AI cycle sustainable?

The AI sector is the main driver behind the market rally, the bulk of US earnings per share growth, and – a new development – the bulk of US economic growth itself. Companies linked to the AI value chain will, in fact, account for almost 50% of S&P 500 earnings growth this year.

Consensus estimates for 2026 capital expenditure by the five largest US hyperscalers have risen from \$546 billion at the start of 2026 to \$751 billion today – a revision of \$200 billion in four months and growth of around 83% compared with 2025. Investors are expecting \$1.5 trillion in AI capex in the US over 2026–2027, equivalent to 5% of US GDP!

Questions of sustainability are worth asking. The issue is not so much demand, which is certainly there to underpin activity, but the speed at which companies will be able to meet it and the pace at which the market will value these activities.

In terms of P/E⁷, US tech is trading at around 24 times expected 12-month earnings, down from a peak of 32 last autumn (compared to 50 in 2000), ultimately in line with the long-term historical average.

In terms of P/Free Cash Flow⁸, however, the ratios are significantly higher, hence the market’s concerns regarding the sector’s companies’ ability to quickly monetise their investments. Players with the strongest cash generation (Amazon, Alphabet) are favoured over those that need to take on more debt (Meta).

Companies will also face the ‘physical’ limits of AI development. On average, it takes two years to build a data centre, and a further three years to connect it to the power grid. Computing chips, memory chips, power grids and energy can all act as bottlenecks. As proof, the manufacturer TSMC reports that demand for certain computing chips is already three times higher than its production capacity. As for memory capacity, it is fully booked until 2029 with certain suppliers.

Sources: Mirova, Bloomberg.

⁷ P/E (Price-to-Earnings): Valuation ratio calculated by dividing share price by net earnings per share.

⁸ P/FCF (Price-to-Free Cash Flow): Valuation ratio that compares a company’s market cap to its available cash flows



The speed at which AI is integrated into all sectors of the economy will therefore not only be a matter of cash flow and capex, but also of infrastructure.

Conversely, software stocks have fallen by around 30% since the start of the year, driven by the launch of Anthropic's new agents and short-selling by hedge funds on the theme. We believe these levels could present an attractive entry point during 2026: some of these companies understand client needs better than the hyperscalers and benefit from compliance and cybersecurity franchises that their clients are unlikely to be willing to give up.

FOCUS – Private credit: the shake-out is taking shape, without contagion

In an environment marked by rising long-term rates, tighter financial conditions and increased volatility, private credit remains under scrutiny. This segment has experienced strong growth in recent years, driven by traditional banks pulling back from these financing activities and investors' search for yield.

The return of geopolitical instability has led investors to become more selective, whilst rising sovereign yields and widening spreads⁹ are gradually leading to a revaluation of less liquid assets. We do not believe we are facing a systemic risk, as was the case in 2008. Nevertheless, the vulnerabilities are proving to be deeper than anticipated at the start of the crisis.

Outflows are very much a reality: redemption requests for unlisted BDCs (Business Development Companies) reached 12% in the first quarter, representing nearly 50% on an annualised basis. Conversely, inflows are plummeting: - 50% compared to 2025. BDCs are now trading at a 20% discount. We are facing a fund run, which could continue for a few more months before stabilising.

Software is one of the hardest-hit sectors. It accounts for 23% of the private credit market – or even 26% for the 10 largest lenders. Behind this concentration lie high levels of leverage, often between 8 and 10 times EBITDA¹⁰. Some fund managers are warning of the risks of default rates, anticipating up to 15% default over the 2027–2029 period. They estimate that recovery rates would be very low, ranging from 0 to 30 cents on the dollar. Software bankruptcies are structurally highly destructive of value, representing potential losses of 70 to 100% on the direct loans concerned.

The risk of a systemic crisis is, however, limited. Banks' exposure to private credit stands at around 3% of their outstanding loans, and institutions benefit from first-loss protection mechanisms and conservative coverage ratios. It is true, however, that some banks hold higher amounts of private credit than the market had estimated, such as BNP Paribas, which is said to be at around 4%. Whilst not threatening, this amount is by no means negligible. The mapping of private credit risks is therefore imperfect and could still reveal a few surprises.

The clean-up is therefore continuing, and we see it as a painful but undoubtedly necessary normalisation of the market. In the United States, if the private default rate were to reach 10%, it would cost 0.4% to 0.5 percentage points of GDP¹¹. A real impact, but nowhere near the figures seen in recent major recessions.

Sources: Mirova, Bloomberg.

⁹ Spread: price difference between the bid and ask prices quoted for an asset.

¹⁰ EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization.

¹¹ GDP (Gross Domestic Product): total value of goods and services produced in a country over a given period, usually a year.



The Long View

The UK: gilt or break

In many respects, the markets seem to have nothing but disdain for the Strait of Hormuz crisis, despite its catastrophic consequences should it drag on beyond the summer. This does not, however, appear to be the case for the bond markets, which, for their part, have truly reflected the scale of events, particularly through short-term rates. This is particularly true of UK rates.

Back to Black Wednesday?

Wednesday 16 September 1992: having stated with assurance the day before that the pound sterling would of course not leave the European Monetary System (EMS), John Major, Her Majesty's Prime Minister, announced that, ultimately, the British currency's participation in the EMS would indeed have to be suspended, and that it would not rejoin it.

This Black Wednesday was to bring George Soros to the attention of the general public, as the structures of this highly inspired financier had launched a frontal assault on the Bank of England (BoE) with unprecedented audacity – and, above all, with success. This exit has had numerous consequences over time.

- It dissuaded the British authorities from joining the Economic and Monetary Union (EMU), in short, from joining the future eurozone: if the British, despite a costly policy of massive interventions in the foreign exchange markets, had been unable to prevent the pound sterling from being expelled from the EMS – which, despite everything, provided room for manoeuvre regarding intra-currency parities – what was the point of including it in a single currency that was, after all, merely a much more rigid 'super-EMS'? The argument made sense for an open economy such as that of the United Kingdom, whose industry - still recovering from the severe crisis of the late 1960s and 1970s - had little interest in seeing exchange rates fixed permanently to the currency of its German rival, which was more productive at the time;
- It helped, following the recession that followed the Gulf War, in the recovery of the British economy in the mid-1990s, the speed of which was a pleasant surprise, thanks to the flexibility regained by the British authorities regarding interest rates and exchange rates, which strengthened the country's industrial competitiveness and its exports at a time when continental Europe was taking longer to shake off the effects of that recession, as well as the adjustments brought about by German reunification and the alignment of exchange rates with what was to become the euro;
- It gradually undermined the authority of Mr Major's Conservative government, which faced numerous internal divisions that weakened it, despite notable successes on the Northern Ireland issue, leading to its expected and crushing defeat at the hands of Tony Blair's New Labour;

Today, the question – no doubt incongruous in the eyes of many – concerns the possibility of an episode similar to that Black Wednesday, at a time when UK interest rates are reaching levels not seen for nearly twenty years, or even nearly thirty years in the case of thirty-year rates. Admittedly, the pound is no longer at risk of leaving the euro, which, after all, can be seen as a system of fixed parities between 21 currencies all bearing the same name, but some

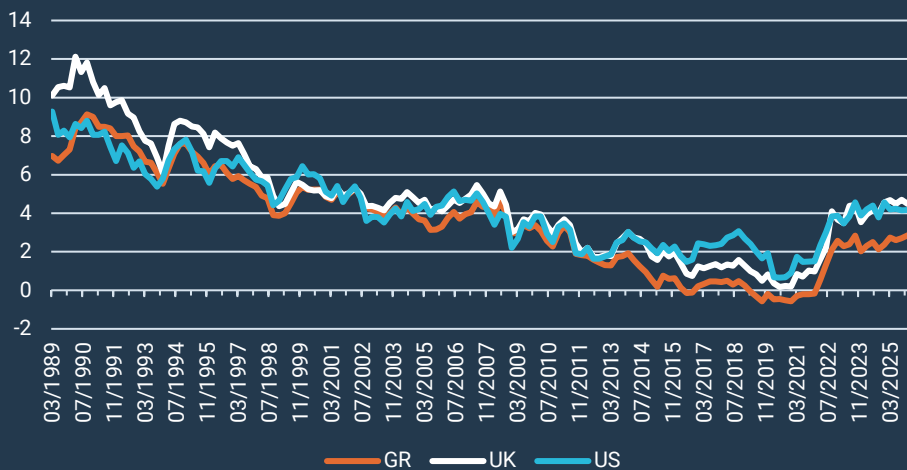
Sources: Mirova, Bloomberg.

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of the fundamentals underlying Mr Soros's raid of the 1990s are coming together once more. The currency's exchange rate would no longer be the target of speculation, but rather the UK's public debt itself. If British interest rates are the rates most strongly reflecting the movements triggered by the crisis in Iran, this is also because the United Kingdom cannot rely on any European Stability Mechanism (ESM), nor, above all, on the implicit – and limited – guarantee of a German government whose debt amounts to no more than two-thirds of its GDP.

German, UK and US 10-year bond yields, as a %

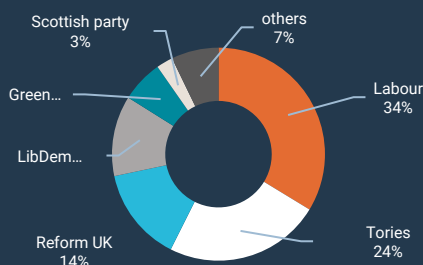


Source: Bloomberg

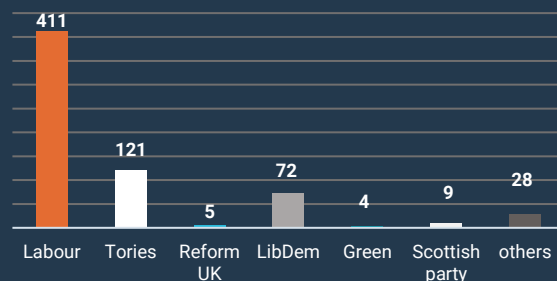
Mr Magic

The current volatility in UK bond yields is not merely a consequence of the British people's refusal to adopt the Maastricht Treaty in 1993. Other factors are at play: firstly, the structure of the UK economy's energy supply, which leaves it exposed to the full brunt of rising Brent crude prices and potential shortages of various inputs. Secondly, the country's current political situation, with, quite simply, the emergence of a new political force that is disrupting an electoral system designed, in practice, to remain bipartisan.

Breakdown of voters in the July 2024 general election



Seats in the House of Commons following the election



Sources: press, Mirova

Sources: Mirova, Bloomberg.

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General elections for the House of Commons are based on the 'winner takes all' principle resulting from the first-past-the-post system. This enabled Keir Starmer and Labour to secure an overwhelming majority in the House of Commons of the British Parliament in 2024, despite the low number of votes – 9.7 million – cast for Labour, thanks to the fragmentation of the 10.9 million votes that were, in principle, Conservative, which had to be shared between the Tories on the one hand, and Nigel Farage's Reform UK on the other. The Lib Dems secured 3.5 million votes, and the Green Party around 1.8 million. Mr Starmer has therefore managed to secure an overwhelming majority in Parliament without a majority among the electorate, a feat that puts him in a position of weakness as he has far too narrow an electoral base to claim the support of the majority of the population. This hinders his ability to drive through demanding reforms. Under the logic of the British constitution, Labour must now, following a resounding defeat in early May, propose a new leader for 10 Downing Street. Mr Starmer is unlikely to last as long as Mr Major did after Black Wednesday, and will no doubt suffer the same fate as Mrs Thatcher, Mrs May and Ms Truss before him. Unless Andy Burnham escalates the situation, his departure should reassure the markets, which are concerned about the trajectory of the country's deficits, but is likely to offer only a respite.

The much-criticised British electoral system has the flaw of producing fragile majorities when the representativeness of the parties shifts. And it is shifting at the moment, just as it shifted almost a century ago, when the Labour Party gradually gained the upper hand over the Liberal Party of Lloyd George or Asquith, and even, for twenty years, of Churchill. This time, the Conservative Party faces the choice of retaining its primacy on the right of the political spectrum, or relinquishing it, against its will, to Reform UK. Time will tell by the end of the decade how things stand, but on the whole, British institutions remain solid – they are built to last, and by definition, less suited to periods of transition. As soon as the political balance stabilises, they will resume their role. The succession of prime ministers – five since the departure of David Cameron, who launched the referendum on remaining in the European Union (EU) – should therefore come to an end by the next general election, at the latest in 2029, unless Mr Starmer manages, by some sleight of hand, to hold on to his post. The ongoing reshuffle, in our view, will soon come to an end, allowing the unwritten constitution of this old country to function to its full potential. In the meantime, it will have to endure a much more austere period.

Rehab

Reliance on public spending has certainly fallen since the Covid-19 pandemic in the UK, but the public deficit remains significant: it stands at 4.3% of GDP for the financial year ending in March 2026, according to initial estimates from the Office for National Statistics (ONS), compared with 5.2% recorded in the 2024/2025 financial year. Could the current difficulties cause the UK to slip back into crisis? With His Majesty King Charles's government having to issue large amounts of bonds to refinance its maturing debt and cover deficits, the question comes at a bad time.

However, this increase in the deficit is having too many adverse effects at a time when UK two-, ten- and thirty-year rates stand at around 4.6%, 5.1% and 5.8% respectively, particularly as the proportion of inflation-linked debt and the short-term maturity structure favoured by the Debt Management Office (DMO) mean that these rates very quickly translate into marginal deficits, which in turn lead to an increased need for refinancing, all other things being equal. The DMO has announced that it will need to issue just over £300bn in debt this year, including around £85bn in refinancing of maturing Gilt. Put simply, the next Labour Prime Minister will

Sources: Mirova, Bloomberg.

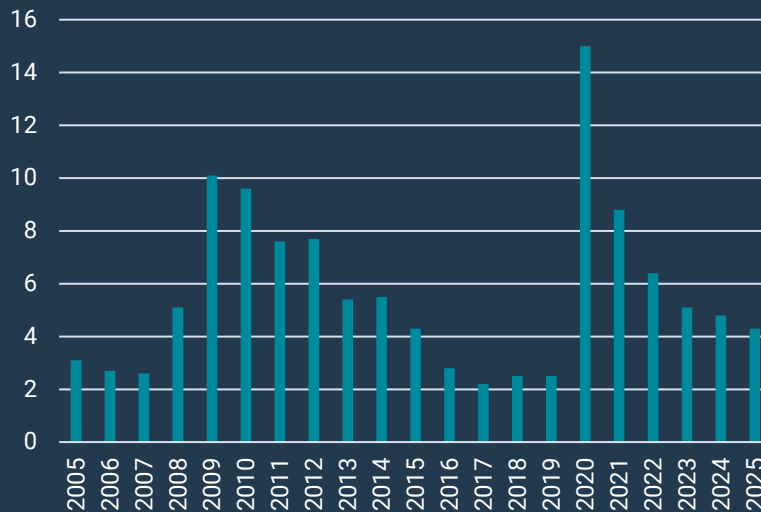
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have little time to spare and will need to free up budgetary headroom to return to a deficit-reduction path, even as the party has only just suffered a major electoral setback and is struggling with highly unfavourable poll ratings. Furthermore, the return of stagflationary episodes would pose a danger that would very quickly become unmanageable if they were to last two or three years.

In short, Labour and the Conservatives – whether the latter come from the traditional wing or Mr Farage’s camp – will likely have little choice in the policies they must pursue if they hold power; and, as we had already written at the time what we saw as Ms Truss’s inevitable departure, these will have to take the form of budget cuts, with social costs that are sometimes painful, alas, but who knows, perhaps only temporary? Mrs Thatcher’s famous TINA¹² seems to be making a comeback, with all that this implies for the quality of democratic debate at a time when the British electorate is undergoing a reshuffle. But the pressure being exerted by the bond markets on the DMO leaves little doubt as to what will happen next: the United Kingdom, once again, must face a period of overhauling its public policies, as it has had to do so often over the last fifty years, with positive surprises emerging each time at the end of what were nevertheless difficult periods.

UK public deficits, as a percentage of GDP



Sources: ONS, Eurostat

Help yourself

Mrs Thatcher and Mrs May, Mr Major, Mr Cameron, Mr Johnson and Mr Starmer... all these leaders have in common the fact that at one time or another they have had to link, sometimes against their will, their destinies to the issue of European integration, a situation which the emergence of Mr Farage, who has built his career on this issue, has in a sense brought to a close. The refusal to join the EMU and then the exit from the EU continue to haunt the country’s political life, quite simply because the British value their independence but also wish to remain open to the world, and these two laudable objectives give rise to contradictions. Political autonomy, now a *fait accompli* despite Mr Starmer’s attempts to build bridges with the EU, has

¹² There is no alternative: Mrs Thatcher, who was a firm believer in the theories of the Austrian School, considered that there was no choice but to pursue a liberal policy.

Sources: Mirova, Bloomberg.

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many advantages, as demonstrated by the economic recovery of the mid-1990s, but these come at a price, and the crisis in the Strait of Hormuz, amidst a period of political realignment, has just increased that cost. This autonomy has the merit of making British leaders more accountable, as they have no choice but to solve their problems on their own: with their backs against the wall, the British have always known how to respond. It seems to us that the resolution of the current difficulties is drawing nearer; whether the Conservatives or Labour are to be tasked with this does not appear to us to alter this scenario.

Sources: Mirova, Bloomberg.

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Summary of Market views

Summary				
ASSET CLASSES	MEDIUM TERM	PREVIOUS MONTH VIEW	MONTHLY CHANGE	COMMENTS
EQUITY			=	<ul style="list-style-type: none"> Global growth remains solid. Nevertheless, the war in Iran has created a stagflationary shock, the duration and magnitude of which are yet to be determined. Risk reward not very attractive in the short term.
CREDIT			=	<ul style="list-style-type: none"> Fairly resilient macro-financial fundamentals (low default rate, high corporate profitability). Robust across different scenarios. Preference for IG credit vs HY.
DURATION			=	<ul style="list-style-type: none"> Slight long duration on the short end. A rise in breakeven inflation rates and an increase in policy rate expectations with the sudden rise in energy prices. Should gradually normalize with the negative impact of the Iranian conflict on growth later in the year or in event of reopening of the Strait of Hormuz.
CASH			=	<ul style="list-style-type: none"> Defensive interest in cash if the stagflationary shock persists.



EQUITY				
ASSET CLASSES	MEDIUM TERM	PREVIOUS MONTH VIEW	MONTHLY CHANGE	COMMENTS
US			=	<ul style="list-style-type: none"> Correct growth and still attractive EPS dynamics, largely confirmed by earnings season. US economy less at risk in case of sustainably higher energy prices (net oil exporter). However, aggregate valuation and positioning levels are stretched.
EURO			↓	<ul style="list-style-type: none"> Weakening macro momentum and tighter financial conditions will ultimately weigh without a swift resolution to the Iranian conflict Attractive relative valuation.
UNITED KINGDOM			↓	<ul style="list-style-type: none"> Political crisis escalating.
JAPAN			=	<ul style="list-style-type: none"> Expansionary fiscal policy and favorable governance reform. Still long financials in a context of monetary normalization. Nevertheless, upside potential is limited after YTD outperformance.
EMERGING MARKETS			=	<ul style="list-style-type: none"> Attractive valuation and dynamics of EPS, search for geographical diversification.
GROWTH VS. VALUE			=	<ul style="list-style-type: none"> Maintained global preference for value companies with a positive earnings revision dynamic, especially tangible assets. In parallel, maintaining US Tech overweight as earnings momentum continues to positively surprise.
QUALITY VS. HIGH VOLATILITY			=	<ul style="list-style-type: none"> Significant underperformance of low-vol equities given prospects for a negotiated Iranian resolution. Expected to benefit from potential Momentum strategy unwinding.
SMALL VS. LARGE CAPITALIZATIONS			=	<ul style="list-style-type: none"> Valuation of small caps remains attractive on a relative basis (vs large caps, vs historical levels and macroeconomic conditions). They should nevertheless suffer in the short term from the rise in uncertainties surrounding growth and stricter financial conditions.
CYCLICAL VS. DEFENSIVE			=	<ul style="list-style-type: none"> Overall balanced positioning.



CREDIT				
ASSET CLASSES	MEDIUM TERM	PREVIOUS MONTH VIEW	MONTHLY CHANGE	COMMENTS
INVESTMENT GRADE US			↑	<ul style="list-style-type: none"> Attractive relative macro momentum and earnings dynamics. Preference for IG credit vs HY.
HIGH YIELD US			=	<ul style="list-style-type: none"> Stress on private credit is negative for sentiment.
INVESTMENT GRADE EURO			=	<ul style="list-style-type: none"> Quality assets at reasonable prices. Preference for financials.
HIGH YIELD EURO			=	<ul style="list-style-type: none"> BB spreads too compressed versus IG. Net supply effect has turned negative.
DURATION				
2 YEARS US			=	<ul style="list-style-type: none"> Activity remains well-oriented while inflation progresses slightly. Nevertheless, risk of de-anchoring of inflation expectations remains low at this stage. The Fed is expected to favor a short-term status quo to assess the lasting nature of the energy shock.
10 YEARS US			=	<ul style="list-style-type: none"> Rise in inflation breakevens and real rates (positive inflation and economic surprises, expected increase in the budget deficit). Gradual stabilization later in the year.
2 YEARS GERMAN			=	<ul style="list-style-type: none"> The market is pricing in three rate hikes from the ECB by the end of the year. We consider this excessive. Employment and domestic demand remain weak in the Eurozone, and the inflationary shock is primarily energy-driven.
10 YEARS GERMAN			=	<ul style="list-style-type: none"> Inflation breakevens have risen significantly, while real rates have stabilized (Downward growth perspectives). Upward pressure due to rising energy prices, the budget spending plan and political risk in Germany, and the overhaul of the Dutch pension system).
PERIPHERAL DEBT EUROPE			=	<ul style="list-style-type: none"> Unfavorable environment due to the energy shock. Cautious on Italy, maintaining overweight on Spain.
UNITED KINGDOM			=	<ul style="list-style-type: none"> Attractive carry but high risk linked to the energy shock and chaotic political situation.
JAPAN			↓	<ul style="list-style-type: none"> Sharp rise in rates. The market appears to be anticipating a "behind the curve" scenario for the BoJ, as inflation and wages are coming in above expectations.
EMERGING MARKETS			=	<ul style="list-style-type: none"> Sustained high oil prices continue to penalize the solvency of some countries. Risk of de-anchoring of inflation expectations.
CASH				
EUR/USD EXCHANGE RATES			=	<ul style="list-style-type: none"> Outlook for the dollar is bearish in the medium/long term. In the short term, US macro resilience and the absence of a negotiated solution in Iran argues in favor of the dollar.



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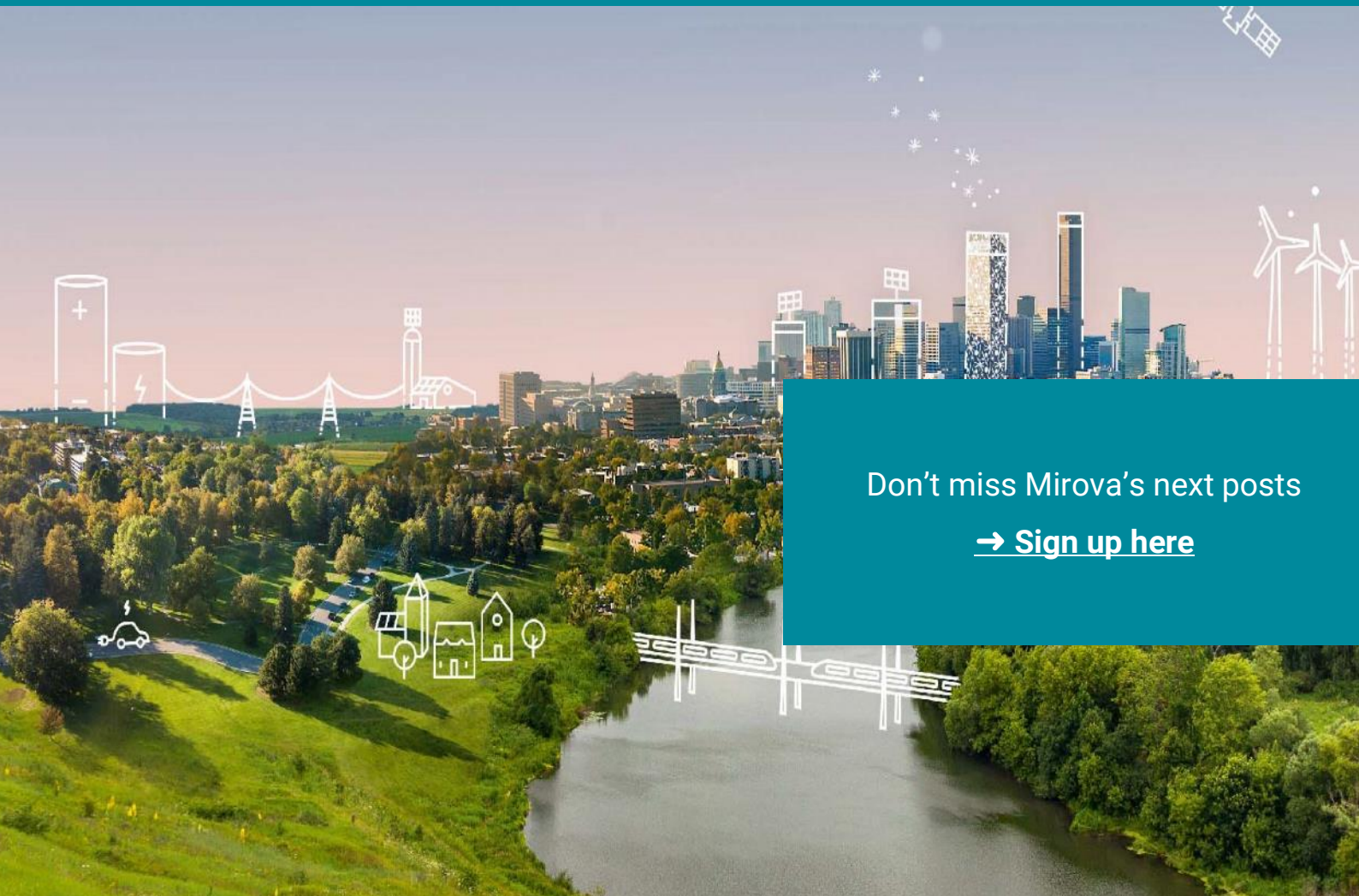
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