Letter from the President and the Fund Managers

July 2023

After a dynamic start to the year, it was the mid-March bankruptcy of Silicon Valley Bank – a medium-sized US bank – that triggered the collapse in equities.
The central banks reacted swiftly to prevent a potential spread to the entire banking sector. The banks were allowed to obtain the liquidity they needed in return for pledging quality assets.
Job market data in the chief eurozone countries and the USA likewise bolstered the financial markets. Although consumer confidence in the industrialised countries has fallen and the economic data from China has not lived up to expectations, the unemployment rate is still close to its historically lowest levels, alleviating fears of an imminent recession for the time being at least. The Fed and the ECB have both hinted at renewed rate hikes in the course of the year. At the same time, given the weakness of the real estate markets, there is still a risk of recession either this year or next year.

Still high volatility in the bond segment
The second quarter saw a clear reassessment of monetary policy in the industrialised countries. Global government bonds experienced difficulty in the second quarter, closing at -1% (JP Morgan Global Government Bond index).

Emerging market equities lagging behind
Equities also remained strong in the second quarter and succeeded in going up. Robust consumer data generated a favourable stock market climate. The recovery slowed down compared with the first quarter (+8.4 %), however, due to increasing indications that the Fed was intending to continue with its strict monetary policy. Against this background, the outperformance of technological, communications and consumer durables stocks came as no surprise. Stocks in the energy (-3.5 %) and financial sectors (-1.8 %) were relegated to the bottom places.

Ongoing dollar weakness
The dollar remains weak in 2023. Scandinavian currencies have been particularly hard hit by the collapse of the real estate market, with the Norwegian krone already under pressure from the low oil price. The weakness of the yen would seem particularly surprising at first sight.

Commodities restrained in the first quarter
Gold similarly suffered a decline in the second quarter. Despite its negative performance of -3.1 %, it came in second place, leaving only natural gas behind it (-28.1 %). This robust performance was due to production losses in Norway as well as the Netherlands' plan to definitively shut down Europe's largest gas field in Groningen. Third place in this quarter was held by soy (-4.5 %).

Whether the economy will experience a soft landing or not continues to be a matter of debate. We believe that the recession is arriving. We do not see investors fearful of major risks, however. They are trading stocks as if the economy were already in recovery. We feel that this is a little over-optimistic given the far more stringent credit conditions that are prevailing in the meantime.