Quant & Partners
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March 2023 Newsletter

MARCH, THE GREAT UNCERTAINTY

After 2022 bitter disappointments on the financial markets, the January rally had deluded many investors about a quick and, in some ways, comforting recovery.
Then February arrived and optimism waned.
Last month, the S&P 500 closed out down 2.6%, the Dow Jones fell 4.2% and the Nasdaq 1.1%.

To achieve a reasonable rate of inflation without getting overwhelmed by emotions

The war in Ukraine and the growing tensions between the United States and China remain in the background, while the main issue that seems to really interest the financial world is just one: the Fed's policy and what will become of this annoying and increasingly sticky inflation.

The next Federal Reserve meeting is scheduled for later this month. Wall Street players are predicting a further 25 basis points rise in interest rates, and some are convinced that it could be the last one after the exceptional year of increases that has just ended.
Jerome Powell's position is delicate.
In fact, even though the inflationary surge has stopped, the levels remain high and, for now, do not seem to show any signs of abating. On the other hand, the labor market, in the United States in particular, is still very tight.

A collective obsession emerges: *how to fight inflation without compromising employment and thereby causing a possible recession?*
At the moment, according to various analysts, the markets seem to be guided much more by emotions than by rationality, in a continuous succession of glimmers of hope alternating with anxiety and fear.
In essence, the specter of recession tends to be more imagined and feared than realistic, given that income and spending are stable.

Instead, more contrasting signals emerged during the last Earnings season: some companies are struggling to bear the cost increases, others continue to lay off employees, while the latter, in turn, do not experience difficulties in finding new job opportunities.

Investing

Volatility will characterize this month of March, especially in view of the forthcoming decisions of the Fed. Analysts point out that we are in a choppy market situation, where ups and downs are now daily.
The suggested approach remains the defensive one, favoring liquidity and maintaining exposure to stocks and, among them, favoring value over growth stocks.
The recommended sectors are those potentially least susceptible to a possible recession: utilities, consumer staples and healthcare.

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