Quant & Partners
financial services

May 2023 Newsletter

THE MACROECONOMIC SCENARIO HAS REMAINED UNCHANGED FOR SEVERL MONTHS AND MAY WILL PROBABLY BE NO EXCEPTION

The increase in prices, the fear of recession, the continuation of the Russian war in Ukraine and the consequent geopolitical tensions are important variables that weigh on the performance of the world economy, even if some continents and countries seem to suffer less than others.
The IMF has updated 2023 economic outlook for Asia, noting that Asia-Pacific's GDP will expand 4.6% this year and that means 0.3% higher than what forecast in October.
According to the International Monetary Fund China and India will contribute about half of global growth in 2023 thanks mainly to the stringent Covid restrictions removal, especially for China.
However, the IMF's report specifies that some unknown factors are to be taken into consideration: *"Risks of further global trade fragmentation are becoming more salient, considering ongoing US-China trade disputes (including new restrictions on trade in high-tech products) and heightened geopolitical tensions linked to Russia's war in Ukraine".*

On the financial markets, the month of April showed moderate gains, aided by the nervousness caused by high and constant inflation, the panic, albeit short-lived, due to the crisis of some American regional banks and the uncertainty regarding the Fed's moves in terms of interest rates.
However, financial analysts agree on the fact that May will still be able to bring some satisfaction to investors.

Yet another hike in interest rates

At the beginning of the month, the Fed, and the ECB both announced another rise in interest rates (although moderate, +25 bps).
The target of 2% inflation remains far away and many think that Jerome Powell could propose another increase during the month of June.
The inflationary pressure is easing, but not fast enough according to the Fed, fearful that a 1970s-style stagflation situation could recur.
The U.S. housing market has softened significantly, and manufacturing activity has dropped, while the labour market remains resilient, with a historically low unemployment rate (3.5%).

The financial markets

Given that inflation is slowly but steadily declining, investors need not fear further major shocks on the stock markets.
At the same time, defensive positions, increasing/maintaining cash holdings and targeting fixed income investments are recommended.
As far as stocks are concerned, value stocks in the industrial, financial and consumer discretionary sectors are advised.

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