Quant & Partners
financial services

June 2023 Newsletter

HERE WE ARE AT THE GATES OF SUMMER, IT IS ALMOST HALFWAY THROUGH THE YEAR

The macroeconomic picture shows strong resilience, although the uncertainties that have accompanied us for more than a year remain very present.

The issues which the real economy and financial markets are questioning about are substantially unchanged: the inflation impact, Fed policies and the possibility of a recession in the second half of 2023.

The so-called "banking crisis" of early spring and the debate around the US debt only briefly shifted investors' attention to other dynamics.
Once the two issues left behind, market players returned to analyzing and observing hackneyed topics.

In general, the picture presented to us in June 2023 cannot be said to be particularly disheartening:
energy prices are falling, production and supply chains are recovering their pre-Covid rate and on both sides of the Atlantic the labor market is showing great solidity.

According to the updated reports presented by the European Commission, the GDP growth expected for the euro area is now at 1.1% and 1.6% in 2023 and 2024 respectively.

Furthermore, inflation, both in Europe and in the United States, is cooling albeit slowly (EU + 6.1%, US + 4.9 between April and May).

The 2% target advocated by Federal Reserve Chairman Jerome Powell remains a long way off, although several analysts estimate that it could be achieved by the end of 2024.

Markets are eagerly awaiting the mid-month Fed meeting in hopes of a pause in interest rate hikes.
Opinions on this matter are discordant, although the majority is fairly certain that rates will continue to rise slightly (+25 bps).
If so, it would be the eleventh since March 2022, pushing Fed policies towards the critical point beyond which the risk of a recession could become real.
Apparently, Powell is worried that a "stop and go" monetary policy could plunge the economy into a situation similar to what happened in the 1970s, provoking stagflation.

According to the experts, the specter of a possible recession (even if moderate) would touch the second half of the year. However, it is fair to point out that fears around this eventuality have been spread for more than a year now and that many factors, such as the results of the last Earnings season and the strength of the job market, avert a particularly dramatic future scenario.

To invest in June

In general investors can consider the month of June and the summer months with optimism, but if they are too intimidated by a possible recession framework, it is advisable to favor a defensive approach in portfolio management, reducing stocks exposure, increasing cash, and focusing on bonds.

As already reiterated on several occasions, if you still want to concentrate on the stock market, it is recommended to prefer value over growth stocks, focusing on balance sheets and valuations.
And why not, consider gold.

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