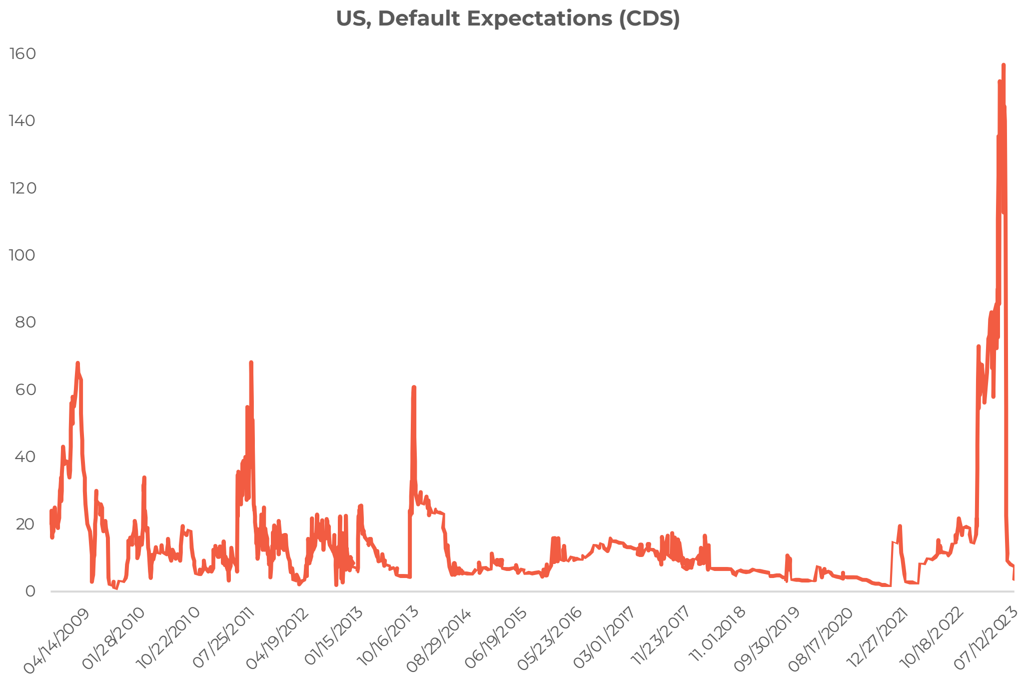
FAQ

How close is the Fed to a rate peak? Are the inflation, labor market, and business sentiment data strong/weak enough?

During Q2 2023, much of investor attention was focused on the debt ceiling issue, which raised default expectations. With the decision to temporarily raise the debt ceiling until after the next presidential election, investor attention is returning to real economic data.

The Fed has been quite transparent about its willingness to pause in the process of raising interest rates, but the release of new data on inflation, retail consumption and manufacturing activity will serve as the basis for subsequent decisions by Fed members.



Is the Eurozone economy starting to recover?

The more complicated economic situation in the euro area deserves special attention. Portfolio rebalancing by institutional investors at the end of the quarter and the first half of the year showed strong outflows into eurozone equities, while equity indices are highly valued relative to the US.

On the inflation front, the conditions are not yet ripe for a pause in rate hikes, but the ECB's ability to do so is limited not only by its desire to fight inflation, but also by the economy's ability to deliver optimal output.

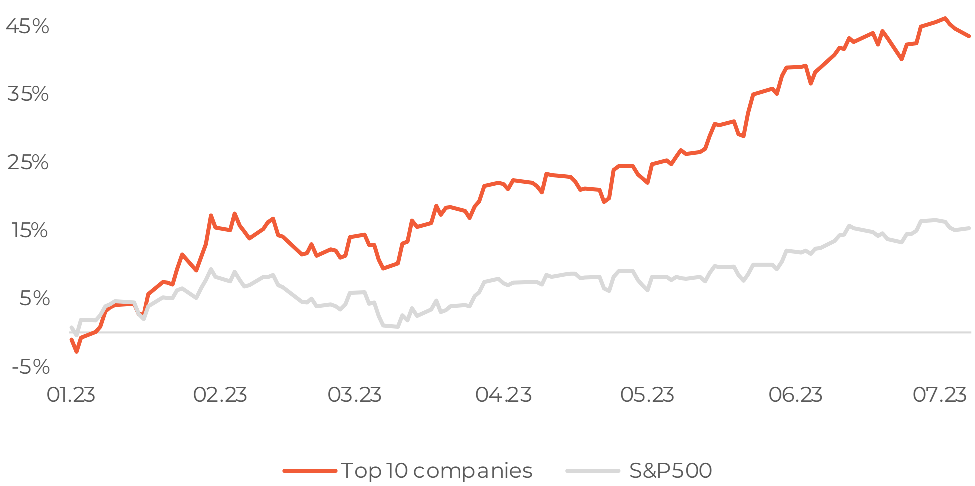
For its part, the ECB will continue to look for signs of the economy's ability to cope with interest rate tightening, but in our view the end point in the eurozone is quite close.

FAQ

How sustainable is the rally in the U.S. stock market? Does this mean that we are in the middle of a new bullish trend?

U.S. equities rebounded in March after the turmoil of the banking crisis. Objectively, however, many stock prices disproportionately reflect the risks to the economy's ability to grow. Deteriorating credit conditions and questionable signs of growth in the housing market are more indicative of a slowdown in economic growth. In terms of historical valuation, the S&P500 has traded at similar levels with 10-year Treasury yields below 2% and much higher average corporate margins. The current growth is more indicative of a temporary "overheating" of the market and the fact that investors are taking a more market-protective stance, investing only in large-cap stocks (which have driven the growth of the equity indices). However, practice shows that such a capital allocation structure is often of a temporary, rebalancing nature. Medium and small capitalization companies have not shown any significant recovery since the beginning of the year.

Top 10 largest capitalization companies vs. S&P 500 return, YTD, %.



At current stock market valuations, is cash the optimal investment?

The rapid rise in interest rates by central banks has made deposits more attractive to many investors. There is a perception that deposit rates are competitive with bond yields and less volatile, which means they can be a good investment. That's not a bad argument at any point in time, but in the long run, a deposit is a product of a particular company (a bank) that bears the direct risk of the issuer; and banks can cut deposit rates as fast as they raise them - they follow the central bank's interest rate cycle.

In the long run, it is more efficient to lock in high returns with bonds, as balanced portfolios of fixed income instruments have much higher returns than simple deposits. The second important argument is the element of diversification, which removes the risk of a particular issuer from the overall portfolio result. Therefore, in such an environment, we prefer high quality investment grade government and corporate bonds, which are more resilient in the event of a recessionary scenario.