

LETTER FROM EDOUARD CARMIGNAC

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EDOUARD CARMIGNAC'S LETTER

Edouard Carmignac writes on current economic, political and social issues each quarter.

Paris, January 8, 2018

Dear Investor,

When you're an investment manager, being right isn't enough. You also have to be right at the right time – neither too soon nor, above all, too late.

2017 was an unusually challenging period for our global funds. As we anticipated at the start of the year, equity markets did rather well, despite the fear caused by the unpredictable Donald Trump and the French elections. Our US tech, European and even emerging-market stocks chalked up substantial gains. On the downside, our oil holdings proved disappointing, especially at a time of steady oil prices. Dazzled by the prospects of a green economy, investors have apparently convinced

themselves that demand for fossil fuels is on the wane. And while we did foresee a weaker dollar in early 2017, we were caught off-guard by how sharply the euro appreciated against the US currency – by 15% in eight months. From September onwards, expectations for fiscal stimulus in the United States, combined with the ECB’s hugely accommodating monetary policy stance, steadied the greenback and held interest rates at levels that are hardly sustainable.

2018 is taking shape under bluer skies. In the United States, the first signs of a slowdown that we saw in recent months can be expected to loom larger, dousing the hopes for economic stimulus that had been kindled by the Trump administration’s mild tax reform programme. In Europe, meanwhile, the prevailing negative interest rate policy will prove increasingly at loggerheads with a GDP growth rate of nearly 2% and what looks like an end to falling inflation. This suggests that the euro will gain further ground against the dollar and that the Federal Reserve will be less inclined to go on hiking key rates as planned. Under those conditions, European assets may soon be facing trouble on two fronts. Bonds will be hurt by gradually rising interest rates, and stocks by further appreciation of the single currency. On the brighter side, reduced upward pressure on US bond yields will be welcome news for US equities with good earnings visibility – including tech stocks – and emerging-market assets as a whole. Oil stocks, meanwhile, stand to benefit from the extension of OPEC’s output-cut agreement and from a weaker dollar, which works to the advantage of raw materials in general – with gold topping the list.

Confident that this is a promising outlook, however much it runs counter to the consensus, I wish you a happy and peaceful new year.



Edouard Carnignac

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