

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, July 4, 2021

Dear Investor,

As you may recall, I concluded my previous letter on a particularly optimistic note. “But if, as we’re inclined to believe, inflation recedes at the end of the pandemic to a more moderate level due to secular deflationary trends (demographics, technology) – not to mention a slower-than-expected eradication of Covid-19 worldwide – the thrill of Immaculate Conception might just send equity markets soaring to previously unenvisioned heights”.

So where do things stand now that the MSCI All Countries Index has gained 7.2% over the past three months? Are there really no limits to the concept of Immaculate Conception in finance, which enables governments – backed up by docile central banks – to forge blithely ahead with their binge-spending? Most decidedly not. As we gradually emerge from the pandemic, there is less justification for the twin imperatives of safeguarding public health and safeguarding

employment.

The expected cuts in public spending will be enough to reduce GDP growth next year by 3.9 percent in the United States and 2.4 in Europe. At the same time, Fed Chairman Jerome Powell has claimed he is willing to review his dovish monetary policy in response to changes on the inflation and employment fronts. Based on this likely gradual withdrawal of fiscal and monetary stimulus – compounded by the lag in economic recovery caused by successive waves of Covid-19 – **we believe that the current consensus forecasts for economic growth and inflation over the next twelve months need to be slashed.**

Our scenario foresees both a slower rise in interest rates and a more favourable backdrop to the growth stocks with good earnings visibility that form the core of our portfolios, most of them in IT and biotech. China, the key victor of the public health crisis, will have the means to keep its economy booming while at the same time loosening its restrictive monetary policy. So despite a few governance issues that we expect to be short-lived, the country will remain a destination of choice for our equity and fixed-income investments.

On this note, I wish you a great summer with as much freedom to enjoy it as possible.

Yours sincerely,



Edouard Carnignac

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