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 8, 2019

Dear Investor,

For once, financial markets may be in for a relatively peaceful summer. The scenario I described to you just three months ago is now suddenly falling into place.

Recognising that the risk of inflation has been eradicated in developed countries, with powerful deflationary forces created by globalisation and technological upheaval, the leading central banks are all communicating an easier monetary policy stance and seemingly trying to outdo each other on this path. As expected, following in the footsteps of the Bank of Japan and ECB, the Fed has made clear its intention both to cut key interest rates and to cease balance sheet run-down with the aim of supporting US economic activity and ensure it is not impeded by a strong dollar.

This policy shift has not taken long to be understood by the markets. Over the past three months, the US 10-year Treasury yield has fallen from 2.5% to 2% and the dollar has begun to lose ground. Meanwhile, equity markets have cemented the sharp recovery they experienced at the start of this year. Both the ongoing trade tensions and the decline in long-term interest rates – often a harbinger of an impending recession – have virtually paralysed investors. As such, the easing of those tensions initiated at the G20 summit in Osaka – though it still needs to be confirmed by a resumption of negotiations – should reassure them that the world economy will continue to grow at a satisfactory pace.

But don’t be fooled. The drivers of global growth are already losing momentum. As expressed in my previous Letter, our job will be to identify those few companies with prospects for sustained growth and the ability to keep up their profit margins. In an environment of persistently low-interest rates, these names will trade at a growing premium. Unsurprisingly, the list of those winners will include tech companies, innovative healthcare firms and a selected cohort of emerging market names.

We have strengthened our teams of fund managers and analysts over the past few years, whose main focus is on these few areas of growth. So, I am highly confident in our ability to take advantage of this new, challenging, but no less promising investment landscape.

On this note, I wish you a great summer.

Yours sincerely,

Edouard Carmignac