

Monthly Letter

Rothschild & Cie Gestion

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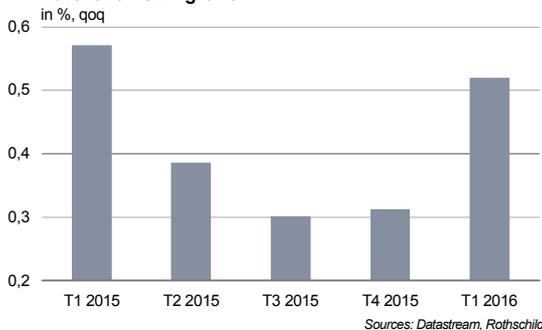


Performances in local currency

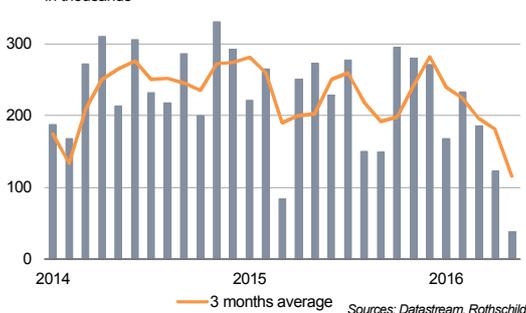
	Price as of 05/31/16	1 month % change	YTD % change
Equity markets			
CAC 40	4 506	1.7%	-2.8%
Eurostoxx 50	2 907	1.8%	-6.2%
S&P 500	2 097	1.5%	2.6%
Nikkei 225	17 235	3.4%	-9.5%
Currencies			
1 € = ...USD	1.11	-2.8%	2.5%
1 € = ...JPY	123.83	1.2%	-5.5%

	Price as of 05/31/16	1 month bp	YTD bp
Government bonds			
3 M			
Euro zone	-0.49%	-1	-5
United States	0.28%	8	12
10 Y			
Euro zone	0.14%	-13	-49
United States	1.85%	1	-42

Eurozone - GDP growth
in %, qoq



United States - Job creation
in thousands



Economic environment

Eurozone economic growth in Q1 2016 (+ 0.5% q/q) has been stronger than expected, driven by Germany and Spain, but also France. If temporary factors – such as the mild weather that has notably favored the German construction sector – partly explain this increase, the good performance of business investment is noteworthy. The question now becomes whether this is a trend change, or rather if 2016 promises to be a repeat of 2015, when activity had weakened after a strong first quarter. The ECB seems to have retained the latter in its economic update, anticipating GDP growth of 1.6% in 2016 and 1.7% in 2017 and 2018. In terms of inflation the ECB left its forecasts almost unchanged, despite the recent rise in oil prices. ECB's economic staff has thus concluded that Eurozone growth remains too weak to generate enough tension in the labor market – and therefore wages – to expect a return to the target before... 2019. Therefore, Mario Draghi reiterated not only the ECB's willingness to continue its current monetary policy, but also that it was prepared to further enhance its quantitative easing program if necessary. In addition, the ECB press release indicates that interest rates will remain at current levels or even lower for an extended period.

Overall, the global economy remains very uncertain with, in the short term, China, the health of the US economy and Brexit representing the biggest risk factors. In China, the improvement in statistics observed in April did not continue in May. Markit indices were down, as was growth in retail sales and industrial production. This suggests that, despite reaccelerating credit growth – which in fact further weakens the Chinese financial system – and despite a strong increase in public spending, the Chinese economy is struggling to stabilize. For its part, the yuan continues its depreciation against the dollar, falling to its lowest level reached earlier in the year when concerns were high on the ability of the Chinese authorities to stabilize the exchange rate and to cope with capital outflows. More broadly, renewed USD appreciation against EM currencies may highlight – again – the problem of heavily indebted EM firms in USD.

In the US, the disappointing Q1 growth in 2016 (+0.2% q/q) is reminiscent of the weakness recorded in Q1 2014 (-0.2% q/q) and Q1 2015 (+0.2% q/q). If a rebound is expected in Q2 2016, its scale may be smaller than during the previous 2 years. The employment statistics also confirm a slowing economy. In this context, it is highly unlikely the Fed will hike its key rate at the June 15th meeting, noting that the British referendum will occur on June 23rd. Recent polls show that the two camps are neck and neck, with a slightly better trend regarding the Leave camp. With no doubt, a Brexit would have a significant adverse impact on the prospects of the UK, but also worldwide.

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