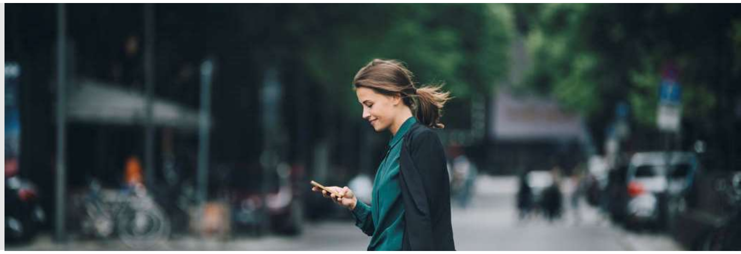
WEEKLY UPDATE

First half of 2023 was good for equities



During the first semester, different markets seemed to be trading different economic scenarios. Equities, which rallied strongly with low volatility, were betting on a modest slowdown and inflation falling back to more comfortable levels. Bonds, meanwhile, and commodities even more so, seemed to be pricing in a severe slump brought on by tighter monetary policies. While it was a good semester for equities, the issue of a harder landing for economies only seems to have been delayed.

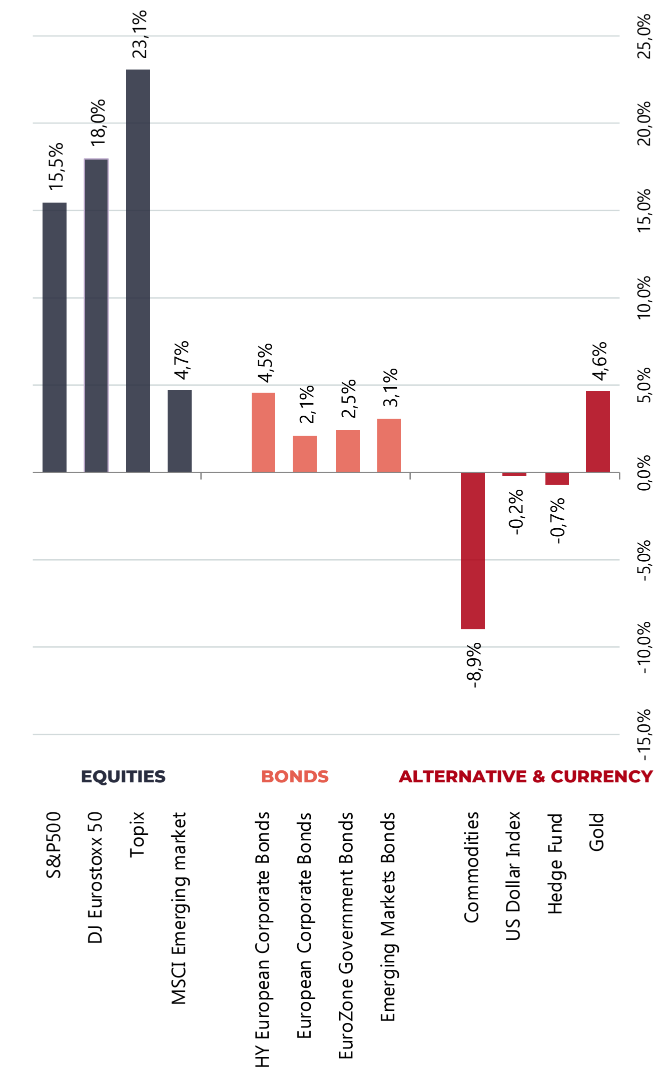
Developed economies have held up well. This deeply atypical economic cycle has continued during the first half of the year 2023, defying the most pessimistic scenarios. Measures to rein in inflation and monetary policy clampdowns were offset by the still solid balance sheets of households and companies. Services were especially strong, helping sustain the improvement in jobs markets. Even the European economies, which had borne the brunt of the Russian gas and oil shock, proved resilient. We also got confirmation that inflation had peaked. However, sticky underlying inflation persuaded central banks to continue their restrictive policies. In the major emerging economies, China's post-Covid reopening has only be followed by a slow recovery in domestic demand, prompting the authorities to ease policy.

Equity markets powered by large caps. Equity markets rallied strongly in the first half of the year, riding the resilient economy and healthy news flow on corporate earnings. The bank wobbles seen in March were quickly corrected, although the banking sector continues to be marked down in consequence. In the United States, the AI boom boosted the Nasdaq (up 40% YTD), while in Europe a handful of large caps (notably from the Luxury sector) accounted for much of the positive performance. Interestingly, the Japanese market had some specially strong performances although these were less impressive in euro or sterling terms due to the ongoing slide in the yen. Emerging equity markets were held back by the weak Chinese recovery.

Bond markets are again playing a protective role. 10-year yields ended the half-year virtually where they had started, despite high volatility. Although bonds had fallen alongside riskier assets in 2022, there was a clear return to a negative equity/bond correlation in the first half of 2023, most obviously during the banking turbulence. UK gilts again bucked the trend this semester, with big rises in interest rates to address the country's unexpectedly stubborn inflation.

Overall, equities amply outperformed in the first half of the year, confirming our scenario that the economy is heading for a fairly soft landing. Trends so far in the second half od the year, however, show this is not a done deal and a harder landing remains on the cards.

Market performances in 2023 (in local currencies)



Past performance should not be seen as a guarantee of future returns.
All data taken from Bloomberg and Macrobond on the 07/07/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document

SOCIETE GENERALE
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OUR MACRO COMMENTS

Events of the week

Economic activity in China slowed in June. The services PMI (source: Caixin/S&P Global) came in at 53.9, compared with 56.2 in May. This means that services activity is marking time, recording its lowest level since January. Factors such as a sluggish domestic market, weak foreign demand and high youth unemployment continue to put pressure on the Chinese economy.

The June employment report confirms the slight slowdown in US employment momentum. Indeed, 209,000 jobs were created, below expectations (225,000), and the unemployment rate fell very slightly to 3.6% from 3.7% in May. Wage growth remained stable at 4.4% year-on-year. These data do not completely close the door on further rate hikes by the Fed.

Figures of the week

	Actual		Forecast	Previous
ISM Manufacturing PMI (June)	46	↓	47	46.9
ISM Services PMI (June)	53.9	↑	51	50.3
Unemployment Rate (June)	3.6%	↓	3.7%	3.7%
Retail Sales (YoY, May)	-2.9%	→	-2.7%	-2.9%
Caixin Manufacturing PMI (June)	52.5	↓	55.6	55.1
Caixin Services PMI (June)	53.9	↓	56.5	57.1

Sources: Macrobond, 07 July 2023

The week ahead

Monday

Inflation Rate (June)

Tuesday

Unemployment Rate (May)

ZEW Economic Sentiment (June)

Wednesday

Inflation Rate (June)

Thursday

GDP (May)

Friday

Michigan Consumer Sentiment (July)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,40	3,40	2,90	1,91	-0,58
USD SOFR O/N	5,06	5,06	4,81	4,30	1,54
JPY TONAR O/N	-0,03	-0,08	-0,01	-0,02	-0,01
GBP SONIA O/N	4,93	4,93	4,18	3,43	1,19
CHF O/N	1,72	1,71	0,80	0,80	-0,15

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,01	2,84	2,68	2,98	1,69
10Y Bund	2,46	2,30	2,17	2,44	1,08
10Y BTP	4,09	3,90	4,00	4,55	3,05
10Y JGB	0,40	0,40	0,47	0,41	0,21
10Y Bonos	3,46	3,29	3,21	3,51	2,29
10Y Swiss	0,84	0,88	1,22	1,57	0,78
10Y Gilt	4,47	4,31	3,43	3,66	2,07
10Y USTnote	3,95	3,71	3,30	3,88	2,93

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,44	3,39	3,28	3,12	2,09
EUR Corporate Baa	4,66	4,62	4,33	4,65	3,35
GBP Corporate Baa	5,68	5,57	4,50	4,59	3,23
USD Corporate Aaa	4,66	4,51	4,12	4,62	3,79
USD Corporate Baa	5,85	5,72	5,28	5,70	5,03
USD EM aggregate	7,53	7,46	7,20	7,52	7,16

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	76,41	3,6%	-9,9%	-11,1%	-23,4%
Or, USD/oz	1 915	0,4%	-5,2%	4,9%	10,1%
Copper, USD/metric ton	8 265	-0,1%	-5,9%	-1,6%	9,6%
Platinium, USD/oz	918	0,4%	-10,4%	-13,8%	6,4%
Palladium, USD/oz	1 236	-2,1%	-15,6%	-30,9%	-36,6%
Silver, USD/oz	22,81	0,9%	-7,8%	-4,7%	18,7%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,09	-0,5%	-0,6%	1,8%	6,9%
EUR/CHF	0,98	-0,2%	-1,1%	-1,1%	-1,3%
USD/GBP	0,79	-0,8%	-2,1%	-5,3%	-6,4%
USD/JPY	144,46	0,0%	10,4%	10,4%	6,5%
USD/BRL	4,86	0,0%	-3,8%	-9,0%	-10,6%
USD/CNY	7,25	-0,1%	5,4%	5,1%	8,0%
USD/RUB	90,43	4,3%	13,5%	23,9%	43,7%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	1,2%	1,2%	1,5%	2,4%
Euro area	0,1%	0,1%	1,2%	12,8%
Germany	-0,1%	-0,1%	2,7%	13,3%
France	0,3%	0,3%	-0,1%	10,9%
United Kingdom	-0,8%	-0,8%	-2,9%	-0,1%
Switzerland	0,1%	0,1%	0,7%	4,3%
United States	1,6%	1,6%	8,7%	15,8%
Japan	0,3%	0,3%	16,2%	21,9%
Brazil	2,5%	2,5%	18,4%	12,4%
Hong Kong	-0,3%	-0,3%	-5,7%	-3,4%
India	2,4%	2,4%	9,6%	7,0%
China	0,7%	0,7%	-5,7%	-0,1%

Source: Bloomberg, on 06 July 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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