LETTER FROM EDOUARD CARMIGNAC

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

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Dear Investor,

How do you square the impressive US economic boom with the slowdown unfolding in Europe and the growing number of weak spots observable in the emerging world? Or the greenback's sharp appreciation with the Trump administration's determination to add a ballooning fiscal deficit to an already oversized trade deficit? And finally, what are we to make of the rising global tide of populist governments, one of which – Italy's – now represents a serious challenge to the European Union?

Widening disparities in growth rates and the success of anti-establishment political movements both stem from a common, simple, yet hard-to-admit cause. Today's economic boom is inexorably running out of steam and, as a result, stronger countries are getting stronger – and weaker countries are getting relatively weaker.

And if you throw in the recent shift to beggar-thy-neighbour foreign trade practices by the world's leading power, there are good grounds for fearing that those disparities will necessarily increase.

The question is whether financial markets are already pricing in the attendant risks. At Carmignac Gestion, we certainly still view a tariff war between the United States and its trading partners, China above all, as an unlikely scenario. The US and Chinese economies are simply too interdependent, and without the backing of Xi Jinping, Donald Trump won't be able to wrest significant concessions from North Korea in time for the midterm elections in early November. On the other hand, the negligible impact that the trade standoff has had to date on the US economy – coupled with the political support that Trump's intransigent attitude has garnered from both Republican voters and major swathes of the US business community – suggests that the conflict won't be settled any time soon.

Given that the current tension looks set to endure or even get worse over the coming weeks, we are pursuing a cautious approach, particularly to non-US markets, which are already feeling the pain from the interest-rate hikes well under way in the US and the higher oil prices. In fact, not even US companies will come away unscathed as the rest of the global economy slows and profit margins get squeezed by rising wages at home and higher raw materials costs worldwide.

It is therefore essential for all concerned that the strife over trade subsides by the end of the summer, and chances are it will. In the meantime, our investment strategy focuses on sectors that are relatively unaffected by the turmoil. Chief among them are US tech companies, as well as oil firms, which are still buoyed by a supply–demand equation that works to the advantage of fossil fuels. Once the prevailing uncertainties have blown over, emerging-market equities, first and foremost in China, could rally, particularly as they are less vulnerable to the ongoing contraction in global liquidity.

Because we are keeping a close watch on these market risks while seeking out opportunities, we believe that you as investors can look forward to a fairly carefree summer holiday.

Yours truly,

Edouard CARMIGNAC

Président Directeur Général

Edouard Carmignac