

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,

The slow but steady climb in stock prices has continued to confound even the direst doomsday prophecies. Whether prompted by Donald Trump's unseemly outbursts early in the year, by the perils of resurgent European populism this past spring or by the prospect that global liquidity would dry up during the summer, somehow, none of the underlying fears have been strong enough to stem the market rally.

Does that leave equity markets in a more vulnerable state today? A first point worth noting is that, translated into euros, the MSCI World Index has gained only 4.6% so far this year. Nothing to write home about. In addition, if you look at global stock prices in relation to corporate earnings over the period – which are up 3.1% in euros – it turns out that they show **almost no change** since the start of the year.

Meanwhile, global economic growth forecasts for the coming twelve months have been revised upwards from 3.7% in January to 4%. The main drivers are improved sentiment in and towards Europe and easier financial conditions that have been a boon to emerging markets.

So the question is whether upcoming action by the Fed and, to a lesser extent, the ECB will shrink global liquidity to the point of spoiling the party in equity markets. We doubt it will. Though the risk of monetary policy misfires can't be ruled out entirely, there are such powerful deflationary forces at work on both sides of the Atlantic that both central banks' inflation targets have become unattainable. And that makes the prospects of substantial hikes in their key rates seem highly unlikely. Needless to say, we would be worried about the US economy overheating in response to large-scale fiscal stimulus – if we actually believed the Trump administration stood a decent chance of carrying out its tax reform plan.

This all points to a rather reassuring outlook.

Yours truly,



Edouard Carmignac

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