

For professional investors

July 14, 2022

## Plenisfer's quarterly Outlook

### *Plenisfer Investments SGR S.p.A.*

Looking ahead to the **second half of the year**, we think that the cycle of monetary tightening and economic slowdown will be the key issues in financial markets. The **stagflation** scenario, in fact, came into focus by mid-June. Since then, the emerging outlook of many analysts focused on recessionary pressures, prompting a meaningful rally for interest rates and a correction in cyclical, energy and materials-related stocks. However, **at Plenisfer we believe that stagflation remains the most likely future scenario.**

The post-Covid recovery has started to stretch some key labour markets that were already tight. While it's premature to come to definitive conclusions, we believe that it will be challenging for central banks to rein in inflation from current levels, notwithstanding their best efforts at keeping expectations anchored. Tight labour markets, combined with strong household and corporates balance sheets, leave us convinced that the Fed will prioritise fighting inflation to defending financial markets.

Regarding the Eurozone, inflation concerns are mostly plugged in to rising energy prices, therefore at Plenisfer we expect **fixed income** to remain under pressure. All of these factors could further the drag on European equity markets. A global economic slowdown in a strong dollar regime is doing nothing to bolster emerging-market **currencies**, that already underperformed significantly month to date, and will remain under pressure. We think that any allocation into local currency bonds is still premature.

From an **equity** point of view, we think it is worth bearing in mind that consumer spending and manufacturing output have been declining over the course of 2022, while employment numbers remain robust, and private-sector balance sheets are in good shape, both in the US and Europe. The strong post-Covid recovery coming into the first quarter of the year left many companies with solid earnings and favourable refinancing profiles after two years of cheap liquidity. Year to date, the equity-market correction prompted an adjustment in valuations, and while there is still some froth in the markets, we are rapidly converging on long-term averages. We believe the incoming reporting season will be crucial to understanding the full extent of damage caused to the bottom line of corporations by the increasing of costs and determining their ability to pass on input cost hikes to their



customers. If this proves to be the case, inflation will show itself to be even more stubborn than we forecasted.

We expect **commodity** prices to continue finding support in the medium to long term, due to reduced production capacity after years of underinvestment, coupled with an increasing demand for those industrial metals deployed in the green transition. The need to secure new sources of energy to cover the Russian supply will also sustain production in the medium term, although a possible resolution to the war could impact demand in the short term.

In our view, the **main risks** we face in the second half of the year will be, besides inflation, geopolitical uncertainty and energy insecurity. On the one hand, the repercussions of the conflict between Russia and Ukraine could further undermine global trade and economic growth. On the other hand, the financial markets have already seen significant corrections, so it will be possible to take advantage of some opportunities in terms of valuations that may emerge in the coming months.

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