DNCA INVESTMENTS

Press release

By Igor de Maack
Fund manager and spokesperson for fund management team

"Let's not disregard global capitalism straight away".

Economic fundamentals continue to improve in Europe while monetary conditions get back to normal in the US. Despite severe popular and media pressure on our democracies, it is still too early to write the Eurozone's obituary and inter global capitalism.

Just like in 2016, the financial markets have been closely monitoring political events, but their impact could well be overestimated. After Spain, Italy, and Austria, it's the Netherlands' turn to stand up against the tide of political and economic extremism, as the Dutch liberal party carried off its feat of winning the election to form a coalition. The markets hardly seem worried about the Dutch elections, but the vote showed that anti-European sentiment is not in the majority. No-one can refute that there are some inefficiencies within the European Union, as the UK did not hesitate to remind us at the Brexit referendum, and there is no denying the inconsistencies of a monetary zone (Eurozone) that displays diverging degrees of intrinsic economic flexibility. However, all economic indicators in the Eurozone are improving (confidence indices, unemployment, credit provision, return of inflation, slight upgrade to corporate earnings), and over the past three years, it has displayed GDP trends above its long-term theoretical potential which stands at 1%. The zone has staged repeated disturbing systemic shocks since 2011, and it could now become an attractive area for investment again, assuming that the last major political hurdle is cleared without too many difficulties. The French presidential election is the final focal point for the financial markets and it will dictate their performances. At this stage, and for what they are worth, polls do not indicate a high probability of an extreme party winning the election and even less so the likelihood of a parliamentary majority at the legislative elections in June.

Press release

In the US, the Fed has officially sounded the death knell of its accommodative monetary policy of the last decade as it announced a fresh rate hike of 0.25%, up from 0.75% to 1%. The US economy has recovered more positive momentum compared to the last quarter of 2016. Surprisingly and against all media and observers' expectations, the election of Donald Trump bolstered US consumer and investor confidence. However, the administration's first major measures (tax cuts, fiscal stimulus, particularly on infrastructure) still have to make it through Congress. One of the challenges will probably be Republicans' leniency on the umpteenth increase in the debt ceiling. Meanwhile in Europe, the ECB has not yet decided to hike its key rates, despite pressure from Germany, although it upgraded its inflation projections for 2017 (1.7%) while observing that real wage growth is not adequate yet. Interest rates rose on the back this slightly less accommodative stance. This divergence between the two zones' monetary policies does not look sustainable, particularly as it is beginning to have an excessive effect on currencies' comparative performances (euro and dollar). An interest rate hike now looks inevitable as a result of the combined effect of improved economic performances and central banks' desire to resume something of a more orthodox financial approach.

Valuations on the European equity markets price in a continued economic recovery, while bond products are still struggling under the specter of a rate hike on the short and/or long end of the yield curve. The latest round of corporate earnings reports confirmed the improvement in micro-economic performances. Valuations on the European equity markets are in line with their historical averages, and it is therefore important to avoid falling into valuation traps and pick the right sectors that can post pleasant surprises on their earnings growth. Investors should look into value themes and French and European large caps (particularly in Southern Europe) in their asset allocations. On the bond asset class, it is still important to maintain portfolios with short duration: between 1990 and 2016, the worldwide bond asset class went from weighted average yield of 9% to 1.6%, while weighted average duration rose from 4.7 to 6.9. Against this backdrop, it is preferable to hang onto liquid assets and short bonds that carry zero yield, pending future opportunities when the yield curve shifts.

Text completed on March 16, 2017 by Igor de Maack, fund manager and spokesperson for DNCA fund management team.

About DNCA:

DNCA is a French asset management company set up in 2000 by wealth-management specialists acting on behalf of private and institutional investors. With a defensive slant, the company seeks to optimize the risk/return ratio on its portfolios. DNCA has developed expertise in European and international equities (long only and absolute return), diversified fund management, convertible bonds and Eurozone bonds. The quality of the company's investment management, which regularly wins awards from the financial press, has enabled the company to enjoy swift growth over the past fifteen years. AUM currently stand at €19.8bn (as at 12/31/2016), with 105 staff in offices in Paris, Milan and Luxembourg.

Press contact:

Anne de Genouillac
Telephone: +33 1 58 62 55 07
E-mail: agenouillac@dnca-investments.com