Keynotes CNBC SQUAWK BOX
Didier Duret - Chairman OWM SA
Juliana Teitelbaum CNBC - Geoff Cutmore –CNBC

12th April 2022

Macro landscape: The 3 risks derived from the current state of Ukraine war (high inflation, recession risk in Europe and hawkisch Central banks) are largely in the cards. Needs to look beyond the current wall of worries and act accordingly to mitigate inflation.

> **Markets are looking miles ahead** despite the considerable uncertainty caused by the war in Ukraine. Markets are digesting and adjusting to the new set of risks. Low to medium Volatility risk levels (in the low 20x US high / high 20x Europe) reflect that.
>
> **At best "a magnified Stagflation"**, hard to see Europe avoiding an outright recession without comprehensive and extensive fiscal support that may come too late. The situation is worse than COVID, the price shock is broad base, brutal and contagious with lasting effects. US has the strongest growth prospects and China will have reactive policy advantage once past the COVID episode.
>
> **Inflation will remain sticky** at the factoring gates and consumer prices. Possible to see horrifying 10% yoy due to the manyfold second round effects.

Strategic Asset allocation : urge to consolidate the tracks to go through the stagflation Death Valley: **Strong case for Equities as hedge against inflation**. Deeply negative real yields (-5% in UST, 5.1% in UKG) are positive for equities: it reinforces the TINA (There Is No Alternative) . Exodus from govies and credit bonds with higher default risk.

> **Equity are good inflation hedges UNDER conditions** : Firms with **good MOAT and low valuations** ; Low PE (<15) low PEG (=1) stocks have demonstrated a decade long outperformance of value stocks in the 70! (Ken French academic study). Good moat means LASTING pricing power, with solid attachment to the brand. AVOID the danger of companies that have high margins because of their short term inflation transfert capacity but could suffer from a cliff in demand if the prices jumps too rapidly. Low costs, weak brand and low cost businesses are vulnerable, in the retail sector or airlines for instance. **Quality growth stocks** can be accumulated with a view on the post recession/post inflation world.(PE <25)
>
> **Strong case for CTA as portfolio diversifiers**. CTA have demonstrated adequacy in the worst UKN war moments in Feb and March. Quantitative models have no emotions, algo can embark quickly and stay the course on trends stemming from the powerful disruptions and substitutions in the commodities and energy complex. Recommended styles : quantitative cross asset trend following.

Deceptive trade:

> Bitcoin is disappointing as inflation hedge. Bitcoin behaves as a high beta of the US equity market. -13% ytd! Questioning its de-correlation and post Bretton Wood hopes. The jury is still out. 2022 will be a do or die!

Many questions marks are still open (the timing and shape of conflict de-escalation, the impact of Block Geopolitics on deglobalisation, the dominance of the USD). Despite their importance in shaping the world, these themes are less pressing than the destructive effect of inflation which needs concrete and immediate action in the portfolios.