FROM THE PESSIMISM OF INTELLIGENCE TO THE OPTIMISM OF THE WILL

From pessimism of intelligence to optimism of will. The stock exchanges, with Gramscian condescension, in this way wished to greet the first month of 2023 as they proactively sought to put the annus horribilis of 2022 behind them. The extreme pessimism of December left one imagining steadily rising interest rates and central banks unable to curb inflation but determined to kill growth.

China really seemed to be at a loss to figure out how to get out of the quagmire of zero-covid policy, as signs of openness were countered by irrepressible new waves of viruses. The European Union (EU) had ended the year looking for new energy supplies while waiting for an agreement to succeed in calming prices on international markets, knowing full well that it will have to contend with limits placed on purchases of old Russian energy. The Ukrainian military's successes were still not enough to solidify hopes of victory. And the Federal Reserve, while seeing signs of slowing inflation, continued to spook markets. Certainly the extreme fears experienced in the October lows seemed not to be returning with the same intensity. But they had not disappeared as the New Year approached.

It is known that, as George Soros says, markets are reflexive: what they see, good or bad, they exaggerate. And in December it was not exactly a good look. Journalists, by professional strain, are like markets: they focus on the news and if it is bad, they dye everything black. However, the pessimism was that of intelligence. And so there was a realization that the markets in 2022 had already anticipated so many difficulties to come. Inflation, especially in the United States, had begun to fall. The rate hikes would not end, but their pace would slow. Recession in 2023 was now a self-fulfilling announcement. But, many traders thought, in the second half of the new year the stock markets would start to rally again precisely because the slowdown in the economy, also well outlined by the International Monetary Fund (IMF), would force central banks to

change course by reducing rates. Meanwhile, however, the bear market rally, the rebound that started in mid-October, seemed to have exhausted its momentum. The new year was to begin with a correction that, amid ups and downs, would characterize the first two quarters. But it didn't.

Optimism of will has changed the January scenarios. Energy prices, and gas prices in particular, returned to levels prior to the outbreak of the war in Ukraine, on which even some notes of optimism for the temperance of Kyev's forces rested. Not surprisingly, European stock exchanges got off to a rocky start in the new year, with the Eurostoxx rising 10%. Such a major rebound prompted shorters, those speculating on the downside, to have to close positions further fueling the ride. Wall Street had to settle for a modest +5.6% (S&P): the multiples of European companies (P/E 12) are cheaper than those in the U.S. (18). Moreover, the prospect of the end of "covid restrictions" in China gave a huge benefit to Old Continent companies. Even from a currency point of view, Europe looked more attractive than the United States with the euro still losing 15% against usd from its 2021 highs despite recovery.

After January 18, the situation also changes due to repeated statements by various members of the European Central Bank (ECB), starting with President Christine Lagarde, which discouraged markets. For them, rates need to rise significantly to halt inflation: consumer price expectations for January 2023, while falling, were still at 8.9%, while the U.S. had its lowest figure in 14 months: 6.5%, on an annual basis.

The focus now returns to rates and their effect on growth. Across the Atlantic, people are looking less at equity valuations and more at the economy, which seems resilient and hints at a soft landing. The Fed, unlike the ECB, seems more cautious about raising rates. Markets even dream of a first rate cut as early as the fall.

Intelligence pessimism looks to corporate profits for reasons to support will optimism. However, the partial data are mixed. In some cases they are better than expectations. But they do not seem to discount any real contraction: price-to-earnings ratios would be lower. Investors

often take profits after announcements; a sign that they have already discounted expectations and do not yet have sufficient insight into the future. Macroeconomic data are more encouraging. U.S. Gross Domestic Product (GDP) exceeded expectations (2.6%) at 2.9% annualized. In the previous three months, however, it had grown by 3.2%. The International Monetary Fund certainly did not help clear the air. It continued to revise its forecasts downward and only in late January, in the World Economic Outlook Update[1], improved its expectations for growth of the world economy for the full year 2023 by 0.2% to 2.9%.

From a technical point of view, the Eurostoxx50 has broken upward from the 2022 bearish trend and is not far from the highs. It looks like an index ready to consolidate at still high levels. The S&P is also not far from its highs and the Nasdaq needs to confirm the break of the 200-day moving average. The world index (MSCI Wordl), aided by China, is now in an uptrend, while the Swiss index outlines a bullish figure (inverted shoulder head), but at the same time has left open a gap of about 10% below current levels. Even the flagship index, the U.S. S&P, while currently in a positive dynamic, could in the future be drawn back to ancient lows by technical indicators (gaps). The bond market confirms this uncertainty: the U.S. Treasury yields 4.2% at two years, but only 3.5% at ten years effectively discounting a recession.[2]

The latest indication from the IMF is encouraging in that the "outlook is less bleak relative to the October forecast. We may see a turning point at the bottom of the wave and a downward surge in inflation”.[3] But the "level of growth will remain weak relative to historical averages, measures to combat inflation and Russia's wars in Ukraine weigh on economic activity".[4]

[1] *World Economic Outlook Update, Inflation Peaking amid Low Growth*, FMI, January 2023.

[2] The measure of the relationship between short and long maturity rates is an indicator to be taken with caution. Although it has historically proven to be reliable, it is difficult to predict how reliable it is now, since the bond market has in fact been "nationalized" with the various Quantitative Easing. It used to be that central banks influenced short rates and the market influenced long rates. This is no longer the case; even long-term rates can be modulated by central banks by selling or buying long maturities.

[3] https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023

[4] Ibidem.

Clearly, much will depend on what happens in China and India, which together contribute half of the world's growth, while the United States and Europe together cover only a tenth. But all in all, for the IMF, the "outlook remains tilted to the downside, despite the fact that risks have eased since October and that certain positive factors have taken over".[5]

Will's optimism has many elements to glimpse substantial improvements in relation to particularly gloomy scenarios recorded last year. In particular, China's re-entry into world trade will boost growth. And it probably will not have an excessive effect on inflation because this country will grow at 5.2% and not 8.4% as in 2022 (IMF estimates). But some of last year's fears, such as the war in Ukraine and labor shortages pushing down wages, will also be there in 2023. And the price of oil and some commodities is also uncertain. The strength of the dollar, which strained many countries last year, will in any case be less intrusive this year.

From an economy that has become extremely financial since the 2008 crisis, digitized and globalized, we are moving toward new forms of production. This is an environment that leads to the enhancement of the real economy, with the consequence that financial asset inflation will be constantly forced to confront that of the real economy, which is sustainable but geopolitically at war. After years of ever-rising stock markets, perhaps we are in for a period of adjustment with ups and downs in a laterality that could last at least until the contours of the new globalization become clear.

Translated with ww.DeepL.com/Translator/CSM

[5] Ibidem.