Flash boursier N° 677
31 October 2022

Thrills and spills

Overview

Last week was full of twists. The markets did not know which way to turn, pulled in different directions by geopolitical tensions, economic figures, third-quarter results, the tech sell-off and viewpoints on central bank stances.

On US sovereign paper, the 10-year yield eased on hopes that the pace of rate hikes would slow to below 4%. On the economic front, business activity seems to be stalling, even though US GDP had earlier swung back to growth in Q3, with a 2.6% increase.

Manufacturing activity is tending to slow. Durable goods orders jumped by 0.4%, but excluding the transport sector, these fell by 0.5%. Non-defence capital goods orders excluding aircraft (a closely watched indicator of business spending plans) fell by 0.7% during the month.

Manufacturing activity slowing in US

Following a monthly decline in house prices for August, new home sales slowed sharply in September, falling by 10% in response to rising mortgage costs.

Consumer confidence for October also took a knock. Also noteworthy is the slower growth in consumer prices during Q3, clocking in at 4.5% after an increase of 4.7% in Q2.

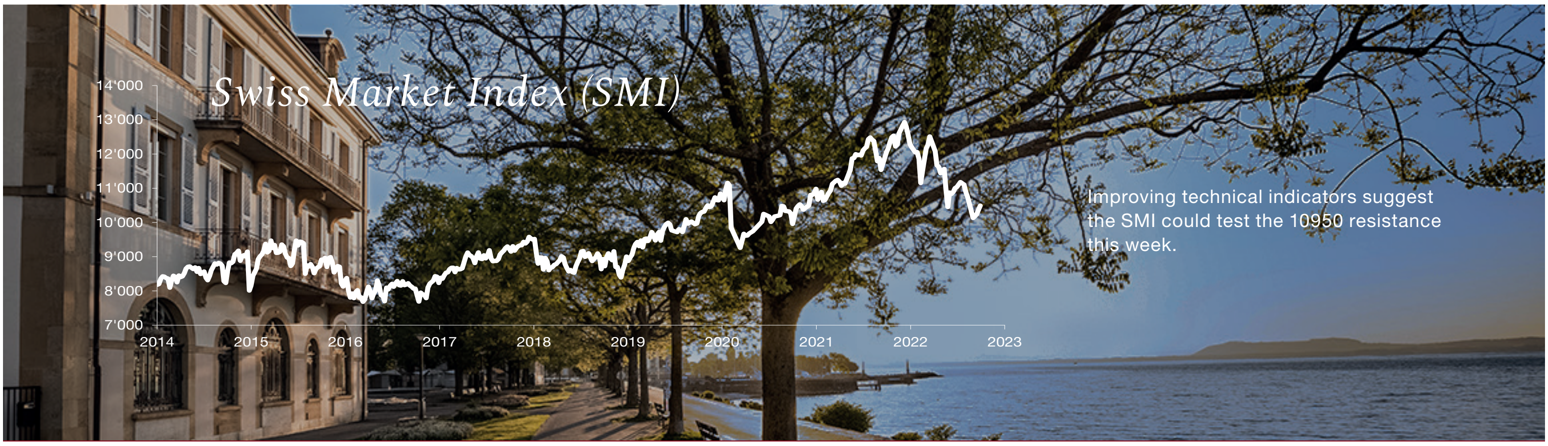
On the employment front, jobless claims for the week ending 22 October advanced to 217,000 – short of the expected 220,000. In contrast, initial jobless claims were higher than expected.

Across in Europe, the ECB as expected raised its benchmark policy rate by 75 basis points (bp). Private sector activity in October suffered its sharpest contraction in almost two years, as rising living costs made consumers more cautious, which in turn subdued demand. The Eurozone composite PMI dipped to 47.1 from 48.1 in September, versus a forecast of 47.5. The flash services PMI fell as expected, ebbing to 48.2 from 48.8. The manufacturing sector's reading clocked in at 46.6, down from 48.4 in September and contrasting with a forecast for 47.8, suggesting that the Eurozone economy might be heading for a contraction in Q4.

Sharp contraction in European private sector activity

Business sentiment in Germany deteriorated amidst high inflation, which was reported at 11.6% for October.

All eyes are now on the Fed, which will deliver its rate verdict on Wednesday. Its rate outlook could once again trigger volatility on indices.



Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	1.00	0.99	10'772.37	3'613.02	13'243.33	6'273.05	7'047.67	3'901.06	11'102.45	27'105.20	845.58
Trend	→	↑	↑	↑	↑	↑	↑	↑	↑	→	↓
YTD	9.21%	-4.29%	-16.34%	-15.95%	-16.63%	-12.30%	-4.56%	-18.15%	-29.04%	-5.86%	-31.37%

(values from the Friday preceding publication)

Corporate earnings to date

So far, almost 50% of companies have published results. The overall sentiment is rather mixed. Some of the results held up better than expected, particularly for those companies with solid pricing power. In contrast, tech stocks have dampened the mood, with USD 800bn of market capitalisation going up in smoke since they started reporting their numbers this time round. The sector – once thought to be immune to crises thanks to its digitally assured future – is experiencing a marked slowdown in growth. Cloud numbers foreshadow bad times at Microsoft and Amazon, while estimates for ad revenues have been cut at Google and Meta, and Apple has been forced to dial down production due to component sourcing problems.

Amid struggling purchasing power, discretionary consumer and food stocks reported increased revenues, mainly driven by price increases amid deteriorating volumes. Two such companies were Nestlé and Danone. Consumers are becoming more selective and turning to cheaper products. Household appliances (Seb, Electrolux, Whirlpool) experienced a sharp slowdown in demand, while McDonald's saw more footfall from higher earners compared with its traditionally less affluent customer base.

Two sectors are experiencing positive momentum: oil & gas and aerospace/defence. US oils have reported record results. Rising gas prices have offset the recent decline in oil prices. Notably, Exxon expects full-year earnings in 2022 to exceed USD 50 billion. Aerospace equipment manufacturers (Thalès, Dassault Aviation, Airbus) are seeing business levels supported by the post-pandemic revival in air traffic and by the recovery in military spending in Europe.

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