

# Doubts about slowing pace of Fed tightening

## Overview

Risk aversion resurfaced last week, triggering a sharp downswing in equity markets as market participants questioned whether the pace of the Fed's monetary tightening would actually slow down following the release of macroeconomic data undermining the prospect for lower inflation.

Bond yields edged up last week, with the US 10-year yield back at 3.50% and the Bund at 1.90%.

In the US, economic activity remains buoyant as testified to by the ISM Services index for November, which clocked in at 56.5 – beating the forecast for 53.5.

In a similar vein, the Producer Price Index (PPI) rose by 0.3% month-on-month in November, having gained by the same percentage in October. Year-on-year, however, the increase slowed down to 7.4%, down from 8.1% in the previous month.

### *US economic activity remains brisk*

In the US labour market, jobless claims rose last week to 230,000, an increase of 4,000 from the previous week. The four-week moving average advanced to 230,000, which is 1,000 more than the previous week, signalling slowing hiring trends.

The number of people receiving regular benefits increased by 62,000 to over 1.67 million in the week ending 26 November.

In Europe, Germany's industrial production was sturdy in October, edging down by only 0.1% after rising by 1.1% in September. Third-quarter GDP in the Eurozone expanded by an annualised 2.3%, above expectations for a 2.1% increase.

The S&P 500 ended the week down sharply by 3.37% while the tech-heavy Nasdaq, more sensitive to interest rate expectations, tanked by 3.99%.

In China, the authorities are speeding up reopening to boost economic growth and prevent further unrest up and down the country. Several large cities are no longer requiring covid test results for residents to use public transport or areas. Although the lockdowns are only partially lifted so far, we expect these relaxations will restore consumer confidence.

### *Authorities are speeding up reopening in China*

The markets will this week focus on central banks news and the US consumer price index





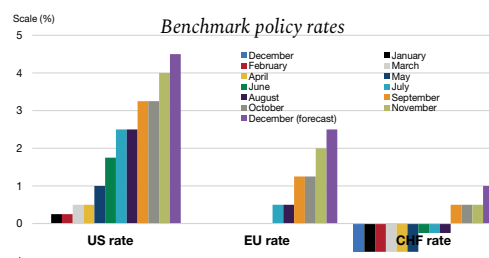
## Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.93	0.98	11'068.30	3'942.62	14'370.72	6'677.64	7'476.63	3'934.38	11'004.62	27'901.01	978.28
Trend	↓	→	→	→	→	→	→	↓	↓	→	↑
YTD	2.48%	-5.08%	-14.04%	-8.28%	-9.53%	-6.65%	1.25%	-17.45%	-29.66%	-3.09%	-20.59%

(values from the Friday preceding publication)

## Central banks in the spotlight

The agenda for this second week of December is dominated by the central banks. The Fed will announce its policy decision on Wednesday, and the SNB followed by the Bank of England and the ECB will be doing the same on Thursday. These meetings will at last give us hints as to whether central banks will slow the pace of rate hikes in 2023, plus provide the final values for end-2022. The main event this year has been the tightening of borrowing conditions orchestrated by central banks as they sought to curb inflation, which has gradually become entrenched at the expense of economic growth. So far, the effects of the restrictive policies pursued by central banks are not properly materialising in the real economy.



In the US, despite seven rate hikes in 2022, the strength of the labour market remains intact, and wage increases continue to support consumer spending. The Fed is therefore expected to continue hiking rates on Wednesday, with a 0.5% tightening move expected.

The energy crisis continues to pile pressure on the European economy. The Eurozone, hard hit by the war in Ukraine and the ensuing sanctions, is suffering from inflation standing at a massive 10% in October. Despite its best efforts, the deterioration in the European economic picture and political tensions put the ECB in a delicate position if it were to enact an overly restrictive monetary policy. The risk of a recession is deadly serious. Even so the market has priced in a rate hike of +0.5% on Thursday.

In Switzerland, things are quite different, as the SNB's 'strong franc' policy has kept imported inflation in check. We see the policy rate peaking at 1.75-2.0% in this cycle.

For the time being, central banks remain undaunted. The continued tightening in policy over the coming months is likely to produce peak rates around mid-2023. As a result, global growth is expected to slow sharply next year and might even shift into the red, which would spell the end of restrictive monetary policies in tandem with a fallback in prices.

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