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BONHÔTE

Rate hikes in line with expectations

Overview

Equity markets continued to rally as rate hikes were announced in line with expectations and comments were made that the process would soon slow down. Rate-setters also highlighted the resilience of economic activity despite the restrictive effects of monetary policy.

Bond yields fell at the beginning of the week but ended the week flat. The US 10-year yield is around 3.5% and the German equivalent is close to 2.20%.

In the US, economic activity is slowing and inflation is easing. However, non-farm payrolls added 517,000 jobs in January, well above expectations. Looking at the private sector figures, job creation slowed to 106,000, below the 180,000 expected. Initial jobless claims fell to 183,000 in the week to 23 January from 186,000 the previous week. The unemployment rate fell 0.1 percentage point to 3.4% and average hourly earnings rose at an annual rate of 4.4%, slightly stronger than expected.

US economic activity is slowing and inflation is slowly ebbing

Durable goods orders (excluding transport) fell by 0.2% in December.

In Europe, economic doubts and energy shortages led to a sharp decline in German retail sales in December, which fell by 5.3% compared with a forecast increase of 0.2%.

The acceleration in consumer prices in France, from 6.7% in December to 7% in January according to harmonised European Union data, following the announcement of higher inflation in Spain, reinforced the ECB's determination to continue raising interest rates at upcoming meetings.

Acceleration of in consumer prices in France has reinforced the ECB's determination to continue raising rates

The S&P 500 ended the week up 1.62%, while the tech-heavy Nasdaq rose 3.31%. The Stoxx 600 Europe Index gained 1.23%.

The corporate earnings season will continue this week and could lead to renewed volatility.

The SMI is trading slightly below 11270 support and could find a base at the 50-day moving average at 11125. At this point, we could see a brief consolidation before a move back towards 11500.

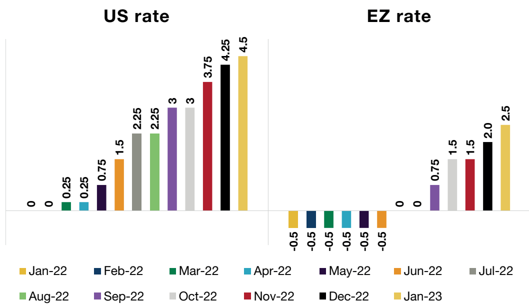
Key data

	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	1.00	11'349.39	4'257.98	15'476.43	7'233.94	7'901.80	4'136.48	12'006.96	27'509.46	1'038.71
Trend	➡	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	➡
YTD	0.16%	0.99%	5.78%	12.24%	11.15%	11.74%	6.04%	7.73%	14.72%	5.42%	8.61%

(values from the Friday preceding publication)

Central banks grabbing the headlines

Policy rates



The disconnect between financial markets and messages stemming from central banks was illustrated on Wednesday and Thursday, following announcements by the US Federal Reserve (Fed) and the European Central Bank (ECB).

As expected, the Fed raised its benchmark Fed Funds rate by 25 basis points to 4.50-4.75%. Chair Powell acknowledged that the fight against inflation was paying off but stressed that recent progress was not enough for him to call time on rate hikes and a change of strategy was unthinkable at the moment.

Investors were reluctant to believe that a two-hike cycle was still on the cards and continued to bet on a cut before the end of the year.

The ECB also raised rates by 50 basis points on Thursday, as announced in December, and indicated that it expected to raise rates by the same magnitude in March. Lagarde pointed to the resilience of the European economy, which has held up better than expected. But despite a slowdown in inflation, there is still some way to go. In addition, the ECB will start reducing its balance sheet (EUR 9,000bn) by EUR 15bn per month from March. Reinvestments will focus on issuers with solid climate performances.

The markets immediately interpreted these decisions as a sign that the monetary tightening cycle was coming to an end and pushed the markets into the green, with yields easing significantly. Following these reactions, the International Monetary Fund stepped in to remind investors that interest rates will remain high for a long time, until inflation is brought below the central banks' target in a sustainable manner.

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