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Risk appetite fuelled by strong data

Overview

Equity markets rallied further last week as macroeconomic data pointed to a slowdown in inflation, supported by better news on the health of US regional banks. Solid reports from luxury goods companies and the first set of US bank earnings also had a positive impact on risk appetite.

Bond yields rose slightly. The US 10-year yield hovered around 3.50% and the German equivalent was 2.40%.

In the US, inflation slowed to 5% in March, the lowest level since May 2021. But core inflation, which excludes food and energy, held steady at 5.6% from 5.5% the previous month, reflecting increases in housing and transportation costs.

Inflation slowing in the US

US producer prices fell by 0.5% in March month-on-month, but rose by 0.1% excluding food, energy and trade services. On a 12-month basis, however, the rise in producer prices slowed to 2.7% on a headline basis and 3.6% excluding food, energy and trade services.

At the same time, retail sales fell by a larger-than-expected 1% in March, indicating that households are cutting back on purchases, particularly of cars and other big-ticket items.

All this points to a possible 25bp hike in the Fed funds rate at the next meeting in May, bringing the curtain down on the current tightening cycle.

In the Eurozone, CPI inflation in France was relatively stable in March compared with the previous month, at 6.7% versus 6.6%. In Germany, inflation was in line with expectations at 1.1% month-on-month and 7.8% year-on-year.

In addition, economic activity improved in February as industrial production rose by a better-than-expected 1.5% after a 1% increase in January.

In China, exports unexpectedly rebounded in March, partly reflecting pent-up demand in the form of unfilled orders from last year's zero-covid policy. Exports rose 14.8% year-on-year last month, after falling 6.8% in January-February, compared with the consensus forecast for a 7.0% decline.

Exports have surged in China

The S&P 500 ended the week up 0.79% while the tech-heavy Nasdaq rose by a more modest 0.29%. The Stoxx 600 Europe index gained 1.74% over the week.

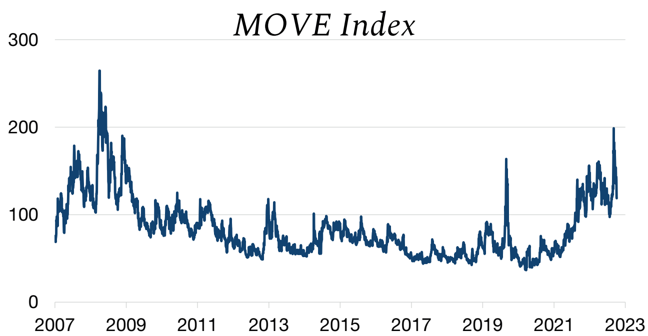
This coming week will feature more earnings reports, plus the publication of the PMIs in the US.

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	0.89	0.98	11'342.86	4'390.75	15'807.50	7'519.61	7'871.91	4'137.64	12'123.47	28'493.47	1'000.49
Trend	↓	→	↑	↑	↑	↑	↑	↑	↑	↑	↑
YTD	-3.34%	-0.72%	5.72%	15.74%	13.53%	16.16%	5.64%	7.77%	15.83%	9.19%	4.61%

(values from the Friday preceding publication)

The MOVE Index



The MOVE index tracks volatility on US Treasury bonds. Specifically, it measures the probability of yield changes on Treasury bonds as implied by options pricing.

It is therefore a valuable tool for investors to assess bond market fluctuations and identify the right time to invest or exit based on implied volatility.

The MOVE index has reached historical extremes during some of the major events that have shaken financial markets in the past. In October 2008, for example, it reached 264 points in the wake of the global financial crisis. Investors fled risky assets and turned to US Treasuries as a safe haven, leading to strong demand for these bonds and a rise in their price. This brisk demand also led to an increase in their volatility, which contributed to the rise in the MOVE index. The same thing happened in March 2020, when the index peaked at 164 points due to the uncertainty surrounding the pandemic. More recently, the index approached 200 points as panic set in within the US banking sector.

In summary, the MOVE index tends to spike during periods of severe economic and financial turmoil and is therefore used by investors to gauge bond market stress.

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