

# Rate cuts shrouded in uncertainty

Price action in financial markets last week reflected the US inflation release and the ECB rate decision. Financial assets have lacked their impetus for a good while, instead being driven along by macroeconomic data. Starting this week, the first-quarter reporting season could supply some catalysts.

Indices were bolstered last week by the prospect of rate cuts. At the same time, the global economy is proving more resilient than expected, which goes some way to explaining the upbeat mood in the market.

The problem is that several Fed governors have made remarks that fly in the face of expectations, suggesting that the number of rate cuts could fall short of the consensus forecast. Although still planning to cut rates this year, policymakers have so far held off, wanting to be sure that the uptick in inflation does not become a trend. Consequently, the market now assigns lower odds for a Fed rate, especially after the further rise in inflation last month. Investors are now expecting two rate cuts this year compared with seven last December.

## Market slashes rate cut projections

The consumer price index (CPI) has continued to pick up, rising by 3.5% year-on-year compared with 3.2% in February, once again disappointing analysts who were expecting a less momentous increase. By contrast, month-on-month inflation held steady at +0.4%, although this was a whisker above the consensus forecast for a slight downturn to +0.3%. Core inflation, excluding food and energy, levelled off on a year-on-year basis to +3.8%.

## Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
<b>Latest</b>	0.91	0.97	11'379.58	4'955.01	17'930.32	8'010.83	7'995.58	5'123.41	16'175.09	39'523.55	1'041.70
<b>Trend</b>	▲	➡	▼	▼	▼	▼	▲	▼	➡	➡	➡
<b>YTD</b>	8.66%	4.75%	2.17%	9.59%	7.04%	6.20%	3.39%	7.41%	7.75%	18.11%	1.75%

(values from the Friday preceding publication)

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Petrol, housing and transport prices remain the main culprits behind this pressure on prices in the US.

At the same time, producer prices counterbalanced the worse-than-expected inflation number. The PPI index rose by less than expected, gaining +0.2% month-on-month in March, giving the market some breathing space. The PPI is considered a leading inflation indicator and therefore seems to suggest that the disinflation process is continuing. But we should not forget that PPI increased by 2.1% year-on-year, marking its fastest clip in almost a year.

Pressure gauges rose in fixed-income markets last week, with the yield on the US 10-year bond climbing to 4.55%. Its German equivalent increased to 2.40%.

## Pressure gauges rising in fixed-income markets

European data are moving in the right direction, bolstering the ECB's confidence about a rate cut in June. Inflation continued to weaken in March, falling to 2.4% year-on-year and moving closer to the 2% official target. High interest rates continue to throttle the Eurozone economy, resulting in sluggish growth and soft loan demand from businesses. Christine Lagarde reiterated that the ECB is dependent on data, stressing that more certainty was needed from the flurry of statistics due between now and June.

Tensions in the Middle East dampened trading on Friday. The S&P 500 ended the week down 1.56% and the Nasdaq 0.45%. In Europe, the Stoxx Europe 600 dipped 0.12%.

## Swiss Market Index (SMI)



The SMI closed below 11505, signalling a nascent consolidation phase. The next support is 11290 while resistance is located at 11460.