

# Normalisation in sight for monetary policy

## Overview

This time last year the world was pondering how pandemic-related lockdowns would impact financial markets. Despite the uncertainty, the outcome for 2021 – as the year nears its completion – has shattered all expectations, with companies reporting healthy sales and margin figures and many equity market indices stretching to all-time highs.

Encouragingly, US retail sales were also up 1.7% in October month-on-month, showing that consumers are still buying despite soaring prices. Some may have even brought forward their Christmas shopping, fearing in-store shortages. A hint of improvement in supply chains last week offset fresh concerns about the accelerating spread of Covid-19 in Europe and the effects this could have on economic recovery.

### *Companies report solid sales and earnings amid all-time highs on equity indices*

The fourth wave of the pandemic stole the attention of investors last week. Main indices were modestly impacted by the renewed health emergency and the announced lockdown in Austria. However, a two-speed equity market could be observed, at the same time as the euro ebbed to a 16-month nadir against the US dollar.

Sector rotation was in full swing, with energy stocks falling in tandem with receding oil prices. Travel & leisure companies also recorded lower share prices while financial stocks declined amid falling bond yields. Consumer goods did well,

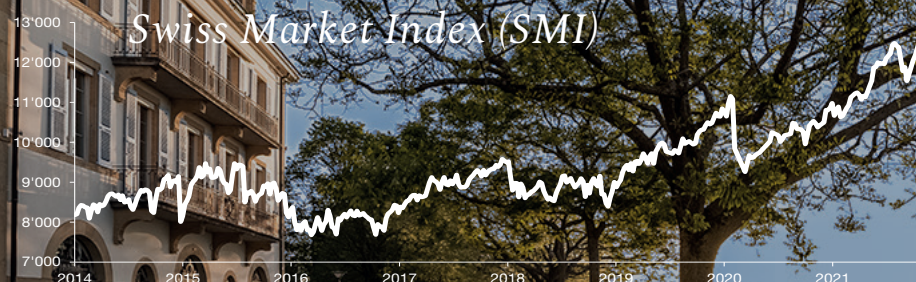
by contrast, while tech was helped along by lower yields and the prospective improvement in semiconductor shortages announced by some component manufacturers. Nasdaq rose by 1.2% over the week, driven forward by large caps (Apple +7% and Microsoft +2%).

### *Strong sector rotation leading to decline in energy, financials and tourism. Consumer and technology stocks fared well*

Real (i.e. inflation-adjusted) government bond yields remained broadly negative in Europe and the US (US 10yr -1.14%) despite the economic recovery and the inflation surge, which is certainly puzzling. All the same, investor demand for risk assets is increasing. Admittedly, for US government yields, demand is being driven by significantly higher nominal rates than in Europe and Japan and by the Fed's asset-buying programme. It is clear that we are moving towards monetary normalisation. Central bank support will gradually be withdrawn, with a rate hike by the Bank of England expected for the 6 December meeting. Overall, this will lead to more volatility in equities given their lavish multiples.

Joe Biden is soon expected to announce whether or not he will reappoint Republican Jerome Powell as Fed chief. If he were to appoint a Democrat – say Lael Brainard – in his place, political pressure could mount, placing the blame squarely on her if inflation were to persist. Watch this space.

## Swiss Market Index (SMI)



Same story as in the previous week, with momentum indicators remaining strong. Scenario unchanged with a target at 13150.



## 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	1.05	12'545.01	4'356.47	16'159.97	7'112.29	7'223.57	4'697.96	16'057.44	29'745.87	1'269.22
Trend	↑	➡	↑	➡	↑	↑	➡	↑	↑	↑	➡
YTD	4.91%	-3.12%	17.20%	22.63%	17.79%	28.12%	11.81%	25.08%	24.59%	8.39%	-1.71%

(values from the Friday preceding publication)

## Crypto assets and Swiss regulations

Cryptocurrencies are today’s embodiment of tomorrow’s finance world, but they are also the subject of an unprecedented amount of speculation. Their particularity is that they are decentralised and independent of all state and financial institutions (i.e. banks), thus bypassing regulations. In fact, the anonymity of the transaction counterparty on blockchain systems makes it impossible to identify that party or take a case to court if an access key is lost or another problem occurs. Poor transparency on the origin of funds and rules for applying anti-money laundering legislation are also issues.



In Switzerland, trading in cryptocurrencies is subject to authorisation by FINMA, the Swiss Financial Market Supervisory Authority. Firms must be members of a self-regulatory organisation or hold a financial intermediary licence and be directly supervised by FINMA. Investors are no better protected than elsewhere because the decentralisation and independence claimed by cryptocurrencies runs fundamentally counter to the idea of regulatory oversight. Bear in mind that the aim of the blockchain is to avoid any bank-type intermediary, thus handing over operational control to a decentralised community of miners (i.e. the agents approving transactions in the blockchain). Caution should therefore be exercised when investing in cryptoassets on such exchanges, which act like banks but are not subject to the same regulations.

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