

# Markets fluctuating wildly

## Overview

Last week marked a turbulent time, triggered by the Fed's announcement of impending rate rises and a variable batch of corporate earnings. Fluctuations in equity markets were particularly fierce. Intraday swings of -5% to +5% were visible on indices. Tensions in Ukraine were compounded by the IMF's downgrading of its global economic growth forecast plus uninspiring guidance figures and imminent monetary tightening – with the Fed switching to a more hawkish policy as it seeks to put a lid on inflation.

The Fed held its benchmark interest rate at its meeting last week. At the same time, Chair Powell confessed that it could take a long time to get inflation back at its target while acknowledging that supply chain glitches had been worse than expected. These indications were taken to mean that rate lift-off could be as early as March. The market has since tried to discern the pace of these rate hikes. Powell was silent on the precise timetable, although he did state that he had plenty of wiggle room to act. In short, interest rates could rise at a faster pace than was hitherto expected. Fed funds futures today assign a 94% probability that we will see five quarter-point hikes this year. The message is clear: the Fed is now 100% focused on fighting inflation. Its favourite inflation barometer, PCEs, rose by 5.8% year-on-year in December, in line with expectations. This change in direction is unlikely to hurt Main Street but will remove significant support from Wall Street.

*Fed funds futures today price in five rate hikes for 2022*

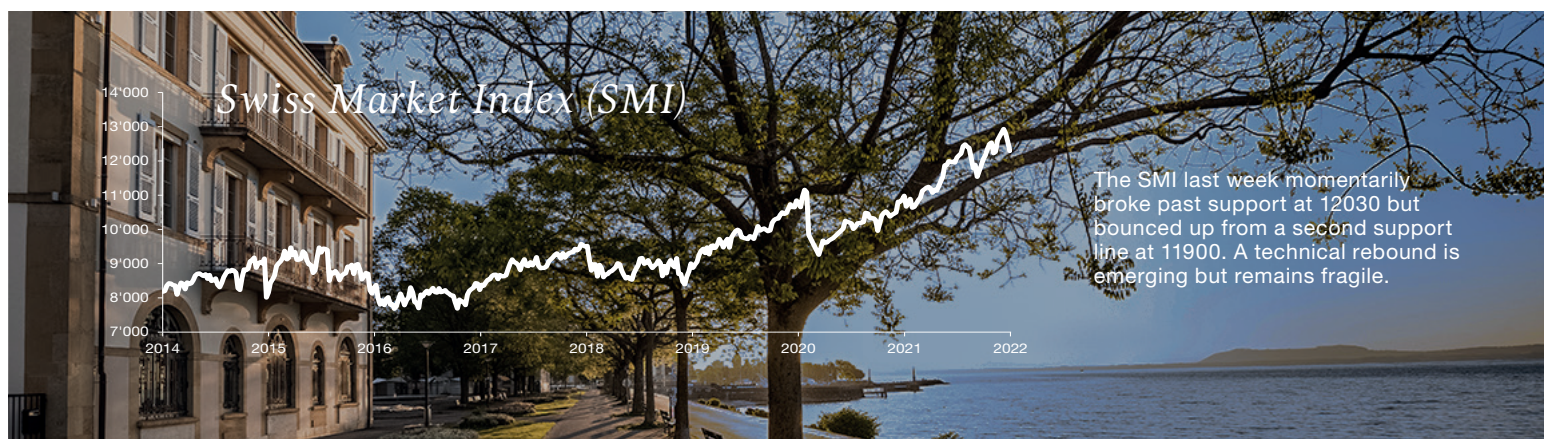
Staying with the US, economic growth was again solid in the fourth quarter, rising by 6.9% year-on-year. Spending on services accounted for the 3.3% increase in personal expenditures. Over the whole of 2021, GDP grew by 5.7% – its strongest increase since 1984.

The global economy is robust enough to cope with higher interest rates. Abundant household savings and strong hiring trends are expected to sustain growth in consumer spending in spite of the temporary decline in purchasing power.

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Last week's highlight was the financial publication by Apple, which set a new revenue record – nearly USD 124 billion in three months. So did LVMH, whose sales soared to EUR 4 billion and net profit to EUR 12 billion in 2021, streets ahead of pre-pandemic results.

Investor attention this week will be focused on the ECB meeting and several economic indicators, including eurozone inflation and the monthly jobs report out of the US. Some big names will also be reporting, including Google, AMD, Amazon, Paypal and Meta Platforms. Chinese, Taiwan and South Korean markets will be closed for the Lunar New Year.





## 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	1.04	12'104.44	4'136.91	15'318.95	6'965.88	7'466.07	4'431.85	13'770.57	26'717.34	1'191.14
Trend	↑	➡	↓	↓	↓	↓	➡	↓	↓	↓	↓
YTD	2.08%	0.07%	-5.99%	-3.76%	-3.56%	-2.62%	1.10%	-7.01%	-11.98%	-7.20%	-3.32%

(values from the Friday preceding publication)

## Paypal: cheap multiples offer opportunities in the aftermath of the tech crash

Paypal is a service for making online payments without having to input your credit card or bank account number. It can be thought of as a safe buffer zone between the two parties to the transaction, on the one hand, and each one's bank accounts (or credit card platform), on the other. Paypal was bought by web giant Ebay in 2002 but was then spun off and floated in 2015.



It derives almost all of its revenues from fees charged on payments, withdrawals and exchanges transiting via its platform. Some 15 billion transactions are processed every year. The group also issues credit cards. The number of active users now exceeds 380 million and the group has over 30 million merchant accounts. The share price has corrected by more than 50% since Q3 2021. Unlike other stocks that have suffered the same fate, the group's fundamentals are strong. Additionally, it has more than USD 13 billion in cash and a market capitalisation of USD 190 billion. Paypal also boasts a solid A-grade ESG rating. The sell-off has pummeled its valuation down to fair levels in tune with its earnings growth guidance (between 15% and 20% per year).

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