

# Overcoming anxiety

## Overview

Major equity markets ended last week in haphazard fashion, with attention focused on fallout from the war in Ukraine and on central bank manoeuvres. Take the Nikkei index, for example, which bounced back by 4%, and the S&P 500 and Nasdaq, both of which gained almost 2%. European equities are exposed to energy price fluctuations, so their performance was mixed. Some indices ended in positive territory; others negatively, depending on their respective sector breakdowns. The CAC 40 lost the most ground, giving up 1%, followed by the Dax, down 0.8%.

At the sector level, commodity-related stocks led the way, in tandem with soaring Brent oil prices, while the prospect of increased military spending supported the defence industry.

The surge in US yields, following more hawkish rhetoric from Fed members on the subject of future rate hikes, did not prevent a rally in major tech stocks this time round (Apple +7%). Tech widely outperformed cyclicals as investors last week focused on earnings growth potential, which is expected to remain relatively brisk despite slowing economic growth. As such, in spite of the substantial losses racked up in bond markets in March and the pressure on corporate bonds, equities have finally returned to their pre-war levels.

### Household tech names stage rally

Fed Chair Powell has no longer states that inflation is transitory. But despite the sharp correction in bond markets, we are still far from a mood of panic. Fears of stagflation, as seen in the 1970s against the backdrop of oil crises, are spreading in people's minds. Back then, an inflation rate of 6% propelled the 10-year yield on Treasuries up to 8%. This contrasts with just 2.5% today.

In addition, the yield curve in the US is flattening. The spread between 10-year and 2-year bonds is now just 20 basis points, raising fears of an inversion; and an inversion has preceded every single economic recession since the 1950s by a few months. According to research by the Fed, which certainly does not want to be accused of hamstringing the economy, a more reliable metric would be the 18-month point in the yield curve, which is not inverted at all.

For this year, a mere slowdown in the growth rate seems more likely. Positively, it is accepted that the Covid epidemic – which is no longer at the forefront of investors' concerns – has become manageable. The shift from pandemic to endemic means that the world is getting back to business as usual, as households dust off their massive savings and start spending again.

### Covid epidemic is widely viewed as manageable

## Swiss Market Index (SMI)



SMI has built support just above 12080. The scenario remains unchanged. Initial resistance is located at 12420. In case of a breakout, the next target would be 12700.



## 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	1.02	12'121.67	3'867.73	14'305.76	6'553.68	7'483.35	4'543.06	14'169.30	28'149.84	1'125.01
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	➡
YTD	1.96%	-1.47%	-5.86%	-10.02%	-9.94%	-8.38%	1.34%	-4.68%	-9.43%	-2.23%	-8.68%

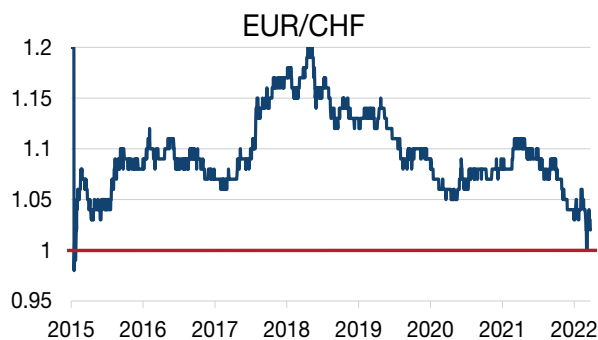
(values from the Friday preceding publication)

## SNB more relaxed than its peers

The Swiss National Bank (SNB) was the only central bank that did not mention tightening its latest monetary policy meeting on 24 March. It has also allowed the Swiss franc to strengthen to some extent, according to the message from its chairman, Thomas Jordan, who cited Switzerland's noticeably lower inflation compared with other economies.

The pace of increases in consumer prices in Switzerland (1.9% in February) is three times slower than in the Eurozone. This allows the SNB to be vague in its interventions in the foreign exchange market and to let the Swiss franc appreciate against the euro. The national currency even reached parity with the euro for the first time since 2015 after Russia's invasion of Ukraine, which had triggered a flight to safety. It has since weakened to around 1.024.

The SNB is keeping its benchmark policy rate at -0.75%, the lowest in the world, and shows no signs of raising it despite the cloud hanging over global economic growth – especially since war broke out in Ukraine. The SNB's inflation forecast this year has doubled to 2.1%, falling back to 0.9% in 2023 and 2024. This projection is still much lower than that of its neighbours. Yet the SNB does not rule out the risk of higher inflation due to a worsening shortage of raw materials and, consequently, a further rise in global prices. Neither does it exclude the possibility of a sharper slowdown in economic growth, which it currently forecasts at 2.5% for this year.



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