

# Stagflation could be on the way

## Overview

Geopolitical unknowns are teaming up with persistent inflation to give rise to a possible bout of stagflation, meaning soaring prices and lacklustre GDP growth. Bond yields have risen sharply, propelled higher by Fed officials emphasising the possibility of a half-point rate hike in the coming months, if ever required. Europe's economic prospects are particularly affected by the downturn, especially in Germany, which is heavily reliant on manufacturing and exports.

In contrast, major stock indices have staged an impressive rally since the mid-March low. As we head into a new week, it has become clear that the negotiations on a ceasefire between Russia and Ukraine are going nowhere, and this is now hampering the performance of those indices. A fifth round of sanctions could be agreed on by the EU after evidence was discovered pointing to the massacre of Ukrainian civilians by the Russian army.

### *Fifth round of sanctions could soon be agreed on by the EU*

For European equities, last week featured a recovery by automotive stocks. In other asset classes, the focus was once again on the volatility of energy prices. The price of crude oil fell by around 13% following America's decision

to tap into its strategic reserve. It was also influenced by the rising number of Covid-19 cases in China. Gas prices were more volatile, reflecting the tug of war between Moscow and Europe over the payment of gas supplies in roubles. The possibility of blocking Russian gas imports is now on the agenda.

### *US due to tap into Strategic Petroleum Reserve*

Over in the US, the increase in hiring (+431,000 March, +739,000 in February, revised) was seen across all industries, especially services – contributing to the addition of nearly 1.5 million jobs in Q1 2022. The job market remains tightly poised. Labour shortages have pushed up wages by 5.6% over the past year, raising fears of a price-wage spiral. But this increase is slower than inflation and, on the positive side, supports consumer morale and spending.

China's manufacturing PMI contracted to 48.1 in March, hit by fallout from the war in Ukraine and lockdown measures enacted following the resurgence of Covid-19 cases. Apart from the March 2020 low, this metric is now at its lowest reading since 2016, reflecting weak domestic demand and falling export orders. Beijing is likely to take fresh measures to support its economy.





## 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	12'179.08	3'918.68	14'446.48	6'684.31	7'537.90	4'545.86	14'261.50	27'665.98	1'145.85
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
YTD	1.48%	-1.42%	-5.41%	-8.83%	-9.06%	-6.55%	2.08%	-4.62%	-8.84%	-3.91%	-6.99%

(values from the Friday preceding publication)

## Crude oil

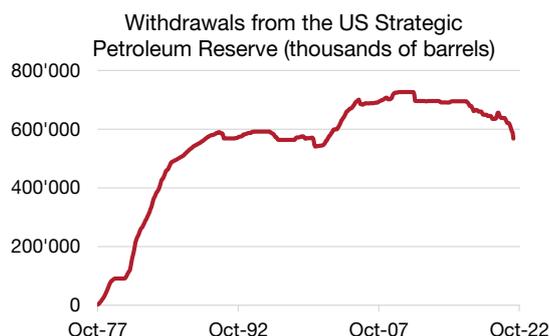
The US plans to draw on 1 million barrels per day from its Strategic Petroleum Reserve for 6 months, starting in May. This will be the largest ever release from this stockpile and the third time Washington has drawn on it in six months. These 180 million barrels represent about two days of global demand but will not be enough to cover the shortfall in Russian oil. Joe Biden has called on oil companies to drill more to combat rising petroleum prices and the resulting runaway inflation that is hurting consumers.

OPEC+ has decided to stick to its agreement and increase its May production by only 432,000 barrels per day, using Biden's announcement and the lockdowns in China arising from the resurgence of Covid-19 cases as a pretext not to increase it further.

The Biden administration is calling on other members of the International Energy Agency to release barrels as well. This would add 30-60 million barrels to compensate for the lost Russian exports, thus reducing the structural supply deficit and cushioning the associated surge in oil prices.

Such a decision would restore some balance to the oil market this year but would not be a permanent solution. As soon as it can, the US will want to replenish its reserves, which stand at their lowest level since March 2020.

Energy prices will continue to be buffeted by the ups and downs of the Ukraine-Russia conflict. This is reminiscent of the 1973 Yom Kippur War, after which Arab countries cut off supplies to Israel's allies, causing crude oil prices to quadruple in short order.



## Authors and contact



**Julien Stähli**  
Chief Investment Officer (CIO)  
MBF Boston University



**Françoise Mensi**  
Ph.D in Economics



**Pierre-François Donzé**  
M. Sc. in Economics



**Karine Patron**  
MScF Université de Neuchâtel



**Mickaël Gonçalves**  
MSc in Accounting, Control and Finance

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch

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