Flash boursier N° 651
11 April 2022

BONHÔTE

Constant rise in Treasury yields

Overview

The uptrend in US bond yields continued apace last week, particularly at the long end of the curve, with the 10-year yield rising by 32 basis points. Investors were reacting to remarks by some of the Fed's top brass suggesting that more stringent monetary tightening was in the works than had been expected.

Early in the week FOMC member Lael Brainard, who is slated to become the next Fed Vice Chair at the behest of Joe Biden, made it clear that the Fed's overriding mission was to curb the intense inflationary pressures visible in the US since mid-2021. Latest year-on-year inflation was 7.9% in February – a level not seen since the early 1980s. In the same month in 2021, the figure was just 1.7%. This inflation-busting attitude unsettled markets because Ms Brainard was previously perceived as a dove (i.e. fairly tolerant of inflation, unlike her hawkish peers).

Increasingly hawkish slant by FOMC members

A few days later James Bullard, President of the Missouri Fed, drove the message home by announcing that he would like to see Fed funds up at 3-3.25% in the second half of the year compared with 0.25-0.50% at the moment. Bullard is a notorious hawk but the news nonetheless rattled investors. He then commented that several FOMC members would have voted for a half-point hike at the latest meeting in March, instead of the quarter-point increase, had Russia not attacked Ukraine. These remarks further put the wind up investors.

The tensions affecting US yields last week helped the dollar, which appreciated by 1.6% against the euro and 0.9% against the Swiss franc.

US and European equities weathered the sharp rise in long-term yields relatively well, with the S&P 500 posting a weekly decline of only 0.1% while the Stoxx 600 succeeded in gaining 0.6%. Explaining this resilience last week was the lack of alternatives to equities, unchanged expectations of strong earnings growth in 2022 and the consensus view that the Fed is capable of cooling down inflation without hurting economic growth or upsetting Wall Street. That is also why equities have not fallen back too far year to date despite the deterioration in bond markets and the surge in geopolitical exposures.

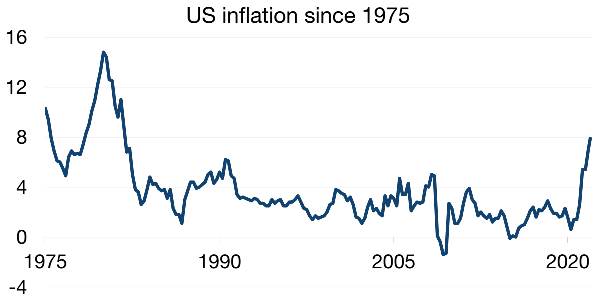
US and European equities have weathered the sharp rise in long-term yields relatively well

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	12'507.69	3'858.37	14'283.67	6'548.22	7'669.56	4'488.28	13'711.00	26'985.80	1'127.93
Trend	→	→	↑	→	→	→	↑	→	↓	→	→
YTD	2.43%	-2.05%	-2.86%	-10.24%	-10.08%	-8.46%	3.86%	-5.83%	-12.36%	-6.27%	-8.45%

(values from the Friday preceding publication)

Fed's focus firmly on inflation



In late November, the Fed stated that talk of "transitory inflation" was no longer appropriate, adding that it would have to start withdrawing the unprecedented monetary support that the wider economy and financial markets had been receiving since 2020.

The reason why the Fed stuck to this ultra-loose policy for so long was its focus on full employment – one side of its dual mandate.

This decision to foster a broad-based recovery in the labour market, for the benefit of all strata of society, including those least qualified (who generally take time to find work), was made during the economic slump in 2020. The sharp recession triggered by the anti-corona measures severely affected low-skilled workers, many of whom had been employed in services industries and who as a result were hit hard by the lockdown measures.

For some months, with the jobs recovery locked in (as gauged by unemployment down at 3.8%), the Fed has been able to concentrate on the second part of its mandate – price stability – as it seeks to safeguard the purchasing power of ordinary Americans, especially the poorest families, who are most at risk from inflation. In her latest remarks, Ms Brainard pointed out that the poorest households spend 77% of their income on basic necessities (most notably food and energy), the prices of which have increased considerably over the past year, compared with only 31% for the wealthiest households.

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

facebook.com/banquebonhote
linkedin.com/company/bonhote
twitter.com/alexnvincent
instagram.com/banquebonhote
youtube.com/banquebonhote1815