Flash boursier N° 666
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Renewed optimism in markets

Overview

Last week featured the release of US inflation figures, which triggered a bounce in financial markets – much to the relief of investors.

Wednesday's inflation print for July represented the first positive statistic on overall price trends since the Fed began tightening monetary policy, clocking in at 8.5% on a 12-month basis compared with 9.1% in the previous month. Core inflation (excluding food and energy) increased by 5.9% year on year whereas a 6.1% increase had been expected. The producer price index also stood still month on month, ebbing by 0.5% in July versus June, resulting in producer price inflation of 9.8% year on year compared with 11.3% in June.

US inflation figures trigger market bounce

These statistics have raised hopes that inflation may have peaked and the Fed will be less hawkish at its next meeting in September. The consensus is currently gunning for a 0.5% rate hike. A week ago, it was expecting 0.75%. Even so, inflation remains red hot – as various policy committee members have pointed out – and lies a far ways from their 2% target. The president of the Minneapolis Fed reiterated that it is unrealistic to expect a rate cut next year. Fed fund futures currently price in policy rates at 3.25-3.50% at end-2022 and 3.75-4.00% at end-2023.

A closer look at the CPI reveals that July's standstill was mainly due to the fall in petrol prices (-20%). Food prices and rents are showing no sign of declining. As a result, core inflation is expected to remain well above the 2% target, adding legitimacy to the Fed's monetary tightening moves at upcoming meetings.

Inflation remains red hot and miles from the 2% target

The market reaction was unequivocal, with 90% of S&P 500 and Nasdaq 100 constituents closing higher on Wednesday. Consequently, this week marks the return of the risk-on trade after the tech sector saw a major influx of capital last week. The Nasdaq has even shaken off its bear market, having recovered by more than 20% from its June low. The S&P 500 is approaching its 200-day moving average (4330).

Indicators released in Europe last Friday still portray a gloomy economic picture, crystallised by mounting fears that the Eurozone will be pushed into recession by the gas supply crisis, which has piled more pressure on the euro. The market continues to foresee a 0.50% rate hike by the ECB next month.

The SMI is struggling to break past the crucial resistance around 11270, indicating that the recent upswing was nothing more than a bear market rally. The index is losing steam and could consolidate towards 10900.

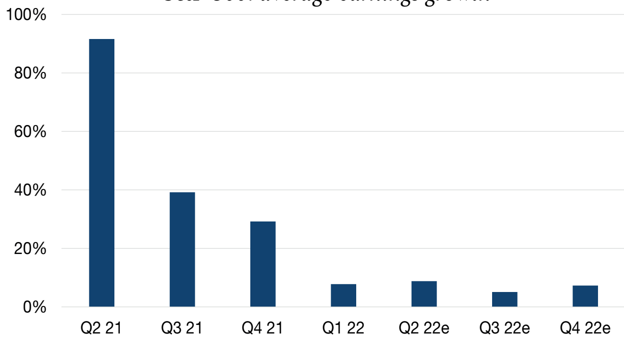
Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.94	0.97	11'128.24	3'776.81	13'795.85	6'553.86	7'500.89	4'280.15	13'047.19	28'546.98	1'016.83
Trend	↓	↓	→	↑	↑	↑	↑	↑	↑	↑	↑
YTD	3.19%	-6.90%	-13.57%	-12.13%	-13.15%	-8.38%	1.58%	-10.20%	-16.60%	-0.85%	-17.47%

(values from the Friday preceding publication)

Reporting season

S&P 500: average earnings growth



The second reporting season of 2022 is drawing to a close. Interestingly, investors have not punished stocks that fell short of expectations.

For this second quarter, companies that underperformed analysts' estimates were rewarded on average with the highest price increase in five years.

S&P 500 companies that dashed earnings expectations gained around 0.6% after the release of their figures – in stark contrast to the 1.2% decline during previous earnings seasons on average.

This shows that the market had already incorporated the negative sentiment before the start of the earnings season.

Sectors performing worst in the second quarter were financials, with an average profit contraction of 21%, followed by tech and communication services (-5%). The big winner was unsurprisingly the energy sector, which saw its average earnings triple.

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