Flash boursier N° 720
25 September 2023

BONHÔTE

Equity markets in consolidation mode

Overview

Last week witnessed a continuation of the consolidation trend in equity markets, driven by the aftermath of central bank monetary policy announcements. The sentiments expressed by central bankers have cast doubts on the possibility of imminent rate cuts in both Europe and the US.

Concurrently, bond yields edged up further, with the US 10-year yield approaching 4.50% and its German counterpart breaking upwards of 2.70%.

Fed stresses enduring nature of inflation

As expected, the Fed held rates steady at 5.25-5.50%, calling attention to the enduring nature of inflation. Despite this, it's evident that a final rate hike remains on the horizon, given the robustness of the US economy, even as the prospect of a soft landing is still plausible.

Forecasts indicate US Gross Domestic Product (GDP) growth at 2.1% for this year, a notable increase from the 1.0% projection in June, and a further growth of 1.5% expected next year. While the current unemployment rate stands at 3.8%, it's expected to peak at 4.1% in 2024, remaining at that level in 2025, a shift from the 4.5% rate anticipated in June.

Leading indicators of US economic activity continue to grapple with challenges, including weak new orders, declining consumer spending, rising interest rates and stricter lending terms. The latest data for private sector activity reflects a lack of improvement in September.

SNB announced benchmark policy rate held at 1.75%

Switzerland's central bank, the Swiss National Bank (SNB), surprised economists by holding its benchmark policy rate steady at 1.75%, defying expectations of a quarter-point increase. This decision was influenced by factors including stable Swiss inflation at 1.6% year-on-year in August, well within the SNB's target range, and the persistent strength of the Swiss franc, which is impacting exports.

In Europe, German factory producer prices fell sharply by 12.6% year-on-year in August, following a 6% decline in July, marking the most significant year-long drop since record-keeping began in 1949.

Meanwhile, France witnessed a sharp contraction in the private sector, with the HCOB composite PMI hitting its lowest point since November 2020 – as a result of worsening trends in both manufacturing and services sectors.

The S&P 500 ended the week down by 2.93% while the tech-focused Nasdaq plunged by 3.63%. The Stoxx 600 Europe index retreated by 1.88%.

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	0.91	0.97	11'014.76	4'207.16	15'557.29	7'184.82	7'683.91	4'320.06	13'211.81	32'402.41	964.24
Trend	⬆	➡	➡	⬇	⬇	⬇	⬆	⬇	⬇	➡	⬇
YTD	-1.90%	-2.45%	2.66%	10.90%	11.73%	10.98%	3.12%	12.52%	26.23%	24.17%	0.82%

(values from the Friday preceding publication)

Spotlight on the Swiss National Bank

The Swiss National Bank (SNB) opted on Thursday to maintain its benchmark policy rate at 1.75%, contrary to market expectations of a quarter-point increase. The spectre of inflation remains, but the SNB cited a weak economic outlook and the resilient Swiss franc as key factors in its decision. SNB Chairman Thomas Jordan hawkishly hinted at the possibility of future rate hikes.

Swiss inflation, primarily driven by lower imported goods and services prices, stood at 1.6% in August. However, inflationary pressures are anticipated to rise in the coming months, notably due to increasing rents and electricity costs.

As a result, the SNB expects inflation to surpass the 2% mark this year and in 2024, but it may ease to 1.9% by 2025, down from the 2.1% forecast in June.

Furthermore, slower growth in Europe and the strong Swiss franc are expected to keep inflation in check. Switzerland, akin to Sweden, continues to intervene in currency markets to maintain lower import prices.

While leading indicators like the KOF barometer and purchasing managers' figures have shown signs of deterioration due to previous rate hikes, we still expect further tightening before year-end, potentially pushing the benchmark policy rate to 2%.

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