*Flash boursier N° 730*
*4 December 2023*

BONHÔTE

# *Targeting inflation at 2%*

The mood of risk aversion continued to fade last week. The prospect of a Fed rate cut as early as March next year sustained appreciation in both equity and bond markets. Fixed income even had its best month since the 2008 financial crisis. This was after several Fed FOMC members sounded a more upbeat note about inflation reverting to around the official 2% target.

The yield on 10-year Treasuries ebbed towards 4.25% while the German equivalent slid to 2.35%.

US inflation, as measured by personal consumption expenditures, slowed to 3% on a 12-month basis, while prices were stable month on month. Core inflation dipped to 3.5% from 3.7% previously.

In employment, initial jobless claims for the week beginning 20 November totalled 218,000, which was 7,000 higher than in the previous week. The total number of people receiving unemployment benefit increased further, this time by 86,000 to 1,927,000.

Growth in consumer spending in the US slowed sharply in October, signalling receding end-demand. Concurrently, year-on-year inflation was its weakest since 2021.

## *Sharp growth slowdown in US consumer spending*

The latest data show that the US economy continues to lose momentum. Despite strong GDP growth in the third quarter (+5.2%), the fourth quarter is not shaping up to be as strong.

In Germany, the pace of inflation continued to slow in November, more quickly than expected, clocking in at 2.4% on a 12-month basis – mirroring the trend in most other European countries. With inflation continuing to slow in tandem with the continuing stagnation of Eurozone economic activity, investors are now expecting an ECB rate cut in the first six months of 2024, even though some members of the Governing Council are talking hawkish.

## *Investors counting on an ECB rate cut*

Economic activity has continued to slacken, although the Eurozone PMI for manufacturing recovered from 43.1 in October to 44.2 last month, marking its highest level since last May.

In China, manufacturing output advanced unexpectedly. The PMI for manufacturing clocked in at 50.7 in November, versus 49.5 in the month before – above the 50 mark separating business contraction from expansion. Beijing has set in motion a range of measures to boost the rate of recovery in the country, which is still facing a deep property crisis and having to cope with slowing global demand. The export index stood at 49.0 in November, reflecting ongoing difficulties in the manufacturing industry in response to this slacker foreign demand.

In this setting, the S&P 500 ended the week on a gain of 0.77%, while the tech-focused Nasdaq edged up 0.38%. The Stoxx 600 Europe put on a better 1.35%.

## *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** | 0.87 | 0.95 | 10'887.36 | 4'418.51 | 16'397.52 | 7'346.15 | 7'529.35 | 4'594.63 | 14'305.03 | 33'431.51 | 982.14 |
| **Trend** | ↓ | ↓ | ↑ | ↑ | ↑ | ↑ | ↑ | ↑ | ↑ | ↑ | → |
| **YTD** | -6.00% | -4.45% | 1.47% | 16.47% | 17.77% | 13.48% | 1.04% | 19.67% | 36.67% | 28.12% | 2.69% |

(values from the Friday preceding publication)

*Swiss Market Index (SMI)*

The SMI this morning was flirting with 10950. Positive momentum could provide impetus up to 11050, in the first instance, after which retracement to 11270 could become a distinct prospect.

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