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BONHÔTE

Easing prospects diminished as US labour market remains in rude health

Overview

Equity markets ticked up last week on the back of US tech stocks. And despite the Fed chair's guarded message about a rate cut in March, bond yields even manage to bounce slightly, with the yield on 10-year Treasuries swinging back above 4%. The German counterpart rose above 2.25%.

The strength of the US labour market, which added 353,000 non-farm jobs in January (more than the 180,000 forecast), is delaying the prospect of the Fed's first rate cut. The shortage of workers could trigger a rise in wages, in turn sending inflation heading in the opposite direction. All this is why the Fed is talking cautiously as regards the short-term outlook. Even now, Powell has revised down his number of likely rate cuts in 2024 from four to three.

Strength of US labour market could postpone first rate cut

The number of job vacancies swung upwards in December to 9.026 million (according to the latest Labour Department survey), reflecting the resilience of the labour market to interest rate rises so far.

At the same time, 224,000 initial jobless claims were announced for the week of 22 January, an increase of only 9,000 on the previous week.

Looking at economic stats, the manufacturing sector staged a recovery in January, as evidenced by a PMI of 50.7 versus 47.9 in December. New orders returned to a positive trend, but cost inflation accelerated to its highest rate in nine months.

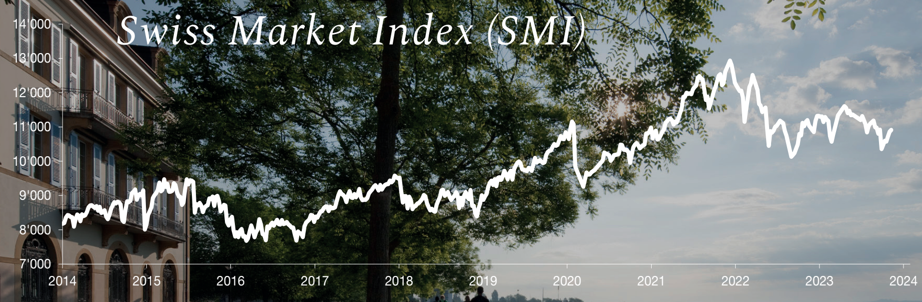
In contrast, productivity growth rebounded strongly in the second half of 2023, boosting Americans' purchasing power and helping to reduce inflationary pressures.

Here in Europe, 12-month inflation slowed in January, aligning with estimates. The harmonised consumer price index (HCPI), calculated using Eurostat methods, rose 2.8% year-on-year last month versus +2.9% in December but slowed to +3.6% from +3.9% the previous month when excluding unprocessed food and energy prices. Inflation continued to slow in Germany in January, reaching its lowest level in 36 months according to the Federal Statistical Office.

Inflation slowing in Europe

Against this backdrop, the S&P 500 ended the week up 1.38%, Nasdaq gained by 1.12%, while the Stoxx Europe 600 was static at 0.02%.

Swiss Market Index (SMI)



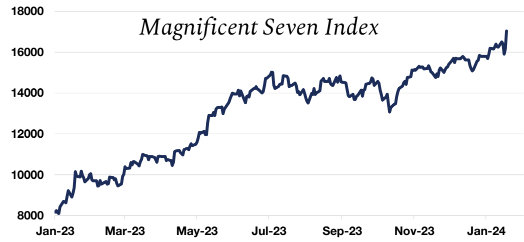
The SMI sudden broke to the downside of 11270 last week. The next support is 11200, but violation of the 50- and 200-day moving averages suggests a period of slow retracement to an initial target of 11550.

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	0.86	0.94	11'390.13	4'635.47	16'961.39	7'634.14	7'635.09	4'890.97	15'455.36	35'751.07	985.10
Trend	→	→	↑	↑	↑	↑	→	↑	↑	↑	→
YTD	2.67%	0.96%	2.27%	2.52%	1.25%	1.21%	-1.27%	2.54%	2.96%	6.83%	-3.77%

(values from the Friday preceding publication)

How high can they go?



The Magnificent Seven's earnings reports came in different shapes and sizes, but one recurring theme underpinned their momentum: AI.

All have announced that they are developing AI-driven solutions and are allocating a large proportion of their CAPEX to AI – an industry that is set to grow rapidly in the coming years as more and more companies jump on the bandwagon.

Alphabet, Meta Platforms and Amazon all made forward-looking statements about how AI will improve their services. Meta even raised the ceiling on its 2024 CAPEX forecast by USD 2 billion to USD 37 billion.

Growth was underpinned by cloud businesses, fuelled by the adoption of new AI-powered solutions. Revenues grew by 28% at Microsoft's Azure, by 24% at Amazon's AWS and by 26% at Google Cloud. Digital advertising also generated more revenue than previously in the last quarter of 2023, supporting top lines at Alphabet and Amazon.

The excellent results for its fiscal Q2 have reinforced Microsoft's position as AI market leader. The group is primely positioned to profitably harness the increased prominence of this theme in areas ranging from productivity and data security to corporate overheads. During the investor call, Microsoft's management said that the productivity of its employees on specific tasks improved by 70% when using GenAI, and it highlighted the potential savings in operating expenses that companies can achieve by using AI on a large scale.

The AI theme is highly promising, and these developments will doubtless underpin tech giants' growth. However, their revenue growth is already reflected in share prices to some extent. Their multiples are looking stretched, and this calls for caution in the short term.

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