

Disinflation process continues

Solid corporate earnings and a resilient US economy helped power the ongoing uptrend in equity markets last week. Tech stocks climbed further, fuelled by the potential of AI-driven applications.

In the US, PCE inflation rose by 2.4% year-on-year in January, slowing by 0.2 points relative to December 2023, in line with forecasts. Excluding food and energy, inflation ebbed from 2.9% to 2.8% on a 12-month basis.

So far this year, rate cut expectations have logically cooled. The consensus now targets a cumulative rate cut of 75 basis points (bp), a long way from the 150bp priced in towards the end of last year. The Fed's first rate cut is likely to materialise in June. The US economy has weathered the successive rate hikes relatively well, and the economy is experiencing a soft landing rather than a recession.

Rate cut projections toned down

The labour market is a pictorial representation of the solid US economy. In the week starting 19 February, 215,000 initial jobless claims were announced – a small increase of 13,000 on the previous week.

The decline in durable orders continued, falling by 6.1% in January after a month-on-month fall of 0.3% in December.

Excluding the transportation sector, however, the fall was only 0.3%. Consumer spending rose by 0.2% in January while incomes grew by 1%.

Finally, the consumer confidence index deteriorated to 106.7 in February versus the forecast figure of 115. The slowdown in inflation and the prospective upswing in real incomes are supportive of a recovery in household consumption over the coming quarters.

In Europe, the ECB is not rushing monetary policy changes to curb imported inflation. Christine Lagarde is due to speak this week and is expected to reaffirm this approach despite the continuing deterioration in economic indicators. Economic sentiment in the Eurozone deteriorated further in February. The monthly economic sentiment index worsened from 96.1 to 95.4.

Economic sentiment deteriorates further in Europe

Bond yields eased last week as US inflation lost traction, with the US 10-year yield reverting to below 4.20% and the German equivalent towards 2.40%.

Against this backdrop, the S&P 500 ended the week up 0.95%, Nasdaq gained by 1.74%, while the Stoxx Europe 600 edged up by 0.07%.

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	0.88	0.96	11'493.92	4'894.86	17'735.07	7'934.17	7'682.50	5'137.08	16'274.94	39'910.82	1'024.68
Trend	➡	➡	⬆	⬆	⬆	⬆	➡	⬆	⬆	⬆	⬆
YTD	4.95%	3.07%	3.20%	8.26%	5.87%	5.18%	-0.66%	7.70%	8.42%	19.26%	0.09%

(values from the Friday preceding publication)



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