June 26, 2023

THIS WEEK

More, More, More

Another week of central bank meetings with a leitmotif of more inflation, more hikes and more in the pipeline.

Despite the negative UK inflation surprise last Wednesday – ex-food and energy, prices rose 7.1% year-on-year in May – the probability of a 50bp hike by the **Bank of England** (BoE) was only estimated at 37% according to the Bloomberg calculator. So the decision to hike by 50bp to 5.0% the next day took traders by surprise. Accordingly, expectations for the next meeting on August 3rd were ratcheted higher to an 84% probability of a 50bp hike. Traders now expect rates to peak at between 6.0% and 6.25% at the end of this year.

Similar worries about persistent inflationary pressure pushed Norway's **Norges Bank** to hike rates by 50bp last Thursday to 3.75%, another surprise with the consensus having pencilled in a 25bp move. Core inflation in Norway hit 6.7% YoY in May and the central bank said it was likely to "remain elevated longer than envisaged".

The **Swiss National Bank** also sounded hawkish last Thursday. After increasing rates 25bp to 1.75% as expected, Chairman Thomas Jordan said that further hikes would "most likely" be needed in reaction the central bank's new inflation forecasts. The SNB raised its expectations for the next two years by 20bp and 10bp respectively. Even if the high point in inflation over the next few years is well below Switzerland's neighbours at 2.3%, Jordan is clearly determined to squeeze it lower still.

The new governor of the **Central Bank of Türkiye** lost little time in stamping her mark on policy. Less than three weeks after her appointment, Hafize Gaye Erkan increased rates by 650bp to 15.0%, the largest hike since January 2018. Coming just after the arrival of the orthodox Mehmet Simsek as treasury and finance minister – which marks a veritable U-turn away from President Erdogan's unconventional policies of the last few years – the move disappointed traders who had persuaded themselves that rates might somehow be hiked by 1150bp to 20.0%.

Bottom Line

The central banks' rate hikes did little to boost their respective currencies. GBP fell -0.8% last week against USD, NOK by -2.3%, CHF by -0.4% and TRY by -6.4%.

Equities	Last	% 5D	% 1M	% YTD
MSCI World	2 902.34	-2.0	3.0	11.5
S&P 500	4 348.33	-1.4	4.9	13.3
Nasdaq Composite	13 492.52	-1.4	7.4	28.9
Russell 2000	1 821.64	-2.9	1.9	3.4
STOXX 600	453.14	-2.9	-2.8	6.6
Euro STOXX 50	4 271.61	-2.8	-1.6	12.6
SMI	11 221.22	-1.4	-2.3	4.6
Topix	2 264.73	-1.5	4.8	19.7
MSCI EM	991.91	-3.7	1.4	3.7
China CSI 300	3 864.03	-2.5	-1.3	-0.2
VIX	13.44	-0.7	-27.5	-38.0
V2X	15.35	17.4	-13.1	-26.5

Fixed Income	Last	5D bp	1M bp	YTD bp
US 2Y	4.74	3	43	32
US 10Y	3.73	-3	4	-14
German 2Y	3.11	-2	29	34
German 10Y	2.35	-12	-12	-22
Swiss 2Y	1.07	-13	8	-14
Swiss 10Y	0.90	-9	-10	-68
USD IG Spread	142	2	-9	-1
EUR IG Spread	137	3	-6	-4
USD HY Spread	426	25	-30	-43
EUR HY Spread	464	21	-18	-48
EM Sovereign Spread	390	3	-34	-4

Currencies	Last	% 5D	% 1M	% YTD
Dollar index	102.90	0.6	-0.6	-0.6
EURUSD	1.089	-0.4	1.2	1.8
GBPUSD	1.271	-0.8	2.4	5.2
USDJPY	143.7	1.3	3.7	9.6
EURCHF	0.978	0.0	0.7	-1.2
JPM EM FX Spot	49.43	-1.1	-1.2	-0.9
USDCNY	7.179	0.7	1.7	4.1

Commodities	Last	% 5D	% 1M	% YTD
GSCI Spot	541.56	-2.8	-0.9	-11.2
Brent Crude Oil	73.85	-3.6	-3.9	-14.0
Gold	1 921.20	-1.9	-2.7	5.3
Copper	8 390.50	-2.1	3.6	0.2
Bitcoin	30 928.74	17.2	13.6	87.0

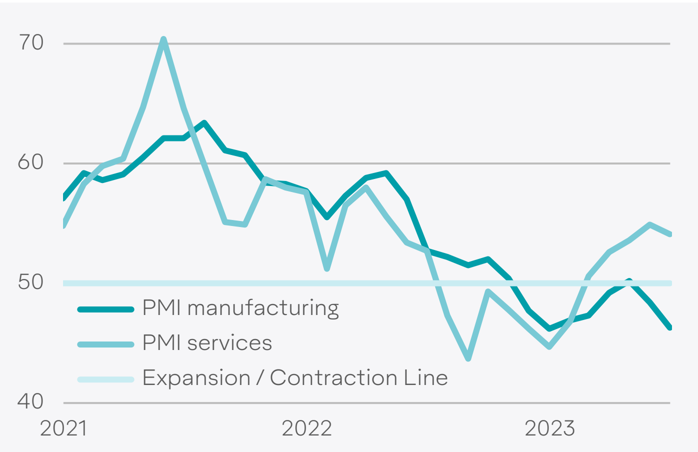
Source: Bloomberg, 23.06.2023

EQUITIES

The MSCI World index of global equity markets fell -2.0% from its recent 14-month highs last week. This represented the first decline in four weeks and helped correct the somewhat overbought conditions after the surge from late May onwards. The technical configuration of higher highs and higher lows remains in place and all the index's main daily moving averages (DMA) continue to trend higher.

US . The S&P500 index recorded its first weekly decline in six weeks with a -1.4% fall from the recent 14-month highs. Participation in the rally remains broad-based with the proportion of index members trading above their 200-DMAs at 56%, still well above end May's 41%. Small caps underperformed again – the Russell 2000 index dropped -2.9% and the equal-weight version of the S&P500 shed -2.3% – while Growth and Quality did better with declines of only -0.9% and -1.0% according to MSCI. At the sector level, health care was the only sector to eke out a modest gain at 0.2%. Decliners were led by energy – fuelled by the drop in crude oil prices – and real estate which gave up -3.4% and -4.4% respectively.

US macro data were mixed last week. S&P Global's flash purchasing manager indices (PMI) for June weakened from the previous month. Although the services component remains in expansion territory, manufacturing fell deeper into contraction and undershot consensus forecasts. There was a big 22% jump in housing starts in May, and June should be strong too – the National Association of Home Builders index for June jumped above expectations to hit an 11-month high. Strength in housing may seem rather surprising with 30-year mortgage rates at close to 22-year highs – the explanation may be that, with 96% of households having borrowed at fixed rates below today's levels, few feel able to move out of their current houses which is shrinking supply of homes.

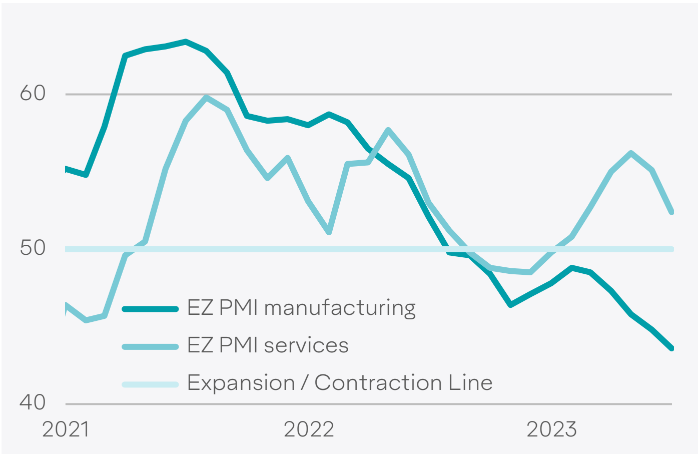


Source: Bloomberg

As we suggested in our last report, a period of consolidation may have begun with last week's declines. Nonetheless, the S&P500 index remains somewhat overbought at 3.5% above the 50-DMA and 8.9% above the 200-DMA. The technical configuration remains encouraging with all DMAs rising steadily but some further consolidation may be in order in coming weeks.

Europe . European equities underperformed the US for the eighth time in nine weeks. The STOXX 600 (a pan-European index which covers the Eurozone as well as non-euro markets like the UK and Switzerland) tumbled -2.9% last week while the Euro STOXX 50 (which covers the largest companies in the Eurozone) dropped -2.8%, both outstripped by the S&P500 which only fell -1.0% in euro terms. The weakest markets last week were all in Scandinavia – Sweden dropped -4.5% while Finland and Norway plunged -6.2% and -6.5% respectively. None of the markets we follow rose last week, but the most resilient performances came from Switzerland – a defensive bourse given its sector weightings – which only fell -1.5%, as did Greece in the runup to yesterday's parliamentary elections. All eleven sectors fell last week, with the most resilient performance coming from consumer staples and health care, down -0.6% and -1.7% respectively. The sharpest drops came in materials which shed -5.1% and real estate which plummeted -6.2% (all figures in EUR terms).

Another disappointing week of European macro data saw Citi's economic surprise index drop to its lowest level since June 2020 – which reflects more letdowns than positive surprises. The only glimmer of hope came with the preliminary June consumer confidence report which came in above expectations, hitting the highest level since February last year. The big negative surprise came with June's flash PMIs. The manufacturing survey was expected to remain unchanged but instead it dropped to its lowest level since the pandemic recession in H1 2020. The services survey also undershot expectations but remains in expansion territory for now. This leaves the composite survey at 50.3 points, only just above the 50-point frontier between expansion and recession.

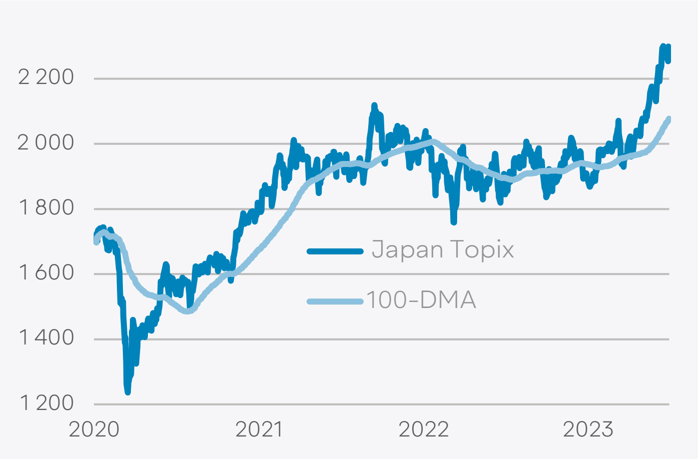


Source: Bloomberg

The technical picture for European stocks continues to deteriorate but still remains supportive for now. The STOXX 600 closed the week below its 50 and 100-DMAs, both of which have rolled over. However, the 200-DMA – which lies -2.5% below Friday's close – remains in a steady uptrend and should offer support if prices were to weaken further.

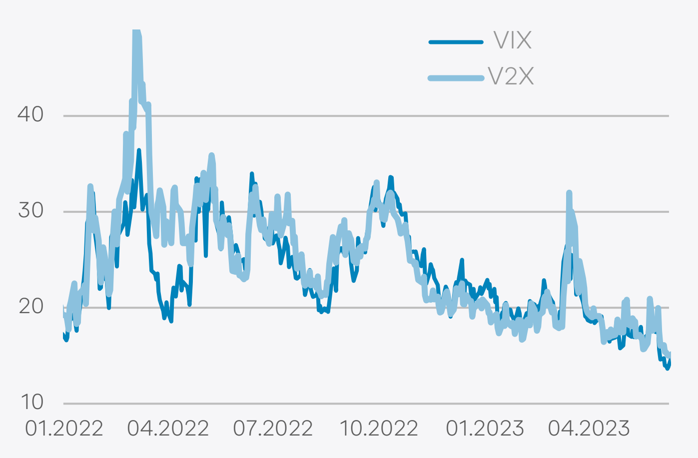
Asia . Macro data in Japan last week were encouraging. April's industrial production rose 0.7% month-on-month while nationwide department store sales in June surged 6.3% year-on-year. Japan's PMI surveys did weaken but the situation in manufacturing looks less preoccupying than elsewhere – the survey dipped to 49.8 points, just in contraction territory but well above the 43.6 and 46.3 recorded in the Eurozone or the US respectively.

Asian markets lagged in general last week – MSCI's Emerging Asia index dropped -3.8% versus -1.9% in Eastern Europe and -0.2% in Latin America. Within the region, China stood out – the MSCI China index plunged -6.4% while the Hang Seng China Enterprises index of Hong Kong-listed Chinese companies dropped -6.1%. The most resilient markets were India and Indonesia which managed to limit losses to only -0.5% and -0.8% respectively (all figures in euro terms).



Source: Bloomberg

Volatility . Implied volatility indices – also known as "fear" indices – measure the cost of option protection, which soars in times of trouble. The marked weakness in regional markets saw Europe's V2X index jump 17.4% last week to 15.4. However, this remains well below the 22.2 average for the past twelve months. On the other hand, despite markets closing lower, the US VIX index actually dipped -0.7% to a new 41-month low.



Source: Bloomberg

Style factors . Last week, there was no hiding place among factors. Quality and Growth held up relatively well according to MSCI's world factor indices with declines of -1.5% and -1.7% respectively. Value brought up the rear again – the MSCI index dropped -2.4% last week, which brought year-to-date performance to just 0.1% versus 23.9% and 19.0% for Quality and Value.

Bottom Line

We maintain our equity exposure at Neutral.

AGENDA

Monday June 26th . US Dallas Fed manufacturing survey for June. **Germany** June IFO business climate survey.

Tuesday June 27th . US June Conference Board consumer confidence survey. May durable goods orders and new home sales **Germany** May retail sales. **ECB** forum on central banking in Sintra, Portugal. Jerome Powell, Christine Lagarde, Kazuo Ueda and Andrew Bailey in attendance.

Wednesday June 28th . Market holiday markets closed in Egypt, Jordan, Saudi Arabia, Turkey for Eid al-Adha holiday. **Fed** publication of annual stress tests for US banking system. **France** June consumer confidence survey. **Germany** June GfK consumer confidence survey, **Italy** June consumer price index (CPI). **EU** European Council meeting of heads of state and governments.

Thursday June 29th . US final Q1 GDP and price of consumer expenditures (PCE) reports. May pending home sales. **Germany** June CPI flash report. **Eurozone** European Commission confidence surveys for June. **Japan** May retail sales.

Friday June 30th . Eurozone June CPI flash report, May unemployment rate. **France** June flash CPI and producer price index (PPI). **US** May PCE inflation report and personal incomes and spending. June final University of Michigan consumer sentiment survey. **Germany** June unemployment rate. **Japan** May unemployment rate, industrial production and housing starts. **China** June purchasing manager indices from National Bureau of Statistics. **UK** final Q1 GDP report.