Monday Report | 09 May 2022

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Economy

Last week's US statistics were lacklustre. The ISM Manufacturing Index fell further than expected in April (from 57.1 to 55.4), as did its non-manufacturing counterpart (down from 58.3 to 57.1). The April jobs report was as expected, with 428,000 jobs added to the economy, unemployment still at rock bottom (3.6%) and wage growth in line with expectations (5.5% YoY). In the eurozone, EC confidence indicators lost ground (economy: down from 106.7 to 105; industry: down from 9 to 7.9; services: down from 13.6 to 13.5). Producer price inflation continued to quicken (to 36.8% YoY!) and unemployment remained low (6.8%), while retail sales suffered (down 0.4% MoM). Lastly, in China, the Caixin services PMI plummeted from 42 to 36.2 in April under the impact of lockdowns.

Markets

After initially welcoming the Fed's decision to hike interest rates 0.5%, markets soon priced in the fact that the priority was to combat inflation. Ten-year sovereign yields thus rose sharply (up c. 25 bps in USD and EUR), credit spreads widened and equities lost ground (down 0.5% in the US, 4.5% in Europe and 4.1% in emerging markets). The dollar appreciated (up 0.7%), penalising gold (down 1.2%). Oil prices rose 4.4%. To be monitored this week: SME confidence (NFIB index), consumer and producer price indices and consumer confidence (Univ. of Michigan) in the US; Sentix indicator of investor confidence, ZEW confidence indicator and industrial production in the eurozone; and consumer and producer price indices in China.

Climate

According to Global Forest Watch, primary tropical forests lost around 3.75m hectares in 2021 – an area bigger than Belgium. This figure has held steady since 2018, with most losses caused by deforestation. By preserving these carbon sinks, halting deforestation could prevent 3.6bn metric tons of CO2 emissions annually, equivalent to 14% of the reduction needed by 2030 to be in with a chance of limiting global warming to 1.5°C.

Swiss Market

To be monitored this week: FSO March overnight hotel stays, Flughafen Zürich April traffic statistics and FSO April producer and import prices.

The following companies are due to release figures: Ringier, Swiss Steel, Alcon, Sunrise UPC, Swiss Life, Zurich Insurance, Molecular Partners and LM Group.

Bonds

As well as a widely expected 50 bps hike in the Fed funds rate, Jay Powell indicated the likely pace of monetary tightening by leaning towards two 50 bps rate hikes this month and next and ruling out a 75 bps hike. These comments helped stabilise short yields (with two-year yields up 2 bps), while the curve steepened as real interest rates pushed long yields sharply upwards (with 10-year yields up 19 bps). It was a risk-averse week in credit, with HY spreads widening (up 28 bps in the EU and 17 bps in the US), while IG spreads narrowed (down 8 bps in the EU and 5 bps in the US).

Sentiment of traders

Stock markets

The Fed rate hike and US job creation put inflation at the forefront of investor concerns. There will be a few more quarterly results to digest (BioNTech, Bayer, Pirelli, Disney, etc.) as well as, on the macro front, the ZEW in Europe and the CPI/PPI in the US. We remain cautious, with charts suggesting selling on rallies.

Currencies

USD has continued to climb: USD/CHF 0.9930. The trend looks set to continue this week; we expect the USD/CHF pair to trade in the range 0.9700-1.0028. Neither the ECB's comments about possible rate hikes (July/September) nor the BoE's 0.25% rate hike managed to support EUR and GBP against USD: EUR/USD 1.0517; GBP/USD 1.2285. Our ranges – EUR/USD: 1.0370-1.0758; GBP/USD: 1.20-1.2639. CHF has weakened slightly to EUR/CHF 1.0435; supp. 1.0170, res. 1.0550. Gold is trading at $1,871/oz; supp. $1,821; res. $1,958.

Equities

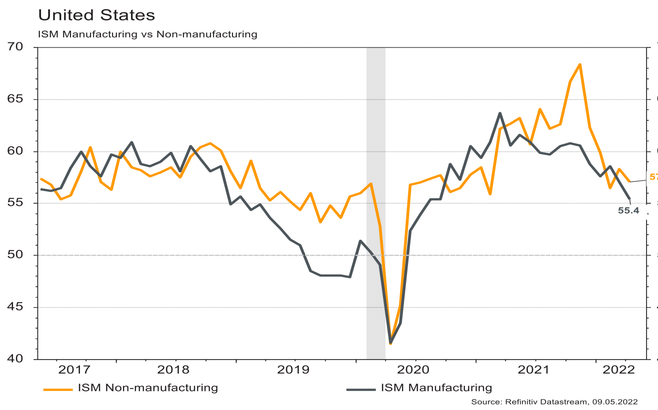
AXA (Satellites) last Friday published indicators that were more or less in line with expectations. However, overly vague estimates of its exposure to Russia/Ukraine and a marginal decline in its solvency triggered some degree of market distrust. Buy on weakness in the medium term.

EVONIK (Satellites) last Friday confirmed its Q1 results following a preliminary release issued on 22 April. Price hikes offset the effects of cost inflation. Despite a much better than expected Q1, management opted for a cautious approach, confirming its FY 2022 guidance (with EBITDA expected to total €2.5-2.6bn).

MOWI (Core Holdings) is due to report its detailed Q1 2022 results this Wednesday. Preliminary figures pointed to strong momentum in operating profit (with EBIT doubling to €207m). Management is expected to provide an update on market conditions, which have thus far been favourable: upturn in salmon consumption/limited supply/rising prices.

SANDVIK (Core Holdings) is to acquire the mining-related business of Schenck Process Group, specialising in screening, with 630 employees and revenue of c. €200m (c. 2% of group sales), 70% of it in the aftermarket segment.

Today's graph



Performances

	As at 06.05.2022	Since 29.04.2022	Since 31.12.2021
SMI	11 730.42	-3.28%	-8.89%
Stoxx Europe 600	429.91	-4.55%	-11.87%
MSCI USA	3 923.86	-0.47%	-14.58%
MSCI Emerging	1 031.50	-4.15%	-16.28%
Nikkei 225	27 003.56	0.58%	-6.21%
	As at 06.05.2022		
CHF vs. USD	0.9850	-1.45%	-7.49%
EUR vs. USD	1.0583	0.32%	-6.94%
10-year yield CHF (level)	0.95%	0.83%	-0.14%
10-year yield EUR (level)	1.14%	0.90%	-0.18%
10-year yield USD (level)	3.13%	2.89%	1.50%
Gold (USD/per once)	1 885.90	-1.18%	3.48%
Brent (USD/bl)	112.60	4.42%	43.62%

Source: Datastream