The week in seven charts

UK large caps at record highs despite domestic economic woes

The 60/40 portfolio rising from its ashes, as the US economy continues to show resilience. Meanwhile, inflation-friendly stocks continue to enjoy superior performances. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

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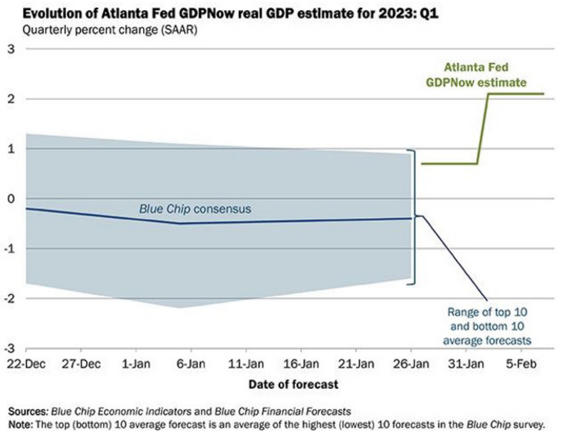
Chart #1 —

The US economy's ongoing resilience

U.S. macroeconomic data continues to surprise on the upside. The University of Michigan's consumer confidence index rose to 66.4 from 65 expected and 64.0 previously. The Atlanta Fed's GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2023 was 2.1% at the end of this week, up from 0.7% at the beginning of the month.

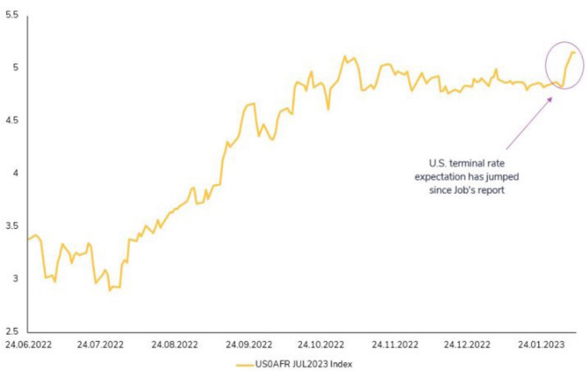


Source: Atlanta Fed

Chart #2 —

A new cycle high for US terminal rate expectation

The market has raised its expectations for the Fed's terminal rate. Investors are now expecting a rate slightly above 5% in July 2023 (one month later than previously expected). The resilience of the US economy (driven by a very strong labor market) is a major reason for the upward revision of expectations for the peak in policy interest rates.

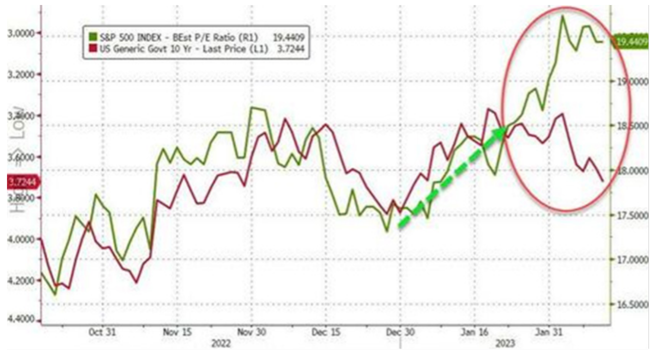


Source: Bank Syz, Bloomberg

Chart #3 —

Rising bond yields weigh on equity market valuations

The S&P 500 and Nasdaq Composite lost 1.1% and 2.4% respectively in the past week, their worst week since December. Statements from Fed officials sent equity markets in opposite directions earlier this week. On Tuesday, stocks had a green session after Fed Chairman Powell reiterated that the disinflation process had begun. A series of rather hawkish comments from other Fed officials the next day led to profit taking. Equity market valuations seem to remain highly correlated with 10-year US Treasury yields. When the latter rise, valuation multiples contract. And vice versa.



Source: Bloomberg, www.zerohedge.com

Chart #4 —

Speculative stocks took a hit

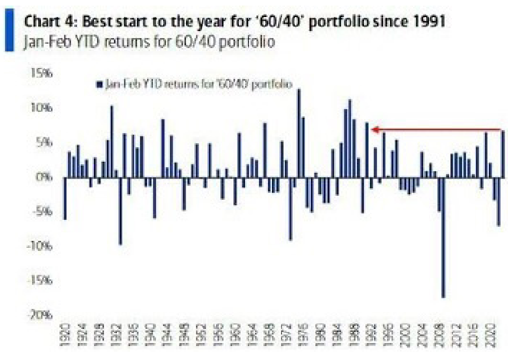
While speculative stocks had strongly outperformed at the beginning of the year, profit taking was observed during the past week. The Ark Innovation ETF managed by Cathie Wood's team lost nearly 10% with spectacular declines in stocks such as Coinbase, Roku and Robinhood. This is the worst performance of this ETF in 2 months.

Source: Bloomberg

Chart #5 —

The come-back of the 60-40 portfolio

A portfolio invested 60% in US equities and 40% in US bonds would have experienced a very sharp decline in 2022 due to the concomitant decline of the two asset classes. At the beginning of the year, both the equity and bond markets are up, allowing the 60/40 portfolio to record a 6.8% increase since the beginning of the year, the best start since 1991. On an annualized basis, the performance is 48%.

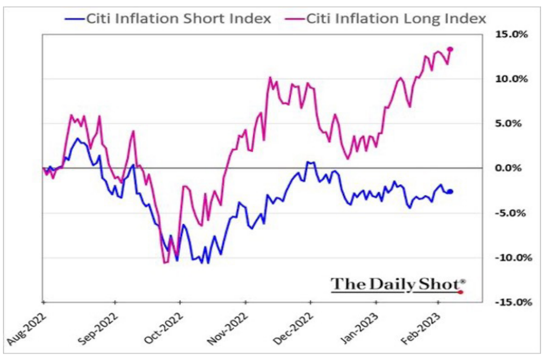


Source: HolgerZ, Bloomberg

Chart #6 —

Stocks that benefit from rising inflation continue to outperform

Despite inflation cooling down, companies that benefit from rising prices continue to outperform. Does the market anticipate more persistent price pressures than economists expect?

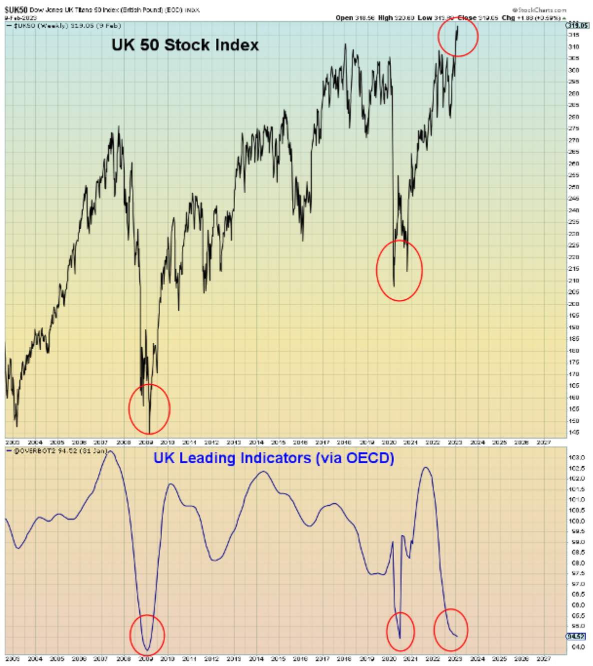


Source: The Daily Shot

Chart #7 —

UK large caps at record highs despite domestic economic woes

The link between a country's macro-economy and its stock market performance is far from obvious. The United Kingdom is a case in point: while leading indicators for the UK domestic economy are at their lowest, the Dow Jones UK Titans 50 index has reached its highest level ever. Indeed, this index is strongly represented in cyclical stocks that benefit from the demand for raw materials but also from exporting companies for whom the weakness of the pound is a real boon.



Source: Mac10

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