The week in seven charts

Interest on US debt explodes

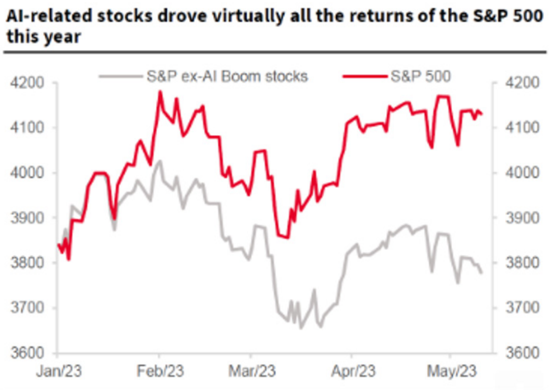
All U.S. banking stocks are down since the start of the year, the S&P500 continues to be buoyed by large tech stocks and interest on US debt continues to climb rapidly. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

Chart #1 —

Thanks to artificial intelligence...

Large technology stocks with exposure to the artificial intelligence theme continue to contribute disproportionately to the S&P 500's rise this year. Without these stocks (Alphabet, Microsoft, Nvidia, etc.), the S&P 500 would be down 2% year-to-date, even though the index has risen about 8%. Last week, Alphabet (Google's parent company) announced its latest progress in the field of AI which helped the stock gain 11%. Given its high weight in the index, Alphabet's rise allowed the S&P 500 not to lose ground last week, despite a further decline in banking stocks.



Source: SocGen

Chart #2 —

All U.S. banking stocks are down since the beginning of the year

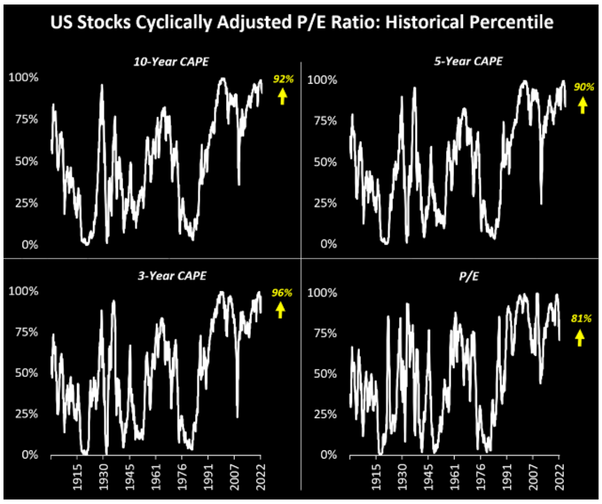
Banking stocks fell again last week after PacificWest Bank reported a further decline in deposits. Looking at the performance of the components of the KBW Bank Index, we can see that all stocks in the sector are now in the red in 2023.

Source: Bloomberg

Chart #3 —

The US equity market remains expensive

Using four different valuation metrics (10-year, 5-year, 3-year and trailing 12-month normalized price/earnings multiples), we see that the S&P 500 has rarely been this expensive. And this despite the many doubts (for example, debt ceiling crisis, risk of recession, inflation, etc.) that investors are currently facing.

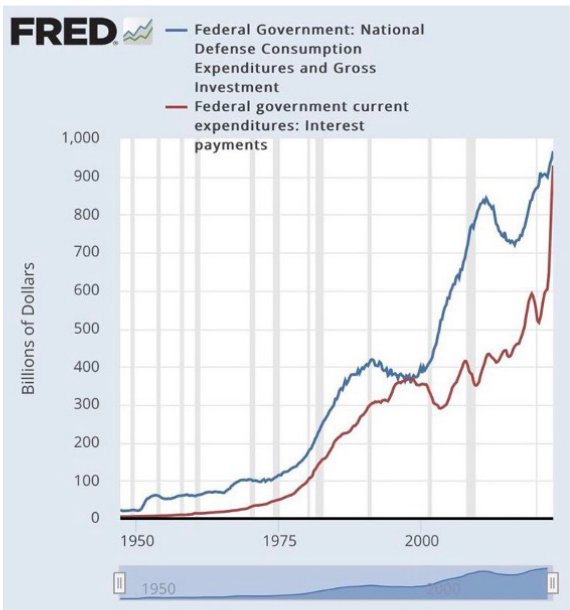


Source: Tavi Costa, Crescat Capital, Bloomberg

Chart #4 —

Interest on US debt explodes

In the United States, interest on the debt, at $928 billion, now exceeds defence spending and continues to climb rapidly. Interest payments on the public debt are expected to reach $1.1 trillion next year.



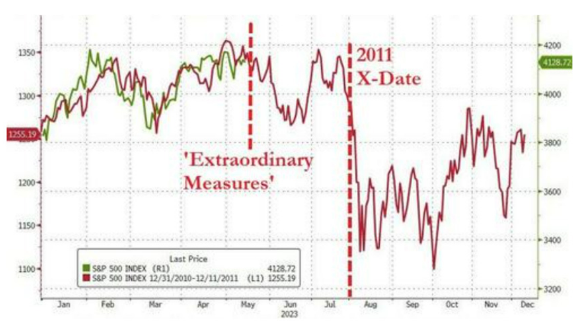
Source: FRED

Chart #5 —

US debt ceiling anxiety. A “remake” of 2011?

Treasury Secretary Janet Yellen said a few days ago that there are “simply no good options” for breaking the debt limit impasse in Washington other than Congress lifting the ceiling and warned that invoking the 14th Amendment would cause a constitutional crisis. “We shouldn’t get to the point where we should be asking whether the president can continue to issue debt without Congress lifting the debt ceiling,” Yellen said Sunday on ABC’s “This Week.” “It would be a constitutional crisis. Constitutional scholars and economists are divided on whether the administration can continue to issue debt, citing a provision in the U.S. Constitution that says the validity of government debts “shall not be questioned.”

During the 2011 crisis, the markets had moved in a relatively narrow trading range before experiencing a phase of high volatility and a sharp correction when the debt ceiling crisis reached its peak. Below is the S&P 500 in 2011 (red line) and the S&P 500 in 2023 (green).

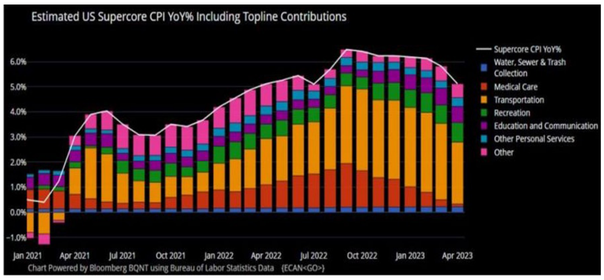


Source: Bloomberg, www.zerohdge.com

Chart #6 —

Price increases continue to decelerate in the United States

U.S. inflation continues its slowing trend. The CPI index reached 4.9% year-on-year in April, a figure in line with consensus expectations and down slightly from the March figure. This is also the lowest inflation rate since April 2021. It is also worth noting that the super-core index (i.e., adjusted for energy, food, and real estate prices) reached 5.1% y/y in April, a sharp slowdown from 5.8% in March. While these figures are above the U.S. Federal Reserve’s target rate of 2%, we have clearly entered a disinflationary phase relative to 2022.

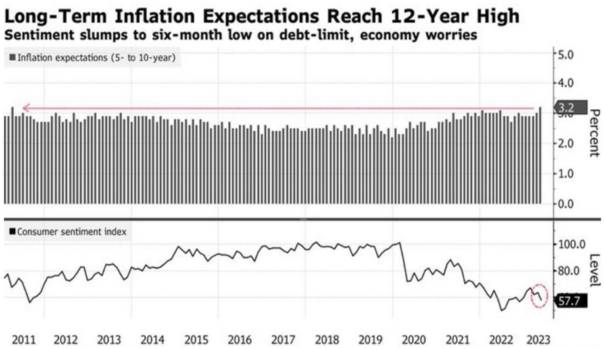


Source: Bloomberg

Chart #7 —

Long-term inflation expectations in the U.S. at their highest since 2008

While the inflation figures for the month of April published on Tuesday had reassured the markets, a survey conducted among American consumers by the University of Michigan has somewhat dampened investor optimism. Indeed, this survey shows that not only is consumer sentiment eroding, with negative consequences for growth, but also their expectations for long-term inflation (5 to 10 years) have not been this high since 2008. The spectre of stagflation once again loomed over the markets during Friday's session on Wall Street.



Source: Bloomberg

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