FEATURE

WEEKLY MARKET REVIEW

17 July 2023

The week in seven charts

Chart #1

US inflation takes a holiday

Read more on p2

US inflation were the most awaited figures of the week

US inflation might be on holiday, but the Fed is still expected to raise rates in July and the dollar's weakness continues to have an impact on the markets. Each week, the Syz investment team takes you through the last seven days in seven charts.

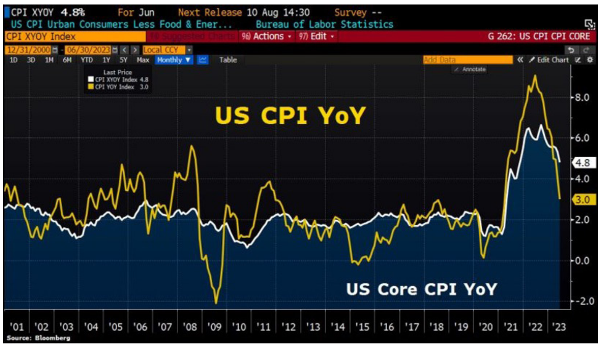
Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

Chart #1 —
US inflation takes a holiday

This was the most eagerly awaited macroeconomic figure of the week. US inflation slowed again in June, with both the core and headline CPI indices rising sequentially by +0.2% (versus 0.3% expected). On a year-on-year basis, the CPI reached +3% against expectations of +3.1%, the lowest level since March 2021. The core CPI is now +4.8% year-on-year, compared with +5% expected.

This marks the 12th consecutive month of year-on-year declines in headline CPI, the longest streak of declines in history (since 1921).



Source: Bloomberg

Chart #2 —
Despite the fall in inflation, the market is still expecting the Fed to raise rates at the July FOMC meeting.

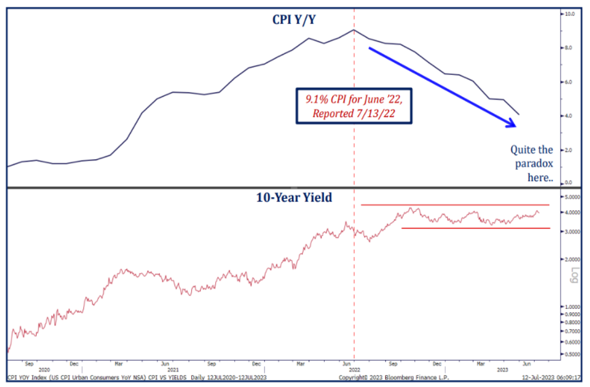
Following the publication of lower-than-expected CPI and PPI figures, US interest rate futures now give a 94% probability of a rate hike at the Fed's July meeting. The yield curve points to a possible first rate cut in January 2024 (40% probability). Before the release of the inflation figures, the market was not expecting a rate cut before March.
Will the Fed bow to market expectations and signal its willingness to implement a less restrictive monetary policy?

MEETING PROBABILITIES													
MEETING DATE	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
7/26/2023					0.0%	0.0%	0.0%	0.0%	0.0%	5.1%	94.9%	0.0%	0.0%
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.4%	82.3%	13.3%	0.0%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	69.0%	25.1%	2.3%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	17.6%	59.6%	20.2%	1.8%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	9.8%	40.2%	38.4%	10.3%	0.8%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	7.4%	32.3%	38.9%	17.6%	3.3%	0.2%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.1%	1.5%	11.5%	33.4%	35.4%	15.2%	2.8%	0.2%	0.0%
6/19/2024	0.0%	0.0%	0.0%	0.0%	0.9%	7.4%	24.3%	34.5%	23.6%	8.0%	1.3%	0.1%	0.0%
7/31/2024	0.0%	0.0%	0.0%	0.8%	6.7%	22.6%	33.5%	24.7%	9.5%	1.9%	0.2%	0.0%	0.0%
9/25/2024	0.0%	0.0%	0.7%	5.9%	20.5%	32.1%	25.8%	11.5%	2.9%	0.4%	0.0%	0.0%	0.0%
11/6/2024	0.0%	0.6%	5.0%	18.0%	30.1%	26.9%	13.9%	4.4%	0.8%	0.1%	0.0%	0.0%	0.0%
12/18/2024	0.3%	2.9%	11.7%	24.2%	28.5%	20.3%	9.1%	2.6%	0.5%	0.1%	0.0%	0.0%	0.0%

Source: Markets & Mayhem

Chart #3 —
Falling bond yields

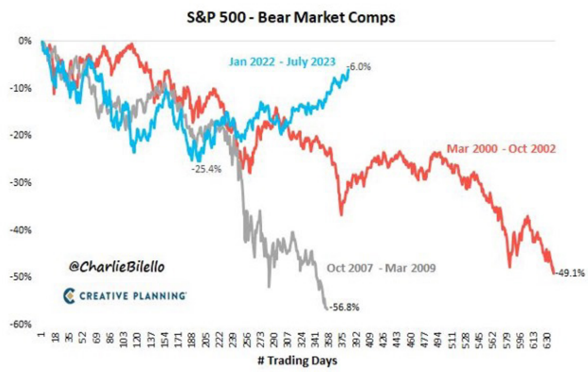
Treasury yields fell significantly over the week. In fact, this was the biggest weekly fall in yields since March. Note that the fall in yields was more marked on the short end than the long end. There is one paradox, however: 10-year yields are at roughly the same level as they were when inflation was at 9%.



Source: Strategas

Chart #4 —
The assumption of a prolonged bear market seems to be receding

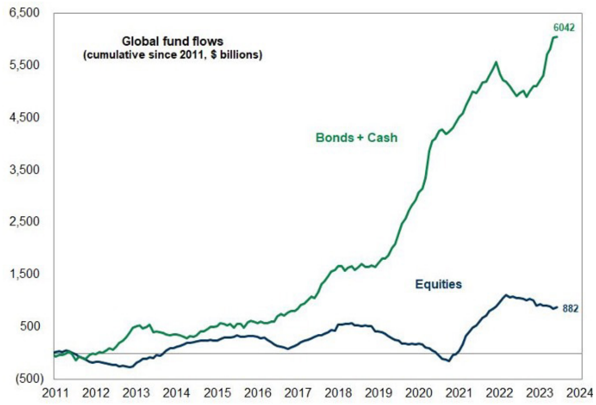
The behaviour of the S&P 500 following the bear market of 2022 is very different from what was seen in 2000-2002 and 2007-2009. The chart below compares the index's performance since the market peak (January 2022 for the current cycle). The S&P 500 is now 3% higher than it was when the Fed began raising rates in March 2022.



Source: Charlie Bilello

Chart #5 —
Will the available cash be reinvested in the equity markets?

Is this the biggest risk for bears? As Goldman has pointed out, there is a $5 trillion 'gap' between the flow of funds into money markets and bonds, on the one hand, and equities, on the other. As investors realise that the much-feared recession will not happen, they may be inclined to return to risky assets.



Source: Goldman Sachs

Chart #6 —

The US dollar in free fall

The dollar's weakness continues to have an impact on the markets. The euro, Swiss franc, pound and yen all appreciated against the dollar last week following the publication of US inflation figures. The dollar index has fallen for five of the last six days, recording its second biggest weekly fall (-2%) since March 2020. The Bloomberg Dollar Index has returned to its levels prior to the COVID crisis.

Source: Bloomberg

Chart #7 —

Africa and commodities

Africa has around 12% of the world's oil reserves, 42% of the world's gold, 80-90% of the world's chromium, 60% of the world's arable land and vast timber resources.

For further information

Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
Tel +41 58 799 10 00
syzgroup.com

Charles-Henry Monchau, Chief Investment Officer
charles-henry.monchau@syzgroup.com