The week in seven charts

Chart #1
A dovish pivot by the Fed
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Image source: iStock/

Santa Powell triggers panic bids in bonds & stocks

Both the Fed and BNS hold interest rates steady, the Dow Jones hits an all-time high and long-term investments remain the fail-safe way to avoid losing money on the equity markets. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

Chart #1

A dovish pivot by the Fed

The U.S. Federal Reserve held its benchmark interest rate steady for the third time in a row on Wednesday, setting the stage for multiple cuts to come in 2024 and beyond.

With inflation falling and the economy holding steady, FOMC policymakers voted unanimously to keep the benchmark overnight borrowing rate in a targeted range between 5.25% and 5.5%.

In tandem with this decision, committee members scheduled at least three rate cuts in 2024, in quarter-percentage-point increments. This is less than the four anticipated by the market, but more aggressive than officials had previously indicated.

The Fed also acknowledges that "inflation has eased over the past year but remains elevated" and that economic growth has slowed from the "strong pace" of the third quarter.

The bond market reacted accordingly. US 10-year Treasury yields are now below 4%, while the yield curve now anticipates between 6 and 7 rate hikes next year.

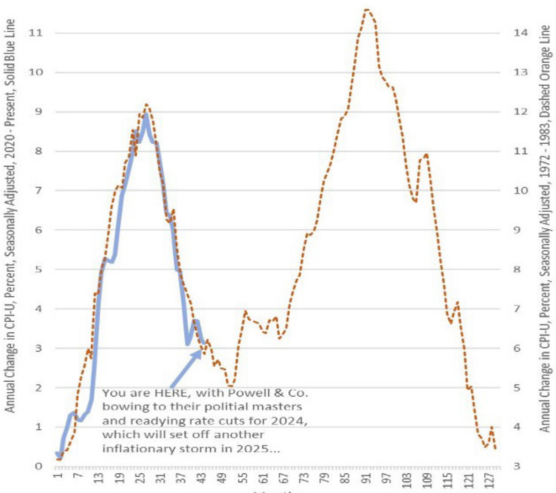
Chart #2

Will the FED make the same mistakes it did in the 1970s?

Some fifty years ago, the US Federal Reserve thought it had beaten inflation. Following a sharp fall in the price index in 1974-1975, the FED decided to lower interest rates. This premature easing had dramatic consequences: by the end of the 70s, inflation had rebounded to levels well above those prevailing during the 1st inflationary wave (see chart below).

Inflation finally came down in the early 1980s, due to two factors:

1) a sharp rise in oil production from Alaska, the Gulf of Mexico, the North Sea and huge new fields in Mexico.
2) Interest rates of 18%, which literally stifled the economy and thus inflation.



Source: Bureau of Labor Statistics

Chart #3

The Dow Jones at 37,000

An all-time record for the Dow Jones, which broke through the psychological 37,000 barrier! Following the Fed's announcement of a likely more accommodative monetary policy in 2024, the Dow Jones reached its all-time high.

Source: Bloomberg

Chart #4

The SNB leaves rates unchanged

Unsurprisingly, last Thursday the SNB left its key rate unchanged at 1.75%, the rate that has prevailed since the last rate hike in June.

The main lesson to be learnt from the central bank's announcement last week is that the SNB has abandoned any form of bias or guidance on the outlook for its monetary policy.

Back in September, the SNB had already left its key rate unchanged, but had clearly communicated a persistent "tightening bias" by explicitly mentioning the possibility of further rate hikes and by signalling that foreign exchange interventions were "focused on selling foreign currencies" (i.e., supporting the CHF).

These two references were no longer mentioned, making the SNB's position as neutral as possible. The SNB simply stated that it is prepared to adjust its monetary policy "if necessary" to keep inflation within the target range. It should also be noted that there is no longer any indication of the preferred trend in foreign exchange interventions, although the SNB remains prepared to be active on the foreign exchange market if necessary.

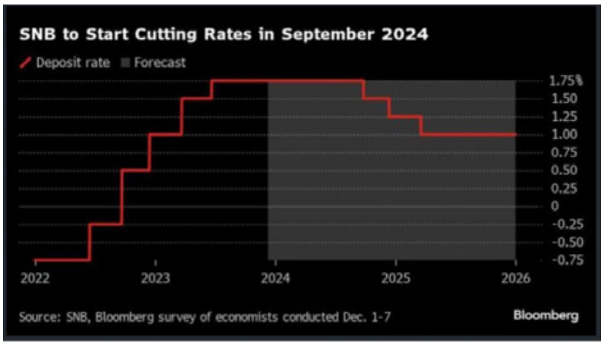
It should be noted that inflation projections have been revised slightly downwards due to weaker-than-expected price dynamics in Switzerland. This softer inflation outlook has probably strengthened the SNB's resolve to eliminate any "tightening bias" in its stance and adopt this very "neutral" stance.

As things stand, short-term Swiss franc rates are compensating for the inflation observed in Switzerland, leaving real rates around 0, a level that is neither accommodative nor restrictive for the economy. The global dynamic of slowing inflation is reducing the risk of imported inflation, thus reducing the incentive and benefits of a stronger CHF.

According to a Bloomberg survey of a panel of economists (see chart below), the Swiss Central Bank could cut rates for the first time in September. Two further cuts of 25 basis points are forecast by this consensus in December 2024 and March 2025. Some economists believe the SNB will act sooner.

Analysts at UBS said last week that they expected action as early as June. For BlackRock, March is even a possibility.

For our part, with 2024 looking very uncertain, and given the rather benign growth and inflation environment in Switzerland, we believe the SNB will adopt a "wait-and-see" stance, which will be appropriate as long as growth and inflation dynamics do not deviate significantly from the currently projected trajectory. Whereas the Fed or the ECB may have to ease monetary policy after having to tighten it sharply in an inflationary context, the SNB may not have to follow suit, given the milder inflation and interest rate environment in Switzerland.



Source: Bloomberg

Chart #5

The importance of the investment time horizon

How can you avoid losing money when investing in the equity markets? Answer: by extending your investment horizon out as far as possible.

For investors looking to make quick gains on the stock markets, the risk of loss is relatively high. But for those who are prepared to be exposed to equity markets for the long term, it's very rare to lose out on 5- or 10-year windows.

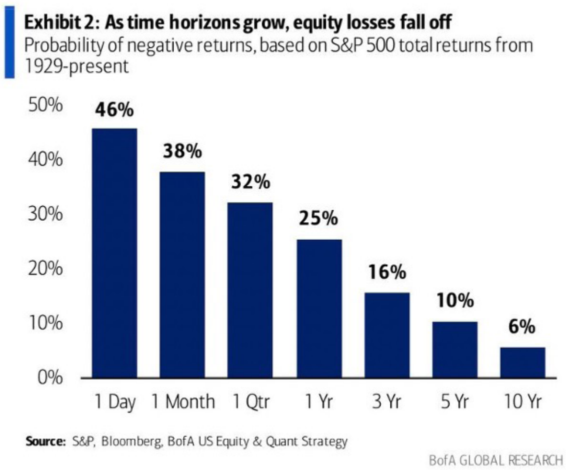


Chart #6

Ireland's spectacular rise

In recent years, Ireland has experienced unprecedented growth in prosperity. GDP per capita now stands at almost $100,000, more than twice that of Germany and three times that of Italy. This small country of 5 million inhabitants has benefited from major investments by technology giants, who have set up in Ireland because of the low tax rate. Ireland is the only country in Europe to have a significant budget surplus and to have created two sovereign wealth funds – the Future Ireland Fund (FIF) and the Nature and Climate Fund (INCF). Ireland also has a "war chest" of 2.5 billion euros. A great European success story. The only fly in the ointment is access to housing, which remains a problem for the Irish.

Source: Bloomberg, HolgerZ

Chart #7

Consumers have already spent over 10 billion on the TikTok app

Short-form video app TikTok is reaching a new milestone. As it reached 1 billion monthly active users in 2021, TikTok became the first non-game mobile app to generate $10 billion in consumer spending on Apple's App Store and Google Play combined, according to a new analysis by app intelligence provider data.ai. The only other apps to reach this level are all games, including King/Activision Blizzard's Candy Crush Saga, which brought in over $12 billion, as well as Tencent's Honor of Kings, XFLAG/Mixi's Monster Strike and Supercell's Clash of Clans.

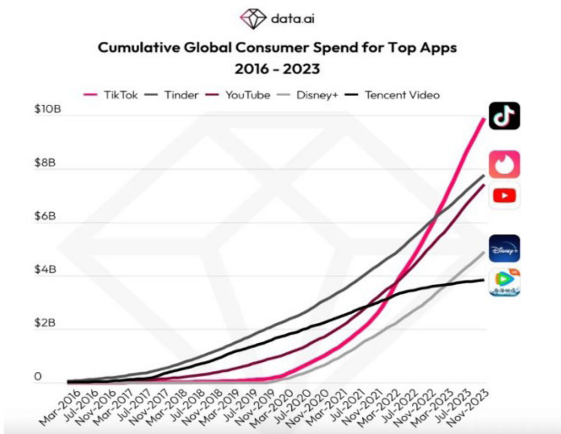


Image Credits: data.ai

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