FEATURE

WEEKLY MARKET REVIEW 08 April 2024

# US inflation on the rise once more?

**Chart #1**
US inflation appears to be accelerating again
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Image source: AdobeStock/Fatido

US inflation is accelerating, federal debt is projected to double from $20 trillion in 2017 to $40 trillion by 2025, but the S&P 500 continues to show resilience. Each week, the Syz investment team takes you through the last seven days in seven charts.

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Chart #1

## US inflation appears to be accelerating again

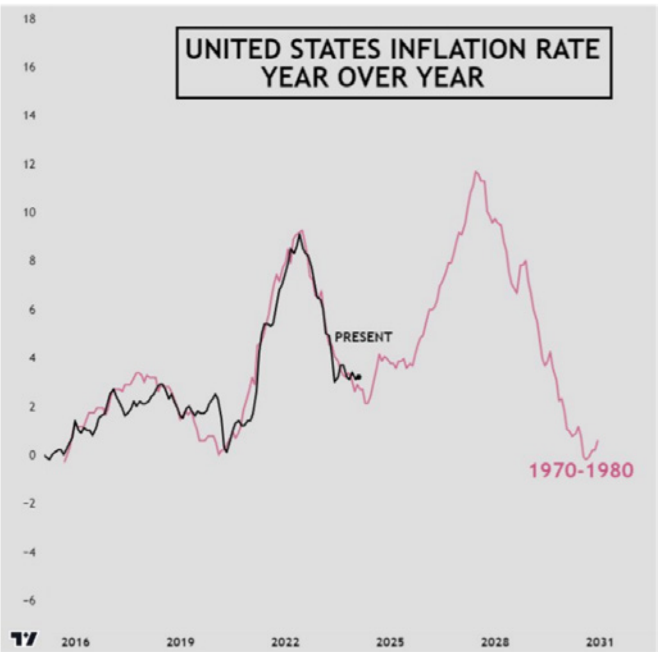
It was the week's most anticipated figure: US March inflation. The figures surprised most economists by coming in above expectations.

The headline inflation rate was 3.5% year-on-year, compared with the consensus figure of 3.4%. As a reminder, the inflation rate was 3.2% in February. This is the 3rd consecutive month of rising inflation... and the highest since September 2023.

Core inflation, i.e., excluding food and energy, also exceeded estimates: +3.8% year-on-year versus 3.7% expected and 3.76% in February. This is the first increase in core inflation since March 2023. Transport prices rose by +10.7% year-on-year and housing by +5.7%.

As for the "Supercore" index (i.e., excluding food, energy, and housing), it rose by +0.65% sequentially and 4.77% year-on-year. This is the highest rate in 11 months.

The U.S. Federal Reserve and its Chairman Jerome Powell probably didn't appreciate this new series of indicators. These statistics seem to push back the date at which the Fed could lower its key rates even further. Market estimates of the number of rate cuts expected in 2024 have been revised downwards, and a first cut in June is looking less and less likely. The scenario of no Fed rate cut in 2024 is becoming more likely. Indeed, the risk of a 2nd wave of inflation, like that seen in the 70s and 80s, is now being taken very seriously by economists.

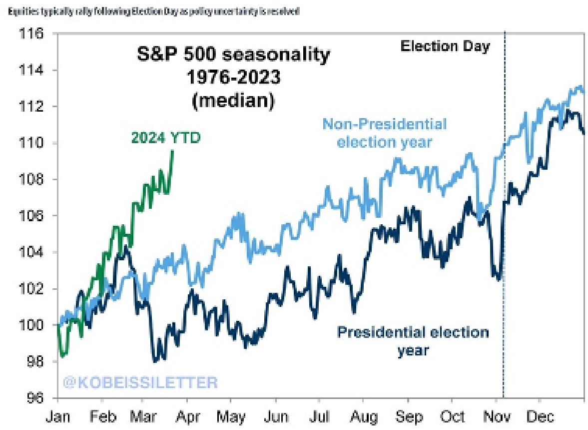



Source: TradingView

Chart #2

## The resilience of the S&P 500

The performance of the S&P 500 index has been truly exceptional this year. The index is up 9% year-to-date, more than DOUBLE the average performance of an election year. In the past, the median performance for such a year was around 11%. There are still several months to go before the presidential election, but the index is on track to significantly exceed its historical performance.

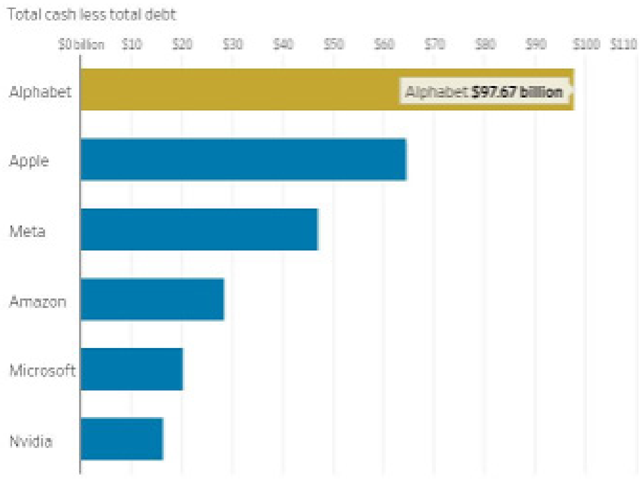



Source: The Kobeissi Letter

Chart #3

## FAANGs have their vaults full of cash

The major tech companies are flush with cash: Alphabet has almost $100 billion on its balance sheet, Apple nearly $65 billion, and Meta $45 billion. This should facilitate share buybacks in the months ahead.




Source: WSJ

Chart #4

## The importance of share buybacks for the S&P 500

As far as share buybacks by US companies are concerned, we are currently in the "blackout" period: in the weeks leading up to the publication of quarterly results, companies are not authorised to proceed with share buybacks (or issues). This is a major drag on the markets, as buybacks account for a very large proportion of demand. Since 2000, US companies have been by far the biggest buyers of US equities, with net purchases reaching 5,500 billion over the period. This far exceeds all other sources of demand.

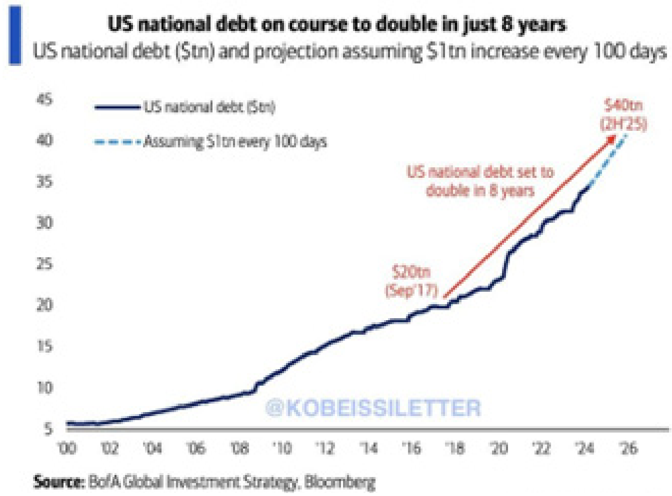

Source: Goldman Sachs, David Marlin

Chart #5

## US federal debt could reach $40,000 billion by 2025

U.S. federal debt is set to double in just 8 years, from $20,000 billion in 2017 to $40,000 billion in 2025.

Currently, US federal debt increases by $1,000 billion every 100 days. To put this in perspective, if US debt reaches $40,000 billion in 2025, this would represent an increase of $17,000 billion since 2020. That's a ~570% jump in US federal debt since 2000, a period of 25 years. And this analysis assumes we're on track for a "soft landing" of the economy. What will happen in the event of a recession?

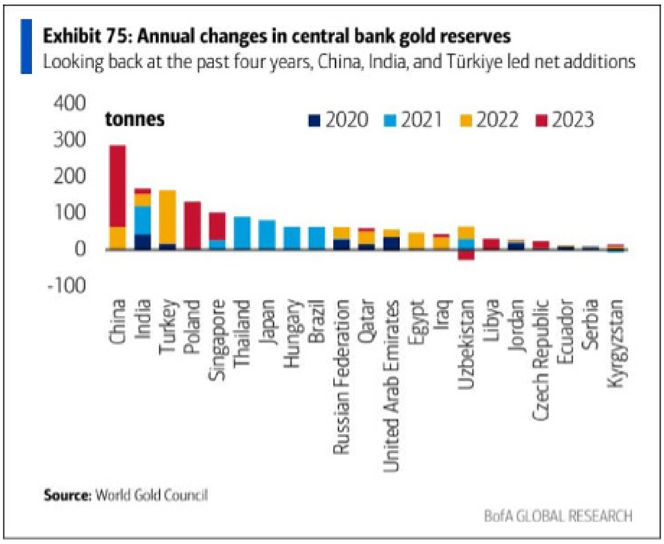



Source: BofA, Kobeissi Letter

Chart #6

## Central banks with the largest gold holdings

The chart below shows gold purchases by central banks in recent years. China is clearly in the lead, with purchases accelerating in 2023. With gold having just exceeded $2,400 an ounce, it is highly likely that central banks will continue to accumulate the precious metal.




Source: BofA

Chart #7

## The acquisitions strategy of Richemont, one of the three giants of the luxury goods industry

In 1987, Bernard Arnault created LVMH. In 1988, Johann Rupert created Richemont, a luxury group focused on acquisitions, like LVMH. The infographic below traces all the acquisitions made by Richemont since its creation.

Today, Richemont is the world's second-largest luxury conglomerate and third-largest luxury company (2nd place is held by Hermès).

The group's many prestigious houses include Cartier, Van Cleef & Arpels, Montblanc, Piaget and Vacheron Constantin, to name but a few.

Since its creation, Richemont has increased its sales by 5% a year. Over the past 15 years, the Group has increased its revenues and Free-Cash-Flow at an average annual growth rate (CAGR) of 6% and 9% respectively.


Source: Bloomberg, Markets & Mayhem

## For further information

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