The week in seven charts

Is the U.S. moving toward a more relaxed monetary policy?

Is it time for QT tapering? US equities continue to outperform 30-year US Treasuries and where are all the US listed companies going? Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

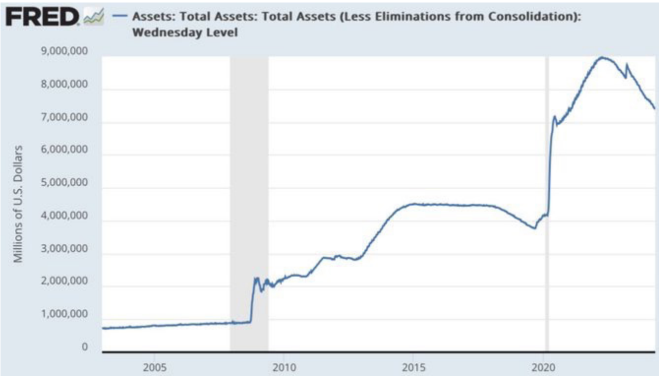
PRIVATE BANKING

Chart #1

Time for "QT tapering"

Quantitative easing (QE) is an unconventional monetary policy implemented by a central bank. It involves the massive purchase of government debt or other financial assets to inject money into the economy and stimulate growth. This policy was widely adopted by the US Federal Reserve (Fed) in the wake of the 2008 financial crisis. But while this unconventional policy was only intended to be temporary, the size of the Fed's balance sheet expanded massively, accelerating dramatically during the 2020 pandemic. It was not until 2021 that the Fed decided to implement quantitative tightening, i.e., a reduction in the size of the balance sheet, in order to combat inflation.

At the end of last week's Fed meeting, Jerome Powell announced that quantitative tightening would now slow down, a move which was interpreted by investors as a first step towards a less restrictive monetary policy on the part of the Fed.



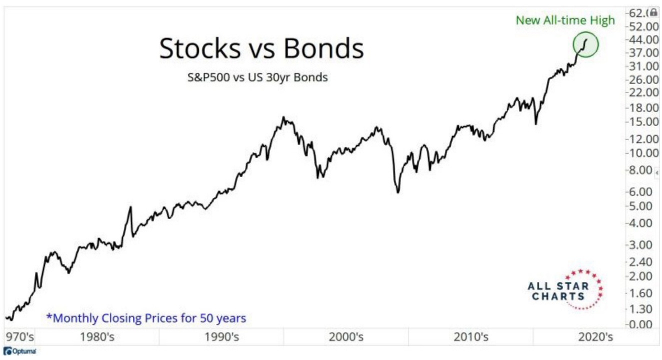
Source: FRED

Chart #2

The long period of outperformance of US equities versus US Treasuries

This is probably the most important decision in an asset allocation process: whether to favour equities or Treasuries.

As this chart shows, US equities continue to outperform 30-year US Treasuries. This outperformance has been sustained over time, with a few periods of trend reversal, notably during stock market crashes (internet bubble burst, great financial crisis of 2008, covid crash in March 2020).



Source: J-C Parets

Chart #3

Davids vs. Goliath(s)

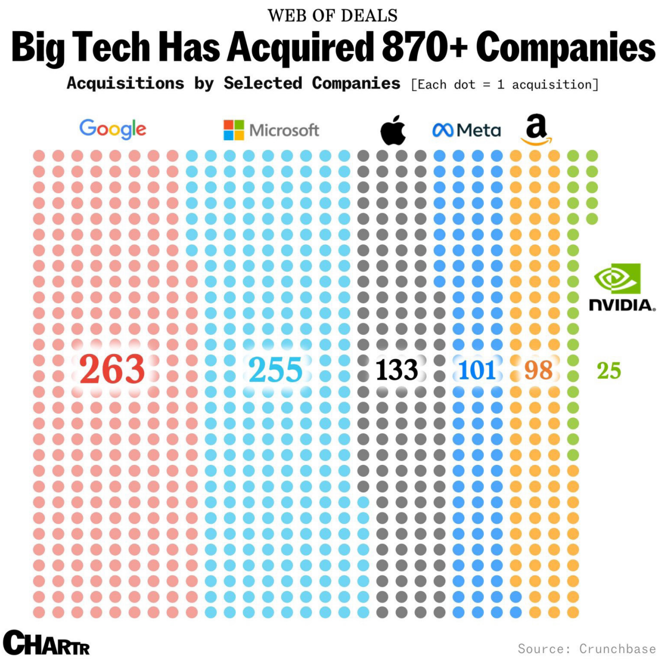
Since the late 1990s, the number of U.S.-listed companies has plummeted from just over 8,000 in 1996 to around 4,600 in 2022. The number has rebounded slightly recently. So where have all the disappearing companies gone? An article published in 2023 by a trio of academics offers a simple answer: the Magnificent Seven have swallowed them up. Or at least many of them.

Indeed, after analysing the effects of mergers, private equity investment and regulatory costs, the article suggests that M&A is the main culprit. Although they do advance a theory that higher costs associated with regulation could also be a factor.

"Mergers seem to be the main driver of this trend," Ali Sanati told Sherwood. Sanati is professor of finance at American University in Washington and co-author of the 2023 study.

The authors classified mergers and acquisitions according to various financial parameters, noting that mergers driven by financing and innovation "are the ones that are actually reducing the number of companies in the United States".

For anyone paying close attention, this observation makes perfect sense. Since the late '90s, a handful of very large and financially powerful technology companies have acquired hundreds of smaller ones. Crunchbase data shows that Google, Microsoft, Apple, Meta, Amazon and Nvidia alone have acquired a staggering 875 companies.



Source: Chartr

Chart #4

European banks are apparently doing brilliant business in Russia...

In 2023, European banks paid 4 times more taxes to the Russian state than before the war in Ukraine...

According to the FT, Deutsche Bank increased its profits in Russia from 26 million euros before the war to 40 million euros in 2023, while Commerzbank more than tripled its profits to 51 million euros. The German state holds a 15.8% stake in Commerzbank.

Italian and Austrian banks also did very well in Russia last year.

Western banks active in lending benefited from the sanctions imposed on most of Russia's financial sector, which was denied access to the Swift international interbank payment system. International banks have thus become a financial lifeline between Moscow and the West.

European banks increase profit and tax in Russia

Bank	Country	2021 Profit (€mn)	2023 Profit (€mn)	2021 Tax (€mn)	2023 Tax (€mn)
Raiffeisen Bank International	Austria	591	1,805	117	464
UniCredit	Italy	209	658	44	154
OTP	Hungary	128	338	26	90
Intesa Sanpaolo	Italy	7	138	2	27
ING Groep	Netherlands	3	151	-7	20
Commerzbank	Germany	15	51	3	8
Deutsche Bank	Germany	26	40	6	16

Source: Company filings

Source: FT

Chart #5

This is how stores of value behave in the presence of a collapsing fiat currency

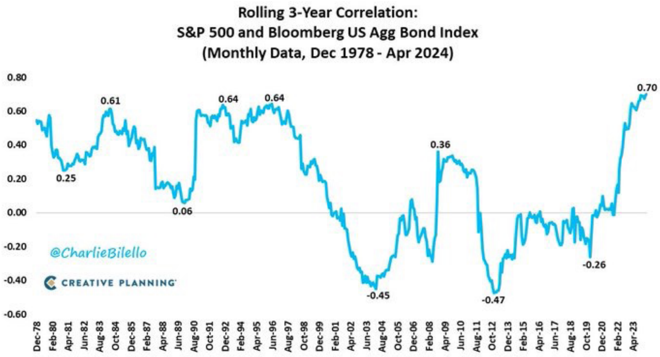
The Japanese yen collapses against the dollar. The devaluation is even more spectacular against gold and... digital gold.

Source: Trading view

Chart #6

The correlation between US equities and bonds over the last three years is the highest on record

The high correlation (0.7) between stocks and bonds reduces the diversification properties of bonds in multi-asset portfolios.



Source: Charlie Bilello

Chart #7

Most valuable companies in the major EU economies as of April 2024

Novo Nordisk is the company with the largest market capitalisation in Europe, followed by LVMH and Dutch company ASML.

Source: The Visual Capitalist

For further information

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