The week in seven charts

Chart #1
The Fed leaves rates unchanged and remains cautious ahead of events
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Image source: iStock/orgnmaster

Fed holds rates steady, stays cautious

The Fed remains cautious, wanting more data before deciding on a rate cut, while newly released US CPI data provided relief for the markets and the rise of *Rassemblement National* result in snap elections in France. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

Syz PRIVATE BANKING

Chart #1

The Fed leaves rates unchanged and remains cautious ahead of events

As expected, the Fed left key rates unchanged. The US central bank is keeping the benchmark rate within the target range of 5.25-5.5% and has revised its assessment of inflation from a "lack" of progress to a moderate rise in recent months.

However, the so-called "dot plots" (rate projections for 2024 and 2025) came out more restrictive than expected: the FOMC's median forecast shows rate cuts of 25 basis points in 2024 (versus 75 basis points initially) and rate cuts of 100 basis points in 2025 (versus 75 basis points initially).

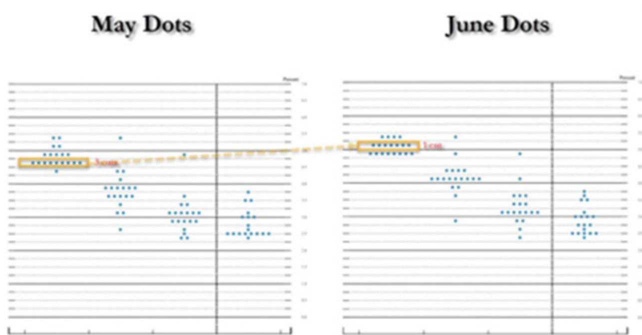
Another notable development is the long-term estimate for the federal funds rate, now raised to 2.8% according to the median forecast. This is the second consecutive increase, following a rise from 2.5% to 2.6% last time. In six months, Fed members have added more than a quarter of a percentage point to their estimate of the benchmark long-term rate, known as the neutral rate.

In addition, the Fed raised its inflation forecast for the end of 2024, but preferred to keep its unemployment rate forecast unchanged.

It should be noted that the reassuring figures for the inflation rate in May (see chart below) were passed on to the FOMC members during the meeting. However, many of them want to wait for additional data, for example, the PPI or the PCE inflation rate, before changing their forecasts.

To sum up: The Fed has redefined the 2024-2025 dot plots from (2+3) to (1+4) and has raised its inflation forecast for 2024. This is a message of caution and indicates that the Fed wants more economic figures before committing to a key rate cut.

For our part, we still expect monetary policy to normalise over the coming months. The Fed is likely to continue its meeting-by-meeting approach, with our baseline scenario being a first rate cut in September. Indeed, it will take at least several more months of data to ensure that inflation is behaving in a way that the Fed considers acceptable. One key lesson today is that many FOMC members may prefer to wait beyond September if the upcoming data doesn't clearly indicate disinflation.



Source: ZeroHedge

Chart #2

Relief for the markets with the publication of the US CPI

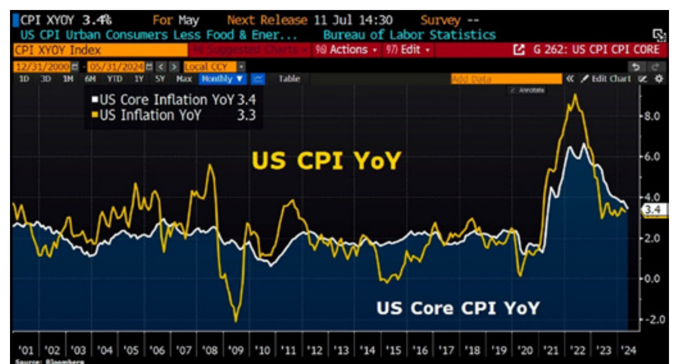
This was the macroeconomic figure of the week. The US inflation figures for May reassured the markets. In fact, the inflation rate was lower than expected in May: 0.0% for the sequential "headline" inflation rate against +0.1% expected; and +0.2% for the sequential "core" inflation rate against +0.3% expected.

As a result, the annual headline inflation rate is down to +3.3% (after +3.4% in April) and the core inflation rate is down to +3.4% (+3.6% in April), its lowest level for three years.

Inflation remains above the Fed's 2% target, but the trend towards slower inflation has resumed after the upward surprises of the first quarter of the year.

Housing inflation remains firm, but non-housing inflation (+2.1% year-on-year) is now almost in line with the Fed's target. Inflation in services, which had been strong in previous months, is finally slowing (+0.2% in May compared with +0.4% in April and +0.5% in March). Prices of durable and non-durable goods fell in May (-0.5% and -0.4% respectively).

These data confirm our scenario of a gradual disinflationary trend in the US, as tensions in the labour market ease and consumer demand loses some of its momentum.

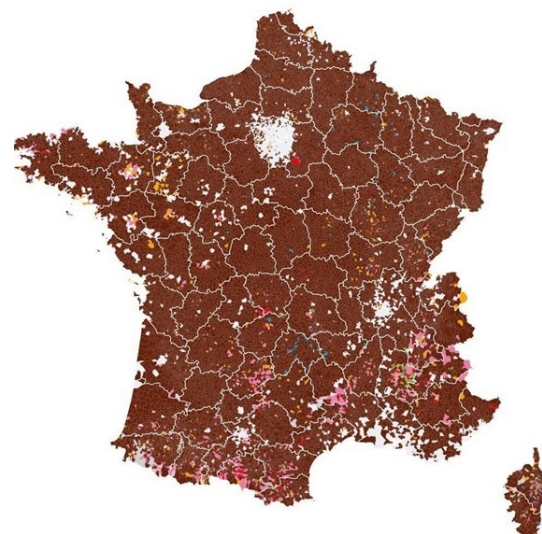


Source: Bloomberg

Chart #3

The rise of *Rassemblement National*

The map below shows in brown the municipalities in which Marine Le Pen's party (*Rassemblement National*) came first in the European elections.



Source: Xavier Ruiz

Chart #4

Spreads between the 10-year OAT and the Bund

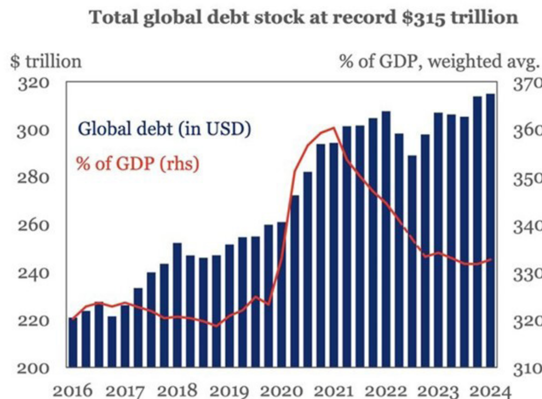
Following the results of the European elections in France and the announcement that the National Assembly would be dissolved, the yield spread between 10-year French government bonds (OATs) and German government bonds (Bunds) for the same maturity widened. The spread between these two bonds is now over 75 basis points. Nothing dramatic for the time being. However, a victory by the Rassemblement National (or the left-wing alliance) in the parliamentary elections to be held in early July could result in an even more substantial yield differential.

Source: Bloomberg

Chart #5

A global debt crisis

Total government debt reached a colossal $315 trillion in the first quarter of 2024, a new all-time record. In the first quarter alone, total global debt increased by $1.3 trillion. At the same time, emerging market debt reached $105 trillion, an increase of around $50 trillion in the space of a decade, with the biggest increase in China. In the developed markets, it is the United States and Japan that have taken on the most debt. Today, the global debt-to-GDP ratio has risen to 333%, although this is still below the record of 362% set in 2021. Debt is spreading as a global "solution" to the various challenges faced by governments.

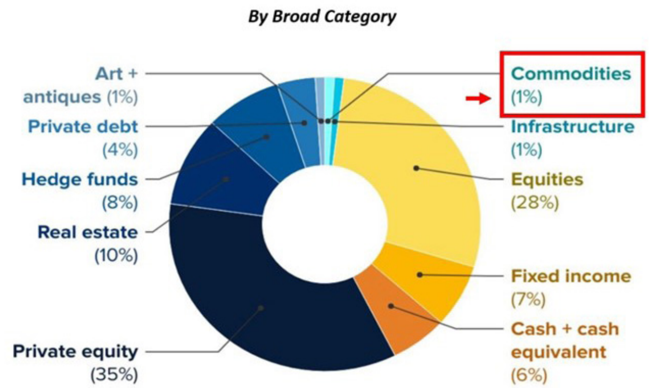


Source: The Kobeissi Letter

Chart #6

Family offices have very little exposure to commodities

Below is the strategic allocation of family offices in the United States. There is a very high allocation to private assets (particularly private equity, real estate, and hedge funds) and a low allocation to fixed-income products. There is also a very low allocation to commodities and gold (1% in aggregate).

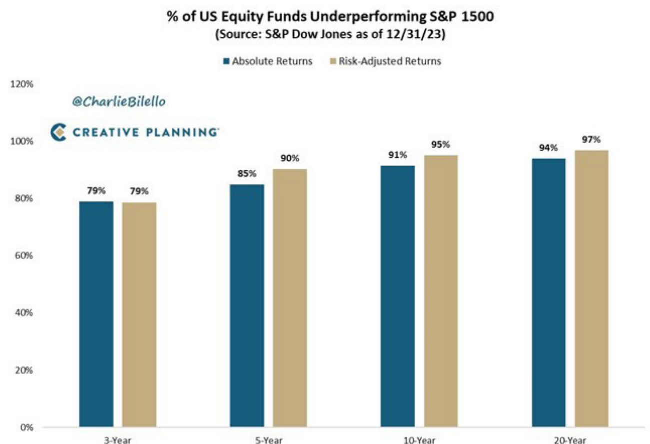


Source: UBS, CNBC

Chart #7

The chronic underperformance of US equity funds relative to their benchmark

The vast majority of US equity funds underperform the S&P 1500. The longer the period, the higher the percentage of underperformance.



Source: CharlieBiello

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

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