

March 10, 2023

Weekly Investment Insights



Market Highlights

- After Silicon Valley Bank-parent SVB Financial announced it had sold securities from its bond portfolio at a \$1.8 billion loss, investors called into question just how much the securities banks own are worth if they are forced to sell, causing Financial stocks to sell off drastically. Most of the time, banks don't have to sell, but with yields rising, holding on to deposits has become more difficult. To combat this, US banks must increase their deposit rates at a faster pace than the increase in interest rates, thus affecting the earnings perspectives of the sector. Despite the turmoil, we believe that the risk of a large US bank experiencing a capital or liquidity event like in 2008 is very remote.
- In his testimony, Fed Chair Jay Powell opened the possibility of increasing the hiking pace again (from 25bp to 50bp), stating "the ultimate level of interest rates is likely to be higher than previously anticipated" and citing "stronger than expected" economic data. This announcement caused US equity indices to drop while the 2-year Treasury yield spiked to above 5% for the first time since 2007.
- · Friday's nonfarms payrolls likely emboldened hawks at the Fed further. The US economy

unexpectedly created 311K jobs in February of 2023, well above market forecasts of 205K, and following a downwardly revised 504K in January. Notable job gains occurred in leisure and hospitality (+105K).

- On this side of the Atlantic, Austrian ECB Governor Holzmann, a known hawk, said the central bank should hike rates by 50 bps in March, May, June and July while it should also consider adding PEPP to QT in autumn. He expects that core inflation won't weaken significantly in the first half of the year.
- Economic data for Germany presented a mixed picture: industrial production (+3.5%) exceeded expectations, while retail sales continued to decline (-0.3%).
- A fresh bout of strikes played out across France as labour unions vowed to bring the country to a standstill in an attempt to force President Emmanuel Macron to abandon his planned rise in the retirement age.
- After historically low GDP growth of 3% last year, China has set a modest economic growth target of around 5% for this year, a figure below expectations of 5.5% and the lowest set for more than three decades, with officials stressing the need to prioritize economic stability, alongside an uptick in consumption. Following this release, which reduced the likelihood of a massive stimulus injection, Chinese stocks, commodities and the materials sector dipped.
- However, by Friday, a key proxy for oil demand in Asia was rallying on signals that the region's need for crude is increasing. The gap between London's Brent and Dubai crude narrowed again on Friday. That means Dubai, a marker for Asian demand, is strengthening relative to the global benchmark
- Worth noting for investors, is that in the equity space, a strong reshuffling between the Pure Growth and Value indexes has occurred, reflecting valuation shifts over the past year. Tech's weight in Pure Growth fell to 13% -- its lowest share since 2014 -- from about 36%, while energy jumped to 29% -- the highest since at least 2005 -- from 8%. Notably, Alphabet fell out of the Pure Growth index. More here

Economic calendar for the week ahead (13-17th March)

Tuesday – UK Unemployment rate (January), and Average Earnings, incl. bonus (January). Italy Industrial production (January). **US Inflation Rate (February)**

Wednesday – Japan BoJ Monetary Policy Meeting. China Industrial Production (January-February), Retail Sales (January-February), Unemployment rate (February), Fixed Asset Investment (January-February). France Inflation Rate (February). Euro Area Industrial Production (January). US MBA 30-year Mortgage Rate (March), PPI (February), and Retail Sales (February)

Thursday – China House price Index (February), Italy Inflation Rate (February), Spain Balance of Trade (January), US Building Permits Prel (February), Weekly Jobless Claims. **ECB Monetary Policy Meeting**

Friday – Euro Area Inflation Rate (Final February), Balance Of Trade. US Industrial Production (February)

Story of the week

Over the past few months, the US Federal Reserve's hiking campaign has caused a great deal of uncertainty in the economic sphere. From bumper hikes of 0.75 percentage points, the pace of tightening has gradually slowed to 0.25pp increments.

However, the recent statement from Fed Chairman Jerome Powell, indicating that the central bank is prepared to restart larger rate hikes, has once again rattled the markets. One of the reasons behind the Fed's continued hawkishness, is the country's resolutely strong job market. This was reflected in two important data points last week.

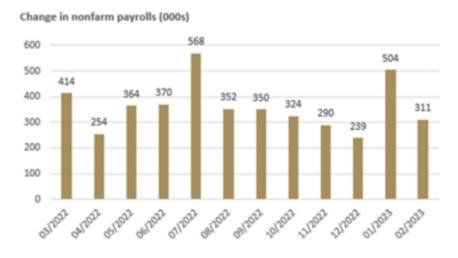
The latest job openings data from the Labor Department, exceeded expectations for January, with 10.8 million job openings compared to the expected 10.5 million. While this marks a small decline from the previous month's 11.2m openings, it is still exceedingly strong.

Indeed, this marks the 20th consecutive month in which job openings have exceeded 10 million, a level that had never been seen prior to 2021, in Labor Department data going back to 2000. These figures highlight the strength of the US job market, which has thus far reacted very slowly to Fed tightening as it tries to contain inflation.



Source: Bloomberg

On Friday, as mentioned above, nonfarm payrolls data also pointed to a tight labour market, coming in at 311k. This means the economy added an average of 343K jobs per month over the prior 6 months, well above the 100K per month considered necessary to keep up with growth in the working-age population.



Source: Bloomberg

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352 4590 6699 I www bil com

