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)

Monday – US consumer inflation Expectations (February)

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.

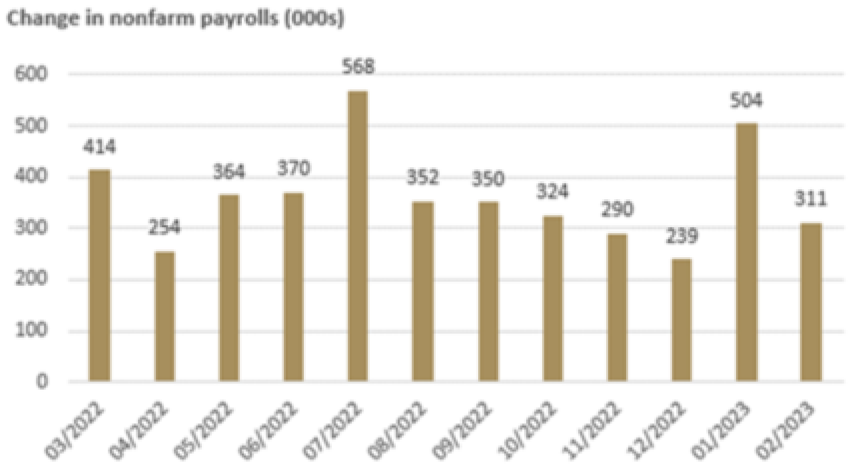
However, the recent statement from Fed Chairman Jerome Powell, indicating that the central bank is prepared to restart larger rate hikes, has once again rattled the markets. One of the reasons behind the Fed's continued hawkishness, is the country's resolutely strong job market. This was reflected in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

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