J. Safra Sarasin
Cross-Asset Weekly

04 October 2024

More details about China's stimulus emerging

China's decisive shift towards broader policy support was welcomed by financial markets and us. We are positive that the announced measures will likely stabilise near-term growth. Yet, we would like to warn that they are not going to turn around the economic dynamic quickly or stop the correction in the housing market. Even the RMB 2 trillion package that is reported in the media is far from a 'bazooka' by historical standards. Ultimately, a much bigger package with social transfers that are made permanent would be more effective.

Over in Europe, we stick to our long-held view that the euro area economy cannot fully recover if monetary policy remains as restrictive as it still is. Recent speeches by policymakers indicate that the consensus within the ECB is also moving in this direction. Consequently, we continue to expect the ECB to front-load policy easing with rate cuts in October and December, and more to come in 2025.

Finally, we look at the odds for more widespread layoffs in the US. The hard-landing scenario in the US hinges to a large degree on expectations that corporate profits will fall, prompting firms to cut jobs. Policy support, external shocks, and pricing power have bolstered profit margins since the pandemic. While some of these factors will fade as the economy normalises, this shift is expected to be only gradual. As a result, barring any major disruptions, companies are unlikely to undertake drastic cost-cutting measures over the coming quarters.

This week's highlights

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China macro

High expectations for the fiscal program

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China's clear shift towards policy easing was welcomed by the market and us. Still, the monetary and housing measures announced so far are not going to turn around the economic cycle or stop the correction in the housing market. More aggressive destocking and addressing unfinished projects would improve potential homebuyer sentiment. Size and allocation of the fiscal measures will be key to cyclical support in the next few quarters. The RMB 2 trillion package reported in the media would likely stabilise near-term growth, but it is far from a 'bazooka' by historical standards. A bigger package with social transfers that are made permanent would be ideal.

A clear shift towards policy easing

Last week China surprised the market with its clear shift towards policy easing. Policymakers appeared to be united in their communication. The press conference on September 24 was attended by the People's Bank of China (PBoC) Governor, the Chairman of the Securities Regulatory Commission (CSRC) and the Minister of the National Financial Regulatory Administration (NFRA). The off-cycle Politburo meeting on September 27 signalled a clear shift. The meeting readout called for "an increase in the intensity of counter cyclical adjustments in fiscal and monetary policies". It also emphasised that "efforts should be made to reverse the downturn of the real estate market". The measures announced so far are summarised in Table 1.

Further monetary easing likely as the Fed continues its rate-cut cycle

Given that CPI inflation remains close to zero and PPI inflation is close to -2%, real interest rates in China remain high. Like in other Asian Emerging Markets, the Fed's start of its rate-cut cycle has opened the door for the PBoC to ease policy. The downward pressure on the renminbi has subsided, which should allow the PBoC to deliver more easing.

Announced monetary and housing measures are not enough to stabilise the housing market

The announced measures are not enough to lift low morale among potential homebuyers and consumers. While lower mortgage rates for existing borrowers could free some cash for these households to spend, the magnitude of the stimulus, amounting to 0.1% of GDP, is too small to make a difference. Households in general will also be hit by lower deposit rates. Other housing measures double down on existing schemes, such as the destocking plan to turn vacant homes into public housing. They have seen a low uptake rate so far.

Table 1: Summary of measures announced last week

Monetary policy	Stock market measures	Housing measures
1. Policy rate cuts: The 7-day reverse repo rate was cut by 20bp to 1.5%. This should guide the medium-term lending facility (MLF) rate 30bp lower and the loan prime rate (LPR) 20-25bp lower. Deposit rates guided lower and commercial banks' net interest margins to remain stable. 2. Lower Required Reserve Ratio (RRR) by 50bp. This releases 1 trillion yuan of liquidity into the market. RRR may be cut further by 25-50bp.	1. RMB 500 billion swap facility to give brokers, funds and insurance companies liquidity to buy stocks. The amount could be increased further. 2. RMB 300 billion special lending facility to banks to provide loans to listed companies and their major shareholders for share buybacks. 3. These two schemes could be expanded further if necessary.	1. Tier I cities to ease curbs on non-local home purchases. 2. Lower minimum down payment for second home from 25% to 15%. 3. Lower interest rates for existing mortgages by 50bp. This is set to benefit 50 million households and reduce interest expenses by RMB 150 billion. 4. PBoC to fully fund the state scheme to turn vacant homes into public rentals (previously the PBoC fund 60%).

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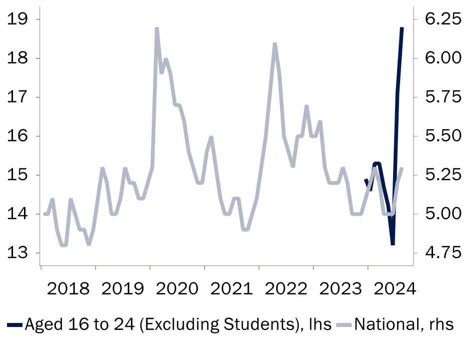
A weak labour market in a deflationary environment and a tight fiscal stance

Poor income and employment prospects have weighed on consumer and potential home-buyer sentiment. The youth unemployment rate has shot up and various surveys show weak labour demand and employment expectations. Part of this is likely explained by squeezed profit margins in a deflationary environment. Part of it is just weak domestic demand, which has been exacerbated by tight fiscal policy (Exhibits 1-3). Local governments have had to cut back while revenue growth at the central government level lags the budgeted amounts.

Exhibit 1: Youth unemployment has surged

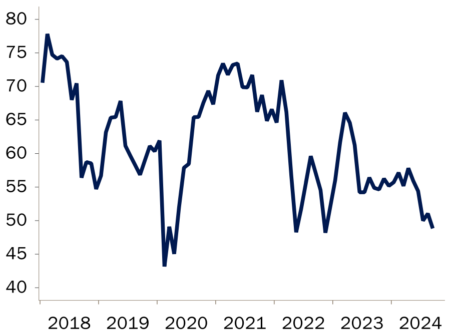
China, Unemployment Rate, %



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Exhibit 2: Weak labour demand

China, CKGSB Recruitment Index



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Exhibit 3: Poor employment prospects

China, NBS Consumer Expectation Index

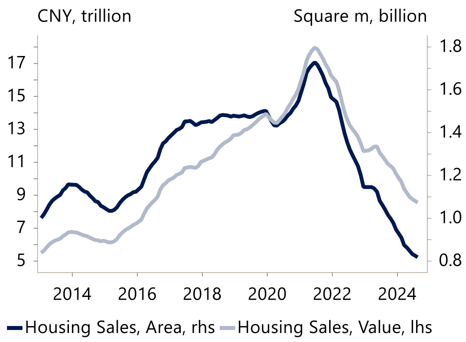
Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Stabilising the housing market requires higher confidence among potential home-buyers

Potential homebuyers remain cautious as they expect prices to fall further. Home sales are very weak (Exhibit 4), while price adjustments in the primary market (where 75% of sales take place) have been limited at 8% so far (compared to 15% in the secondary market). International experience suggests that a housing bust takes 5-6 years for prices to bottom out with around 30-40% of price adjustment. Houses available for sale remain high by historical standards, and will take some more time to digest (Exhibit 5). This is especially true for lower-tier cities where housing inventory remains on sale for around 30 months, much higher than the 2015 peak at around 20 months, according to the IMF. Moreover, homebuyer confidence in the ability of developers to deliver pre-sold homes remains low. Despite the government's effort to ease financing constraints (by facilitating banks to lend to approved projects on the "white list"), residential areas under construction remain still very large. At the current annual rate of construction completion, it will take more than 6 years to finish all these unfinished projects (Exhibit 6).

Exhibit 4: Very weak home sales

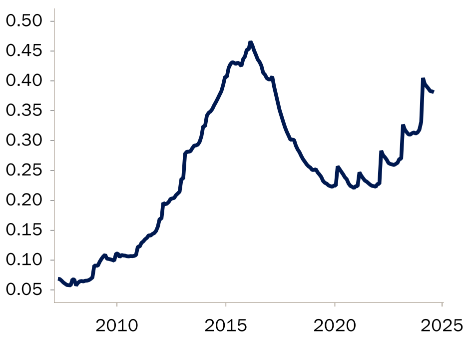
China, Housing Sales, 12-Month Rolling Sum



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Exhibit 5: Too many homes waiting for sale...

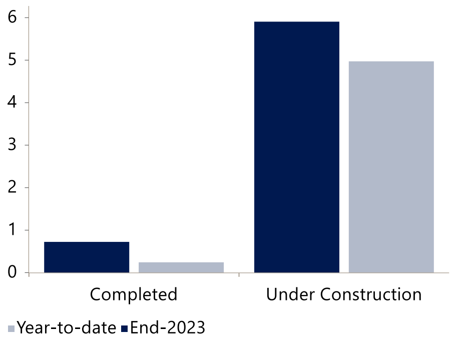
China, Residential Vacancy (Waiting for Sale), Sqm Billion



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Exhibit 6: ...and even more unfinished homes

China, Construction Status, Residential Area, Sqm Billion



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Four essential measures:
1. Speed up the destocking program

We look for four measures that we believe to be essential to arrest the housing decline and boost the economy. The first is to stabilise the prices by a more aggressive destocking program (the one mentioned earlier). While it is usually desirable to let demand and supply determine market prices, this may be a case for government intervention to ensure that prices do not undershoot. Local governments have been reluctant to participate in the destocking scheme as it requires them to borrow more money, while they already struggle to repay debt. Direct subsidies from the central to local governments, for example, could speed up the scheme.

2. Address unfinished projects

This can be done either through further easing of developers' financing constraints or the creation of a state body (like an asset manager) that can take over housing projects and finish them. Such actions would lift the confidence of potential homebuyers in the primary market. Once these projects are finished, the unsold portion can be transferred to the destocking program.

3. Full support for the private sector through clear initiatives

The private, and in particular the service sector is the main source of employment creation. In recent years, many service sub-sectors have been subject to a campaign to clamp down on their excesses. This has dampened sentiment and job creation in these sectors, including financial services, internet platforms, education and gaming. They need to be re-assured through clear initiatives that they will be allowed to operate more freely.

4. A meaningful fiscal program

Size and allocation of fiscal measures will be key. The boost needs to be large enough to have an impact on the cyclical development. A Reuter's report suggests that the fiscal package could amount to RMB 2 trillion, with allocation towards local governments and social transfers. This is about 1.5% of GDP which is definitely not a bazooka by historical standards. The change in general government deficits in 2016 and 2020 was in the order of 5 to 7 percentage points of GDP. A 1.5% of GDP package would probably help to stabilise near-term growth through Q1 2025, but may not be enough to completely turn around the cycle for the rest of next year.

...which should introduce social transfers that will turn permanent from next year

With regard to the composition of the fiscal package, it is important to support local governments to stop their spending cut-backs and resolve their arrears. Moreover, social transfers would make the most impact if they are directed to lower-income households (such as migrant workers), and if they are made permanent. Temporary transfers may not give enough relief to Chinese households still worried about future income uncertainty.

The first three measures will help ensure that fiscal spending will boost domestic demand

These four measures together should help lift household sentiment, stop the housing decline and release some precautionary savings. A fiscal boost alone is likely not adequate as the fiscal multiplier would be dampened if the housing outlook and private sector job prospects remain subdued.

ECB Preview

ECB to cut its policy rates by 25bp in October

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We stick to our long-held view that the euro area economy cannot fully recover if monetary policy remains as restrictive as it still is. While private consumption can grow on the back of higher nominal wages and falling inflation rates, investment spending will likely remain depressed if corporate margins fall and interest rates remain high. As a result, labour market conditions will likely deteriorate and inflation should slowly come down. While wage growth is still elevated in the euro area, we believe there is enough reason for it to come down over time such that the inflation target of 2% can be reached within the next two years. Consequently, we continue to expect ECB rate cuts in October and December. Recent speeches by policymakers indicate that the consensus within the ECB is also moving in this direction.

We still expect a rate cut in October

Let's be clear: We are not revising our ECB forecast. Since March, we have been holding the view that the ECB will be cutting its policy rate in June, September, October and December on the back of a disappointing growth environment and inflation slowly approaching its target. That said, we admit that our scenario has become more likely after Ms Schnabel and President Lagarde, among other ECB speakers, have acknowledged that downside risks to growth and inflation have increased again. It also helps that the Fed front-loaded its policy cuts and that the Swiss and the Swedish central banks have indicated more rate cuts. Financial markets have also embraced the necessity to front-load rate cuts. We would add that there are few risks of making a policy mistake. The policy stance would still remain restrictive even after several cuts. Hence, disinflation would still take place and the only downside risk would be that it would take longer than currently expected. In contrast, central bank inaction would lead to even higher real policy rates as inflation and inflation expectations have been declining significantly since last year. In the following, we explain our case for lower rates.

Exhibit 1: Inflation expectations anchored

Euro area, breakeven inflation expectations in % (5y5y forwards)

Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

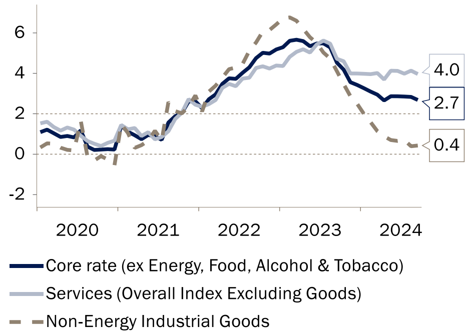
Exhibit 2: Consumer inflation expectations

ECB, Consumer Expectations, Inflation in %, Median, last data: August 2024

Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 3: Declining inflation in most sectors

Euro Area, HICP, in % yoy



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

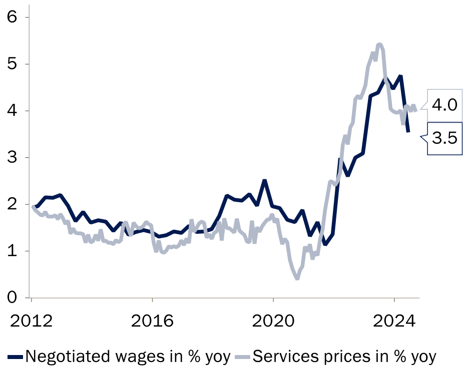
Stable inflation expectations imply that the ECB doesn't have to defend its credibility further

First, we note that the ECB has successfully re-anchored inflation expectations. Hence, financial markets don't question the willingness and ability of the ECB to deliver 2% in the medium term (Exhibit 1). Household inflation expectations are falling a bit less quickly, but they are also moving in the right direction (Exhibit 2). It is widely accepted that consumers have adaptive inflation expectations, which means that their expectations for the future are heavily influenced by what they have experienced in the recent past. The recent decline of inflation rates thus means that their inflation expectations are likely to fall further in the coming quarters. They should already observe falling inflation rates in many goods categories. Only services inflation remains sticky at elevated levels (Exhibit 3).

A deteriorating labour market will lead to lower wages and services inflation

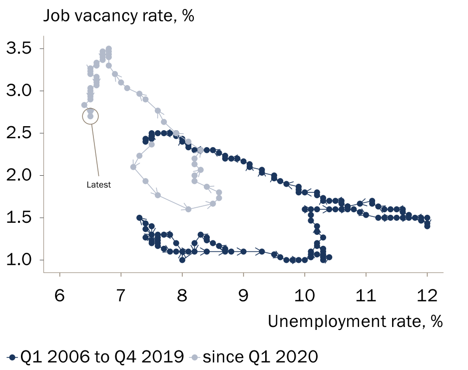
We are optimistic that services inflation is likely to follow wage growth (Exhibit 4). It is already visible that wage growth is declining, and we expect a further moderation next year as the labour market is cooling. This might not be captured in the unemployment rate, which remains at a record low level of 6.4%, but it can clearly be seen in the falling job vacancy rate (Exhibit 5). In addition, companies in the manufacturing sector report that the scarcity of demand has replaced the scarcity of labour as the most important limiting factor for production (Exhibit 6).

Exhibit 4: Wages decline with a delay



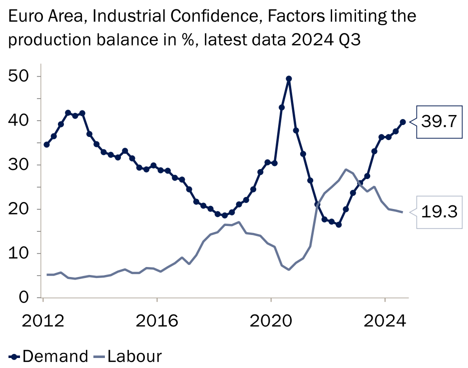
Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 5: Deteriorating labour market



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 6: Scarcity of demand vs labour

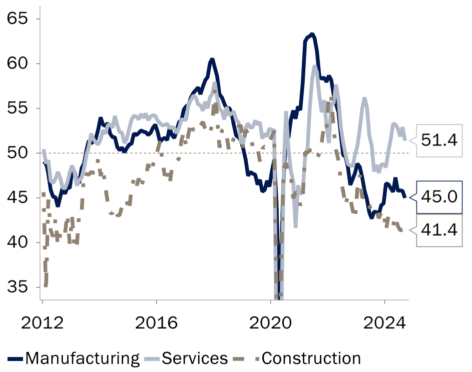


Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Growth is far lower than expected by the ECB as households increase their savings ratio

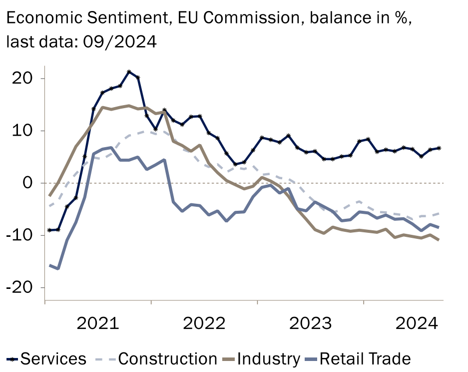
With falling inflation rates, the main risks for the euro area are shifting from inflation to growth. The economic outlook is weakening in all sectors except for the services sector where it remains slightly positive (Exhibits 7 and 8). Consumer confidence has been picking up this year on the back of falling inflation rates and increasing wages. But higher real incomes have contributed less to the economic dynamics than expected. Instead, consumers have increased their savings ratio (Exhibit 9).

Exhibit 7: Purchasing Managers Indices



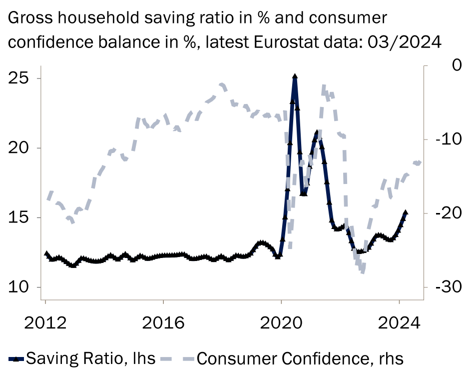
Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 8: Economic sentiment



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 9: Higher savings ratio



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

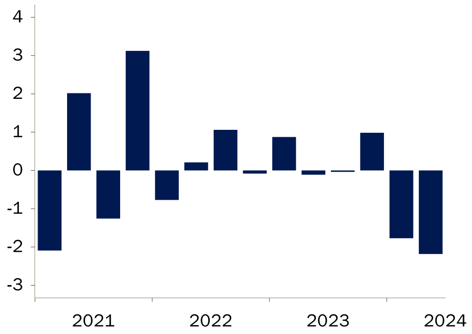
Investment spending and credit growth will not trigger faster GDP growth as long as interest rates remain this high

Overall, the pick-up in consumption was not enough to incentivise companies to invest more. On the contrary, investment spending has declined (Exhibit 10). Low demand, higher wages but also high interest rates are likely to be responsible factors for this. As a result, loans to non-financial companies are barely growing and neither are loans for house purchases, which usually are the most important part of overall credit growth

(Exhibit 11). Finally, let's look at external demand and the euro. The good news first: The real effective exchange rate is broadly at last year's level, which implies that the euro is not denting the euro area's competitiveness materially (Exhibit 12). We are still not optimistic about future export growth as China has become more of a competitor than a customer for Europe's products. Moreover, a soft-landing of the US economy would also lead to lower demand from the US.

Exhibit 10: Declining investment spending

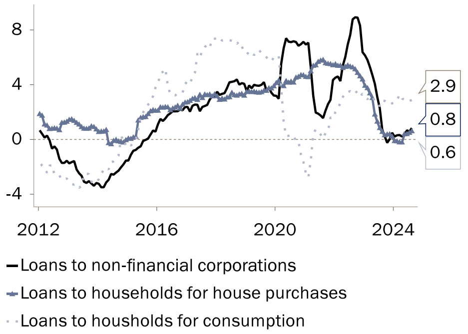
Gross Fixed Capital Formation, in % qoq



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 11: Credit growth is minimal

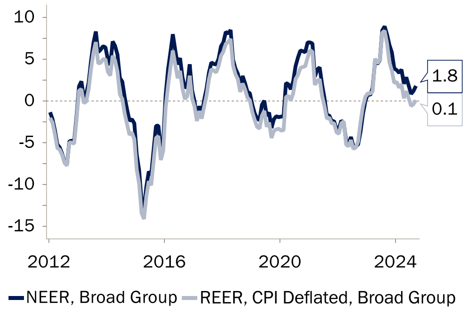
Euro area, loans in % yoy, latest data: 08/2024



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Exhibit 12: Neutral impact of the euro

ECB, Effective exchange rates (Fixed Composition of Group of Trading Partners), in % yoy, last data: 09/2024



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Policy rates to be cut in October and December. More to come next year

Taken together, we have little doubt that risks have shifted in the euro area from too elevated inflation to too low growth, and in particular too low investment spending, which would be needed for higher productivity growth. As a result, we continue to expect ECB rate cuts in October and December and see the risks of even faster rate cuts in 2025 than we are forecasting so far.

The drawback of President Lagarde's consensus-oriented leadership style is that the ECB is often acting later than other central banks

Lately, there has been a discussion why the ECB has realised so late that the balance of risks between inflation and growth has shifted. It might have to do with the consensus-oriented leadership style of President Lagarde. This style was very much appreciated by us and others, as it was crucial in bringing the Governing Council together again after years of Draghi's top-down decision-making approach that had frustrated many of its members. Yet, it shows that consensus building takes time, such that the ECB seems to react later to economic turning points than other central banks. Its slow exit from quantitative easing and its delayed response to the global inflation shock in 2022, along with its overly restrictive stance to fight inflation clearly show the disadvantages of this consensus orientation. As a result, the ECB is less of a thought-leader in the global central bank community than it could be given its size and resources. Instead, it seems to follow other central banks that have shown to be willing to front-load its rate cuts faster towards a more neutral policy stance. To decide more slowly than others might have the advantage of making fewer mistakes. Yet at the same time, it often implies that more forceful actions have to be taken later. This makes the ECB policy more volatile than necessary. Indeed, we find that its key policy is more volatile than for example the one of Switzerland.

J. Safra Sarasin

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US macro

Why have corporate profit margins been so elevated?

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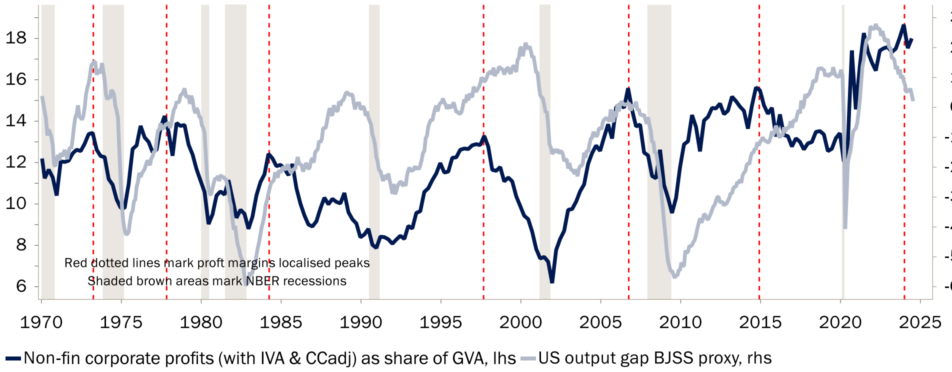
The hard-landing scenario hinges on the expectation that corporate profits will fall, prompting firms to cut jobs. Policy support, external shocks, and pricing power have bolstered profit margins since the pandemic. While some of these factors will fade as the economy normalises, this shift is expected to be gradual. As a result, barring any major disruptions, companies are unlikely to undertake drastic cost-cutting measures over the coming quarters.

Widespread layoffs don't typically happen when profit margins are close to their cyclical highs

The labour market has cooled in recent months, with job postings and hiring slowing. Though the unemployment rate has risen from its cyclical trough, it remains historically low, as layoffs have been minimal. At 4.2%, it is in line with the Fed's estimate of the natural rate of unemployment, suggesting the economy is near equilibrium. The concern, however, is that further weakening of demand could prompt companies to start laying off workers, quickly pushing unemployment higher. Yet, as we have argued in recent publications, this would be unusual given that the non-financial sector's profit share of output remains near a cyclical high. Historically, significant layoffs and recessions have only occurred once profits were squeezed significantly and for an extended period (Exhibit 1).

Exhibit 1: The profit share typically falls as the labour market heats up – not this time



Source: Macrobond, Bank J. Safra Sarasin, 01.10.2024

Will the profit share drop rapidly in coming quarters?

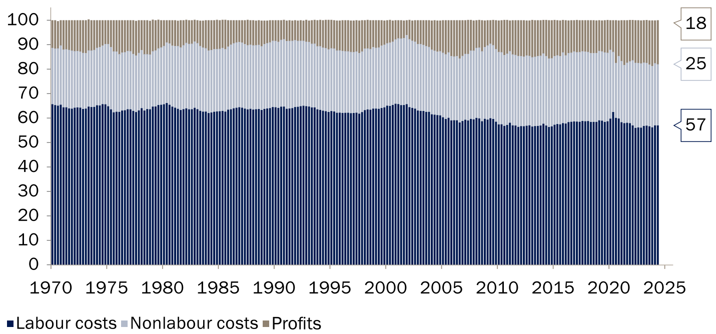
Exhibit 1 also shows that the profit share of output not only surged following the pandemic-induced recession, but has continued to climb thereafter despite a tight labour market – an unusual pattern. Should we expect a reversion to the mean as the economy normalises? And if so, how quickly might this occur? To answer these questions, we need to understand what has been behind the rise in the profit share. Please also see Box 1 on the following page where we explain in detail a few important accounting relationships that we use below.

The profit share exhibits some cyclicality and tends to fall as the business cycle matures and the labour market overheats

Returning to Exhibit 1, we see that the profit share is cyclical: it typically falls in recessions, recovers during early expansions, and declines as the business cycle matures and the economy heats up. In the early phase of a recovery, firms' fixed costs are spread across rising output, increasing profitability as capacity utilisation improves. As the economy overheats, real wage gains outpace productivity, pushing up the labour share at the expense of profits. Put differently, labour productivity tends to be pro-cyclical: the increase in output during the recovery will be proportionally larger than the increase in employment.

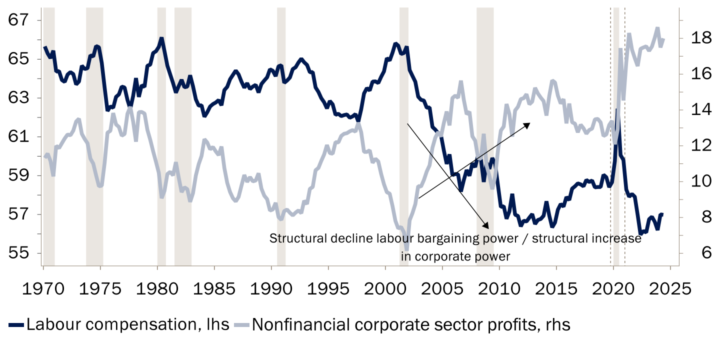
Typically, the labour share of income peaks during recessions as price pressures arising from higher unit labour costs forces the Fed to raise rates, killing the cycle (Exhibit 3).

Exhibit 2: The labour share of income is around 60%



Source: Macrobond, Bank J. Safra Sarasin, 02.10.2024

Exhibit 3: Labour share tends to peak during recessions



Source: Macrobond, Bank J. Safra Sarasin, 02.10.2024

Box 1: How profits, prices, labour costs, non-labour costs and income are related

Gross value added (GVA) of the non-financial corporate sector represents the total value of goods and services produced, after accounting for intermediate consumption. It reflects the contribution of labour, capital, and non-labour inputs (such as interest payments, capital consumption and taxes) to the production process and hence the income that is generated. The labour share of income is simply the total compensation to employees—mainly wages and salaries—relative to GVA. For capital owners, income comes from profits. The profit share is the ratio of profits to GVA (Equation 1).

(1)

$$1 = \frac{Profits}{GVA} + \frac{Labour\ costs}{GVA} + \frac{Non\text{-}labour\ costs}{GVA}$$

We can rearrange this relationship to examine the role of production costs and profits in driving prices. By multiplying both sides by the GVA deflator (the ratio of nominal to real GVA), the price per unit of output equals the sum of unit profit, unit labour cost, and unit non-labour cost (Equation 2). Note that whenever we mention prices in this note, we refer to non-financial corporate sector GVA deflator unless stated otherwise.

(2)

$$Price = Unit\ Profit + Unit\ Labour\ Cost + Unit\ Non\text{-}Labour\ Cost$$

Dividing equation (2) by price shows that the profit share of income is equivalent to the contribution of unit profit to prices. Likewise, the labour share of income is equivalent to the contribution of unit labour cost to the price level (Equation 3). Given the size of the labour share of income, changes in unit labour cost tend to account for most of the changes in output price of the nonfinancial business sector (Exhibit 2).

(3)

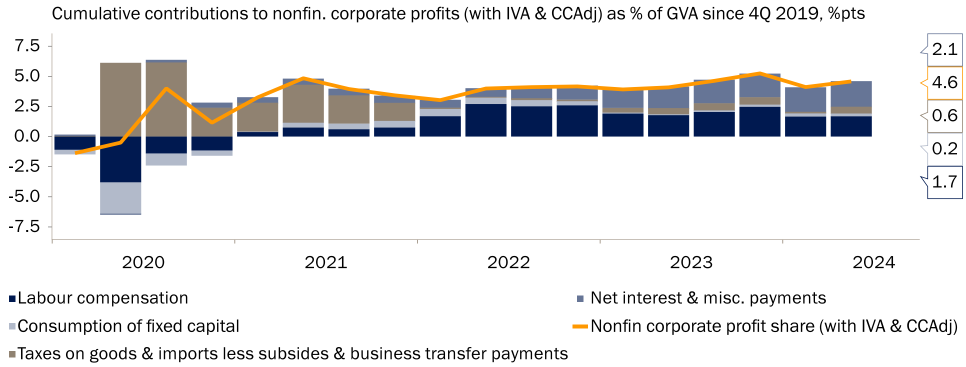
$$1 = \frac{Unit\ Profit}{Price} + \frac{Unit\ Labour\ Cost}{Price} + \frac{Unit\ Non\text{-}Labour\ Cost}{Price}$$

As the three equations show, the profit share rises at the expense of other factors when growth in unit labour cost and non-labour cost lags behind price growth. By the same token, a fall in the labour share occurs when real wages grow more slowly than productivity, allowing unit profit to rise faster than prices.

This time the profit share rose further as the labour market tightened. Why?

The current cycle has been different from previous ones. The profit share dropped during the pandemic-induced recession and rebounded, but it has continued to rise despite a tight labour market. We attribute this unusual dynamic to exceptional policy support, external shocks, and corporate pricing power. As shown in Exhibit 4, two main factors explain the five-percentage-point rise in the profit share since 2019: lower net interest payments and a decline in the labour share.

Exhibit 4: The profit share rose by almost 5 percentage points since the pandemic



Source: Macrobond, Bank J. Safra Sarasin, 02.10.2024

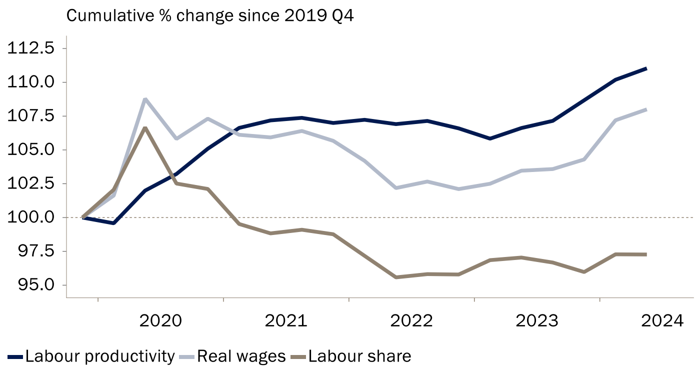
First, net interest payments surprisingly fell in the past few years

Net interest payments fell from 3.25% of GVA before the pandemic to just over 1% last quarter. This is surprising given the Fed's rate hikes from 2022 to 2023. The IMF attributes this to high corporate cash balances and long-term, fixed-rate debt, which insulated firms from rising rates. Had corporate cash ratios remained at pre-pandemic levels, net interest costs would have been around one-third higher. Firms with high cash reserves also invested and hired more than their peers with less cash, suggesting that cash buffers shielded corporate activity from the effects of higher interest rates.

Second, the rise in unit labour cost failed to catch up with the rise in corporate prices

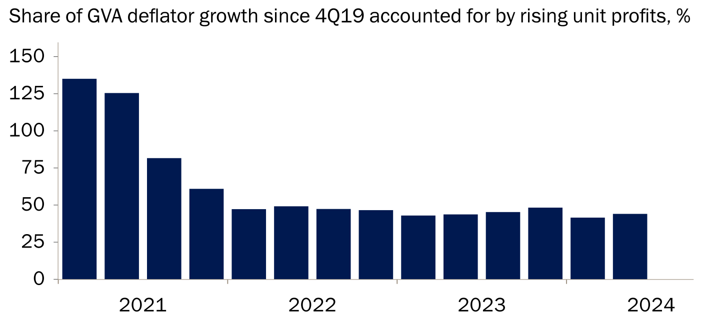
The lower labour share reflects growth in real wages lagging behind productivity, or unit labour cost lagging behind prices. This is not because unit labour cost has grown slowly – it has grown quite rapidly by historical standards. Instead, unit profit has made a disproportionately large contribution to output prices since the end of 2019, well in excess of its share of income. Note that if the price of all factors of production were to grow at the same speed, their relative contribution to inflation are equal to their share of income. While its contribution has dropped since the pandemic, it remains quite high (Exhibits 5-6).

Exhibit 5: Labour productivity has outpaced real wage gains



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Exhibit 6: Unit profit has been an important source of inflation

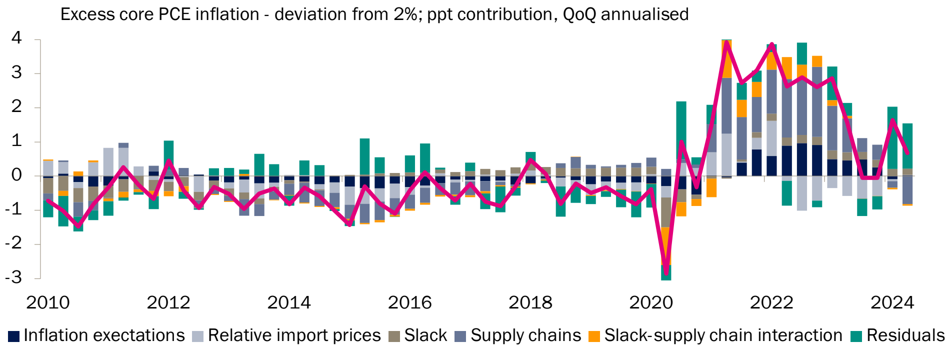


Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Policy support, external shocks, and pricing power have bolstered profit margins

So, what explains this apparent increase in pricing power? Pandemic-related distortions in demand, large fiscal transfers to households, and supply chain disruptions, exacerbated by Russia's invasion of Ukraine, granted many producers temporary monopoly power in key sectors. Recent studies show that mark-ups – the difference between production costs and prices – did in fact rise after the pandemic (these studies run up until the end of 2022). This could be observed in particular in sectors such as oil and gas where prices are set on the international market, further contributing to the increase in the profit share and inflation. Our augmented Phillips curve model, which accounts for relative import prices and supply chain disruptions, points in the same direction, with those two drivers explaining most of the changes in the core PCE deflator in recent years (Exhibit 7). Still, the fact that unit labour cost has failed to outpace growth in output prices in the past 18 months, despite flatlining import prices, suggests that mark-ups and corporate pricing power might have further increased up until recently.

Exhibit 7: Supply chain disruptions and import prices have been important drivers of inflation



Source: Macrobond, Bank J. Safra Sarasin, 03.10.2024

Net interest payments are likely to move gradually higher

Looking ahead, the forces that have driven up the profit share are likely to reverse as the economy normalises further, but this process may be gradual. First, net interest payments are likely to rise as the Fed lowers rates, reducing income on cash balances, while firms will face higher borrowing costs on new debt. Bloomberg data show that, so far this year, the yields of newly issued bonds is on average two percentage points higher than maturing bonds of companies in the US investment grade market. According to some estimates, issuers are expected to pay around $420 billion in coupons this year, up 18% from last year. To put this in perspective, this would squeeze the profit share by 0.3 percentage points. While this is set to rise, not all companies will roll over their debt at the same time, meaning that the two percentage points boost to the profit share is unlikely to disappear overnight. It is possible that mismeasurement is at play too, as this category includes residuals (miscellaneous payments), which may inflate its contribution to the profit share. In fact, net interest payments for S&P 500 companies have remained flat in recent years, rather than declining sharply as reflected in the national accounts.

And the labour share could pick up a bit

Second, labour is beginning to push back, with large strikes at US ports suggesting that workers are seeking to regain lost income share. At the same time, anecdotal evidence and company reports indicate that consumers have become more price sensitive, which should put downward pressure on mark-ups and the profit share.

The profit share is likely to fall somewhat but companies are unlikely to undertake drastic cost-cutting measures in coming quarters

In short, corporate profitability should remain elevated over the coming quarters, albeit somewhat less than it has been in recent years. As a result, barring any major disruptions, companies are unlikely to undertake drastic cost-cutting measures in the near term.

Economic Calendar

Week of 07/10 – 11/10/2024

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 07.10.2024						
JN	07:00	Leading Index CI	Aug	Index	--	109.30
EU	10:30	Sentix Investor Confidence	Oct	Index	--	-15.40
Tuesday, 08.10.2024						
GE	08:00	Industrial Production SA MoM	Aug	mom	--	-2.40%
	08:00	Industrial Production WDA YoY	Aug	yoy	--	-5.30%
US	12:00	NFIB Small Business Optimism	Sep	Index	--	91.20
Wednesday, 09.10.2024						
US	13:00	MBA Mortgage Applications	Oct4	wow	--	--
	20:00	FOMC Meeting Minutes	Sep18			
Thursday, 10.10.2024						
US	14:30	CPI Ex Food and Energy MoM	Sep	mom	0.20%	0.30%
	14:30	CPI Ex Food and Energy YoY	Sep	yoy	3.20%	3.20%
	14:30	Initial Jobless Claims	Oct5	1'000	--	--
	14:30	Continuing Claims	Sep28	1'000	--	--
Friday, 11.10.2024						
UK	08:00	Manufacturing Production MoM	Aug	mom	--	-1.00%
	08:00	Manufacturing Production YoY	Aug	yoy	--	-1.30%
	08:00	Index of Services MoM	Aug	mom	--	0.10%
	08:00	Index of Services 3M/3M	Aug	3m/3m	--	0.60%
US	14:30	PPI Ex Food and Energy MoM	Sep	mom	0.20%	0.30%
	14:30	PPI Ex Food and Energy YoY	Sep	yoy	--	2.40%
	16:00	U. of Mich. Expectations	Oct	Index	--	74.40
	16:00	U. of Mich. 5-10 Yr Inflation	Oct	%	--	3.10%

Source: Bloomberg, J. Safra Sarasin as of 03.10.2024

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	0.43	2	-27	3.0
German Bund 10 year (%)	2.14	1	12	1.2
UK Gilt 10 year (%)	4.02	3	48	-0.1
US Treasury 10 year (%)	3.84	9	-4	3.8
French OAT - Bund, spread (bp)	80	1	26	
Italian BTP - Bund, spread (bp)	134	2	-34	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	12'012	18.5	-1.6	11.4
DAX - Germany	19'015	14.3	-1.2	13.5
MSCI Italy	1'068	9.5	-3.7	11.5
IBEX - Spain	11'618	11.1	-2.7	18.9
DJ Euro Stoxx 50 - Eurozone	4'921	14.2	-2.2	12.1
MSCI UK	2'366	12.4	0.2	10.4
S&P 500 - USA	5'700	24.0	-0.8	20.8
Nasdaq 100 - USA	19'793	30.8	-1.6	18.4
MSCI Emerging Markets	1'173	14.2	0.8	17.4

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.85	7.6	1.2	1.1
EUR-CHF	0.94	6.1	0.0	1.0
GBP-CHF	1.12	7.7	-0.6	4.2
EUR-USD	1.10	6.6	-1.2	-0.1
GBP-USD	1.31	8.0	-1.8	3.1
USD-JPY	146.1	11.8	2.7	3.6
EUR-GBP	0.84	5.0	0.6	-3.1
EUR-SEK	11.37	6.1	0.9	2.1
EUR-NOK	11.70	8.4	-0.2	4.2

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	102	11.7	2.2	3.8
Brent crude oil - USD / barrel	78	36.2	7.5	0.4
Gold bullion - USD / Troy ounce	2'667	11.3	-0.2	29.3

Source: J. Safra Sarasin, Bloomberg as of 03.10.2024

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