Market Spinner

10 October 2022

GENERALI INSURANCE ASSET MANAGEMENT

THE WEEK THAT WAS

	current	-1W	-1M	YTD
10-Year Bond Yields			change (bps)	
US Treasuries	3.89	8	62	239
Bunds	2.19	8	62	237
BTPs	4.70	19	84	352
OATs	2.80	8	65	261
JGBs	0.25	1	1	18
Gilts	4.24	15	121	327
Spreads over Bunds			change (bps)	
GIIPS	182	7	12	77
Covered Bonds	126	6	7	65
EMU Corporates (OAS)			change (bps)	
Non-Fin.	204	-6	11	106
Fin.	237	-3	19	138
Forex			%-change	
EUR/USD	0.97	-0.6	-2.6	-14.3
USD/JPY	145	0.4	1.1	26.3
EUR/GBP	0.88	0.2	1.3	4.7
EUR/CHF	0.97	0.7	-0.7	-6.3
Equities			%-change (total return)	
S&P500	3 640	1.6	-8.4	-22.7
MSCI EMU	118.6	1.4	-4.7	-20.7
TOPIX	1 907	3.9	0.6	-1.9
FTSE	6 991	1.4	-3.3	-2.3
MSCI EM ($)	898	2.5	-5.9	-25.1

Current as of closing 7/10/2022

MARKET MOVES

- US ISM manuf. PMI down to 50.9 ISM Employment down to 48.7 vs 53 exp.
- JOLT openings fell 1.1m to 10.05 Mln in Aug. – the lowest since June 2021 – which had a strong market impact as Powell actually referred to JOLTS being excessively high in the Sep. FOMC.
- US new home sales bounced in August, but signals from US housing continue to weaken.
- ADP Employment was solid at 208k and ISM Services printed at 56.7 partly mitigating the strong earlier data from the US.
- The RBA delivered a 25bps hike against expectations of 50bp.
- Nonfarm payrolls rose 263,000 in September, slightly above the consensus estimate of 255,000.
- Credit Suisse has launched a tender offer on its OpCo bonds.
- OPEC+ decided to cut production by 2m bbl/day – causing oil prices to slightly increase.

COMING UP!

KEY EVENTS

- The minutes from the Fed will provide colour on how strong is the conviction for further jumbo hikes.
- Consumer prices are expected to slow down whereas the core rate will tick up. The components will be scrutinised within services, as rents are usually following house prices with a substantial lag.
- Import prices are expected to cool down on a month on month basis because of the stronger dollar.
- Michigan consumer sentiment should improve because of lower oil prices.
- The publication of the industrial production for the Eurozone and Italy will be eyed as well as, in light of recent events, the UK GDP.

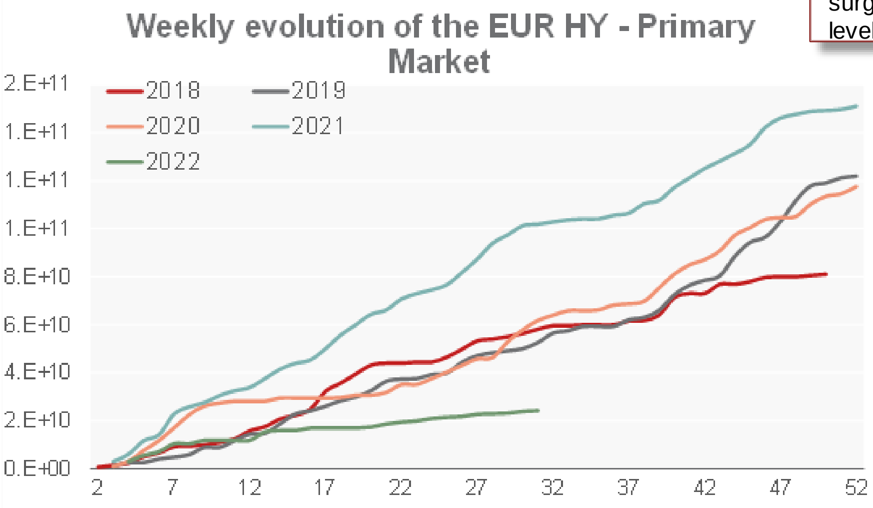
	Time	Market	Event	Period	Consensus	Previous
10-Oct	10:30	Euro Zone	Sentix Index	Oct		-31.8
12-Oct	11:00	Euro Zone	Industrial Production MM	Aug	-0.1	-2.3
12-Oct	14:30	United States	PPI Final Demand MM	Sep	0.2	-0.1
13-Oct	14:30	United States	Core CPI YY, NSA	Sep	6.5	6.3
14-Oct	14:30	United States	Retail Sales MM	Sep	0.2	0
14-Oct	16:00	United States	U Mich Sentiment Prelim	Oct	58.9	58.6

Rating announcements: Romania (S&P, Moody's), Czech Rep. (S&P)

TO THE CORE

More and more European companies are announcing plans to hike wages and pay one-off bonuses to help employees with higher prices. Costs for companies in the eurozone already surged 43.3% this year, more than double U.S. levels according to Eurostat.

A CHART SPEAKS A THOUSAND WORDS



Source: iBoxx, GIAM calculations

IGNORE AT YOUR PERIL

Financial instability risks in credit are rather on private side

The rising risks of financial instability, are currently central in assessing what could stop central banks' tightening cycles in a context of still very elevated inflation. In credit markets, we believe that the weaknesses are rather on the private side than on public bond issuers. The war in Ukraine has been a turning point for macroeconomic expectations, but rating agencies have only started recently to adopt a cautious stance in their global rating assessments and default expectations. The two main drivers for the next default cycle in Europe will be 1/ the depth of the recession and 2/the size/effectiveness of government support to their private sector. As the latter will be made via debt financing, it could also negatively impact government funding rates and, in the end, also harm defaults as the absolute level of interest rates is a key driver of company insolvencies. In our central scenario, we expect European defaults to reach 4% by the end of 2023, with the smallest companies being the most at risk. Another important point will be the potential reopening of the HY primary market as it has been nearly closed for issuers since the start of the war in Ukraine which could become a concern for the liquidity of HY issuers.

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IMPORTANT INFORMATION

Sources for charts and tables: Refinitiv/Datastream, Bloomberg, own calculations

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