J. Safra Sarasin

Cross-Asset Weekly

20 September 2024

The Fed starts with a bang

The FOMC managed to deliver a larger than expected first rate cut without fuelling additional easing expectations. Front-loading some of the cuts was adequate, given rising downside risks to the labour market. In fact, the loosening of labour market conditions and lower inflation have now led the Fed to project 200bp of easing by the end of 2025, thereby narrowing the gap with market expectations. The closing of this gap will largely depend on how the labour market evolves.

Meanwhile, the Swiss National Bank is likely to cut its target rate by 25bp to 1% this coming Thursday. Inflation is falling faster than expected, and the sluggish economic environment will likely lead to higher unemployment. Consequently, we expect two more cuts of 25bp each in December this year and March 2025, leaving the SNB's target rate at 0.5%.

While we remain constructive on Gold over the medium- to longer term, we feel that it will likely take a breather for now. Recent data point to somewhat softer demand from Emerging Markets and US rate markets will likely consolidate after the precipitous drop in yields seen over the past month that has helped propel the Gold price higher.

Finally, we think that the goldilocks environment for large-cap banks is coming to an end. Longer-term yields have dropped on the back of fading inflationary momentum, while upside pressure on deposit rates is starting to build. The sector is currently priced for an improvement in profitability, which is unlikely to materialise. We therefore remain tactically cautious on US banks.

This week's highlights

Contacts

Dr. Karsten Junius, CFA
Chief Economist
karsten.junius@jsafrasarasin.com
+41 58 317 32 79

Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

Mali Chivakul
Emerging Markets Economist
mali.chivakul@jsafrasarasin.com
+41 58 317 33 01

Alex Rohner
Fixed Income Strategist
alex.rohner@jsafrasarasin.com
+41 58 317 32 24

Dr. Claudio Wewel
FX Strategist
claudio.wewel@jsafrasarasin.com
+41 58 317 32 26

Wolf von Rotberg
Equity Strategist
wolf.vonrotberg@jsafrasarasin.com
+41 58 317 30 20

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SNB Preview

We expect a 25bp cut and lower inflation forecasts

Dr. Karsten Junius, CFA
Chief Economist
karsten.junius@jsafrasarasin.com
+41 58 317 32 79

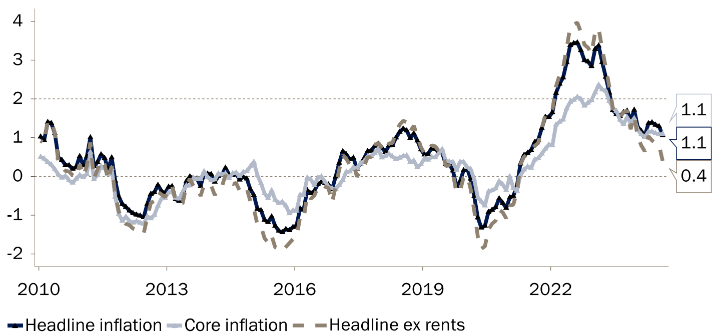
The Swiss National Bank (SNB) is almost certain to cut its policy rate by 25bp to 1.0% this coming Thursday. Money markets even see a one-in-three chance of a 50bp cut. We believe that a more gradual approach is more appropriate. This implies, in our view, two further cuts in December and March to a level of 0.5%. The reason for our medium-term dovish view is that inflation is falling faster than assumed so far by the SNB. Moreover, we expect a moderate economic growth environment, such that unemployment should increase further.

Inflation is simply too low

Inflation has surprised to the downside since the SNB published its inflation profile in June. Headline and core inflation fell to 1.1% in August and, most importantly, inflation ex rent declined to just 0.4% yoy (Exhibit 1). We focus on the latter measure as we know that recent rent increases partly reflect administrative measures that are more likely to be reversed than repeated in the coming quarters. Under current trends, headline inflation will likely average only 1.1% in the third and the fourth quarter. Both are below the estimates of 1.4% and 1.5% that the SNB published at its last quarterly meeting in June (Exhibit 2).

Exhibit 1: Realised inflation surprised to the downside

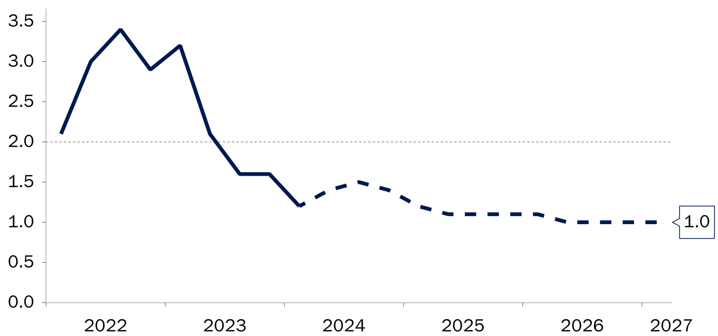
Swiss Inflation, CPI in % yoy, latest data: 08/2024



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Exhibit 2: Inflation projections to be lowered again

Switzerland, SNB, conditional inflation estimate as of June 2024, in % yoy



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Electricity prices and rents will lower inflation further in 2025

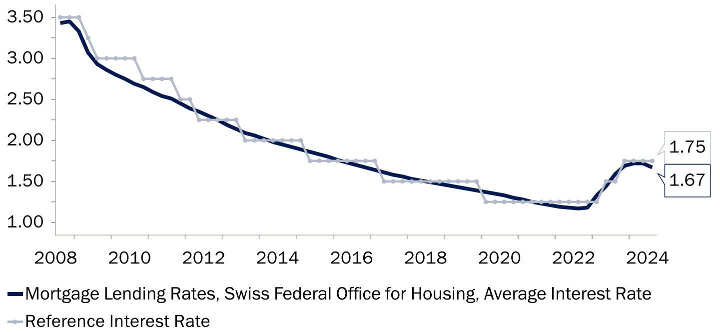
There are more reasons for a lower inflation profile. Electricity prices – that are also regulated in Switzerland – will decline by 10% on average in January. Given their weight of 2% in the overall basket, that reduces headline inflation directly by 0.2 percentage points. Rents are likely to fall in April or July next year. The average mortgage rate declined already from 1.72% to 1.67% in September (Exhibit 3). Given the downward trend in bond yields over the past months, it is likely that the mortgage reference rate will fall below 1.63% either in December or in March. A value below 1.63% would be rounded to 1.5% and trigger the possibility for tenants to demand a reduction of their rent by around 3%, in case their rent is based on a higher reference rate. It is also worth noting that electricity prices and rents will only influence 2025 inflation directly and not medium-term inflation developments. Yet they might have an impact on future wage demands.

The Swiss franc is highly valued but not overvalued enough to justify FX interventions

The development of the exchange rate will have a more immediate impact on price developments. Even though the effective exchange rate appreciated by only 2.6% yoy in nominal terms, and 0.3% yoy in real terms, its impact can be felt in lower import prices already (Exhibit 4). Currently, the Swiss franc is valued 4.3% above the 10-year average in real terms. We would consider this rather a high valuation than a clear overvaluation that would justify FX interventions. This, however, might change in the coming quarters once other big central banks start cutting rates more decisively. A shrinking rate differential between the US dollar and Swiss franc yields would put upward pressure on the Swiss franc. In order to mitigate that pressure, we strongly believe that more rate cuts by the SNB will be needed. As the SNB repeatedly stressed that policy rates are their primary policy instrument, we expect them to lower rates first. We foresee FX interventions later and only if the overvaluation of the franc becomes more pronounced. This is much more likely next year than this year.

Exhibit 3: Mortgage reference rate is likely to be reduced

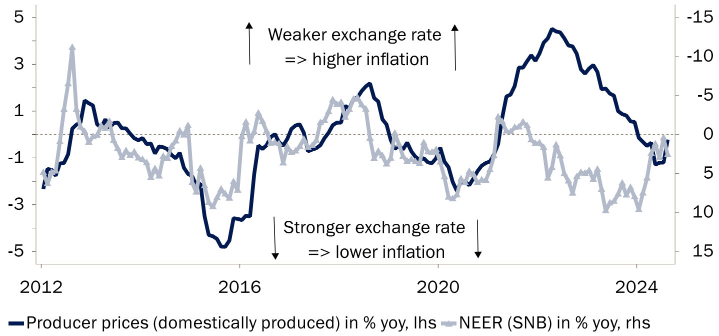
Switzerland, Mortgage Lending Rates, Swiss Federal Office for Housing, in %



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Exhibit 4: Strong Swiss franc to put downward pressure on inflation

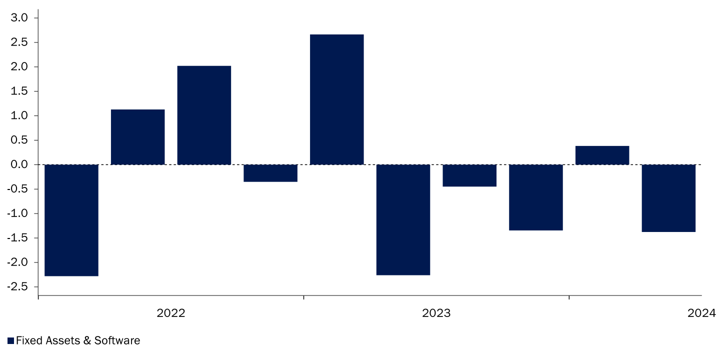
Switzerland, price indices in % yoy, latest producer prices: 08/2024



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

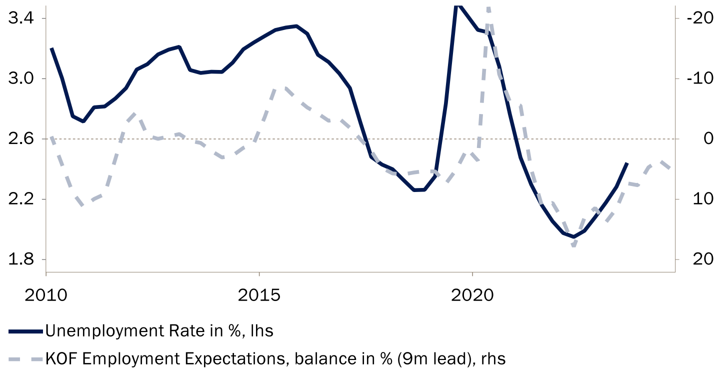
Exhibit 5: Investment spending is already weak

Switzerland, GDP in % qoq, latest data: 2024 Q2



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Exhibit 6: Unemployment rate will increase further



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Strong Q2 growth was driven by exceptional factors that will not be repeated

Finally, let's have a look at the real economy. GDP growth was elevated with 0.5% qoq in Q1 and 0.7% qoq in Q2. Yet this was partly driven by (i) sports events (Olympic Games and the European football championship) and by (ii) exceptionally strong exports of the pharma industry that will not be repeated in Q3. Stagnation or lacklustre growth in Germany and the euro area doesn't help either. Overall, we note that forward-looking indicators point to below average growth rates. Investment spending has been weak already in the past quarters and will likely remain so until lower interest rates become effective (Exhibit 5). As a result, we expect the labour market to deteriorate further, with the unemployment rate increasing by about 0.5 percentage points by next spring (Exhibit 6). Wages are expected to rise by 1.6% this year according to estimates of the KOF research institute. Given the current economic environment, we expect smaller increases next year.

We expect that the endpoint of the new inflation profile of the SNB will be 0.8% to 0.9%.

Overall, we conclude that inflationary pressures are softening over the medium term, which is why we believe that the SNB will revise down its inflation forecast further. We expect the SNB to show inflation reaching 0.8% or 0.9% yoy in Q2 2027 (the end of its new forecast horizon). This would be below the midpoint of its targeted inflation range of 0% to 2%. It would also indicate that the risks of too low inflation are higher than the risks of too elevated inflation rates. Financial markets would most likely interpret a medium-term inflation forecast of below 1% as an indication of more rate cuts to come. This is also why we feel very comfortable in forecasting two more rate cuts after the September meeting, one in December and one in March.

Money markets are pricing a rate profile that is close to our expectations

We find it more difficult to assess the market implications of our scenario. Based on the latest Consensus Forecasts published last week, we are the only institution to expect the policy rate to reach 0.5% by the middle of 2025. In contrast, money markets are pricing a trajectory that is close to our expectations. They even see a 1/3 chance of a 50bp cut in September. We are aware that the SNB is not afraid to front-load policy changes if deemed necessary. We also believe that their reaction function is asymmetric in the sense that their response to undesirably low inflation might be stronger than to too elevated inflation rates in order to ensure that they avoid negative inflation and interest rates. We still believe that a 50bp cut in September would display unnecessary panic.

Exhibit 7: Inflation heatmap

		Jan 24	Feb 24	Mär 24	Apr 24	Mai 24	Jun 24	Jul 24	Aug 24	2010 - 2023	2022	2023	Q1 2024	Q2 2024
BfS	CPI in % yoy													
	Total	1.3	1.2	1.0	1.4	1.4	1.3	1.3	1.1	0.4	2.8	2.1	1.2	1.4
	Core 1, Total ex Food, Beverages, Tob., Seas. Products, Energy & Fuel	1.2	1.1	1.0	1.2	1.2	1.1	1.1	1.1	0.2	1.7	1.8	1.1	1.1
	Core 2, Core 1 ex Products with Administered Prices	1.5	1.4	1.3	1.5	1.5	1.4	1.4	1.4	0.3	2.4	2.4	1.4	1.5
	Total ex Housing Rent	1.0	0.8	0.6	1.0	0.9	0.9	0.8	0.4					
	Total ex Administered Prices	1.3	1.1	1.0	1.4	1.4	1.3	1.3	1.0					
	Domestic Goods & Services	2.0	1.9	1.8	2.0	2.0	2.0	2.0	2.0	0.5	1.6	2.4	1.9	2.0
	Foreign Goods & Services	-0.9	-1.0	-1.3	-0.4	-0.6	-0.8	-1.0	-1.9	-0.1	6.7	1.4	-1.1	-0.6
	Services	1.9	1.9	2.0	2.0	2.2	2.4	2.2	2.2					
	Private Services	2.1	2.2	2.3	2.3	2.5	2.7	2.5	2.6					
	Public Services	0.7	0.6	0.7	0.7	0.7	0.8	0.7	0.7					
	Goods	0.4	0.1	-0.3	0.4	0.2	-0.2	-0.1	-0.7	0.1	4.9	2.8	0.1	0.1
	Food & Non-Alcoholic Beverages	2.3	0.8	-0.4	1.0	0.2	-0.3	0.1	-0.1	0.2	1.7	4.8	0.9	0.3
	Energy & Fuels	1.7	2.9	3.5	5.3	6.6	6.3	6.2	2.5	3.2	22.4	6.4	2.7	6.1
	Administered Prices [c.o.p. 1 year]	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	0.1	1.2	2.5	1.3	1.2
	PPI in % yoy													
	PGA - Combined total PPI and IPI	-2.3	-2.0	-2.1	-1.8	-1.8	-1.9	-1.7	-1.2	-0.2	5.6	0.2	-2.1	-1.8
	PGAI - IPI&PPI for the domestic market	-2.3	-1.9	-2.0	-1.7	-1.0	-1.2	-0.9	-1.5	0.2	7.9	0.7	-2.1	-1.3
	PPI - domestically produced goods	-0.1	-0.3	-0.5	-0.4	-1.3	-1.2	-1.2	-0.2					
	IPI - imported goods	-6.5	-5.4	-5.4	-4.6	-2.9	-3.2	-2.7	-3.4					
SNB	Effective Exchange Rate, Nominal, Index	195.9	193.3	190.3	187.8	187.0	190.8	190.4	195.9	154.4	173.8	186.2	193.2	188.5
	Effective Exchange Rate, Real - CPI-Based, Index	119.3	117.5	115.3	113.7	112.9	115.1	114.6	117.5	112.0	111.0	114.9	117.4	113.9
	Effective Exchange Rate, Nominal, yoy	9.7	7.5	5.6	2.5	1.3	3.0	0.5	2.6	3.3	4.2	7.2	7.6	2.2
	Effective Exchange Rate, Real - CPI-Based, yoy	6.8	4.5	2.6	-0.1	-1.3	0.5	-1.8	0.3	0.7	-0.5	3.5	4.6	-0.3
	Effective Exchange Rate, Nominal, mom	1.1	-1.4	-1.6	-1.3	-0.4	2.0	-0.2	2.9	0.3	0.4	0.6	-0.6	0.1
	EUR-CHF	0.93	0.95	0.98	0.98	0.98	0.96	0.95	0.94					
	USD-CHF	0.86	0.88	0.91	0.91	0.91	0.90	0.88	0.85	1.0	1.0	0.9	0.9	0.9
	EUR-CHF in % yoy	-7.0	-4.2	-2.1	-0.7	1.0	-1.5	-0.7	-1.9	-2.4	-7.2	-3.0	-4.4	-0.4
	USD-CHF in % yoy	-6.9	-6.4	-1.1	1.8	-0.6	-0.2	1.2	-3.7	-0.9	4.4	-5.9	-4.8	0.4
		52.1	52.2	51.9	54.9	48.3	50.5	45.9	48.6	50.7	54.7	52.7	52.1	51.2
	Brent in CHF	69.6	72.0	78.7	78.4	73.6	76.3	71.8	65.3	73.8	93.9	73.5	73.4	76.1
	Brent in CHF in % mom	7.5	3.4	9.4	-0.4	-6.0	3.7	-6.0	-9.0	0.3	1.1	-1.5	6.8	-0.9
	Brent in CHF in % yoy	-12.16	-7.63	7.72	8.97	12.07	12.82	-3.26	-14.53					
PMI														
	Manufacturing Sector - Purchase Prices	47.0	46.1	41.5	49.2	48.5	49.9	49.3	51.7	56.7	78.9	45.9	44.9	49.2
	Service Sector - Purchase Prices	59.7	55.4	51.9	56.9	59.4	54.7	55.7	48.9	57.9	79.4	58.0	55.7	57.0
	Service Sector - Sales Prices	49.5	48.2	51.6	49.3	50.3	49.5	45.6	46.2	52.2	65.6	51.5	49.8	49.7
SECO	Consumer confidence													
	Past Price Situation	150.9	149.9	146.2	143.5	146.8	141.7	139.7	140.3	149.6	NA	149.6	149.0	144.0
	Price Outlook, 12 Months	104.8	101.9	94.8	95.9	104.3	99.2	96.8	97.0	105.2	NA	105.2	100.5	99.8
	Price Outlook, 5 Years	92.6	94.5	93.5	96.4	99.4	100.1	101.8	99.0	84.8	NA	84.8	93.5	98.6

Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

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Fed meeting comment

Recalibrating policy

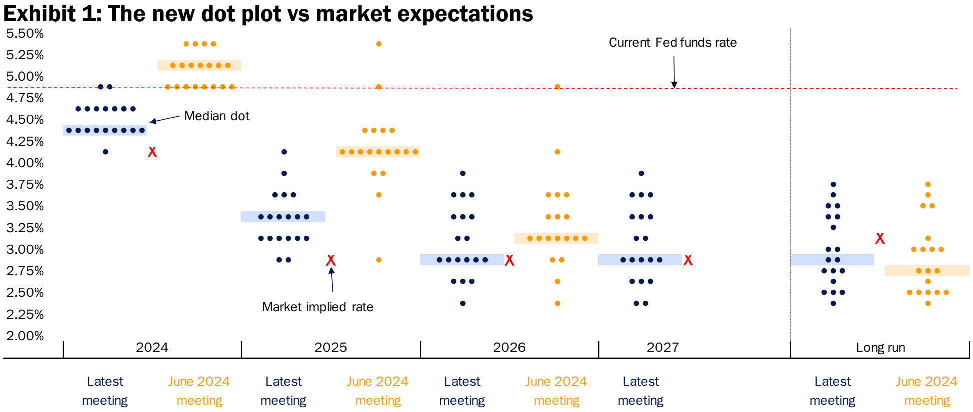
Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

Chair Powell managed to deliver a 'jumbo' cut without leading investors to price for more. This is probably the best outcome the Fed could have wished for. Although we had expected the Fed would front-load some of the easing given rising downside risks to the labour market, we thought it would go in 25bp steps. The broad picture, however, is still close to what we had anticipated. Looser labour market conditions and lower inflation have led FOMC participants to project 200bp of cuts by end-2025, narrowing the gap with market expectations. How the gap eventually closes will largely depend on incoming labour market data.

The 50bp cut was a recalibration exercise, not the beginning of a series of jumbo cuts

After days of speculation, the Fed delivered its decision with a 50 basis points (bp) rate cut. This was likely a close call: nine officials predicted cuts of 75bp or less this year, while ten expected 100bp or more. There was one dissenting vote, with Governor Bowman favouring a quarter-point cut. Nonetheless, in his press conference, Chair Powell emphasised that the move was more of a recalibration – acknowledging that in hindsight, they should probably have started easing in July – rather than the beginning of a series of large cuts. The market seems to have heard his message, with expectations for the path of the policy rate largely unchanged compared to prior to the meeting (Exhibit 1).

Exhibit 1: The new dot plot vs market expectations



Source: Federal Reserve, Bloomberg, Bank J. Safra Sarasin, 19.09.2024

The Fed projects another 50bp of easing this year and 100bp in 2025. Front-loading some of the rate cuts reflects growing downside risks to the labour market

The new dot plot, published in the Summary of Economic Projections (SEP), indicates that the Fed plans to ease policy by another 50bp this year, likely in two 25bp increments, before slowing down to a quarterly pace next year. This would push the Fed Funds rate down to 3.25-3.50% by the end of 2025, as we had anticipated. This new profile reflects upward revisions to their unemployment forecasts and downward revisions to inflation expectations (Exhibit 2). As we noted last week, rising risks to the labour market argued for some front-loading of policy easing i.e., concentrating rate cuts early in the cutting cycle. We expected this to come in the form of five consecutive 25bp rate reductions. The more proactive approach that was decided on Wednesday, with a cut we anticipated for early next year being brought forward, also likely signals a shift in how the Fed views the evolving risks to its dual mandate. Indeed, twelve officials see risks to their new and higher unemployment rate forecasts tilted to the upside, compared with just four in June (Exhibit 3). Meanwhile, most participants view the risks to their inflation projections as balanced, while in June they had seen them skewed upwards.

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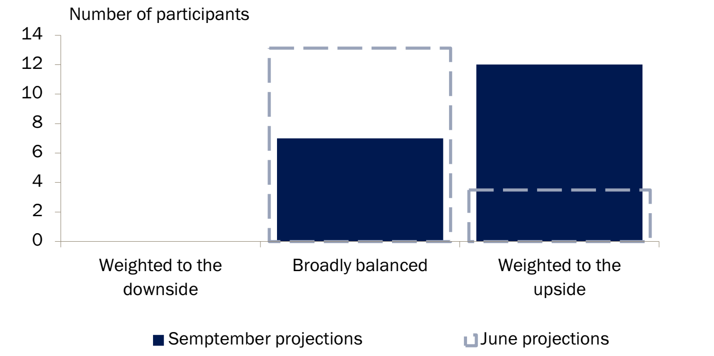
Exhibit 2: Summary of Economic Projections – new vs old

Variable	Median				
	2024	2025	2026	2027	Longer run
GDP 4Q/4Q	2.0	2.0	2.0	2.0	1.8
June projection	*2.1*	*2.0*	*2.0*		*1.8*
Unemployment rate 4Q	4.4	4.4	4.3	4.2	4.2
June projection	*4.0*	*4.2*	*4.1*		*4.2*
PCE inflation 4Q/4Q	2.3	2.1	2.0	2.0	2.0
June projection	*2.6*	*2.3*	*2.0*		*2.0*
Core PCE inflation 4Q/4Q	2.6	2.2	2.0	2.0	
June projection	*2.8*	*2.3*	*2.0*		
Fed funds rate year end	4.4	3.4	2.9	2.9	2.9
June projection	*5.1*	*4.1*	*3.1*		*2.8*

Source: Federal Reserve, Bank J. Safra Sarasin, 19.09.2024

Exhibit 3: Shifting risks around unemployment rate projections



Source: Federal Reserve, Bank J. Safra Sarasin, 19.09.2024

The Fed's strategy remains unchanged: move back to neutral in a largely gradual fashion

The Fed's overall strategy remains unchanged. If economic data align with their forecasts, it will aim to return to a neutral policy stance gradually. Indeed, new projections show that the Fed doesn't expect the policy rate to move back to its longer-run / neutral rate before 2026. While the median forecast was raised again by 10bp to 2.9%, uncertainty about the level of the neutral rate remains high, with officials' estimates ranging from 2.4% to 3.8%. This uncertainty explains why the Fed is likely to proceed more cautiously once it has implemented around 1 percentage point of cuts.

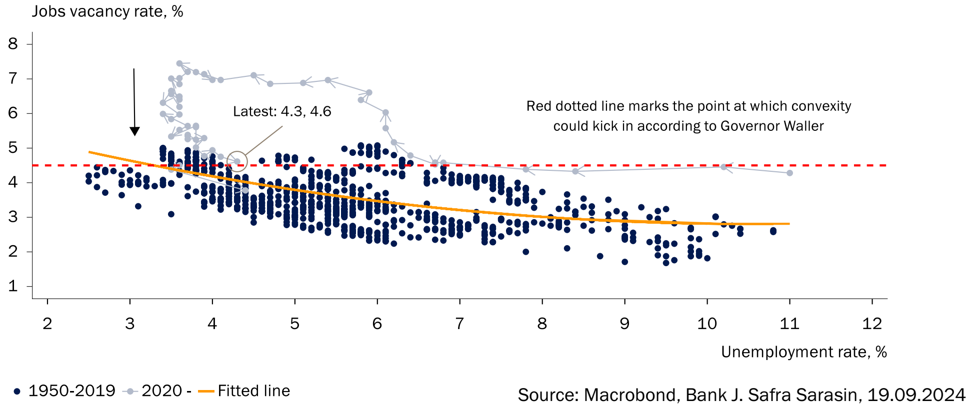
Investors still expect more easing this year and next than the Fed currently projects

This means that a gap remains – though a narrowing one – between the Fed's guidance and market expectations. Investors anticipate the Fed funds rate to be 20bp lower than Fed projections by year-end, and 50 basis points lower by the end of 2025 (Exhibit 1). How this gap closes will depend on the incoming data, especially from the labour market.

The Fed would need to see a broader deterioration in the labour market to meet market expectations

The projected rise in unemployment by year-end to 4.4%, from 4.0% in their June SEP, likely reflects stronger labour supply than previously expected, driven by robust immigration. So, an additional small and supply-driven rise in unemployment from the current 4.2% rate in and of itself shouldn't lead to a more forceful reaction than implied in the SEP. The Fed will remain highly vigilant, however, for any signs of weakening labour demand. Officials are wary that we may be at a point on the Beveridge curve where further declines in job openings lead to more layoffs and a sharper rise in unemployment (Exhibit 4). Should that happen – this is not our base case – the Fed will act decisively. But if labour market conditions remain broadly stable, bond yields, particularly at the shorter end, may need to adjust to reflect a more benign economic outlook than currently priced.

Exhibit 4: Fearing that inflection point



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Gold

Gold rally will likely take a break

Dr. Claudio Wewel
FX Strategist
claudio.wewel@jsafrasarasin.com
+41 58 317 32 26

Gold has again pushed higher over the past few weeks, even after a stellar year-to-date performance. While strong purchases from Emerging Markets were a key driver in the first half of 2024, recent data point towards a softening in Q3. Instead, gold's traditional drivers are finally back in the front seat. US real yields have come down a long way from their highs in Q2 and the dollar has weakened substantially. We would expect US rate markets to consolidate after the precipitous drop in yields. This suggests that the gold rally will take a near-term break. Still, we remain constructive in the longer term.

Gold has risen further, but EM demand has turned somewhat weaker

Gold has pushed higher over the past few weeks, even after a stellar year-to-date performance of around 25% (Exhibit 1). As we wrote earlier (see here and here), much of the precious metal's strong performance was driven by higher structural demand from Emerging Markets, in particular from China. Alongside institutional purchases from the PBoC, demand also rose among Chinese private investors, driven by a lack of viable domestic investment alternatives. In consequence, the Shanghai-London premium paid for physical gold purchases rose to elevated levels in late 2023, where it persisted for the first half of 2024. Recent data however reveal that the premium virtually eroded over the past weeks (Exhibit 2).

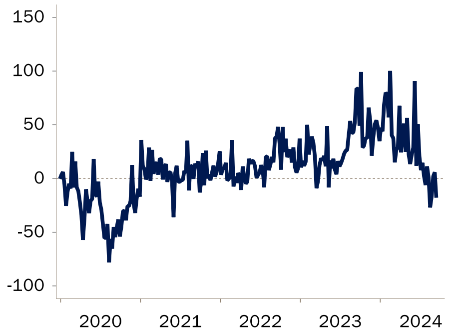
Instead, the inverse correlation of gold with US real yields and the US dollar has strengthened again. This likely means that the upside for gold will be limited from here

Instead it seems that the traditional drivers are finally back in the front seat. Most importantly, US real yields have come down significantly from their Q2 highs, pushing the DXY dollar index from 107 to only around 100 (Exhibit 3). Both have supported the gold price to a significant extent over the summer and have driven the resumption of inflows into gold ETFs, seen from May onwards. Going forward, the pace at which economic activity in the US softens will be key. Wednesday's rate decision underscores that the stabilisation of the US labour market has become the Fed's key priority. Our base case remains that the Fed will be able to soft-land the US economy. We would expect US rate markets to consolidate after the precipitous drop in yields, implying that the near-term support for gold will be weaker. Longer term, we remain constructive on the precious metal, given our expectation for a weaker dollar in 2025 and the risk of a further weakening of the US labour market, which would point towards lower yields.

Exhibit 1: Despite its stellar year-to-date performance, gold rose further in September

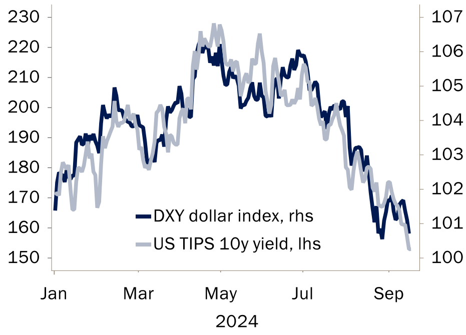
Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Exhibit 2: The Shanghai-London premium on physical gold purchases has virtually eroded



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

Exhibit 3: In recent months, lower real yields and a weaker dollar both supported gold



Source: Macrobond, Bank J. Safra Sarasin, 19.09.2024

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US equities

The banking sector is sending warning shots

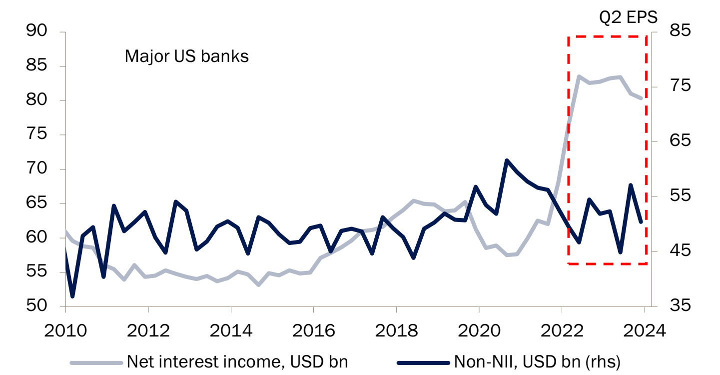
Wolf von Rotberg
Equity Strategist
wolf.vonrotberg@jsafrasarasin.com
+41 58 317 30 20

Large-cap banks have been among the biggest beneficiaries from the surge in rates over the past two years. The combination of rising long-dated bond yields and low and stable deposit rates has been a boon for the sector's most important source of earnings, namely net interest income. This goldilocks environment is coming to an end. Yields have fallen on the back of fading inflationary momentum, while upside pressure on deposit rates is starting to build. As inflation is unlikely to reaccelerate, the upside for bond yields is set to remain contained, and support for bank earnings will likely fade further. The sector is currently priced for an improvement in profitability, which is unlikely to materialise. We therefore remain tactically cautious on US banks.

The last two years proved to be a Goldilocks environment for banks

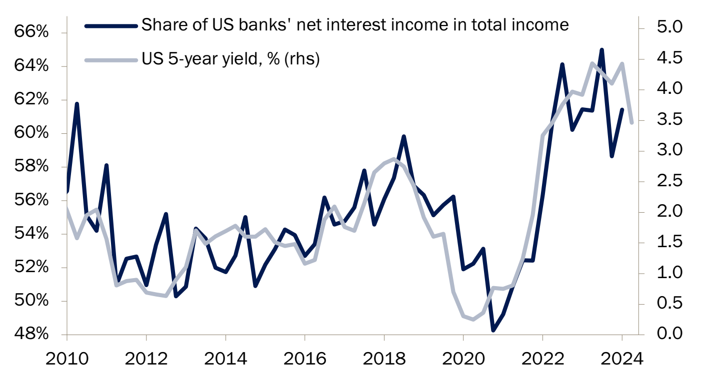
If there is one sector which has benefitted directly from the rise in interest rates since early 2022, it is large-cap banks. After years of hibernation, their most important source of earnings, namely net interest income, surged back to levels last seen before the global financial crisis (Exhibit 1). While the market yield curve flattened due to rising short-dated yields, the effective yield curve for banks actually steepened substantially. They were paid the long end of the Treasury curve, but kept borrowing at the deposit rate, which they were able to keep at levels close to post-COVID lows, due to i) abundant liquidity and ii) a flight to safety from smaller banks.

Exhibit 1: US banks' net interest income (NII) has surged



Source: Refinitiv, Bank J. Safra Sarasin, 17.09.2024

Exhibit 2: NII is a function of bond yields



Source: Refinitiv, Bank J. Safra Sarasin, 17.09.2024

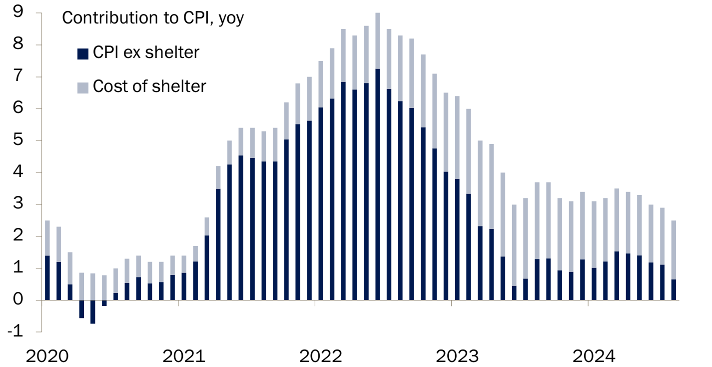
Falling bond yields and rising deposit rates are a headwind to net interest income

This Goldilocks environment is coming to an end. Bond yields have started to drop as inflationary pressures are abating (Exhibit 2). At the same time, banks have been reporting upside pressure on deposit rates. A case in point is Bank of America, the second largest US bank by deposits. It reported in July that its deposit rate has risen to 1.24% in Q2, from only 0.06% a year earlier. This means that the effective yield curve for banks has flattened.

Fading inflationary pressures mean that the effective yield curve for banks will remain flattened

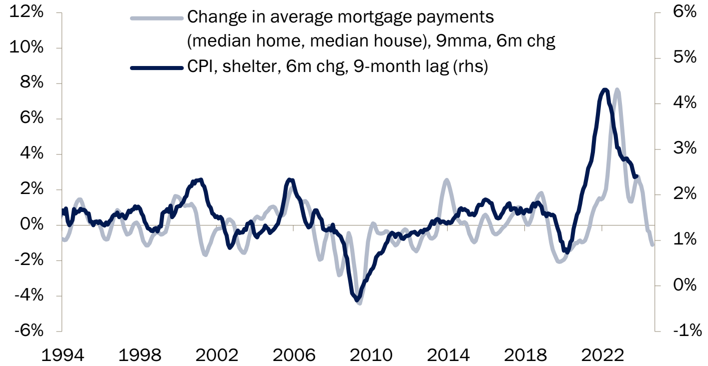
The yield curve dynamic is unlikely to reverse in the near term as the probability of a renewed and sustained rise in bond yields remains low. Inflationary pressures continue to fade with CPI ex-shelter already well within the Fed's target range at 0.7% yoy. Most notably, housing cost pressures are set to soften further. This should lead to lower overall inflation rates, given that shelter accounted for about 1.8%-points of the 2.5% yoy CPI inflation in August (Exhibit 3). Shelter inflation itself tends to trail housing affordability with a lag of nine months (Exhibit 4). Falling mortgage rates over recent quarters have led to a significant improvement of housing affordability, removing upside pressure on rents.

Exhibit 3: 1.8%-points of 2.5% CPI inflation is shelter



Source: Refinitiv, Bank J. Safra Sarasin, 17.09.2024

Exhibit 4: Shelter tracks average mortgage cost, which are falling



Source: Refinitiv, Bank J. Safra Sarasin, 17.09.2024

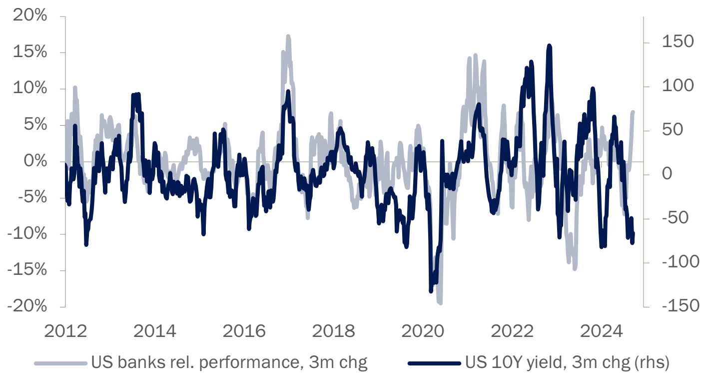
JP Morgan recently warned that consensus NII estimates are too optimistic

Against this backdrop, we were not surprised by a recent comment from JP Morgan, which can be seen as a warning shot for the banking sector. The bank's president told analysts that current consensus net interest income projections are too optimistic and "not very reasonable". We agree and believe that the sector's relative performance needs to re-couple with the recent move in interest rates, suggesting 5% to 10% underperformance over the coming months (Exhibit 5).

US banks are not cheap, as they are fully priced for current RoE levels

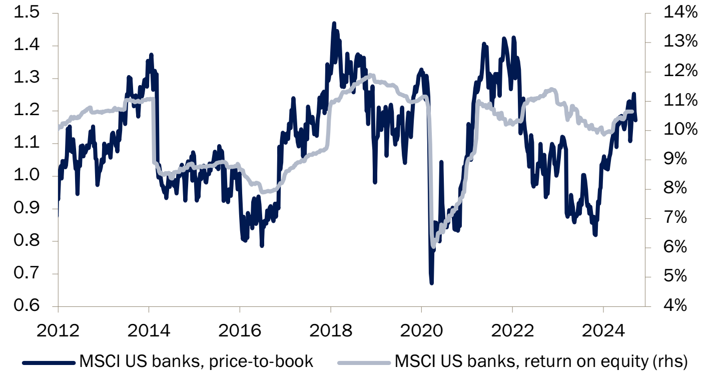
Lastly, adding to the deteriorating fundamental picture for earnings, valuations for US banks are not looking overly attractive either. The sector is more than fully priced for the current level of profitability (Exhibit 6). Given that earnings are set to remain range bound at best and profitability is unlikely to improve, downside risks are larger than upside risks in our view, supporting our cautious stance on the sector.

Exhibit 5: Banks have outperformed vs their underlying drivers



Source: Refinitiv, Bank J. Safra Sarasin, 17.09.2024

Exhibit 6: Valuations seem rich for current profitability levels



Source: Refinitiv, Bank J. Safra Sarasin, 17.09.2024

Economic Calendar

Week of 23/09 – 27/09/2024

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 23.09.2024						
GE	09:30	Germany Manufacturing PMI	Sep	Index	--	42.40
EU	10:00	Eurozone Manufacturing PMI	Sep	Index	--	45.80
UK	10:30	UK Manufacturing PMI	Sep	Index	--	52.50
US	14:30	Chicago Fed Nat. Activity Index	Sep	Index	--	-0.34
	15:45	US Manufacturing PMI	Sep	Index	--	47.90
Tuesday, 24.09.2024						
JN	02:30	Jibun Bank Japan PMI Composite	Sep	Index	--	49.80
GE	10:00	IFO Expectations	Sep	Index	--	86.80
US	14:30	Philly Fed Non-Manuf. Activity	Sep	Index	--	-25.10
	16:00	Conf. Board Expectations	Sep	Index	--	82.50
	16:00	Richmond Fed Manufact. Index	Sep	Index	--	-19.00
	16:00	Richmond Fed Bus. Conditions	Sep	Index	--	-13.00
Wednesday, 25.09.2024						
US	14:30	MBA Mortgage Applications	Sep20	wow	--	--
	16:00	New Home Sales MoM	Aug	mom	-5.60%	10.60%
Thursday, 26.09.2024						
GE	08:00	GFK Consumer Confidence	Oct	Index	--	-22.00
US	14:30	Durables Ex Transportation	Aug	mom	--	-0.20%
	14:30	Cap Goods Orders Nondef Ex Air	Aug	mom	--	-0.10%
	14:30	Initial Jobless Claims	Sep21	1'000	--	--
	14:30	Continuing Claims	Sep14	1'000	--	--
	17:00	Kansas City Fed Manf. Activity	Sep	Index	--	-3.00
Friday, 27.09.2024						
JN	01:30	Tokyo CPI Ex-Food, Energy YoY	Sep	yoy	--	1.60%
EU	10:00	ECB 1 Year CPI Expectations	Aug	%	--	2.80%
	10:00	ECB 3 Year CPI Expectations	Aug	%	--	2.40%
UK	12:00	CBI Total Dist. Reported Sales	Sep	Index	--	-20.00
	12:00	CBI Retailing Reported Sales	Sep	Index	--	-27.00
US	14:30	Core PCE Price Index MoM	Aug	mom	0.20%	0.20%
	14:30	Core PCE Price Index YoY	Aug	yoy	2.70%	2.60%
	16:00	U. of Mich. Expectations	Sep	Index	--	73.00
	16:00	Kansas City Fed Services Act.	Sep	Index	--	5.00

Source: Bloomberg, J. Safra Sarasin as of 18.09.2024

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	0.49	5	-21	2.3
German Bund 10 year (%)	2.20	5	17	0.7
UK Gilt 10 year (%)	3.89	13	35	0.6
US Treasury 10 year (%)	3.71	6	-17	4.6
French OAT - Bund, spread (bp)	74	4	20	
Italian BTP - Bund, spread (bp)	136	0	-32	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	12'058	18.6	0.8	11.8
DAX - Germany	19'002	14.1	2.6	13.4
MSCI Italy	1'098	9.4	1.5	14.6
IBEX - Spain	11'778	11.2	3.3	20.5
DJ Euro Stoxx 50 - Eurozone	4'943	14.0	2.7	12.5
MSCI UK	2'375	12.5	0.9	10.7
S&P 500 - USA	5'714	24.0	2.2	21.0
Nasdaq 100 - USA	19'840	30.8	2.2	18.6
MSCI Emerging Markets	1'100	13.1	2.3	10.0

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.85	7.6	-0.2	0.7
EUR-CHF	0.95	6.0	0.6	1.8
GBP-CHF	1.13	7.3	1.0	5.0
EUR-USD	1.12	6.2	0.8	1.1
GBP-USD	1.33	7.2	1.3	4.4
USD-JPY	142.3	11.3	1.0	0.9
EUR-GBP	0.84	4.4	-0.5	-3.1
EUR-SEK	11.34	6.3	0.1	1.9
EUR-NOK	11.72	8.7	-0.7	4.4

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	98	12.8	4.0	-0.7
Brent crude oil - USD / barrel	77	32.1	2.6	-1.4
Gold bullion - USD / Troy ounce	2'593	12.2	1.4	25.7

Source: J. Safra Sarasin, Bloomberg as of 18.09.2024

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