J. Safra Sarasin

# Cross-Asset Weekly

17 February 2023

## No-landing hopes won't fly

US macro: Investors still hope that inflation will fall over the coming years, but not at the expense of economic or employment growth. Unfortunately, in economics, there is no free lunch. Our analysis confirms the Fed's belief that underlying inflation will remain high unless economic slack increases. A 'no landing' in the near term might just increase the odds of a hard landing further out.

China macro: Chinese households have built up a large sum of excess savings over the pandemic years. Household expenditure growth has been largely in line with household income growth in the past. An improved employment outlook will therefore be key to the durability of the consumption rebound. Evidence on the effects of home prices on household consumption seems inconclusive. The annual policy and budget announcement in March could help support sentiment.

Cross-asset views: The strong recovery at the beginning of the year has lifted valuations in equity and credit markets. While equities should only outperform in a strong, dis-inflationary recovery, US corporate bonds provide more of a buffer in a less optimal environment, which would be closer to our base case. Corporate bond yields are now at the most attractive level compared to equities since 2010, suggesting that credit should outperform equities in the months ahead.

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### 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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## US macro

# Investors shouldn't question the Fed's reaction function

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

**There is still a strong belief among investors that inflation will fall over the coming years, but not at the expense of economic or employment growth. Unfortunately, in economics, there is no free lunch. Our analysis confirms the Fed's belief that underlying inflation will remain high unless economic slack increases. A 'no landing' in the near term might just increase the odds of a hard landing further out.**

**Investors have priced out rate cuts for this year, but continue to expect that inflation can be brought down without much economic pain. This is probably too optimistic**

Fed officials in recent weeks have reminded investors that a very tight labour market is inconsistent with its 2% inflation target. The message was partly heard, and investors have repriced the path for future policy rates (Exhibit 1). But the general belief remains that inflation can come down significantly without the need to see much economic pain. Indeed, markets expect headline inflation rate to average 2.5% in 2024 (though break-even inflation rates have increased from their recent trough), credit spreads are at or below their long-term average and cyclical equities have outperformed defensive ones since the start of the year. We share the Fed's view that this is too optimistic.

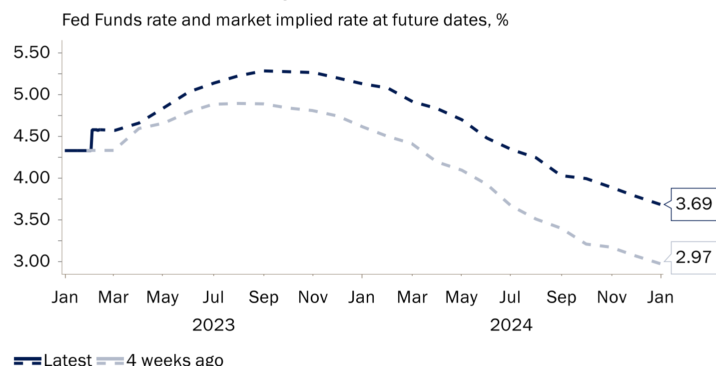
**The Phillips Curve is at the core of the Fed's reaction function. This framework links realised inflation to inflation expectations and spare capacity**

The Fed's reaction function is based on the so-called Phillips Curve, whereby wage or price inflation is a function of inflation expectations and spare capacity in the economy. The logic is simple. The longer high (low) inflation persists, the more likely households and businesses could expect high (low) inflation in the longer term. Inflation expectations shift the curve up and down. For example, higher inflation expectations imply a higher realised inflation rate for any given level of economic slack. When the economy is running hot, workers can bargain for a higher wage, and employers can more easily pass on the extra cost and more to final consumers. In other words, there is a trade-off between inflation and economic slack. The more sensitive inflation is to spare capacity, the steeper the curve. When the economy is in equilibrium, i.e., operating at potential, realised inflation should be what people expect inflation to be. That inflation rate is set by the central bank in the form of its inflation target.

**The Fed needs to 'walk the talk' to keep inflation expectations anchored at 2%**

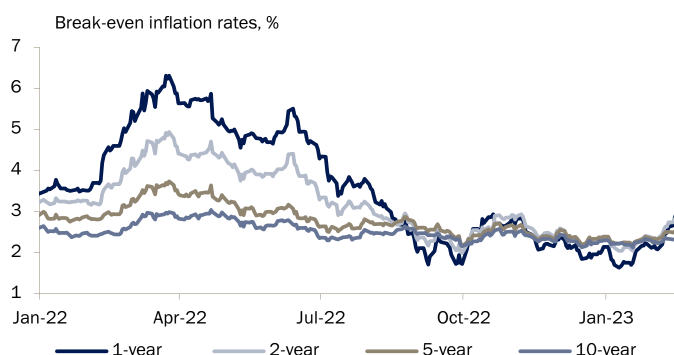
Monetary policy addresses both of these aspects of the inflation process. By talking and acting tough in 2022, the Fed has ensured that long-term inflation expectations have come down close to target, after moving up earlier in the year (Exhibit 2). But as Fed officials repeatedly argue, they need to 'walk the talk' in order to deliver that outcome. As long as headline inflation remains far above its 2% target, the Fed cannot appear to let the guard down, and need to deliver on its promise to tame inflation.

**Exhibit 1: Investors have repriced the Fed**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 2: Short-term inflation expectations have risen lately**




Source: Bloomberg, Bank J. Safra Sarasin, 15.02.2023

**Other factors might influence the perceived sensitivity of inflation to the business cycle. Measuring these factors directly is one way to deal with this problem ...**

Before turning to the second element, the sensitivity of inflation to domestic economic conditions, we need to recognize that other structural forces and transitory shocks may play a role and appear to dampen or accentuate that relationship. For example, structural forces including globalisation, technology and the weakness of trade unions seem to have reduced the sensitivity of inflation to economic slack in the decade or two that preceded the pandemic. Models that try to directly measure these other factors suggest that the curve was not that flat.

**... Another way is to split the inflation basket into different sub-components and isolate the parts that are most directly affected by domestic conditions**

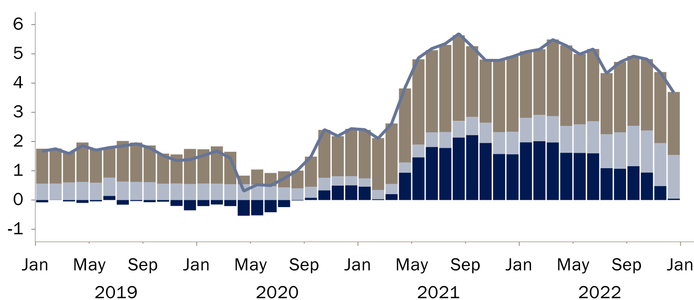
To ensure that transitory shocks do not lead to biases in estimating the relationship between inflation and the business cycle, economists try to take out those items in the consumption basket that is highly affected by external shocks. Traditionally, economists look at headline and core inflation. The latter measure excludes food and energy and is deemed to capture better underlying inflationary pressures. Indeed, food and energy prices tend to be affected by many transitory and external shocks and don't necessarily reflect domestic conditions. Moreover, central banks can do little to affect these prices. The pandemic has been a major external shock and has affected a broad range of items beyond food and energy. As such, dissecting the basket into smaller parts helps to better assess the underlying inflation dynamics. The Fed closely looks at three sub-components of the core basket: (1) goods (excluding food & energy); (2) housing rents; (3) services excluding energy and housing (Exhibit 3).

**The Fed is focusing more and more on core services excluding housing as this series is showing no disinflationary progress. Crucially, it accounts for the bulk of the core basket and should be very sensitive to economic slack**

One reason for dividing the basket in such a way is that the pandemic has impacted these three buckets differently, or at different times. In addition, and importantly for the Fed's reaction function, a large share of items that are grouped in the third category should be particularly sensitive to domestic economic conditions. Indeed, the biggest cost for services providers is wages. Note that our analysis here focuses on PCE inflation, rather than CPI, as it's the Fed favourite measure. The weight of the third category in the core PCE basket is also much larger at 56% against 30% for its CPI counterpart, where the weight for housing is bigger. What happens in this third bucket is therefore crucial for the inflation outlook (Exhibit 4).

**Exhibit 3: No disinflation in core services ex-housing ...**

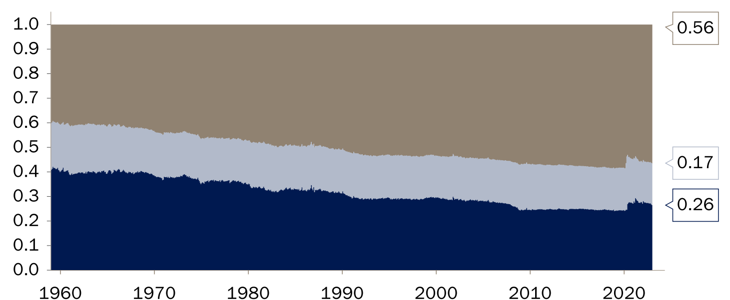
Core PCE 6m annualised change, contributions, %pts




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 4: ... this part of the basket is key given its weight**

Weights in core PCE basket




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Goods inflation should return to around its long-term average**

The behaviour of the first two items (goods and housing rent) is less contentious. Supply chain disruptions during the pandemic, as well as a shift in consumption patterns away from services and towards goods, led to a big surge in goods prices. Now that supply chains and habits are normalising, goods inflation is coming down (though the January retail sales report suggests that the appetite for buying goods remains strong). Once this adjustment is over, the expectation is for core goods inflation to come back to around its long-term average of about 0%.

**Though rent inflation has not peaked yet, new leases suggest that a disinflationary process is on its way**

Rents are highly cyclical but the pandemic has also played a role by, among other things, slowing down the construction of new houses, increasing the search for more space, boosting house prices and pricing out many potential American homeowners, who have had to rent instead. Some of these dynamics have been reversing since the second half of last year, resulting in a much slower pace of rent rises for new leases. Shelter inflation is likely to peak soon as these new contracts get gradually reflected in the inflation basket and come down in the second half of the year

**There is more uncertainty around the prospects for core services excluding housing. Our analysis shows that economic slack very much matters**

The point of discordance between the markets and the Fed is on the rest of core services. For investors' view to be correct, either labour supply must increase significantly or the Phillips curve must be very flat. As we explained in previous notes, we don't expect labour supply to jump as structural factors appear to have depressed the participation rate. As to the slope of the curve, our analysis shows that it's 'alive and kicking'.

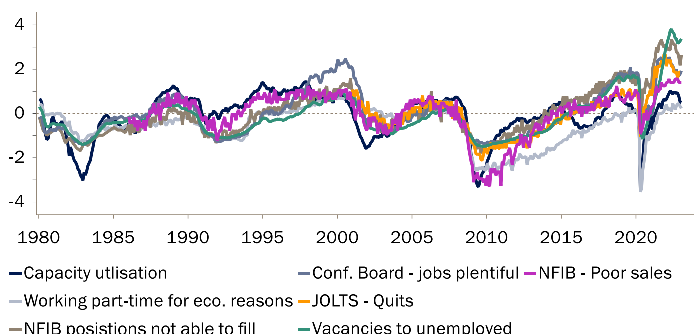
**Measuring spare capacity is not easy and model-based measures are prone to large revisions**

First, let's turn to measures of spare capacity and labour market tightness. As shown in Exhibit 5, these tend to move together but they also point to significantly different degrees of slack. As a result, economists often turn to the output or the unemployment gap. The first one measures the difference between the actual and potential output of an economy. The second one assesses the difference between the actual and the natural unemployment rates. The problem is that both potential output and the natural rate of unemployment are unobservable, and are derived from models. That has two drawbacks: the estimates depend on assumptions and are prone to large revisions.

**We have built our own estimate that tracks the CBO's output gap but doesn't come with its measurement issues**

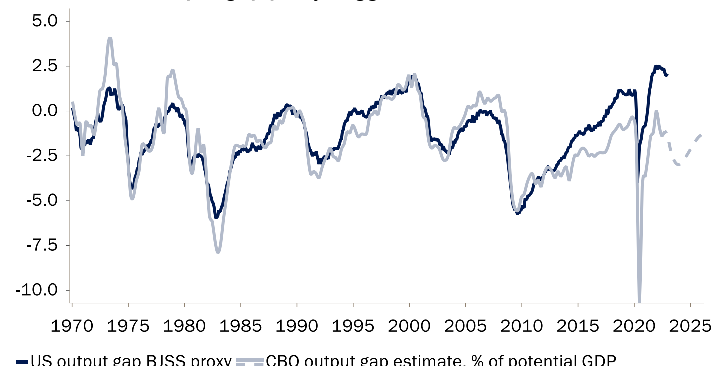
To get around these different issues, we have constructed an output gap proxy. To do so, we have combined a broad range of measures of capacity utilisation and labour market tightness, which we then regressed against the Congressional Budget Office's output gap estimate. Our measure moves closely in line with the official one. The added advantage is that ours is timelier. Interestingly, the latest CBO's revision to its estimate suggests that the output gap has already turned negative and barely moved above zero last year. This is difficult to reconcile with the current high inflation environment and labour market data, pointing to the measurement problems mentioned above (Exhibit 6).

**Exhibit 5: Most measures points to an economy that is overheating**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 6: Our output gap proxy suggests the CBO's estimate is too low**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Both the Fed and our own analysis shows that roughly half of the items in the core services ex-housing basket are impacted by changes in spare capacity**

The next step of the exercise is to identify which items in the 'core services excluding housing' basket are sensitive to the business cycle. Not all should be. Some prices are administered, and the demand for some others, such as for health physicians, don't depend of the strength of the economy. Fed Chair Powell mentioned in his latest press conference that about 55% of the basket is sensitive the state of the labour market. Our own analysis points to similar results, with a slightly lower share of 50%. To do so, we have

regressed each of the individual items in this sub-basket against our output gap proxy, and retained those that are statistically significant. We can then reconstruct a new sub-basket, using the different weights, which include only services, but exclude housing and items that do not move in line with the business cycle. This sub-basket accounts for a quarter of total PCE inflation.

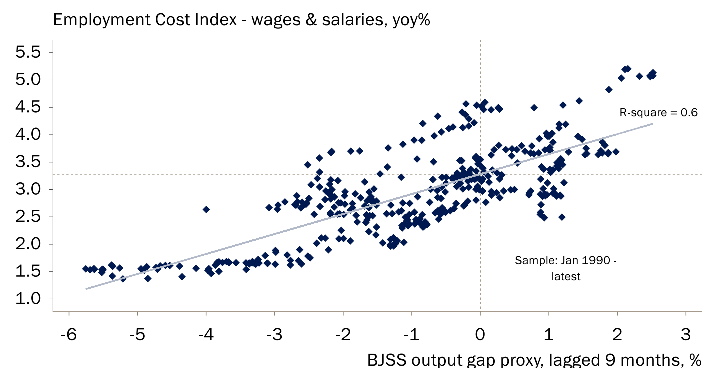
**Economic slack, wages and our core services sub index all move closely together**

There are few important points worth highlighting. First, there is a strong correlation between our output gap proxy and the Employment Cost Index, the Fed's favourite wage measure. Second, our analysis shows that wages should grow at around 3-4% when the economy is in equilibrium, which is also what the Fed assumes to be in line with its 2% inflation target given a productivity growth of 1-2% (Exhibits 7-8). Third, there is a strong correlation between wages and our sub-basket of core services inflation (Exhibits 9-10).

**The Phillips curve is very much likely to stay at the core of the Fed's reaction function. Any soft- or no landing in the near term might just increase the odds of a hard landing further out**

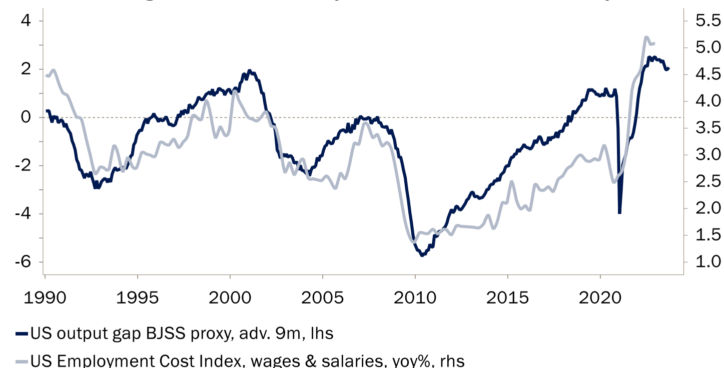
In conclusion, our analysis shows that the Phillips curve is far from being flat and that the economy is currently running too hot for wages and underlying inflation to come down substantially. Fed's communication indicates that this framework remains core to its reaction function. We continue to think that markets might be too optimistic about the economy's ability to withstand the impact of the Fed's cumulative monetary tightening. If we are wrong, and the growth outlook is indeed improving, it will force the central bank to do more. A 'no landing' in the near term might just increase the odds of a hard landing further out. In short, it might not be advisable for investors to ignore the Fed's reaction function.

**Exhibit 7: A positively sloped Phillips curve**



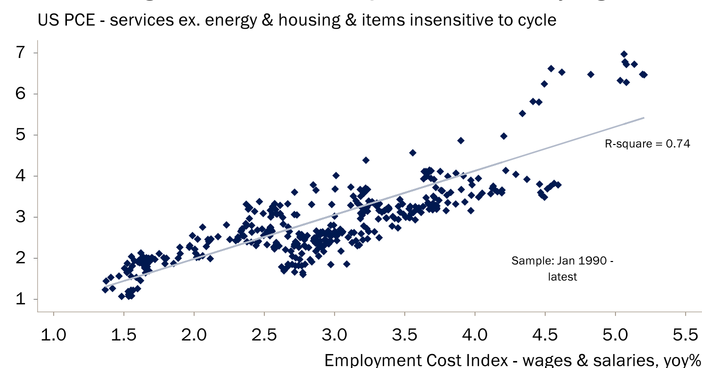

Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Exhibit 8: Wage inflation unlikely to come down if economy runs hot**



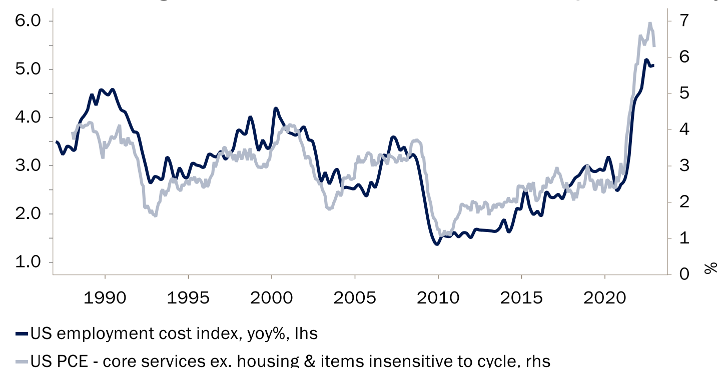

Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Exhibit 9: Wages and core services prices move closely together**




Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Exhibit 10: Wages need to moderate for inflation to drop substantially**




Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

## China macro

# Durability of the Chinese consumption rebound

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

**Chinese households have built up a large sum of excess savings over the pandemic years. Household expenditure growth has been largely in line with household income growth in the past. An improved employment outlook will therefore be key to the durability of the consumption rebound. Evidence on the effects of home prices on household consumption seems inconclusive. Still, falling home prices could affect homeowners' sentiment in overall economic conditions that drive precautionary saving. The annual policy and budget announcement in March could help support the sentiment.**

**The Chinese household savings rates increased significantly over the pandemic years**

Chinese households have built up a large sum of excess savings over the pandemic years as lockdowns and other restrictions prevented them from consuming contact-intensive goods, and income uncertainty pushed households to increase precautionary savings. The household savings rate, calculated from the household income and expenditure surveys, rose from 30% in 2019 to an average of 33% over the three pandemic years (Exhibit 1). If we assume that the 3% difference represents excess savings, that would be a total of CNY3'100 per capita or CNY 4.4 trillion for the whole country (3.6% of GDP).

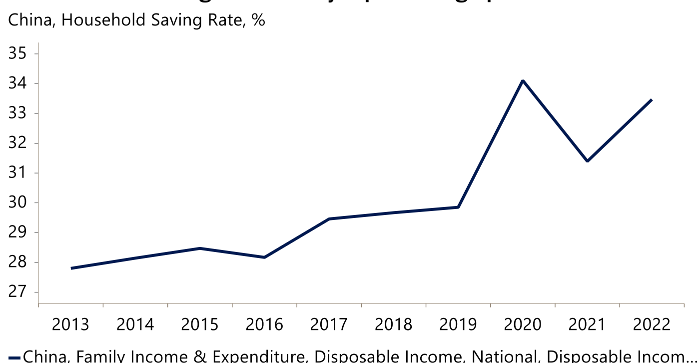
**A better employment outlook is required for durable consumption growth**

Will Chinese consumers spend a lot more this year given such excess savings? Household income in general is the main determinant of household consumption (Exhibit 2). As the service sector outlook improves, employers will likely start hiring more. Early evidence (internet-, semiconductor-, and airline industries seems to be encouraging with regard to the labour market and employment outlook.

**It is not clear if lower home prices will lead to lower consumption in China**

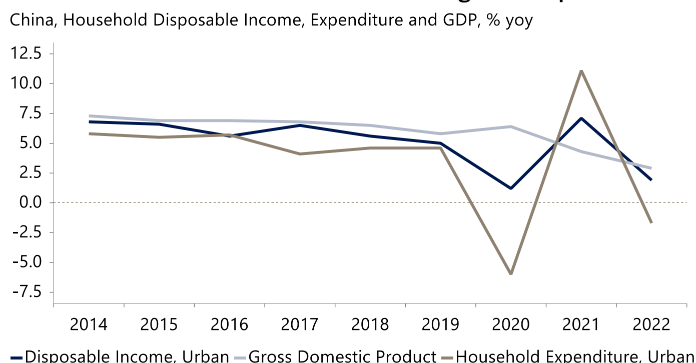
In developed markets, household wealth is also an important determinant of consumption. In China, the bulk of household wealth lies in the citizen's houses. It is not clear how home prices drive Chinese household consumption: on the one hand, rising prices mean that households (that are not yet homeowners) will have to save more to be able to afford a house. On the other hand, rising prices also mean that existing homeowners could spend more as their wealth increases. The effects usually depend on the home ownership tenure. In the last housing downturn of 2014, household consumption growth remained robust at 5.8% even though house prices fell by 5% (Exhibit 3). Empirically from micro-level data, recent studies show both effects. Some (such as this study) find evidence of increased consumption when home prices surged. Another study suggests that the wealth effect has increasingly dominated over time, but if the market is dominated by speculative buyers, higher prices could mean higher saving.

**Exhibit 1: The saving rate rose by 3 percentage points**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 2: Household income has been driving consumption**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

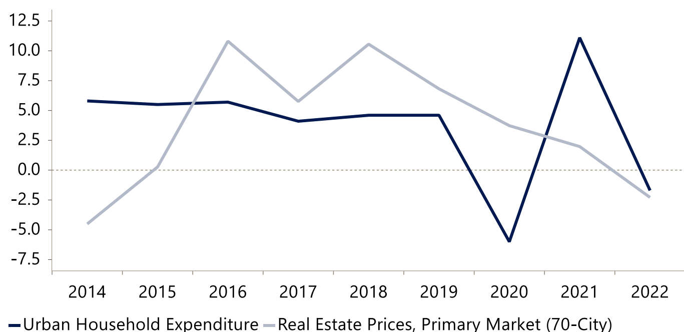
**Government policies could support durable consumption boost**

Falling home prices could still affect household sentiment, and hence overall economic conditions, such that it could still drive up precautionary saving and lower consumption. An important mitigating factor are government policies. It is a good sign that policymakers at the central level are emphasising the importance of consumption growth in 2023. However, policy details, which will be unveiled in early March, will be important to watch. Recent headlines on local governments' health benefit cuts (and other spending cuts) suggest more support from the central government, which will be key to support durable consumption as local governments' finances remain very tight. Households will not spend their excess savings if there is still significant uncertainty over their income, including transfers from the government.

**Leisure activities to lead the consumption rebound**

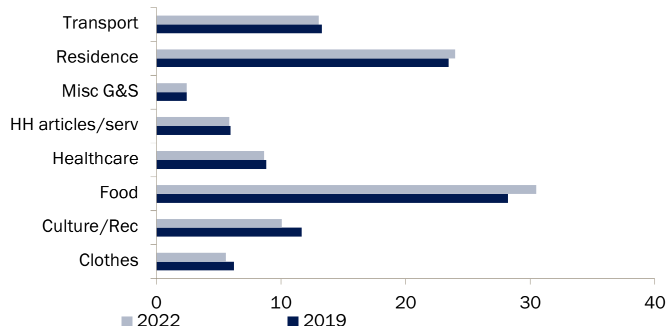
Finally, the latest household income and expenditure survey also confirms our view that the consumption rebound this year will be mostly geared towards leisure activities such as traveling and entertainment. The share of these activities has dropped significantly between 2019 and 2022 (Exhibit 4). The share of food spending has risen instead. We expect to see the reverse this year.

**Exhibit 3: Household consumption was stable in the last housing downturn**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 4: Share of spending on recreation dropped by 2ppt over the last three years**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

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# Cross-asset views

## Credit where credit's due

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

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

**The rebound in risk assets at the beginning of the year has come on the back of upgraded growth expectations and easing financial conditions. Dark clouds over the macro outlook have seemingly turned into a light breeze, leaving room for equity and credit valuations to rise. Yet we would caution against too much optimism. Inflationary pressures appear stickier than expected and more Fed tightening is set to push macro headwinds into the future instead of burying them altogether. Against such a backdrop, valuations appear more stretched for equities than for credit. The only scenario which should see equities outperform is a strong, dis-inflationary recovery, while US corporate bonds should do better in a less optimal environment. On a relative basis, corporate bond yields are at the most attractive level since 2010, favouring credit from a tactical point of view.**

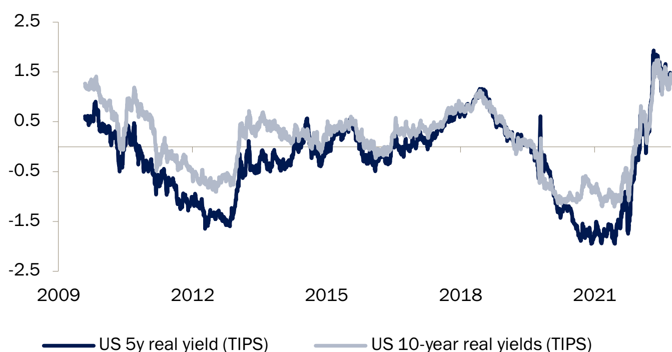
**Equity and credit markets have cheered the improved macro outlook alike**

Credit and equity markets have recovered in lockstep since the beginning of the year as dark clouds over the macro outlook have turned into an apparent light breeze. What has not faded are inflationary pressures, keeping up the risk of more Fed action and economic headwinds later in the year.

**The US fixed income space has undergone a massive repricing in 2022**

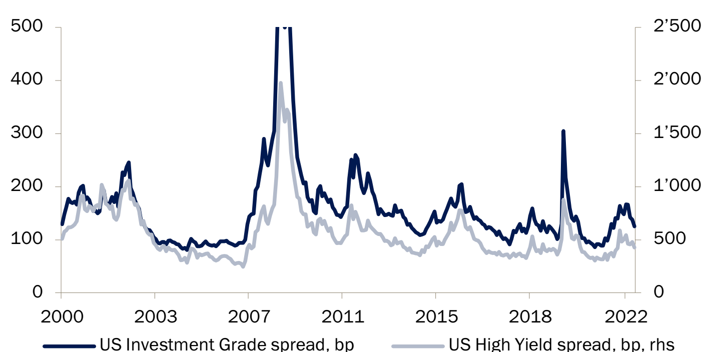
If the Fed delivers what markets are currently pricing, it will have hiked the Fed Funds rate by 500bp in the space of 15 months, which would mark the sharpest rate hiking cycle in more than 40 years. Fed Funds futures currently imply a peak rate of 5.25% by the middle of 2023. This would be above core inflation, underscoring a tight Fed's policy stance. At the same time, 5-year real yields in the US have risen by 350bp from their lows, with their 10-year counterparts having increased by 250bp (Exhibit 1). While the market still struggles to price the Fed Funds path appropriately, it is already clear that the risk/return in US fixed income markets has improved significantly.

**Exhibit 1: US real yields have repriced by 250 to 350bp**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 2: US credit spreads have retraced half the widening**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Credit spreads widened in 2022, but have retraced more than half of it in the past four months**

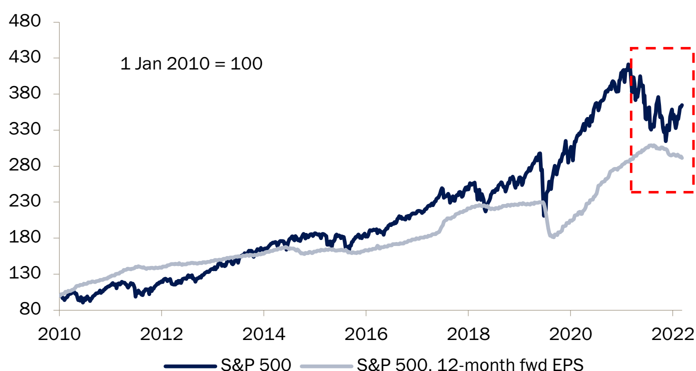
Credit spreads have widened in 2022 as a combination of sharply slowing growth, sticky inflation and an aggressively tightening Fed have fuelled recession fears that have led to an increase in default rate expectations. These moves have partly reversed since October. Spreads started to rally as (1) hopes for a soft landing have risen and (2) attractive nominal yield levels have led to a rotation from cash into bonds. As a result, spreads have retraced more than half of their widening so far and currently sit slightly below their long-term median levels (Exhibit 2). US High Yield spreads currently imply an expected annual default rate of slightly above 6% over the next two years, while US investment grade credit prices

an annual expected default rate of around 2% over the next two years. Yet this risk premium doesn't fully price a recession, given that high-yield default rates typically rise above 6% in this case. However, absent a severe recession, the likely drop in the underlying risk-free Treasury yield would provide a substantial cushion for the negative contribution from spread widening, such that high-yield credit could still end the year in positive territory. It is a similar story for Investment Grade, which has an even more direct link to the underlying risk free rates.

**Equity markets have also rallied substantially from the lows reached in September**

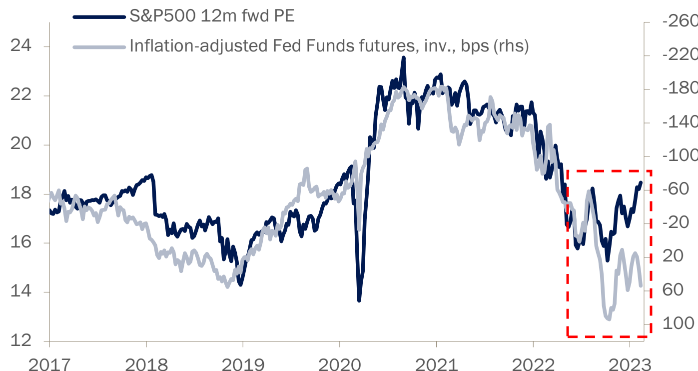
Equities provide a similar picture. The S&P 500 has rallied by more than 15% from the 2022 lows in September, despite continuously declining earnings (Exhibit 3). This has lifted valuations back to levels where they last were at the beginning of 2022, before the Fed started hiking rates (Exhibit 4). Fed Funds futures have taken the opposite direction, framing equity valuations not only expensive against historical averages but also against the implied Fed trajectory. While not completely unrealistic, at current levels, equity markets are priced for a very favourable macro scenario in 2023.

**Exhibit 3: The recent rebound came while earnings still declined**




Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Exhibit 4: Valuations have shot up as a result**




Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Equity valuations have shot up year-to-date on hopes for a dis-inflationary macro rebound**

In order for the current rates/valuation gap to be closed, consensus earnings for the S&P 500 would have to rise by 10% to 15% or Fed Funds futures would have to drop by around 100bps. Obviously, a combination of falling rates and rising earnings could be envisaged, which would be equivalent to a Goldilocks scenario for equities. While a potential rise in earnings would require the recent improvement of the macro environment to hold, time would also help. 2024 EPS at USD244 are already 9% above the current 12-month forward EPS number. If nothing were to change and the market remains at current levels, valuations would gradually move closer to a fair level as the year progresses.

**Various measures suggest that credit is more cautiously priced than equities**

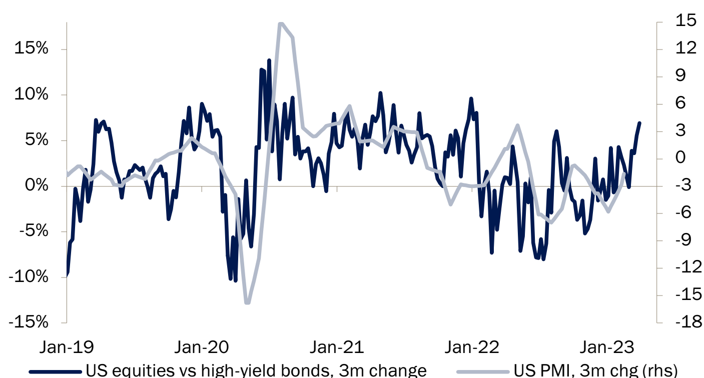
These arithmetic gymnastics can only provide some benchmarking, with reality most likely turning out differently. What we do know is that the equity market is far from being priced for a downturn. Another way to visualise stretched equity valuations is the relative pricing versus credit. The rise in equities with only limited earnings support has led to a sharp compression of the equity risk premium (a simplified ERP: earnings yield minus 10-year treasury yield), taking it back to levels last seen in 2007 (Exhibit 5). What stands out is the difference in dynamics between credit markets and equity markets. Both are providing diverging signals in the current cycle. High Yield OAS spreads have on balance risen over the past year, and while they don't fully price an economic downturn yet, they reflect a more elevated level of market risk. The equity risk premium (ERP) on the other hand has not only been on a downtrend since 2022, the fall has even accelerated at the start of this year. Similar to the very benign PE pricing described above, the ERP appears aligned with a 'no-landing' narrative, which stands in contrast to a somewhat more cautious view ex-

pressed by the High Yield market. Market performance year-to-date confirms this observation, with the relative equity vs credit performance suggesting a continued rebound in the macro data (Exhibit 6).

**Exhibit 5: Equity risk premium has fallen off a cliff versus HY spreads**

Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Exhibit 6: Equities have moved ahead as they are pricing for a recovery**

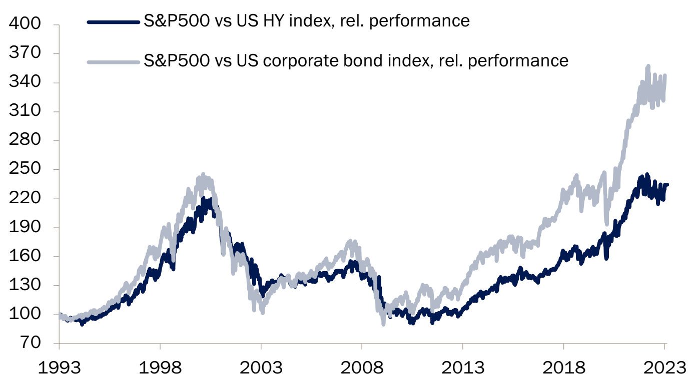



Source: Macrobond, Bank J. Safra Sarasin, 16.02.2023

**Corporate bonds look attractive vs equities on a relative income yield measure**

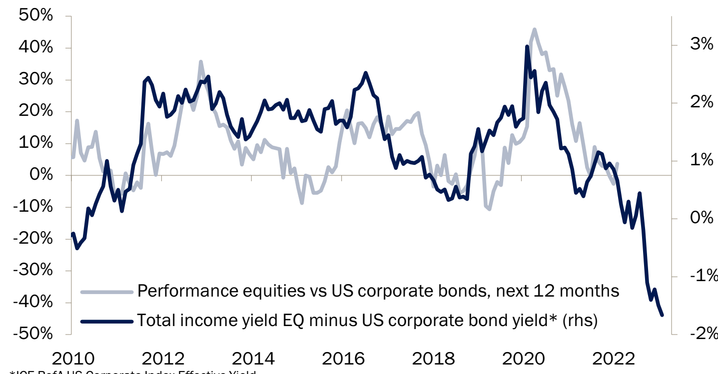
Relative income yields have worked as a decent guide for equity performance vs corporate bonds in the past. Although equities have outperformed corporate bonds almost continuously over the past 10 years, US corporate bond yields (as measured by the ICE BofA US Corporate bond index) are now at the most attractive level since 2010, relative to the US equity income yield (dividend yield + buyback yield,). This strengthens the case for corporate bonds to outperform equities over the next 12 months (Exhibit 8).

**Exhibit 7: Equity has been a serial outperformer post GFC**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**Exhibit 8: Credit to equity income yield spread at widest since 2010**




Source: Macrobond, Bank J. Safra Sarasin, 15.02.2023

**The nature of the current cycle remains key for relative return prospects**

Relative spreads between equity and credit markets provide a clear implication. While the equity market is priced for a macro rebound, which is yet not visible in earnings, the credit market appears less aggressively valued and provides more of a buffer, even if the recovery fails to materialise. Potential scenarios under which the equity market could outperform boil down to a Goldilocks environment, in which earnings recover quickly and rapid dis-inflation allows risk-free rates to drop sharply. Recent data suggest that the cycle may hold up longer and better than previously expected, which may help earnings revisions to turn higher. Yet rates are unlikely to drop as quickly as some may have hoped, given that inflation continues to be sticky and pro-cyclical. This leaves little room for equities to re-rate further and implies potential economic headwinds on the back of more Fed tightening down the road. History also shows that equities have underperformed vs credit in each and every economic downturn over the past 25 years, leaving them highly vulnerable if the currently priced optimistic macro scenario fails to play out.

## Economic Calendar

# Week of 20/02 – 24/02/2023

| Country | Time | Item | Date | Unit | Consensus Forecast | Prev. |
|---|---|---|---|---|---|---|
| **Monday, 20.02.2023** | | | | | | |
| UK | 01:00 | Rightmove House Prices YoY | Feb | yoy | -- | 6.30% |
| **Tuesday, 21.02.2023** | | | | | | |
| JN | 01:30 | Jibun Bank Japan Mfg PMI | Feb P | Index | -- | 48.90 |
| GE | 09:30 | German Manufacturing PMI | Feb P | Index | -- | 47.30 |
| | 09:30 | German Services PMI | Feb P | Index | -- | 50.70 |
| EU | 10:00 | Eurozone Manufacturing PMI | Feb P | Index | -- | 47.30 |
| | 10:00 | Eurozone Services PMI | Feb P | Index | -- | 50.80 |
| UK | 10:30 | UK Services PMI | Feb P | Index | -- | 48.70 |
| US | 14:30 | Philadelphia non-Mfg Index | Feb | Index | -- | -6.50 |
| | 14:30 | US Manufacturing Index | Feb | Index | 47.20 | 46.90 |
| | 14:30 | US Services Index | Feb | Index | -- | 46.80 |
| **Wednesday, 22.02.2023** | | | | | | |
| GE | 10:00 | IFO Expectations | Feb | Index | -- | 86.40 |
| US | 13:00 | MBA Mortgage Applications | Feb17 | wow | -- | -7.70% |
| | 20:00 | FOMC Minutes | Feb01 | | | |
| **Thursday, 23.02.2023** | | | | | | |
| US | 14:30 | Initial Jobless Claims | Feb18 | 1'000 | -- | -- |
| | 14:30 | Chicago Fed Nat Activity | Feb | Index | -- | -0.49 |
| | 17:00 | Kansas Fed Manf. Activity | Feb | Index | -- | -1.00 |
| **Friday, 24.02.2023** | | | | | | |
| JN | 00:30 | Natl CPI Ex Food, Energy YoY | Jan | yoy | 3.20% | 3.00% |
| GE | 08:00 | GFK Consumer Confidence | Feb | Index | -30.00 | -33.90 |
| US | 14:30 | PCE Core Deflator MoM | Jan | mom | 0.40% | 0.30% |
| | 14:30 | PCE Core Deflator YoY | Jan | yoy | 4.30% | 4.40% |
| | 16:00 | U. of Mich. 5-10 Yr Inflation | Feb | % | -- | 2.90% |
| | 17:00 | Kansas City Fed Services Act. | Feb | Index | -- | -11.00 |

Source: Bloomberg, J. Safra Sarasin as of 16.02.2023

J. Safra Sarasin

Cross-Asset Weekly

17 February 2023

# Market Performance

## Global Markets in Local Currencies

| Government Bonds | Current value | Δ 1W | Δ YTD | TR YTD in % |
|---|---|---|---|---|
| Swiss Eidgenosse 10 year (%) | 1.50 | 8 | -12 | 1.2 |
| German Bund 10 year (%) | 2.55 | 19 | -2 | 0.5 |
| UK Gilt 10 year (%) | 3.57 | 26 | -10 | 1.6 |
| US Treasury 10 year (%) | 3.90 | 17 | 3 | 0.2 |
| French OAT - Bund, spread (bp) | 47 | 0 | -8 | |
| Italian BTP - Bund, spread (bp) | 191 | 7 | -23 | |

| Stock Markets | Level | P/E ratio | 1W TR in % | TR YTD in % |
|---|---|---|---|---|
| SMI - Switzerland | 11'151 | 20.7 | -0.2 | 4.3 |
| DAX - Germany | 15'374 | 12.7 | 0.1 | 11.6 |
| MSCI Italy | 875 | 8.3 | 1.3 | 15.7 |
| IBEX - Spain | 9'285 | 10.8 | 0.9 | 13.8 |
| DJ Euro Stoxx 50 - Eurozone | 4'253 | 13.1 | 1.2 | 13.6 |
| MSCI UK | 2'302 | 10.7 | 1.5 | 7.6 |
| S&P 500 - USA | 4'090 | 18.6 | 0.3 | 6.8 |
| Nasdaq 100 - USA | 12'442 | 24.1 | 0.6 | 13.9 |
| MSCI Emerging Markets | 1'011 | 11.1 | -1.3 | 5.8 |

| Forex - Crossrates | Level | 3M implied volatility | 1W in % | YTD in % |
|---|---|---|---|---|
| USD-CHF | 0.93 | 8.1 | 0.6 | 0.5 |
| EUR-CHF | 0.99 | 6.0 | 0.3 | -0.1 |
| GBP-CHF | 1.11 | 7.9 | -0.5 | -0.9 |
| EUR-USD | 1.06 | 8.1 | -0.4 | -0.6 |
| GBP-USD | 1.19 | 10.1 | -1.1 | -1.3 |
| USD-JPY | 135.0 | 12.6 | 2.7 | 2.9 |
| EUR-GBP | 0.89 | 6.9 | 0.8 | 0.8 |
| EUR-SEK | 11.19 | 7.8 | 0.2 | 0.3 |
| EUR-NOK | 10.99 | 10.1 | 1.4 | 4.7 |

| Commodities | Level | 3M realised volatility | 1W in % | YTD in % |
|---|---|---|---|---|
| Bloomberg Commodity Index | 106 | 13.9 | -1.7 | -5.8 |
| Brent crude oil - USD / barrel | 83 | 32.3 | -1.1 | -2.8 |
| Gold bullion - USD / Troy ounce | 1'821 | 13.9 | -2.2 | -0.2 |

Source: J. Safra Sarasin, Bloomberg as of 16.02.2023

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Elisabethenstrasse 62
P.O. Box
4002 Basel
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T: +41 (0)58 317 44 44
F: +41 (0)58 317 44 00
www.jsafrasarasin.ch