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Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of June 20, 2022

By Amundi Institute

The week at a glance

- **Markets:** Equity markets posted again a negative performance with the MSCI World index falling by more than -5%.
- **United States:** Housing starts fell 14.4% month-on-month in May to their lowest reading since September 2020.
- **Eurozone:** Average hourly labour costs picked up from 1.9% year-on-year in the fourth quarter of 2021 to 3.2% in the first quarter of 2022. Meanwhile, wage growth strengthened from 1.5% year-on-year to 2.7% in the first quarter of 2022 during the same period.

KEY FIGURE

0%

Growth forecast of the Federal Reserve Bank of Atlanta's GDPNow tracker for the second quarter in the U.S. after the contraction in first quarter.

Focus

For a few days now, the Federal Reserve Bank of Atlanta's GDPNow tracker has signalled not only a protracted GDP deceleration, but 0% growth for the second quarter, implying risks of a technical recession in the U.S. Despite the tracker's call for a flat GDP reading, domestic demand components, albeit decelerating, are not capitulating yet. In particular, the real personal consumption tracker remains above 2% (in line with our current projections). In contrast, to monitor closely how non-residential investments are slowing, dragged down by structures but also by a pronounced deceleration in equipment investments according to the tracker, while instead we are more constructive. Overall, we confirm our outlook for a decelerating economy, driven by all major drivers (consumption, investments, residential). We are, moreover, expecting a more significant deceleration than the U.S. Federal Reserve (Fed) (currently 1.3% for the fourth quarter of 2022, 1.4% for the fourth quarter of 2023 versus Fed's 1.7%), but we acknowledge some downside risks to our current second quarter GDP figure (currently close to a 2% quarter-on-quarter annual rate). Accordingly, in our end-year projection, we would not call for a recessionary environment at this stage as we still see domestic demand drivers decelerating, not capitulating.

KEY DATES

22nd June
Release of the Consumer Price Index (CPI) for May in the UK

22nd-23rd June
Testimony by Fed's Chair Jerome Powell

23rd June
Release of flash Purchasing Managers' Indices (PMIs) for June

Source: Amundi Institute.

Our weekly analysis

The U.S. Federal Reserve's (Fed) monetary policy meeting (FOMC meeting) decided to raise its policy rates by 75 basis points (bps) – the biggest hike since 1994 –with a target range now at 1.5% to 1.75%. We anticipate another strong inflation print next month and therefore expect the Fed will raise rates by 75 bps again in July.

The shift to a 75 bps hike was sparked by the stronger than expected Consumer Price Index (CPI) report for May and the eye-catching rise in Michigan longer-run inflation expectations. "Contrary to expectations, inflation again surprised to the upside, some indicators of inflation expectations have risen, and projections of this year have moved up notably." Powell also mentioned the increases in the index of common inflation expectations as an input into their decision.

Overall, the Fed's monetary policy meeting (FOMC meeting) announced a sharper tightening of the policy rate through 2023 and the likely need for policy to be more restrictive next year in order to tackle inflation. Beyond, we expect a 50 bps increase in September and a return to 25 bps increases in November before peaking at 3.75% at the beginning of 2023. The goal is to hike expeditiously in order to see compelling evidence that inflationary pressures are abating and that inflation is moving back down clearly and convincingly.

The path to a soft landing is getting narrower. The median forecasts for the 2022 and 2023 Fed funds rate of 3.4% and 3.8%, respectively, are in line with market's expectations. However, the 2024 median policy rate projection declines back to 3.4%, which is a surprise, as core inflation is still 2.3% in 2024. The statement removed the reference to maintaining a strong labor market as inflation is brought under control. The Fed remains data-dependent ("we don't know how much restrictive policy we will have to do").

Indice	Performance			
Equity markets	06/17/2022	1 W	1 M	YTD
S&P 500	3684	-5.5%	-9.9%	-22.7%
Eurostoxx 50	3451	-4.1%	-7.8%	-19.7%
CAC 40	5918	-4.4%	-8.0%	-17.3%
Dax 30	13111	-4.7%	-7.6%	-17.5%
Nikkei 225	25963	-6.7%	-2.6%	-9.8%
SMI	10473	-5.5%	-10.7%	-18.7%
SPI	13470	-5.4%	-10.7%	-18.1%
MSCI Emerging Markets (close -1D)	1008	-4.4%	-2.2%	-18.2%
Commodities - Volatility	06/17/2022	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	117	-3.9%	4.8%	50.8%
Gold ($/ounce)	1844	-1.5%	1.6%	0.8%
VIX	32	4.4	6.1	15.0
FX markets	06/17/2022	1 W	1 M	YTD
EUR/USD	1.05	-0.4%	-0.6%	-7.8%
USD/JPY	135	0.2%	4.1%	17.0%
EUR/GBP	0.86	0.3%	1.4%	1.8%
EUR/CHF	1.01	-2.6%	-3.4%	-2.4%
USD/CHF	0.97	-2.3%	-2.8%	5.8%

Source: Bloomberg, Amundi Institute – 06/17/2022 – 15:00 pm

Indice	Performance			
Credit markets	06/17/2022	1 W	1 M	YTD
Itraxx Main	+111 bp	+13 bp	+19 bp	+63 bp
Itraxx Crossover	+557 bp	+66 bp	+114 bp	+315 bp
Itraxx Financials Senior	+122 bp	+14 bp	+20 bp	+67 bp
Fixed Income markets	06/17/2022	1 W	1 M	YTD
ESTER OIS	98.47	-1 bp	-5 bp	-26 bp
EONIA	-0.51	-	-	-
Euribor 3M	-0.17	+13 bp	+21 bp	+40 bp
Libor USD 3M	2.03	+28 bp	+58 bp	+182 bp
2Y yield (Germany)	1.15	+18 bp	+77 bp	+177 bp
10Y yield (Germany)	1.71	+19 bp	+66 bp	+188 bp
2Y yield (US)	3.14	+8 bp	+44 bp	+241 bp
10Y yield (US)	3.25	+10 bp	+27 bp	+174 bp
Eurozone Sovereigns 10Y spreads vs Germany	06/17/2022	1 W	1 M	YTD
France	+54 bp	-4 bp	+3 bp	+16 bp
Austria	+56 bp	-1 bp	+3 bp	+29 bp
Netherlands	+32 bp	-1 bp	+4 bp	+17 bp
Finland	+56 bp	+2 bp	+12 bp	+29 bp
Belgium	+64 bp	-2 bp	+6 bp	+27 bp
Ireland	+66 bp	--	+3 bp	+24 bp
Portugal	+104 bp	-24 bp	-8 bp	+40 bp
Spain	+109 bp	-18 bp	+2 bp	+35 bp
Italy	+191 bp	-34 bp	-1 bp	+56 bp

Asset class

	MARKET	AMUNDI ANALYSIS
Equity	This week, **equity markets posted again a negative performance**; the MSCI World index fell by more than -5%. Global equity markets have been very volatile around the Fed's FOMC meeting held this week. For the first time since 1994, the Fed hiked by 75 bps its key interest rate in order to fight inflation. The World Growth Index outperformed the Value one over the week. In addition, the U.S. retail sales slid in May for the first time in five month, rising concerns on the global economic outlook. The S&P500 index edged lower by more than -3.50% over the week. Overseas, the Euro Stoxx 50 fell by more than -3%. The Japanese Topix index also ended the week in the red. On the emerging side, the Chinese equity market bucked the negative trend, returning more than +1% over the week.	The aggressive hawkish tone is spreading among several central banks. The Bank of England (BoE) and the Swiss National Bank (SNB) also tightened their respective monetary policy this week. Although leading indicators show still good readings, growth fears rose among investors. The credit default swap index in Europe is approaching levels seen in the pandemic, indicating the market is clearly concerned about debt affordability. The initial market reaction following the Fed announcement and the emergency European Central Bank (ECB) meeting on Wednesday appeared benign. However, equity markets soon reversed, suggesting investors are not confident central banks' measures so far have been enough to contain inflation and hence that the negative impact on the economy will be more sizable than what had been priced in.
Fixed Income	**Sovereign rates fell over the week.** In the U.S., 2-year and 10-year rates fell by 22 bps and 15 bps, respectively, to 3.1% and 3.2%. The German two-year rate declined by 10 bps to 1% and the 10-year rate remained flat. Peripheral spreads tightened significantly.	Due to higher than expected inflation, central banks are accelerating the normalization of their monetary policy. The Fed's FOMC meeting decided to raise its key rates by 75 bps – the biggest increase since 1994 – with a target range now of 1.5% to 1.75%. Overall, the Fed's FOMC meeting signaled more policy rate tightening through 2023 and the likely need for more restrictive policy next year to fight inflation. The ECB managed to reassure markets by announcing a Pandemic Emergency Purchase Programme (PEPP) reinvestment tweak and the acceleration of the work on an anti-fragmentation tool.
Credit	**The downward revisions to GDP and the upward revisions to unemployment in 2023 in the U.S. by the Fed weighed on credit** with a large widening in the indices (+8 bps for the U.S. investment grade and +66 bps for the U.S. high yield). Cyclical sectors suffered particularly: real estate, industrials and consumer goods saw their 5-year credit default swap widen by 11 to 18 bps. On the Eurozone side, even if the ECB decided to activate the flexibility of the PEPP and to accelerate the work on an anti-fragmentation tool, the credit market widened strongly this week (+23 bps for the euro investment grade and + 59 bps for euro high yield).	Even though the ECB tried to limit the widening of peripheral spreads following its emergency meeting on Wednesday, we continue to favor U.S. companies in investment grade credit markets. Interest rate and equity volatility continues to drive short-term movements in credit spreads, with technical factors less favorable than in the past, despite strong fundamentals.
Foreign Exchange	**Central banks week is just over, and movement on most financial markets speaks to the flight to quality.** Within G10 currencies, the Swiss Franc is the clear winner this week, as the SNB turned hawkish and seems intent on protecting its currency again. Cyclical currencies are suffering the most, as growth worries are penalising their betas. There were few survivors within emerging currencies, where the Peruvian sol, the Russian Ruble and the Columbian peso are the only currencies up week-on-week.	The hawkish shift in communications from the ECB and peaking tightening expectations in the U.S. have helped the euro/U.S. dollar exchange rate leave its recent 20-year lows. Yet, slowing global growth and a hawkish Fed keep supporting the U.S. dollar in the short term. The U.S. dollar premium on fundamentals may be still low and we think it's too early to call for a peak.
Commodities	**Commodities were relatively stable this week** despite the oil's rollercoaster ride. Per barrel price of WTI and Brent moved down to $114 and $118, respectively. Agriculture retraced by -1%. Gold fell to $1,846 per ounce on the risk-off mode, while base metals moved down by -2.3%.	We maintain our positive view on commodities despite fears of global recession and a liquidity drain from the Fed. Supply shortages are still evident for some specific base metals due to geopolitical tensions and world electrification. Central banks and nominal (real) rates are still the key movers for the gold price, as we have seen in the latest months. Oil prices will be driven by the decisions of the Organization of Petroleum Exporting Countries (OPEC) and a potential shortage after a concrete ban of Russian oil in Europe.

Economic indicators

	MARKET	AMUNDI ANALYSIS
United States	**Housing starts fell 14.4% month-on-month in May** (to 1.55 million units on a seasonally adjusted annual rate), below expectations and at their lowest reading since September 2020. Permit issuance, which tends to be much less volatile than starts and a more reliable indicator of the underlying trajectory of housing construction, also fell in May, by 7.0% month-on-month (to 1.70 million units).	With 30-year fixed rate mortgage rates jumping to around 6% this week, we expect the weakness in the housing market to extend and to be a drag on GDP growth in the quarters to come. New home sales and housing construction are poised for further weakening.
Eurozone	**Year-on-year growth in average hourly labour costs picked up** from 1.9% in the fourth quarter of 2021 to 3.2% in the first quarter of 2022. Wage growth also strengthened, rising from 1.5% year-on-year in the fourth quarter of 2021 to 2.7% in the first quarter of 2022. Eurozone wage growth is now picking up, as several key measures would suggest.	Looking beyond the distortions of year-on-year comparisons, and focusing on sequential quarter-on-quarter moves, hourly wage growth in the private sector accelerated in first quarter to 1.7% quarter-on-quarter, significantly above its pre-pandemic highs. This adds to negotiated wages increases, rising from 1.6% year-on-year in fourth quarter to 2.8% in first quarter (yet, as we have already written, mostly on one-offs). Compensation per employee also accelerated above its pre-pandemic paces. Wage growth seems to be picking up also in the Eurozone.
Japan	**Last week the Bank of Japan (BoJ) kept its short-term policy interest rates at -0.1%.** It also pledged to purchase Japanese government bonds (JGBs) to keep 10-year JGB yields at around 0%. To do so, the bank will offer to purchase the bonds at 0.25% through fixed-rate purchase operations.	As expected, BoJ remained a global outlier in maintaining its dovish stance by sticking to its ultra-loose monetary policy, even as the yen continues to slide against the dollar. This threatens to boost already rising fuel and raw material import costs. Governor Kuroda defended the decision by saying a rate hike might trigger an economic contraction.
Emerging markets	**The National Bank of Hungary (NBH) hiked by 50 bps its dedicated instrument, the one-week deposit rate.** The consensus was that there would be no raise. This decision came one day after the Fed hiked by 75 bps instead of 50bps expected by markets.	This hike adds up to +25 bps of additional rigor from NBH. The first objective of NBH was likely to limit the decline of the Hungarian forint and to reinforce its credibility and its capacity to react quickly to unfavorable developments. On the back of tigher Fed and still elevated inflation, NBH will continue to hike and rates are expected to go around 9%.