21st of September 2023

HOUSE VIEW

Prime Partners' take on the global economy and financial markets

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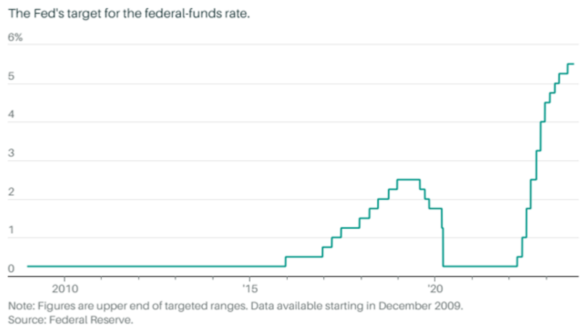
THE FED NOT READY TO CUT RATES QUICKLY

The Federal Reserve left its interest rates unchanged as expected. Federal Reserve officials still see one more interest-rate hike before the end of the year, but it will clearly depend on economic data. The bankers see rate cuts in 2024 but not as many as they previously indicated. **Now officials predict two quarter-point cut only.**

Regarding the economy, Jerome Powell said that consumer spending remains "particularly robust" and that is a good thing that the labor market is strong.

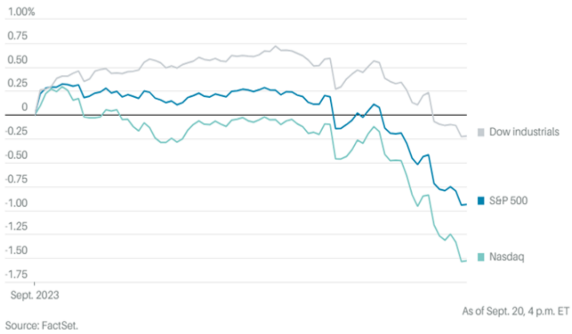


A soft landing is a Primary Objective, but not a baseline expectation. The Fed's projection for growth in domestic production increased to 2.1% from the 1.0% forecast in June. It reduced its forecast for the unemployment rate to 3.8% from 4.1% in June.

The Federal Reserve is still waiting for more certainty that inflation is sustainability on its way back to the 2% level. As we have already mentioned rates will remain high for a long period of time, very probably during the fully year 2024.

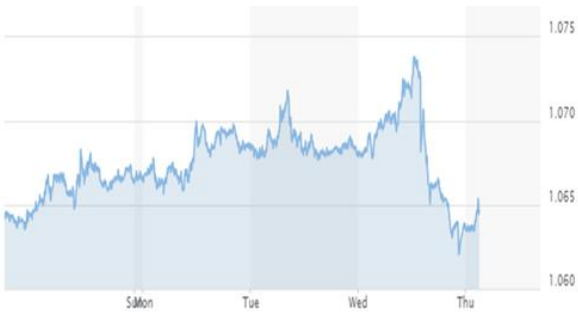
Markets reactions were all logical and measured:

Equities: the Nasdaq suffered the most (-1.53%) due to valuation. Dow Jones (-0.22%) resisted well thanks to more Defensive and Healthcare segments. Same observation this morning in Europe with the SMI up 0.44% mainly thanks to Novartis and Nestlé.



Bonds: The US 10y Treasury up around 8 bps to 4.426% this morning. We think that we should be very close to the highest level. Real interest rates now touching 100 bps while they stay negative in Europe or in Japan.

USD: First reaction showed the dollar weaker but then slightly stronger after the speech of Powell (rates to stay high for a long period of time).



EUR/USD last 5 trading days.

Gold : up by around 1% when investors got the news that the Fed maintained its rates unchanged but later lost its gains during the Powell's speech.

We stick to our economic scenario (no recession in 2023 in the US, core CPI to continue to slowdown), but the fact that rates may be cut by only 50 bps in 2024 slightly increase the likelihood of a somewhat deeper economic slowdown than anticipated.

Asset allocation. In this environment we confirm our recent messages:

Bonds: US Treasury still very attractive and it will be the be the case at least in the next 12 months! Maintain a large pocket of 6-12 (5.484%) months Treasury notes. Our advice to create a pocket in long term Government bonds (US Treasury or Bund) is even more valid as a risk recession in 2024 is a bit stronger after the Powell speech. On the corporate side: do not be too aggressive regarding ratings!

Equities: the current good health of the US economy is a positive news for the Q3 earnings season (first releases mid-October) but on the opposite high rates act as a break. S&P 500 and DJStoxx 600 with single digit upside potential by year end, not more. We also stick to our message regarding the sector allocation in the US and EUR markets: favor Healthcare, Consumer Goods, Insurance + a pocket in Technology. Lower exposure in Consumer cyclicals & Cyclical sectors.

USD: to remain "relatively" strong as long as the Fed maintain its current speech but we do not anticipate major gains vs the EUR or the CHF

Gold: not really affected by the Fed message. More upside potential in 2024 in a somewhat tougher economic environment

JEROME SCHUPP,
FINANCIAL ANALYST,
PRIME PARTNERS