

After the US inflation data release and the ECB meeting the focus of the markets mainly turns on corporate earnings announcements. The idea of high-for-longer Fed rates keeps main equity indexes slightly lower from their historic high.

What is the impact of US inflation data and ECB meeting on the markets?

In the **US**, the inflation increased and topped forecasts in March for a third straight month that will likely delay Fed interest rate cuts until later in the year. The underlying inflation climbed more than expected at 3.5% (Bloomberg median forecast: 3.4%, February: 3.2%) at a high since September 2023. The core inflation remained at 3.8% but was slightly higher than estimates (Bloomberg median forecast: 3.7%). Noted that the energy sector had a positive contribution (0.15%) after 12 consecutive months of negative contribution to the index. According to the Fed's minutes from its March 19-20 meeting, almost all of its members saw it as appropriate to start cutting interest rates sometime this year.

However, the persistent inflation in parallel with the resilient economy and the strong labor market raise the chance of delayed and fewer Fed rate cuts. After the CPI release, the market prices in less than two rate cuts from the Fed in the current year, possibly starting from September. The forward market prices in less than 30% chance of a 0.25% rate cut in June from 100% it estimated two months ago. Treasury yields and the US dollar jumped while the equity indexes slightly dropped.

The US 10-year yield has risen at a high (4.59%) since November 2023 after the inflation release. The stickiness of price pressure across the US economy and the idea of high for longer Fed rates may keep upward pressure on bond yields in the near term. In the **US equity** market, the S&P 500 index is slightly lower but near the historic high. Despite the short-term correction, the expected rate cuts by the Fed by the end of the year along with the strong corporate profitability can support market sentiment in the mid-term. The first quarter earnings announcement period starts today and is expected to affect the market sentiment.

The **ECB** as was expected kept its interest rates stable at a record high for fifth consecutive meeting. The wording of the press release and the press conference signaled that the ECB will most probably start rate cuts in June, given the slowdown in inflation and the economic weakness. The market impact was limited as the expectations regarding the ECB interest rates path remained unchanged. The milder bond yields are expected to contribute to relatively positive market sentiment in equity markets.

The week ahead

In the **Eurozone**, the industrial production for February will be released on April 15. The final reading of inflation for March will be released on April 17.

In the **US**, the empire manufacturing for April and the retail sales for March are expected on April 15. The building permits, the housing starts and the industrial production data for March is expected on April 16. The Philadelphia Fed business outlook for April, the initial jobless claims, the leading index and the existing home sales for March will be released on April 18.

In **UK**, the CPI and the retail sales for March will be released on April 17 and 19 respectively.

In **Japan**, the core machine orders for February will be released on April 15. The trade balance and inflation data for March are expected on April 17 and 19 respectively.

In **China**, GDP for first quarter, industrial production and retail sales for March will be released on April 16.

“Quote of the Week”

The President of the **ECB** (Lagarde) said: “We are not going to wait until everything goes back to 2% to make decisions”.

Is the performance of global equity sectors exaggerated?

It is difficult to give a clear answer, as some measures signal that the performance is extreme based on historical data, while other metrics justify the current upwards trend.

The **global technology sector** had the highest one-year total return (46%) among sectors. The performance seems to be extreme, as the long term average annual return of the index is around 13%. However, the economic environment was very favorable for tech stocks, especially companies and industries that affected by AI and the integration of AI. Moreover, the expectation that Central Banks will cut rates in conjunction with the resilient profitability supported the sector. Among global sectors the technology index had the highest profitability. The return on equity of the tech sector was 21.4%, justifying the outperformance of the sector. The valuation of the tech index is stretched, but it is not considered extreme as the earnings growth is expected to remain strong in the next 3 to 5 years. The tech sector is considered aggressive, so in higher volatility and escalated geopolitical tensions will underperform.

A suitable hedge against geopolitical tensions and renew inflation worries is the **energy sector**. Year to date the energy sector has performed very well (total return: 12.7%) and the valuation remains attractive. Energy stocks influenced positively by the recent strong

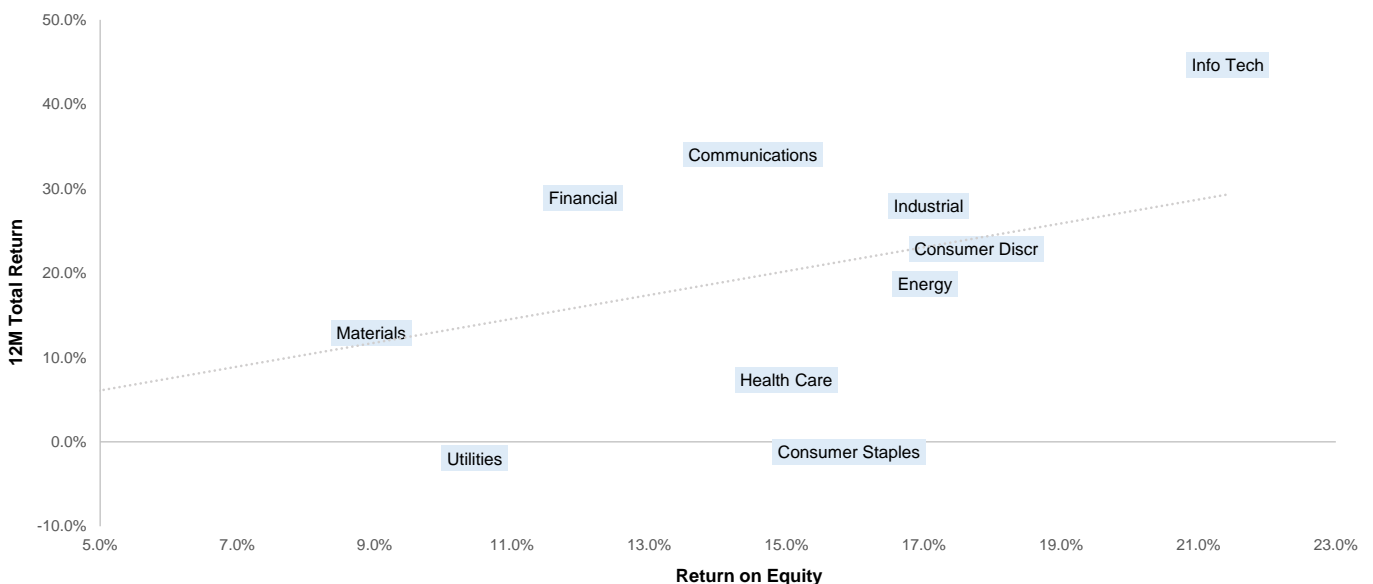
upwards move of the crude oil. The Middle East tensions remain elevated. According to press, the US believe major missile or drone strikes by Iran or its proxies against military and government targets in Israel are imminent. Moreover, the OPEC's decision to maintain its output cuts keeps the crude oil in an upwards trend.

The **global utilities sector** has underperformed during the year as utilities companies are very sensitive to interest rates. The higher-than-expected inflation data since the start of the year in the US drove interest rates higher and affected negatively utility stocks. The utilities sector is viewed as a defensive investment due to stable earnings and cash flows. In the medium term, the sector should perform well as the estimated profitability is strong, the expected rate cuts by the Central Banks should provide benefit and energy transition investments will remain high.

Why the FX volatility increased this week?

The EUR/USD fell on April 12 to its lowest level (\$1.0657) since November 2023 and the USD/JPY posted on April 12 a new high (¥153.29) since 1990. The hotter than expected US inflation data forced forward markets to reduce bets for rate cuts by the Fed in June and July meetings, resulting in increased FX volatility. Support for EUR/USD is at the area of \$1.0600 and at \$1.0450, while resistance at the area of \$1.0830.

The sectors with strong corporate profitability posted the best performance the last one year








Source: Bloomberg

Global Markets Minesweeper
Event Risk Calendar, 15 - 19 April 2024

Monday 15/4							
Date Time	Country	Event	Period	Survey	Prior		
15/4 04:20	CH	1Y Lend Facility Rate	15-Apr	2.50%	2.50%		
15/4 04:20	CH	1Y Lend Fac. Volume (CNY)	15-Apr	170.0b	387.0b		
15/4 12:00	EC	Industrial Production SA (MoM)	Feb	0.70%	-3.20%		
15/4 15:30	US	Empire Manufacturing	Apr	-5	-20.9	🌩️	
15/4 15:30	US	Retail Sales Advance (MoM)	Mar	0.40%	0.60%	🌩️	
15/4 15:30	US	Retail Sales Ex Auto (MoM)	Mar	0.50%	0.30%		
15/4 17:00	US	NAHB Housing Market Index	Apr	51	51		
Corp. Results	US	Goldman Sachs, Bank of NY Mellon					
Tuesday 16/4							
Date Time	Country	Event	Period	Survey	Prior		
16/4 04:30	CH	New Home Prices (MoM)	Mar	--	-0.36%		
16/4 05:00	CH	GDP (YoY)	1Q	4.90%	5.20%	🌩️	
16/4 05:00	CH	GDP SA (QoQ)	1Q	1.60%	1.00%		
16/4 05:00	CH	Industrial Production (YoY)	Mar	6.00%	6.8%		
16/4 05:00	CH	Retail Sales (YoY)	Mar	5.00%	7.4%		
16/4 05:00	CH	Surveyed Jobless Rate	Mar	5.20%	5.30%		
16/4 09:00	UK	ILO Unemployment Rate 3M	Feb	4.00%	3.90%		
16/4 09:00	UK	Employment Change 3M/3M	Feb	--	-21k		
16/4 12:00	GE	ZEW Survey Expectations	Apr	34	31.7	🌩️	
16/4 12:00	GE	ZEW Survey Current Situation	Apr	-77.9	-80.5		
16/4 12:00	EC	ZEW Survey Expectations	Apr	--	33.5		
16/4 12:00	EC	Trade Balance SA (EUR)	Feb	--	28.1b		
16/4 15:30	US	Building Permits (MoM)	Mar	-0.30%	2.40%	🌩️	
16/4 15:30	US	Housing Starts (MoM)	Mar	-2.70%	10.70%	🌩️	
16/4 16:15	US	Industrial Production (MoM)	Mar	0.40%	0.10%		
Eco Event	US	Fed's Daly speaks (03:00)					
Corp. Results	US	Bank of America, Morgan Stanley, UnitedHealth, United Airlines					
Wednesday 17/4							
Date Time	Country	Event	Period	Survey	Prior		
17/4 02:50	JN	Trade Balance	Mar	¥285.0b	-¥377.8b		
17/4 09:00	UK	CPI (MoM)	Mar	0.40%	0.60%		
17/4 09:00	UK	CPI (YoY)	Mar	2.90%	3.40%	🌩️	
17/4 09:00	UK	CPI Core (YoY)	Mar	--	4.50%	🌩️	
17/4 11:30	UK	House Price Index (YoY)	Feb	--	-0.60%		
17/4 12:00	EC	CPI (YoY)	Mar F	2.40%	2.40%		

April 12, 2024

17/4 12:00	EC	CPI (MoM)	Mar F	0.80%	0.80%	
17/4 12:00	EC	CPI Core (YoY)	Mar F	2.90%	2.90%	
Eco Event	US	IMF - World Bank spring meetings start in Washington (17-19 April)				
	US	Federal Reserve releases Beige Book (21:00)				
Corp. Results	EU	ASML				
	US	Abbott Laboratories, Travelers				
		Thursday 18/4				
Date Time	Country	Event	Period	Survey	Prior	
18/4 11:00	EC	ECB Current Account (EUR)	Feb	--	39.4b	
18/4 15:30	US	Philadelphia Fed Bus. Outlook	Apr	0	3.2	
18/4 15:30	US	Initial Jobless Claims	13-Apr	--	211k	
18/4 17:00	US	Leading Index (MoM)	Mar	-0.10%	0.10%	
18/4 17:00	US	Existing Home Sales (MoM)	Mar	-5.10%	9.50%	
Eco Event	US	Fed's Bostic speaks (18:00)				
	US	Fed's Mester speaks (00:30)				
Corp. Results	US	Netflix, Procter & Gamble, American Express				
		Friday 19/4				
Date Time	Country	Event	Period	Survey	Prior	
19/4 02:30	JN	Natl CPI (YoY)	Mar	2.80%	2.80%	
19/4 02:30	JN	Natl CPI Ex Fresh Food (YoY)	Mar	2.70%	2.80%	
19/4 09:00	UK	Retail Sales (MoM)	Mar	0.30%	0.00%	
19/4 09:00	UK	Retail Sales (YoY)	Mar	--	-0.40%	
19/4 09:00	GE	PPI (MoM)	Mar	0.10%	-0.40%	
19/4 09:00	GE	PPI (YoY)	Mar	-3.30%	-4.10%	

Global Markets Analysis

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