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Market Insights
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Essentials

Germany's ZEW Indicator of Economic Sentiment was up sharply in November, its first rise in six months. This suggests that analysts expect the current supply chain problems to be short-lived, which would pave the way for an uptick in growth in 2022. This is good news for Germany and for Europe as a whole and could mean that the worst is now behind us.

Gold prices rose firmly last week, buoyed by the latest US inflation figures. It looks like the metal has now broken out of the downtrend that began in summer 2020. However, before accumulating the metal again, we prefer to wait for technical confirmation, as gold has already had several false starts in recent months.

China's economic data remained weak overall in October. Retail sales and industrial output beat expectations, but property-related indicators continued to lose ground. This slowdown comes despite a modest improvement in mortgage lending after the government said it may ease some restrictions on home loans.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↗	→	↗	↑	→	↘	→	↑	↑	↘	→
% YTD	4.1%	-2.5%	2.2%	16.9%	23.0%	24.7%	13.1%	-0.4%	-1.8%	58.6%	4.7%

↓: < -1%   ↘: -1 to -0.25%   →: -0.25 to +0.25%   ↗: +0.25 to 1%   ↑: > 1%

*Weekly trend

US inflation – back to the past !

Daniel Varela
Chief Investment Officer

In the well-known 1980s film trilogy "Back to the Future", the two main characters are able to travel through time. At one point, the inventor of the time machine, Doc Emmett Brown, and his young sidekick Marty McFly visit our present day. In this sci-fi moment, the characters find that people's way of life has totally changed, with strange objects that are surprisingly similar to some of the ones we use today. Of course, there aren't too many references to the economic situation in this lighthearted film. But we could imagine Marty McFly returning to the 1980s and saying: "I've just come back from the 2020s and inflation is still just as high!" It's true that the US inflation figures published last week have brought back fears from the past. On an annual basis, consumer prices were up 6.2% – something we haven't seen since October 1990. There is, of course, a considerable base effect relating to oil prices, which plummeted in 2020 as a result of the pandemic. But alongside the recent surge in energy prices, the cost of various other components of the consumer goods basket – including food, rent and some services – has risen sharply. This has cast doubt on the US Federal Reserve's central premise that the uptick in inflation will be transitory. The muted reaction from bond investors suggests that they think the Fed is right, at least for now.

But with ten-year Treasury yields nearing 1.5%, the gap between yields and inflation has never been so wide. The market context is evolving, however, and the Fed's bond purchases will be phased out by the end of June 2022 at the latest. If inflation doesn't slow considerably by then, bond investors will start wanting to be compensated for this inflationary risk, which could prove more persistent than expected. We still think that a gradual rise in long-term yields is the most likely scenario. We therefore remain cautious on the bond market. We advise against investing in longer-term bonds and recommend some exposure to US inflation-indexed bonds.

USA: is the end-of-year rally already over?

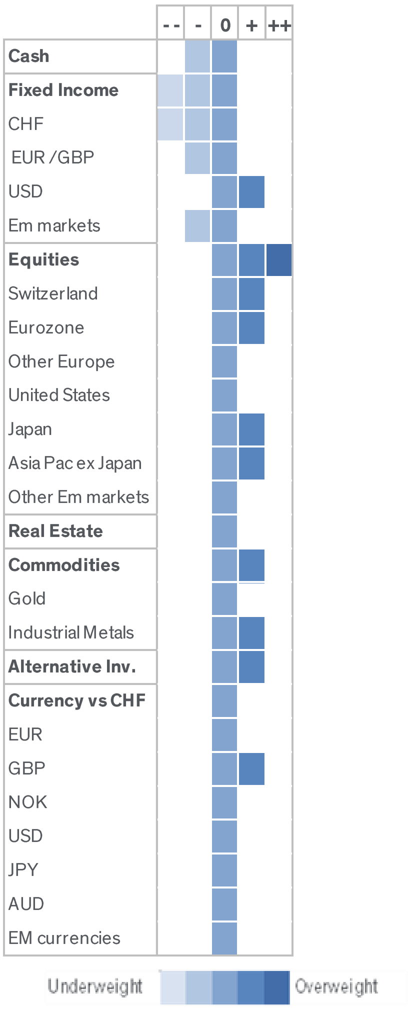
Daniel Steck
Investment analyst and manager

The current earnings season is coming to an end and once again US companies have beaten analysts' forecasts. Investors don't seem too bothered that the positive surprises weren't nearly as impressive as they were in previous quarters. Still, the stock markets have been catching their breath in recent days after five solid weeks of gains. Could record inflation of over 6%, which seems to be weighing on consumers' appetite for spending, stop the traditional year-end rally earlier than usual?

One thing's for sure: stock markets have been driven up sharply since October not by upward earnings revisions but by expanding multiples. S&P 500 stocks in particular are now very expensive, with a price/earnings ratio of over 21x. The market rebound has also put sentiment indicators very much in bull territory, which suggests that investors could be getting complacent.

But neither valuations nor sentiment will hold stocks back in the short term. Both indicators could very well remain high, especially if the rise in interest rates is gradual and contained. Once the magic of Christmas has worn off, fears of more persistent inflation and more aggressive tightening by the Fed could rapidly re-emerge, which would weigh on valuations, which are already very stretched.

Synoptic view



Recent Recommendations

Alcon Inc	Buy	November 11,2021
Fortive Corp	Buy	November 5, 2021
Sanofi	Buy	November 3, 2021
Facebook Inc-ClassA	Hold	October 27, 2021
Xinyi Solar	Buy	October 26, 2021
Ericsson	Buy	October 26, 2021

Our “expertise” events

Piguet Galland organises regular events for its clients. Please do not hesitate to register on our website: https://www.piguetgalland.ch/fr/agenda/

Do not hesitate to contact your adviser or write to us at the following e-mail address : advisory@piguetgalland.ch