Flash boursier N° 709
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Evidence of economic slowdown

Overview

Equity markets retreated last week on the back of deteriorating global economic indicators, while rate-setters continued pursuing restrictive monetary policies.

The yield on 10-year US government bonds slipped to 3.70% last week while the German equivalent was 2.35%.

The US economy is on the verge of recession as the Fed's repeated interest rate hikes have dampened economic activity. The Conference Board, a New York-based think tank, has warned that it expects the US to enter a recession between the third quarter of 2023 and the first quarter of 2024.

Recession looming in the US

More specifically, the services sector is holding up relatively well, as evidenced by the June PMI of 54.1. However, the manufacturing PMI slowed further to 46.3, falling short of the 48.5 expected.

In addition, US initial jobless claims came in slightly higher than expected at 264,000 compared to 259,000, but were unchanged from the previous week.

In Europe, economic growth lost momentum in June. The slowdown in the manufacturing sector worsened, while the expansion in the services sector was weaker than expected. The composite index fell to a 5-month low of 50.3, down from 52.8 in May and against the consensus forecast of 52.5.

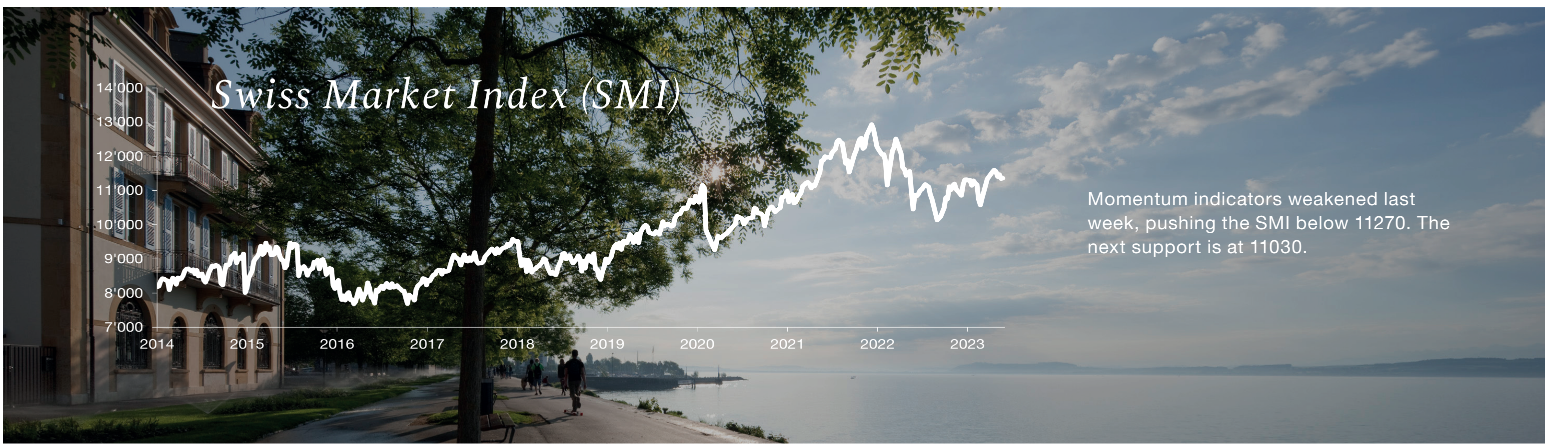
The Ifo index predicts that the German economy will continue to contract this year as inflation hits consumer spending. As a result, GDP in Europe's largest economy will fall by 0.4% this year, compared with the 0.1% decline previously forecast.

German GDP set to decline this year

Meanwhile, the Swiss National Bank (SNB) raised its benchmark interest rate by 25bp to 1.75% last week but now sees inflation at 2.2% in 2023, down from 2.6% previously.

Investors are waking up to the fact that the increasing negative impact of monetary tightening could lead to renewed slowdown in economic growth.

The S&P 500 ended the week down 1.39%, while the tech-heavy Nasdaq was down 1.28%. The Stoxx 600 Europe Index fell by 2.93%.



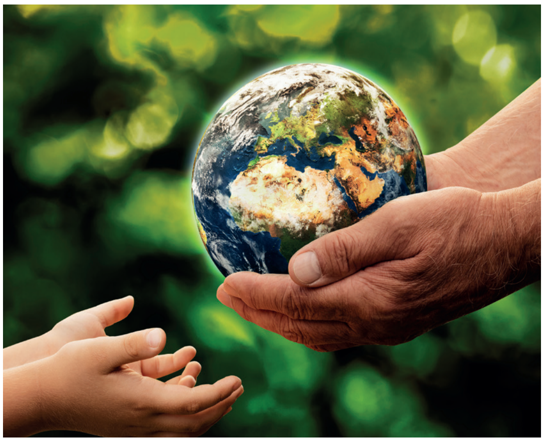
Momentum indicators weakened last week, pushing the SMI below 11270. The next support is at 11030.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.90	0.98	11'221.22	4'271.61	15'829.94	7'163.42	7'461.87	4'348.33	13'492.52	32'781.54	991.91
Trend	→	→	→	→	↓	↓	↓	↑	↑	→	→
YTD	-2.98%	-1.29%	4.58%	12.60%	13.69%	10.65%	0.14%	13.25%	28.91%	25.63%	3.72%

(values from the Friday preceding publication)

Sustainable investment rules



On 16 December the Federal Council published its position paper on sustainable investment in Switzerland. The Federal Department of Finance, the Federal Department of the Environment, Transport, Energy and Communications, the Federal Department of Economic Affairs, Education and Research and FINMA have been instructed to submit concrete measures by 30 September 2023.

Groups of investment professionals, of which Bonhôte is a member, are holding discussions with regulators to provide their expert views on the areas affected by regulation. The involvement of all stakeholders in the drafting of the regulations should make it possible to develop an optimal set of guidelines.

In contrast to European legislation, Switzerland will introduce legislation based on principles rather than strict, resource-intensive definitions. There is also an emphasis on shareholder engagement to enable investors to drive sustainable change in the companies in which they invest.

Some may have been impatient with Switzerland's lack of momentum in advancing the sustainability agenda. However, the authorities have taken the time needed to produce a high-quality set of rules with a much-appreciated Swiss touch.

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