Monthly review

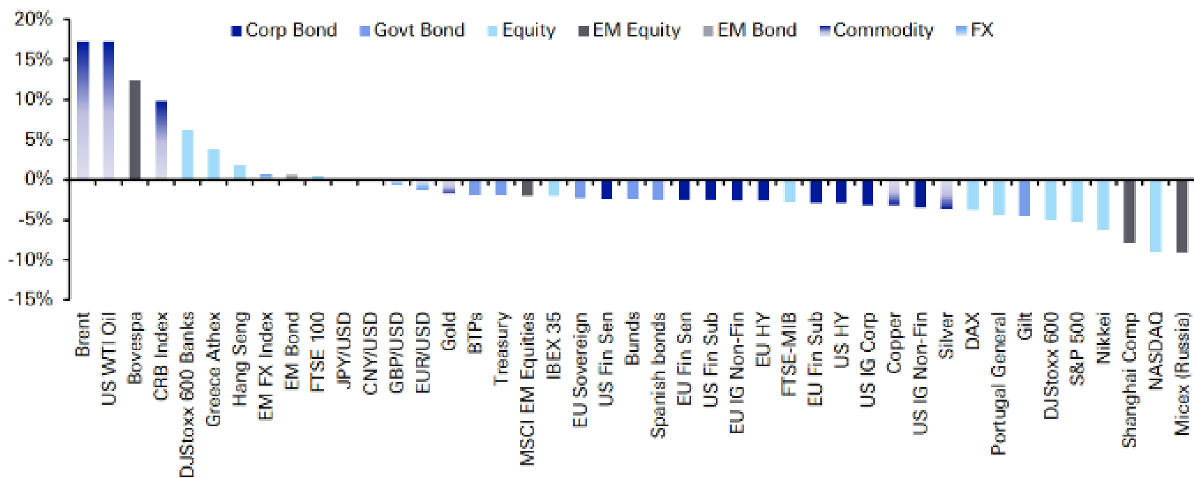
Macro

"You've got your bets down, but nothing's up!"

The main theme in the market in January was undoubtedly the hawkish turn taken by several central banks in response to continued and persistent inflation. The Fed has been at the forefront of this movement, and over the course of the month, investors have begun to assess a much more aggressive pace of hike relative to their expectations. Indeed, investors are now expecting 5 rate hikes this year versus 3 previously. Fed Chairman Powell refused to rule out the prospect of a hike at every meeting until the end of the year. With the prospect of monetary policy tightening much sooner than expected, risk assets struggled in January, with global equities posting their worst monthly performance since March 2020, at the height of the initial wave of the Covid-19 pandemic. Credit also struggled on both sides of the Atlantic, as did traditional haven assets such as sovereign bonds and precious metals. The other main theme was the rising tensions between Russia and the West over Ukraine, which further dampened sentiment among risk assets. That said, the rising tensions proved supportive for oil prices, with Brent crude oil surpassing $90 per barrel in January for the first time since 2014.

In conclusion: nothing really held up outside of oil (except for the Brazilian and Greek stock markets and European banks)

Below are the performances of the main financial assets in USD for January.



Source : Deutsche Bank, Bloomberg Finance LP, Mark-it

Perspectives

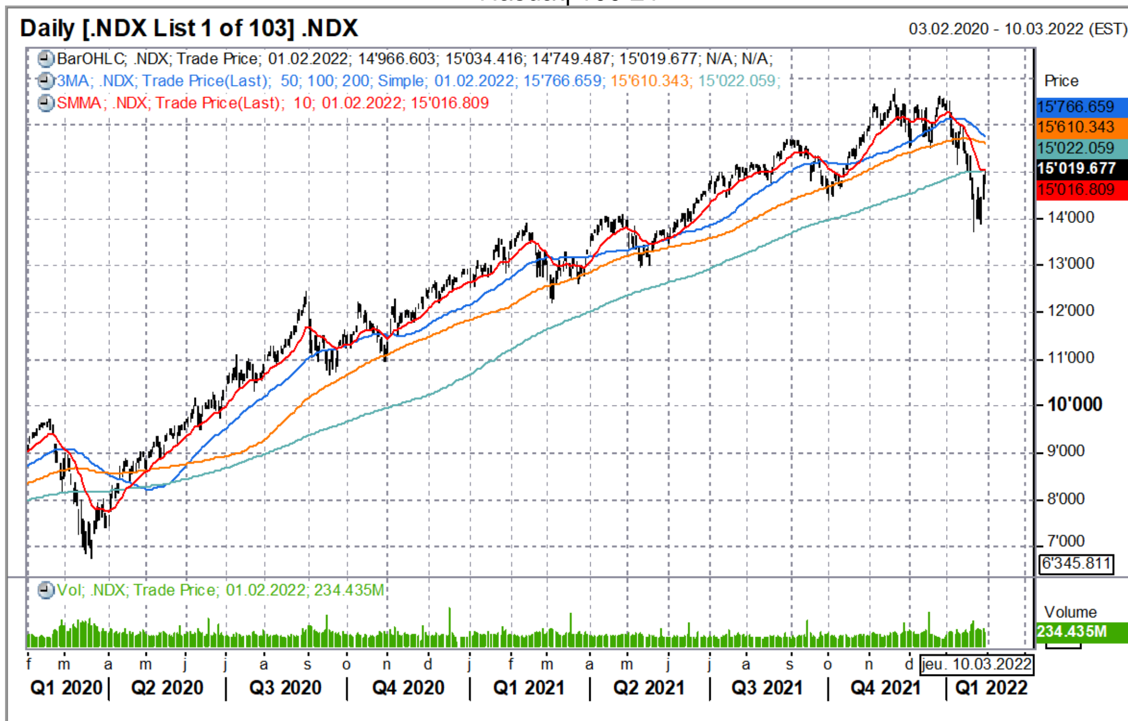
We are caught between doubtful central banks, especially the Federal Reserve, which should have acted earlier, and geopolitical tensions on Europe's doorstep, but with companies continuing to beat analysts' estimates (80% of US companies that have reported are above expectations). We therefore expect equity markets to continue to be volatile and remain cautious about investment choices.

Equity markets

Apart from oil and banking stocks in Europe, nothing really held up, even Swiss quality stocks fell sharply (Sika -17%, Geberit -17%, Straumann -23%, Lindt & Sprungli -13%, Givaudan -21%), something rarely seen outside of a pandemic!

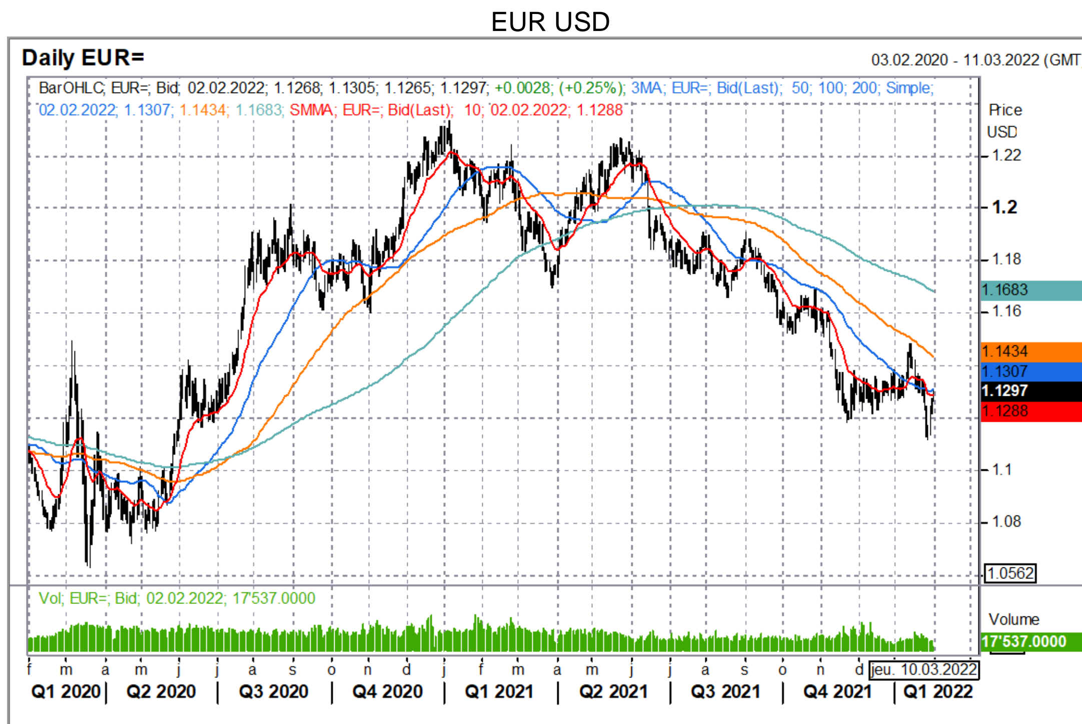
The S&P 500 and the Nasdaq Composite recorded their worst months since the start of the pandemic. The S&P 500 closes the month down 5.3%. The Nasdaq Composite ends down 8.9% for January, its worst month since March 2020.

Nasdaq 100 2Y



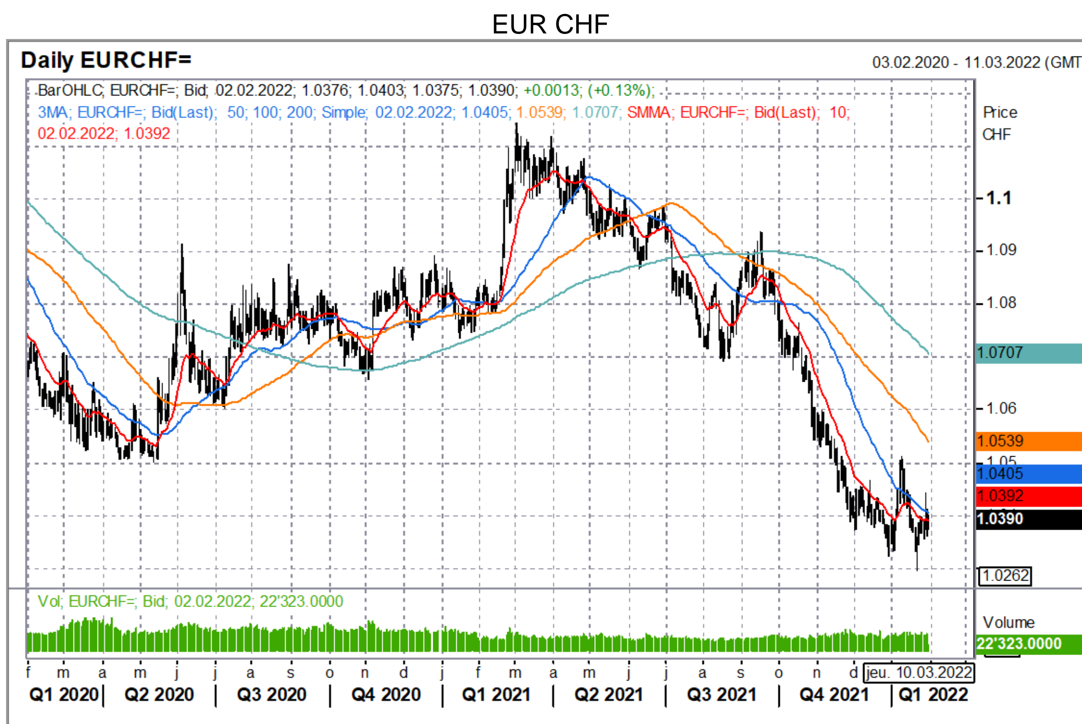
Foreign exchange market

EUR USD



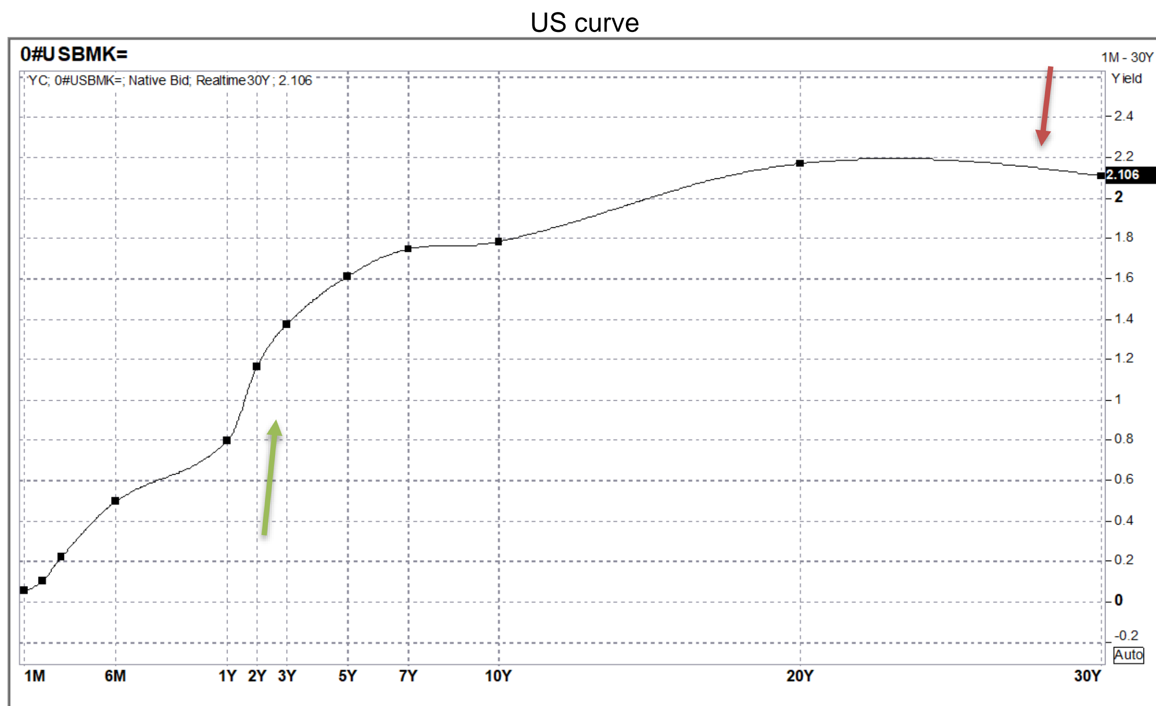
The dollar is king! With the rise in US interest rates, the dollar is on the rise again against everyone else Having even come close to breaking the 1.11 mark against the euro last week.

EUR CHF



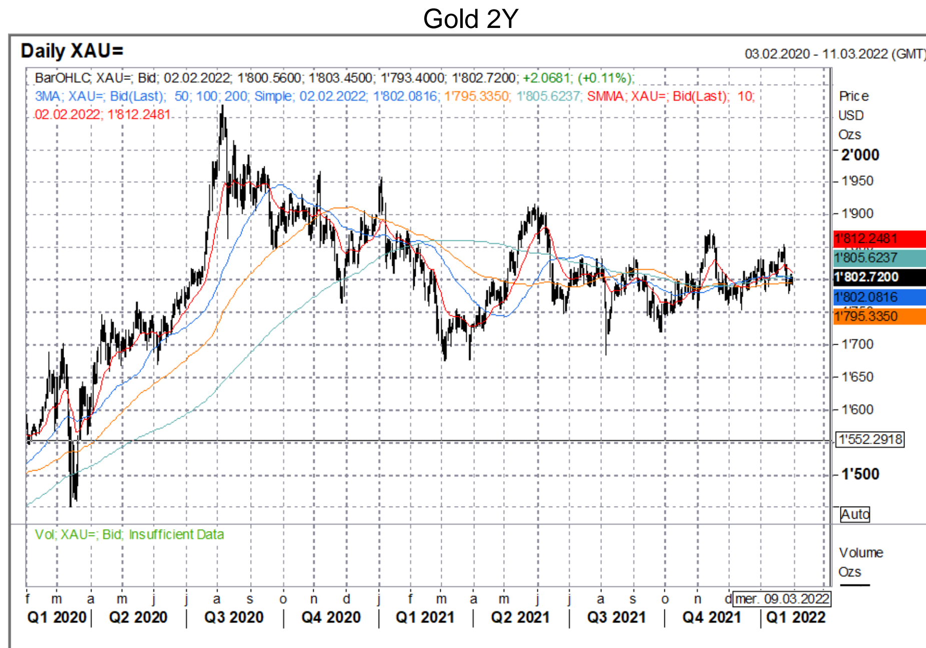
The Swiss franc was strong in January. Uncertainties related to omicron combined with geopolitical concerns supported the currency to some extent. The EURCHF is expected to stabilize above 1.05 as markets anticipate a decline in risk and begin to see the unwinding of the ECB stimulus.

Bond market

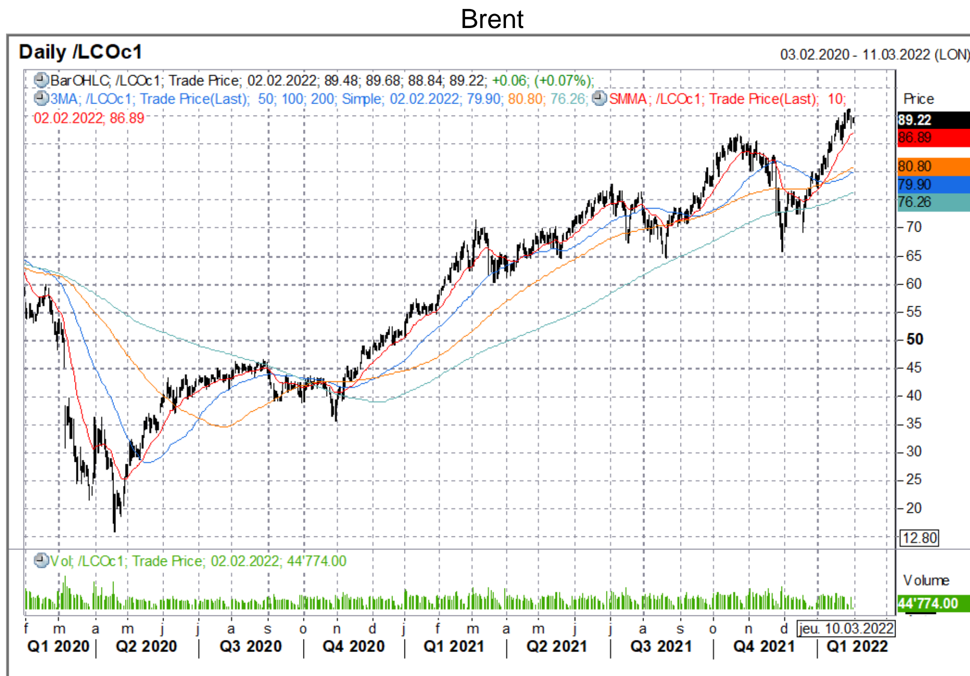


The bond market sell-off that has rocked financial markets since the beginning of the year came to a halt at the end of the month, with benchmark 10-year U.S. Treasury yields hovering near 1.80 for the past 10 days. Yields on the 2-year U.S. Treasury bill. considered the most affected by overnight Fed funds rate hikes, climbed toward 1.2%, with some analysts predicting it will reach 1.5%. This would mean a flattening of the yield curve, with yields at the longest maturities remaining stubbornly low. This flattening of the yield curve could indicate that investors are concerned about long-term economic growth. Or they are simply confused and uncertain.

Commodities



The gold market remains under significant pressure and is failing to catch a bid as inflationary pressures rise in line with expectations. Gold has been on an upward trend since the beginning of the year but has been held back by hawkish Fed talk.



Oil prices are at a seven-year high as Opec+ began a cautious reopening strategy following the shock generated by the Covid-19 pandemic. However, prices paused briefly on Tuesday, before rising again. The market is also weakened by the ongoing high geopolitical tensions. An invasion of Ukraine by Russia would lead to Western sanctions and would further reduce the amount of oil available globally. If Opec+ sticks to its predictions and adds an additional 400,000 barrels per day to its existing quotas in March, supply would remain below demand