

Investors sentiment worsened amid heightened geopolitical uncertainty and the view that the Fed will delay the start of interest rate cuts due to persistent inflation. Markets volatility, bond yields, US dollar, oil and gold prices increased while main equity indexes dropped.

What was the impact of escalated geopolitical risk on the markets?

Following Iran's attack on Israel, geopolitical uncertainty increased and concern about the inflation outlook heightened. The relatively calm reaction in oil market indicates that markets have priced in the Iranian attack and believe that there will be no significant escalation of the tension. Despite reports that Israeli missiles had struck a site in Iran today, the signs of a major retaliation from Israel are limited given that the US signaled lack of support for such a move. In case of further escalation in the Middle East crisis and an imminent threat to oil supply, the price of oil will face significant upside risks, causing stickier inflation.

The geopolitical developments increased worries about the persistent inflation which along with the resilient economy raise the chance of delayed and fewer Fed rate cuts. The forward market prices in less than two rate cuts from the Fed in the current year. Global rates rose significantly due to the surprisingly strong US inflation and the escalation of the geopolitical risk. The US 10-year government bond yield has risen at a high (4.69%) since November 2023. The US dollar index remains in an upward trend and the price of gold at historic highs. The view of high for longer Fed rates may keep upward pressure on bond yields in the near term and downward pressure on equity market. Despite the short-term correction, the rate cuts by the Fed by the end of the year along with the strong corporate profitability could support the market sentiment in the medium-term. Corporate earnings announcements and geopolitical tensions remain in focus.

What indicates the latest macroeconomic data in China?

China's real GDP growth surprised to the upside, improving to 5.3% year on year in q1 2024 versus market consensus forecast of 4.8% and 5.2% in q4 2023, thanks to a strong 6% growth in the industrial sector and a 5% expansion in the services sector. The upside surprise largely reflects the stronger January-February data, while March data indicates that growth momentum slowed in the past month. Retail sales and industrial production both missed market expectations. Note that the industrial production recorded in March the smallest annual increase (4.5%) since September 2023. Looking forward, it seems that the q1 GDP rebound will probably not be sustained through the rest of the year. Supportive monetary and fiscal policy stance remains justified.

The week ahead

In the **Eurozone**, the consumer confidence for April is expected on April 22. The PMI manufacturing and services indexes for April will be released on April 23. In Germany, the IFO business climate for April will be released on April 24.

In the **US**, the PMI manufacturing and services indexes for April as well as new home sales for March are expected on April 23. The durable goods orders for March will be released on April 24. The GDP data for first quarter and initial jobless claims are expected on April 25. The PCE deflator for March will be released on April 26.

In **UK**, the PMI manufacturing and services indexes for April are expected on April 23.

In **Japan**, the PMI manufacturing and services indexes for April will be released on April 23. The Bank of Japan is expected to keep its target rate unchanged at its meeting on April 26.

“Quote of the Week”

The President of the **Fed** (J. Powell) said: “Right now, given the strength of the labour market and progress on inflation so far, it's appropriate to allow restrictive policy further time to work and let the data and the evolving outlook guide us.”

Has the negative correlation between stocks and bond yields been restored?

From July 2023 until early January 2024 the correlation between the S&P 500 and US bond yields was extremely significant and the strong recovery of equity markets in October 2023 combined with lower treasury yields. From late January until the end of March the main equity indexes in the US moved further upwards while treasury yields climbed, as the market focused on expected corporate profitability and the resiliency of the US economy. Consequently, bond yields volatility was not the main driving factor for the equity markets during that period.

During this week, the 10-year Treasury yield posted a new five-month high (4.69%) as the forward markets diminished expectations about the amount of rate cuts by the Fed this year. Fed funds futures contracts for December 2024 price in only 40bps of cuts, the lowest it has been so far in this cycle. The **S&P 500** has corrected by 4.6% from the record high posted at the end of March (5,254.34), mainly due to the expectation that the Fed will deliver fewer than initially estimated rate cuts this year. So, we can derive to a conclusion that negative correlation between stocks and bond yields is re-established.

Historically, demand for US Treasuries increased during escalated geopolitical tensions, mainly due to increased safe-haven flows. However, this time is different, as Middle East tensions should lead energy

prices higher and inflation worries will be intensified. In the short-term bond yields should remain elevated due to pick up of energy prices and inflation. In the medium-term the disinflation process should return, and inflation will converge to Central Bank's target. Therefore, in the short-term the volatility in equity markets will persist, while in the medium-term the upwards trend will remain intact.

How equity markets behave in earnings periods?

The S&P 500 earnings growth for Q1 2024 is estimated at around 3% while at the start of the year the expectation was at 7%. Noted that in-process research and development charges related to Bristol Myers Squibb impacted the overall index growth rate. Excluding Bristol Myers Squibb from the index, the eps momentum remains positive. The first quarter is expected to mark the third-straight quarter of year-over-year earnings growth. So far only 64 corporates have released results, with 80% of the companies have beat earnings estimates, compared with the 10-year average of 74%. During the 2023, the eps positive surprise was on average at 79% and the equity markets outperformed during the earnings period announcements. According to analysts' estimates, the trend most probably will continue during this year. In the week ahead, many US large cap companies will release corporate earnings, such as Tesla and Visa on April 23, Merck, Bristol-Myers Squibb, Intel, Meta, Alphabet and Microsoft on April 25, Chevron and Exxon Mobil on April 26.

S&P 500 and Dec. 2024 Fed Funds Future Rate



Source: Bloomberg

Global Markets Minesweeper
Event Risk Calendar, 22- 26 April 2024

Monday 22/4						
Date Time	Country	Event	Period	Survey	Prior	
22/4 02:01	UK	Rightmove House Prices (YoY)	Apr	--	0.80%	
22/4 04:15	CH	5Y Loan Prime Rate	22-Apr	3.95%	3.95%	
22/4 04:15	CH	1Y Loan Prime Rate	22-Apr	3.45%	3.45%	
22/4 15:30	US	Chicago Fed Nat Activity Index	Mar	--	0.05	
22/4 17:00	EC	Consumer Confidence	Apr P	-14.3	-14.9	
Tuesday 23/4						
Date Time	Country	Event	Period	Survey	Prior	
23/4 03:30	JN	Jib. Bank Japan PMI Composite	Apr P	--	51.7	
23/4 03:30	JN	Jib. Bank Japan PMI Mfg	Apr P	--	48.2	
23/4 03:30	JN	Jib. Bank Japan PMI Services	Apr P	--	54.1	
23/4 10:30	GE	Germany Manufacturing PMI	Apr P	43	41.9	
23/4 10:30	GE	Germany Services PMI	Apr P	50.5	50.1	
23/4 10:30	GE	Germany Composite PMI	Apr P	48.6	47.7	
23/4 11:00	EC	Eurozone Manufacturing PMI	Apr P	46.5	46.1	
23/4 11:00	EC	Eurozone Services PMI	Apr P	51.9	51.5	
23/4 11:00	EC	Eurozone Composite PMI	Apr P	50.7	50.3	
23/4 11:30	UK	UK Manufacturing PMI	Apr P	50	50.3	
23/4 11:30	UK	UK Services PMI	Apr P	53	53.1	
23/4 11:30	UK	UK Composite PMI	Apr P	52.5	52.8	
23/4 16:45	US	US Manufacturing PMI	Apr P	51.8	51.9	
23/4 16:45	US	US Services PMI	Apr P	52.1	51.7	
23/4 16:45	US	US Composite PMI	Apr P	--	52.1	
23/4 17:00	US	New Home Sales (MoM)	Mar	1.20%	-0.30%	
23/4 17:00	US	Richmond Fed Manufact. Index	Apr	--	-11	
Corp. Results	US	General Motors, PepsiCo, Halliburton, General Electric, Tesla, Visa				
Wednesday 24/4						
Date Time	Country	Event	Period	Survey	Prior	
24/4 11:00	GE	IFO Business Climate	Apr	89	87.8	
24/4 11:00	GE	IFO Current Assessment	Apr	89	88.1	
24/4 11:00	GE	IFO Expectations	Apr	88.7	87.5	
24/4 15:30	US	Durable Goods Orders (MoM)	Mar P	2.80%	1.30%	
24/4 15:30	US	Durables Ex Trans. (MoM)	Mar P	0.30%	0.30%	
Corp. Results	US	AT&T, Hasbro, Boeing				
Thursday 25/4						
Date Time	Country	Event	Period	Survey	Prior	

April 19, 2024

25/4 09:00	GE	GfK Consumer Confidence	May	-26	-27.4	
25/4 15:30	US	GDP Annualized (QoQ)	1Q A	2.30%	3.40%	🌩️
25/4 15:30	US	Wholesale Inventories (MoM)	Mar P	0.20%	0.50%	
25/4 15:30	US	Initial Jobless Claims	20-Apr	--	212k	
25/4 17:00	US	Pending Home Sales (MoM)	Mar	1.00%	1.60%	
25/4 18:00	US	Kansas City Fed Manf. Activity	Apr	--	-7	
Eco Event	EC	ECB publishes economic bulletin (11:00)				
Corp. Results	US	Meta Platforms, IBM, Caterpillar, Ford, Bristol Mayers, Microsoft, Alphabet, Intel				🌩️
		Friday 26/4				
Date Time	Country	Event	Period	Survey	Prior	🌩️
26/4 02:01	UK	GfK Consumer Confidence	Apr	-20	-21	
26/4 00:00	JN	BOJ Target Rate (Up. Bound)	26-Apr	0.10%	0.10%	🌩️
26/4 00:00	JN	BOJ Target Rate (Low. Bound)	26-Apr	--	0.00%	🌩️
26/4 11:00	EC	ECB 1 Year CPI Expectations	Mar	--	3.10%	
26/4 11:00	EC	ECB 3 Year CPI Expectations	Mar	--	2.50%	
26/4 11:00	EC	M3 Money Supply (YoY)	Mar	0.60%	0.40%	
26/4 15:30	US	Personal Income (MoM)	Mar	0.50%	0.30%	
26/4 15:30	US	Personal Spending (MoM)	Mar	0.60%	0.80%	
26/4 15:30	US	PCE Deflator (MoM)	Mar	0.30%	0.30%	🌩️
26/4 15:30	US	PCE Deflator (YoY)	Mar	2.60%	2.50%	🌩️
26/4 15:30	US	PCE Core Deflator (MoM)	Mar	0.30%	0.30%	🌩️
26/4 15:30	US	PCE Core Deflator (YoY)	Mar	2.70%	2.80%	🌩️
26/4 17:00	US	U. of Mich. Sentiment	Apr F	77.9	77.9	
26/4 17:00	US	U. of Mich. 1 Yr Inflation	Apr F	--	3.10%	
26/4 17:00	US	U. of Mich. 5-10 Yr Inflation	Apr F	--	3.00%	
Corp. Results	US	Exxon Mobil, Chevron, Colgate Palmolive				🌩️

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