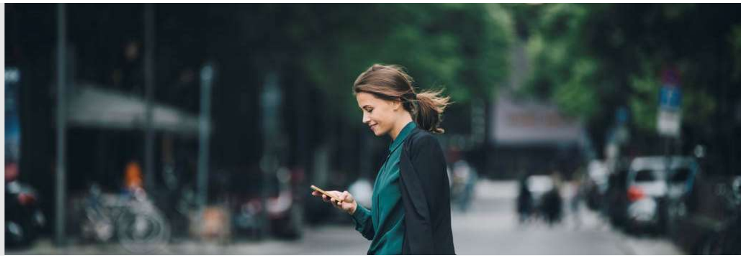
WEEKLY UPDATE

2023: bonds to reinforce attractiveness during first half



The beginning of the year is a good time to look ahead. Although the first few days seem to show some moderation in interest rates, thanks to a slowdown in inflation in the euro area, we expect the first part of the year to remain both uncertain and marked by high interest rates. This will be particularly favourable for bonds and defensive stocks.

Less growth and gradually less inflation

Our economic scenario for 2023 sees economic activity for developed economies continuing to slow. While some countries may slip into recessions, these should be fairly modest. Support factors such as buoyant labour markets, Covid savings and fiscal measures to counter the energy crisis in Europe should continue to mitigate the negative factors of high inflation, rising interest rates and the European energy crisis. This slowdown should give way to a modest recovery as the year progresses, with growth nonetheless remaining below potential due to the lasting effects of the energy crisis and the need to return fiscal policies to normal. Headline inflation should fall back in 2023 due to base effects. Underlying inflation, however, will take longer to come down, as existing pressures continue to spread out through the economy. Central banks will keep raising rates until 1Q23 and then take a long pause. While markets seem to have priced in much of the tightening to come, there could be further tweaks, notably to central banks' balance sheet policies. In any event, uncertainties are set to remain acute against a backdrop of simultaneous slowdown by leading developed economies and a rapid tightening of interest rates.

Rates to stay high, making bond yields attractive

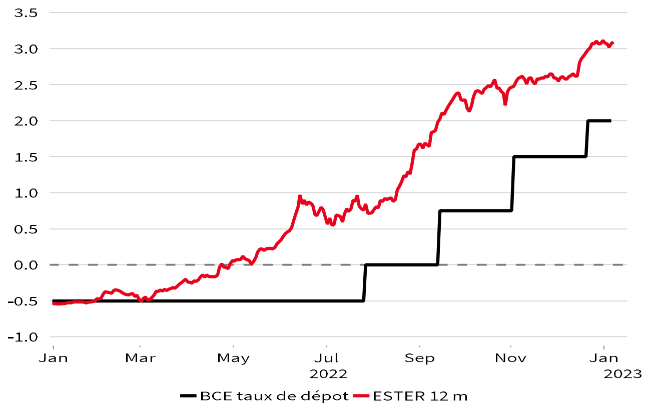
2022 was dominated by the rapid tightening of interest rates, putting an end to years of rock-bottom yields. This automatically drove down bond values. In 2023, markets are likely to remain volatile but should benefit from high rates as long as central banks continue to worry about inflation. Real yields should therefore remain positive and hence attractive, particularly if uncertainty remains high, discouraging investors from taking big risks.

This context of positive real rates is good for defensive assets

Central banks will want to keep real interest rates in positive territory across all maturities to continue bearing down on inflation. This will favour well-rated corporate bonds and indices of value stocks.

Markets anticipate further increases in ECB key interest rates

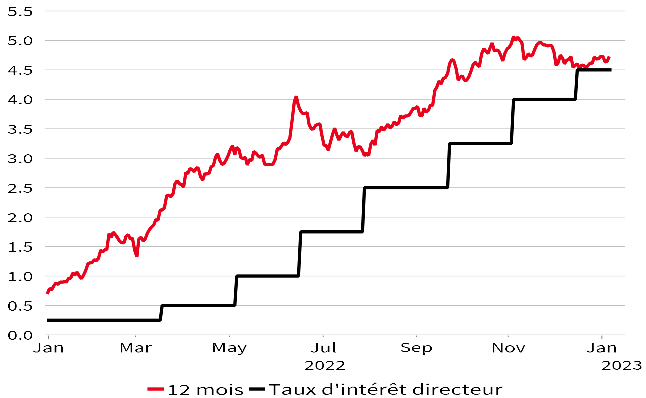
Eurozone: key interest rate and 1year expectations



Sources: SGPB, Macrobond, Macrobond, ECB 05/01/2023

Markets anticipate a slight continuation of Fed tightening followed by easing at year end

US: key interest rate and 1year expectations



Sources: SGPB, Macrobond, CME Group, Fed 05/01/2023

OUR MACRO COMMENTS

Events of the week

December euro area inflation has decreased beyond expectations, reflecting a sharp fall in energy prices and governments policies. However, the Governor of the Bank of France mentions the summer to reach the terminal rate of the ECB in order to reduce inflation to 2% by end 2024.

In the United States, the latest figures still point to a strong labour market, but the leading indicator of activity in services (PMI/ISM) was a surprise with a sharp decline for December. The minutes of the last monetary policy committee confirm that the Federal Reserve will remain very attentive to these statistics for its future decisions.

Figures of the week

	Actuel		Prévision	Précédent
Unemployment rate (December)	3,5%	↓	3,7%	3,7%
PMI ISM index manufacturing (December)	48,4	↓	48,5	49
PMI ISM index services (December)	49,6	↓	56,5	55
Retail sales (yoy, November)	-2,8%	↓	-3,1%	-2,7%
Inflation (December)	9,2%	↑	9,5%	10,1%
PMI Caixin composite Index (December)	48,3	↑		47

Sources : Macrobond, January the 5th 2023.

The week ahead

Monday

Tuesday

Inflation

Wednesday

Thursday

Inflation

Inflation

Friday

Consumer confidence

GDP

Trade Balance

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	1,90	1,91	0,65	-0,59	-0,58
USD SOFR O/N	4,30	4,30	3,04	0,05	0,05
JPY TONAR O/N	-0,04	-0,05	-0,05	-0,02	-0,01
GBP SONIA O/N	3,43	3,43	2,19	0,19	0,19
CHF O/N	0,80	0,80	0,62	-0,71	-0,71

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,78	3,05	2,62	0,20	0,23
10Y Bund	2,27	2,50	2,02	-0,18	-0,14
10Y BTP	4,29	4,64	4,44	1,17	1,24
10Y JGB	0,45	0,44	0,23	0,07	0,08
10Y Bonos	3,31	3,58	3,22	0,56	0,59
10Y Swiss	1,37	1,51	1,01	-0,13	-0,05
10Y Gilt	3,49	3,67	4,01	1,02	1,12
10Y USTnote	3,69	3,88	3,76	1,52	1,71

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,04	3,08	3,05	0,33	0,35
EUR Corporate Baa	4,44	4,61	4,47	0,66	0,68
GBP Corporate Baa	4,44	4,60	5,32	1,52	1,60
USD Corporate Aaa	4,53	4,65	4,69	2,13	2,29
USD Corporate Baa	5,61	5,72	5,89	2,60	2,75
USD EM aggregate	7,41	7,52	8,06	4,33	4,43

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	78,04	-6,7%	-16,7%	-1,3%	-2,6%
Or, USD/oz	1 855	2,8%	8,1%	1,4%	2,5%
Copper, USD/metric ton	8 235	-2,8%	8,3%	-14,9%	-15,6%
Platinium, USD/oz	1 093	7,2%	18,3%	13,0%	11,3%
Palladium, USD/oz	1 722	-3,5%	-25,6%	-12,9%	-9,9%
Silver, USD/oz	24,29	1,8%	18,9%	5,2%	5,4%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,06	-0,4%	6,9%	-6,4%	-6,4%
EUR/CHF	0,99	0,0%	1,4%	-4,9%	-5,0%
USD/GBP	0,83	-0,1%	-6,6%	12,4%	12,6%
USD/JPY	132,01	-1,7%	-8,8%	14,6%	14,0%
USD/BRL	5,46	3,5%	4,3%	-2,1%	-3,6%
USD/CNY	6,89	-1,3%	-3,2%	8,4%	8,2%
USD/RUB	72,88	0,4%	20,0%	-2,8%	-3,7%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 070	1,5%	9,8%	-7,8%	-8,7%
Eurostoxx 50	3 974	4,3%	15,3%	-7,5%	-9,5%
Dax 40	14 491	4,1%	15,8%	-8,8%	-10,9%
CAC 40	6 776	4,1%	13,2%	-5,3%	-8,1%
FTSE 100	7 585	1,2%	7,6%	2,7%	0,9%
SMI	11 140	3,0%	6,3%	-13,5%	-13,7%
SP500	3 853	1,8%	1,8%	-19,2%	-18,0%
TOPIX	1 868	-2,1%	-2,3%	-6,2%	-8,4%
iBovespa	105 334	-4,4%	-10,1%	0,5%	4,3%
Hang Seng	20 793	4,5%	15,0%	-11,1%	-9,2%
Sensex 30	60 657	-0,4%	4,5%	4,1%	0,7%
CSI 300	3 893	0,6%	2,3%	-21,2%	-20,0%

Source: Bloomberg, on January the 5th 2023
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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