Investments - Flash

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ARE THE MARKETS FINALLY READY FOR A RECOVERY?

US inflation of +9.1% did not produce the expected reaction

Another negative surprise in the United States on the inflation front, which exceeded expectations in June with an increase of +9.1% (consensus +8.8%). But the real surprise is perhaps hidden behind the notable lack of reaction of the financial markets to this news. Indeed, with the exception of an immediate but short-lived negative reaction, the equity markets instead began a recovery phase, consolidated by positive retail sales in June, a drop in imported prices (-0.4%) over the month and a drop in expected inflation from 3.1% to 2.8%. The inversion of the US yield curve thus remained unchanged, with the spread between 2 and 10 year rates remaining at 21 bps.

For the past two months, equity indices have been particularly feverish and volatile, in a rather horizontal trend, despite a sharp fluctuation in interest rates, which are currently stable compared to their levels at the end of April, May and June at around 3% on 10-year US Treasury bonds.

However, bearish investor sentiment is still very negative, as suggested by the net short positions on the S&P500, which are at their highest level in the last ten years. This already extremely cautious positioning on the index is similar to that observed in March 2020 and is corroborated by massive short positions on individual stocks.

The "bearish" scenario is therefore largely consensual and widely reflected in the markets. A rise in the equity markets is therefore certainly on the horizon, but still lacks a catalyst. Corporate share buybacks estimated at $300 billion for the quarter could be a trigger for a reversal of sentiment, which is essential to trigger a reinvestment of the liquidity generated in the previous months.