Investments - Flash

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THE FED WILL CHANGE ITS POSITION IN DECEMBER

Will the markets wait to go into « risk-on » mode?

The October PMIs plunge in the US in the wake of accelerating interest rates and rising systemic risks. Too high interest rates and an overly strong dollar are affecting global liquidity and increasing the risk of recessions and defaults. These could be new signs for the Fed, which must surely already start considering the risks of a "hard landing" in connection with an overly restrictive policy.

Voices are being raised among the regional Fed that suggest policy easing as early as December. In our view, the Fed should therefore start to shift its stance, which would allow the financial markets to avoid the worst case scenario.

In this case, the outlook for short-term interest rates would be improved by the gradual dilution over time of future increases of more moderate magnitude.

The first consequence in the financial markets should be a fall in medium-term expectations and a lowering of the yield curves. The dollar should then halt its rise and weaken in a sustained downward trend.

The main overall consequences of these declines will be the reduction in the risk of defaults and a deep recession.

In the financial markets, assets that were particularly negatively affected by the rise in interest rates and the appreciation of the dollar during the first nine months will benefit from a new positive dynamic. Bond markets, high yield, real estate, private equity, equity markets and in particular gold and precious metals should logically begin a phase of positive adjustment in their values.

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