

Investments - Flash



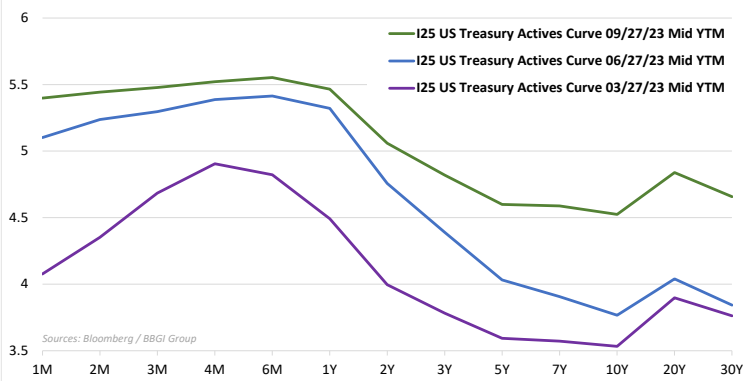
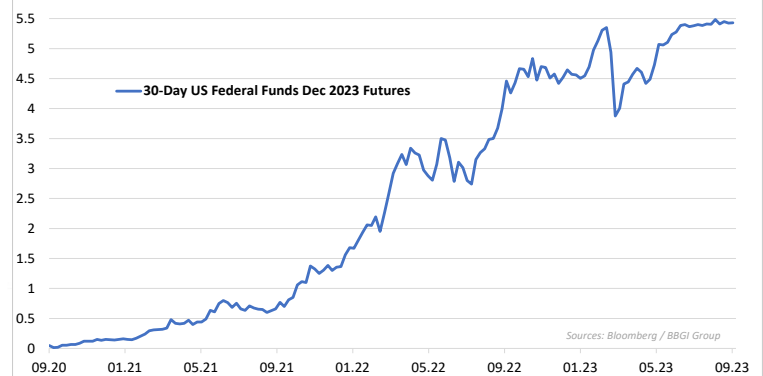
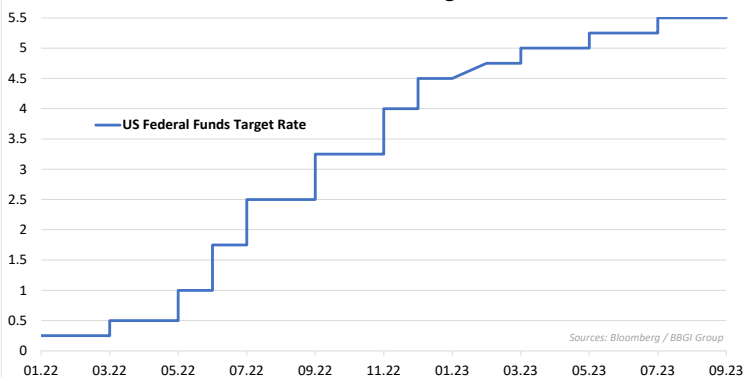
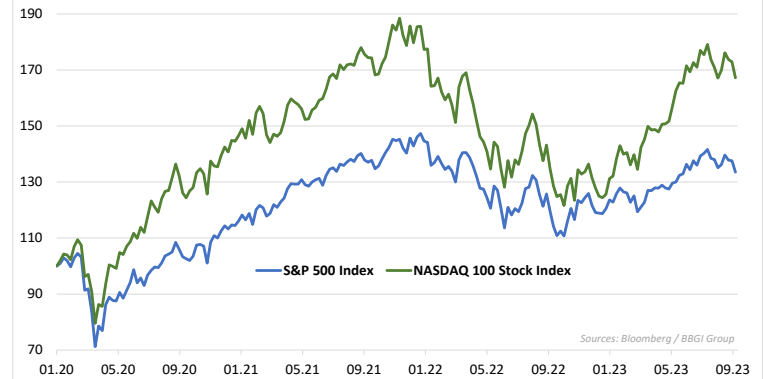
M. Alain Freymond - Partner & CIO

THE FED'S PAUSE WILL BE LONG-LASTING

Despite its perceived hawkish rhetoric, the Fed will no longer raise rates

The Fed decided not to touch its key rates on 09/20, and in our view this marks the start of a long phase of stability which will soon be seen as the end of one of the most rapid and severe monetary tightening cycles in recent history. Between what the Fed Chairman can't say, what he'd really like to say, what he thought he should say, what he actually said, what the financial markets heard, what they thought the Chairman meant, what they probably thought they understood and what they deduced in terms of the outlook for interest rates, the last few days have undoubtedly been particularly confusing for many. In the end, the bond market didn't react much, while equity markets posted a negative performance for the week in a confusing mess. The Fed hinted that rates would have to stay high for longer to keep inflation under control, which was initially seen as a negative factor, but we believe it is actually secretly pleased to have implemented a soft landing that is accompanied by a decline in inflation on all fronts, including in

the lagging services segment. In parallel with its rate hike policy, the Federal Reserve has also been reducing the size of its balance sheet for several months, selling Treasury bonds at the risk of pushing up long rates through its sales. While the Treasury increased its debt issuance, the Fed did not hesitate to increase the supply of bonds, thereby reinforcing its restrictive monetary policy. Against this backdrop, with indicators pointing increasingly to weak economic activity, we strongly doubt that the Fed has any real intention of further rate hikes. The next few months should therefore see a stabilization of key rates and a probable steepening of yield curves. The negative reaction of equity markets to the Fed's announcement therefore seems too pessimistic to us. We recommend investing cash in bonds and viewing the current consolidation in equities as a medium-term positioning opportunity.


US Treasury Active Securities Curves

FED Funds Futures

US Federal Funds Target Rate

S&P 500 vs NASDAQ


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