Investments - Flash

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US RATES CUT IN JUNE

Still very positive environment for dollar-denominated assets

The latest US inflation figures measured by the PCE (core personal consumption expenditure) indicators seem to reinforce the likelihood of Federal Reserve action in June. February's positive surprise of a core PCE indicator (excluding food & energy) at just +0.3% perhaps paves the way for even greater improvement over the next two months, particularly in the services component. The Fed Chairman's preferred measure even fell to +0.2% on the month, suggesting a faster-than-expected decline in inflation. At the same time, household income rose by just +0.3%, while disposable income advanced by just +0.2%, and even slipped by -0.1% when inflation is taken into account. The household savings rate slipped from 4.1% to 3.6%, its lowest level since December 2022, suggesting a reduction in households' capacity for future consumption. Lower inflation is good news for the Fed, which can also count on a reduction in future tensions from the labor market and household consumption.

The easing of tensions in the labor market is thus reducing the risk of further wage increases. In our view, inflation remains on a downward trend. February's data confirm this underlying trend, after a potentially worrying rebound in inflation in January. The Fed can now show some satisfaction. It is now more serene, given the resilience of the economy, and can wait for further evidence of a decline in March before acting. We believe it could still surprise observers by lowering rates for the first time at its May meeting. While the Fed is likely to cut rates three or four times, from 0.25% to 4.5%, before the 4th quarter, the resilience of the economy could finally put the brakes on the expected fall in long rates and cause the USD yield curve to flatten over the summer. We therefore believe that the environment for dollar-denominated assets over the next few months remains very positive.