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WEEKLY ANALYSIS

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POSITIVE ENVIRONMENT FOR USD ASSETS

Resilient economic momentum. Encouraging leading indicators. Recession risks averted. Inflation close to Fed target. 1st rate cut in May. Positive environment for USD assets. Beware of high PEs. USD winner.

Key points

- US economy maintains good momentum at start of 2024
- No recession, but a gradual slowdown
- Steady improvement in leading indicators
- Declining tension in the labor market
- 0.25% cut in key rates in May?
- Inflation nears Fed target
- Favorable environment for USD bonds
- The dollar remains a winning currency
- Beware of generous stock market valuations

US economy maintains good momentum at start of 2024

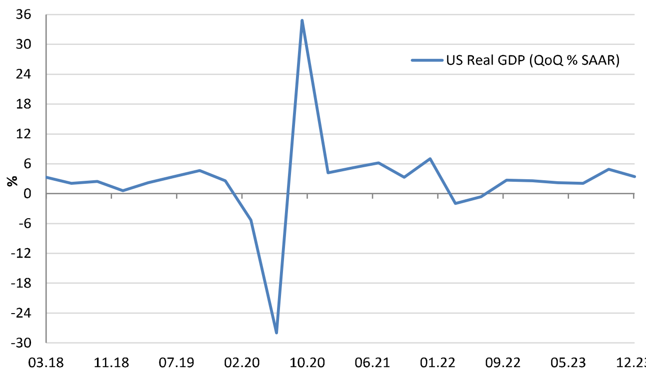
GDP growth in Q3 had already been exceptional (+4.9%), and was the best since December 2021. The figures published for the final quarter of 2023 are still particularly satisfactory, and show that the US economy is still very buoyant. With GDP growth of +3.2%, the US economy has shown surprising resilience to the tightening of monetary conditions implemented by the Federal Reserve to combat inflation since March 2022. The central bank's objective was indeed to bring inflation down to a target of +2%/year, at the risk of having to curb economic momentum or even provoke a recession. Two years on, we can see that inflation is indeed on a significant downward trend, but that this result was not achieved at the expense of a collapse in economic activity. So, despite an exceptionally intense monetary tightening cycle and a general acceleration in rising interest rates and financing costs for all economic agents, GDP is more than resilient. The resilience of the US economy is indeed remarkable, and belies the prognosis of forecasters who expected a recession in 2023 and then pushed back their forecasts for early 2024.

In the end, GDP will have grown by +2.5% over 2023, against all expectations, while the prospects for an easing of monetary conditions are increasingly encouraging and further reduce the risks of an economic contraction in the coming quarters.

Against the backdrop of the start of 2024, and just a few weeks ahead of the first key rate cut expected in June, the economy is showing no signs of weakening. Personal consumption remained robust in Q4, rising by +3%, virtually unchanged from the previous quarter. Growth in household spending thus suggests a relatively low sensitivity to price and interest rate trends, and remains an important contributor to GDP. Government spending (+4.2%) also supported GDP, while residential (+2.9%) and non-residential (+2.4%) investment also contributed.

As in previous quarters, the U.S. economy continues to surprise observers, and may yet deliver further surprises in the months ahead. However, growth forecasts for the start of the year are now a little weaker, but still very satisfactory given the monetary policy context. The Atlanta Fed's GDPnow indicator still suggests a positive development of +2%, slightly higher than that of the New York Fed (+1.9%). For our part, we believe that the rate cut expected in May and the general improvement in household and investor sentiment will also contribute to maintaining growth in the region of +2% over the first two quarters of 2024.

Quarterly GDP Growth — United States



Sources: Bloomberg, BBGI Group SA