

WEEKLY ANALYSIS

M. Alain Freymond — Associé & CIO



FED PIVOT TO TAKE PLACE WELL BEFORE DECEMBER

Loss of economic momentum. ISM leading indicators point downwards. Normalization continues in the labor market. Services inflation finally falls. The Fed is overdue and will have to act. Focus on USD-denominated assets.

Key points



- US economy loses momentum
- Economic slowdown takes shape in Q2
- ISM leading indicators turn downward
- Falling tensions in the job market
- Is the Federal Reserve behind the curve again?
- Inflation nears Fed target
- Favorable environment for USD bonds
- Investors will continue to favor USD assets
- Overall positive environment for equities

US economy loses momentum

GDP The 1st publication at the end of April of economic growth for the 1st quarter of 2024 was a major disappointment, coming in at +1.6%, well below the +2.5% expected by forecasters. Momentum in the final quarter of 2023 was unable to sustain itself, falling sharply from the +3.4% recorded at the time. The end-of-May growth revision even showed a weaker evolution of just +1.3%/year. The exceptionally intense monetary tightening cycle, the general acceleration in interest rate rises and the rise in financing costs for all economic agents, finally seem to have had an impact at the start of the year on the resilience of the US economy. Fixed investment, up +0.9%, made the strongest contribution to growth in the quarter, closely followed by household consumption (+0.98%) and government spending (+0.31%). Net exports pulled GDP down by -0.65%, while inventories fell by -0.42%. Two of the five segments therefore contributed negatively to GDP for the first time since September 2022.

The US economy thus started the year on a less solid note than expected, and in an inflationary environment that was a little more marked than hoped. In a way, however, April crystallized expectations of sustained growth strong enough to prevent inflation from declining, even at the risk of seeing a revival in price rises that would prompt the Federal Reserve to raise its key rates once again. A few weeks later, this scenario seems to have been ruled out by the numerous economic data, which increasingly suggest a slowdown in US growth in Q2. The downward revision of personal spending and retail sales, a labor market that is finally a little weaker, and a less dynamic situation in the real estate segment, all point to the economy operating at a slower pace. The first half of the year will therefore certainly be much weaker than the previous one.

After two years of progressively more restrictive monetary policy, the economy is finally showing signs of weakness. Twelve months of key rates frozen at 5.5%, and a rise in financing costs that has taken mortgage rates to 7% and credit card rates to 24.8%, consumption and investment are finally slowing down. Recurrent jobless registrations reached their highest level since the end of 2021, capital goods orders were down in May, while the trade deficit reached \$100 billion.

Quarterly GDP Growth — United States



Sources: Bloomberg, BBGI Group SA