

Investments - Flash

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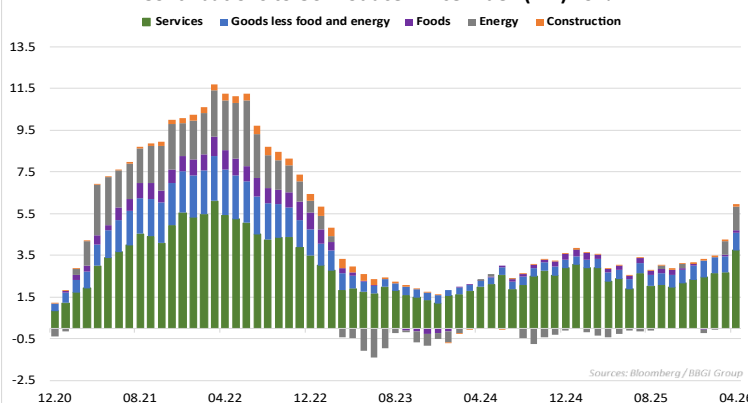
SHOULD WE BE CONCERNED ABOUT THE RESURGENCE OF INFLATION? A game changer for monetary policies and markets

This week's release of the U.S. price indexes for the month of April confirms fears of a trend reversal on the inflation front. These statistics, though expected to rise, nonetheless surprised forecasters, particularly due to the unexpected magnitude of the effects observed on producer prices it being a leading indicator of the CPI. The anticipated increase of +0.5% in fact came in at +1.4%, its strongest monthly gain since March 2022, at the time of the invasion of Ukraine. On an annual basis, PPI growth now stands at +6%, well above estimates of +4.8%. Consumer prices are responding more slowly, but the CPI nonetheless surged by +0.6% month-on-month, bringing the annual rate up from +2.4% to +3.8%. Since the onset of the Gulf crisis, we have been flagging the risks of a rapid and significant uptick in inflation measures and the return of a more sustained upward trend with potentially serious consequences for financial markets. These latest publications demonstrate that the energy price shock is already having very clear repercussions on prices and supply chains. More concerning, however, our analyses suggest that price pressures in the energy sector will prove persistent and will progressively impact prices over the coming months. Companies will gradually pass on cost increases to their selling prices. The risks of an acceleration in inflation are no longer

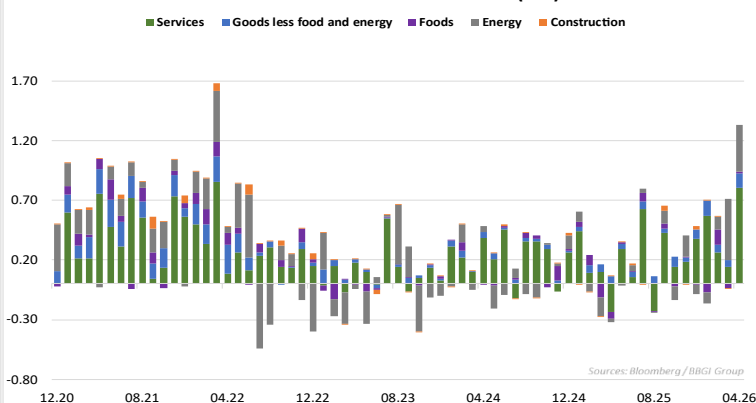
"theoretical" but have been confirmed by these recent publications. As such, the relative complacency observed in financial markets throughout April and early May should now confront reality. Those who had simply hoped that the ceasefire between American and Iranian forces signaled a sustained easing of tensions will come to appreciate the lasting economic impact of the ongoing oil shock. In this context, we believe it is warranted to prepare for heightened volatility, as the return of inflation as a central parameter for central banks is likely to introduce new uncertainties regarding the trajectory of policy rates. The Fed Funds rate for December 2026 has surged from 3.05% at end-February to 3.7% today. This 70bp rise in policy rates has been accompanied by a move in ten-year Treasury yields from 3.95% to 4.56%. The US equity market continues to benefit from AI-driven euphoria, fear of missing out (FOMO), and the conviction that the broader economy remains unaffected. Stagflation risks, however, are elevated and should encourage caution with respect to risk assets, as well as reduced average durations for fixed income positions.



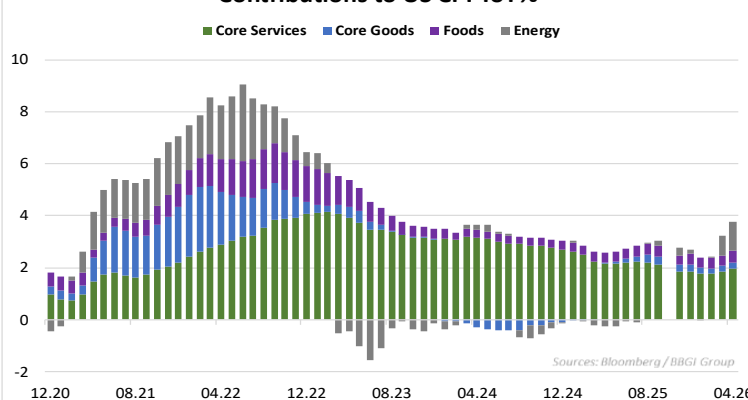
Contributions to US Producer Price Index (PPI) YoY%



Contributions to US Producer Price Index (PPI) MoM%



Contributions to US CPI YoY%



Contributions to US CPI MoM%

