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Market review

**THE FED PAUSED BUT
THE MUSIC IS STILL
PLAYING**

19 JUNE 2023



Big headline from last week:

The fed paused its rate hiking cycle “for now”, making it the first “skip” since the initial hike in March 2022. The message, however, was surprisingly hawkish in the meantime, maybe even more than usual. Here are a few suggestions as to why it happened that way:

The Fed always tries to smooth whatever decision it is taking. An hawkish move on rates is usually complemented by a more dovish tone on the future. This time the dovish move on rates had to be met with a more hawkish tone about the monetary policy in the coming months. The goal being that everyone gets a piece of satisfaction with the message, showing that it is probably a compromise reached already by the Fed members. That limits the potential volatility either way.



- **The market was pricing that the Fed would tilt towards a pause and it is extremely rare that the Fed surprises on the hawkish side. In the past, there have been many surprise rate cuts, even outside of scheduled meetings but that's much easier for the market to swallow, as it is usually seen as good news from investors. In this case, the market could have forced their hand despite their will to be hawkish.**
- The Fed knows that there are major issues in the background, especially in the regional Banking sector and another hike would increase the pressure. An extra month of calming things down would not be a luxury for the troubled industry.
- Finally, the U.S. stock market is invested by more and more Americans and a stable bull market is important to keep sentiment and consumption going for the economy. In the meantime, should the market really heat up again, that might indirectly reignite the upside of inflation, so it is a fine balance to play with for Powell and his disciples.



The impact of this Fed stance is that if you are a bull (and since we are in a bull market, they are the majority), you take the pause as a welcoming gift.

The music has not stopped playing and actually got a bit louder. Yes, you know there will be a time when the music has to stop but that's not for now. It will take much more than "we will turn it down soon" for you to stop dancing.

Fundamentally, the main market drivers that investors should keep an eye on remain the same:

Can the job market and the low unemployment rate on its own counterbalance the effects of higher rates?

So far, so good... with what looks like some firepower left.



In the meantime, can inflation keep the trend down towards the necessary target while unemployment stays historically low? So far so good as well, but the next few months' readings might throw a few curve balls which could shake investors' confidence.

The last important factor that should always be kept in the corner of your eye as an investor is the chance to see inflation bounce and what happens to commodities this summer will be something to watch.

Oil is key but the broader commodity space, source of deflation over the last 12 months, is showing signs of turning around.



Briefly, other stories in the background:

- European Gas Prices soared last week as the biggest gas field in Europe is expected to be shut down in the fall. This is a risk for the continent for this coming winter, something that was dreaded last year and fortunately avoided thanks to mild weather among other things. Meanwhile Oil had a positive week, first in almost a month.
- Debt Ceiling dealt with: the consequence is the major issuance of T-Bills in next few months, sucking liquidity out. The debt level in the US has quickly reached \$32T, adding more than \$500B in a couple of weeks.
- The S&P has had its best start in over 25 years in 2023 and the 11th best start in the last 100 years. Out of the 10 better starts, 6 had a negative performance the rest of the year.

Important events coming up this “quiet” week:

- 21st of June: Inflation rate in Great Britain
- Fed Chair Powell Testimony
- 22nd of June: BOE rate decision
- 23rd of June: Inflation rate in Japan



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