VSWA Flash

Global growth slowing

MARKET PERFORMANCES (as of April 22, 2022 – 16:10 CET)

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
S&P 500 Index	4'361.83	-0.70%	-8.48%	**Gold**	1'943.37	-1.62%	6.29%
S&P/Toronto Stock	21'577.03	-1.28%	1.67%	**Silver**	24.33	-4.99%	4.61%
EuroStoxx 50	3'850.62	0.59%	-10.42%	**Oil WTI**	102.46	-4.20%	36.23%
SMI Index	12'282.23	-0.78%	-4.61%	**EUR/USD**	1.0806	0.03%	-4.76%
DAX Index	14'216.83	1.00%	-10.50%	**EUR/CHF**	1.0338	-1.52%	0.35%
Nikkei Index	27'105.26	0.04%	-5.86%	**USD/CHF**	0.9567	-1.57%	4.89%
Emerging Market Index	62'989.64	-1.89%	-10.08%	**USD/JPY**	128.32	-1.55%	10.40%
Yield 10Y US Treasuries	2.885	0.0577	1.3752	**CAD/USD**	0.7881	0.53%	0.32%
Yield 10Y German Bund	0.943	0.1057	1.5176	**USD/CNY**	6.5025	-2.02%	2.27%

[Source: Bloomberg]

IMF reduces growth estimates

In an update to its World Economic Outlook, the International Monetary Fund (IMF) reduced its global growth estimates and sees higher inflation on the Russian invasion of Ukraine and renewed virus-related lockdowns in China. Global real GDP growth is expected to slow to 3.6%, down from a forecast of 4.4% in January. The fund also lowered its expectation for 2023 from 3.8% to 3.6%.

Inflation for this year is seen at 5.7% in advanced economies and 8.7% in emerging markets, representing the highest level in decades. In 2023 consumer prices are expected to rise by 2.5% and 6.5% respectively in each group. Nevertheless, the institution sees an increasing risk of inflation expectations becoming unanchored, which could potentially trigger more aggressive central bank action.

Across countries and regions, growth was downgraded from 4.0% to 3.7% for the U.S., from 3.9% to 2.8% for the Euro area, and from 4.8% to 4.4% for China. Global trade is expected to grow by 5% in 2022, representing half of the rate of 2021 on reduced overall activity. According to the IMF, overall risks to economic prospects have risen sharply and policy trade-offs have become even more challenging as inflation pressures remain strong in an environment of falling economic activity.

Swiss inflation expectations well anchored

According to Thomas Jordan, President of the Swiss National Bank (SNB), Switzerland is currently in the lucky situation that inflation is still low, rates are low, and inflation expectations seem to be well anchored. Rising energy prices, supply-chain disruptions and the post-Covid boom are main reasons for stronger inflation. The SNB considers a substantial amount of current price pressures as being temporary. Jordan, however, sees an increasing risk that some part of temporary inflation may feed into permanent inflation impacting all goods and services. He also stressed that companies and households are very liquid and can afford to pay higher prices. Thus, a potentially negative impact of higher prices on consumption and investments seems limited.

The annual rate of Swiss consumer price increases has hit 2.4% in March, which is significantly below the Euro area's estimated inflation rate of 7.5%. The high inflation differential between the Euro area and Switzerland means that the SNB could tolerate a slight increase of the Swiss Franc versus the Euro. Currency appreciation is one of the key reasons why Swiss inflation remained low compared to other countries. In contrast to other central banks, the SNB is in no hurry to hike rates as price pressures seem manageable. SNB projections for inflation are 2.1% this year and 0.9% for 2023 and 2024.

Euro area inflation remains high

According to recent data, the Eurozone core consumer price index increased by 2.9% in March after an increase of 2.7% in February compared to a year ago. Headline inflation rose by 7.4% in March after having increased by 5.9% in February. Both data points were slightly below consensus expectations. The biggest contributors were housing, water, electricity, gas, and transport, which made up for roughly two thirds of the headline inflation.

ECB President Christine Lagarde for the first time mentioned the Governing Council's intention to end net asset purchases in the third quarter of 2022. This means that a first hike could come in September or December. The ECB, however, will try to keep maximum flexibility given the war in Ukraine, high commodity prices, and potential spill over effects to the Euro area economy. Given upside risks to the ECB's inflation outlook we consider a first hike as highly probable this year.