

WEEKLY UPDATE

Do we need to worry about rising rates?

Long yields edged up this week after a shift in tone by central banks. 10-year sovereign yields widened nearly 20 bp in few days to 1.5% in the US and near 0.15% in France. The rises follow more hawkish talk from central banks, led by the US Federal Reserve which hinted it could move policy back toward normal faster than previously thought, by either hiking policy rates (raising very short-term rates) or trimming their asset purchase programme (pushing up long-term yields). Patchy price pressures, notably on energy, are worrying monetary authorities, raising the spectre of a longer-term inflationary trend against the backdrop of continuing recovery in developed economies. For now, the Fed and Bank of England have stopped at tougher talk. But other central banks, such as the Bank of Norway, have acted by raising rates.

Rate rises likely to track the pace of economic recovery. We expect economic activity to remain strong over the next few quarters, particularly in the developed world, with labour markets getting back on track and still supportive financial and fiscal conditions. Such a scenario should pave the way for a normalisation of monetary policy and further upward drift in long-term yields. But rises will depend heavily on actual economic gains and be limited in scale whatever happens.

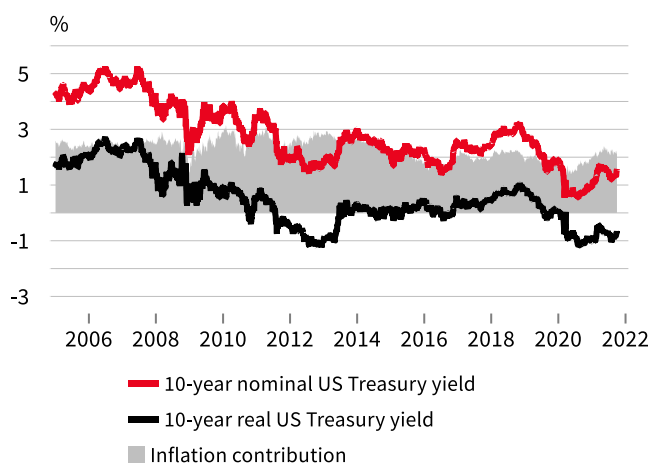
Rising long yields should not hamper equity markets. The rise in yields this week has been accompanied by turbulent equity markets. Volatility has spiked and valuations retreated. That said, we should not be reading higher rates as a negative signal. In fact, the key underlying driver is an improving economy, which should be good news for companies and hence stock markets. Also, the rise remains relatively modest. In real terms (stripping out the effects of inflation), interest rates remain historically low (see charts) and still providing significant support for household and corporate spending.

Bottom line.

This week's upsurge in long-term yields reflects a turning point for monetary policy and is likely to persist for some weeks. But the rises will not hurt equity markets as long as they essentially reflect the firming of economic recovery.

Despite the recent rise, real US yields remain negative

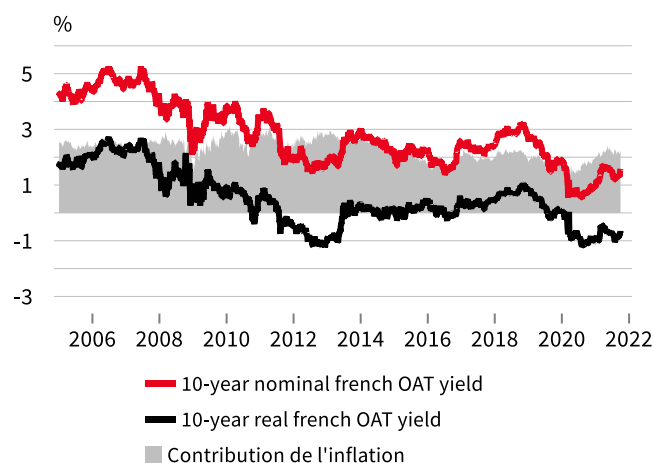
10-year US Treasury yield nominal vs real



Sources : SGPB, Macrobond, U.S. Department of Treasury, 30/09/2021

Real French OAT yields are still at historically low levels

10-year French OAT yield nominal vs real



Sources : SGPB, Macrobond, 30/09/2021

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (01/10/2021). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



To avoid a government shutdown (due to the “debt ceiling”), the US congress approved a stopgap appropriations bill that extends the current budget through December 3.



The United Kingdom has been facing a fuel shortage for several days due to a lack of heavy truck drivers. The pandemic and Brexit have prompted many European drivers to return home. The country is now reportedly suffering from a shortage of around 100,000 drivers.

Figures of the week

		Actual	Forecast	Previous
	• Durable goods order MoM (August)	1.8% ↑	0.7%	0.5%
	• GDP annualised QoQ (Q2)	6.7% ↑	6.6%	6.6%
	• Inflation (Consumer price index YoY, September)	3.4% ↑	3.3%	3.0%
	• GDP YoY (Q2)	23.6% ↑	22.2%	22.2%
	• PMI non manufacturing (September)	53.2 ↑	52.7	47.5
	• PMI NBS manufacturing (September)	49.6 ↓	50.1	50.1
	• Tankan large manufacturing index (Q3)	18 ↑	13	14
	• Consumer confidence (September)	37.8 ↑	37	36.7

The week ahead

Monday	Tuesday	Wednesday	Thursday	Friday
Tokyo Inflation	PMI/ISM services	Retail sales	Leading economic indicator	Labor report
OPEC meeting	Trade balance		Industrial production	Caixin services PMI

Sources: Refinitiv Eikon, 1 October 2021.

Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, PMI = Purchasing Managers' Index, CPI = Consumer Price Inflation.

MARKET PERFORMANCE

Interest rates	Last	1wk	3mth	YTD	12mth
EONIA (EUR)	-0.50 %	-1 bp →	0 bp	0 bp	-1 bp
3mth Euribor (EUR)	-0.55 %	0 bp →	0 bp	0 bp	-5 bp
3mth Libor (USD)	0.13 %	0 bp →	-2 bp	-11 bp	-10 bp
3mth Libor (GBP)	0.08 %	1 bp →	0 bp	6 bp	2 bp
10-year US Treasury bond	1.53 %	12 bp ↑	8 bp	62 bp	85 bp
10-year German bond	-0.20 %	6 bp ↑	1 bp	38 bp	33 bp
10-year French bond	0.16 %	8 bp ↑	3 bp	50 bp	40 bp
10-year UK bond	1.02 %	12 bp ↑	31 bp	83 bp	79 bp

Government bonds*	1wk	3mth	YTD	12mth
United States (3-7yr)	-0.3% ↓	-0.2%	-1.5%	-1.7%
United Kingdom (3-7yr)	-0.3% ↓	-0.9%	-2.3%	-2.3%
Germany (3-7yr)	-0.2% ↓	-0.2%	-1.2%	-1.3%
Japan (3-7yr)	-0.1% ↓	-0.1%	-0.1%	-0.2%

Credit	1wk	3mth	YTD	12mth
BAML EURO Corp. IG	-0.2% ↓	0.1%	-0.4%	1.6%
BAML EURO Corp HY	-0.4% ↓	0.6%	3.7%	9.3%
BAML GBP Corp IG	-1.3% ↓	-1.1%	-3.8%	-0.1%
BAML US IG	-1.0% ↓	-0.1%	-1.1%	1.8%
BAML US HY	-0.4% ↓	0.9%	4.7%	11.5%
BAML Global EM Sov. External Plus	-1.7% ↓	-1.4%	-3.0%	3.9%

Exchange rates	Last	1wk	3mth	YTD	12mth
EUR/USD	1.16	-1.3% ↓	-2.3%	-5.2%	-1.2%
EUR/CHF	1.08	-0.5% ↓	-1.6%	-0.2%	0.0%
GBP/USD	1.35	-1.8% ↓	-2.6%	-1.5%	4.3%
USD/JPY	111.3	0.9% ↑	0.2%	7.8%	5.5%
USD/BRL	5.44	2.6% ↑	9.5%	4.8%	-3.0%
USD/CNY	6.45	-0.2% ↓	-0.2%	-1.2%	-5.1%
USD/RUB	72.7	-0.1% →	-0.6%	-1.7%	-6.3%

Equities*	Last	1wk	3mth	YTD	12mth
MSCI AC World	710	-2.9% ↓	-1.0%	11.5%	28.0%
Eurostoxx 50	4 048	-3.4% ↓	-0.1%	16.5%	29.8%
DAX	15 261	-2.5% ↓	-1.7%	11.2%	19.6%
CAC 40	6 520	-2.6% ↓	0.4%	20.0%	39.0%
S&P 500	4 308	-3.2% ↓	0.6%	15.9%	30.0%
FTSE 100	7 086	0.2% ↑	2.0%	13.1%	25.4%
SMI	11 642	-2.5% ↓	-2.4%	11.9%	17.7%
Topix	2 030	0.1% ↑	5.3%	14.7%	27.5%
IBOV Brazil	110 979	-2.7% ↓	-12.5%	-6.8%	17.3%
MICEX Russia *	4 104	1.3% ↑	6.8%	24.8%	41.2%
MSCI EM	1 253	-1.5% ↓	-8.0%	-1.0%	18.6%
SENSEX 30 India	59 126	-1.3% ↓	12.9%	24.9%	57.0%
Hang Seng (H-K)	24 576	0.3% ↑	-13.9%	-7.5%	7.5%
Shanghai Composite	3 568	-2.0% ↓	-0.6%	2.7%	10.9%

Commodities	Last	1wk	3mth	YTD	12mth
Brent	\$78.6	4.3% ↑	4.4%	51.4%	91.7%
Gold	\$1 761	0.7% ↑	-0.3%	-7.2%	-7.3%
Copper	\$8 945	-3.7% ↓	-4.4%	15.4%	34.1%

Source: DataStream, on 30 September 2021.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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