Confidence must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

Week of March 27, 2023 By Amundi Institute

Eurozone

The ZEW Indicator of Economic Sentiment for the Euro Area, summarising the expectations of financial market experts for economic development in the Eurozone, deteriorated significantly in March, by 19.7 points to 10 from a one-year high of 29.7 in the prior month and below market forecasts of 16. This was the first drop in sentiment after five consecutive months of increases. The situation indicator fell by 3.0 points to a new low of minus 44.6 points, and inflation expectations went up by 3.1 points to -80.3.

United States

The preliminary reading of the University of Michigan's sentiment index for March declined to 63.4 from 67.0 prior, below the consensus. Inflation expectations subsided in early March, although both the one-year-ahead view (at 3.8% versus 4.1% in February) and 5-10-year expectations (at 2.8% versus 2.9% in February) remain elevated.

Emerging Market

The Central Bank of Brazil (BCB) surprised on the hawkish side in late March, keeping rates on hold as expected, but once again ringing the alarm bell over deteriorating inflation expectations - these slid further above the inflation target as stated in the latest central bank survey. In the process, COPOM once again mentioned the need to assess "whether the strategy of maintaining the Selic rate for a long period will be enough".

Equity

Global equities are heading for a positive week, despite continued uncertainty around banks. The MSCI World index is up c.1.5% on the week to date, with both the S&P 500 and the Stoxx 600 up by c.1%. Emerging markets are having a strong week, with the MSCI emerging market up by c. 2.75% so far. The weakest major region has been Japan, where the TOPIX is marginally down by c. 0.2%. The week has been marked by more uncertainty around the banks, with Treasury Secretary Janet Yellen initially downplaying the possibility of the Treasury guaranteeing all deposits on Wednesday but then suggesting on Thursday that the Treasury is prepared to take more action.

Fixed Income

U.S. rates fell after the Fed meeting. The door seems open for a pause or an end to the tightening cycle at the May meeting. The fall in yields accelerated on Friday after renewed concerns about the banking sector sparked demand for safe assets and fueled expectations that central banks will need to focus on financial stability rather than inflation.

KEY FIGURE

€17.7bn

Annual savings expected, by 2030, for French government from its pension reform.

Key Dates

27th March
Germany business climate index (IFO, March)

28th March
US consumer confidence (Conference Board, March)

29th March
Germany : consumer confidence (Gfk, April)

31st March
Eurozone, France and Italy inflation rate (March)

Source: Amundi Institute

Our weekly analysis

France: social tensions increase over pension reform

The French government used article 49.3, for the 11th time since it formed, to pass its pension reform. In theory, the law is therefore adopted. But there are still a few hurdles to clear before it is enacted. We also look at the financial stakes.

Headed towards a Referendum on Popular Initiative (RIP)? The organisation of such a referendum proposing the abandonment of the reform is possible. In fact, the RIP requires a bill to be initiated by one-fifth of MPs, i.e. at least 185 of the 925 parliamentarians (577 deputies, 348 senators). The proposal must also be supported by 10% of the electorate (4.87 million people), whose signatures must be collected within nine months. This procedure would thus allow the reform to be blocked for nine months. 252 parliamentarians filed a RIP request to prevent the legal retirement age from being raised beyond 62. The Constitutional Council has one month to deliberate and decide whether a referendum can be held on this basis.

What will be the financial cost of pension reform? One of the government's main objectives is to balance the pay-as-you-go pension system. The Pension Advisory Council (COR, Conseil d'Orientation des Retraites) forecasts a deficit of around €13.5 billion in 2030. The pension reform is supposed to bring in €17.7 billion by 2030. In theory, this leaves €4.2 billion to finance the compensatory measures intended to mitigate the effect of the extension of the contribution period and the increase in the legal retirement age. Except that the list of compensations has grown longer. This would increase the cost by some €700 million according to some experts:
• Those who started working early will be able to retire before the legal age (the scheme has been extended to those who started working before 21 years versus 20 years originally).
• 5% increase in pensions for mothers, provided they have acquired all their quarters by the age of 63.
The complexity of the subject makes it very complicated to make macroeconomic projections on the estimated cost of this reform over seven years. But one thing is certain, it is not the sustainability of the debt that is at stake with the pension reform but the dynamic of supply-side reforms and thus future potential growth.

Index	Returns			
Equity markets	03/24/23	1 W	1 M	YTD
S&P 500	3922	0.1%	-1.2%	2.1%
Eurostoxx 50	4116	1.2%	-1.5%	8.5%
CAC 40	6982	0.8%	-2.8%	7.9%
Dax 30	14884	0.8%	-2.1%	6.9%
Nikkei 225	27385	0.2%	-0.2%	4.9%
SMI	10589	-0.2%	-5.3%	-1.3%
SPI	13899	0.0%	-3.4%	1.2%
MSCI Emerging Markets (close -1D)	978	2.8%	0.6%	2.2%
Commodities - Volatility	03/24/23	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	74	2.0%	-10.5%	-13.4%
Gold ($/ounce)	1993	0.2%	10.1%	9.3%
VIX	24	-1.1	2.7	2.7
FX markets	03/24/23	1 W	1 M	YTD
EUR/USD	1.076	0.8%	2.0%	0.5%
USD/JPY	131	-0.9%	-4.3%	-0.4%
EUR/GBP	0.88	0.4%	-0.4%	-0.7%
EUR/CHF	0.92	-0.7%	-2.3%	-0.6%
USD/CHF	0.99	0.1%	-0.4%	-0.1%

Source: Bloomberg, Amundi Institute – March 24, 2023 – 15:00 pm
Past performance is not guarantee of future results.

Index	Returns			
Credit markets	03/24/23	1 W	1 M	YTD
Itraxx Main	+98 bp	-2 bp	+17 bp	+7 bp
Itraxx Crossover	+500 bp	+8 bp	+81 bp	+26 bp
Itraxx Financials Senior	+118 bp	-11 bp	+28 bp	+18 bp
Fixed Income markets	03/24/23	1 W	1 M	YTD
ESTER OIS	99.22	+5 bp	+19 bp	+49 bp
EONIA	-0.51	-	-	-
Euribor 3M	3.03	+28 bp	+33 bp	+89 bp
Libor USD 3M	5.08	+8 bp	+13 bp	+31 bp
2Y yield (Germany)	2.38	-1 bp	-65 bp	-38 bp
10Y yield (Germany)	2.12	+1 bp	-42 bp	-46 bp
2Y yield (US)	3.73	-11 bp	-109 bp	-70 bp
10Y yield (US)	3.38	-5 bp	-57 bp	-50 bp
Eurozone Sovereigns 10Y spreads vs Germany	03/24/23	1 W	1 M	YTD
France	+53 bp	-5 bp	+5 bp	-2 bp
Austria	+65 bp	-4 bp	-	+2 bp
Netherlands	+37 bp	-2 bp	+3 bp	+4 bp
Finland	+59 bp	-3 bp	+3 bp	+1 bp
Belgium	+70 bp	+2 bp	+10 bp	+5 bp
Ireland	+44 bp	-7 bp	-6 bp	-12 bp
Portugal	+89 bp	-4 bp	+1 bp	-13 bp
Spain	+106 bp	-6 bp	+9 bp	-3 bp
Italy	+188 bp	-6 bp	-2 bp	-26 bp

Find all definitions of financial terms used in this document on our site: [Glossary]