MAERKI BAUMANN & CO. AG

PRIVATBANK

Uncertainty surrounding the US economy

Market Comment, May 2023

Despite headwinds emanating from the equity markets, the US was able to present a fairly pleasing economic picture in 2022. This was made possible by the savings accumulated during 2020 and 2021, which were boosted by the cheques sent out by the US government as a means of economic stimulus to counter the consequences of the coronavirus crisis. However, these savings are now waning, as US consumers have failed to hold back on spending in recent quarters. Combined with interest rate hikes and more restrictive lending conditions, this makes an economic slowdown more likely.

Consumption in the US has held up well since the US government took the decision to send out cheques as the coronavirus spread around the country. Following the end of the lockdowns, there was a boost from pent-up consumer demand, especially in the services and travel sectors. This was made possible by the significant savings of consumers, which had increased massively thanks to the cheques distributed by the government to the US population in 2020 and 2021.

However, the rise in inflation observed since 2022 has seen inflation-adjusted, i.e. "real", incomes fall. Even in 2022, Americans were gradually putting less money to one side so as to be able to finance their spending. The massive interest rate hikes since the summer of 2022 have made the financing of US consumption considerably more expensive. The correction that has begun on the US real estate market and the declines posted by both equities and bonds since the start of 2022 have meant that the wealth situation of Americans has improved little despite the somewhat higher prices since January. In 2022, the US economy was hindered in part by changes in inventory levels and net trade flows, as the availability of goods, especially those sourced from Asia, was restricted. What is more, sentiment among US consumers and businesses has tended to weaken since 2022. With a view to the medium term, the inverse yield curves in the US currently also point to a reduction in growth during the course of 2023. On the one hand, this is due to the turbulence in the banking sector, making lending more difficult and expensive. On the other hand, what has to be considered is the expected real estate correction, which has already started. Relative to the prior quarter, annualised US economic growth, which still stood at 2.6% in the fourth quarter, did not increase by 2.0% as expected, but only by 1.1%.

> "Greater volatility on the US financial markets would not surprise us."
>
> Gérard Piasko, Chief Investment Officer

In particular, the US housing market, which has always been especially sensitive to interest rates, is showing signs of an imminent significant contraction. US real estate valuations remain vulnerable, as they are not yet cheap when viewed by historical standards. Furthermore, the more restrictive lending policy is likely not only to weigh on consumption during 2023, but also on corporate investment activity, with this not only being the case in the real estate market.

The scale of the interest rate hikes, which have reached a level that had not been seen for almost half a century, is the main reason to believe that nobody should be surprised by a not-to-be-underestimated economic slowdown in the medium term. On the positive side, a fall in demand growth is likely to result in a gradual decline in headline inflation. However, headline inflation could decline by more than core inflation. This is because the high commodity prices seen last year, especially in the case of oil, mean there is the possibility of so-called base effects. This is less the case with core inflation, i.e. inflation excluding energy and food prices. Rents, which remain stubbornly high, and prices for services are currently only allowing for a relatively slow decline in core inflation. The US labour market will have a wild card role to play. Viewed historically, there is approximately one vacancy for every unemployed person in the US. At present, however, this figure is closer to 1.6 vacancies per unemployed person, meaning that the US labour market

is still relatively dry, with this chiefly being due to demographic reasons and the increasing retirement of the "baby boomer" generation. This means, however, that wage pressure in the US labour market remains high by historical standards, which is preventing core inflation from falling rapidly. While this situation may change, it will likely only do so in the event of a clearer economic slowdown. This shows that the equity market cannot have both positive scenarios, i.e. a clear decline in interest rates and a strong economy, at the same time. Either core inflation only declines gradually and not on a sustainable basis because the labour market remains tight. Or unemployment rises, which would weigh on consumption and thus also on corporate growth. A cautious investment strategy remains appropriate.

Gérard Piasko

Gérard Piasko is Chief Investment Officer and head of the investment committee of private bank Maerki Baumann. Before he was for many years Chief Investment Officer of Julius Baer, Sal. Oppenheim and Deutsche Bank.

Modular investments with Maerki Baumann

The topics of the current market comment concern following focus modules:

Equities Switzerland	Equities USA	Bonds CHF	Commodities
Small & Mid Caps Switzerland	Equities Emerging Markets	Bonds EUR	Cryptocurrencies
Equities Eurozone	Equities Global	Bonds USD	Private Equity
Equities Germany	Global Balanced	Bonds Emerging Markets	Venture Capital

Please contact your client advisor for further information, or visit our website:
www.maerki-baumann.ch/modular-investments

IMPORTANT LEGAL INFORMATION: This publication is intended for information and marketing purposes only, and is not geared to the conclusion of a contract. It only contains the market and investment commentaries of Maerki Baumann & Co. AG and an assessment of selected financial instruments. Consequently, this publication does not constitute investment advice or a specific individual investment recommendation, and is not an offer for the purchase or sale of investment instruments. The future performance of investments cannot be inferred from past price performance. In other words, the value of investments may increase but may also decrease, and the investor may be required to make additional payments for certain products. In certain circumstances, figures may refer to reporting periods of less than five years, which could reduce their validity. Predictions for the future are always non-binding assumptions. Figures presented in foreign currencies are also subject to exchange rate fluctuations, which can affect their performance. The information in this publication is in no way to be understood as an assurance of future performance. Maerki Baumann & Co. AG does not provide legal or tax advice. In addition, Maerki Baumann & Co. AG accepts no liability whatsoever for the content of this document; in particular, it does not accept any liability for losses of any kind, whether direct, indirect or incidental, which may be incurred as a result of using the information contained in this document and/or arising from the risks inherent in the financial markets.

Editorial deadline: 12 May 2023

Maerki Baumann & Co. AG
Dreikönigstrasse 6, CH-8002 Zurich
T +41 44 286 25 25, info@maerki-baumann.ch
www.maerki-baumann.ch