

The week in seven charts

Chart #1 The SNB catches the markets by surprise

Read more on page 2 - Image iStock/assalve

The SNB's holiday surprise

Interest expenses soar in the US while ECB and SNB cut rates. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau

Chief Investment Officer

Chart #1

The SNB catches the markets by surprise

On Thursday, the Swiss National Bank (SNB) cut its interest rate by 50 basis points (0.5%), against a backdrop of low inflation, upward pressure on the Swiss franc, and worrying dynamics in neighbouring European countries.

This 50-basis-point reduction took the financial markets by partial surprise, as they were not entirely convinced that a move of this magnitude would occur. Instead, most anticipated a more modest 25-basis-point reduction.

Swiss inflation fell below 1% in Q4 2024 (+0.7% in November) and is expected to slow further in 2025. The SNB expects inflation to hover just above zero (+0.2%/+0.3%) for most of next year, before picking up slightly as we approach 2026. With an average of +0.3% in 2025, the inflation rate would be at the very bottom of the SNB's target range of 0-2%.

Facing headwinds from a strong Swiss franc and weak economic activity in Germany and most European economies, the Swiss economy provided little justification for restrictive monetary policy, necessitating an adjustment. Following the rate cut, the monetary policy stance is now roughly neutral, with the short-term real rate hovering near 0%. Looking ahead, we can expect further rate cuts in 2025. We expect the Swiss franc short-term rate to be cut to 0.0% by June next year, with rate cuts of 25 basis points at the March and June meetings.

Will Switzerland return to negative rates? This is not our prediction at this stage, although SNB Chairman Schlegel has not yet ruled it out. If the franc faces excessive upward pressure, the SNB would likely intervene in the foreign exchange market and potentially expand its balance sheet. A major decline in global growth and inflation next year would be needed for the SNB to return to negative interest rates.



Source: Bloomberg

Chart #2

The ECB cuts its key rates by 25 basis points

The European Central Bank (ECB) just lowered its deposit rate to 3.00% and its main rate to 3.15%. The ECB said that the disinflation process was well underway and that it was not committing to any particular rate path in advance. Instead, the ECB stated that it was determined to ensure that inflation would stabilise on a sustainable basis at its medium-term objective of 2%.

What conclusions can we draw from this meeting?

The ECB finds itself in a rather uncomfortable position, facing both the risk of “stagflation” and the threat of fragmentation within the monetary union. Weak economic growth in the Eurozone is accompanied by an inflation rate that is still above

the ECB's 2% target. The central bank therefore cannot afford to ease monetary policy in response to weak economic growth if inflation remains above its target.

In addition, there are significant divergences within the monetary union. The “core” of the eurozone, Germany and France in particular, are experiencing multiple headwinds to activity and are on the brink of recession. At the same time, certain peripheral economies, such as Spain, Italy, and Greece, are enjoying much stronger growth momentum, underpinned by their service sectors. This context prevents the ECB from more rapidly easing its monetary policy stance, which remains significantly restrictive: the key rate is still above the estimated neutral rate (1.5%), and the real short-term rate (ECB rate minus inflation) is still clearly positive.

As long as this weakness in the “hard core” is offset by the resilience of the “periphery” (in a reversal of the situation from 2010-2013), the ECB has limited room for manoeuvre to ease the stance of its monetary policy, especially as inflation is still above its target and wages continue to grow at a high rate.

This is most likely the explanation for the gradual approach followed by the ECB since the first rate cut of this cycle in June 2024. President Lagarde revealed that discussions on a 50bp cut had taken place on Thursday, but that there was general agreement that a 25bp cut was the right decision.

Given the current growth momentum in the Eurozone, we believe that economic growth is likely to continue to disappoint in the first part of 2025, particularly if Europe must contend with US tariffs. This would further hurt export-dependent economies like Germany. Prolonged weak activity could quickly reduce wage pressures if the labour market worsens, which would significantly ease inflation. This could prompt the ECB to cut rates further, potentially at a faster pace.



Source: Bloomberg

Chart #3

For the first time in history, the fortune of a single person exceeds \$400 billion

Already considered the richest man in the world, Tesla and SpaceX CEO Elon Musk has surpassed the \$400 billion mark. With \$446 billion in personal wealth, he is now worth more than Jeff Bezos (\$249 billion) and Bill Gates (\$165 billion) combined.

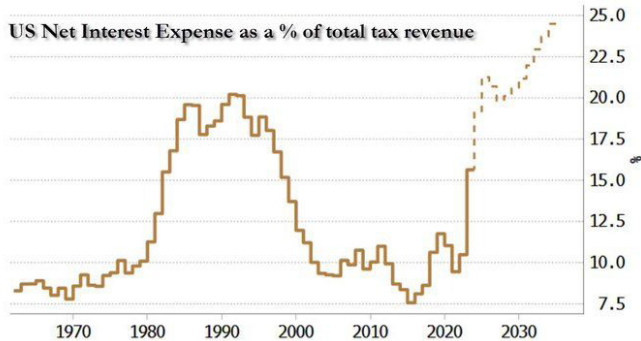


Source: Evan @StockMKTNewz

Chart #4

Skyrocketing interest expenses in the United States

Net interest expense in the United States represents 15% of tax revenues and will reach 25% in 2035, according to the Congressional Budget Office (CBO). They will rise much faster if the Fed starts raising interest rates again.



Source: ZeroHedge

Chart #5

A risk of stagflation in the United States?

Has the era of stagflation begun? In the US, initial jobless claims rose by 17,000 to 242,000 last week, the highest figure since the first week of October.

Non-seasonally adjusted claims climbed by 99,140 to 310,366, the highest figure since January.

This represents a year-on-year increase of 30%. At the same time, the number of people receiving unemployment benefit climbed to 1.89 million, close to a three-year high.

To put things in perspective, current unemployment benefit claims are now 14% above 2018-2019 pre-pandemic levels.

And all the while, inflation indices (CPI, core CPI and PPI) are on the rise again. Is there a headache ahead for the Fed?



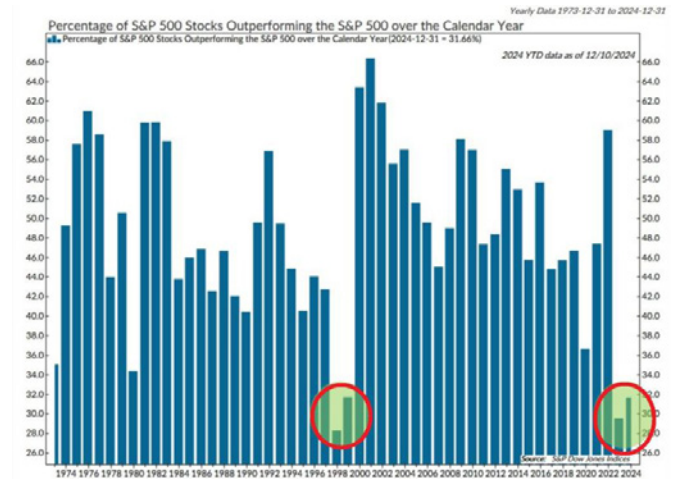
Source: Bloomberg, ZeroHedge

Chart #6

A small percentage of stocks outperformed the S&P 500 in 2024

Only 32% of S&P 500 stocks have outperformed the index since the start of the year, one of the lowest figures on record. In other words, 32% of companies have gained more than 27% this year.

In the past, such a low figure has only occurred once, during the Internet bubble of 1998-1999.



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Source: Global Markets Investor

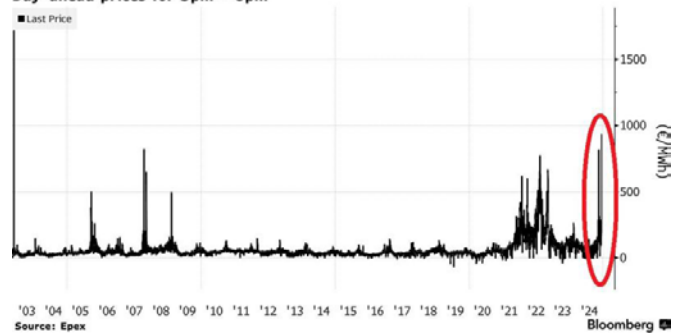
Chart #7

Electricity prices are soaring in Germany

Germany's already fragile situation is worsening, as electricity prices have now reached their highest level in 20 years, surpassing the peaks seen during the 2022 energy crisis.

This surge is driven by a collapse in wind power production, due to an almost complete absence of wind in recent days.

German Power Rises To Highest in Over 20 Years



Source: Epex
Source: Global Markets Investor, Bloomberg

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