Daily Update

Your daily market news, moves and outlook

SEASPRAY FINANCIAL

Wealth & Investment Management

Markets Outlook

Wednesday, 15th of March

Equities: European stock markets have opened lower while Asia mostly saw stronger trade overnight. Stocks on the continent rebounded yesterday as markets took a more dovish view on the ECB - with investors moving to price in a roughly 50% chance of a 50bp rate hike tomorrow. However, most of this has already been undone on Wednesday morning - with the EuroStoxx50 down by 1.5% as we write. Reuters is citing ECB sources this morning, stating that the central bank will stick to its plan for a 50bp hike.

Yesterday's US CPI did little to shift market sentiment or Fed rate expectations. Fallout from SVB's collapse has of course led markets to price in a quicker end to the Fed's tightening cycle, with rate cuts now expected to begin in July. The financials stock sector in the States bounced by 2% yesterday - contagion is appearing to be fairly limited. Banks in Europe also steadied yesterday, with the Stoxx 600 banks index up 2.5% having fallen by almost 6% on Monday.

Currencies: The dollar index is up by 0.4% on Wednesday morning to 103.62, albeit still lower on the week so far. EUR/USD trades down to 1.068, and could see some heightened volatility following tomorrow afternoon's ECB release.

Fixed income: Bond markets, especially in the US, have seen significant volatility over the past week. The MOVE index (VIX equivalent, measures volatility in the asset class) has recently hit $173 - higher than its $163 Covid-peak and now at its highest level since the summer of 2009. The policy-sensitive US 2yr yield hit a low of 3.83% on Tuesday, as bond markets re-priced Fed rate hike expectations. The 2yr yield has since bounced to 4.275%, still down significantly on the 5.08% seen this day last week.

Corporate debt markets have been surprisingly muted, investment grade has gained some slight ground over the past week while high yield trades flat to lower.

Economic data: British Finance Minister Hunt is due to deliver the government's new annual budget just after midday today, against a slightly better than expected economic backdrop. Economists are looking for a modest fiscal easing after a marked improvement in the nation's public finances.

Also out at 12:30pm today will be the latest producer inflation figures from the United States, with regard to February data. The headline PPI is forecast to come in at 5.4% y/y, down from January's 6.0%, while Core PPI is expected at 5.2% y/y down from 5.4%.

US Retail Sales will also be released this afternoon, and are expected to have slowed slightly on a monthly basis.

Key Events to Watch

15/03/2023 - US PPI
15/03/2023 - US Retail Sales
16/03/2023 - ECB Rate Decision
22/03/2023 - Fed Rate Decision

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	3,920	1.68%	2.08%
DAX	15,232	1.83%	9.40%
EuroStoxx	4,179	2.02%	10.17%
ISEQ	8,291	2.32%	16.64%
FTSE	7,637	1.17%	2.49%
Nikkei 225	27,229	0.03%	4.35%

FX	Value	Daily Change	YTD Change
EUR/USD	1.0732	0.03%	0.31%
EUR/GBP	0.8826	0.24%	-0.07%
GBP/USD	1.2158	-0.19%	0.45%
USD/CHF	0.9140	0.26%	-1.01%
USD/JPY	134.22	0.78%	2.83%
EUR/JPY	144.04	0.80%	3.14%

Fixed Income	Value	Daily Change
US 10yr	3.685	0.140
US 2yr	4.246	0.231
German 10yr	2.437	0.162
Irish 10yr	2.903	0.147
UK 10yr	3.539	0.171
Japanese 10yr	0.303	0.007

Financial News Round Up

US Inflation

Yesterday's US Consumer Price Index results came in mostly in-line with analysts' estimates, confirming that the region is undergoing disinflation, with CPI heading back towards that key 2% mark. The main CPI result for February was 6.0% as expected, coming down from the prior 6.4% and down to its lowest level since October 2021. When we remove energy and food price changes, the Core CPI figure came in at 5.5% and down from January's 5.6%.

Food prices increased at a slower rate (9.5% vs 10.1%), while energy prices were up 5.2% (vs prior 8.7%). Electricity prices in the US rose at a faster pace last month (12.9% vs 11.9%), as did shelter (8.1% vs 7.9%).

Up until recent days, inflation was the primary focus of the Federal Reserve. Last week before the issues at SVB emerged, we saw the Fed Chair Jerome Powell state that the central bank would likely need to raise rates more than what is expected.

US Banking Sector

The US Federal Reserve is reportedly considering tougher rules for midsized banks as it seeks to avoid a repeat of the recent collapse of Silicon Valley Bank that forced government authorities to intervene.

The central bank will review the capital and liquidity requirements it has set for banks, with a particular focus on institutions with between $100b - $250b in assets. It will also reevaluate the stress tests it carries out annually, which assess banks' ability to withstand difficult economic scenarios.

It must be noted also that rating agency Moody's decided to cut its broad US banking outlook from stable to negative on Tuesday, as it cited a "rapidly deteriorating operating environment".

Irish M&A

According to new data released by law firm Philip Lee, the total value of merger and acquisition deals in Ireland fell to €72 billion in 2022. This is down from the €96b seen the prior year, and can be mainly attributed to a decrease in the number of €1b+ deals, which were down from 17 to 9 in 2022. There was also a small decline in the number of deals between €100m - €1b.

Despite a drop in the total value of deals, the number of individual deals carried out last year actually increased. 758 transactions involving Irish firms took place, up by around 13% on 2021 numbers and mostly driven by smaller firms. Interestingly, the level of private equity-backed deals in Ireland has more than doubled since 2017. The value of PE-funded deals rose from €12b in 2021 to €19b last year.