



Inflation, no change



The euro-area inflation rose 8.5% on an annual basis during February, this unchanged from January, and contrary to expectations for a drop, while underlying price pressures surged to a new record high at 5.6%.

Markets responded as expected with the US 10-year Treasury bonds topping 4% for the first time since November, clearly the data is pointing to continued price pressures. With that the US Federal Reserve is likely to continue to raise rates and then hold them for as long it takes to get inflation under control.

Our analysts see US rates peaking at around 5.6% by September, Mr Market is looking for a reversal, a cut of one percent in the next twelve months. There is opportunity as the market has priced in a 75-basis point rate hike, but the next set of economic data would need to remain strong in order to support that type of action.

I would point out that any weakness would inadvertently lower expectations while shortening the duration of peak rates. So, in summary there is increased growth concerns but speculative risk appetite will filter through.

William Gray
The RIO Club