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THE GUIDE

Is it the right time? Spotlight on returns

Extract from the analysis by Luca Riboldi (Banor)

The time may soon be ripe to buy, says Luca Riboldi, Chief Investment Officer at Banor. After so many years of jumping through hoops to find a stable place to park your cash, in the space of nine months we went from negative rates to rates on the US 10-year of 4%, almost 5% on the Btp and over 2% on the Bund. Real rates, minus inflation, are 150 points in the US, 250 points in Italy and zero in Germany. The Fed's goal, when it raised interest rates at the start of the year, was to set inflation forecasts at around 2%. Thus far the mission is partly complete. Does this mean that in a few weeks the Fed will stop rising interest rates? "I don't think so," responds Riboldi, "but after the hike in October things may settle for a while to see how much the economy has slowed down." Before stopping rate rises or even lowering them, it's important to be sure that expectations of high inflation have dissipated.

THE TIMING

Having said that, it has to be said that the market is sitting on a mountain of liquidity. In fact, some 4.6 trillion dollars are "parked" in monetary funds. To this is added a further $150 billion of funds invested in "ultra short bond funds". And this is not counting bank deposits totalling 18 trillion dollars: cash ready to be used as soon as the "time is ripe." The problem is understanding exactly "when" that time is. For now, operators agree that the moment is not yet upon us. And this is evidenced by the continuous inflows into the money market. It is preferable to invest in cash and earn 3%-4% (in dollars) than invest in other asset classes and secure a further capital loss. So when will it be the right time to invest? "When the Fed (and the other central banks) has achieved its goal (inflation around 2%) or perhaps just before," explains the expert. It will definitely take some more time before we see the bottom of the major asset classes. For now, the S&P500 index has discounted the interest rate but not a drop in earnings. In a recessionary scenario, the index could fall a further 10%. However, the rise in 10-year rates may be almost over as this level of real rates acts as a brake on aggregate demand. Therefore, it is possible to "start buying medium/long-term fixed-rate bonds issued by stable companies." It may be worth beginning to buy now and gradually intensify buying as the indexes drop, taking a loss now to secure potential double-digit gains in the medium term.

Luca Riboldi,
Chief Investment Office at Banor