



## Monday Night Report – June 11, 2007

The Monday Night Report is written on Monday night, after market close. Subscribers receive the newsletter every Monday or Tuesday morning before the markets open again. Subscribers may at all times log into their account in order to review it. It is published 3 days later on StockTargets Website on a public at <http://www.stocktargets.com/newsletters.html> for anyone to read.



### The StockTargets "Monday Night Report" by Philip Coutaz

Philip Coutaz, 55, is a Ph.D. in Economics at N.Y.U. where he also was a Teaching Assistant in Economics. Philip holds a Master in Economics from the University of Aix-en-Provence (France) and was Assistant Professor of Economics at University of Connecticut in Stamford. He was a Member of the Worldwide Investment Committee of BNP Paribas in Paris (today the largest French bank). He is one of the founders of Information Express Corp (NY) in 1986, an early online company, providing Wall Street firms with information services and automated stock screening systems prior to the emergence of the Internet. He is currently the Chief Investment Strategist at Bank SCS Alliance in Geneva, Switzerland.

## Bonds: Past, Present & Future

Macro: Between December 29th of last year and Friday June 8<sup>th</sup> last week, bond markets worldwide have significantly deteriorated, especially after the last week shake up. Below is a synopsis table showing the degradation in yields since the beginning of the year along with the incurred losses on 10-year issues in different geographical areas - coupons included.

	Dec. 29, 2006	Friday 8, 2007	Losses (10Y)
USA	4.70%	5.17%	-3.35 %
Europe	3.95%	4.57%	-5.77 %
UK	4.74%	5.37%	-5.67 %
Japan	1.69%	1.90%	-1.73 %
Switzerland	2.52%	3.15%	-8.47 %

Worries over slower economic growth early this year have suddenly faded away. Goldman Sachs and Merrill Lynch, which were both expecting the Fed to ease, have revised their interest rate forecasts to neutral for the rest of 2007, as a result. Now that the U.S. economy is on its way to picking up momentum, rate cuts are being postponed well into 2008. This sudden reversal in expectations explains the sharp yield backup of last week.

But those who were wrong about the upcoming recession are likely to be off with future inflation as well. Yet, in the US, GDP barely rose in the first quarter (0.6%). In Japan, wages slipped 0.7% in the last twelve months and prices are fast declining again. In Euroland, Germany apart, activity is losing momentum because of an uncompetitive Euro. Everywhere, housing is in trouble. Unit labor costs in the US remain restrained and in the OECD they have risen at a subdued 1.6%

annual rate during the current economic cycle, the slowest pace on record. You may dismiss inflation altogether!

It is difficult to recommend an entry point, given the extent of the sharp sell off. 5.25% could be the next support level. In Europe, the current sell off could bring yields back to 5.0%. In both currencies, we recommend nevertheless to accumulate 5-year issues of excellent quality. Avoid corporate issues for spreads could deteriorate there also.

### Yield Curve Steepens



**Bottom Line:** Buy medium-term (5-year) Notes. As inflation risks are low, interest rates will decrease again. This is good for bonds in general.