

WEEKLY MARKETS ROUND-UP

Executive Summary

1st May 2023

Top news: strong BIG Tech earnings eclipse First National Bank fall-out - last week was another one of dichotomy in equity markets. It was especially strong on US markets which benefited from Microsoft and Alphabet beating expectations early in the week while Amazon was more mixed on Thursday yet was widely compensated by a 14% rise on Meta as it grew sales for the first time in a year. In the meantime, the banking fall-out continues with First Republic Bank (recently the 12th largest US bank) reporting a 50% cut in results on Tuesday and seeing its share price drop another 80% into Friday. According to the financial press, its takeover by the regulators is imminent while parts of its assets would be sold off to JP Morgan or PNC Bank. Last Friday also saw the release of the latest PCE Inflation data (the FED's preferred gauge). It was expected to remain stable (and it was, at 4.6% Y-o-Y), yet the Services Component ex Shelter is still stuck near its 2 years highs. Next week will be busy with the FED statement on Wednesday, the ECB press conference and Apple's earnings release on Thursday and Non-Farm Payrolls on Friday.

Equity: as we highlight on the next page, equity markets remain complacent with the VIX Volatility Index back to its 2021 levels. Behind the scenes, the situation in US markets is deteriorating. Indeed, First Republic Bank is just a proxy of the weak participation in the rally. As of Wednesday, all the performance of the S&P500 year to date (circa 5.5%) was attributable to Meta, Apple, Amazon, Netflix, Alphabet, Microsoft, NVIDIA and Tesla, while the other 492 stocks were negative on average. Only 32% of stocks have outperformed the S&P500 year to date. This is the worse reading since 1999. Historically, such situations can extend a while longer, yet gravity eventually takes hold. Last week, US markets were up, European ones were down, and we remain prudent for now.

Fixed Income: US and European yields dropped slightly last week as an economic slowdown, some systematic risks and potential rates cuts thereafter continued to be priced in. The FED is expected to raise one last time next week by 0.25% and then halt. We still expect some retracement on yields during May, yet are concerned about the extent of the cuts priced in thereafter.

FOREX: Tweets and Newspaper articles about de-Dollarization are spiking, which could provide a contrarian signal. The Dollar index was flat last week, which may point to some stabilization, and perhaps to a possible bounce over the next 2-3 months.

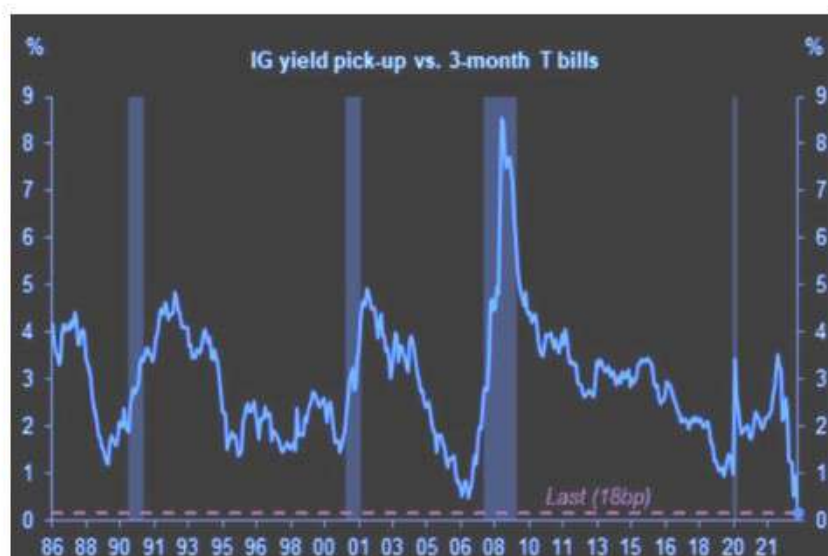
Commodities: Oil is continuing to retest down towards its March lows; Gold is retracing the strong rally it achieved into mid April.

	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance		Trend	Exaggeration
			Date Low	Low Price	Rise %	Date High	High price	Decline %	YTD in %	last 6m ¹		
S&P500 Index	USD	4 169	oct.22	3 577	16,6%	août.22	4 305	-3,2%	8,6%	neutral	neutral	
Nasdaq100 Index	USD	13 246	déc.22	10 679	24,0%	août.22	13 667	-3,1%	21,1%	up	slightly OB	
Dow Jones Industrials Index	USD	34 098	sept.22	28 726	18,7%	nov.22	34 590	-1,4%	2,9%	neutral	neutral	
EuroStoxx50	EUR	4 359	sept.22	3 279	32,9%	avr.23	4 409	-1,1%	14,9%	up	neutral	
Swiss Market Index	CHF	11 437	sept.22	10 073	13,5%	mai.22	12 002	-4,7%	6,6%	neutral	neutral	
Nikkei225	JPY	28 848	janv.23	25 717	12,2%	août.22	29 223	-1,3%	10,6%	neutral	slightly OB	
Shanghai Composite	CNY	3 323	oct.22	2 893	14,8%	juin.22	3 409	-2,5%	7,6%	neutral	neutral	
US 10Y Treasury Yield	%	3,44%	août.22	2,58%	0,9%	oct.22	4,25%	-0,8%	-0,4%	down	neutral	
German 10Y Bund Yield	%	2,32%	août.22	0,76%	1,6%	mars.23	2,75%	-0,4%	-0,2%	up	neutral	
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	106	nov.22	93	14,5%	mai.22	122	-13,0%	8,0%	neutral	neutral	
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	110	oct.22	99	11,2%	mai.22	116	-5,0%	5,3%	neutral	neutral	
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	oct.22	70	8,0%	mai.22	77	-2,4%	4,0%	neutral	neutral	
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	86	oct.22	77	11,9%	mai.22	91	-5,8%	2,7%	neutral	neutral	
EUR/USD		1,10	sept.22	0,96	14,8%	avr.23	1,10	-0,3%	3,0%	neutral	neutral	
GBP/USD		1,26	sept.22	1,07	17,7%	mai.22	1,27	-0,7%	3,9%	neutral	neutral	
USD/JPY		136	mai.22	127	7,5%	oct.22	150	-9,2%	4,0%	neutral	neutral	
USD/CHF		0,89	avr.23	0,89	0,7%	nov.22	1,01	-11,7%	-3,3%	neutral	neutral	
AUD/USD		0,66	oct.22	0,62	6,7%	juin.22	0,73	-8,9%	-2,9%	neutral	neutral	
Brent Oil (per Barrel)	USD	80	mars.23	73	9,0%	juin.22	124	-35,6%	-7,4%	down	neutral	
Gold Spot (per Ounce)	USD	1 990	sept.22	1 624	22,5%	avr.23	2 040	-2,5%	9,0%	up	neutral	

* These large fixed income ETFs are used as proxies to assess the state of duration trades as well as of credit markets

Risk/Reward focus: Taking risks currently doesn't pay

Despite the general slowdown in economic data and the ongoing banking turmoil, taking risks currently doesn't pay. Indeed, the premium paid to hold Investment Grade Corporate Debt vs 3 months US Treasuries is at its lowest levels since 1986 (left hand graph). This means that investors are not compensated for investing in more risky credits. Hence our view that one should currently focus on Treasuries and high quality Investment Grade Bonds (A and above) to generate yield rather than move into BBB and Junk. Similarly in Equity Market, the S&P500 Volatility Index is back to its late 2021 lows (right-hand graph). This implies that Selling Options (i.e. selling market protection) currently doesn't fetch a worthwhile premium/price. Historically, such situations can perdure for a while, yet usually reverse abruptly once recession / financial crisis hits (shaded areas on the left-hand graph).



Source: BOFA



Source: Saint Louis FED

Notes:

- Trend last 6 months:** this Primis original algorithm, weighs the slope of the trend over the last 6 months vs the slope of the trend over the last 3 months yet factorised by the Fibonacci retracement ratio (0.618). Values are normalised using the average price over each period. If this combined slope is above +0.05% the trend is then "up", below -0.05% then "down", otherwise it is "neutral".
- Overbought (OB) / Oversold (OS) measures:** this Primis original algorithm is computed by comparing the difference between the 8 days moving average and the 100 days combined with the 3 days vs the 15 days one and normalises this difference by dividing it by the 1 year standard deviation (circa 260 open market days). Values above 225% or under -225% are Overbought "OB", resp. Oversold "OS", values above 100% or under -100% are "slightly OB", resp. "slightly OS", otherwise there is no relevant exaggeration and the situation is then "neutral".

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