

WEEKLY MARKETS ROUND-UP

Executive Summary

3rd April 2023

Top news: resilient data – the banking crisis seems to have come and gone, for now. Market sentiment was then very Oversold, and a set of decent macro-economic data last week did lead equities to rally back strongly. US Consumer Confidence came out stronger than expected on Tuesday, Oil inventories dropped on Wednesday, Final US Q4 GDP was revised down slightly to 2.6% on Thursday, yet remains firm, while Core PCE US inflation (the FED's favorite inflation gauge) dropped to 0.3% m-o-m (when 0.4% was expected). Hence, the US economy is holding up well, while inflation is receding and short term Oversold markets are rallying. The only spoiler was probably the EuroZone core CPI on Friday which continued to rise from 5.6 to 5.7% y-o-y. This coming week, we will first focus on the US Purchasing Manager's Manufacturing (Monday) and Services Indexes (Wednesday). These advanced indicators may give initial clues about ongoing credit creation, especially following the US regional banking crisis (as they have been the main providers of new credits in the US since early 2022 according to [this link from Pictet AM](#)). We will also await the US Non-Farm Employment Payroll numbers on Friday to spot any softening, following their strong readings over the last two months.

Equity: the Nasdaq100 is leading the rally (resilient growth, lower inflation a.k.a. Soft Landing). It is now up more than 20% YTD but starting to look slightly Overbought as per our indicator below. We would agree with JPM's Head of Market Intelligence Andrew Tyler that this strength should be "faded" (gradually sold) as the risk of a recession in coming quarters remains high. Equities are also priced to perfection vs short term USD rates, now almost at 5% (see our Equity Risk Premium considerations on the next page).

Fixed Income: yield curves in the US and Europe remain inverted, as Central Banks are still hiking for now, while longer term rates are retracing, anticipating the need for rate cuts thereafter. We still expect the US10Y Treasury yield to reach down towards the high/mid 2.0s% over the next 2 months. Credit spreads are attempting to retest down (i.e. less risk), but for how long?

FOREX: the USD continues to follow longer term US yields lower. International pressures to replace the Dollar based payment system are also making front news. Yet, any "higher for longer" FED narrative and/or risk-off events abroad could see it rally again.

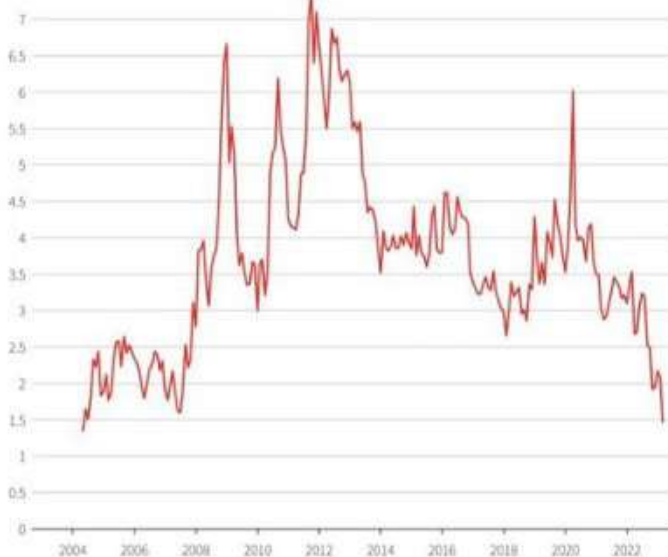
Commodities: Oil has rallied on lower inventories and production cuts, yet we still expect it to build a base into mid Q2 (support towards 70 USD/barrel). Gold took a breather on decent economic data, is still slightly Overbought, but remains in an uptrend.

	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance YTD in %	Trend last 6m ¹	Exaggeration OB / OS ²
			Date Low	Low Price	Rise %	Date High	High price	Decline %			
S&P500 Index	USD	4 104	oct.22	3 577	14,7%	avr.22	4 583	-10,4%	6,9%	neutral	neutral
Nasdaq100 Index	USD	13 178	déc.22	10 679	23,4%	avr.22	15 160	-13,1%	20,5%	up	slightly OB
Dow Jones Industrials Index	USD	33 246	sept.22	28 726	15,7%	avr.22	35 161	-5,4%	0,3%	neutral	neutral
EuroStoxx50	EUR	4 318	sept.22	3 279	31,7%	mars.23	4 318	0,0%	13,8%	up	neutral
Swiss Market Index	CHF	11 100	sept.22	10 073	10,2%	avr.22	12 529	-11,4%	3,5%	neutral	neutral
Nikkei225	JPY	28 014	janv.23	25 717	8,9%	août.22	29 223	-4,1%	7,4%	neutral	slightly OB
Shanghai Composite	CNY	3 273	avr.22	2 886	13,4%	juin.22	3 409	-4,0%	5,9%	up	neutral
US 10Y Treasury Yield	%	3,48%	avr.22	2,39%	1,1%	oct.22	4,25%	-0,8%	-0,4%	neutral	neutral
German 10Y Bund Yield	%	2,37%	avr.22	0,52%	1,8%	mars.23	2,75%	-0,4%	-0,2%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	106	nov.22	93	13,9%	avr.22	134	-20,4%	7,4%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	110	oct.22	99	10,4%	avr.22	121	-9,7%	4,6%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	76	oct.22	70	7,7%	avr.22	80	-5,1%	3,7%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	86	oct.22	77	11,7%	avr.22	98	-11,6%	2,5%	neutral	neutral
EUR/USD		1,08	sept.22	0,96	13,0%	févr.23	1,10	-1,3%	1,3%	neutral	neutral
GBP/USD		1,23	sept.22	1,07	15,5%	avr.22	1,31	-6,0%	2,0%	neutral	neutral
USD/JPY		133	avr.22	123	8,1%	oct.22	150	-11,6%	1,2%	neutral	neutral
USD/CHF		0,92	févr.23	0,91	0,7%	nov.22	1,01	-9,7%	-1,0%	neutral	neutral
AUD/USD		0,67	oct.22	0,62	7,8%	avr.22	0,76	-11,8%	-1,9%	neutral	neutral
Brent Oil (per Barrel)	USD	79	mars.23	73	8,8%	juin.22	124	-35,7%	-7,6%	down	neutral
Gold Spot (per Ounce)	USD	1 969	sept.22	1 624	21,2%	mars.23	1 993	-1,2%	7,9%	up	slightly OB

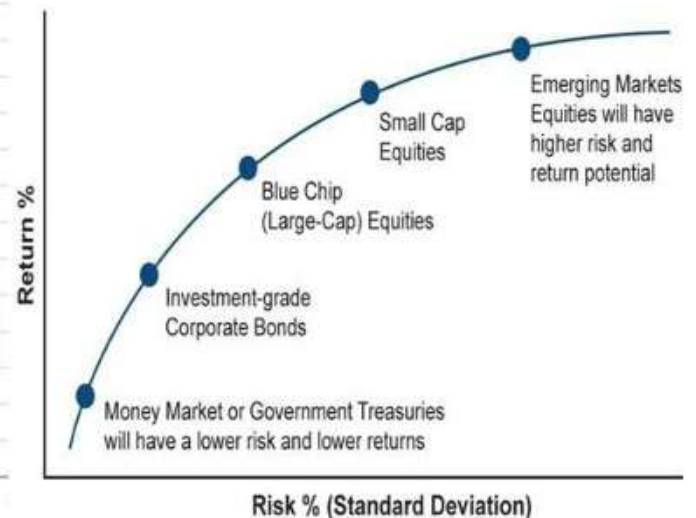
Cross Asset focus: Stocks are priced for Goldilocks

The spread between the forward earnings yield on the S&P500 vs the US10Y Treasury yield is at its lowest since 2004 (left-hand graph). This means that along the Efficient Frontier (right-hand graph), the incentive to favor Equities over Risk-Free bonds is at its lowest in terms of marginal expected returns in almost 20 years. Only a very optimistic scenario, with higher earning yields and lower inflation going forward, could justify such relative valuation.

— Spread between earnings yield of S&P 500 over 10-year Treasury bond yield



Note: Monthly spreads in percentage points
Source: Refinitiv



Source: Corporate Finance Institute

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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