

WEEKLY MARKETS ROUND-UP

Executive Summary

3rd July 2023

Top news: Awaiting Non-Farm Payrolls as Central Banks remain hawkish – last week, most economic data continued to surprise positively. On Tuesday, Core Durable Goods strongly beat expectations (+0.6% M-o-M), the CB Consumer Confidence also did (109.7 vs 103.9 expected) and New Home Sales rose to 12 months highs. On Thursday, US Q1 Final GDP also rose by 2% Q-to-Q vs +1.4% expected, while German CPI bounced back to +0.3% M-o-M (vs +0.2% expected). On Friday, Core PCE US Inflation (the FED's favorite inflation measure) remained steady at +0.3% M-o-M and UoM Consumer Sentiment closed off the week with another beat. In this context, the ECB Forum of Central Bankers on Wednesday was another hawkish demonstration, with Chair Powell stating that "although policy is restrictive, it is probably not restrictive enough", hitting at further hikes, while Mrs Lagarde considered that "there was still some ground to cover" to bring inflation down. The coming week will be focused on US employment data with ADP Private jobs and JOLTS Job openings on Thursday and the June Non-Farm Payrolls on Friday (see next page).

Equity: last week, the EuroStoxx50 and the S&P500 retested up towards their highs made two weeks ago. We still believe that some retracement could materialize into July / early August. Medium term, large US Tech valuations seem stretched, yet we cannot exclude that equity markets could linger on marginally higher into late Summer / the Fall, or at least until we get clearer signs of recession. China seems Oversold, especially on a relative basis vs other markets.

Fixed Income: US and EuroZone yields remained in a tight range. Given the strong macroeconomic data and the persistently hawkish Central Banks, we remain concerned that these could move higher once more into the Summer.

FOREX: the US Dollar held its ground last week, despite a sell-off on Friday. We expect it to continue to do so into mid July, yet to eventually start weakening again thereafter into late Summer, especially vs European currencies.

Commodities: Oil is stabilizing on low inventories as we await the OPEC meeting next Wednesday, while Gold briefly broke below 1'900 USD/oz last week. We expect it to remain under pressure into mid July, perhaps as USD holds up.

	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 %			
S&P500 Index	USD	4 450	Oct-22	3 577	24,4%	Jun-23	4 450	0,0%	15,9%	up	slightly OB
Nasdaq100 Index	USD	15 179	Dec-22	10 679	42,1%	Jun-23	15 185	-0,0%	38,8%	up	slightly OB
Dow Jones Industrials Index	USD	34 408	Sep-22	28 726	19,8%	Nov-22	34 590	-0,5%	3,8%	neutral	neutral
EuroStoxx50	EUR	4 399	Sep-22	3 279	34,2%	Apr-23	4 409	-0,2%	16,0%	neutral	neutral
Swiss Market Index	CHF	11 280	Sep-22	10 073	12,0%	May-23	11 595	-2,7%	5,1%	neutral	neutral
Nikkei225	JPY	33 189	Jan-23	25 717	29,1%	Jun-23	33 706	-1,5%	27,2%	up	slightly OB
Shanghai Composite	CNY	3 202	Oct-22	2 893	10,7%	Jul-22	3 405	-6,0%	3,7%	neutral	slightly OS
US 10Y Treasury Yield	%	3,83%	Aug-22	2,58%	1,2%	Oct-22	4,25%	-0,4%	-0,0%	up	neutral
German 10Y Bund Yield	%	2,39%	Aug-22	0,76%	1,6%	Mar-23	2,75%	-0,4%	-0,2%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	103	Nov-22	92	11,7%	Aug-22	120	-13,9%	5,3%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	108	Oct-22	98	10,4%	Aug-22	113	-4,5%	4,6%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	69	8,6%	Aug-22	76	-1,5%	4,6%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	87	Oct-22	76	13,8%	Aug-22	88	-2,2%	4,4%	neutral	neutral
EUR/USD		1,09	Sep-22	0,96	13,7%	May-23	1,11	-1,4%	2,0%	neutral	neutral
GBP/USD		1,27	Sep-22	1,07	18,9%	Jun-23	1,28	-1,0%	5,0%	neutral	neutral
USD/JPY		144	Jan-23	128	12,9%	Oct-22	150	-3,9%	10,0%	up	slightly OB
USD/CHF		0,90	May-23	0,88	1,3%	Nov-22	1,01	-11,7%	-3,2%	neutral	neutral
AUD/USD		0,67	Oct-22	0,62	7,5%	Feb-23	0,71	-6,6%	-2,2%	neutral	neutral
Brent Oil (per Barrel)	USD	75	Jun-23	72	4,3%	Jul-22	114	-34,0%	-12,8%	down	neutral
Gold Spot (per Ounce)	USD	1 919	Sep-22	1 624	18,2%	May-23	2 050	-6,4%	5,2%	neutral	neutral

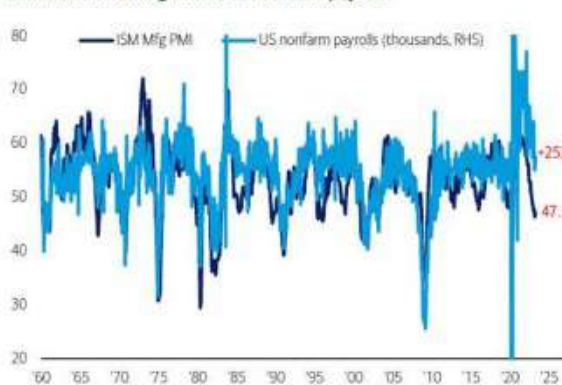
* These large fixed income ETFs are used as proxies to assess the state of duration trades as well as of credit markets

Employment focus: eventually, at some point, US NFPs will start heading South

Next Friday, the 7th of July, we will be awaiting the US monthly Non-Farm Payrolls (NFP) release for June. The data has proven extremely resilient in recent months and effectively beaten estimates for now 14 months in a row, the longest streak on record. Unemployment is important as it is one of the main indicators the FED is targeting in order to slow the economy and thereby inflation. For the record, Y-o-Y inflation has come down recently, yet mostly for Headline inflation and thanks to base effects. Monthly US Core Inflation is still running high with Core CPI and PCE for May at +0.4% and +0.3% M-o-M respectively. The two graphs today consider influences that could eventually lead employment data lower. The first one from Bank of America (left-hand graph) compares US NFP to ISM Manufacturing PMI data, which often leads, or at least coincides with, a deterioration in employment. The gap is currently very wide historically and could eventually drag the NFPs lower. The second from Trahan Macro Research (right-hand graph) shows that monetary tightening usually precedes Y-o-Y rises in Initial Unemployment Claims by 18 months, a negative influence which is starting to kick in. Hence, perhaps will we get another positive surprise this Friday (NFPs expected at 222k), yet eventually, over the next few months, this positive trend will cave in to deteriorating manufacturing data and to the strong progression in Fed Fund Rates over the last year and a half.

Chart 5: This will be resolved via -ve payrolls, not ISM > 50

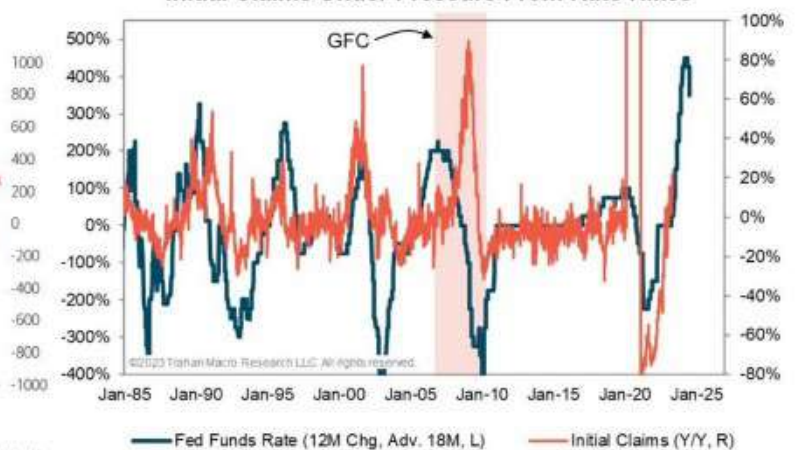
ISM manufacturing PMI vs US nonfarm payrolls



Source: Bofa Global Investment Strategy, Bloomberg

BoFA GLOBAL RESEARCH

Initial Claims Under Pressure From Rate Hikes



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— Fed Funds Rate (12M Chg, Adv. 18M, L) — Initial Claims (Y/Y, R)

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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