

# WEEKLY MARKETS ROUND-UP

## Executive Summary

7th August 2023

**Top news: US rating downgrade, Deceiving NFPs, Now awaiting CPI** – last week, Fitch downgraded US debt to AA+, which sent US Treasury yields sharply higher, testing up to 4.2%, while generally, risk assets came under pressure. A third consecutive quarterly drop in revenue from Apple on Thursday added to this downside pressure, while Amazon saved the day with blockbuster earnings and guidance. The week finished off with disappointing Non Farm Payrolls (+187k vs 200k, while last month's data was also revised down from +209k to +185k). Following the news, Treasuries did recuperate some for their losses on short covering, and the US10Y dropped back to 4.04%. Despite an intraday bounce, US equities finished Friday on their Weekly lows. Next week, all eyes will be on US CPI on Wednesday. It is expected to rise slightly from 3% to 3.3% because of base effects. M-o-M expectations for both Headline and Core are calling for a mild 0.2% increase. On the earnings front, Tuesday will see the release from UPS, Wednesday from Disney.

**Equity:** last week, both the S&P500 and the EuroStoxx50 dropped 3% while the Nasdaq100 lost almost 5%. The negative AAPL earnings did weigh on prices late in the week, yet it was mostly the higher yields (US downgrade) which pressured markets. With lower NFPs on Friday, CPI data is very much awaited next week. We would remain on the sidelines for now, especially as August is often seasonally weak due to low volumes. We then still expect higher highs into the Fall. Thereafter, a more worthwhile correction could materialize into the Spring as the economy finally slows.

**Fixed Income:** US10Y did test up to 4.2% last week before settling back towards 4%. German Bund yield also nudged slightly higher. As with equities, all Fixed Income products should eye CPI next week. Consensus is perhaps rather low (+0.2% M-o-M), especially for Headline following the recent rally in Oil prices (Core could start to follow NFPs lower).

**FOREX:** the US Dollar held up last week vs most currencies, yet we still expect it to weaken again into early Fall.

**Commodities:** Brent continues its relentless recovery (may soon approach 90 USD/barrel). Gold was slightly down, but resisting, despite higher yields, and we believe it could soon rise again into late Summer.

	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	4 478	Oct-22	3 577	25,2%	Jul-23	4 589	-2,4%	16,6%	up	slightly OB
Nasdaq100 Index	USD	15 275	Dec-22	10 679	43,0%	Jul-23	15 841	-3,6%	39,6%	up	neutral
Dow Jones Industrials Index	USD	35 077	Sep-22	28 726	22,1%	Aug-23	35 631	-1,6%	5,8%	up	slightly OB
EuroStoxx50	EUR	4 333	Sep-22	3 279	32,1%	Jul-23	4 471	-3,1%	14,2%	neutral	neutral
Swiss Market Index	CHF	11 096	Sep-22	10 073	10,2%	May-23	11 595	-4,3%	3,4%	neutral	neutral
Nikkei225	JPY	32 193	Jan-23	25 717	25,2%	Jul-23	33 753	-4,6%	23,4%	up	neutral
Shanghai Composite	CNY	3 288	Oct-22	2 893	13,6%	May-23	3 395	-3,1%	6,4%	neutral	neutral
US 10Y Treasury Yield	%	4,04%	Aug-22	2,75%	1,3%	Oct-22	4,25%	-0,2%	0,2%	up	slightly OB
German 10Y Bund Yield	%	2,54%	Aug-22	0,89%	1,7%	Mar-23	2,75%	-0,2%	-0,0%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	97	Nov-22	92	4,8%	Aug-22	118	-18,1%	-1,2%	neutral	slightly OS
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	106	Oct-22	98	8,4%	Aug-22	113	-6,0%	2,7%	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	86	Oct-22	76	13,9%	Aug-22	88	-2,1%	4,4%	neutral	neutral
EUR/USD		1,10	Sep-22	0,96	14,7%	Jul-23	1,12	-2,1%	2,8%	neutral	neutral
GBP/USD		1,27	Sep-22	1,07	19,4%	Jul-23	1,31	-2,9%	5,4%	neutral	neutral
USD/JPY		142	Jan-23	128	10,9%	Oct-22	150	-5,6%	8,1%	neutral	slightly OB
USD/CHF		0,87	Jul-23	0,86	1,8%	Nov-22	1,01	-13,9%	-5,6%	neutral	neutral
AUD/USD		0,66	Oct-22	0,62	5,9%	Feb-23	0,71	-8,0%	-3,6%	neutral	slightly OS
Brent Oil (per Barrel)	USD	86	Jun-23	72	19,7%	Aug-22	105	-18,2%	0,1%	neutral	slightly OB
Gold Spot (per Ounce)	USD	1 943	Sep-22	1 624	19,6%	May-23	2 050	-5,2%	6,5%	neutral	neutral

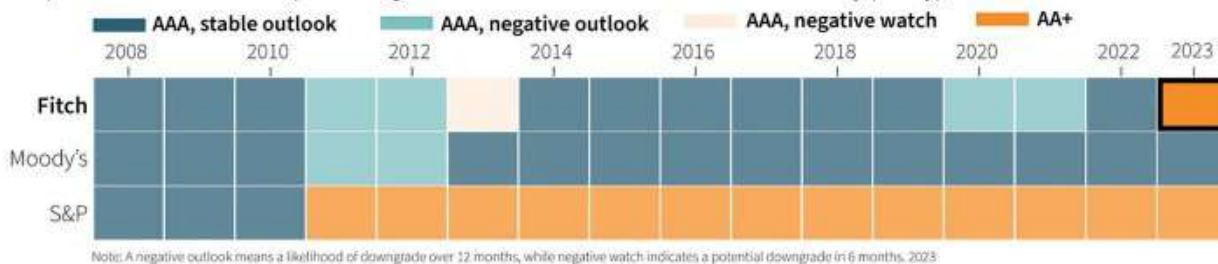
\* These large fixed income ETFs are used as proxies to assess the state of duration trades as well as of credit markets

Source: Primis Investment (Suisse) SA

## US Rating Focus: Fitch downgrades US Government Debt to AA+

**Rationale:** the downgrade by Fitch last week of US Government Debt comes as half of a surprise amid the recent debt ceiling debate and lack of medium term fiscal planning / discipline (ballooning debt projections, bottom left-hand graph). It follows a similar action by S&P in 2011 in the aftermath of the last large Debt Ceiling crisis (upper graph). It also comes at a time when US Government receipts have fallen a whopping 7.7% Y-o-Y (bottom right-hand graph), while net interest payments on Government debt are reaching 1 Trillion USD and Government spending represents 44% of GDP (similar to WWII levels).

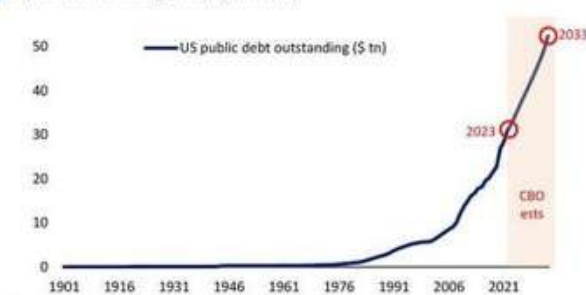
**Consequences:** while the likelihood of a default is only marginally higher (AA+ rating), such a downgrade should have secular knock-on effects on the cost of the whole US capital structure (from Treasuries to High Yield). While initially this could mean higher income for US fixed Income products, it may also lead to further downgrades and capital losses in a few years if fiscal discipline is not reinstated (mounting loss of confidence in fiscal and monetary policy).



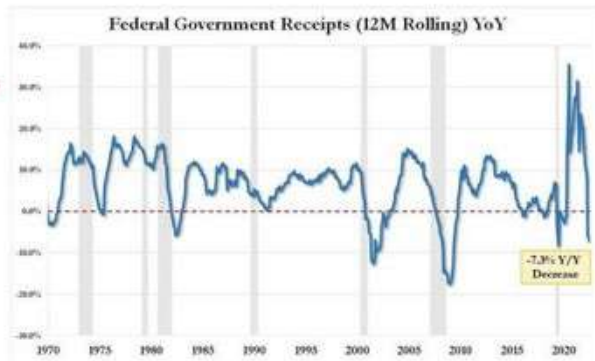
Note: A negative outlook means a likelihood of downgrade over 12 months, while negative watch indicates a potential downgrade in 6 months, 2023

Sources: Credit rating agencies | Prinz Magtulis | Reuters, August 1, 2023

**Chart 2: US public debt to rise by \$5.2bn every day next 10 years.**  
US public debt outstanding & CBO projections (\$tn)



Source: BofA Global Investors Strategy View



### 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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