

WEEKLY MARKETS ROUND-UP

Executive Summary

8th May 2023

Top news: the FED signals a pause – the most important of many events last week was the FED, on Wednesday, which decided to raise its Fed Funds Rate another +0.25% to 5.25% and signaled a pause in its rate hikes going forward. The narrative was still rather hawkish though, calling for a wait and see approach and dismissing hopes of rate cuts any time soon. This remains at odds with the market, which is anticipating many rate cuts over the next 18 months. Indeed, current focus remains on the US Regional Bank crisis and how it may spread to other assets and sectors. That said, while US regional banking stocks still got pounded into Thursday, deposit flight seems to be slowing as reflected by the stable usage of the FED's Bank Term Funding Program last week. Furthermore, on Friday, it didn't take much more than a strong Non-Farm Payrolls number (253k vs expected 181k) and positive comments from FED Governor Bullard to see the KRE Regional Banking ETF rise 7% in a huge short covering rally. Hence, although we cannot exclude a worsening of the current banking crisis, our main concern is more about the lagged effect of this crisis over the next few months, as these banks will need to cut their lending aggressively to reduce leverage. This could have a strong impact on corporate funding costs and profitability. Elsewhere this week, the ECB also hiked by +0.25%. This follows the release of the April EuroZone Flash CPI on Tuesday, which actually showed a slight progression from last month, up 0.1% to 7%. This is still rather hefty, and the market expects 2 further rates hikes, in June and July, at least. Next Wednesday, the US will be awaiting its own April CPI data (flat 5% estimate). A positive or negative surprise will either comfort or challenge the FED's current wait and see approach.

Equity: US and European equities were slightly down last week, despite a strong rally on Friday which saw the S&P500 rise 1.85% and EuroStoxx50 1.2%. The Nasdaq100 remains the more resilient of the large US indexes (almost flat). Generally, equities have pretty much remained flat since early April and still seem rather Overbought on our table below. We hence remain prudent for now.

Fixed Income: US and European yields were flat last week as potential systemic risks from the US banking crisis seem compensated by resilient macro-economic data. We still expect some retracement as long as the US Banking crisis is underway.

FOREX: the Dollar remains under pressure yet is Oversold on a couple of pairs below. We still expect a bounce into midyear.

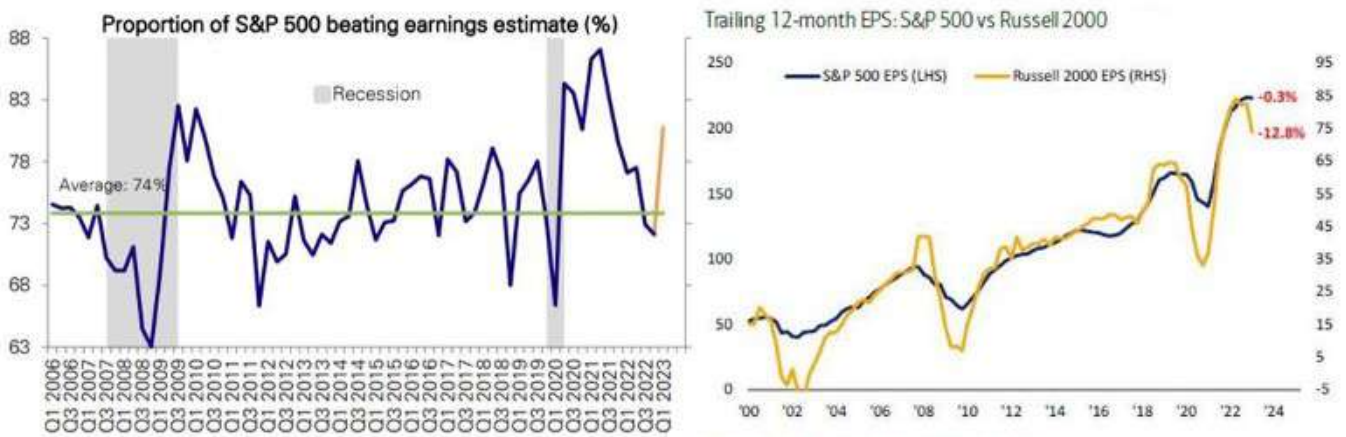
Commodities: Oil is continuing to retest down towards its March lows; Gold is attempting to break-out, without success for now.

	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	4'136	Oct-22	3'577	15.6%	Aug-22	4'305	-3.9%	7.7%	neutral	neutral
Nasdaq100 Index	USD	13'235	Dec-22	10'679	23.9%	Aug-22	13'667	-3.2%	21.0%	up	slightly OB
Dow Jones Industrials Index	USD	33'674	Sep-22	28'726	17.2%	Nov-22	34'590	-2.6%	1.6%	neutral	neutral
EuroStoxx50	EUR	4'340	Sep-22	3'279	32.4%	Apr-23	4'409	-1.5%	14.4%	up	neutral
Swiss Market Index	CHF	11'546	Sep-22	10'073	14.6%	May-22	11'736	-1.6%	7.6%	neutral	slightly OB
Nikkei225	JPY	29'158	Jan-23	25'717	13.4%	Aug-22	29'223	-0.2%	11.7%	neutral	OB
Shanghai Composite	CNY	3'350	Oct-22	2'893	15.8%	Jun-22	3'409	-1.7%	8.5%	neutral	neutral
US 10Y Treasury Yield	%	3.43%	Aug-22	2.58%	0.8%	Oct-22	4.25%	-0.8%	-0.4%	down	neutral
German 10Y Bund Yield	%	2.29%	Aug-22	0.76%	1.5%	Mar-23	2.75%	-0.5%	-0.3%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	105	Nov-22	93	12.9%	May-22	122	-14.3%	6.4%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	109	Oct-22	99	9.8%	May-22	116	-6.2%	4.0%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	70	7.1%	May-22	77	-3.2%	3.2%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	Oct-22	77	11.0%	May-22	91	-6.4%	1.8%	neutral	neutral
EUR/USD		1.10	Sep-22	0.96	14.8%	May-23	1.11	-0.4%	3.0%	neutral	neutral
GBP/USD		1.26	Sep-22	1.07	18.3%	May-22	1.27	-0.2%	4.4%	neutral	slightly OB
USD/JPY		135	May-22	127	6.3%	Oct-22	150	-10.1%	2.8%	neutral	neutral
USD/CHF		0.89	May-23	0.88	0.7%	Nov-22	1.01	-12.1%	-3.7%	neutral	slightly OS
AUD/USD		0.68	Oct-22	0.62	8.9%	Jun-22	0.73	-7.1%	-0.9%	neutral	neutral
Brent Oil (per Barrel)	USD	75	May-23	72	4.2%	Jun-22	124	-39.0%	-12.3%	down	neutral
Gold Spot (per Ounce)	USD	2'016	Sep-22	1'624	24.1%	May-23	2'050	-1.7%	10.5%	up	slightly OB

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

Earnings focus: Earnings beat for now, yet Small Caps EPS are issuing a warning

The earnings season is well under way and on average releases have beaten expectations. Indeed, following last week's strong earnings from Microsoft, Alphabet or Meta, Apple was out on Thursday night with another strong report which beat expectations on iPhone sales, Revenue and Net income. The stock surged almost 5% on Friday. Such resilience has Deutsche Bank wondering if the earnings recession is potentially over (left-hand graph) as such large spikes in the proportion of S&P500 companies beating earnings were only seen previously out of big downturns. This could be corroborated by many other indicators also showing new positive dynamics (e.g. recent Global Flash PMI data, strong growth Auto and Truck sales, US ISM April Manufacturing and Services data both beating expectations this week, not to mention the strong Non-Farm Payrolls on Friday). The widely followed Atlanta FED GDPNow forecast is also projecting strong growth still in Q2 at 2.7% Y-o-Y, while on Friday FED Gov. Bullard outlined slow growth and declining inflation later this year as his base case, rather than a recession. The right-hand graph on this page takes the opposite view. It is sourced from Bank of America. It considers that Earnings will soon follow the lead lower from Small Caps Earnings as they have done in previous recessions. Their report also argues that contracting lending conditions will soon start taking their toll on the labor market and the economy. We tend to agree, and again would more likely consider current strength as a False Dawn rather than an Indian Summer. Yet how long can the temporary improvements persist, is the most delicate question to us.



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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