

WEEKLY MARKETS ROUND-UP

Executive Summary

10th July 2023

Top news: US CPI and the beginning of Q2 earnings season – last Friday, finally broke the streak of 14 months of positive Non-Farm payrolls surprises, these came in at 209k vs 224k expected and vs 306k last month. All in all, these did hold up rather well however, especially that the employment rate remained at historic lows (3.6%), average M-o-M hourly earning surprised positively at +0.3% (vs +0.2% expected), and while on Thursday, the ADP private Non-Farm employment numbers came in higher than expected and Job Openings held up rather well. Hence, it may still take a few more months before the job market effectively confirms a slowdown. Next week, US CPI data is awaited on Wednesday, which thanks to base effects should continue to drop Y-o-Y (Headline expected at 3.1%), yet current M-o-M run-rates will be the main focus as these reflect current inflation (both Headline and Core are expected at + 0.3% M-o-M). US Consumer Sentiment and the first earnings releases from JPM, C, WFC and UNH will conclude the week.

Equity: the S&P500 retraced slightly last week (-1%) while the EuroStoxx50 dropped more than 3.5%. Europe is indeed, seeing a more pronounced economic slowdown with industrial production falling in Germany along with European retail sales. Going forward, the S&P500, the Nasdaq100 and the Nikkei225 are still Overbought (our table below), and we would expect further consolidation / volatility over the next few weeks as the Q2 earnings season begins.

Fixed Income: US and EuroZone yields saw a strong move higher last week fueled by positive US economic surprises and the FED and ECB remaining hawkish. Yields across both yield curves could soon retest their 12 months highs.

FOREX: the US Dollar started to resume lower late last week on Friday's slightly disappointing NFPs. This is a bit earlier than we had expected, yet in line with our projections into the Fall, which call for a lower US Dollar, possibly as the ECB is further behind the curve on Inflation than the FED, and will need to hike for longer.

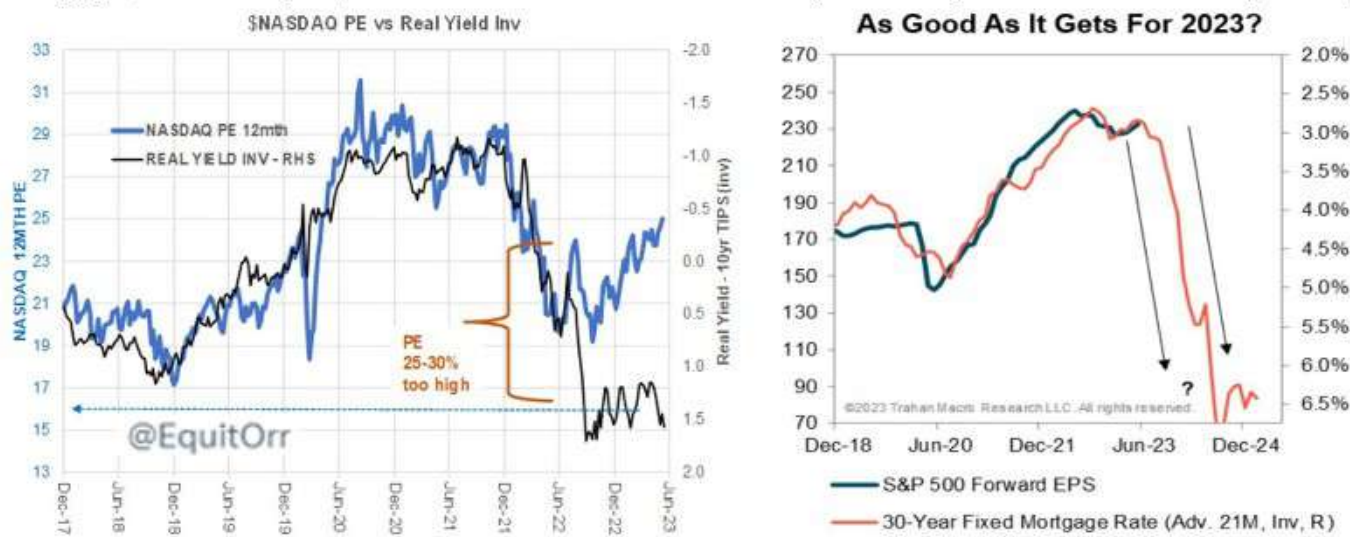
Commodities: Oil continued to rebound last week and is on the verge of breaking out of its 3 months base. We expect this bounce to continue into late Summer (towards 85-90 USD/barrel on Brent). Gold is starting to stabilize.

	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	4 418	Oct-22	3 577	23,5%	#N/A	8 911	-50,4%	15,1%	up	slightly OB
Nasdaq100 Index	USD	15 037	Dec-22	10 679	40,8%	#N/A	30 417	-50,6%	37,5%	up	slightly OB
Dow Jones Industrials Index	USD	33 864	Sep-22	28 726	17,9%	Nov-22	34 590	-2,1%	2,2%	neutral	neutral
EuroStoxx50	EUR	4 237	Sep-22	3 279	29,2%	Apr-23	4 409	-3,9%	11,7%	neutral	neutral
Swiss Market Index	CHF	10 870	Sep-22	10 073	7,9%	May-23	11 595	-6,3%	1,3%	neutral	neutral
Nikkei225	JPY	32 418	Jan-23	25 717	26,1%	Jul-23	33 753	-4,0%	24,2%	up	slightly OB
Shanghai Composite	CNY	3 197	Oct-22	2 893	10,5%	May-23	3 395	-5,8%	3,5%	neutral	neutral
US 10Y Treasury Yield	%	4,06%	Aug-22	2,58%	1,5%	Oct-22	4,25%	-0,2%	0,2%	up	slightly OB
German 10Y Bund Yield	%	2,64%	Aug-22	0,76%	1,9%	Mar-23	2,75%	-0,1%	0,1%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	99	Nov-22	92	7,5%	Aug-22	120	-17,2%	1,4%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	106	Oct-22	98	7,7%	Aug-22	113	-6,8%	2,1%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	74	Oct-22	69	6,9%	Aug-22	76	-3,1%	2,9%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	Oct-22	76	11,3%	Aug-22	88	-4,4%	2,0%	neutral	neutral
EUR/USD		1,10	Sep-22	0,96	14,3%	May-23	1,11	-0,9%	2,5%	neutral	neutral
GBP/USD		1,28	Sep-22	1,07	20,2%	Jul-23	1,28	0,0%	6,2%	neutral	neutral
USD/JPY		142	Jan-23	128	11,1%	Oct-22	150	-5,3%	8,4%	up	slightly OB
USD/CHF		0,89	May-23	0,88	0,5%	Nov-22	1,01	-12,3%	-3,9%	neutral	neutral
AUD/USD		0,67	Oct-22	0,62	7,9%	Feb-23	0,71	-6,2%	-1,8%	neutral	neutral
Brent Oil (per Barrel)	USD	78	Jun-23	72	9,2%	Jul-22	110	-28,7%	-8,7%	down	neutral
Gold Spot (per Ounce)	USD	1 925	Sep-22	1 624	18,5%	May-23	2 050	-6,1%	5,5%	neutral	neutral

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

Earnings focus: a challenging Q2 earnings season kicks-off late next week

Next Friday will mark the beginning of the Q2 earnings season, which amid macro uncertainty is forecasted to be quite challenging. Consensus is indeed predicting some -7% yearly decline in profits, while revenue growth could go slightly negative for the first time since COVID. Energy, Materials or HealthCare are expected to see the worse drops, yet are also the most undervalued historically in relative terms, while Consumer Discretionary on the other hand is well valued yet also expected to show strong earnings growth. For Technology, the market expects lackluster earnings while relative valuations are at record highs. Meanwhile, Financials earnings seem positive, while relative valuations are at historical lows. These discrepancies could trigger many surprises, volatility and sector rotations. They are set against a background where the Nasdaq100 (and A.I. related stocks) have recently defied the gravity of higher real yields (left-hand graph), while the effects of tighter monetary policy could finally start impacting earnings with its usual long lags (21 months lag to 30Y Mortgage rate, inverted scale, right-hand graph). Such lags were especially long during this cycle where Households met tightening with high post-COVID savings and a large proportion of 30-year fixed mortgages, and as many corporations had extended their loans to long term at very low interest levels during COVID).



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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