# **WEEKLY MARKETS ROUND-UP**

#### **Executive Summary**

11th September 2023

Top news: awaiting US CPI on Wednesday - last week saw positive US Service PMI's while these outcomes were more mixed in Europe (Germany flat, UK up, most other countries down). The FED's beige book, which reviews broad economic conditions in the various FED districts, did anticipate some price and wage softening later in H2, yet for now (i.e. for July and August), economic growth persisted, although moderately. Hence, the US August CPI release this Wednesday will be scrutinized, especially given the recent rise in Energy costs. Core is awaited at a conservative 0.2% MoM, yet Headline (which includes Food & Energy) is expected to jump +0.6%, possibly bringing the YoY change back to 3.6% (vs 3.2% in July). While odds of a further FED rate hike remain below 10% at the next 20<sup>th</sup> September meeting, they have now ticked up to 43.6% for the following 1<sup>st</sup> November one, clearly reflecting a market sentiment which is leaning towards a Soft landing rather than a Hard one. Further data later in the week (US PPI on Thursday, Empire Manufacturing Index and Consumer Sentiment on Friday) will also be reviewed in this respect, while in the EuroZone, and in light of slowing data, markets expect the ECB to pause on Thursday despite CPI sticking at 5.3% in August.

**Equity:** positive US macro data are still pointing to the possibility of further rate hike(s) into Q4 and hence equities last week retraced their gains from the previous week (minus 1-2%). The consolidation has now been underway for almost 6 weeks, and markets are starting to feel uneasy. A weaker US CPI could support a positive reaction (and vis-versa).

**Fixed Income:** US10Y is still pushing to retest up once again over the next few weeks, while German Bund yields could be starting to lose momentum. Here also, all eyes will be on the US CPI data on Wednesday and the ECB on Thursday.

**FOREX:** the US Dollar continued to recover. This bounce is starting to feel temporarily stretched. With some help from the US CPI, or a slightly more hawkish ECB than expected, it could retrace back a couple of figures into month's end.

**Commodities:** Brent could start to feel some resistance at around 90 USD/barrel, while Gold may attempt a last rally towards the high 1'900s USD/oz (perhaps 2'000) over the next few weeks. CPI again will be a crucial influence factor.

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	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance	Trend	Exaggeration
			Date Low	Law Price	Rise %	Date High	High price	Dedine %	YTO in %	last 6m <sup>1</sup>	OB/OS <sup>2</sup>
S&P500 Index	USD	4'457	Oct-22	3'577	24.6%	Jul-23	4'589	-2,9%	16.1%	up	neutral
Nasdaq100 Index	USD	15'280	Dec-22	10'679	43,1%	Jul-23	15'841	-3.5%	39.7%	up	neutral
Dow Jones Industrials Index	USD	34'577	Sep-22	28'726	20.4%	Aug-23	35'631	-3.0%	4.3%	neutral	neutral
EuroStoxx50	EUR	4'237	Sep-22	3'279	29.2%	Jul-23	4'471	-5.2%	11.7%	neutral	neutral
Swiss Market Index	CHF	10'949	Sep-22	10'073	8.7%	May-23	11′595	-5.6%	2.0%	neutral	neutral
Nikkei225	JPY	32'607	Jan-23	25′717	26.8%	Jul-23	33'753	-3,4%	25.0%	up	neutral
Shanghai Composite	CNY	3'117	Oct-22	2'893	7.7%	May-23	3′395	-8.2%	0.9%	neutral	neutral
US 10Y Treasury Yield	%	4.26%	Apr-23	3.31%	1.0%	Aug-23	4.34%	-0.1%	0.4%	up	slightly O
German 10Y Bund Yield	%	2.60%	Sep-22	1.64%	1.0%	Mar-23	2.75%	-0.2%	0.0%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	94	Nov-22	90	4.7%	Sep-22	107	-12.0%	-1.3%	down	slightly O
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	105	Oct-22	96	8.6%	Feb-23	108	-3.0%	2.9%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	68	9.5%	Aug-23	75	-0.9%	5.4%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	Oct-22	75	13.1%	Jul-23	87	-2.3%	3.7%	neutral	neutral
EUR/USD		1.07	Sep-22	0.96	11.5%	Jul-23	1.12	4.8%	-0.0%	neutral	neutral
GBP/USD		1.25	Sep-22	1.07	16.7%	Jul-23	1.31	-5.1%	3.1%	neutral	neutral
USD/JPY		148	Jan-23	128	15.6%	Oct-22	150	-1.5%	12.7%	up	slightly O
USD/CHF		0.89	Jul-23	0.86	4.1%	Nov-22	1.01	-11,9%	-3.4%	neutral	neutral
AUD/USD		0.64	Oct-22	0.62	2.8%	Feb-23	0.71	-10.6%	-6.4%	neutral	slightly O
Brent Oil (per Barrel)	USD	91	Jun-23	72	26.0%	Nov-22	99	-8.2%	5.3%	up	slightly O
Gold Spot (per Ounce)	USD	1'919	Sep-22	1'624	18.1%	May-23	2'050	-6.4%	5.2%	neutral	neutral

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

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### US Energy Valuation Focus: strong correlation to Oil; even stronger one to US10Y

Oil prices and Energy stocks are currently fueling a lot of hype. While Oil prices mostly react to curbs in supply and demand dynamics, and are hence volatile, the Energy sector may have more secular reasons to thrive and outperform over the next few years. Indeed, while it has rebounded significantly from its secular lows made in 2020 vs the S&P500, it remains highly undervalued vs other sectors (left-hand table below): EV/Sales, EV/EBITDA and Next12mPEs are by far the lowest of any of the other sectors, Price/Book is also on the low end, while Free Cash Flow yield is more than double other sectors. Historically, this may have been justified by the low/negative growth rate of the sector (the PE to Growth PEG ratio is indeed Non-meaningful), yet Growth may not remain the most important valuation criteria going forward, especially if yields hold-up higher over the cycle. As the left-hand graph shows, the ratio of US Energy to the S&P500 is well correlated to Oil (a 0.6 positive correlation), yet its correlation to the US10Y is even more impressive at 0.9. The market remains a discounting machine and higher yields definitely favor short term cash flows (i.e. US Energy has a 13.7% FCF yield) rather than longer duration growth oriented ones. Baring a hard landing, which remains a possibility but not our favored outcome, the US Energy sector could continue to show resilience and thrive in coming years. While ESG concerns are understandable, financially, it may prove hard to forego such an undervalued opportunity, especially when it pays a >3.5% dividend (twice the S&P500's).

	EV/ Sales	EV/ EBITDA	Price/ Book	FCF Yield	PEG Ratio	NTM P/E	140
S&P 500	2.7x	13.4x	4.3x	3.7 %	1.9x	19.2x	120
Energy	1.2	4.4	2.2	13.7	NM	10.4	100
Financials	NM	NM	1.9	NM	1.2	13.4	
Real Estate	NM	NM	3.1	NM	2.2	16.9	80
Health Care	1.9	12.9	4.7	5.5	2.3	16.9	60
Utilities	NM	12.4	2.1	(6.4)	2.5	17.0	The Man was a second and a second a second and a second a
Materials	2.2	9.7	2.9	4.2	2.7	17.1	40
Comm Services	3.4	10.0	3.4	4.4	1.0	17.1	20 Mah modern
Industrials	2.4	13.0	5.6	3.7	1.6	18.5	0
Cons Staples	1.6	15.0	6.3	3.4	2.9	20.0	2019 2020 2021 2022 2023
Cons Discr	2.5	17.3	9.8	1.9	2.5	26.5	Brent Oil (USD/barrel, Ihs)
Info Tech	7.1	22.6	11.1	2.7	2.4	27.2	Energy (XLE ETF) / SPY (mutiplied by 20, rhs)

#### 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".
- 2. 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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