WEEKLY MARKETS ROUND-UP

Executive Summary

15th May 2023

Top news: CPI slightly softer than expected – the macro-economic releases this week were mostly disinflationary. Indeed, the Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) kicked-off the week on Monday. It showed that conditions in Q1 2023 for most loans in the US had tightened back to levels not seen since 2020 and 2009 (more restrictive lending), while demand for these more expensive loans had also plummeted towards its 2009 lows. We see this as a direct consequence of the higher levels of interest rates and the related US regional banking crisis, and generally, it doesn't bode well for economic growth down the line. CPI on Wednesday was also slightly lower than expected. While US Core CPI (ex Food and Energy) remained steady at 5.5%, Headline CPI (including Oil and Energy) dropped slightly to 4.9% (it was expected to remain flat at 5%). US PPI confirmed this weakness on Thursday undercutting expectations, while both Chinese CPI and PPI cratered. Hence, inflation is expected to drop further over the next few months, and the market widely expects the FED to hold-off on implementing any further rate hikes at its mid June meeting. Next week, we will be expecting April Core US retail sales on Tuesday, which are expected to bounce back following a negative March reading as well as FED's Chair Powell's participation at a Monetary Perspectives panel on Friday.

Equity: US and European markets were slightly down last week and have now been pretty much flat since early April. The Nasdaq100 continued to outperform with a slight progression. Big Tech does indeed continue to benefit from its exposure to A.I., its strong earnings, the perspective of large share buybacks and from the rate cuts, which the market is anticipating. We cannot exclude further resilience into June yet remain warry of equities' current risk/reward. As we detail on the next page, the US banking or Debt Ceiling crisis could derail into a deflationary bust, while if it doesn't happen, some prospective rate cuts will need to be priced out, thereby impacting valuations. Either one of these outcomes could hence be negative for equities into the Summer.

Fixed Income: US and EuroZone yields were flat again last week as both the Banking and Debt Ceiling crisis continued to linger on. This uncertain situation may extend another few weeks, and we would remain slightly negative on yields until then.

FOREX: the Dollar last week had its best performance for the year rising 1.5% on average vs the other majors. This strength was related to growth concerns abroad with negative data out of Europe and China. We expect this rebound to continue into June.

Commodities: Oil continues to retest down for now, while Gold still seems unable to break above resistance around 2'050 USD/oz.

	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 %	YTD in %	last 6m[1]	OB / OS[2]
S&P500 Index	USD	4 124	oct.22	3 577	15,3%	août.22	4 305	-4,2%	7,4%	neutral	neutral
Nasdaq100 Index	USD	13 340	déc.22	10 679	24,9%	août.22	13 667	-2,4%	21,9%	up	slightly OB
Dow Jones Industrials Index	USD	33 301	sept.22	28 726	15,9%	nov.22	34 590	-3,7%	0,5%	neutral	neutral
EuroStoxx50	EUR	4 315	sept.22	3 279	31,6%	avr.23	4 409	-2,1%	13,7%	up	neutral
Swiss Market Index	CHF	11 566	sept.22	10 073	14,8%	mai.22	11 736	-1,4%	7,8%	neutral	slightly OB
Nikkei225	JPY	29 416	janv.23	25 717	14,4%	mai.23	29 416	0,0%	12,7%	neutral	slightly OB
Shanghai Composite	CNY	3 272	oct.22	2 893	13,1%	juin.22	3 409	-4,0%	5,9%	neutral	neutral
US 10Y Treasury Yield	%	3,46%	août.22	2,58%	0,9%	oct.22	4,25%	-0,8%	-0,4%	down	neutral
German 10Y Bund Yield	%	2,27%	août.22	0,76%	1,5%	mars.23	2,75%	-0,5%	-0,3%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	104	nov.22	92	13,5%	mai.22	121	-13,8%	7,0%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	108	oct.22	98	10,6%	mai.22	115	-5,5%	4,7%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	74	oct.22	69	7,2%	mai.22	77	-3,1%	3,3%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	oct.22	76	11,7%	mai.22	90	-5,8%	2,5%	neutral	neutral
EUR/USD		1,08	sept.22	0,96	13,1%	mai.23	1,11	-2,0%	1,4%	neutral	neutral
GBP/USD		1,24	sept.22	1,07	16,6%	mai.22	1,27	-1,6%	2,9%	neutral	neutral
USD/JPY		136	mai.22	127	7,0%	oct.22	150	-9,6%	3,5%	neutral	neutral
USD/CHF		0,90	mai.23	0,88	1,6%	nov.22	1,01	-11,3%	-2,8%	neutral	neutral
AUD/USD		0,66	oct.22	0,62	7,1%	juin.22	0,73	-8,6%	-2,5%	neutral	neutral
Brent Oil (per Barrel)	USD	74	mai.23	72	2,5%	juin.22	124	-40,0%	-13,7%	down	neutral
Gold Spot (per Ounce)	USD	2 011	sept.22	1 624	23,8%	mai.23	2 050	-1,9%	10,2%	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

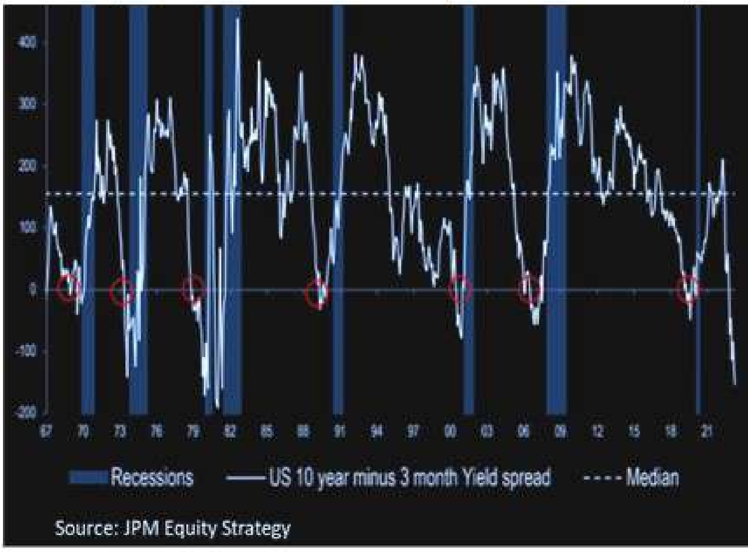
Source: Primis Investment (Suisse) SA

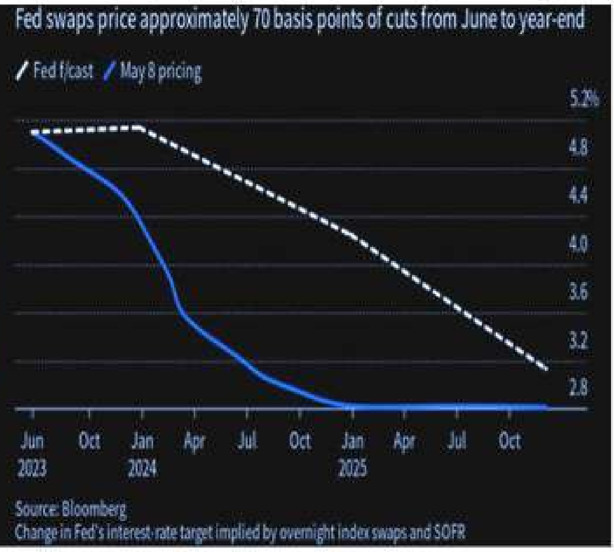
WEEKLY MARKETS ROUND-UP

15th May 2023

Yield Curve focus: The transition out of Inversion can be choppy and take time

Yield Curve Inversions usually front-run recessions. Indeed, as Central Banks tighten, the yield curve usually flattens / inverts as a more restrictive policy eventually leads to a slowdown and to subsequent rate cuts thereafter. This has been the case in previous cycles (left-hand graph). Yet, often, the market does get ahead of itself in forecasting the timing and pace of these rate cuts. These may then need to be priced out before they are eventually priced back in. This was especially the case in the 1970s inflationary period with several back-and-forths before the yield curve rose to positive territory. It was also the case between 2006 and 2008. Currently the market is much more aggressive than the FED in forecasting rate cuts over the next 12 months (blue line vs dotted white line, right-hand graph). According to Nomura, these projections are however binary, with the market attributing a 70% chance of no cuts until 2024, and 30% to a scenario where aggressive cuts are needed to mitigate either a worsening US banking crisis or a US Debt Ceiling fall-out. The weighted average of both results in the current rather dovish market projection (blue line). Both outcomes could be negative for risk assets into the Summer, either as a systemic crisis effectively materializes, or if these systemic risks then pass, and the market needs to reprice some of these expected rate cuts out, resulting in a retest up in US 1-2 Year yields.





Notes:

1. **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".

Primis Investment (Suisse) SA
5 rue Jacques-Balmat, 1204 Geneva –Switzerland
T: + 41 22 570 60 80
wealth-management@primis.swiss www.primis.swiss