

WEEKLY MARKETS ROUND-UP

Executive Summary

16th October 2023

Top news: US Retail Sales and Industrial Production, as well as War in the Middle East – geopolitical developments did certainly have some cross assets influence last week, with a typical defensive shift. This was especially the case in Forex and Commodities markets with the Dollar rising 1 figure vs the Euro, the Pound or the Yen, while dropping 1 figure vs Swiss Franc. Oil and Gold also rallied, rising respectively 7.5% and 5.5%. This tendency was also felt on equities, with most markets pretty much flat (up into Thursday, then down into Friday following the slightly hawkish US CPI), yet with more defensive themes such as the Dow Jones Industrial Average or the Swiss SMI outperforming. This week, all eyes will remain focused on the Israel / Hamas war and on its likelihood to expand into a regional conflict. On the macro front, markets will focus on the US Empire State Manufacturing Index this afternoon as well as US Retail Sales and US Industrial Production on Tuesday. A speech from Chair Powell on Thursday may have the potential to move markets, while earnings from Netflix or Tesla on Wednesday could also have a noteworthy impact.

Equity: defensive themes may continue to outperform this week, especially if the conflict widens. More generally and over the medium term, earnings prospects as well as the future path of discounting factors (i.e. interest rates) could gradually regain their dominance on the pricing of equities. Hence, into November, we continue to anticipate some residual strength as Q3 earnings hold and bad geopolitical news proves dovish for equities (“climbing a wall of worry”).

Fixed Income: we believe that Treasury and Bund yields remain quite Overbought following their tops a week ago (see table below). We would hence expect further consolidation into mid/late Q4, perhaps back below 4% for the US10Y.

FOREX: the US Dollar should continue to benefit from geopolitical tensions, especially if the Middle East conflict widens. That said, it remains quite Overbought and any de-escalation later on could see other currencies rally strongly.

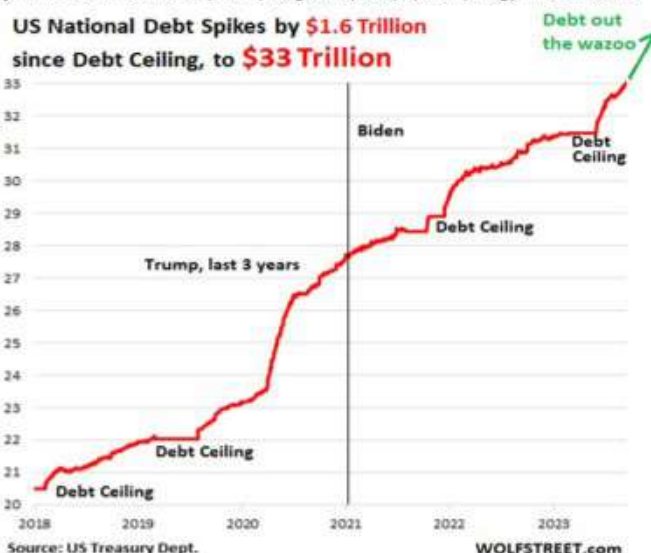
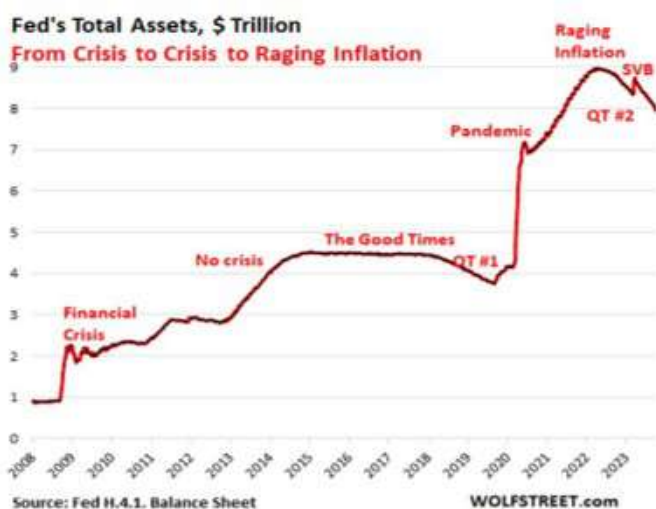
Commodities: both Brent and Gold could continue to benefit from geopolitical tensions. These should take precedence for now on any fears of economic slow-down or regarding the higher for longer narrative by the FED.

	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	4 328	Oct-22	3 666	18,1%	Jul-23	4 589	-5,7%	12,7%	neutral	neutral
Nasdaq100 Index	USD	14 995	Dec-22	10 679	40,4%	Jul-23	15 841	-5,3%	37,1%	neutral	neutral
Dow Jones Industrials Index	USD	33 670	Oct-22	30 186	11,5%	Aug-23	35 631	-5,5%	1,6%	neutral	neutral
EuroStoxx50	EUR	4 136	Oct-22	3 442	20,2%	Jul-23	4 471	-7,5%	9,0%	neutral	neutral
Swiss Market Index	CHF	10 900	Oct-22	10 419	4,6%	May-23	11 595	-6,0%	1,6%	neutral	neutral
Nikkei225	JPY	32 316	Jan-23	25 717	25,7%	Jul-23	33 753	-4,3%	23,8%	neutral	neutral
Shanghai Composite	CNY	3 088	Oct-22	2 893	6,7%	May-23	3 395	-9,0%	-0,0%	neutral	neutral
US 10Y Treasury Yield	%	4,62%	Apr-23	3,31%	1,3%	Oct-23	4,80%	-0,2%	0,7%	up	slightly OB
German 10Y Bund Yield	%	2,73%	Dec-22	1,79%	0,9%	Sep-23	2,97%	-0,2%	0,2%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	88	Oct-23	85	3,3%	Dec-22	104	-16,0%	-7,5%	down	slightly OS
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	101	Oct-22	96	6,1%	Feb-23	107	-5,3%	0,5%	neutral	slightly OS
US High Yield (HYG ETF, 3-4Y duration)*	USD	73	Nov-22	68	7,3%	Aug-23	75	-2,5%	3,7%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	81	Oct-22	74	9,5%	Jul-23	86	-5,4%	0,4%	neutral	slightly OS
EUR/USD		1,05	Nov-22	0,97	7,8%	Jul-23	1,12	-6,5%	-1,8%	neutral	neutral
GBP/USD		1,21	Nov-22	1,12	8,8%	Jul-23	1,31	-7,5%	0,4%	neutral	neutral
USD/JPY		150	Jan-23	128	17,0%	Oct-22	150	-0,3%	14,1%	up	neutral
USD/CHF		0,90	Jul-23	0,86	5,2%	Nov-22	1,01	-11,0%	-2,4%	neutral	neutral
AUD/USD		0,63	Oct-22	0,63	0,4%	Feb-23	0,71	-11,8%	-7,6%	neutral	slightly OS
Brent Oil (per Barrel)	USD	91	Jun-23	72	26,5%	Nov-22	99	-7,8%	5,8%	up	neutral
Gold Spot (per Ounce)	USD	1 930	Oct-22	1 628	18,5%	May-23	2 050	-5,9%	5,8%	neutral	neutral

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

Stimulus Focus: since 2022, FED tightened by 1 Trillion, Treasury expanded by 3

Ten days ago, Non-Farm Payrolls delivered a blockbuster +336k jobs, while last week CPI proved sticky again with a +3.7% YoY expansion (vs 3.6% expected). Real GDP for Q3 could reach +5% YoY according to the [Atlanta FED Nowcast](#) while, although lower, the Q3 Blue Chip Economic Indicators GDP consensus is still pointing to above +3%. Such persistent US economic strength seems amazing considering the backdrop of the recent FED tightening, i.e. +5.25% in FED Fund Rates hikes over the last 18 months, while the FED's Balance Sheet was also reduced by 1 Trillion USD (left-hand graph). Yet, rather simplistically, as this tightening is taking its usual lags to slow inflation and the economy, fiscal expansion has broadly compensated for it, adding another 1.6 Trillion since the June debt ceiling deal (resp. almost 3 Trillion since early 2022 - right-hand graph). Going forward, some headwinds are still expected for the economy as US Consumers may have exhausted most of their excess savings ([especially the lower 80% according to Bloomberg](#)) and higher interest payments may start to weigh on the weaker corporates. Yet 2024 is a US election year, add to it two proxy wars to fight, and the Treasury will undoubtedly keep pumping. Hence, any landing / slowdown will probably prove transitory, unless something really breaks, of course, and if so, both the FED and the Treasury will then need to pump again (keep pumping) in unison.



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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