

WEEKLY MARKETS ROUND-UP

Executive Summary

17th April 2023

Top news: US CPI – last Wednesday, the March 2023 US CPI Inflation data was released. Its headline number (i.e. the total aggregate number) came out lower than expected at 0.1% above its previous February release and vs the 0.2%, which was expected. Year-on-Year US CPI inflation slowed to 5% (vs 5.1% expected, and down from 6% last month). Core CPI, which measures US Inflation without the volatile Food & Energy components was however more sticky matching expectations which a 0.4% progression since last month. Hence, US Inflation is benefiting from the drop in Commodities over the last few quarters, while large lagging components such as Shelter for example (+8.2% Y-o-Y vs 8.1% in February) are still accelerating slightly. Overall, however, the report surprised positively, and in its aftermath, several investment banks revised their expectations for further rate hikes lower (e.g. Goldman Sacks is now expecting a final +0.25% hike in May, yet no more hike in June). The week ended with further confirmation that the US economy is decelerating, with US PPI dropping by -0.5% vs February while US Retail Sales on Friday also surprised negatively with a 1% drop. On a yearly basis, these retail sales are now growing at only 2.8%, their lowest level since June 2020. That said, despite this flow of negative data, several FED Governors are continuing to stress the need for further rate hikes until inflation reaches their 2% targets. We await the next FED meeting on May 2nd and 3rd with much interest.

Equity: both US and European equity markets continued to push higher last week (between +1% and +2%). The S&P500 and the EuroStoxx500 are both approaching important resistance levels, respectively around 4'200 and 4'400. We continue to believe that risk/reward is stretched, and that some retracement should materialize over the next couple of months in first instance.

Fixed Income: long term yields in the US and Europe did rebound last week despite the weak data, and on the back of the hawkish FED comments. We still expect the US10 Year Treasury yield to dip again into late April / May, possibly to below 3.0%.

FOREX: the US Dollar remained under pressure last week. EUR/USD pushed to above 1.10, GBP/USD topped 1.25 again, while USD/CHF dropped below 0.90. We expect some stabilization from mid/late April despite the current very negative news flow.

Commodities: Oil continued to move slightly higher following the OPEC+ production cuts a couple of weeks ago. We still expect it to retrace back into May, before rising into the Summer again. Gold is looking Overbought above 2'000 but still rising 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	4 138	oct.22	3 577	15,7%	avr.22	4 462	-7,3%	7,8%	neutral	neutral
Nasdaq100 Index	USD	13 080	déc.22	10 679	22,5%	avr.22	14 210	-8,0%	19,6%	up	slightly OB
Dow Jones Industrials Index	USD	33 886	sept.22	28 726	18,0%	avr.22	35 161	-3,6%	2,2%	neutral	neutral
EuroStoxx50	EUR	4 391	sept.22	3 279	33,9%	avr.23	4 391	0,0%	15,7%	up	neutral
Swiss Market Index	CHF	11 343	sept.22	10 073	12,6%	avr.22	12 475	-9,1%	5,7%	neutral	neutral
Nikkei225	JPY	28 482	janv.23	25 717	10,8%	août.22	29 223	-2,5%	9,1%	neutral	slightly OB
Shanghai Composite	CNY	3 339	avr.22	2 886	15,7%	juin.22	3 409	-2,0%	8,1%	neutral	slightly OB
US 10Y Treasury Yield	%	3,51%	août.22	2,58%	0,9%	oct.22	4,25%	-0,7%	-0,4%	down	neutral
German 10Y Bund Yield	%	2,43%	août.22	0,76%	1,7%	mars.23	2,75%	-0,3%	-0,1%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	105	nov.22	93	13,1%	avr.22	124	-15,1%	6,6%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	109	oct.22	99	10,7%	mai.22	116	-5,4%	4,8%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	oct.22	70	7,9%	mai.22	77	-2,5%	3,9%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	86	oct.22	77	11,6%	avr.22	93	-7,8%	2,4%	neutral	neutral
EUR/USD		1,10	sept.22	0,96	14,6%	avr.23	1,10	-0,5%	2,7%	neutral	neutral
GBP/USD		1,24	sept.22	1,07	16,3%	avr.22	1,31	-5,0%	2,7%	neutral	neutral
USD/JPY		134	mai.22	127	5,5%	oct.22	150	-10,8%	2,0%	neutral	neutral
USD/CHF		0,89	avr.23	0,89	0,5%	nov.22	1,01	-11,8%	-3,3%	neutral	slightly OS
AUD/USD		0,67	oct.22	0,62	8,2%	avr.22	0,75	-9,9%	-1,5%	neutral	neutral
Brent Oil (per Barrel)	USD	86	mars.23	73	18,3%	juin.22	124	-30,2%	0,5%	down	neutral
Gold Spot (per Ounce)	USD	2 004	sept.22	1 624	23,4%	avr.23	2 040	-1,8%	9,8%	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

Monetary focus: Markets expecting a Pivot while the FED remains hawkish

Following the US CPI data this week, many market analysts are calling for the end of the FED rate hikes, if not in May, then in June. As the left-hand graph below shows, the market is currently expecting 1 more +0.25% rate hike in May, and then several rate cuts from July into next year. The FED for now is in sharp contrast with these market projections. As the Dot Plot shows (right-hand graph), at their March 22nd 2023 meeting, FED Governors on average expected the Federal Funds Rate to be at 5.1% in December 2023. This does indeed imply one more rate hike, but no cuts until 2024 ("higher for longer" narrative). While the FED may be showcasing a disciplined approach, the market on the other hand is aggressively front-running their Pivot. The next couple of months will probably give us some clues as to whom might be deceived.

Market Expectations for Fed Funds Rate
(Data via Fed Funds Futures, Apr 2023 - Jan 2025)

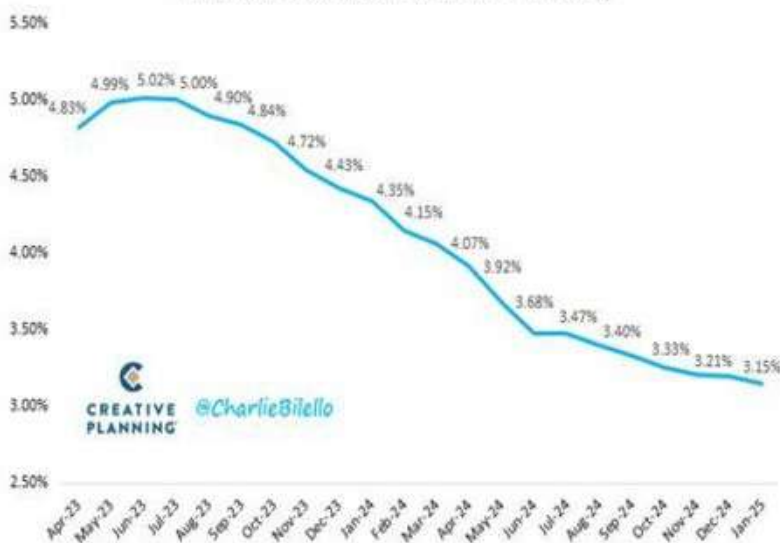
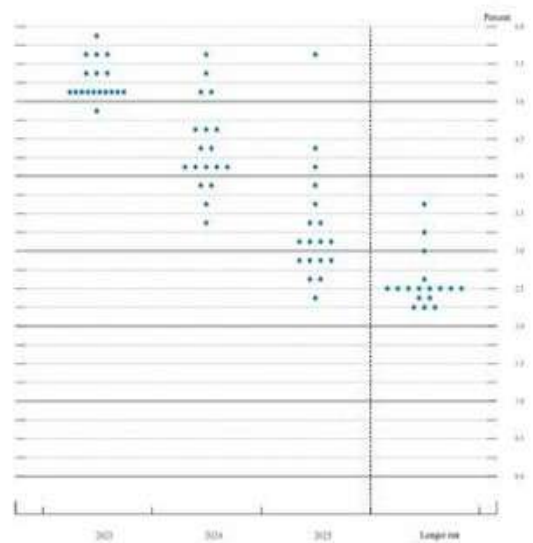


Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



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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