

WEEKLY MARKETS ROUND-UP

Executive Summary

19th June 2023

Top news: CPI and the FED's hawkish pause – the US CPI data was released on Tuesday. While Headline inflation (+4.0% YoY) came in lower than expected (+0.1% MoM vs +0.2% expected), Core CPI (+5.3% YoY) was on-line at +0.4% MoM. At these run rates, Headline could fall towards 2.2% by year-end, while Core would remain at 5%. This is a large discrepancy. Reality is probably in the middle. Headline may nudge up a bit as Commodities currently seem very Oversold and could rebound. Core could gradually fade as labor tightness slowly subsides. Nevertheless, the 2% targets are still some ways away. On Wednesday, the FED held its Fund Rate (FFR) at 5 - 5.25% but did not exclude further hikes thereafter. The Dots Plot (the FED Governors' projection of future FFR) are now pointing to possibly 1-2 more rate hike(s) this year (still hawkish). Similarly, the ECB cited stubbornly high inflation as the reason to raise its short term rate another +0.25% to 3.5%. Forecasters are now expecting a further +0.5% in H2 2023, i.e. more tightening also. Next week, Chair Powell is due to testify on Wednesday in front of the House Financials Committee, while we will be waiting for Global Flash PMI's (Purchasing Managers Index) on Friday to get a leading view on economic conditions.

Equity: short term sentiment indicators (see next page) are pointing to an imminent top on US Equity markets, while VIX is currently cheap and could provide an opportunity to protect some gains into the Summer. Our view is that this correction could start over the next couple of weeks and extend into mid/late July initially, with a 5-10% drop.

Fixed Income: the hawkishness of the FED and the ECB are leading short term rates to retest up. Long term ones are following, yet less so, and yield curves are dropping back into deep inversion. We expect further upside pressure into the Summer, yet thereafter some retracement this Fall as macro-economic data may turn more consistently negative.

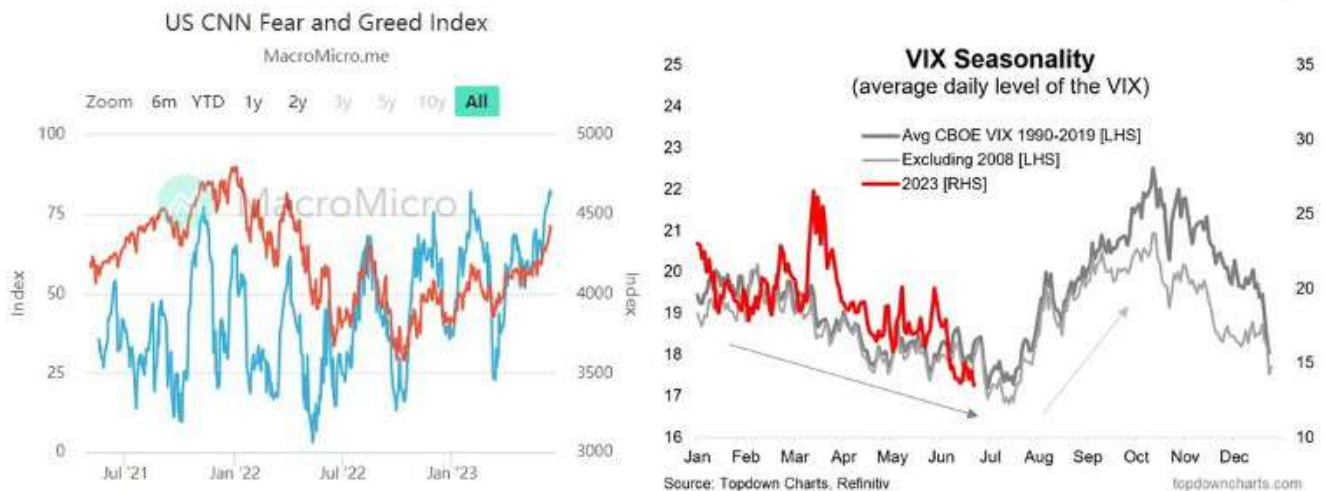
FOREX: the Dollar's bounce has faded. It may still attempt to hold into July, but then resumes lower into late Summer.

Commodities: the impotence of the OPEC+ Cuts to fuel a bounce is leading to further negative sentiment on Oil. It remains Oversold and we still expect a bounce. Gold probably is consolidating, perhaps into mid-July (buy the Dip?).

	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	4 410	Oct-22	3 577	23,3%	Jun-23	4 426	-0,4%	14,8%	up	slightly OB
Nasdaq100 Index	USD	15 084	Dec-22	10 679	41,2%	Jun-23	15 185	-0,7%	37,9%	up	slightly OB
Dow Jones Industrials Index	USD	34 299	Sep-22	28 726	19,4%	Nov-22	34 590	-0,8%	3,5%	neutral	neutral
EuroStoxx50	EUR	4 385	Sep-22	3 279	33,7%	Apr-23	4 409	-0,5%	15,6%	neutral	neutral
Swiss Market Index	CHF	11 386	Sep-22	10 073	13,0%	May-23	11 595	-1,8%	6,1%	neutral	neutral
Nikkei225	JPY	33 706	Jan-23	25 717	31,1%	Jun-23	33 706	0,0%	29,2%	up	OB
Shanghai Composite	CNY	3 273	Oct-22	2 893	13,1%	Jun-22	3 409	-4,0%	6,0%	neutral	neutral
US 10Y Treasury Yield	%	3,77%	Aug-22	2,58%	1,2%	Oct-22	4,25%	-0,5%	-0,1%	neutral	neutral
German 10Y Bund Yield	%	2,46%	Aug-22	0,76%	1,7%	Mar-23	2,75%	-0,3%	-0,1%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	103	Nov-22	92	11,3%	Aug-22	120	-14,2%	5,0%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	108	Oct-22	98	9,9%	Aug-22	113	-4,9%	4,1%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	69	8,4%	Aug-22	76	-1,7%	4,4%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	86	Oct-22	76	12,9%	Aug-22	88	-3,0%	3,5%	neutral	neutral
EUR/USD		1,09	Sep-22	0,96	14,1%	May-23	1,11	-1,1%	2,3%	neutral	neutral
GBP/USD		1,28	Sep-22	1,07	20,1%	Jun-23	1,28	0,0%	6,1%	neutral	slightly OB
USD/JPY		142	Jan-23	128	11,0%	Oct-22	150	-5,5%	8,2%	up	slightly OB
USD/CHF		0,89	May-23	0,88	1,1%	Nov-22	1,01	-11,8%	-3,3%	neutral	neutral
AUD/USD		0,69	Oct-22	0,62	10,9%	Feb-23	0,71	-3,6%	0,9%	neutral	slightly OB
Brent Oil (per Barrel)	USD	77	Jun-23	72	6,6%	Jun-22	118	-35,1%	-10,8%	down	neutral
Gold Spot (per Ounce)	USD	1 958	Sep-22	1 624	20,5%	May-23	2 050	-4,5%	7,3%	neutral	neutral

Market Sentiment focus: US CNN Fear & Greed Index Overbought; VIX @ 13.5

The Fear & Greed Index published by CNN is one of the most followed market sentiment indicators (<https://edition.cnn.com/markets/fear-and-greed>). It follows 7 market driven indicators which capture current market positioning (e.g. 52 weeks highs/ lows, Put/Call ratio, VIX, ...). It currently stands at 82, a level corresponding to Extreme Greed. The left-hand graph this week compares the CNN Fear & Greed Index (in blue) to the S&P500 since early 2021. It suggests that periods of Extreme Greed (as is the case today) usually precede short-term market corrections as was the case each time since late 2021. The second right-hand graph relates to the VIX S&P500 Volatility index and its Seasonality. VIX is currently at its lowest levels since the COVID crisis (i.e. at 13.5) and is also entering the period of the year, when historically it is the most likely to bounce (the most difficult period on average every year for equity markets, between July and October). Hence, short term market positioning is currently Overbought, while buying protection is relatively cheap. Medium to long term, the picture is more balanced with some, yet not all, economic indicators slowing, the FED doubling up on a Higher for Longer path for Fed Fund Rates, while professional investors remain defensive and underinvested (BofA's Fund Managers Survey sentiment indicators are still at historic lows).



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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Primis Investment (Suisse) SA

5 rue Jacques-Balmat, 1204 Geneva – Switzerland

T: + 41 22 570 60 80

wealth-management@primis.swiss

www.primis.swiss

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