

WEEKLY MARKETS ROUND-UP

Executive Summary

23rd October 2023

Top news: Q3 advanced US GDP, ECB as well as War in the Middle East – geopolitical risk could continue to weigh on financial markets this week, especially if the Israel/Hamas conflict expands, probably pushing Gold and Oil prices higher. Last week, indeed, the US10Y yield made new highs, while the German 10Y yield almost did so, as both these Commodities were rising. Risk assets also corrected. That said, last week, US economic data also surprised to the upside (retail sales rose +0.7% in September vs +0.3% expected, industrial production rose +0.3% vs an expected flat 0.0%). Will they continue to do so this week? We will hence await Global Flash PMIs on Tuesday for a forward looking indication of global economic strength. Then on Thursday, we will get the advanced Q3 US GDP estimate for which a blockbuster +4.3% annualized QtoQ growth (vs +2.1% in Q2) is anticipated, as well as the ECB rate decision (expected flat at 4.5%) with its press conference. The week will end with the September FED's preferred Core PCE inflation measure (expected at +0.2% vs +0.1% in August). On the earnings front, Netflix beat expectations last week and its shares rose +15%, while Tesla missed, and its shares dropped more than 10%. This week, will see earnings from Microsoft and Alphabet on Tuesday, Meta on Wednesday, Amazon on Thursday and Exxon and Chevron on Friday.

Equity: the S&P500 retested down to its early October lows, while the EuroStoxx50 dropped slightly below them. Equity markets may still face geopolitical risks, yet could gradually start to stabilize/bounce into November (see next page).

Fixed Income: with 10Y Treasury yields approaching 5%, several banks (e.g. Goldman Sachs, Morgan Stanley or UBS) are now recommending to reenter longer duration products. In our table below, these are at least temporarily Oversold.

FOREX: the US Dollar continued to retrace last week vs CHF, remained off its highs and rather flat vs EUR and GBP and pushed slightly higher vs JPY. On average, we continue to expect further retracement into early/mid November.

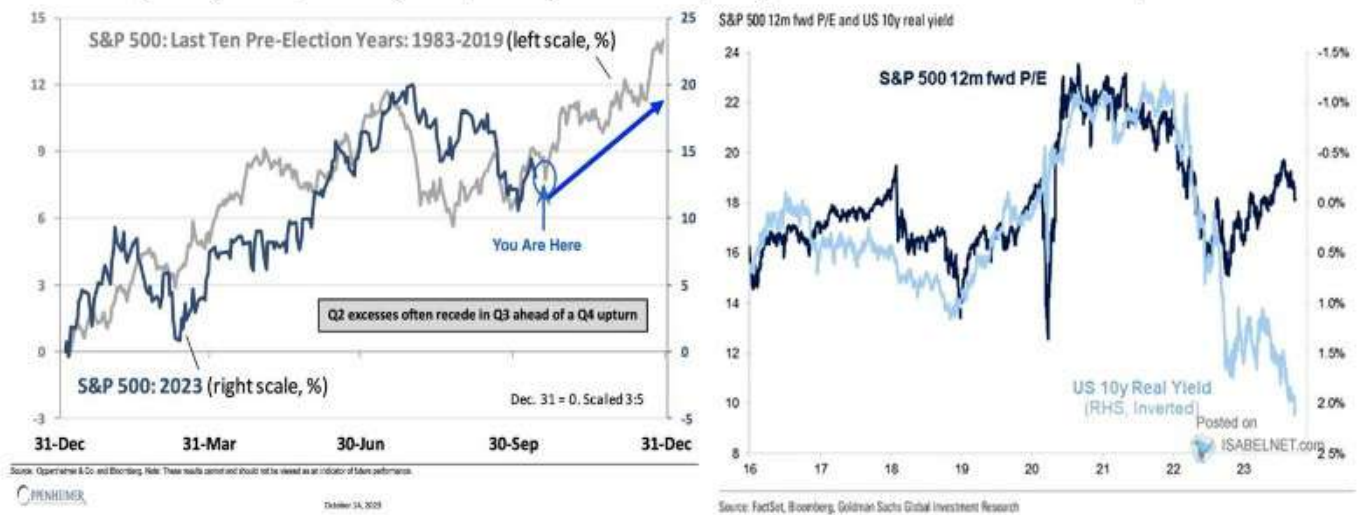
Commodities: both Brent and Gold continued to push higher last week on geopolitical risk-off dynamics. Their future path over the next few weeks will probably depend mostly on either an escalation or de-escalation of the conflict.

	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	4 224	Nov-22	3 720	13,6%	Jul-23	4 589	-7,9%	10,0%	neutral	neutral
Nasdaq100 Index	USD	14 561	Dec-22	10 679	36,3%	Jul-23	15 841	-8,1%	33,1%	neutral	neutral
Dow Jones Industrials Index	USD	33 127	Oct-22	31 500	5,2%	Aug-23	35 631	-7,0%	-0,1%	neutral	neutral
EuroStoxx50	EUR	4 025	Oct-22	3 528	14,1%	Jul-23	4 471	-10,0%	6,1%	neutral	slightly OS
Swiss Market Index	CHF	10 349	Oct-23	10 349	0,0%	May-23	11 595	-10,8%	-3,5%	neutral	OS
Nikkei225	JPY	31 259	Jan-23	25 717	21,6%	Jul-23	33 753	-7,4%	19,8%	neutral	neutral
Shanghai Composite	CNY	2 983	Oct-22	2 893	3,1%	May-23	3 395	-12,1%	-3,4%	down	slightly OS
US 10Y Treasury Yield	%	4,91%	Apr-23	3,31%	1,6%	Oct-23	4,99%	-0,1%	1,0%	up	slightly OB
German 10Y Bund Yield	%	2,88%	Dec-22	1,79%	1,1%	Sep-23	2,97%	-0,1%	0,3%	up	slightly OB
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	83	Oct-23	83	0,6%	Dec-22	104	-20,2%	-12,1%	down	OS
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	99	Oct-22	96	3,0%	Feb-23	107	-7,8%	-2,2%	neutral	slightly OS
US High Yield (HYG ETF, 3-4Y duration)*	USD	72	Nov-22	68	6,1%	Aug-23	75	-3,6%	2,5%	neutral	slightly OS
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	80	Oct-22	75	6,8%	Jul-23	86	-6,8%	-1,0%	neutral	slightly OS
EUR/USD		1,06	Nov-22	0,97	8,7%	Jul-23	1,12	-5,7%	-1,0%	neutral	neutral
GBP/USD		1,22	Nov-22	1,12	9,0%	Jul-23	1,31	-7,4%	0,6%	neutral	slightly OS
USD/JPY		150	Jan-23	128	17,2%	Oct-23	150	0,0%	14,3%	up	neutral
USD/CHF		0,89	Jul-23	0,86	4,0%	Nov-22	1,01	-11,9%	-3,5%	neutral	neutral
AUD/USD		0,63	Nov-22	0,63	0,3%	Feb-23	0,71	-11,6%	-7,4%	neutral	slightly OS
Brent Oil (per Barrel)	USD	92	Jun-23	72	28,3%	Nov-22	99	-6,5%	7,3%	up	slightly OB
Gold Spot (per Ounce)	USD	1 981	Nov-22	1 630	21,6%	May-23	2 050	-3,4%	8,6%	neutral	neutral

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

S&P500 Focus: seasonality is positive, yet strong discrepancy with real rates

Based on average data since 1983, the usual seasonality of pre-US election years (such as 2023) indicates that the S&P500 could soon resume its uptrend and then continue to rise until late this year. Indeed, the recent correction in the S&P500 is rather typical of Q3 average price action in such years. The S&P500 then usually recovers from October into year-end (left-hand graph). Such strength can be explained by the strong incentive Governments running for re-election have in expanding their fiscal stimulus as the election approaches. On a more prudent note, the right-hand graph reviews the growing discrepancy between the S&P500 12m forward P/E ratio and the US 10Y real Yield (inverted graph). It suggests that at some point both these parameters should converge back towards each other as historically they have been well synchronized (lower real yields mean higher PE ratios). While this convergence can happen both ways (falling equities P/Es and/or falling real yields), the timing may see several sequences. Considering, both charts together, we would probably expect that according to its seasonality, the S&P500 could retest up into year-end (retest up for the dark blue line), while real yields could correct down (i.e. inversely, the light blue line could bounce). Thereafter, from late this year, we would probably favor a scenario where Equities could drop into the Spring (the dark blue line could drop again), as the FED remains higher for longer, the economy finally slows, and real yields probably remain flat (the light blue line could then remain flat).



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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