PRIMIS® INVESTMENT

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WEEKLY MARKETS ROUND-UP

Executive Summary

24th April 2023

Top news: data divergence – last week in our newsletter, we reviewed US CPI, PPI and Retail sales data which was decelerating faster than expected. This past week, the trend continued on Thursday with the Philadelphia FED Manufacturing Index dropping back to its May 2020 levels, the Leading Indicators Index from the Conference Board dropping 1.2% M-o-M, one of the fastest rates in history and usually corresponding to an imminent recession. US Unemployment claims also reached their highest level since November 2021, while the Citi Economic Surprise Index slid to a two months low. In Europe, German PPI dropped by an impressive -2.6% (vs -0.6% expected), while on the other hand, on Tuesday, China surprised positively printing a 4.5% GDP growth Y-o-Y (vs 4% expected) following the highest Citi Economic Surprise Index since 2006 late March. Yet, the real positive surprise came on Friday, with Flash PMI data strongly beating expectations in the US and Europe, accelerating to 11 months high (see graph and comments on next page). Next week, we await the Q1 Advanced US GDP on Thursday and the FED's preferred PCE inflation data on Friday.

Equity: US and European equity markets were flat last week. The S&P500 and the EuroStoxx50 are still stalling at their 4'200 and 4'400 resistance levels respectively. The VIX S&P500 Volatility Index reached down to below 17, levels not seen since late 2021. While institutional market positioning is still very conservative, our preferred measure of the PUT/CALL ratio on the S&P500 is approaching a shorter term market sell signal. We are hence still expecting a 5 to 10% intermediate correction at least over the next month or so. Heavy Q1 Earnings releases next week including Microsoft, Alphabet and Amazon will be watched with great interest.

Fixed Income: yields in the US and Europe continued to be influenced last week by hawkish FED comments (Gov. Bullard on Tuesday still expecting a terminal rate between 5.5 and 5.75%). The US10Y Treasury yield is for now still holding above 3.5% while the German Bund Yield is approaching 2.5%. We would still expect -0.5% retracement into May, perhaps as US data cools again.

FOREX: the US Dollar was slightly stronger last week. EUR/USD remained below 1.10, GBP/USD dropped to 1.24 and USD/JPY held 134. We still expect further stabilization over the next few weeks, perhaps as the cross-asset environment turns more defensive.

Commodities: Oil was retracing last week and is back to pre OPEC+ Production Cut levels. Brent may test down towards the high/mid 70s again into May, before rising back into the Summer. Gold is still looking Overbought for now (see table below).

	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	4'134	Oct-22	3'577	15.6%	Aug-22	4'305	-4.0%	7.7%	neutral	slightly OB
Nasdaq100 Index	USD	13'001	Dec-22	10'679	21.7%	Aug-22	13'667	-4.9%	18.8%	up	slightly OB
Dow Jones Industrials Index	USD	33'809	Sep-22	28'726	17.7%	Nov-22	34'590	-2.3%	2.0%	neutral	neutral
EuroStoxx50	EUR	4'383	Sep-22	3'279	33.7%	Apr-23	4'394	-0.3%	15.5%	up	neutral
Swiss Market Index	CHF	11'442	Sep-22	10'073	13.6%	Apr-22	12'129	-5.7%	6.6%	neutral	neutral
Nikkei225	JPY	28'578	Jan-23	25'717	11.1%	Aug-22	29'223	-2.2%	9.5%	neutral	slightly OB
Shanghai Composite	CNY	3'303	Apr-22	2'886	14.4%	Jun-22	3'409	-3.1%	6.9%	neutral	slightly OB
US 10Y Treasury Yield	%	3.57%	Aug-22	2.58%	1.0%	Oct-22	4.25%	-0.7%	-0.3%	down	neutral
German 10Y Bund Yield	%	2.44%	Aug-22	0.76%	1.7%	Mar-23	2.75%	-0.3%	-0.1%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	104	Nov-22	93	12.3%	Apr-22	124	-15.7%	5.9%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	109	Oct-22	99	10.3%	May-22	116	-5.8%	4.5%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	70	7.5%	May-22	77	-2.9%	3.5%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	Oct-22	77	10.2%	Apr-22	92	-8.2%	1.1%	neutral	neutral
EUR/USD		1.10	Sep-22	0.96	14.6%	Apr-23	1.10	-0.5%	2.7%	neutral	neutral
GBP/USD		1.24	Sep-22	1.07	16.5%	Apr-22	1.27	-2.4%	2.9%	neutral	neutral
USD/JPY		134	May-22	127	5.8%	Oct-22	150	-10.6%	2.3%	neutral	neutral
USD/CHF		0.89	Apr-23	0.89	0.3%	Nov-22	1.01	-11.9%	-3.5%	neutral	slightly OS
AUD/USD		0.67	Oct-22	0.62	7.9%	Jun-22	0.73	-7.9%	-1.8%	neutral	neutral
Brent Oil (per Barrel)	USD	82	Mar-23	73	11.9%	Jun-22	124	-33.9%	-4.9%	down	neutral
Gold Spot (per Ounce)	USD	1'983	Sep-22	1'624	22.1%	Apr-23	2'040	-2.8%	8.7%	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

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Macroeconomic focus: strong Flash PMIs, False Dawn or macro Indian Summer?

While the Citi Economic Surprise Index is now on 2 months lows, along with many other US Macroeconomic data, the Flash PMI released last Friday surprised very strongly to the upside. The Institute of Supply management (ISM) publishes the PMI (Purchasing Managers' Index) monthly. Flash PMI is released by IHS Markit, a private data firm, one week prior to the end of every survey period with circa 85-90% of the monthly data and with the same computation for all countries around the world. Flash PMI provides the earliest indication each month of business conditions. It is released as a Services, Manufacturing and Composite Index. A reading above 50 means expansion, while one below 50, contraction. As you can see below, the US Services PMI has been reaccelerating up since January and expanding (53.7), while the US Manufacturing PMI is now also expanding (50.4). This is in sharp contrast with other macro data. Yet, (Flash) PMIs are leading indicators. Is it a False Dawn or the beginning of an economic Indian Summer?

Source: Zerohedge.com / Bloomberg data

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