PRIMIS® INVESTMENT

Swiss Independent Wealth Manager,
Licensed by the Swiss Financial Market
Supervisory Authority FINMA

WEEKLY MARKETS ROUND-UP

Executive Summary

24th July 2023

Top news: towards a further +0.25% Fed Funds Rate increase on Wednesday – last week was marked by slowing US economic data (slightly disappointing Retail sales, Housing Starts, Existing Home Sales, M-o-M Industrial Production and Philly Manufacturing Index). In this context, any earnings miss did have a penalizing effect. On Wednesday, this was the case for NFLX, which beat on earnings but missed on revenue, while TSLA beat both on revenue and earnings, but deceived on operating margin. Both stocks dropped heavily into Friday (resp. -11% and -13%). We will now look to Alphabet and Microsoft reporting on Tuesday and Amazon on Thursday. The week will also see the FED policy decision on Wednesday (+0.25% FFR expected), the ECB on Thursday (+0.25% expected) and the BOJ on Friday (no change expected in the dovish Yield Curve Control policy). Macro releases will also be plenty, with Global Flash PMIs today, US advanced Q2 GDP on Thursday and PCE (the FED's favorite inflation gauge expected at +0.2% on Friday). We hence expect a heavy news driven week, while most risk assets do seem to be retracing further.

Equity: US Equity indexes topped out mid last week and sold-off into Friday. The S&P500 still held gains on the week (+0.7%), while the Nasdaq100 saw a full short term reversal (-0.9%). Several markets are still Overbought (table below) and we expect further retracement into late July/early August (-5% to -10%?). Europe appears more resilient.

Fixed Income: US and EuroZone yields have corrected slightly since early July, yet may still hold into August. We then expect a deeper dip into late Q3 (toward 3.3 – 3.0% on the US10Y). Lower Credits such as US High Yield or EM Sovereigns are slightly Overbought (table below) and could see a few weeks of retracement (similar to equities).

FOREX: the US Dollar bounced last week vs most currencies with EUR/USD retracing by -0.9%, while GBP/USD dropped by -1.8%. This countertrend may hold up this week, yet we do expect further USD weakness into late Summer.

Commodities: Brent is holding the low 80s/high 70s USD/barrel and may still test up to 90 during the Summer. Gold may continue to consolidate in a range into month's end, yet should resume higher into late Q3 as USD drops further.

	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	4 536	Oct-22	3 577	26,8%	Jul-23	4 566	-0,6%	18,1%	up	slightly OB
Nasdaq100 Index	USD	14 497	Dec-22	10 679	35,7%	Jul-23	15 841	-8,5%	32,5%	up	slightly OB
Dow Jones Industrials Index	USD	35 228	Sep-22	28 726	22,6%	Jul-23	35 228	0,0%	6,3%	neutral	slightly OB
EuroStoxx50	EUR	4 391	Sep-22	3 279	33,9%	Apr-23	4 409	-0,4%	15,8%	neutral	neutral
Swiss Market Index	CHF	11 207	Sep-22	10 073	11,3%	May-23	11 595	-3,3%	4,5%	neutral	neutral
Nikkei225	JPY	32 304	Jan-23	25 717	25,6%	Jul-23	33 753	-4,3%	23,8%	up	slightly OB
Shanghai Composite	CNY	3 168	Oct-22	2 893	9,5%	May-23	3 395	-6,7%	2,5%	neutral	neutral
US 10Y Treasury Yield	%	3,84%	Aug-22	2,58%	1,3%	Oct-22	4,25%	-0,4%	-0,0%	up	neutral
German 10Y Bund Yield	%	2,43%	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	102	Nov-22	92	10,5%	Aug-22	119	-14,9%	4,2%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	108	Oct-22	98	10,5%	Aug-22	113	-4,4%	4,7%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	69	9,6%	Aug-22	76	-0,6%	5,6%	neutral	slightly OB
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	87	Oct-22	76	14,9%	Aug-22	88	-1,3%	5,3%	neutral	slightly OB
EUR/USD		1,11	Sep-22	0,96	16,0%	Jul-23	1,12	-1,0%	4,0%	neutral	neutral
GBP/USD		1,29	Sep-22	1,07	20,4%	Jul-23	1,31	-2,1%	6,3%	neutral	slightly OB
USD/JPY		142	Jan-23	128	10,9%	Oct-22	150	-5,5%	8,1%	up	neutral
USD/CHF		0,87	Jul-23	0,86	0,9%	Nov-22	1,01	-14,6%	-6,4%	neutral	slightly OS
AUD/USD		0,67	Oct-22	0,62	8,5%	Feb-23	0,71	-5,7%	-1,2%	neutral	neutral
Brent Oil (per Barrel)	USD	81	Jun-23	72	12,8%	Jul-22	110	-26,3%	-5,6%	neutral	neutral
Gold Spot (per Ounce)	USD	1 962	Sep-22	1 624	20,8%	May-23	2 050	-4,3%	7,5%	neutral	neutral

* 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

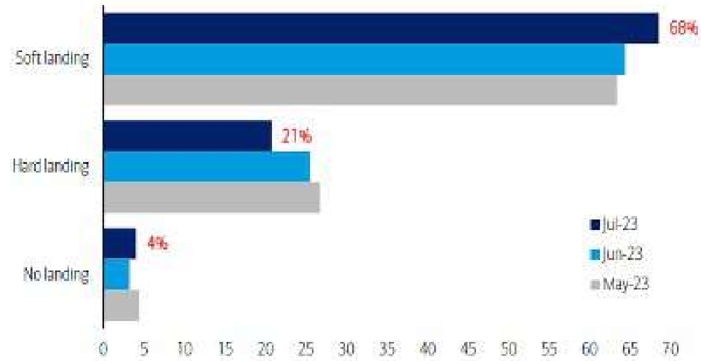
WEEKLY MARKETS ROUND-UP

24th July 2023

Market Sentiment focus: Fund Managers consensus is favoring a Soft-Landing and further dis-inflation

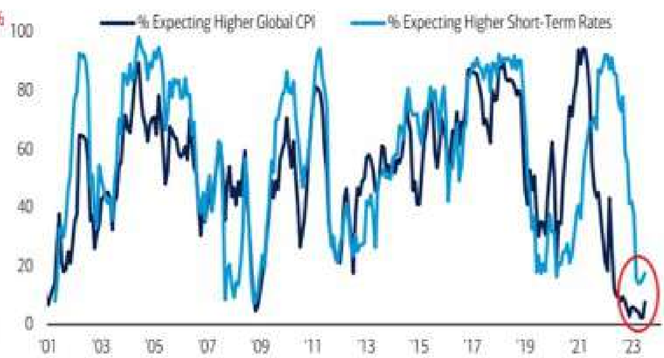
The FED decision coming up next Wednesday is fueling its usual speculations about the forward path of short term interest rates, central bank liquidity provision or the state of the economy. We've chosen two graphs from the regularly published Bank of America's Global Fund Manager Survey to guide us through forward market expectations. The left-hand one is rather straightforward. It suggests that most managers do expect an economic slowdown in the next 12 months, yet that it should be rather mild (a.k.a. soft landing with 68% of votes). The hard landing outcome, on the other hand, is only expected by 21% of Fund Managers (the No landing scenario registers only 4% of votes). The second right-hand graph is also very polarized as almost no Fund Manager is expecting higher CPI going forward, while less than 20% are considering that Short-Term rates could rise further. Both these consensus expectations are rather mild and complacent (as they usually are) and leave some room for tail risks. In the first one, we can note that a hard landing scenario is not totally excluded and that a 20%+ chance is high enough to be addressed in any portfolio allocation. The second extremely low reading in terms of higher inflation/short term rates expectations has a bit of a "So many people cannot be right" contrarian feeling. A more adverse CPI base effect going forward, and perhaps the re-awakening of Commodity prices, may still fuel some unwelcome inflationary surprises over the next few quarters.

Chart 8: ...but a "soft landing" the most likely global outcome
What is the most likely outcome for the global economy in the next 12 months?



Source: BofA Global Fund Manager Survey

Chart 11: We've now seen the best of the good news on inflation...
% expecting higher global CPI vs % expecting higher short-term rates



Source: BofA Global Fund Manager Survey

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