WEEKLY MARKETS ROUND-UP

Executive Summary

25th September 2023

Top news: Q2 Final US GDP and Core PCE Inflation - last week, the main point of focus was the FED's statement and Q&A on Wednesday evening. While the Fed Funds Rate remained unchanged at 5.5%, the Dots Plot (which had been last published in June) surprised by their hawkishness. Indeed, not only were 12 out of 19 Governors still in favor of 1 more rate hike this year, but for the end 2024, the median expected rate had risen to 5.125% vs 4.625% in June (basically pricing out 2 previously assumed rates cuts for 2024). Equity markets and Bonds dropped on the news, while the US Dollar shot up. Furthermore, on Thursday both the SNB and the BOE surprised on the dovish side, holding rates, as recent inflation data had come in softer, while they were both expected to raise them +0.25%. USD rose further vs CHF and GBP. The week ended with Flash PMIs, which were slightly better than expected on Services in the EuroZone, yet weaker on Manufacturing (France was especially weak). In the US, Manufacturing slowed less than expected and Services grew slightly. This week, we will await US Consumer Confidence on Tuesday, Q2 Final US GDP as well as a speech from Chair Powell on Thursday, and finally the FED's favored inflation gauge, Core PCE on Friday.

Equity: equities continued to sell off last week, with the S&P500 down more than 3%, the Nasdaq100 losing more than -4% and Europe -2%. With the FED meeting behind us, we expect some stabilization from here onwards and into Q4.

Fixed Income: US and German 10Y yields kept rising last week respectively reaching 4.5% (new highs) and 2.75% (retesting highs) on Thursday. We sense that hawkishness could be getting priced to perfection (Overbought situations below on rates) and expect some retracement on yields into the Fall, perhaps as Oil, for example, starts to retrace.

FOREX: the rally on USD also appears quite extended and we would expect some retracement over the coming weeks.

Commodities: Brent stalled last week and started to retrace. It is still slightly Overbought on our table below and we would hence expect more retracement into the Fall. Gold held up well, despite a higher Dollar. It may still push into the high 1'900s USD/oz over the next few weeks, perhaps as the US Dollar retraces slightly, along with yields.

	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	4 320	Oct-22	3 577	20,8%	Jul-23	4 589	-5,9%	12,5%	neutral	neutral
Nasdaq100 Index	USD	14 701	Dec-22	10 679	37,7%	Jul-23	15 841	-7,2%	34,4%	up	neutral
Dow Jones Industrials Index	USD	33 964	Sep-22	28 726	18,2%	Aug-23	35 631	-4,7%	2,5%	neutral	neutral
EuroStoxx50	EUR	4 207	Sep-22	3 279	28,3%	Jul-23	4 471	-5,9%	10,9%	neutral	neutral
Swiss Market Index	CHF	11 015	Sep-22	10 073	9,4%	May-23	11 595	-5,0%	2,7%	neutral	neutral
Nikkei225	JPY	32 402	Jan-23	25 717	26,0%	Jul-23	33 753	-4,0%	24,2%	up	neutral
Shanghai Composite	CNY	3 132	Oct-22	2 893	8,3%	May-23	3 395	-7,7%	1,4%	neutral	slightly OS
US 10Y Treasury Yield	%	4,44%	Apr-23	3,31%	1,1%	Sep-23	4,50%	-0,1%	0,6%	up	slightly OB
German 10Y Bund Yield	%	2,74%	Dec-22	1,79%	0,9%	Mar-23	2,75%	-0,0%	0,2%	up	slightly OB
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	91	Nov-22	90	1,4%	Dec-22	105	-13,2%	-4,4%	down	slightly OS
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	104	Oct-22	96	7,7%	Feb-23	108	-3,8%	2,0%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	74	Oct-22	68	8,6%	Aug-23	75	-1,7%	4,6%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	84	Oct-22	75	11,9%	Jul-23	87	-3,3%	2,6%	neutral	neutral
EUR/USD		1,07	Sep-22	0,96	11,1%	Jul-23	1,12	-5,2%	-0,4%	neutral	neutral
GBP/USD		1,22	Sep-22	1,07	14,6%	Jul-23	1,31	-6,8%	1,2%	neutral	neutral
USD/JPY		148	Jan-23	128	16,1%	Oct-22	150	-1,1%	13,1%	up	slightly OB
USD/CHF		0,91	Jul-23	0,86	5,7%	Nov-22	1,01	-10,5%	-1,9%	neutral	neutral
AUD/USD		0,64	Oct-22	0,62	3,9%	Feb-23	0,71	-9,7%	-5,5%	neutral	neutral
Brent Oil (per Barrel)	USD	93	Jun-23	72	29,8%	Nov-22	99	-5,4%	8,6%	up	slightly OB
Gold Spot (per Ounce)	USD	1 925	Sep-22	1 624	18,5%	May-23	2 050	-6,1%	5,5%	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

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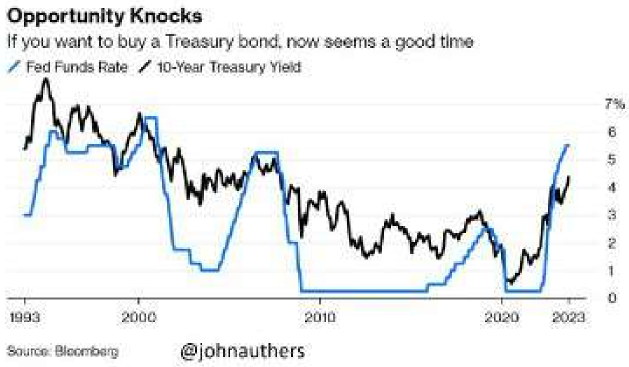
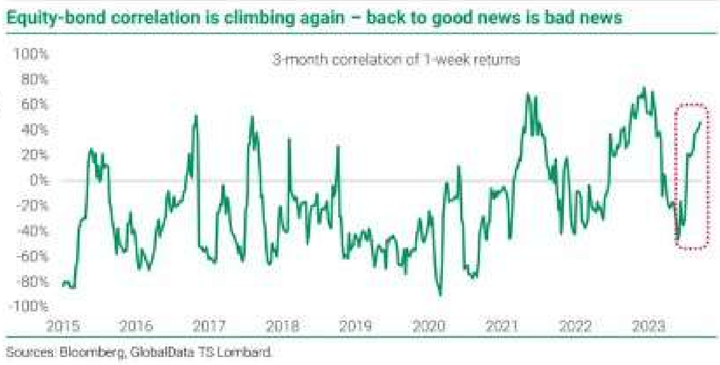
Treasury Focus: the FED is pretty much done hiking, but bad news still needs to become good news for bonds.

Following +5.5% in hikes over the last 18 months, the FED Funds Rate is well above the US10Y Treasury Yield (which currently stands at 4.435%). This is what is highlighted in the left-hand graph below, published by Mr Authers, senior editor at Bloomberg, and which points to the US 10Y – FFR Yield Curve Spread being circa -100 basis points inverted. The accompanying quote argues that "Steeply inverted yield curves tend to mean that a rate cut is coming, which would again suggest that this is a good time to buy bonds." While Mr Authers may ultimately be proven right, both on the long bonds recovery and the rate cut, we believe that this reversal process may take some time. For now, the market is indeed still in a bearish steepening mode and market sentiment will need to make a U-turn before any rate cut can be envisaged. While the steepening trend started early May as the Regional Banking crisis dissipated and 4 potential rate cuts were priced out, it then took a more hawkish turn form early Summer as good news gradually became bad news for markets, and the positive/hawkish correlation between Equities and Bonds returned (right-hand graph). The No-Landing scenario started to gain traction, Oil was rallying, and the long end of the US curve (US10Y-US2Y) steepened another 40 basis points until today. Going forward, we can probably assume that the rate hikes have pretty much been completed (only a 25% chance of a last hike remains priced in for the 1st November meeting). If Oil for example starts to retrace back and/or perhaps credit markets further deteriorate, this worsening news may initially be good news for markets. The yield curve could start flattening again, the long bonds could stabilize, yet Equities would probably rally (no Flight to Safety yet). Ultimately, it will probably take really bad news, or a sudden break, so that bad news finally becomes bad news for risk assets and triggers safety flows towards Treasuries. The 1st rate cut will then be ineluctable. For now, the markets isn't expecting such events before June next year.





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".

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