

WEEKLY MARKETS ROUND-UP

Executive Summary

29th May 2023

Top news: pending US Debt Ceiling resolution – the X date is approaching and while a compromise between Republican House speaker McCarthy and President Biden is on the table, it still has to pass through Congress. As we detail on the next page, a default scenario could have disastrous consequences, Yet, a resolution may also have unintended negative effects as Treasury issuance sucks up liquidity and prospective rate cuts may need to be priced out. On the macro front, Flash PMIs (which are leading indicators of the state of business) disappointed in the EuroZone: early last week. The Services component held up, yet Manufacturing crashed to its post COVID lockdown lows. In the US, the data was better. Manufacturing also dropped slightly, while Services rose to their highest point since April 2021. On Thursday, US GDP surprised to the upside for Q1 (+1.3% Q-to-Q increase) while Germany contracted (-0.3%). Finally, on Friday, monthly Core PCE inflation came in higher than expected at 5% Q/Q, when 4.9% was expected and up from 4.4% last month. Next week, we will mostly focus on EuroZone CPI on Thursday and US Non-Farm Payrolls on Friday.

Equity: after a timid start to the week, US markets surged back to new highs on Friday on hopes of an imminent debt ceiling deal. Europe also bounced back yet without new highs. The rally continues to be very polarized on AI and Big Tech Stocks. It may continue another few weeks, yet as we move into early, perhaps mid/late June, we fear the consequences of a Debt Ceiling resolution, or of its failure (either a liquidity squeeze or a deflationary bust).

Fixed Income: as the Debt Ceiling deal reaches Congress, we expect some ringfencing next week to pass it. This could trigger a bounce for Treasuries and Bunds. We would however expect yields to rise again into the Summer thereafter.

FOREX: The US Dollar could also retrace while uncertainty about the deal persists. We do believe in a positive resolution though, and that USD could then continue to bounce into the Summer as short term yields retest up.

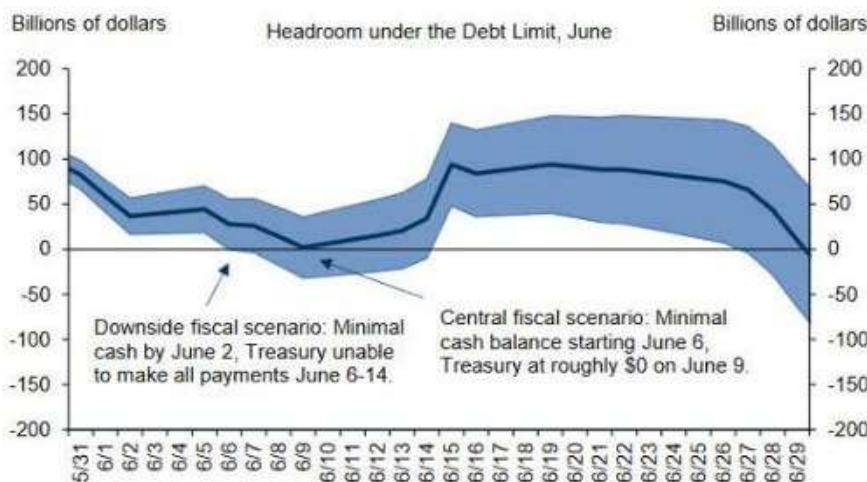
Commodities: the International Energy Agency (IEA) is revising its demand forecasts up, while hedge funds remain very short, perhaps triggering a bullish squeeze into the Summer. Gold continues to retrace to below 1'950 USD/oz.

	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	4 207	oct.22	3 577	17,6%	août.22	4 305	-2,3%	9,6%	up	neutral
Nasdaq100 Index	USD	14 294	déc.22	10 679	33,8%	mai.23	14 294	0,0%	30,7%	up	slightly OB
Dow Jones Industrials Index	USD	33 094	sept.22	28 726	15,2%	nov.22	34 590	-4,3%	-0,2%	neutral	neutral
EuroStoxx50	EUR	4 338	sept.22	3 279	32,3%	avr.23	4 409	-1,6%	14,3%	up	neutral
Swiss Market Index	CHF	11 453	sept.22	10 073	13,7%	mai.22	11 736	-2,4%	6,7%	neutral	neutral
Nikkei225	JPY	30 941	janv.23	25 717	20,3%	mai.23	31 087	-0,5%	18,6%	up	OB
Shanghai Composite	CNY	3 213	oct.22	2 893	11,1%	juin.22	3 409	-5,7%	4,0%	neutral	neutral
US 10Y Treasury Yield	%	3,80%	août.22	2,58%	1,2%	oct.22	4,25%	-0,5%	-0,1%	neutral	neutral
German 10Y Bund Yield	%	2,54%	août.22	0,76%	1,8%	mars.23	2,75%	-0,2%	-0,0%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	101	nov.22	92	10,0%	mai.22	121	-16,3%	3,7%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	106	oct.22	98	8,7%	mai.22	115	-7,1%	3,0%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	74	oct.22	69	6,7%	mai.22	77	-3,6%	2,7%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	84	oct.22	76	10,5%	mai.22	90	-6,8%	1,3%	neutral	neutral
EUR/USD		1,07	sept.22	0,96	11,8%	mai.23	1,11	-3,1%	0,2%	neutral	neutral
GBP/USD		1,23	sept.22	1,07	15,6%	mai.22	1,27	-2,4%	2,1%	neutral	neutral
USD/JPY		141	mai.22	128	10,2%	oct.22	150	-6,3%	7,2%	neutral	slightly OB
USD/CHF		0,91	mai.23	0,88	2,4%	nov.22	1,01	-10,7%	-2,1%	neutral	neutral
AUD/USD		0,65	oct.22	0,62	5,1%	juin.22	0,73	-10,3%	-4,4%	neutral	slightly OS
Brent Oil (per Barrel)	USD	77	mai.23	72	6,4%	juin.22	124	-37,7%	-10,4%	down	neutral
Gold Spot (per Ounce)	USD	1 947	sept.22	1 624	19,8%	mai.23	2 050	-5,0%	6,7%	up	neutral

Debt Ceiling focus: towards a resolution (next steps / consequences)

Considering current projections, as outlined in the graph below, cash balances at the US Treasury are due to go negative by the 2nd week of June, potentially resulting in a technical US default. It was hence urgent that Republican House speaker McCarthy and President Biden reach an agreement on raising the Debt Ceiling Limit. This was finally the case on Saturday. The compromise deal, which extends the debt limit for 2 years, or until after the 2024 US Election, does limit spending growth to a rate lower than inflation and projected economic growth but fails to push any real spending cuts. It is hence very consensual and may deceive both Republican and Democratic extremes. The main risk now seems that it could be opposed by right wing Republicans and that the deal could fail to pass through congress.

Exhibit 1: Our Current Central Scenario Is That the Treasury's Room Under the Debt Limit Will Barely Exceed \$30bn by June 2



Source: Treasury, Goldman Sachs Global Investment Research

Consequences if the deal fails in Congress: even a brief default could result in a decline of real GDP and 2 mio job losses in the US as funding costs rise and businesses lay off massively (Moody's). Financial Markets would panic, the FED would probably cut rates aggressively, the yield curve would steepen, and the Dollar would drop.

Consequences if the deal passes through Congress: lifting the debt ceiling would imply rapid issuance of 0.5–1.0 Trillion of Treasuries, probably lifting short term interest rates and crowding out other investments. Rate cuts may then also need to be priced out. These effects could generally tighten Liquidity resulting in a rise in real yields and a drop in risk assets.

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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