

# WEEKLY MARKETS ROUND-UP

## Executive Summary

6<sup>th</sup> November 2023

**Top news: Following weaker NFPs, bad news is good news for risk assets** – last week finished on a prudent note for the economy with Non-Farm Payrolls coming in on Friday at a weak +150k for October vs 178k expected and previous 297k in September. The employment rate also ticked up and now stands at 3.9% (up +0.5% from last April's low at 3.4%). Overall, the report was deceiving with a large portion of the jobs growth in government linked positions while the proportion of multiple job holders also surged. It echoed an appalling Manufacturing ISM PMI data release on Wednesday (46.7 vs 49 expected) and continued to support the strong rebound in risk assets which started early last week on bad news is good news dynamics. These positive developments weren't deterred by the FED, which, as planned, kept rates unchanged at 5.5%, remaining higher for longer for now, while the speech from Hezbollah's leader Nasrallah on Friday was firm in condemning the US and Israel but didn't confirm an expansion of a second front. It was analyzed as temporary de-escalation by financial markets. Going forward, this week will see 2 speeches from Powell on Wednesday and Thursday and the Preliminary University of Michigan Consumer Sentiment data on Friday.

**Equity:** equity markets did indeed rally strongly last week, with the S&P500 and the Nasdaq100 up more than 6% and 7% respectively, while the EuroStoxx50 also bounced more than 4%. We expect this rebound to continue into mid/late November as we had expected, and some markets, such as the Nasdaq100 may make marginal new highs.

**Fixed Income:** benchmark bond yields have also been retracing quite rapidly with the US10Y down 40 bps from its recent 5% to 4.58% and the 10Y Bund down 30 bps to 2.64%. We expect this correction to continue for now.

**FOREX:** along with US yields, the USD continued to slip vs most currencies, by circa 2% on average. It is now rather neutral on our table below. We would expect further retracement over the next few weeks, yet are still bullish into Q1.

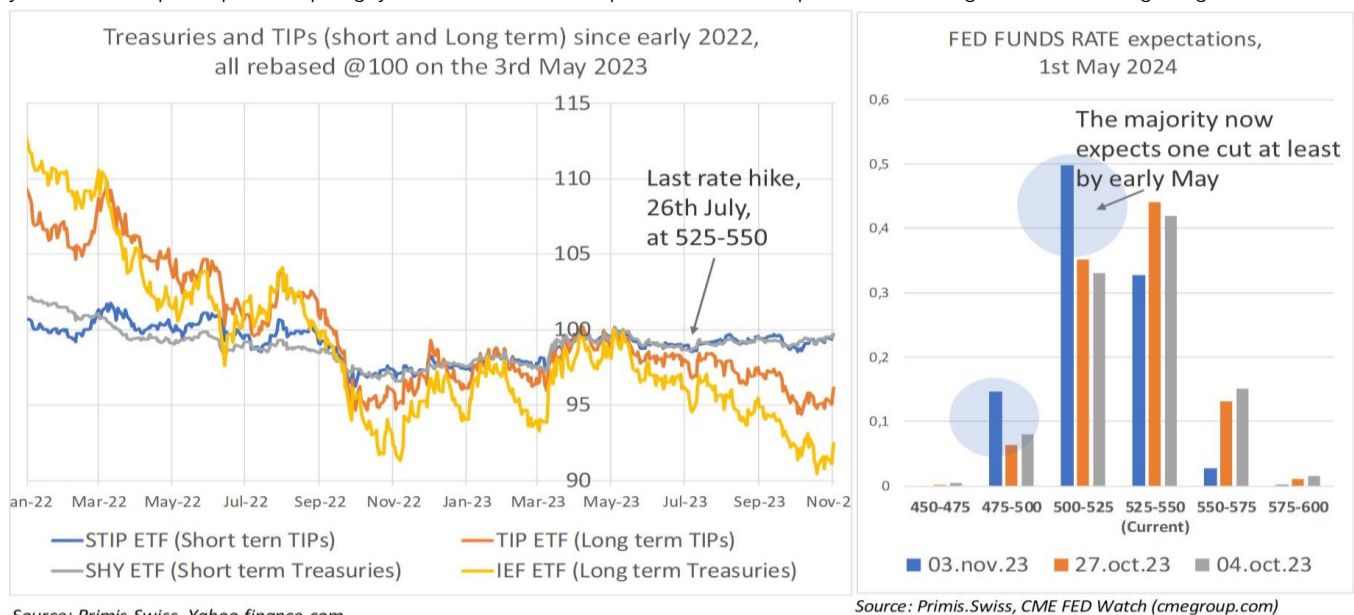
**Commodities:** Oil dropped to 85 USD/barrel and Gold broke back below 2'000 USD/oz as geopolitical risk receded slightly. Bearing no surprise escalation of the Middle Eastern conflict, both commodities should continue to retrace.

	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	4 358	Nov-22	3 749	16,3%	Jul-23	4 589	-5,0%	13,5%	neutral	neutral
Nasdaq100 Index	USD	15 099	Dec-22	10 679	41,4%	Jul-23	15 841	-4,7%	38,0%	neutral	neutral
Dow Jones Industrials Index	USD	34 061	Mar-23	31 819	7,0%	Aug-23	35 631	-4,4%	2,8%	neutral	neutral
EuroStoxx50	EUR	4 175	Nov-22	3 709	12,6%	Jul-23	4 471	-6,6%	10,0%	down	neutral
Swiss Market Index	CHF	10 580	Oct-23	10 324	2,5%	May-23	11 595	-8,8%	-1,4%	down	slightly OS
Nikkei225	JPY	31 950	Jan-23	25 717	24,2%	Jul-23	33 753	-5,3%	22,4%	neutral	neutral
Shanghai Composite	CNY	3 031	Oct-23	2 939	3,1%	May-23	3 395	-10,7%	-1,9%	down	slightly OS
US 10Y Treasury Yield	%	4,58%	Apr-23	3,31%	1,3%	Oct-23	4,99%	-0,4%	0,7%	up	neutral
German 10Y Bund Yield	%	2,64%	Dec-22	1,79%	0,9%	Sep-23	2,97%	-0,3%	0,1%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	88	Oct-23	83	5,3%	Dec-22	104	-16,0%	-7,5%	down	slightly OS
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	102	Nov-22	96	5,8%	Feb-23	107	-4,8%	1,0%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	74	Nov-22	68	9,8%	Aug-23	75	-0,3%	6,0%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	84	Nov-22	76	9,7%	Jul-23	86	-2,8%	3,2%	neutral	neutral
EUR/USD		1,07	Nov-22	1,00	7,2%	Jul-23	1,12	-4,5%	0,3%	neutral	neutral
GBP/USD		1,24	Nov-22	1,14	9,0%	Jul-23	1,31	-5,7%	2,4%	neutral	neutral
USD/JPY		149	Jan-23	128	16,8%	Oct-23	152	-1,5%	13,9%	up	neutral
USD/CHF		0,90	Jul-23	0,86	4,8%	Nov-22	0,99	-9,0%	-2,8%	neutral	neutral
AUD/USD		0,65	Oct-23	0,63	3,4%	Feb-23	0,71	-8,7%	-4,4%	neutral	neutral
Brent Oil (per Barrel)	USD	85	Jun-23	72	18,2%	Nov-22	98	-13,3%	-1,2%	up	neutral
Gold Spot (per Ounce)	USD	1 992	Nov-22	1 674	19,0%	May-23	2 050	-2,8%	9,2%	neutral	neutral

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

## Treasury Focus: term premium, inflation and rate cuts expectations

From early 2022, all Treasury ETFs (real/nominal, short/long term) dropped aggressively as it became clear that inflation wasn't transitory, and that many rate hikes were needed to control it (left-hand graph). With such hawkishness both nominal and real yield curves inverted, suggesting that real and nominal yields were then expected to drop back once the battle against inflation was won. From November 2022, the market did price a Pivot and all Treasury ETFs bounced into the Spring. Since then, however, while short term ETFs have stabilized (no more rate hikes expected), long term ones have retested down consequently (bearish steepening). Two main factors explain this, 1. a new rally in longer term Inflation Expectations (the difference between the orange and yellow line), and 2., a rise in the real term premium (the difference between the blue and orange line). While the market expects Inflation Expectations (1.) to eventually drop into next May in order to justify the first rate cut, which is priced in (right-hand graph), we believe the term premium (2.) could prove much more resilient as it seems mostly linked to the aggressive and ongoing US fiscal expansion. We would hence expect Treasuries to bounce into year-end and perhaps the Spring, yet the resilient term premium should provide a strong headwind mitigating this bounce.



Source: Primis.Swiss, Yahoo.finance.com

Source: Primis.Swiss, CME FED Watch (cmegroup.com)

### 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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