

# WEEKLY MARKETS ROUND-UP

## Executive Summary

11<sup>th</sup> December 2023

**Top news: US CPI and Central Banks week** – last week's data finished with a surge in the University of Michigan (UoM) Consumer Sentiment data on Friday, which erased 4 months of decline, printing at 69.4 vs 62 expected and vs 61.3 last month. This corroborated Non-Farm Payrolls which came in above expectations (+199k, vs 184k exp. and previous 150k), while 1Y UoM Inflation expectations dropped to +3.1% vs +4.5% last month in what, at first glance, looks more and more like a Soft Landish, perhaps even Goldilocks environment into 2024. Surely, there are other arguments and data points that do not augur as well for the future. Yet, for now, and in the coming week, markets will probably focus on this positiveness and Central Banks' reaction function to it (the FED meeting is scheduled on Wednesday, SNB, BOJ and ECB on Thursday). Incoming data will also play an important role, with US CPI expected prior to the FED on Tuesday (Core expected to nudge back up to +0.3% while Headline could be flat at +0.0% due to falling Oil prices). Thereafter, we will also await US Retail Sales on Thursday (expected at a more negative -0.1% MoM) as well as the forward looking Flash PMIs for the US and Europe on Friday (resp. expected with a slight deceleration and slight improvement). Bottom-line, this week will feature important data and policy guidance into early 2024.

**Equity:** last week saw much disparity, with US being flat, Europe rising another 2-3%, while Japan and China were down 4 and 2%. Flash PMIs and Central Banks may help gain more clarity, while the rally is starting to look stretched.

**Fixed Income:** bond yields in the US stabilized, while Bund yields are Oversold. Long term Treasuries and US Investment Grade, US High Yield and USD EM Sovereigns are all Overbought and could see some retracement into Q1.

**FOREX:** USD nudged up vs most currencies last week (and may continue to do so into Q1), except vs JPY, which has strengthened on speculations that the BOJ is about to end Yield Curve Control. This sounds premature for now though.

**Commodities:** Oil dropped a further 3.5% last week, is now Oversold and could bounce into early Q1. Gold made new intraday highs (2'145) last Monday in Asia's open. It then reversed down 4% on the day. We expect further retracement.

	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	4 604	Dec-22	3 783	21,7%	Dec-23	4 604	0,0%	19,9%	neutral	neutral
Nasdaq100 Index	USD	16 085	Dec-22	10 679	50,6%	Dec-23	16 085	0,0%	47,0%	neutral	neutral
Dow Jones Industrials Index	USD	36 248	Mar-23	31 819	13,9%	Dec-23	36 248	0,0%	9,4%	neutral	slightly OB
EuroStoxx50	EUR	4 523	Dec-22	3 794	19,2%	Dec-23	4 523	0,0%	19,2%	neutral	slightly OB
Swiss Market Index	CHF	11 072	Oct-23	10 324	7,2%	May-23	11 595	-4,5%	3,2%	neutral	neutral
Nikkei225	JPY	32 308	Jan-23	25 717	25,6%	Jul-23	33 753	-4,3%	23,8%	neutral	neutral
Shanghai Composite	CNY	2 970	Oct-23	2 939	1,0%	May-23	3 395	-12,5%	-3,9%	neutral	slightly OS
US 10Y Treasury Yield	%	4,23%	Apr-23	3,31%	0,9%	Oct-23	4,99%	-0,8%	0,4%	up	neutral
German 10Y Bund Yield	%	2,27%	Dec-22	1,90%	0,4%	Sep-23	2,97%	-0,7%	-0,3%	neutral	OS
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	95	Oct-23	83	13,9%	Apr-23	105	-9,6%	-0,4%	neutral	slightly OB
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	107	Oct-23	98	9,4%	Dec-23	108	-0,5%	6,6%	neutral	OB
US High Yield (HYG ETF, 3-4Y duration)*	USD	76	Dec-22	69	10,6%	Dec-23	76	-0,2%	9,1%	neutral	OB
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	87	Oct-23	79	9,7%	Dec-23	87	-0,4%	8,0%	neutral	OB
EUR/USD		1,08	Oct-23	1,05	2,8%	Jul-23	1,12	-4,3%	0,6%	neutral	neutral
GBP/USD		1,25	Mar-23	1,18	6,1%	Jul-23	1,31	-4,5%	3,8%	neutral	neutral
USD/JPY		145	Jan-23	128	13,4%	Nov-23	152	-4,4%	10,6%	neutral	neutral
USD/CHF		0,88	Jul-23	0,86	2,6%	Mar-23	0,94	-6,6%	-4,8%	neutral	neutral
AUD/USD		0,66	Oct-23	0,63	4,4%	Feb-23	0,71	-7,8%	-3,5%	neutral	neutral
Brent Oil (per Barrel)	USD	76	Jun-23	72	5,6%	Sep-23	97	-21,5%	-11,7%	down	OS
Gold Spot (per Ounce)	USD	2 004	Dec-22	1 777	12,8%	Dec-23	2 071	-3,2%	9,9%	neutral	slightly OB

## Mega Tech Valuation Focus: Magnificent, yet probably unsustainable longer term

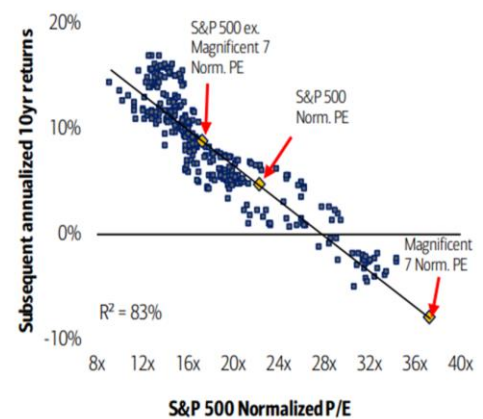
Many times throughout 2023, was the US Mega Tech strength compared to the run-up to the 2000 Tech Bubble or to the Summer rally prior to the Autumn 2008 crash. Needless to say, that for now, these Growth behemoths have brushed off any such concerns with two humongous rallies, from April to July initially, while the one from late October is still ongoing. Throughout the year, Schroders kept updating its market cap comparison between the Super-7 and the entire market valuation of some large countries. It started with Japan, UK, China and France, while Canada was recently added (left-hand graph). The numbers are indeed astonishing with these 7 stocks accounting for circa 12 trillion USD in market cap (and no debt), 1.7 trillion in Revenue (6% of USD GDP), 500 bn in EBITDA and circa 400bn in Net profit (circa 20% of all S&P500 earnings) and growing at more than 40% p.a. (vs +11% expected on average for the S&P500 in 2024). No wonder that with such dynamism, they are ploughing ahead. However, such strength can lead to Overvaluation. This is what the second graph from Bank of America is suggesting (right-hand graph). It argues that the average normalized PE of the 7 Tech Mega Caps is at uncharted historical extremes, estimated between 35 and 40x. If extrapolated, this regression study would imply between 5 and 10% of negative performance for the Magnificent 7 over the next decade. As the title of this chart postulates, Valuation statistically explains 80% of the S&P500 returns since 1987. Hence, while AI and strong cash flows may justify the Mega Techs' outperformance this year, such valuations, at some point, should start to mean-revert.

### The Super-7 make up more of MSCI ACWI than Japan, UK, China, France and, now almost Canada too, combined



Past performance is not a guide to future performance and may not be repeated.  
Data as of 20 November 2023, Source ISEG Datastream, Schroders

**Exhibit 31: Valuation explains 80% of returns over the next decade**  
S&P 500 normalized P/E vs. subsequent annualized returns (since 1987, forecasts as of 11/17/23)



Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics

#### 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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