

WEEKLY MARKETS ROUND-UP

Executive Summary

18th December 2023

Top news: BOJ on Tuesday, US PCE Core Inflation on Friday – last week was busy in terms of data releases and Central Bank activity. It started on Tuesday with US CPI. Headline came in slightly higher than expected at +0.1% MoM (3.1% YoY), while Core was +0.3% MoM as expected, yet still at 4% YoY or twice the FED's 2% target. Nevertheless, the FED appeared very dovish on Wednesday confirming that the timing of rate cuts was now being discussed (markets now expect the 1st cut as early as March, and 150 bps cuts by end 2024 vs 100 bps prior to the FED). On Thursday, the SNB, BOE, ECB all kept their rates unchanged. While the former was rather neutral, BOE and ECB maintained a slight disciplined bias, for now. On Thursday, US Retail sales were also released and surprised very positively (+0.3% vs -0.1% exp.). On Friday, the forward looking Flash PMIs surprised negatively in the EuroZone, were rather negative on Manufacturing in the US and the UK, while still growing, even better than expected, for Services. This week we will await the Bank of Japan on Tuesday which may start to curb its very accommodative policy, and will finish on Friday with US Core PCE inflation. Next week, we will be spending Christmas with the family on Monday, and will probably write on Boxing Day (Tuesday). We hence take the opportunity to wish you all an enjoyable holiday season.

Equity: last week, the S&P500 finished up 3% and the Nasdaq100 almost 5%. European markets rose circa 1%. Upside potential could be getting exhausted (many Overbought conditions). We would probably expect a pause into January.

Fixed Income: Treasury and Bund yields continued to dive last week on pivot speculations. Most bond yields now seem Oversold short term (inversely Overbought for bond ETFs). We would hence expect some stabilization into Q1.

FOREX: USD suffered from the dovish FED last week losing circa 1% vs most currencies. We expect it to temporarily stabilize into early Q1. All eyes will be on the BoJ on Tuesday to see if it will abandon its ultra loose monetary policy.

Commodities: Oil was unchanged last week after almost 3 months of correction. It may also stabilize into January. Gold may be on the other side of this trade, is still holding 2'000 for now, yet could retrace 50-100 USD/oz into January.

	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	4 719	Dec-22	3 783	24,7%	Dec-23	4 720	-0,0%	22,9%	neutral	slightly OB
Nasdaq100 Index	USD	16 623	Dec-22	10 679	55,7%	Dec-23	16 623	0,0%	52,0%	up	neutral
Dow Jones Industrials Index	USD	37 305	Mar-23	31 819	17,2%	Dec-23	37 305	0,0%	12,5%	neutral	OB
EuroStoxx50	EUR	4 549	Dec-22	3 794	19,9%	Dec-23	4 549	0,0%	19,9%	neutral	OB
Swiss Market Index	CHF	11 192	Oct-23	10 324	8,4%	May-23	11 595	-3,5%	4,3%	neutral	slightly OB
Nikkei225	JPY	32 971	Jan-23	25 717	28,2%	Jul-23	33 753	-2,3%	26,4%	neutral	neutral
Shanghai Composite	CNY	2 943	Oct-23	2 939	0,1%	May-23	3 395	-13,3%	-4,7%	down	slightly OS
US 10Y Treasury Yield	%	3,91%	Apr-23	3,31%	0,6%	Oct-23	4,99%	-1,1%	0,0%	neutral	slightly OS
German 10Y Bund Yield	%	2,13%	Jan-23	2,01%	0,1%	Sep-23	2,97%	-0,8%	-0,4%	down	OS
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	99	Oct-23	83	19,5%	Apr-23	105	-5,2%	4,4%	neutral	slightly OB
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	110	Oct-23	98	12,4%	Dec-23	111	-0,1%	9,5%	neutral	OB
US High Yield (HYG ETF, 3-4Y duration)*	USD	77	Dec-22	69	12,2%	Dec-23	77	-0,3%	10,7%	neutral	OB
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	89	Oct-23	79	12,1%	Dec-23	89	-0,1%	10,4%	neutral	OB
EUR/USD		1,09	Oct-23	1,05	4,0%	Jul-23	1,12	-3,1%	1,8%	neutral	neutral
GBP/USD		1,27	Mar-23	1,18	7,2%	Jul-23	1,31	-3,5%	4,8%	neutral	neutral
USD/JPY		142	Jan-23	128	11,2%	Nov-23	152	-6,3%	8,4%	neutral	neutral
USD/CHF		0,87	Jul-23	0,86	1,4%	Mar-23	0,94	-7,7%	-5,9%	neutral	slightly OS
AUD/USD		0,67	Oct-23	0,63	6,4%	Feb-23	0,71	-6,1%	-1,7%	neutral	slightly OB
Brent Oil (per Barrel)	USD	77	Jun-23	72	6,9%	Sep-23	97	-20,5%	-10,6%	down	slightly OS
Gold Spot (per Ounce)	USD	2 019	Dec-22	1 787	13,0%	Dec-23	2 071	-2,5%	10,6%	up	slightly OB

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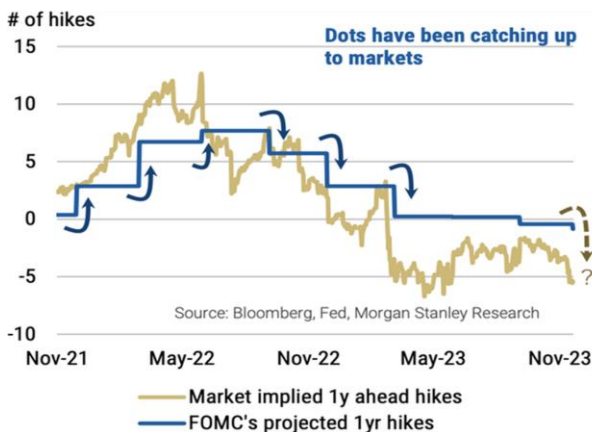
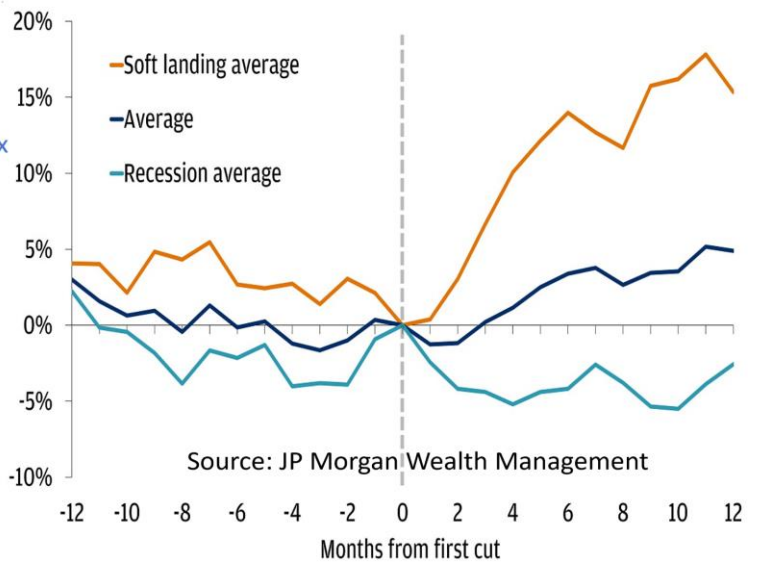
FED Focus: Surprise Pivot points to first cut next March and to a positive 2024

While 2 weeks ago Chair Powell considered that rate cut speculations were premature, last Wednesday's dovish FED press release, showed that cuts are now on the table and as early as March. This was rather surprising as over the last couple of weeks, data has continued to rebound, while in November, Financial Conditions also saw their largest monthly easing in 4 decades (top-left graph). This sudden dovishness does however mirror recent trends at the FED, which basically follows market expectations with a lag (bottom left-graph). As for 2024, market consensus is very soft landish. Such positive projections (if correct) have historically been very positive for the S&P500 in most previous rate cut cycles (right-hand graph).



What happens when the Fed cuts rates?

S&P 500 performance during Fed cutting cycles since 1965, %



Source: Federal Reserve, NBER, Bloomberg Finance L.P. Analysis as of December 11, 2023. Analysis incorporates cutting cycles that began in: Nov '66, Aug '69, June '74, May '81, Oct '84, Jun '89, Jul '95, Sep '98, Jan '01, Sep '07, Jul '19, and Mar '20. Recession is determined by an NBER-defined contraction that occurred within 12 months of the first cut, excluding the 2019 cycle preceding the COVID-19 pandemic. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

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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