

WEEKLY MARKETS ROUND-UP

Executive Summary

15th January 2024

Top news: World Economic Forum, Retail sales in the US – last week mostly focused on Thursday's US December CPI data with Core coming in as expected at +0.3% MoM vs +0.3% in November, yet with Headline CPI incl. Food & Energy surprising to the upside at +0.3% MoM vs +0.2% expected and +0.1% last month. YoY Headline was +3.4% vs +3.2% expected and +3.1% in November. This is a step in the opposite direction to the FED's 2% target. Yet, while yields did jump on the news, they rapidly resumed lower again into Friday as markets decided to focus on the progresses made on inflation in 2023 as well as the broader disinflationary trend which should continue in 2024. This week's spotlight will be the World Economic Forum in Davos where notably Mrs Lagarde and Mr Jordan from the SNB are expected to speak. As for US economic data, it will focus on the Empire Manufacturing Index on Tuesday (expected to slow further yet at a slower pace), retail sales on Wednesday, which should remain strong, and the University of Michigan preliminary Consumer Sentiment on Friday, which is expected to remain stable towards the higher end of its 2 years range. Finally, on the earnings front, Goldman Sachs and Morgan Stanley are expected to release on Tuesday.

Equity: last week, US markets rose back 2% towards their late Dec. highs, Europe was slightly up, China remained under pressure, while the Nikkei225 added 6.6% as the BoJ is expected to remain supportive. We anticipate further equity back-and-forths at high levels into late February, and then a strong rally with new highs into late Q1 / early Q2.

Fixed Income: last week US yields dropped slightly, while Bund yields started to resume lower on Friday. They may still hold up though into late January, when we expect them to resume their correction down, probably into the Spring.

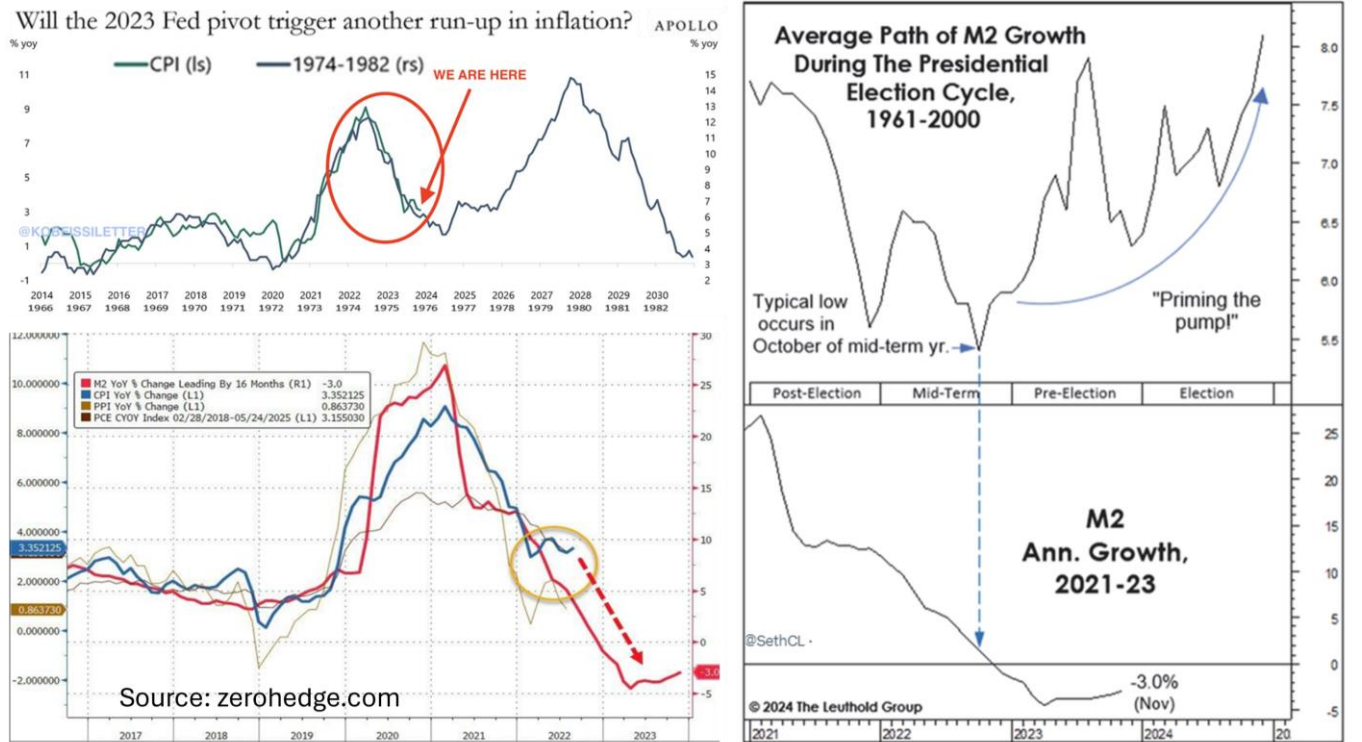
FOREX: the Dollar was also under slight pressure last week. Yet, here also, its weak bounce since late December may still continue another 1-2 weeks. We then expect the US Dollar to resume its downtrend into the Spring with new lows.

Commodities: Brent continues to hold in the highs 70s USD/barrel. From late January, it then probably drops into the Spring and towards 60s USD/barrel. We would still expect Gold to dip below 2'000 again over the next month or so.

	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	4 784	Mar-23	3 856	24,1%	Jan-24	4 784	0,0%	0,3%	up	slightly OB
Nasdaq100 Index	USD	16 833	Jan-23	11 296	49,0%	Dec-23	16 907	-0,4%	0,0%	up	neutral
Dow Jones Industrials Index	USD	37 593	Mar-23	31 819	18,1%	Jan-24	37 715	-0,3%	-0,3%	up	slightly OB
EuroStoxx50	EUR	4 480	Oct-23	4 014	11,6%	Dec-23	4 549	-1,5%	-0,9%	up	slightly OB
Swiss Market Index	CHF	11 226	Oct-23	10 324	8,7%	May-23	11 595	-3,2%	0,8%	neutral	slightly OB
Nikkei225	JPY	35 577	Jan-23	25 822	37,8%	Jan-24	35 577	0,0%	6,3%	up	slightly OB
Shanghai Composite	CNY	2 882	Jan-24	2 878	0,1%	May-23	3 395	-15,1%	-3,1%	down	slightly OS
US 10Y Treasury Yield	%	3,94%	Apr-23	3,31%	0,6%	Oct-23	4,99%	-1,1%	0,1%	down	neutral
German 10Y Bund Yield	%	2,15%	Dec-23	1,97%	0,2%	Sep-23	2,97%	-0,8%	0,1%	down	slightly OS
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	97	Oct-23	84	15,3%	Apr-23	105	-8,4%	-2,4%	up	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	110	Oct-23	99	12,0%	Dec-23	111	-0,8%	-0,2%	up	slightly OB
US High Yield (HYG ETF, 3-4Y duration)*	USD	78	Feb-23	70	11,6%	Dec-23	78	-0,3%	0,4%	up	slightly OB
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	89	Oct-23	80	11,3%	Dec-23	90	-1,3%	-0,6%	up	slightly OB
EUR/USD		1,10	Oct-23	1,05	4,6%	Jul-23	1,12	-2,6%	-0,8%	neutral	neutral
GBP/USD		1,28	Mar-23	1,18	7,8%	Jul-23	1,31	-2,9%	0,1%	neutral	slightly OB
USD/JPY		145	Jan-23	128	13,1%	Nov-23	152	-4,5%	2,7%	neutral	neutral
USD/CHF		0,85	Jan-24	0,84	1,4%	Mar-23	0,94	-9,5%	1,3%	neutral	slightly OS
AUD/USD		0,67	Oct-23	0,63	6,2%	Feb-23	0,71	-6,3%	-1,8%	neutral	neutral
Brent Oil (per Barrel)	USD	78	Jun-23	72	9,0%	Sep-23	97	-18,9%	1,6%	down	slightly OS
Gold Spot (per Ounce)	USD	2 049	Feb-23	1 811	13,1%	Dec-23	2 077	-1,4%	-0,7%	up	neutral

Inflation Focus: “always and everywhere a monetary phenomenon”, M. Friedman

Following Thursday’s slightly higher than expected CPI, speculations of an upcoming 2nd wave of inflation (as in the 1970s, and also to a certain extent, as in the 1940s) have resurfaced. This is what the upper left graph from Apollo GM, a prominent hedge fund, is meant to show. Detractors of this scenario would argue that inflation merely follows M2 money supply with a lag and could hence still drop for 3 to 5 quarters (lower left graph). Yet, what happens thereafter? The double graph on the right-hand side from Leuthold Group offers a potential outcome. It argues that M2 typically reaccelerates during year 3 and 4 of the presidential cycle. In the current cycle, it is hence very late vs this average and could have a lot of catching up to do (may explain the recent sudden FED Pivot). Inflation would then rise again following a lag, potentially from late 2024 / 2025.



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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