

WEEKLY MARKETS ROUND-UP

Executive Summary

15th April 2024

Top news: Retail Sales, further US bank earnings + Netflix earnings on Thursday – last week saw a second week of >1% drops on most equity indexes as US CPI surprised positively once again on Wednesday. Indeed, both Core and Headline remained at +0.4% MoM vs +0.3% exp. Due to adverse base affects, Headline YoY CPI rose back to +3.5% vs 3.4% exp. and 3.2% in February. On Wednesday, the release of the previous FED Meeting Minutes also suggested that some Governors remain concerned that inflation could prove sticky, and in fact, this is exactly what the higher CPI numbers are currently suggesting. As a result, initial FED rate cut expectations have now shifted to the late July meeting, rather than the 12th June one, while only 2 rate cuts are now expected in 2024. As for the ECB, it decided to keep its rates unchanged on Thursday, but confirmed that an initial cut could come as early as June regardless of what the FED could do. As a result, EUR/USD dropped 1.8% last week. This week will start with US Retail Sales on Monday, which are expected to hold up from last month (higher Core, lower Headline figures exp.). The rest of the week will see further US Financials earnings (GS, BAC, MS or AXP) following some disappointment from C, JPM and WFC last week as net interest income dropped. NFLX will be the main other release on Thursday after the close.

Equity: the S&P500 and the EuroStoxx50 dropped another 1.7 and 1.3% resp. last week on Higher for Longer hawkish pressures. We believe upside retests are still possible into late April. We then expect a further 5-10% drop into midyear.

Fixed Income: benchmark rates are diverging. US10Y rose another 0.12% to 4.52% (its highest weekly close since last November), while the 10Y Bund dropped slightly on the more dovish ECB. This divergence should continue into June.

FOREX: with the higher US CPI print and the rather hawkish minutes, the US Dollar rose vs all currencies last week, especially vs EUR (-1.8% on EUR/USD) following the ECB dovish statement.

Commodities: Oil was flat last week yet probably remains in an uptrend considering geopolitical tensions in the Middle East and the resilient US data. Gold topped 2'400 USD/oz on Friday morning, but then dropped 80 USD that afternoon.

	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance YTD in %	Trend last 6m ¹	Exaggeration OB / OS ²
			Date Low	Low Price	Rise %	Date High	High price	Decline %			
S&P500 Index	USD	5 123	Apr-23	4 056	26,3%	Mar-24	5 254	-2,5%	7,4%	up	neutral
Nasdaq100 Index	USD	18 003	Apr-23	12 725	41,5%	Mar-24	18 339	-1,8%	7,0%	up	neutral
Dow Jones Industrials Index	USD	37 983	Oct-23	32 418	17,2%	Mar-24	39 807	-4,6%	0,8%	up	neutral
EuroStoxx50	EUR	4 955	Oct-23	4 014	23,4%	Mar-24	5 083	-2,5%	9,6%	up	neutral
Swiss Market Index	CHF	11 380	Oct-23	10 324	10,2%	Mar-24	11 790	-3,5%	2,2%	up	neutral
Nikkei225	JPY	39 524	Apr-23	28 416	39,1%	Mar-24	40 888	-3,3%	18,1%	up	neutral
Shanghai Composite	CNY	3 019	Feb-24	2 702	11,7%	May-23	3 395	-11,1%	1,5%	neutral	neutral
US 10Y Treasury Yield	%	4,52%	May-23	3,36%	1,2%	Oct-23	4,99%	-0,5%	0,6%	neutral	slightly OB
German 10Y Bund Yield	%	2,37%	Dec-23	1,97%	0,4%	Sep-23	2,97%	-0,6%	0,3%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	90	Oct-23	83	9,4%	May-23	103	-12,3%	-7,4%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	106	Oct-23	98	8,8%	Dec-23	110	-3,7%	-3,1%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	76	May-23	70	8,9%	Mar-24	78	-1,5%	-0,1%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	88	Oct-23	79	11,2%	Apr-24	90	-2,1%	-0,7%	neutral	neutral
EUR/USD		1,06	Oct-23	1,05	1,6%	Jul-23	1,12	-5,3%	-3,6%	neutral	slightly OS
GBP/USD		1,25	Oct-23	1,21	3,1%	Jul-23	1,31	-5,2%	-2,2%	neutral	neutral
USD/JPY		153	Apr-23	134	14,7%	Apr-24	153	0,0%	8,7%	neutral	slightly OB
USD/CHF		0,91	Jan-24	0,84	8,7%	Oct-23	0,92	-0,7%	8,7%	neutral	slightly OB
AUD/USD		0,65	Oct-23	0,63	2,6%	Jul-23	0,69	-6,2%	-5,1%	neutral	neutral
Brent Oil (per Barrel)	USD	90	Jun-23	72	25,3%	Sep-23	97	-6,7%	16,9%	up	slightly OB
Gold Spot (per Ounce)	USD	2 345	Oct-23	1 820	28,8%	Apr-24	2 372	-1,2%	13,7%	up	OB

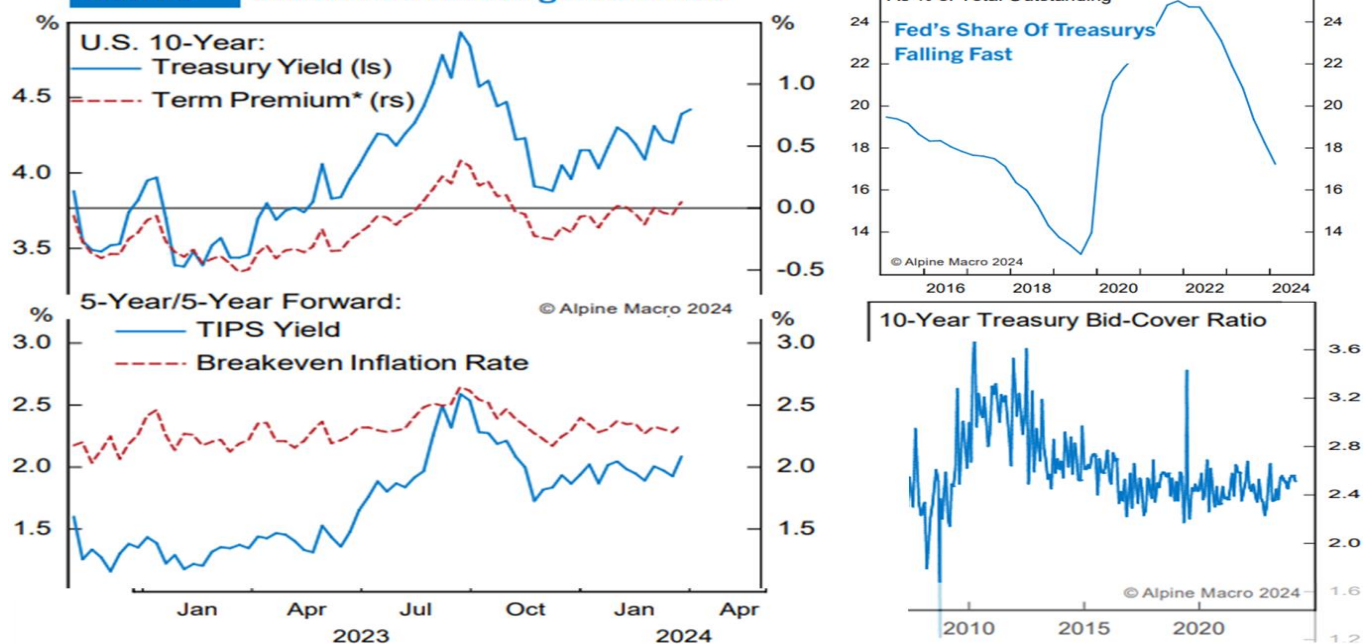
* These large fixed income ETFs are used as proxies to assess the state of duration trades as well as of credit markets

Source: Primis Investment (Suisse) SA

Treasury Focus: is US Fiscal Policy driving the UST Sell-off? (source: Alpine Macro)

Following our last 2 newsletters focusing on inflation, US debt levels or Gold, we are pleased this week to share extracts from a teaser report we've received from alpinemacro.com. The paper weighs the impact of US' fiscal policy on the recent rise in US Treasury yields, which seems to very much result from upside pressures in real yields and the real term premium, rather than inflation expectations (left-hand graphs). It then argues that these yields are rising as larger issues need to be financed while relying more and more on the private sector to do so (less FED holdings – top-right graph). Such trends could gradually crowd out private sector debt while putting general upside pressure on US borrowing costs. This process is however slow-motion and for now, the Bid-Cover Ratio of US10Y auctions remains decent (bottom-right graph). The paper concludes that this long term uptrend in real financing costs should not preclude possible intermediate cyclical corrections, as could be the case later on this year if the economy shows some early signs of slowing and the FED starts cutting rates.

Chart 1 Selloff Due To Rising Real Rates



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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