

WEEKLY MARKETS ROUND-UP

Executive Summary

10th June 2024

Top news: US CPI and FED rate decision on Wednesday – last week was marked by the ECB starting to cut interest rates on Thursday by 0.25%, bringing its Main Financing rate to 4.25% and its Deposit rate at 3.75%. The decision was described as a hawkish cut, as the ECB did not commit to a clear path of further rate cuts, stating that price pressure remains elevated and that inflation is likely to remain above target well into next year. This stance was in fact probably driven by the EuroZone CPI data which surprised to the upside the previous week. Friday then provided a further positive surprise for the US economy, with Non-farm Payrolls adding 272k jobs, while 182k had been expected. The data did show some contradictions, with the employment rate rising to 4% when 3.9% was expected, while on the other hand, wage growth reaccelerated to +0.4% MoM vs +0.3% exp. Nevertheless, the data was perceived as hawkish and the US2Y rose sharply (+16bps on the Day). This week will first start with digesting the results on the European Elections and then will shift to US CPI data on Wednesday (expected rather flat on Core, slightly down on Headline) as well as the FED rate decision that evening. Thursday will then see the US PPI release and Friday the BOJ rate decision and the University of Michigan Preliminary Consumer Sentiment (expected to rise) and Inflation Expectations survey.

Equities: last week the S&P500 and EuroStoxx50 rose 1.5%, and the Nasdaq100 by 2.5%, while the Dow Jones Industrial was only up 0.3% suggesting further Growth outperformance. Data this week could add fuel to the inflation/disinflation debate, may hence trigger some retracement on equities and maybe a defensive relative rebound.

Fixed Income: the US10Y and German10Y dropped into Friday, but then recuperated much of these losses following Friday's Non-Farm Payrolls. We still expect both to hold into late June and then probably retrace during the Summer.

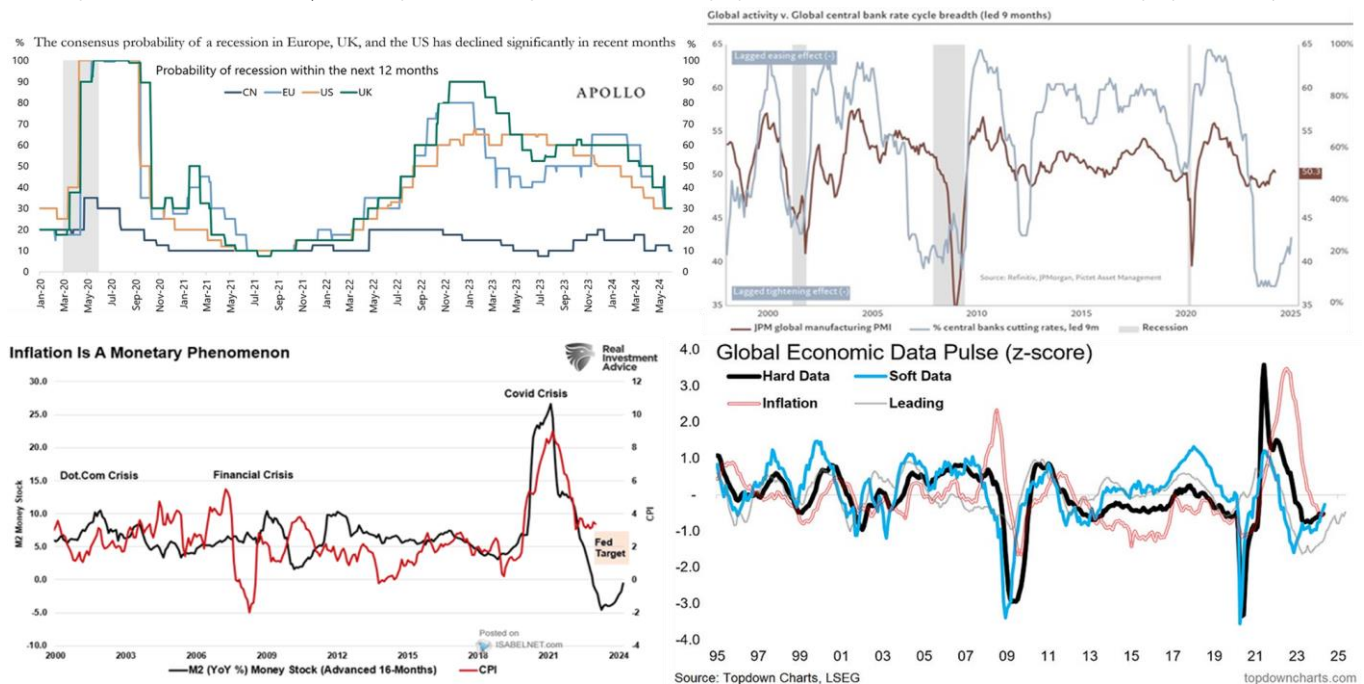
FOREX: USD remained under pressure most of last week, and despite the ECB cut, but then bounced by almost a figure on Friday following the Non-Farm Payrolls. US CPI and the FED will certainly have crucial influence on USD this week.

Commodities: Oil did bounce slightly last week on better US data, while Gold on the other hand is retracing.

	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	5 347	Oct-23	4 117	29,9%	Jun-24	5 354	-0,1%	12,1%	up	neutral
Nasdaq100 Index	USD	19 001	Oct-23	14 110	34,7%	Jun-24	19 035	-0,2%	12,9%	up	neutral
Dow Jones Industrials Index	USD	38 799	Oct-23	32 418	19,7%	May-24	40 004	-3,0%	2,9%	neutral	neutral
EuroStoxx50	EUR	5 051	Oct-23	4 014	25,8%	May-24	5 101	-1,0%	11,7%	up	neutral
Swiss Market Index	CHF	12 255	Oct-23	10 324	18,7%	Jun-24	12 255	0,0%	10,0%	neutral	slightly OB
Nikkei225	JPY	38 684	Oct-23	30 527	26,7%	Mar-24	40 888	-5,4%	15,6%	neutral	neutral
Shanghai Composite	CNY	3 051	Feb-24	2 702	12,9%	Jul-23	3 291	-7,3%	2,6%	neutral	neutral
US 10Y Treasury Yield	%	4,44%	Jun-23	3,72%	0,7%	Oct-23	4,99%	-0,6%	0,6%	up	neutral
German 10Y Bund Yield	%	2,62%	Dec-23	1,97%	0,6%	Sep-23	2,97%	-0,4%	0,6%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	92	Oct-23	83	10,4%	Jun-23	100	-9,0%	-6,5%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	107	Oct-23	97	9,8%	Dec-23	110	-2,8%	-2,2%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	77	Oct-23	70	9,9%	Jun-24	77	-0,4%	1,0%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	88	Oct-23	79	12,3%	May-24	90	-1,3%	0,3%	neutral	neutral
EUR/USD		1,08	Oct-23	1,05	3,2%	Jul-23	1,12	-3,9%	-2,1%	neutral	neutral
GBP/USD		1,27	Oct-23	1,21	5,3%	Jul-23	1,31	-3,2%	-0,1%	neutral	neutral
USD/JPY		157	Jul-23	138	13,5%	Apr-24	158	-1,0%	11,1%	up	neutral
USD/CHF		0,90	Jan-24	0,84	6,6%	Oct-23	0,92	-2,6%	6,6%	neutral	neutral
AUD/USD		0,66	Oct-23	0,63	4,6%	Jul-23	0,69	-4,4%	-3,3%	neutral	neutral
Brent Oil (per Barrel)	USD	79	Jun-23	72	10,6%	Sep-23	97	-17,7%	3,1%	neutral	slightly OS
Gold Spot (per Ounce)	USD	2 293	Oct-23	1 820	26,0%	May-24	2 427	-5,5%	11,2%	up	neutral

Monetary Policy Focus: the cutting cycle has begun, yet data is already improving

With the Bank of Canada and the ECB cutting rates last week, the easing cycle has definitely begun. It comes as inflation rates have dropped, yet broadly remain above their 2% targets. At the same time, consensus probability of a recession has also receded, down to 30% for the US, the EU or the UK (top-left graph). Hence, while these rates cuts are received with much enthusiasm, one may wonder if they are opportune. Indeed, as shown in the top-right graph from Pictet, global rate cuts usually lead economic activity (manufacturing PMIs) by 9 months. The data is already neutral (≥ 50) and could re-accelerate once the global cutting cycle broadens. On the inflation front (bottom-left graph), YoY M2 growth is turning up. This historically leads inflation by 5-6 quarters. As for economic data, Leading and Soft data are already rising again, Hard data may have bottomed and Inflation could gradually follow (bottom-right graph). Monetary Policy is a tricky balancing act (leads and lags are hard to assess). Closely monitoring this rate cutting cycle will be crucial as Soft/No landing dynamics persist.



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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Primis Investment (Suisse) SA
5 rue Jacques-Balmat, 1204 Geneva –Switzerland
T: + 41 22 570 60 80

wealth-management@primis.swiss

www.primis.swiss