PRIMIS® INVESTMENT

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WEEKLY MARKETS ROUND-UP

Executive Summary

12th August 2024

Top news: US PPI, CPI and Retail sales – the last couple weeks have seen a sharp sell-off in risk assets. Indeed, while equities had been retracing since mid July, sharper drops then materialized following the FED meeting on 31st August (which confirmed a first rate cut in September) and subsequent weak ISM Manufacturing PMI and Non-Farm Payrolls on Thursday and Friday 1st and 2nd of August, raising fears that the FED is behind the curve (i.e. that it is late in cutting rates, hence increasing the probability of a recession). Such growth fears also pressured yields lower, triggering further Yen carry trade unwind (i.e. the deleveraging of trades financed by cheap Yen borrowing), sending Japanese equities into a crash and feedback-looping to other global equities. Friday 2nd and Monday 5th both saw 3-5% drops in US and European markets, while Japan sold off respectively 6 and 12%. Since the highs mid July, the US and Europe were down pretty much 10%, while the Nikkei had lost 26%! Since then, equity markets have recovered circa half of these losses, and most, in fine, were slightly up last week. Going forward, this week will aim to confirm this stabilization, focusing on tamed inflation and growth holding up: US PPI and CPI are respectively awaited, up only slightly from last month's weak print, on Tuesday and Wednesday, while US Retail Sales are also expected rather flat on Thursday.

Equities: over the last 3 weeks most developed markets are still down 4-8%. The drawdowns since the highs in July are higher on the Nasdaq100 (-10.5%) and the Nikkei (-17%) as they have suffered the most from the Growth scare and the related deleveraging. Reassuring on such Growth will be key in stabilizing markets over the next 2-3 weeks.

Fixed Income: many rate cuts and slower growth prospects are already priced into the US and European 10Y benchmark rates. One way or the other, we expect them to continue lower into late Q3, and perhaps by 40-50 bps.

FOREX: USD/JPY dropped to 142 last Monday, and since recovered to 146. EUR or CHF have also risen vs USD but have since also retraced slightly. USD could continue lower into the Fall, with lower rates, yet probably more gradually.

Commodities: as all assets were caught in the deleveraging spree, Oil and Gold also dropped early last week, yet have since recovered. We remain rather bullish on Gold, while we still think Oil needs to consolidate further into the Fall.

	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 %	YTD in %	last 6m[1]	OB / OS [2]
S&P500 Index	USD	5 344	Oct-23	4 117	29,8%	Jul-24	5 667	-5,7%	12,0%	up	neutral
Nasdaq100 Index	USD	18 513	Oct-23	14 110	31,2%	Jul-24	20 675	-10,5%	10,0%	up	neutral
Dow Jones Industrials Index	USD	39 497	Oct-23	32 418	21,8%	Jul-24	41 198	-4,1%	4,8%	neutral	neutral
EuroStoxx50	EUR	4 675	Oct-23	4 014	16,5%	May-24	5 101	-8,3%	3,4%	neutral	slightly OS
Swiss Market Index	CHF	11 866	Oct-23	10 324	14,9%	Jul-24	12 365	-4,0%	6,5%	neutral	neutral
Nikkei225	JPY	35 025	Oct-23	30 527	14,7%	Jul-24	42 224	-17,0%	4,7%	neutral	slightly OS
Shanghai Composite	CNY	2 862	Feb-24	2 702	5,9%	Aug-23	3 178	-9,9%	-3,8%	down	slightly OS
US 10Y Treasury Yield	%	3,94%	Dec-23	3,79%	0,1%	Oct-23	4,99%	-1,1%	0,1%	down	slightly OS
German 10Y Bund Yield	%	2,23%	Dec-23	1,97%	0,3%	Sep-23	2,97%	-0,7%	0,2%	neutral	slightly OS
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	96	Oct-23	82	17,2%	Aug-24	99	-2,6%	-0,8%	neutral	slightly OB
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	110	Oct-23	97	13,6%	Aug-24	111	-0,8%	1,2%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	78	Oct-23	69	12,8%	Jul-24	78	-0,3%	3,6%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	90	Oct-23	77	16,7%	Aug-24	91	-0,2%	4,2%	neutral	neutral
EUR/USD		1,09	Oct-23	1,05	4,2%	Dec-23	1,11	-1,7%	-1,1%	neutral	slightly OB
GBP/USD		1,28	Oct-23	1,21	5,6%	Jul-24	1,30	-1,9%	0,2%	neutral	neutral
USD/JPY		147	Jan-24	141	4,1%	Jul-24	162	-9,2%	4,0%	neutral	OS
USD/CHF		0,87	Jan-24	0,84	2,9%	Oct-23	0,92	-6,0%	2,8%	neutral	OS
AUD/USD		0,66	Oct-23	0,63	4,4%	Dec-23	0,68	-4,0%	-3,5%	neutral	neutral
Brent Oil (per Barrel)	USD	80	Dec-23	73	9,0%	Sep-23	97	-17,3%	3,6%	neutral	slightly OS
Gold Spot (per Ounce)	USD	2 431	Oct-23	1 820	33,5%	Jul-24	2 469	-1,5%	17,8%	up	neutral

* 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

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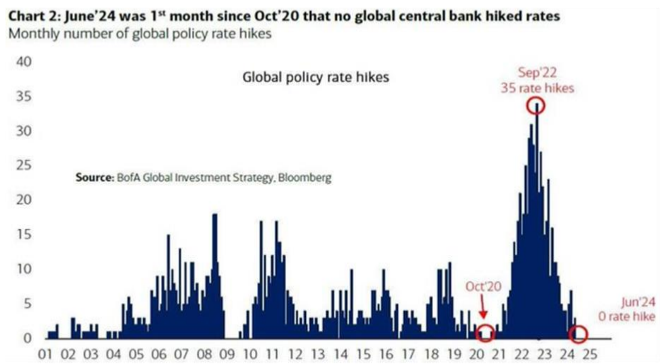
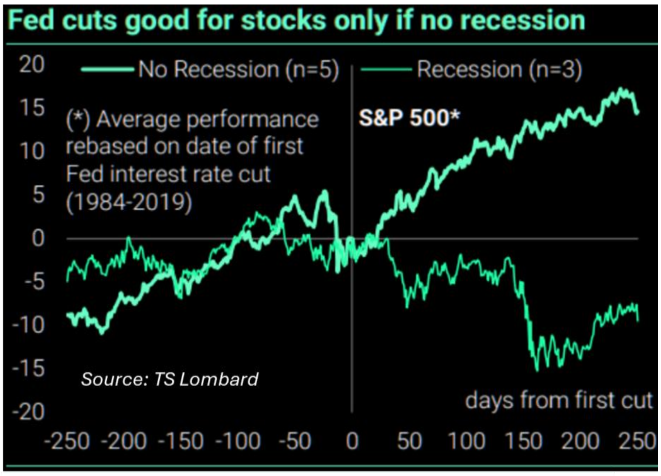
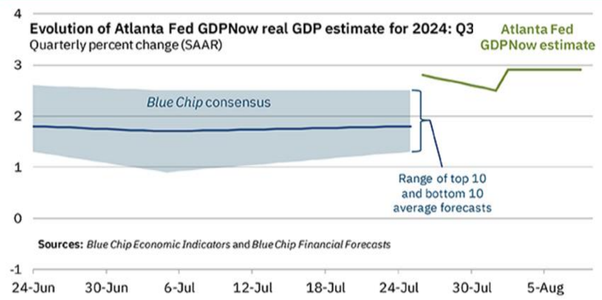
Growth Focus: rate cuts usually positive for equities if recession can be avoided

Recent days have seen extreme volatility in equity markets as fears of an economic slowdown, and consequently that the FED is behind the curve, have risen. This is indeed, the first month since October 2020 when no central bank worldwide has risen interest rates. Such incidences usually happen during economic crisis such as in 2020 or 2008/09 (top-left). Historically, however, cutting rates is not always a bad omen for equity markets. It can actually be quite positive if a recession can be avoided (top-right). For now, one can argue that this is the case as earnings growth has resumed (bottom-left) and the economy is still growing at a consensus 2%, and perhaps even at 3% according to the Atlanta FED (bottom-right).







Notes:

1. **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".
2. **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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