

WEEKLY MARKETS ROUND-UP

Executive Summary

27th January 2025

Top news: from Wednesday onwards, BOE, FED, Big Tech earnings, ECB, US GDP and PCE Inflation – Last week, Trump began his 2nd mandate with numerous executive orders, including immigration bans, deportation, creating the D.O.G.E., withdrawing from the Paris Accord and WHO, affirming a 2-gender policy, and imposing 25% tariffs on Canada and Mexico, while delaying actions on China, Europe, and TikTok. Netflix reported blockbuster earnings, adding 19 million Q4 subscribers, and the \$500bn Stargate project was launched to support AI infrastructure in the US. The week ended with the BOJ hiking short-term rates to 0.5% (its highest level since 2008) and better than expected Global Flash PMIs for Manufacturing in Europe and the US. This week will be busy with financial news, including rate decisions from the Bank of Canada (-0.25% exp.), the FED (FFR exp. flat at 4.5%), and the ECB (-0.25% exp.). Other macro releases include the US Advanced GDP estimate for Q4 (2.7% exp. vs 3.1% in Q3) and PCE Core Inflation data (0.1% MoM exp. vs 0.2% last month, stable at 2.8% YoY). Key earnings reports include Microsoft, Meta, and Tesla after hours on Wednesday, Apple after hours on Thursday, and Exxon and Chevron on Friday pre US open.

Equities: US and European markets continued to push higher last week with the US into All-Time Highs again and its indexes up 3.5% to 4.5% YTD already. Europe is also making multi-year highs (the EuroStoxx50 is up 6.6% YTD). Most of these indexes are now getting Overbought and their risk/reward over the coming months seems quite stretched.

Fixed Income: US and Bund 10Y yields stabilized last week following a short correction from mid January. They remain in an uptrend for now, although still slightly Overbought. The US High Yield ETF continues to hold, up 1% YTD.

FOREX: USD dropped quite heavily last week, respectively by 2 and 3 figures vs EUR and GBP as the US delayed imposing new tariffs on Europe and China. USD/CHF was also slightly down, while USD/JPY was flat as the BoJ rate hike had been anticipated. Going forward, any pickup in trade tensions will probably be seen as positive for the USD.

Commodities: Oil dipped 3% last week as Trump called on OPEC to lower Oil prices to hurt Russia in its war against Ukraine. As for Gold, it rose 3% as USD corrected. Both seem rather neutral at current levels on the table below.

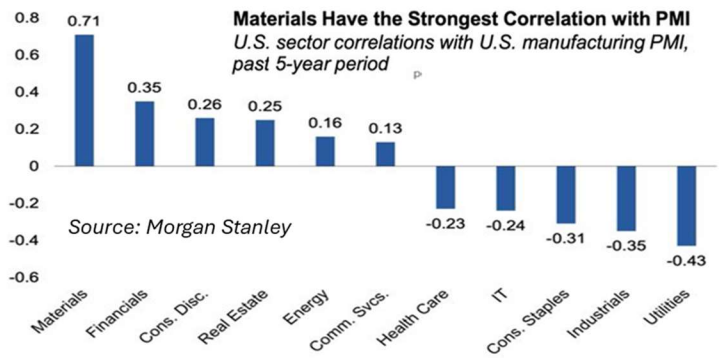
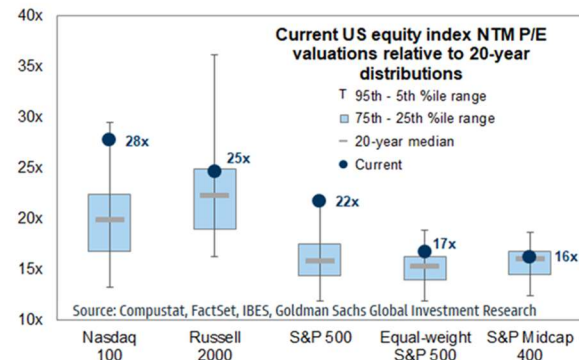
| | Currencies | Price | Performance since 52 Week Low | | | Performance since 52 Week High | | | Performance YTD in % | Trend last 6m ¹ | Exaggeration OB / OS ² |
|--|------------|--------|-------------------------------|-----------|--------|--------------------------------|------------|-----------|----------------------|----------------------------|-----------------------------------|
| | | | Date Low | Low Price | Rise % | Date High | High price | Decline % | | | |
| S&P500 Index | USD | 6 101 | Jan-24 | 4 846 | 25,9% | Jan-25 | 6 119 | -0,3% | 3,7% | neutral | neutral |
| Nasdaq100 Index | USD | 21 774 | Apr-24 | 17 038 | 27,8% | Dec-24 | 22 097 | -1,5% | 3,6% | up | slightly OB |
| Dow Jones Industrials Index | USD | 44 424 | Apr-24 | 37 735 | 17,7% | Dec-24 | 45 014 | -1,3% | 4,4% | neutral | slightly OB |
| EuroStoxx50 | EUR | 5 219 | Aug-24 | 4 572 | 14,2% | Jan-25 | 5 219 | 0,0% | 6,6% | neutral | OB |
| Swiss Market Index | CHF | 12 287 | Feb-24 | 11 092 | 10,8% | Sep-24 | 12 451 | -1,3% | 5,9% | neutral | slightly OB |
| Nikkei225 | JPY | 39 932 | Aug-24 | 31 458 | 26,9% | Jul-24 | 42 224 | -5,4% | 0,1% | neutral | neutral |
| Shanghai Composite | CNY | 3 253 | Feb-24 | 2 702 | 20,4% | Oct-24 | 3 490 | -6,8% | -3,0% | up | neutral |
| US 10Y Treasury Yield | % | 4,62% | Sep-24 | 3,62% | 1,0% | Jan-25 | 4,79% | -0,2% | 0,0% | up | slightly OB |
| German 10Y Bund Yield | % | 2,54% | Dec-24 | 2,03% | 0,5% | May-24 | 2,68% | -0,1% | 0,2% | up | slightly OB |
| US 20Y Treasuries (TLT ETF, 17-18Y duration)* | USD | 87 | Jan-25 | 85 | 2,3% | Sep-24 | 100 | -13,1% | -0,1% | down | slightly OS |
| US Investment Grade (LQF ETF - 8-9Y duration)* | USD | 107 | Apr-24 | 103 | 4,0% | Sep-24 | 113 | -5,2% | 0,3% | neutral | neutral |
| US High Yield (HYG ETF, 3-4Y duration)* | USD | 80 | Apr-24 | 73 | 8,7% | Jan-25 | 80 | 0,0% | 1,4% | neutral | neutral |
| EM USD Sovereigns (EMB ETF, 7-8Y duration)* | USD | 90 | Feb-24 | 82 | 9,6% | Sep-24 | 92 | -2,0% | 1,5% | neutral | neutral |
| EUR/USD | | 1,05 | Jan-25 | 1,02 | 2,5% | Aug-24 | 1,12 | -6,2% | 1,3% | down | neutral |
| GBP/USD | | 1,25 | Jan-25 | 1,22 | 2,6% | Sep-24 | 1,34 | -6,9% | -0,2% | neutral | slightly OS |
| USD/JPY | | 156 | Sep-24 | 141 | 10,9% | Jul-24 | 162 | -3,5% | -0,8% | neutral | neutral |
| USD/CHF | | 0,91 | Sep-24 | 0,84 | 7,8% | Apr-24 | 0,92 | -1,4% | -0,2% | up | slightly OB |
| AUD/USD | | 0,63 | Jan-25 | 0,61 | 2,8% | Sep-24 | 0,69 | -8,7% | 2,1% | down | slightly OS |
| Brent Oil (per Barrel) | USD | 78 | Sep-24 | 69 | 12,9% | Apr-24 | 91 | -14,0% | 4,9% | neutral | neutral |
| Gold Spot (per Ounce) | USD | 2 771 | Feb-24 | 1 992 | 39,1% | Oct-24 | 2 788 | -0,6% | 5,6% | neutral | neutral |

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

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Cyclical Focus: rising LEI and PMIs may trigger some sector/factor rotation

US leading Indicators (LEI) provide an early indication of turning points in the business cycle. After signaling a recession for the past three years, they have recently turned up, and although they aren't positive yet, they've exited the recessionary danger zone for now (top-left graph). LEI isn't the only data signaling economic improvement. Indeed, 10 days ago, the Philly Fed Manufacturing Index posted its highest reading since April 2021, and historically one of the highest on record. Such strength typically indicates robust expansion in manufacturing and usually leads the nation-wide Manufacturing PMI Purchasing Managers Index (top-right). Such economic re-accelerations would typically favor more cyclical and value profiles (Materials, Financials, Consumer Discr. ...) over Tech (IT), Staples or Utilities (bot-right). Current market valuations may be prone for such rotation considering that the S&P500 and Nasdaq100 are at their highest points in terms of valuation over the last 20 years, while other profiles (EW S&P500, Midcap400) are closer to their historical averages (bot-left).



Source: Bloomberg, MSIM. As of December 16, 2024. The views and opinions expressed are those of the Portfolio Solutions under other conditions, and may not necessarily come to pass. Past performance is no guarantee of future results.

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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