Market Insights

January 2023

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Janus & the *Strenae*

In ancient Roman religion and mythology, Janus was the god of gates and doors, the god of beginnings and transitions, both in literal and abstract ways. As we know, the month of January is named for him. Portrayed with two faces — one facing the past, and one facing the future —, Janus was proudly venerated as a uniquely Roman god (rather than one adopted from the Greek pantheon). One way to honor Janus was essentially to exchange New Year's gifts such as dates, figs, honey and even coins with your friends. These gifts, *strenæ* in Latin, became *étrennes* in French, *strenne* in Italian (and *Neujahrsgeschenk* in German, for some reason).

We, the neo-Romans, had to deal with the ugliest face of Janus last year, and gave up a large chunk of our portfolios to honor him (as a reminder, 2022 performances: S&P 500 -19.4%, Nasdaq-100 -33.0%, Stoxx Europe 600 -12.9%, Nikkei 225 -9.4%, HSCEI -18.6%). Pleased with our generosity, Janus in January decided to offer us better prospects on the macro, monetary and performance fronts.

Global equities bounced in January indeed (S&P 500 +6.2%, Nasdaq-100 +10.6%, Stoxx Europe 600 +6.7%), in a reflection of investors' growing belief that central banks can now tame inflation without bringing a recession. Credit spreads tightened substantially (iTraxx XOVER 5yr 414bps i.e. -60bps, CDX 5yr 430bps i.e. -54bps). This soft-landing notion has been reinforced by a flurry of economic indicators in the U.S., ranging from (i) a better-than-expected jobs report (U.S. nonfarm payrolls +223,000 in December vs. consensus +200,000), (ii) reassuring inflation data (US headline/core CPI further decelerating to 6.5%/5.7% year-over-year - the lowest annual advances in over a year), (iii) University of Michigan 1-year inflation expectations falling to 4% from 4.4% and household confidence rising to 64.6 from 59.7 last month, (iv) stronger-than-expected economic activity (US Q4 GDP expanding +2.9% annualized vs. consensus +2.6%).

CIO Synopsis

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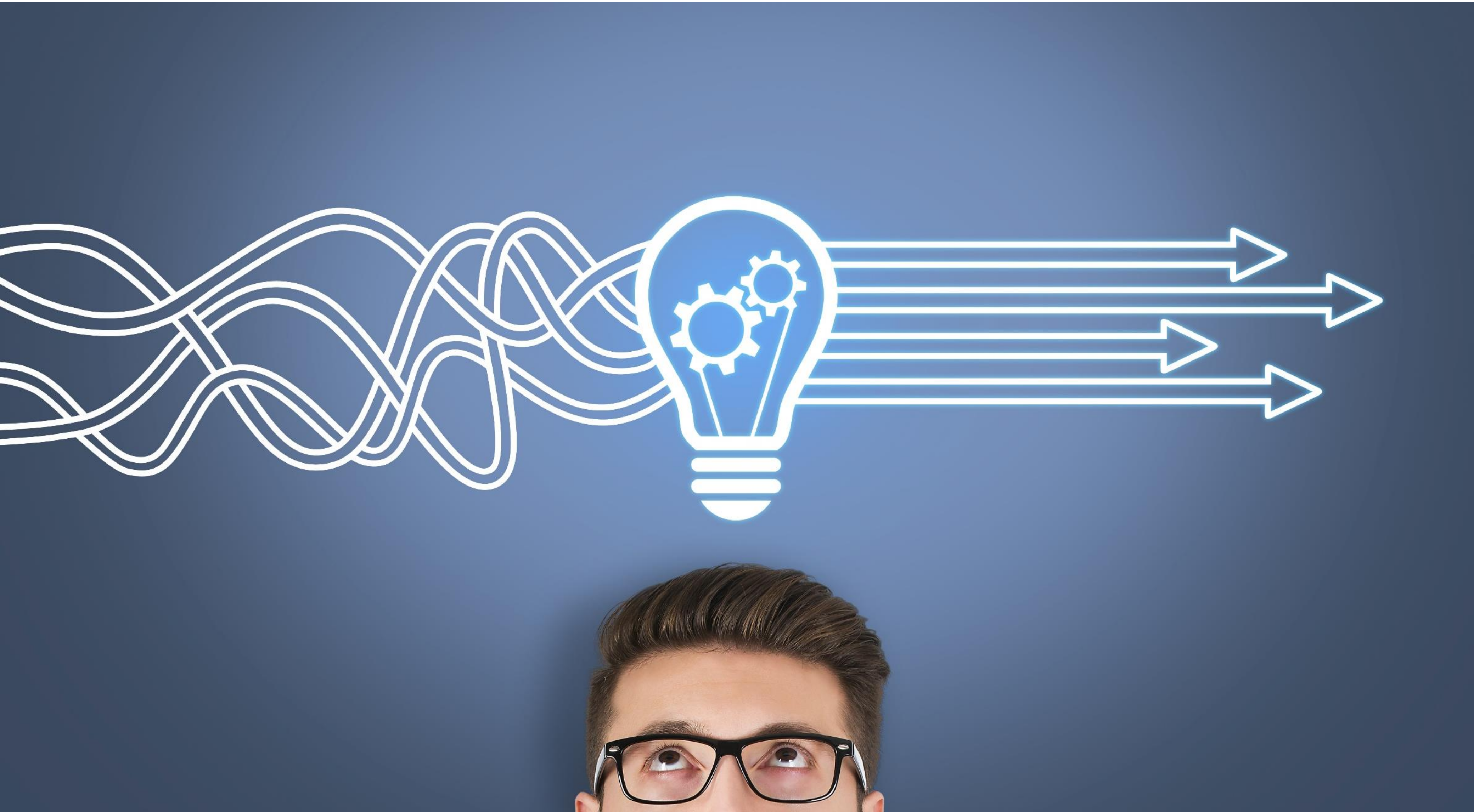
Europe contributed to the overall optimism, too, with (i) ZEW investor confidence index rebounding strongly in January (from -23.6 to 16.7), (ii) eurozone headline inflation falling from 10.1% to 9.2% year-over-year in December, below consensus of 9.5%, (iii) stronger-than-expected manufacturing (from 47.8 to 48.8) and services (from 49.8 to 50.7) PMIs in January. Comments from several Fed officials (Waller, Collins, Logan, Bostic, Harker…) pointing in the direction of a new downshift (25-bp increment only) at the FOMC meeting in February, added to the general euphoria.

Janus is always depicted with two symbols. A staff in his right hand, in order to guide travelers (traders) along the correct route, and a key in his left to open gates.

May he guide us for the rest of the year!

Hans Itburrun

What keeps me up at night



Earnings Recession – S&P doesn't seem to get the Memo!

Morgan Stanley's Mike Wilson alerted that the bank's earnings model suggesting profits are likely to contract more sharply than analysts and investors expect. His own verbatim "Cost growth is rising faster than sales growth for roughly 80% of S&P 500 industry groups and as a result, margin pressure is worsening," JPMorgan is tuning the same vibe and emphasized that January's surge was in part attributable to mechanical flows, which may soon run out of gas. Now that the MegaCap-8 stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, NVIDIA, and Tesla) have lost some of their mega and allure, the breadth of the stock market has improved but stock valuation is not offering enough margin of safety to increase equity exposure. Valuing S&P 500 comes down to estimating earnings, and then deciding a fair price to pay for those earnings. We know that over an extremely long time frame, the stock market tracks earnings and over that same long period, earnings roughly track the economy.

Looking at the earnings per share of S&P 500, we need to remember that these are the earnings of the individual companies that make up the index and they don't all get reported on one day. Therefore, the process of reporting ends up being a dragged-out affair with slight changes occurring as data on the companies and the economy rolls in. Bloomberg and I/B/E/S track earnings estimates and create forward looking stock index estimates. Looking at previous cycles, we get a better sense on how much earnings fell gives us some boundaries where current EPS could lie in. During the COVID-crisis, forward earnings fell 22%. For the 2008/9 Great Financial Crisis, it fell 38%. And, during the DotCom bubble bursting, the decline was 15%. Looking at the earnings history of the S&P 500 since 1954, a couple of things are evident; almost all earnings declines occur around recessions and the magnitude of the declines can vary immensely. C***urrent decline in earnings estimates is 5%,*** so it's not a hard to make a case that there is another 20% of downside in earnings estimates. ***That would put Y23 earnings per share at 179.Now***, some recessions saw a dip as shallow as 12.5% on realized earnings, which would likely make a forward earnings estimate decline almost imperceptible, while others like '82 were devastating at over 50%. ***A good portion of the rally of the past month has been the re-weighting of investors' expectations of a soft landing.*** To be aggressively long stocks up here from a fundamental point of view, you would need to believe that earnings are about to accelerate to the upside. Good luck!

US stocks are still trading at rich multiples. It's impossible to know how much of an earnings decline was priced in, but as the chances of a soft landing increased, there has been a rush back into stocks. In the coming quarters, as investors realize that although earnings aren't collapsing, neither are they growing as quickly as in 2020/21, there will be a shift back down in the P/E multiple they are willing to pay.

Investing is all about understanding what the masses believe, and then trying to find moments where you believe they are mispricing the true situation.

Source: Bloomberg

Market review

Macro Outlook

The Fed's Summary of Economic Projections, released in December, showed significant negative revisions. The median projection for real GDP growth for 2023/2024 came in at 0.5%/1.6% (from 1.2% and 1.7%), respectively. The median unemployment rate forecast has been adjusted to 4.6% (4.4%) for 2023 and 4.6% (4.4%) in 2024. On inflation, the median estimate for core PCE was assumed to be 3.5% (3.1%) in 2023 and 2.5% (2.3%) in 2024. As a consequence, the median projection for the fed funds rate has been lifted by officials to 5.1% (4.6%) in 2023 and 4.1% (3.9%) in 2024.

The outlook for the €-area has deteriorated somewhat, with weaker growth and higher and more persistent inflation than envisaged in the September 2022 ECB staff macroeconomic projections. The ongoing energy crisis, high inflation, elevated uncertainty, the global slowdown and tighter financing conditions are all dragging down economic activity and have already led to a sharp slowdown in real GDP growth in 3Q22. Overall, annual average real GDP growth is expected to slow down markedly, from 3.4% in 2022 to 0.5% in 2023, and then to rebound to 1.9% in 2024 and 1.8% in 2025. Compared with the Sept 2022 projections, the outlook for GDP growth has been revised up by 0.3pp for 2022, owing to positive surprises over the summer, and revised down by 0.4pp for 2023, while it is unchanged for 2024.

Zone	Item	2021a	2022e	2023e
US	Real GDP (YoY%)	5.6	2.0	0.5
	Industrial Production (YoY%)	5.6	4.1	-0.8
	CPI (YoY%)	4.7	8.0	3.7
	Unemployment (%)	5.4	3.7	4.3
	Current Account (% of GDP)	-3.4	-3.8	-3.3
	Fiscal Bal. (Budget, % of GDP)	-12.4	-4.8	-4.5
China	Real GDP (YoY%)	8.0	2.8	5.1
	Industrial Production (YoY%)	9.8	4.0	5.0
	CPI (YoY%)	1.0	2.0	2.3
	Unemployment (%)	3.9	4.7	4.0
	Current Account (% of GDP)	1.9	2.3	1.5
	Fiscal Bal. (Budget, % of GDP)	-4.9	-8.0	-5.0
EU	Real GDP (YoY%)	5.4	3.4	0.1
	CPI (YoY%)	2.6	9.0	6.5
	Unemployment (%)	7.1	6.6	6.9
	Current Account (% of GDP)	2.4	1.0	1.1
	Fiscal Bal. (Budget, % of GDP)	-6.8	-3.5	-3.6

Source: Bloomberg (a = actual, e = consensus forecasts), as of 31/01/2023

Equities

Global equities started off on the right foot in Jan (S&P 500 +6.2%, Nasdaq-100 +10.6%, Stoxx Europe 600 +6.7%), in a reflection of investors' growing belief that CBs can tame inflation without bringing a recession. This soft-landing notion has been reinforced by a flurry of economic indicators in the US, ranging from (i) a better-than-expected jobs report (U.S. nonfarm payrolls +223k in Dec vs. consensus +200k), (ii) reassuring inflation data (US headline/core CPI further decelerating to 6.5%/5.7% YoY - the lowest annual advances in over a year), (iii) U. of Mich. 1-yr inflation expectations falling to 4% from 4.4% and household confidence rising to 64.6 from 59.7 last month, (iv) stronger-than-expected economic activity (US Q4 GDP expanding +2.9% annualized vs. consensus +2.6%). Europe contributed to the overall optimism, too, with (i) the ZEW investor confidence index rebounding strongly in Jan (from -23.6 to 16.7), (ii) eurozone headline inflation falling from 10.1% to 9.2% YoY in Dec, below consensus of 9.5%, (iii) stronger-than-expected manufacturing (from 47.8 to 48.8) and services (from 49.8 to 50.7) PMIs in Jan.

From a sectoral point of view, long-duration Tech benefited from the pivoting narrative, while consumer discretionary took advantage of abating economic worries - although the US index is certainly distorted by the weight of Tesla (+40.6% in Jan), which said it could deliver as many as 2mn cars this year (S&P 500 Communication / S&P 500 Info Tech. / Stoxx Europe 600 Info Tech. +14.2%/+9.3%/+14.8% resp.). Defensive pockets such as Healthcare and Staples, which outperformed during Dec's crash, conversely underperformed in the current rotation (S&P 500 / Stoxx Europe 600 Healthcare -2.0%/+0.2%, S&P 500 / Stoxx Europe 600 Cons. Staples -1.1%/+1.2%).

	As of 31/01/2023	1-month perf.	Year-to-date perf.
S&P 500	4 076.60	6.2%	6.2%
Nasdaq 100	12 101.93	10.6%	10.6%
Euro STOXX 50	4 163.45	9.7%	9.7%
STOXX Europe 600	453.21	6.7%	6.7%
SMI	11 285.78	5.2%	5.2%
DAXK	6 184.50	8.7%	8.7%
CAC 40	7 082.42	9.4%	9.4%
FTSE MIB	26 599.74	12.2%	12.2%
IBEX 35	9 034.00	9.8%	9.8%
Nikkei 225	27 327.11	4.7%	4.7%
MSCI EM	1 031.50	7.9%	7.9%
HSCEI	7 424.92	10.7%	10.7%
IBOVESPA	113 430.54	3.4%	3.4%

Source: Bloomberg

Rates & Credit

Credit spreads tightened substantially last month (iTraxx XOVER 5yr 414bps i.e. -60bps, CDX 5yr 430bps i.e. -54bps), following reassuring messages from Fed officials on the path of future rate hikes, cooling inflation data and strong activity numbers. The outlook for credit is, however, a bit more mixed. The trailing 12-month global speculative grade corporate default rate edged up to 2.8% as of the end of Dec (2.6% in Nov), according to Moody's.

The FOMC delivered a widely anticipated 50bp rate hike at its Dec meeting, raising the funds target range to 4.25%-4.50%. The hawkish tone came through the SEP, with a median Fed dots for 2023 shifting higher to 5.125%, up from 4.625% in Sep, and a broad consensus for this view with 17 out of the 19 FOMC participants on the same line. The median dots for 2024 and 2025 also moved up 20bp. The Committee still sees a first cut in 2024 as the most likely outcome, and projects 200bp of cumulative cuts between 2023 and the end of its forecast horizon of 2025.

The ECB on Dec 15 opted for a similar downshift, taking its key rate from 1.5% to 2%. It also delivered a hawkish policy message, with Lagarde repeatedly emphasizing that "significant" further rate rises at a "steady pace" were still to come in order to tame inflation, largely telegraphing another 50bp increment at the next meeting in Feb. Justifying the pledge for more hikes, the ECB's new projections showed inflation above the ECB's 2% target through 2025.

	As of 31/01/2023	**1-month perf.**	**Year-to-date perf.**
ESTR	1.90	+1 bp	+1 bp
Euribor 3M	2.48	+35 bp	+35 bp
Libor USD 3M	4.81	+5 bp	+5 bp
Germany 2yr yield	2.65	-11 bp	-11 bp
Germany 10yr yield	2.29	-29 bp	-29 bp
US 2yr yield	4.20	-22 bp	-22 bp
US 10yr yield	3.51	-37 bp	-37 bp
France 10yr spread vs. Germany	+47 bp	-8 bp	-8 bp
Portugal 10yr spread vs. Germany	+90 bp	-11 bp	-11 bp
Spain 10yr spread vs. Germany	+100 bp	-10 bp	-10 bp
Italy 10yr spread vs. Germany	+187 bp	-27 bp	-27 bp
iTraxx Main 5yr	+79 bp	-11 bp	-11 bp
iTraxx Crossover 5yr	+414 bp	-60 bp	-60 bp
iTraxx Financials Senior 5yr	+88 bp	-11 bp	-11 bp
CDX IG 5yr	+71 bp	-11 bp	-11 bp
CDX HY 5yr	+430 bp	-54 bp	-54 bp

Source: Bloomberg, Dealogic, Moody's

Commodities

WTI and Brent futures declined in Jan (-2.0% and -0.2% to $78.9/bbl and $85.6/bbl resp.). Prices weakened over the first days of the month, due to mild winter temperatures across the globe, and record Covid-19 casualties raising concerns around the easing of virus curbs. They found some support in the middle of Jan, with (i) top U.S. pipeline operator Colonial Pipeline announcing unscheduled maintenance, (ii) EIA data showing US crude and refined product exports rose 1.33mb for the week ended Dec 30, keeping inventories in check, (iii) mounting evidence of cooling US inflation (e.g., headline/core CPI further decelerating to 6.5%/5.7% YoY - the lowest annual advances in over a year) and stronger-than-expected economic activity (US Q4 GDP expanding +2.9% annualized vs. consensus +2.6%) raising hopes for an improved global economic outlook, (iv) US Treasury Secretary Yellen expressing confidence that restrictions on Russian sales of crude can be expanded to refined petroleum products in Feb. According to the IEA, global oil demand will rise by 1.9mb/d in ‘23, to a record 101.7mb/d, with nearly half the gain from China following the lifting of its Covid restrictions. World oil supply growth in ‘23 is set to slow to 1mb/d following last year’s OPEC+ led growth of 4.7mb/d. An overall non-OPEC+ rise of 1.9mb/d will be tempered by an OPEC+ drop of 870kb/d due to expected declines in Russia.

Gold advanced last month (spot +5.6%, ending at $1,945/oz), helped by falling Treasury yields (10yr -37bps to 3.51%) and a softer dollar (DXY -1.4%), after the minutes of the Fed’s last meeting showed all its policymakers remained committed to fighting inflation, but agreed on the need to slow rate hikes in 2023.

	As of 31/01/2023	**1-month perf.**	**Year-to-date perf.**
Brent ($/bbl)	85.46	-0.2%	-0.2%
WTI ($/bbl)	78.87	-2.0%	-2.0%
Gold ($/toz)	1 945.30	5.6%	5.6%
Silver ($/toz)	23.84	-0.8%	-0.8%
Platinum ($/toz)	1 021.10	-5.7%	-5.7%
Palladium ($/toz)	1 648.30	-8.3%	-8.3%
Copper ($/MT)	9 210.80	10.0%	10.0%
Iron Ore Fines62% ($/MT)	127.14	10.3%	10.3%
Corn (c/bu)	679.75	0.2%	0.2%
Wheat (c/bu)	761.25	-3.9%	-3.9%
Soybean (c/bu)	1 538.00	0.9%	0.9%
Coffee (c/lb)	181.75	8.6%	8.6%
Cocoa ($/mt)	2 581.00	-0.7%	-0.7%

Source: Bloomberg

Currencies

The dollar weakened in Jan (DXY -1.4%), as market expectations mounted that the Fed will need to slow the pace of its interest rate hikes, following (i) a sub-50 US ISM services release that revived fears of a recession (49.6 in Dec vs. 56.5 in Nov - the first contraction in more than 2-1/2 years), (ii) comments from several officials (Waller, Collins, Logan, Bostic, Harker…) pointing in the direction of a downshift (25-bp increment only) at the FOMC meeting in Feb, (iii) data showing cooling inflation (US headline/core CPI further decelerating to 6.5%/5.7% YoY - the lowest annual advances in over a year). The euro remained firmly bid (EURUSD +1.5%), as minutes from the ECB Dec meeting showed that (i) several ECB members were in favor of a 75bp rate hike in Dec (instead of the decided 50bp), and (ii) 50bp rate hikes at the Feb and Mar meetings are extremely likely, contrary to some expectations for a downshift in the market.

Within the EM FX complex, the ruble outperformed (USDRUB -5.4%), as export-focused companies started selling their FX revenues to cover their tax liabilities due at the end of Jan. This came on top of interventions in the FX market by authorities (intention to sell the equivalent of 3.2bn rubles of yuan a day from Jan. 13 to Feb. 6 i.e. $800mn in total to make up for a budget shortfall).

	As of 31/01/2023	1-month perf.	Year-to-date perf.
EUR/USD	1.09	1.5%	1.5%
USD/JPY	130.09	-0.8%	-0.8%
EUR/GBP	0.88	-0.4%	-0.4%
USD/CHF	0.92	-0.9%	-0.9%
EUR/CHF	1.00	0.6%	0.6%
GBP/USD	1.23	2.0%	2.0%
USD/CAD	1.33	-1.8%	-1.8%
USD/CNY	6.76	-2.1%	-2.1%
USD/INR	81.92	-1.0%	-1.0%
USD/BRL	5.08	-3.9%	-3.9%
USD/TRY	18.81	0.6%	0.6%
USD/ARS	186.99	5.6%	5.6%
USD/RUB	70.19	-5.4%	-5.4%
DXY Index	102.10	-1.4%	-1.4%

Source: Bloomberg

The Month Ahead: Economic Calendar

The agenda will be extremely busy over the first days of the month, with central banks coming back to the fore (Feb 1 for the FOMC, Feb 2 for the ECB and the BoE), which combines with key economic data (flash inflation prints for the euro-area on Feb 1, US ISM manufacturing index on Feb 2, US non-farm payrolls on Feb 3).

Zone	Item	Date	Survey	Prior
CH	Caixin Manuf. PMI (Jan)	Feb 1	49.5	49.0
EC	CPI MoM (Jan)	Feb 1	0.2%	-0.4%
US	Fed monetary decisions	Feb 1	-	-
US	Initial Jobless Claims	Feb 2	-	-
EC	ECB monetary decisions	Feb 2	-	-
US	ISM Manuf. PMI (Jan)	Feb 2	48.2	48.4
US	Nonfarm payrolls (Jan)	Feb 3	180k	223k
US	U. of Mich. Sentiment (Feb)	Feb 10	-	-
EC	GDP SA QoQ (3Q)	Feb 14	-	-
US	CPI (YoY) (Jan)	Feb 14	-	6.5%
US	Retail Sales (MoM) (Jan)	Feb 15	-	-1.1%
US	Housing starts (Jan)	Feb 16	-	1,382k
EC	S&P Manuf. PMI (Feb)	Feb 21	-	-
GE	ZEW Eco. Sentiment (Feb)	Feb 21	-	-

Source: Bloomberg

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Our proposal is to exploit the well-known Altman Z-Score framework in order to take refuge in the companies currently exhibiting the most solid balance sheets in Europe and in the US. The latter will resist better in the current environment marked by the pandemic, stress in the oil market and macro deceleration.

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The Strategy objective is to benefit from global governmental policies helping people who have lost their job due to COVID-19 to go back to work. US has launched the “Build Back Better” scheme and similar political agendas are prescribed in other part of the world to accelerate job creation. The index invests mainly in Small and Mid-Cap companies which are the biggest employers on a size-adjusted basis which is true globally. Allocation between different regions will be actively managed and run from a Top-Down perspective while the Bottom-Up stock picking will be delegated to active fund managers. The strategy provides exposure to a broad sector allocation. Passive vehicles may be used to add momentum on any major political moves to put people back to work. The short leg of the index aims, first and mainly, to hedge beta exposure whenever the index sponsor deems necessary. On opportunistic and specific cases, short positions may be used to add value. The net exposure will at all-time be net long.

Resocialising & Reopening beneficiaries

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Many sectors have been harmed by Covid-induced measures such as international travel bans and social distancing: Travel, Leisure, Restaurants, Airlines, Aerospace among others. The extraordinary vaccination campaign on the one hand, and unprecedented, synchronized fiscal & monetary stimuli on the other have been helping the most negatively affected companies to be able to benefit from the ongoing global recovery.

Our proposal is, therefore, to build a comprehensive exposure to segments severely impacted by the pandemic but poised to reap the benefits of a rebounding economy through an Actively Managed Certificate.

Invest with our Thematics

Macro Long-Biased Asia

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Our Macro Long-Biased Asia strategy is a selection of the best convictions identified by Macquarie's Research department. Using a bottom up approach, a committee of experienced analysts individually review and analyze each Asian (ex Japan) stock with a buy recommendation to select only the best opportunities on the market. Long/Short approach with the weighting of the short list decided by the Bank's Investment Committee.

Energetic Security

Actively Managed Certificate • Participation • Available in USD

The war in Ukraine is proving to be a wake-up call for Europeans and the whole world. At the very least, alternatives to natural gas must be found. Nuclear power will be re-examined and carbon sequestration will have to be accelerated, as the exit from coal will be delayed. This crisis has highlighted the importance for states to ensure their energy independence.

The certificate invests mostly in stocks that will benefit from this trend. Direct exposure to commodities is allowed for up to 20% of the portfolio.

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