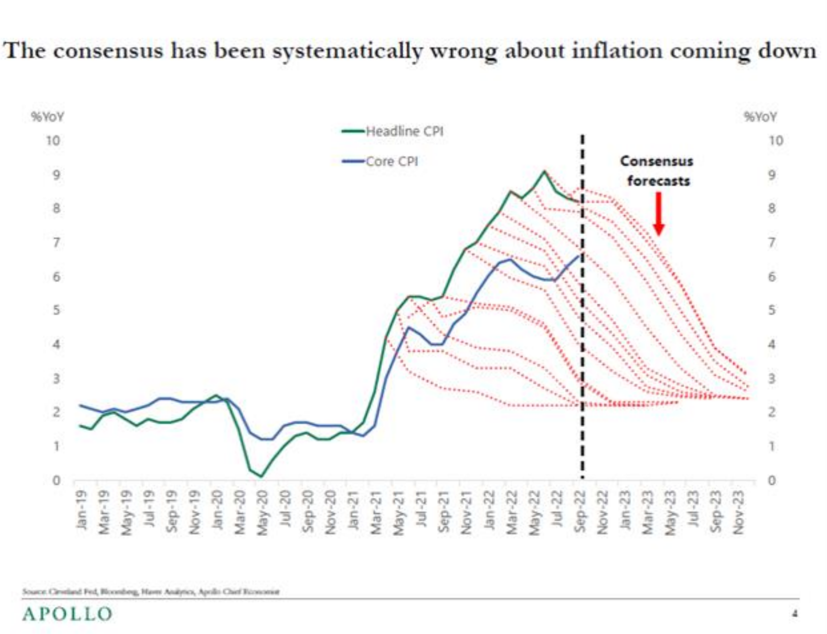
MONTHLY REVIEW

MACRO

In the Euro Zone, inflation reached a new record high of 10% in September, compared with 9.1% in August, above the consensus, driven mainly by Germany. The European economy continued to deteriorate, against a backdrop of very high gas prices and continuing fears about energy supplies during the winter.
In the United States, inflation slowed less than expected in September (8.3%, after 8.5% in July), as the drop in gas prices had less effect than expected. However, Core Inflation (6.3% year-over-year and 0.6% month-over-month) shows that upward pressure on prices is spreading to many sectors.

The bottom line, from a market perspective, is that the economy is still quite strong and the October numbers show that the labor market remains good in the US, which leaves the Fed with no choice but to continue its aggressive interest rate hikes. The timing when inflation will begin to decline remains uncertain, and consensus projections have consistently underestimated the duration of high inflation.



In terms of publications, the overall disappointing results of the American "tech" have had put pressure down to markets to close this month of October. Meta, which weighs nearly 3% of the Nasdaq index, lost 24.56% on the day, to fall to its lowest level since January 2016. In one year, the group has lost nearly $600M in market capitalization. Like other tech giants, Amazon was not spared in Q3. It recorded a 9% drop in its profit and reported lower than expected revenues. The cloud business (AWS), which had previously shown insolent growth and profitability, quarter after quarter, saw its revenues increase more moderately at 27%, compared to 39% a year ago. Microsoft has also disappointed for the cloud, which has penalized the stock. On the other hand, Apple was the only one to keep its promises by achieving a record sales with an 8% increase over one year.

Big picture: Tech giants scored record profits during Covid, when interest rates were near zero, the checks were flowing, and everyone was stuck inside with only the internet to entertain themselves. But now that those days are over, we’re going to find out which companies can sail without the wind at their back.

OUTLOOK

We are looking for peaks in inflation, central banks hawkishness, recession risk and investor bearishness to turn more pro-risk. A peak in inflation tends to drive relief for portfolios but the interaction with growth matters - in cases of recession historically, equities declined another 10% on average in the 6-9 months post the inflation peak. Also, peak hawkishness from FED and BCE might come later due to elevated inflation - there are also some upside risks to rates from here and relief post the peak might be limited if the Fed holds rates high during 2023.

We remain defensive in our asset allocation as we see continued headwinds from higher yields and a weak growth. Lower valuations across assets are creating opportunities to add risk for long term investors but more friendly momentum central bank policy mix or an investor capitulation will be needed for a genuine buy signal.

EQUITY MARKETS

October was a rather volatile month on the stock markets. The first two weeks -3% to wait for the low of the year, the S&P500 at 3'500 and the Stoxx600 at 380 which brought the markets to -25% YTD! Then, 10% up in 10 days following a strong technical reaction as well as some optimistic comments on the peak of the rate hike. The last few sessions were hectic because of the US tech results but in the end were saved by the good high Apple which published rather well. October was particularly positive this year, as the S&P500 just closed up 8%. We have +8.75% for the CAC40, +9.4% for the DAX and an impressive +13.95% for the venerable Dow Jones. On the Asian side, in China it was the Red October, -14.72% for Hang Seng following the re-election of Xi Jinping!

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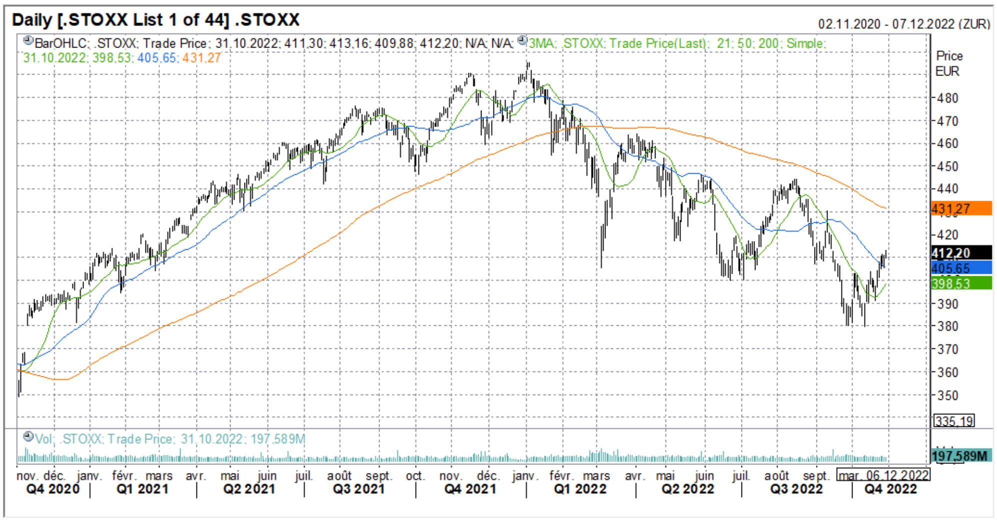

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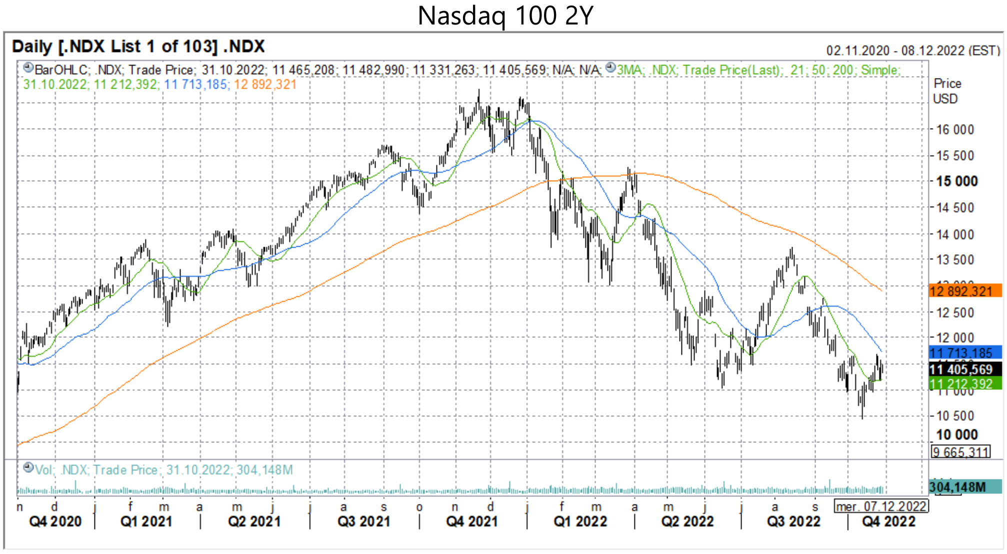

FOREIGN EXCHANGE MARKET

The euro regained strength in October. What is striking is the similarity and correlation of the dollar to the markets. Optimism, bullish market, weakening dollar. Pessimism, bearish market, strengthening dollar.
The answer is that the U.S. dollar remains a safe haven and always rises in times of severe economic downturn. This explains its current strength, and the continuing worries about the global economy will do nothing to reverse this trend in the months ahead. The sustained rise in the U.S. dollar puts the economies of the most indebted countries at risk, as they do not have the flexibility to counter the fall in their currencies. Interest rates are already high and economies are shaky.

EUR USD YTD

The euro has appreciated considerably against the Swiss franc this month, +2.5%. If we look at the low on September 26, the euro rise 5%! The euro is rallying in the short term on expectations that the ECB's pace monetary tightening will accelerate. The EUR/CHF is supported by the growing spread between rates in the Eurozone and Switzerland, as the ECB is expected to go much further in its monetary tightening than the SNB due to much higher inflation. The consumer price index reached a record high of 9.9% in September in the Eurozone, compared to 9.1% in August and 3.3% in Switzerland. Beware, however, of the geopolitical risks that still weigh on the single currency.

EUR CHF YTD

BOND MARKET

We can now officially call this the 6th pivot anticipation trade in the last 12 months. What started with a tweet from WSJ reporter Timiraos on Friday, October 21, gained momentum with weaker housing data, and then reached the ECB by the end of the month. Although the ECB raised rates by 75 basis points, it was more dovish in tone than expected. So much that economists now think it will raise its rate by 50 basis points in December, whereas they had previously expected 75 basis points. They still think the final rate will reach 3%, but the profile is now much more uncertain. This puts us in a theoretical position for Powell and the Fed. What might have been a standard 75 basis point increase now becomes a game of "will they or won't they" approve the pivot?

US 10y 1Y

DE 10y 1Y

COMMODITIES

The yellow metal started the month of October well by approaching $1'730 but did not resist the decline. Gold is still facing the hurdles of a strong dollar and a correction in the bond markets as rates rise. Both of these factors are very bad for gold, which is reflected in its price despite the geopolitical tensions and increased risks.

Gold 2Y

Oil rose 10% during the month of October. There are several factors for which the black gold has started an important rise since the end of September. The move away from recession, the announcement of OPEC+ production cuts, but also the acceleration of Chinese crude imports. This is a positive context for oil, but beware of the recession specter, which is a major risk for the oil price.

Brent