

A wide-angle photograph of a European city, likely Zurich, featuring historic buildings along a river. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the title text. The background shows a mix of architectural styles, including a prominent church with a tall, thin spire and another with a clock tower. The river in the foreground has several small boats and a bridge in the distance.

Market Watch. **Blackfort.**

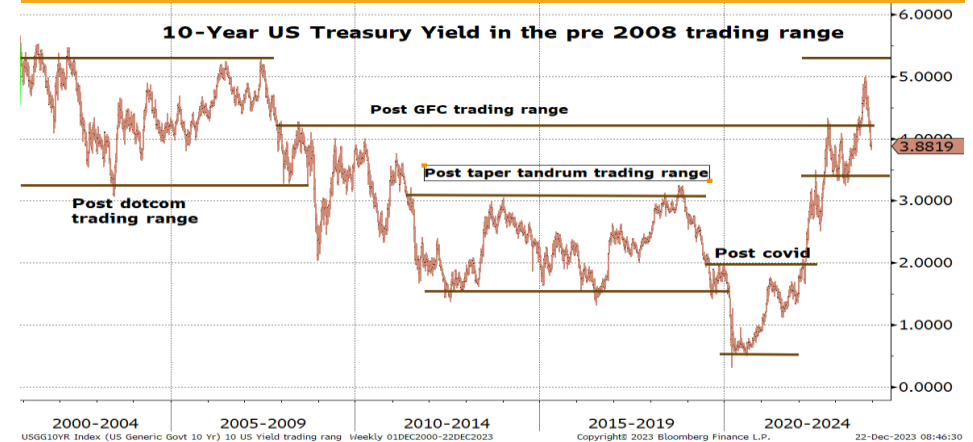
January 2024



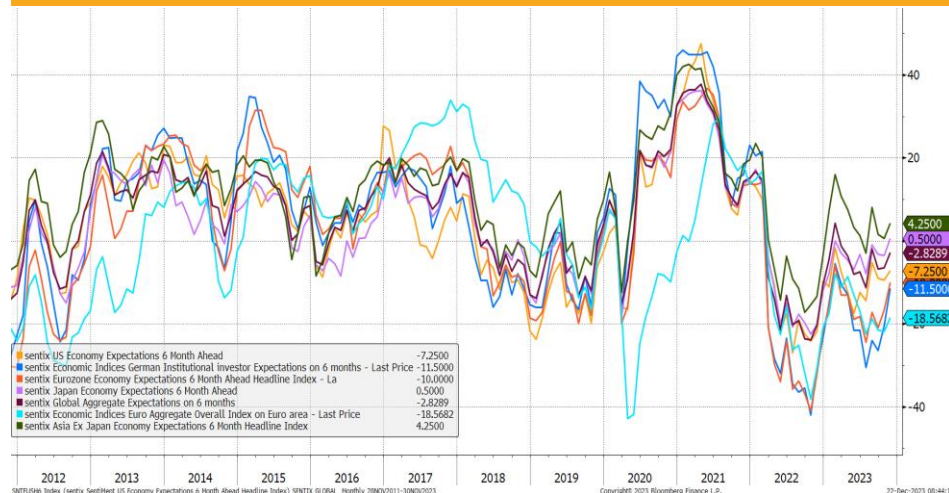
Mixed economic signals but US economy is solid. FED, ECB and SNB are expected to cut rates

- ❖ A very special year comes to an end. The expected US recession has not taken place. Additionally, in Europe, with the exception of Germany, the recession has not been confirmed so far.
- ❖ Headline inflation in developed countries has fallen in recent months, leading to a decline in government bond yields since the beginning of November. This has triggered a global rally in both bonds and equities.
- ❖ This was followed by a regime change at the Fed in December. Mr. Powell stated two weeks before the Fed meeting that it was premature to consider rate cuts in the spring of 2024. However, little did we know that the outcome of the Fed meeting would reveal a dot plot indicating three rate cuts expected for 2024 by the voting members.
- ❖ However, market participants immediately changed their stance on this, and as of this writing, at least 6 rate cuts by the Fed are anticipated. We would, however, stress that this is not consistent with a U.S. economy growing at a reasonable pace of around 2%. We therefore expect 2-3 rate cuts, and given the U.S. election in November, one or two must be implemented before autumn.

The market prices in 4-5 rate cuts from the ECB and the FED



Globally based on the Sentix lead indicator foresee an acceleration of growth



- ❖ The ECB has also changed their policy stance in December and now considers rate cuts in the first six months of 2024. We have always argued that the ECB would be forced to cut rates earlier due to the weak economy and the large public debt-to-GDP ratios in France and Italy.
- ❖ While in Europe headline inflation is also falling faster than anticipated, the ECB has crafted a narrative to justify these anticipated rate cuts. However, we would stress that core inflation remains sticky and might not decline to 2% over the next 12 months.
- ❖ Similarly, the situation for the Swiss SNB is notable. As inflation is expected to stay below 2% for the next two years, they now have room to cut rates. The recent further strengthening of the Swiss franc against the EUR and USD might prompt them to cut sooner than previously anticipated.
- ❖ Japan maintains its accommodative monetary policy stance even though inflation has finally risen toward 3%. Additionally, core inflation here is more than 1% higher than headline inflation.
- ❖ Last but not least, in China, disinflation has accelerated, and the government is reluctant to stimulate the economy through fiscal measures. This will keep inflation below zero and hinder the economy from recovering substantially.

Markets in 2023: Currencies, Commodities, Equity & Bond Indices

Bonds	Dez 23	YTD 2023
Bloomberg Barclays Global-Aggregate TR	3.52%	13.5%
Bloomberg Barclays Euro Aggregate Corporate TR	2.74%	8.2%
Bloomberg Barclays Pan-European High Yield TR	2.60%	12.5%
Bloomberg Barclays US Corporate High Yield TR	3.24%	12.9%
Bloomberg Barclays Asia USD High Yield TR	1.93%	4.7%
Bloomberg Barclays Global High Yield TR	2.60%	12.5%
JPM Emerging Market Global Bond	0.38%	5.4%

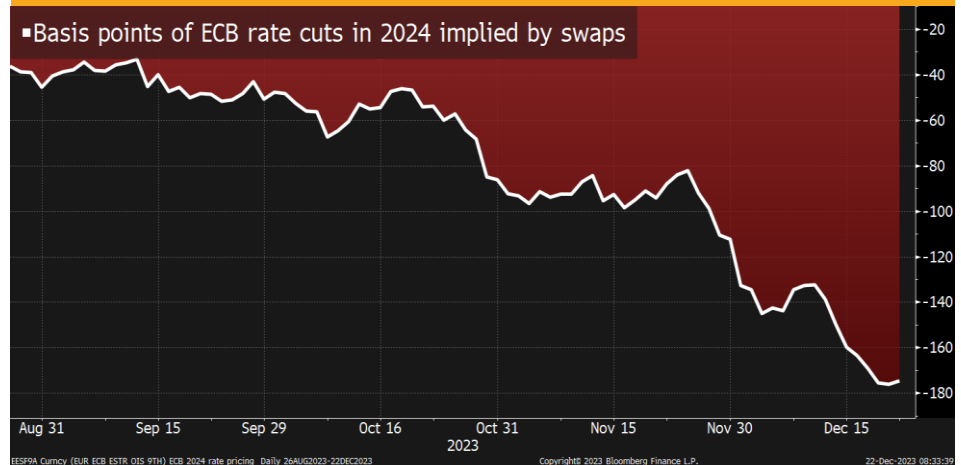
Equities	Dez 23	YTD 2023
NASDAQ 100 Stock Index	5.12%	54.5%
S&P 500 INDEX	4.00%	25.6%
MSCI World Index	4.10%	23.4%
MSCI Emerging Markets Index	1.26%	7.3%
EURO STOXX 50 Price EUR	3.33%	23.3%
SMI	2.59%	7.0%
DAX	3.15%	20.1%
FTSE 100	3.37%	7.2%
Hang Seng Index	-4.00%	-14.2%
Shanghai Shenzhen CSI 300 A-Shares	-4.45%	-11.6%
Nikkei 225	-0.95%	29.6%

Commodities	Dez 23	YTD 2023
Gold	1.73%	12.7%
Copper	2.09%	3.8%
WTI	-2.49%	-3.7%
BRENT	-4.77%	-3.9%
Bloomberg Comodity Index	-0.32%	-3.6%

Currencies	Dez 23	YTD 2023
EURCHF	-0.74%	-4.2%
CHFUSD	0.65%	7.7%
CHFGDP	-0.06%	1.4%
EURUSD	-0.06%	3.2%
EURGBP	-0.76%	-2.8%
GBPUSD	0.71%	6.2%
EURRUB	1.17%	29.3%

Source: Bloomberg, Blackfort Analytics

ECB: Markets pricing in five to seven rate cuts in 2024



Fed: Markets price in four to 5 rate cuts in 2024



The yearend rally will be followed by a minor pullback, but the bull market will continue

Liquidity

- ❖ The Swiss Franc has further appreciated against both the EUR and the USD. Given that both the Fed and ECB are now considering rate cuts, we might see an unexpectedly early rate cut by the SNB.
- ❖ The EUR appreciated against the USD.
- ❖ The USD, measured by the DXY, has further depreciated and continues to be trapped in a downward trading channel, suggesting further weakness.

Equities

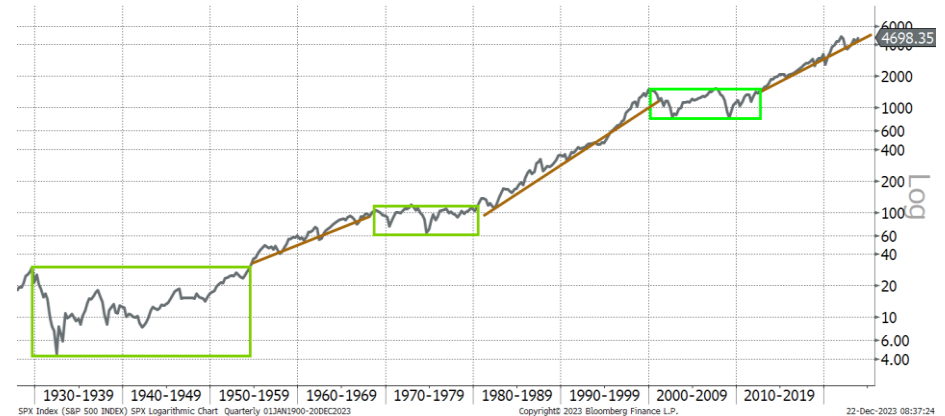
- ❖ The S&P 500 continues to rise in December. Momentum is very strong, and we could see this rally lasting into January. The last two weeks of December are, on average, the 4th best period for US stock markets, while the first two weeks of January are the 5th best. Therefore, it's possible that we remain overbought until then and only see a pullback afterward.
- ❖ Based on insights from almost all US strategists, any pullback is expected to be used as an opportunity to "buy the dip," as the consensus forecasts a 10% upside for 2024. We share this view but are now concerned that so many US firms hold the same outlook. However, continental European strategists remain cautious about US equities, with most still anticipating a US recession—a view we do not share.

Fixed Income

- ❖ The US 10-year government bond yield continued to decline in December and saw an acceleration once the Fed announced possible rate cuts for 2024. We expect that the treasury yield will fluctuate within its pre-global financial crisis (GFC) trading range. Consequently, we see limited downside and anticipate some mean reversion in the coming weeks.
- ❖ Corporate bond spreads in global bond indices have further narrowed in line with the declining global government bond yields. As a result, both segments of the bond markets witnessed a strong rally during November and December.

S&P 500 might soon surge above its previous record level from January 22

Secular bull market still alive?



Alternative Investments

- ❖ As of this writing, gold trades above USD 2050 and is retesting the recently seen record of USD 2072. We expect the gold price to continue rising due to a weaker US dollar and anticipated rate cuts by the Fed and other major central banks.
- ❖ The price of copper continues to exhibit volatility, remaining within the trading range of USD 8,000 to USD 8,600. We are now back at the upper end of this trading range. If there's an acceleration in global industrial production, copper might break above this trading range.
- ❖ Both oil futures prices have been range-bound and are roughly at the same level as they were a month ago. The ongoing dispute within OPEC has led to increased supply, which, surprisingly, has prevented both oil futures from rising as is typically seen during the heating season in the northern hemisphere.



Blackfort Schweiz AG · Prime Tower · Hardstrasse 201 · 8005 Zürich · Switzerland
Tel. +41 44 585 78 81 · info@blackfort.ch · www.blackfort.ch



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