Market Watch. Blackfort.

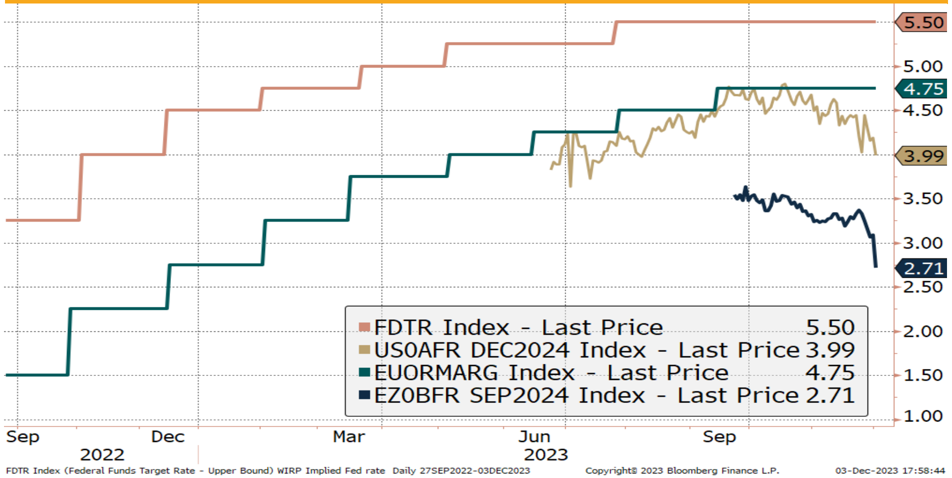
December 2023

BLACKFORT

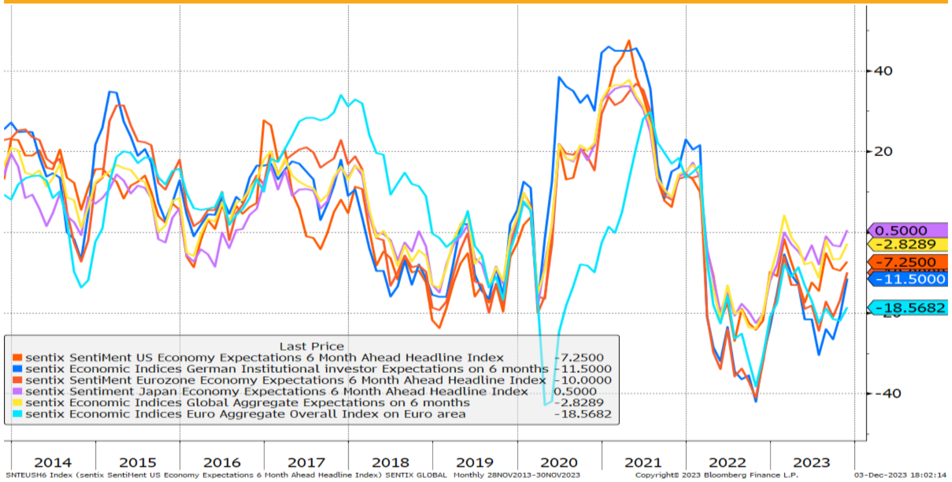
Headline inflation is falling faster than expected. Markets expect now at 4-5 rate cuts for 2024

- The Federal Reserve's Beige Book indicates some softening in the US economy, prompting market participants to anticipate additional rate cuts by the Fed and ECB in 2024. Initially, 3-4 rate cuts were priced in, but there is now a shift towards expecting 4-5 rate cuts.
- Fed Chair Powell addressed this in his latest speech, dismissing speculation about rate cuts in spring 2024 as premature. Furthermore, he reminded us that the fight against inflation is not won yet. Powell has emphasized several times in the past that the Fed will do everything in its power to avoid repeating the mistakes of the seventies, such as cutting rates too quickly and early. These mistakes led to a surge in Fed rates to around 20% and pushed the US economy into a deep recession.
- Annualized Q3 growth rate was increased from 5% to 5.2%. However, this news holds little significance for the markets. Examining the Conference Board's Leading Economic Indicator (LEI), we observe a very low level that, historically, has always been accompanied by a recession. Our speculation is that the NBER might declare the beginning of the recession in H1 2024.

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



- However, as the forecast for a US recession has been in place for months, we argue that in the event it is declared, markets won't react negatively; instead, they may rally, as rate cuts are expected to stimulate the economy.
- But we would like to draw your attention to the Sentix lead indicator, which has consistently risen across the globe. While it is still below or at zero from a strategist's standpoint, the positive direction and its change are noteworthy. This is a bullish sign for both bond and equity markets. Even from an economist's perspective suggesting the economy is not yet growing, one could argue that the rate of decrease has decelerated.
- We, therefore, continue to foresee decent growth for the US and the global economy during 2024. Needless to say, the news flow may remain negative for a while, but that could be positive news for bonds, equities, and especially for potential rate cuts.
- But let us add that we continue to anticipate a maximum of 2 cuts in the US and in the Eurozone, and perhaps only one cut from the Swiss National Bank due to the strong CHF and the low inflation rate in Switzerland.

Source: Bloomberg, Blackfort Analytics

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

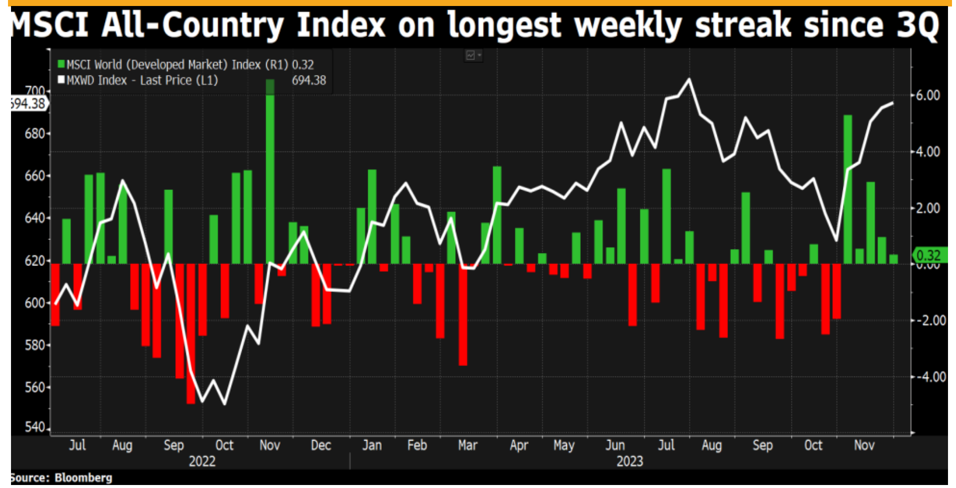
Bonds	Dez 23	YTD 2023
Bloomberg Barclays Global-Aggregate TR	0.18%	9.8%
Bloomberg Barclays Euro Aggregate Corporate TR	0.54%	5.9%
Bloomberg Barclays Pan-European High Yield TR	0.28%	10.0%
Bloomberg Barclays US Corporate High Yield TR	0.32%	9.7%
Bloomberg Barclays Asia USD High Yield TR	-0.08%	2.6%
Bloomberg Barclays Global High Yield TR	0.28%	10.0%
JPM Emerging Market Global Bond	0.38%	5.4%

Equities	Dez 23	YTD 2023
NASDAQ 100 Stock Index	0.32%	47.4%
S&P 500 INDEX	0.60%	21.5%
MSCI World Index	0.57%	19.3%
MSCI Emerging Markets Index	-0.50%	5.5%
EURO STOXX 50 Price EUR	0.82%	20.4%
SMI	0.30%	4.7%
DAX	1.12%	17.8%
FTSE 100	1.01%	4.7%
Hang Seng Index	-1.25%	-11.7%
Shanghai Shenzhen CSI 300 A-Shares	-0.38%	-7.9%
Nikkei 225	-0.17%	30.6%

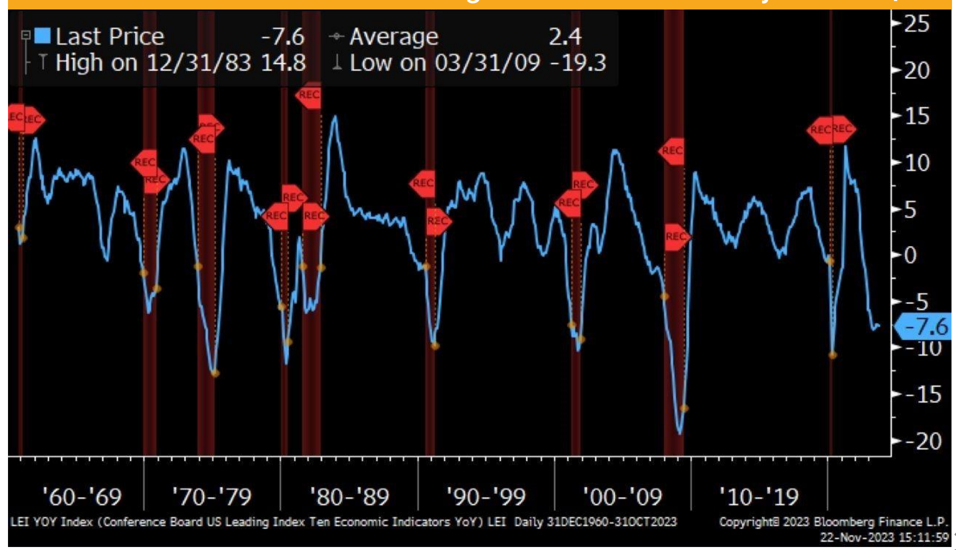
Commodities	Dez 23	YTD 2023
Gold	1.73%	12.7%
Copper	2.09%	3.8%
WTI	-2.49%	-3.7%
BRENT	-4.77%	-3.9%
Bloomberg Comodity Index	-0.32%	-3.6%

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

Global Stocks were on a five weeks rally



When will the NBER declare the brining of the US recession? Maybe H1 2024



Source: Bloomberg, Blackfort Analytics

The Santa Claus rally arrived in November, accompanied by a surge in gold

Liquidity

- The Swiss Franc appreciated against both the Euro and the US Dollar. Main drivers were the rising expectations of faster and more rate cuts by the Fed and ECB.
- The Euro appreciated for most of the last month and is currently consolidating after the sharp surge.
- The USD, measured by the DXY, has depreciated and is trapped in a downward trading channel, suggesting the possibility of further weakness.

Equities

- The S&P 500 continues to adhere to a seasonal pattern. October proved tricky and worse than expected, only to be followed by a very strong rally in November. If this trend persists, we might witness a positive December followed by a favorable January. However, it is impossible to foresee monthly movements definitively. From a fundamental standpoint, it is worth noting that the outlook for corporate earnings has not worsened in the US; more than a 10% EPS growth is still anticipated. Surprisingly, for Europe, around 7% growth is also expected.
- We continue to believe that this relief rally could extend into Q1 2024. However, as valuations are high in some markets, there will be limits to the upward movement. We expect the US, driven by the technology stock rise, to lead. If the business cycle improves, small and mid-caps may catch up. Therefore, we foresee the potential for positive returns in 2024, and bonds might perform well, possibly supported by slightly falling bond yields.

Fixed Income

- The US 10-year government bond yield has experienced a decline of more than 60 basis points in the last few weeks. Markets are anticipating rate cuts at the short end of the yield curve. However, due to this decrease, the curve has further inverted. We believe that markets may have overshot, and we would expect some mean-reverting behavior over the coming weeks.
- Corporate bond spreads in global bond indices have decreased in tandem with the falling government bond yields. Consequently, both segments of the bond markets experienced a strong rally during November.

Gold on a multi year record level due to falling yields and a weaker USD

Alternative Investments

- The price of gold has, at last, exceeded the record closing price set earlier this year and temporarily reached a new all-time high. The primary factors propelling this long-anticipated surge in gold include speculation about 4-5 rate cuts by the Fed and ECB. This speculation has resulted in a notable and sudden decrease in government bond yields, along with a depreciation of the US dollar.
- The price of copper continues to exhibit volatility, still staying within the trading range of USD 8000 to USD 8600. In contrast to October, we are now at the upper end and might have even broken out. Notably, the surge from below 8000 USD per ton to above 8600 over the last 3 months could signify, akin to the Senitx indicators, that an economic recovery in 2024 is imminent.
- Both oil futures prices have been range-bound and are slightly lower than they were one month ago. Surprisingly, the cut in oil production has had no significant impact; on the contrary, the dispute within the OPEC was interpreted as a signal that oil supply will remain plentiful.

Source: Bloomberg, Blackfort Analytics

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