Market Watch. Blackfort.

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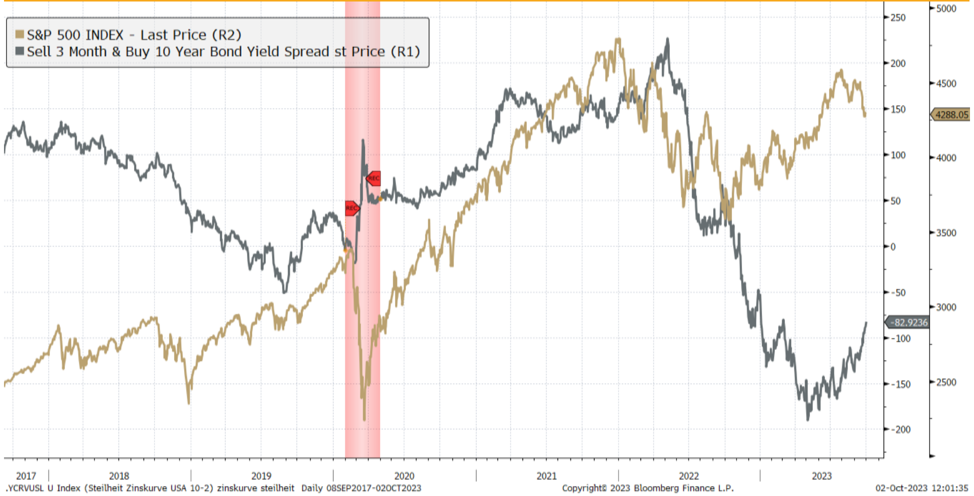
Soft landing: US GDP might grow 1.8% for the entire 2023

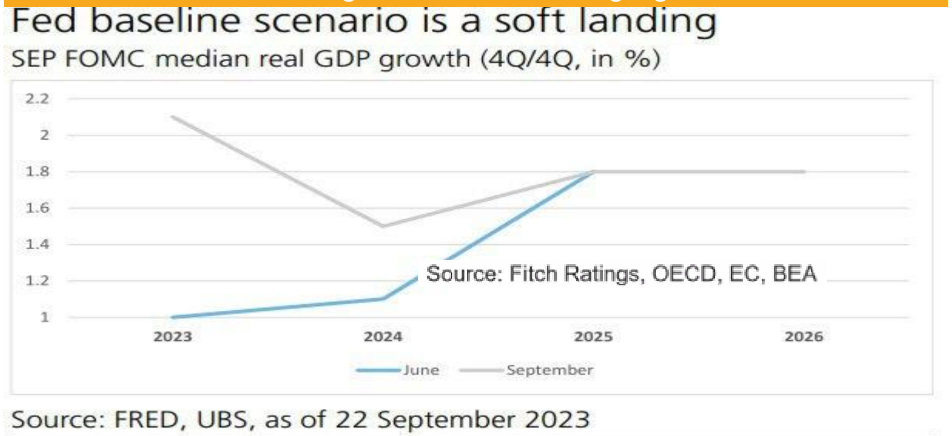
- The Federal Reserve has caught the markets off guard, not only with a positive economic outlook but also by signaling that there will be no interest rate cuts before September 2024. Additionally, they have also scaled back their expectations for the number of rate cuts in 2025.
- The hawkish stance conveyed by the Federal Reserve was primarily influenced by a significantly improved economic outlook. Additionally, it was driven by the anticipation of a persistently tight labor market and the projection that inflation will not return to the 2% target before 2026.
- The Federal Reserve's updated economic outlook aligns with encouraging PMI data. It's possible that the onset of the next recession may be deferred well beyond 2025. Nevertheless, it's worth noting that several prominent Swiss banks have published pessimistic assessments of both the U.S. and global economies.
- This, however, presents a contradiction not only to the Federal Reserve's forecast but also to recent communications from the European Central Bank (ECB) and the Swiss National Bank (SNB). Interestingly, the ECB anticipates a soft landing for the Eurozone, although they predict a mild recession for Germany. While we may concur with the first part of their assessment, we find the outlook for Germany to be surprising.

10-year US Government bond yield rises, while the short-end remains stable



Source: Bloomberg, Blackfort Analytics

Fed sees no recession during 2023: Q4 GDP YoY might grow 1.8%



- The German economy has experienced contraction for three consecutive quarters. We acknowledge that this negative growth rate can feel quite different for the average person compared to what the statistics suggest. However, based on the recently published German PMI data, both the services and industrial PMI indicators are pointing towards an acceleration of growth. This suggests that we may soon witness an end to this mild recession in Germany.
- The Swiss National Bank (SNB) took the market by surprise by not only abstaining from raising interest rates but also by presenting a growth outlook that exceeded expectations. They also reaffirmed their stance that inflation would not dip below 2% until the close of 2025. We suspect that this rate decision was influenced by the strength of the Swiss franc and concerns regarding the potential for Switzerland's export sector to experience further contraction.
- In China, we have witnessed a fourth rate cut, which, once again, appears to have had minimal impact on the markets. This is largely attributed to the fact that the country is grappling with a balance sheet recession, and addressing this would likely require a well-planned fiscal stimulus strategy to revive the economy. Nevertheless, it is noteworthy that the official PMIs for September have shown a slight increase, and there are indications of potential fiscal support for the real estate sector.

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

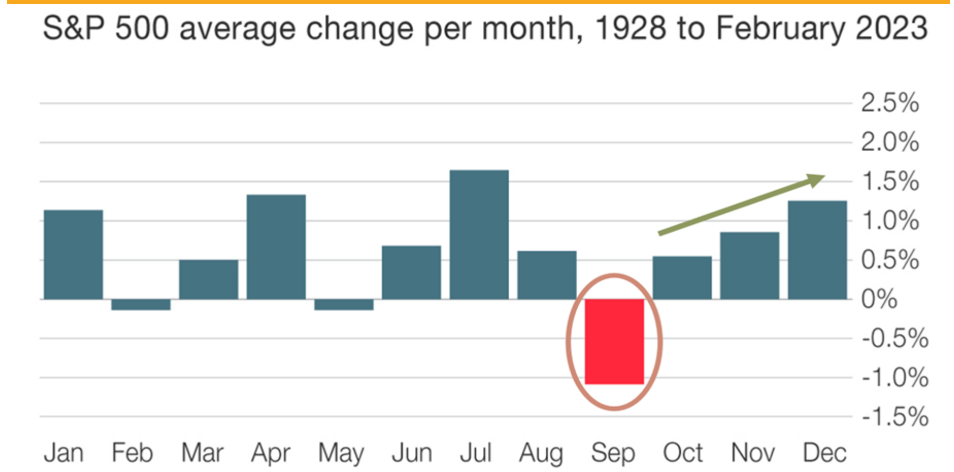
Bonds	Sep 23	YTD 2023
Bloomberg Barclays Global-Aggregate TR	-1.59%	5.0%
Bloomberg Barclays Euro Aggregate Corporate TR	-0.86%	2.5%
Bloomberg Barclays Pan-European High Yield TR	0.29%	6.8%
Bloomberg Barclays US Corporate High Yield TR	-1.18%	5.9%
Bloomberg Barclays Asia USD High Yield TR	0.58%	-1.6%
Bloomberg Barclays Global High Yield TR	0.29%	6.8%
JPM Emerging Market Global Bond	-2.81%	0.7%

Equities	Sep 23	YTD 2023
NASDAQ 100 Stock Index	-5.02%	35.4%
S&P 500 INDEX	-4.77%	13.1%
MSCI World Index	-4.28%	11.6%
MSCI Emerging Markets Index	-2.61%	2.1%
EURO STOXX 50 Price EUR	-2.77%	13.3%
SMI	-1.33%	4.6%
DAX	-3.51%	10.4%
FTSE 100	2.40%	5.0%
Hang Seng Index	-2.58%	-6.8%
Shanghai Shenzhen CSI 300 A-Shares	-1.96%	-2.5%
Nikkei 225	-1.74%	24.0%

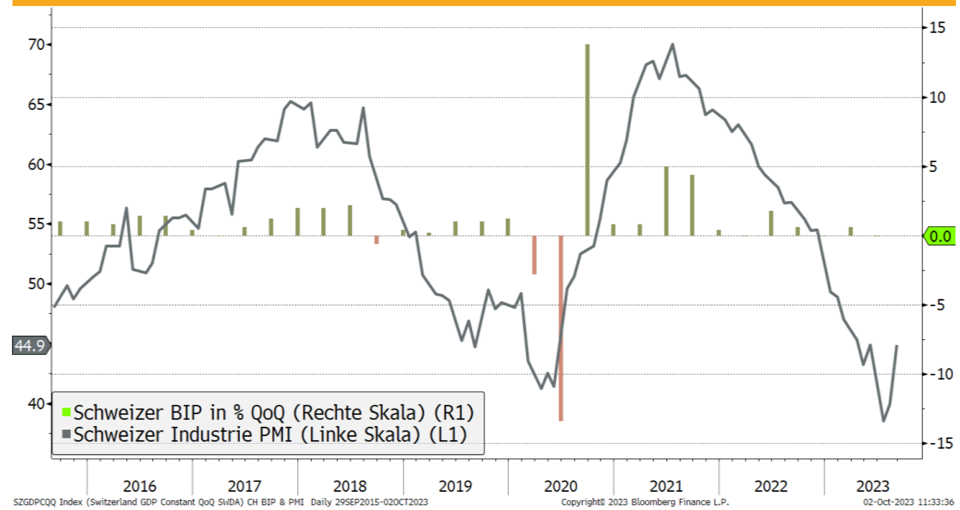
Commodities	Sep 23	YTD 2023
Gold	-4.80%	0.5%
Copper	-0.93%	-0.8%
WTI	8.56%	18.0%
BRENT	9.73%	16.1%
Bloomberg Comodity Index	-0.69%	-1.3%

Currencies	Sep 23	YTD 2023
EURCHF	1.11%	-2.0%
CHFUSD	-3.54%	2.3%
CHFGBP	0.12%	0.3%
EURUSD	-2.45%	0.2%
EURGBP	1.25%	-1.7%
GBPUSD	-3.66%	1.9%
EURRUB	-0.56%	34.8%

Seasonality speaks for higher Equity markets



Swiss Industrial PMI increases indicating an acceleration in global trades



Source: Bloomberg, Blackfort Analytics

Investment Outlook: US markets are oversold, we expect at least a mean reversion

Liquidity

- The Swiss Franc depreciated against both the Euro and the US Dollar following an unexpected decision by the Swiss National Bank (SNB) not to increase its policy rate.
- The Euro's decline against the US Dollar persists, driven by the more positive economic outlook in the US and the potential for a final rate hike by the Federal Reserve.
- The USD, as measured by the DXY, has appreciated approximately 2.5 since our last publication and around 6.5% since the middle of July.

Equities

- Following its seasonal pattern, the S&P 500 recorded another decline in September. Notably, the market did not breach its 200-day moving average. According to the Relative Strength Index (RSI), the market is oversold, indicating a potential for mean reversion. Additionally, throughout the pullback in September, market volatility, as measured by the VIX, remained below 20%.
- We anticipate that this relief rally could extend into Q1 2024. Aggregated EPS estimates for 2024 and 2025 indicate growth of approximately 12% for both years, following this year, which might conclude with zero growth. Nevertheless, zero growth is a positive surprise, especially considering that many market strategists had anticipated an earnings recession, which appears to be not materializing at all.

Fixed Income

- US 10-year government bond yields have continued their ascent, and we observe a further steepening of the yield curve. This phenomenon, known as bear steepening, where short-term rates remain stable while long-term rates rise, often signals an economic recovery. Additionally, the bond markets seem to acknowledge that equity markets may be on the right track with their optimistic outlook.
- Corporate bond spreads in the global bond indices have not risen, indicating a lower risk of recession. This atypical trend also suggests that the worst may be in the past regarding economic growth.

Will Equity markets rebound during Q4?

Alternative Investments

- The price of gold has undergone a substantial decline following the Federal Reserve's press conference, primarily due to increasing yields. Despite the expectation of persistently elevated inflation, the impact of rising yields has dominated price movements throughout September, with testing at levels around $1800 per ounce.
- The price of copper continues to exhibit volatility, staying within the trading range of USD 8200 to USD 8600. In contrast to August, the price declined in the first half of the month but experienced a rally following the Federal Reserve conference. It's possible that copper may see a gradual increase in the coming months, influenced by the rising US yields driven by a more positive economic outlook.
- Both oil futures prices have continued their upward trend, thanks to decisions by both Russia and Saudi Arabia to further reduce their production. With the heating season approaching, there are concerns that oil prices may continue to rise.

Source: Bloomberg, Blackfort Analytics

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