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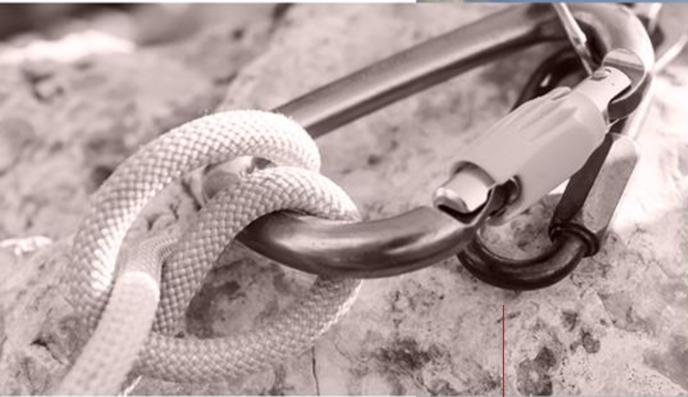
PRIVATE BANK

Newsletter: Year-end Rally ? Done / December 2023



1. Macro and Rates
2. Fixed Income
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Key Take-Aways

- November's strong performance in both the stock and bond markets was noteworthy, with the S&P 500 and Bloomberg Treasury Index rallying significantly, marking a rare occurrence that hasn't been seen since 1991.

- Central banks are taking a pause amid cooling macroeconomic data and unexpected drops in inflation, while economic activity slows but remains controlled, and labor markets show resilience with mixed signals on wage conditions.

- A significant drop in long-term yields, with the U.S. 10-year Treasury yield falling to 4.2% and the 10-year Bund yield dropping 60 bps to 2.4%. This comes as U.S. economic indicators show signs of weakening, confirmed by lower-than-expected CPI and PPI figures.

- Market volatility has characterized the last few months, with equities rebounding sharply in November on the back of falling long-term rates. This rally, propelled by a handful of high-performing stocks, augurs well for an imminent correction before the end of the year.

- The biotech sector is seeing renewed interest in mergers and acquisitions, with large-cap biopharma companies likely to pursue more deals due to challenges such as patent expiries and drug pricing pressures, exemplified by AbbVie's recent bid to acquire Immunogen and Roche's move to acquire Carmot Therapeutics.

- The US Dollar found some stability after a significant depreciation, in the face of growth limits due to a benign inflationary environment with the EUR/USD likely to enter a consolidation phase in the short term.

- Gold could continue to advance towards the end of the year, fuelled by the potential for US rate cuts, a potentially weaker dollar and growing demand for safe-haven assets amid geopolitical uncertainties.

Review
November's overview

November witnessed a rarely seen rebound in the stock market, with the S&P 500 posting over 9%. This has happened less than 10 times since 1928 and marks the highest monthly growth since July 2022. As shown in the table, the Nasdaq index is the big winner of November with an increase of 10.84%. The Russell 2000, the Euro Stoxx 50, and the NIKKEI 225 also experienced strong gains, with 9.03%, 8.08%, and 8.52%, respectively. On the Chinese stock exchange, the CSI 300 China, finished red, although the index reached 3,632.61 at the beginning of November.

The S&P 500 is up 9.13% this month. The S&P 500 sector breakdown is shown in the right column. Once again, the IT sector has surged with an MTD of 12.87% and a YTD performance of 52.02%, closely followed by the Telecom sector (7.83% MTD, 48.66% YTD). Real Estate jumped by 12.46%, certainly due to the market's anticipation of a drop in the US 10-year rates (-60 bps) last month. The Energy sector finished down (-1.00%) but the pace of decline has significantly slowed compared to October (-6.08%).

The US Dollar Index contracted by 2.97% due to the decrease in interest rates on the US 10-year. The Euro appreciated 2.96% against the US Dollar with the EUR/USD at 1.089. The US Dollar depreciated against the JPY and the CHF by 2.29% and 3.87%, respectively. The Swiss Franc continues to strengthen significantly. USD/CHF is negative 5.33% and EUR/CHF is negative 3.70% since the start of the year.

Overall, 10-year government bonds yields fell in November. Private debt spreads have tightened. The decline in yields on private debt proved to be more significant than the yields on government debt. It can be interpreted as a positive sign of market confidence in companies' future resilience.

The Bloomberg Commodity Index is down 2.69%, with WTI dropping by 6.25% last month due to uncertainties about future production. Gold increased by 2.65%, having reached an all-time high on the 29th November 2023 with a price of 2047.10.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 568	0.41	0.30	9.13	6.84	20.79	19
Nasdaq	14 226	-0.21	-0.25	10.84	7.78	37.00	29
Russell 2000	1 809	0.32	0.80	9.03	1.59	4.14	19
Euro Stoxx 50	4 382	0.27	0.50	8.08	5.25	19.37	12
Stoxx 600 EUR	462	0.55	0.70	6.65	2.81	12.31	12
FTSE 100	7 454	0.43	-0.38	2.29	-1.49	3.68	11
SMI	10 854	0.48	0.02	4.46	-1.00	4.33	16
NIKKEI 225	33 487	0.50	0.10	8.52	5.11	30.85	19
CSI 300 China	3 496	0.23	-1.83	-2.11	-5.14	-7.51	10
MSCI EM Index	987	0.42	-0.08	8.01	3.82	6.02	11

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 568	0.41	0.30	9.13	6.84	20.79	19
UTILITIES	317	0.47	0.40	5.17	6.53	-8.83	15
ENERGY	641	0.64	-0.10	-1.00	-6.92	-1.34	11
TELECOM	235	-1.00	-2.90	7.83	5.86	48.66	17
CONS STAPLES	744	1.01	0.74	4.06	2.80	-2.09	19
REAL ESTATE	233	0.86	2.88	12.46	9.32	3.29	18
CONS DISCRET	1 337	-0.13	0.44	10.91	5.96	34.12	24
MATERIALS	517	0.99	1.98	8.36	4.91	7.64	19
HEALTH CARE	1 527	1.26	0.64	5.41	2.02	-2.15	17
INFO TECH	3 273	-0.08	-0.14	12.87	12.84	52.02	26
FINANCIALS	595	1.07	1.76	10.92	8.18	6.40	14
INDUSTRIALS	903	1.11	0.92	8.82	5.64	10.39	18

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	103.497	0.71	-0.41	-2.97	-2.52	-0.02
EUR-USD	1.0888	-0.74	-0.16	2.96	2.98	1.71
USD-JPY	148.20	0.65	-0.91	-2.29	-0.78	13.03
USD-CHF	0.8752	0.15	-1.02	-3.87	-4.38	-5.33
EUR-CHF	0.9529	-0.60	-1.18	-1.03	-1.52	-3.70
GBP-USD	1.2624	-0.56	0.72	3.88	3.48	4.48
EUR-GBP	0.8625	-0.18	-0.87	-0.89	-0.48	-2.58
JP EM FX Index	47.91	-0.37	-0.10	2.04	1.86	-4.00

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.33	7	-8	-60	45	45
Germany	2.45	2	-17	-36	-12	-12
UK	4.18	8	-8	-34	50	50
SWITZERLAND	0.87	0	-15	-26	-75	-75
Japan	0.67	0	-5	-28	25	25
US IG Spread	109	-3	-7	-30	-34	-34
US High Yield spread	409	-6	-15	-48	-100	-100
EUR High Yield spread	417	-8	-4	-64	-84	-84

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	101.8	-0.51	-0.37	-2.69	-2.89	-9.75
Gold Spot $/OZ	2036.4	-0.38	2.22	2.65	10.16	11.64
Crude Oil WTI	76.0	-2.44	-1.03	-6.25	-16.33	-5.36

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	12.9	-0.06	0.12	-5.22	-26.26	-8.75

Source: Bloomberg 11/30/2023

Macro & Rates
An exceptional Rebound

Relative softness in economic data, decent earning seasons combined with the adoption of a neutral biais from major central banks have fueled a fantastic rally.

There is little doubt that November has been a good month for financial markets. Given the sell-off in September and October, the November "rally in everything" could appear somewhat not surprising. However, its magnitude was. Lets put the rally in perspective. First, what made the month all the more remarkable is that both stocks and bonds rallied so strongly; November was just the twentieth month in 50 years to see the S&P 500 rally by at least 5% and the Bloomberg Treasury Index by 2%. If we raise the bar to 6% and 3% respectively, it was just the fifth month to clear those hurdles, and the first since 1991. In November, the S&P 500 rose by 9.19% and the Bloomberg Treasury Index by 3.31%: truly a once-in-a-generation performance.

Central banks are pausing for sure, backed by cooling macro economic data and a serie of downside surprises on inflation in Europe and the US.

Global Economic activity is slowing down but so far the deceleration appears soft and well orchestrated. While still in contraction, the PMI Composite both in the euro area and the UK came in above consensus expectations meanwhile, the US, it remains stable relative to prior month at 50.7.

As noted in the recent Fed's Beige book, half of the districts surveyed noted outright declines in activity, with another two describing activity as flat to slightly lower. Taken at face value, that's two-thirds of districts citing conditions that are ostensibly consistent with a slowdown or in some other words, a "mild recession".

Comments about labor markets were a little mixed, with a general sense of easing conditions over wages but clearly and so far a conclusion that the US labor markets still has some pockets of resilience. As we are writing, the November job report is not out but we will watch closely after it given that the October one was globally weak with less Job created, higher unemployment rate, lower participation rate and only 49'000 jobs created Including 2 month revision (-101k). As a reminder, 2023 average stands at 239'000 per month.

Inflation was seen as continuing to moderate, though with more pricing power in services than goods. What was interesting is that for the first time in this cycle, two districts cited debt costs as a headwind to growth. It likely reflects the potential lagged impact of cumulative tightening to date.

Both fixed income and equity market have embraced massive rate cuts for next year, packed in a goldilocks scenario where inflation would go back to target allowing decent rate cuts without damaging growth too much.

Obviously, financial markets in November have reflected this perfect rosy scenario with a lot of conviction. But the thing to recognize in this context is that we have been here before, in July 2023 and the repricing has been violent in September and October.

Given the state of low volatility in virtually all asset classes, we still believe that we are in a trading range for now, albeit at the upper end. The Fed and the ECB are probably done but it would require significant further progress on inflation or data slowing down to justify current aggressive rate cuts.

In this context, we are comfortable to add high quality bonds with a longer duration bias as we believe the downside is quite small. Even if the Fed may not cut rates, we are convinced that the level of rates has peaked for this cycle. Equities appear to be at the upper end of the trading range and therefore we would certainly not add to our exposure at current levels.

Fixed Income

Finally a big reversal

November finally saw a strong rally in yields: The 10-year Treasury yield, which touched 5% in October, fell to 4.2% at the end of the month and the 10-year Bund yield fell 60bps to 2.4% from its recent high at 3%. Govies rallied across the board and major fixed income indices posted the best monthly performance since 2008.

Economic data in the US began to weaken somewhat, although «from an elevated level»: The ISM indicators at the beginning of the month were weaker than expected, Jobless Claims slightly higher than expected and employment creation a notch below the survey. The "decelerating tendency" was confirmed when the CPI and PPI figures came in below expectation in the middle of the month.

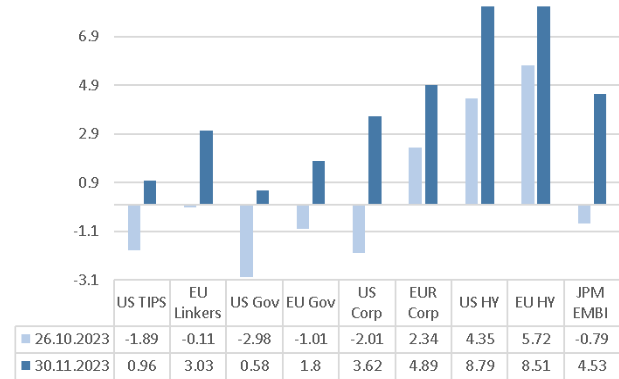
As a consequence, the market has begun pricing more rate cuts by the Fed (4) and the ECB (3) in 2024 (see table as of 28.11.23 at the bottom). The recent disinversion of the yield curve has reversed as the entire longer part of the yield curve has shifted downward in November. The short end, however, still remains well anchored above 5% in the US and around 3.6% in the eurozone.

The strong «bear steepening» which took place until October, where longer yields rose more than shorter ones, weighed on YTD fixed income performances. We believe that this move is coming to an end. Longer yields should at least stabilize around current levels, and chances of a «bull steepening», where shorter yields fall more than longer ones, are increasing going forward.

We therefore recommend to increase duration in portfolios by around one year in order to benefit from lower inflation and a potential «pivot» in monetary policy.

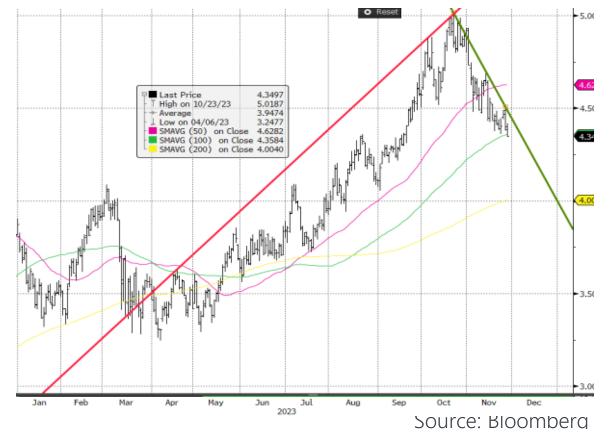
The best way to implement this view is by adding govies with 7 to 10 years of duration to the portfolio. Alternatively, short-date IG corporates can be switched into longer ones of the same issuer. Finally, for those who want to benefit from maximum duration, futures on the 30-year Treasury or a position in Treasury strip principal bonds (Treasuries without a coupon) with maturities in 2053 are an option.

YTD fixed income performances as of 23.11.23



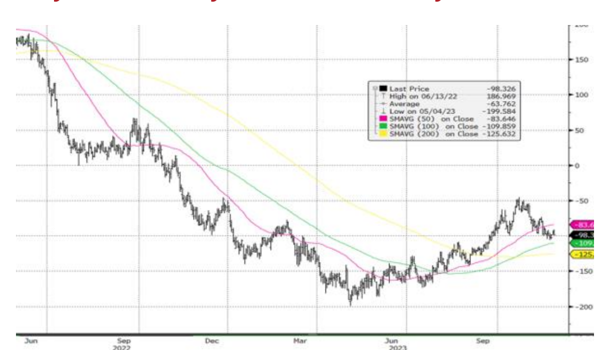
Source: Bloomberg

10-year US Treasury yield in 2023



Source: Bloomberg

10-year Treasury minus 3-month yield



Source: Gavekal

FED	Implied Policy Rate (%)	Number of Hikes/ Cuts Priced In
13.12.2023	5.34	0.036
31.01.2024	5.34	0.036
20.03.2024	5.25	-0.303
01.05.2024	5.13	-0.78
12.06.2024	4.99	-1.349
31.07.2024	4.85	-1.924
18.09.2024	4.68	-2.579
07.11.2024	4.52	-3.236
18.12.2024	4.36	-3.857
29.01.2025	4.21	-4.494

ECB	Implied Policy Rate (%)	Number of Hikes/ Cuts Priced In
14.12.2023	3.90	-0.011
25.01.2024	3.89	-0.021
07.03.2024	3.81	-0.354
11.04.2024	3.69	-0.821
06.06.2024	3.53	-1.477
18.07.2024	3.38	-2.086
12.09.2024	3.19	-2.818
17.10.2024	3.07	-3.304

Equity

"What a month ! Equities on the dance floor" (1/2)

November has been the best month for the S&P 500 for a while. Also for the MSCI World and the Euro Stoxx 50. After a tumultuous September-October, equities are back to their summer highs. Time to lock profits?

Autumn rally

Even if this is not our last words of the year, we can already say that in 2023, every season had its rally and its crisis. A few words to remind us that it has been a particularly volatile year. What's in store for 2024?

November saw the final 3rd-quarter releases. Equities mainly benefited from the rally on long rates, which generated a return of investor flows to the equity markets.

All equities? Yes, but it was once again the 7 Magnificent, the same that were oversold last year, that outperformed and led the indices in November :

Apple	11,23%	Tesla	19,54%
Amazon	9,77%	Nvidia	14,69%
Meta	8,59%	Microsoft	12,07%
Alphabet	6,88%	Moyenne	11,80%

Source: Bloomberg

The Equally Weighted basket of the Fantastic 7 performed by 11.8% and the Nasdaq by 10.67%.

The S&P 500 and S&P Equally Weighted were neck-and-neck, with performances of 8.92% and 8.87% respectively for the month.

This begs the question: hasn't the end-of-year rally already taken place? A correction would provide some breathing space and allow us to reposition ourselves before the traditional end-of-year season.

Should we still own Swiss equities ?

The question arises. The strong franc is holding back the Swiss market and its exporting companies. If we compare the SMI's performance in Franc terms with other equity indices over 3 years, 2 years, 1 year, 6 months and even 3 months… the SMI is always at the bottom of the class.

Comparative performance in CHF over the last ….

(% en CHF)	3 years	2 years	1 year	6 months
S&P 500	21,19%	-3,66%	4,50%	4,37%
Euro Stoxx 50	9,21%	-4,01%	6,31%	0,48%
MSCI World	12,61%	-6,80%	2,88%	2,99%
SMI	**3,88%**	**-11,51%**	**-3,42%**	**-3,91%**

Source: Bloomberg

One wonders whether, in a world where American mega caps concentrate so much wealth and growth, they aren't ultimately the best (the only?) way to (better?) play global growth in a portfolio?

Investors whose reference currency is the Swiss franc face the dilema of a currency that continues to appreciate overall over the long term, notably due to lower inflation and the feeling of being an island of prosperity in a complicated world?

We continue to believe that the Swiss market can prove attractive, particularly for listed real estate, which is less leveraged than other markets and benefits from lower long-term interest rates than the USD or EUR.

Against a backdrop of falling interest rates in 2024, this segment is worth considering. In addition, the SPI Index representing the small and mid-cap stocks segment, offers exposure to entrepreneurial companies, which often export and are therefore less dependent on local demand. It's true that their costs are high because of the strong franc, but pressure on wages is lower because inflation is lower..

Biotechs are making a comeback

Fasten your seatbelt; biotechs are making a comeback, and this is just the beginning. The XBI (ETF representing small to mid-cap biotechs) has recorded a 14% increase in November, marking the most robust monthly performance since November 2020. Investors in this segment have endured a challenging period over the past three years, experiencing a 65% drawdown.

Current timing presents a particularly interesting opportunity to invest in biotechs for three reasons:

1. Central banks are on the verge of concluding their rate-hike cycle and are poised to start cutting rates next year. The unprecedented rate-hike cycle from the US Federal Reserve (more than 500 bps in just 18 months) was the primary cause of pressure in our segment, given the nature of emerging biotechs in need of refinancing. Historical data indicates that a

Equity

“What a month ! Equities on the dance floor” (2/2)

pause and a rate cut are two positive catalysts that significantly support the segment following hikes. This month's release of good CPI/inflation numbers further supported a pause from the Fed, contributing to the strong biotech uptake.

2. Small- and mid-cap healthcare valuations are currently at all-time lows. Over the last 20 years, we have observed such depressed levels only twice (in 2008-2009 and 2019).

3. Mergers and acquisitions (M&A) are making a comeback and are expected to accelerate. Large-cap biopharma companies are facing secular headwinds, including patent expiries, weak pipelines, and drug pricing pressure. The recent Inflation Reduction Act in the US, adding more pressure to large drug pricing, is anticipated to result in more deals. AbbVie has just announced its intention to acquire Immunogen (a biotech specializing in ovarian cancer) for USD 10 billion, representing a close to 100% premium, while Roche is willing to spend up to USD 3.1 billion to acquire Carmot Therapeutics, a private biotech in obesity and diabetes.

All in, we believe long-term non-risk-averse investors should consider the segment ahead of what could be a very strong 2024.

Private Equity vs .Listed Equity

For the past 10 years, private investors have increased their allocation to Private Markets, particularly in an environment of low or even negative interest rates. Sometimes expensive in terms of management fees, Private Markets offer the benefit of higher expected return at the expense of giving up any liquidity.

Private Equity funds rarely compare their net performance with equity benchmarks. Why not?

We cannot compare the performance of private equity funds as most are not public, so we are going to compare the S&P 500 and the listed shares of Blackstone and Carlyle, two asset managers who expose investors to the profitability of this asset class - while offering the benefit of a listed stock.

One thing is clear: The average performance of listed equities are: 205% for the S&P 500 Total Return, 407% for the Nasdaq 100 TRF, Blackstone's is 587% and Carlyle's 95%.

The above performance are expressed without the recourse to any leverage.

How many private equity funds returned better over the period to their investors?

Should we still consider Private Equity?

Yes, of course, but time is of the essence and some vintages will be more profitable than others. Our above comparison is biased because if we compared the return of the S&P 500 from 2003 to 2013, the performance would only be 109% (and 163% for the XNDX). What will be for the next 10 years?

Eligible investors who wish to invest in venture capital, or some themes that are important to them and for whom being part of an investor club which provide access to something other than what a financial investment can represent, will always benefit from allocating to Private Equity, bearing in mind that there will be no liquidity.

S&500 TRF, Nasdaq TRF, Blackstone and The Carlyle Group

Source: Bloomberg

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	SPXT Index	USD	205.50%	205.50%	-381.84%	11.81%
2)	BX US Equity	USD	300.77%	587.34%	--	21.24%
3)	CG US Equity	USD	5.48%	95.22%	-492.12%	6.91%
4)	XNDX Index	USD	406.93%	406.93%	-180.42%	17.61%
5)						
6)						

Forex And Commodities

Rates Cut In Focus To Drive FOREX

Over the course of nearly two months, the US dollar underwent a period of significant depreciation, but it now appears to have found a semblance of stability following a brief rebound at the close of November.

The primary drivers of weakness in the USD have been the benign inflationary environment and indications of slackening in the labor market. Despite softer-than-anticipated inflation rates in the United States, which propelled the EUR/USD pair to levels nearing 1.09, this trend might be losing steam. The failure to solidify above 1.10 post-November momentum signals a potential shift, and the EUR/USD pair is likely poised to enter a consolidation phase. Concurrently, concerns about subdued growth in the Eurozone, including apprehensions about debt sustainability, ongoing uncertainties related to energy prices, and geopolitical risks, may cap the euro's upside.

The latest Eurozone inflation data, indicating figures lower than anticipated, introduces a new dynamic as it supports the case for a European Central Bank (ECB) rate cut. Consequently, the overly optimistic outlook of EUR/USD reaching and sustaining levels at or above 1.10 by year-end is likely to face limitations. Our projections suggest that by the end of Q4 2023, the pair is expected to consolidate within the range of 1.08 and 1.10. Looking ahead to H1 2024, there is potential for an upside boost, contingent upon factors such as a global economic recovery, particularly in Chinese manufacturing. The realization of new stimulus measures in China and growing expectations of a soft landing in the United States would undoubtedly lend support to the EUR/USD on the upside.

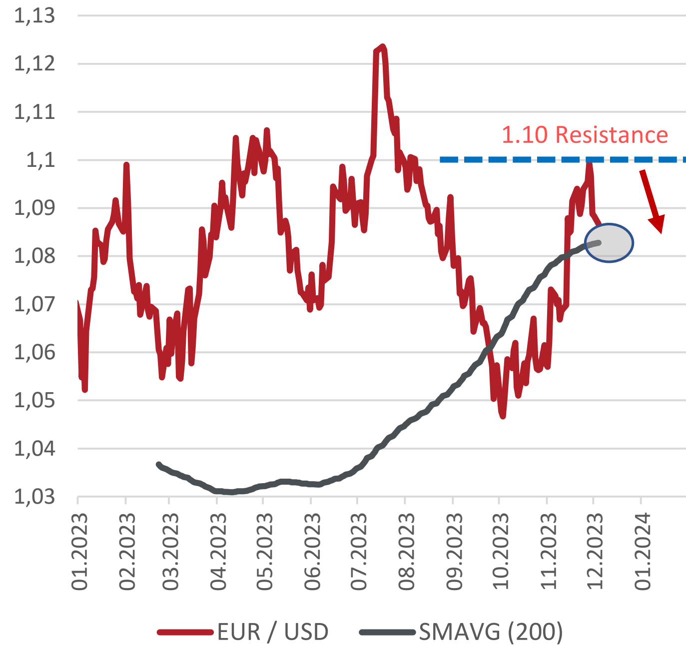
Shifting focus to the Swiss franc, its demand is anticipated to remain robust in the coming months. Despite some observed rebounds in the EUR/CHF and USD/CHF pairs, the upward movements have consistently faced limitations. Notably, the EUR/CHF is still confined within a downward channel, with a recent attempt to breach November's resistance at 0.965 proving short-lived, resulting in a renewed descent below 0.95 (now acting as a new short-term resistance). This downward bias is expected to persist, driven in part by the Swiss National Bank's (SNB) likely continued interventions aimed at preventing CHF weakening.

Similarly, the USD/CHF pair experienced a short-term reversal signal above its 200-day SMA, providing an apparent selling opportunity and subsequently pushing the pair below the key resistance at 0.90. Looking ahead to 2024, expectations point towards the likelihood of the USD/CHF remaining within its broader sideways range, established since 2014, fluctuating between 0.87 and 1.03.

The upward momentum on USD/JPY ended as the pair approached resistance at 152. Debate surrounds potential BoJ intervention in the foreign exchange market to appreciate the Yen. Regardless, the yen is entering a new momentum phase, breaking down the 50 and 100-day SMAs, suggesting a shift in sentiment. As for gold, the expectation of US rate cuts, the This could lead to further declines on USD/JPY, targeting the next support at 142 (200-day SMA).

As for gold, the expectation of US rate cuts, the potential for a weaker dollar, and an increased demand for safe-haven assets amid uncertainties stemming from conflicts in the Middle East could continue to fuel robust gains in the precious metal by the end of the year.

EUR/USD 1.10 Resistance Hold, Back Towards Its 200-Day SMA ?



Source : Bloomberg

EUR/CHF Negative Trend Settles to Continue

Source : Bloomberg

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