

The world equity index has risen at historic high in line with the rise of its 12-month forward earnings estimate at historic high. A correction cannot be excluded if geopolitics worsen. Government bond yields are relatively mild.

How have the recent macroeconomics affected the main developed bond and equity markets?

The most recent macroeconomics in the US and the Eurozone confirm that **economic activity is slower than in the recent past and that inflation continues dropping**.

In the US, the ISM **manufacturing** index dropped in February and continues to indicate contraction for 16th consecutive month. The ISM **services** index dropped in February, while still at expansion area. The focus is today on the announcement of **non-farm payrolls**, which are expected at a level mildly higher than the historic average. **US, German government** bond prices are supported by the expectation that the Fed and the ECB will at some point start cutting rates and by the moderation of **growth** and **inflation**.

The **German 10-year yield** and the **US 10-year yield** are not excessive if they are compared to their highest levels in October 2023. The US 10-year yield is currently at 4.10% area from almost 5% in late October 2023. The German 10-year bond yield is at 2.30% from 3% in mid-October 2023.

In **developed** equity markets, the S&P 500 index increased at historic high, in line with the rise of its 12-month forward **earnings** estimate at historic high. The P/E 12-month forward ratio of the S&P 500 index is elevated at a high (21) since January 2022. Furthermore, the one-year total return of the S&P 500 index has been almost triple (28%) than the historic average (9.5%). **A correction may happen after the recent significant increase. However, the mild macroeconomics, the relatively moderate bond yields and the high profitability will most probably support the upwards trend of the S&P 500 in the mid-term.**

The S&P 500 technology **sector** index has 12-month earnings estimate at historic high. The technology sector has the highest total return year to date and may continue higher in the mid-term, despite that a short-term correction cannot be excluded. The S&P 500 utilities sector has negative year to date total return, as the elevated appetite for risk-taking does not favour a defensive sector, such as utilities. However, the utilities sector may recover especially during corrective intervals, as its 12-month forward earnings estimate is at historic high and as its P/E 12-month forward ratio is at 15 times versus 17.5 times of the 10-year average.

The week ahead

In the **US**, **inflation** and **core inflation** for February will be released on March 12.

Inflation may have remained at 3.1% in February, still quite elevated compared to the 10-year average of 2.5%.

The core inflation may have dropped at 3.7% in February from 3.9% in January, signaling that inflation continues declining while still higher than the 30-year average (2.4%).

Retail sales (14/3) may have increased on monthly basis in February. Industrial production (15/3) has probably dropped in March.

In the **Eurozone**, industrial production (13/3) may have dropped on monthly basis in January, signaling economic weakness.

In **Japan**, the final reading of GDP for the fourth quarter is expected on March 11.

The expectation is for mild growth of 0.3% on annualized quarterly basis in the fourth quarter. The Bank of Japan may reduce monetary support, however the policy is still accommodative.

“Quote of the Week”

The President of the **ECB** said that: “the ECB did not discuss rate cuts at this meeting”.

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In the **Eurozone**, the ECB maintained its rates unchanged without pre-committing about when the rate cuts will start. The ECB is waiting for more evidence that inflation will drop to 2%, before cutting rates. The ECB revised lower its inflation forecasts for 2024 and 2025.

In **Europe**, the Stoxx 600 index has risen by 5% year to date, supported by the general appetite for risk-taking and by the relatively mild P/E 12-month forward ratio, which currently stands at less (13.8 times) than at the 10-year average (14.5 times).

The European technology index has year to date total return of almost 17%. As its P/E 12-month forward ratio is elevated at 26 times, a correction may happen. The European banks index has risen mildly year to date and can continue higher in the mid-term, as its P/E 12-month forward ratio is attractive at almost 7 times and its earnings 12-month forward estimate is at a high since late 2008.

What is the market sentiment in emerging markets?

The MSCI **emerging** markets index has one-year total return of 7.4% versus 27% of the MSCI developed markets. The emerging markets index has P/E 12-month forward ratio of 12 times, almost at the 10-year average. The relative ratio of the P/E 12-month forward of the emerging index versus that of the developed index is significantly lower than the 10-year average, indicating attractiveness of the emerging index. The MSCI **China** index has recovered by almost 9% since January 22. The expectation that the Chinese authorities will add stimulus measures for the economy

has supported market sentiment. China set its annual growth target at around 5%. The MSCI China has attractive P/E 12-month forward ratio at 9 times compared to the 10-year average (11 times).

The MSCI **India** index increased at historic high in parallel with the rise of its earnings 12-month estimate at historic high. The Indian economy exhibits strong growth. In the fourth quarter, GDP increased on year over year basis by 8.4%. In **Greece**, the ASE index increased at the highest close in almost 13 years, as its earnings 12-month forward estimate is at a high since 2011. The P/E 12-month forward ratio of the Greek index is at 8.5 times, attractive compared to its 10-year average (12 times) and versus the overall emerging index.

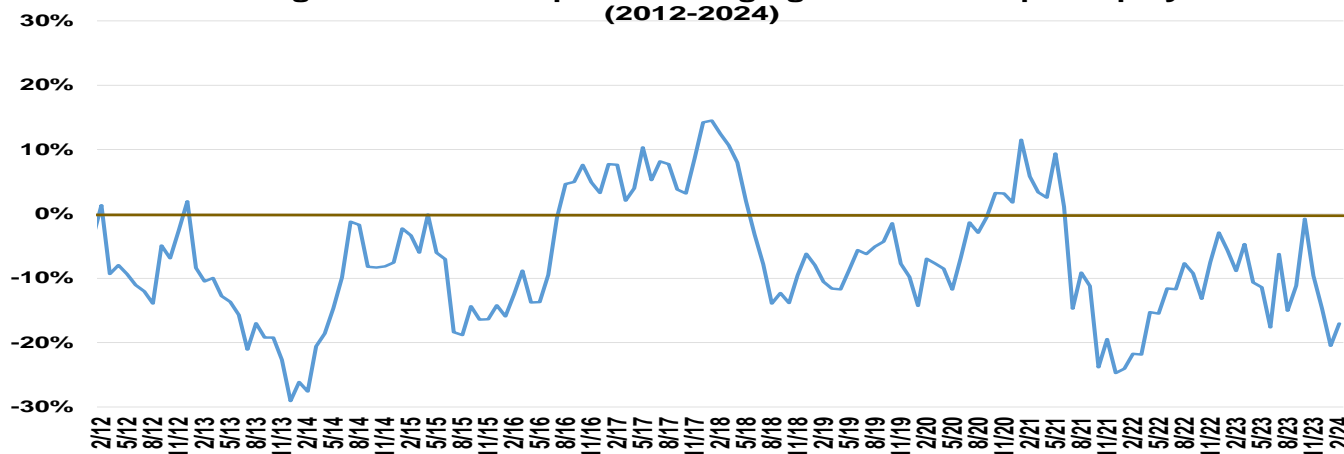
What about the fx markets?

In fx, the **EUR/USD** has risen at a high (\$1.0956) since mid-January, as US bond yields have dropped during the week. The President of the Fed said that the Fed is not far from confidence needed to cut rates. Considering the most recent history, the spread of **German-US 2-year bond yields** currently stands at an area (higher than the six-month average), which is slightly favorable for the Euro.

In case of a short-term correction in equities, the EUR/USD may drop towards the area of \$1.0660-\$1.0700. In the mid-term, the expectation that market sentiment will probably remain risk-on and that US yields have room to drop by more than German yields, continue to support the Euro towards the area of \$1.1050-\$1.1140.

The MSCI emerging markets index has lagged significantly versus the developed index in terms of one-year return. Its mild valuation multiple could support the emerging index.

Rolling annual return spread: emerging minus developed equity (2012-2024)



Source: Bloomberg

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Global Markets Minesweeper

Event Risk Calendar, 11 - 15 March 2024

Monday 11/3						
Date Time	Country	Event	Period	Survey	Prior	
11/3 01:50	JN	GDP SA (QoQ)	4Q F	0.30%	-0.10%	
11/3 01:50	JN	GDP Annualized SA (QoQ)	4Q F	1.10%	-0.40%	
11/3 01:50	JN	GDP Nominal SA (QoQ)	4Q F	0.70%	0.30%	
11/3 17:00	US	NY Fed 1Y Inflation Expectations	Feb		3.00%	
Corp. Results						
	US	Oracle				
	SA	Saudi Aramco				
Tuesday 12/3						
Date Time	Country	Event	Period	Survey	Prior	
12/3 01:50	JN	PPI (YoY)	Feb	0.60%	0.20%	
12/3 01:50	JN	PPI (MoM)	Feb	0.10%	0.00%	
12/3 09:00	UK	ILO Unemployment Rate 3M	Jan		3.80%	
12/3 09:00	GE	CPI (YoY)	Feb F	2.50%	2.50%	
12/3 09:00	GE	CPI (MoM)	Feb F	0.40%	0.40%	
12/3 12:00	US	NFIB Small Business Optimism	Feb		89.9	
12/3 14:30	US	CPI (MoM)	Feb	0.40%	0.30%	
12/3 14:30	US	CPI Ex Food and Energy (MoM)	Feb	0.30%	0.40%	
12/3 14:30	US	CPI (YoY)	Feb	3.10%	3.10%	
12/3 14:30	US	CPI Ex Food and Energy (YoY)	Feb	3.70%	3.90%	
12/3 14:30	US	Real Avg Weekly Earnings (YoY)	Feb		-0.10%	
12/3 20:00	US	Monthly Budget Statement	Feb		-\$21.9b	
Wednesday 13/3						
Date Time	Country	Event	Period	Survey	Prior	
13/3 12:00	EC	Industrial Production SA (MoM)	Jan	-1.00%	2.60%	
13/3 12:00	EC	Industrial Production WDA (YoY)	Jan	-1.70%	1.20%	
Corp. Results						
	EU	Volkswagen, adidas, E. ON				
Thursday 14/3						
Date Time	Country	Event	Period	Survey	Prior	
14/3 14:30	US	Retail Sales Advance (MoM)	Feb	0.80%	-0.80%	
14/3 14:30	US	Retail Sales Ex Auto (MoM)	Feb	0.50%	-0.60%	
14/3 14:30	US	PPI Final Demand (MoM)	Feb	0.30%	0.30%	
14/3 14:30	US	PPI Ex Food and Energy (MoM)	Feb	0.20%	0.50%	
14/3 14:30	US	PPI Final Demand (YoY)	Feb		0.90%	
14/3 14:30	US	PPI Ex Food and Energy (YoY)	Feb		2.00%	
14/3 14:30	US	Initial Jobless Claims	9-Mar		217k	
14/3 16:00	US	Business Inventories	Jan	0.30%	0.40%	

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Friday 15/3						
Date Time	Country	Event	Period	Survey	Prior	
15/3 03:20	CH	1Y M. Term Lend. Facility Rate	15-Mar	2.50%	2.50%	
15/3 03:20	CH	1Y M. Term Lend. Facilities Vol.	15-Mar	550.0b	500.0b	
15/3 14:30	US	Empire Manufacturing	Mar	-8	-2.4	
15/3 14:30	US	Import Price Index (MoM)	Feb	0.20%	0.80%	
15/3 14:30	US	Export Price Index (MoM)	Feb	0.10%	0.80%	
15/3 15:15	US	Industrial Production (MoM)	Feb	0.00%	-0.10%	
15/3 16:00	US	U. of Mich. Sentiment	Mar P	77	76.9	
15/3 16:00	US	U. of Mich. 1 Yr Inflation	Mar P		3.00%	
15/3 16:00	US	U. of Mich. 5-10 Yr Inflation	Mar P		2.90%	

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