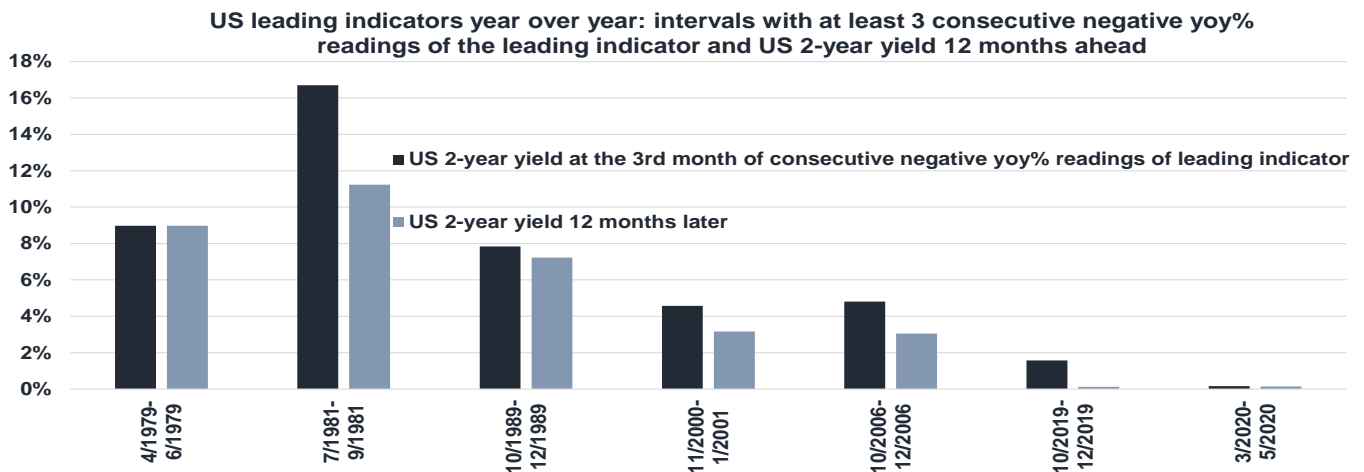


Equity market sentiment has improved, mainly since October 21, as US bond yields have slightly moderated compared to multi-year highs. The US 2-year yield had initially posted high (21/10: 4.63%) since July 2007 and the US 10-year yield high (21/10: 4.34%) since November 2007. Then, a mild pull-back of bond yields and an upwards reaction of equities was mainly triggered when, according to the press, it was circulated (later on 21/10) that the Fed may debate whether and how to signal a slightly smaller rate hike for the meeting of December. The US 2-year yield is currently milder (4.44%) versus the intraday high of October 21 (4.63%), but still elevated compared to recent history (six-month average: 3.34%). The Dollar DXY index has corrected (31/10: 110.8) versus the highest (28/9: 114.8) since mid-2002. While high inflation still keeps yields elevated, milder short-term yields may not be excluded for the medium term. In six out of seven cases in the past, the US 2-year yield has been lower at the 12-month horizon, after the month that the leading economic indicator had posted the third consecutive drop on year over year basis. It was recently announced (20/10), that the leading indicators index dropped in September by -1.4%, which was the third consecutive month of yearly drop.



Source: Bloomberg

In the **US**, according to the initial estimate, GDP recovered in the third quarter by 2.6% on annualized quarterly basis, after two negative quarters. On yearly basis, increased mildly by 1.8%. The PCE deflator measure increased on yearly basis in September by 6.2% and the core PCE deflator by 5.1%, indicating elevated inflation pressures. **Eurozone** economic confidence index posted in October low (92.5) since November 2020. The inflation estimate for October was at the highest (10.7%) in the history of the Eurozone. The GDP increased on quarterly basis by 0.2% and on yearly basis by 2.1% in the third quarter (2nd: 4.3%). The **ECB** hiked rates by 0.75%, without pre-committing for the future pace of monetary tightening. **German** 10-year yield moderated on weekly basis at 2.1% (28/10) versus 2.4% (21/10). The Stoxx 600 **Europe** recovered above (28/10: 410.8) its 21-day average (397, 200-day average: 432). In **China**, GDP increased mildly by 3.9% in the 3rd quarter by both quarterly and yearly basis, however official PMI manufacturing and services indexes were in October at contraction area (below 50 points).

The week ahead

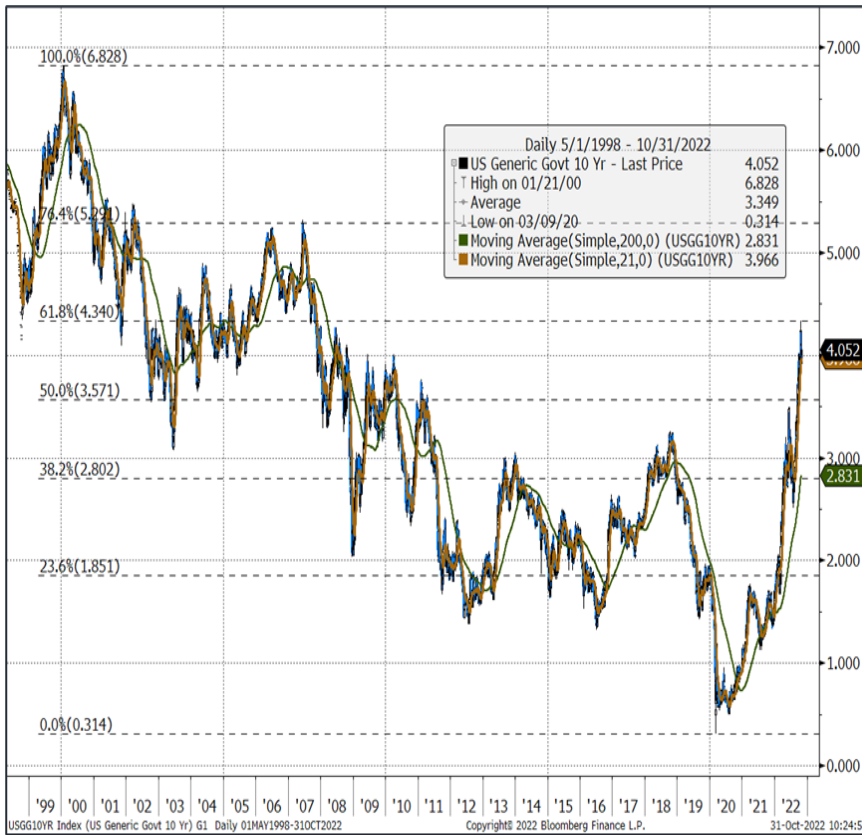
Eurozone unemployment rate for September (3/11) is expected stable at 6.6%. In the **US**, the ISM manufacturing index (1/11) may have dropped in October around the borderline of expansion and contraction, while the ISM services index (3/11) is expected at a level (median estimate: 55.1, September: 56.7), indicating expansion. The **Fed** is expected to hike its benchmark rate by 0.75% (2/11) and to discuss whether signaling that the hike in December will probably be less (0.50%). Non-farm payrolls are expected above (media estimate: 190,000, September: 263,000) the historic average (123,000) and the unemployment rate well below (3.6%, September: 3.5%) the historic average (5.7%). In **China**, the Caixin manufacturing PMI on November 1 and the Caixin services PMI on November 3.

Quote of the Week:

The President of the ECB said (27/10) that “broadly based fiscal aid would counter ECB normalization” and has also said that fiscal support should be temporary.

Global Markets in Charts

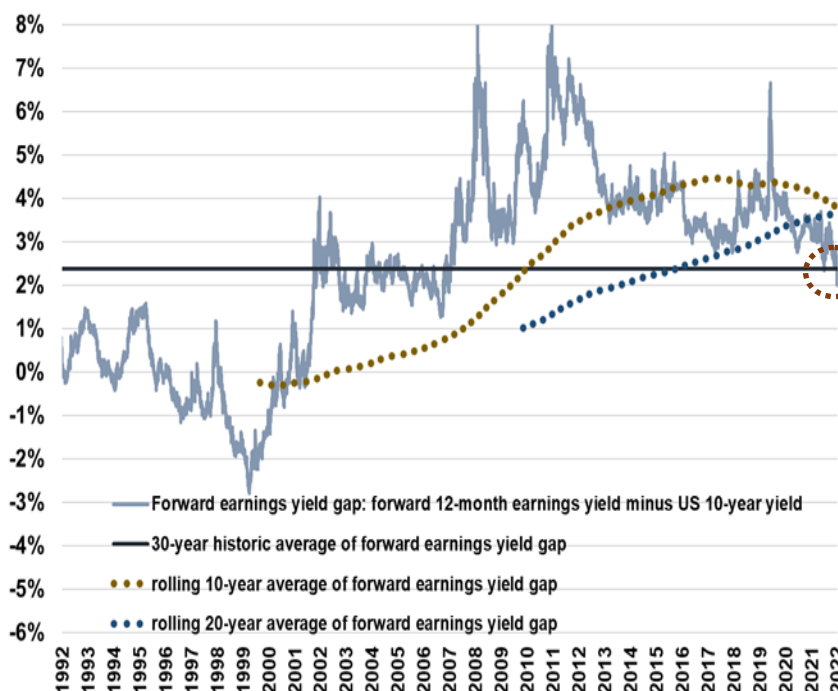
The US 10-year yield recently moderated, but is still elevated by historical perspective



The US 10-year yield had risen at 4.34% on October 21, which is the 61.8% Fibonacci retracement of the long-term move from 6.83% (January 2000) to 0.31% (March 2020). Then, the US 10-year yield moderated and closed at 4.01% (20-year: 2.90%) at the end of the previous week (28/10). The US 2-year yield has also moderated at 4.41% on October 28 from 4.63% on October 21. The Fed is expected to hike by 0.75% at the FOMC of November 1-2, but may consider slightly smaller hike (0.50%) for December. The spread of German-US 2-year yield is at -2.51% (31/10) versus -2.75% (8/8) almost three months ago, which is consistent with the slight recovery of the Euro. The EUR/USD posted the highest (27/10: \$1.0090) since September 13, almost at the area of the upper bound of the range (Bollinger bands 21 days), but remains significantly below its 200-day average (\$1.0500). Resistance is at 1.0200 (12/9), while support is at \$0.9630 (Bollinger bands lower bound and 13/10 low).

The equity market has recovered, while the elevated US 10-year yield is probably still a hurdle

S&P 500 index: forward earnings yield gap, 30-year average and 10-year, 20-year rolling averages



Source: Bloomberg

More than half of the S&P 500 companies reported third quarter results. The revenue is higher by 9%-10% yearly and the earnings per share higher on yearly basis by 3%-4%, as nominal economic activity is resilient. The earnings per share 12-month forward estimate has been mildly revised lower at \$232 (28/10) from the historic high of \$240 (20/6). The 12-month forward EPS of \$232 divided by the level of the index (28/10: 3,901) results in forward earnings yield of 5.95%. If the US 10-year yield of 4% is subtracted from the 5.95%, the forward earnings yield gap of 1.95% is calculated, which is lower than its 30-year (2.4%), 20-year (3.6%) and 10-year (3.8%) averages. It may not be excluded that yields could moderate, allowing for further equity recovery. The S&P 500 has bounced by 9% (12-28/10), with a mix of aggressive (financials, energy, technology) and defensive (industrials, utilities) sectors posting the higher returns.

Global Markets Minesweeper
Event Risk Calendar, 31 October - 4 November 2022

Global Markets Minesweeper						
Event Risk Calendar, 31 October - 4 November 2022						
Monday 31/10						
Date Time	Country	Event	Period	Survey	Prior	
31/10 15:45	US	MNI Chicago PMI	Oct	47	45.7	
31/10 16:30	US	Dallas Fed Manf. Activity	Oct	-18.5	-17.2	
Eco Event	EC	ECB Chief Economist Philip Lane gives speech (17:00)				
Tuesday 1/11						
Date Time	Country	Event	Period	Survey	Prior	
1/11 02:30	JN	Jibun Bank Japan PMI Mfg	Oct F		50.7	
1/11 03:45	CH	Caixin China PMI Mfg	Oct	48.5	48.1	
1/11 11:30	UK	UK Manufacturing PMI	Oct F	45.8	45.8	
1/11 15:45	US	US Manufacturing PMI	Oct F	49.9	49.9	
1/11 16:00	US	JOLTS Job Openings	Sep	9625k	10053k	
1/11 16:00	US	ISM Manufacturing	Oct	50	50.9	
Corp. Results	US	Pfizer, Eli Lilly & Co, AMD				
Wednesday 2/11						
Date Time	Country	Event	Period	Survey	Prior	
2/11 01:50	JN	Monetary Base (YoY)	Oct		-3.30%	
2/11 09:00	GE	Trade Balance SA (EUR)	Sep	1.4b	1.0b	
2/11 10:55	GE	Unemployment Claims Rate SA	Oct	5.60%	5.50%	
2/11 11:00	EC	Eurozone Manufacturing PMI	Oct F	46.6	46.6	
2/11 14:15	US	ADP Employment Change	Oct	180k	208k	
2/11 20:00	US	FOMC Rate Decision (Lower Bound)	2-Nov	3.75%	3.00%	
2/11 20:00	US	FOMC Rate Decision (Upper Bound)	2-Nov	4.00%	3.25%	
Eco Event	US	Fed Chair holds press conference following FOMC Meeting (20:30)				
Corp. Results	US	CVS Health Group, QUALCOMM				
Thursday 3/11						
Date Time	Country	Event	Period	Survey	Prior	
3/11 03:45	CH	Caixin China PMI Composite	Oct		48.5	
3/11 03:45	CH	Caixin China PMI Services	Oct	49	49.3	
3/11 11:30	UK	UK Services PMI	Oct F	47.5	47.5	
3/11 11:30	UK	UK Composite PMI	Oct F	47.2	47.2	
3/11 12:00	EC	Unemployment Rate	Sep	6.60%	6.60%	
3/11 14:00	UK	Bank of England Bank Rate	3-Nov	3.00%	2.25%	
3/11 14:30	US	Trade Balance	Sep	-\$72.0b	-\$67.4b	
3/11 14:30	US	Nonfarm Productivity	3Q P	0.50%	-4.10%	

October 31, 2022

3/11 14:30	US	Unit Labor Costs	3Q P	4.00%	10.20%	
3/11 14:30	US	Initial Jobless Claims	29-Oct	220k	217k	🌩️
3/11 15:45	US	US Services PMI	Oct F	46.6	46.6	
3/11 15:45	US	US Composite PMI	Oct F	47.3	47.3	
3/11 16:00	US	Factory Orders	Sep	0.30%	0.00%	
3/11 16:00	US	Durable Goods Orders	Sep F	0.40%	0.40%	
3/11 16:00	US	ISM Services Index	Oct	55.1	56.7	🌩️
Eco Event	EC	ECB President Christine Lagarde speaks (10:05)				
Corp. Results	EC	BNP Paribas, ING, BMW, Enel				
	US	Kellogg, Starbucks, Paypal, Motorola, Monster Beverage				
		Friday 4/11				
Date Time	Country	Event	Period	Survey	Prior	🌩️
4/11 02:30	JN	Jibun Bank Japan PMI Services	Oct F		53	
4/11 11:00	EC	Eurozone Services PMI	Oct F	48.2	48.2	
4/11 11:00	EC	Eurozone Composite PMI	Oct F	47.1	47.1	
4/11 12:00	EC	PPI (MoM)	Sep	1.70%	5.00%	
4/11 14:30	US	Change in Nonfarm Payrolls	Oct	190k	263k	🌩️
4/11 14:30	US	Change in Private Payrolls	Oct	195k	288k	
4/11 14:30	US	Change in Manufact. Payrolls	Oct	15k	22k	
4/11 14:30	US	Unemployment Rate	Oct	3.60%	3.50%	🌩️
4/11 14:30	US	Average Hourly Earnings (YoY)	Oct	4.70%	5.00%	
Eco Event	EC	ECB Vice President Luis de Guindos gives speech (10:45)				
	EC	ECB President Christine Lagarde speaks (11:30)				
Corp. Results	EC	Societe Generale, Telefonica, Intesa Sanpaolo, Vonovia, Erste Group				

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