

## ***The US economy exhibits below average growth in the 4<sup>th</sup> quarter, triggering milder government bond yields. The soft-landing scenario remains intact.***

In the **US**, the ISM **services** index increased in November at a level equal to its 12-month average, indicating expansion of the services sector and quite resilient economic activity. According to the most recent Atlanta Fed estimate, GDP has been rising at annualized quarterly pace of 1.3% in the fourth quarter, which signals below average growth. The ISM **manufacturing** index, announced at the end of the previous week, remained stable in November denoting contraction of manufacturing. The focus is today on **non-farm payrolls**. According to the median of estimates, non-farm payrolls have probably risen in November by a level mildly higher than the historic average.

### **How the slowing of economic growth affects bond and equity markets?**

**The impact of economic growth slowdown in the US appears as moderation of activity rather than a recession signal.** In this respect, its effect on government bond prices has been positive and as bond yields have dropped, also equity market sentiment has been supported. The **US 10-year bond yield moderated at a low** (4.10%) since early September. In parallel, the S&P 500 **equity** index is near the recent highest close (1/12: 4,595) since March 2022. Its P/E 12-month forward (19 times) is above the 10-year average (17.8), which can imply quite frequent corrections. However, the rise of its **earnings** 12-month forward estimate at historic high and the moderation of government bond yields support the equity market in the mid-term.

In the fourth quarter, the S&P 500 technology **sector** index continues to have the highest total return of almost 13%, while energy is lower in the 4<sup>th</sup> quarter (-10.5%) as WTI **crude oil** is currently at \$70/barrel from almost \$90/barrel at the end of the 3<sup>rd</sup> quarter. The economic growth slowdown has affected oil price to the downside. Regarding the technology sector, it is noted that its 12-month forward **earnings** estimate is currently by almost 5.5% higher than three months ago and by almost 14% higher than six months ago, which is consistent with the rising momentum of the technology sector. Corrections of S&P 500 technology cannot be excluded as its P/E 12-month forward ratio is elevated at 26 times versus 10-year average of 20 times.

In the **Eurozone**, the Sentix sentiment index recovered in December but it is slightly lower than its 12-month average. Members of the **ECB** have indicated stable rates in the short term and rate cuts in mid-term.

### **The week ahead**

In the **US**, **inflation** may have dropped (12/12) further in November at 3.1% from 3.2% in October, while the **core inflation** is expected stable at 4%.

The **Fed** is expected to keep its benchmark rate stable (13/12), as inflation has declined. However, the wording of the Fed can have significant market impact, as it is not clear whether it will say that the rate hike cycle has ended. It is uncertain when rate cuts will start (probably from mid-2024).

In the **Eurozone**, the ECB is expected to maintain its rates stable on December 14 as inflation has moderated. The manufacturing PMI index for November is expected (15/12).

In **Japan**, the PMI manufacturing index for November will be released on December 15. In **China**, industrial production and retail sales may have risen on yearly basis in November by more than in October, highlighting stabilisation of economic activity.

### **“Quote of the Week”**

The member of the ECB (Vujcic) said that if the “current projections of the ECB are confirmed, then there will be cuts in interest rates”, adding that he does not expect that in the short term but in the mid-term.

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The **German 2-year bond yield** dropped at a low since May and the **10-year bond yield** at eight-month low (2.17%), significantly milder than at the end of 2022 (2.57%). **This highlights the expectation for economic stagnation in the Eurozone and rate cuts by the ECB in the mid-term.** As the P/E 12-month forward ratio of the **Eurozone 50 equity** index and of the **Stoxx 600 europe equity** index are mild at around 12.5 times, both the indexes have recovered from the correction that happened from late July until late October. The Stoxx 50 Eurozone index increased at the highest close since late 2007 and the Stoxx Europe index at a high since late July 2023.

### Is the rise of the global equity index justified?

The S&P **Global 1200 equity** index is near the highest close year to date of July 31. It has total return of almost 18% year to date, supported by the rise of its 12-month forward **earnings** estimate at a historic high.

In the second half, the communications (7.8%) sector (blend characteristics) and the aggressive **sectors** of S&P Global 1200 financials (6%) and technology (5.6%) have risen the most, highlighting an overall aggressive tilt in equity market sentiment.

In the fourth quarter, the aggressive tilt in markets is evident also in the total return of the MSCI all countries **world growth**, which is higher by almost 4% more than the **world value** index. The earnings 12-month forward estimate of the world growth index is at historic high, while that of the value index is still slightly lower than the level of mid-2022. The elevated appetite for risk taking may mean that in the short term, the growth index may continue rising by more than value index.

The attractive P/E 12-month forward ratio of the value index at 12 times, slightly milder than the 10-year average, may imply that the world value index can be more resilient in the mid-term, if appetite for risk taking in markets is less strong than currently.

In **Japan**, the Nikkei equity index has been slightly lower in the second half. The Japanese 10-year recently increased at a high (0.81%) since mid-September, but only mildly higher than where it ended the 3<sup>rd</sup> quarter (0.77%). If the JPY does not strengthen considerably, the Nikkei index can continue upwards in the mid-term.

The 12-month forward earnings estimate of the MSCI **emerging equity** index has recovered at a high since October 2022. This, along with lower US government bond yields will probably support the emerging equity index in the mid-term. The more volatile MSCI L. America compared to the Asian, has benefited by the risk-on environment in markets. In the 4<sup>th</sup> quarter the L. America index has total return of almost 8.5% versus almost 1% of the Asian index.

In **Greece**, the earnings 12-month forward estimate of the ASE is at high since 2011 and the index closed at a high (1/12: 1,280) since early September.

**What do volatile government bond yields imply for fx?** As German, US bond yields have fluctuated widely, the **EUR/USD** has been volatile and it is currently slightly below its 200-day average, with the focus on the **Fed** and the **ECB** meetings.

The **EUR/JPY** dropped at a low since late July, as the policy of the Bank of **Japan** may become less supportive.

**The rise of the S&P Global 1200 after the recent correction is consistent with the recovery of its earnings 12-month forward estimate after the mild earnings recession period ended.**

S&P Global 1200 equity index: level, earnings per share 12-month forward estimate (2013-2023)



Source: Bloomberg

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## Global Markets Minesweeper

## Event Risk Calendar, 11 - 15 December 2023

		Monday 11/12				
Date Time	Country	Event	Period	Survey	Prior	🇺🇸
11/12 01:50	JN	Money Stock M3 (YoY)	Nov		1.80%	
11/12 18:00	US	NY Fed 1Y Inflation Expectations	Nov		3.57%	
		Tuesday 12/12				
Date Time	Country	Event	Period	Survey	Prior	🇺🇸
12/12 01:50	JN	PPI (YoY)	Nov	0.10%	0.80%	
12/12 12:00	GE	ZEW Survey Expectations	Dec	9.5	9.8	
12/12 12:00	GE	ZEW Survey Current Situation	Dec		-79.8	
12/12 12:00	EC	ZEW Survey Expectations	Dec		13.8	
12/12 13:00	US	NFIB Small Business Optimism	Nov	90.7	90.7	
12/12 15:30	US	CPI (MoM)	Nov	0.00%	0.00%	🇺🇸
12/12 15:30	US	CPI Ex Food and Energy (MoM)	Nov	0.30%	0.20%	🇺🇸
12/12 15:30	US	CPI (YoY)	Nov	3.10%	3.20%	🇺🇸
12/12 15:30	US	CPI Ex Food and Energy (YoY)	Nov	4.00%	4.00%	🇺🇸
12/12 21:00	US	Monthly Budget Statement	Nov		-\$66.6b	
		Wednesday 13/12				
Date Time	Country	Event	Period	Survey	Prior	🇺🇸
13/12 01:50	JN	Tankan Large Mfg Index	4Q	10	9	
13/12 09:00	UK	Monthly GDP (3M/3M)	Oct	0.10%	0.30%	
13/12 09:00	UK	Trade Balance GBP/Mn	Oct		-£1574m	
13/12 12:00	EC	Industrial Production SA (MoM)	Oct	-0.30%	-1.10%	🇺🇸
13/12 15:30	US	PPI Final Demand (MoM)	Nov	0.10%	-0.50%	🇺🇸
13/12 15:30	US	PPI Ex Food and Energy (MoM)	Nov	0.20%	0.00%	
13/12 15:30	US	PPI Final Demand (YoY)	Nov	1.10%	1.30%	🇺🇸
13/12 15:30	US	PPI Ex Food and Energy (YoY)	Nov	2.20%	2.40%	
13/12 21:00	US	FOMC Rate Decision (Up. Bound)	13-Dec	5.50%	5.50%	
13/12 21:00	US	FOMC Rate Decision (Low. Bound)	13-Dec	5.25%	5.25%	🇺🇸
Eco Event	US	Fed Chair holds press conference following FOMC Meeting (21:30)				🇺🇸
		Thursday 14/12				
Date Time	Country	Event	Period	Survey	Prior	🇺🇸
14/12 06:30	JN	Industrial Production (YoY)	Oct F	0.90%	0.90%	
14/12 14:00	UK	Bank of England Bank Rate	14-Dec	5.25%	5.25%	🇺🇸
14/12 15:15	EC	ECB Main Refinancing Rate	14-Dec	4.50%	4.50%	🇺🇸
14/12 15:15	EC	ECB Marginal Lending Facility	14-Dec	4.75%	4.75%	🇺🇸
14/12 15:15	EC	ECB Deposit Facility Rate	14-Dec	4.00%	4.00%	🇺🇸
14/12 15:30	US	Retail Sales Advance (MoM)	Nov	-0.10%	-0.10%	🇺🇸
14/12 15:30	US	Retail Sales Ex Auto (MoM)	Nov	0.00%	0.10%	

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14/12 15:30	US	Initial Jobless Claims	9-Dec		220k	
<b>Eco Event</b>	EC	ECB President Christine Lagarde holds press conference (15:45)				🌟
		<b>Friday 15/12</b>				
<b>Date Time</b>	<b>Country</b>	<b>Event</b>	<b>Period</b>	<b>Survey</b>	<b>Prior</b>	🌟
15/12 02:30	JN	Jibun Bank Japan PMI Mfg	Dec P		48.3	
15/12 02:30	JN	Jibun Bank Japan PMI Services	Dec P		50.8	
15/12 03:20	CH	1-Yr Med.Term Lend. Facility Rate	15-Dec	2.50%	2.50%	🌟
15/12 04:00	CH	Industrial Production (YoY)	Nov	5.70%	4.60%	🌟
15/12 04:00	CH	Retail Sales (YoY)	Nov	12.40%	7.60%	🌟
15/12 04:00	CH	Surveyed Jobless Rate	Nov	5.00%	5.00%	
15/12 10:30	GE	Germany Manufacturing PMI	Dec P	43.3	42.6	🌟
15/12 10:30	GE	Germany Services PMI	Dec P	50.2	49.6	
15/12 10:30	GE	Germany Composite PMI	Dec P	48	47.8	
15/12 11:00	EC	Eurozone Manufacturing PMI	Dec P	45	44.2	🌟
15/12 11:00	EC	Eurozone Services PMI	Dec P	48.9	48.7	
15/12 11:30	UK	UK Manufacturing PMI	Dec P	47.5	47.2	🌟
15/12 11:30	UK	UK Services PMI	Dec P	51.2	50.9	
15/12 11:30	UK	UK Composite PMI	Dec P	51	50.7	
15/12 12:00	EC	Trade Balance SA (EUR)	Oct		9.2b	
15/12 15:30	US	Empire Manufacturing	Dec	3.8	9.1	
15/12 16:15	US	Industrial Production (MoM)	Nov	0.20%	-0.60%	
15/12 16:45	US	US Manufacturing PMI	Dec P	49.3	49.4	🌟
15/12 16:45	US	US Services PMI	Dec P	50.7	50.8	

## Global Markets Analysis

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