

Some of the worries, which had troubled markets from January to early October 2022, resurfaced into investors' minds. Bond yields increased and geopolitics appear at the crossroads. Still, main equity indexes hold above key support areas.

In the mid-time between the releases of the four main inflation measures in the **US** (CPI, core CPI announced on February 14, PCE and core PCE expected today), the bond yields have increased. The US 2-year yield is currently near (24/2/23: 4.70%) the intraday high (4/11/22: 4.80%) since 2007, posted in early November 2022. The US 10-year yield increased yesterday at around (intraday 23/2: 3.97%) the area of the 61.8% Fibonacci retracement of the move from the 4.34% (intraday 21/10/22) to the 3.32% (19/1/23). According to the minutes of the **Fed** meeting of early February, which were released in the current week, all FOMC members supported the hike by 0.25%, while some members could have favoured a hike by 0.50%. Regarding economic activity, the four-week average of initial jobless claims is at a level (191,250, 52-week average: 212,000) indicative of strong employment. According to the revised estimate, GDP increased in the fourth quarter by 2.7% on annualized quarterly basis (previous estimate: 2.9%), with positive contribution from consumption (0.93%), private investment (0.66%), net exports (0.46%) and government spending (0.63%). On year over year basis, GDP increased in the fourth quarter by the least (0.9%, 3rd quarter: 1.9%), however the rise of GDP on yearly basis for the year of 2022 was resilient almost (2.1%) at the 10-year average. On the other hand, the leading indicators index recently announced (17/2), dropped on monthly basis in January (-0.3%, December: -0.8%) for tenth consecutive month and on yearly basis (January: -5.9%, December: -6.1%) for seventh consecutive month, suggesting that economic activity may weaken at the 6 months horizon.

In the **Eurozone**, macroeconomic indicators released during the week signaled resiliency in parts of the economy. The PMI services index increased in February at a high (53.0, January: 50.8) since June 2022, while the PMI manufacturing slightly dropped at 48.5 in February from 48.8 in January. The consumer confidence index mildly recovered in February at one-year high (-19, January: -20.7), while still below its long-term average (1985-2023: -10.3). According to the final reading, Eurozone inflation was in January the mildest (8.6%, December: 9.2%) since June 2022, while the core inflation increased at a high (5.3%, December: 5.2%) in the history of the Eurozone. In Eurozone bond markets, the **German 2-year yield** posted 14½-year high (22/2: 2.98%) and the German 10-year yield increased near (22/2: 2.574%) the highest (2.575%) since mid-2011, as the IFO business climate index recovered in February at the highest (91.1, January: 90.1, 10-year average: 97.7) since June 2022.

The week ahead

US consumer confidence index (28/2) may have recovered in February at a level (median of estimates: 108.4, January: 107.1) above the 12-month average (104.2). The ISM manufacturing index (1/3) is expected slightly higher (47.8) in February (January: 47.4), but below the threshold of 50, which denotes contraction of the sector. The ISM services may have slightly declined (median of estimates: 54.5, January: 55.2), but still at expansion level.

Eurozone economic confidence index (27/2) for February may have recovered for fourth consecutive month. The Eurostat's inflation estimate for February will be announced on March 2. In **China**, the median of estimates for the official manufacturing, services PMI for February (1/3), along with the Caixin PMI manufacturing (1/3) and the Caixin services PMI (3/3), point towards expansion.

“Quote of the Week”

The Bank of France Governor (F. Villeroy) said: “the ECB is not obliged to raise rates at every meeting between now and September. There has been excess volatility of expectations for the terminal rate. Markets have overreacted a little”.

In the **European** equity market, the Stoxx 600 index is slightly below (23/2: 462.5) the key resistance area of 468 (61.8% Fibonacci retracement of the move from the historic high of 495 in early January 2022 to the 380 area in October 2022), but holds above the support area of 428 (200-day average) – 449 (50-day average). The moderation of the WTI crude oil (23/2/22-23/2/23: -18%) can be supportive for the economy and for the equity market sentiment from mid-term perspective.

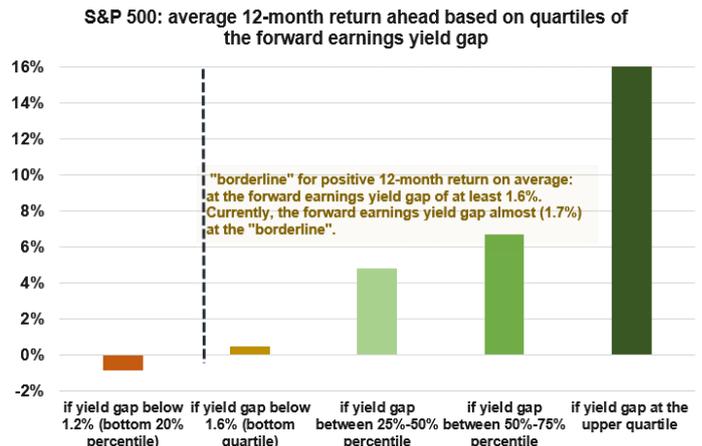
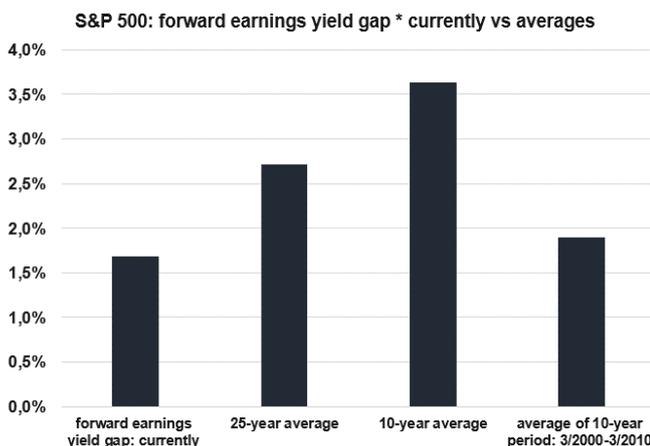
In **FX, EUR/USD** is still in range-trading between \$1.0480 (6/1 low) - \$1.1030 (2/2 high). It posted low (23/2: \$1.0577) since early January, in parallel with the drop of the spread of **German-US** 2-year yields at -1.78% (24/2) from -1.43% (1/2) in early February.

In the **US equity market**, the S&P 500 index, despite the pull-back from the area of 4,079 at the end of the previous week, remains slightly above key support areas, as the “tug of war” between “bulls” and “bears” is “heating”. The index posted one-month intraday low (23/2: 3,969), almost in the middle of two key moving averages (200-day average: 3,940, 21-day: 3,981), while it then bounced a bit at slightly above (23/2 close: 4,012) the 4,000 area, but below the 21-day average (4,087). The earnings per share 12-month forward estimate for the S&P 500 stands at a low (\$223 area) since January 2022, at a mild cumulative downwards revision of almost -6% versus the historic high of the estimate, posted in June 2022 (\$238). The division of the \$223 figure by the level of the index (23/2 close: 4,012) results into forward earnings yield of 5.6%. If from this, the US 10-year yield is subtracted (23/2: 3.88%), then the forward earnings yield gap is

calculated at almost (23/2: 1.7%). The current forward earnings yield gap is very close to the recent low (15/2: 1.6%) since mid-2007. This highlights that the mild downwards revision of earnings estimates in an environment of slower economic growth, has affected negatively the attractiveness of stocks versus government bonds. The forward earnings yield gap is lower than the long-term average (25-year: 2.7%, 10-year: 3.6%). However, it is comparable with the respective average in the 10-year period of March 2000 to March 2010 (average: 1.9%), which included almost proportionally “bull market” (10/2002-10/2007 and after 3/2009) and “bear market” periods (3/2000-10/2002 and 10/2007-3/2009). It is also noted that in the past 25 years, markets have tended “not to be strict”, meaning that even quite low levels of the forward earnings yield gap, had on average been associated with positive 12-month ahead returns for the S&P 500 index. The threshold between negative 12-month ahead average returns versus positive 12-month ahead average returns, has been at the area of 1.6%, which is almost where the forward earnings yield gap currently stands.

This elevated valuation of US stocks versus bonds, could trigger some weakness in equities, if the US 10-year yield remains around the current area. Combining defensive exposures (indicatively: developed government bonds, utility sector equity) and aggressive exposures (indicatively: financials) could help investors in a highly uncertain market environment.

The forward earnings yield gap of the S&P 500 index currently stands almost at the “borderline” of positive vs negative 12-month returns ahead. The US 10-year yield is at pivotal area.



*forward earnings yield gap (a measure of equity risk premium) defined as: 12-month forward earnings per share estimate (Bloomberg) divided by the current level of the index and then from the result, the US 10-year yield is subtracted

Global Markets Minesweeper
Event Risk Calendar, 27 February - 3 March 2023

Monday 27/2						
Date Time	Country	Event	Period	Survey	Prior	
27/2 12:00	EC	Consumer Confidence	Feb F		-19	
27/2 12:00	EC	Economic Confidence	Feb	101	99.9	
27/2 15:30	US	Durable Goods Orders, MoM	Jan P	-3.90%	5.60%	
27/2 17:00	US	Pending Home Sales (MoM)	Jan	0.90%	2.50%	
27/2 17:30	US	Dallas Fed Manf. Activity	Feb	-9.5	-8.4	
Tuesday 28/2						
Date Time	Country	Event	Period	Survey	Prior	
28/2 15:30	US	Wholesale Inventories (MoM)	Jan P	0.10%	0.10%	
28/2 15:30	US	Advance Goods Trade Balance	Jan	-\$90.8b	-\$89.7b	
28/2 16:00	US	FHFA House Price Index (MoM)	Dec	-0.20%	-0.10%	
28/2 16:00	US	S&P CoreLogic US HPI (YoY) NSA	Dec		7.69%	
28/2 16:45	US	MNI Chicago PMI	Feb	45	44.3	
28/2 17:00	US	Conf. Board Consumer Confidence	Feb	108.4	107.1	
Corp. Results	US	Target, Monster Beverage				
Wednesday 1/3						
Date Time	Country	Event	Period	Survey	Prior	
1/3 02:30	JN	Jibun Bank Japan PMI Mfg	Feb F		47.4	
1/3 03:30	CH	Manufacturing PMI	Feb	50.7	50.1	
1/3 03:30	CH	Non-manufacturing PMI	Feb	55	54.4	
1/3 03:45	CH	Caixin China PMI Mfg	Feb	51.3	49.2	
1/3 10:55	GE	Germany Manufacturing PMI	Feb F	46.5	46.5	
1/3 11:00	EC	Eurozone Manufacturing PMI	Feb F	48.5	48.5	
1/3 11:30	UK	UK Manufacturing PMI	Feb F	49.2	49.2	
1/3 15:00	GE	CPI (MoM)	Feb P	0.50%	1.00%	
1/3 15:00	GE	CPI (YoY)	Feb P	8.60%	8.70%	
1/3 16:45	US	US Manufacturing PMI	Feb F	47.8	47.8	
1/3 17:00	US	ISM Manufacturing	Feb	47.7	47.4	
Corp. Results	US	Lowe's, Salesforce				
Thursday 2/3						
Date Time	Country	Event	Period	Survey	Prior	
2/3 12:00	EC	CPI Estimate (YoY)	Feb	8.10%	8.60%	
2/3 12:00	EC	Unemployment Rate	Jan	6.60%	6.60%	
2/3 12:00	EC	CPI (MoM)	Feb P	0.40%	-0.20%	
2/3 12:00	EC	CPI Core (YoY)	Feb P	5.30%	5.30%	
2/3 15:30	US	Nonfarm Productivity	4Q F	2.40%	3.00%	

February 24, 2023

2/3 15:30	US	Unit Labor Costs	4Q F	1.40%	1.10%	
2/3 15:30	US	Initial Jobless Claims	24-Feb		192k	
Eco Event	EC	ECB publishes Account of February policy meeting (14:30)				
		Friday 3/3				
Date Time	Country	Event	Period	Survey	Prior	
3/3 01:30	JN	Tokyo CPI (YoY)	Feb	3.6%	4.4%	
3/3 01:30	JN	Tokyo CPI Ex-Fresh Food (YoY)	Feb	3.4%	4.3%	
3/3 02:30	JN	Jibun Bank Japan PMI Services	Feb F		53.6	
3/3 03:45	CH	Caixin China PMI Services	Feb	54.8	52.9	
3/3 10:55	GE	Germany Services PMI	Feb F	51.3	51.3	
3/3 10:55	GE	Germany Composite PMI	Feb F	51.1	51.1	
3/3 11:00	EC	Eurozone Composite PMI	Feb F	52.3	52.3	
3/3 11:00	EC	Eurozone Services PMI	Feb F	53	53	
3/3 11:30	UK	UK Services PMI	Feb F	53.3	53.3	
3/3 12:00	EC	PPI (MoM)	Jan		1.10%	
3/3 12:00	EC	PPI (YoY)	Jan	18.80%	24.60%	
3/3 16:45	US	US Services PMI	Feb F		50.5	
3/3 17:00	US	ISM Services Index	Feb	54.5	55.2	

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