ALPHA BANK

Global Markets Minesweeper

March 3, 2023

Global Markets Analysis
INVESTMENT PORTFOLIOS
MANAGEMENT DIVISION

Developments in bond markets, reinforce the expectation that equities may be more volatile than usual. Defensive low volatility exposures coupled with high equity dividend yield tilt, may withstand tense conditions. EM, thematic/sectorial exposures, such as financials, can enhance return potential in soft landing scenario.

In the **US**, the ISM manufacturing index slightly increased in February, however still at a level below (47.7, January: 47.4) the threshold of 50, denoting contraction of the sector. The median expectation for the ISM services index, which is expected today (3/3), is that it may have slightly declined in February at 54.5 from 55.2 in January, denoting expansion of the sector. Overall, some of the macroeconomic indicators suggest that nominal economic growth is strong enough to withstand high inflation and thus it is possible that the economy currently maintains mild real growth. According to the estimate of Atlanta Fed (1/3), real GDP is rising at a mild annualized quarterly pace in the first quarter (2.3%). However, as nominal GDP growth is expected to gradually "cool down", the elevated inflation poses a rising risk for real economic growth to flatten at some point, in conditions that may become recessionary. Two of the four main inflation measures have recently been announced (24/2). The PCE deflator increased on year over year basis in January by 5.4% versus 5.3% in December and the PCE core deflator increased by 4.7% yearly (December: 4.6%, 12-month average: 5%), denoting persistent inflation pressures. High inflation seems to have somewhat affected consumer, signaled by the consumer confidence, which dropped in February at 102.9 (12-month average: 103.8) from 106. The relatively mild level of the WTI crude **oil** ($78/barrel, 21-day average: $77/barrel, 2/3/22-2/3/23: -29%) can be supportive for the economy.

In **US bonds**, the 2-year yield increased at a high (2/3: 4.94%) since mid-2007 and the 10-year yield at a high (4.09%) since November 2022. Elevated inflation, resilient economic activity, stricter monetary policy and relatively loose fiscal policy have affected government bonds. The pause of **Fed** rate hikes may happen in June or even in the third quarter of the current year, a bit later than initially expected. Thus, elevated equity market volatility may be evident during the first half of the year at least. The S&P 500 **equity** index retreated around the 3,930 area (Fibonacci retracement 38.2%: 3,491 - 4,195) – 3,940 (200-day average). Support is at the area of 3,840 (50% retracement: 3,491-4,195). The pull-back of the S&P 500 has been in parallel with increased bond yields. However, on close levels, it has remained above (2/3: 3,981) the 200-day average (3,940). In case, the US 10-year yield moderates from the current elevated area of 4%, the S&P 500 index could potentially resume the recovery path started on October 12, 2022 (12/10/22-2/3: 12%).

The week ahead

In the **Eurozone**, the Sentix investor confidence index for March is expected (6/3). The final reading of GDP for the fourth quarter will be released (8/3). In **Germany**, industrial production (8/3) may have risen on monthly basis in January.

In the **US,** the President of the **Fed** will present the semi-annual policy report (7-8/3) in Congress. Non-farm payrolls (10/3) are expected in February at a level (median of estimates: 215,000) below that of January (517,000), but above the historic average (1939-2023: 124,000). The unemployment rate may have remained in February at the lowest (median of estimates: 3.4%) since 1969.

The Bank of **Japan** (10/3) may maintain its accommodative policy, while it may not be excluded that it will modify the level of the policy for the upper bound of the 10-year yield, which currently is at the area of 0.50%. In **China**, trade balance (7/3) and inflation (9/3) for February are expected next week.

"Quote of the Week"

According to the Dallas Fed (28/2): "threat of global housing slide looms, amid rising rates".

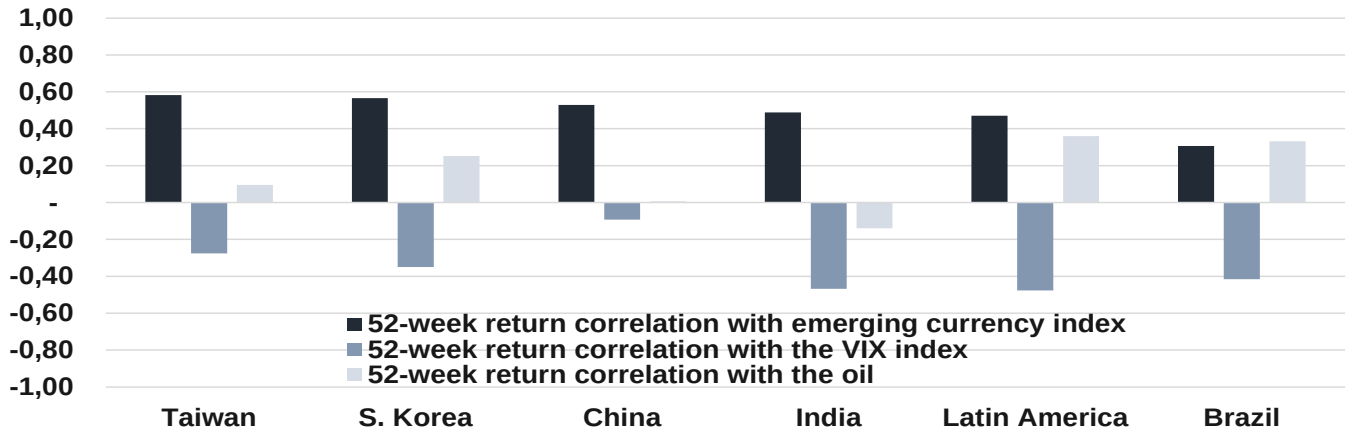
Resistance appears at the area of 4,070-4,080 (21-day average, 17/2/22 high) and at 4,195 (2/2 intraday high). Despite that the one-year total return of the S&P 500 index is negative (-7.7% in USD, -3.1% in euro), the 3-year total return remains positive (annualized 2/3/20-2/3/23: 10.6% in USD, 12.6% in euro).

Eurozone economic confidence mildly dropped in February (99.7, January: 99.8, 12-month average: 99.5). According to Eurostat's estimate, inflation remained in February at 8.5% (expected: 8.3%, historic average: 1.9%). The core inflation increased at a high (5.6%) in the history of the Eurozone. Inflation pressures triggered higher **bond** yields. The **German** 10-year yield posted high (2.77%) since mid-2011.

In the **european** equity, the monthly total return of the Stoxx 600 index has recently turned flat (3/2/22-2/3/23: 0%), in parallel with the higher bond yields. However, the european index maintains positive year to date total return (8.6%), one-year total return (6.7%) and 3-year total return (annualized 2/3/20-2/3/23: 10.2%). The Stoxx 600 Europe has mildly retreated, after reaching (16/2) the resistance area of 468 (Fibonacci retracement 76.4%: 495-380). Support is at the area of 450 (31/1 low, 50-day average) and at 430 (3/1 low, 200-day average). The expected 12-month forward dividend yield of the Stoxx 600 banks index stands higher (6.3%) compared to that of the overall european index (3.5%). In an environment of increased bond yields, high equity dividend yield is a supportive characteristic, consistent with the strong total return of the european banks index year to date (18.8%). The S&P **Global** 1200 index and the MSCI all countries **world** index, have retreated (as of 2/3) by almost -4.5% versus the highest close year to date, posted on February 2. It is noted however, that previously, in early February (2/2), both world indexes had slightly passed above the "rule of thumb" 20% recovery mark from a potential bottom (return of the period 12/10/22-2/2/23: almost 20.5%), which sometimes in the past had been associated with improved market sentiment going forward in the mid-term horizon. However, caution is warranted as bond yields increased. In this context, global sectors with high dividend yield, such as the S&P Global 1200 utilities (expected 12-month forward dividend yield: 4.1%), financials (3.7%) and materials (3.6%) coupled with low volatility exposures, such as consumer staples, may be resilient in current market conditions.

The MSCI emerging **currency** index is an index of emerging currencies vs the USD. After declining in 2022 (-4.3%), it recovered year to date until February 2 (3.3%), while it recently retreated again by -2.6% (2/2-2/3). The 52-week return correlation of key emerging country equity indexes with the currency index is positive, implying that the appreciation of emerging currency index vs the USD, usually tends to be supportive for the emerging equity and the inverse. The **EUR/USD** bounced at $1.0620 (3/3), after approaching (27/2 low: $1.0533) the support area of $1.0480 (6/1 low). Resistance at $1.0800 (14/2 high) and at $1.1030 (2/2 high). It may remain in range, until the policy meetings of the ECB (16/3) and the Fed (22/3).

The emerging currency index had risen vs the USD by 3.3% year to date until February 2, while then retreated back to flat. This has been in parallel with a pull-back of the emerging equity index



*52-week return correlation of emerging countries indexes in local index currency (Bloomberg) versus weekly return of the MSCI emerging FX currency index, the VIX and the oil return. The MSCI emerging FX index shows the emerging currencies versus the USD (country-weighted similarly to the weights of the MSCI emerging equity index)

Global Markets Minesweeper						
Event Risk Calendar, 6-10 March 2023						
		Monday 6/3				
Date Time	Country	Event	Period	Survey	Prior	
6/3 11:30	EC	Sentix Investor Confidence	Mar	-7.5	-8	
6/3 12:00	EC	Retail Sales (MoM)	Jan	1.50%	-2.70%	
6/3 12:00	EC	Retail Sales (YoY)	Jan	-1.50%	-2.80%	
6/3 17:00	US	Factory Orders (MoM)	Jan	-1.50%	1.80%	
6/3 17:00	US	Durable Goods Orders (MoM)	Jan F		-4.50%	
		Tuesday 7/3				
Date Time	Country	Event	Period	Survey	Prior	
7/3 09:00	GE	Factory Orders (MoM)	Jan	-1.00%	3.20%	
7/3 17:00	US	Wholesale Inventories (MoM)	Jan F		-0.40%	
7/3 22:00	US	Consumer Credit	Jan	$22.500b	$11.565b	
Eco Event	US	Powell Appears Before Senate Banking Panel (17:00)				
		Wednesday 8/3				
Date Time	Country	Event	Period	Survey	Prior	
8/3 01:50	JN	BoP Current Account Balance	Jan	-¥737.4b	¥33.4b	
8/3 01:50	JN	BoP Current Account Adjusted	Jan	¥853.4b	¥1182.1b	
8/3 07:00	JN	Leading Index CI	Jan P	96.9	97.2	
8/3 07:00	JN	Eco Watchers Survey Outlook SA	Feb	49.7	49.3	
8/3 09:00	GE	Retail Sales (MoM)	Jan	2.50%	-5.30%	
8/3 09:00	GE	Retail Sales NSA (YoY)	Jan	-5.20%	-6.60%	
8/3 09:00	GE	Industrial Production SA (MoM)	Jan	1.50%	-3.10%	
8/3 12:00	EC	GDP SA (QoQ)	4Q F	0.00%	0.10%	
8/3 12:00	EC	GDP SA (YoY)	4Q F	1.90%	1.90%	
8/3 15:15	US	ADP Employment Change	Feb	200k	106k	
8/3 15:30	US	Trade Balance	Jan	-$69.0b	-$67.4b	
Eco Event	EU	ECB's Lagarde speaks in Geneva (12:00)				
	US	Powell Appears Before House Financial Service Committee (17:00)				
Corp. Results	EU	Adidas, Continental				
		Thursday 9/3				
Date Time	Country	Event	Period	Survey	Prior	
9/3 01:50	JN	GDP Annualized SA (QoQ)	4Q F	0.80%	0.60%	
9/3 01:50	JN	GDP SA (QoQ)	4Q F	0.20%	0.20%	
9/3 03:30	CH	CPI (YoY)	Feb	1.90%	2.10%	
9/3 03:30	CH	PPI (YoY)	Feb	-1.30%	-0.80%	
9/3 15:30	US	Initial Jobless Claims	4-Mar		190k	

Eco Event	US	President Biden is expected to release his US budget proposal for fiscal 2024				
		Friday 10/3				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
10/3 01:30	JN	BOJ Policy Balance Rate	10-Mar	-0.10%	-0.10%	
10/3 01:30	JN	BOJ 10-Yr Yield Target	10-Mar	0.00%	0.00%	
10/3 01:50	JN	PPI (YoY)	Feb	8.50%	9.50%	
10/3 01:50	JN	PPI (MoM)	Feb	-0.30%	0.00%	
10/3 09:00	UK	Monthly GDP (MoM)	Jan	0.10%	-0.50%	
10/3 09:00	GE	CPI (MoM)	Feb F	0.80%	0.80%	
10/3 09:00	GE	CPI (YoY)	Feb F	8.70%	8.70%	
10/3 15:30	US	Average Hourly Earnings (YoY)	Feb	4.80%	4.40%	
10/3 15:30	US	Change in Nonfarm Payrolls	Feb	215k	517k	
10/3 15:30	US	Change in Private Payrolls	Feb	200k	443k	
10/3 15:30	US	Change in Manufact. Payrolls	Feb	10k	19k	
10/3 15:30	US	Unemployment Rate	Feb	3.40%	3.40%	
10/3 15:30	US	Aver. Hourly Earnings (MoM)	Feb	0.30%	0.30%	
10/3 15:30	US	Aver. Weekly Hours All Employees	Feb	34.6	34.7	

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