Global Markets Minesweeper
January 19, 2024

Global Markets Analysis
Advisory and Products

The government bond yields in the US and in the Eurozone have recently increased, but are milder compared to three months ago. Mild government bond yields and resilient profitability have supported the main equity markets.

What is the equity market sentiment in terms of market capitalization?

During the last six months, the MSCI **large capitalization world equity** index has total return more than 3% higher than that of the mid-cap world index and the small cap world index.

The **earnings** 12-month forward estimate of the world large-cap index is at multi-year high, supporting the attractiveness of the large capitalization stocks.

The P/E 12-month forward ratio of the large capitalization index (17) is slightly above the 10-year average. This could possibly imply frequent mildly corrective short-term intervals during which, "buying into the dips" of large caps can be profitable from mid-term perspective.

The **world mid-cap equity** index has P/E 12-month ratio **attractive** at 15 times, milder than the 10-year average of almost 17 times. The mid-cap index has risen slightly more than the large-cap index in the last three months.

The **world small-capitalization** equity index has almost 1% higher total return than the large-cap index in the last 3-months but is lower by -4% year to date while the large cap index is at -1%. Year to date, the appetite for risk-taking has been lower compared to late 2023 and the drop of the **small cap** index since the start of the year, highlights that the small-cap is vulnerable during corrective time intervals.

What is the equity market sentiment in terms of investment style?

The **world growth** index has higher three-month total return by 3% more than the value index, as its aggressive characteristics have been supportive in this market environment and as its 12-month forward earnings estimate is at multi-year high.

However, during the last one month during which market conditions have been mixed, the value index has total return 1% higher than the growth index.

The growth index can be vulnerable during corrective intervals as its P/E 12-month forward ratio is elevated at 24 times. Investors with high appetite for risk-taking can be tilted more towards exposure on the world **growth**, while more defensive investors can be tilted more towards the **value** index, which has P/E 12-month forward attractive at 12.5 times almost at its 10-year average.

The week ahead

In the **Eurozone**, the consumer confidence index (23/1) may have slightly risen. The manufacturing and the services PMI indexes are expected on January 24.

The **ECB** (25/1) will probably keep its rates unchanged, as some officials have said that they prefer to maintain stable policy for some time. The ECB will probably wait for further evidence that inflation declines near 2%, before starting cutting rates. The **German** IFO (25/1) has probably increased.

In the **US**, the leading economic index (22/1) may have declined on monthly basis in December for 21st consecutive month, signalling economic slowdown. The initial estimate of US **GDP** for the 4th quarter will be released on January 25. GDP may have risen on annualised quarterly basis by 1.9%, which if confirmed, it will signal that growth is slowing mildly below the 30-year average of 2.5%.

The Bank of **Japan** (23/1) may maintain its rates stable but may modify its wording towards less supportive policy.

"Quote of the Week"

The member of the **ECB** (Nagel) said: "I think it is too early for rate cuts. Maybe the ECB can wait until the summer".

What is the sentiment in developed country equity markets?

During the last three-months the S&P 500 index in the **US** has total return 5% higher than the **european** index. In **Japan**, the Nikkei index has 3-month total return near that of the US index. The S&P 500 index has been benefited by the rise of its 12-month forward **earnings** estimate at historic high, the increase of quarterly earnings for two consecutive quarters in the second half of the year and by the moderation of US **government bond yields** in late 2023. The **US 10-year government bond yield** is currently at 4.1% area from 5% at the end of October.

The **japanese** index has been supported by low government bond yields. The japanese 10-year yield is currently at the area of 0.6% from almost 1% at the start of November. Furthermore, the **weakness of the JPY may support the japanese exports and the economy**, which can benefit sentiment in the japanese equity market. Still, a correction cannot be excluded, if the Bank of Japan attempts to halt the drop of the JPY and in case the japanese currency strengthens.

The Stoxx 600 **Europe** is mildly lower year to date. Despite that reasonable pull-back, the european index maintains three-month total return of 6%. **European government bond yields have moderated, which can support the equity sentiment in Europe.** The **German** 10-year bond yield is currently at 2.3% area from 3% in October and the rate cuts by the **ECB** later in the year may imply that bond yields can remain low.

The **emerging** equity index has dropped year to date, but it maintains positive 3-month total return. **If US bond yields continue lower and the dollar weaken, the emerging index can rise in the mid-term,** as its earnings 12-month forward estimate has recovered during the last six months.

What about the global equity sectors?

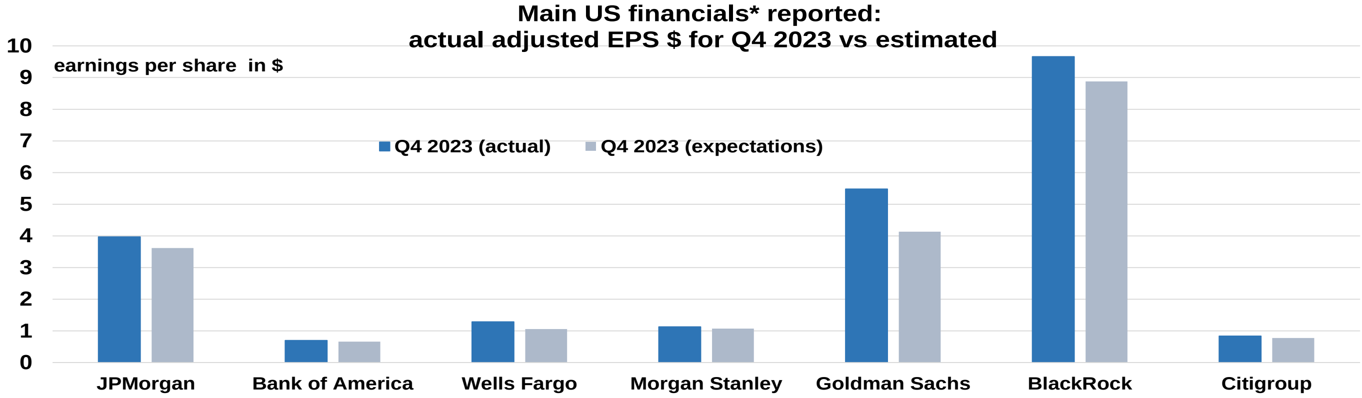
During the last six months, the global communications with blend characteristics, the technology and financials **sectors** with aggressive characteristics and the defensive healthcare have the highest total returns. Some profit taking may happen during corrections in the four sectors, but their mid-term trend may remain upwards with the tilt towards more aggressive sectors if bond yields do not rise significantly. The defensive utilities sector has mildly dropped in the last six months. However, utilities may recover and can be a hedge during corrections if yields continue moderating. The global utilities sector has attractive P/E 12-month forward ratio of 14 times (10-year average: 16 times).

What the results of US financials have shown?

Most of the financials, which have reported quarterly results, have exceeded estimates in terms of adjusted earnings. The S&P 500 financials index can been resilient. The US financials index has the third highest 3-month total return of almost 13%. It has relatively mild P/E 12-month forward of 14.5 times. This can support financials in the mid-term.

In fx, the **EUR/USD** is near its 200-day average. It is slightly correcting, as some uncertainty about the wording of the ECB (25/1) is evident. The **German-US bond yield** differentials are still supportive for the euro in the mid-term.

The US financials sector remains resilient, as it is shown by the quarterly results of most of the financials which have reported so far.



Source: Bloomberg (the order in the chart above is by market capitalization)

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Event Risk Calendar, 22 - 26 January 2023

		Monday 22/1				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
22/1 03:15	CH	5Y Loan Prime Rate	22-Jan	4.20%	4.20%	
22/1 03:15	CH	1Y Loan Prime Rate	22-Jan	3.45%	3.45%	
22/1 17:00	US	Leading Index (MoM)	Dec	-0.30%	-0.50%	
		Tuesday 23/1				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
23/1	JN	BOJ Policy Balance Rate	23-Jan	-0.10%	-0.10%	
23/1	JN	BOJ 10-Y Yield Target	23-Jan	0.00%	0.00%	
23/1 17:00	EC	Consumer Confidence	Jan P	-14	-15	
23/1 17:00	US	Richmond Fed Manufact. Index	Jan		-11	
Corp. Results		Netflix Inc, General Electric, Johnson & Johnson, P&G, 3M,				
		Wednesday 24/1				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
24/1 01:50	JN	Trade Balance	Dec	-¥123.3b	-¥776.9b	
24/1 01:50	JN	Trade Balance Adjusted	Dec	-¥435.9b	-¥408.9b	
24/1 02:30	JN	Jibun Bank Japan PMI Mfg	Jan P		47.9	
24/1 10:30	GE	Germany Manufacturing PMI	Jan P	44	43.3	
24/1 10:30	GE	Germany Services PMI	Jan P	49.5	49.3	
24/1 10:30	GE	Germany Composite PMI	Jan P	47.9	47.4	
24/1 11:00	EC	Eurozone Manufacturing PMI	Jan P	44.7	44.4	
24/1 11:00	EC	Eurozone Services PMI	Jan P	49	48.8	
24/1 11:00	EC	Eurozone Composite PMI	Jan P	48	47.6	
24/1 11:30	UK	UK Manufacturing PMI	Jan P	46.9	46.2	
24/1 11:30	UK	UK Services PMI	Jan P	53.4	53.4	
24/1 11:30	UK	UK Composite PMI	Jan P	52.5	52.1	
24/1 16:45	US	US Manufacturing PMI	Jan P	48	47.9	
24/1 16:45	US	US Services PMI	Jan P	51	51.4	
		Thursday 25/1				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
25/1 11:00	GE	IFO Business Climate	Jan	86.9	86.4	
25/1 11:00	GE	IFO Current Assessment	Jan	88.5	88.5	
25/1 11:00	GE	IFO Expectations	Jan	85.1	84.3	
25/1 15:15	EC	ECB Main Refinancing Rate	25-Jan	4.50%	4.50%	
25/1 15:15	EC	ECB Marginal Lending Facility	25-Jan	4.75%	4.75%	
25/1 15:15	EC	ECB Deposit Facility Rate	25-Jan	4.00%	4.00%	
25/1 15:30	US	Chicago Fed Nat Activity Index	Dec		0.03	
25/1 15:30	US	GDP Annualized (QoQ)	4Q A	1.90%	4.90%	

25/1 15:30	US	Wholesale Inventories (MoM)	Dec P	-0.20%	-0.20%	
25/1 15:30	US	Durable Goods Orders (MoM)	Dec P	1.00%	5.40%	
25/1 15:30	US	Durables Ex Trans (MoM)	Dec P	0.20%	0.40%	
25/1 15:30	US	Initial Jobless Claims	20-Jan		187k	
25/1 17:00	US	New Home Sales (MoM)	Dec	10.10%	-12.20%	
25/1 18:00	US	Kansas City Fed Manf. Activity	Jan		-1	
Eco Event	EC	ECB President Christine Lagarde holds press conference (15:45)				
Corp. Results	US	Tesla Inc, AT&T, Abbott Laboratories				
		Friday 26/1				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
26/1 01:30	JN	Tokyo CPI (YoY)	Jan	2.00%	2.40%	
26/1 01:30	JN	Tokyo CPI Ex Food (YoY)	Jan	1.90%	2.10%	
26/1 07:00	JN	Leading Index CI	Nov F	107.7	107.7	
26/1 11:00	EC	M3 Money Supply (YoY)	Dec		-0.90%	
26/1 15:30	US	Personal Income	Dec	0.30%	0.40%	
26/1 15:30	US	Personal Spending	Dec	0.40%	0.20%	
26/1 15:30	US	Real Personal Spending	Dec		0.30%	
26/1 15:30	US	PCE Deflator (MoM)	Dec	0.20%	-0.10%	
26/1 15:30	US	PCE Deflator (YoY)	Dec	2.60%	2.60%	
26/1 15:30	US	PCE Core Deflator (MoM)	Dec	0.20%	0.10%	
26/1 15:30	US	PCE Core Deflator (YoY)	Dec	3.00%	3.20%	
26/1 17:00	US	Pending Home Sales (MoM)	Dec	1.50%	0.00%	
26/1 18:00	US	Kansas Fed Services Activity	Jan		-10	
Corp. Results	US	Intel, Visa, Dow, Colgate-Palmolive Co, American Express				

Global Markets Analysis +30 210-3268410 marketanalysis@alpha.gr

Konstantinos Anathreptakis, CFA konstantinos.anathreptakis@alpha.gr
Maria Koutouzi maria.koutouzi@alpha.gr
Ioannis Kouravelos, CFA ioannis.kouravelos@alpha.gr
Nikolaos Sakarelis nikolaos.sakarelis@alpha.gr