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Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of October 30, 2023 By Amundi Institute

The week at a glance

- Markets: Rates rallied, with U.S. 10Y pulling back from the 5% level.
- United States: U.S. GDP grew at a 4.9% annual pace in the third quarter.
- Eurozone: More evidence of tighter financial conditions in Eurozone.

KEY FIGURE

4.9%

Growth of annual U.S. GDP in the third quarter

Focus

More evidence of tighter financial conditions in Eurozone

Main takeaways from the latest European Central Bank (ECB) Bank Lending Survey published during the week are a further tightening in lending standards and a further decline in loan demand. The net percentage of banks reporting tightening moderated somewhat, but this has probably to do with the fact that, similar to recent quarters, the decline in firms' net demand was significantly stronger than expected by banks, driven mainly by lower fixed investment and higher interest rates. Cumulative tightening since 2022 has been substantial, which is consistent with the ongoing significant weakening in lending dynamics. The latest monthly figures on the increase in loans to the private sector released the day after the BLS confirmed the recent acceleration of the negative ongoing trend. In fact, as the statement of the last ECB meeting underlined, "the annual growth rate of loans to firms has dropped sharply, from 2.2 per cent in July to 0.7 per cent in August and 0.2 per cent in September." In conclusion, tightening in financial conditions remains evident in recent data and is likely to persist in light of the BLS's forward-looking indications, taking into account as well the impact of the recent increase in bond yields and credit spreads.

Key Dates

31st October	1st November	2nd November
Bank of Japan monetary policy meeting	US Federal Reserve monetary policy meeting	European Central Bank (ECB) monetary policy meeting

Source: Amundi Institute

Our weekly analysis

Markets's focus this week was U.S. GDP, the U.S. core Personal Consumption Expenditure (PCE) index that excludes food and energy prices and the European Central Bank (ECB) meeting. Rates rallied, with U.S. 10Y pulling back from the 5% level. Mixed picture on equity markets.

The European Central Bank (ECB) was on the dovish side for two reasons: (1) more emphasis on growth downside than inflation risks and (2) no discussion on Pandemic emergency purchase program (PEPP). Eurozone economy remains weak. Christine Lagarde reiterated that rates are at restrictive territory and will need to held at these levels for some time, which was in line with expectations. Christine Lagarde recognized the recent deterioration of the macroeconomic environment (fewer new jobs are being created) and the further tightening of financing conditions. Monetary policy tightening is affecting the economy more than expected. More is to come. The important point of the meeting was the absence of discussion on the guidance regarding the reinvestment of PEPP securities. Christine Lagarde also highlighted that energy prices were becoming less and less predictable due to geopolitics.

U.S. GDP was strong and core PCE was weaker. Upward pressure on U.S. long term yields remain in this context of resilient growth and huge supply. In the U.S., treasury supply has risen sharply, and will keep doing so. Huge fiscal deficits require huge bond issuance. The change in the composition of the market adds pressure. The US Federal Reserve is reducing its bond holdings via quantitative tightening, while the holdings of foreign investors are waning. In their place, hedge funds, mutual funds, insurers and pensions have stepped in. These domestic buyers are more interest rate-sensitive.

Indice	Performance			
Equity markets	10/27/23	1 W	1 M	YTD
S&P 500	4137	-2.1%	-3.2%	7.8%
Eurostoxx 50	4046	0.5%	-2.1%	6.7%
CAC 40	6850	0.5%	-3.1%	5.8%
Dax	14781	-0.1%	-2.9%	6.2%
Nikkei 225	30992	-0.9%	-4.3%	18.8%
SMI	10367	0.2%	-4.7%	-3.4%
SPI	13560	-0.1%	-4.9%	-1.3%
MSCI Emerging Markets (close -1D)	911	-1.6%	-3.9%	-4.8%
Commodities - Volatility	10/27/23	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	89	-3.6%	-8.0%	3.4%
Gold ($/ounce)	1982	0.0%	5.7%	8.7%
VIX	20	-1.6	1.9	-1.6
FX markets	10/27/23	1 W	1 M	YTD
EUR/USD	1.058	-0.1%	0.7%	-1.2%
USD/JPY	150	-0.1%	0.1%	14.2%
EUR/GBP	0.87	0.0%	0.6%	-1.6%
EUR/CHF	0.90	1.0%	-2.2%	-2.5%
USD/CHF	0.95	0.9%	-1.5%	-3.7%

Source: Bloomberg, Amundi Institute – October 27, 2023 – 15:00 pm
Past performance is not guarantee of future results.

Indice	Performance			
Credit markets	10/27/23	1 W	1 M	YTD
Itraxx Main	+88 bp	-1 bp	+7 bp	-2 bp
Itraxx Crossover	+465 bp	-4 bp	+29 bp	-9 bp
Itraxx Financials Senior	+102 bp	-1 bp	+9 bp	+2 bp
Fixed Income markets	10/27/23	1 W	1 M	YTD
ESTER OIS	101.27	+8 bp	+33 bp	+253 bp
EONIA	3.90	--	--	+201 bp
Euribor 3M	3.95	-2 bp	-2 bp	+182 bp
Libor USD 3M	5.65	-1 bp	--	+88 bp
2Y yield (Germany)	3.04	-8 bp	-20 bp	+28 bp
10Y yield (Germany)	2.83	-6 bp	-1 bp	+26 bp
2Y yield (US)	5.03	-5 bp	-11 bp	+60 bp
10Y yield (US)	4.86	-6 bp	+25 bp	+98 bp
Eurozone Sovereigns 10Y spreads vs Germany	10/27/23	1 W	1 M	YTD
France	+62 bp	-1 bp	+5 bp	+7 bp
Austria	+63 bp	-2 bp	+2 bp	--
Netherlands	+36 bp	-1 bp	+1 bp	+2 bp
Finland	+62 bp	--	+4 bp	+4 bp
Belgium	+66 bp	--	-	-
Ireland	+43 bp	-1 bp	+1 bp	-13 bp
Portugal	+70 bp	-2 bp	-8 bp	-32 bp
Spain	+109 bp	-2 bp	-1 bp	--
Italy	+196 bp	-8 bp	+1 bp	-19 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	The global equity market extended sell-off as earnings disappointed and bond yields surged. The European market outperformed its U.S. counterpart. MSCI emerging markets posted negative performances this week, despite the good performance of the Chinese equity market.	U.S. “Long duration” stocks suffered this week as the 10-Year U.S. Treasury yield breaches the 5% level, for the first time since July 2007. In addition, disappointing earnings on some mega tech names pushed U.S. equities even lower this week. European stock markets have been resilient helped by the dovish ECB meeting this week. According to Ibes on October 27, early estimates for third quarter earnings per share growth suggest a positive quarter of +2.6% for the U.S.. On the European side, forecast for the Stoxx 600 Index are now pointing to -9.7% growth for third quarter, above analysts' initial estimates of -11.6%.
Fixed Income	Rates rallied, with U.S. 10Y pulling back from the 5% level. In the Eurozone, peripheral spreads tightened slightly on the back of dovish European Central Bank (ECB).	The ECB was on the dovish side for two reasons: (1) more emphasis on growth downside than inflation risks and (2) no discussion on PEPP. Eurozone economy remains weak. Christine Lagarde reiterated that rates are at restrictive territory and will need to held at these levels for some time, which was in line with expectations.
Credit	Persistent volatility in global bond yields continued to pressure credit markets. Credit default swap spreads moved wider, mostly in the high yield space, while flows have turned less supportive recently on weaker risk sentiment. The cash corporate bond market, at the same time, has proved to be more resilient than derivatives for the time being.	We keep expecting that the current trend of spread decompression between speculative grade and investment grade may continue in this phase of persistently high rate volatility. Despite the more dovish message from the latest ECB meeting, bond yields remain close to their recent peaks, adding to concerns of high cost of refinancing in a weaker perspective macro picture. We are therefore keeping our preference for higher quality, and mostly in more resilient investment grade bonds.
Foreign Exchange	Geopolitics, U.S. third quarter GDP, the ECB, and China's new supplementary budget were all market movers of the week. The U.S. dollar is trading mixed when considering both G10 and emerging market currencies. Australian dollar is the only outperformer in the G10, while Swedish krona, Norwegian krone, and Swiss Franc are the losers of the session. Within emerging market, Russian Ruble and most Latam currencies are rebounding strongly compared to last week, while Turkish lira and Central and Eastern Europe currencies are lagging behind.	Intense geopolitical tensions, restrictive financial conditions, and high macroeconomic uncertainty make it hard to identify imminent catalysts for a substantial U.S. dollar sell-off. Higher oil prices and rate volatility remain the main reasons for concern in the short term. However, we maintain the belief that the U.S. dollar should weaken as we enter the Fed cut cycle, which we expect to happen in second quarter 2024.
Commodities	Commodities almost flat this week despite overall volatility and markets turmoil. The West Texas Intermediate (WTI) and Brent moved down to levels 85$ and 88$ respectively. Agriculture slightly lower by -0.5%. Gold flat and stable at 1980 while base metals did not move that much.	We maintain our positive view on commodities despite U.S. recession scenario remains the likely one in the next 9 months. Shortage in supply should last for some specific base metals due to geopolitical tensions and world electrification. Central banks and nominal (real) rates remain the key movers for gold but economic recession fear is expected to support again as happened recently. Oil will be driven by Organization of Petroleum Exporting Countries (OPEC) decisions and Middle east geopolitical escalation.

Economic Indicators

	MARKET	AMUNDI ANALYSIS
United States	The United States composite Purchasing Managers' Index (PMI) moved up from 50.2 to 51, supported by an increase in both its manufacturing and services components, which rose from 49.8 to 50 and from 50.1 to 50.9 respectively, yet remained close enough to the thin line between contraction and expansion.	October Purchasing Managers' Index (PMI) figures signalled overall a modest uptick in business activity, albeit remaining only modest on the whole, and depicted a more subdued picture for the U.S. economy than in previous quarters of the year. Many firms continue to report that high interest rates and challenging economic conditions are weighing on customer demand, leading to smaller and less-frequent orders being placed. This remains consistent in our view of a progressively decelerating picture for activity in the U.S. in the quarters to come.
Eurozone	The Eurozone composite flash Purchasing Managers' Index (PMI) moved lower to 46.5 (47.2 prior), driven down by the services sector (from 48.7 to 47.8) while manufacturing output remained weak at 43 (down from 43.4). The more forward-looking components, such as new orders and new export orders, weakened; the employment indicator moved into contractionary territory for the first time; input and output price components edged down.	The Purchasing Managers' Index (PMI) data point to persistent weakness in the Eurozone across both manufacturing and service sectors, pointing to a weak third quarter and also a weak start to fourth quarter, which is compatible with our projection of lacklustre growth in the Eurozone for the second half of 2024 as weak demand and tighter financial conditions dampen new production. On a bright note, inflationary pressures continue to moderate in the Eurozone, notwithstanding the recent increase in the oil price.
Japan	Inflation in Tokyo exceeded market expectations in October, with the headline Consumer Price Index (CPI) rebounding to 3.2% year-on-year in October from 2.8% in September. Core CPI (excluding fresh food and energy) remained robust at 3.8% year-on-year in October, only slightly moderating from 3.9% year-on-year in September.	The Bank of Japan (BoJ) has been lagging in normalising its monetary policy after reopening. As inflation continues to surprise on the upside, it will be progressively challenging for the BoJ to allow inflation to overshoot. We anticipate BoJ to raise its effective cap on 10-year JGB again in December and to terminate negative interest rates early in 2024.
Emerging Market	China has approved a supplementary Central Government budget of an additional RMB1tn (0.8% of GDP) for 2023, increasing the central government deficit from 3% to 3.8%. RMB500bn will be expended in fourth quarter, while the remaining amount will be dedicated to first half-year 2024. The funds will primarily be allocated for post-disaster recovery, focusing on water management facilities.	Following the third quarter GDP upside surprise and the supplementary budget, we revise up our 2023/2024 GDP growth predictions to 5.2%/3.9%, respectively, from 4.9%/3.7%. We maintain the 2025 growth forecast unchanged at 3.4%, preserving the view that the real estate consolidation is likely to persist, and fiscal easing will not be sufficient to offset the drag.