WEEKLY UPDATE

Renewed bond market tensions

Bond yields have increased again since the beginning of September with most topping their 2008 Great Financial Crisis peaks. The reasons for this increase are fourfold: (i) the United States economy continues to power along with surprising strength, (ii) the rise in oil prices (even if they have eased in recent days) has raised fears of a fresh bout of inflation, (iii) central banks continue to strike a hawkish tone, and (iv) budget discussions are reviving fears for the sustainability of public debt in several countries. 10-year sovereign yields have risen to near 4.8% in the United States, 3% in Germany and 3.5% in France. The rise has been less marked in the UK where already high yields remain close to 4.6%. Pressure has been particularly fierce on Italian bonds, now trading at a near 200 bp spread to the German bund.

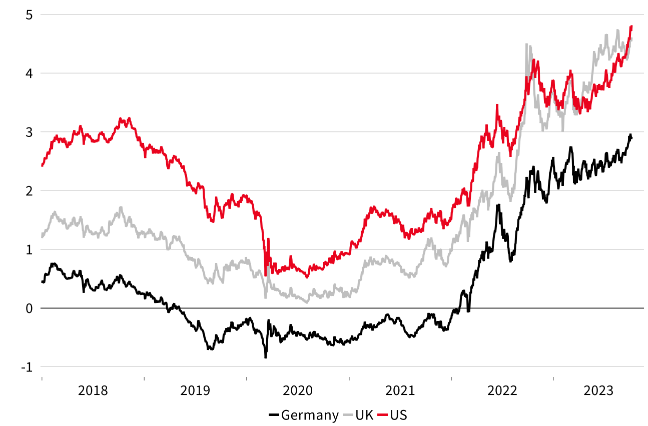
We stand by our central scenario of resilient but weaker economy. Companies and households still have the cash to mitigate, at least in part, the latest tightening of monetary and financial conditions. Meanwhile, persistently strong labour markets and an easing of inflation will help sustain household purchasing power. **But we see some risk of a tighter fiscal stance, particularly in the euro zone, which could weigh on economic growth. Moreover, the surge in bond yields also raises the risk of financial instability, as seen in the United Kingdom a year ago or with US regional banks in March.**

Less favourable equity market momentum without questioning our appreciation of valuations. The rise in oil prices since the beginning of September had initially weighed on equity markets – with the exception of the energy sectors. The acceleration of the rate hike more recently has prolonged the downward movement. In fact, European equity markets are now below their 200-day moving averages (US markets are close) – a traditionally leading sign of persistent weakness. But the appreciation of valuations that remain unchanged. In absolute terms (estimated prices/revenues) as well as relative to 10-year rates (risk premium), US equity markets were expensive – but not on unprecedented levels - before recent market turbulence. European markets were more attractive in absolute terms but, relative to rates, their valuations also appeared historically high. The recent decline in the equity and bond markets is not enough to radically change these valuation levels or their relative attractiveness levels.

We remain confident in our strategic balance between equities and fixed income. The latest bond market tensions have been accompanied by a fall in equity markets and a depreciation of the euro against the dollar. As it stands, we stick to our highly diversified positioning in order to be protected against these turbulences. That said, we remain highly vigilant, and ready to react to any changes in the situation

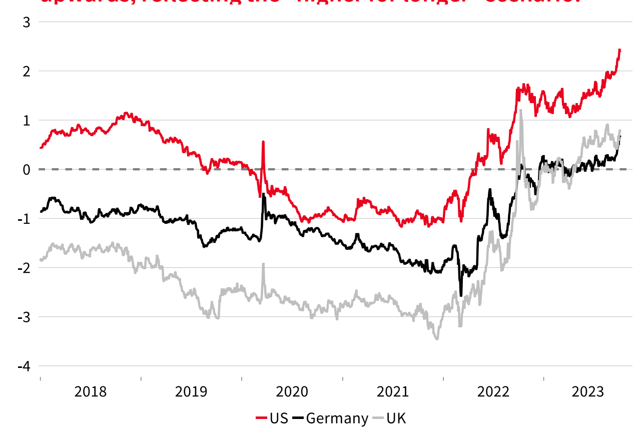
For more information, please refer to our Focus Strategy on the subject.

10-year bond yields rose sharply against a backdrop of resilient growth and hawkish central banks



Sources: SGPB, Macrobond, 06/10/2023

Real 10-year bond yields have also adjusted sharply upwards, reflecting the "higher for longer" scenario.



Sources: SGPB, Macrobond, Macrobond, U.S. Department of Treasury 05/10/2023

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OUR MACRO COMMENTS

Events of the week

The price of Brent crude oil has fallen by almost 10% since Monday, from $92.5 to $84 this morning, returning to its late-August level. There are several explanations for this. Firstly, the recent bond yields move which has raised fears of recession for 2024. Secondly, data on gasoline demand and inventories proved weaker than expected by the market. However, a long-lasting downward trend in oil prices seems unlikely given the still resilient growth and OPEC+ clear desire to see oil at around $90 a barrel.

The US labour market remained robust in September. Monthly net new job creations totalled 336,000, compared with the consensus forecast of 170,000. In addition, data for previous months has been revised upwards while the unemployment rate remained low at 3.8%. Finally, wages continued to ease, up by 4.2% year-over-year. All in all, this report bolsters our "high for longer" scenario.

Figures of the week

	Actual	Forecast	Last
Unemployment rate (August)	6.4%	6.4%	6.5%
Retail sales (August)	-1.2%	-0.3%	-0.1%
Manufacturing survey (ISM, September)	49	47.8	47.6
Services survey (ISM, September)	53.6	53.6	54.5
Unemployment rate (September)	3.8%	3.7%	3.8%
Industrial Production (August, YoY)	-0.3%	-0.4%	0.5%

Sources : Macrobond, October 6 2023.

The week ahead

Tuesday

Current account (August)

Wednesday

Fed minutes
Election of the Speaker of the House of Representatives

Thursday

Inflation rate (September)
Core inflation (September)

Industrial production (August)

OPEC Monthly Report

ECB minutes

Friday

Inflation rate (September)
Trade balance (September)

Industrial production (August)

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MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,90	3,91	3,40	1,91	0,65
USD SOFR O/N	5,32	5,32	5,06	4,30	3,04
JPY TONAR O/N	-0,02	-0,06	-0,03	-0,02	-0,05
GBP SONIA O/N	5,19	5,19	4,93	3,43	2,19
CHF O/N	1,71	1,70	1,72	0,80	0,62

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	85,97	-8,8%	12,5%	0,0%	-8,3%
Or, USD/oz	1 821	-2,9%	-4,9%	-0,3%	6,1%
Copper, USD/metric ton	7 986	-1,1%	-3,4%	-4,9%	5,0%
Platinium, USD/oz	871	-3,9%	-5,1%	-18,2%	-5,7%
Palladium, USD/oz	1 166	-5,7%	-5,7%	-34,8%	-49,6%
Silver, USD/oz	21,11	-7,4%	-7,5%	-11,9%	3,3%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,52	3,39	3,01	2,98	2,62
10Y Bund	2,95	2,83	2,46	2,44	2,02
10Y BTP	4,92	4,77	4,09	4,55	4,44
10Y JGB	0,76	0,75	0,40	0,41	0,23
10Y Bonos	4,05	3,92	3,46	3,51	3,22
10Y Swiss	1,15	1,05	0,84	1,57	1,01
10Y Gilt	4,62	4,35	4,47	3,66	4,01
10Y USTnote	4,73	4,61	3,95	3,88	3,76

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,05	-0,4%	-3,5%	-1,7%	5,9%
EUR/CHF	0,96	-0,2%	-1,2%	-2,3%	-0,8%
USD/GBP	0,83	0,2%	4,9%	-0,6%	-7,2%
USD/JPY	148,93	-0,3%	3,1%	13,9%	2,9%
USD/BRL	5,16	2,7%	6,2%	-3,3%	-1,4%
USD/CNY	7,20	-1,6%	-0,7%	4,3%	1,2%
USD/RUB	99,71	3,1%	10,3%	36,6%	64,1%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,83	3,73	3,44	3,12	3,05
EUR Corporate Baa	4,87	4,77	4,66	4,65	4,47
GBP Corporate Baa	5,43	5,21	5,68	4,59	5,32
USD Corporate Aaa	5,36	5,26	4,66	4,62	4,69
USD Corporate Baa	6,44	6,31	5,85	5,70	5,89
USD EM aggregate	8,25	7,99	7,53	7,52	8,06

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-2,5%	-4,6%	-2,3%	6,4%
Euro area	-0,8%	-5,8%	6,3%	18,9%
Germany	-0,8%	-5,3%	7,3%	20,6%
France	-1,1%	-4,3%	6,1%	16,9%
United Kingdom	-2,4%	-0,4%	-0,5%	5,1%
Switzerland	-1,2%	-3,9%	0,2%	2,7%
United States	-0,3%	-4,1%	11,0%	12,7%
Japan	-6,8%	-3,8%	17,3%	16,0%
Brazil	-0,6%	-5,0%	6,8%	-3,1%
Hong Kong	-2,4%	-10,0%	-13,1%	-4,9%
India	-1,4%	-0,3%	6,6%	12,3%
China	-0,3%	-4,6%	-4,7%	-3,0%

Source: Bloomberg, on October 6 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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