FEATURE

MONTHLY MARKET REVIEW 06 March 2023

10 stories to remember

Story #5
US stocks declining.
The Dow Jones in the red for 2023.
Read more on p3

February monthly review

After US rebound, global markets follow suit. The bond market takes another hit, while commodities underperformed compared to other major asset classes. Here are ten stories to remember from February 2023.

Charles-Henry Monchau
Chief Investment Officer

Story #1 —

The US economy is more resilient than expected

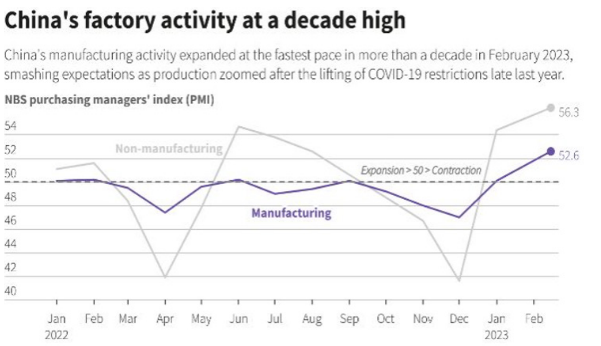
In January, investors welcomed the decline in U.S. inflation and a soft landing for the economy. But in February, macroeconomic figures were much stronger than expected, raising fears of a larger than expected monetary tightening (see chart #3). Indeed, we saw the largest increase in the Citigroup US Macro Surprises Index since July 2020. The labor market is proving to be much tighter than expected. The leading purchasing indicator indices (PMI) are showing signs of improvement while the inflation figures (CPI and PCE) also surprised on the upside.

Source: Bloomberg

Story #2 —

The rest of the world economy is also rebounding

PMI statistics in Europe and the UK are in expansionary territory (i.e. above 50). The end of China's zero-Covid policy is leading to a strong recovery in economic activity (manufacturing PMI is at a 10-year high), with positive consequences both for the domestic economy and for Asian and European trading partners.

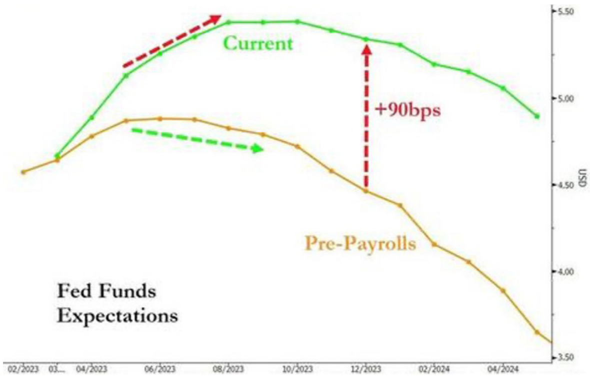


Source: Refinitiv Datastream

Story #3 —

Hopes for a Fed "pivot" in 2023 are fading

While the markets were betting at the beginning of the year on a "pivot" by the Fed in the second half of 2023 (i.e. interest rate cuts), the short term yield curve steepened significantly during the month of January. Indeed, the market now expects interest rates to rise further to 5.5% (the "terminal rate"). No interest rate cuts are expected before the beginning of next year.

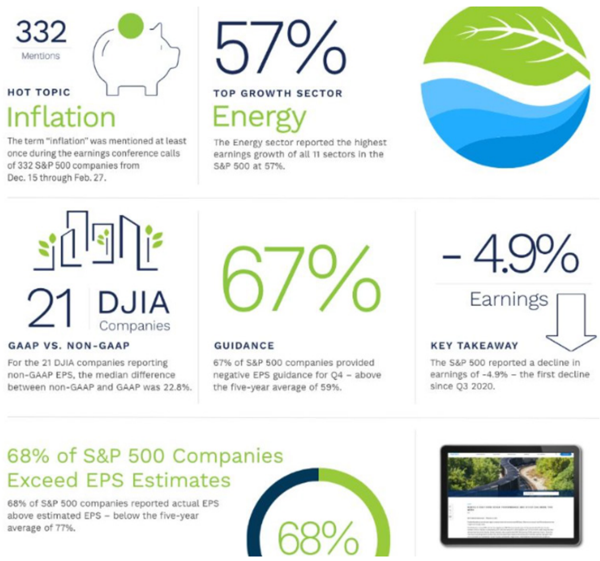


Source: Bloomberg, www.zerohedge.com

Story #4 —

A mixed US corporate earnings season

68% of S&P 500 companies beat consensus expectations for Q4 2022 earnings. This is below the 77% average over the past five years. On an aggregate basis, S&P earnings are down 4.9% (over the last 12 months); this is the first decline since Q3 2020. There is a very significant difference between GAAP and non-GAAP earnings, with an average difference of 22.8% for the 21 Dow Jones companies that report under both accounting standards. On a sectoral basis, energy posted the strongest earnings growth (+57%) over the past 12 months. Inflation also continues to be a concern for corporate executives, as the term was mentioned by 332 S&P 500 companies in post-earnings conference calls. Finally, the outlook for companies turned out to be more positive than expected, with 67% of companies revising upward their growth expectations for the rest of the year (the average over the past 5 years is 59%).



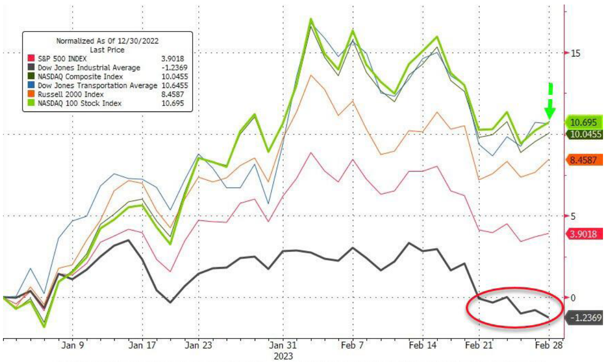
Source: Factset

Story #5 —

US stocks declining. The Dow Jones in the red for 2023.

February saw a reversal of the trends observed at the beginning of the year: equity and bond markets ended in the red, gold weakened and the dollar strengthened. As far as US equities are concerned, the main indices all posted a negative monthly performance. The growth style slightly outperformed the value style, strengthening its lead since the beginning of the year (+7.7% for the growth style vs. +1.8% for the value style). In February, energy stocks were the worst performing sector (-6.5%) while technology was the best performing sector (+1.4%).

The Dow Jones recorded its biggest monthly decline since September 2022 and is now down for 2023 (-1.2%). The S&P 500 also declined in February but remains up year-to-date (+3.9%). The Nasdaq 100 (+10.7%) is the best performing of the major indices.



Source: www.zerohedge.com, Bloomberg

Story #6 —

Europe and Japan continue to outperform the US

After years of outperformance by the US compared to the rest of the world, the trend has been reversed for many months now and was further reinforced in February. Indeed, the best regional performances during the past month are to be credited to the United Kingdom (+1.5%) and the MSCI Europe ex-UK (+1.3%), a clear performance compared to the S&P 500 (-2.4%). The Eurostoxx 50 index (yellow on the chart) now appears to be diverging from the S&P 500 (purple).

Since the beginning of the year, Europe ex-UK is leading the international equity ranking with a gain of +9.3%. Next is the UK (+6.1%) with an all-time high for the FTSE 100. Japan (+5.4%) also outperformed US stocks.

On the other hand, the MSCI Emerging Markets Index fell sharply in February (-6.5%), virtually wiping out its 2023 performance (+0.9%). But the worst monthly performance was recorded by the MSCI Asia ex-Japan (-6.8%), whose 2023 performance is comparable to that of the emerging countries.

Source: The Market Ear, Refinitiv

Story #7 —

A new bloodbath in the bond markets

US bond yields rose sharply in February, particularly at the short end (+60bps over the month). The 2-year yield reached its highest level since July 2007. The 30-year yields increased to a lesser extent (+30bps), which accentuates the inversion of the curve (see chart #8). Ten-year yields are approaching 4%.

Note that the rise in bond yields is widespread in most international markets. Emerging bonds suffered in February (-2.2% for the emerging bond index) partly due to the appreciation of the greenback. The credit market (high yield and investment grade) held up rather well in February.

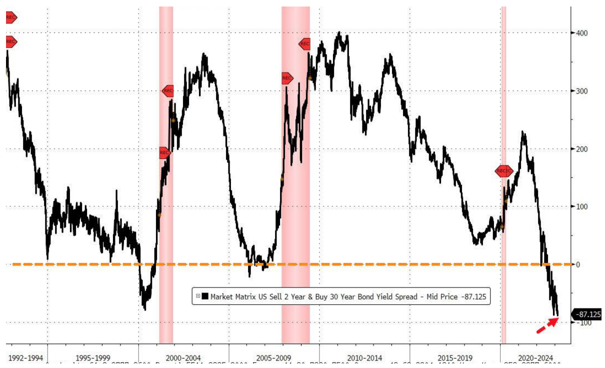
The high yield market in euros has posted the best performance since the beginning of the year (+3.1%), ahead of high yield in dollars (+2.6%).

Source: Bloomberg

Story #8 —

The inversion of the bond yield curve reaches a record level

The US bond yield curve (2-year versus 30-year) has never been more inverted than at the end of February 2023.



Source: Bloomberg, www.zerohedge.com

Story #9 —

Commodities have the worst performance of the year among major asset classes

The Bloomberg Commodity Index is down 4.7% in February. Gold lost 5.2% for the month; the yellow metal is now in the red for the year. Silver is losing more than double with a 12% decline in February. Oil continues to fluctuate in the $73-$83 bracket that has been in place for 3 months; it is down slightly on the month (-2%).

With the February decline, commodities are the worst performing asset class year-to-date (-5.2%).

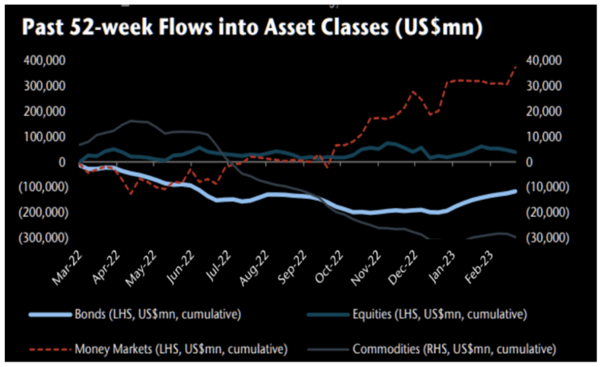
Source: Bloomberg

Story #10 —

The money market continues to attract the largest flows

Analysis of cumulative fund flows over the past 12 months shows that investors are clearly favoring money market investments over other asset classes (equities, bonds and commodities). It is interesting to note that bond flows have been positive since the beginning of the year (+110 billion dollars, i.e. 20% of outflows recorded in 2022).

Investors seem to want to take advantage of the attractive yields offered on the short and very short end of the yield curve. Despite the decline in 2022, the US equity markets are not very attractive compared to cash as the S&P 500 earnings yield (the inverse of the P/E) is identical to the yield on 6-month Treasury bills. We have to go back to the early 2000s to see a similar phenomenon.



Source: Jefferies, The Market Ear

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