

10 charts
to remember



Strong US Economy proves resilient in face of tightening financial conditions

In October, global stocks declined due to concerns about rising interest rates and the Israel-Hamas conflict, while the US economy remained strong. The US dollar strengthened for the third consecutive month, reaching its highest monthly close since November 2022. Gold continued to be a top choice for hedging against economic uncertainties, and Bitcoin experienced its best month since January 2023, with its price surpassing \$35,000. Each month, the Syz investment team takes you through the last month in ten charts.

Charles-Henry Monchau
Chief Investment Officer

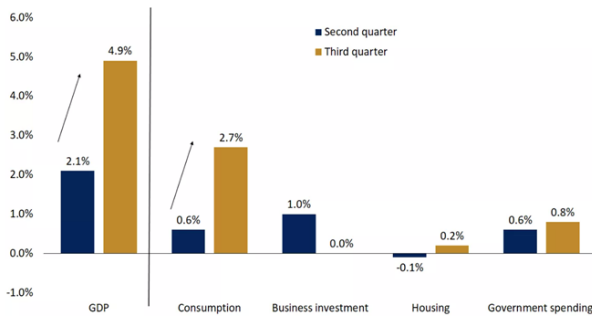
Chart #1

Resilient US economy despite tightening financial conditions

Financial conditions tightened for the 3rd straight month in October but failed to spook the economy. Indeed, October saw a flurry of data signalling the resilience of the US economy, including a blockbuster jobs report, strong retail sales data and a blowout GDP print of 4.9% annualised for the third quarter. The US economy has now been in an expansion for 41 months with annualized real GDP growth of 5%. Inflation came in hotter-than-expected, with the headline figure flat at 3.7% year on year in September, against expectations of a slight moderation.

Contributions to US Q3 GDP growth

U.S. consumers power strong growth in the face of Fed tightening
Contributions to Q3 GDP growth



Source: FactSet, Edward Jones.

Source: FactSet, Edward Jones

Chart #2

Israel-Hamas conflict

Israel-Hamas conflict is the new “known unknown” investors have to deal with at a time when rising oil prices were already pushing bond yields upward. There are basically three possible developments for how the Israel-Hamas conflict could evolve: 1) confined war; 2) proxy war; 3) direct War.

Out of these three scenarios, a direct war between Israel and Iran is the one which could have a strong impact on markets (sharp increase in oil prices and the VIX) and the economy (drop in GDP and rise in inflation).

Yet, history suggests that geopolitical risks and the associated shock in confidence tend to be short-lived, as markets gravitate toward the more sustainable drivers for returns.

Global growth and inflation impact of three scenarios for how the Israel-Hamas conflict could evolve

Scenario	Details	Impact on oil prices and VIX*	Impact on global GDP and inflation**
Confined war	- Ground invasion of Gaza - Limited broader regional conflict - Lower Iranian crude output	Oil: +\$4/barrel VIX: No impact	GDP: -0.1 ppts. Inflation: +0.1 ppts.
Proxy war	- Multifront war in Gaza, West Bank, Lebanon, Syria - Unrest in wider Middle East	Oil: +\$8/barrel VIX: +8 points	GDP: -0.3 ppts. Inflation: +0.2 ppts.
Direct war	- Israel and Iran in direct conflict - Unrest in wider Middle East	Oil: +\$64/barrel VIX: +16 points	GDP: -1.0 ppts. Inflation: +1.2 ppts.

Source: Bloomberg Economics
*Impact calibrated based on 2014 Gaza War, 2006 Israel-Lebanon War, and 1990-1991 Gulf War.
**Impact on year on year change in global GDP and inflation for 2024, estimated using Bayesian Global VAR

Source: Bloomberg

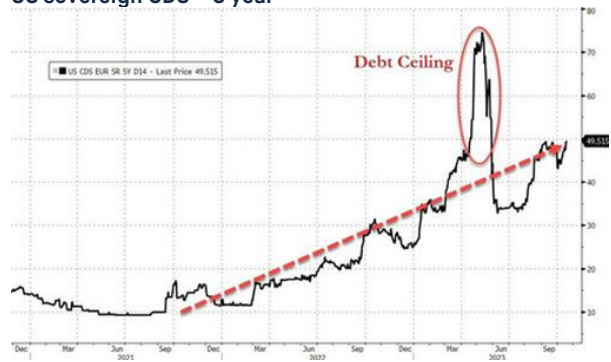
Chart #3

Troubles in Washington

On October 3rd, The House of Representatives entered uncharted territory after a far-right effort to remove fellow Republican Kevin McCarthy from the speakership succeeded thanks to support from Democrats. A resolution from Republican Matt Gaetz passed with the support of eight Republicans and all the Democrats present and voting. The vote made McCarthy the first speaker in history to be removed from office, less than nine months on the job.

Since then, The House has been without a permanent speaker. Alongside the surge in Treasury issuance, markets seem to progressively increase the risk premium required to invest into US Treasuries. Indeed, US CDS – which is basically the cost to insure yourself against a US sovereign credit event – keeps rising.

US sovereign CDS – 5 year



Source: Bloomberg, zerohedge.com

Chart #4

A double-whammy month for investors

October was a challenging month for investors, with declines across both equities and bonds. Commodities were the notable outperformer, as energy prices rallied, and investors fled to gold as a safe haven.

Exhibit 1: Asset class and style returns

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	Oct 23
Global REITS	23.0%	32.9%	22.9%	3.2%	13.3%	27.6%	-1.2%	34.1%	34.2%	32.6%	16.1%	16.2%	0.3%
Small cap													
Value	27.5%	6.5%	13.3%	11.8%	23.2%	6.4%	26.8%	16.5%	22.8%	16.2%	-18.4%	-3.0%	-2.4%
Growth	16.6%	27.2%	4.4%	11.6%	22.3%	-8.2%	24.4%	16.5%	22.3%	21.4%	-17.7%	-1.8%	-2.9%
DM Equities	16.5%	2.3%	2.3%	-3.2%	8.2%	18.0%	22.7%	9.2%	21.4%	18.4%	-19.7%	-3.2%	-3.4%
Global Agg	4.3%	-2.4%	-1.8%	-14.6%	3.2%	7.4%	-13.6%	7.7%	-3.1%	-2.2%	-23.7%	-3.6%	-4.7%
Global REITS													
Small cap													
Value	16.4%	MSCI EM	Global Agg	Value	Global REITS	Global Agg	Cmnty	MSCI EM	Value	Small cap	MSCI EM	Cmnty	MSCI EM
Global Agg	4.3%	Global Agg	MSCI EM	Global Agg	Global REITS	Global Agg	Small cap	Cmnty	Global Agg	Global Agg	Global REITS	Global Agg	Global REITS
Cmnty	-1.1%	Cmnty	Cmnty	Cmnty	Global Agg	Cmnty	MSCI EM	Global Agg	Global Agg	Global Agg	Growth	Global Agg	Small cap

Source: Bloomberg Barclays, FTSE, LSEG Datastream, MSCI, J.P. Morgan Asset Management, DM Equities: MSCI World; REITS: FTSE NAREIT Global Real Estate Investment Trusts; Cmnty: Bloomberg Commodity Index; Global Agg: Bloomberg Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Date as of 31 October 2023.

Source: JP Morgan

Chart #5

The rise in bond yields

The rout in the bond market continued in October, with global bonds down 1.2% over the month. The US 10-year Treasury yield pushed above 5% for the first time since 2007, driven by a combination of resilient economic data making ‘higher for longer’ rates look increasingly likely and US Treasuries supply/demand imbalances. A move higher in yields was seen throughout the global government bond market and in credit, widening spreads dented monthly returns for both investment grade and high yield bond markets. The yield curve (2s30s) steepened for the 4th month in a row to its highest since July 2022. We note that the US Bond Market has now been in a drawdown for 39 months, by far the longest bond bear market in history.

Bloomberg US Aggregate Bond Index: Longest Drawdowns (Monthly Data, 1976 - 2023)			
Start of Drawdown	End of Drawdown	# Months	Max Drawdown During Period (Monthly)
Aug-20	?	39	-17.2%
Jul-80	Oct-81	16	-9.0%
May-13	Apr-14	12	-3.7%
Aug-16	Jul-17	12	-3.3%
Feb-94	Jan-95	12	-5.1%
Mar-87	Nov-87	9	-4.9%
Aug-79	Apr-80	9	-12.7%
Apr-08	Nov-08	8	-3.8%
Feb-96	Sep-96	8	-3.2%
Jun-03	Nov-03	6	-3.6%
Feb-84	Jun-84	5	-4.9%
May-83	Aug-83	4	-3.5%

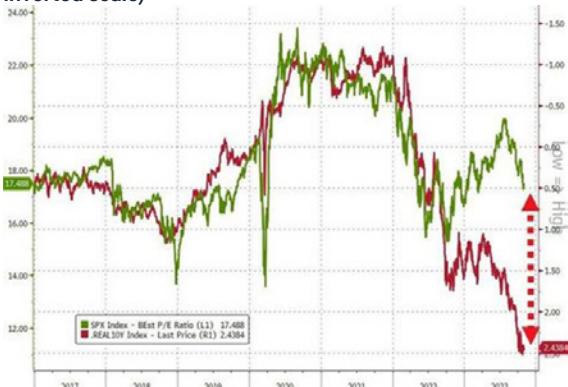
CREATIVE PLANNING @CharlieBilello (As of 10/31/23)

Chart #6

Higher bond yields hurt global equity markets

Higher long-term real yields are a headwind to stock valuations. Stocks fell globally in October as the prospect of ‘higher for longer’ rates hurt equity multiples and the Israel-Hamas conflict dampened risk appetite. Developed market equities fell 2.9% on the month, while emerging market stocks fell 3.9%. Growth stocks proved relatively resilient versus their value counterparts, returning -2.4% over the month in comparison to -3.4% for value stocks. Small Caps tumbled over 7% in October, down for the 3rd month in a row and the worst monthly loss since Sept 2022. Nasdaq fell over 2% on the month, also its 3rd straight monthly loss in a row. Despite Israel-Hamas conflict, energy was the biggest sector loser in October alongside consumer discretionary. Utilities were the only sector to end October in the green.

S&P 500 index (in green) vs. US 10-year real yield (in red – inverted scale)



Source: Bloomberg

Chart #7

The dollar rallied for the 3rd straight month to its highest monthly close since November 2022

The dollar gained against most currencies in October and is now up 7% since July low. However, we note that a Bloomberg index of the dollar has traded sideways since hitting its year-to-date peak earlier this month, and even US Treasury yields spiking to their highest in more than a decade last week failed to ignite enough momentum for the currency to push higher.

Dollar Rallied Nearly 7% From Year-to-Date Low to High



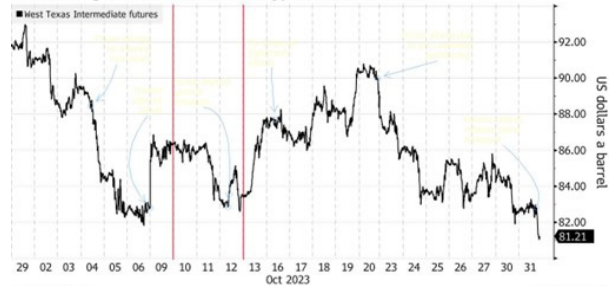
Source: Bloomberg

Chart #8

Bloomberg commodity index ended the month in positive territory

Commodity prices reversed some of their year-to-date losses, with the broad Bloomberg Commodity Index rising 0.3% over October. The tragic events that unfolded in the Middle East led to a flight to safety in gold (see chart #9). Oil prices also rallied amid concerns that an escalation into a wider regional conflict could disrupt oil supply, although the price of WTI Crude Oil was very volatile (see below) and remained below its September peak. Meanwhile, European gas prices rose due to fears over global supply chain disruptions, exacerbated by the sabotage of a gas pipeline in the Baltic sea.

Oil Traded in an \$11 Range in October
Crude swung due to headline volatility, interest rate fears



Source: Nymex

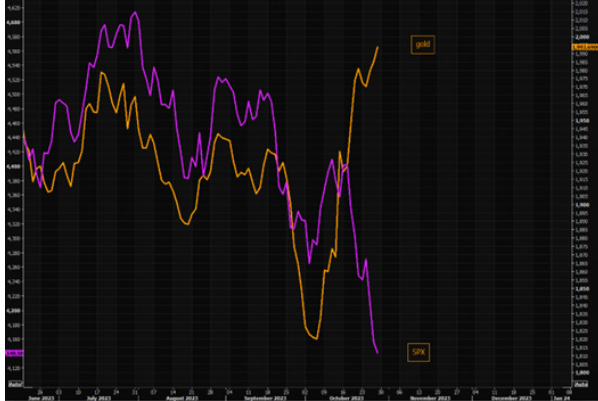
Bloomberg

Chart #9

Best month for Gold since March

Spot Gold had its best month since March, but futures saw their biggest month since July 2020, starting to ramp as Hamas attacked Israel from \$1820 to \$2020. For many investors, Gold remains the number one hedge. S&P 500 and gold are moving in opposite directions (see chart below). Interestingly, Gold is now rising along with US Treasury yields, indicating concerns about US fiscal & debt situation. We note that Gold saw its first weekly inflow since May stemming from long-only investors. Meanwhile, the big CTA gold short has turned into net long positions.

Gold (in yellow) vs. S&P 500 (in purple)



Source: TME

Chart #10

Another Uptober for Bitcoin

Cryptocurrencies have a short history, but it is nevertheless notable that October is traditionally a strong month for digital assets. It was again the case this year as the vast majority of cryptos soared in October. Solana was the best performer with a monthly gain of nearly 70%. Bitcoin had its best month since January 2023, surging above \$35,000 for the first time since May 2022. Ethereum notably underperformed with a gain of "only" 7%, its biggest monthly underperformance of bitcoin since February 2021.



Source: Bloomberg, HolgerZ

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