FEATURE

MONTHLY MARKET REVIEW 06 February 2023

10 stories to remember

January monthly review

After a very promising start of the year, investors are hopeful that markets will keep bouncing back with the resilience they have showed in January. Although the rate hike cycles now seem to have an end in sight, central banks still have much to handle. Here are ten stories to remember as we head towards springtime.

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Story #1 —

The global economy's resilience

While a severe recession in 2023 appeared to be a major risk last year, the global economy is proving more resilient than expected. U.S. consumption (80% of GDP) continues to surprise positively, thanks in particular to the labor market. The December report showed stronger than expected job creation and a drop in the unemployment rate to 3.5%, which is its lowest level in 53 years.

The relatively mild winter has eased the energy crisis in Europe and reduced the risk of a deep winter recession. At the end of January, gas stocks in the European Union (EU) were about three-quarters full, compared to only about 35% at the same time last year. The average purchase price of natural gas in January was also about 55% below the average price in the second half of 2022.

With the end of China's zero-covid policy, markets are now anticipating a strong recovery in the Chinese economy in the first half of 2023, which should benefit both China and its trading partners in the region. As in Europe and the U.S., there is a considerable amount of excess savings in China and significant potential for a recovery in consumption after the tight confines of recent years.

In its latest World Economic Outlook, the IMF paints a slightly less gloomy picture than it did three and a half months ago.

IMF Upgrades Global Growth Forecast as Inflation Cools

Source: Statista

Story #2 —

Global inflation is starting to cool down

The December 2022 inflation figures for the U.S. and the Eurozone showed a slowdown in inflation, which reinforced market hopes that central banks may soon end their rate hike cycles. Thanks to favorable base effects and a sharp slowdown in goods price inflation, global inflation rates appear to have peaked. While inflation rates remain well above central bank targets, the trend is downward in a large majority of countries. We note, however, that services inflation remains high, in part due to upward pressure on wages.

Global Inflation Rates

Country/Region	CPI Inflation (YoY %)	Trend vs. Prior Reading
CHINA	1.8%	Higher
TAIWAN	2.7%	Higher
SWITZERLAND	2.8%	Lower
SAUDI ARABIA	3.3%	Higher
JAPAN	4.0%	Higher
SOUTH KOREA	5.0%	Unchanged
INDONESIA	5.5%	Higher
SPAIN	5.7%	Lower
INDIA	5.7%	Lower
BRAZIL	5.8%	Lower
THAILAND	5.9%	Higher
FRANCE	5.9%	Lower
CANADA	6.3%	Lower
US	6.5%	Lower
SINGAPORE	6.5%	Lower
NEW ZEALAND	7.2%	Lower
SOUTH AFRICA	7.2%	Lower
MEXICO	7.8%	Higher
PHILIPPINES	8.1%	Higher
IRELAND	8.2%	Lower
AUSTRALIA	8.4%	Higher
GERMANY	8.6%	Lower
FINLAND	9.1%	Unchanged
EUROZONE	9.2%	Lower
PORTUGAL	9.6%	Lower
NETHERLANDS	9.6%	Lower
UK	10.5%	Lower
ITALY	11.6%	Lower
RUSSIA	11.9%	Lower
SWEDEN	12.3%	Higher
POLAND	16.6%	Lower
TURKEY	64.3%	Lower
ARGENTINA	94.8%	Higher
VENEZUELA	156%	Lower

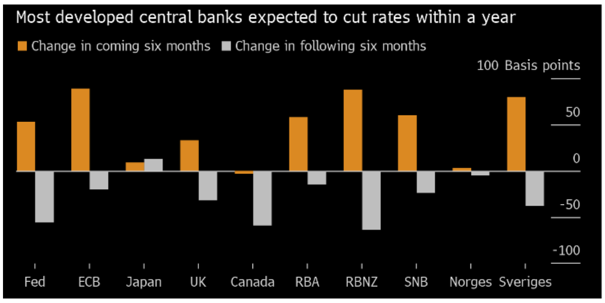
Source: Charlie Bilello

Story #3 —

Markets expect 2023 to be a "pivot" year

Despite the resilience of the global economy, markets are expecting an abrupt end to global monetary tightening later this year. Indeed, while investors expect most central banks in the developed world to raise rates over the next six months, the market is anticipating a pivot by the Fed, ECB and BoE (among others) in the second half of the year.

A world of Pivots



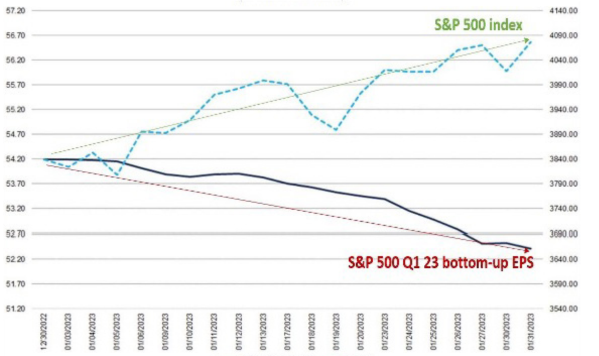
Source: Bloomberg

Story #4 —

US Stocks shrugged off downward earnings revisions

During January, analysts lowered first-quarter earnings per share estimates by an above-average amount. The estimated change in first-quarter earnings per share (which is an aggregation of the median first-quarter earnings per share estimates for all companies in the index) decreased 3.3% (from $54.20 to $52.41) between December 31 and January 31. But U.S. stock prices moved in the opposite direction. The S&P 500 rose 6.2% in January, the best January since 2019 (7.9%) and 1989 (7.1%).

S&P 500 Q1.23 Bottom-Up EPS: Dec 31 - Jan 31



Source: Factset

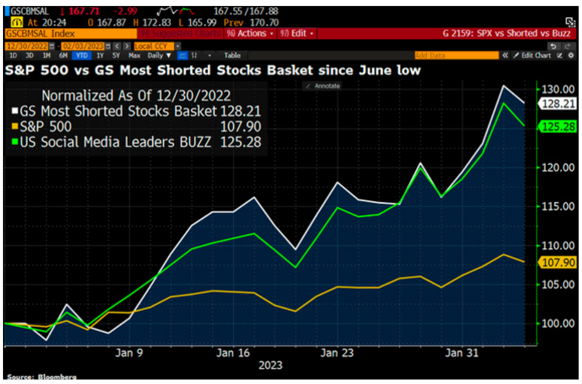
Story #5 —

Last year's laggards became January winners

The prospect of a less restrictive monetary policy due to declining inflation has led to a decline in U.S. Treasury yields, particularly for long-term securities. This supported so-called "growth" stocks. After outperforming growth stocks by 24% last year, so-called value stocks underperformed by 5% in January. Falling energy prices dampened momentum in the energy sector, and the market rally weighed on the relative performance of defensive sectors such as healthcare, utilities and consumer staples.

Changes in the outlook for growth and inflation in January helped support a rotation within the S&P 500. As a result, 9 of the top 10 performing stocks in January have also underperformed the S&P 500 over the past 12 months.

Another finding is that the most "shorted" stocks gained nearly 30% in January. The stocks most driven by social media ("BUZZ" ETFs) have strongly outperformed the S&P500 year-to-date.



Source: Bloomberg

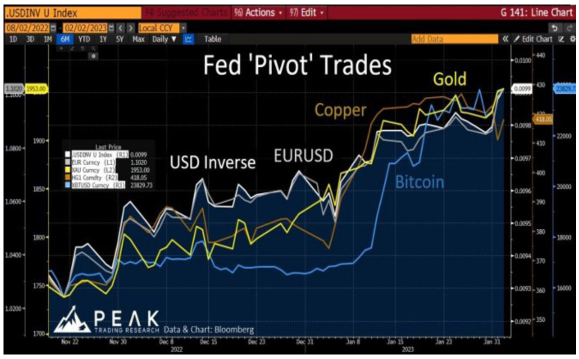
Story #6 —

"The Fed pivot" trades outperformed

Hopes for a Fed pivot in the second half of the year led to strong performance in asset classes that should benefit from an easing of monetary conditions. Among them, the euro-dollar, gold, copper and bitcoin soared in January.

Gold jumped for the third month in a row, climbing back above $1,900, its highest level since April 2022. Bitcoin had its best start to the year since 2013, rising nearly 40% in January.

As for the dollar, it fell for the 4th consecutive month in January.



Source: Bloomberg, Peak Trading Research

Story #7 —

Emerging Markets outperformed Developed markets

Falling bond yields, a weak dollar, and a reopening of China boosted demand for emerging assets. Emerging market equities and debt recorded a seventh consecutive week of inflows ($8.3 billion). For the month of January, developed market equities were up 6%, while emerging market equities did even better, up 9%. The MSCI China Index returned 12%, bringing the total return since its October 2022 low to 50%.

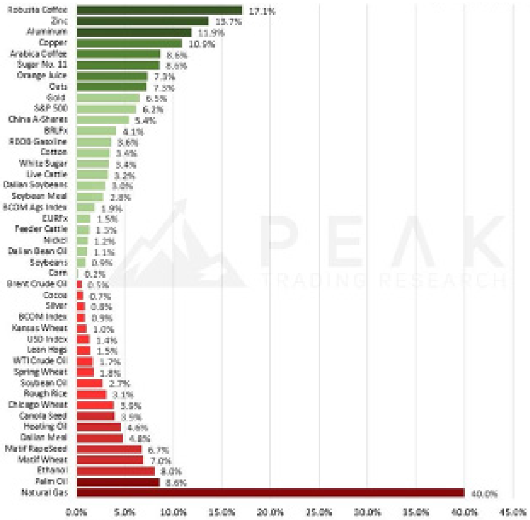
Flows to EM assets (debt + equity): weekly vs 4wk MA ($ bn)

Source: BofA, EPFR

Story #8 —

A mixed January for Commodities

While commodities were the best performers in 2022, they were the worst performing asset class in January (-1.8%). However, there was some heterogeneity in performance, with soft commodities posting significant gains, while natural gas prices had their worst January since 2001. Oil prices had a rather quiet January, closing slightly lower after an equally volatile December.



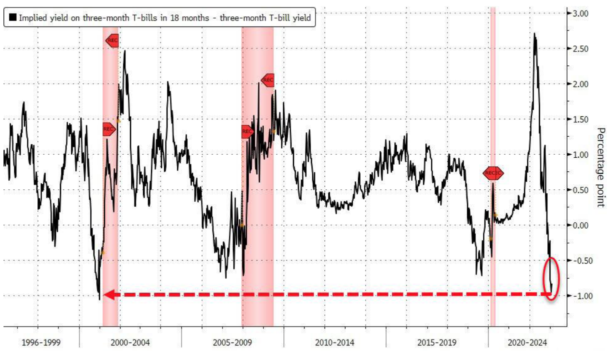
Source: Peakview Trading Research

Story #9 —

The biggest US yield curve inversion since the dot-com crash

Due to lower inflation expectations, bond yields fell in January, allowing the Global Aggregate Bond Index to rise by 3.2%. Meanwhile, the correlation between stocks and bonds remained positive, just as it was in 2022, but the asset classes moved in the right direction this time.

U.S. Treasury yields ended January significantly lower, with the 5-year (-37bps) outperforming the 2-year (-22bps)... This is the second largest monthly decline in the 5-year yield since March 2020. The yield curve has reached its highest inversion level on record.



Source: Bloomberg

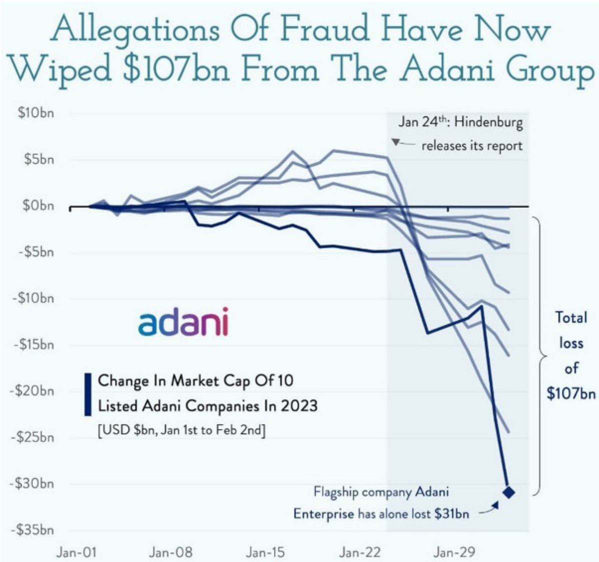
Story #10 —

Adani, a $100bn market cap collapse

Adani Group, an Indian conglomerate active in the energy, cement and infrastructure sectors, is facing allegations of fraud published by broker Hindenburg.

Hindenburg claims that the Adani family used offshore entities to artificially inflate the share price of Adani's listed companies, allowing them to take on more debt and leaving the group - according to the report - in a very precarious position.

Hindenburg's targets, which in the past have included the electric truck company Nikola (convicted of fraud), often see their share prices fall rapidly and Adani was no exception. Indeed, Adani's ten listed companies have collectively lost more than $100 billion in market capitalization since the allegations, with the flagship company, Adani Enterprises, losing nearly 60% of its value. Its founder, Gautam Adani, has lost his position as the second richest person in the world.



Source: Chartr

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