The week in seven charts

Chinese equities start the year with a bang

U.S. macroeconomic statistics point to a soft landing, while Chinese equities come back to life and European stocks outperform. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

Chart #1 —

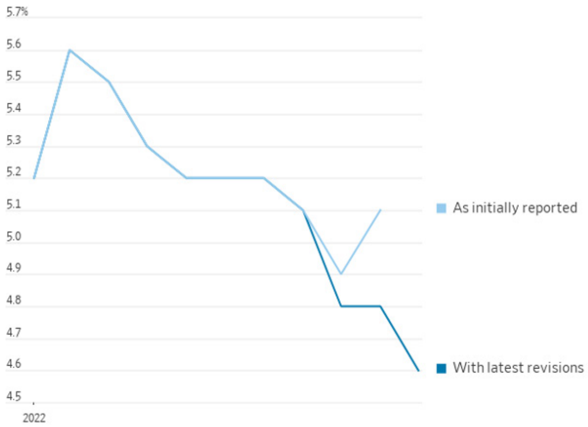
Latest U.S. macroeconomic statistics point to a soft landing for the economy

Friday's labor market report was the most anticipated information of the week. Nonfarm payrolls rose by 223,000 in December, the smallest increase in two years (while still above consensus expectations). The separate household survey showed that unemployment fell to its lowest level since the pandemic, at 3.5%. But the statistic that reassured the markets was average hourly earnings, which rose "only" 0.3% from the previous month, slightly less than expected. November's increase was revised downward. It would seem that wage growth is slowing down, a development that should allow the Federal Reserve to soon put an end to the monetary tightening cycle. This should make the financial markets happy.

On Friday, we also learned that the Institute for Supply Management (ISM) service sector activity index fell to 49.6, well below consensus and into contractionary territory (below 50) for the first time since May 2020 as new orders slowed sharply.

These statistics point to a soft landing for the U.S. economy.

Change in US hourly wages over 12 months



Source: U.S. Department of Labor

Chart #2 —

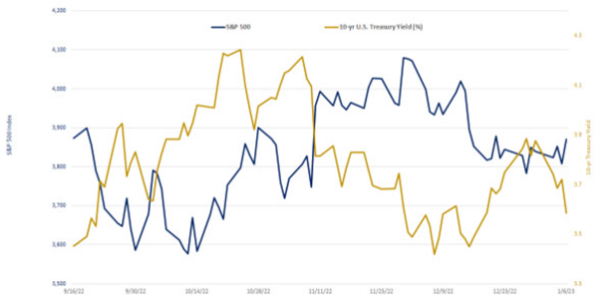
Bad economic news is interpreted positively by the markets

We are in a phase of the cycle where good news can be interpreted by the markets as bad news, and vice versa. For example, equities were under pressure earlier this week when U.S. macroeconomic data showed continued strong job creation and declining initial jobless claims. Equity markets then rallied sharply on Friday following the ISM report and the employment report that showed wage growth fading (see point 1).

On Friday, these releases led to a sharp decline in both short- and long-term U.S. Treasury yields, with the U.S. 10-year yield falling by more than 30 basis points on the week. The sharp rise in the major U.S. equity indices on Friday allowed them to end the week in the green.

We also note that the technical picture for the S&P 500 improved on Friday with a close above the 20-day moving average (although the index remains below the 50-day moving average).

Equity and bond markets have fluctuated amid shifting Fed expectations



Source: Edward Jones

Chart #3 —

Have U.S. large-cap technology stocks come to the end of their outperformance trend?

U.S. mega-cap companies (Amazon, Apple, Alphabet, Microsoft, Tesla, Meta) lost a total of $4.7 trillion in market capitalization in 2022. An equally-weighted basket of the 5 largest U.S. technology companies is down 41% year-over-year.

Has the absolute and relative downward movement come to an end? Perhaps not. Investors have favored these stocks for years (including 2022), but it is possible that the movement out of these stocks and into other segments of the market or international stocks (see next point) is just beginning.

Indeed, the outperformance of the technology sector relative to the S&P 500 seems to have peaked (see below) and the potential for adjustment is relatively large.

In the fourth quarter, the technology sector accounted for 40% of the index, compared to 19% for emerging markets, 13% for Japan and 7% for Europe. However, the weighting is declining as the top 8 stocks have seen their weight in the index drop from a peak of 30% in 2022 to 21% at the start of the year.

Technology sector relative price index to the S&P 500

Source: BofA

Chart #4 —

Strong outperformance of European equities since September

Investor positioning and flows continued to favor U.S. equity markets last year, with $160 billion of inflows into U.S. equities in 2022 while $107 billion exited European equities in the same year. At the time, the U.S. had reached a record high (63%) as a share of the global equity market. But since September, European equities have strongly outperformed U.S. indices due to worse-than-expected macroeconomic figures in Europe, a 50% drop in natural gas prices, the anticipation of China's reopening (an export-friendly development) and resilient earnings of European companies. The setbacks of US technology majors are also prompting international investors to switch to European stocks.

European equities have strongly outperformed US equities since September

Source: Bloomberg

Chart #5 —

Chinese equities start the year with a bang

The MSCI China Index is up 5.8% since trading resumed Tuesday, marking its best start of a year since 2009, after losing nearly 24% in 2022. The top gainers so far this year are real estate developers and technology companies.

The iShares MSCI China ETF is up 46% since November. The KraneShares CSI China Internet ETF is up 88% over the same period. The Hang Seng just broke above its 200-day moving average.

What are the catalysts for this rise? The main drivers are the end of the very restrictive health policy against covid-19 and a series of policy developments that signal a return to economic pragmatism, including plans to support the real estate sector, discussions on ending the ban on Australian coal imports and an easing of restrictions on large technology companies.

The Hang Seng Index has just broken its 200-day moving average

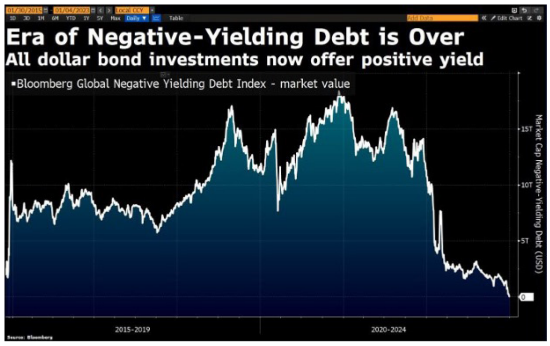
Source: Bloomberg

Chart #6 —

The end of the ice age

We saw a sharp drop in US bond yields on Friday. But the event of the week on the bond market is most certainly the end of the negative yield bonds era. While the value of these bonds was $18 trillion in December 2020, it is now zero.

Notional value of negative-yielding bonds



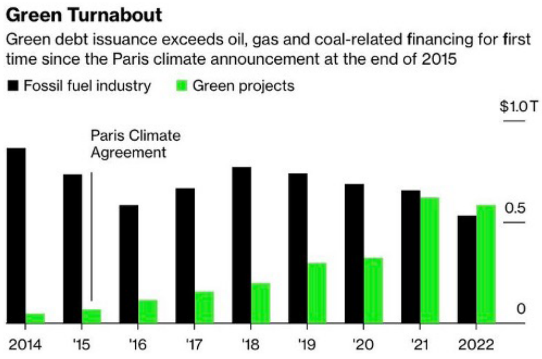
Source: Bloomberg

Chart #7 —

For the first time in history, "green" bond issuance exceeds that of companies in the fossil fuel sector

A green bond is a bond issued on the financial market by companies or public entities with the objective of financing their own environmental projects to the fight against global warming. By financing products that promote clean energy and ecological transition, investors benefit from a double financial and environmental advantage.

In green, "green" bond issues. In black, bond issues issued by the fossil fuel sector



Source: Bloomberg

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