FEATURE

WEEKLY MARKET REVIEW 14 August 2023

The week in seven charts

Chart #1
US inflation picks up slightly in July
Read more on p2

July – US inflation creeps up slightly

Last week, headline CPI figures revealed inflation had increased slightly in the US, US equity indices ended the week on a low note and Russia continues to successfully export fossil fuels. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

SYZ PRIVATE BANKING

Chart #1 —

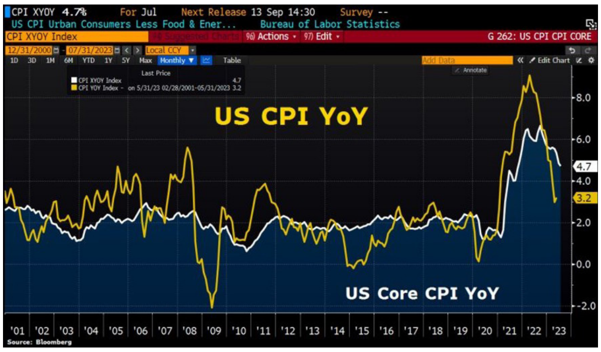
US inflation picks up slightly in July

It was the most eagerly awaited figure of the week, that of US inflation in July. Headline CPI accelerated to 3.2% year-on-year, up from 3% in June and slightly below consensus expectations (3.3%). This is the first acceleration after twelve consecutive months of decline. Year-on-year goods inflation slowed in July, while services inflation remained very high at 6.1%.

Core inflation, i.e., excluding food and energy, slowed to 4.7% year-on-year from 4.8% in June, in line with expectations. It should be noted that housing costs contributed around 90% of the core inflation rate in July.

As for the Fed's preferred inflation indicator, the CPI excluding energy, food and housing, it remains well below the Fed's target. It even accelerated again in July (0.2% sequentially and 4.0% year-on-year vs. 3.9% in June).

Following this publication, the short interest rate group attributes only a low probability (20%) to a further increase in the key rate at the US Federal Reserve's September meeting.



Source: Bloomberg

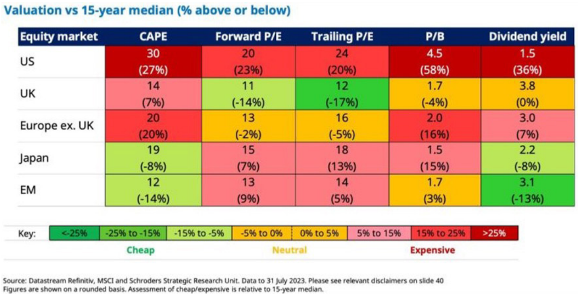
Chart #2 —

Despite the recent consolidation, equity market valuation multiples remain on the high side

The US equity indices ended the week on a low note, with the recent rise in bond yields continuing to weigh on investor sentiment. The Dow Jones posted a modest gain, while the Nasdaq was down (-2%) for the second week running.

Despite this consolidation, US equities are still not cheap when measured by key valuation ratios. As the table below shows, these ratios are all in the red, indicating that they have risen above their long-term median.

Europe looks slightly overvalued, while the UK and emerging markets have valuation ratios below their fair value.


Valuation vs 15-year median (% above or below)

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	30 (27%)	20 (23%)	24 (20%)	4.5 (58%)	1.5 (36%)
UK	14 (7%)	11 (-14%)	12 (-17%)	1.7 (-4%)	3.8 (0%)
Europe ex. UK	20 (20%)	13 (-2%)	16 (-5%)	2.0 (16%)	3.0 (7%)
Japan	19 (-8%)	15 (7%)	18 (13%)	1.5 (15%)	2.2 (-8%)
EM	12 (-14%)	13 (9%)	14 (5%)	1.7 (3%)	3.1 (-13%)

Key: <-25% | -25% to -15% | -15% to -5% | -5% to 0% | 0% to 5% | 5% to 15% | 15% to 25% | >25%
Cheap | Neutral | Expensive

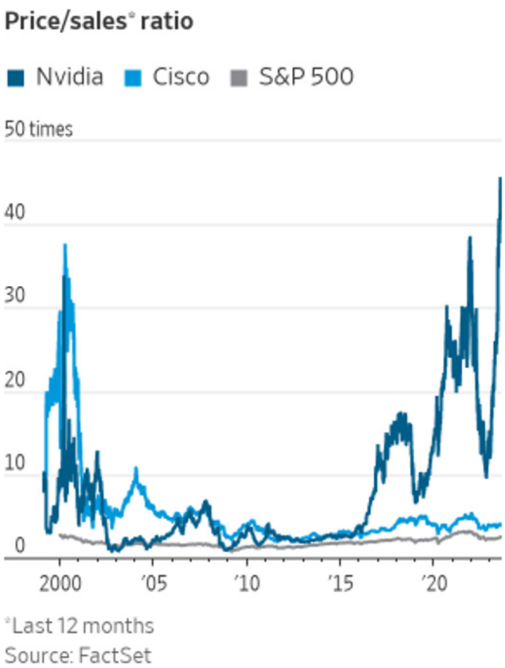
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 July 2023. Please see relevant disclaimers on slide 40
Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median.

Source: Schroders

Chart #3 —

Nvidia vs. Cisco Systems

This is the stock with the highest valuation ratios among the very large market capitalizations. Nvidia ($NVDA) is currently trading at 41 times its sales over the last 12 months. It is interesting to note that in 2000, Cisco ($CSCO), which was the darling of investors and the media at the time, was trading at 38 times sales. Cisco's share price today is lower than it was at the turn of the century.



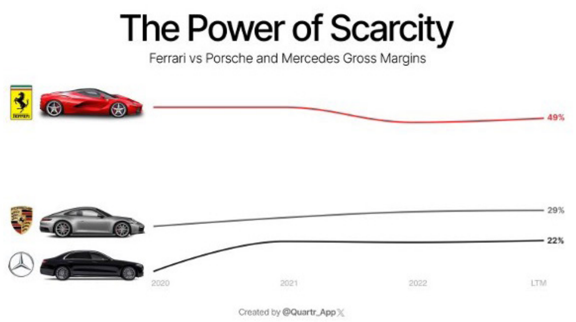
Source : Barchart

Chart #4 —

Ferrari, the power of scarcity

Some luxury car brands have the privilege of being able to set very high prices and thus benefit from relatively high gross margins. This is the case, for example, of the Ferrari group, which manages to maintain a gross margin close to 50% whatever the phase of the economic cycle.

At the recent Ferrari Group results conference call ($RACE), the CEO gave the following answer to the question of how many cars the Ferrari Group plans to produce: "I understand that these figures arouse a lot of curiosity. What I can tell you is that we will always sell one car less than market demand.



Source: Quartr

Chart #5 —

Interest on US federal government debt exceeds $1 trillion

At the beginning of August, Fitch downgraded the long-term debt rating of the United States from AAA to AA+. Although Jamie Dimon (CEO of JP Morgan) and Janet Yellen (head of the US Treasury) have expressed their disagreement with this decision, certain figures seem to indicate that Fitch's downgrade of Uncle Sam's rating is not entirely unjustified. US debt levels are set to rise from 98% of GDP in 2023 to 118% of GDP in 2033. By 2053, the US debt-to-GDP ratio is expected to reach an alarming 195% (source: CBO). Meanwhile, US interest costs have risen by around 50% over the past year, to almost $1 trillion on an annual basis.

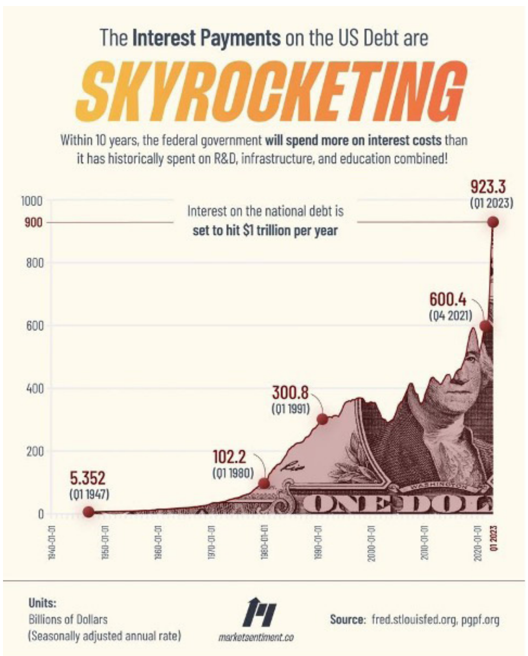


Chart #6 —

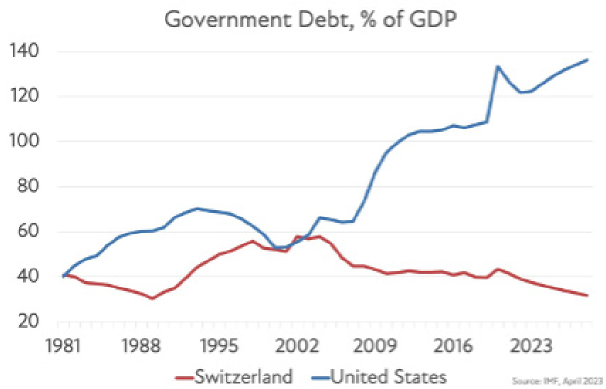
The debt/GDP ratios of the US and Switzerland are moving in opposite directions

In 2001, article 126 of the Swiss Constitution codified a structural budget balance rule for the federal government, known as the "debt brake". The debt brake was designed to prevent structural deficits leading to an increase in debt, as happened in Switzerland in the 1990s.

The constitutional provision was introduced in 2003 and since the Swiss public debt as a percentage of GDP has, as if by magic, fallen almost uninterruptedly (see the red line in the graph below).

To make the federal government fiscally responsible, it created the debt ceiling , a limit imposed by Congress on the amount the federal government can borrow. But the ceiling can be raised under certain conditions. Since 1960, Congress has raised the ceiling 78 times, raising questions about the effectiveness of this tool in ensuring fiscal responsibility.

The result of these different policies can be seen clearly in the graph: the United States (blue line) has reached record levels of indebtedness over time. And this trend is unlikely to be reversed any time soon.



Source : IMF, Costa Vayenas

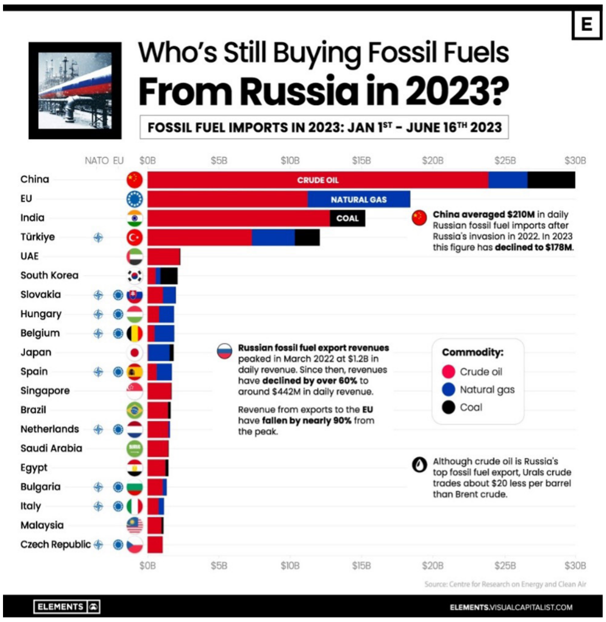
Chart #7 —

Who will still be buying Russian fossil fuels in 2023?

While Russia's revenues from fossil fuel exports have fallen considerably since peaking in March 2022, many countries continue to import millions of dollars a day of raw materials from Russia.

China remains Russia's largest buyer of fossil fuels, with imports reaching $30 billion in 2023 to 16 June 2023. Nearly 80% of China's fuel imports are crude oil. Russia's average daily revenue from Chinese fossil fuel imports has fallen from $210 million in 2022 to $178 million in 2023, largely due to the fall in the price of Russian crude oil.

China is followed by the which, although stopped importing coal from Russia in August 2022, still import $18.4 billion worth of fossil fuels, split 60/40 between crude oil and natural gas respectively. After China and the EU bloc, India is the second largest importer of Russian fossil fuels, having increased its fossil fuel imports more than 10-fold since before Russia's invasion of Ukraine, largely due to lower Russian oil prices. Turkey is the only other country to have imported more than $10 billion worth of Russian fossil fuels in 2023, with all other countries having imported less than $3 billion this year.



Source: Elements, Visual Capitalist

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