The week in seven charts

Chart #3
Nearly 25% rise in 2 days for "unprofitable tech" stocks
Read more on p2

Nearly 25% rise in 2 days for "unprofitable tech" stocks

2-year bond yields drop sharply on the back of US inflation figures and FTX crumbles, while the dollar cools down. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

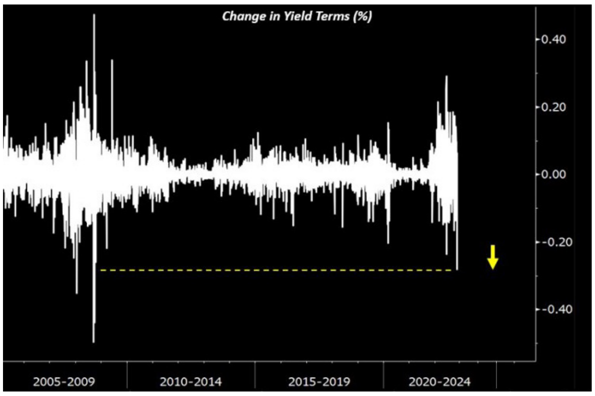
Chart #1 —

US inflation figures triggered a record drop in bond yields

The event of the week was the release of US consumer prices for October on Thursday. While the figures have been above expectations 9 times in the last 10 months, inflation for October finally surprised on the downside. The increase from September was 0.4%, below consensus expectations of 0.6% and bringing year-on-year inflation to 7.7%, the smallest increase since January. The core index (which excludes food and energy) fell back to 6.3%, after hitting a 40-year high of 6.6% in September.

US Treasury yields fell sharply in response; the 10-year US Treasury yield ended Thursday at 3.81%, down from 4.17% at the end of the previous week. The daily change in the 2-year US Treasury yield was the largest on Thursday since the global financial crisis of 2008.

Daily change in US 2-year Treasury yields



Source: Crescat Capital, Bloomberg

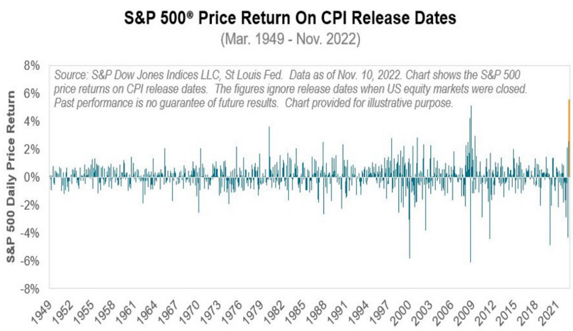
Chart #2 —

The S&P 500's best ever performance on an inflation release day

On Thursday, the S&P 500 recorded its best daily performance for a CPI release date since 1949. The Nasdaq 100 jumped 7.5%, its biggest gain since March 2020.

For investors, these encouraging figures could soon prompt the US Federal Reserve to pause in its tightening of monetary policy.

Performance of the S&P 500 on US inflation release dates



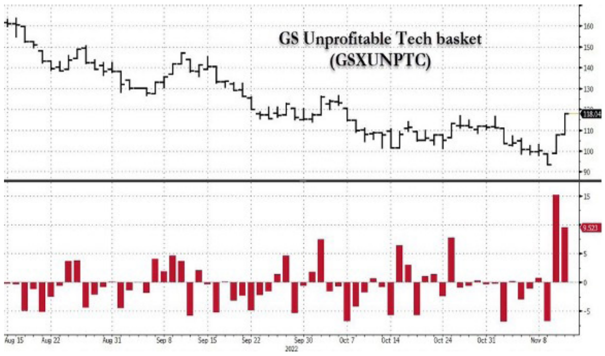
Source: : S&P Dow Jones Indices

Chart #3 —

Nearly 25% rise in 2 days for "unprofitable tech" stocks

This is one of the market segments that has suffered the most this year. Following the release of the inflation figures and the rebound of the Nasdaq, the small and medium-sized technology stocks (represented here by the Goldman Sachs Unprofitable Tech basket index) rebounded by 25% in two days.

Performance of the "Goldman Sachs Unprofitable Tech basket"



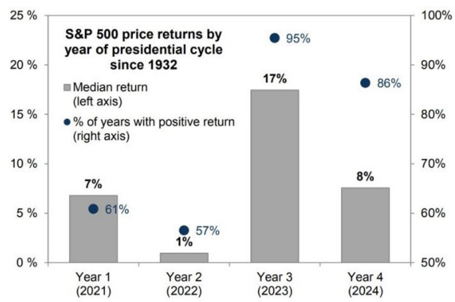
Source: Bloomberg, www.zerohedge.com

Chart #4 —

We are entering the best year of the 4-year presidential cycle

The mid-term elections in the US did not produce the Republican red wave that was anticipated. At the time of writing, Congress is (narrowly) moving into Republican hands, while the Democrats managed to retain a majority in the Senate. The US is therefore heading towards a divided government which could lead to a number of budgetary decisions being blocked and - potentially - to a new debt ceiling episode. A political situation that will not necessarily displease the markets. History shows that the third year of the presidential cycle (2023 in this case) is the most favourable for risky assets (including the S&P 500). These statistics partly explain the renewed optimism currently seen in the markets.

S&P 500 performance by year of the presidential cycle



Source: Goldman Sachs Global Investment Research

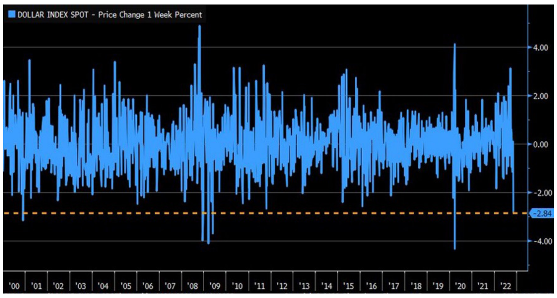
Chart #5 —

The worst week for the dollar since March 2020

In 2022, the greenback appreciated against the vast majority of currencies to the point that it is now considered one of the only assets that is positively correlated with inflation. It was therefore not surprising to see the dollar fall sharply on Thursday when inflation finally surprised on the downside.

Indeed, the US dollar had its worst week since March 2020 and, before that, since May 2009.

Dollar spot index daily variation



Source: Bloomberg

Chart #6 —

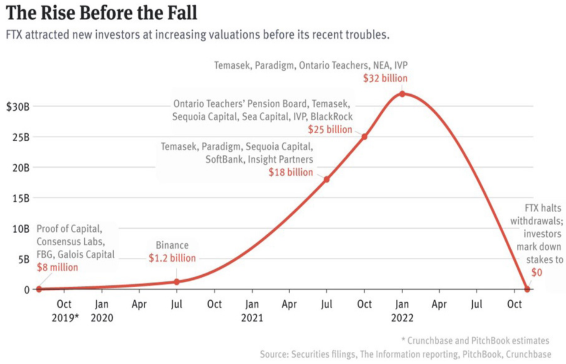
FTX's valuation went from 32 billion dollars to zero in record time

A new scandal rocked the crypto sphere last week. FTX, the world's 2nd largest crypto exchange platform (and 1st in the US) is indeed an icon of the digital asset world. FTX has raised capital from some of the biggest names in venture capital and institutional management: Sequoia, Tiger, Blackrock, SoftBank, Singapore's sovereign wealth fund Temasek and the Ontario Teachers' Pension Fund. The FTX wallet is used by millions of users worldwide. After skyrocketing from $1 billion to $32 billion in just over 12 months, FTX lost it all in the space of 72 hours.

A recent Coindesk article highlighted a particularly disturbing fact: almost 40% of the assets held on the balance sheet are made up of (or collateralised by) FTX's digital tokens, FTTs. In a sense, FTX's borrowings have been used to fuel the rise in FTT's share price, 75% of whose outstanding tokens are held by FTX.

Binance, which is the world's leading crypto exchange and one of the largest investors in FTX, then realised the extent of the danger. By declaring that it wanted to sell the FTTs it held, Binance triggered a liquidity crisis that sounded the death knell for FTX. The main reason for the collapse was excessive leverage backed by illiquid and unsegregated assets.

FTX had raised capital from the largest institutional investors



Source: Crunchbase

Chart #7 —

Bitcoin's collapse is comparable to the biggest crashes in the history of financial markets

Since the highs of November 2021, bitcoin is down 77%. A staggering decline that rivals some of the greatest crashes of all time. Indeed, only the crashes of Mississippi & South Sea Co (during the Roaring Twenties), Dotcom in 2000 and the housebuilders in 2008 did worse (according to BofA calculations).

In the space of 12 months, the market capitalisation of crypto-currencies has fallen from over $3 trillion to under $900 billion.

The biggest crashes of all time

Table 1: Crash in crypto rivals biggest crashes of all time
Market bubbles of the past: Peaks and troughs

Bubble	Index	Peak	Rise	Decline	Valuation at peak (P/E)	Bond yield	Policy rate	Speed of rise
Mississippi Co.	CAC All-Tradeable	01/1720	2955%	-95%	n/a	↑	↑	73%
South Sea Co.	South Sea Co.	06/1720	707%	-89%	n/a	↓		188%
Roaring 20s	DJ Industrial Average	8/30/1929	281%	-89%	19	↑	↑	9%
Black Monday	DJ Industrial Average	8/21/1987	103%	-34%	19	↑	↑	20%
Japan 1980s	Nikkei 225	12/29/1989	72%	-59%	67	↑	↑	10%
Nasdaq Dot-com	Nasdaq 100	3/10/2000	375%	-76%	205	↑	↑	52%
US Homebuilders	DJUS Select Builders	7/22/2005	155%	-83%	12	→	↑	29%
Saudi Arabia	Tadawul All-Share	2/28/2006	305%	-68%	123	↑	↑	22%
China	Shanghai Composite	10/1/2007	445%	-60%	49	↑	→	37%
EM Technology	EMQQ Emerging Markets	1/26/2018	11186%	-64%	100	↑	↑	23%
Big Tech	NYSE FANG	11/4/2021	211%	-49%	37	→	→	180%
Cryptocurrency	Bitcoin	11/9/2021	1281%	-77%	n/a	→	→	668%

Source: BofA Global Investment Strategy, Bloomberg, Global Financial Data, rise & decline measured approx. 2 years from peak

Source: BofA

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