FEATURE

WEEKLY MARKET REVIEW 23 October 2023

The week in seven charts

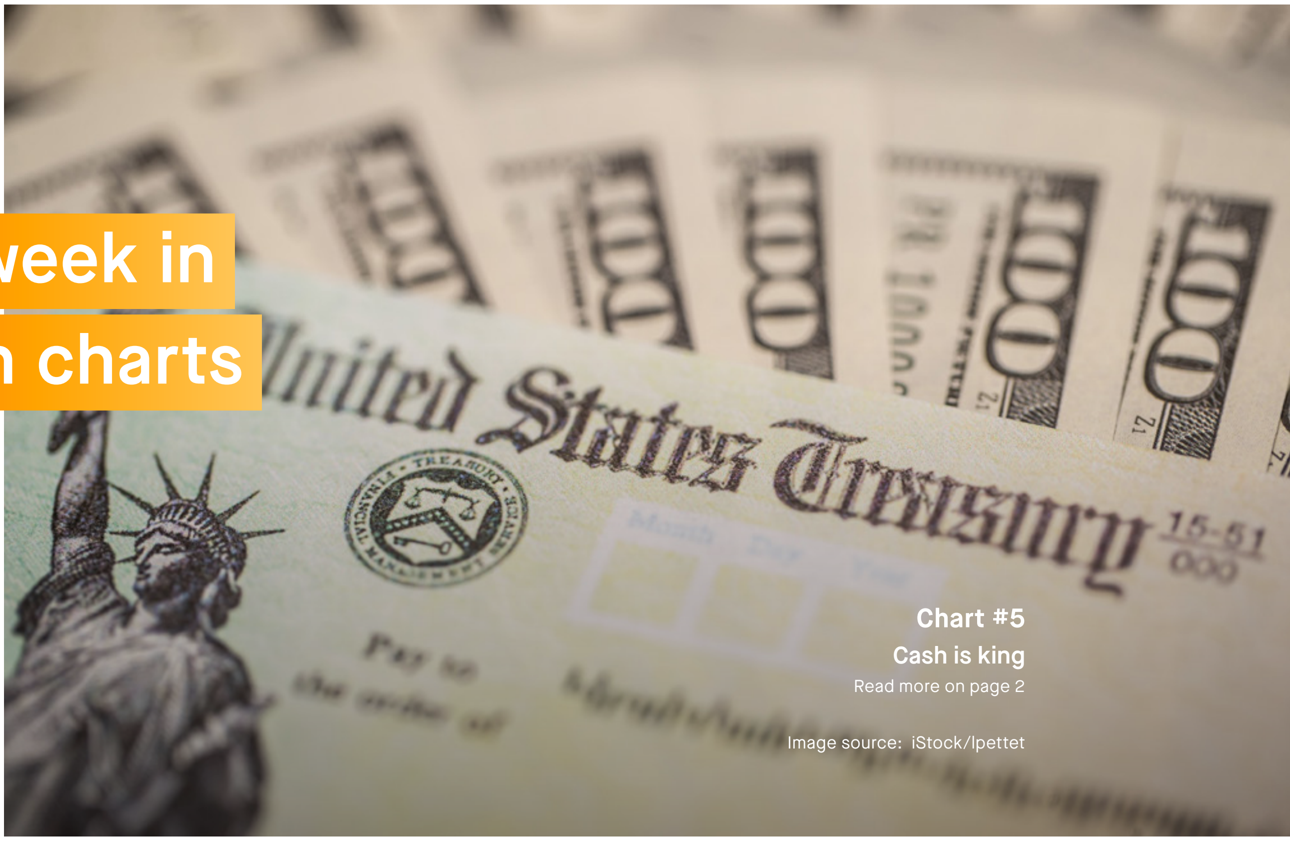

Chart #5
Cash is king
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Image source: iStock/lpettet

The yield on US Treasuries exceeds the earnings yield on the S&P 500

Cash is king, as the yield on US Treasuries exceeds the earnings yield on the S&P 500. Gold hits $2000 and China increasingly shuns US bonds. Each week, the Syz investment team takes you through the last seven days in seven charts.

Charles-Henry Monchau
Chief Investment Officer

Chart #1

Cash is king

This is the first time since 2000 that the yield on US Treasuries has exceeded the earnings yield on the S&P 500. Even during the 2008 financial crisis, cash yields never exceeded S&P 500 earnings yields, and the gap is widening. Indeed, the competition between returns on risk-free assets (money market investments and government bonds) and those on equities continues to intensify. For an investor with a USD reference account, here is the median return by asset class:

1. Money market investments in dollars:	5.5%
2. Yield on 6-month Treasury bills:	5.0
3. Capitalisation rate of property investments:	4.5
4. S&P 500 index earnings yield:	4.2

To sum up, cash and Treasuries are now earning more than property and the S&P 500. In other words, risky assets are earning less than risk-free assets. Can this anomaly continue?

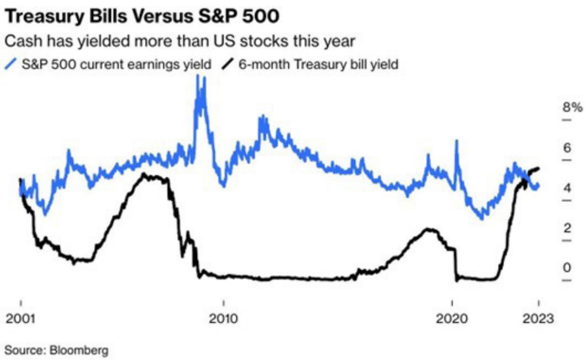


Chart #2

Record loss on long-dated dollar bonds

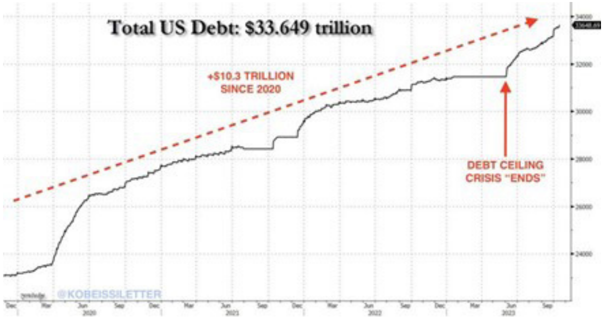
As mentioned above, bond yields are becoming increasingly attractive to investors. Last week, US 10-year yields reached the magic 5% threshold for the first time since 2007. Meanwhile, 30-year yields reached 5.11%, their highest level in 16 years. This rise in yields is translating de facto into sharp price falls for index funds (ETFs) invested in this type of bond paper. For example, the iShares 20+ year Treasury Bond ETF (ticker: TLT) is down 51% on its all-time high. A decline worthy of the worst equity market crash.

Source: Bloomberg

Chart #3

US debt is rising exponentially

The US federal debt has increased by around $650 billion since it passed the $33,000 billion mark exactly one month ago. Over the last four weeks, this debt has increased by an average of $22 billion PER DAY, or around $915 million per hour... Since the last debt ceiling 'crisis' last June, the total US debt has risen by more than $2 trillion. The US government continues to demonstrate fiscal irresponsibility. Since 2020, the total US debt has officially increased by more than $10 trillion. And this headlong rush is set to continue. The debt/GDP ratio is expected to reach 200% by 2050. This debt overhang could become a real headache for the US government if interest rates remain high.



Source: The Kobeissi Letter

Chart #4

China increasingly shuns US bonds

China has reduced its holdings of US Treasuries to $805 billion, the lowest level since 2009. Beijing has sold $502 billion worth of Treasuries over the past decade. It should be noted that the pace of Chinese sales has accelerated recently. This is not good news for the United States, which is looking for buyers for the record amounts of Treasury bonds currently being issued in the market.

Source: Bloomberg, HolgerZ

Chart #5

Gold hits $2,000

The yellow metal is at its highest level for three months, with the price hovering around 2,000 dollars an ounce. Despite rising bond yields and a strong dollar, gold has risen by almost 9% over the past two weeks. Fears of a further escalation of the conflict in the Middle East have increased demand for safe havens, whether gold, silver, the Swiss franc or bitcoin, which is once again flirting with the 30,000-dollar mark.

Source: Barchart

Chart #6

S&P 500 large caps benefit from rising interest rates

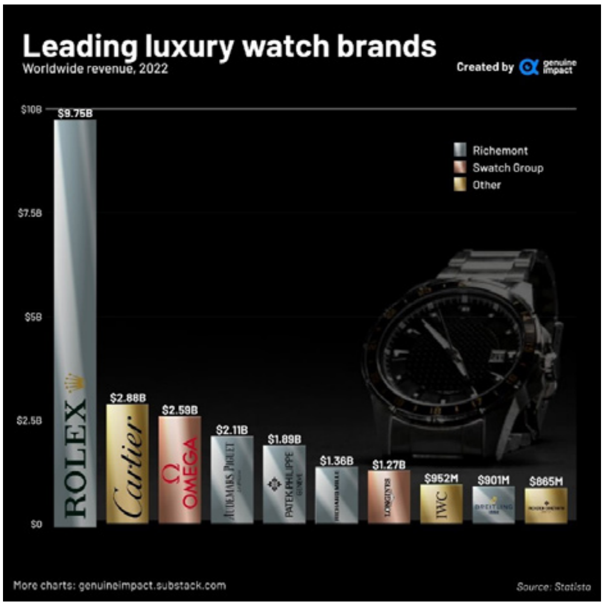
Wondering why high interest rates haven't hurt the S&P 500's performance so far? Just take a look at the chart below, courtesy of Linas Beliūnas. The S&P 500 heavyweights are flush with cash and taking advantage of the high interest rates offered by short-term deposits. Apple, for example, rakes in a cool $1 billion a quarter by sitting on the mountain of cash the US company holds on its balance sheet...

Source: Linas Beliūnas

Chart #7

The 2022 ranking of Swiss watchmakers by turnover

When you think of Swiss luxury watches, you probably think of Rolex - and for good reason. The Geneva-based watchmaker had sales of $9.75 billion in 2022, far outstripping Cartier in second place.



Source: Genuine Impact, Statista

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