FEATURE

WEEKLY MARKET REVIEW 6 November 2023

The week in seven charts

Will the Fed pause for the long-haul?

The Fed Committee maintains unchanged key interest rates for second consecutive month, Japan's equity markets present numerous investment prospects and WeWork files for Chapter 11. Each week, the Syz investment team takes you through the last seven days in seven charts.

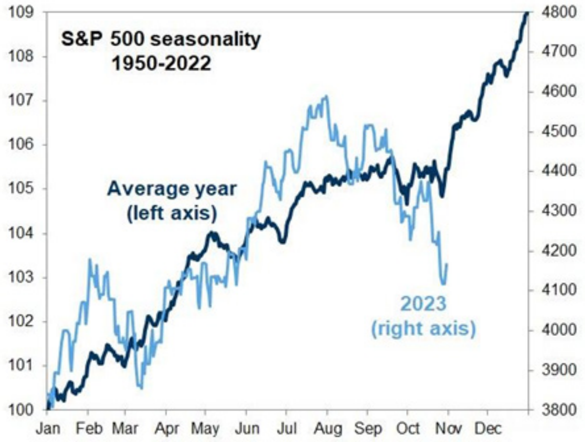
Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

Chart #1

A year-end rally in the making for equity markets?

The dark blue curve below represents the evolution of the S&P 500 index over a calendar year, based on average performance over the period 1950 to 2022. As can be seen, there is a very favourable seasonal pattern in the final months of the year, with the index rising sharply in November and December. This year, the S&P 500 has strayed somewhat from this trend since early summer. Will the index get back on track in the coming weeks?

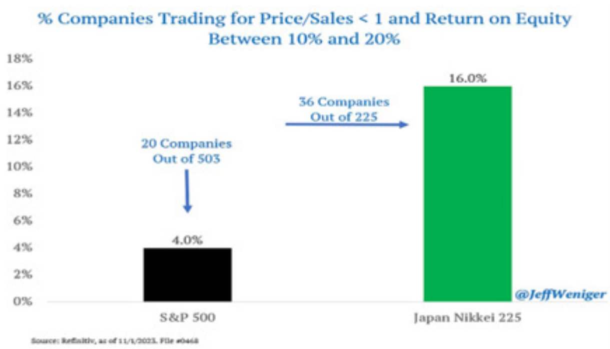


Source: FT

Chart #2

Japan equity markets are full of opportunities

For investors who favour fundamental analysis, a company that generates a return on equity of between 10% and 20% and "pays" for itself less than one-time sales is often seen as a real bargain. This type of opportunity is very rare in the USA, where only 20 stocks in the S&P 500 index meet these criteria. This percentage is four times higher in the Japanese Nikkei 225 index, where 36 companies have these characteristics, i.e., 16% of the index. Warren Buffet called it; he now sees the Japanese equity market as a new source of investment opportunities.

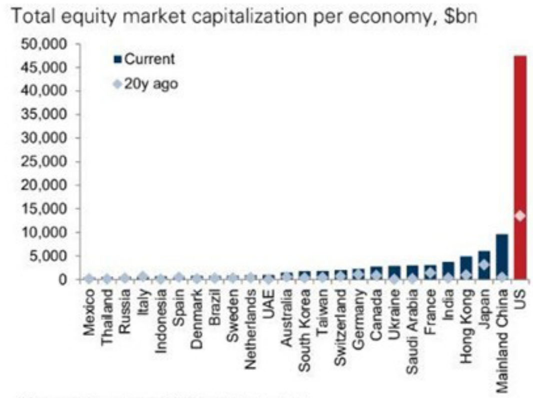


Source: Jeff Weniger

Chart #3

US equities ultra-dominancy

The red bar below represents the market capitalisation of the US equity market. China, Japan, Hong Kong and the various countries that make up the European Union lag far behind. We can also see that this dominance has grown considerably over the past 20 years, the market capitalisation of the various economies in 2003 is represented by a diamond.

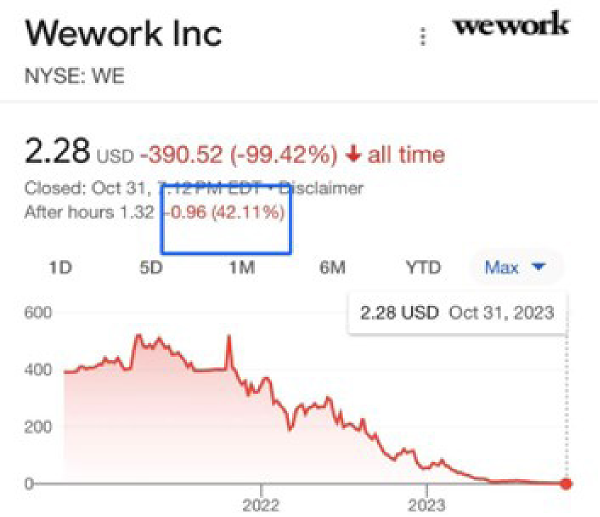


Source: Bloomberg, Goldman Sachs GIR.

Chart #4

WeWork files for bankrupcty protection

Co-working company WeWork is now in bankruptcy proceedings. Valued at its peak at $47 billion when the company was still unlisted, WeWork was already worth just $9 billion when it went public via a special purpose acquisition company (SPAC) in 2021. Following the announcement of Chapter 11, the share price plummeted 42% to $1.32. WeWork shares are now down 99% since their Wall Street debut... WeWork was one of the "unicorns" welcomed by investors. The collapse of the share price highlights the dangers of investing in new business models, even when they seem very promising.



Source: Michael Burry Stock Tracker

Chart #5

The Fed might pause for the long-haul

The much-anticipated November meeting of the US Federal Reserve took place last week. For the second month running, the Fed Committee decided to leave key interest rates unchanged. While the Fed revised economic growth projections upwards and acknowledged that wage growth is proving to be more resilient than expected, the committee emphasized that rising bond yields should ultimately slow inflation. This message has been heard by Wall Street, which is now counting on a lasting pause in the rate hike cycle. Indeed, the market is giving a very low probability (less than 20%) to a rate hike at the last meeting of the year in December. This is not the first time that the Federal Reserve has kept interest rates unchanged before deciding to lower them. In the early 2000s, the "plateau" lasted 8 months. Before the great financial crisis of 2008, the pause had lasted 14 months, compared with just 7 months in 2018-2019. How long will the plateau last in the current cycle?

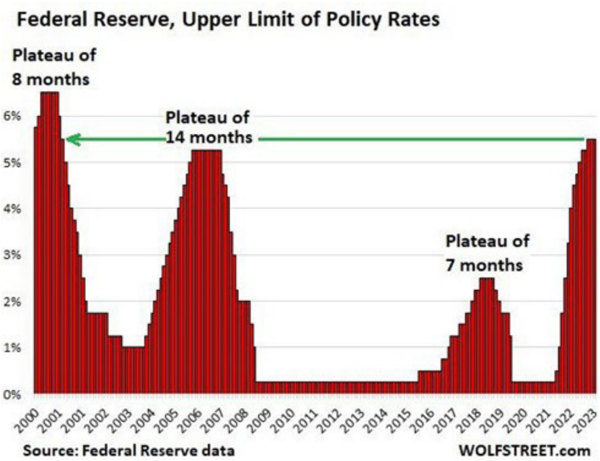


Chart #6

The McDonald's price index

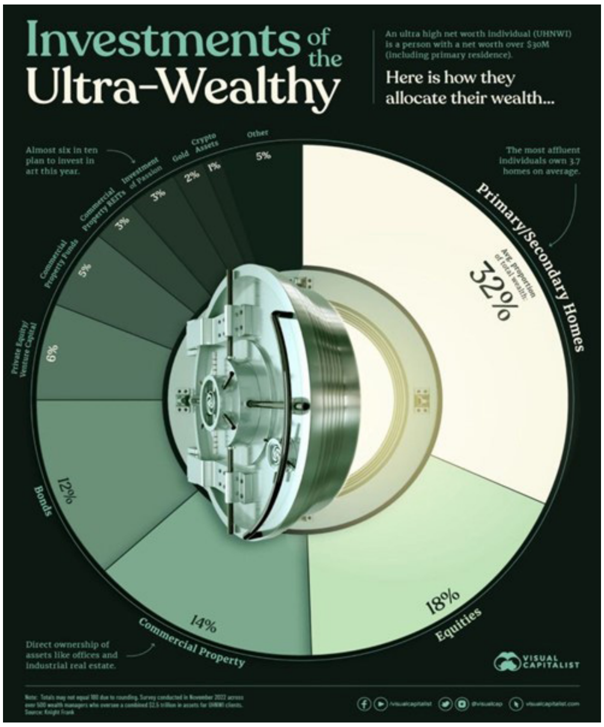
This Mcdonald's ad dates back to 1961. It promises to feed a family of 5 with a hamburger / fries / milk shake for a bill of 2 dollars and 25 cents. Today, the same meal costs 23 dollars and 25 cents, an increase of 933%.

Source: Rudy Havenstein

Chart #7

How are the ultra-wealthy investing their assets?

According to a Knight Frank survey of 500 wealth management companies with some $2.5 trillion in assets under management, here's what the aggregate asset allocation of the world's wealthiest individuals looks like. Primary and secondary residences make up around 32% of wealth. Next come equities (18%), then direct commercial real estate (14%), bonds (12%) and venture capital (6%). Gold accounts for just 2% and digital assets for less than 1%. Art and collectibles (3%) appear to be among the future priorities of the ultra-rich, since 60% of them intend to increase their exposure to this asset class.



Source: Visual Capitalist

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