The week in seven charts

Chart #3
US October inflation undershoots expectations
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Image source: iStock/Mongkol Onnuan

October US inflation data falls below consensus, affirming mid-2022 disinflation trend

Gold and oil aren't behaving as predicted, US inflation data for October came in below consensus expectations and will the S&P 500 rally for the year-end? Each week, the Syz investment team takes you through the last seven days in seven charts.

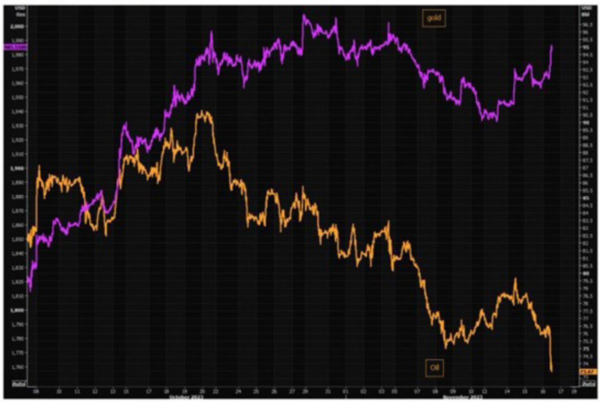
Charles-Henry Monchau
Chief Investment Officer

Chart #1

Sharp divergence between gold and oil

When the conflict between Israel and Hamas broke out, two assets were seen as the best portfolio hedges by investors. These were gold (purple line below) and oil (yellow line). Yet these two assets have behaved very differently over the past 3 weeks. How can we explain this dichotomy? The fall in oil values reflects the fact that the conflict in the Middle East probably won't spread to oil-producing countries. It is also possible that the fall reflects market fears of a sharp drop in demand in 2024 due to the slowdown in global economic growth. What about gold? One hypothesis: investors see the precious metal as a safe-haven asset against a backdrop of declining confidence in central banks and the political chaos currently reigning in Washington.

War hedge vs war hedge



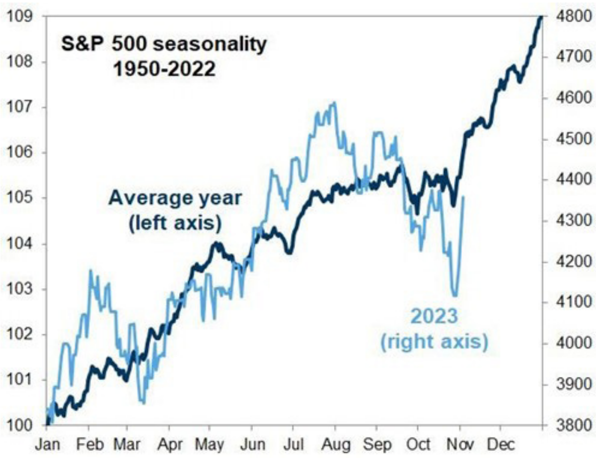
Source: TME

Chart #2

Towards a year-end rally?

November and December are historically bullish months for equity markets. This is the famous end-of-year rally. Among the reasons for this seasonal phenomenon are financial flows: this is the period when companies distribute dividends, employees pay bonuses, contributions to 401k plans (American pension funds) and so on. But this seasonal bias is also due to the fact that investors, governments, business leaders, etc. often have a more optimistic view of the economy and markets when it comes to projecting themselves into a new year. In addition, asset allocators and hedge fund managers tend to take on more risk at the end and beginning of a calendar year.

As the chart below shows, the S&P 500 was lagging the seasonal cycle. But it looks set to regain the historical trend...



Source: Goldman Sachs

Chart #3

US October inflation undershoots expectations

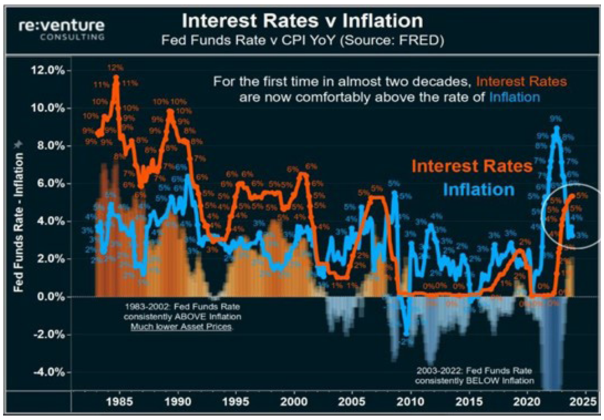
This was the most eagerly awaited figure of the week. US inflation data for October came in below consensus expectations, confirming the disinflationary trend that began in mid-2022.The overall index fell from +3.7% (year-on-year) in September to +3.2% in October (versus +3.3% expected). The core index, which excludes energy and food, fell from 4.1% to 4.0% (versus +4.1% expected). In the previous two months, figures had turned out to be better than expected. As a result, October's release reassured the markets and triggered a sharp fall in bond yields and the dollar.

Source: Bloomberg

Chart #4

US real interest rates are clearly positive

For the first time in almost twenty years, key US interest rates are now "comfortably" above inflation. As mentioned above, the US inflation rate is 3.2%, while the Fed's key interest rates are 5.3%. Inflationary pressures should therefore continue to abate under the effect of a restrictive monetary policy.



Source: re:venture consulting

Chart #5

The secular underperformance of international equities relative to U.S. equities

Is this the best long/short in history? International equity markets have consistently underperformed the US equity market over the past 15 years: the chart below shows the relative performance of the Vanguard FTSE All World ex-US ETF versus the SPDR S&P 500 ETF. Almost identical graphs appear for the "Value"/"Growth" pairs, strong outperformance of the "Growth" style, and small/mid-cap/large-cap pairs, strong outperformance of large-caps.

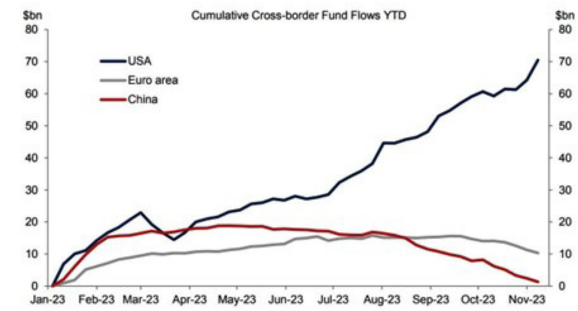
Historical performance is of course no guarantee of future performance.

Source: Steven Strazza

Chart #6

America continues to attract the vast majority of investment flows

An analysis of international fund flows shows that the US market continues to attract positive flows, while outflows are still the order of the day in the Eurozone and China. US dominance of capital markets is stronger than ever.



Source: EPFR

Chart #7

Alibaba loses up to $20 billion in market capitalization in a single session

Chinese e-commerce giant Alibaba saw its market capitalization slashed by $20 billion during Thursday's trading session. The company, which competes with US tech giant Amazon, said that day that it would not proceed with the spin-off and listing of its cloud computing business, citing US export restrictions on so-called "advanced" semiconductors.

At the time of its U.S. IPO (September 19, 2014), Alibaba was the world's fastest-growing retailer and was generating a lot of interest. 9 years have passed, and Alibaba's stock market performance has been very disappointing. Indeed, if you had invested $10,000 at the time of the IPO, your investment would today be worth just $8,426. Over the same period, Alibaba's sales have risen from $5.5 billion to $123.6 billion... Alibaba's economic performance is therefore remarkable. But the valuation bubble has deflated considerably. You can buy the stock today for less than 10 times expected earnings in 2024.

Source: Trevor Scott / Tidefall Capital

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