09/07/2023 - 15/07/2023

Weekly Market Update

Blue Portal Insight

Main Takeaways/Trends

U.S. Consumption

- For the first time in nearly 3 years, the Redbook index reported negative YoY change – coming in at -0.40% - highlighting a slowdown in consumption and spending from the U.S. consumer. The fall in this figure goes hand in hand with the depreciation in the USD.
- Notwithstanding, the consumer discretionary sector in the U.S. posted the second highest positive weekly gain compared to other sectors despite the release of the figure and is the 3rd best performer equity sector in the U.S. equity market YTD.
- Despite a seemingly dim outlook for consumption as posted by the redbook figure, wage and salary growth, a tight labour market and a recovering personal savings rate seems to support a healthy outlook for the U.S. consumer.

Equities

- Lower than expected CPI prints in the U.S. pushed domestic and global equity markets upwards in anticipation for what could be the easing of the FED's policy decision making.
- From a momentum standpoint, the SP500's 50-day simple moving average remains well above the 100 and 200-day moving average, providing continued buying support.

Currencies

- U.S. dollar depreciated versus main trading pairs (EUR, JPY, GBP, AUD) on the week. The 'Ozzy' dollar appreciated against the USD more significantly by 2.41%.
- Months-long trend of a depreciating dollar versus EUR and GBP since October of last year continues to be significant – YTD the GBP is positive versus the dollar.

Commodities

- Similar to last week's move, oil prices moved higher by approx. 3.30% after the release of the Baker Hughes oil rig count in North America shows a consistent decreases in the number of active North American oil rigs.
- Gold price remains close to $2000 per ounce and is 7% up YTD mainly due to the spike that occurred in early March after the bankruptcy and collapse of Credit Suisse and Silicon Valley Bank.
- On a weekly basis, natural gas prices headed lower by 6% while gold was up 1.5%.

Interest Rates

- The most recent regular CPI print reporting a YoY change of 2.97% moves the needle closer towards the FED's inflation target, thus alleviating pressure for the FED to continue increasing interest rates at the same pace as it did in the past. The CME FED FedWatch tool currently predicting a 25-basis uptick in the next FOMC with 99.8% probability.
- Negative rate spreads between 10-year treasury rate and 3-month rate increased as buying pressure for longer-term treasuries pushed the 10-yr rate down.

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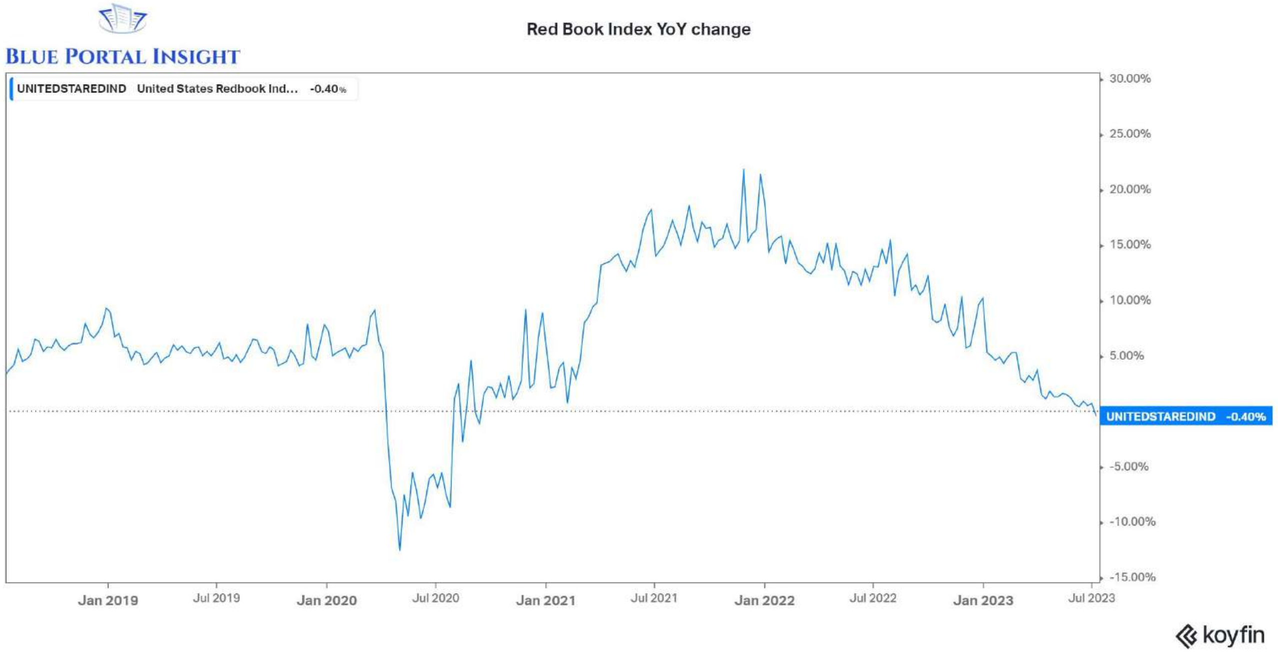
Weekly Economic Events in focus

United States Redbook Index heads south

The Redbook Index is a sales-weighted of year-over-year same-store sales growth in a sample of large US general merchandise retailers representing about 9,000 stores.

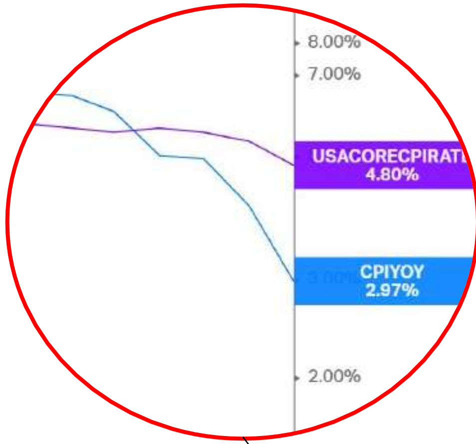
For the first time in nearly 3 years, on Tuesday the 11th, the Redbook index reported negative YoY change – coming in at -0.40%. Other than in 2006, 2009 (during the great recession) and in the early days of Covid 19, there had been no other time when the Index recorded a negative change.

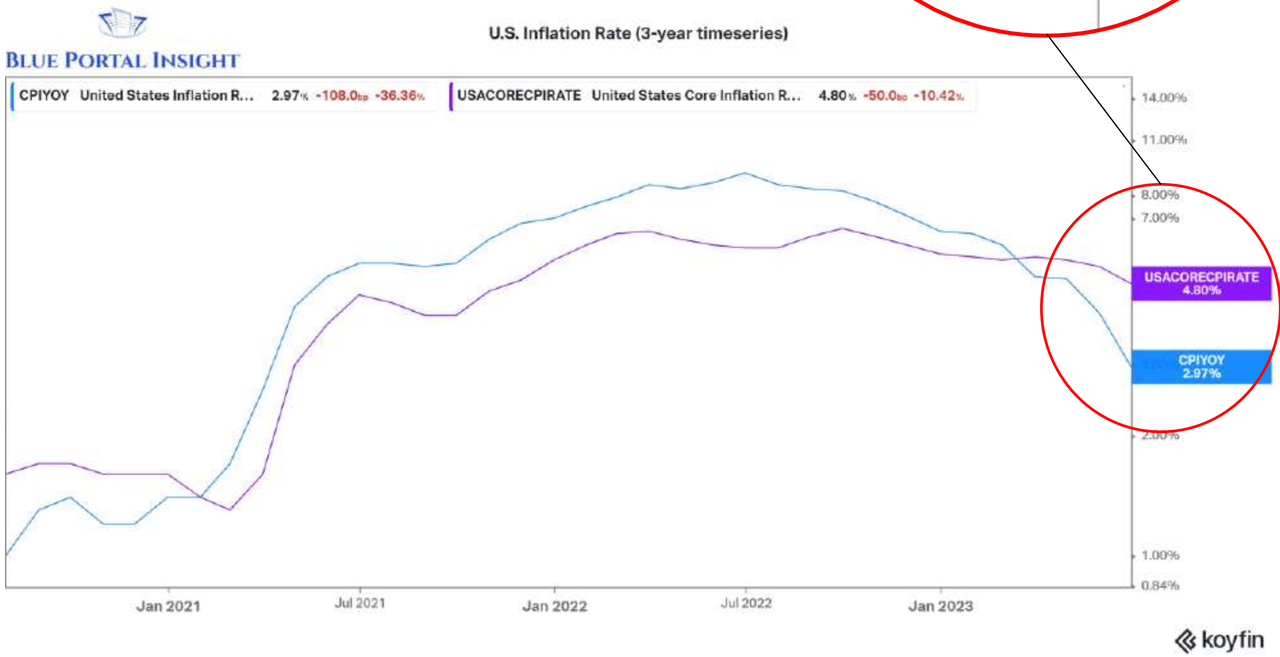


U.S. Inflation Rate eases slightly

The most recent monthly release of US inflation data indicates that regular CPI is normalizing as the MoM change in regular CPI came in at 0.2% higher than the previous month (0.1% below the consensus expectations and 0.2% lower than the prior month's 0.4% MoM increase. YoY regular CPI now sits at 2.97%

Core CPI remains sticky to the upside as a 0.2% MoM change was reported. YoY Core CPI sits a 4.8%, 0.5% lower than the previously YoY figure.





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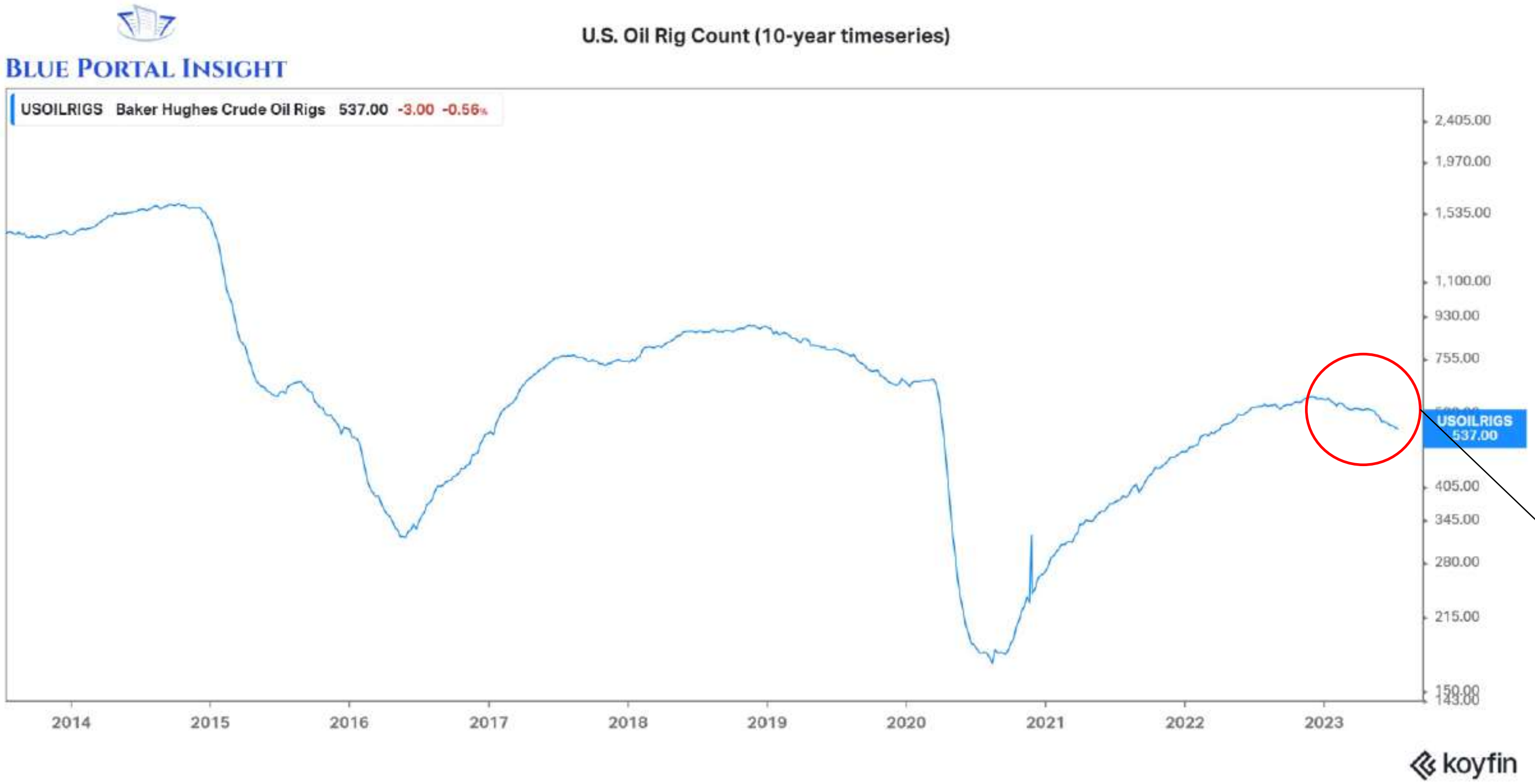
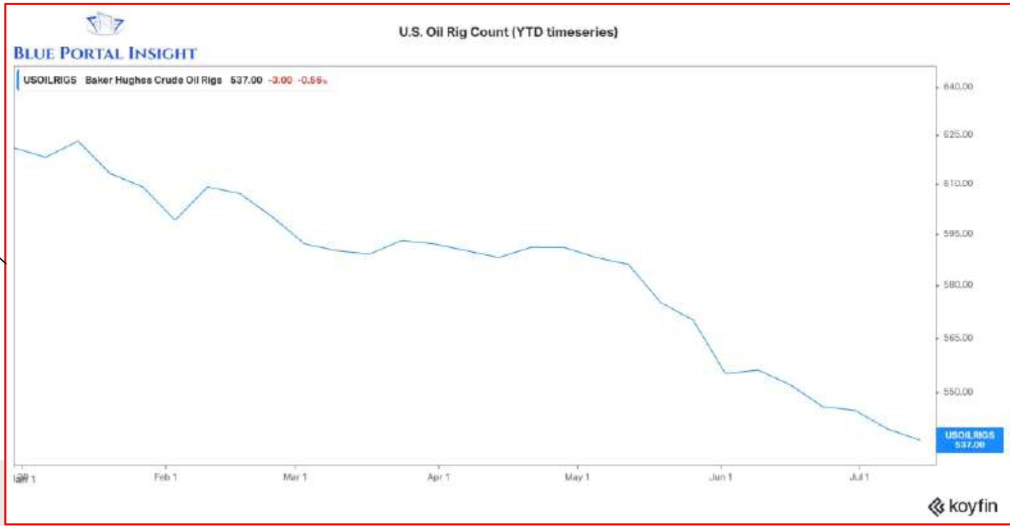
Weekly Economic Events in focus



U.S. and North American oil rig counts continue their months-long declines.

The Baker Hughes weekly summary of the North American rotary rig count released on Friday showed the continued decline of U.S. oil producing rigs.

On a weekly basis, the number of oil rigs in the U.S. fell by 3, while the number of Canadian oil rigs were up by 3. However, compared to a year ago, the number of U.S. and Canadian oil rigs are down by 62 and 11, respectively. Thus, compared to a year ago, there is a cumulative of 73 fewer North American oil producing rigs. This trend, in addition to OPEC's announcement a few weeks prior to cut production should put upward pressure on oil prices.



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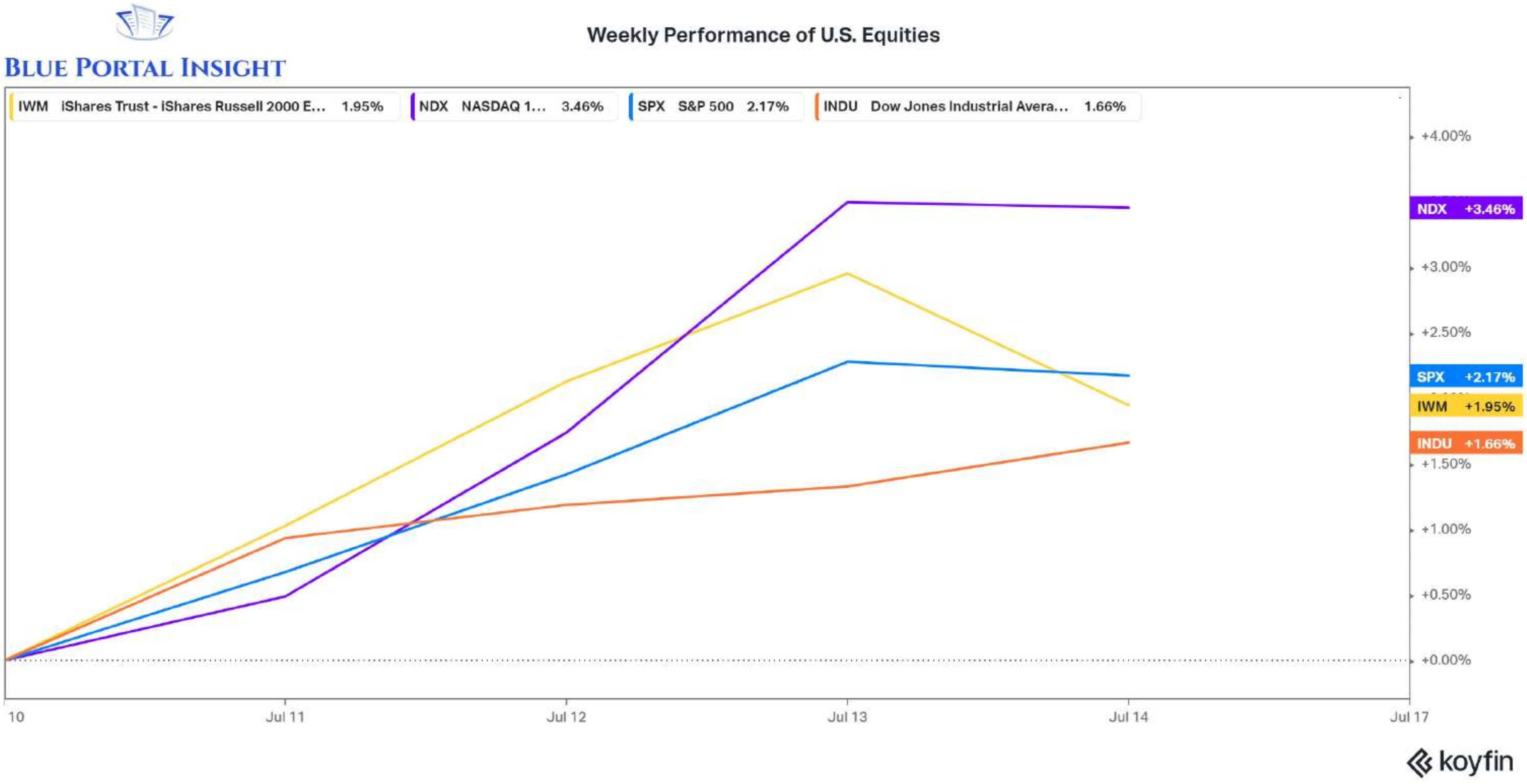
U.S Equities (Indices)



U.S. Equities were higher on the week with the Nasdaq 100 up the highest by 346 basis points while Dow was up the lowest by 166 basis points.

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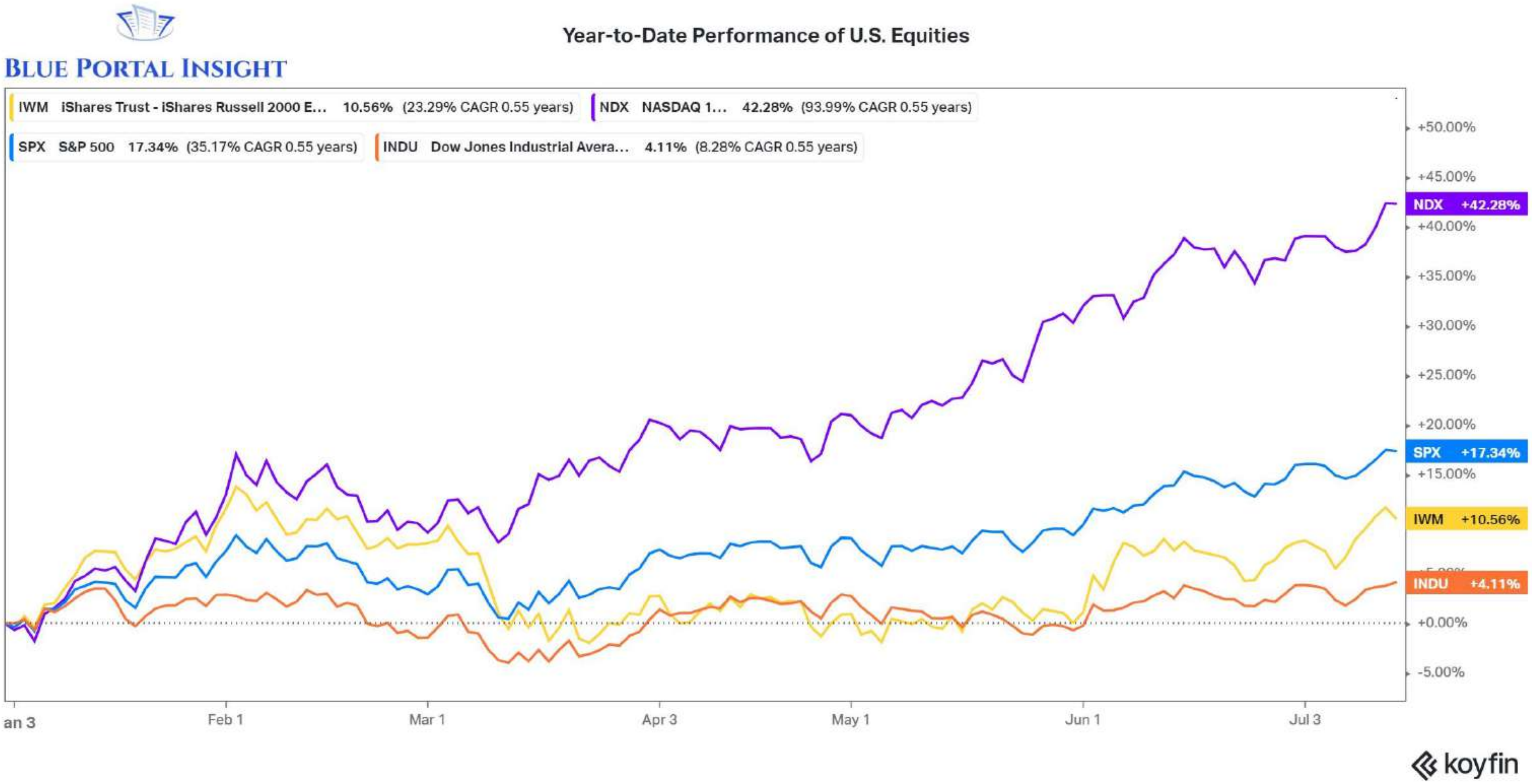
U.S Equities (Indices)



Year-to-date U.S. equities have performed positively. The Nasdaq 100 performing considerably well above the other indices being up +40% YTD.

SP500 and the Russell 2000 are up 17.3% and 10.6%, respectively, year-to-date.

The Dow is the worst relative performer being only up 4.1%, year-to-date.

With this last week's performance, upward momentum in equities indices continues to steam forward.

Moving Averages (SP500)

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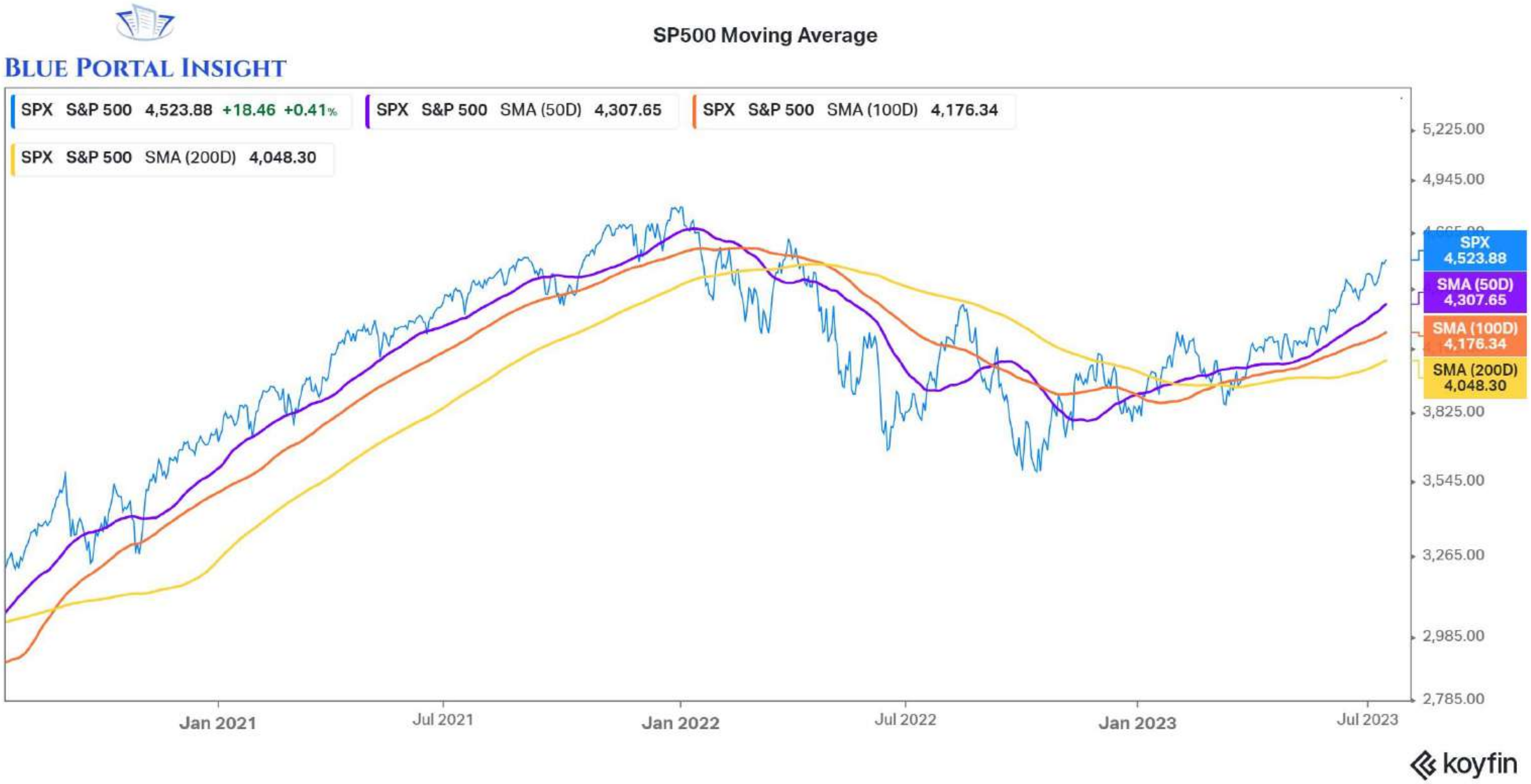
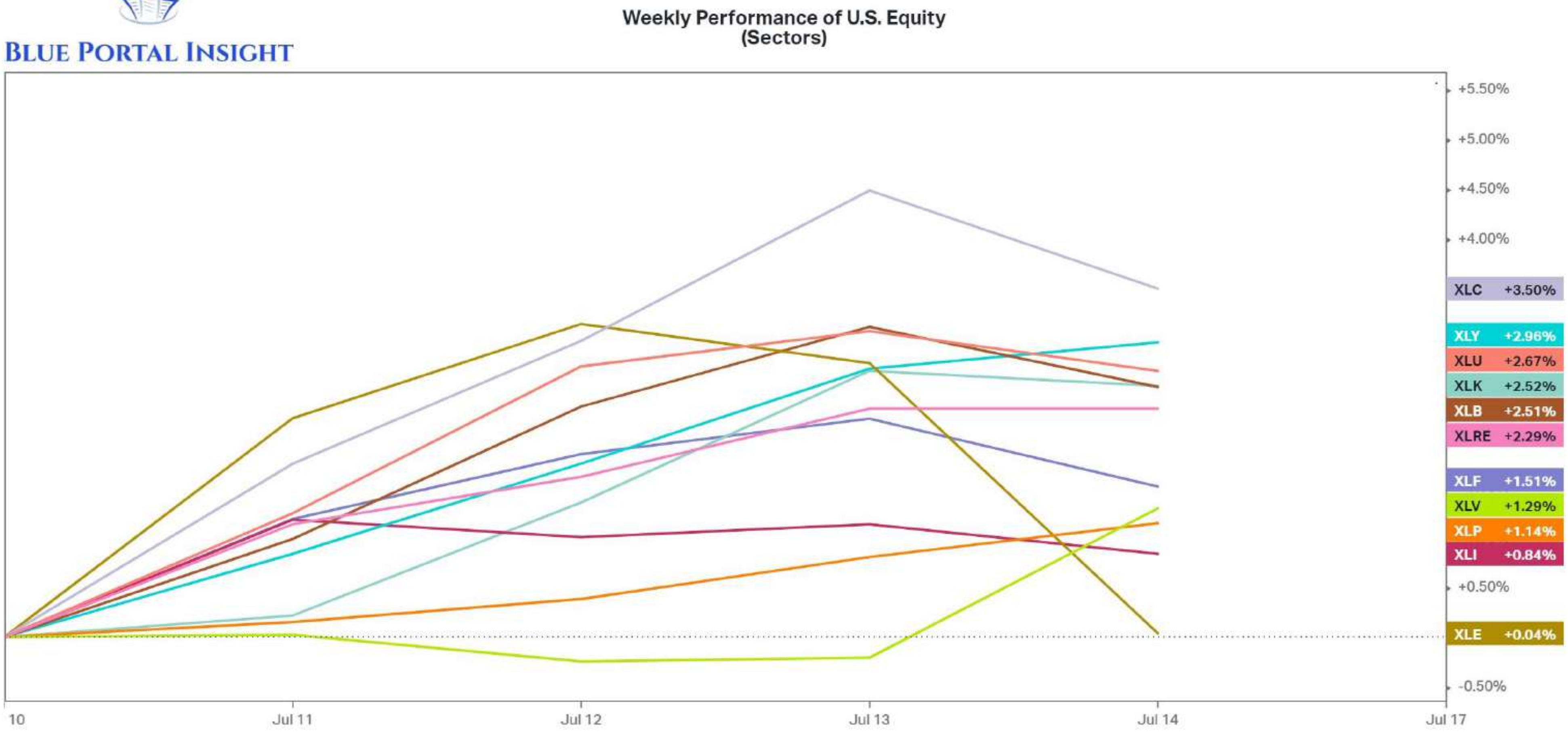


To the left is the 3-year look of the SP500 and its moving averages for the last 50, 100 and 200 days.

The 50-day simple moving average is well above the 100 and 200 day moving average thus indicating continued upward pressure.

Equally, the spot price line remains above the 50-day moving average indicates that in the short-term an inversion in the SMA’s is unlikely to occur.

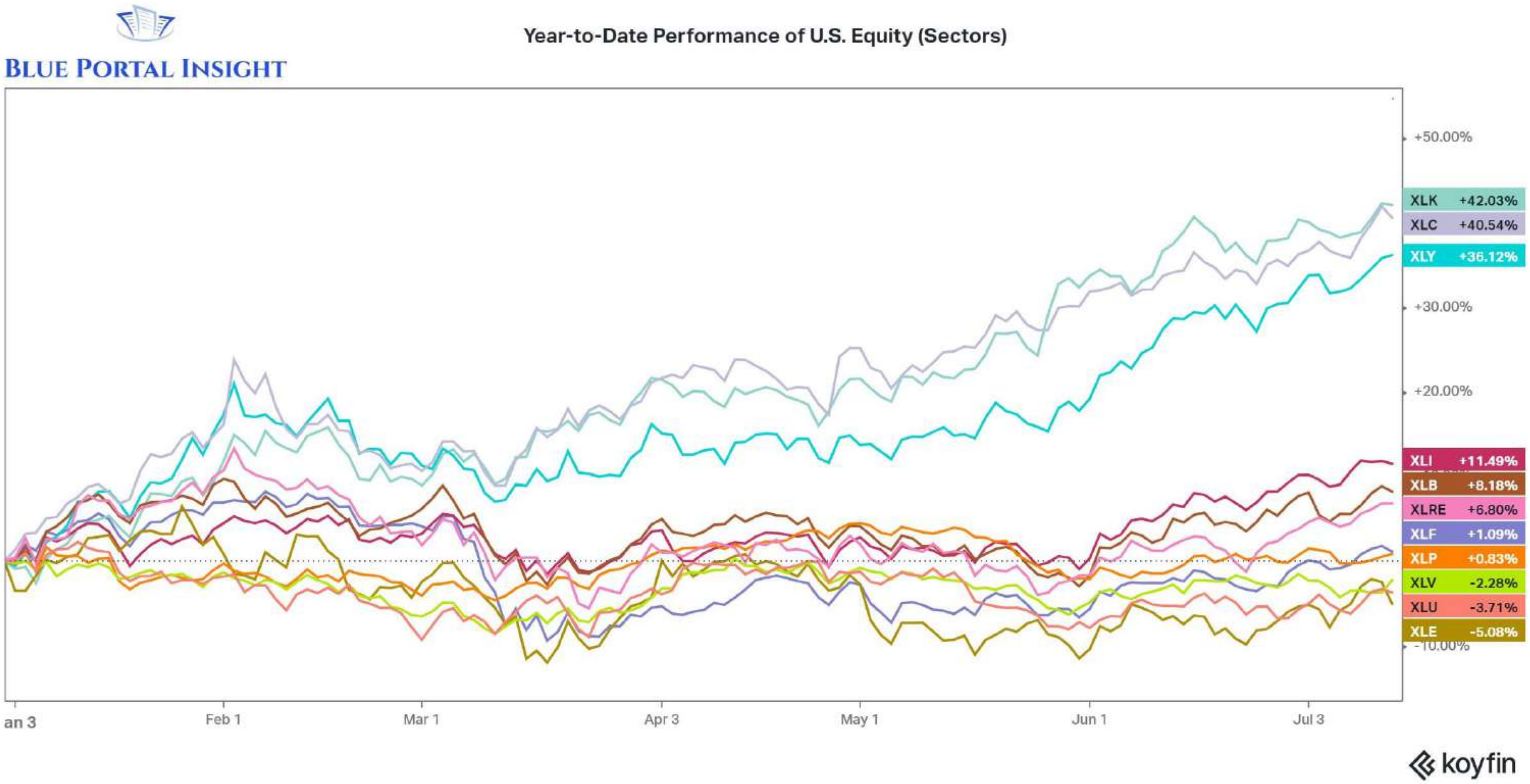
U.S Equities (Sectors)



On a weekly basis, the best relative U.S. equity sectors were the communications, consumer discretionary and utilities sectors – all up 3.50%, 2.96% and 2.67% respectively.

The worst relative performing sector was the energy sector only up by 4 basis points. A fall by +6% in Natural gas prices could be attributed to this selling pressure.

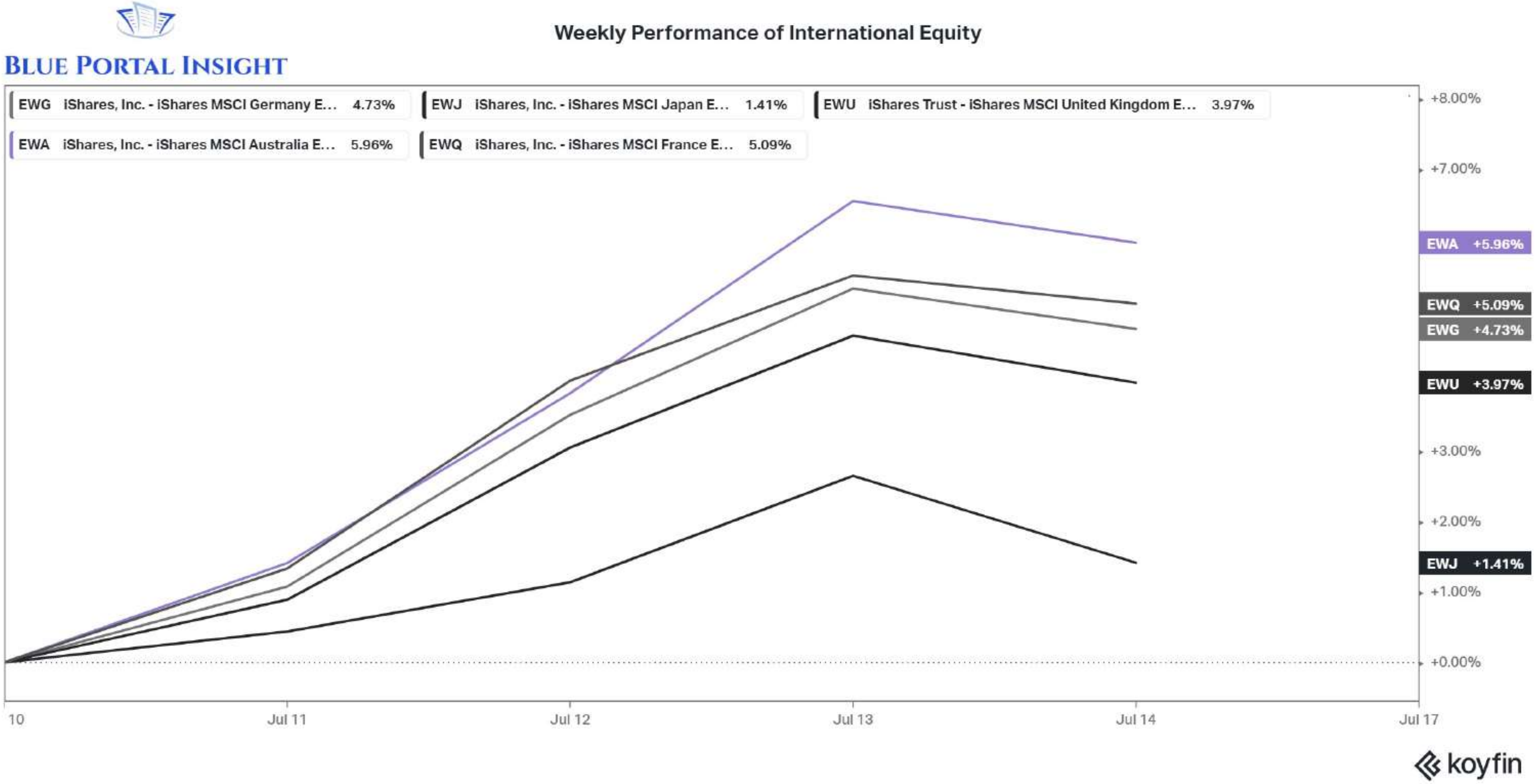
U.S Equities (Sectors)



Year-to-Date, technology (XLK), communications (XLC) and consumer discretionary (XLY) have been the best performers – all up 35% + year-to-date.

On the other hand, Utilities (XLU) and Energy (XLE) are the worst performers – down -3.71% and 5.08%, respectively.

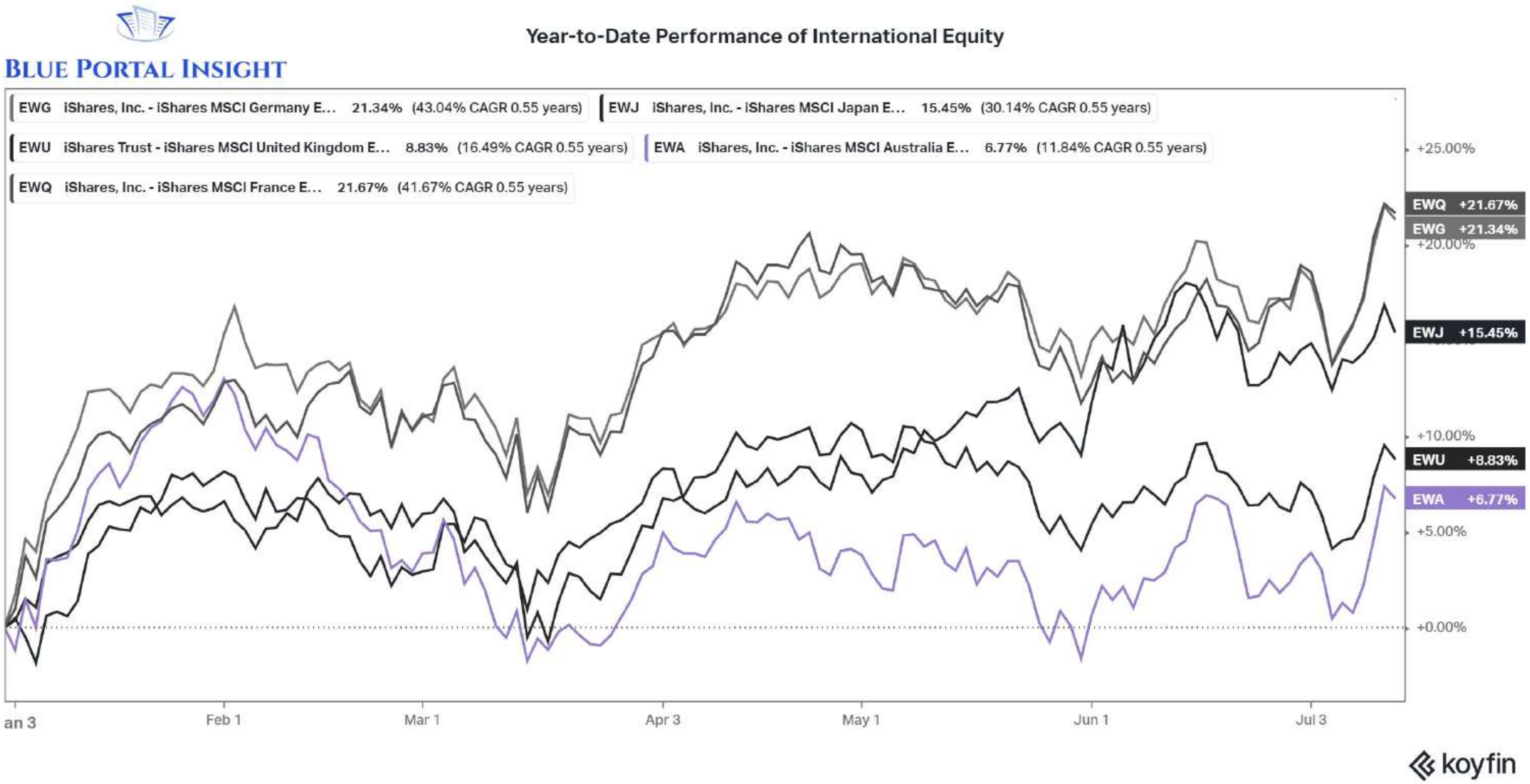
International Equity Markets



International equities (developed countries) were up on the week. The worst relative performer being Japanese equities (up 1.41%) while Australian equities posted the best relative weekly performance of +5.96%.

French, German and UK equities all traded up by 5.09%, 4.73% and 3.97%, respectively.

International Equity Markets



German and French equities remain the best performers within the developed market equities group as they are up +21% YTD. Followed by Japanese equities that are up +15% YTD.

UK equities and Australian equities are up YTD by only 8.8% and 6.7%, respectively.

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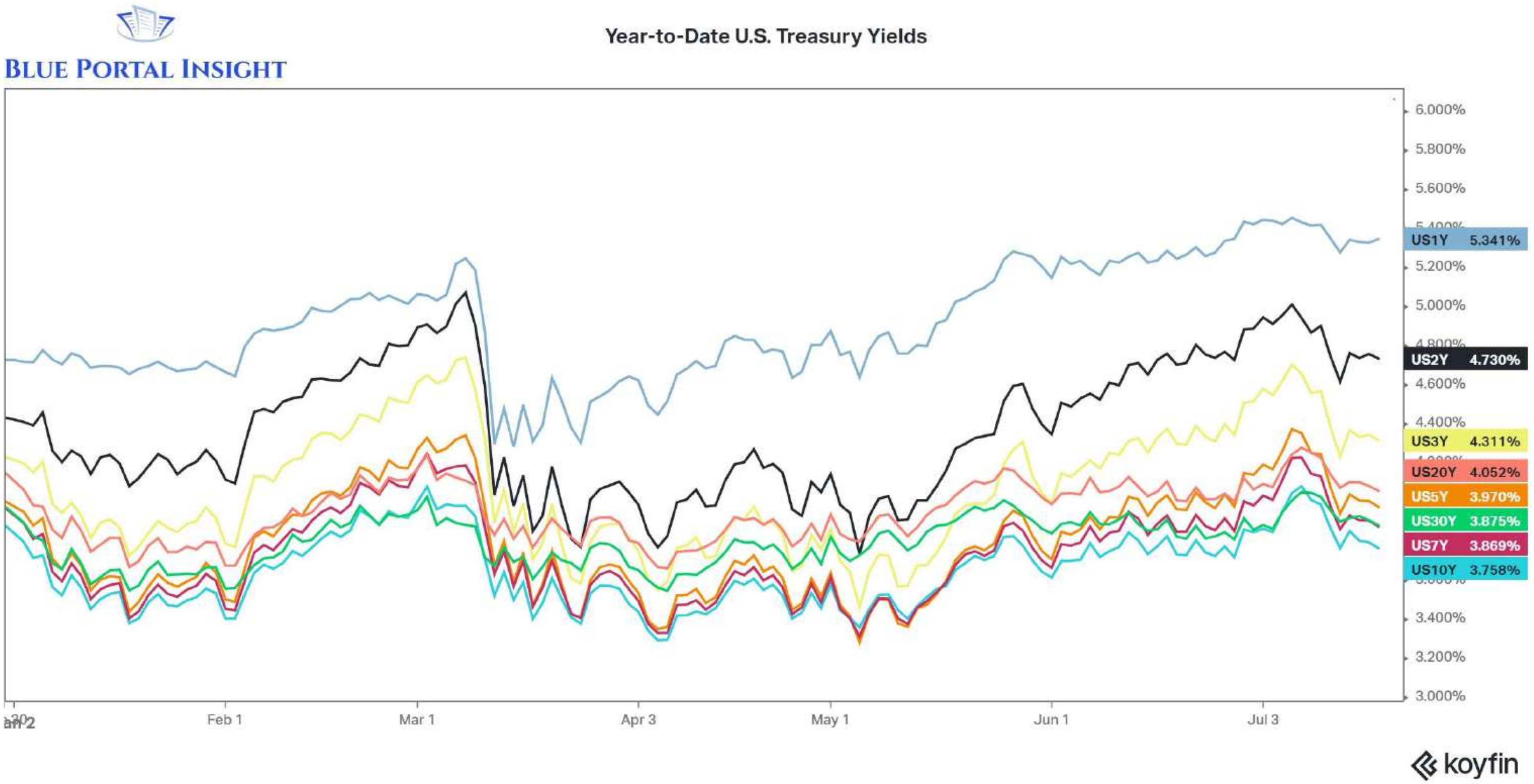
U.S. Treasuries

U.S. Treasury Rates Year-to-Date



Shorter-term treasury yields remain relatively elevated compared to longer-term treasury rates.

The 10-Yr Treasury rate ended the week at 3.76% - 31 basis points lower vs the prior week. The move comes after the latest CPI reading this past week that showed regular CPI falling closer towards the FED's target. A lower FED funds fund rate is equally likely to pull treasury rates lower.

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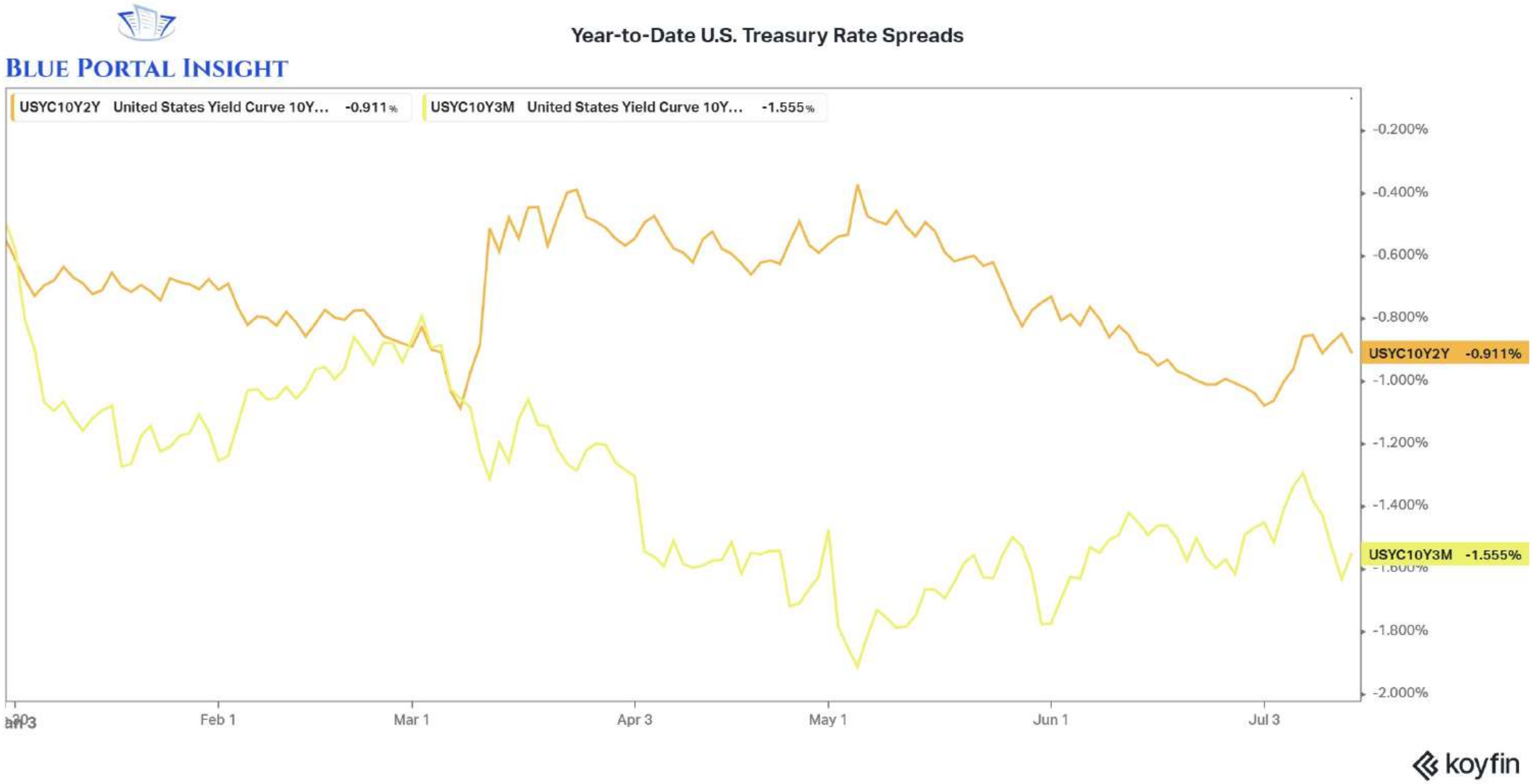
U.S. Treasury Rate Spreads Year-to-Date



To the left are the spreads of U.S. treasury bond rates. The Orange line is the spread between the 10Yr treasury rate and the 2Yr treasury rate while the yellow line is the spread between the 10Yr and 3-month treasury rates.

The gap between these two spreads widened in early March when Credit Suisse's bankruptcy and acquisition took place. The gap widened further since the fall of Silicon Valley Bank, First Republic Bank and Signature Bank in the U.S. took place between early March and May.

The 10-year to 3-month rate spread (10YR3M) fell considerably on the week indicating buying pressure for longer-dated treasuries and selling pressure for short-term treasuries.

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Currencies

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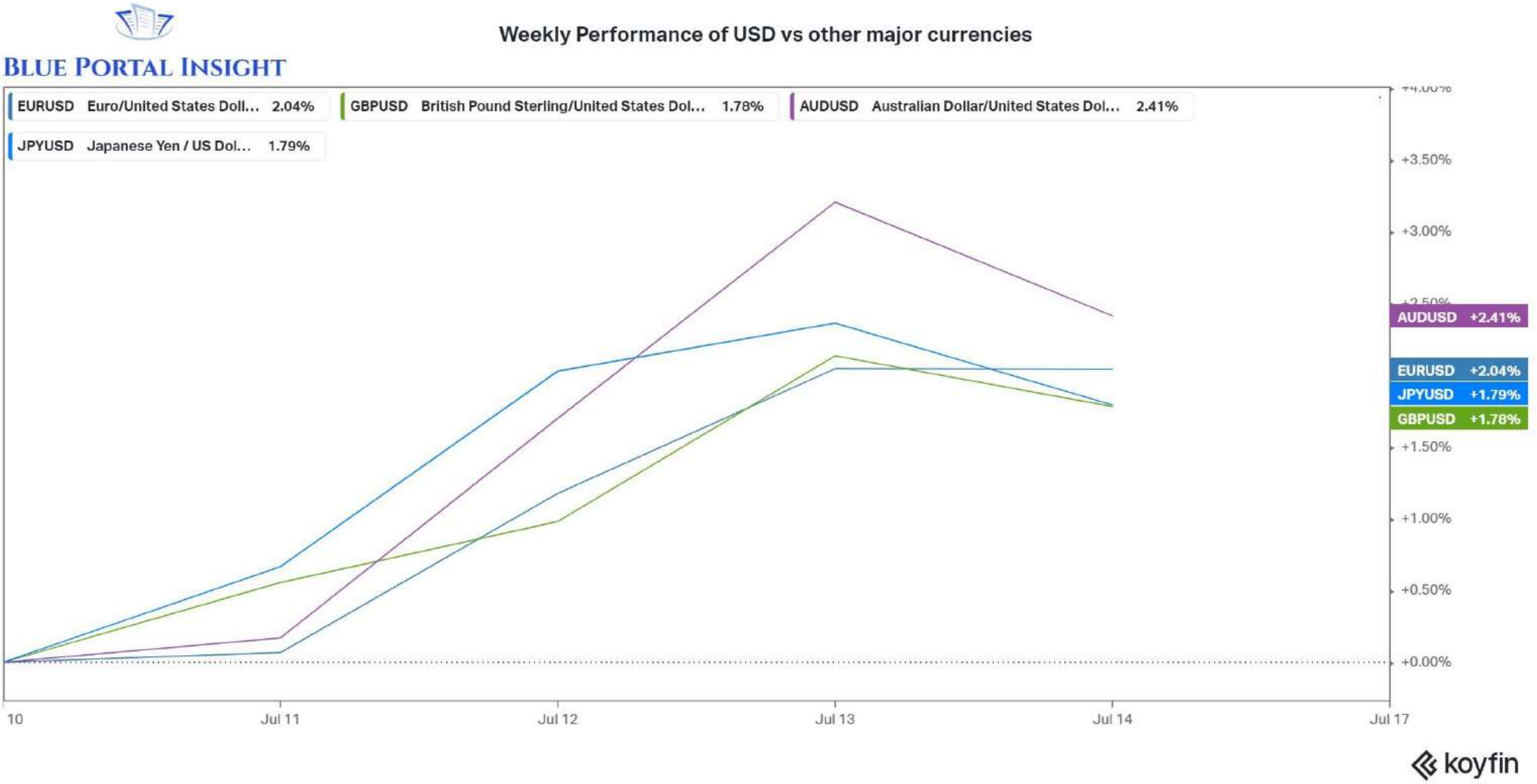

The U.S. Dollar has depreciated versus other major currencies on a weekly basis. The greenback depreciated versus the Euro, British Pound, Australian Dollar and Japanese Yen.

The 'Ozzy' dollar appreciated against the USD most significantly by 2.41%. While the other 3 currencies traded fairly tightly and appreciated between 179 and 204 basis points versus the greenback.

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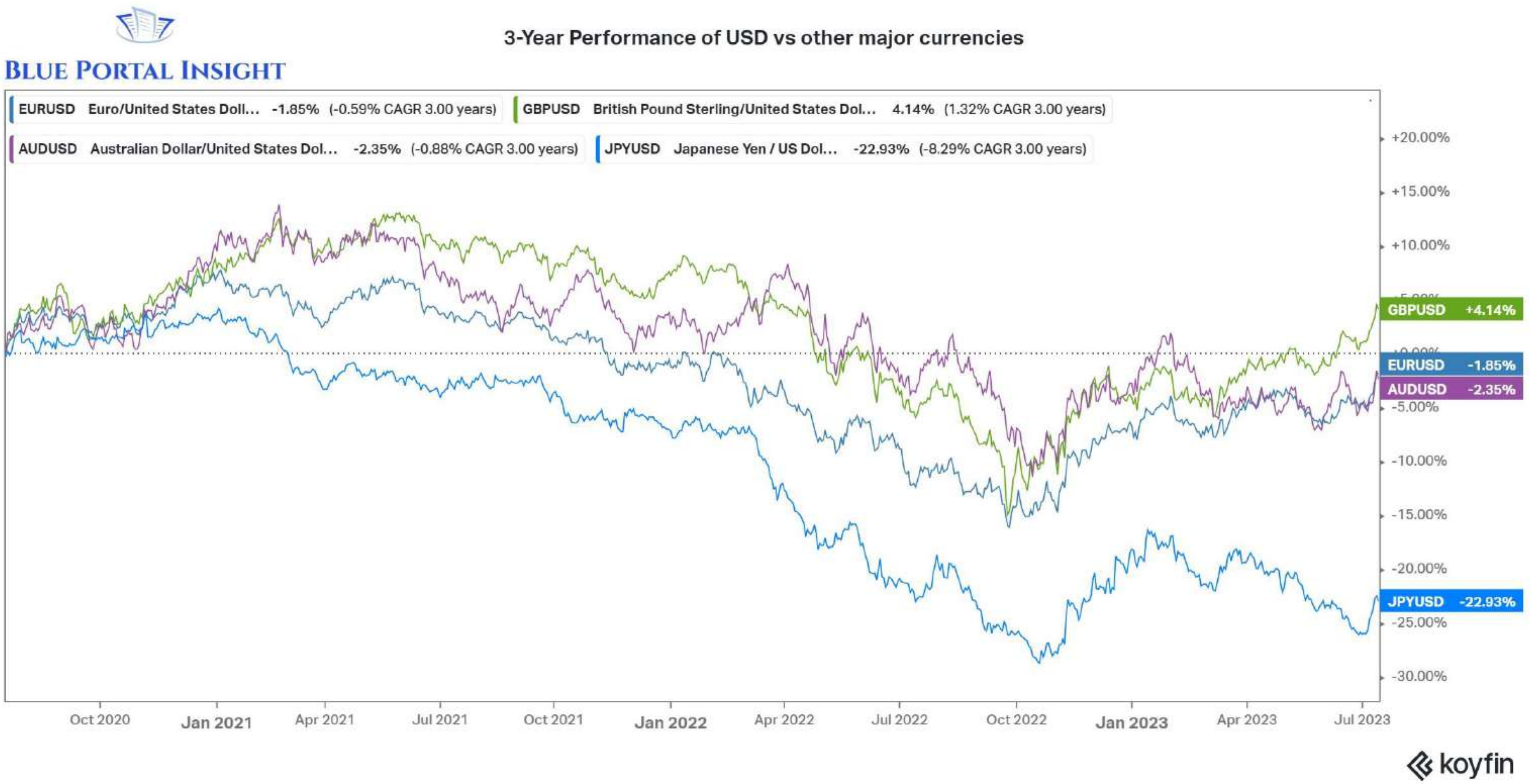
Currencies



The weekly move continues the months-long trend of a depreciating U.S. dollar versus other global currencies. The British pound and Euro have appreciated significantly since the strength of the USD peaked September of last year, partly attributed to the Bank of England and European Central Bank increasing interest rates over the same time period and thus catching up to Fed rate increases.

The recent U.S. CPI move could have been a major factor in the appreciation of international currencies since if the FED is to reduce interest rates sooner than expected, international government bonds are likely to have relatively higher interest rates in the medium term without any additional default risk.

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U.S. Consumer

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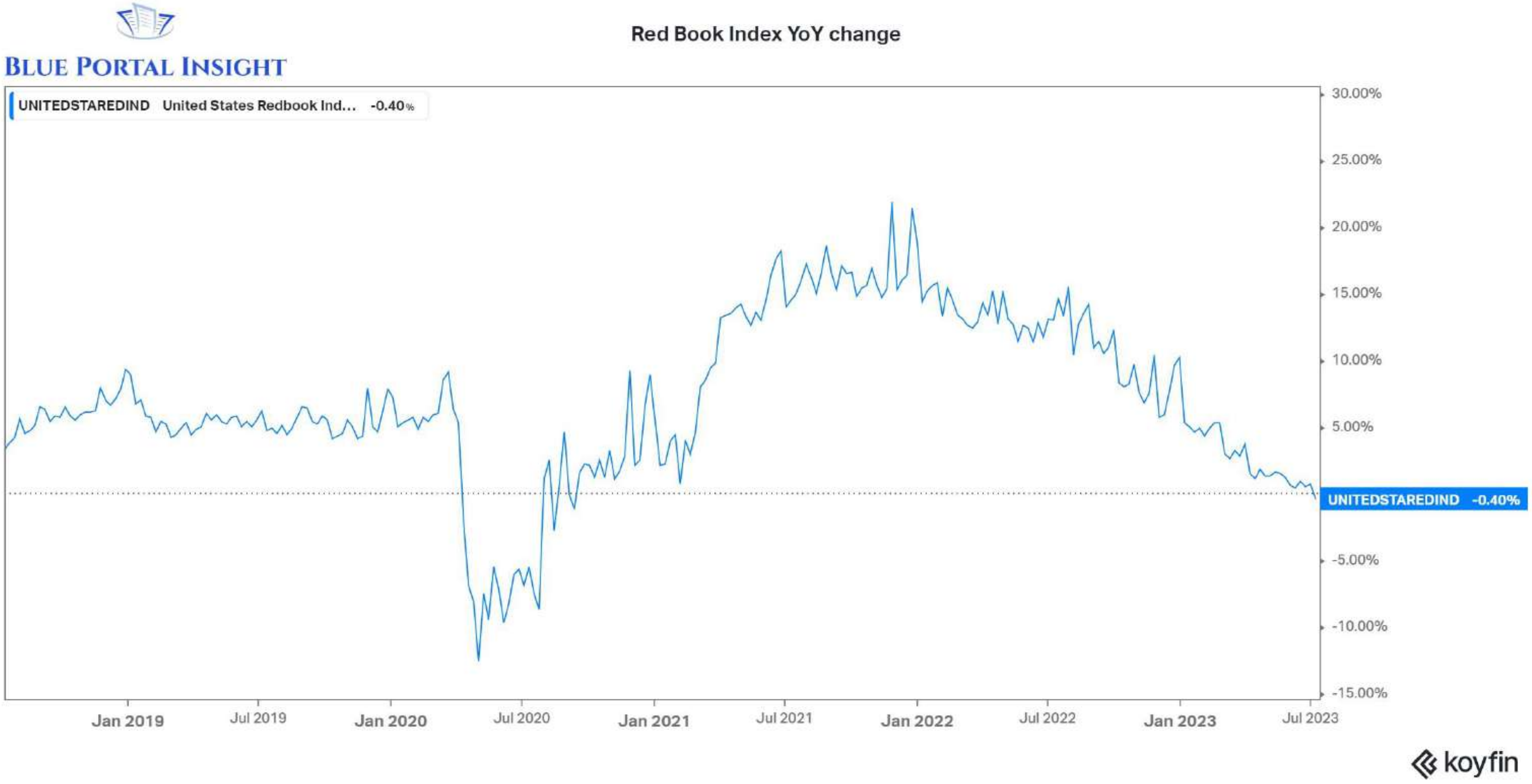
The state of the U.S. Consumer



Considering this past week, the redbook index reported somewhat of a substantial figure relative to its reportable history, we've decided to dedicate some research into the economic affairs of the U.S. consumer.

The state of the U.S. Consumer

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The U.S. government provided two rounds of personal economic relief checks in March of 2020 and 2021 coinciding with the with the two spikes in the U.S. personal saving rate occurring during those time periods.

As inflation began to spike and as the Federal reserve quickly raised interest rates, which equally raised mortgage and overall credit rates across the U.S., the personal savings rate in the U.S. quickly dropped to some of the lowest levels recorded – 2.70%.

As the inflation rate has started to ease since June of 2022 and U.S. salary and wage growth has been positive for the last 3 years, and now actually stands higher than regular CPI, the personal savings rate has begun to improve yet still stands below the long-term average of 8.9%.

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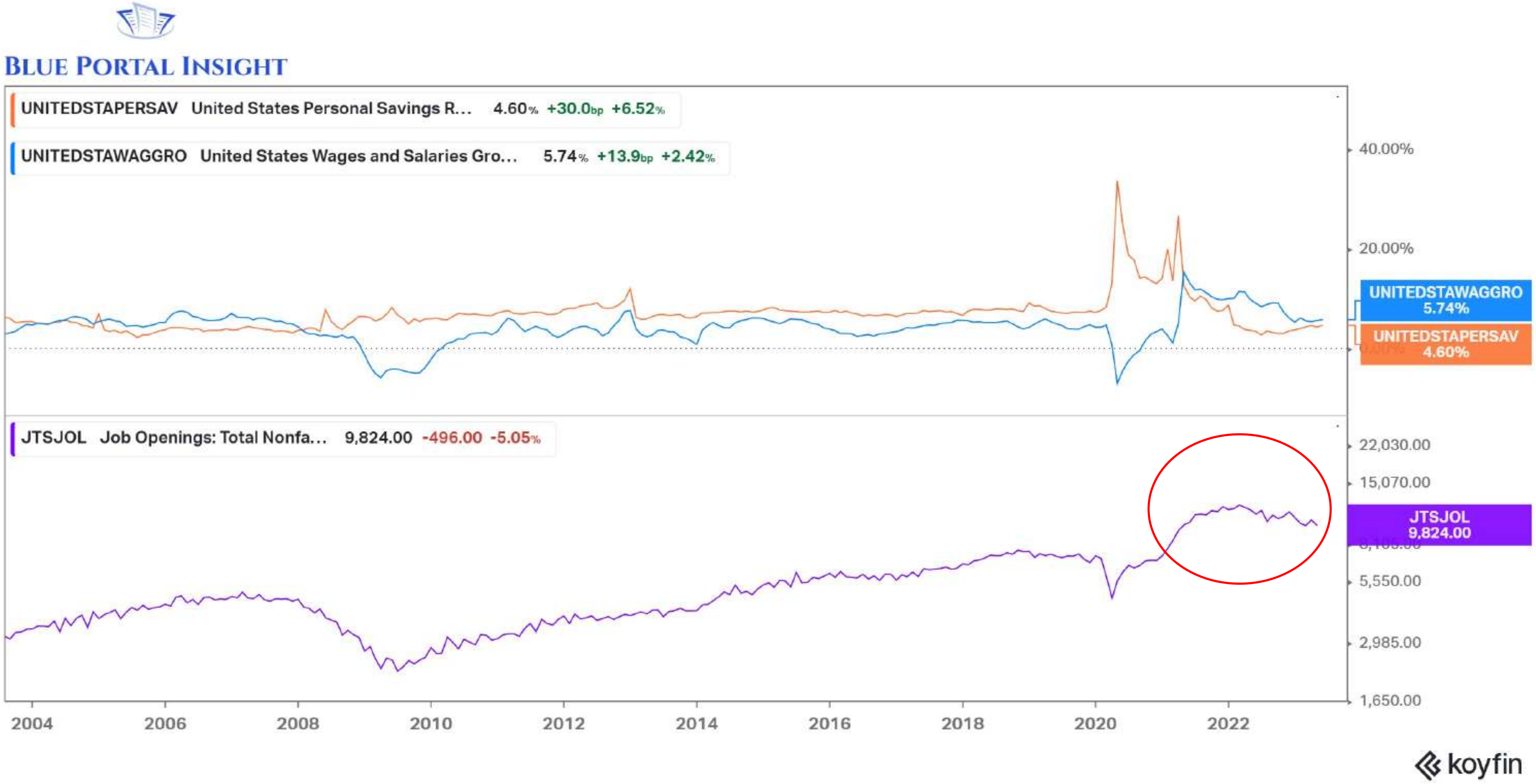
The state of the U.S. Consumer



In addition to easing consumer prices and wage growth, the large number of total job openings continues to put upward pressure on salaries and wages and historically low unemployment is likely to remain unchanged unless job openings subside.

All these factors should continue to support favourable conditions for positive consumption of goods and services across the economy.

However, the full extent of how these factors will contribute to the consumption story will only show itself in future consumption readings for which we will keep an eye out for.

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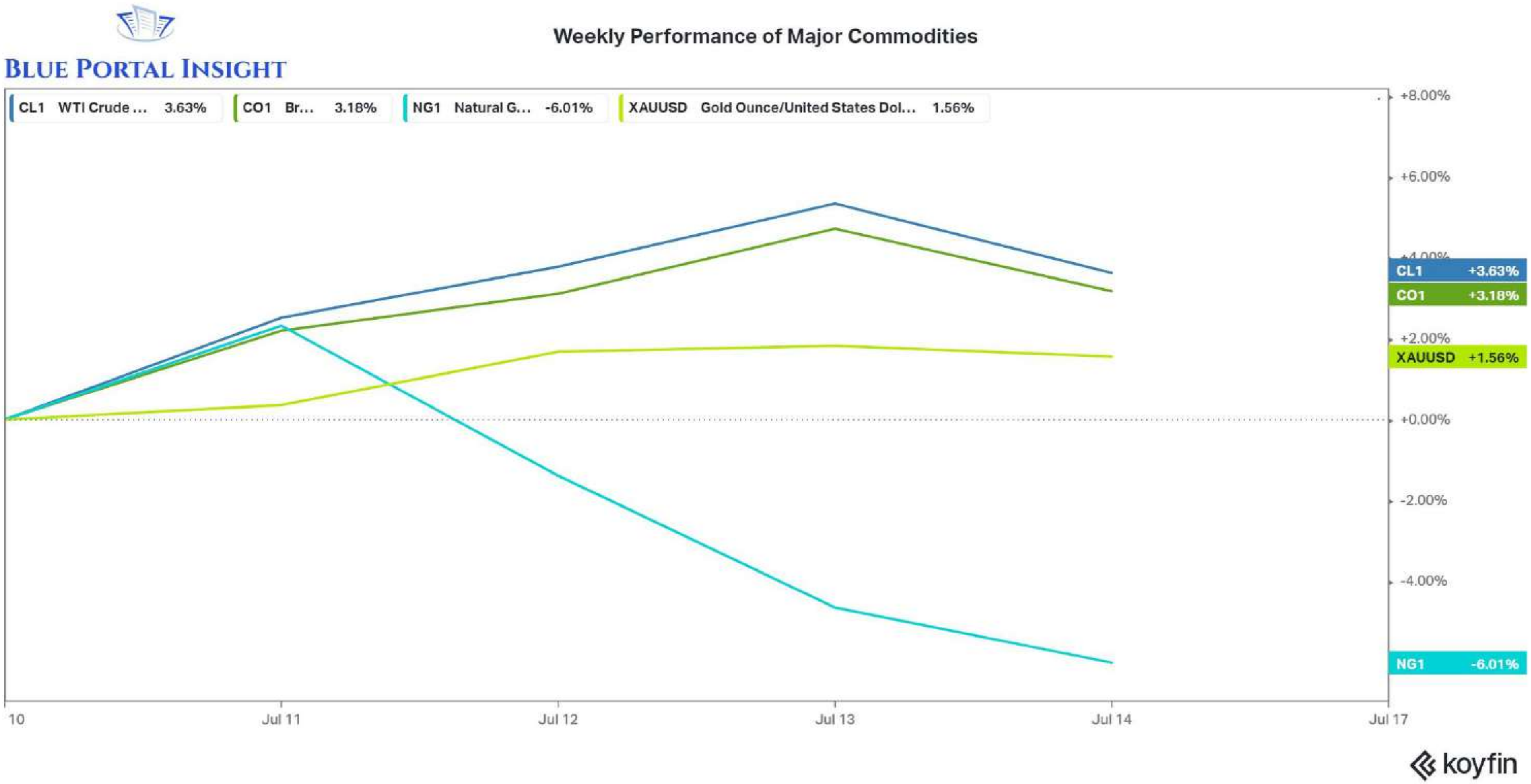
Commodities

Commodities weekly performance



West Texas Intermediate (WTI) and Brent Crude (Brent) were up 3.63% and 3.18% on the week.

Gold edged higher slightly by 1.56%

Natural gas prices experience a second consecutive week of negative performance. Natural gas prices were down 6% on the week.

Commodities Year-to-Date performance

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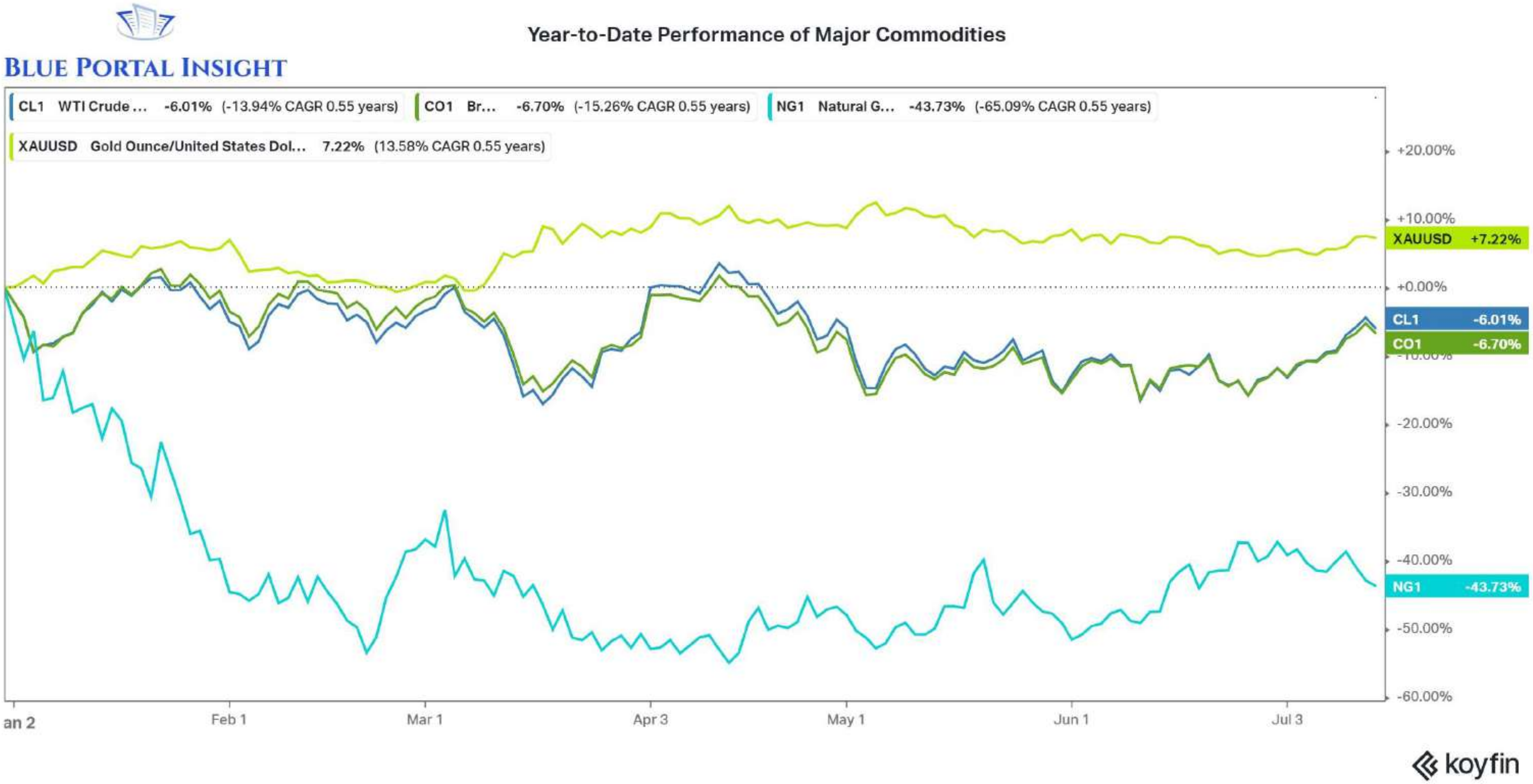
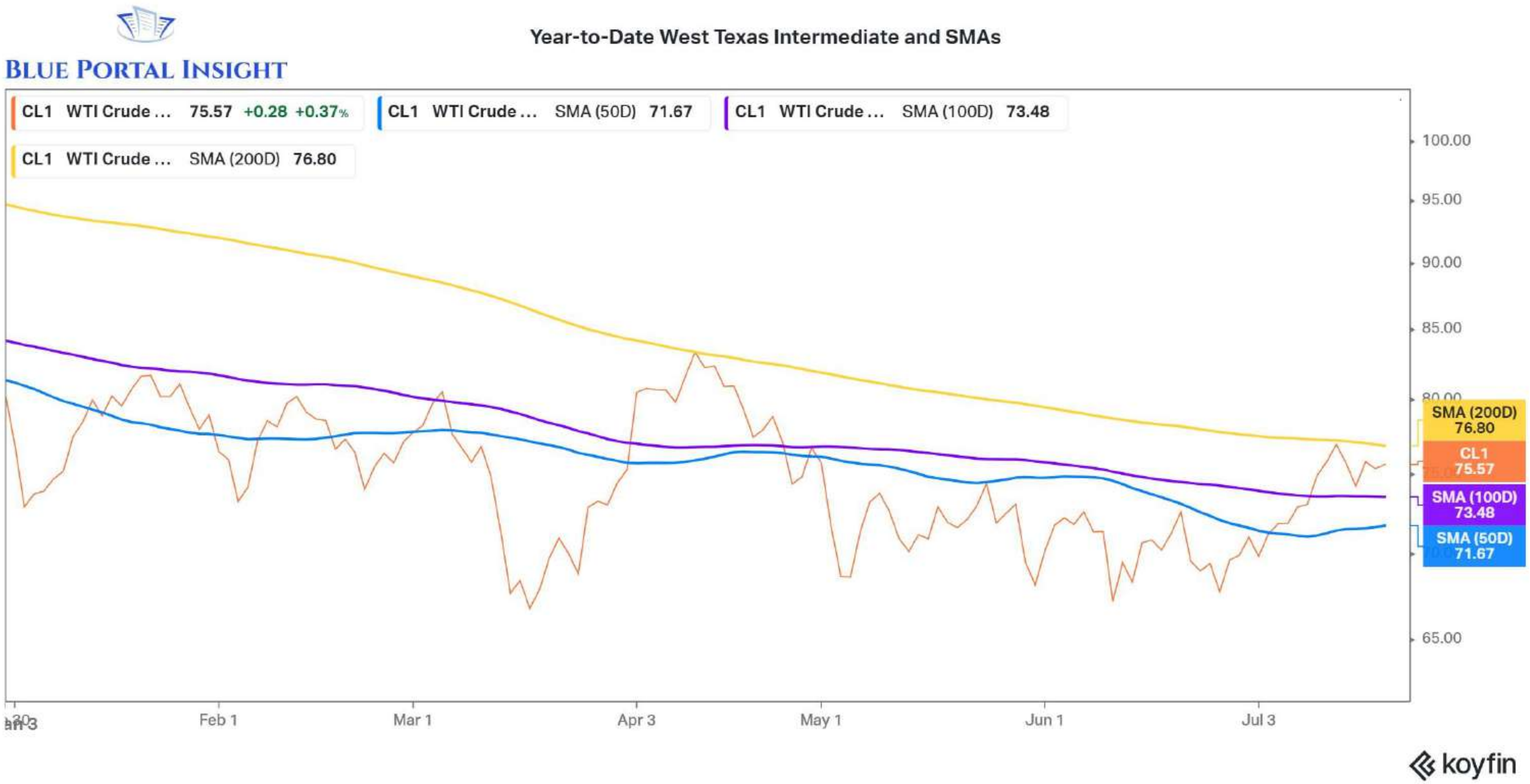


Year-to-date, gold remains the positive performer of the main commodities group – up 7.22% on the year.

Oil prices are negative YTD (approx. 6%) even though the last two weeks have pushed all prices closer to being flat on the year.

Natural gas prices performance on the year remains stubbornly low on the year at negative 43.7%.

Oil prices and momentum



Independent of oil prices being down on the year, the last two weeks could indicate a momentum shift with oil spot prices moving above the 50, 100 and nearly the 200 simple moving average. If this trend continues, we could see further opportunities for oil producing equities that have somewhat underperformed even though oil prices have recently risen.