J. Safra Sarasin
Cross-Asset Weekly

27 October 2023

The Bank of Japan needs to catch up

While the substantial monetary tightening has led to a sharp increase in real yields across most developed markets curves, the restrained response by the Bank of Japan (BoJ) has so far only led to a very limited rise in real rates outside of ultra-long tenors. Higher inflation forecasts as well as the yen weakness will likely be sufficient reasons for the BoJ to take another step along its path towards policy normalisation. Therefore, a further YCC policy adjustment at the next meeting by giving market forces more room to price longer-term yields looks likely.

As expected, the ECB left rates unchanged, reiterating the view that rates are now likely restrictive enough to make a substantial contribution towards reaching the 2% inflation objective. President Lagarde also cited increasing downside risks to the euro area economy, suggesting that the ECB might indeed be done raising rates.

Most Fed officials probably also believe that they have done enough to bring down growth and eventually inflation back to target. We therefore expect the Fed to be on hold next week. But like the ECB, the Fed will be data dependent, and would hike rates again if incoming data were to justify such a move.

Finally, The US Q3 earnings season is off to a strong start. Despite the solid data, the bar is very high for better Q3 results to translate into positive performance. The rise in rates since the Fed meeting in September has significantly increased the pressure on equities, with tech being most exposed. Valuations in the tech space are hard to justify if doubts about the earnings trajectory were to creep in. This puts a lot of focus on the sector's results, with downside risks larger than upside risks.

This week's highlights

Japan macro – BoJ preview 2
Shifting to a less dovish stance

US macro – Fed preview 4
Taking time to reflect

Euro area macro: ECB-Meeting 6
Stronger focus on downside risks for growth

US equities 8
Q3 earnings: good but not magnificent

Economic Calendar 11
Week of 30/10 – 03/11/2023

Market Performance 12
Global Markets in Local Currencies

Contacts

Dr. Karsten Junius, CFA
Chief Economist
karsten.junius@jsafrasarasin.com
+41 58 317 32 79

Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

Mali Chivakul
Emerging Markets Economist
mali.chivakul@jsafrasarasin.com
+41 58 317 33 01

Alex Rohner
Fixed Income Strategist
alex.rohner@jsafrasarasin.com
+41 58 317 32 24

Dr. Claudio Wewel
FX Strategist
claudio.wewel@jsafrasarasin.com
+41 58 317 32 26

Wolf von Rotberg
Equity Strategist
wolf.vonrotberg@jsafrasarasin.com
+41 58 317 30 20

Japan macro – BoJ preview

Shifting to a less dovish stance

Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

We expect the BoJ to turn less dovish when it meets on October 31. Higher inflation forecasts from board members as well as yen weakness should be sufficient reasons for the BoJ to take another step along its long path towards policy normalisation. A further adjustment in the conduct of its YCC policy, letting market forces play a greater role in shaping the yield curve, is likely.

BoJ likely to change conduct of YCC

We expect the Bank of Japan (BoJ) to turn less dovish when it meets next week. New forecasts showing higher inflation rates for fiscal year 2023 and 2024, as well as the weaker yen, should be a catalyst for the BoJ to change its Yield Curve Control (YCC) policy once again. At a minimum, we expect its forward guidance to be more balanced.

Inflation in the near term is likely to fall more slowly than the BoJ previously anticipated

Since the BoJ published the July forecasts of its Policy Board Members, inflation has continued to run above expectations. The yen has lost almost 5% against the dollar, while the oil price has risen by 9%. As a result, imported inflation and its impact on consumer prices will be higher than the BoJ previously anticipated. In the near-term, therefore, annual inflation rates are likely to fall more slowly than previously anticipated.

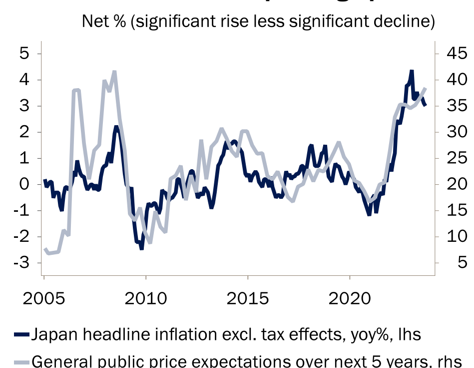
Medium-term inflation expectations are elevated

This should also impact the BoJ's medium-term outlook for inflation. The outlook is essentially anchored around two components: (i) inflation expectations and (ii) the output gap. Both should impact wage growth and firms' wage- and price-setting behaviour. Importantly, inflation expectations in Japan appear to be largely adaptive; i.e., heavily influenced by past inflation. Surveys that the BoJ tracks closely have indeed shown that medium-term expectations of both households and firms point to persistently more elevated inflation (Exhibits 1-2).

A positive output gap is consistent with more sustained inflationary pressures

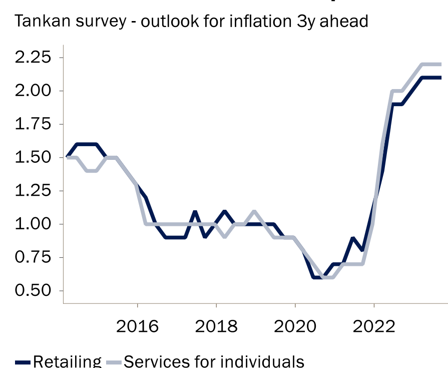
In addition, the BoJ's output gap estimate – which captures the utilization of labour and capital – has closed in Q2, and high-frequency indicators suggest that it turned positive in Q3 (Exhibit 3). While this is in line with its previous forecast, a more sustained pace of GDP growth in the second half of the year and into next year, reflecting a stabilisation of growth in China, a resilient US economy and likely more fiscal support to offset elevated energy prices, point to a more rapid rise in the output gap than the BoJ indicated in July. This would also imply stronger medium-term inflationary pressures.

Exhibit 1: Households expect high prices



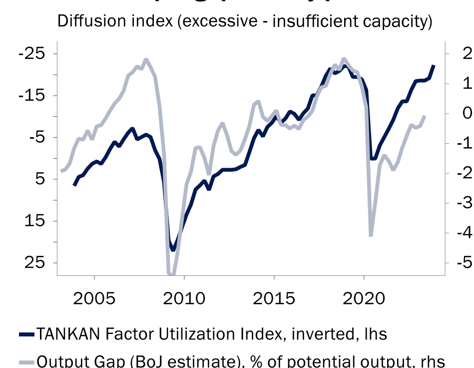
Source: Macrobond, Bank J. Safra Sarasin, 26.10.2023

Exhibit 2: Firms see sustained price rises



Source: Macrobond, Bank J. Safra Sarasin, 26.10.2023

Exhibit 3: Output gap is likely positive



Source: Macrobond, Bank J. Safra Sarasin, 26.10.2023

J. Safra Sarasin
Cross-Asset Weekly

27 October 2023

BoJ to revise up significantly its inflation forecasts

We believe the BoJ is likely to revise up its CPI inflation (all items less fresh food) forecasts to around 3% for FY23 (from +2.5% in July) and to 2.0-2.3% for FY24 (from +1.9%). This would point to CPI inflation exceeding the 2% target for three years from FY22, and fulfilling the BoJ's "inflation-overshooting commitment", which is one pillar of its quantitative and qualitative monetary easing (QQE) with a negative interest rate policy.

Risk of a more rapid JPY depreciation were the BoJ fail to take another step towards policy normalisation should also be an incentive to act

Another factor that is likely to influence the BoJ's decision is the renewed downward pressure on the yen. Over the past few weeks, the government appears to have had to step up its yen purchases to slow down the depreciation. While we don't expect the BoJ to change its stance just to contain the depreciation – the weakness of the yen helped the BoJ over the past year to boost inflation and inflation expectations – there is a case to be made that at this point, a further easing of financial conditions is not warranted given the more endogenous drivers of inflation that are in place. Modifying or even scrapping YCC might provide only a limited and short-lived boost to the yen given the strength of the US economy and expectations for US interest rates to remain elevated (Exhibit 4). But failing to move towards a more normal policy stance would add to existing downward pressure on the yen, which the authorities might find difficult to contain.

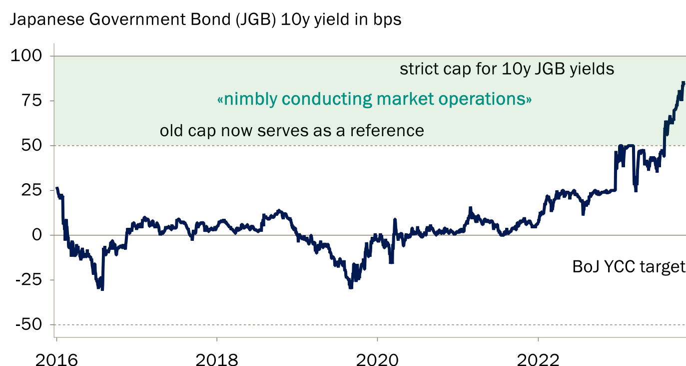
Different options to loosen its grip on the yield curve

Scrapping YCC altogether could be too radical for the BoJ at this stage, though not impossible. Still, it has different options to further loosen its control on the curve, such as (i) shifting the formal upper limit on the 10-year JGB yields from 0.5% to 0.75%, while keeping the 'strict cap' at 1%; (ii) raising the 'strict cap' above 1%, (iii) targeting the 5-year instead of the 10-year, allowing a great portion of the curve to be market driven (Exhibit 5).

Exhibit 4: Yield differentials have weighed on the yen

Source: Macrobond, Bank J. Safra Sarasin, 26.10.2023

Exhibit 5: Another likely adjustment to the conduct of YCC



Source: Macrobond, Bank J. Safra Sarasin, 26.10.2023

BoJ to turn less dovish. Another adjustment to the 'conduct' of YCC is highly likely

To sum up, we think there is a strong case to be made for the BoJ to gradually shift its policy towards a somewhat less accommodative stance. Large upward revisions to its July inflation forecasts for both this fiscal year and next, as well as renewed downward pressure on the yen, should be sufficient reasons for the BoJ to turn less dovish. Another adjustment to its YCC policy is therefore highly likely. We don't rule out either the possibility for the BoJ to scrap it altogether, while controlling the long-end of the yield curve by committing to keep the negative interest rate policy in place for an extended period of time – until at least spring next year when the next annual 'shunto' wage negotiations take place.

J. Safra Sarasin

Cross-Asset Weekly

27 October 2023

US macro – Fed preview

Taking time to reflect

Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

The recent tightening of financial conditions and the drop in inflation over the past three months should allow the FOMC to keep rates on hold next week, as widely expected. Fed officials likely believe that they have done enough to bring down growth and eventually inflation back to target. We hold the same view. But if the real economy continues to surprise on the upside and inflation picks up in coming weeks, we suspect that the Fed will not hesitate to pull the trigger again in December or in 1Q24.

Fed to keep rates on hold but to reaffirm the view that policy will remain tight as long as the real economy remains strong

Investors are all but certain that the Fed will keep rates on hold when it meets next week. Mr. Powell, alongside a number of influential Fed officials, such as Governor Waller and Vice Chair Jefferson have reaffirmed the view that policy rates are likely to remain elevated for an extended period of time. They also explained that the drop in inflation in the past three months, the effects of past tightening that are still in the pipeline, as well as the recent tightening of financial conditions imply that the Fed can afford to wait and observe what signals the data are sending. What's clear is that as long as the real economy remains strong, the Fed will not hint at any incoming rate cuts, but rather at the possibility of having to do some more work to rein in inflation. In short, the "higher-for-longer" pricing in the rates market is likely to continue until there are some signs that activity is slowing.

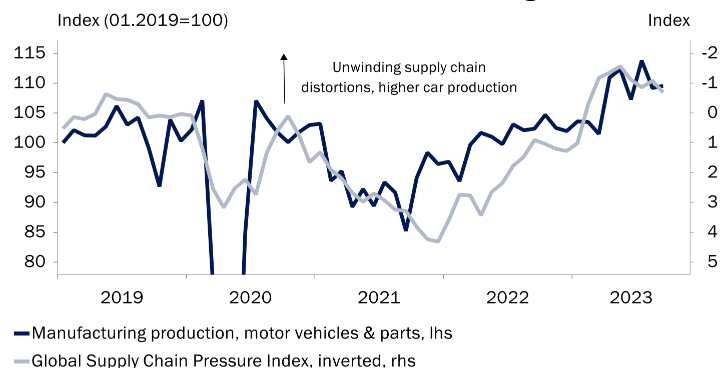
Above-trend growth and disinflation are unlikely to be sustained. The Fed sees two plausible scenarios

As Governor Waller argued last week, the US current economic situation of above-trend growth and disinflation is "looking a little too good to be true". As we have been writing consistently in the past (see here and here), the unwinding of pandemic-related distortions to supply and demand, such as the healing of supply chains, in conjunction with the rebalancing of demand and supply in the labour market, has allowed disinflation without substantially weaker growth (Exhibits 1-2). But the Fed , as we do, doesn't see these trends to be sustained and that "something's got give". The real side of the economy and prices are closely interlinked, and there are realistically only two scenarios:

In its base case, growth drops below its trend rate, slack opens up and inflation falls towards target

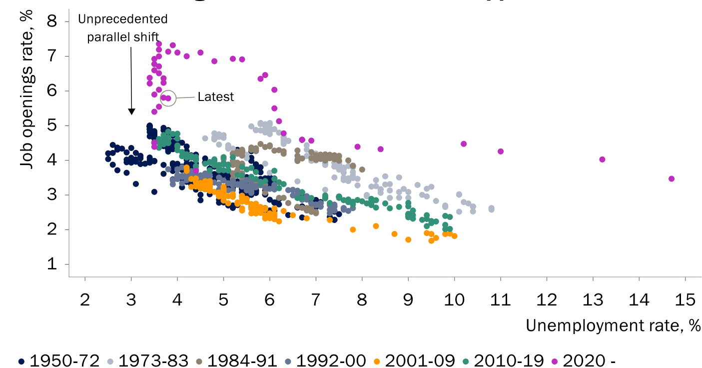
In the first scenario, the Fed's base case, real growth moderates below its trend rate, which helps bring demand and supply into better balance and inflation back towards 2%. This would also imply that any further drop in job openings are more likely to be associated with higher unemployment – something that has not happened so far this year (Exhibit 2).

Exhibit 1: Pandemic-related distortions' unwinding has boosted GDP



Source: Macrobond, Bank J. Safra Sarasin, 23.10.2023

Exhibit 2: Beveridge curve's downward shift appears to have stalled



Source: Macrobond, Bank J. Safra Sarasin, 23.10.2023

The increase in the term premium implies that the Fed has to do less – we continue to think that the Fed reached the end of its tightening cycle in July

In addition, the increase in long-term bond yields in past few months, in large part driven by the term premium, should help the Fed achieve its objective. This is important as in the Fed's view (and ours), a rise in this component represents a tightening of financial conditions and, all else being equal, requires them to do less with monetary policy. This rise should act as a substitute for an additional hike, as implied in the September SEP.

Tighter financial conditions should weigh on growth

How persistent this increase will turn out to be is uncertain, and in part depends on what has driven this move. Many factors have been put forward, such as the unsustainability of fiscal policy, QT, the likely prevalence of negative supply shocks and the fact that bonds might not work as an effective hedge against risk. While these long-term issues can probably explain some of the rise, they have been a source of concern for some time already. The recent sharp move up in bond yields instead probably reflects a combination of the economy's unexpected resilience and the cost of holding long bond positions, sapping risk appetite. If this is right, a larger term premium could weigh on growth, but if that revives concerns of a recession it could also bring the term premium back down.

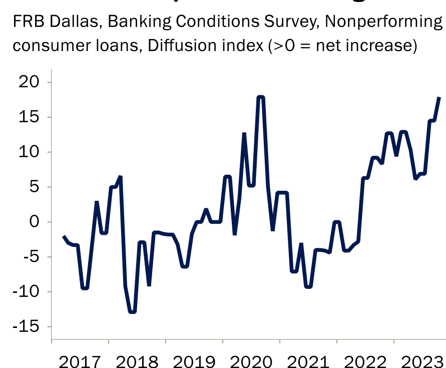
Growing signs that higher interest rates are hurting the consumer

There are signs that this negative effect is starting to bite. For instance, the rise in mortgage rates to near 8% has dealt another blow to homebuilder sentiment. The net number of banks reporting a rise in consumer nonperforming loans reached its highest level since 2020, according to the latest Dallas Fed Banking Conditions Survey. Additionally, tighter financial conditions alongside the restart of student loan repayments are straining households' budgets (Exhibit 3-5). Finally, the percent of subprime auto loans at least 60 days past due on their loans increased to 6.1% in September, the highest since records began in 1994, according to Fitch.

Exhibit 3: Builders' sentiment is turning

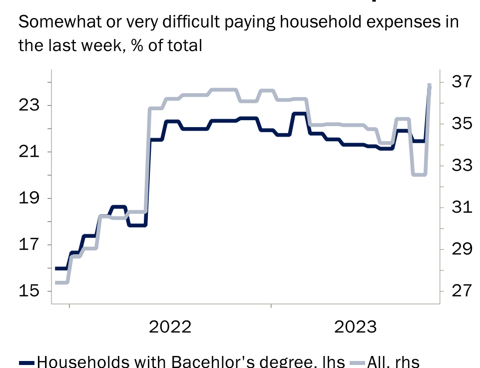
Source: Macrobond, Bank J. Safra Sarasin, 25.10.2023

Exhibit 4: Delinquencies are rising



Source: Macrobond, Bank J. Safra Sarasin, 25.10.2023

Exhibit 5: Households under more pressure



Source: Macrobond, Bank J. Safra Sarasin, 25.10.2023

In the alternative scenario, growth remains resilient, forcing the Fed to raise rates further

In the alternative scenario, growth remains resilient and inflation settles at a too-elevated level or even picks up further. One possible explanation would be that the real neutral policy rate is much higher than most models indicate, suggesting that the rise in bond yields might not be enough to bring inflation back to target and requires additional tightening at the short end. While we don't think that this is the more likely scenario, relatively strong growth numbers over the coming months and a renewed increase in core inflation rates on a monthly sequential basis to 0.35-0.40% would increase the likelihood of that scenario, and probably force the FOMC to hike once more at the end of the year.

No surprise is expected at this meeting, but Chair Powell will keep its options open

In conclusion, we don't expect any surprise from this November Fed meeting. We think that Jerome Powell will continue to insist that policy is restrictive and that given the existing tightening, as well as the uncertainties and risks to the global economy, the Committee can and needs to proceed carefully. But he will close no doors.

J. Safra Sarasin
Cross-Asset Weekly

27 October 2023

Euro area macro: ECB-Meeting

Stronger focus on downside risks for growth

Dr. Karsten Junius, CFA
Chief Economist
karsten.junius@jsafrasarasin.com
+41 58 317 32 79

The ECB Governing Council unanimously decided to keep its policy rates unchanged. President Lagarde confirmed that policies remain data dependent, that future rate hikes are not excluded and that it would be premature to indicate when or under what circumstances rate cuts could be made. She also confirmed that neither changes to the PEPP programme nor the renumeration of required reserves were discussed at the meeting. This indicates that those topics might be dealt with in the context of the review of the operating framework next spring only. Overall, President Lagarde stressed more the downside risks to the ECB's economic scenario by acknowledging that growth has weakened and continues to be weak. We conclude from her comments and the latest economic data that the ECB most likely will revise down its growth forecasts at its next meeting in December. When asked, President Lagarde did not comment on the widening spreads between Italian and German government bond yields and the rising debt sustainability concerns markets have. She only vaguely referred to the instruments in place to secure the transmission – which was far from a commitment to use them in the case of Italy.

Economic risks tilted to the downside such that the ECB will have to revise down its growth expectations in December

The ECB is seeing clearer signs that its tight monetary policy is transmitted to the economy via the bank lending channel. President Lagarde stressed that bank lending has slowed and that falling credit demand and tighter credit conditions – as indicated by this week's bank lending survey – will slow it down further. She explained that the economy remains weak and that this weakness can be seen on various sides. Also, the service sector is weakening as catch-up effects from the pandemic are fading, spill-overs from the manufacturing sector bite, and higher interest rates reduce demand further. As a result, there are also signs that the labour market is cooling. She acknowledged that the economic weakness might last until 1Q24, for which the last ECB projections from September still indicated a growth rate of 0.3% qoq – a number close the growth potential. Lagarde re-emphasized that higher real incomes should strengthen economic growth in the future but this time she was only speaking about a recovery in the coming years, indicating that a turn-around might take longer than had been expected so far. We conclude, that it is very likely that the ECB will have to revise down its growth forecasts by at least 0.25 percentage points for 2023 and 2024 when revising its macro projections in December. At the same time, inflation rates are falling as expected which makes further rate hikes unnecessary.

Fiscal policy should become less generous, Italy is doing worse than most other euro area countries

President Lagarde also mentioned that fiscal policy should support monetary policy and called for lower fiscal deficits. She also expressed her view that the EU fiscal governance framework should be concluded by the end of the year. Lagarde praised the progress made in Greece whose stellar performance has pushed economic activity already 10% higher than its pre-COVID level. She confirmed that Greek bonds are eligible for the PEPP and that Greece doesn't need a waiver for inclusion in any asset purchase programmes anymore. In contrast, she did not comment on the specifics of the Italian case, where bond spreads versus German bunds have increased to above 200bp lately. However, she confirmed that the transmission of monetary policy to all euro area countries would be watched closely and that appropriate instruments would be in place. This vagueness is clearly no commitment to use them in favour of Italy and shows in our view that the ECB might share our concerns about Italy's latest budget proposals and its ability to deal with a high interest rate environment. To illustrate our concerns, we have added a few statistics, which show that Italy is doing worse than most other euro area countries. Exhibits 1 and 2 compare current bond yields and future GDP growth as forecast by the IMF. Primary

budget surpluses are needed to keep debt ratios constant if nominal bond yields exceed potential nominal growth. Exhibits 3 and 4 show the projected budget balances and the medium-term impact of higher spending on pensions. Finally, exhibits 5 and 6 display the sensitivity of the current debt burden to higher interest rates. Shorter average maturities make countries more vulnerable as higher market rates kick in earlier. Similarly, a high-debt-to-maturity ratio means that a larger volume of bonds in % GDP needs to be re-financed each year. In all exhibits, countries on the left side do worse than those on the right side. Italy can be found on the left side in all of these charts.

Exhibit 1: Latest bond yields vary by a wide margin in the euro area

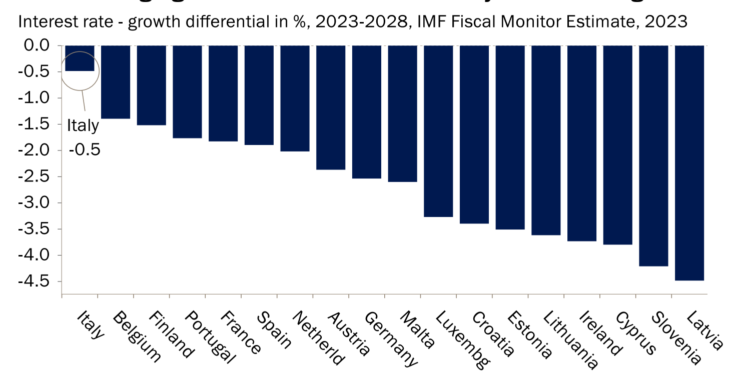
10 Year Government Bond Yield in %

	last (0 1 2 3 4 5)	last	Dec 2022	Dec 2021	Change since Dec 2021
Austria		3.44	3.20	0.09	3.52
Belgium		3.50	3.16	0.18	3.51
Finland		3.42	3.09	0.07	3.49
France		3.40	3.10	0.20	3.39
Germany		2.83	2.56	-0.18	3.17
Greece		4.25	4.57	1.31	3.00
Ireland		3.30	3.06	0.25	3.19
Italy		4.83	4.67	1.17	3.87
Netherlands		3.19	2.90	-0.03	3.39
Portugal		3.51	3.60	0.49	3.18
Slovenia		3.68	3.75	0.46	3.48
Spain		3.94	3.63	0.56	3.54

Source: Macrobond, Bank J. Safra Sarasin, 24.10.2023

Exhibit 2: High growth rates make hike bond yields more digestible

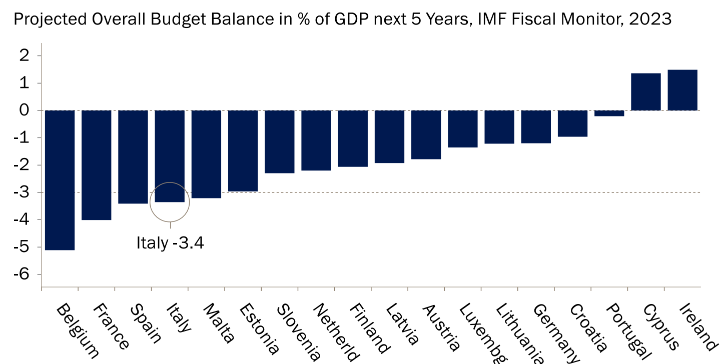
Interest rate - growth differential in %, 2023-2028, IMF Fiscal Monitor Estimate, 2023



Source: IMF, Macrobond, Bank J. Safra Sarasin, 24.10.2023

Exhibit 3: For 2024, the 3% deficit ceiling is still in place so far

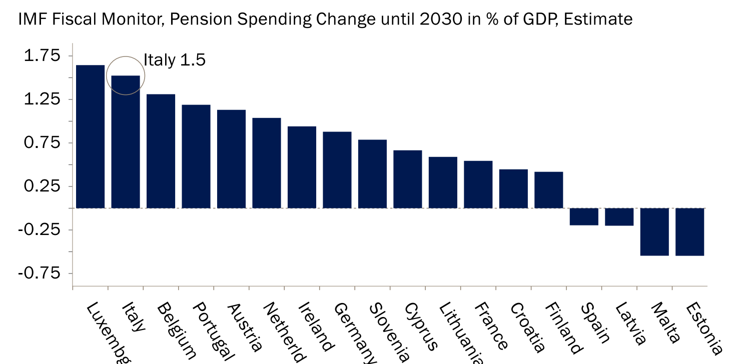
Projected Overall Budget Balance in % of GDP next 5 Years, IMF Fiscal Monitor, 2023



Source: IMF, Macrobond, Bank J. Safra Sarasin, 24.10.2023

Exhibit 4: Increasing pension spending will weigh on future budgets

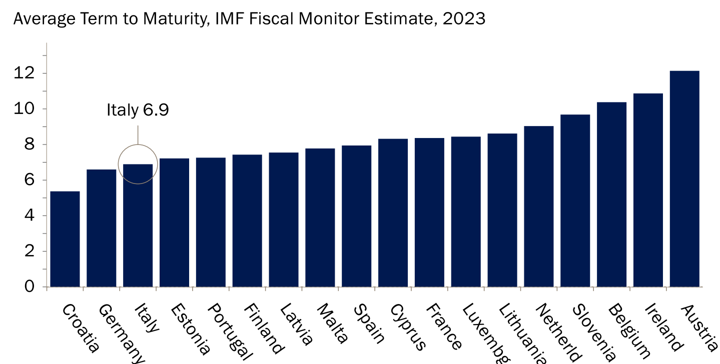
IMF Fiscal Monitor, Pension Spending Change until 2030 in % of GDP, Estimate



Source: IMF, Macrobond, Bank J. Safra Sarasin, 24.10.2023

Exhibit 5: Shorter maturities mean faster rise in interest expenses

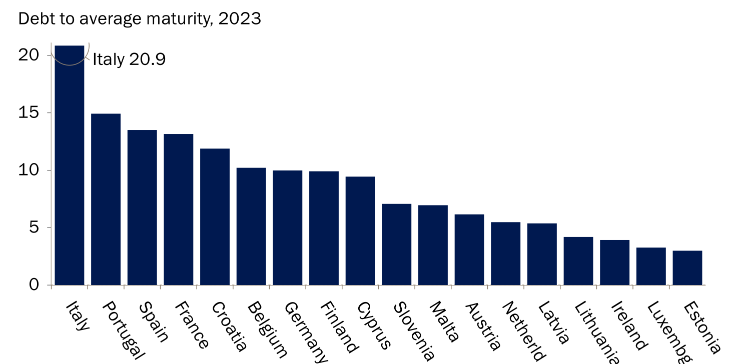
Average Term to Maturity, IMF Fiscal Monitor Estimate, 2023



Source: IMF, Macrobond, Bank J. Safra Sarasin, 24.10.2023

Exhibit 6: Debt/maturities shows the % of GDP to be refinanced p.a.

Debt to average maturity, 2023



Source: IMF, Macrobond, Bank J. Safra Sarasin, 24.10.2023

J. Safra Sarasin

Cross-Asset Weekly

27 October 2023

US equities

Q3 earnings: good but not magnificent

Wolf von Rotberg
Equity Strategist
wolf.vonrotberg@jsafrasarasin.com
+41 58 317 30 20

The US Q3 earnings season is off to a strong start. After 35% of companies have reported, EPS growth is tracking at a solid 1.3% yoy, which marks the first positive yoy number since Q2 2022. More than 70% of companies have so far managed to beat expectations with reported index EPS currently 7.3% above pre-season expectations. If the remaining reports manage to beat by the same extent, S&P 500 earnings growth would rise to around 5% yoy and 12% qoq by the time the season closes. Despite these solid data, the market has sold off over recent weeks, which goes to show that the bar is very high for better Q3 results to translate into positive performance. The rise in rates since the Fed meeting in September has significantly increased the pressure on equities, with tech being most exposed. Valuations in the space are hard to justify if doubts about the earnings trajectory were to creep in. This puts a lot of focus on the sector's results, with downside risks larger than upside risks.

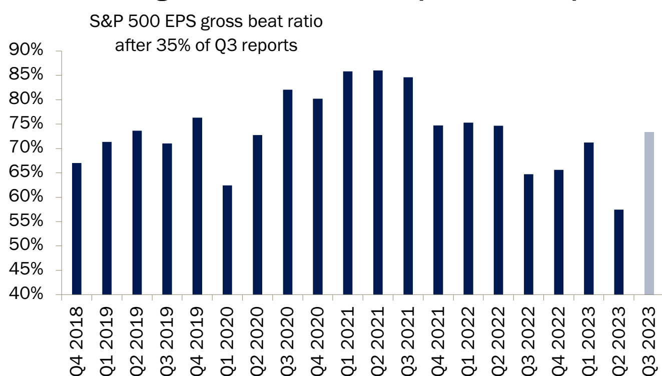
The market has not taken its cues from a strong start to the Q3 season lately

Markets remain unfazed by a Q3 earnings season, which produces results well ahead of consensus expectations. After 35% of S&P 500 names have reported their Q3 numbers, 73% beat expectations, which is broadly in line with what has been suggested by improving Q3 macro data, and would mark the highest EPS beat rate since Q2 2022, if it holds until the end of the reporting season (Exhibit 1).

EPS growth positive for the first time since Q3 2022

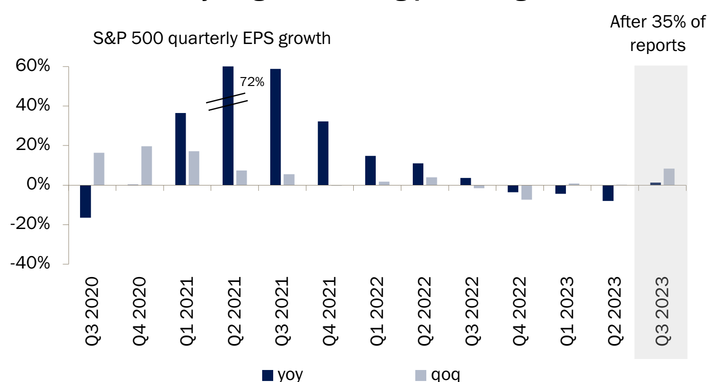
EPS growth itself also looks solid. Year-over-year earnings growth has returned into positive territory after three consecutive quarters of declines, with the current (blended) growth rate of 1.3% likely to rise further as the season progresses. So far, S&P 500 companies on aggregate have reported Q3 earnings 7.3% above pre-season expectations. If companies continue to beat at this rate, yoy growth for the S&P 500 should rise to around 5% by the end of the season, while qoq growth should rise to 12%, which would mark the strongest qoq EPS growth number since Q1 2021 (Exhibit 2).

Exhibit 1: Strong beats after 35% of companies have reported



Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

Exhibit 2: Year-over-year growth turning positive again



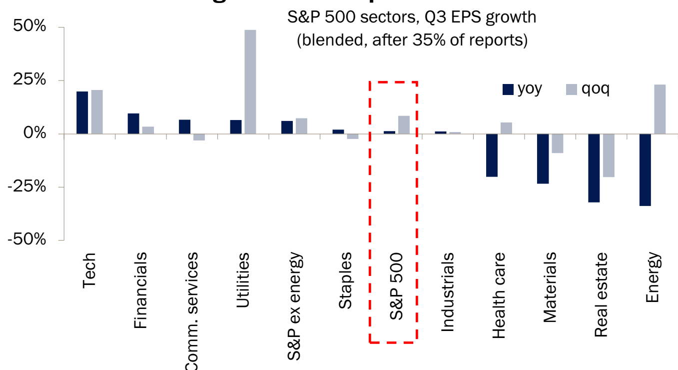
Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

Major universal banks once again saw solid net interest income

Financials have done some of the heavy lifting. 61% of the sector have already reported, with yoy EPS growth tracking at 5%, well ahead of the marginal decline which was expected by consensus at the beginning of the season (Exhibit 3). Bank results continued to benefit from the higher rates environment, with net interest income once again surprising on the upside (Exhibit 4). However, the positive impact was concentrated in major universal banks, which do not yet feel the pressure to raise deposit rates, while smaller lenders

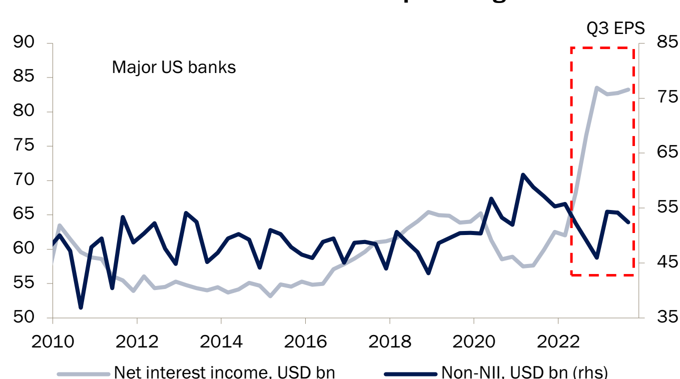
continue to struggle. Investment banking fee income was slightly better than expected, but not sufficient to reverse the trend for lenders with large investment banking arms. They continued to lag their more traditional peers as deal volumes remained soft in Q3. This will likely only change once recessionary risks have dissipated and the outlook for the cycle has improved. As mentioned in our preview for the Q3 season, the environment for bank earnings and the cycle is set to get worse before getting better. The negative impact from higher rates (rising defaults, slowing credit growth & rising investment portfolio losses) should increasingly offset the positive impact from net interest income. This leaves the sector trading on seemingly attractive valuations but will likely see the earnings component come down before prices can move higher sustainably.

Exhibit 3: Tech earnings continue to power ahead



Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

Exhibit 4: Banks net interest income improved again



Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

US equities are down more than 4% since the season has started

The market reaction has been in stark contrast with those generally better-than-expected results. Small misses have been beaten up heavily while price gains only followed substantial upside surprises. Since the beginning of the season, the US market is down 4% and only 2 out of 10 sectors have moved higher (staples and utilities).

All tech-related sectors have shed more than 5% over recent weeks, with reporting mixed between the "Magnificent 7"

The biggest drop occurred in tech and tech-related sectors, with tech, consumer discretionary and communication services all shedding 5% or more over the past two weeks. This happened even though earnings in the tech space have not been all too bad. Beat rates have so far been well above long-term averages and out of the four "Magnificent 7", which have reported at the time of writing, only Tesla disappointed – largely due to idiosyncratic reasons. Alphabet reported some partial weakness in its cloud business, triggering a 10% drop in the stock, Meta was solid but flagged macro headwinds ahead. Only Microsoft was strong across all lines of business and the only name among the four which rose after releasing results.

Valuations leave no room for error

What's clear is that current valuation levels in the tech space are increasingly difficult to justify, in particular after the ramp up in rates since the September Fed meeting. Over 12 months, a 10-year US Treasury note now yields more than the aggregate US tech sector does, based on consensus earnings assumptions (Exhibit 5). This compares to an average premium of the tech earnings yield versus the Treasury yield of 2.2% over the past 10 years. If this premium were to be re-established with Treasury yields at current levels, US tech would have to trade 50% below today's prices. We don't expect this to happen but it just shows that any doubt over the stability of tech earnings could quickly lead to a substantial re-pricing of the sector.

J. Safra Sarasin Cross-Asset Weekly

27 October 2023

We remain cautious on tech, given that valuations require everything to go right

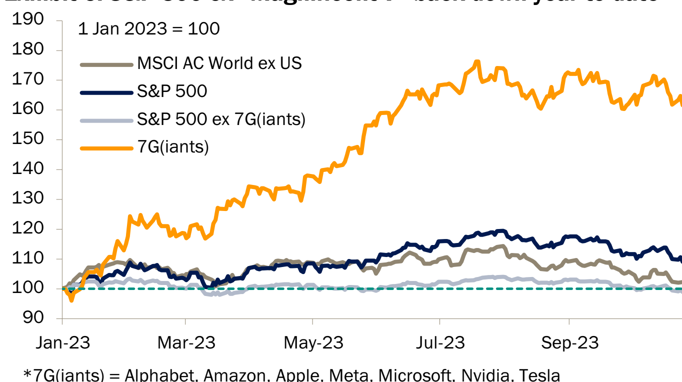
We thus believe that the potential for tech to outperform from here, even if earnings were to come in strong, remains limited, while downside risks in a slowing cycle are sizeable. As mentioned above, a note of caution came from Meta, which continues to rely largely on cyclical ad revenues. The company guided cautiously as they start to see macro headwinds affecting their business.

Softer performance ahead for the "Magnificent 7" should also curb market upside given the weighting of the sector. Leaving out the 7 largest names, the S&P 500 has already returned back into contraction territory year-to-date (Exhibit 6).

Exhibit 5: Tech valuations are difficult to justify at current rates levels

Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

Exhibit 6: S&P 500 ex "Magnificent 7" back down year-to-date



*7G(iants) = Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla

Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

Next week's key report will be Apple on Thursday

With some oil majors reporting today, the busiest week of the season is coming to a close. Next week, Apple's Q3 numbers on Thursday will surely receive the most attention. In particular after recent news about flagging iPhone sales in China, which may also reveal something about the state of the Chinese consumer in general. The last of the "Magnificent 7", NVIDIA, will report its Q3 results only on 21 November. After two record quarters it will be interesting to see whether the pace of growth can be upheld and generate another upside surprise against already elevated expectations.

Exhibit 7: Our Q3 earnings season dashboard

S&P 500 earnings dashboard Q3 2023	Reported				Blended (reported + consensus)		Net income margin	
Sector	**% reported**	**EPS yoy**	**Sales yoy**	**EPS beats**	**EPS yoy**	**Sales yoy**	**Consensus Q3**	**5-year avg**
Energy	21%	25%	9%	80%	-	-16%	11%	7%
Basic materials	28%	-25%	-13%	60%	-23%	-11%	10%	12%
Industrials	42%	3%	6%	79%	1%	4%	13%	12%
Consumer discretionary	30%	35%	12%	76%	33%	7%	6%	5%
Consumer staples	36%	6%	2%	75%	2%	5%	6%	7%
Health care	21%	6%	10%	75%	-20%	5%	11%	14%
Financials	61%	5%	10%	62%	10%	3%	19%	19%
Technology	33%	27%	12%	84%	20%	7%	26%	24%
Communication services	27%	9%	0%	67%	7%	2%	15%	14%
Utilities	7%	15%	19%	100%	7%	2%	15%	13%
Real estate	19%	-26%	42%	50%	-32%	6%	15%	19%
S&P 500	**35%**	**13%**	**9%**	**73%**	**1.3%**	**2.8%**	12%	12%
S&P ex energy & financials	30%	16%	8%	76%	6%	5%	12%	12%
S&P ex energy	34%	13%	9%	73%	6%	5%	13%	13%
S&P ex financials	29%	16%	8%	77%	0%	3%	**12%**	**11%**
S&P cyclicals	36%	11%	8%	77%	11%	5%	9%	8%
S&P defensives	22%	6%	5%	76%	-8%	4%	10%	11%

Source: Refinitiv, Bank J. Safra Sarasin, 26.10.2023

Economic Calendar

Week of 30/10 – 03/11/2023

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 30.10.2023						
GE	10:00	GDP SA QoQ	3Q P	qoq	--	0.00%
	10:00	GDP WDA YoY	3Q P	yoy	--	-0.20%
	14:00	CPI MoM	Oct	mom	--	0.30%
	14:00	CPI YoY	Oct	yoy	--	4.50%
US	15:30	Dallas Fed Manf. Activity	Oct	Index	--	-18.10
Tuesday, 31.10.2023						
JN	06:00	BOJ 10-Yr Yield Target	Oct31	%	--	0.00%
EU	11:00	CPI Estimate YoY	Oct P	yoy	--	5.30%
	11:00	CPI Core YoY	Oct P	yoy	--	4.50%
US	14:00	S&P CoreLogic CS 20-City MoM	Oct	mom	--	0.87%
	15:30	Dallas Fed Services Activity	Oct	Index	--	-8.60
Wednesday, 01.11.2023						
US	12:00	MBA Mortgage Applications	Oct27	wow	--	--
	13:15	ADP Employment Change	Oct	1'000	--	89k
	15:00	JOLTS Job Openings	Sep	1'000	--	9610k
	16:00	ISM Manufacturing Index	Oct	Index	48.60	49.00
	16:00	ISM Manufacturing New Orders	Oct	Index	--	49.20
Thursday, 02.11.2023						
UK	13:00	Bank of England Bank Rate	Nov02	%	--	5.25%
US	13:30	Nonfarm Productivity	3Q P	qoq	4.00%	3.50%
	13:30	Unit Labor Costs	3Q P	qoq	1.00%	2.20%
Friday, 03.11.2023						
US	13:30	Change in Nonfarm Payrolls	Oct	1'000	185k	336k
	15:00	ISM Services Index	Oct	Index	53.00	53.60
	15:00	ISM Services New Orders	Oct	Index	--	51.80

Source: Bloomberg, J. Safra Sarasin as of 26.10.2023

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	1.13	-6	-49	4.5
German Bund 10 year (%)	2.85	-4	28	-0.2
UK Gilt 10 year (%)	4.60	-6	92	-2.8
US Treasury 10 year (%)	4.88	-4	100	-4.4
French OAT - Bund, spread (bp)	63	1	9	
Italian BTP - Bund, spread (bp)	201	-2	-13	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	10,368	16.6	-0.8	-0.3
DAX - Germany	14,731	10.7	-2.1	5.8
MSCI Italy	876	7.4	-0.8	16.2
IBEX - Spain	8,963	9.6	-1.9	12.8
DJ Euro Stoxx 50 - Eurozone	4,049	11.4	-1.0	10.1
MSCI UK	2,111	10.3	-2.0	1.8
S&P 500 - USA	4,137	19.2	-3.3	9.2
Nasdaq 100 - USA	14,110	25.4	-4.6	29.8
MSCI Emerging Markets	911	12.9	-2.1	-2.3

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.90	7.1	0.8	-2.7
EUR-CHF	0.95	5.6	0.5	-4.0
GBP-CHF	1.09	6.8	0.5	-2.5
EUR-USD	1.06	7.1	-0.3	-1.4
GBP-USD	1.21	8.0	-0.3	0.3
USD-JPY	150.2	9.0	0.2	14.6
EUR-GBP	0.87	5.0	0.0	-1.6
EUR-SEK	11.78	7.2	1.3	5.5
EUR-NOK	11.82	9.0	0.8	12.6

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	105	12.2	-0.6	-6.7
Brent crude oil - USD / barrel	90	33.7	-3.8	10.3
Gold bullion - USD / Troy ounce	1,986	15.1	0.6	8.9

Source: J. Safra Sarasin, Bloomberg as of 26.10.2023

J. Safra Sarasin

Cross-Asset Weekly

27 October 2023

Important legal Information

This document has been prepared by Bank J. Safra Sarasin Ltd ("Bank") for information purposes only. It is not the result of financial research conducted. Therefore, the "Directives on the Independence of Financial Research" of the Swiss Bankers Association do not apply to this document.

This document is based on publicly available information and data ("the Information") believed to be correct, accurate and complete. The Bank has not verified and is unable to guarantee the accuracy and completeness of the Information contained herein. Possible errors or incompleteness of the Information do not constitute legal grounds (contractual or tacit) for liability, either with regard to direct, indirect or consequential damages. In particular, neither the Bank nor its shareholders and employees shall be liable for the views contained in this document. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data provided and shall have no liability for any damages of any kind relating to such data.

This document does not constitute a request or offer, solicitation or recommendation to buy or sell investment instruments or services. It should not be considered as a substitute for individual advice and risk disclosure by a qualified financial, legal or tax advisor. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Past performance is no indication of current or future performance. Investments in foreign currencies are subject to exchange rate fluctuations. Exchange rate risk will apply if the investor's reference currency is not the same as the investment currency. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual performance. The views and opinions contained in this document, along with the quoted figures, data and forecasts, may be subject to change without notice. There is no obligation on the part of Bank or any other person to update the content of this document. The Bank does not accept any liability whatsoever for losses arising from the use of the Information (or parts thereof) contained in this document.

Neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such distribution is prohibited and may only be distributed in countries where its distribution is legally permitted.

This publication constitutes marketing material. If it refers to a financial instrument for which a prospectus and/or a key investor/information document exists, these are available free of charge from Bank J. Safra Sarasin Ltd, Elisabethenstrasse 62, P.O. Box, CH-4002 Basel, Switzerland.

Bloomberg

"Bloomberg®" and the referenced Bloomberg Index/Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Bank J. Safra Sarasin Ltd. Bloomberg is not affiliated with Bank J. Safra Sarasin Ltd, and Bloomberg does not approve, endorse, review, or recommend the financial instrument(s) mentioned in this publication. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the financial instrument(s) mentioned in this publication.

ICE Data Indices

Source ICE Data Indices, LLC ("ICE DATA"), is used with permission. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates or their respective third party providers shall not be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend Bank J. Safra Sarasin Ltd, or any of its products or services.

J.P. Morgan

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2020, J.P. Morgan Chase & Co. All rights reserved.

MSCI Indices

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness,

timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

SMI

SIX Swiss Exchange AG ("SIX Swiss Exchange") is the source of SMI Indices® and the data comprised therein. SIX Swiss Exchange has not been involved in any way in the creation of any reported information and does not give any warranty and excludes any liability whatsoever (whether in negligence or otherwise) – including without limitation for the accuracy, adequateness, correctness, completeness, timeliness, and fitness for any purpose – with respect to any reported information or in relation to any errors, omissions or interruptions in the SMI Indices® or its data. Any dissemination or further distribution of any such information pertaining to SIX Swiss Exchange is prohibited.

Distribution Information

Unless stated otherwise this publication is distributed by Bank J. Safra Sarasin Ltd (Switzerland).

The Bahamas: This publication is circulated to private clients of Bank J. Safra Sarasin (Bahamas) Ltd, and is not intended for circulation to nationals or citizens of The Bahamas or a person deemed 'resident' in The Bahamas for the purposes of exchange control by the Central Bank of The Bahamas.

Dubai International Financial Centre (DIFC): This material is intended to be distributed by Bank J. Safra Sarasin Asset Management (Middle East) Ltd ["BJSSAM"] in DIFC to professional clients as defined by the Dubai Financial Services Authority (DFSA). BJSSAM is duly authorised and regulated by DFSA. If you do not understand the contents of this document, you should consult an authorised financial adviser. This material may also include Funds which are not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA"). The DFSA has no responsibility for reviewing or verifying any Issuing Document or other documents in connection with these Funds. Accordingly, the DFSA has not approved the Issuing Document or any other associated documents nor taken any steps to verify the information set out in the Issuing Document, and has no responsibility for it. The Units to which the Issuing Document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Units.

Germany: This marketing publication/information is being distributed in Germany by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main, for information purposes only and does not lodge claim to completeness of product characteristics. Insofar as information on investment funds is contained in this publication, any product documents are available on request free of charge from J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main in English and German language. To the extent that indicative investment options or portfolio structures are included, the following applies: The indicative investment options or portfolio structures presented in these documents and the underlying model calculations are based on the information and data provided to us in the context of the asset advisory discussion, and we have not checked them for accuracy or completeness. The indicative investment option/portfolio structure described here is thus intended as a guide and does not make any claim to comprehensive suitability but aims to inform you about the general possibilities that an investment entails. In order to provide you with a final investment recommendation that is tailored to your specific situation, we need further information, in particular on your investment goals, risk tolerance, experience and knowledge of financial services and products and your financial situation. This publication is intended to be distributed by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main to clients domiciled or having their registered office in Germany and is directed exclusively at institutional clients who intend to conclude investment business exclusively as entrepreneurs for commercial purposes. This clientele is limited to credit and financial services institutions, capital management companies and insurance companies, provided that they have the necessary permission for the business operation and are subject to supervision, as well as medium and large corporations within the meaning of the German Commercial Code (section 267 (2) and (3) HGB).

Gibraltar: This marketing document is distributed from Gibraltar by Bank J. Safra Sarasin (Gibraltar) Ltd, First Floor Neptune House, Marina Bay, Gibraltar to its clients and prospects. Bank J. Safra Sarasin (Gibraltar) Ltd whose Registered Office is 57/63 Line Wall Road, Gibraltar offers wealth and investment management products and services to its clients and prospects. Incorporated in Gibraltar with registration number 82334. Bank J. Safra Sarasin (Gibraltar) Ltd is authorised and regulated by the Gibraltar Financial Services Commission. Telephone calls may be recorded. Your personal data will be handled in accordance with our Data and Privacy Statement. Where this publication is provided to you by Bank J. Safra Sarasin (Gibraltar) Limited: This document is approved as a marketing communication for the purposes of the Financial Services Act 2019. Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Hong Kong: This document is disseminated by Bank J. Safra Sarasin Ltd, Hong Kong Branch in Hong Kong. Bank J. Safra Sarasin Ltd, Hong Kong Branch is a licensed bank under the Hong Kong Banking Ordinance (Cap. 155 of the laws of Hong Kong) and a registered institution under the Securities and Futures Ordinance (cap. 571 of the laws of Hong Kong).

Luxemburg: This publication is distributed in Luxembourg by Banque J. Safra Sarasin (Luxembourg) SA (the "Luxembourg Bank"), having its registered office at 17-21, Boulevard Joseph II, L-1840 Luxembourg, and being subject to the supervision of the Commission de Surveillance

du Secteur financier – CSSF. The Luxembourg Bank merely agrees to make this document available to its clients in Luxembourg and is not the author of this document. This document shall not be construed as a personal recommendation as regards the financial instruments or products or the investment strategies mentioned therein, nor shall it be construed as and does not constitute an invitation to enter into a portfolio management agreement with the Luxembourg Bank or an offer to subscribe for or purchase any of the products or instruments mentioned therein. The information provided in this document is not intended to provide a basis on which to make an investment decision. Nothing in this document constitutes an investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances. Each client shall make its own appraisal. The liability of the Luxembourg Bank may not be engaged with regards to any investment, divestment or retention decision taken by the client on the basis of the information contained in the present document. The client shall bear all risks of losses potentially incurred as a result of such decision. In particular, neither the Luxembourg Bank nor their shareholders or employees shall be liable for the opinions, estimations and strategies contained in this document.

Monaco: In Monaco this document is distributed by Banque J. Safra Sarasin (Monaco) SA, a bank registered in “Principauté de Monaco” and regulated by the French Autorité de Contrôle Prudentiel et de Résolution (ACPR) and Monegasque Government and Commission de Contrôle des Activités Financières («CCAF»).

Panama: This publication is distributed, based solely on public information openly available to the general public, by J. Safra Sarasin Asset Management S.A., Panama, regulated by the Securities Commission of Panama.

Qatar Financial Centre (QFC): This material is intended to be distributed by Bank J. Safra Sarasin (QFC) LLC, Qatar [“BJSSQ”] from QFC to Business Customers as defined by the Qatar Financial Centre Regulatory Authority (QFCRA) Rules. Bank J. Safra Sarasin (QFC) LLC is authorised by QFCRA. This material may also include collective investment scheme/s (Fund/s) that are not registered in the QFC or regulated by the Regulatory Authority. Any issuing document / prospectus for the Fund, and any related documents, have not been reviewed or approved by the Regulatory Authority. Investors in the Fund may not have the same access to information about the Fund that they would have to information of a fund registered in the QFC; and recourse against the Fund, and those involved with it, may be limited or difficult and may have to be pursued in a jurisdiction outside the QFC.

Singapore: This document is disseminated by Bank J. Safra Sarasin Ltd., Singapore Branch in Singapore. Bank J. Safra Sarasin, Singapore Branch is an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110), a wholesale bank licensed under the Singapore Banking Act (Cap. 19) and regulated by the Monetary Authority of Singapore.

United Kingdom: This document is distributed from the UK by Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch, 47 Berkeley Square, London, W1J 5AU, to its clients, prospects and other contacts. Bank J. Safra Sarasin (Gibraltar) Ltd offers wealth and investment management products and services to its clients and prospects through Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch. Registered as a foreign company in the UK number FC027699. Authorised by the Gibraltar Financial Services Commission and subject to limited regulation in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority. Registration number 466838. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. Registered office 57 - 63 Line Wall Road, Gibraltar. Telephone calls may be recorded. Your personal data will be handled in accordance with our Data and Privacy Statement. Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden. You are reminded to read all relevant documentation relating to any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

© Copyright Bank J. Safra Sarasin Ltd. All rights reserved.