J. Safra Sarasin
Cross-Asset Weekly

06 October 2023

US economy holding up better than expected

Substantial fiscal initiatives in the US, a still tight labour market and lingering savings from the pandemic keep investment and consumer spending at stronger levels than expected. In Europe, the cyclical picture looks much softer, but even there, tight labour markets are providing some support. China is slowly showing signs of stabilisation even though the soft housing market has yet to improve. The global cycle seems more resilient to monetary tightening than expected so far.

The hawkish September message from the Fed and the resilience in particular of the US economy has caused a fierce repricing of long-term real yields in developed markets. Most of the sharp yield curve inversion that had happened over the past 12 months has been undone as markets priced the need for meaningfully higher policy rate trajectories to slow down demand. Still, we expect the cumulative effects of monetary tightening to be an increasing headwind for the global cycle and bond yields to mover lower over the next 6 to 12 months. The current environment is also challenging for local currency emerging market bonds. High carry markets with the prospect for rate cuts should do well over 6 to 12 months. The US dollar should remain supported due to the continued cyclical outperformance of the US economy this year before easing in 2024. We continue to be constructive on the Swiss franc and yen, while remaining cautious on the British Pound.

Finally, we retain our preference for value and defensive sectors as well as UK and Swiss equities. As the economic cycle slows further, earnings will increasingly come back into focus, with cyclical and growth sectors most exposed.

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Monthly macro and strategy forecast update

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We have kept our macro forecast broadly unchanged this month. Revisions to past US data suggest that growth is more broad-based and hence more sustainable than previously estimated. In Europe, we see more signs of a slowing economy. The ongoing tightening in financial conditions as well as higher oil prices should weigh on global growth in the coming quarters, even if a stabilising Chinese economy should limit downside risks. Policy rates in advanced economies are reaching their peaks but central banks are likely to keep a hawkish tilt, due to still-too-tight labour markets and upside risks to inflation expectations. Policy rate expectations imply an elevated trajectory with no meaningful rate cuts priced anymore. Therefore, fixed income valuations remain attractive, even though they may take time to bear fruit. In the meantime, high yields provide meaningful downside protection. It is a tough environment for local currency Emerging Markets fixed income. However, we expect high carry markets to do well over 6 to 12 months. In the FX space, we expect the dollar to remain strong thanks to US cyclical outperformance, before softening in 2024. We remain constructive on the Swiss franc and the yen, while retaining a cautious view on the British pound. Gold will likely do better in 2024 as US rates are expected to ease. Given the sharp rise in real yields in the US, the down move in equity prices has been muted. Contrary to recent instances, the tech sector has held up well, while highly levered sectors performed worst. Looking ahead, we think earnings will increasingly come back into focus, with cyclical and growth sectors exposed. We continue to prefer value and defensive sectors as well as UK and Swiss equities.

Global macro

Forecasts broadly unchanged, but there have been important macro events behind the recent sharp bond market moves

We have kept our macro forecasts broadly unchanged this month. Still, there have been a few macro events over the past few weeks that have led to significant market moves, most of those originating from the US. The September FOMC meeting and Powell's 'higher-for-longer' message was the main trigger. Markets have come to the view that the Fed will not ease policy as long as demand is running well in excess of supply. The hope is that the supply-side of the economy will play a major role in closing the gap, but if that doesn't happen, rates will need to stay high as long as necessary to bring down demand.

Big revisions to past US data point to a more resilient economy

Another piece of important information came from revisions to past data, suggesting that the US economy has grown a bit more and is probably more resilient than previously indicated – everything else equal, justifying higher interest rates. These revisions are part of a regular process. Every five years the Bureau of Economic Analysis (BEA) does a very comprehensive review. This was the first such review since the onset of the pandemic.

Growth has been more broad-based than previously estimated

The revised GDP numbers indicate that the US economy was about 1.5% bigger at the end of the second quarter than previously estimated, though most of the boost results from changes to GDP in the years around the pandemic. GDP's recent trajectory looks similar to prior estimates. Yet recent changes are meaningful nonetheless as they show that growth was more broad-based, which should – everything else equal – increase the sustainability of the expansion. Consumer spending contributed a lesser share to GDP, but real fixed investment increased more than previously estimated, with upward revisions in manufacturing, housing and software investments.

New data suggest that the manufacturing construction boom has been even stronger

The most critical change comes from updated numbers of the ongoing manufacturing construction boom. Past numbers were already strong, but the updated ones show that real

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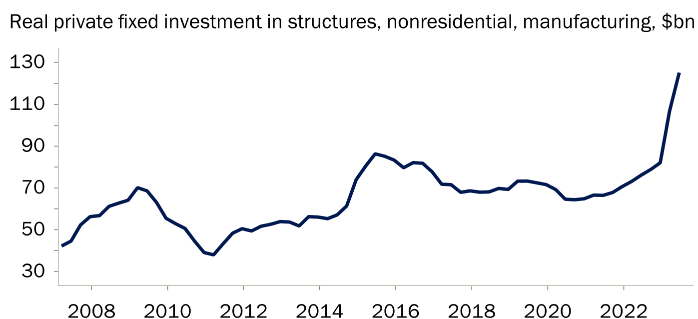
US manufacturing construction spending has reached its highest level on record (Exhibit 1). This primarily reflects the surge in investment for semiconductor facilities in the wake of the CHIPS Act, which has exceeded a $125bn annualised rate of spending (about 0.5% of GDP) over the last few months.

Households once-thought depleted excess savings are still ample

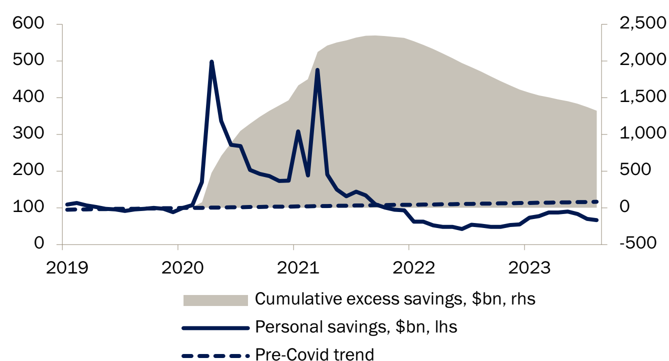
In addition, new data indicate that Americans saved less than previously thought in the years leading up to the pandemic, and have saved more than thought during and after the pandemic. Prior to the revisions, we estimated that households 'excess savings' accumulated during the pandemic were about to run out. The new data, however, suggest that households still sit on a staggering $1.3tn of 'excess savings' (Exhibit 2). This is a tricky concept – the excess savings is the residual of actual savings versus what households should have saved in a hypothetical world extrapolated from a pre-pandemic trend. Most of the increase comes from a downward revision to that trend. Nonetheless, it suggests that households' cash cushion is larger than previously measured. One implication is that the savings rate might not need to increase as much as previously anticipated, and thus that the pace of consumption could remain elevated for longer.

Exhibit 1: Manufacturing construction is booming



Source: Macrobond, Bank J. Safra Sarasin, 04.10.2023

Exhibit 2: A much larger cash cushion among households



Source: Macrobond, Bank J. Safra Sarasin, 04.10.2023

But persistent demand means the labour market imbalance is unlikely to shrink fast, keeping inflation too elevated

Yet if demand remains resilient, so will the imbalance in the labour market – job openings rose strongly in August after several consecutive months of decline. Eventually, stronger wage and price inflation will likely follow. Strikes in the auto sector, or threats as in the UPS case earlier this year, indicate that labour has bargaining power and intends to use it, feeding through to rates expectations.

Several headwinds to Q4 GDP

Looking into the end of the year and beyond, the resumption of student loans repayments, a possible government shutdown on November 17, the rise in oil prices and past monetary policy tightening should weigh on activity. What's more, if the sell-off in bond markets persists, financial conditions are likely to tighten rapidly. While a tightening is necessary to cool the economy, a too-rapid one tends to break or at least fissure things in the financial system – the failure of several regional banks earlier this year is a good remainder – and impair credit flows.

Fed to keep rates unchanged in Q4, though this is a close call

On balance, given the renewed tightening of financial conditions and better-than-expected inflation releases over the past few months (core PCE inflation would need to accelerate to a bit above 0.3% mom for Fed member's median year-end projection to be realised), we continue to expect the FOMC to hold its policy rate unchanged in the final quarter of the year but keep its hawkish bias. However, the Fed will not hesitate to raise rates once more if the labour market remains too hot and inflation re-accelerates.

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Demand in Europe is likely to remain weak in coming quarters

In Europe, the economy has evolved broadly as expected, even if the ECB surprised us with its September rate hike. Growth remains weak, with PMIs pointing to a contraction in GDP in the third quarter, both in the euro area and the UK. Negative credit flows to the private sector, as well as contracting broad money supply, suggest that demand will remain weak, at best, over the coming quarters, though stabilising growth in China should limit downside risks to the external sector. In Switzerland, business surveys depict a similar picture (Exhibits 3-5).

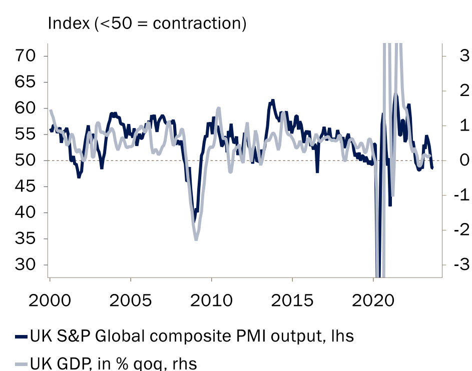
Inflation fell more than expected in September, but rising oil prices pose a risk to inflation expectations

The good news is that core inflation fell in the three regions last month. In addition, the UK labour market has cooled further over the past month, pointing to slower future wage growth. A higher oil price, and less-well anchored inflation expectations, could impair or at least delay the disinflation process that we foresee. In the euro area, labour markets remain tight but most measures of 'pipeline' price pressures are easing, including wage trackers.

Exhibit 3: Euro are GDP vs PMI

Source: Macrobond, Bank J. Safra Sarasin, 04.10.2023

Exhibit 4: UK GDP vs PMI



Source: Macrobond, Bank J. Safra Sarasin, 04.10.2023

Exhibit 5: Switzerland GDP vs activity tracker

Source: Macrobond, Bank J. Safra Sarasin, 04.10.2023

Central banks are likely to remain hawkish in their communication

As a result, we expect the Bank of England to lift rates only once more this year (we previously anticipated two more hikes), though there is a good chance that it will not have to deliver it. We continue to expect the ECB to keep rates unchanged and to focus instead on reducing the size of its balance sheet and on maintaining a hawkish communication. Finally, given the strong Swiss franc and a clear downward trend in core inflation, we think the SNB will stay put, regardless of what the ECB does at its future meetings.

Case for BoJ to abandon YCC is getting stronger

Turning to Japan, we continue to think there is a strong case for the Bank of Japan (BoJ) to abandon yield curve control. Indicators continue to point to strong activity and core inflation remains elevated. The weak yen combined with rising energy prices will push imported inflation higher over the coming months, which should feed through to the core basket and wage demands with a lag. The sharp depreciation of the yen in recent weeks might also force the BoJ's hand into acting sooner rather than later.

Activity is stabilising in China but the housing market remains weak

The latest indicators suggest that the Chinese economy is stabilising although the housing market remains weak. September PMIs suggest that the manufacturing sector is expanding moderately while construction activity has picked up notably (Exhibit 6). The latter is likely due to infrastructure investment and housing construction that remained unfinished. Services PMIs also show some modest gain, although early indications from Golden Week tourism suggest a strong momentum during the 8-day holiday. This suggests that pent-up demand for tourism should support the economy in the near term. The housing market, however, remains weak. September and the Golden Week have usually been a high season for home sales, and we have only seen a modest pick-up so far. Home sales

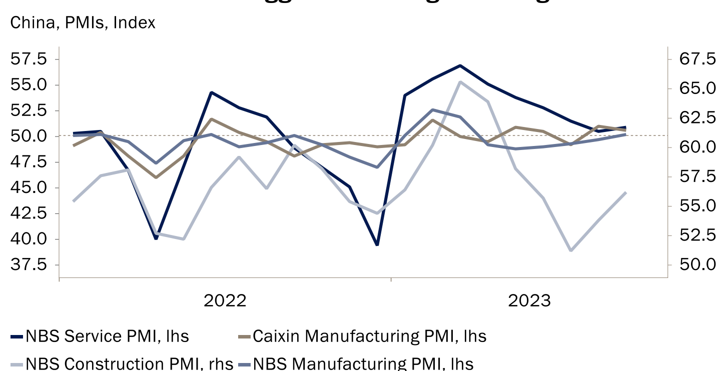
remain depressed on an annual basis (Exhibit 7). The government maintains its piecemeal and modest approach to supporting the sector.

EM growth is slowing but remains resilient

Growth in Emerging Markets (EM) economies is slowing compared to the first half of this year, but it remains resilient. One reason is because China's weakness has not had much spillover to the rest of the world. Commodity import demand from China has been strong throughout the year as the country continues to restock its commodity inventory. Slower growth should lead to lower core inflation in most emerging markets, but higher food and oil prices will likely slow the pace of headline disinflation.

Exhibit 6: Latest PMIs suggest stabilising Chinese growth…

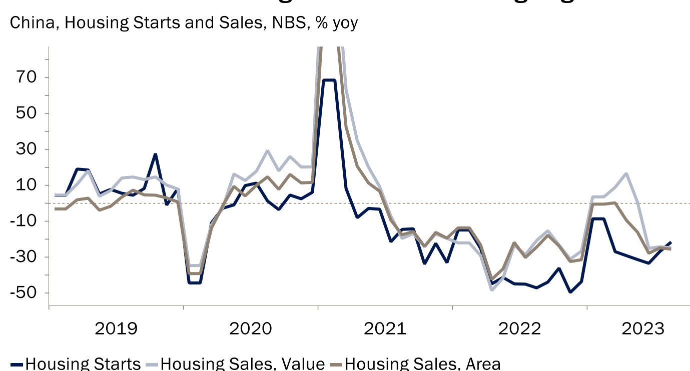
China, PMIs, Index



Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

Exhibit 7: …but the housing sector remains a drag to growth

China, Housing Starts and Sales, NBS, % yoy



Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

Fixed income

A sharp rise in developed markets' long-term bond yields during August and September

Global fixed income markets sold off significantly in August and September. Longer-term yields rose by 50 to 80bp, almost all due to higher real rates. Yield curves reversed most of the inversion in the 2y/10y curves segments that had taken place over the past 12 months. The apparent resilience of developed markets' economies to higher (real) rates so far has led markets to price an elevated policy rate path beyond 12-24 months, while short-term expectations remained largely unchanged. The result was a "bear steepening", an upward shift of the yield curve with long-term (real) yields rising more that short-term yields.

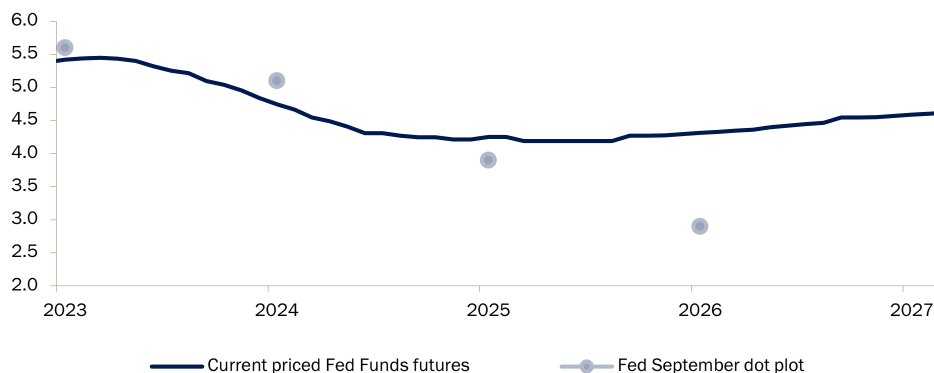
Market pricing for central bank policy rates does not imply meaningful rate cuts anymore

Market expectations for the future trajectory of central bank policy rates beyond 24 months have shifted up further. For example, while the market still prices Fed Funds slightly below the hawkish Fed's end-2024 dot, the trajectories diverge meaningfully thereafter. The Fed expects the Funds rate to converge towards its neutral policy rate of around 2.5% to 3% longer term, however, markets expect a trough in Fed Funds at around 4.25% in 2025, and a rise thereafter towards 4.5% (Exhibit 8).

Markets price meaningfully higher neutral rates

This strongly suggests that markets now price significantly higher average equilibrium rates of interest than most model-based estimates, that is, the rate at which the economy neither decelerates nor accelerates. This would be consistent with the expectation of a permanently higher (real) interest rate level than before the pandemic, and the soft-landing scenario that credit markets currently price. This applies not only to the US, but is visible in all developed markets' rates structures.

Exhibit 8: Market pricing for the Fed Funds rate diverges from the Fed's dots beyond 2024



Source: Bloomberg, Bank J. Safra Sarasin, 05.10.2023

Current market pricing likely due to substantial lagged effects from monetary tightening

We suspect that a significant part of the current elevated market pricing is likely due to the substantial lagged effects on the real economy from monetary policy tightening. The larger-than-expected fiscal impulse in 2023 (mainly in the US) and relatively healthy private sector balance sheets seem to extend the lags even more, suggesting a stronger resilience of the economies to higher real rates. This is likely skewing the market's perception for the neutral rate up.

Intermediate maturities should do well over the next 6 to 12 months, with limited downside risk

We expect the cumulative effects of monetary tightening to be increasingly felt in the real economy (including the sharp real long-term rate increase over the past two months). We expect lower nominal yields over the next 6 to 12 months in all developed currency spaces, with a more benign steepening of the yield curve. Intermediate maturities (5 to 10y) are to be preferred: (1) they profit from steeper yield curves, (2) they have enough duration to profit from lower yields, (3) the current yields give significant downside protection in an adverse yield scenario. The following table gives a breakdown for the approximate cushion provided by different curve segments for government bonds. In the case of Investment Grade Bonds, with higher carry, the cushion is of course even larger (Exhibit 9).

Exhibit 9: Break even yields for government bond maturity segments and different horizons

			BE yield increase over spec. horizon (bp)			BE yields over spec. horizon (%)		
	Duration	YTM (bp)	3m	6m	12m	3m	6m	12m
US Treasuries 1-3y	1.82	518.9	77	166	394	5.96	6.85	9.13
US Treasuries 3-5y	3.71	480.3	33	69	150	5.14	5.50	6.30
US Treasuries 5-7y	5.33	475.1	23	47	98	4.98	5.22	5.73
US Treasuries 7-10y	7.32	469.9	16	33	69	4.86	5.03	5.39
US Treasuries 10y+	14.60	495.8	9	17	35	5.04	5.13	5.31
German Bunds 1-3y	1.85	324.3	47	101	240	3.71	4.26	5.64
German Bunds 3-5y	3.83	285.4	19	40	86	3.05	3.25	3.71
German Bunds 5-7y	5.66	279.1	13	26	54	2.92	3.05	3.33
German Bunds 7-10y	7.70	284.5	9	19	40	2.94	3.04	3.24
German Bunds 10y+	15.50	307.6	5	10	21	3.13	3.18	3.28
GILTS 1-3y	1.86	473.2	68	147	349	5.42	6.21	8.22
GILTS 3-5y	3.54	452.4	33	69	149	4.85	5.21	6.01
GILTS 5-7y	5.04	439.9	22	46	97	4.62	4.86	5.37
GILTS 7-10y	7.21	446.4	16	32	67	4.62	4.79	5.13
GILTS 10y+	14.93	488.0	8	17	34	4.96	5.05	5.22

Source: ICE, Bank J. Safra Sarasin, 05.10.2023

Credit still looks expensive

Credit spreads of Investment Grade and High Yield bonds trade below historical medians and hence do not reflect the risk of a substantial economic slowdown, let alone a recession. The recent sharp rise in long-term real government bond yields, which has undone most of the sharp curve inversion will likely tighten financial conditions significantly further, raising the risk of more pronounced economic weakness than markets currently

anticipate. Therefore, we retain our preference for IG over High Yield and would generally stick to higher quality.

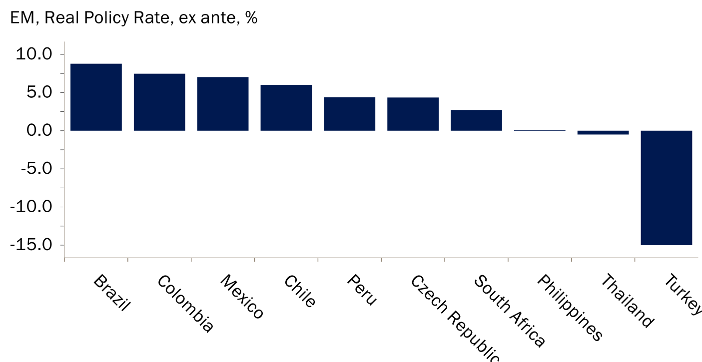
Higher-for-longer and higher oil prices weigh on EM financial assets

The new environment of high US rates and higher oil prices is not a good one for risk assets like Emerging Markets (EM) assets. High US rates also bring higher EM yields as long-term yields do exhibit strong correlation. They also translate into a strong US dollar and weak EM FX (Exhibit 10). Higher oil prices put pressure on oil importers' external balances. The last 'higher-for-longer' US rates episode in the 1990s brought a number of defaults and balance of payments crises among major EMs. Today, major EM economies have transformed themselves to be much more resilient to external shocks. Still, we expect weaker EM FX across the board. Currencies that will be more resilient in this environment are likely the ones with higher carry (Exhibit 11). For EM local currency bonds, the 6 to 12 month outlook is still attractive, especially among those that have embarked on a rate cut cycle. While in the near term, US rates and data will dominate EM yield movements, rate cut cycles and disinflation should resume as the main drivers of EM local yields. A caveat is that one will need to watch for the fiscal risks in each EM economy. A few EMs have announced a fiscal expansion for 2024. Depending on the circumstances and public debt dynamics, fiscal risks could add an upside risk to EM local yields.

Exhibit 10: Strong US dollar hurts EM FX

Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

Exhibit 11: EM FX with higher carry is expected to perform better



Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

FX

Cyclical outperformance of the US to carry on for a bit, which supports the US dollar

The US dollar has risen markedly in September (Exhibit 12), reflecting the bear steepening of the US Treasury yield curve and the remarkable resilience of the US economy to the significant tightening of financial and monetary conditions. While US inflation is moderating and consumption is turning softer, this week's September ISM manufacturing and the JOLTS job report both surprised to the upside, suggesting that the recent US outperformance will likely carry on for a bit.

Euro likely to recover gradually once the Fed has completed its rate hiking cycle

Last week's CFTC COT data indicate that the squaring of speculative euro longs likely contributed to the recent dollar rally (Exhibit 13). Given that speculative euro positions remain net long, some more near-term downside is in scope, but we would expect the pace to slow going forward. In our view, current EUR-USD levels already reflect the divergent relative cyclical dynamics to a substantial degree and hence we left our year-end target unchanged. In the weeks ahead, some undershooting is possible, but we do not think the pair will drop below parity. In the medium term, we expect the euro to recover only gradually, owing to continued headwinds from China (Exhibit 14). Yet the nearing end of the

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Fed's rate hiking cycle should help. (For a more detailed analysis, we refer to our most recent FX Atlas «What happens to FX around the Fed's first rate cut?»)

Exhibit 12: US dollar rallied in September

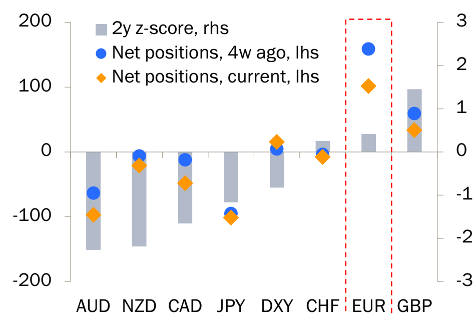
US dollar: Trade-weighted and versus euro

Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

Exhibit 13: Squaring of euro longs

CFTC COT net speculative positions, thousand contracts

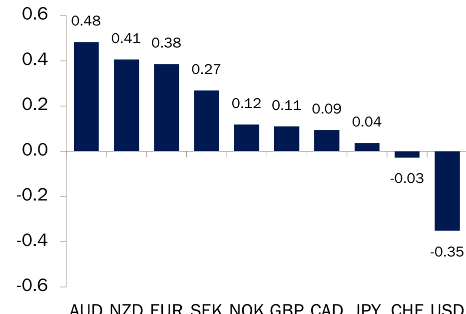
2y z-scores



Source: CFTC COT, Bank J. Safra Sarasin, 05.10.2023

Exhibit 14: Euro is very exposed to China

Trade-weighted FX correlation with China Caixin Composite PMI, 1-month lag, yoy changes, past 5 years



Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

Constructive on the Swiss franc and the Japanese yen, cautious on the British pound

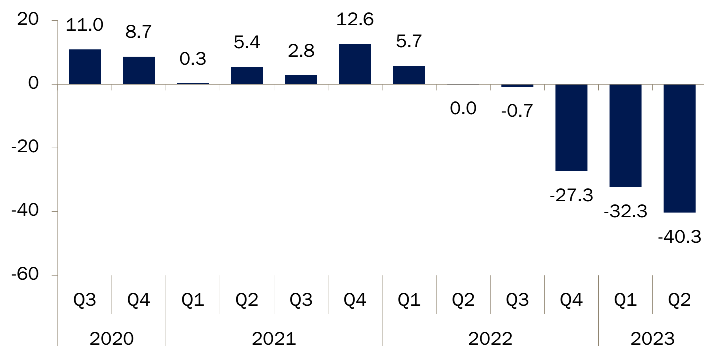
We stick to our conviction that the Swiss franc will hold up well in the coming months, despite its attractiveness as a funding currency for carry trades. Moreover, Q2 data on FX intervention confirms that the SNB stands ready to prop up its currency on weakness (Exhibit 15). The surge in longer-term US Treasury yields also exerts downward pressure on the Japanese yen, prompting speculation about Japanese FX intervention to counter currency depreciation. We think that this might be the case when USD-JPY retests the 150-level. Yet a major yen recovery will require longer-term US Treasury yields to drop meaningfully, which we expect to happen in 2024. We remain cautious on the British pound, given diminished support from the rate side and the rising likelihood of a further slowdown of the UK economy.

Expect gold to deliver a solid performance further out

The double whammy of rising real yields and a stronger US dollar has pushed gold closer to $1'800 per ounce. Given that we do not expect the recent bear steepening to carry on for much longer, we think that further downside is limited from here. Instead, we stress that the prospects for gold should turn brighter as we are nearing the end of the Fed's hiking cycle. In particular, we note that gold's historic performance in the months following the Fed's first rate cut has proved very solid across the past five hiking cycles (Exhibit 16).

Exhibit 15: SNB sells substantial amounts of foreign currency

SNB quarterly FX interventions, CHF bn



Source: SNB, Bank J. Safra Sarasin, 05.10.2023

Exhibit 16: Following the Fed's first rate cut, gold performs very well

	% performance, # months prior (-) / after (+) 1st Fed rate cut					
	-12m	-6m	-3m	+3m	+6m	+12m
Trade-weighted indices						
USD	0.9	0.2	0.5	0.8	0.5	1.6
EUR	-0.1	0.8	1.8	0.4	2.3	3.5
GBP	-2.8	-3.4	-2.2	0.8	-2.4	-1.8
CHF	1.0	1.0	0.7	0.5	2.6	3.5
JPY	-0.1	0.0	-2.5	-3.9	-2.4	-5.9
CAD	1.7	3.6	1.3	0.6	-0.3	-1.2
AUD	-2.6	-3.3	-0.4	0.9	-0.1	2.8
NZD	-1.6	-1.0	0.2	1.2	0.3	0.2
NOK	0.7	1.4	0.6	-0.3	-1.9	-1.0
SEK	-1.1	-1.5	0.6	1.2	0.9	2.3
Gold, USD per ounce	4.1	1.8	2.3	1.3	11.2	8.9

Based on the Fed's last 5 policy rate cutting cycles (2019/2007/2001/1995/1989)

Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

Equities

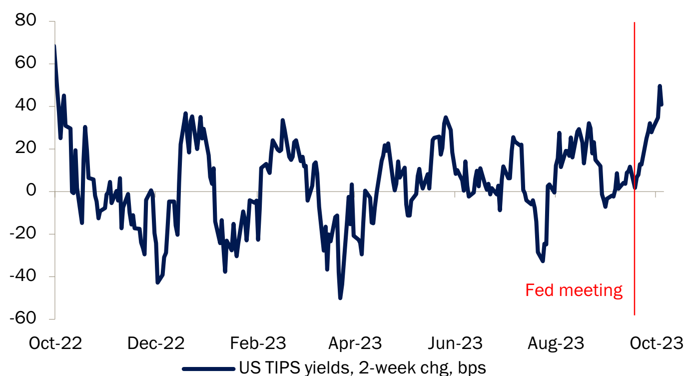
Equity markets have come under pressure as rates picked up in response of the Fed

Equity markets have come under pressure over recent weeks as the surge in real rates has weighed on valuations. The Fed's communication at its September meeting has led to the sharpest two-week increase in the US TIPS yield since October 2022 (Exhibit 17), driven by the Fed's reiteration that it will keep rates at current levels or above until the cycle has sufficiently slowed and inflationary risks have fully dissipated.

Considering the rise in rates, the multiple contraction has been fairly muted

Despite the sharp rise in interest rates, the reaction in equity markets has been relatively muted and more differentiated across sectors than during similar episodes in 2022. Even though the 12-month forward PE in the US has fallen by around 10% over the past two weeks, back to 18x, it remains well above the levels implied by historical correlations with real rates. Back in April, when it touched 18x forward earnings the last time, the US 10-year TIPS yield was more than 100bps below current levels (Exhibit 18). This just goes to show that risk aversion remains remarkably low and equity valuations are rich compared to interest rates.

Exhibit 17: The sharpest rise in real rates since October 2022



Source: Refinitiv, Bank J. Safra Sarasin, 05.10.2023

Exhibit 18: Valuations have dropped only moderately

Source: Macrobond, Bank J. Safra Sarasin, 05.10.2023

The impact on high duration sectors is a lot more limited than in 2022; highly levered sectors are very exposed though

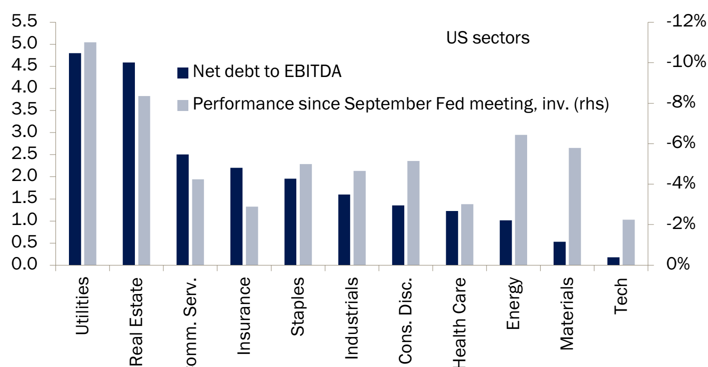
As mentioned above, the reaction at the sector level has also been more differentiated than during similar rate spike episodes over the past 1.5 years. Typically, whenever rates surged in 2022, tech had been among the hardest hit sectors, resulting from the long duration of its future earnings stream. Yet this time around, the rise in the discount rate appears less of an issue for tech and tech-related sectors. Instead, it was the more levered end of the US equity sector universe which suffered the most (Exhibit 19). Tech, which is cash rich and has the lowest leverage ratio, was the most resilient sector in the recent sell-off. US real estate and utilities, on the other hand, have been the weakest performing sectors since the Fed's September meeting. These are also the most indebted sectors (as measured by net debt to EBITDA) in the US equity market. In particular with regard to utilities, this came as a surprise as it is typically one of the most defensive sectors in terms of earnings stability. Yet recently, it suffered disproportionately, with highly-levered renewables particularly exposed.

Looking ahead, we think earnings will increasingly come back into focus, with cyclical and growth sectors exposed

Looking ahead, we would not necessarily expect these moves to be repeated as rates should be fairly close to their peak. We expect them to come down into the end of the year but this is set to come at the cost of slowing earnings growth and a slowing cycle. The more cyclical part of the market, such as industrials and some parts of the materials sector universe (e.g. chemicals), are thus the most exposed, in our view. We are also increasingly cautious on tech and growth sectors, as their valuations appear least prepared for

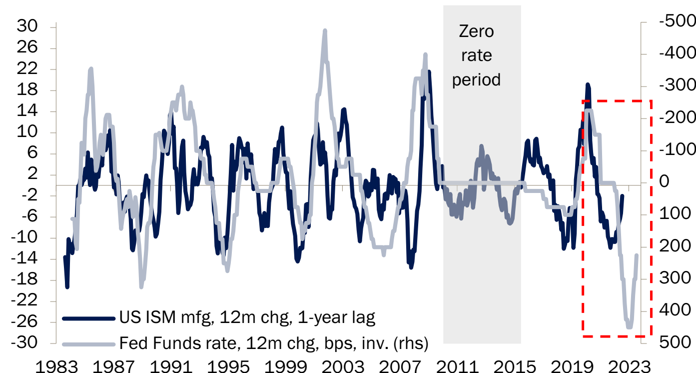
negative earnings surprises, which are likely to come through once the cycle starts to slow. In this regards, past Fed hikes are set to remain a drag on the cycle and likely render the recent slight improvement in the manufacturing cycle as temporary (Exhibit 20).

Exhibit 19: The most levered sectors have underperformed



Source: Refinitiv, Bank J. Safra Sarasin, 05.10.2023

Exhibit 20: Fed tightening remains a drag on the cycle



Source: Refintiv, Bank J. Safra Sarasin, 05.10.2023

We continue to prefer value and defensive sectors as well as UK and Swiss equities

We also continue to prefer global value exposure with a defensive tilt. The UK market falls squarely into that category. Apart from that, we have a preference for Swiss equities, in particular over euro area equities, which continue to be exposed to a slowdown, domestically and in China.

J. Safra Sarasin
Cross-Asset Weekly

06 October 2023

Exhibit 20: JSS Forecast overview

Breakdown per Asset Class

Equities Countries / Regions	
USA	→
Eurozone	↓
Switzerland	↑
United Kingdom	↑
Japan	↓
Emerging Markets	→
China	→

Equity Sectors	
Energy	→
Materials	↓
Industrials	↓
Consumer Discretionary	→
Consumer Staples	↑
Health Care	↑
Banks	→
Insurance	→
Information Technology	→
Communication Services	→
Real Estate	↑
Utilities	↑

Fixed Income Performance	
US Treasuries	→
German Bunds	→
UK Gilts	→
Swiss Eidgenossen	→
IG Credit	→
HY Credit	↓
EM USD Government Bonds	↓

↑ **Overweight** → **Neutral** ↓ **Underweight**

Asset class views (overweight, neutral, underweight) express a tactical recommendation with a 3-month horizon. Tactical views might diverge from year-end stock index targets, which are based on our long-term economic and interest rate forecasts.

Stock Index Price Targets	02.10.	4Q23	2Q24	4Q24
S&P 500	4'288	4'200	4'500	4'800
MSCI UK	2'152	2'250	2'325	2'400
DJ Euro Stoxx 50	4'138	4'000	4'250	4'500
DAX	15'247	15'000	15'900	16'800
SMI	10'864	11'500	11'900	12'300
MSCI Japan	1'412	1'330	1'415	1'500
MSCI EM	951	950	1'000	1'050
MSCI China	59	60	63	65

Key Policy Rates in %	02.10.	4Q23	2Q24	4Q24
US Fed Funds	5.50	5.50	5.25	3.75
EUR Depo Rate	4.00	4.00	4.00	3.00
SNB Target Rate	1.75	1.75	1.75	1.50
BoE Base Rate	5.25	5.50	5.25	3.50
BOJ Policy Balance Rate	-0.10	-0.10	0.15	0.15

Bond Yields (10yr Benchmark)	02.10.	4Q23	2Q24	4Q24
USA	4.69	4.05	3.75	3.50
Germany	2.88	2.55	2.25	2.10
Switzerland	1.14	1.25	1.20	1.20
United Kingdom	4.57	4.00	3.95	3.70
Japan	0.77	0.75	0.75	0.75

FX-Forecasts	02.10.	4Q23	2Q24	4Q24
EUR-CHF	0.96	0.96	0.95	0.93
EUR-USD	1.05	1.05	1.08	1.10
EUR-GBP	0.87	0.87	0.89	0.90
GBP-USD	1.21	1.21	1.22	1.22
USD-JPY	150	139	132	125
USD-CHF	0.92	0.91	0.88	0.85
USD-CNY	7.30	7.30	7.20	7.10
Gold, USD per ounce	1'830	1'930	1'990	2'050

Macro Forecasts		2022	2023	2024
US	GDP	2.1	2.1	0.4
	CPI	8.0	4.1	2.2
Euroland	GDP	3.3	0.2	0.5
	CPI	8.4	5.5	2.7
Switzerland	GDP	2.7	0.7	0.7
	CPI	2.8	2.2	2.4
UK	GDP	2.5	0.3	0.0
	CPI	9.1	7.5	2.9
Japan	GDP	1.0	2.2	1.0
	CPI	2.5	3.3	2.3
China	GDP	3.0	4.9	4.2
	CPI	1.9	0.4	1.6

Economic Calendar

Week of 09/10 – 13/10/2023

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 09.10.2023						
EU	10:30	Sentix Investor Confidence	Oct	Index	--	-21.50
Tuesday, 10.10.2023						
EU	10:00	ECB 1-Year CPI Expectations	Aug	%	--	3.40%
	10:00	ECB 3-Year CPI Expectations	Aug	%	--	2.40%
US	13:00	MBA Mortgage Applications	Oct6	wow	--	-6.00
	14:30	Building Permits MoM	Aug	mom	--	-1.50%
	14:30	PPI Ex Food, Energy, Trade MoM	Sep	mom	0.20%	0.30%
	14:30	PPI Ex Food and Energy YoY	Sep	yoy	--	2.20%
Wednesday, 11.10.2023						
US	12:00	NFIB Small Business Optimism	Sep	Index	--	91.30
	16:00	Wholesale Trade Sales MoM	Aug	mom	--	0.80%
	17:00	NY Fed 1y Inflation Exp.	Aug	%	--	3.63%
Thursday, 12.10.2023						
UK	08:00	Industrial Production MoM	Aug	mom	--	-0.70%
	08:00	Industrial Production YoY	Aug	yoy	--	0.40%
US	14:30	CPI Ex Food and Energy MoM	Sep	mom	0.30%	0.30%
	14:30	CPI Ex Food and Energy YoY	Sep	yoy	4.10%	4.30%
	14:30	Initial Jobless Claims	Oct7	1'000	--	--
Friday, 13.10.2023						
EU	11:00	Industrial Production SA MoM	Aug	mom	--	-1.10%
	11:00	Industrial Production WDA YoY	Aug	yoy	--	-2.20%
US	16:00	U. of Mich. Expectations	Oct P	Index	--	66.00
	16:00	U. of Mich. 5-10 Yr Inflation	Oct P	%	--	2.80%

Source: Bloomberg, J. Safra Sarasin as of 04.10.2023

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	1.20	9	-42	3.9
German Bund 10 year (%)	2.90	6	33	-0.7
UK Gilt 10 year (%)	4.54	18	87	-2.8
US Treasury 10 year (%)	4.74	16	86	-3.7
French OAT - Bund, spread (bp)	56	0	1	
Italian BTP - Bund, spread (bp)	205	11	-9	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	10,783	16.8	-1.2	3.7
DAX - Germany	15,070	10.9	-1.7	8.2
MSCI Italy	870	7.4	-2.7	15.5
IBEX - Spain	9,158	9.3	-2.9	14.9
DJ Euro Stoxx 50 - Eurozone	4,100	11.6	-1.5	11.4
MSCI UK	2,135	10.5	-2.0	2.8
S&P 500 - USA	4,258	19.6	-0.9	12.3
Nasdaq 100 - USA	14,723	26.5	0.2	35.5
MSCI Emerging Markets	930	13.1	-1.5	-0.3

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.91	7.5	-0.1	-1.1
EUR-CHF	0.96	5.1	-0.4	-2.6
GBP-CHF	1.11	6.6	-0.4	-0.6
EUR-USD	1.05	7.4	-0.4	-1.6
GBP-USD	1.22	8.2	-0.3	0.7
USD-JPY	148.9	9.4	-0.3	13.6
EUR-GBP	0.87	5.1	-0.1	-2.2
EUR-SEK	11.62	7.3	0.6	4.1
EUR-NOK	11.57	8.7	2.3	10.2

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	102	8.8	-3.9	-9.9
Brent crude oil - USD / barrel	88	25.7	-9.7	8.6
Gold bullion - USD / Troy ounce	1,819	8.3	-2.5	-0.3

Source: J. Safra Sarasin, Bloomberg as of 04.10.2023

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