Market Insights

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CIO Synopsis

Hans Itburrun
Chief Investment Officer (CIO)

Many bad things can happen to banks. Its customers can pull their money out (a liquidity crisis). Their borrowers can fail to repay their loans (a solvency crisis). Their shareholders can sell their stock, sending their shares down (a confidence crisis, making it far harder for them to raise money). And beyond true crises, changes in economic and financial conditions can attack their profits — which is bad for shareholders and ultimately might tend to imperil everyone connected to the bank. All of these things are conceptually separate, although in practice they will often affect each other.

The collapse of Silicon Valley Bank, Signature Bank and Silvergate Capital Corp were all triggered by a liquidity crisis caused by poor diversification of its depositors and lamentable risk management. Those banks are important for the US economy as they feed many young companies with the capital needed to realize their projects. The network between small and/or new companies with their regional banks has a crucial role for the ongoing economic heartbeat of United States. Germany has a similar setting – small industries, famously known as **Mittelstand,** are connected with their local regional banks, Both models relied heavily on the regional banks albeit with completely different client profiles. The success lies in the proximity with the clients, Know Your Client, in the traditional manner and the quick and smooth response to credit access. We could argue what makes an Economy successful? I will argue it is Energy and Banking services!

Economy is the transformation of energy with the cheapest resources!

The move from bank accounts to money funds and other instruments is likely to put more cash in the pockets of long-suffering savers, but there is concern that a dearth of deposits will leave the US with a smaller number of community and regional banks that have less money to lend — and that in turn could hold back growth and worsen inequality. Bank loans are a crucial source of funding for small businesses, which employ about 46% of Americans who work in the private sector and have generated nearly two-thirds of jobs created since 1995, according to the US Small Business Administration.
The forthcoming regulations and commercial real estate mayhem will, for sure, dampen small and midsize activities damaging the economic activities.as they will deprive firms of capital. Since 2022 the cost of money has already made its way through the credit activities, whether loan, leasing, or short-term credit lines. The inverted yield curve does not provide high incentive for banks to offer for long-term credit and now with the mistrust and new regulations the credit will be restrained.
Small and Mid-cap companies will be the first in line to suffer. Credit spread widening will accelerate, in the first instance, for lower quality bonds – CCC bond spread is already under pain and it will soon contaminate the other ratings! Stay away long duration High yield bonds, stay away small/mid cap companies with weak balance sheets.

Hans Itburrun

Market review

Macro Outlook

The Fed's Summary of Economic Projections, released in March, have been revised slightly lower. The median projection for real GDP growth for 2023/2024 came in at 0.4% and 1.2% (from 0.5% and 1.6%), respectively. The median unemployment rate forecast has been adjusted to 4.5% (4.6%) for 2023 unchanged at 4.6% in 2024. On inflation, the median estimate for core PCE was assumed to be unchanged at 3.5% in 2023 and 2.6% in 2024 (0.1% lower). The median projection for the fed funds rate is unchanged at 5.1% for 2023 but 0.2% higher at 4.3% for 2024.

The outlook for the Euro Area improved materially for 2023 from 0.5% to 1% (YoY) Growth as energy prices came down sharply and economic activity was surprisingly stable in Q1 2023. However, for 2024 expectations have been lowered by 0.3% to 1.6%. Inflation (HICP) expectations have been lowered to 5.3% from 6.3% in 2023. Expectations for 2024 (2.9%) and 2025 (2.1%) undermine the deflationary trends started in late 2022.

For China, a survey conducted by Bloomberg shows that the expectation for GDP Growth are 5.3% for 2023 and 5% for 2024. This reflects a 0.1% increase for 2023 compared to a previous survey.

Zone	Item	2022a	2023e	2024e
US	Real GDP (YoY%)	2.10	1.00	1.00
	Industrial Production (YoY%)	3.05	-1.00	0.20
	CPI (YoY%)	8.02	4.30	2.60
	Unemployment (%)	3.64	3.90	4.60
	Current Account (% of GDP)	-3.71	-3.20	-3.10
	Fiscal Bal. (Budget, % of GDP)	-5.52	-5.20	-5.40
China	Real GDP (YoY%)	3.00	5.30	5.00
	Industrial Production (YoY%)	4.00	5.30	4.80
	CPI (YoY%)	1.96	2.30	2.30
	Unemployment (%)	3.96	4.10	4.06
	Current Account (% of GDP)	2.23	1.30	1.00
	Fiscal Bal. (Budget, % of GDP)	-4.70	-5.00	-4.64
EU	Real GDP (YoY%)	3.50	0.50	1.20
	CPI (YoY%)	8.36	5.60	2.40
	Unemployment (%)	6.73	6.90	6.90
	Current Account (% of GDP)	-0.73	0.85	1.30
	Fiscal Bal. (Budget, % of GDP)	-5.10	-3.65	-3.20

Source: Bloomberg (a = actual, e = consensus forecasts), as of 31/03/2023

Equities

Global Equities have been volatile in March but managed to finish slightly higher into the month and quarter end (S&P 500 +7.03%, Nasdaq 100 +20.49%, Stoxx Europe 600 +7.75%). After a positive start, the failure of Silicon Valley Bank and Signature Bank caused a sell-off of 6.50% on the S&P 500. European Markets had its lowest point mid March mainly driven by troubled Swiss bank Credit Suisse. Only after a forced rescue deal from the Swiss Government and UBS, markets in Europe started to recover. The drawdown on the Stoxx Europe 600 was 8.16%. Asian markets mainly followed the US and EU ones. The idiosyncratic event in the US Regional Banking sector did not have a contagion effect, thanks to the FED intervention providing a liquidity window for the banks suffering from a duration mismatch. Immediate measures from the FDIC and big financial institutions helped to prevent a broad-based bank run. The March FOMC Meeting increased rates by only 0.25%, forcing global central banks to change their aggressive stance to raise interest rates to a more moderate level. Disinflation in Europe and the US however continued at a slower pace, helping equity markets to recover from the shock.

The implications on a sector level have been very significant. Opposite to the consensus view earlier this year, the S&P 500 Financials Index finished at -10.42%, followed by Materials -3.52% and Energy -2.99%. In Europe, Banks suffered their worst decline since the financial crisis, erasing most of their gains since December last year. Deutsche Bank lost more than 30%, Société Générale 29.5% and Standard Chartered 25%, just to name a few of the bottom five within the Europe Banks Index (SX7P).

Benefiting from lower interest rates, the Technology sector gained 10.17% and Communications Services advanced 8.79%. Another tailwind for both sectors was the newsflow around Artificial Intelligence, seen as the next revolution and driver of innovation. Fears of a tightening in lending standards from banks has caused a major sell-off in European and US Commercial Real Estate stocks.

	As of 31/03/2023	1-month perf.	Year-to-date perf.
S&P 500	4 109.31	3.51%	7.03%
Nasdaq 100	13 181.3	9.46%	20.49%
Euro STOXX 50	4 315.05	1.81%	13.74%
STOXX Europe 600	457.84	-0.71%	7.75%
SMI	11 106.20	0.07%	3.51%
DAXK	6 370.06	1.71%	11.91%
CAC 40	7 322.39	0.75%	13.11%
FTSE MIB	27 113.90	-1.33%	14.37%
IBEX 35	9 232.50	-1.73%	12.19%
Nikkei 225	28 041.40	2.17%	7.46%
MSCI EM	990.28	2.73%	3.54%
HSCEI	6 968.86	5.89%	3.94%
IBOVESPA	101 882	-2.91%	-7.16%

Source: Bloomberg

Rates & Credit

Rates experienced above average daily volatility mainly caused by the risk-off behaviour as well as the expectations for a slowing pace in interest rates increases.
Short and long term interest rates had a rollercoaster ride. The 3M Euribor fell to as low as 2.65% before moving back up to 3.05%. The US 2 Year Treasury yield dropped from its highest level since 2007 from 5.08% to a low of 3.55% before moving back above 4%. Central Banks in Europe (50bps), Switzerland (50bps) and the US (25bps) however continued to raise rates but signaling a more moderate pace.

Credit Spreads for Investment Grade rose about 25 bps in Europe and the US before dropping back to unchanged. In High Yield Land, Spreads spiked to almost 570 in Europe and 550 in the US, before stabilizing again around the 450 level. However, all eyes have been on the CDS Monitor of global banks. Rarely we have seen such a volatility post the great financial crisis of 2008. In addition, the trigger of some of Credit Suisse’s AT1 Bonds (so-called CoCo Bonds) had huge implications for debt with higher risk metrics.

Finally, some stability came back and even yield curves started to steepen again, after historically highest negative inversions, especially in the US.

	As of 31/03/2023	**1-month perf.**	**Year-to-date perf.**
Euribor 3M	3.04	+29 bp	+91 bp
SOFR RATE	4.87	+32 bp	+57 bp
Germany 2yr yield	2.67	-46 bp	-7 bp
Germany 10yr yield	2.29	-36 bp	-28 bp
US 2yr yield	4.03	-79 bp	-40 bp
US 10yr yield	3.47	-45 bp	-41 bp
France 10yr spread vs. Germany	+50 bp	+3 bp	-3 bp
Portugal 10yr spread vs. Germany	+83 bp	-3 bp	-17 bp
Spain 10yr spread vs. Germany	+101 bp	+6 bp	-6 bp
Italy 10yr spread vs. Germany	+181 bp	-2 bp	-31 bp
iTraxx Main 5yr	+84 bp	+5 bp	-6 bp
iTraxx Crossover 5yr	+436 bp	+23 bp	-38 bp
iTraxx Financials Senior 5yr	+99 bp	+10 bp	n.a.
CDX IG 5yr	+76 bp	n.a.	-6 bp
CDX HY 5yr	+463 bp	+1 bp	-21 bp

Source: Bloomberg, Dealogic, Moody‘s

Commodities

Precious Metals showed a strong upside move due to the fear of a financial market collapse, or worse. Risk-off and flight to safety have caused huge inflows. Gold is up 7.79% over the last month, and an impressive +15.24% for Silver. The move in Gold pushed prices for the ounce to a high USD 2021.93.

Oil dropped to new lows ($72.97 for the Brent and $66.74 for the WTI mid of March), mainly driven by fears of a major economic slowdown caused by tighter financial conditions. Also, traders reduced their long positions or bought large amounts of protection for a major downside move. However, consensus seems to agree that this move was overdone as supply problems and geopolitical tensions still persist.
Gas continued to drop, closing the month down by -19.33% and a 50.48% drop since the beginning of the year. Increased gas inventory thanks to LNG supply and a generally warm winter are the main reasons for the fall in prices.

Agricultural Commodities slightly softened as disinflation continues. Fears of a cocoa and coffee beans shortage amplified the move.

Industrial metals remained unchanged as economic demand from China is offsetting weaker demand from developed markets.

	As of 31/03/2023	1-month perf.	Year-to-date perf.
Brent ($/bbl)	79.77	-4.91%	-7.15%
WTI ($/bbl)	75.67	-1.79%	-5.72%
Natural Gas ($/MMBtu)	2.22	-19.33%	-50.48%
Gold ($/toz)	1 969.28	7.79%	7.96%
Silver ($/toz)	24.10	15.24%	0.60%
Platinum ($/toz)	995.21	4.10%	-7.36%
Palladium ($/toz)	1 463.77	3.20%	-18.35%
Copper ($/MT)	409.45	-0.07%	7.45%
Iron Ore Fines62% ($/MT)	126.68	2.09%	8.13%
Corn (c/bu)	660 1/2	4.92%	-2.65%
Wheat (c/bu)	692 1/4	-1.88%	-13.33%
Soybean (c/bu)	1 505 1/2	1.79%	-1.60%
Coffee (c/lb)	170.50	-8.48%	2.13%
Cocoa ($/mt)	2 933	3.80%	11.31%

Source: Bloomberg

Currencies

After a month's grace, the DXY resumed its downside move which started at the end of last year (-10.5% since the peak in September, -2.25% over March), in expectations for the FED to start cutting rates this year on fears of a banking crisis.
Developed market currencies appreciated against the USD: -2.43% for the USD/JPY, -2.86% for the USD/CHF, 2.49% for the EUR/USD and 2.62% for the GBP/USD.

USD/CNY stabilized after the rally in February as a result of the gradually reopening of the economy after the Covid-Lockdowns and the expectation of a stronger domestic consumption. However, the expected broad-based stimulus package has not been implemented yet.

USD/BRL has been trading within the 5-5.5 range since June 2022 and it continues to do so, closing the month at the bottom of the range (5.06).

RUB weakened again, back to pre Russo-Ukrainian War levels.

Turkey removed an interest rate cap on an emergency savings plan created to protect the Lira, which has come under increasing pressure ahead of general elections in May. The savings plan - which promises a state-guaranteed return on lira deposits that matches or beats any decline against the dollar — was introduced during a currency crisis in late 2021.

	As of 31/03/2023	1-month perf.	Year-to-date perf.
EUR/USD	1.08	2.49%	1.25%
USD/JPY	132.86	-2.43%	1.33%
EUR/GBP	0.88	-0.09%	-0.71%
USD/CHF	0.92	-2.86%	-1.00%
EUR/CHF	0.99	-0.44%	0.26%
GBP/USD	1.23	2.62%	2.10%
USD/CAD	1.35	-0.96%	-0.28%
USD/CNY	6.87	-0.89%	-0.36%
USD/INR	82.18	-0.59%	-0.67%
USD/BRL	5.06	-3.31%	-4.12%
USD/TRY	19.18	1.57%	2.51%
USD/ARS	208.99	6.01%	17.99%
USD/RUB	77.72	3.56%	4.76%
DXY Index	102.51	-2.25%	-0.98%

Source: Bloomberg

The Month Ahead: Economic Calendar

For April, the focus will continue to be on Inflation data in the US and Europe. Numbers will be due on April 12th and 13th for the US and one week later in Europe. The next monthly PCE Deflator release will be on April 28th.

However, as the expectations are for disinflationary trends to continue, the focus could gradually shift to the US employment market as well as early indicators for economic activity like Retail Sales on April 14th and US Manufacturing PMIs due on April 21st.

The Real Estate market should be the first to rebound if rates come down. Here, the New Home Sales should be important number to watch (April 25th).

Zone	Item	Date	Survey	Prior
US	Unemployment Rate (Mar)	April 7	3.6%	3.6%
US	Change in Nonfarm Payrolls	April 7	240k	311k
US	CPI (YoY) (Mar)	April 12	5.2%	6.0%
US	PPI (MoM) (Mar)	April 13	0.0%	-0.1%
US	Retail Sales (Apr)	April 14	-0.3%	-0.3%
CH	Industrial Production (YoY)	April 18	2.8%	1.3%
EU	CPI (YoY)	April 19	-	6.9%
US	Philadelphia Fed Business Outlook (Apr)	April 20	-	-23.2
US	Manufacturing PMI (Apr)	April 21	-	49.2
US	CB Consumer Confidence	April 25	-	104.2
US	New Home Sales (Mar)	April 25	-	640k
US	GDP (QoQ) (Q1)	April 27	-	2.6%
US	PCE Deflator (YoY)	April 28	-	5.0%
CH	Manufacturing PMI (Apr)	April 30	-	51.9

Invest with our Thematics

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Solid Balance Sheets in Europe & in the US

Actively Managed Certificates • Participation • Available in EUR, USD

Our proposal is to exploit the well-known Altman Z-Score framework in order to take refuge in the companies currently exhibiting the most solid balance sheets in Europe and in the US. The latter will resist better in the current environment marked by the pandemic, stress in the oil market and macro deceleration.

Global Jobs & Economic Recovery

Actively Managed Certificates • Participation • Available in USD

The Strategy objective is to benefit from global governmental policies helping people who have lost their job due to COVID-19 to go back to work. US has launched the "Build Back Better" scheme and similar political agendas are prescribed in other part of the world to accelerate job creation. The index invests mainly in Small and Mid-Cap companies which are the biggest employers on a size-adjusted basis which is true globally. Allocation between different regions will be actively managed and run from a Top-Down perspective while the Bottom-Up stock picking will be delegated to active fund managers. The strategy provides exposure to a broad sector allocation. Passive vehicles may be used to add momentum on any major political moves to put people back to work. The short leg of the index aims, first and mainly, to hedge beta exposure whenever the index sponsor deems necessary. On opportunistic and specific cases, short positions may be used to add value. The net exposure will at all-time be net long.

Resocialising & Reopening beneficiaries

Actively Managed Certificates • Participation • Available in USD

Many sectors have been harmed by Covid-induced measures such as international travel bans and social distancing: Travel, Leisure, Restaurants, Airlines, Aerospace among others. The extraordinary vaccination campaign on the one hand, and unprecedented, synchronized fiscal & monetary stimuli on the other have been helping the most negatively affected companies to be able to benefit from the ongoing global recovery.

Our proposal is, therefore, to build a comprehensive exposure to segments severely impacted by the pandemic but poised to reap the benefits of a rebounding economy through an Actively Managed Certificate.

Invest with our Thematics

Macro Long-Biased Asia

Actively Managed Certificate • Participation • Available in USD

Our Macro Long-Biased Asia strategy is a selection of the best convictions identified by Macquarie's Research department. Using a bottom up approach, a committee of experienced analysts individually review and analyze each Asian (ex Japan) stock with a buy recommendation to select only the best opportunities on the market. Long/Short approach with the weighting of the short list decided by the Bank’s Investment Committee.

Energetic Security

Actively Managed Certificate • Participation • Available in USD

The war in Ukraine is proving to be a wake-up call for Europeans and the whole world. At the very least, alternatives to natural gas must be found. Nuclear power will be re-examined and carbon sequestration will have to be accelerated, as the exit from coal will be delayed. This crisis has highlighted the importance for states to ensure their energy independence.

The certificate invests mostly in stocks that will benefit from this trend. Direct exposure to commodities is allowed for up to 20% of the portfolio.

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Banque Cramer & Cie SA
Avenue de Miremont 22
1206 Genève
T +41 58 218 60 00

Genève | Lugano | Zürich
info@banquecramer.ch
www.banquecramer.ch