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MARKET FLASH: DATA NOT DATE DEPENDANT

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• As for growth, the latest ECB quarterly credit survey showed a sharp improvement in loan demand and lending conditions, both of which generally indicate an upturn in the cycle.

• We remain fully invested but underweight the dollar. We still prefer fixed income for its yield.

Bond yields have risen sharply since January 1st. The yield on Germany's 10-year Bund has added 30bp, ending an almost uninterrupted period of easing since November 2023.

However, we view this as simply a readjustment phase after exaggerated expectations of central bank cuts. Given ongoing disinflation and the latest ECB monetary meeting, we have been reinforcing duration at attractive levels.

During her press conference, ECB head Christine Lagarde hailed the downward trajectory in inflation expectations while stressing that wage pressure was also declining. While acknowledging the lag in traditional wage data, she said it was essential to use tools developed by the bank's chief economist, Philip Lane, to track real time data.

Her "data and not date dependent" catch phrase reaffirmed the ECB's capacity to react to real time data rather than low frequency data on deadlines. In other words, a rate cut could come as early as April if the data warrant a move!

As for growth, the latest ECB quarterly credit survey showed a sharp improvement in loan demand and lending conditions, both of which generally indicate an upturn in the cycle. In the US, data pointed to a resilient economy with PMIs moving back above 50 and the economy grew 3.3% in the fourth quarter of 2023.

Initial earnings reports back up this resilient growth scenario: pleasant surprises are on the rise and Europe's tech sector outperformed sharply.

Elsewhere, China unveiled a new stimulus package to drive growth and stabilise equity markets. It involved direct buying by a stabilisation fund and a timid boost to lending using technical measures.

As long as the geopolitical situation does not deteriorate, this Goldilocks scenario is a boost for markets. The Eurostoxx gained 3% over the week.

We remain fully invested but underweight the dollar. We still prefer fixed income for its yield. We believe being overweight duration is judicious as it should offer protection amid ongoing disinflation and geopolitical instability.

EUROPEAN EQUITIES

After a mixed start to the year, European equity markets rallied.

Investors applauded most of the week's earnings reports and monetary stimulus in China, a counterweight to mixed PMI data. Manufacturing in Europe is still contracting, albeit at a more moderate pace than expected in France and Germany.

The ECB monetary meeting failed to provide any significant news. Chair Christine Lagarde said mid-term indicators were in line with forecasts and a decline in inflation was already visible. However, she said the bank would be data driven and there was no shift in rates. Significantly, investors remarked on her failure to attack aggressive market pricing of future rate cuts.

Tech drove indices higher thanks to results from Holland's **ASML** and a restructuring plan at **SAP.** Fourth-quarter sales at **ASML** rose 8.5% QoQ to €7.23bn, or much better than the €6.86bn expected. Both gross margins and net profits beat expectations. New orders more than tripled but management struck a cautious note for 2024, citing uncertainty over the chip recovery this year. SAP is to lay off up to 8,000 people and invest close to €1bn. The aim is to reposition the group on key growth areas, notably the cloud business and generative AI

In France, **LVMH**'s results reassured the entire luxury sector. 2023 results were in line, with fourth-quarter sales up 10% compared to 9% in the previous quarter. Bernard Arnault was particularly upbeat for 2024 and is determined to maintain growth and protect profitability. The stock jumped more than 10% on Friday morning and the entire sector revived. Luxury stocks have underperformed recently but could well return to favour with investors in 2024.

US EQUITIES

The number of reports increased for the second week of the earnings season. Many chip companies reported. **Lam Research** beat earnings expectations and raised guidance more than expected. But "old gen" chip companies disappointed investors. Intel did better than expected in the fourth quarter but issued a sales and profit warning for this quarter; management now sees profits halving. **Texas Instruments** also cut guidance, citing slowing demand, and **KLA** reduced its forecasts for the third quarter.

Results and guidance among industrials were generally disappointing due to high inventories and weak Chinese demand. Results at **3M**, **Dupont** and **GE** were particularly disappointing. The week's big surprise was **IMB** which jumped 9% after excellent growth thanks to a surge in its consulting revenues. The share hit levels not seen since 2014.

Tesla's results triggered a sell-off. Management said 2024 production would be significantly lower than in 2023 and with thinner margins.

In financials, **Blackstone**, **Raymond James** and insurance group **PGR** rose after earnings and sales beat expectations. **Visa**, however, fell after a slight downward adjustment to second quarter guidance.

In defence, **General Dynamics** gained ground despite mixed fourth-quarter results but Northrop Grumman fell after taking a $1.2bn charge against the new B-21 Raider bomber.

In telecoms, **Verizon** continued to rise after a solid fourth quarter and improved guidance for its wireless division.

Macroeconomic data over the week was largely positive. The US grew 3.3% in the fourth quarter of 2023, or more than expected.

JAPANESE EQUITIES

The NIKKEI 225 and TOPIX rose by 2.17% and 1.60% over the week. New money, especially from abroad, continued to drive the market higher but the trend was limited by the yen strengthening and rising bond yields.

Banks jumped 5.30% as higher rates are good for loan margins. Securities and Commodities Futures advanced 3.34% thanks to rising stock prices and bigger trading volumes. Electric Appliances gained 3.32 as semiconductor stocks followed US markets higher. On the other hand, Pharmaceuticals and Electric Power & Gas fell 0.91% and 0.86% as risk-on sentiment hit defensives. **Tokyo Gas** and **Chugai Pharmaceutical Co., Ltd**. fell 3.31% and 3.16%, Oil & Coal Products dipped 0.80% on profit taking following a strong rally in crude oil over the past few weeks.

M3 (healthcare platform) rebounded by 11.23% on bargain hunting after a massive sell-off. **Resona Holdings** (banks) and **Tokyo Electron Ltd.**, a semiconductor manufacturing equipment maker, rose by 7.95% and 7.62% for the reasons explained above. **Mitsubishi Estate** lost 2.94% as rates rose after the BOJ's Monetary Policy Meeting said its zero interest rate policy might come to an end.

The yen traded between the low-148s and the high-146s against the dollar, strengthening to the mid-147s after the BOJ Meeting on January 22/23.

EMERGING MARKETS

The MSCI EM Index had rebounded 2.8% as of Thursday, mainly led by **China** (+5.5%) which easily outperformed. **India** retreated by 1.1% while **Korea** and **Brazil** both ended close to flat in USD.

In **China**, the Loan Prime Rate was kept unchanged as expected. The PBoC announced a 50bp cut in the RRR for early February, or ahead of market expectations; the move will inject about RMB 1 trillion in liquidity. Beijing is reportedly considering a rescue package of more than $270bn to stabilise the slumping stock market but there has been no official confirmation.

The cabinet pledged steps to stabilise capital markets. Property-specific measures were also announced later in the week to provide support for urban developers. **NPPA** released 115 game approvals, with numbers surpassing previous batches. **China** and **Singapore** will start a mutual visa-free scheme in early February. The US Congress introduced a bill to prohibit US agencies from contracting with certain biotech providers.

The co-founders of **Alibaba**, Jack Ma and Chairman Joe Tsai, bought back $200m in **Alibaba** shares. Both **New Oriental** and **TAL** in the education sector reported a decent beat on revenues and operating profits, and both are planning strong capacity expansion. **Sungrow** and **Roborock** pre-announced better-than-expected fourth-quarter results thanks to their high exposure to overseas markets.

Taiwan's December export orders fell 16% YoY, or worse than the 1% drop expected.

Korea grew 2.2% YoY in the fourth quarter, or slightly ahead of forecasts. **SK Hynix** reported strong fourth-quarter operating profits on higher DRM/NAND prices. **Hyundai Motor** reported softer fourth-quarter earnings as the auto industry normalised but kept its shareholder return policy unchanged. Management gave better-than-expected OPM guidance of 8.5% on lower commodity costs and a better mix. Results at **LG Energy Solution** were in line and AMPC (US tax credit) guidance was better than expected.

In **India**, the government rolled out a new scheme to boost rooftop solar installations to 10 million families. **Sony** ended its $10bn merger of its Indian unit with Zee Entertainment. **Axis bank** had mixed results, with lower margins despite strong retail loan growth. **Hindustan Unilever** reported a weak quarter as rural growth continued to lag. Third-quarter profits at **Ultratech** beat estimates on lower input costs. **Make-My-Trip** recorded robust growth and continued on its margin expansion trajectory.

In **Brazil**, the government said that the BNDES (development bank) support to innovation and industry could increase by 0.5% of GDP this year. **General Motors** is to invest $1.4bn in Brazilian operations with a focus on electric cars.

In **Mexico**, the December unemployment rate was in line with expectations at 2.6%.

CORPORATE DEBT

CREDIT

Markets were once again volatile after surprisingly robust macro data, especially in the form of resilient US growth in the fourth quarter of 2023. In Europe, industrial PMIs rose from 44.4 to 46.6 so there is a possibility any recession might be shallower than expected. The jobs picture, however, continued to worsen and markets still expect the ECB to cut benchmark rates before the end of the first half of the year due to sharp falls in inflation. Yields on Germany's 10-year Bund traded between 2.34% and 2.25% (on Friday morning), easing by close to 10bp over the last two trading sessions.

Spreads performed well with investment grade tightening to 130bp, a low not seen since March 2022. High yield spreads narrowed to 370bp and Euro CoCos broke below their 600bp historic mean.

Swedbank and **Bankinter** kicked off the earnings season. Results were still generally good but there were some signs of a slight fall back. On a persistently busy new issues market, ZF (BB) raised €800m at 4.75% due 2029, and ADR (B-) €300m at 10%, also due 2029. Both deals were heavily oversubscribed, a token of investor appetite for spread issues.

In a good week for spreads, investment grade returned 0.54%, wiping out most of the losses since the year began. The segment is now down 0.58% YTD. High yield returned 0.26% (+0.64% YTD).

CONVERTIBLES

It was a very busy week for convertibles, driven mainly by the earnings reporting season in full swing.

In Europe, the most notable earnings move came from **ASML**: the stock surged after reporting fourth-quarter results that largely beat expectations, and € 9.2bn in orders, or substantially above consensus, signalling a sharp upturn in the memory segment. **LVMH** jumped after results reassured investors on luxury sector resilience. The core Fashion & Leather Goods division delivered 9% growth in the fourth quarter or in line with expectations while margins surprised on the upside. Furthermore, the resilience of the company's customers in the US and China was seen as a particular highlight. **Remy Cointreau** report reassured the market as well: sales guidance was unchanged but the company plans to cut costs further to protect profitability and does not expect the weaker sales trend in China to continue.

In the US, **Tesla** missed earnings estimates and warned its rate of expansion would be significantly lower on weaker demand. The company has made multiple price cuts over the last year and that has been a headwind for the entire US EV market. Airline reports were a bright spot, **American Airlines** results and 2024 guidance looked solid, with good cost controls and a little expected help from fuel prices, pushing full-year EPS guidance above expectations. **Southwest Airlines** beat market expectations and management sees improved profitability in 2024 and margin expansion.

On the primary market, **BlackBerry Limited** launched a $175m convertible issue due 2029, an offering that was upsized from the previously announced $160m.

In Asia, **SK Hynix** delivered solid results and strong guidance on revenues and operating profit. The company signalled a double-digit rise in forward pricing for both DRAM and NAND chips in the coming quarter. Early in the week, China took steps to unleash more money and help the economy. It is to cut the reserve requirement ratio for banks in early February, and that should provide RMB 1 trillion ($139 billion) in long-term liquidity to the market. The move helped spark a market rally but it had stalled by the end of the week.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• Markit publishes the Main iTraxx index (125 leading European stocks), the HiVol (30 highly volatile stocks), and the Xover (CrossOver, 40 liquid and speculative stocks), as well as indices for Asia and the Pacific.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

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