

## Weekly Update

### Musings

The stock market is filled with individuals who know the price of everything, but the value of nothing.

*Phillip Fisher*

### Last week in the markets

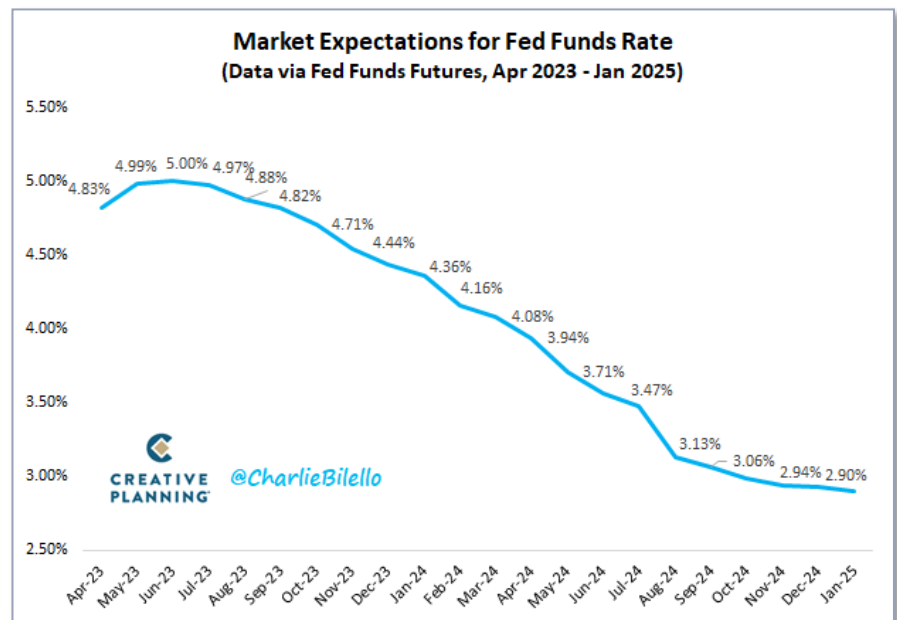
The stock market rally took a breather last week. The Dow Jones Industrial Average rose 0.6%, the S&P 500 index dipped 0.1%, the Nasdaq fell 1.1% and the Russell 2000 slumped 2.5%.

U.S. labor data came in mixed on April 7th. Nonfarm payrolls rose by 236,000, just below estimates for 240,000 and down from February's revised 326,000. Private payrolls rose just 189,000, well below views for 223,000.

However, unemployment dipped to 3.5%, back to long-term lows. The labor force participation rate climbed to a post-Covid high of 62.6%.

Hourly earnings rose 0.3% vs. February, in line.

The market took note. Expectations of a 25 bp hike in May 2023 jumped to 71% from c 49%. **The 10-year Treasury yield jumped twelve basis points to 3.41% from the seven-month low that it hit on Thursday.** The market now expects the peak rate in this cycle to be somewhat higher than 5%

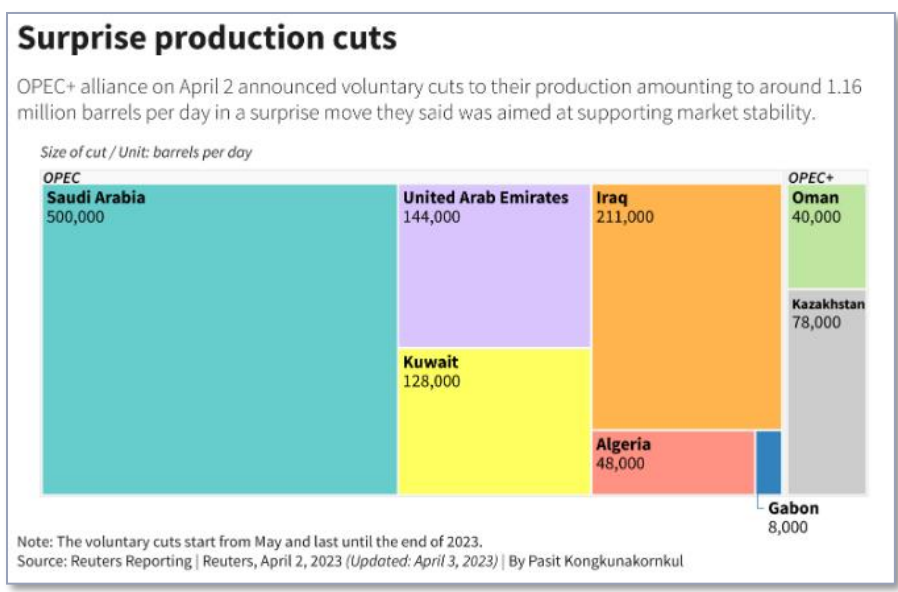


Gold continued to rally. At \$2,023.70 an ounce—up 2.8% this past week—gold has about 2% to rise to hit its record high of \$2,069.40 set in 2020. The yellow metal has gained 11% over the past month, and 24% from its recent November low.

Gold prices are typically driven by three factors: the value of the U.S. dollar, real yields, and risk aversion. The move in price reflects expectations of an end to the Federal Reserve's interest-rate hikes and concerns about recession amid banking turmoil. A looming debt-ceiling fight adds to the jitters. Breaking \$2,000 was also a significant psychological barrier.

Gold's next move will depend on how rate expectations and the economy evolve. But **with bond yields, the dollar, and sentiment working in its favor, we believe gold has room to run.** However, some profit taking is possible in the near term.

U.S. crude oil prices leapt 6.65% to \$80.92 a barrel, mostly on Monday after the surprise OPEC+ output cut. Earlier, prices booked their worst week since the start of the year, dropping off a cliff on renewed fears about the global economy. **The latest pledges bring the total volume of cuts by OPEC+ to 3.66 million bpd including a 2 million barrel cut last October, according to Reuters calculations, equal to about 3.7% of global demand.**



The US-led banking turmoil is driving money into Asian assets, with investors betting that China and the region's emerging economies are in a better position to weather the fallout.

One factor working in favor of the Asia-Pacific is a generally softer pivot in monetary policy, with central banks in Australia, South Korea, Indonesia, and India among those pausing their tightening cycles. China, with its easing monetary policy and a belated re-opening from Covid, is the top attraction for investors.

China's rebound is expected to percolate throughout the region, which also benefits from supply-chain diversification, booming commodities, and a lack of excessive debt growth,

The Reserve Bank of India (RBI) surprised markets by holding its key repo rate steady on Thursday after six consecutive hikes, saying it was closely monitoring the impact of recent global financial turbulence on the economy. The monetary policy committee (MPC), comprising three members from the central bank and three external members, retained the key lending rate or the repo rate at 6.50%.

U.S. corporate earnings season will start next week. Now may be a good time to build your watchlists.

**Earnings Decline:** For Q1 2023, the estimated earnings decline for the S&P 500 is -6.6%. If -6.6% is the actual decline for the quarter, it will mark the largest earnings decline reported by the index since Q2 2020 (-31.8%).

**Earnings Guidance:** For Q1 2023, 79 S&P 500 companies have issued negative EPS guidance and 27 S&P 500 companies have issued positive EPS guidance.



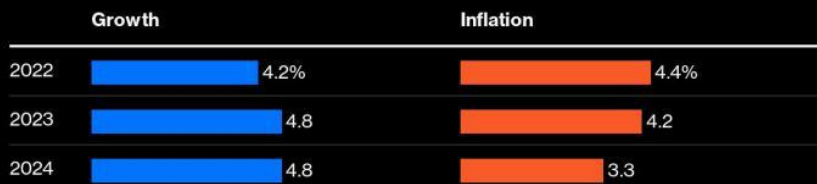
**Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.8. This P/E ratio is below the 5-year average (18.5) but above the 10-year average (17.3).

## Chart of the week

Optimism about the economies in the Asia Pacific is reflected in fund flows. **\$5.5 billion of funds flowed into emerging-market equity funds over the four weeks up to the end of March, led by Asia**, according to figures from TD Securities. More than 70% of that went to China. At the same time, developed-market equities suffered net outflows of \$8.6 billion, with the US hardest hit.

### Brighter Days for Developing Asia

Asian Development Bank sees faster growth, moderating inflation this year



Source: Asian Development Bank (April 2023 update)

Note: "Developing Asia" includes 46 ADB member nations across East Asia, Caucasus & Central Asia, South & Southeast Asia, and the Pacific

Bloomberg

### US Equities Go Out of Favor

Emerging market shares saw strong inflows in March amid bank turmoil

#### Equities fund flow in 4 weeks to March 31



Sources: EFPR, TD Securities

Bloomberg

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