MARKET VIEWS

Charts of the Week

15.02.2023

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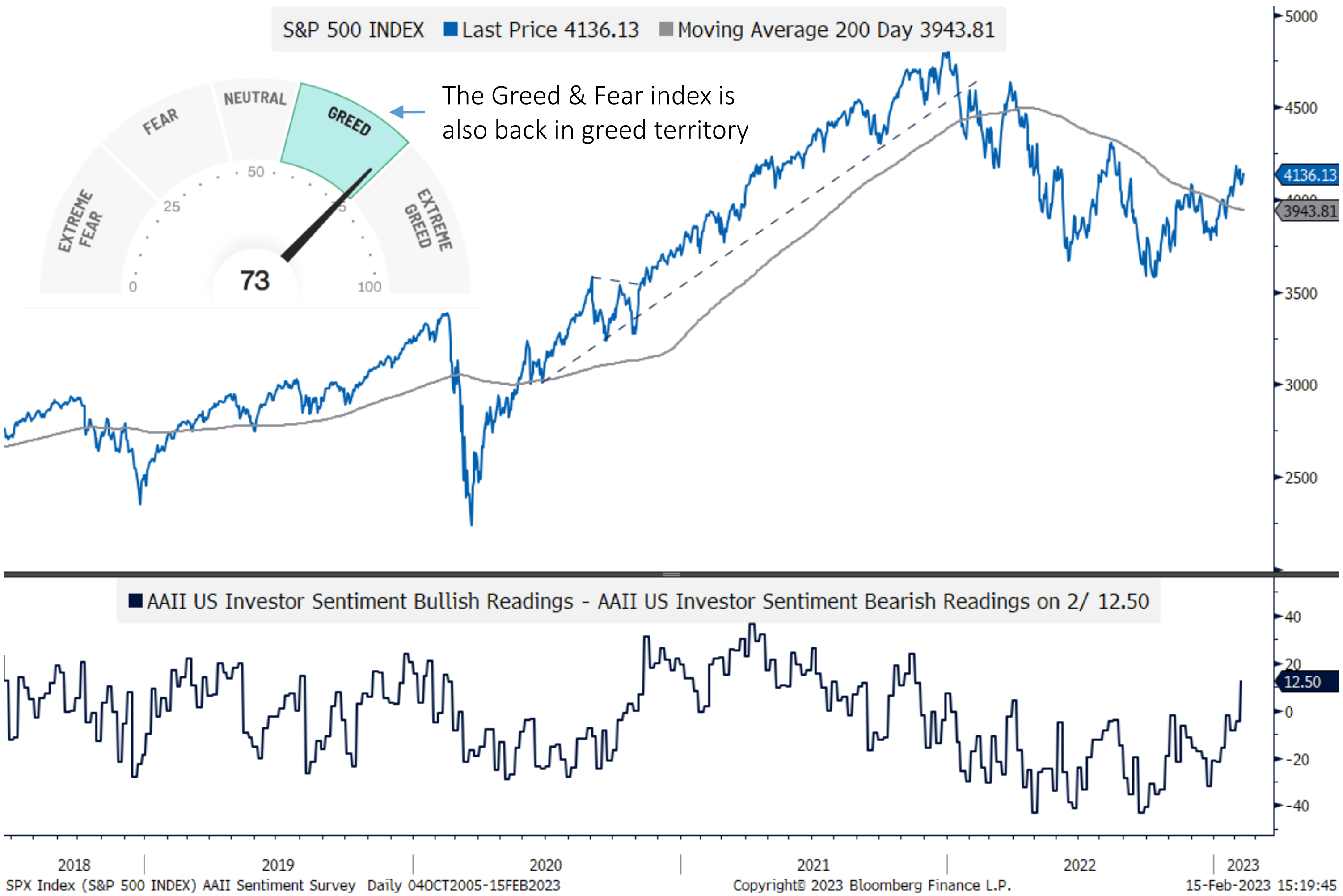
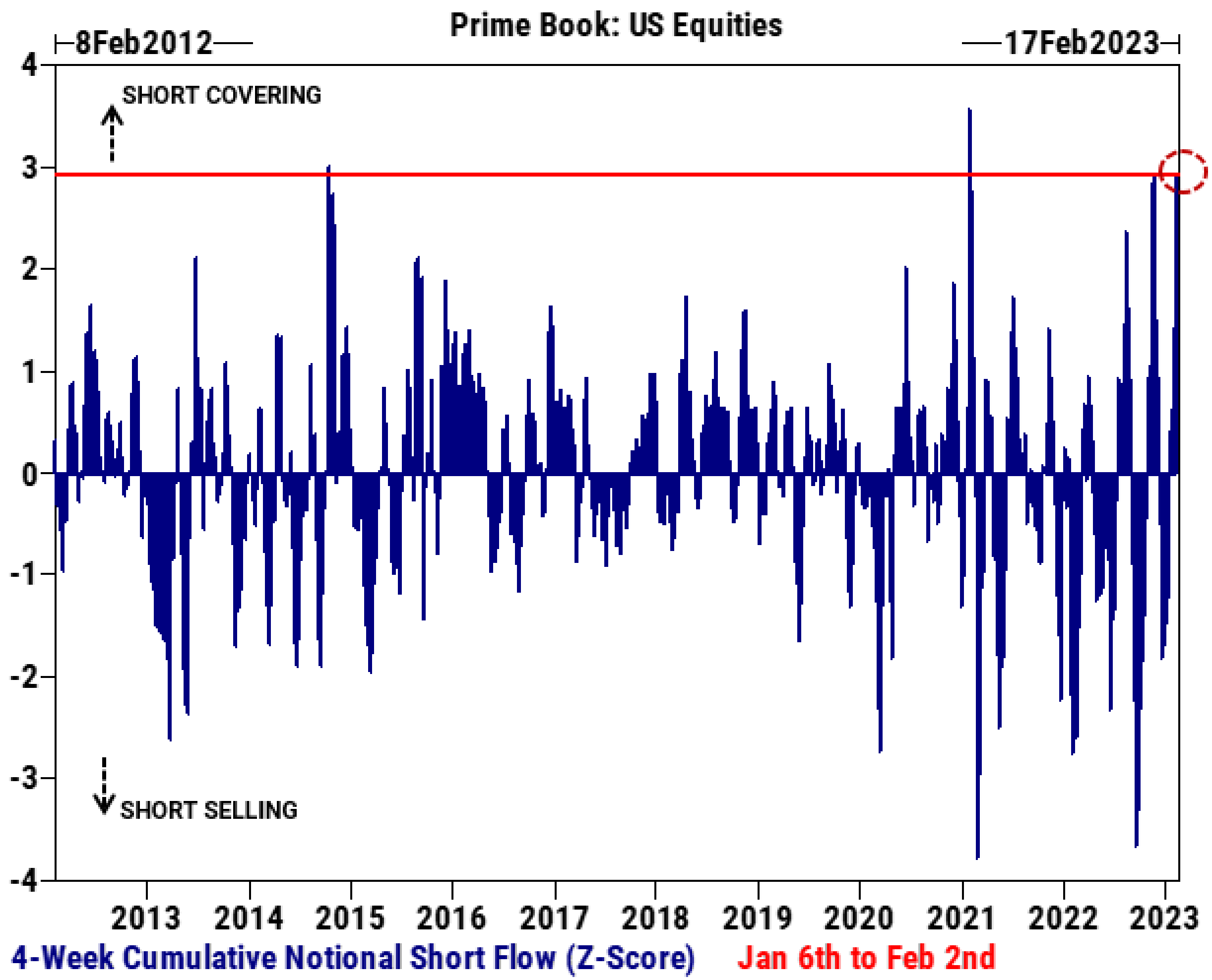
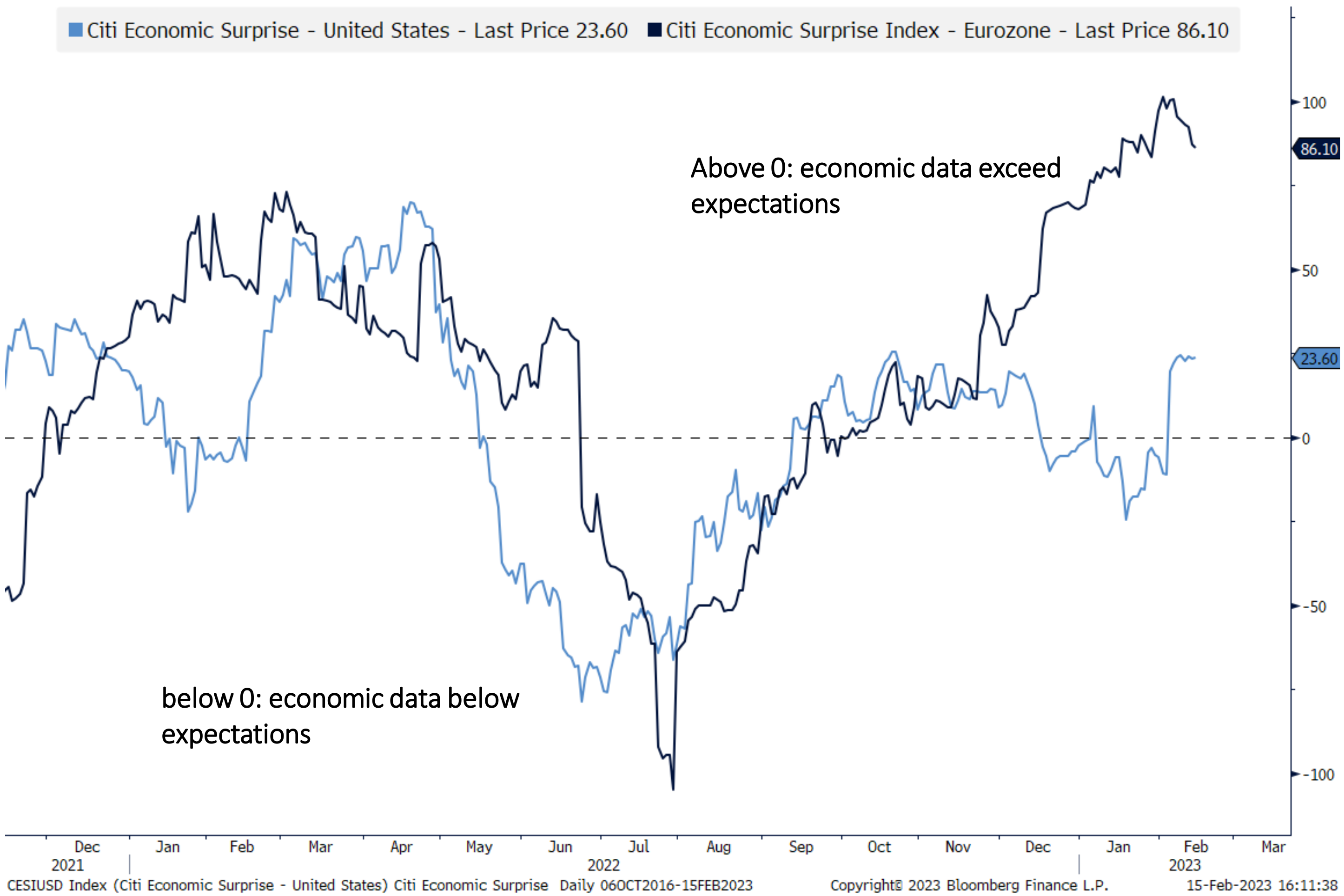
There is nothing like rising prices to change sentiment. With the S&P500 comfortably off its October lows and above its 200dma, sentiment as measured by the AAII survey is back in bullish territory…signs of speculation have certainly reemerged, with record volumes on short dated call options



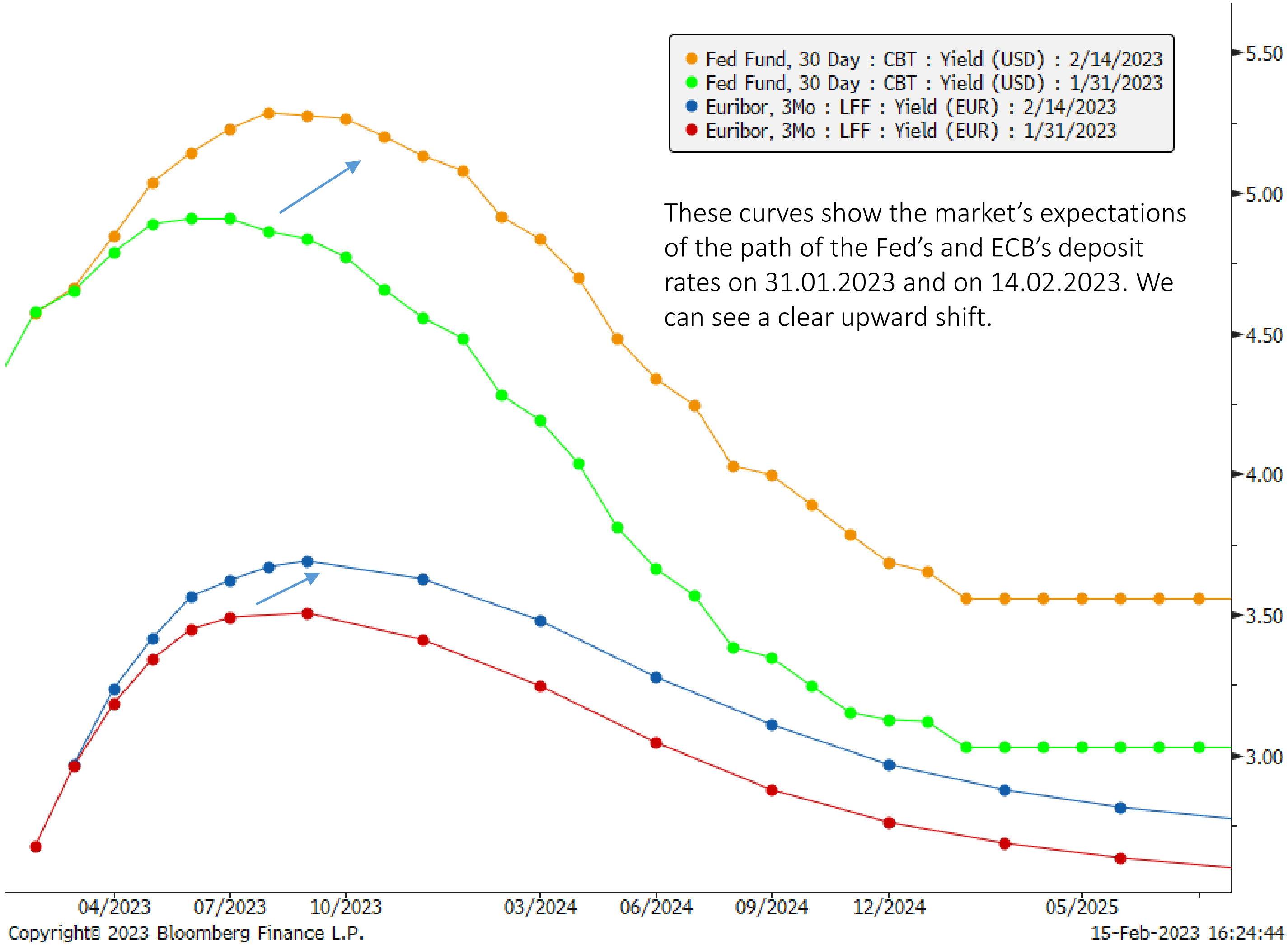
The start of 2023 has seen one of the largest short covering episodes of the last decade, as evidenced by the outperformance of the worst performing sectors of 2022…



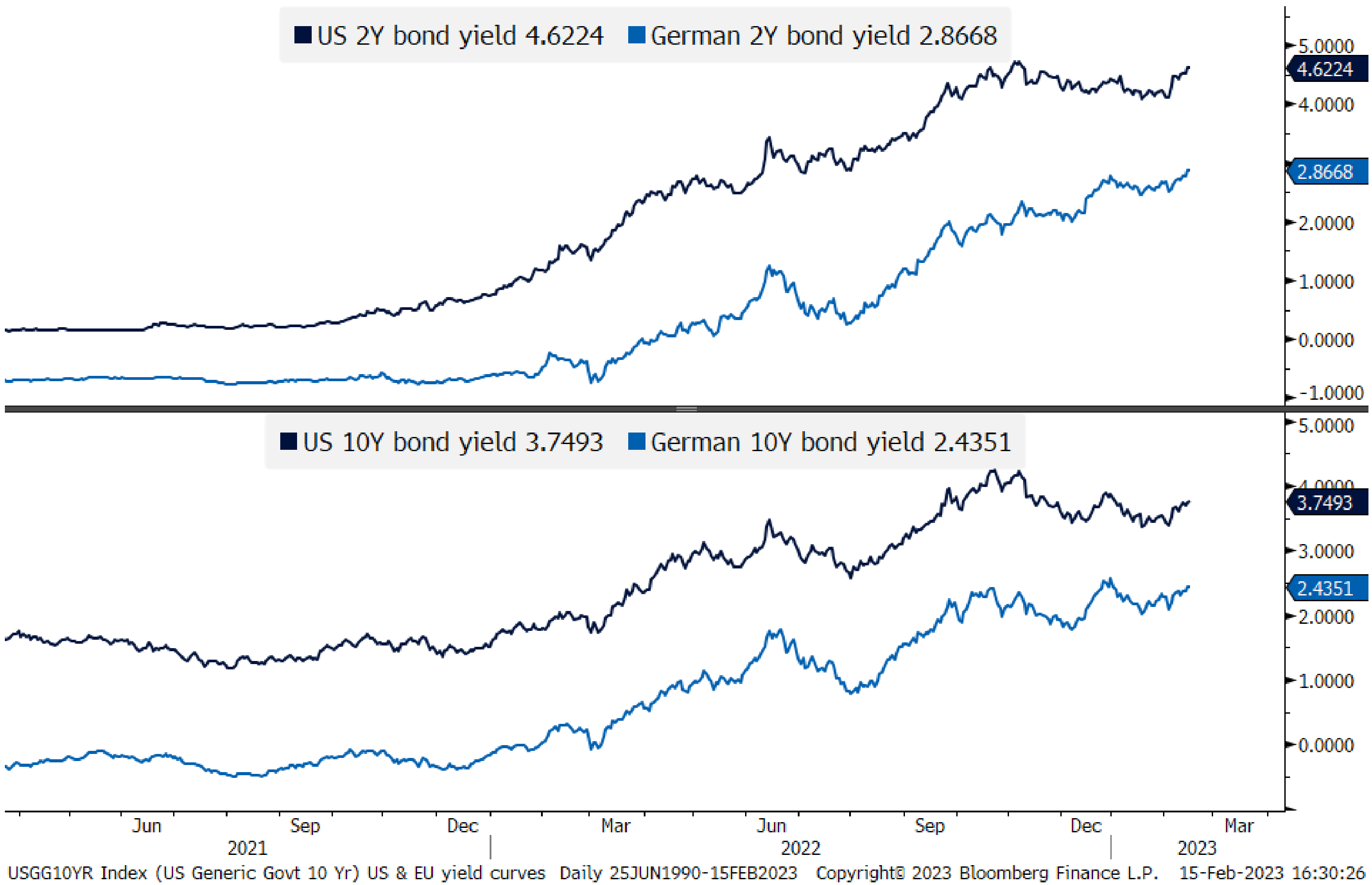
Citi's economic surprise indices illustrate well how economic data has been surprising to the upside in recent months, particularly in Europe (which has supported the EUR). This has allowed the narrative to shift from recession to soft landing to no landing at all...



The issue with better economic data, especially in services and the labor market, is that it has pushed expectations of the Fed and ECB's peak rates higher by almost 30bps and 20bps over the last two weeks…



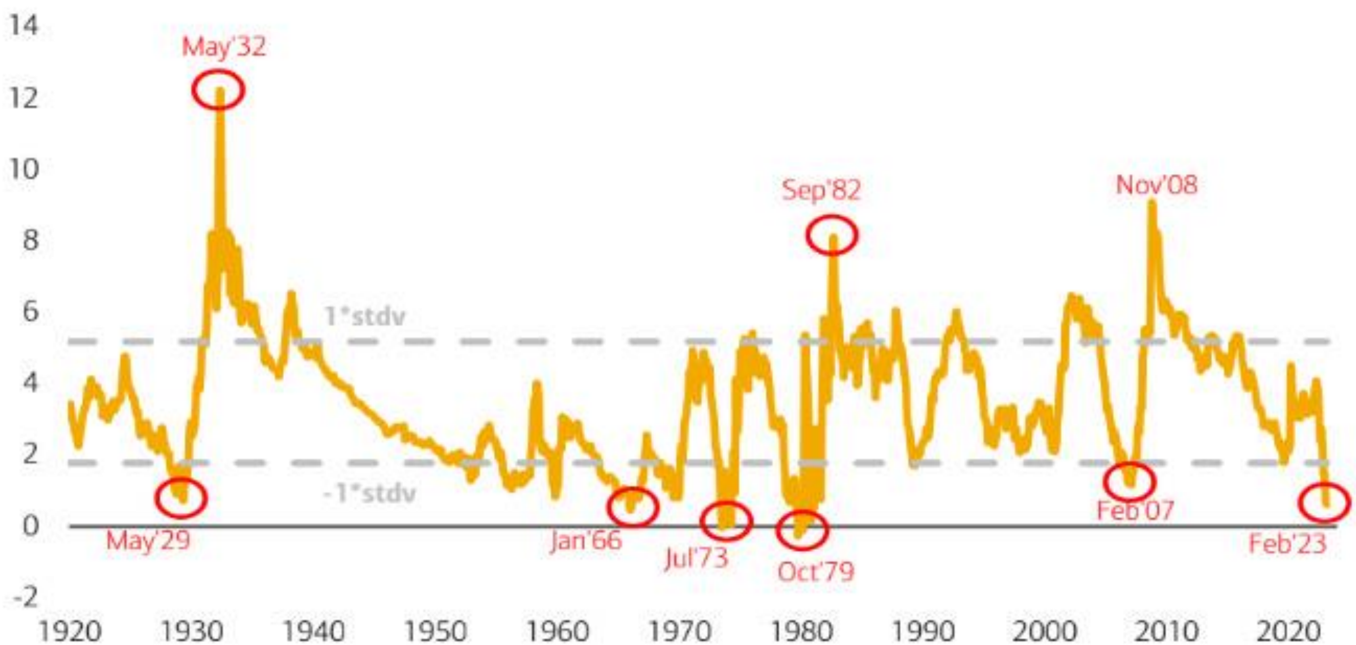
Consequently, short term yields have picked up and are either at or challenging new highs in the US and EU. Long term yields have held support and are now rising again. This is making it more difficult for equities to keep rallying…



Signs of complacency appear in the bond market too: the spread between the yield on US corporate bonds and the effective “risk-free” rate has shrunk to the lowest level since 2007…holding corporate debt still does not make much sense in this environment

Chart 2: Here's a sign of Greed

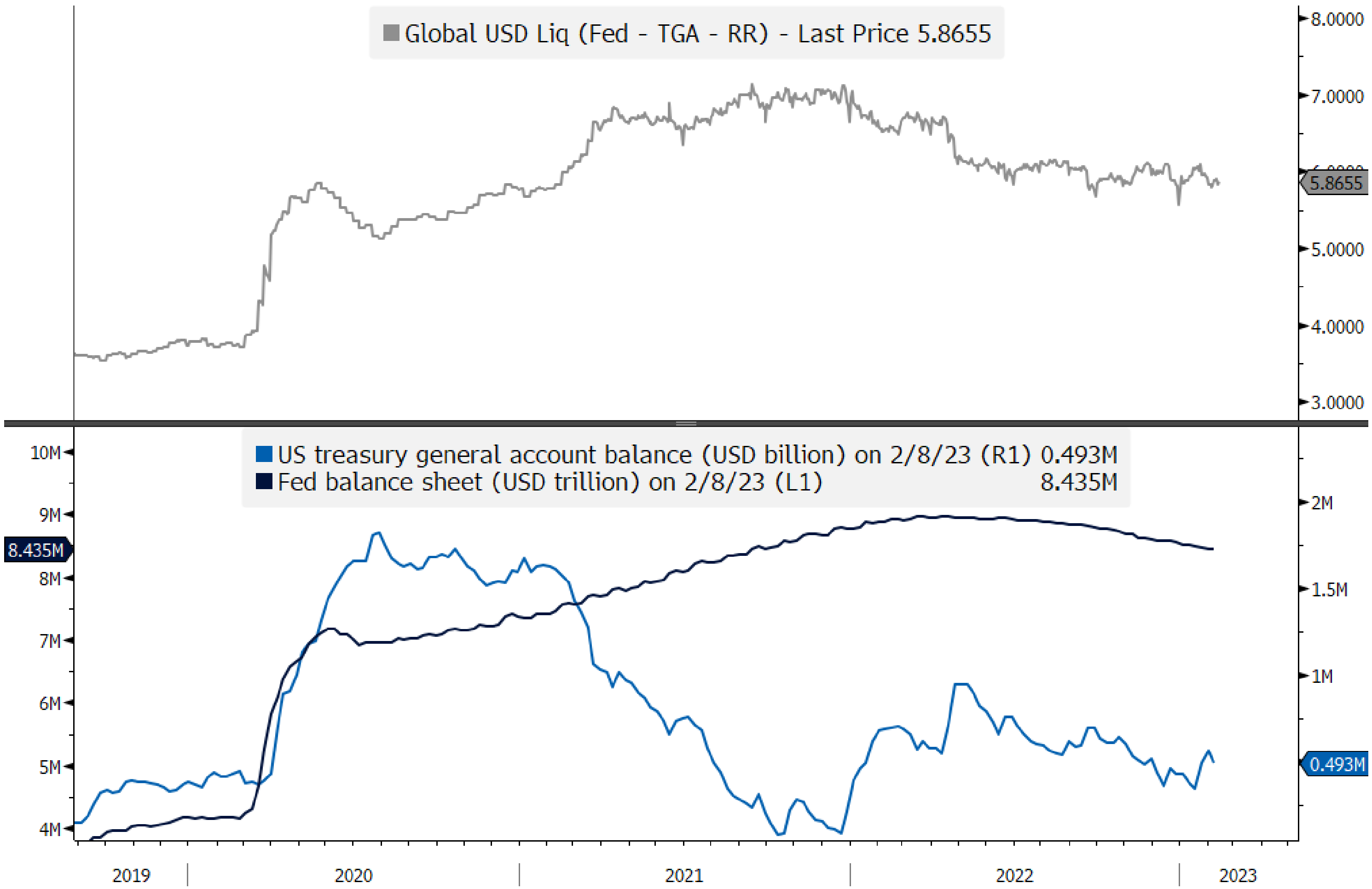
Spread between US BBB-rated corporate bond yield and 90-day US Treasury bill yield (%)



Source: BofA Global Investment Strategy, GFD Finaeon. Moody's Corporate BAA Yield.

BofA GLOBAL RESEARCH

The approaching debt ceiling has prevented the treasury from issuing new debt, forcing it to use its cash balance instead, which releases liquidity. This has largely offset the decline in the Fed's balance sheet, keeping USD liquidity quite stable since October and supporting risk assets…this offset to Fed QT is unlikely to last



.USDLIQ U Index (Global USD Liq (Fed - TGA - RR) USD liq, Treasury TGA Daily 02JAN2012-15FEB2023 Copyright© 2023 Bloomberg Finance L.P. 15-Feb-2023 11:24:59

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