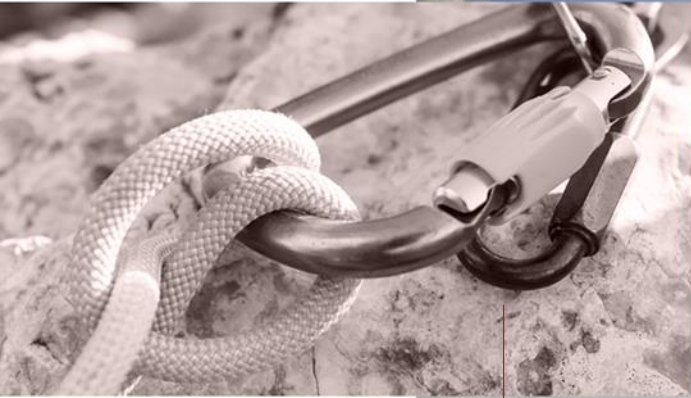


THE ESSENCE

OF FREEDOM



1. Macro and Rates
2. Fixed Income
3. Equity
4. FX and Commodities

Key Take-Aways

- ❖ Challenges and Fed's Response: Despite the strong GDP growth and stable inflation, the US economy faces challenges with falling global equities and surging US long yields. The Fed left rates unchanged and added financial conditions as a factor in economic activity, signaling a pause in rate hikes and opening the question of when rate cuts might begin.
- ❖ Most bonds have negative year-to-date returns, with recent data suggesting a trend towards lower long-term interest rates amidst economic challenges. Investors are advised to focus on high-quality bonds and credits.
- ❖ US Economy Surges Amid Uncertainty: With a robust 4.9% annual GDP growth, the strongest quarter since 2021, the US economy displays surprising vigor, fueling debates on the sustainability of consumer spending and potential prolonged higher interest rates by the Fed to combat inflation.
- ❖ The S&P 500's turbulent performance and the Volatility Index's (VIX) spike above 20 signal a market rife with fear and opportunity, suggesting a strategic moment for investors to consider structured products amidst the chaos.
- ❖ Japan's Market Downturn and Policy Shift: Japan's stock market faced declines, especially in pharmaceuticals and machinery, while a policy change by the Bank of Japan caused 10-year rates to hit a 14-year peak, suggesting upcoming market volatility.
- ❖ Healthcare Sector Downtrend with a Silver Lining: Global healthcare stocks dipped by 4.2%, underperforming major indices, with earnings in Europe notably missing estimates. However, the sector saw a ray of hope with significant M&A activity, including Eli Lilly's acquisition proposal and Roche's substantial deal announcement.
- ❖ EUR/USD broke through a key resistance level and may continue its upward trend, with a possible target of July 2023's level of 1.128, but the outlook remains cautious with potential USD strength.

Review

October's overview

October followed the downward trend in equities. All major indices ended last month in the red, with the S&P500 TRI down 2.10% after September (-4.77%) and August (-1.77%). Despite these three consecutive negative months, the index is still up 10.68% YTD. Second-to-last in its class in terms of relative performance, the SMI fell by 5.22%, ending with a negative YTD (-0.12%). The index that suffered most was the Russell 2000, with MTD down 6.82%. The MSCI EM index, the CSI 300 China, the Euro Stoxx 50 and the FTSE 100 finished at -3.88%, -3.10%, -2.62% and -3.69% respectively.

Last month, all but one sector of the S&P500 finished in the red. The utilities sector proved resilient, returning 1.29%. The three worst performing sectors were energy, consumer discretionary and healthcare, with -5.97%, -4.47% and -3.21% respectively. Despite this negative dynamic, the telecommunications and information technology sectors are up 37.87% and 34.69% respectively since the start of the year.

Once again, the US Dollar index strengthened, rising by 46 basis points. The Japanese yen's depreciation trend against the US dollar continued this month, closing at 151.68 USD/JPY, losing 155 basis points, bringing the year-to-date figure to 15.68%. The Swiss franc appreciated against both the dollar and the euro. USD/CHF lost 54 bps and EUR/CHF 50. Sterling depreciated by 38 bps against the US dollar and 42 bps against the euro.

The 10-year US government bond rose 36 basis points last month, reaching the 5.10% yield to maturity. Japanese bonds are up 18 basis points. German bonds were the only ones to lose 3 basis points. Investment Grade and High Yield bonds diverged from US Treasuries by 26 and 43 basis points respectively..

The commodities index is down 0.21% with WTI crude oil at -10.76 for the month of October. Gold rallied strongly last month, rising 7.32% to 8.76% year-to-date.

Volatility spiked at 21.71 the 20th October 2023.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 194	0.65	-1.25	-2.10	-2.10	10.68	18
Nasdaq	12 851	0.48	-2.19	-2.76	-2.76	23.61	27
Russell 2000	1 662	0.91	-1.01	-6.82	-6.82	-4.48	18
Euro Stoxx 50	4 061	0.88	-0.04	-2.62	-2.62	10.45	12
Stoxx 600 EUR	434	0.61	-0.29	-3.60	-3.60	5.31	11
FTSE 100	7 322	-0.08	-0.92	-3.69	-3.69	1.36	8
SMI	10 391	0.09	0.14	-5.22	-5.22	-0.12	16
NIKKEI 225	30 859	0.53	-0.66	-3.14	-3.14	20.55	19
CSI 300 China	3 573	-0.31	2.52	-3.10	-3.10	-5.52	10
MSCI EM Index	915	-0.72	-0.57	-3.88	-3.88	-1.85	11

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 194	0.65	-1.25	-2.10	-2.10	10.68	18
UTILITIES	303	0.89	1.11	1.29	1.29	-13.31	15
ENERGY	652	0.26	-2.65	-5.97	-5.97	-0.34	11
TELECOM	218	0.18	-6.17	-1.82	-1.82	37.87	16
CONS STAPLES	717	0.37	0.24	-1.21	-1.21	-5.92	18
REAL ESTATE	208	2.06	0.77	-2.79	-2.79	-8.15	17
CONS DISCRET	1 207	0.73	-0.34	-4.47	-4.47	20.92	23
MATERIALS	479	0.45	0.95	-3.18	-3.18	-0.66	18
HEALTH CARE	1 451	0.63	-2.40	-3.21	-3.21	-7.17	16
INFO TECH	2 904	0.56	-1.05	-0.02	-0.02	34.69	25
FINANCIALS	538	1.10	0.44	-2.47	-2.47	-4.08	13
INDUSTRIALS	832	0.77	-0.60	-2.92	-2.92	1.45	17

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	106.663	0.51	0.37	0.46	0.46	3.03
EUR-USD	1.0575	-0.38	-0.14	0.02	0.02	-1.21
USD-JPY	151.68	1.73	1.18	1.55	1.55	15.68
USD-CHF	0.9104	0.93	1.93	-0.54	-0.54	-1.53
EUR-CHF	0.9628	0.55	1.78	-0.50	-0.50	-2.70
GBP-USD	1.2153	-0.14	-0.06	-0.38	-0.38	0.58
EUR-GBP	0.8703	-0.24	-0.07	0.42	0.42	-1.70
JP EM FX Index	46.95	0.17	0.44	-0.18	-0.18	-5.91

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	4.93	4	11	36	106	106
Germany	2.81	-2	-2	-3	24	24
UK	4.51	-5	-3	7	84	84
SWITZERLAND	1.13	0	1	2	-49	-49
Japan	0.95	5	10	18	53	53
US IG Spread	139	0	3	8	-4	-4
US High Yield spread	457	4	11	26	-52	-52
EUR High Yield spread	481	-8	-4	43	-19	-19

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	104.6	0.14	0.03	-0.21	-0.21	-7.26
Gold Spot \$/OZ	1983.9	-0.61	0.66	7.32	7.32	8.76
Crude Oil WTI	81.0	-1.57	-3.99	-10.76	-10.76	0.95

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	18.1	-1.61	-0.83	0.62	3.54	-3.53

Macro & Rates

Central Banks set for a pause.

The resilience of the US economy: from exceptionalism to aberration.

The US third quarter 2023 GDP growth is for the record books! The biggest economy in the world grew at a 4.9% pace quarter-on quarter with nearly 3% productivity growth. Quite astonishing and not exactly what a mature and large economy is supposed to deliver after a 550bps tightening cycle, especially when everybody is looking for a recession.

This dynamism in the US economy, combined with stable inflation (though at elevated level), was certainly the vector for the surge in yields observed during the month. For the first time since 2007, US Treasury yields reached above 5% from the 1 year to the 30 year part of the curve.

In this context, it is fair to say the third quarter GDP growth looks somewhat "abnormal" and it is probably not going to happen again in the next quarter, although it does not imply yet that growth in the fourth quarter will massively slowdown with concerns.

Nevertheless, the robustness of the US economy will likely be challenged over the next months as the environment is substantially different from 3 months ago. Indeed, global equities fell roughly 10% from their peak at the end of July and US long yields surged another 100bps from mid-year; not exactly the perfect cocktail for financial conditions.

And the Federal Reserve is aware of that. As largely expected, the Fed left rate unchanged at their meeting early in November. However, the surprise came from the FOMC statement with the addition of financial conditions as a force to weigh on economic activity in the second paragraph. That's an obvious reference to the surge in yields, with the narrative about the long-end of the US curve doing the work of short rates in restraining the economy. At this point, it appears that the Fed has now pause and it feels like it would take something pretty special for the Fed to hike rates again. And so the question then revolves to how long the FOMC will keep the funds rate at its current level before feeling comfortable enough to start cutting rates. Macro-economic data will for sure be the main input for the time table.

According to the economist Rudiger Dornbusch, "In economics things take longer to happen than you think they will, and then they happen faster than you thought they could."

Early November, two sets of data fueled the dovish statement of the Fed. Firstly, the ISM surveys. The ISM Manufacturing came out a lot lower than expectations. In fact, it was a miss of more than 4.5 standard deviations relative to the economic consensus. That's the biggest normalized downside miss since 2014. And the Service index as well came well below expectations with a massive drop in the employment component. Secondly, the US job report released early November was weak: Less Job created, higher unemployment rate, lower participation rate. Including the two months revision (-101k), the US economy only created 49'000 new jobs in October against a 2023 average at 239'000.

As the US economy is showing early sign of slowdown, the market now anticipates three rate cuts for 2024, starting in May and for once, we believe it is reasonable.

The recent macro and geopolitical developments provide hope that the long nightmare for the bond market may finally be coming to an end. For sure, the pain trade is no longer rates going higher. For the rest, and equities in particular, the market may try now to find a direction that may not come with some gap moves both on the upside and downside. Volatility will likely remain a key word for the rest of the year.

Fixed Income

Light at the end of the tunnel

2023 continues to be another difficult year for bonds, and the same is true for October. Apart from European corporates and US high-yielding bonds, all types of fixed income have negative YTD returns. The total return on 10-year treasuries is now -5% and a 30-year treasuries held at the beginning of the year is down 15%.

One reason for this negative performance has been a strong disinversion of the yield curve. The 3-months 10-year spread fell from almost 200bps in March to around 100bps as of writing (check). So far, the disinversion materialized mainly via a «bear steepening» whereas longer yields rose more than shorter ones. As a consequence, interest-sensitive assets have suffered.

As of writing at the beginning of November, however, a string of macro data from the US has led to a sharp reversal in trends. First, the ADP Employment Change index came in lower than expected. It was followed by a series of ISM indicators which were all below expectations, and what's even more daunting: below 50, a level pointing to contraction. In the Eurozone, the picture is even clearer: GDP has contracted 0.1% QoQ and Germany had no inflation at all MoM. It looks like finally, more restrictive financial conditions start to have an impact on the real economy.

Bets on falling interest rates have increased as a consequence. A recent fund manager survey has shown that 56% of investors are expecting falling long-term interest rates over the next 12 months, the highest level since 2003.

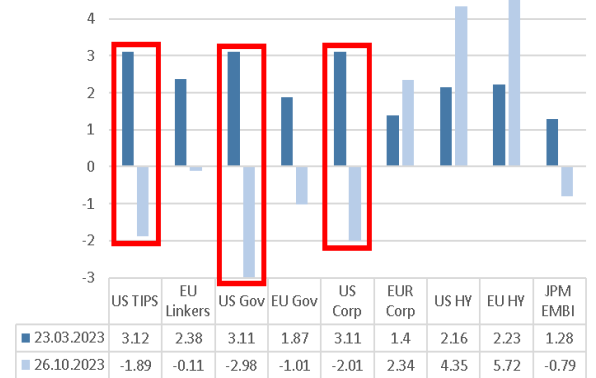
But risks remain. On one hand longer-term trends like the increasingly unsustainable level of US debt coupled with rising deficits will continue to weigh on treasuries or at least slow down a bullish trend. On the other hand, a slowing economy may lead to widening credit spreads. USD Investment grade has widened some 15bps and HY 45bps from its recent lows in September – a trend which is set to continue. In Europe, peripheral govies have also widened versus the German Bund.

Therefore we recommend to stick to quality in the form of treasuries and bunds as well as investment grade credit. We advocate to gradually increase duration in portfolios. After all, the 10-year US treasury is back in its pre-2008 trading range!

Recent new bond issues in CHF

ISIN	COUPON	ISSUER	MATURITY	IND. PRICE	IND. YIELD	RATING
CH1290222558	2	SGS SA	17.11.2027	100.2	1.945	A-
CH1300277865	2.3	Bell Food Group AG	15.10.2026	100.3	2.18	BBB-
CH1300277832	1.625	Nestlé SA	20.11.2027	100.67	1.45	AA-
CH1290870950	2.125	Sandoz Group AG	17.11.2026	100.61	1.89	BBB
CH1300277816	1.7425	Hilti AG	10.11.2026	100.73	1.48	A-

YTD fixed income performances as of 26.10.23



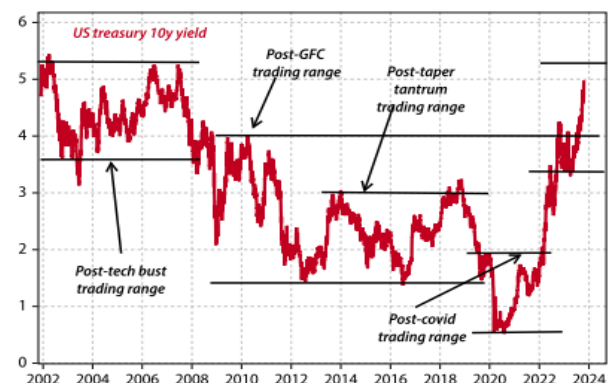
Source: Bloomberg

Disinversion of the US yield curve



Source: Bloomberg

10-year US Treasury yield since 2022



Source: Gavekal

Equity

“Autumn correction materialized” (1/2)

October is often a month of high volatility for stocks and 2023 did not disappoint. The S&P 500 lost 5,93% between its top and bottom in only 12 sessions days as the UST 10 year climbed towards 5%.

The summer rally is erased

Another difficult month for equity markets – the third in a row. The decline increased as long term rates continued to rise and hit the 5% mark, for the 10 year US treasuries, for the first time in more than a decade.

As we wrote last month, it is usually wise to be cautious with stocks in October, a month of higher downward volatility. This vintage was not one of the worse in history, but yet, the decline now reach 8,6% since July 31st annual high, 2 months ago. At the lowest of the month, on October 27th the decline was 10,3%.

The correction is significant but thanks to the rebound in the last 2 sessions of the month, the index has managed to return to positive territory since June. Thus, an investor who entered the market between January 1st and May 30th now has a positive performance this year. The worse time to enter the market was mid July to mid August.

We are now facing a dilemma for the end of the year. Is the rebound solid or weak ? Can we see the market testing a new low below 4,100 or are we in the middle of an end of year rally that will test the previous high?

S&P 500 since January 1st, 2023



Opinions are divided. US Gross Domestic Product (GDP) grew at 4,9% p.a. (strongest quarter since 2021) demonstrating the resilience of consumer spending but ... how much savings are left in consumer's pocket? What can look as a good news at first raised the question that the Fed may have to keep rates higher for longer to push inflation down. Also, the earning season showed some companies be cautious on their guidance for next year.

This being said, the below chart remind that the S&P 500 has been volatile this year and any positive news such as a rally on bonds could trigger short term positive momentum for stocks.

The CBOE Volatility Index (VIX) VIX – often considered as the index to measure the fear of market participants - took advantage of the month of October to briefly return above 20 for 6 trading sessions which is always a good opportunity to consider exposure to structured products.

Equity

“October correction materialized” (2/2)

Japan: Increasing Corporate Profitability

Japanese stock indices fell sharply in October, respectively - 3.1% for the Nikkei 225 and -3% for the Topix; alongside US equity indices following tensions on interest rates and the strengthening of geopolitical risks. All of this meant that participants preferred to shed part of their exposure to equities and adopt a much more defensive attitude.

The best performing sectors were food and banking and, conversely, the weakest were pharmaceuticals, machinery and transport equipment companies.

We also had at the very end of the month an intervention from the Bank of Japan with a slight modification of its monetary policy, which initially resulted in an increase in 10-year rates above 1%, the highest since 14 years old.

The month of November could be decisive regarding the short-term direction of equity indices in Japan with a new economic budget expected which could exceed 20 trillion yen as well as quarterly corporate results.

EXHIBIT 1: JAPANESE PROFITS (% OF SALES)



As of September 2023 | Source: Japan Ministry of Finance

MSCI China trading close to historical lows

China's economy exceeded expectations in the third quarter, achieving a robust year-on-year growth of 4.9%, surpassing the anticipated 4.5% growth rate projected by economists.

This performance is partly attributed to a significant increase in consumer spending. Cyclically, the Chinese economy already passed the trough, but headwinds remain: from property sector woes, to post-zero-Covid scarring, and the global slowdown in demand for goods with a rotation back to services.

A silver lining of China's slowdown is less inflation, but at the current juncture this effect is limited. Late last month, the authorities have injected another round of stimulus with the sale of an additional USD 137 billion in sovereign bonds, which will push the deficit in 2023 to around -3.8% of GDP. As China has already pulled a liquidity trigger in the form of a stamp duty reduction, the next step could be the relaxation of onshore foreign ownership limits (FOL) that would benefit Chinese equities.

Healthcare corner - Earnings, M&A and more

October was underwhelming for healthcare companies around the globe (down -4.2%), underperforming the MSCI world index by 1.2%. By geography, it was broadly the same picture in the US, with healthcare underperforming by 1.1%, while it was more significant in Europe, with a 7.2% lag. While US earnings in the sector surprised to the upside (2.3% above expectations), this magnitude came in at the low end of the past two years. In Europe, it was even worse, with earnings missing estimates by 1.9% on average.

Importantly some managements were cautious on their outlook, with a number of companies (the most cyclical ones) guiding below expectations, not only for Q4 but also for 2024. In Europe, Sanofi (although not cyclical) comes to mind with a 19% drop the day it released its figures, the largest ever in the company history, due to higher-than-expected R&D expenses next year. In the US, Align (dental care) fell 25% after missing Q3 estimates, cutting its FY'2023 guidance and giving poor visibility for 2024, given softer demand in the US and EU during the summer, a trend that continued in October per management.

On a more positive note, M&A was healthy in October with Eli Lilly willing to acquire Point Pharma, a small cancer biotech, for USD 1.4 bn (87% premium to the close), while Roche announced a USD 7.1 bn deal for Telavant (private biotech active in gastrointestinal and fibrotic diseases).

What to watch in November ? Novo-Nordisk will disclose at AHA (cardiology conference), its highly anticipated full results of the SELECT trial for Wegovy, its GLP1 obesity drug. This might create some volatility on the exposed names (such as medtechs in diabetes, orthopedic, and respiratory).

Forex And Commodities

First Signs Of Weakness For The USD ?

Following a strong upward trend that began in July 2023, the dollar started showing initial signs of a reversal by the end of October. Several factors, including weaknesses in US macroeconomic data, such as decreased job creation and manufacturing numbers, along with lower longer-dated Treasury Yields, have had a significant impact on the Dollar. Notably, the high expectation that the Fed might halt its rate hikes (anticipated with a 90% chance) has significantly hindered the Dollar's momentum. After breaking through the initial resistance at 1.06 (50-day SMA), EUR/USD could potentially continue its bullish trend in November. Breaking the resistance at 1.08 could open the path for further momentum towards the July 2023 level of 1.128.

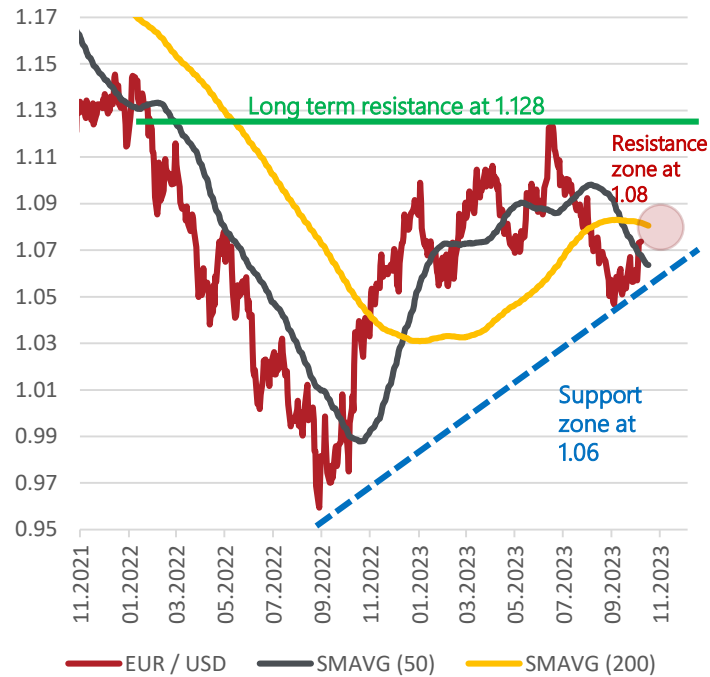
However, caution is advised given the expectation that the USD could likely remain weaker in November. A sustained dollar selloff would require signs of improvement in the Eurozone, China, and other relatively fragile regions, which might make them less attractive in terms of currency. While many factors favoring USD strength have diminished, they have not entirely disappeared. Considering the safe haven status and the resilience of the US economy, a USD comeback before the year's end remains plausible. The most anticipated scenario is that the EUR/USD pair will trade within a range between 1.06 (strongest support) and 1.10 by the end of the year.

Similarly, the Sterling has benefited from the USD depreciation at the end of October, surging by nearly 3% in few trading days and breaking the downward channel that began in July. However, there is a prevalent sentiment among investors that the pound might remain fragile, primarily due to uncertainty surrounding the economic outlook. Fear of recession and persistent inflation are influencing the Bank of England's decision to keep its interest rate at 5.25%. A rate increase could lead to an initial Sterling surge followed by a potential fall due to recession fears. From a technical perspective, GBP is expected to remain within a range between 1.207 (Fibonacci retracement support) and its 200-day SMA at around 1.25.

Turning to the USD/CHF pair, it recently started to signal a reversal after entering an overbought territory. The pair now appears to consolidate around its 200-day SMA at 0.90. Considering that the pair remains in overbought and with the Swiss National Bank's (SNB) frequent interventions in its foreign currency reserves (reduced from CHF 679 billion to 657 billion in October), the Swiss Franc is expected to maintain its strength in the coming weeks. The 0.90 level appears to be a fair value, with support at 0.89 and resistance at 0.92. In parallel, EUR/CHF continues to move within its downward channel, currently touching the upper band, and the next move could bring the pair around 0.94.

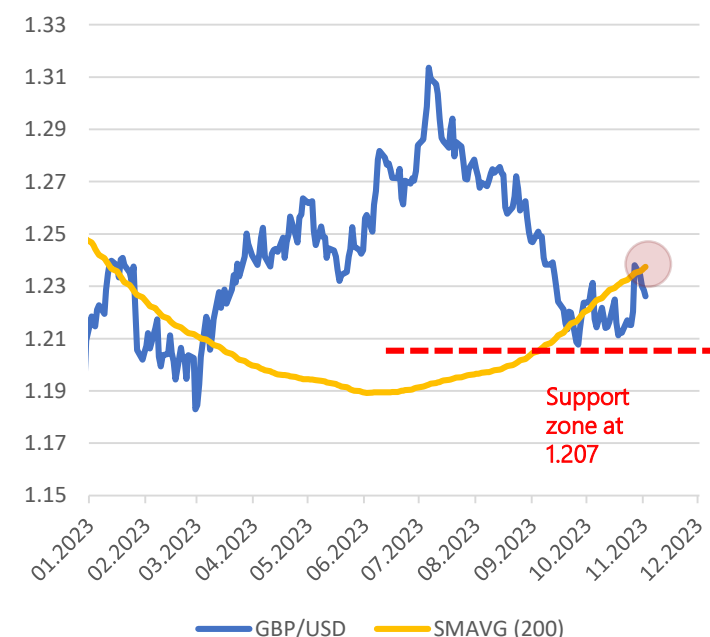
After a substantial increase, Gold has started to experience a decline at the beginning of November. Investors are now pricing Gold with a reduced risk premium. A lack of significant escalation in the Israel-Palestine conflict could diminish the safe-haven demand for the yellow metal.

Will EUR/USD Brake The Resistance At 1.08 ?



Source : Bloomberg

Pound Should Remain Fragil vs USD



Source : Bloomberg

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