

WEEKLY VIEW

Poll position

10 June 2024

Europe turns right

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SUMMARY

Macron calls snap French election after EU poll setback

US CPI and Federal Reserve meeting in focus

OPEC put is kaput on end to voluntary cuts

THE WEEK IN REVIEW

US equity indexes clocked up weekly gains in the face of mixed economic messages (weakening manufacturing activity versus still-strong jobs growth). But the S&P 500's 1.4%ⁱ rise (in USD) owed much to the soaring share price of a single dominant US microchip designer, whose stock could make further gains after the announcement of a stock split. However, noticeable volatility in bond yields hurt the small-cap Russell 2000, down 2.1%ⁱⁱ (in USD). As in the US, tech stocks were at the forefront of the Stoxx Europe 600's 1.1%ⁱⁱⁱ gain (in euros). Although euro government bond yields fell slightly over the week, there was considerable intra-day volatility as a well-signalled ECB rate cut came with a rise in the central bank's inflation and growth forecasts and explicit references to further policy easing were removed. Elsewhere, India's Sensex quickly shook off the worse-than-expected performance of the outgoing government to reach a new record high, although trading patterns remained volatile. The euro lost ground to the USD and Swiss franc, while the rise in US yields hurt gold.

ELECTIONS

President Emmanuel Macron called a snap parliamentary poll in France after far-right parties made gains in EU elections – a blow to ruling parties in the bloc's largest countries. "This is an essential time for clarification," he said. This decision is likely to negatively impact the European currency.

KEY DATA

Nonfarm payrolls in the US rose 272,000 in May, above expectations and up from a revised 165,000 in April. Wage growth also crept up, to an annual 4.1% from 3.9% the previous month—but so did the unemployment rate, from 3.9% to 4.0%. US job openings fell to 8.1 million in April, their lowest level since 2021. The ISM purchasing managers' index for manufacturing fell to 48.7 in May from 49.2 in April, but the ISM services index rose to 53.4 from 49.4.

German exports rose at a month-on-month rate of 1.6% in April, while imports increased 2.0%.

Chinese exports rose at a strong annual rate of 7.6% (in US dollar terms) in May. By contrast, imports increased just 1.8%, well below forecasts.

MARKET VIEW

US CPI data and the Fed meeting will be key this week. **We expect no rate cut yet**, with markets looking for guidance from Chair Jay Powell and the new "dot plot". The Bank of Canada's cut last week confirms that on a global basis, the downtrend is becoming the norm. This should help manufacturing. **We like industrial companies**. Barring big surprises, **we expect the ECB to follow its cut last week with another in September**.

In markets, our **Brent year-end forecast is revised down to USD72 from USD80** after OPEC+ announced a phase-out of voluntary cuts. With earnings season over, upgrades are running at the highest rate in over two years.

Election results in South Africa and Mexico raise uncertainties over coalition options and constitutional reform respectively. There is less uncertainty in India, where we do not expect major policy changes. **We are underweight emerging markets**. In the UK, the outlook for sterling has improved as sticky inflation is likely to keep the **Bank of England on hold for longer**, with the July election also blurring the fiscal outlook.

Mixed US job signals

The ratio of US job openings to unemployed individuals continued to fall in April, approaching levels seen before the pandemic. Any further decrease in the number of job openings could lead to a rise in the unemployment rate. By contrast, the May nonfarm payroll figures reported last Friday showed continued strong jobs growth, thereby complicating the Federal Reserve's decision-making.



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 10.06.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	38,798.99	0.29%	2.94%
S&P500*	5,346.99	1.32%	12.10%
NASDAQ Comp*	17,133.13	2.38%	14.13%
MSCI World Small Cap \$*	533.96	-1.67%	1.02%
MSCI Europe*	175.74	1.19%	9.40%
MSCI EMU*	168.12	0.98%	10.11%
SMI*	12,254.76	2.12%	10.03%
MSCI China \$*	59.85	1.55%	7.90%
Nikkei*	38,683.93	0.51%	15.60%
CBOE Volatility (VIX)*	12.22	-5.42%	-1.85%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.08	-0.41%	-2.12%
GBPUS**	1.27	-0.08%	-0.21%
USDCHF**	0.90	-0.61%	6.53%
USDJPY**	156.83	-0.20%	11.24%
USDCNY**	7.24	-0.02%	2.12%
EURCHF**	0.97	-1.02%	4.27%
Gold**	2293.78	-1.44%	11.19%
Silver**	29.15	-4.13%	22.52%
Crude Oil**	76.53	-1.85%	6.45%
US Investment Grade	3230.94	0.35%	-0.23%
US High Yield	1622.81	0.40%	2.06%
EU Investment Grade	277.30	0.18%	-0.02%
EU High Yield	363.46	0.52%	3.12%
Swiss Bond Index	127.64	0.27%	0.28%

Source: Pictet as of 07.06.2024. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. This table may contain information about financial instruments or issuers but does not set out any direct or implied recommendation whatsoever (either general or personalized). YTD stands for year to date. **measured on a non Total Return basis. ** showing mid price numbers.

WHAT TO WATCH THIS WEEK?

MONDAY

Japan: GDP (Q1)

TUESDAY

US: NFIB small business optimism (May)
Japan: PPI (May)

WEDNESDAY

Fed interest rate decision
US: CPI (May)
China: CPI and PPI (May)

THURSDAY

US: initial jobless claims
US: PPI (May)
Euro area: industrial production (April)

FRIDAY

BoJ interest rate decision
US: University of Michigan consumer sentiment and inflation expectations (June)

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i) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, S&P 500 Composite (net 12-month return in USD): 2019, 31.5%; 2020, 18.4%; 2021, 28.7%; 2022, -18.1%; 2023, 26.3%.

ii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, Russell 2000 (net 12-month return in USD): 2019, 25.5%; 2020, 20%; 2021, 14.8%; 2022, -20.4%; 2023, 16.9%.

iii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, STOXX Europe 600 (net 12-month return in EUR): 2019, 27.6%; 2020, -1.5%; 2021, 25.5%; 2022, -10.1%; 2023, 16.5%.