

WEEKLY VIEW

Uncomfortable

17 June 2024

Macron's gamble

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SUMMARY

French political turmoil triggers market malaise**US retail sales key to assess consumer health****Equities driven by a few big names; small caps struggle on growth angst**

THE WEEK IN REVIEW

US equity indexes rose last week, with the S&P 500ⁱ up 1.6% and the Nasdaqⁱⁱ up 3.3% (both indexes in USD). Some prominent tech-related names were at the forefront of gains, while stocks more generally benefited from soft US inflation numbers. But **European indexes had a harder time following the European Parliament elections and the calling of a snap election in France**. The CAC 40ⁱⁱⁱ fell 6.2% on the week, dragged down by banking stocks, while the Stoxx Europe 600^{iv} declined 2.35% (both indexes in euros). While the Fed remained somewhat uncommitted on the pace of rate cuts, inflation news was considered good enough to trigger a bond rally, with the 10-year US Treasury yield down 22 bps on the week and 10-year Bund yields down even more. But **French bond spreads over Bunds rose on election uncertainties combined with France's existing deficit problems**. Elsewhere, the Bank of Japan's announcement that it would curtail its bond buying pushed Japanese bond yields lower. Yet **the yen continued to lose ground against the USD**, in part due to a lack of details on the BoJ's plans. The euro fell against the USD, Swiss franc and British pound on the French election call.

QUOTE OF THE WEEK

"The institutions are clear, the place of the president is clear, and it is also clear whatever the result," French President Emmanuel Macron said, **ruling out the scenario of resigning** in the event of defeat at legislative elections.

KEY DATA

The US consumer price index (CPI) was essentially flat from a month before in May and was up 3.3% year-on-year (y-o-y). The core CPI was 3.4% y-o-y in May, down from 3.6% in April.

China's headline CPI unchanged at 0.3% y-o-y in May, while PPI was -1.4%. Chinese industrial production rose at an annual 5.6% in May, down from 6.7% in April, but retail sales grew 3.7% y-o-y, up from 2.3% in April.

Industrial production in the euro area declined 0.1% in April from the previous month, a significant change from the 0.5% growth registered in March. Industrial production declined at an y-o-y rate of 1.0% in April.

MARKET VIEW

US retail sales will be key this week for assessing the health of the US consumer after weekly jobless claims hit a 10-month high and consumer sentiment fell to a seven-month low in June. With Fed policymakers' median predictions pointing to four cuts in 2025, rate cuts have been delayed but not cancelled. **We expect two cuts this year, in September and December**. We are also watching US Treasury auctions closely after some mixed results.

In France, Macron's camp risks being squeezed from the right and left at the elections on 30 June and 7 July. The political turmoil has caused a malaise in markets, which will likely stay **in uncertainty mode until the elections**.

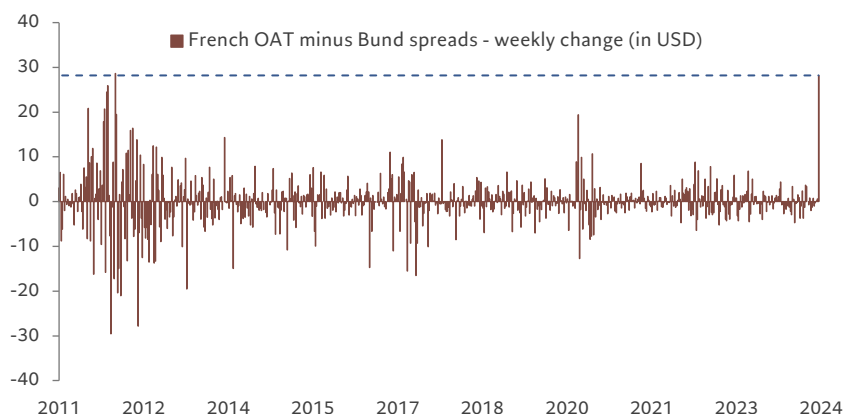
The equities market is being driven by a few big names, with an AI deal last week enthralling investors and small caps failing to rally, despite lower bond yields, on growth concerns and Europe risk-off contagion. Mexico's equities and currency have been hit by the president-elect's plans to overhaul the judiciary. **We are underweight emerging market equities**.

A G7 move to provide Ukraine with USD50 bn backed by frozen Russian assets highlights the weaponisation of assets. **We continue to like gold**.

French assets feel pain

The spread between 10-year French and German government bond yields widened significantly last week, after the French president called early parliamentary elections. The one-week rise in French spreads was comparable to that seen at the height of the 2012 European sovereign debt crisis. Depending on the outcome of the election, markets may question the continuity of French fiscal and economic policies.

Spike in French spreads matches that seen in euro debt crisis



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 17.06.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	38,589.16	-0.54%	2.39%
S&P500*	5,431.60	1.58%	13.87%
NASDAQ Comp*	17,688.88	3.24%	17.84%
MSCI World Small Cap \$*	526.57	-1.38%	-0.38%
MSCI Europe*	171.66	-2.32%	6.86%
MSCI EMU*	161.24	-4.09%	5.61%
SMI*	12,044.59	-1.72%	8.14%
MSCI China \$*	59.03	-1.38%	6.41%
Nikkei*	38,814.56	0.34%	15.99%
CBOE Volatility (VIX)*	12.66	3.60%	1.69%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.07	-1.15%	-3.25%
GBPUS**	1.27	-0.43%	-0.64%
USDCHF**	0.89	-0.68%	5.80%
USDJPY**	157.38	0.35%	11.63%
USDCNY**	7.26	0.18%	2.30%
EURCHF**	0.95	-1.83%	2.36%
Gold**	2333.04	1.71%	13.09%
Silver**	29.55	1.38%	24.20%
Crude Oil**	79.41	3.76%	10.46%
US Investment Grade	3269.65	1.20%	0.96%
US High Yield	1627.35	0.28%	2.35%
EU Investment Grade	279.47	0.78%	0.76%
EU High Yield	362.58	-0.24%	2.87%
Swiss Bond Index	128.06	0.33%	0.61%

Source: Pictet as of 14.06.2024. 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

USA: Empire Manuf. (June)
 China: Industrial Production (May)
 China: Retail Sales (May)
France: first official day of the parliamentary election campaign

TUESDAY

Germany: ZEW Survey (June)
 USA: Retail Sales (May)
 USA: Industrial Production (May)
Reserve Bank of Australia Policy Decision

WEDNESDAY

UK: CPI (May)

THURSDAY

Bank of England
 USA: Housing Starts (May)
 Eurozone: Consumer Confidence (June, preliminary)
SNB policy rate
 Norges Bank

FRIDAY

Japan: CPI (May)
 Japan: PMI (June, preliminary)
 UK: Retail Sales (May)
UK: PMI (June, preliminary)
Eurozone: PMI (June, preliminary)
 USA: PMI (June, preliminary)

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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, Nasdaq Composite (net 12-month return in USD): 2019, 36.7%; 2020, 44.9%; 2021, 22.2%; 2022, -32.5%; 2023, 44.6%.

iii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, STOXX Europe 600 (net 12-month return in EUR): 2019, 30.5%; 2020, -5%; 2021, 31.9%; 2022, -6.7%; 2023, 20.1%.

iv) 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%.