

WEEKLY VIEW

Time to Reassess

27 May 2024

UK elections on 4 July

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SUMMARY

UK election: little fiscal
room for drastic changeUS core inflation measure
in focus this weekGeopolitical risks alive as
China shows its strength

THE WEEK IN REVIEW

It was a rocky week for US equities, with the cheer generated by blockbuster earnings from the world's main AI-related chipmaker quickly eclipsed by renewed doubts about prospects for Fed rate cuts. This was because business activity and employment data continued to point to a strong US economy. In the end, tech stocks helped the S&P 500¹ to a paltry 0.05% gain for the week (in USD), but US small caps were hurt by the rise in bonds yields, fuelled by the release of Fed minutes showing US central bankers remain uncertain about inflation prospects. European small caps did comparatively better. **Profit taking was in the air in Asia** after hefty rises in Chinese and Hong Kong indexes since mid-April. Among the biggest jumps in bond yields were to be seen in the UK (the result of the surprise calling of a general election) while **Japanese 10-year yield again touched an 11-year high of 1%** on growing expectations of policy tightening. Yet the yen continued to lose ground against the USD. More subdued Chinese buying meant that gold retreated, while commodities (oil, copper) also declined.

GEOPOLITICS

Risks are far from over, with China holding military drills around Taiwan and halting delivery of Boeing aircraft, and Hamas firing rockets at Tel Aviv.

KEY DATA

S&P Global's composite purchasing manager index (PMI) for the euro area rose to a 12-month high of 52.3 in May from 51.7 in April, although services activity remains much stronger than manufacturing. In the UK, the composite PMI dropped back to 52.8 from 54.1.

S&P Global's composite PMI for the US rose sharply to reach a 25-month high of 54.4 in May, up from 51.3 in April. As in Europe, the services sector drove most of this improvement. Separately, the University of Michigan's consumer sentiment survey dropped to 69.1 in May from 77.2 in April. One-year median inflation expectations rose to 3.3% from 3.2%.

In the UK, the headline consumer price index (CPI) dropped (less than forecast) to an annual 2.3% in April from 3.2% in March. In Japan, core CPI number came in at an annual 2.2%, down from 2.6% in March.

MARKET VIEW

In another milestone in the world's biggest election year, the UK will go to the polls on 4 July. Polls suggest a Labour win, which **we would not expect to bring drastic changes in the short-term as fiscal headroom is limited**. In South Africa, the ANC risks losing the majority it has held for 30 years.

US core PCE will be a big focus for markets this week. We are in a world where good news is bad for markets if it flags the economy picking up. While CEOs are more upbeat, 56% of Americans believe the economy is in recession. **We expect two Fed rate cuts this year**. The European Central Bank's chief economist has brushed off fears about cutting before the Fed.

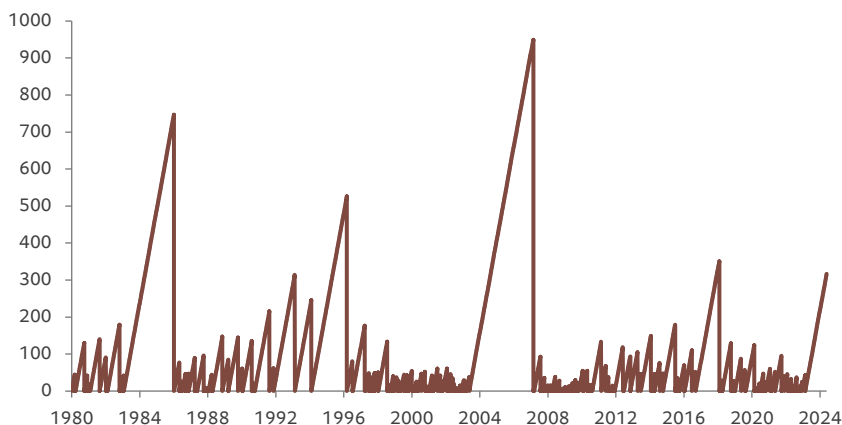
A Chinese group's plan for a USD4.5 bn convertible-bond issue to fund share buybacks may suggest cash is not easily transferrable overseas. More broadly, **China's steps to support its property sector should help growth**.

In markets, S&P 500 performance is extremely concentrated, with the "Magnificent 7" accounting for 52% of gains this year and 40% of S&P 500 stocks down year to date. **We are neutral US equities**.

Steady as she goes

The S&P 500 eked out its fifth consecutive week of gains last week. Stocks were helped on Friday by the latest University of Michigan survey of consumer sentiment, which showed a slight decline in households' expectations for long-term inflation, thus raising prospects for Federal Reserve rate cuts. Over the last 317 trading days, the S&P 500 has not suffered a daily loss exceeding 2%—a steadiness in performance not seen since December 2017. Historically, such prolonged periods of calm have occurred only five times since 1980.

S&P 500: Over 300 days without a 2% drop



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 24.05.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	39,069.59	-2.33%	3.66%
S&P500*	5,304.72	0.03%	11.21%
NASDAQ Comp*	16,920.79	1.41%	12.72%
MSCI World Small Cap \$*	541.40	-1.14%	2.43%
MSCI Europe*	174.46	-0.44%	8.60%
MSCI EMU*	168.22	-0.55%	10.18%
SMI*	11,931.70	-0.88%	7.13%
MSCI China \$*	60.83	-4.86%	9.67%
Nikkei*	38,646.11	-0.36%	15.49%
CBOE Volatility (VIX)*	11.93	-0.50%	-4.18%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.08	-0.27%	-1.81%
GBPUS**	1.27	0.31%	-0.07%
USDCHF**	0.91	0.83%	8.66%
USDJPY**	156.98	1.00%	11.35%
USDCNY**	7.24	0.28%	2.15%
EURCHF**	0.99	0.55%	6.69%
Gold**	2333.83	-3.37%	13.13%
Silver**	30.26	-3.91%	27.18%
Crude Oil**	77.47	-5.13%	7.76%
US Investment Grade	3218.38	-0.17%	-0.62%
US High Yield	1616.78	-0.20%	1.68%
EU Investment Grade	277.08	-0.22%	-0.10%
EU High Yield	361.40	0.07%	2.54%
Swiss Bond Index	127.76	-0.26%	0.38%

Source: Pictet as of 24.05.2024. 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

Germany: Ifo (May)

TUESDAY

US: Conference Board Consumer Confidence (May)

WEDNESDAY

Germany: CPI (May)
US: retail sales (April)

THURSDAY

US: Q1 GDP
US Q1 personal consumption
US: Q1 PCE

FRIDAY

Japan: Jobless rate (April)
Japan: Tokyo CPI (May)

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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%.