

WEEKLY VIEW

The Final Countdown

1 July 2024

Down but not out

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Election uncertainties
stoke political risk

Markets eye data in Fed's
last mile to tame inflation

As consumer companies
falter, we favour
producers; M&A thrives

THE WEEK IN REVIEW

The S&P 500ⁱ wavered last week, when it dropped 0.1% (in USD) as a result of profit-taking on major semiconductor stocks. But the small-cap Russell 2000ⁱⁱ did better, rising 1.3% (in USD), despite a climb in US Treasury yields. Over Q2 as a whole, the S&P 500 gained 4.3% and the Nasdaqⁱⁱⁱ 8.5% (in USD) whereas the Russell 2000 fell 3.3%. Taking the French elections in their stride, the Stoxx Europe 600^{iv} rose 1.5% (in euros) last week, although France's CAC 40^v slumped by 2% (in euros) to record its worst quarter in two years. **European bond yields went up and spreads on French debt over German Bunds rose modestly as market participants went into wait-and-see mode.** European credit spreads actually narrowed slightly, although French issuers still pay a higher risk premium than a month ago. In currencies, the yen weakened further against the USD, falling at one stage to its weakest level since 1986. Gold added slightly to its 2Q gains last week.

ELECTIONS

In a blow to President Emmanuel Macron, Marine Le Pen's Rassemblement National (RN) won round one of France's parliamentary elections, but an absolute majority is far from sure at next week's run-off. In the US, Joe Biden vowed to stay in the presidential race despite a weak debate performance.

KEY DATA

The final estimate of Q1 GDP growth in the US was an annual 1.4%, a significant decline from 3.4% in Q4 23. **The core PCE index eased to an annual rate of 2.6% in May, down from 2.8% in April.** US personal income rose 0.5% in May on the month while personal spending rose 0.2%.

Inflation for the Tokyo region surprised to the upside in June, with the core consumer price index rising an annual 2.1%, up from 1.9% in May. Japanese industrial production rose a strong 2.8% in May month over month, while retail sales advanced 3.0%.

The official Chinese purchasing manager index for manufacturing remained unchanged at 49.5 in June, but the private Caixin manufacturing PMI rose slightly from 51.7 to 51.8, the highest reading since June 2021.

MARKET VIEW

In a shortened US trading week thanks to the 4 July holiday, markets will watch whether ISM manufacturing and services data confirm June's strong purchasing managers index (PMI). Jobs data will also be a key indicator for the health of the US consumer. Weak results from consumer companies last week reinforce our theme of moving focus **from consumers to producers**.

We expect the Federal Reserve's first rate cut in September. But a hot consumer price reading in Australia last week served as a warning that the last mile of the path to control inflation can be bumpy. Markets are pricing in around a 60% chance of the Reserve Bank of Australia hiking by September.

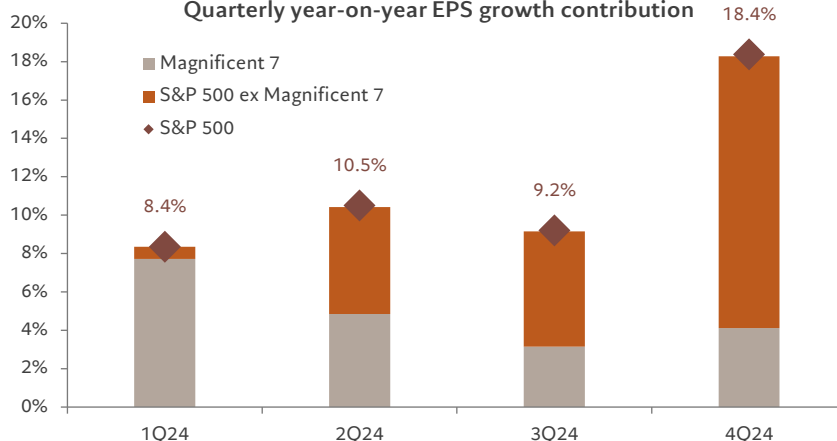
In politics, the possibility of Biden making way for an alternative nominee must be taken seriously. In France, **we expect the fiscal risk premium to remain structurally higher for longer.** With (geo)political risk high but mostly unpriced, we are turning more cautious on equities.

M&A activity – another of our key themes – is very much alive, with one German manufacturer reportedly looking to buy a rival and another agreeing to invest up to USD5 bn in a new joint venture.

'Mag 7's dominance fades

As the Q2 earnings season approaches, consensus expectations are for earnings to be less narrowly based than in Q1, when 'Magnificent seven' stocks generated most earnings growth. While we may see a broadening of S&P 500 earnings, it will be critical to monitor guidance to see whether index constituents are confident about generating profit growth in the quarters ahead.

A broadening of earnings growth on the S&P 500
Quarterly year-on-year EPS growth contribution



Source: Pictet Wealth Management, FactSet, as of 28.06.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	39,118.86	-0.08%	3.79%
S&P500*	5,460.48	-0.08%	14.48%
NASDAQ Comp*	17,732.60	0.24%	18.13%
MSCI World Small Cap \$*	531.63	0.51%	0.58%
MSCI Europe*	171.72	-0.72%	6.90%
MSCI EMU*	162.14	-0.55%	6.20%
SMI*	11'993.83	-0.16%	7.69%
MSCI China \$*	57.39	-2.16%	3.46%
Nikkei*	39,583.08	2.56%	18.28%
CBOE Volatility (VIX)*	12.44	-5.76%	-0.08%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.07	0.34%	-2.97%
GBPUS**	1.26	0.11%	-0.84%
USDCHF**	0.90	0.57%	6.77%
USDJPY**	160.86	0.80%	14.10%
USDCNY**	7.27	0.07%	2.45%
EURCHF**	0.96	0.91%	3.59%
Gold**	2326.75	0.21%	12.79%
Silver**	29.14	-1.39%	22.47%
Crude Oil**	82.83	1.37%	15.22%
US Investment Grade	3239.27	-0.62%	0.02%
US High Yield	1631.33	0.02%	2.60%
EU Investment Grade	278.85	-0.11%	0.54%
EU High Yield	363.46	0.04%	3.12%
Swiss Bond Index	129.22	0.38%	1.52%

Source: Pictet as of 28.06.2024. 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: Tankan Survey (2Q)
Germany: CPI (June, prelim)
US: ISM Manufacturing (June)
Switzerland: PMI
Manufacturing (June)
China: PMI (June)

TUESDAY

Eurozone: CPI (June, prelim)
Eurozone: Unemployment rate (May)
US: JOLTS Job Openings (May)

WEDNESDAY

US: ADP Employment Change (June)
US: Trade Balance (May)
US: Factory Orders (May)
US: ISM Services Index (June)
US: FOMC Meeting Minutes (12 June)

THURSDAY

Germany: Factory Orders (May)
Switzerland: CPI (June)
US: Independence Day, financial markets closed

FRIDAY

Germany: Industrial Prod. (May)
US: Nonfarm Payrolls (June)
US: Unemployment Rate (June)
Sunday 7 July: French elections – Second Round

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

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%.

v) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, CAC 40 (net 12-month return in EUR): 2019, 30.5%; 2020, -5%; 2021, 31.9%; 2022, -6.7%; 2023, 20.1%.