

WEEKLY VIEW

Assassination attempt

15 July 2024

US rate cut in sight

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SUMMARY

A scary US election

Hints of a market
rotation

China still lacks traction

THE WEEK IN REVIEW

The S&P 500ⁱ rose 0.9% last week (in USD) as the fall in June consumer inflation opened the way to a first Fed rate cut (we think in September). Q2 results by major banks were mixed, but broadly in line with expectations. **The prospect of lower rates led to investors trimming bets on Big Tech and rotating towards sector laggards**, including small caps, with the Russell 2000ⁱⁱ rising 6.0% (in USD) on the week. Political stasis meant France's CAC 40 marked time last week, but growth figures and the new Labour government's economic agenda (more houses and infrastructure) helped UK stocks to another strong week, with the FTSE 250ⁱⁱⁱ up 2% (in GBP). US Treasuries rallied on inflation news, with an even stronger decline in yields in Europe. It was also a **good week for corporate bonds**, with a noticeable drop in US high-yield spreads. **Sterling continued to climb, while the yen fought back** against the USD last week (thanks probably to well-timed official intervention), while the drop in US yields helped gold.

US INFLATION AND RATES

"In light of the progress made both in lowering inflation and in cooling the labor market...elevated inflation is not the only risk we face."

- Federal Reserve chairman Jerome Powell before Senate Banking Committee

KEY DATA

The US consumer price index (CPI) rose 3.0% year-on-year (y-o-y) in June, its lowest level in a year and down from 3.3% in May. The core CPI rose 3.3% y-o-y in June, down from 3.4% in May. Core CPI was down to less than 0.1% (0.065% to be precise) month on month, the lowest level since January 2024.

The CPI in China rose at an annual rate of 0.2% in June, down from 0.3% in May. Q2 GDP growth in China was estimated at 4.7% y-o-y in Q2, down from 5.3% in Q1.

China's imports dropped by 2.3% in June from a year before in USD terms, while exports climbed by 8.6%. Across the Taiwan strait, **Taiwanese exports surged 23.5% in June y-o-y** thanks to demand for AI-enabled microchips.

MARKET VIEW

Coming on top of question marks over President Biden's age and cognitive abilities, **the assassination attempt on Donald Trump on Saturday could, at least in the short term, improve his betting odds** in the November presidential election. Giving his tax-cutting agenda, this could lead to more inflation and, especially if the Republicans win both chambers of Congress, further increases in the federal deficit.

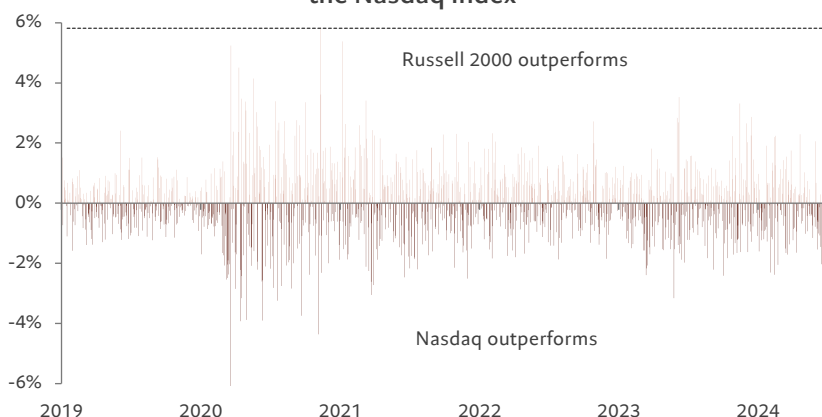
Speaking of inflation, **the June CPI report bolsters our case for a first 25 bps rate cut from the Fed in September**, followed by another in December. The report also sparked a sudden, much anticipated, curtailment of market concentration, with small caps performing much stronger than the big tech-related stocks. The expectation is the Q2 earnings season will show a decline in the Magnificent Sevens' share of earnings growth on the S&P500 from Q1, when these seven stocks accounted for virtually all earnings growth.

This week, we will be looking closely at US retail sales figures to see if they signal a slowdown in consumer spending, and at the Chinese Communist Party's Third Plenum. **Finally, felicidades to Spain's football team, well-deserved champions of Euro 2024!**

Market rotation

The US small-cap Russell 2000 index surged last Thursday whereas the tech-heavy Nasdaq^{iv} tumbled, producing the widest daily return gap in favour of the former since 2020. This could be the first sign of a potential shift in market dynamics and a rotation towards small caps, seen as benefiting disproportionately from upcoming Fed rate cuts (made more likely after the soft US consumer inflation report for June).

Daily return difference between the Russell 2000 and the Nasdaq index



Source: Pictet Wealth Management, FactSet, as of 15.07.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	40,000.90	1.59%	6.13%
S&P500*	5,615.35	0.87%	17.73%
NASDAQ Comp*	18,398.45	0.25%	22.56%
MSCI World Small Cap \$*	554.32	4.17%	4.87%
MSCI Europe*	175.77	1.41%	9.42%
MSCI EMU*	167.27	1.26%	9.56%
SMI*	12,365.18	2.99%	11.02%
MSCI China \$*	59.41	2.79%	7.10%
Nikkei*	41,190.68	0.68%	23.09%
CBOE Volatility (VIX)*	12.46	-0.16%	0.08%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.09	0.79%	-1.24%
GBPUS**	1.30	1.50%	1.89%
USDCHF**	0.89	-0.41%	6.25%
USDJPY**	157.72	-2.02%	11.87%
USDCNY**	7.26	-0.12%	2.35%
EURCHF**	0.98	0.37%	4.93%
Gold**	2411.43	0.81%	16.89%
Silver**	30.79	-1.38%	29.39%
Crude Oil**	83.49	-1.13%	16.14%
US Investment Grade	3295.65	0.80%	1.76%
US High Yield	1649.82	0.88%	3.76%
EU Investment Grade	280.70	0.31%	1.21%
EU High Yield	366.04	0.30%	3.85%
Swiss Bond Index	129.50	0.34%	1.74%

Source: Pictet as of 12.07.2024. 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

China: Q2 GDP report; retail sales and industrial production (June)
Euro area: Industrial production (May)

TUESDAY

US: Retail sales (June), NAHB housing index (July)

WEDNESDAY

Euro area: HICP consumer inflation, final figure (June)
UK: CPI report (June)
US: Industrial production and housing starts (June)

THURSDAY

Japan: trade statistics (June)

FRIDAY

Japan: CPI report (June)
Germany: PPI report (June)
UK: Retail sales (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, FTSE 250 (net 12-month return in GBP): 2019, 28.9%; 2020, -4.6%; 2021, 16.9%; 2022, -17.4%; 2023, 8%.

iv) 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%.