

WEEKLY VIEW

Bye bye Biden

22 July 2024

Out of the race

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SUMMARY

Harris now the likely Democrat nominee after Biden drops out

Rotation from semis to small caps

Magnificent Seven join M&A hunt

THE WEEK IN REVIEW

Last week saw a stark contrast between US small-cap and equal-weight indexes on the one hand and generic stock indexes on the other. Seen as especially well placed to benefit from falling inflation and upcoming Fed rate cuts, the small-cap Russell 2000ⁱ rose 1.7% on the week (in USD), whereas the less cyclical Nasdaqⁱⁱ declined 3.65%. The rotation to small caps and cyclicals hurt the relative performance of 'Magnificent Seven' stocks, resulting in a fall of 1.95% for the S&P 500ⁱⁱⁱ. This rotation comes in the midst of the Q2 reporting season, expected to show a broadening out of earnings growth beyond Big Tech. Stock indexes outside the US were generally on the back foot last week, with the Stoxx Europe 600^{iv} down 2.7% (in euros) and MSCI EM Index^v down 2.95% (in USD). In US Treasuries, the so-called 'Trump trade' led to a rise in yields, particularly on the long end of the curve. The Trump trade also resulted in a rise in the USD index, although **the yen continued its comeback against the US dollar** as a Bank of Japan rate decision later this month looms closer.

ELECTIONS

Joe Biden quit the US presidential race and endorsed his vice president, **Kamala Harris, who is now the likely Democrat nominee**. If she runs or is on the ticket, the campaign funds raised so far by Biden will be available.

KEY DATA

US industrial production climbed 0.6% in June from the previous month (down from 0.9% in May) and was 1.6% higher than the year before. June retail sales in the US were basically unchanged from May. Over Q2 as a whole, retail sales were 2.5% higher than in Q2 23.

Industrial production in China rose 5.3% year on year in June, down from 5.6% in May, while retail sales were up 2.0% y/y in June, well down from 3.7% in May. Elsewhere in Asia, Japan's headline consumer price index (CPI) was at an annual rate of 2.8% in June, unchanged from May.

Industrial production in the euro area declined by 0.6% y/y in May. In the UK, CPI remained on target at an annual 2% in June, unchanged from May, and buoyed by the 'Taylor Swift effect' pushing up hotel prices.

MARKET VIEW

Last week's major outage in IT systems weighed on tech sector sentiment, with semiconductors also hurt by Republican presidential candidate Donald Trump's intention to tighten up chip deliveries to China. **We prefer semis with higher exposure to AI as AI demand remains strong.**

PCE price data this week should confirm the decline in US inflation. Strong retail sales – particularly online – suggest Q2 GDP, also due this week, is solid. **We expect the Fed's first rate cut in September. In Europe, we see two more ECB cuts this year, in September and December.**

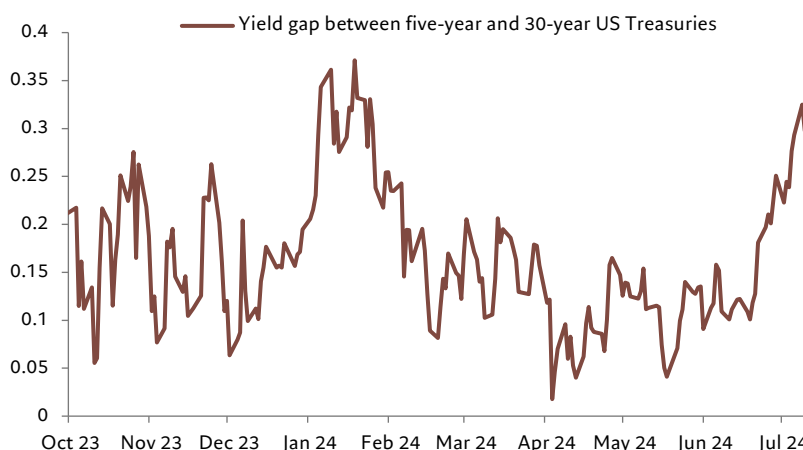
In fresh signs **M&A activity is alive**, one 'Magnificent Seven' company is looking to buy a stake in an eyewear maker to develop smart glasses and another is in talks to buy a cyber security start-up – all against the backdrop of a market enjoying its longest run without a 2% correction since 2007.

In politics, the leader of the powerful Teamsters union crossed partisan lines to address the Republican National Convention. **A Republican sweep is our most likely scenario for the US elections in November.**

The 'Trump trade'

Donald Trump's campaign has been gaining momentum, fuelled by his surviving an assassination attempt and the Republican convention in Milwaukee. The 'Trump trade' hinges on the idea that a Trump win in November combined with Republican control of Congress will lead to higher long-term interest rates due to Trump's fiscal and trade policies. However, Joe Biden's decision not to seek re-election and to endorse Kamala Harris in his place raises questions over the future of this trade, with investors now having to consider the market implications of a potential Democratic comeback.

Yield curve between five- and 30-year US Treasuries steepens



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 19.07.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	40,287.53	0.72%	6.89%
S&P500*	5,505.00	-1.97%	15.41%
NASDAQ Comp*	17,726.94	-3.65%	18.09%
MSCI World Small Cap \$*	554.53	0.04%	4.91%
MSCI Europe*	170.89	-2.78%	6.38%
MSCI EMU*	161.45	-3.48%	5.75%
SMI*	12,173.44	-1.55%	9.30%
MSCI China \$*	56.52	-4.87%	1.89%
Nikkei*	40,063.79	-2.74%	19.72%
CBOE Volatility (VIX)*	16.52	32.58%	32.69%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.09	-0.17%	-1.41%
GBPUS**	1.29	-0.56%	1.32%
USDCHF**	0.89	-0.64%	5.57%
USDJPY**	157.33	-0.24%	11.60%
USDCNY**	7.27	0.12%	2.47%
EURCHF**	0.97	-0.81%	4.08%
Gold**	2400.83	-0.44%	16.38%
Silver**	29.22	-5.08%	22.81%
Crude Oil**	81.43	-2.47%	13.27%
US Investment Grade	3284.00	-0.35%	1.40%
US High Yield	1654.75	0.30%	4.07%
EU Investment Grade	281.28	0.21%	1.41%
EU High Yield	366.52	0.13%	3.99%
Swiss Bond Index	129.72	0.17%	1.92%

Source: Pictet as of 19.07.2024. 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?

TUESDAY

US: Existing Home Sales (July)
Euro area: Consumer confidence (July)

WEDNESDAY

Euro area: PMI (July, prelim.)
Germany: GfK consumer confidence
UK: PMI (July)

THURSDAY

US: GDP (Q2)
US: Core PCE (Q2)
Germany: IFO survey (July)

FRIDAY

US: Core PCE (June)
Japan: Tokyo CPI (July)
France: Consumer confidence (July)

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- i) 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%.
- 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, 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%.
- 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, MSCI Emerging Markets (EM) (net 12-month return in USD): 2019, 18.9%; 2020, 18.7%; 2021, -2.2%; 2022, -19.7%; 2023, 10.3%.