WEEKLY VIEW

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The Good, the Bad and the Ugly

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SUMMARY

As growth concerns escalate, bad news is now bad for markets

With markets rattled, US data to bring calm or stoke recession fears

Earnings guidance bolsters case for move from consumers to producers

THE WEEK IN REVIEW

Even though the Fed provided its clearest hint yet that it will start cutting rates in September, **the US stock market was overwhelmed by weak economic data (on manufacturing and on the employment front**). Lacklustre earnings guidance, a dividend cut by one high-profile tech company and a clear reversal in investor enthusiasm for chip makers dragged down the S&P 500[i] by 2% last week (in USD) and the Nasdaq[ii] by 3.3% (in USD). The latter index has fallen 11% from its most recent high on 10 July. Tellingly, even though US Treasury yields tumbled last week, small caps—which had been basking in the sun thanks to the market rotation away from tech—fell heavily last week, with the Russell 2000[iii] down 6.7% (in USD). Elsewhere, while Bank of Japan policy tightening furthered the yen's recovery against the USD, it hurt the Topix[iv], which dropped 6.0% (in yen) last week. **Market bets that we will see a 50 bps cut from the Fed in September sparked a big bond rally**, with the yield on two-year US Treasuries dropping over 50 bps on the week. With financial markets growing more volatile, gold had a good week to top out a gain of over 5% in July as a whole (in USD).

QUOTE OF THE WEEK

"A rate cut could be on the table at the September meeting" – Fed's Powell.

KEY DATA

Nonfarm payrolls in the US rose 114,000 in July, below expectations and well down from 179,000 in June and 216,000 in May. Average hourly earnings grew by an annual 3.6% last month, down from 3.9% in June, while the unemployment rate jumped to 4.3% from 4.1%. The ISM purchasing managers' index for manufacturing dipped to an eight-month low of 46.8 in July (from 48.5 in June), signalling continued contraction in activity.

Despite contraction in Germany, euro area GDP grew 0.3% quarter over quarter in Q2 and 0.6% on an annual basis. **Headline consumer inflation in the euro area rose to an annual 2.6% in July from 2.5% in June.**

The official Chinese purchasing manager index (PMI) for manufacturing fell slightly to 49.4 in July from 49.5 the two prior months.

MARKET VIEW

Last week saw the good, the bad and the ugly: the Bank of England cut rates, the Fed held steady and the Bank of Japan hiked. This week, with Japanese stocks down over 12% on Monday, US data will either calm markets or add fuel to recession fears. **The risk of three Fed cuts this year has risen meaningfully.** On the political side, Democratic presidential party candidate Kamala Harris will choose her running mate this week. Her entry boosts the chances of a Democratic win or a divided government, raising uncertainty.

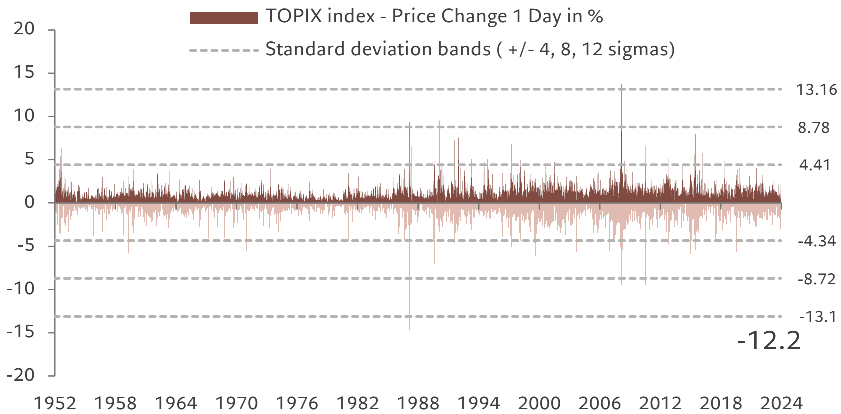
In a volatile earnings season, lower guidance from a batch of big drinks and food companies last week reinforces **our theme of moving from consumer to producer stocks.** In China, it was noteworthy that policymakers signalled stimulus will now focus on supporting lacklustre consumption rather than targeting infrastructure.

The Middle East is heating up. **We like gold as a hedge against geopolitical risk. As growth concerns escalate, bad news is once again bad for markets.** The good news is that as earnings wrap up, companies can be expected to be active in buying back their stock after the market correction.

Fearful markets

Dropping by over 12%, Monday was the worst day since 1987 for Japan's Topix, and the worst day ever for Japanese banks. The sell-off was triggered by monetary tightening and hawkish signals from the Bank of Japan, which sparked a huge yen rally and further unwinding of short-yen carry trades. Global stocks have also reacted negatively to poor US economic data and concerns the Fed may have moved too slowly to stave off a recession. Fading AI enthusiasm, profit taking and heightened Middle East tensions have also been factors.

Biggest one-day fall for Topix since 1987



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 05.08.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	39,737.26	-2.1%	5.4%
S&P500*	5,346.56	-2.1%	12.1%
NASDAQ Comp*	16,776.16	-3.4%	11.8%
MSCI World Small Cap $*	539.41	-4.0%	2.0%
MSCI Europe*	166.88	-2.9%	3.9%
MSCI EMU*	155.26	-4.1%	1.7%
SMI*	11,875.52	-3.0%	6.6%
MSCI China $*	54.88	-0.6%	-1.1%
Nikkei*	35,909.70	-4.7%	7.3%
CBOE Volatility (VIX)*	23.39	42.7%	87.9%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.09	0.6%	-1.1%
GBPUS**	1.28	-0.4%	0.5%
USDCHF**	0.86	-2.7%	2.1%
USDJPY**	146.66	-4.5%	4.0%
USDCNY**	7.22	-0.5%	1.7%
EURCHF**	0.94	-2.1%	0.9%
Gold**	2443.24	2.3%	18.4%
Silver**	28.56	2.3%	20.0%
Crude Oil**	74.99	-4.6%	4.3%
US Investment Grade	3357.16	2.1%	3.7%
US High Yield	1657.72	-0.1%	4.3%
EU Investment Grade	284.67	0.8%	2.6%
EU High Yield	367.50	0.1%	4.3%
Swiss Bond Index	130.71	0.5%	2.7%

Source: Pictet as of 02.08.2024. 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
US: ISM Services Index (July)
China: Caixin PMI (July)

TUESDAY
Germany: Factory Orders (June)
US: Trade Balance (June)
Switzerland: Unemployment Rate (July)
Switzerland: Retail Sales (June)
Reserve Bank of Australia Policy Decision

WEDNESDAY
Switzerland: Foreign Currency Reserves (July)
China: Trade Balance (July)
Germany: Industrial Production (June)

THURSDAY
Reserve Bank of India Rate Decision

FRIDAY
China: PPI and CPI (July)

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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, Russell 2000 (net 12-month return in USD): 2019, 25.5%; 2020, 20%; 2021, 14.8%; 2022, -20.4%; 2023, 16.9%.

iv) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, TOPIX (net 12-month return in JPY): 2019, 15.2%; 2020, 4.8%; 2021, 10.4%; 2022, -5.1%; 2023, 25.1%.