

WEEKLY VIEW

Waiting for the Fed

2 September 2024

Labour week

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SUMMARY

Spotlight on US labour market data this week**Retailers point to lower-income consumer woes****Canada's China tariffs fuel trade tensions**

THE WEEK IN REVIEW

After a frightening start to the month, **US equities ended August on a more even keel last week** as markets looked forward to Fed rate cuts, inflation gauges held steady, and investors retained faith in the 'soft landing' narrative (although the nonfarm payrolls report this week will be decisive). **A highlight of the week was the unveiling of Q2 results by the dominant AI chip giant.** In the event, forward guidance from the company did not satisfy some parts of the market and proved a drag on the performance of the S&P 500ⁱ, which returned 0.27% last week (in USD). The Stoxx Europe 600ⁱⁱ did better (gaining 1.4% in euro), rising to a record high last week as the market focused on its relatively cheap valuation and ECB rate cuts loomed. Bond markets were choppy last week, with **longer-term yields rising as data came in and expectations for Fed hikes were adjusted.** Currency volatility remained high, with the USD index regaining ground last week while the euro struggled against the Swiss franc and sterling as well as the greenback.

GEOPOLITICS

Canada said it would levy a 100% tariff on imports of Chinese electric vehicles and announced a 25% tariff on Chinese steel, earning a rebuke from Beijing.

KEY DATA

The Ifo Institute's Business Climate Index declined for the fourth consecutive month in August (to 86.6 from 87.0), indicating the German economy remains mired in difficulty. German consumer inflation fell more than expected last month, plunging to an annual 2% from 2.6% in July. **Consumer inflation in the wider euro area dropped to 2.2% from 2.6%.**

The figure for US GDP growth in Q2 was revised up to an annual 3% from a previous estimate of 2.8%. The personal consumption expenditures (PCE) price index in the US rose at an annual rate of 2.5% in July, unchanged from June. 'Core' PCE was also unchanged, at 2.6%.

The core consumer price index in the Tokyo region rose by 2.6% year-on-year in August, well up from 2.2% in July. Elsewhere in Asia, **initial estimates put Indian GDP growth at an annual rate of 6.7% in Q2, down from 7.8% in the previous three months.**

MARKET VIEW

US payrolls and job openings data this week will be key for reassuring markets that the world's largest economy remains on track for a soft landing and is not heading for a recession. **Recent growth and inflation data have suggested a lower risk of recession** and US markets, closed on Monday for Labor Day, are seeing broader participation and a broadening in performance. However, market participants, while cheered by Fed Chair Jay Powell's dovish tone in Jackson Hole, are now in wait-and-see mode. **We expect the Fed to make three 25 bps cuts this year, starting this month.**

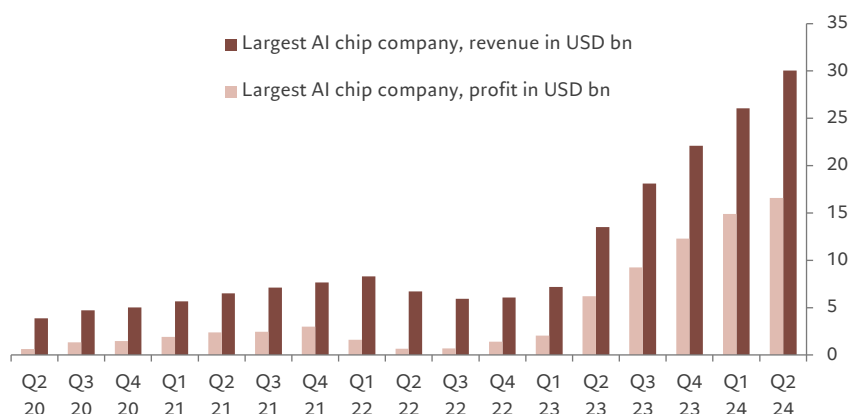
Weak results from one US retailer and a warning from another that poorer consumers are running out of money highlighted the US slowdown. **In the medium term, the USD is likely to weaken.** Weak results from a Chinese e-commerce company showed China's consumers are struggling too.

In politics, a win for the Alternative for Germany (AfD) in a regional election adds to global political instability. Halts to Libyan oil exports due to a standoff between rival political factions have helped **support the oil price.**

High hopes dashed

Market direction last week was in part dictated by quarterly results from dominant AI chip company. In the event, on Wednesday the company announced revenues of USD30.4 bn in Q2, a 120% increase over the same period last year. But investors were hoping for more, causing the stock to plummet by 6.4% the next day. Another factor contributing to the drop was concerns regarding delays in the production of the company's highly anticipated new AI microchip.

Earnings keep rising for AI chip giant



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 30.08.2024

Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	41,563.08	0.94%	10.28%
S&P500*	5,648.40	0.24%	18.42%
NASDAQ Comp*	17,713.62	-0.92%	18.00%
MSCI World Small Cap \$*	569.74	0.05%	7.79%
MSCI Europe*	176.03	1.38%	9.58%
MSCI EMU*	165.21	1.18%	8.21%
SMI*	12,436.59	0.72%	11.66%
MSCI China \$*	56.61	-0.27%	2.06%
Nikkei*	38,647.75	0.74%	15.49%
CBOE Volatility (VIX)*	15.00	-5.42%	20.48%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.11	-0.98%	0.20%
GBPUS**	1.31	-0.36%	3.09%
USDCHF**	0.85	-0.02%	0.81%
USDJPY**	145.61	0.31%	3.28%
USDCNY**	7.09	-0.69%	-0.06%
EURCHF**	0.94	-1.00%	1.01%
Gold**	2503.39	-0.37%	21.35%
Silver**	28.86	-3.19%	21.30%
Crude Oil**	74.52	1.09%	3.66%
US Investment Grade	3367.37	-0.54%	3.98%
US High Yield	1690.33	0.17%	6.31%
EU Investment Grade	284.49	-0.12%	2.57%
EU High Yield	372.32	0.41%	5.64%
Swiss Bond Index	130.82	0.15%	2.78%

Source: Pictet as of 30.08.2024. 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

Labor Day in the US and Canada. Financial markets closed in both countries
 China: Caixin PMI (Aug)
 Switzerland: Retail sales (July)
 Switzerland: PMI manufacturing (Aug)

TUESDAY

US: ISM manufacturing (Aug)
 Switzerland: CPI (Aug)
 Switzerland: GDP (Q2)

WEDNESDAY

US: Trade balance (July)
US: JOLTS job openings (July)
USA: Factory orders (July)
Bank of Canada rate decision

THURSDAY

Germany: Factory orders (July)
US: ADP employment change (Aug)
 US: Initial jobless claims (Aug 31)
US: ISM services index (Aug)
 Switzerland: Unemployment rate (Aug)

FRIDAY

Germany: Industry output (July)
US: Nonfarm payrolls (Aug)
US: Unemployment rate (Aug)
 Switzerland: Foreign currency reserves (Aug)

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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, STOXX Europe 600 (net 12-month return in EUR): 2019, 27.6%; 2020, -1.5%; 2021, 25.5%; 2022, -10.1%; 2023, 16.5%.