

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- The latest core US CPI cooled, bringing the three-month annualised rate close to the 2% target set by the central bank, leading the market to see a 100% probability of a rate cut in September.
- Post-CPI, there was significant market rotation with small caps, high-beta, and rate-sensitive sectors rallying while growth and momentum stocks declined.
- A failed assassination attempt on former President Donald Trump over the weekend significantly increased his election odds.

Last week, the core US Consumer Price Index (CPI) showed a significant cooling, bringing the three-month annualised rate down to just 2.1%, the lowest since March 2021. This dovish CPI reading led the market to fully price in a rate cut for September, with approximately 60 basis points of total easing expected for 2024. Federal Reserve Chair Jerome Powell's testimony on monetary policy also had dovish undertones, suggesting support for a September rate cut as he noted the labour market was back in balance. Following the CPI release, market breadth improved with nearly 80% of the S&P 500 component companies gaining on Thursday, and the equal-weight S&P index outperforming significantly.

The key story post-CPI was the market rotation, with small caps, high-beta stocks, and rate-sensitive sectors rallying, while growth and momentum stocks sold off. The Russell 2000 Index (small cap index) outperformed the Nasdaq by nearly 550 basis points, marking the second-largest divergence in over 20 years. Such one-day rotations from large to small caps are significant and could persist for the following weeks. One of the catalysts for further small cap outperformance is a broadening earnings growth profile, which is anticipated during the Q2 earnings season.

The Q2 earnings season kicked off last week and set a high bar, with many S&P 500 companies underperforming despite beating expectations. On Friday, major banks within the S&P 500 fell by 1.50% after underwhelming earnings reports from Wells Fargo, JPMorgan and Citigroup. Additionally, last week's corporate updates hinted at some weaknesses in consumer resilience. Delta Airlines provided soft guidance amid discounting in the US domestic market, and Pepsi lagged following a slight downward adjustment to its full-year organic growth guidance and concerns about volume recovery.

Over the weekend, news flow was dominated by the shocking assassination attempt on former President Donald Trump. A bullet narrowly missed Trump, grazing his ear, before the assailant was neutralised by the Secret Service. This alarming event has spurred extensive discussions about its potential impact on the political landscape. Notably, Trump's odds of winning the election have significantly increased. According to Real Clear Politics, his chances rose from approximately 55% on Friday to about 65% following the weekend's events. This shift in sentiment has also fuelled speculations of a Republican Party sweep, which is expected to boost the "Trump trade"—market expectations of a steeper yield curve and a stronger US dollar, driven by looser fiscal policy, deregulation and tariffs.



Economic indicators (week beginning 8 July 2024)

Day	Data Release	Consensus	Prior	Actual
Monday	Japan BoP Current Account Balance May	¥2350.2b	¥2050.5b	¥2849.9b
Tuesday	Australia Westpac Consumer Conf SA MoM Jul	--	1.7%	-1.1%
Wednesday	China CPI YoY Jun	0.4%	0.3%	0.2%
	Japan PPI YoY Jun	2.9%	2.4%	2.9%
	China PPI YoY Jun	-0.8%	-1.4%	-0.8%
	United States MBA Mortgage Applications 38534	--	-2.6%	-0.2%
	Italy Industrial Production MoM May	0.0%	-1.0%	0.5%
	United States Wholesale Inventories MoM May F	0.6%	0.6%	0.6%
Thursday	United States Initial Jobless Claims 38899	239k	238k	222k
	United States CPI MoM Jun	0.1%	0.0%	-0.1%
	United States CPI YoY Jun	3.1%	3.3%	3.0%
	Germany CPI YoY Jun F	2.2%	2.2%	2.2%
	United Kingdom Industrial Production MoM May	0.2%	-0.9%	0.2%
	Germany CPI MoM Jun F	0.1%	0.1%	0.1%
	Japan Core Machine Orders MoM May	0.8%	-2.9%	-3.2%
	United Kingdom Manufacturing Production MoM May	0.4%	-1.4%	0.4%
	Germany CPI EU Harmonized YoY Jun F	2.5%	2.5%	2.5%
Friday	Japan Industrial Production MoM May F	--	2.8%	3.6%
	France CPI YoY Jun F	2.1%	2.1%	2.2%
	United States U. of Mich. Sentiment Jul P	68.2	68.2	66.0
	United States PPI Final Demand MoM Jun	0.1%	-0.2%	0.2%
	China Money Supply M2 YoY Jun	6.8%	7.0%	6.2%
	China Trade Balance Jun	\$86.40b	\$82.62b	\$99.05b
	China Exports YoY Jun	8.0%	7.6%	8.6%
	Canada Existing Home Sales MoM Jun	--	-0.6%	3.7%

Source: Bloomberg, data accessed 15 July 2024.



Economic indicators (week beginning 15 July 2024)

Day	Data Release	Consensus	Prior
Monday	China GDP YoY 2Q	5.1%	5.3%
	China Industrial Production YoY Jun	5.0%	5.6%
	China Retail Sales YoY Jun	3.4%	3.7%
	United States Empire Manufacturing Jul	-8.0%	-6.0%
Tuesday	Germany ZEW Survey Expectations Jul	41.0	47.5
	Canada CPI YoY Jun	2.8%	2.9%
	Germany ZEW Survey Current Situation Jul	-74.8	-73.8
	Italy CPI EU Harmonized YoY Jun F	0.9%	0.9%
	United States Retail Sales Advance MoM Jun	-0.2%	0.1%
	Canada CPI NSA MoM Jun	0.1%	0.6%
Japan Tertiary Industry Index MoM May	0.1%	1.9%	
Wednesday	United Kingdom CPI YoY Jun	1.9%	2.0%
	United Kingdom CPI MoM Jun	0.1%	0.3%
	United Kingdom CPI Core YoY Jun	3.4%	3.5%
	United States MBA Mortgage Applications 41091	--	-0.2%
	United States Housing Starts Jun	1300k	1277k
United States Industrial Production MoM Jun	0.3%	0.9%	
Thursday	United States Initial Jobless Claims 41456	230k	222k
	Australia Unemployment Rate Jun	4.1%	4.0%
	Australia Employment Change Jun	20.0k	39.7k
	United Kingdom Jobless Claims Change Jun	--	50.4k
	United Kingdom ILO Unemployment Rate 3Mths May	4.4%	4.4%
	United States Leading Index Jun	-0.3%	-0.5%
United Kingdom Claimant Count Rate Jun	--	4.3%	
Friday	Japan Natl CPI YoY Jun	2.9%	2.8%
	United Kingdom Retail Sales Inc Auto Fuel MoM Jun	-0.6%	2.9%
	United Kingdom Retail Sales Inc Auto Fuel YoY Jun	0.3%	1.3%
	Italy Current Account Balance May	--	2294m

Source: Bloomberg, data accessed 15 July 2024.



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2358	0.56%	0.56%	6.43%	8.97%
MSCI USA USD	5341	0.90%	0.92%	17.34%	17.95%
MSCI Europe ex UK EUR	210	1.45%	1.46%	9.30%	11.42%
MSCI AC Asia ex JPN USD	587	1.80%	1.91%	10.99%	12.69%
MSCI Japan JPY	1797	0.09%	0.09%	24.06%	25.23%
MSCI Emerging Markets USD	1124	1.69%	1.82%	9.75%	11.55%
Barclays Sterling Gilts GBP	228		0.22%		-2.22%
GOLD USD	2411	0.81%		16.89%	
WTI Oil USD	82	-1.14%		14.74%	
MSCI PIMFA Income		0.24%	0.27%	5.10%	6.53%
MSCI PIMFA Balanced		0.21%	0.24%	6.28%	7.68%
MSCI PIMFA Growth		0.18%	0.20%	8.44%	9.76%

Source: Bloomberg, MSCI; please see important information, data accessed 15 July 2024.

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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