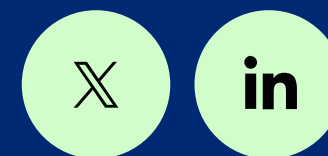


Weekly Market Commentary

29 July 2024



In summary

- The market has seen a shift from momentum/growth stocks and large-cap tech companies to the Russell 2000 and cyclical/value stocks, with major firms like Alphabet and Tesla retreating after their earnings reports, contributing to the S&P 500's largest single-day drop since December 2023.
- Economic data suggests a 'soft landing' with a stronger-than-expected Q2 GDP growth of 2.8%, driven by consumer spending and a stable core PCE index, challenging the narrative of a looming sharp downturn and supporting the Federal Reserve's cautious policy stance.
- Fixed income markets have reacted with lower 2-year Treasury yields and a steepening yield curve, while ~70bps of rate cut is now priced in until the end of the year.



The market has recently experienced a rotation in sentiment, with sectors such as the Russell 2000 and cyclical/value segments showing renewed vigour.

This pivot has been at the expense of previously favoured momentum/growth stocks and the so-called ‘Magnificent Seven’ megacap technology companies. The initial batch of earnings reports from major players like Alphabet and Tesla fell short of investor expectations, intensifying existing worries about the lofty expectations for second-quarter earnings and the scrutiny over artificial intelligence investments, particularly in terms of capital expenditure versus their contribution to monetisation and productivity. This sentiment was reflected in the S&P 500’s most significant single-day retreat since December 2023, ending a remarkable 356-day run without a 2% or greater drop. Alphabet surpassed forecasts for revenue and earnings, largely due to its cloud and advertising businesses, yet its share price suffered post-earnings call, which alluded to potential cost-related headwinds. Meanwhile, Tesla’s shares also declined as the company reported lower-than-expected earnings for the fourth quarter in a row and delayed its Robotaxi event to October.

The narrative of a ‘soft landing’ for the economy is bolstered by the latest data, which includes a second-quarter Gross Domestic Product (GDP) growth rate that exceeded forecasts at 2.8%, propelled by strong consumer spending. This growth rate for the second quarter outpaced the anticipated 2.0% and marked an improvement from the first quarter’s 1.4% expansion. This positive economic data challenges the narrative of an imminent sharp downturn that would prompt aggressive rate cuts by the Federal Reserve (Fed). The report’s details are encouraging, with a key measure of domestic demand—final sales to private domestic purchasers—increasing by 2.6% for the second straight quarter, as highlighted by Fed Chair Powell. This suggests that the robust headline GDP figure is not concealing any significant economic frailties.

Inflation concerns were somewhat allayed by the core Personal Consumption Expenditures (PCE) index for June, which rose by 0.2% month-on-month, aligning with expectations. The year-on-year increase in the core index was a tad higher at 2.6%, due to revisions, yet the overall data portrays a stable economy without signs of excessive heat. Both real personal spending and personal income saw modest upticks, in line with forecasts, tempering the inflationary concerns sparked by the previous day’s strong GDP data. The latest figures lend support to the Fed’s measured approach to policy changes. The market’s anticipation of a rate cut in September is reflected in the approximately 70 basis points (bps) of easing priced in for the year.

This outlook has energised the fixed income market, as evidenced by the decline in 2-year Treasury yields to a level not seen since February, at 4.38%. The yield curve between 2-year and 10-year Treasuries has concurrently steepened. Bond markets are now pricing in ~70 bps of rate cuts by the end of the year. Despite a slight recovery spurred by the sanguine PCE data, the S&P 500 ended its second consecutive week in the red, with a 0.83% decline. This contrasted with the equal-weighted version of the S&P 500, which saw a 1.44% rise, indicating a shift from large-cap to small-cap stocks. The Magnificent Seven (Mag-7) group experienced a 3.95% drop, while the small-cap Russell 2000 Index gained 3.47%. Since the rotation commenced on 11 July, the Russell 2000 has notably outperformed the Mag-7, although its year-to-date performance is still relatively modest.

Economic indicators (week beginning 22 July 2024)

Day	Data Release	Consensus	Prior	Actual
Tue	United States Existing Home Sales Jun	3.99m	4.11m	3.89m
Wed	Canada Bank of Canada Rate Decision 45474	4.5%	4.8%	4.5%
	France HCOB France Manufacturing PMI Jul P	45.9	45.4	44.1
	France HCOB France Services PMI Jul P	49.7	49.6	50.7
	Japan Jibun Bank Japan PMI Mfg Jul P	--	50.0	49.2
	Germany HCOB Germany Manufacturing PMI Jul P	44.0	43.5	42.6
	Eurozone HCOB Eurozone Manufacturing PMI Jul P	46.1	45.8	45.6
	United Kingdom S&P Global UK Manufacturing PMI Jul P	51.0	50.9	51.8
	United States S&P Global US Manufacturing PMI Jul P	51.7	51.6	49.5
	United States MBA Mortgage Applications 43647	--	3.9%	-2.2%
	United States New Home Sales Jun	640k	619k	617k
	France HCOB France Composite PMI Jul P	48.8	48.8	49.5
	United States Wholesale Inventories MoM Jun P	--	0.6%	20.0%
Thu	United States Initial Jobless Claims 44013	238k	243k	235k
	Germany IFO Business Climate Jul	89.0	88.6	87.0
	United States GDP Annualized QoQ 2Q A	1.9%	1.4%	2.8%
	United States Durable Goods Orders Jun P	0.5%	0.1%	-6.6%
	Eurozone M3 Money Supply YoY Jun	1.9%	1.6%	2.2%
Fri	Italy Manufacturing Confidence Jul	87.3	86.8	87.6
	United States U. of Mich. Sentiment Jul F	66.4	66.0	66.4
	Japan Tokyo CPI Ex-Fresh Food YoY Jul	2.2%	2.1%	2.2%
	United States Personal Income Jun	0.4%	0.5%	0.2%
	United States Personal Spending Jun	0.3%	0.2%	0.3%
	Italy Consumer Confidence Index Jul	98.7	98.3	98.9
	United States Core PCE Price Index MoM Jun	0.1%	0.1%	0.2%
	United States Core PCE Price Index YoY Jun	2.5%	2.6%	2.6%

Source: Bloomberg, data accessed 29 July 2024.

Economic indicators (Week beginning 29 July 2024)

Day	Data Release	Consensus	Prior
Mon	United Kingdom Mortgage Approvals Jun	60.3k	60.0k
Tue	Japan Jobless Rate Jun	2.6%	2.6%
	United States Conf. Board Consumer Confidence Jul	99.5	100.4
	Germany CPI YoY Jul P	2.2%	2.2%
	Germany CPI MoM Jul P	0.3%	0.1%
	Japan Job-To-ApPLICANT Ratio Jun	1.24	1.24
	Australia Building Approvals MoM Jun	-2.3%	5.5%
	France GDP QoQ 2Q P	0.2%	0.2%
	Italy GDP WDA QoQ 2Q P	0.2%	0.3%
	Germany CPI EU Harmonized YoY Jul P	2.5%	2.5%
Wed	Japan Industrial Production MoM Jun P	-4.5%	3.6%
	United States FOMC Rate Decision (Upper Bound) 11505	5.50%	5.50%
	China Manufacturing PMI Jul	49.4	49.5
	France CPI YoY Jul P	2.4%	2.2%
	Italy CPI EU Harmonized YoY Jul P	1.2%	0.9%
	Australia CPI YoY 2Q	3.8%	3.6%
	Italy CPI EU Harmonized MoM Jul P	-1.2%	0.2%
	United States ADP Employment Change Jul	149k	150k
	Australia CPI QoQ 2Q	1.0%	1.0%
	United States MBA Mortgage Applications 46204	--	-2.2%
	Australia Retail Sales MoM Jun	0.2%	0.6%
	Japan BOJ Target Rate (Upper Bound) 11505	0.1%	0.1%
	Germany Unemployment Change (000's) Jul	15.0k	19.0k
	Canada GDP MoM May	0.1%	0.3%
	United States MNI Chicago PMI Jul	44.5	47.4

Economic indicators (Week beginning 29 July 2024) continued

Day	Data Release	Consensus	Prior
Thu	United Kingdom Bank of England Bank Rate 37104	5.00%	5.25%
	United States Initial Jobless Claims 46569	236k	235k
	France HCOB France Manufacturing PMI Jul F	44.1	44.1
	United States ISM Manufacturing Jul	48.8	48.5
	China Caixin China PMI Mfg Jul	51.5	51.8
	Japan Jibun Bank Japan PMI Mfg Jul F	--	49.2
	Italy HCOB Italy Manufacturing PMI Jul	46.0	45.7
	Germany HCOB Germany Manufacturing PMI Jul F	42.6	42.6
	United Kingdom S&P Global UK Manufacturing PMI Jul F	51.8	51.8
	Canada S&P Global Canada Manufacturing PMI Jul	--	49.3
	United States S&P Global US Manufacturing PMI Jul F	--	49.5
	United Kingdom Nationwide House PX MoM Jul	0.1%	0.2%
	United Kingdom Nationwide House Px NSA YoY Jul	1.8%	1.5%
	Australia Trade Balance Jun	A\$5000m	A\$5773m
	Fri	United States Change in Nonfarm Payrolls Jul	178k
United States Durable Goods Orders Jun F		-6.6%	-6.6%
United States Unemployment Rate Jul		4.1%	4.1%
Italy Industrial Production MoM Jun		0.0%	0.5%
France Industrial Production MoM Jun		0.9%	-2.1%
United States Factory Orders Jun		-3.1%	-0.5%

Source: Bloomberg, data accessed 29 July 2024.

Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2369	1.67%	1.69%	6.92%	9.50%
MSCI USA USD	5194	-0.81%	-0.80%	14.10%	14.72%
MSCI Europe ex UK EUR	204	0.28%	0.30%	6.17%	8.27%
MSCI AC Asia ex JPN USD	558	-1.84%	-1.82%	5.57%	7.26%
MSCI Japan JPY	1663	-6.10%	-6.10%	14.83%	15.91%
MSCI Emerging Markets USD	1072	-1.59%	-1.56%	4.74%	6.55%
Barclays Sterling Gilts GBP	229		0.08%		-2.13%
GOLD USD	2387	-0.57%		15.72%	
WTI Oil USD	77	-3.71%		7.69%	
MSCI PIMFA Income		0.10%	0.13%	4.49%	5.98%
MSCI PIMFA Balanced		0.08%	0.11%	5.44%	6.88%
MSCI PIMFA Growth		0.11%	0.13%	7.33%	8.68%

Source: Bloomberg, MSCI: please see important information, data accessed 29 July 2024.

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

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