



CIO OFFICE MORNING MARKET WRAP

1 August 2024

Megacap tech stocks staged a rebound yesterday, clawing back some of this month's losses and driving the S&P 500 1.6% higher. Nvidia (up +13% yesterday) added \$329bn back to its market value, up along with chip stocks as investors grew confidence in continued substantial spending by major firms on AI infrastructure. The Fed unanimously kept rates unchanged as expected; the post meeting statement brought a few language tweaks that can be interpreted as slightly dovish yet cautious. Fed Chair Jerome Powell emphasized that risk of an unexpected inflation pickup has gone down as the labor market cooled, while downside risks to the labor market are more pronounced. The central bank aims to avoid an imbalance of further slowing in the labor market leading to higher unemployment. The unemployment rate ticked higher for three months in a row to 4.1%, and hiring has slowed. The next big points will be jobs data tomorrow and CPI in two weeks. Swap traders are still fully pricing in a quarter point cut in September, and a total of almost 70bps reductions for the year.

Treasuries notched a third straight month of gains, 10-year Treasuries declined 11bps to 4.03%. Brent oil climbed 2.7% to \$80.7bbl due to rising geopolitical tensions and falling crude stockpiles. Gold also ended higher, up 1.5% to \$2,447 an ounce.

Meta Platforms reported better than expected results for Q2, offering evidence that the company's investments in AI are helping it to sell more targeted and personalized ads (+7% in after-hours). Yesterdays gains in semiconductor stocks were initially spurred by Microsoft, indicating it would continue to invest heavily in AI. Nvidia, Arm and AMD surged, also boosted by a report that US export restrictions on chip manufacturing to China would exempt allies including the Netherlands and Japan, home to key suppliers ASML and Tokyo Electron. The Philadelphia Semiconductor Index is up 7% yesterday. All eyes turn to earnings results by Apple and Amazon today. The critical question is whether these companies will deliver immediate AI-related gains or if they will need to ask investors for more patience as they navigate through this evolving AI landscape.

Today morning, Japanese stocks sunk the most since 2020 (TOPIX -3.6%), reflecting how traders are positioning for the narrowing of US-Japan rate differentials after their respect decision meetings. The BOJ hiked rates to 0.25%, by 15bps (higher end of expectations) and the yen extended its rebound now up to 149.6 per dollar; and another hike by the BOJ is not ruled out for this year. Chinese stocks gained yesterday following a pickup in inflows that helped rejuvenate trading activity; today morning gains were pared after data showed a surprise July contraction in a key manufacturing gauge.

Key events and data today include Eurozone PMI, unemployment, US initial jobless claims, ISM manufacturing, Amazon and Apple earnings, BOE decision. Friday – US employment, factory orders.

Have a good day!

Chief Investment Office
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Emirates NBD.

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