



INSPIRING WHAT'S NEXT

CIO OFFICE MORNING MARKET WRAP

1 July 2024

First half of 2024 is over, and we stand at a very different macro environment compared to how the year started. Geopolitical risk has definitely increased. This was one of our top risks for the year as discussed in our Global Investment Outlook 2024. Early elections have been called both in the UK and France where incumbents are expected to lose. Last Friday's disastrous live debate has put President Biden's campaign under the scanner. Meanwhile, markets seem to have suddenly started noticing the ballooning fiscal deficits of developed market economies. French OATs have been punished with the spread to German Bunds increasing to 80 bps. US economy remains strong albeit with a dose of weakening giving rise to more probability of a soft landing. Fed rate cut bets for the year are down to two for the year as employment still looks robust even though Dot Plots show only one rate cuts till the end of the year.

Equity markets have done well so far with the MSCI ACWI Index up 11.6%. Developed market indices lead with a total return of 11.7% while EM stocks have generated 7.5% as China continues to struggle. Bond markets have struggled as rate cut bets have been pared and the US Treasury yields have remained high. Developed Market Govvies have lost close to 5% while High Yield and Emerging Market Debt have provided 3% and 2% return. Carry trade opportunities in Turkey, Egypt and more recently in India due to its JP Morgan index inclusion have gained investor interests. Gold and commodities have shown resilience. Brent Crude is up 11% for the year making it hard for central banks to fight headline inflation. Silver is up 22% while Gold has increased by 12% for the year.

Despite last Friday's debate debacle, allies of President Biden in the democratic party remain steadfast in their support with the President declaring on Friday that he had no plans to step aside. UK polls are due after three days as opinion polls suggest a defeat for the Conservatives after 14 years in power. Meanwhile, after a high turnout in the first phase of French elections held last weekend, Marine Le Pen's National Rally was projected to get between 33% and 34.2% of the vote lesser than earlier estimates. The bond markets have taken this positively as expansive monetary policies odds in the country has decreased slightly. The focus now turns to the next phase of voting that takes place next Sunday. The country could be looking at an extended period of gridlock in National Rally doesn't win majority.

Looking at macro data points, the PCE increased by 0.1% MoM decreasing from 0.2% a month earlier. Personal spending in the US was lower than expectations with a 0.2% increase. This morning China's Caixin PMI came in at the highest level in the last three years, but Chinese equities remain under pressure. Hong Kong is closed for a holiday. The BOJ's Tankan survey showed confidence among Japan's largest manufacturers rose to 13 in June which should allow the central bank to raise rates in the next meeting. The 10 year US Treasury yield remains at 4.39%. Brent Crude hovers above \$85.4 and Gold trades at \$2,327.

This week is rich not only in political but also macro data dossier with all final June PMI and ISM indices before the monthly US job report on Friday in particular. Today, we get the US manufacturing PMI and ISM manufacturing which were divergent last month. We will also see the Eurozone manufacturing PMI today.

Have a great day.

Chief Investment Office
Wealth Management,
Emirates NBD.

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