



CIO OFFICE MORNING MARKET WRAP

9 July 2024

Markets had a calm start to the week, with little movement yesterday in Treasury yields and equities. Last week's US job report seen as a probable sign of cooling employment and rate cuts by the Fed, and the US earnings season the next catalyst to provide direction to markets. Fed Chair Powell to give semiannual monetary policy testimony later today and comments on labor market and inflation will be closely watched, including any dovish rhetoric. He said last week at the ECB Forum on Central Banking in Sintra, Portugal that there has been "a lot of progress" on inflation and this is supported by data as US consumer inflation expectations fell for a second month in a NY Fed survey. The outlook on home prices also dropped. US headlines remain dominated by whether President Biden will exit the Presidential race. Expect more market volatility as the earnings season kicks off and later in Q3 as the US Presidential race takes center stage.

The UAE, KSA and India markets were little changed yesterday. The only major market with a notable move was China -1% for both mainland and the Hang Seng Index, the latter now in correction territory having fallen over 10% the last month. This morning both indices are very slightly up. China stock market underperformance is attributed to slow economic growth, a still deteriorating property market, lack of stimulus and geopolitical/trade tensions. The upcoming Third Plenum is expected to focus on longer-term reforms. There are also uncertainties on the central bank's new liquidity operations unveiled yesterday with greater control seen on interest rates and short-term borrowing costs.

Japan Nikkei +1.4% this morning, at a new record, extending gains for the year to 23%. The Yen a touch lower against the dollar. BOJ bond market hearings with participants start today, with input to help determine details of JGB purchase reductions at the July meeting.

US Treasury yields mixed with some curve flattening following last week's rally which was driven by negative macro surprises and dovish Fed takeaways. The 5-year Treasury yield added 1bps to 4.23%, the 10-year - 1bps to 4.27% and the 30-year -2bps to 4.46%. Market pricing in ~45 bp of Fed rate cuts this year, while soft-landing narrative still largely intact. The US Dollar index down 0.1%, Gold and oil pulling back from recent highs falling c. 1%. Brent crude oil at \$85.66/bbl. Bitcoin a small rebound from Monday's lows.

European equity markets ended on a softer note following last week's positive close: France the big underperformer with the STOXX 600, FTSE and DAX down -0.1% whilst the French CAC Index fell -0.6%. French election ends with a win for left-wing alliance though no single group secured a working majority. Polls had Le Pen's RN winning the largest number of seats prior to the vote. Negotiations to form a coalition government expected to be difficult and a gridlock scenario seen as more market friendly. In the UK the new government looks focused on growth and investment.

US equities ended higher: S&P 500 +0.1%, Nasdaq +0.28%, Russell 2000 +0.59% following last week gains which saw S&P 500 and Nasdaq record fresh highs. A quiet session with the market in waiting mode ahead of this week's inflation data and earnings season. Ongoing big tech support, and upgraded forward earnings estimates are positives along with easing financial conditions and no recessionary headwinds. On the bearish side is the high bar to earnings, softening labor market and consumer trends, fiscal deficit pressures. Big tech still the key tailwind for Q2 earnings with the Mag 6 – largest market cap in the S&P 500 index (Amazon, Apple, Google, Meta, Microsoft and Nvidia) expected EPS +30% y/y, with the other 494 to grow by 5%. Banks start Q2 earnings season on Friday with JPMorgan, Citi and Wells Fargo and consensus is for banking sector earnings -10% y/y in Q2.

US CPI is the highlight of the week on Thursday, followed by University of Michigan consumer sentiment and PPI on Friday. In addition, Treasury selling nearly \$120B in 3-, 10- and 30-year paper this week. China PPI, CPI, Wednesday. China trade, Friday.

Chief Investment Office
Wealth Management,
Emirates NBD.

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