



CIO OFFICE MORNING MARKET WRAP

10 July 2024

More record closes yesterday: the Nikkei, India's Sensex, S&P 500 and Nasdaq, though small movements, as we await US CPI and the first tranche of 2Q earnings this week. The S&P 500 +0.1% higher closing @ 5576 tracking for its 36th all-time high this year and 5 stocks accounting for 60% of S&P's ytd gain. Big banks gaining a percent and Semis including Nvidia having an up day. Tesla up for a 9th session. Asian markets saw domestic China and India equities up. This morning the Hang Seng Index has emerged from correction territory up a percent, whilst Japan equities are flat. A little more than halfway through 2024, global equities have gained 14% with India and the US leading and global tech sector +30%. All about growth.

We held our tactical asset allocation meeting yesterday and we remain constructive on risk assets into year end, though expect volatility into earning season, (Nvidia end August will be closely watched), US elections and the China Plenum. Global growth slowing but resilient with UAE non oil growth a stand out. We added to Cash and Fixed Income and are OW govies and UW EM debt. We held our year end fair value for the US treasury 10 year yield at 4%. We took gold to OW and reduced our UW in REITS. We reduced our small OW on equities (which has worked well) with a neutral stance for both developed and emerging market equities after the strong H1 performance, though with revised upward fair values for the major equity indexes as we see upward trends in earnings growth globally. We are OW the US/India, for growth and the UAE for income. Our 2024 end fair value for the S&P 500 is 5475 with a 9% earnings growth expected for 2024.

Fed Chair Powell repeated a similar message to the Senate finance committee yesterday as the recent Sintra remarks, that the disinflation process is underway, and employment headwinds are rising. The market is pricing in a 75% probability of a Sept cut and 2 cuts before year end., our stance too. Bond yields edged slightly higher with the 10yr yield +3bp at 4.3%, but still 40 bps below its April peak. Chair Powell's comments emphasized the Fed's delicate balancing act as it debates when to lower the benchmark interest rate from between 5.25 and 5.5% – a range since last July. Lowering rates too early could reverse the disinflation in progress and keeping them too high for too long could take unemployment up, affect small businesses as well as hurting mortgage payers and housing. Unemployment hit 4.1% in June, up from the cycle low of 3.4% in early 2023.

Brent futures at \$ 84.6/ barrel. Oil markets have been holding to a range between USD 80-87/b in the Brent market as markets respond to near-term factors (Hurricane Beryl in the Caribbean and geopolitical unease affecting supply). Overall, the picture has not change in the balance between persistent non-OPEC+ supply growth, OPEC+ trying to manage market expectations and steady, if not necessarily exciting demand prospects. The US expects global oil demand to grow by 1.8 million b/d next year, almost double the rate estimated by the IEA. US crude inventories fell by 1.92 million barrels last week, while gasoline supplies also dropped, the API is also said to have reported.

China's consumer price growth slowed in June while factory price deflation eased ahead of the Plenum next week. CPI slowed to 0.2% in June, a retreat from the 0.3% rise in May and less than a forecast of 0.4%. The producer price index declined 0.8% for June easing from a 1.4% contraction in May. Beyond US CPI, on Thursday we get jobless claims data. Data continues Friday with the June Producer Price Index (PPI) and core PPI as well as preliminary July University of Michigan Consumer Sentiment Index.

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