



CIO OFFICE MORNING MARKET WRAP

12 July 2024

A good day for most markets yesterday from Asia to the UAE and Europe, except for US large caps and the tech sector, especially semi stocks. A broadening of the rally away from tech and the Mag 7 is extending to Hong Kong this morning. Cooler-than-expected US inflation numbers, the June CPI declined 0.1% m/m on the headline and below consensus on the core and drove price action. Added to the US disinflation trajectory, with the monthly headline, the first drop since July 2022. These firmed expectations of a September rate cut.

A rotation from big tech toward small caps and non-big tech groups, the revenge of the 493 (S&P 500 ex Mag 7). The Small-cap Russell 2000 (+3.6%) and equal weight S&P were the standouts yesterday, amid a rotation out of growth/momentum and as the smaller companies would benefit from lower interest rates. Big-tech and the Mag 7, notably Tesla (postponed its robotaxi launch to October) and Nvidia weighed on the S&P 500 (-0.87%) and Nasdaq index (-2%) performance, though breadth was notably positive. Still a small dent on YTD Mag 7 performance +43%, the Nasdaq +22% which have outperformed the MSCI ACWI (global equities) +15%, the S&P 500 +17.7% and the Russell 2000 +4% - all year to date data. We are neutral equities (fully invested as per our allocation across risk profiles) from an OW position in Q2 and overweight DM sovereign debt, a position change for H2. Booking partial profits, post the exponential 2023 and H1 rally in tech and the Mag 7 is prudent, though the long term picture for tech and AI use in consumer mapping and industry remains robust.

US Treasuries rallied across the curve, with the 2 year yield at one point moving below 4.50% for the first time since March and the 10 year at 4.22%. The US Dollar index was down 0.6%, with yen strength (159.2 to the USD) in focus. Gold finished up 1.8% at \$ 2411. Bitcoin futures trading flat. This morning Asian equities have the Hang Seng +1.8% outperforming amid a rally in property developers while Mainland China is flat. The Nikkei -2% under pressure amid yen volatility. Brent oil at \$85.8/ barrel. Global oil demand growth slowed to its weakest in more than a year last quarter, with consumption rising by just 710,000 barrels a day as China slipped into a marginal contraction, the IEA said. Demand remains on track to grow by less than 1 million b/d this year and next.

Headline US June CPI declined 0.1% m/m on lower energy prices. Up 3.0% y/y. Cooler 0.1% m/m rise for core CPI, below May's 0.2% and up 3.3% y/y. A deceleration in shelter prices. Weekly initial jobless claims also pulled back. US PPI due later today with attention on PPI components that feed into the Fed's preferred PCE index. Fedspeak yesterday had San Francisco's Daly (voter) saying rate cuts could be warranted but more information to gather, she saw the inflation data as a "relief" while St. Louis's Musalem (non-voter) said, encouraged by inflation data but needs more evidence inflation is moving back to 2% target.

President Biden at the NATO press conference brushed off questions about his viability as a candidate (Politico, NY Times, Bloomberg). Biden dismissed concerns about his age and health, rejected calls for him to drop out and insisted he will be the party's standard bearer. Banks Q2 earnings today with JPMorgan, Citi and Wells Fargo with banking sector earnings expected to decline 10% y/y in Q2 9 (FactSet). Sluggish loan growth still an overhang and some talk that banks could dial back expectations. CRE issues widely understood and overall credit quality described as solid with trading a bright spot though M&A still sluggish. We also get data on China trade, Japan industrial output and Indian inflation, China money supply and new loans, France June F CPI, Spain June F CPI, US July University of Michigan Sentiment.

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