



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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The week ended with the shocking news that Donald Trump was injured in an attempted assassination during a rally in Pennsylvania on Saturday evening. Mr. Trump suffered a minor injury, and the event will be changing the political campaign of both candidates, that are likely to be appealing to voters by calling for national unity shifting from a kind of existential rhetoric. This morning there is some signs of Trump-win bets in the market, with the US dollar rebounding and Treasuries pulling back. China reported a set of disappointing data points, from GDP, to fixed asset investments, retail sales, and industrial production, that suggest the authorities must do more to revive flagging demand. Investor's focus will be on the Third Plenum of the Communist Party starting today and lasting through Thursday, expected to set the stage for the direction of future policies and the economy.

Last week stocks moved higher in a broad advance as investors gained confidence the Fed is getting closer to easing policy after a very benign inflation print. And Powell's language hinted to a pivot on rates during his testimony before Congress. Growing risk appetite drove the outperformance of the most cyclical pockets of the market standing to benefit the most from lower rates expected to spur business activity. On the day of the CPI release small caps recorded their best single-day gain versus the larger companies since 2008. Yields tumbled across the curve with money market expectations shifting to almost three cuts by year-end. The yen strengthened against the dollar with the BOJ seizing the opportunity to intervene to support the currency. Despite the moderating US CPI a consumer sentiment gauge conveyed continued dissatisfaction with high price levels, while in China persistent deflation frustrated attempts to boost demand. Financials, that started the reporting season, overperformed in the five days through Friday although two of the largest banks were hit by volatility in rates. Politics and geopolitical risks took again center stage. The second round of the French elections produced a hung parliament with none of the three main parties gaining a majority. And the joint communique of the NATO summit held in Washington was harsh on China, that allegedly wants to "undercut and reshape the rule-based international order". Small caps (+6%) topped other markets, and the more cyclical Dow Industrials (+1.6%) gained more than the Nasdaq (-0.3%), weighed down by IT megacaps (-3.6%). Debt-laden sectors like real estate (+4.4%) and utilities (+3.9%) led the pack. DM ex-US (+2.3%) outperformed, while EM stocks (+1.7%) recorded one more new-high for the year. Yields fell across the curve, the 2yr and 10yr down 15 and 10bps respectively, a bull steepening typical of pre-rate-cut times. Gold (+0.8%) settled at the top-end of its range, the US dollar (-0.7%) closed almost at a four-month low, while Brent crude (-1.7%) failed to participate in the commodity rally.

June CPI was very soft, both for headline and core inflation that printed 3% and 3.3% respectively, below forecasts. Disinflation was broad and driven by housing rents and car prices. Together with the cooling labor market this should underpin a rate cut starting from the September meeting, in investor's minds. And Powell saying in his testimony before Congress that "the labour market is not a source of broad inflationary pressures for the economy" sounded very much like the pivot on rates markets were all but waiting for. The PPI release was less benign, as the producer price index increased slightly more than forecast, but was taken in stride. Signs that inflation is slowing down saw on Wednesday money shift into riskier corners of the market and exit tech. The S&P 500 fell almost 1% dragged down by IT megacaps, although almost 400 of its shares advanced, while the Russell 2000 Index beat the Nasdaq 100 by 5.8%.

At the start of the week focus was on the outcome of the French elections. With no party holding a majority in parliament it will be a long way ahead to form a working government due to the stark differences between the left-wing bloc that won most votes and President's Macron centrists that they may have to form a coalition with. On another note, over three days in Washington the NATO summit was dominated by discussions on Ukraine, Russia, the threat posed by a more aggressive China and NATO's future. The news conference at the end of the summit was held by President Biden, that again at times floundered during his speech.

The start of the reporting season with big banks highlighted how high interest rates can slow loan demand, as well as recently falling yields negatively impact profit margins on consumer loans. JPMorgan declined after posting falling second-quarter earnings excluding one-time gains. Wells Fargo slumped after announcing a decline in net income for the quarter and anticipating a larger fall in net interest income. But both firms said that deal-making and trading cushioned the struggles in landing. Citigroup fell after earnings as it warned expenses for the year would be at the high-end of the given range.

Week ahead

Monday: Empire Man; EA IP; China: MTLF rate, GDP, FAI, retail sales, IP

Tuesday: retail sales, business inventories, import price index, NHAB index; Germany ZEW

Wednesday: housing starts, IP, 20y auction, Beige Book; UK: CPI; EA: final CPI

Thursday Philadelphia Fed Man; UK: Unemployment; EA: ECB decision

Friday 10y TIPS auction; UK: retail sales

15-18 July China Third CP Plenum

Thank you.

Chief Investment Office
Wealth Management,
Emirates NBD.

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