



CIO OFFICE MORNING MARKET WRAP

29 July 2024

Global equities ended overall lower last week (MSCI ACWI -0.9%), yet got a boost on Friday after good soft-landing data bolstered speculation that the Fed may cut rates as soon as September. A broad tech sell-off was triggered due to a disappointing start of the megacap earnings season, the S&P 500 index is down 0.8% last week. However economic data provided equities with some relief on Friday as the US economy grew faster than expected in the second quarter attributed to increased government and consumer spending (Q2 GDP +2.8% QoQ annualized), double the growth pace in Q1. The growth rate in the first half of the year averaged +2.1% (+4.2% for the same period in 2023), just above the 1.8% pace viewed by central bank officials as the non-inflationary growth rate. Inflation numbers came in line with expectations, with June core PCE nudging up 0.2% MoM, a good sign combined with a cooling labor market that inflation is moving towards the Fed's target.

We are now close to the mid-point of Q2 earnings season, with the S&P 500 reporting mixed results so far. Percentage of companies reporting positive earnings surprises are above average levels, while the magnitude of the earnings is lower. Amongst major companies that have reported are Tesla and Alphabet last week; both selling off after disappointing results. Tesla reported a 25% slump in quarterly profits as price pressures intensify, while Alphabet witnessed a slowdown in advertising growth. Friday's gains were fueled by economically sensitive stocks that welcomed the Fed's data. So far in July, sectors such as financials, industrials and consumer staples have largely beaten tech. The equal weighted S&P 500 index have beaten the actual index for a third straight week, illustrating better breadth. Focus will turn to Apple, Microsoft, Amazon, and Meta Platforms, which are all set to report earnings this week.

The Japanese yen appreciated tremendously to 153.8 per dollar as traders bet the turning point is near. Monetary decisions by the BOJ and the Fed are due this week, with growing expectations that the interest rate gap between Japan and the US is finally set to shrink. A rate cut by the BOJ in July is increasingly possible, and leveraged funds slashed their net short yen positions by the largest amount since 2011. The yen's rally will create a degree of caution in the near term for export-oriented stocks and companies heavily dependent on borrowing. The TOPIX index is down 5.6% last week, with tech names such as Tokyo Electron leading losses. The banking sector gained in anticipation of a decision to hike. The MSCI China Index closed 2.3% lower last week after markets interpreted the central bank's urgency to cut several benchmark lending rates as a sign that deflationary pressures and weak consumer demand are more severe than previously expected.

US Treasury 10-year yields dropped five basis points to 4.19% while gold rose by 0.9%. Brent oil continued its decline, closing 1.5% lower to \$81.1 a barrel.

Today morning, Asian markets tracked US Friday gains as we head into a week of major central bank decisions and big tech earnings releases. Key events and data this week include monetary decisions by the Fed, BOJ, BOE (money markets assigning 50% probability to a 25-bps cut by the BOE). Also, euro-area Q2 GDP and preliminary CPI figures for July. 171 companies within the S&P 500 are set to report this week.

Have a good day!

Chief Investment Office
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