



INSPIRING WHAT'S NEXT

CIO OFFICE MORNING MARKET WRAP

24 June 2024

Last week was short (Eid break in our region, Juneteenth holiday in the US) but volatile: a strong start, followed by a decline in risk appetite and a tepid US close in a key expiry date for derivatives. Overall, it was not too bad. Stocks added +0.5% in developed markets and +1% in emerging regions. US Treasury yields were flat week over week, but global bond indices were affected by a stronger US dollar, which pushed gold -0.5% lower. Oil prices, by contrast, gained a material +3% to \$85.2 for the Brent.

First, let's summarize last week's data deluge. May retail sales were soft in the US, but industrial production surprised on the upside, which was consistent with a better-than-expected Empire manufacturing survey. The picture was inverted in China, with a welcome rebound in consumption but a deceleration for industries. Flash PMIs for June were outright strong in the US, but clearly disappointing for both the Eurozone and the UK, which directly weighed on their respective currencies, especially as CPI reports confirmed that European inflation is not reaccelerating at all. Central banks met, with a surprise cut from the Swiss National Bank, where real short-term rates are now slightly negative, and an unsurprising absence of decision in Norway and the UK, following Japan the previous week. The yen touched a new low against the dollar as flash PMIs were soft, and as May inflation came in slightly below expectations. The Bank of Japan preannounced an upcoming update on their balance-sheet policy. Bottom-line, it looks like US exceptionalism came back in May, from both their own strength and others' weakness. The dollar gained, but market expectations for the Fed didn't materially change – Fed Funds Futures price in 1.8 cut this year- which looks reasonable.

Let's take a step back, as the first half of the year will soon come to an end. Global growth has been stronger, and inflation stickier, than initially expected by everyone, including ourselves. Still, the trajectory remains consistent with a deceleration in H2, in a soft-landing pattern where activity should grow in line with its potential, and inflation should not rebound. Against this backdrop, we expect with confidence more cuts from European central banks in the coming months and continue to believe that the Fed will follow somewhere after the summer. This raises two points. First, a lot can happen in the meantime, between economic data and events. Second, this soft-landing scenario is at least significantly already priced-in by several assets. So far, our reading of the market is not totally wrong: central banks are risk adverse, with little room for action, markets are volatile, reacting to data, politics, and geopolitics, but returns are positive, with more differentiation between and within asset classes. Our three profiles are up around +2.5%, +5.5% and +7.5% year-to-date, which is not very far from what we expected for the entire year (after last year's +10%, +13% and +15%). Are we already borrowing returns from the future, with the risk of a painful adjustment ahead? We will soon refresh our year-end fair values to take into account the first answers of 2024 but are already asking ourselves if we shouldn't consider tactically securing some gains.

Asian markets share our perplexity as we write this morning. Stocks are up +0.2% in Japan but down everywhere else: -1% in Hong-Kong, -0.6% in Korea and -0.4% in onshore China. The yen continues to fall, which explains the Nikkei's resilience, despite BoJ officials making statements about a potential intervention in their "summary of opinions" released this morning. US Treasury yields are marginally lower at 4.25% for the 10-year, 4.26% for the 5-year and 4.73% for the 2-year. An ounce of gold trades for \$2,325 and a barrel of Brent crude for \$85.1. Major crypto currencies continue to be weaker with bitcoin just below \$63,000.

The week ahead will see many economic releases and some US Treasury auctions, but the most important event of the week should be the US Presidential debate at 5AM Dubai time on Friday (which is Thursday 9PM in New-York). As we previously said, this debate, initiated by the Biden team, takes place unusually early, which only reinforces our perception that this election has a potential for big surprises (which markets usually don't like). Later on, the same Friday for us, we will see the May update of US monthly personal income, spending and most importantly PCE inflation. The core PCE, which matters so much for the Fed, is expected to have moderated to +0.1% month-on-month which would bring its year-on-year change down from 2.8% to 2.6%. Today should be much quieter, with only the Dallas Fed manufacturing activity index and speeches from both Fed and ECB officials.

Have a great week.

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