



CIO OFFICE MORNING MARKET WRAP

13 September 2024

Stocks fluctuated in the Asian region, with renewed yen strength pressuring the Japanese market. Benchmarks gained in Australia, South Korea, Hong Kong, and China, in the wake of Wall Street's fourth day of gains. The yen traded close to the highs of the year against the dollar, while EM Asian currencies rallied after sustained expectations for the Fed's easier policy. The 10-year Treasury yield shed 3bps, and US futures were little changed. Yesterday the rally in US equities continued with traders laser-focused on macro data supporting the disinflation process, in turn seen conducting to lower yields and Fed cuts. All S&P 500 groups were in the green with utilities and real estate lagging. IT megacaps and discretionaries outperformed, that usually goes hand in hand with Treasuries being in a bull run. Both mega and small caps outpaced the broader market, in a sign the rally is broadening despite spreading skepticism and increased focus on higher recession odds. US Treasuries saw small moves, while the pricing of future cuts remained basically unchanged. US producer prices showed muted inflationary pressures, an offset to the upside surprise in the core CPI a day earlier. Unemployment benefits ticked up posing no particular concern. The S&P 500 rose 0.8%, the Nasdaq added 1%, and the Dow 0.6%. The Magnificent 7 climbed 1.4%, and Nvidia paced gains in semiconductors. The Russell 2000 advanced 1.2% with gradually improving breadth in the last few months. Treasury 10-year yields advanced 3bps to 3.68%, while Bunds snapped a seven-day winning streak after President Lagarde's hawkish remarks. Crude oil rebounded from oversold conditions pushing its weekly climb to almost 2% on hurricane's Francine disruptions. Gold hit an all-time high on persistently falling yields, while the US dollar slipped.

The US Producer Price Index picked up slightly in August, with categories feeding into the Fed's preferred inflation gauge muted. While on a monthly basis the PPI change was above forecasts, versus a year ago the PPI rose 1.7%, the least since early in 2024. This helped traders look through the release keeping them looking forward to the forthcoming FOMC. While the CPI is more largely followed, it is worth remembering that the PPI more often than not leads the CPI, as companies tend to pass costs through to consumers. For the same reason, a positive difference between PPI and CPI points to positive margins. The now steadily positive spread between PPI and CPI is typically associated with solid margins, that bode well for stocks.

The ECB, as expected, lowered its deposit rate first a second time this year at yesterday's meeting, reaffirming it won't commit to a future course of action for borrowing costs. The central bank released slight downgrades to projections for euro-area output over the next three years, while at the same time nudging higher the outlook for underlying inflation for 2024 and 2025. Hence, traders pared bets on the ECB lowering rates next month. Data dependency remains the keyword for the ECB, whereas the Fed seems to be taking the disinflation process more for granted and could proceed at a speedier pace. The rate differential looks then likely to remain biased against the dollar. Yesterday the euro gained 0.56% to rise to 1.1074 against the dollar.

Ex NY Fed President Bill Dudley and now chair of the Breton Woods Committee, said that he sees scope for a half point rate cut at next week's meeting. While Dudley is undoubtedly authoritative and must be in the know, his remarks are at odds with the need for the Fed to avoid the idea of panicking by resorting to a large cut when there seems little reason to, given current labor market conditions and the general state of the economy showing no glaring imbalances.

Have a great day.

Chief Investment Office
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