

June 25, 2024

Weekly Investment Insights



European indices lost ground ahead of Sunday's French elections, with equities underperforming over the week. However, traders appeared to interpret the first round of legislative voting as an indication that the far-right faces a tougher-than-expected path to having an absolute majority. In financial markets, this means that Le Pen's big spending plans might be kept in check. French stocks and the euro rose on the outcome, while the 10-year spread on French-German debt narrowed to the lowest seen in two weeks. The second round of voting will be held on July 7.

Attention is now starting to turn to the Q2 earnings season in which corporates will deliver their financial results. Reporting will kick-off in the second full week of July, led by banking behemoths, JPMorgan Chase, Wells Fargo and Citigroup.

No football fairytale for the German economy

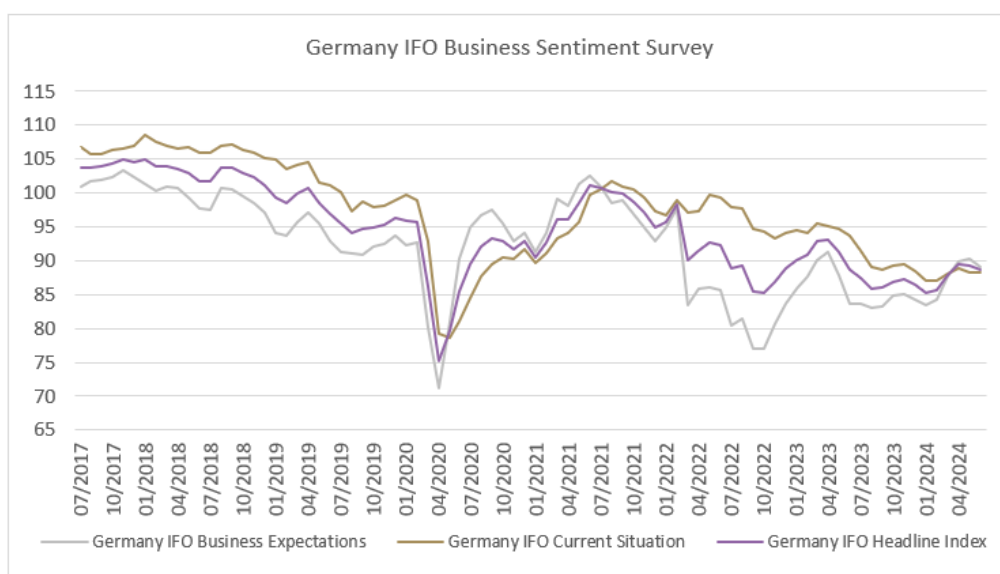
Earlier this month, Germany's largest economic thinktank, the ifo, wrote that "The European Football Championship being held in Germany will not bring about a summer fairytale for the German economy."

The ifo expects that the influx of revenues from foreign football tourists should amount to around just 0.1% of economic output in the second quarter of the year. The 2006 World Cup demonstrated that while domestic fans will briefly spend more in the hospitality and food retail sectors during the Championship, they will reduce their spending elsewhere, so that private consumption as a whole will likely be unaffected at the aggregate level.

Halfway through the tournament, sentiment data doesn't demonstrate that the sporting event has lifted spirits.

The ifo business climate index, which measures sentiment among companies, fell from 89.3 to 88.6 in June. That's below the forecast of 89.7 and marks the first month-over-month decline since December 2023. The index was dragged down by the expectations gauge, which fell from 90.4 in May to 89 in June, falling short of the expected 91.

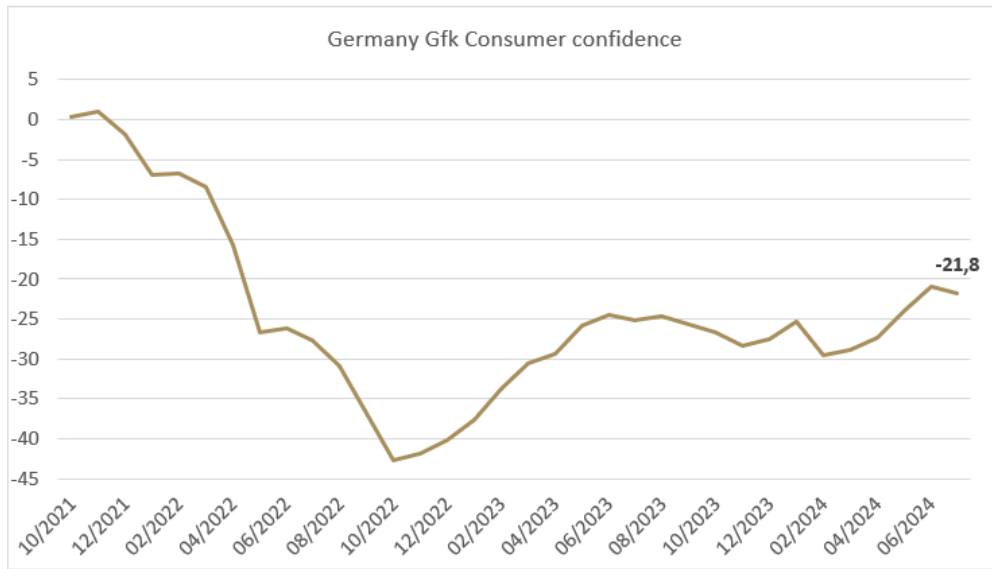
On a sectoral level, manufacturing saw sentiment decline after three consecutive months of improvement, with companies becoming more cautious about the future. In trade, the business climate worsened significantly. Service providers, on the other hand, held a more positive outlook, with expectations for the second half of the year becoming more optimistic.



Source: Bloomberg, BIL

Later in the week, the Gfk sentiment index showed that on the consumer side, the mood has also turned down. The index saw its first decline after a five-month streak of improvement, falling from -21.0 to -21.8.

Economic expectations (9.8 to 2.5), and income expectations (12.5 to 8.2), were noticeably weaker. At the same time, the propensity to save jumped from 5.0 to 8.2, while the willingness to buy slipped from -12.3 to -13.0. The slight rise in the inflation rate in May (2.4% from 2.2%), as well as the political situation in France, are thought to have had an impact on the responses.



Source: Bloomberg, BIL

Unemployment in Germany climbed by 0.1 percentage point in June, to 6%, slightly above predictions.

The Fed's preferred inflation measure falls, fanning rate cut hopes

The release of US PCE Inflation data on Friday pushed equities higher and bond yields lower, as investors reinforced bets that the Fed will have room to cut rates this year. Importantly, the core PCE index (which strips out volatile categories), rose 0.1% month-on-month – the smallest rise in six months. On a year-on-year basis, it rose 2.6%, the lowest since early 2021.

The Fed's dot-plot shows just one cut for this year. With the labour market beginning to soften, the risk is rising that the Fed might wait too long to cut rates, meaning the labour market is already mired in a downturn before relief comes. The US presidential election is complicating

the cadence of cuts, as the Fed must be viewed as politically impartial.

Messaging last week from various governors sent mixed messages.

Michelle Bowman, Kansas Fed Governor and FOMC member, commented that she is less confident about the future pace of US inflation, citing a number of risks (geopolitics, persistent labour market tensions, possible tax measures, etc.). She sees no room for an interest rate cut this year and added that she would be prepared to increase rates again if progress on inflation stagnates or even reverses.

San Francisco Fed President Mary Daly said in remarks prepared for delivery to the Commonwealth Club: "We must continue the work of fully restoring price stability without a painful disruption to the economy", while there is still "more work to do" on bringing inflation down, "inflation is not the only risk we face."

Speaking at the Economic Club of New York, Fed Governor Lisa Cook said "With significant progress on inflation and the labor market cooling gradually, at some point it will be appropriate to reduce the level of policy restriction to maintain a healthy balance in the economy." She added, "the timing of any such adjustment will depend on how economic data evolve and what they imply for the economic outlook and balance of risks." She deems the current monetary policy stance as "restrictive."

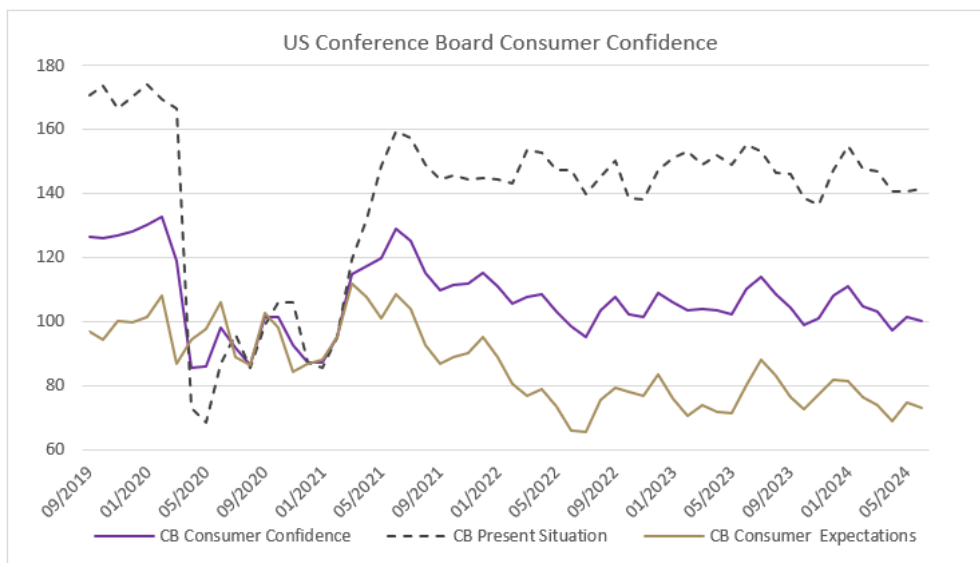
US consumers catch up to reality

US consumers have been the Atlas, holding up the US economy on their backs. But now, with excess savings depleted, cracks in the labour market appearing and credit card delinquencies ticking it up, it appears that they might be starting to tighten their purse strings.

Consumer confidence in the United States declined in June, according to the Conference Board's survey. The index fell to 100.4 from 102, with the proportion of respondents expecting business conditions to improve in the next six months falling to the lowest level since October 2011.

The expectations index - a better indicator of real consumption growth than the headline index - fell from 74.9 to 73. Since December, it has fallen by a considerable 8.9 points. This is consistent with real spending rising at a mere 1% annualized rate, down from Q1's 2.0% rate and the 2.7% average rate in 2023.

Only 13% anticipate more plentiful jobs over the next 6 months, while the net proportion of people expecting incomes to be higher in six months' time fell to just 4%, from 6% in May. That's down substantially from the post-Covid peak of 12% in June 2021.



Source: Bloomberg, BIL

In welcome news for the Fed, one-year ahead inflation expectations fell to 5.3% in June, from 5.4% in May, and were only marginally above the 2000-to-19 average, 5.0%, which likely is consistent with near-2% CPI inflation.

Economic calendar for the week ahead

Monday – ECB Annual conference in Sintra kicks off with a welcome speech from Christine Lagarde. Germany Inflation Rate (Preliminary, June). **US ISM Manufacturing PMI** (June). China Caixin Manufacturing PMI (June). Japan Consumer Confidence (June).

Tuesday – **Eurozone Inflation Rate** (Flash, June), Unemployment Rate (May). US JOLTS Job Openings and Quits (May).

Wednesday – Eurozone PPI (May). **US ISM Services** (June), **FOMC Minutes**, Balance of Trade (May).

Thursday – UK General Election. US markets closed for Independence Day.

Friday – Eurozone Retail Sales (May). Germany Industrial Production (May). France Balance of

Trade (May). US Non-Farm Payrolls (June), Unemployment Rate (June)

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