ARBUTHNOT LATHAM
Bankers since 1833

2.8%
Second-quarter US GDP growth

US economy grew faster than expected in the second quarter of 2024.

0.25%
Japan Policy Rate

Bank of Japan raised interest rates for the second time since 2007.

8.18m
Number of US job openings

US labour market added more job vacancies in June than expected, confirming the strong jobs market.

July 2024

Market Spotlight

Around the world

- The Bank of England has cut interest rates for the first time since 2020. In their latest meeting, the Monetary Policy Committee reduced the key rate to 5%.
- The flash GDP report for the US in the second quarter of 2024 highlighted a significant rebound in consumer spending. Consumer spending growth accelerated to 2.3% from 1.5% in the previous quarter. This is particularly noteworthy as recent consumer weakness has been a primary factor contributing to market uncertainty.
- Germany's economic performance took a downturn in the second quarter of 2024, with preliminary GDP figures showing a contraction of 0.1%. Adding to the gloomy economic picture, the Ifo Business Climate Index reported a decline in economic expectations for the region in July, falling to 86.9.
- European luxury brands, which have heavily relied on the Chinese market for sales, continue to be impacted by the lack of demand from China. Companies such as LVMH and Kering have reported earnings below expectations, largely attributed to weakening demand from Chinese consumers.
- The People' Bank of China (PBOC) has taken its first significant actions since announcing a shift in its monetary policy framework. In response to weaker-than-expected economic growth in Q2, the central bank reduced its 7-day reverse repo rate by 10 basis points and made a corresponding 10 basis point cut to China's loan prime rates.

Market snapshot

July has been a volatile month for markets. The main catalyst for the improved performance in government bonds was lower-than-expected US inflation, as investors anticipate multiple rate cuts from the Fed by the year-end. US tech experienced a sell-off, as investors rotated towards more interest rate-sensitive sectors such as small cap and value stocks. UK equities outperformed their global peers, supported by robust July PMI data and expectations of interest rate cuts. Commodities retreated, primarily due to declining oil prices. Despite the ongoing tensions in the Middle East, oil was more significantly impacted by weaker demand from China.

Performance of global asset classes

	1 Month	YTD
Global Government Bonds	2.8%	-0.5%
UK Equities	2.5%	10.6%
Global Corporate Bonds	2.4%	1.5%
Precious Metals	2.2%	14.5%
Global High Yield Bonds	2.0%	5.2%
World Equities	1.6%	13.1%
US Equities	1.2%	16.7%
European Equities	0.7%	8.3%
Emerging Market Equities	0.3%	7.8%
Chinese Equities	-0.6%	0.3%
Japanese Equities	-1.2%	17.9%
US Tech	-1.7%	15.0%
Commodities	-4.5%	-2.2%

Source: Bloomberg, Returns are in local currency, as at 31 July 2024.

What is the data telling us?

Manufacturing PMIs weakened across the board in July. Global PMIs fell marginally below 50, signalling a contractionary phase. US PMIs also continued its downward trend as we saw in Q2. China saw a notable shift down in PMIs as manufacturing softened due to muted domestic demand. However, the UK saw further strengthening through a sustained broad-based recovery in the economy led by production output.

Contrastingly, we saw continued strength from Service PMIs. In the US, Service PMIs re-entered an expansionary environment, after dipping in June, driven by an increase within the Employment Index. Across the regions, Services PMI remain in expansion territory.

Purchasing Managers Index

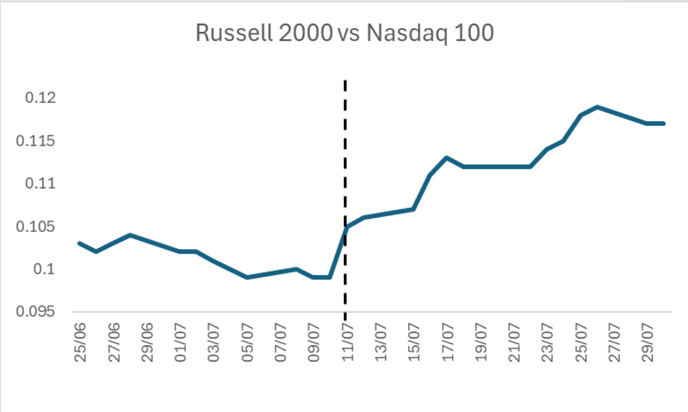
Manufacturing

	2023						2024						
	7	8	9	10	11	12	1	2	3	4	5	6	7
Global	48.7	49	49.1	48.8	49.3	49	50	50.3	50.6	50.3	51	50.9	49.7
US	46.4	47.6	49	46.7	46.7	47.4	49.1	47.8	50.3	49.2	48.7	48.5	46.8
EU	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8
UK	45.3	43	44.3	44.8	47.2	46.2	47	47.5	50.3	49.1	51.2	50.9	52.1
China	49.2	51	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8
Japan	49.6	49.6	48.5	48.7	48.3	47.7	48	47.2	48.2	49.6	50.4	50	49.1

Service

	2023						2024						
	7	8	9	10	11*	12	1	2	3	4	5	6	7
Global	52.7	51.1	50.8	50.4	50.6	51.6	52.3	52.4	52.4	52.7	54	53.1	53.3
US	52.7	54.5	53.6	51.8	52.7	50.6	53.4	52.6	51.4	49.4	53.8	48.8	51.4
EU	50.9	47.9	48.7	47.8	48.7	48.8	48.4	50.2	51.5	53.3	53.2	52.8	51.8
UK	51.5	49.5	49.3	49.5	50.9	53.4	54.3	53.8	53.1	55	52.9	52.1	52.4
China	54.1	51.8	50.2	50.4	51.5	52.9	52.7	52.5	52.7	52.5	54	51.2	52.1
Japan	53.8	54.3	53.8	51.6	50.8	51.5	53.1	52.9	54.1	54.3	53.8	49.4	53.9

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 August 2023 to 31 July 2024.



Source: Bloomberg, as at 30 July 2024

Chart of the month

The Russell 2000 recently achieved the largest two-week rally against the Nasdaq since 2002. This surge was fuelled by softer-than-expected inflation data, which sparked anticipation of multiple Fed rate cuts later in the year. Smaller companies in the US are particularly sensitive to changes in short-term interest rates given their debt profiles, hence their sensitivity to potentially lower Fed funds rate.

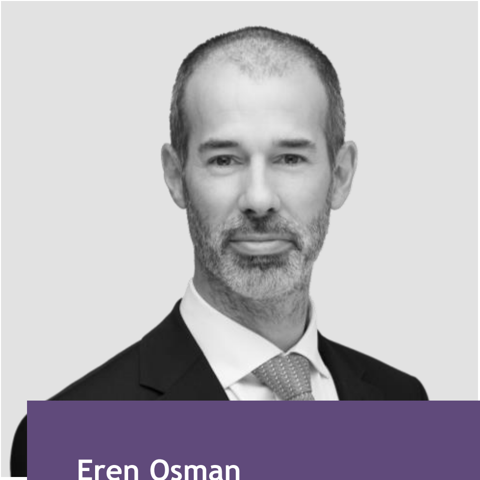
Extreme positioning shifts also likely contributed to small caps' outperformance, given the crowding into the Nasdaq at the expense of Russell 2000 over the last quarter. For small caps to maintain their edge, the Fed's ability to deliver a soft landing will be crucial.

Looking ahead

Globally, we have seen a slight downshift in growth dynamics, namely attributed to weaker manufacturing data as well as a slight deterioration in the US labour markets. In aggregate, however, growth remains relatively resilient and for the moment we think the backdrop remains supportive of risk assets, though less so than in Q2. This resilience is supported by low unemployment, rising real incomes, and a strong service sector, with stronger manufacturing data in Asia. Despite recent setbacks in the manufacturing sector in Europe, the broader economic landscape remains positive as consumer spending is expected to rebound supported by real wage growth. In the US, the recent signs of an economic slowdown have been counterbalanced by robust GDP growth. Coupled with declining CPI inflation, the economic environment in the US aligns with expectations of a soft landing, although this is sensitive to further downside surprises in data, particularly linked to the labour market and hence the strength of the consumer.

The overall trend in inflation continues to be downward and with global central banks cutting interest rates, we think this will be an additional support for risk assets, particularly those that are more interest rate sensitive.

Contacts



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