

July 12, 2024

# Weekly Investment Insights

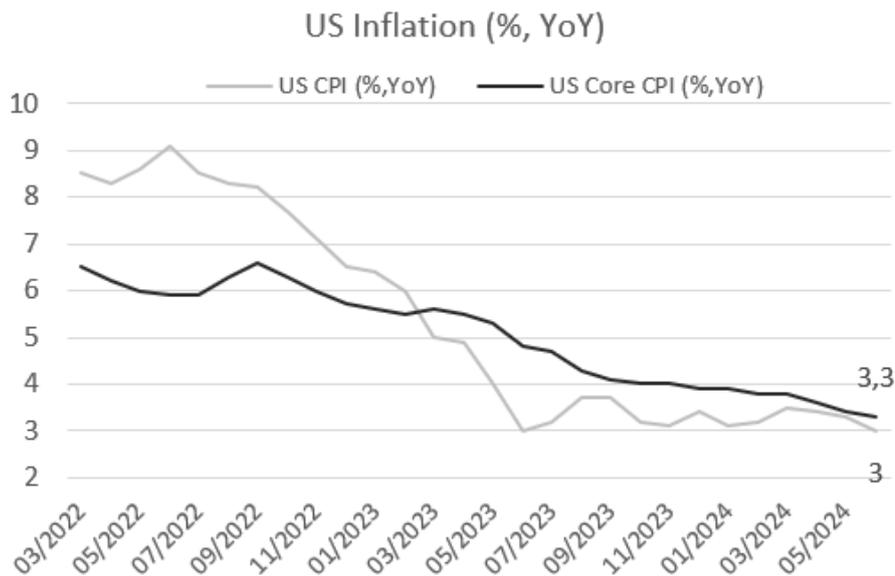


Last week, US inflation undershot expectations leading markets to re-evaluate the probability of a rate cut as soon as September. US Treasury yields retreated, the dollar softened and an interesting dynamic played out in equity markets: Investors used the good news to lock in gains on mega-caps while small caps rallied. The small-cap Russell 2000 had its best daily performance since December, while the Magnificent 7 had its worst performance since October 2022.

## ECONOMIC ROUNDUP

US CPI falls for a third straight month

On Thursday, US CPI was shown to have declined for a third consecutive month in June. The headline reached 3% YoY, the lowest since June 2023 and below forecasts of 3.1%. The core, which excludes volatile categories like food and energy, fell to 3.3% - the lowest level since April 2021. On a month-on-month basis, inflation fell by 0.1%, the first decline since May 2020. Markets had expected a reading of +0.1%.



Source: Bloomberg, BIL

Digging into the drivers, almost all categories saw softer prices:

- energy (1% from 3.7%)
- shelter (5.2% from 5.4%)
- transportation (9.4% from 10.5%)
- new vehicles (-0.9% from -0.8%)
- used cars and trucks (-10.1% from -9.3%)

Food, on the other hand, showed a slight uptick (2.2 from 2.1%).

Chicago Fed President Goolsbee described the data as “excellent”, and said “this is what the path to 2% looks like”.

Indeed, current conditions indicate that CPI inflation can continue its trajectory lower in the second half of the year. The labour market is loosening up, putting downward pressure on wages and also on new rent leases with landlords having to consider affordability. Retailers’ margins are under mounting pressure from increasingly budget-conscious consumers. Walmart and Target have both announced price cuts on thousands of products.

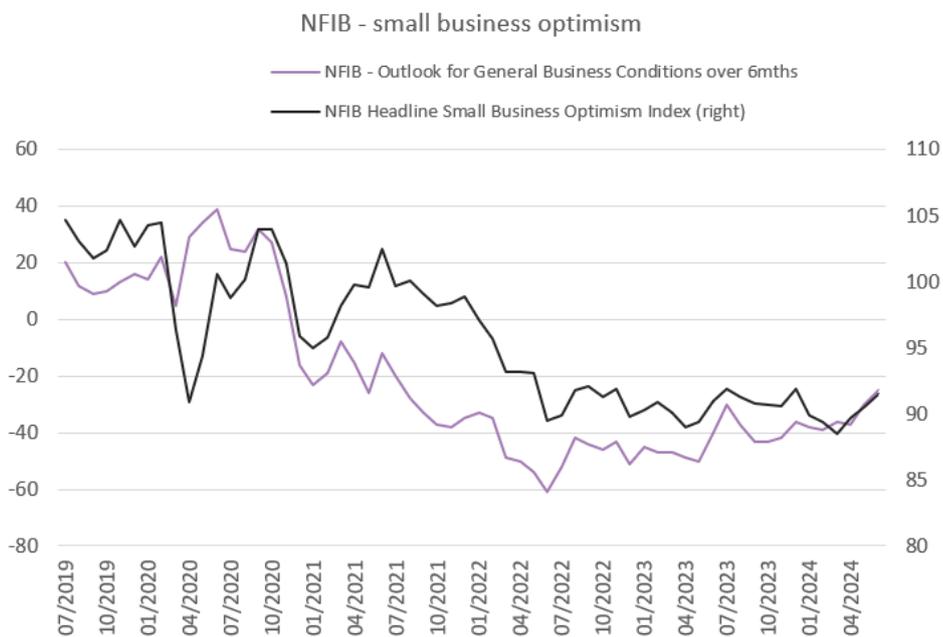
Looking at the very big picture, global food and energy prices remain contained too.

All this paves the way for the Fed to give greater attention to the growing cracks in the labour market. Following the data, markets have fully baked in a September rate cut in futures markets, with a second potentially coming in December.

### Main street firms feel more optimistic on retreating inflation

Falling inflation appears to be improving the mood among small businesses, according to the NFIB's survey, which rose to 91.5 in June, the highest since the start of the year and above expectations of 89.5. A net 21% of firms said that inflation was their single most important problem, down from a peak of 37% following the pandemic.

While the mood is brightening, note that the NFIB index is still quite a bit below the long-term average of 98.

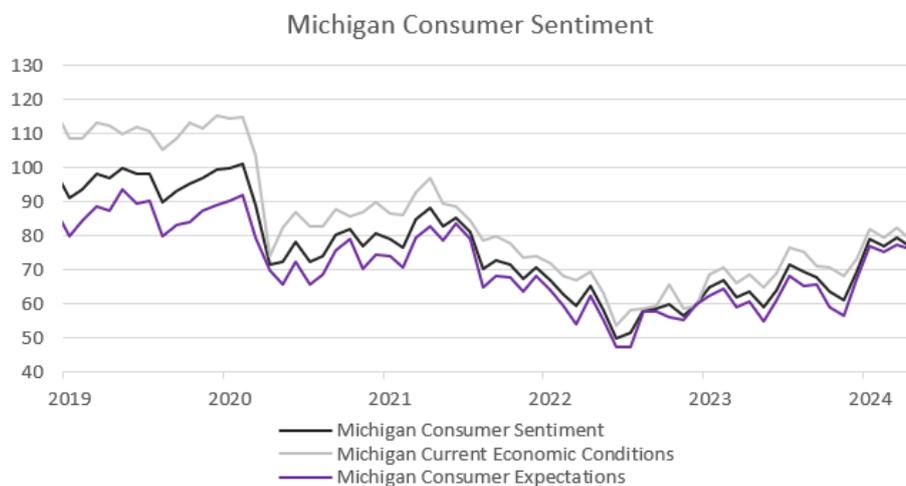


Source: Bloomberg, BIL

## Brightening mood does not spread to US consumers

On Friday, the Michigan Consumer Sentiment index was shown to have fallen to an 8-month low. The current conditions gauge declined to 64.1 from 65.9 and the expectations subindex fell to 67.2 from 69.6. This is likely linked to visible loosening in the labour market: the net proportion of households expecting the unemployment rate to increase over the next 12 months rose by three percentage points in July. Both the year-ahead and the five-year inflation expectations decreased to 2.9% from 3%.

We should keep in mind that the survey switched to web-based data collection and that people tend to answer more positively when interviewed by a person than when they fill out a form. The proportion of web-based responses rose to 25% in April, 50% in May, 75% in June and then finally to 100% this month.



Source: Bloomberg, BIL

## US targets Chinese steel exports with tariffs on shipment via Mexico

The US will apply national security tariffs to some steel and aluminium imports from Mexico in a bid to stop Chinese metal entering the US across the southern border. The White House said duties of 25% will apply to any steel entering the US from Mexico that was not melted and poured in North America, while aluminium from Mexico that contained primary smelt from China, Belarus, Iran or Russia would face tariffs of 10%.

## Earnings season kicks off

The US Q2 earnings season has officially kicked off with the results of banking giants. Analyst

expectations have remained high, and the usual downward revisions we tend to see as the year progresses have not materialised. This presents companies with a high bar to beat, with analysts forecasting EPS growth of 9% on the S&P 500 index as a whole. For firms to surprise on the upside, it will be difficult. Investors will be combing the releases for further clues about the health of the consumer. Already PepsiCo has described the US consumer as “challenged”. One big bank noted higher losses in its credit card business on Friday.

## **Economic calendar for the week ahead**

**Monday** – China GDP Growth, Industrial Production, Retail Sales, House Price Index. Eurozone Industrial Production. Powell Speech.

China Third Plenary session will kick off, a three-day gathering of top-level decision makers. Expectations are muted regarding any new stimulus for the economy. Analysts suspect we might see some tax reforms and no policy U-turn regarding the property market.

**Tuesday** – Eurozone and Germany ZEW Economic Sentiment Index. ECB Bank Lending survey. US Retail Sales, NAHB Housing Market Index, Business Inventories.

**Wednesday** – UK Inflation data. Eurozone Inflation (final print for June). US Housing Starts and Building permits.

**Thursday** – ECB Policy Meeting (widely expected to keep rates on hold). US Weekly Jobless Claims.

**Friday** – UK Gfk Consumer Confidence and Retail Sales. Japan Inflation.

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