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The Macro Month Ahead

July 2024

Brace for elections in Europe and keep a close eye on inflation

Summer has officially started, 2024 is already half-way gone, many investors are looking forward to enjoying a holiday break, and the looming US Presidential election will soon dominate the headlines. In the meantime, the month of July will bring key insights on some important economic developments. July will also start with general elections in two large European economies, and the US Q2 earning season will kick off. Before heading to the beach, or just to be prepared for an eventful month, let's have a look at the Macro Month Ahead.

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Elections in the UK and in France, Trump sentenced and officially Republican nominee within the same week?

The first week of July will see general elections in the United Kingdom (**July 4th**) and in France (**July 7th**). Both will decide a new composition of the Parliament, and both will oust the current ruling party. But that's where the similarities end.

In the United Kingdom, the outcome appears all but certain: the Labour party is on track to win a landslide victory in Parliament, and its leader Keir Starmer will become the next Prime Minister. This will end a period of 14 years of Conservative leadership for the country, marked noticeably by the Brexit referendum in 2016. Most recent polls show voting intentions for the Labour party above 40% and voting intentions for the Conservative party just above 20% and slowly drifting lower (with recent scandals further deteriorating the already low support for Tories). This could be the biggest Labour party victory, and the largest Conservative defeat, in British political history. While surprises can always arise on Election Day (**July 4th**), this time they can only realistically be expected on the size of the Labour majority and of the Tories' defeat (larger or smaller than the already huge gap pictured by the polls?). In that respect, market movements should be limited after the UK election, given the fact that most of the potential shifts in policy can already be anticipated.

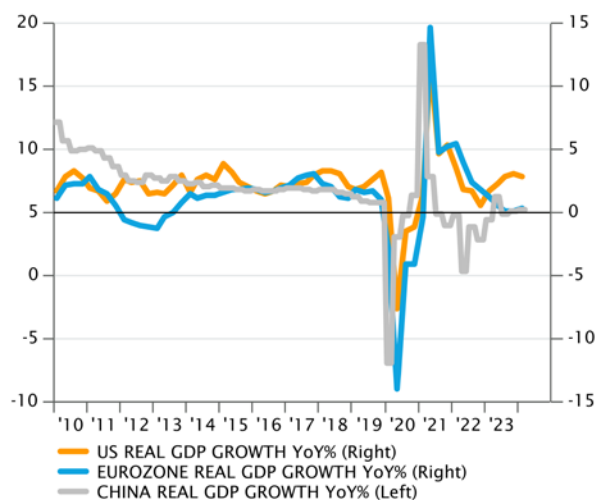
On the contrary, in France, the snap election called by President Macron has opened a period of elevated political uncertainty. The strong and rising support for the far-right Rassemblement National (RN) may not be sufficient to grant the party an absolute majority in Parliament. The centrist alliance of President Macron will likely lose a lot of seats from its current position of being the largest group in Parliament. It might end up being trapped and crushed between the RN and the left-wing alliance Nouveau Front Populaire (a heteroclit coalition ranging from far-left to social democrats), that appears on track to become the second largest group behind the RN. On the evening of **July 7th**, a Parliament essentially made of three irreconcilable groups with no majority would open an unprecedented period in French politics, where any tentative government would not be able to push laws forward and would be at the permanent mercy of being dismissed by the opposition. As new elections cannot be called before one year, the Eurozone's second largest economy faces the risk of being ungoverned at a time when geopolitical challenges are numerous and when public finances are on a slippery slope. Uncertainty runs high for France and French assets in the months ahead.

A final word on politics: across the pond, the US Presidential election is coming up. On **July 11th**, former President Donald Trump will be sentenced in his latest trial, with the potential sentence ranging from probation to a maximum of 20 years in jail. While he is highly likely to appeal the ruling, and therefore be able to freely run for the election, this sentence will likely be an important event of the ongoing campaign. A few days later, (**July 15th-18th**), the Republican party will hold its National Convention in which it will likely officially nominate Donald Trump as the Republican candidate. The US presidential campaign enters its last four months.

First estimate of Q2 GDP growth

July will bring the first estimates of GDP growth in the United States (**July 25th**), the Eurozone (**July 30th**) and China (**July 15th**). In the US, a real time estimate of Q2 GDP currently points to a 3.0% annualized growth rate, coherent with the resilience in the Service sector activity pictured by ISM and PMI indices. However, household spendings have softened in May and retail sales data (**July 16th**) will give a hint on whether domestic consumption is losing steam. In the Eurozone, Q2 GDP will likely picture a continuation of the economic recovery after the quasi-recession of 2023 and the export-driven +0.3% growth recorded in Q1. The end of the inventory adjustment and ongoing trade surpluses will likely be the main growth driver, while household consumption continues to expand at a subdued pace. Flash PMI indices for July (**July 27th**) will also provide early indications on the economic dynamic of the US and the Eurozone in the first weeks of Q3. In China, GDP data are often not the best gauge of ongoing economic dynamics. Still, Q2 data should broadly reflect the stabilization of the Chinese economy after a long post-Covid slowdown and be in line with the target of "around 5% growth" for 2024 set by the government. As GDP growth rates converge toward their long-term potentials in those three key areas of the world economy, the ongoing normalization in global growth conditions continues.

Real GDP growth is gradually slowing down in the US and stabilizing at a low-but-positive level in Europe and China

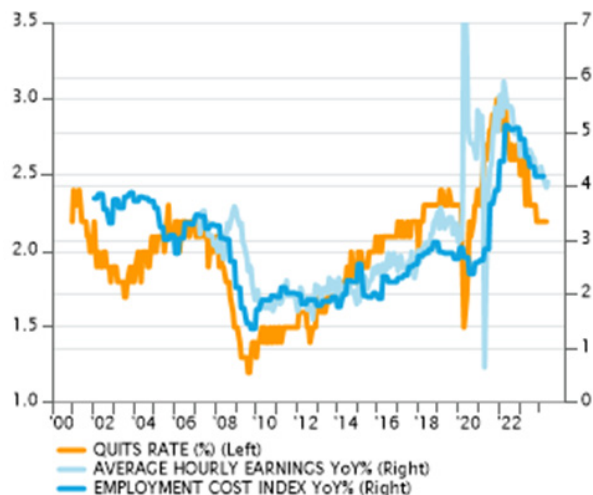


The US labour market in focus

Labour market data in the US will be of particular interest in July, given their importance in the Fed's monetary policy decisions for the months ahead. The monthly employment report, with job creations and the unemployment rate data (**July 5th**), may confirm a gradual and mild cooling of the job market. Data on new job openings and quit rates (**July 2nd and July 30th**) should confirm that the US labour market is getting closer to a balanced situation between labour supply and demand, after four years of pronounced imbalance. And the quarterly Employment Cost Index (**July 31st**) is expected to confirm the gradual easing in wage pressures.

The labour market has been instrumental in US growth and inflation dynamics since 2021. The combination of several factors (post-Covid change in work habits, lower immigration, aging...) has led to an unprecedented shortage of workers compared to companies' needs. As a result, wages have experienced their fastest rise in decades, fuelling inflationary pressures and becoming the main source of concern for the Fed. In that respect, the gradual normalization in labour market conditions at play since 2023 is encouraging but needs to be confirmed. The Fed repeated in June that readings on labour market conditions were on top of its watch list to assess whether (and when) to adjust its monetary policy stance.

Wage growth will slow down as the job market gradually becomes more balanced



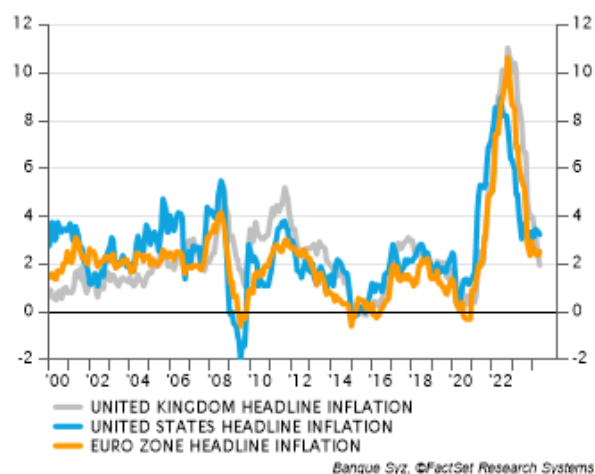
Looking for confirmations of more disinflation

Inflation data will once again be closely watched on both sides of the Atlantic, as their evolution is key for the timing and extent of central bank rate cuts. In the United States, Consumer Price Index inflation (**July 11th**) and PCE inflation (**July 26th**) will be the main focus to gauge whether the recent encouraging dynamic of slowing price pressures has extended into the month of June. PPI inflation (**July 12th**) and gauges of inflation expectations (NY Fed **July 8th**, U. of Michigan **July 12th**) will also help investors and the Fed to adjust their views on the timing of incoming rate cuts.

In the Eurozone, CPI inflation for June (**July 2nd**) and for July (**July 31st**) will also be key for the ECB. After having slowed rapidly in 2023, inflation in the Eurozone appears to stall at a level still above the ECB's 2% target, while wage growth remains faster than what the central bank sees as a sustainable non-inflationary level. Confirmations that inflation renews its downward trend is required for the ECB to continue the adjustment of its monetary policy after a first rate cut in June.

In the United Kingdom, CPI inflation (**July 17th**) will also be closely watched after the soft data released in June, that showed inflation coming back to the BoE's 2% target for the first time in almost three years. A confirmation of milder inflationary pressures could pave the way for a first rate cut by the Bank of England sooner rather than later.

Inflation has already clearly slowed down but remains within some distance from the 2% target in the US and the Eurozone



Central Banks on hold in July

After an intense month of June marked by rate cuts by several major central banks (European Central Bank, Swiss National Bank, Bank of Canada), the month of July should be quieter on the monetary policy front. After having decided a first rate cut last month, the ECB will likely keep its rates unchanged and reiterate its cautious approach toward monetary policy normalization at its **July 18th** meeting. Unless inflation were to slow down abruptly by then, the next rate cut appears likely to come at the subsequent meeting in September, when more data and updated growth and inflation projections will be available. On **July 24th**, the Bank of Canada is also likely to stay on hold after its June rate cut, as the latest inflation data have unexpectedly ticked up. On **July 31st**, the Fed will also leave its key rate unchanged barring an unexpected decline in inflation data or a significant deterioration in job market indicators. Depending on data releases throughout the summer, the beginning of the rate cut cycle in the US may start in September, or more likely in November after the US Presidential election. The Bank of Japan will hold a monetary policy meeting on **July 31st** too, and it appears likely to hold short-term rates unchanged for the time being. Conversely to Western central banks, the BoJ is wary of raising rates too fast and derail the long-awaited emergence of thirty years of deflation. Expect a summer lull on the central bank's front in July, before the Bank of England possibly bring some action at its August 1st meeting.

The beginning of the Q2 earning season in the US

In the United States, companies will start reporting on their Q2 results in July. Among the deluge of companies due to publish from mid-month onward, the highlights for global investors will be the banks (JP Morgan, Citigroup and Wells Fargo on **July 12th**, Goldman Sachs on **July 15th**, Bank of America and Morgan Stanley on **July 16th**), three of the six largest capitalizations of the S&P 500 (Microsoft and Alphabet on **July 23rd**, Meta on **July 25th**), Tesla and Johnson & Johnson (**July 17th**), Netflix (**July 18th**), Exxon Mobil (**July 26th**) and Intel (**July 25th**). The other US mega caps will report during the month of August.

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