FEATURE

MONTHLY MARKET REVIEW

July 2024

The month in 10 charts

Chart #1
A weakening U.S. labour market data signals potential rate cuts
Read more on p2

Softening U.S. labour market signals potential rate cuts

Weakening U.S. labour market data hints at potential rate cuts, as inflation moves below the 3-4% range it held for the past year, and volatility resurfaces. Each month, the Syz investment team takes you through the last month in 10 charts.

Charles-Henry Monchau
Chief Investment Officer

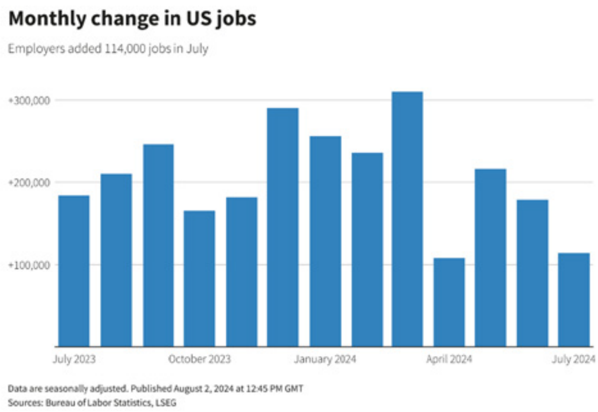
PRIVATE BANKING

Chart #1

A weakening U.S. labour market data signals potential rate cuts

The U.S. unemployment rate rose to 4.3% in July for the fourth consecutive month, according to the Bureau of Labour Statistics. Year-over-year, U.S. job openings dropped by 10.3%, marking the 23rd straight monthly decrease, the longest streak since the 2008 Financial Crisis. Despite this, labour force participation increased, and job growth remained relatively stable with 114,000 jobs added.

Economists are closely monitoring the unemployment rate to assess if the country is nearing a recession. As job market tensions ease with slower job creation and a higher unemployment rate from record lows, wage pressures are diminishing. This trend is paving the way for potential lower interest rates. Investors now anticipate the first Fed rate cut in September and are pricing in nearly three rate cuts this year, totalling around 150 basis points by June 2025.

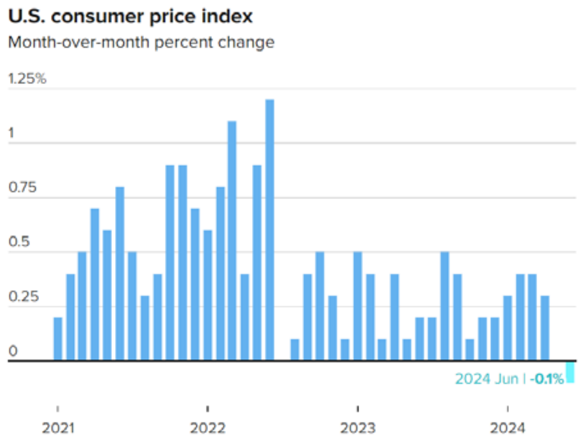


Source: Reuters

Chart #2

Inflation breaks the 3-4% range held for the last twelve months

U.S. June 2024 inflation fell below 3% for the first time since June 2023, breaking the 3-4% range it had maintained for the past year. Core inflation decreased for the 14th time in the past 15 months, reaching 3.27% in June. The U.S. Consumer Price Index (CPI) showed a negative month-over-month change for the first time since July 2022, while personal spending increased by 0.3%. Despite these changes, the Federal Reserve held its key Fed Funds Rate steady at 5.50% during its July 31st, 2024 meeting, marking the eighth consecutive meeting with unchanged rates.

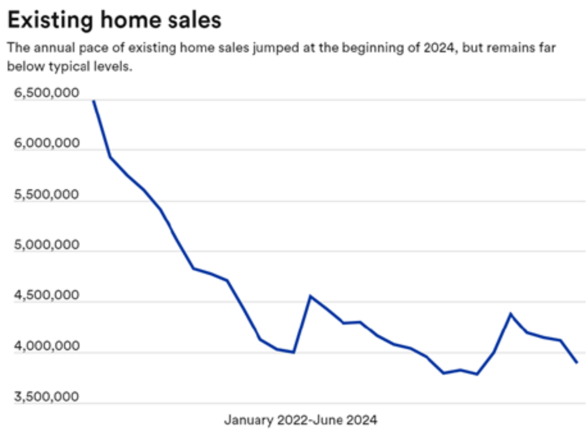


Source: CNBC (data as of July 11, 2024)

Chart #3

Housing sales decline while prices hit record highs

In June, U.S. new single-family home sales experienced a slight month-over-month decline, following a nearly 15% drop in May. Existing home sales performed worse, falling by 5.4% in June. Despite the ongoing contraction in housing demand, the median sales price of existing homes rose by 2.3%, reaching a new all-time high of $426,900. Mortgage rates, however, fell for the third consecutive month; as of July 25th, the 15-year mortgage rate slipped to 6.07%, while the 30-year rate stood at 6.78%.

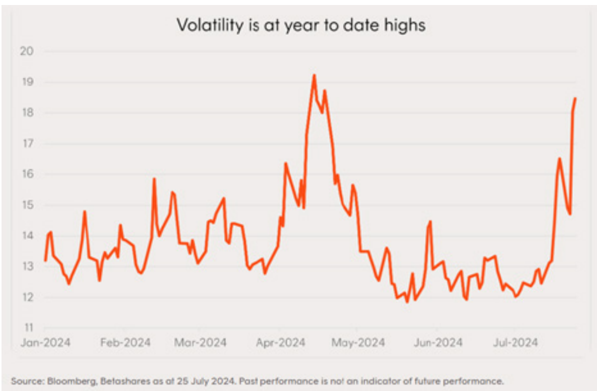


Source: Bankrate

Chart #4

Volatility returns

July saw a significant spike in market volatility due to a series of major disruptive events, including an assassination attempt on Donald Trump and a global tech outage caused by CrowdStrike, that affected industries such as airlines, hospitals, and financial institutions. These incidents, among others, led to a sharp rise in the VIX, the U.S. equity market's "fear index".



Source: Betashares

Chart #5

Turbulences in the stock market

The stock market experienced turbulences in the second half of July, however most indices finished higher due to a strong first half. The Dow Jones Industrial Average rose by 4.5% in July, the S&P 500 gained a muted 1.2%, and the NASDAQ slipped 0.7%. The Magnificent Seven fell by 2.7%, while developed equities posted a modest 1.8% return for the month.

European stocks underperformed compared to their U.S. and UK counterparts, with the MSCI Europe ex-UK showing a modest 0.6% return for the month. This lag was influenced by a disappointing Purchasing Managers' Index (PMI) print, which signalled a slight slowdown in Eurozone economic growth over the summer. Uncertainties surrounding the French election likely contributed to the region's weaker performance.

The Japanese TOPIX index fell by 0.5%, partly due to the weakness in global tech stocks and additional pressure from a strengthening yen. Chinese equity markets also declined, with the MSCI China Index dropping 1.2% in dollar terms due to ongoing challenges in the real estate sector and their broader economic impacts. In response, Chinese authorities cut the reverse repo rate and the benchmark loan prime rate to stimulate lending and support economic growth amidst these challenges.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	July '24
Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	Japan TOPIX 19.5%	UK FTSE All-Share 3.1%
US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	US S&P 500 16.7%	US S&P 500 1.2%
MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Europe ex-UK 11.0%	MSCI Europe ex-UK 0.6%
UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	UK FTSE All-Share 10.8%	MSCI EM 0.4%
MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Asia ex-Japan 9.9%	MSCI Asia ex-Japan -0.1%
MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	MSCI EM 8.1%	Japan TOPIX -0.5%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 July 2024.

Chart #6

The tech sell off

Only two of the S&P 500's eleven sectors saw declines in July: Communication Services (-4.2%) and Information Technology (-2.1%). In a surprising turn of events, growth stocks, particularly in the tech sector, dropped by 1.0% as investors grew more sceptical about future returns from investments in artificial intelligence (AI) and shifted away from mega-cap stocks. The NASDAQ drifted as much as 8% from its all-time high.

This tech sell-off was driven by several factors, including a reassessment of the high valuations of tech giants and concerns over the sustainability of their rapid growth. Additionally, disappointing earnings reports from major tech companies like Alphabet and Tesla contributed to the sector's weakness.

Despite this July setback, growth stocks have still managed a 16% return year-to-date contributing to the 14% year-to-date gains in broader developed market equities.

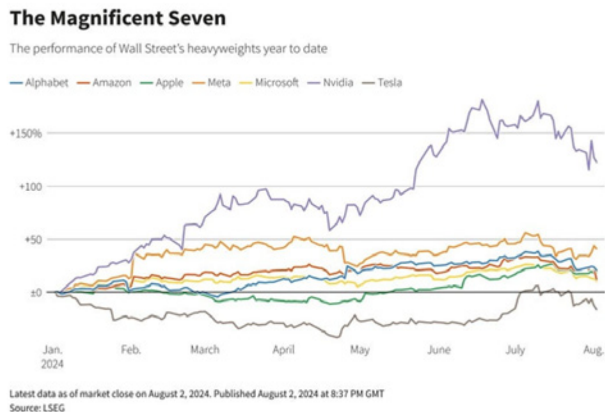


Chart #7

Is the Great Rotation here? Small caps and value stocks surge

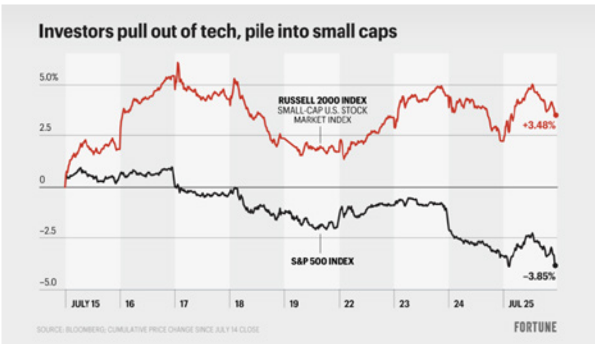
The June Consumer Price Index report, which revealed lower-than-expected inflation, sparked a rotation into small-cap and value stocks. The report boosted market confidence that the Fed would start easing monetary policy after its September meeting. Historically, small-cap stocks perform well in environments with falling interest rates and easing monetary conditions.

In July, small-cap stocks jumped by 6.9%, as investors moved towards these more interest-rate-sensitive equities, which tend to have more floating-rate debt than their mega-cap counterparts. This led to the largest monthly outperformance of the Russell 2000 against the Nasdaq 100 in over two decades. Within five days of the inflation report, the Russell 2000 soared by 11.5%, marking its biggest rally since the COVID-19 crisis.

Note that the top three sectors for the month were value-oriented: Real Estate (7.2%), Utilities (6.8%), and Financials (6.4%).

A year ago, U.S. regional banks tumbled following the collapse of Silicon Valley Bank. Similarly, the utility sector faced significant challenges last fall due to rising interest rates, and real estate has been one of the worst-performing sectors over the past twelve months. Yet, the market overreacted negatively in each case, and over the past year, these sectors have often been significantly undervalued.

Similarly to small-cap stocks, in July, interest-rate sensitive asset classes outperformed with global REITs posting a robust 6.0% return. Additionally, homebuilder stocks surged by 17.6% as investors speculated that lower interest rates would revive the dormant U.S. housing market.



Source: Fortune

Chart #8

Fixed-income markets respond to the economic data

June's softer CPI data and a weakening labour market have increased investor expectations for Fed rate cuts in 2024 and 2025, boosting U.S. Treasuries by 2.2%. The yield curve steepened, with the 10-year and 2-year spread narrowing to -21 basis points.

In the Eurozone, peripheral bonds outperformed core bonds due to expectations of further ECB rate cuts. Italian and Spanish sovereign bonds returned 2.8% and 2.3% respectively. UK Gilts underperformed, returning 1.9%, as stronger Q2 GDP growth and persistent services inflation suggest more gradual rate cuts compared to the U.S. and Europe.

In Japan, the Bank of Japan continued its monetary policy normalisation in July, raising its policy rate by 15 basis points to 0.25%. The central bank also announced a reduction in Japanese Government Bond (JGB) purchases by 400 billion yen per quarter starting in August. As a result, JGB prices remained flat throughout the month.

2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	July '24
Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global 9.7%	Japan -0.2%	Japan -5.4%	Italy 9.3%	Italy 2.3%	Global 3.0%
Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 8.9%	US -2.3%	US -12.5%	Spain 6.9%	US 1.3%	Italy 2.8%
Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	US 8.0%	Germany -2.9%	Global -16.8%	Germany 5.7%	Spain 1.3%	Spain 2.3%
US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 7.9%	Italy -3.0%	Italy -17.2%	Global 4.3%	Germany -0.1%	US 2.2%
UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.3%	Spain -3.0%	Germany -17.4%	US 4.1%	UK -1.1%	UK 1.9%
Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	UK -5.3%	Spain -17.5%	UK 3.6%	Global -1.6%	Germany 1.7%
Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.8%	Global -5.8%	UK -25.1%	Japan 0.5%	Japan -3.3%	Japan -0.0%

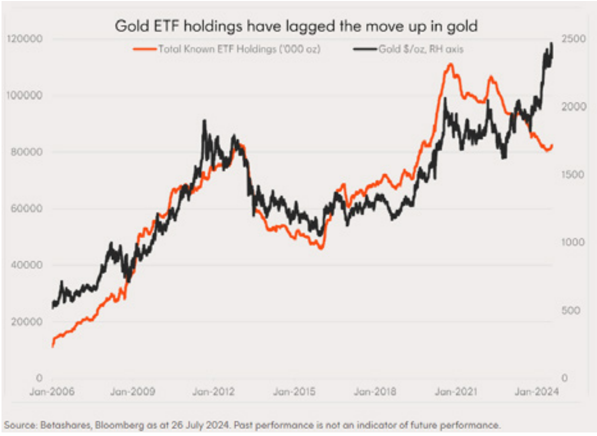
Source: Bloomberg Barclays, LSEG Datastream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 July 2024.

Chart #9

Commodities slips amid global market concerns, except for gold

The Bloomberg Commodity Index dropped by 4.0% in July. A major factor was the decline in oil prices, with Brent crude falling 7.2% to $80.94 per barrel as of July 29th. This decline was driven by market concerns over weaker demand from China, despite supply issues stemming from tensions in the Middle East.

Gold prices pushed higher in July. Financial flows have played a minimal role in gold's recent rally, with ETF holdings lagging spot gold prices throughout the year. Since mid-2022, ETF holdings have continued to decline, yet gold has reached all-time highs. This rise has been supported by net purchases by central banks and robust retail demand in China.



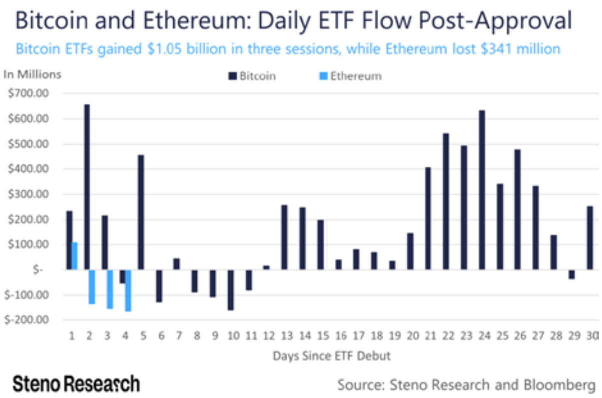
Source: Betashares

Chart #10

Divergence between bitcoin and ethereum

In July, the two largest cryptocurrencies showed divergent performances. Bitcoin surged by 8.8%, reaching $66,219, while ethereum declined by 2.8%. Despite these mixed results, 2024 has been a strong year for cryptocurrencies overall, with bitcoin up 57% year-to-date and ethereum up 43%.

Several significant events influenced the cryptocurrency market. One notable event was the Bitcoin 2024 conference held in Nashville, featuring Donald Trump as a speaker. However, the most impactful news was the launch of Ethereum spot ETFs in the United States on July 23rd. Eight ETFs began trading, including one from BlackRock. The launch led initially to substantial inflows for new Ethereum ETFs, but these gains were offset by significant outflows from Grayscale's Ethereum Trust, which exceeded $1.5 billion. The primary reason for these outflows was the conversion of Grayscale's trust into a spot ETF, which allowed investors to sell their shares more easily.



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