

The week in
seven charts



Chart #2
A Fed rate cut as early as September?

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Image source: iStock

Falling inflation is reshaping markets

Good inflation figures are raising hopes for a new rate cut by the FED as soon as September. Small and mid-caps are reaping the benefits of the shifting tides, while Biden’s odd have taken a turn for the worse. Each week, the Syz investment team takes you through the last seven days in seven charts.

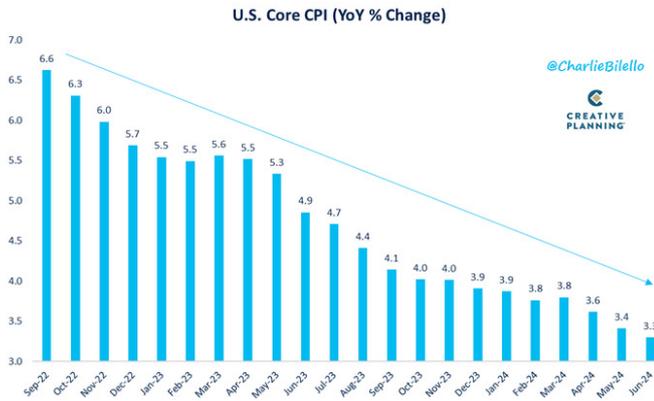
Charles-Henry Monchau
Chief Investment Officer

Chart #1

Inflation continues to slow in the US

Inflation in the United States continued to slow in June to 3.0% year-on-year, compared with 3.3% the previous month, with prices even falling slightly (-0.1%) month-on-month, according to the CPI index published on Thursday. These figures fly in the face of market expectations, which had been counting on a rate of +3.1% year-on-year and +0.1% on a sequential basis. The "core CPI" index, which excludes volatile food and fuel costs from the reference basket, came in at 3.3% (compared with the consensus of 3.4%).

This is the 39th consecutive month in which inflation has been at or above 3%. It is also the third consecutive month in which CPI inflation has fallen. The six-month annualized rate fell to 3.3%, the lowest since October.



Source: Charlie Bilello

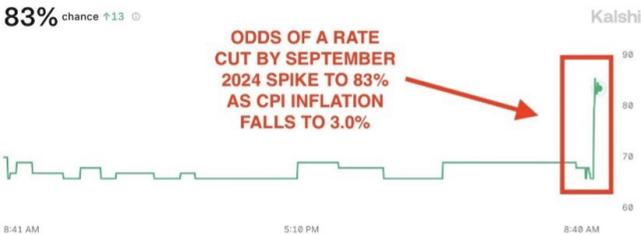
Chart #2

A Fed rate cut as early as September?

Good inflation figures are boosting the prospects of a cut in the US Federal Reserve's benchmark rates as early as September. The market is now giving an 83% probability of a rate cut in the autumn.



Fed rate cut by September?

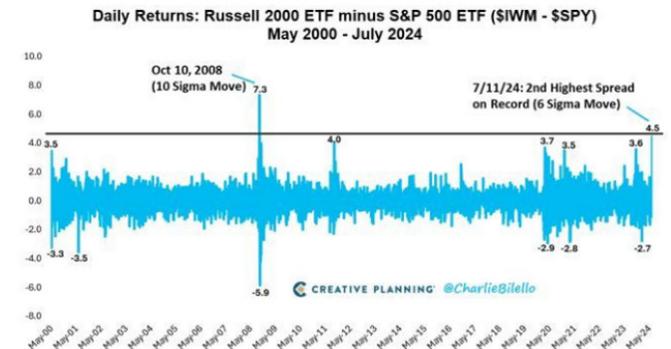


Source: The Kobeissi Letter

Chart #3

Heavy rotation on US equity markets following the publication of inflation figures

A very interesting phenomenon occurred on Wall Street following the publication of the US inflation figures. The US small-cap and mid-cap index rebounded strongly, while the S&P 500 large-cap index ended the session in negative territory. The difference in performance between these two indices over the day was 4.5% (see chart above), representing a standard deviation of almost 6 times the average and the 2nd largest daily outperformance in history (the largest difference was recorded on 10 October 2008). This outperformance comes after a very long period of underperformance by small caps relative to large caps (see lower chart).



United States, Earnings per Share



Source: Charlie Bilello, Steno Research, Bloomberg and Macroband

Chart #4

Historically, rate cuts have led to outperformance by small and mid-caps

What is the link between US inflation figures and this sudden renewed interest in small and mid-caps?

The publication of inflation figures that were below expectations and down for the third month in a row (see chart #1) greatly increases the likelihood of an interest rate cut in September (see chart #2). However, history shows that interest rate cuts have often led to periods when small and mid-caps outperform large caps in the 6 to 12 months following the first rate cut (see chart below).

Prior to the publication of the inflation figures, portfolio managers - and hedge funds in particular - were largely positioned 'long' large caps and 'short' small and mid-caps. During Thursday's session, the reversal of the underperformance trend in small and mid-caps forced hedge funds to hedge on the short side (small & mid-caps) and sell on the long side (large caps), in particular the magnificent 7 (see following chart). These forced hedging movements contributed to the size of the performance differential shown in chart #3.

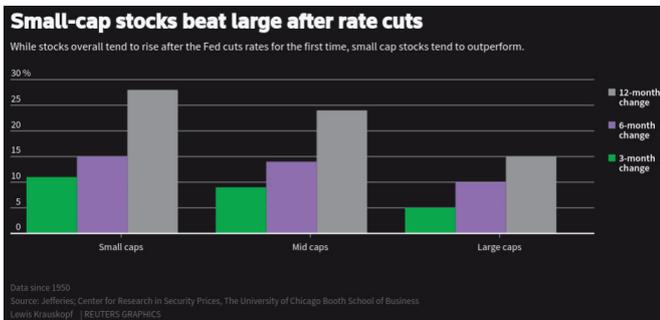


Chart #5

A very bad day for the magnificent 7

Large-cap technology stocks have outperformed the rest of the market over a very long period and on a considerable scale. These stocks are now heavily represented in indices (and therefore ETFs), equity funds and the long end of long/short hedge funds. As mentioned above, Thursday's session saw several positions unwound, with forced sales of large caps in particular. The 'Magnificent 7' are the biggest collateral victims of this extreme movement. Is this the start of a correction in these iconic stocks?

MAG 7 STOCKS SINK			JULY 11, 2024	
TSLA	-8.44%	241.03	WORST DAY SINCE	JANUARY 25
NVDA	-5.57%	127.40	WORST DAY SINCE	JUNE 24
MSFT	-2.48	454.70	WORST DAY SINCE	MAY 30
GOOGL	-2.93%	185.57	WORST DAY SINCE	APRIL 29
AAPL	-2.32%	227.57	WORST DAY SINCE	MARCH 21
AMZN	-2.37%	195.05	WORST DAY SINCE	APRIL 30
META	-4.11%	512.70	WORST DAY SINCE	APRIL 25

Source: Yahoo Finance

Chart #6

Online betting sites no longer believe that Biden will win the US presidential election

Another blunder for Joe Biden. At a NATO summit event in Washington on Thursday 11 July, the US President ended his speech by announcing "President Putin" as he welcomed Volodymyr Zelensky, before correcting himself.

Following this incident, Biden's rating as a potential winner of the November elections at Predict it (blue line) fell again.

Trump's rating (in red) now stands at 59%, while Vice President Harris' (in green) has dropped to 27%.

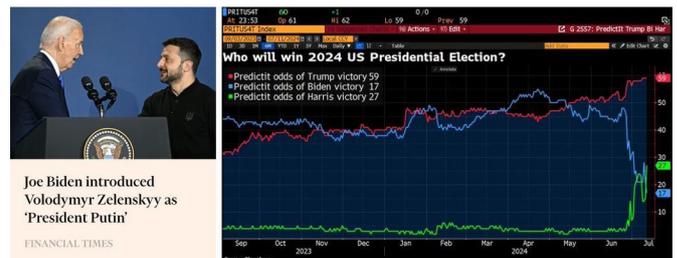


Chart #7

Wide disparity in ticket prices between the different sports at the Paris Olympics

While the organizers of the Paris Olympic Games have set themselves the goal of making them the "People's Games", the availability of affordable tickets has been a subject of discussion in the run-up to the Games. The most expensive tickets for the athletics, swimming and basketball finals cost €980, more than 40 times the price of the cheapest tickets available for some sports. At the other end of the scale, some events cost as much as €24, which mainly applies to outdoor events that can also be watched free of charge on public roads, along the Seine or, if you happen to be in Tahiti, on the famous Teahupoo wave. According to the organizing committee, one million tickets were sold at €24, while almost half of the 10 million tickets available were sold at €50 or less.



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