



INSPIRING WHAT'S NEXT

CIO OFFICE MORNING MARKET WRAP

10 June 2024

Markets driven by elections, Central Bank action, AI impact on industry and labour market strength. A bit of surprise on India elections and US nonfarm payrolls, a mega share placement for Saudi Aramco, upbeat China exports, Nvidia and tech gains, contributed to a positive week for global equities. A selloff in US treasuries with US 2- and 10-year Treasury yields closing higher on Friday (2 yr at 4.89% and 10 yr at 4.43%) and the Dollar Index strengthened post the strong US jobs report. Oil is lower from last week with Brent at \$ 79.62/ barrel and gold too just a little bit lower at \$2294. The global monetary policy shift has started to gain traction with rate cuts by the Bank of Canada and the ECB, but the next ECB cut, penciled in September by consensus, could depend on the strength of the labor market. This morning China, Hong Kong and Taiwan markets are closed for the Dragon Boat holiday. Japan equities are seeing small gains.

EM equities playing catch up to DM, with another strong week +2.4%, with India and China both up. China's real estate sector is showing signs of support from the government and China May exports beat expectations, +7.6% in dollar terms y/y. However, more is needed in growth data to get sustained support for China markets. The world's largest democracy, India, proved itself to be just that. The election results, while giving the Narendra Modi led NDA coalition a victory, was narrower than expected, leading to volatility in the Indian equity market. Mr. Modi was sworn in for his third term as India's PM on Sunday. Our long-held overweight for India equities has worked well relative to other emerging markets, with the MSCI India +13% YTD following + 21% in 2023 (USD returns). We expect India's outperformance to continue, despite not being cheap at 23x earnings and 4.1x book value, a large valuation premium, but strong economic and corporate growth metrics supporting future returns. On Friday, the Indian Central bank RBI held its key rate at 6.5%, as expected, while raising its GDP growth forecast for the fiscal year to 7.2% from 7%.

Good weekly gains for US equities, the S&P 500 + 1.4% and the Nasdaq +2.4%, though Friday ended down for both indices. Apple back at the \$ 3tn market cap, joining Microsoft in the \$3tn club. Nvidia's market cap too surpassed \$3tn last week. Nvidia 's Rubin", is the successor to its "Blackwell" chips for data centers in 2026. Worries about AI overheating is offset by lack of a material rise in tech volatility. AI secular growth and productivity tailwind from AI. Goldman Sachs see a 15% increase in US labor productivity and GDP expected from generative AI. More excitement this week with the Nvidia stock split (after close on 7-Jun) and the Apple WWDC event expected to give details on its gen-AI strategy. European equities +1% last week, have Novo Nordisk (obesity therapy leader) and ASML (chips) as the largest by market cap on the continent. French President Emmanuel Macron has called a snap legislative election following his party's severe defeat against Marine Le Pen's Rassemblement National in the European elections. His party is currently the largest in parliament, albeit short of an absolute majority. The results would determine policy continuity- fiscal consolidation efforts and additional structural reforms to boost growth.

US nonfarm payrolls added 272,000 jobs in May, above consensus of 180,000. The unemployment rate was up to 4.0% from 3.9% (additions to the labour force from immigration?). Average hourly earnings rose 0.4% m/m, above the 0.3% forecast and stepped up from April's 0.2%. Job growth strong in healthcare, leisure, and government. A gap remains between the establishment and household survey which saw a 408,000 drop. Also, y/y hourly earnings growth remains near the lowest since mid-2021. Three more NFP reports before September's FOMC. Fed swaps no longer fully price in a rate cut before December. The Fed's policy path is less clear with robust job growth playing into higher-for longer fears (Fedwatch shows a 60% chance of a first 25bp cut in September vs 80% on Thursday). Our economist's call is for 2 cuts this year starting September.

GCC companies continue to successfully place secondary offerings. Aramco's share sale priced in the bottom half of its proposed range, raising \$11.2 bn (as per reports demand was for \$ 65 bn) for the Saudi Arabia government. 1.55 bn shares placed at SAR 27.25 a 6% discount to the stock's last close before the deal was announced. The deal saw foreign institutional investors participate with the attractive 6.6% dividend, backed by strong cash flows. On Sunday shares closed at SAR 28.60. In the UAE, education-tech company Alef Education (ADX) saw demand for \$20bn, an over-subscription of around 39 times. Tech Nova Investment and Kryptonite Investments are selling a 20% stake in the company.

We get the May CPI and FOMC decision on Wednesday. Both headline and core CPI seen up 0.3% m/m. When it comes to the Fed, focus will be on the dot plot. Consensus seems to be for a downshift to two rate cuts in 2024 from the three seen in March. We get NY Fed one-year inflation expectations on Monday, NFIB small business optimism on Tuesday, PPI on Thursday and University of Michigan consumer sentiment and inflation expectations on Friday. Also on Friday, BoJ decision with a small majority expecting a formal reduction in JGB purchases.

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