



CIO OFFICE MORNING MARKET WRAP

12 September 2024

The presidential debate is now behind us and according to some polls and the betting website PredictIt Kamala Harris' odds of winning the elections have increased. Donald Trump was on the defensive on abortion rights, the January 6 insurrection, and foreign policy. Harris had more to gain and lose as the lesser-known candidate, and betting markets have declared her the victor of the first debate. While the election remains a close call with almost two more months to go, markets may be already adjusting, and some Trump trades are being faded. Trump Media & Technology Group tumbled 10.5% yesterday, while the dollar and bitcoin wavered. Green-energy shares gained on speculation the democrats would bring more funding for renewables, and the Invesco Solar ETF added about 3%.

Stocks rose in the Asian morning session in the wake of Wall Street's tech-fueled rally, supported by expectations of Fed rate cuts next week. Korea and Japan advanced, and the Topix was up the most in a month as the yen weakened from its highs for the year against the dollar. US futures were little changed, and Treasuries steady. On Wednesday markets recovered losses in a volatile session that saw equities initially fall on faster-than-anticipated inflation data. The larger IT stocks led gains, the Nasdaq rose 2.2%, and Nvidia climbed 8.2% pushing the semiconductor sector higher. The Magnificent Seven megacaps jumped 2.6%, while the more cyclical financial, energy, and industrial sectors underperformed. Money markets increased bets the Fed will move gradually with rate cuts, and Treasury yields rose from the lows of the year. While a 25bps move continues to be priced in with certainty, a 50bps reduction now sees only a negligible probability. In the inflation release the core CPI rose the most in four months, taking investors that had given the disinflation process for granted by surprise. The S&P 500 gained 1.1%, while the Dow rose 0.3% alongside the Russell 2000 Index of smaller companies. Treasury 10-year yields ticked higher by 1bps to 3.65 and the yield curve flattened, with the yield on the 2-year note rising almost 5bps. Crude oil rebounded as hurricane Francine ripped through the Gulf of Mexico, and the US dollar was little changed, while gold slipped.

August core CPI rose 0.3% for the month, above forecast and led by shelter and travel costs, and increased 3.2% from a year ago. The headline index on the other hand was dragged down by cheaper gasoline prices, increasing by 2.5% on a yearly basis. Despite the market volatility, the inflation reading won't deter the Fed from cutting 25bps at next week's meeting, though the report showed nothing supporting a larger move. Policy makers remain focused on softness in the labor market likely to drive decisions in the months ahead. The three-month average of non-farm payrolls was the lowest since 2020 in August, and the smaller companies sentiment report indicated conditions that suggest delayed hiring.

Financial conditions have eased significantly since April-end this year, on significant crude and dollar losses and lower yields. Brent crude has lost about 20%, the dollar 4%, and the 10-year yield is about 100bps lower. Meanwhile, the S&P 500 is up about 10%, and rightly so, helped both by stronger earnings and liquidity. It is difficult to see one year out such change in conditions replicating. Though forecasting oil prices is a very hard business, Emirates NBD Research has a fair value of Brent crude well above current levels for 2025. Also, markets are already pricing in 240bps worth of Fed rate cuts in twelve months, as against historical evidence that such sizeable easing in the past always took place across a number of years, rather than being concentrated in one single year. So, hopes rely on an outsize weakening of the dollar, difficult to envisage with so many cuts baked in, unless a strong global recovery sees global growth outperform US growth. Again, a hard sell unless China goes for very large stimulus measures.

The ECB is seen to go for a second rate cut of 25bps at today's meeting, reducing its deposit rate to 3.5%. The recovery has been more muted in Europe, with manufacturing in deeper trouble, and also accounting for a larger share of the whole economy than in the US. Yet, due to lingering inflationary pressures, it is not yet clear whether the ECB will cut rates as fast over the coming year as is currently priced in.

Have a great day.

Chief Investment Office
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