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# Market reflection

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**Overview**

Global equities appear to have been calm during July, but the lack of movement at the overall index level conceals remarkable activity below the surface, with the biggest shift being seen in US indices. The early trends were very similar to those that had prevailed for the first half of 2024, with a handful of stocks, notably those of US-listed technology behemoths, leading the gains and most of the others lagging behind.

Everything changed following the release of benign US inflation data on July 11th, which convinced investors that the Federal Reserve would be able to start cutting interest rates imminently. Combined with an earlier labour market update which had shown resilient employment, the picture that came into focus was one of a perfect disinflationary soft landing for the economy. Around the same time, there was increased questioning of whether sufficient returns would be generated from the capital expenditure directed towards the development of Artificial Intelligence. When all of this was combined with extreme positioning by professional fund managers and more speculative retail investors, the scene was set for a violent rotation from the growth-oriented winners into more interest rate sensitive value and small cap companies. Since the market close on July 10th, the “Magnificent 7” group of US mega-caps which epitomised the AI-related enthusiasm have lost around 11% of their value as a group, while the Russell 2000 small cap index has risen 9%, representing a very rare 20% swing in favour of the minnows, especially in such a short period of time. It is far from clear that this represents the beginning of a new persistent trend, given residual concerns about the health of the US consumer, but it is reflective of the potential relative value on offer in recently neglected parts of the market once monetary and economic conditions become more favourable.

- The Bloomberg consensus for World GDP growth in 2024 has ticked up to 3.05%, up from 2.6% in January. The forecast for 2025 has also risen to 3.1%. But the debate about whether or not the US will succumb to a recession is very much alive, while parts of Europe, especially Germany, remain weak. China’s economy, which dominates emerging markets, continues to disappoint, and there is still no meaningful stimulus being offered by the government.
- The UK general election passed without incident and much as expected. The new Chancellor has voiced her concern about the poor state of the country’s finances and is beginning to lay the ground for her first budget, which will take place on October 30th.
- France’s voters rejected the far-right National Rally party in legislative elections, but parliament remains in limbo until after the Olympic Games, with little sense of who President Macron will choose as his Prime Minister.
- The US election narrative took several turns. The first Presidential candidates’ debate was a horror show for Joe Biden, and this was followed by the attempted assassination of Donald Trump and unveiling of JD Vance as his running mate. This combination of events sharply increased Trump’s lead in opinion polls, but that lead has been severely curtailed since Biden stepped down from the contest and endorsed his VP, Kamala Harris. The knife-edge nature of the election, which will be decided in a handful of “swing states” makes it difficult to make strong directional investments at this stage.

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