Amundi Investment Institute

Weekly Market Directions

Trust must be earned

"Slowing inflation in the US and Europe, and expectations of improving earnings, could pave the way for a continuation of the broadening of the rally outside the US megacaps."

Monica Defend
Head of Amundi Investment Institute

Signs of rotation emerge in equities

Mega-cap companies in the US have had a strong performance this year, further increasing market concentration.

Now, we are witnessing a broadening of the rally towards the equally weighted markets and smaller companies.

ECB kept rates unchanged in Europe. More rate cuts are expected later, potentially benefiting small caps.

Rotation in US equity markets

Source: Amundi Investment Institute, Bloomberg, 19 July 2024.

The S&P 500 Index, which is highly concentrated around a few mega caps, outperformed most other market in the US. This was led by enthusiasm around artificial intelligence and resilient economic activity. But soon after the June inflation figures were released, markets raised their expectations of Fed rate cuts. This caused some profit-taking in the megacaps, benefitting the small caps and the S&P 500 equal weighted (where all 500 stocks have an equal weighting). The continuation of this rotation will depend on the strength of these companies' earnings growth and the economic outlook. Geopolitics is also relevant, as any hint of restriction on chip exports could negatively affect tech stocks. We think investors should now assess market fundamentals and potentially explore attractively priced names with strong balance sheets.

Actionable ideas

S&P 500 fundamental approach
A fundamental, active approach to portfolio management may be better suited to explore rotation opportunities.

European small caps
Improving economic outlook in Europe and continuation of ECB rate cuts may potentially support prices of small and mid-caps businesses which are more linked to economic growth.

This week at a glance

Equities declined due to a sell-off in US tech sector that was exacerbated by global IT outages, which affected many stock exchanges. Concerns over restrictions on US chip exports also hurt sentiment. Bond yields were mixed, while gold prices touched new highs on hopes of Fed rate cuts.

Equity and bond markets

Asset class performance year to date and week to date

		YTD	WTD
EQUITIES	World	12.4%	-1.34%
	United States	16.2%	-1.26%
	Europe	6.8%	-2.38%
	Japan	20.9%	-1.17%
	Emerging markets	8.0%	-1.57%
BONDS	Global aggregate	-1.3%	0.20%
	Euro aggregate	0.2%	0.54%
	Emerging markets	3.8%	-0.22%

Source: Bloomberg , data as at 19 Jul 2024
Please refer to the last page for additional information on the indices.

Government bond yields

2 and 10 years government bond yields and 1 week change

	2YR		10YR	
US	4.47	▲	4.19	▲
Germany	2.74	▼	2.42	▼
France	2.88	▼	3.08	▼
Italy	3.24	▼	3.72	▼
UK	3.95	▼	4.06	▼
Japan	0.34	▲	1.04	▼

Source: Bloomberg , data as at 19 Jul 2024
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Commodities, FX and short term rates

Gold USD/oz	Crude Oil USD/barrel	EUR/ USD	USD/ JPY	GBP/ USD	USD/ RMB	Euribor 3M	T-Bill 3M
2419.35	82.73	1.09	157.21	1.29	7.27	3.70	5.19
+0.3%	+0.6%	-0.3%	-0.4%	-0.6%	+0.2%		

Source: Bloomberg , data as at 19 Jul 2024
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Amundi Investment Institute Macro Focus

Americas

US industrial production expands
Industrial output in US grew 0.6% in June, driven by transportation and utilities sectors. This is in stark contrast to forward-looking manufacturing surveys, which paint a weak picture for the industrial sector as a whole. The data is in-line with our expectations of a mild deceleration of economic activity in the second half of this year.

Europe

Eurozone industrial output contracts in May
Eurozone industrial production declined 0.6% (month-on-month) in May. There were large divergences across countries, but the contractions in Germany and France were more pronounced and dragged the overall data lower. Looking ahead, we expect weak performance in the near term, but easing financial conditions may support some improvement from the end of this year.

Asia

China's Third Plenum confirmed policy continuity
Laying out reform goals for the next five years, Chinese policymakers have expanded their focus from improving economic efficiency to ensuring that economic development is sustainable, high-quality, and technologically advanced. The outlook for traditional stimulus measures, commonly favored by the markets, appears limited. Instead, China is likely to maintain modest fiscal deficits with an emphasis on fiscal discipline.

Key Dates

22 Jul	China prime lending rates
25 Jul	US GDP, South Korea GDP
26 Jul	US PCE, ECB CPI expectations

NOTES

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Equity and bond markets (chart)

Source: Bloomberg. Markets are represented by the following indices: World Equities = MSCI AC World Index (USD) United States = S&P 500 (USD), Europe = Europe Stoxx 600 (EUR), Japan = TOPIX (YEN), Emerging Markets = MSCI Emerging (USD), Global Aggregate = Bloomberg Global Aggregate USD Euro Aggregate = Bloomberg Euro Aggregate (EUR), Emerging = JPM EMBI Global Diversified (USD)

All indices are calculated on spot prices and are gross of fees and taxation.

Government bond yields (table), Commodities, FX and short term rates.

Source: Bloomberg, data as **19 July 2024**. The chart shows Global Bonds= Bloomberg Global Aggregate Bond Index, Global Equity = MSCI World. Both indexes are in local currency.

*Diversification does not guarantee a profit or protect against a loss.

GLOSSARY

CPI: Consumer Price Index a measure of inflation.

Core Inflation: The change in prices of goods and services, except for those from the food and energy sectors**.**

ECB: European Central Bank

Fiscal deficit: excess of government spending over its income

GDP: Gross Domestic Product

Industrial production: measures the change in the total inflation-adjusted value of output produced by manufacturers, mines, and utilities.

Mega-caps: large, multinational companies with at least $200 billion in market capitalisation.

Plenums: Meetings of the Central Committee of the Communist Party of China (CPC).

S&P 500 index: It is a commonly used measure of the broad US stock market.

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IMPORTANT INFORMATION

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