ARBUTHNOT LATHAM
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June 2024

Market Spotlight

Around the world

4.25% ECB's key policy rate	ECB lowered interest rates for the first time since 2019.
£3,102/ 40ft. UK freight costs	The price of shipping has reached an 18-month high, reflecting supply chain tightness.
2.6% YoY	The Fed's inflation measure, US Core PCE annual rise for the month of May.

- The announcement of snap elections in France, following the results of the European Parliament elections, has led to a notable shift in financial markets. The spread between French 10-year government yields and German bund yields has widened, indicating investor concerns and the CAC 40 experienced a decline. Markets fear that a right-wing or left-wing majority win can lead to an increase in fiscal spending.
- US initial jobless claims increased to a 10-month high in May suggesting that the labour market is losing momentum, and a September rate cut is back on the table. Analysts advocate that a minimum wage hike in California led to increased layoffs in efforts of firms to reduce costs.
- The BoE voted to hold interest rates at the June meeting, which met market expectations. The probability of a cut in August has increased after UK inflation hit its 2% target.
- Apple announced new AI features that will be incorporated in their products. Its stock price surged as investors anticipate Apple to join the AI race. Apple will be partnering with OpenAI to integrate ChatGPT and Siri.
- The Central Bank of Mexico held its key rate at 11% for the second straight month noting the increased volatility after the country's elections, which weakened the peso and pushed up government bond yields.

Market snapshot

Equities rose further as the market continues to expect a soft landing. Companies exposed to AI sustained outperformance, with US tech companies being in a prominent position. Emerging markets, particularly Asia ex-Japan delivered positive performance driven by strong exports of semiconductors from Taiwan and South Korea to meet AI demand. European equities slid after the outcome of the European parliamentary elections causing President Macron to announce a snap election in France. Global Corporate bonds also benefited from resilient corporate earnings.

Performance of global asset classes

	1 Month	YTD
US Tech	12.8%	17.0%
US Equities	8.7%	15.3%
World Equities	6.4%	11.3%
Emerging Market Equities	4.5%	7.5%
Japanese Equities	3.2%	19.3%
Precious Metals	2.8%	12.0%
Global Corporate Bonds	2.2%	-0.9%
Global High Yield Bonds	1.9%	3.2%
Global Government Bonds	1.5%	-3.2%
UK Equities	1.0%	7.9%
European Equities	-0.1%	7.6%
Commodities	-0.7%	2.4%
Chinese Equities	-4.0%	0.9%

Source: Bloomberg, Returns are in local currency, as at 30 June 2024.

What is the data telling us?

Euro Area manufacturing PMI was the main point of weakness in June. Political uncertainty pressured June's EU data to decline to 45.8, its lowest level since last December. In addition, US PMI has weakened for a third consecutive month, raising some concerns of the resilience of the sector. Outside the US and EU, manufacturing PMIs continued to show resilience and globally, PMI data remains in expansionary territory.

Services PMI releases disappointed in some regions but the headline global figure continues to point to expansionary territory. The US is showing signs of weaknesses spreading into services, mainly driven by consumer weakness.

Purchasing Managers Index

Manufacturing

	2023						2024					
	7	8	9	10	11	12	1	2	3	4	5	6
Global	48.7	49	49.1	48.8	49.3	49	50	50.3	50.6	50.3	51	50.9
US	46.4	47.6	49	46.7	46.7	47.4	49.1	47.8	50.3	49.2	48.7	48.5
EU	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8
UK	45.3	43	44.3	44.8	47.2	46.2	47	47.5	50.3	49.1	51.2	50.9
China	49.2	51	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8
Japan	49.6	49.6	48.5	48.7	48.3	47.7	48	47.2	48.2	49.6	50.4	50

Service

	2023						2024					
	7	8	9	10	11*	12	1	2	3	4	5	6
Global	52.7	51.1	50.8	50.4	50.6	51.6	52.3	52.4	52.4	52.7	54	53.1
US	52.7	54.5	53.6	51.8	52.7	50.6	53.4	52.6	51.4	49.4	53.8	48.8
EU	50.9	47.9	48.7	47.8	48.7	48.8	48.4	50.2	51.5	53.3	53.2	52.8
UK	51.5	49.5	49.3	49.5	50.9	53.4	54.3	53.8	53.1	55	52.9	52.1
China	54.1	51.8	50.2	50.4	51.5	52.9	52.7	52.5	52.7	52.5	54	51.2
Japan	53.8	54.3	53.8	51.6	50.8	51.5	53.1	52.9	54.1	54.3	53.8	49.4

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 July 2023 to 30 June 2024.

Source: Bloomberg. Data as at 30 June 2024.

Chart of the month

The recent uptick in initial jobless claims has raised concerns among investors, as the robust labour market has been a key pillar of the US economic strength. While some signs of weakness are emerging in the job market, we believe there is still sufficient resilience to support consumer spending.

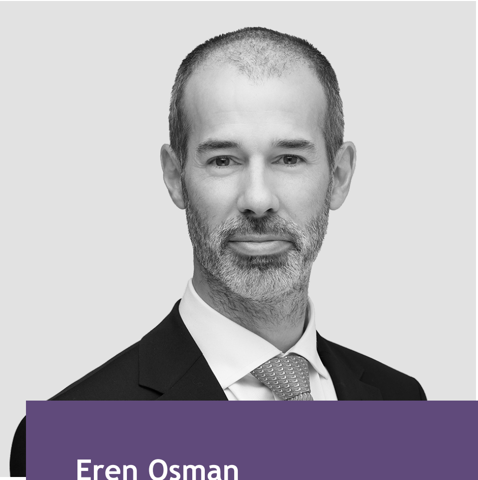
A critical indicator of labour market health is the gap between available jobs and job seekers. As long as this gap remains positive, workers who lose their jobs have a reasonable chance of securing new employment quickly.

However, this gap has been narrowing from its post-pandemic peak due to a recent softening in job openings. Despite this loss of momentum, the current high level of labour demand provides a buffer against more severe economic deterioration.

Looking ahead

H1 has presented a mixed economic landscape, with some indicators falling short of expectations. However, this indicates tempered growth rather than a collapse, as expectations were elevated. Notably, the US has emerged as the primary source of weakness, showing a slowdown in consumption without offsetting recovery in the goods sector. Despite this disappointment, growth persists, possibly indicating a temporary soft patch in the US economy. The coming months will be key to determine whether the outlook for the US points towards a slowing but growing economy or edges closer to recession. Nevertheless, as anticipated we have observed greater regional convergence, with increased manufacturing contributions from Europe, Japan, China, and Emerging Markets. The current economic landscape raises a pivotal question about the future trajectory of global growth. Given that the US is considered the engine of the world economy, the US showing signs of weakness could potentially trigger a new cycle of global economic deceleration. Alternatively, the evidence in economic growth in other parts of the globe might be sufficient to compensate for US softness.

Contacts



Eren Osman
Managing Director,
Investment Management

David Michael
Senior Investment Manager
davidmichael@arbuthnot.co.uk

Simon Coll
Director, Head of Distribution

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adviser_services@arbuthnot.co.uk

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