LOM

Weekly Global Market Commentary

June 20, 2024

Reading Between the Lines: A Balancing Act

by James Balfour CFA, Senior Portfolio Manager

The Federal Reserve announced, as expected, the holding of federal funds rate at 5.25-5.5%. Comparing the May and June statements, apart from a removal of an announcement for reducing the cap on redemption of Treasury securities which started in June, the only change was simply the wording 'a lack of' to 'modest'. This term described the progress to the 2% inflation target, the members of the Fed admitting that inflation is coming back under control. The market reaction was an immediate drop of ten basis points across the forward curve, the now 'guaranteed' single rate cut priced in for later in the year. Fully pricing a single rate cut mean the market has completed a full rotation from pricing in six cuts through 2024 in January, backing up to no cuts at all with Jamie Dimon (JPMorgan CEO) even calling for further hikes, to settling back into one full cut by year end. There was divergence between the Fed and the market initially this year, which has now been fully neutralized as the Fed continued to hold back on monetary-easing commentary. The Fed ideally wants to limit exuberant speculation of the Fed policy decisions and lead the narrative on the movement in the federal fund rate. Therefore, the slight tweak in language is a robust signal that the economic indicators and data are now all starting to point to being able to ease policy by the end of the year.

Canada became the first of the G7 nations to cut interest rates, followed by the ECB at the beginning of June. The Bank of England is anticipated to follow at their next meeting given inflation has now fallen to their targeted 2% level. The balancing act that banks now must play combines making sure there is enough monetary pressure to resist inflation coming back into the system but simultaneously provide loose enough policy to prevent growth from stalling. This high wire act is potentially becoming even more precarious in Europe with unexpected French elections that could undermine the confidence in the French market but given the control the Franco-German economies have on the Eurozone the outlook for the ECB. The National Rally has already had to quell the unease by announcing delays to some policies that would increase the national debt significantly, already running at over 110% debt/GDP, if they were to take control of the Assemblée Nationale. Unlike the UK, where the BoE was able to react immediately to the vast unfunded proposals of Liz Truss and Kwasi Kwarteng with rate hikes, the ECB must manage the rates based on the dynamics of over twenty economies. Greece threatened the ECB's existence with their debt crisis, and they were low single digit percent of the Eurozone, France makes up over 20% of the zone so a more existential concern. For Christine Lagarde the leading indicators will remain in place but there might now have to be some consideration as to the expected power that the National Rally will hold and make a critical assessment of their proposed policies and implications.

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Despite rate expectations backing up in total through the year, the continued expansion in AI demand has underpinned the market hitting all-time highs. Nvidia became the most valuable company, over-taking Apple and Microsoft as its market capitalization peaked over $3.3trillion. This occurred despite only having a value of $0.3trillion when Apple broke through the $2trillion valuation market. Revenues have increased by over ten times since 2020 as their production of graphics processing units (GPU) has become central to the development of AI, a newly launched flagship Blackwell 72-chip server is rumored to be priced at $3m each. The exponential growth that Nvidia has seen will slow, the timing of this is more uncertain, but as it continues to invest across the US it is driving growth that the Fed will struggle to ignore. Record investment in infrastructure and across tech will support the economy and in doing so could further delay the need for monetary easing, though potentially increase the chance of a goldilocks landing for the US economy.

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Stock Market Performance				
	6/16/2024	W-o-W	M-o-M	Y-o-Y
DJIA	38,589	-0.5%	-3.2%	12.5%
S&P 500	5,432	1.6%	2.5%	23.2%
MSCI World	3,492	0.4%	0.7%	17.9%
SP/TSX	21,639	-1.7%	-3.0%	8.3%
BSX	2,510	0.0%	0.0%	15.4%
FTSE100	15,980	-1.2%	-3.4%	11.1%
DAX	18,002	-3.0%	-3.9%	10.1%
CAC	7,503	-6.2%	-8.4%	1.6%
Nikkei	38,815	0.3%	-0.3%	15.2%
Hang Seng	17,942	-2.3%	-7.4%	-10.5%
Shanghai	3,033	-0.6%	-2.9%	-7.4%

Key Rates and Prices			
Currencies	6/16/2024	Month Ago	Year Ago
EUR	$1.07	$1.09	$1.09
GBP	£1.27	£1.27	£1.28
JPY	¥157.40	¥155.39	¥141.82
CAD	C$0.73	C$0.73	C$0.76
CHF	CHf1.12	CHf1.10	CHf1.12
AUD	A$0.66	A$0.67	A$0.69
Fixed Income			
3M LIBOR	5.61	5.59	5.51
3M Treasury Bill	5.39	5.40	5.22
2Yr Treasury Note	4.71	4.80	4.72
10Yr Treasury Note	4.22	4.38	3.77
Fed Funds Rate	5.50	5.50	5.25
Commodities			
Gold/oz.	2,333.04	2,376.86	1,957.98
Silver/oz.	29.55	29.58	24.20
Copper/lb.	4.42	4.73	3.89
Oil	78.45	79.23	71.78

Global Economic Calendar (June 17th to 21st)	
Monday	
Tuesday	ZEW Survey Expectations (GE)
Wednesday	CPI YoY (UK)
Thursday	Initial Jobless Claims (US); Bank of England Bank Rate (UK)
Friday	HCOB France Manufacturing PMI (FR)

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