MARKET CHRONICLES

July 2024

"We've seen a strategic shift toward small-cap stocks amid weaker US inflation and labor data, demonstrating the market's adaptability to economic signals. Although small caps have performed significantly better, investors should proceed with caution. In the absence of a recession, the market's expectation for Federal Reserve rate cuts may be overly optimistic. Moving forward, a judicious approach is essential. Diversification is advisable, with the UK and Europe offering attractive prospects against the unpredictability of the US markets. As we navigate this period, it's crucial to balance the current enthusiasm for small-cap stocks with a broader investment strategy. This approach will help maintain resilience in the face of potential over-optimism regarding the market's expectations for rate cuts."

– Narendra Babu, Senior Director, Financial Marketing Services

Global Markets

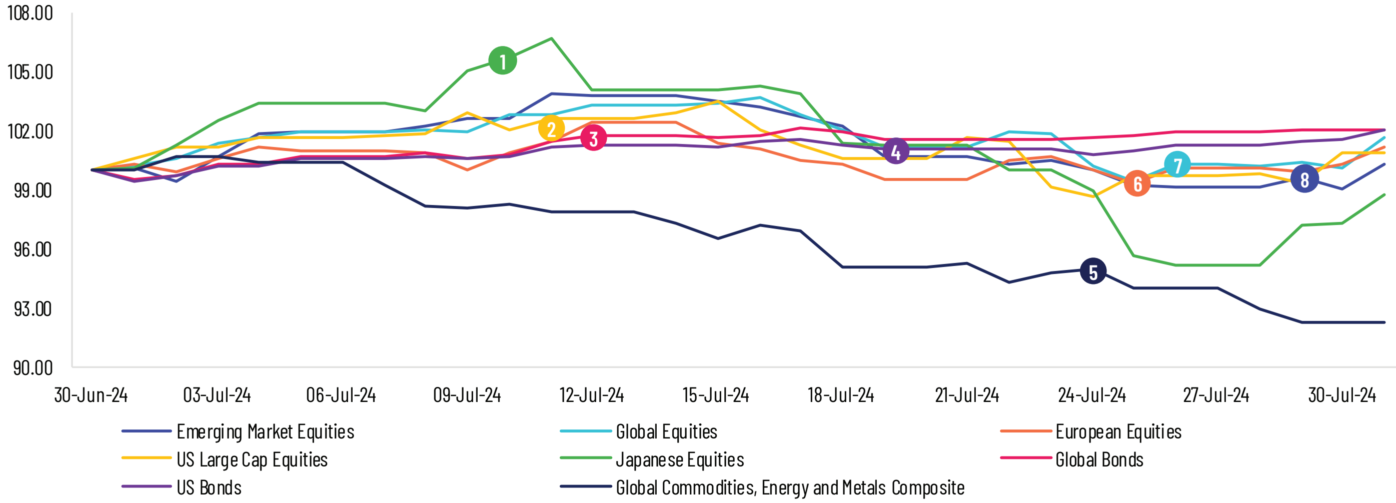
Global Equity Markets	1.6%

US Large Cap Equities	0.9%

Global Bonds	1.2%

**All performances are in USD*

Asset Class Performance



Please note that the chart is intended for illustrative purposes only and should not be used for precise performance measurement.
All performance data has been normalized to a baseline value of 100 for comparative ease.

1. July 10: Overseas investors bought Japanese stocks worth a net JPY 916.05 bn in a week.
2. July 11: U.S. equity faced its first weekly outflow as caution and profit-taking took hold.
3. July 12: Global debt funds attracted inflows on expectations of a Fed rate cut amid weakening labour market conditions and easing inflation.
4. July 19: US bond managers are steering clear of long-term government bonds as they expect fiscal worries to spur periodic volatility.
5. July 24: Oil prices slipped as investors focused on the prospect of swelling oil supplies and weak demand.
6. July 25: European stocks tumbled after underwhelming reports from Kering and Nestle SA.
7. July 26: Global equity market dropped due to a slump in global tech stocks.
8. July 29: China's factory activity shrank as a protracted property crisis and job insecurity drag on growth in emerging markets.

Top Performing Asset Class:

Global REITs +6.6%

Global REITs rallied in July, aided by an advance in the property market after Blackstone plans to acquire Retail Opportunity Investments Corp, while cold storage REIT Lineage gained 5% in its NASDAQ debut.

Bottom Performing Asset Class:

Global Commodities -5.0%

Global commodities plunged during the period after crude oil, ethanol, and gasoline prices hiked due to supply threats. Metals, especially steel futures slid, while soybean prices dropped significantly driven by abundant supply and relatively low demand.

Equity

Global equity markets ended in the green in July, buoyed by a last-minute rally after the US Federal Reserve signalled its readiness to cut rates in September should inflation continue its steady decline. US equities advanced on upbeat economic data, falling unemployment levels, and anticipation of rate cuts by the Fed in September. Latest data revealed US GDP growth for the second quarter was higher than anticipated, set against a backdrop of decreasing inflation. European stocks ended higher, boosted by strong corporate earnings and Joe Biden's sudden withdrawal from the US presidential race. In response to ongoing concerns about inflation, the European Central Bank maintained steady interest rates. Inflation held steady at the Bank of England's (BoE) target of 2% – a development that may nudge the central bank to slash rates next month. Elsewhere Japan's stock market rose by 5.8% as the yen hit a four-month high, following the Bank of Japan's (BoJ) first interest rate hike in 15 years. The key short-term interest rate was raised to 0.25%, signalling a shift in monetary policy, which included a reduction in monthly bond buying and lowering the BoJ's balance sheet. Moving to China, markets were weighed down by its persistent property sector crisis, burgeoning local government debts, and escalating trade tensions with the US. China's consumer price index weakened over the month amid weak demand. The People's Bank of China cut its lending rate for one-year medium-term policy loans by 20bps – the biggest rate cut since 2020 – in a bid to boost its slowing economy.

Fixed Income

Global bond markets witnessed an uptick in July, with US 10-year Treasury yields falling on slowing manufacturing activity and weakening consumer confidence. The yield curve steepened, causing the difference between 10-year and 2-year US Treasury yields to narrow to around negative 20bps, marking the smallest gap in yields since January 2024. The yield on 2-year US Treasuries fell 42bps to 4.29% and 10-year US Treasuries shed 27bps to end at 4.09%. Amidst this, uncertainty persisted over the timing of the Fed's anticipated rate cuts, leading investors to gravitate towards more secure investments, especially as default rates in high-yield bonds rose.

In Europe, the yield on the 10-year German bund fell to approximately 2.29%. Investors remained cautious, awaiting further economic indicators and clarity on the European Central Bank's policy direction amidst stagnant Eurozone manufacturing activity. The yield on the 10-year UK gilts declined as investors increasingly anticipated the BoE to cut interest rates due to concerns about a potential recession in the United States.

Commodities

The global commodity markets posted negative returns in July, as energy and metal prices declined. Oil prices softened significantly, due to geopolitical tensions and weakening Chinese consumption. Demand concerns and geopolitical tensions added to downward pressure on oil prices. On natural gas, prices melted down in the US summer heat, considered unusual at the height of the air-conditioning season, when a lot of gas is burned to generate electricity, due to higher storage in Europe on milder winter demand. Additionally, demand for natural gas fell in Southeast Asia amid cool weather. In precious metals, gold prices edged higher due to concerns over the global economic slowdown while silver prices fell amid sell-offs for profit-making, strong US GDP data, and the uncertainty about interest rate cuts. Industrial metals lost ground, too, particularly due to a decrease in copper prices for a second consecutive month, owing to continued weakness in China's housing sector along with growing inventories. Wheat futures fell due to a significant increase in production amid a recovery of Ukrainian and Russian wheat exports during the period. However, coffee and cocoa prices remained elevated on tight supplies following a troubled growing season.

Central Bank Quotes

What we've said is that we didn't think it would be appropriate to begin to loosen policy until we had greater confidence, that inflation was returning sustainably to 2%. I would say that we didn't gain any additional confidence in the first quarter, but the three readings in the second quarter do add somewhat to confidence.

– Jerome Powell, Chairman, Federal Reserve

Risks to growth were "tilted to the downside and bank would not pre-commit to any rate path and data would guide decisions. So, the question of September and what we do in September is wide open, and there was now a strong likelihood the dialing back of monetary policy was underway.

– Christine Lagarde, President, European Central Bank

Market Indices

2018	2019	2020	2021	2022	2023	YTD 2024	July 2024
US Large Cap Equities -6.2%	US Large Cap Equities 28.9%	Asian Equities Ex- Japan 20.2%	US Large Cap Equities 26.9%	UK Equities 7.1%	Japanese Equities 25.1%	Japanese Equities 18.1%	UK Equities 2.5%
UK Equities -8.8%	European Equities Ex-UK 27.1%	Emerging Market Equities 18.3%	European Equities Ex-UK 24.4%	Japanese Equities -5.1%	US Large Cap Equities 24.2%	US Large Cap Equities 15.8%	Global Equities 1.6%
European Equities Ex-UK -10.8%	Global Equities 24.0%	US Large Cap Equities 16.3%	UK Equities 19.6%	European Equities Ex-UK -12.6%	Global Equities 19.9%	Global Equities 11.8%	US Large Cap Equities 0.9%
Global Equities -11.3%	Emerging Market Equities 18.4%	Global Equities 14.1%	Global Equities 16.7%	Asian Equities Ex- Japan -19.0%	European Equities Ex-UK 17.6%	UK Equities 10.6%	European Equities Ex-UK 0.6%
Emerging Market Equities -14.7%	UK Equities 16.4%	Japanese Equities 4.8%	Japanese Equities 10.4%	US Large Cap Equities -19.4%	Emerging Market Equities 9.8%	European Equities Ex-UK 9.3%	Emerging Market Equities 0.3%
Asian Equities Ex- Japan -16.4%	Asian Equities Ex- Japan 15.6%	European Equities Ex-UK 1.7%	Emerging Market Equities -2.5%	Global Equities -19.5%	UK Equities 7.7%	Emerging Market Equities 7.8%	Asian Equities Ex- Japan 0.1%
Japanese Equities -17.8%	Japanese Equities 15.2%	UK Equities -13.2%	Asian Equities Ex- Japan -3.2%	Emerging Market Equities -20.1%	Asian Equities Ex- Japan 5.3%	Asian Equities Ex- Japan 6.9%	Japanese Equities -0.5%

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What's ahead

August 19, 2024	Spain: Consumer Confidence
August 21, 2024	India: M2 Money Supply
August 22, 2024	Japan: Manufacturing and Services PMI
August 29, 2024	US - FOMC Meeting
August 30, 2024	US: Fed Balance Sheet

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