Macro Outlook Summary

August 2024

Three months on and the US tech giants earning season has come round again and especially Nvidia's results. From the 5th Aug low of 5090 the SPX has posted yet another spectacular rally to regain its early July highs at 5600 and now digest Nvidia's news. Their reported slight beat to consensus forecasts on 28Aug, modest current quarter forecasts and no clearly bullish message on the roll out of the Blackwell chip which has encountered several recent problems weren't enough and the stock price sagged 8% after hours.

The relevance of this narrative to us is not that our managers own Nvidia, they don't, but that it seems to have become the standard bearer for the Mag 7, the AI era and equity market sentiment more broadly. Volatility in the share price over the past quarter has increased significantly since their last earnings announcement: up 50%, down 35%, up 35% and down 12% to leave it up 20%. AI excitement has underpinned broad indices throughout this year but looking at other AI related names such as Supermicro (SMCI) which has just been singled out by Hindenburg, the well-known activist publishing short seller, they've all lost their fizz since April. SMCI touched $1180 and is now $450. It's still up 150%+ ytd but the correction is substantial. As we said last month it's impossible to know whether this shift in sentiment is a turning point or simply a correction but at the least it's a 'heads-up'.

The USDJPY rate is another case in point because of its almost universal use in financing by leveraged investors. The unwind in July we note above was only one episode with inevitably more to come as traders focus on the financing cost consequences of both dollar weakness and specific currency strength risks in the JPY. The dollar bull market of the past thirteen years has made leverage financing using low interest rate weakening currencies super attractive and profitable. And arguably financing desks have become complacent and have no obvious 'Plan B' to their reliance on the Yen. Having touched a low of 142 earlier this month the Yen weakened to 150 but has re-strengthened to 144.50.

Speculative Yen shorts and maximum leverage financing in Yen have surely been largely closed but longer-term financing positions are costing much more than before and will be under review for alternative low interest rate currencies with a weak long term outlook. The Euro may be a candidate. The key point here however is that lenders closing down leverage because margin calls cannot be met triggers underlying position liquidation which is likely to be in the hot investment stories of the day. In our view this is another 'heads-up' regarding the fortunes of the Yen and something which may possibly reach into equities.

Turning to the US macro outlook, in the past two months market expectations for Fed Funds rate cuts have increased as macro data has softened. Having pared back the wildly optimistic rate cut scenarios of 1Q which began the year pricing about 150bps of cuts, throughout the 2Q markets were pricing 25-50bps of cuts and now they think the total will be nearer to 100bps.

In sync with this a growing number of commentators are talking of the need for a 50bps cut in Sept even though this still seems to be ahead of the Fed's thinking or signalling. Liquidity is not restrictive according to various measures and money market funds are holding $6.25Tr which is a record amount of cash. Two years ago this balance was $4.5Tr so there's plenty of cash on the sidelines. These two factors alone may prevent any meaningful sell-off from taking hold and keep the bulls comfortable.