Macro Outlook Summary

July 2024

Entering the second half of the year it is not uncommon for market themes to change and often quite abruptly. So it has been in July, with a number of significant changes moving markets globally. The first has been a rapid rotation in US markets out of mega-cap and into mid and small cap names during July. The second is that this has coincided with the SPX falling back from its all time high of 5,670 on 16 July and decisively breaking its uptrend channel from April a week later. This is the first meaningful attempt at a correction in the SPX since its relentless uptrend from October 2023 albeit these are early days and the support line from Oct23 remains intact.

The key point is that the tech driver may have started to misfire in 2H24. In 1H24 Amazon, Nvidia, Microsoft and Alphabet contributed just over half the SPX +15.3% return. In 2H24 those same four have contributed more than -1% to an index that was pulled along by mid and small cap names and is now flat for the month. Doubts about the pace at which these giants can monetise their massive AI capex is an emerging concern and probably rightly so.

In the real world, change always takes longer and happens more slowly than in the minds of investors and the true integration of AI into mainstream corporate and household activity may take just as long as the internet did to take off in 2000. The story of the internet revolution in 1999 was exactly that - it happened but took far longer than imagined in 1999-2000. At this juncture, given it is so early, it is impossible to say with any certainty whether this marks the turning point in the story of the Magnificent 7 and the beginning of some sort of valuation normalisation but so far, the move has been a significant change from the norm.

From the beginning of July, the S&P Small Cap index has generated over 11% while the SPX is flat. The fourth abrupt change has been in currencies where the Yen troughed in value on 3rd Jul at 161.8 and then embarked on a spectacular rally to 154 currently. Many may feel 'who cares' if they're not invested in Japan and dismiss this as only a 5% move simply taking the steam out of recent extreme Yen weakness. But the story reaches much further than that because the Yen is widely used by investors globally as a leverage financing currency. Over many years borrowing in Yen has brought tremendous benefits, not only from near zero interest rate costs but also because it has steadily and persistently depreciated from 108 in 2020 to around 154 today.

Reports of banks imposing margin calls and forcing deleveraging for the most leveraged traders in equities, bonds, commodities and currencies have swirled around in recent weeks and seem completely plausible, so the knock-on effect into all other markets may become significant if this deleveraging goes further.

But each of these stories is in its early days and one swallow does not make a summer as they say. In the meantime, investors can still look forward to the benefits of moderate interest rate reductions from the Fed, BoE and ECB and how these actions are very likely to support both bonds and equities over months to come.