

## WEEKLY VIEW

# Politics DO matter

8 July 2024

## Fragile France

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## SUMMARY

French horse-trading  
aheadUK gets a stable  
governmentSoftening US jobs market  
sets scene for rate cuts

## THE WEEK IN REVIEW

In a shortened week, the S&P 500<sup>i</sup> put in a positive performance (+2.0% in USD), buoyed at the end of it by stats that suggested a gradual cooling of the US labour market. But US small caps, historically more influenced by the economic cycle than large caps, struggled, as did the S&P 500 Equal Weight index. In Europe, whatever the concerns surrounding the run-off French election, the Stoxx Europe 600<sup>ii</sup> had a positive week, rising 1.1% (in euros). France's CAC 40<sup>iii</sup> did even better, rising 2.1%. The French bond market also calmed down, with spreads over Bunds narrowing last week. Spreads for euro corporate bonds also shrunk while both the USD and Swiss franc lost ground against the euro. Labour's well-signalled victory in the UK election had a positive impact on the domestically oriented FTSE 250 index<sup>iv</sup>, which climbed 2.5% (in GBP), while sterling rose and short-term gilt yields fell. Oil prices rose as the US oil inventories dropped.

## ELECTIONS

"Today, power will change hands in a peaceful and orderly manner, with goodwill on all sides. That is something that should give us all confidence in our country's stability and future". *Rishi Sunak (ex-) UK prime minister*

## KEY DATA

**Nonfarm payrolls in the US rose 206,000 in June, down** slightly from a revised 218,000 in May but up from 108,000 in April. Average hourly earnings went down from an annual 4.1% in May to 3.9% in June while unemployment rose to 4.1% from 4.0%. Separately, the ISM purchasing managers' index for manufacturing dipped to 48.5 in June from 48.7 in May while the ISM services index fell sharply to 48.8 from 53.4.

**Headline consumer inflation in the euro area dipped to an annual 2.5% in June from 2.6% in May.**

**Industrial production in Germany decreased by 2.5% in May over the previous month** and was down 6.7% on a year before. French industrial production dropped 2.1% in May and was down 0.4% year on year.

## MARKET VIEW

The results of the French election will lead to a period of horse-trading that could lead to some sort of fragile coalition involving the centre and centre-left parties. We do not think markets will react to yesterday's results too harshly in the short term. But if the plans the outgoing government presented to Brussels for fiscal consolidation are undone, France's sovereign rating could be revised to 'negative' in the autumn by ratings agencies. In all, **we believe a risk premium will continue to be placed on French assets.** A fragile French government less committed to reining in the fiscal deficit and reform could also be a drag on the euro. By contrast, a fiscally cautious Labour government could **help the prospects for UK gilts and sterling.**

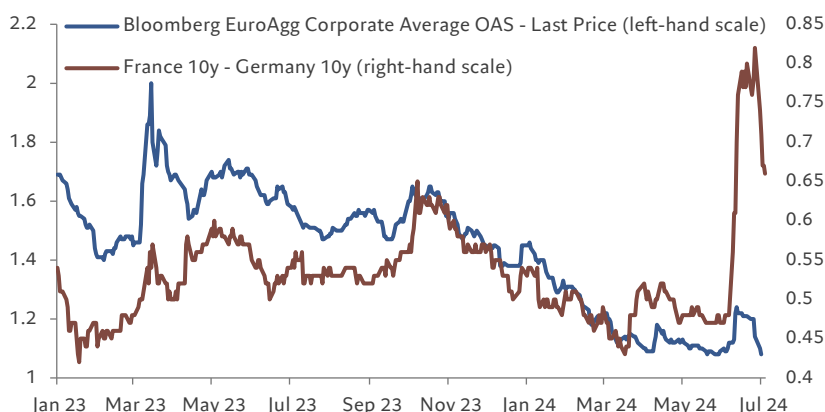
In the US, labour statistics for June point to an orderly cooling of the labour market. This, together with this week's CPI report for June will set the stage for a **first Fed rate cut, which we believe will come in September.**

The Q2 earnings season also kicks off this week with US bank earnings. **There is a lot riding on the profits and guidance provided by the handful of tech giants that continue to dominate market gains.** On the corporate front, a mooted merger in the French financial sector plays to our M&A theme this year.

## See-saw spreads

Concerns sparked by the calling of snap parliamentary elections in France initially led to a significant widening of spreads over German Bunds for both French government bonds (OATs) and euro corporate bonds. But the withdrawal of a large number of candidates from the second round of the election on 7 July was seen as reducing the likelihood of a market-unfriendly outcome. This resulted in renewed tightening of OAT and euro investment-grade spreads last week, although they remain higher than at the start of June.

Euro corporate and 10Y French government (OAT) spreads



Source: Pictet Wealth Management, Bloomberg Finance L.P., as of 08.07.2024

## Asset class performance

Stock Markets	Last close	1 week change %	YTD%
Dow Jones*	39,375.87	0.66%	4.47%
S&P500*	5,567.19	1.95%	16.72%
NASDAQ Comp*	18,352.76	3.50%	22.26%
MSCI World Small Cap \$*	532.12	0.09%	0.67%
MSCI Europe*	173.33	0.93%	7.90%
MSCI EMU*	165.19	1.88%	8.19%
SMI*	12,006.14	0.10%	7.80%
MSCI China \$*	57.80	0.71%	4.19%
Nikkei*	40,912.37	3.36%	22.26%
CBOE Volatility (VIX)*	12.48	0.32%	0.24%

Currency, Commodity, Rates	Last close	1 week change %	YTD%
EURUS**	1.08	0.99%	-2.01%
GBPUS**	1.28	1.24%	0.39%
USDCHF**	0.90	-0.08%	6.69%
USDJPY**	160.97	0.07%	14.18%
USDCNY**	7.27	0.02%	2.47%
EURCHF**	0.97	0.91%	4.54%
Gold**	2392.16	2.81%	15.96%
Silver**	31.22	7.12%	31.20%
Crude Oil**	84.44	1.94%	17.46%
US Investment Grade	3269.56	0.93%	0.96%
US High Yield	1635.42	0.25%	2.85%
EU Investment Grade	279.83	0.35%	0.89%
EU High Yield	364.94	0.41%	3.54%
Swiss Bond Index	129.06	-0.12%	1.40%

Source: Pictet as of 05.07.2024. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. This table may contain information about financial instruments or issuers but does not set out any direct or implied recommendation whatsoever (either general or personalized). YTD stands for year to date. \*\*measured on a non Total Return basis. \*\* showing mid price numbers.

### WHAT TO WATCH THIS WEEK?

#### TUESDAY

Japan: Machine-tool orders (June)  
US: NFIB small business survey (June)

#### WEDNESDAY

OPEC: July Oil Market Report  
New Zealand: rate-setting announcement

#### THURSDAY

UK: GDP estimate (May)  
US: CPI report (June)  
US: Jobless claims (week to 6 July)

#### FRIDAY

US: PPI report (June)  
US: University of Michigan Consumer Sentiment survey (July)

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i) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, S&P 500 Composite (net 12-month return in USD): 2019, 31.5%; 2020, 18.4%; 2021, 28.7%; 2022, -18.1%; 2023, 26.3%.

ii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, STOXX Europe 600 (net 12-month return in EUR): 2019, 27.6%; 2020, -1.5%; 2021, 25.5%; 2022, -10.1%; 2023, 16.5%.

iii) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, CAC 40 (net 12-month return in EUR): 2019, 30.5%; 2020, -5%; 2021, 31.9%; 2022, -6.7%; 2023, 20.1%.

iv) Source: Pictet WM AA&MR, Thomson Reuters. Past performance, FTSE 250 (net 12-month return in GBP): 2019, 28.9%; 2020, -4.6%; 2021, 16.9%; 2022, -17.4%; 2023, 8%.