Signia Invest Insights

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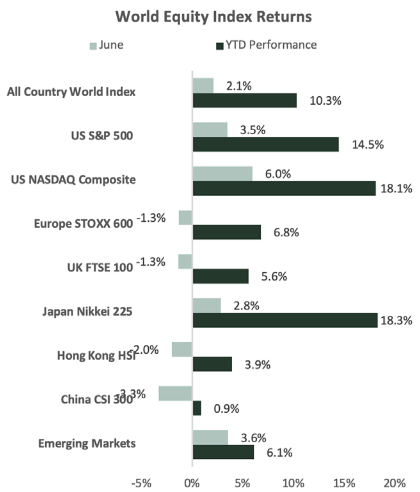
Market Review and Outlook

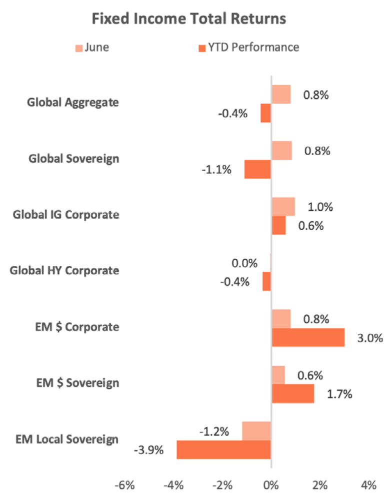
- It goes without saying that the single biggest highlight this month was the US presidential debate. Political depression has never felt so severe, nor been so painfully entertaining. I am not a fan of reality TV but I have already penciled in the second and final episode (I mean debate) on Tuesday 10th September. Let's hope there is a golf match or driving contest in-between! More on the debate and US election drama below.

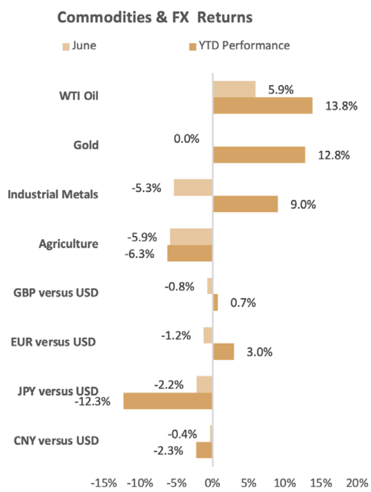
- Equities continued their advance in June with the All Country World Index rising 2.1%, led again by the S&P 500 which was up 3.5% and reaching another all-time high (31 times in fact during the first half of the year), thanks to further gains by the Magnificent 7 stocks. Unsurprisingly then, the Nasdaq Composite fared better, up 6.0% during the month, whilst Nvidia was up 12.7%. Equity gains were particularly narrow as remarkably the equal-weighted S&P 500 Index actually lost ground in June, declining -0.7%. Japan continues to do well, and the Nikkei 225 gained 2.8% in June for a first-half performance of 18.3%, making it the best-performing major market this year. Emerging market equities rallied over 3% but are still underperforming for the year at 6.1%.

- Performance dispersion continues to increase between sectors as well as between countries and regions. European equities were down in June, losing -1.3% but remain up 6.8% year-to-date, roughly half the performance of US equity markets. This underperformance was primarily caused by the surprise outcome of the elections to the European Parliament, which resulted in the French President, Emmanuel Macron, dissolving his country's parliament and calling snap elections. As a result, French equity and bond markets sold off, significantly widening the spread of French sovereign bond yields over German bund yields. The French CAC 40 equity index lost -6.4% and is now the only major equity index that is down in 2024.

MARKET PERFORMANCE AS OF 30 JUNE 2024:







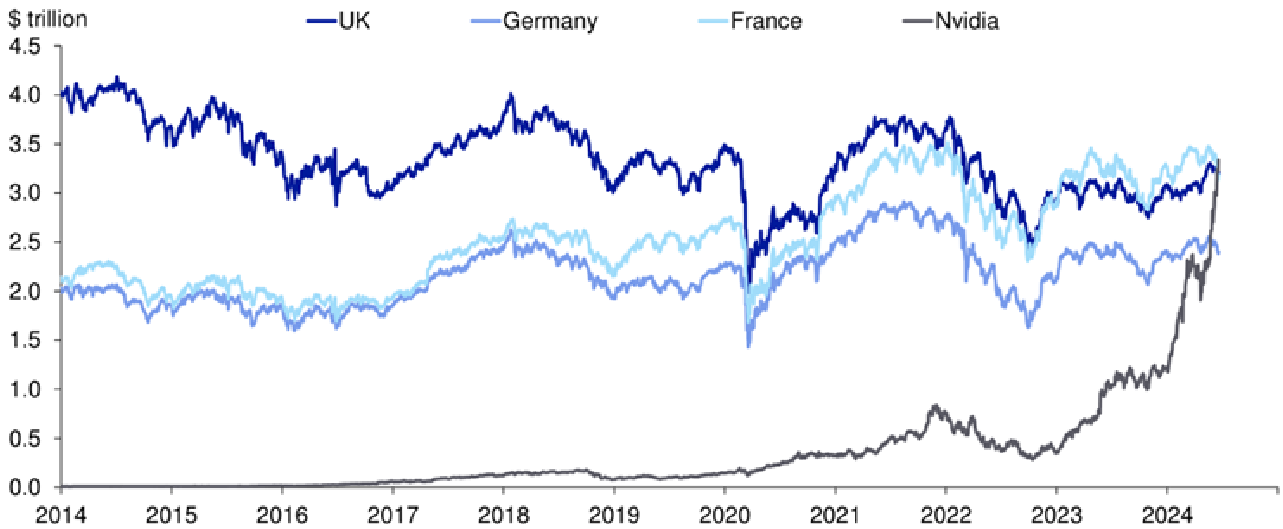
Source: Bloomberg L.P., Arbion Ltd.

NVIDIA MARCHES ON, CONTRIBUTING FURTHER TO U.S. STOCK MARKET CONCENTRATION

- Nvidia's relentless rally has propelled its market capitalization over its mega cap tech peers, helping it clinch the title of the world's most valuable company from Microsoft as the AI theme continues. Remarkably, as recently as October 2022 it was the 18th largest company in the S&P 500 worth less than $300 Billion. Now, at $3.3 Trillion the company has added a staggering $2.1 Trillion in market cap since the start of 2024 and has accounted for over one-third of the S&P 500 gains YTD. Nvidia's 591,078% gain since its 1999 IPO has come in waves but most of this has come over the last 18 months. The company is now worth more than many major stock markets around the world, but interestingly company insiders have sold more than $700 Million of Nvidia shares during its recent rally, so something to take note of as perhaps an early tentative sign of near-term price exhaustion in the stock.

- The 10 largest stocks in the S&P 500 now account for 37% of total index market capitalization. Understandably, this is a nervous statistic, as it far exceeds the prior peak of 26% during the dot-com bubble in 1999. However, it is important to note that the 10 largest stocks today also account for 31% of S&P 500 total net income, with an average trailing profit margin of 26% which is notably higher than the long-term average. So it can also be argued, and quite convincingly so, that the top 10 are currently the top 10 for a reason. This by no means that any stock valuation is justified, moreover, with 10-year US Treasury yields currently at 4.3% as opposed to 6.8% in the early part of 2000, the mega cap party and bull market could continue for some time, albeit with the risk of rising levels of market volatility.

MARKET CAPITALIZATION OF NVIDIA VERSUS MAJOR STOCK MARKETS:



Source: Deutsche Bank

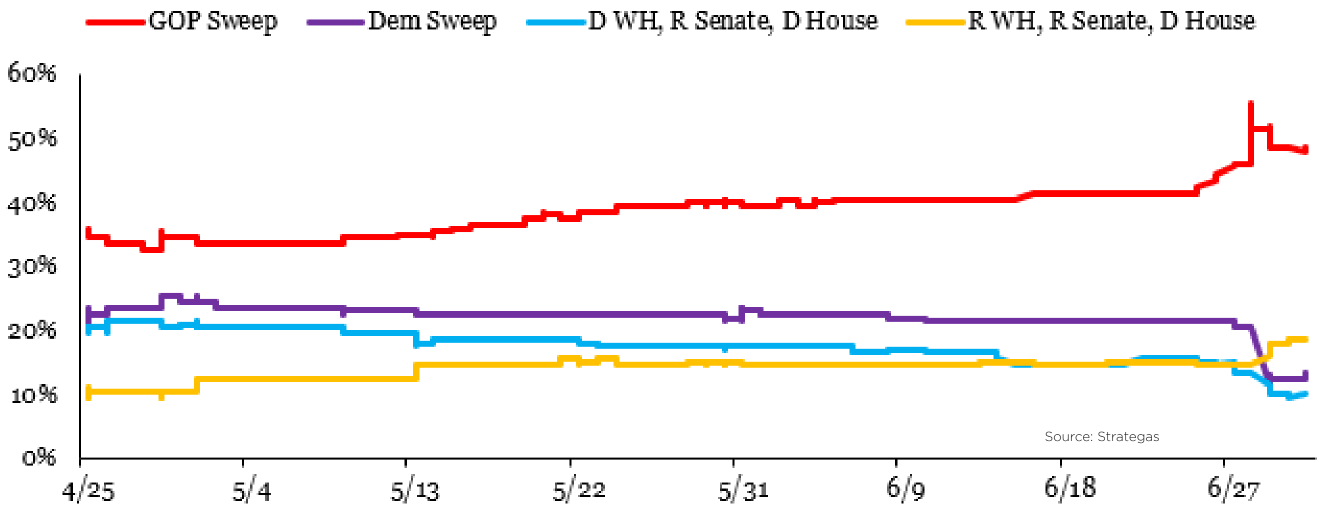
A DISASTROUS DEBATE FOR BIDEN; QUESTION MARKS REMAIN OVER HIS PRESIDENTIAL CANDIDACY... AND GOLF HANDICAP

- President Biden struggled in the first presidential debate against Donald Trump, rambling at times and being drawn into a locker room argument over who was the best golfer. He is unlikely to step down, rather, a change would need to occur within the next week or so. Although the convention is not until August, the Democratic National Committee has planned a roll call vote as early as mid-July. Despite many up-and-coming Democratic governors, currently there is no clear consensus alternative to Biden, although Vice President Harris would be the most likely nominee. She has favourability ratings that are just as bad as Biden's, though arguably with a better prospect of some upside recovery now versus Biden.

- Democrats are trying to be the party of stability and no drama, and a contested convention would undermine that image. They are keen to avoid a repeat of the 1968 convention, which also took place in Chicago; it was marred by violence across the city and venomous speech and outrage among delegates. Then-Vice President Hubert Humphrey won the nomination, but lost the election.

- Although bookmakers favour Trump by some margin, it is still too early to call the US election outcome with a high degree of confidence. A Republican GOP sweep of Capitol Hill is still the most likely outcome with Polymarket assigning a 40-50% chance. The implications of this for markets could well be fairly negligible, as it is unlikely that fiscal and monetary trends will meaningfully deviate, although US bond yields could drift higher if concerns over inflationary Trump policies gain traction.

BETTING ODDS: 2024 BALANCE OF POWER (POLYMARKET)



THE US FEDERAL RESERVE STANDS PAT, BUT PREPARES THE MARKET FOR A RATE CUT IN THE SECOND HALF OF THE YEAR

- The Fed held rates steady at its June meeting as expected, but delivered a hawkish surprise with a quarterly dot plot release that showed a median of only one rate cut in 2024. Chair Powell did not emphasise this hawkish signal, and so left open the door for a cut before the election in November. Rate markets are now expecting the first Fed rate cut in September.

- Longer term revisions to officials' forecasts were closer to expectations for 2025. The median showed a 4.1% Fed Funds rate in 2025, up 25bps from March, and the long-run dot rose to 2.75%, its highest level since 2019, further underscoring the Fed's 'high for longer' message on rates. Such a policy narrative, if realised, may bite more on global financial conditions if other major central banks embark on deeper or more protracted rate cutting cycles, as potentially a resulting stronger US Dollar would keep global financial conditions uncomfortably tighter.

UK VOTES FOR A LANDSLIDE LABOUR VICTORY AND GOVERNING MAJORITY, THOUGH VOTER TURNOUT WAS THE SECOND LOWEST SINCE 1918

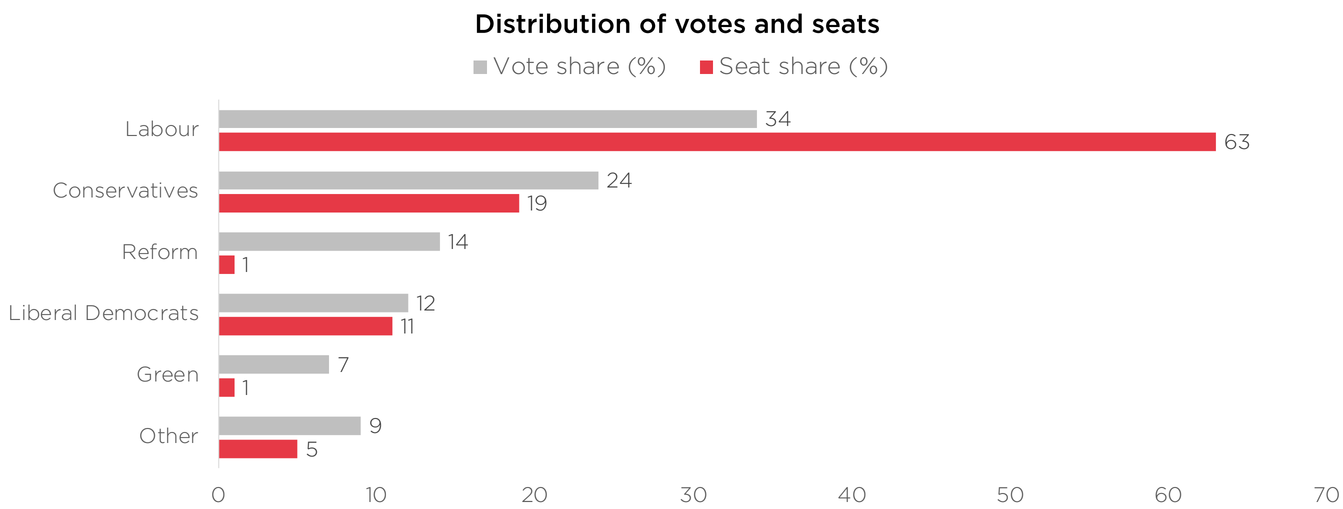
- Politically, the UK is heading in a different direction to continental Europe, where extremist populist parties are gaining the most ground versus traditional centrist parties. Italy is currently led by the right-wing Brothers of Italy party, and now after recent parliamentary elections in France it appears that both far left and far right parties have gained the most incremental support during this political cycle.

- Sir Kier Starmer is the new Prime Minister with his Labour party securing 412 out of 650 Commons seats and the largest majority government in 25 years. The Tories held 121 seats, the party's worst result in its 190-year history. The Liberal Democrats also had a good day securing 72 seats as the third largest party in Parliament, this comes despite the Reform party securing the third largest share of the total vote but only 5 parliamentary seats. Such is the distorted extent of the UK's first-past-the-post electoral system, which encourages tactical voting in constituencies, as can be seen in the chart below.

- Nigel Farage became an MP for the first time on his eight attempt of trying, winning Clacton in Essex, as his Reform UK party ate into the Tory vote across the country. Former Labour leader, Jeremy Corbyn, retained his Islington North seat but this time as an independent candidate, whilst many senior Tory MPs lost their seats, such as former prime minister Liz Truss, former Commons leader Penny Mordaunt, and former cabinet minister Sir Jacob Rees-Mogg.

- It would be unfair to pin all the blame on Rishi Sunak, who took the job with an insurmountable political mountain to climb. The widely accepted reality behind the death of the Conservative party in these elections is that Boris Johnson put the Tories in the coffin, then Liz Truss nailed it shut. UK markets were relatively unperturbed by the election result, partly because a Labour landslide was expected, but mainly because the Liz Truss and UK Gilts market crisis of 21 months ago had already influenced Labour's more responsible approach to prudent fiscal policy.

BRITAIN'S FIRST-PAST-THE-POST ELECTORAL SYSTEM HAS PRODUCED THE MOST DISTORTED RESULT IN ITS HISTORY OF VOTES VERSUS PARLIAMENTARY SEATS:



Source: Arbion Ltd

NOTABLE ECONOMIC AND MARKET DEVELOPMENTS

- **US:** Overall, economic data in the US has been mixed with a somewhat softer overall underlying trend. As a result, the US economic surprise index hit a 2-year low in June. The index reflects the difference between actual economic data compared to their forecasts and here, many of the widely followed statistics have disappointed recently. The housing market has been a weaker spot with housing starts and sales softening further. High mortgage rates and elevated home prices create a difficult environment for the sector. Forward-looking activity indicators such as the ISM manufacturing index came in lower than forecast and are now implying a slight contraction. Jobless claims also came in weaker than predicted although, overall, the labour market is still very healthy.

- Various consumer-facing companies such as Etsy, ebay, Pepsi and others made negative comments about the strength of the consumer and warned of waning spending power amidst elevated inflation. Some companies, including Costco, have already implemented price cuts to woo back customers.

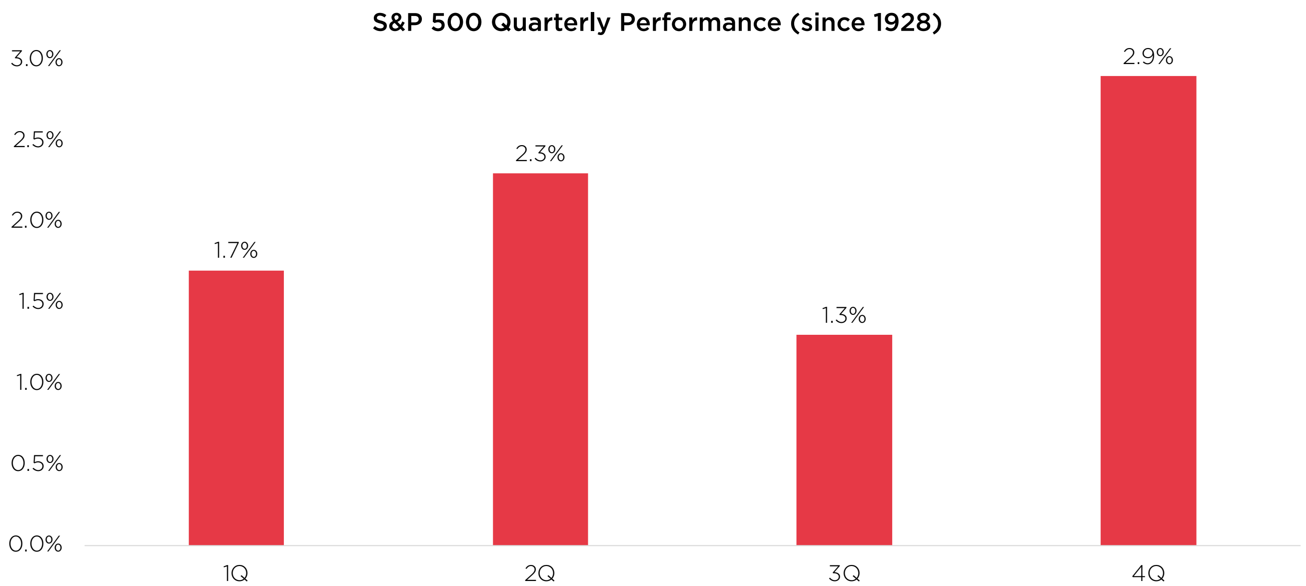
- **Eurozone:** The French bond and equity market rout deepened amid political uncertainty. The country's securities tumbled amid concerns Marine Le Pen's far-right National Rally party will usher in looser fiscal policies if it comes into power. After an unusually high turnout in the first-round results, the Rassemblement National (RN) party and its allies won 33% of the vote, while the leftwing Nouveau Front Populaire (NFP) alliance came second with 28%, according to provisional results published by the interior ministry. Macron's Ensemble alliance and allies secured 22% per cent of the vote.

- **UK:** Consumer price inflation returned to the Bank of England's 2% target in May for the first time since 2021, though bets by traders on a rate cut in August were pared back as some of the details of the report were less favourable, as core CPI was higher at 3.5%, while services inflation – one of the stickier slower categories to move – surprised on the upside at 5.7% (versus 5.5% expected).

- **Japan:** The yen weakened after the Bank of Japan delayed a reduction in its QE bond buying programme. The BOJ kept its benchmark interest rate steady and said it will set out plans for reducing the amount of purchases at its July meeting, while leaving its planned quantitative easing unchanged until then. The decision came days after US Federal Reserve officials dialled back their expectations for rate cuts this year, a move that was already weighing on the Japanese currency. The Japanese Yen continued to weaken to 160.9 per US Dollar, its highest closing level since 1986.

- **Emerging Markets:** South African, Brazilian and Mexican assets continued to stabilise and recover in the wake of their recent elections. South Africa moved towards an agreement of a government of national unity, without the participation of the more radical MK or EFF parties, whereas in Brazil institutional support for orthodox policies have helped markets turn a corner.

As we move into the second half of 2024 the uncertainties of global election risks are fading, making room for a critical assessment of what the fiscal and macro challenges might be next year. The US election in November will remain in focus this year but deficit spending is very likely to continue unabated through 2025, whilst healthy economic growth may become more challenging to achieve. The summer months are traditionally somewhat directionless and with implied equity volatility currently at extremely low levels, the cost of protecting portfolios remains cheap. Hence, we maintain an overweight equity allocation and have recently added insurance via equity put options in case the bull market takes a breather in the third quarter, which seasonally tends to be the weakest period for US equities.



Source: Arbion Ltd, Bloomberg L.P.

ROBERT LEE

CO-HEAD OF MULTI-ASSET INVESTMENTS, HEAD OF RATES

Robert has been managing the wealth of private clients since 2006 as a portfolio manager and fixed income specialist. He is jointly responsible for the multi-asset investment team, global fixed income strategies, and Arbion's retail funds business. Previously, he worked for Lehman Brothers on the European Capital Markets team, and then Coutts & Co where he was a member of the fixed income and foreign exchange selection committees, responsible for managing the advisory and discretionary portfolios for private clients and institutions.

Robert is a Chartered Financial Analyst and a member of the Chartered Institute for Securities & Investment.

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