THE **CAMBRIDGE** WEEKLY

15 July 2024

Lothar Mentel

Lead Investment Adviser to Cambridge

DISCLAIMER

This material has been written on behalf of Cambridge Investments Ltd and is for information purposes only and must not be considered as financial advice.

We always recommend that you seek financial advice before making any financial decisions. The value of your investments can go down as well as up and you may get back less than you originally invested.

Please note: All calls to and from our landlines and mobiles are recorded to meet regulatory requirements.

Lower inflation, less profits?

Last week has been an interesting one in capital markets. Global stocks are a nudge above where they were at the end of the previous week in aggregate, but this hides a great deal of variation. There was a steady climb early in last week, led once again by large US mega-caps, but this completely flipped into the latter days. Smaller stocks suddenly dramatically outperformed, while the so-called 'Magnificent Seven' (Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia, Tesla) sold off sharply. Equities outside of the US – notably in the UK and Europe – pushed ahead too. This dispersion reversal is a remarkable change from the stock market concentration we have seen for most of the year – and it could have significant consequences if it developed into a trend.

Markets hope UK political stability brings economic stability

The Labour government's first few days after winning a landslide were eventful but not disruptive for markets. Kier Starmer promised quiet competence in his Downing Street doorstep speech, and the early signs are that investors believe him. Gilt yields came down and sterling climbed against the euro to its highest point in nearly two years. The UK Large-Cap index was decent from Wednesday onwards – though, as we have noted before, the UK Large-Cap index performance is much more about global factors than the domestic economy.

The UK Mid-Cap index, on the other hand, is heavily influenced by domestic growth and profit expectations. The broader index had a strong week, and indeed has performed very well through July. Housebuilders in particular have had a great couple of weeks, buoyed by Labour's plans to build 1.5 million homes in this new parliament. If this is not a market endorsement of the government's economic policies – it is at the very least an acknowledgement that Labour will not *derail* a growth recovery.

Sterling strength is particularly interesting. We could interpret it as hope that Starmer will pursue closer (or at least less antagonistic) relations with the EU – but officials have consistently downplayed these suggestions. Perhaps it is simply that markets now see Britain as politically more stable than Europe – following disappointment or confusion around continental elections. That is a dramatic turnaround, less than two years after the 'Liz Truss moment' that brought the UK's capital market standing with the global investor community to its nadir.

Do markets dislike disinflation?

More important for global investors were events in the US. Having pushed up early last week, the 'Magnificent Seven' dropped a bruising 4.3% during last Thursday's trading. The dominance of these shares meant aggregate losses for the S&P 500 and the MSCI All-World index. The catalyst for this sell-off was fascinating: US inflation, as captured by the CPI data for June, showed the rate falling to 3% year-on-year, below economist expectations and lower than the month before. Month-on-month, prices were even 0.1% *lower* – the first month of negative inflation (disinflation) since May 2020.

Weaker price data significantly increases the chances that the Federal Reserve could cut interest rates later this month – let alone the September cut markets previously priced in. For most of the year, markets have treated this kind of news as unequivocally positive, as it would allow a new growth cycle to start without materially harming company profits. Instead, markets seemed to suggest that disinflation would mean a reduction in medium-term aggregate profits.

Once again, though, the aggregate picture hides so much. While the S&P 500 sank last Thursday, the Russell 2000 – an index of small-cap US firms – jumped ahead on the CPI news, and was up 4.6% at the end of last week. In fact, on measures of 'breadth' (the number of stocks going up or down, not weighted by market cap) last week was extremely positive. The S&P equal-weighted index had one of its strongest ever days relative to the standard weighted S&P 500.

Rate cut prospect brings role reversal

This is the polar opposite of the market concentration we have been discussing for months. The Magnificent 7 have left all others in the dust for much of this year (Nvidia alone accounts for around a third of the S&P's total year-to-date returns) and it is only because of their dominance that the recent localised sell-off looked like an overall sell-off.

In some ways, though, this is a counterintuitive response to weaker inflation data and higher rate cut odds. Usually, the thought is that smaller companies are more sensitive to the ups and downs of an economic cycle, while the valuations of tech mega-caps – as long-duration assets – are boosted by lower rates and easier capital. This thinking has been reinforced by the AI investment boom, which has made new technology demand look constant rather than cyclical. And yet, it is the opposite of how markets reacted last week.

Undoubtedly, investors see the easing of interest rate burden for small-caps as more important than *immediate* growth. There seems to be a realisation that this will allow them to invest in greater productivity, too, brightening the medium-term picture. Why the tech giants have been punished is not as clear. It could be that their earnings are not as cycle-proof as previously hoped (Nvidia cannot make a profit if the companies it sells to have no money, after all) or it could simply be that some larger investors diversified some of their US equity allocations from large- to small- and mid-cap and this disrupted momentum.

In any case, there are reasons to think this market rebalance is positive. We have warned about market concentration for some time, since broad profitability across many sectors is what gives an economy dynamism. The medium-term growth implications are not yet fully clear – easing borrowing might be the bigger boost, or drying capital investment from the big guns might be the bigger drawback – but we can take comfort in the fact that the little guys are expected to be doing better. This is true outside the US too: the dollar has weakened, which is usually positive for global growth. Things might get more volatile from here, but there are signs of hope.

15th July 2024

Global Equity Markets	12-Jul			Technical		Valuations			
Market	Level	% 1 Week	% 1 Week (GBP terms)	Short	Medium	Div YLD %	LTM PE	NTM PE	10Y PE AVG
UK FTSE 100	8241	-0.1	-0.1	⇗	⇗	3.9	11.9	11.6	13.1
UK FTSE 250	21137	+2.8	+2.8	↗	⇗	3.4	12.1	12.3	13.5
UK FTSE All-Share	4515	+0.3	+0.3	⇗	⇗	3.9	12.0	11.7	13.1
FTSE Small x Inv_Tsts	5904	+2.7	+2.7	↗	⇗	4.6	11.8	10.0	10.9
France CAC 40	7689	-0.1	-0.8	↘	→	3.2	13.7	13.1	14.0
Germany DAX 40	18610	+0.8	+0.1	→	⇗	3.0	13.4	12.5	13.0
US Dow	39854	+1.2	-0.0	⇗	→	1.9	19.7	18.5	17.2
US S&P 500	5599	+0.6	-0.7	↗	↗	1.3	22.9	21.4	18.1
US NASDAQ comp	18421	+0.4	-0.9	↗	↗	0.7	35.4	30.1	24.5
Japan Nikkei 225	41227	+0.7	+1.0	↗	↗	1.6	23.4	22.2	18.2
World Bloomberg	1917	+1.3	+0.0	↗	↗	2.0	16.4	15.7	14.7
China mainland	3472	+0.0	-1.0	↗	⇗	1.8	20.2	19.0	16.8
Emerging Bloomberg	1234	+1.4	+0.2	⇘	→	2.8	12.1	11.3	12.3

FTSE100 Top 6

Company	%
Severn Trent PLC	+6.2
Rightmove PLC	+6.0
easyJet PLC	+5.7
Fresnillo PLC	+4.8
Kingfisher PLC	+4.5
Entain PLC	+4.2

S&P Global Top 6

Company (GBP terms)	%
Enphase Energy Inc	+17.6
Corning Inc	+16.3
Ocado Group PLC	+15.1
Baidu Inc	+13.8
Builders FirstSource Inc	+12.5
Mohawk Industries Inc	+11.7

Global Sectors

Sector	%	Sector	%
Tech	+0.6	Staples	+0.9
Financials	+1.8	Energy	-0.1
Health	+2.7	Materials	+1.7
Discretionary	+1.2	Utilities	+2.6
Industrials	+2.2	Real_Estate	+4.1
Communication:	-1.4		

FTSE 100 Bottom 6

Company	%
BP PLC	-5.9
Sage Group PLC/The	-3.1
Shell PLC	-1.7
Centrica PLC	-1.7
WPP PLC	-1.7
Anglo American PLC	-1.6

S&P Global Bottom 6

Company (GBP terms)	%
AP Moller - Maersk A/S	-12.4
Smurfit WestRock PLC	-9.6
Mitsubishi Heavy Industries Lt	-9.2
Seven & i Holdings Co Ltd	-8.7
ServiceNow Inc	-8.7
China Petroleum & Chemical C	-8.6

Fixed Income

Govt bond	%Yield	1 wk chg
UK Govt 10yr Gilt	+4.10	-0.02
UK Govt 15yr Gilt	+4.37	-0.02
US Govt 10yr Treasury	+4.20	-0.08
France Govt 10yr OAT	+3.15	-0.06
Germany Govt 10yr Bund	+2.49	-0.06
Japan Govt 10yr JGB	+1.06	-0.01

Currencies

Pair	last	%1W
USD per GBP	1.296	+1.2
GBP per EUR	0.841	-0.6
USD per EUR	1.090	+0.6
JPY per USD	158.11	-1.7
CNY per USD	7.269	-0.3
USD per Bitcoin	57,648	+3.5

Commodities

Cmdty	last	%1W
Oil Brent $:bl	85.6	-2.0
Gold $:oz	2402.9	+1.0
Silver $:oz	30.7	-0.7
Copper $:lb	459.3	-1.4
Alumnm $:mt	2412.8	-2.6
S&P soft crops	243.8	+0.5

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	12-Jul	12-Jun
UK BoE base rate	5.25	5.25
2yr fixed	5.03	5.19
3yr fixed	4.68	4.89
5yr fixed	4.31	4.67
10yr fixed	4.72	4.89
Standard variable	7.93	7.93

Prices taken at 2:30pm today and 2:30pm last Friday (where possible).
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

If anybody wants to be added or removed from the distribution list, please email enquiries@cambridgeinvestments.co.uk

www.cambridgeinvestments.co.uk | enquiries@cambridgeinvestments.co.uk

Tel : 01223 365 656 | Nine Hills Road, Cambridge CB2 1GE

CAMBRIDGE
INVESTMENTS LIMITED

15th July 2024

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document.

The value of your investments can go down as well as up and you may get back less than you originally invested.

LOTHAR MENTEL

www.cambridgeinvestments.co.uk | enquiries@cambridgeinvestments.co.uk

Tel : 01223 365 656 | Nine Hills Road, Cambridge CB2 1GE