OBSERVATIONS

- Markets were mixed last week in the aftermath of the Fed meeting (see Expectations). The S&P 500 hit a new record high last Thursday and gained +1.6% for the week, while small caps (Russell 2000 Index) lost -1.0% and mid-caps (Russell Midcap Index) lost -0.3%. Meanwhile the yield on a 10-year Treasury fell -21 basis points to 4.22%.[1]
- Two stocks, Nvidia and Apple, have driven 100% of the S&P 500's quarter-to-date return (QTD) of 3.7%—the median S&P 500 stock is down -3.9% for the same period. Meanwhile, mid-cap stocks (Russel Midcap Index) and small-cap stocks (Russell 2000 Index) are down nearly -4.1% and -5.3% QTD, respectively.[1]
- NFIB Small Business Survey hit its highest reading of the year in May at 90.5, but this index has remained below its long-run average (98.0) for nearly two and half years. Small business owners continue to cite inflation as their top business problem and the Uncertainty Index rose to its highest level since Nov-2020.[1]
- Headline and core inflation both came in below expectations for May. The headline inflation CPI index was unchanged in May from April and year-over-year (YoY) inflation fell in May to 3.3% down from April's 3.4%. Core CPI, which removes food and energy, also showed a decline falling to 3.4% YoY in May down from April's 3.6% YoY figure.[1]
- Similarly, the Producer Price Index (PPI), which measures input prices, surprised lower in May. Headline PPI fell to 2.2% YoY in May down from April's 2.3% figure, and core-PPI—excludes food and energy—declined to 2.3% YoY down from April's 2.4% figure.[1]
- Unemployment claims increased last week to 242k, a rise of 13k from the previous week, but remain about -6% below the level of unemployment claims for the same week in 2023.[1]

EXPECTATIONS

- The Fed met last week and, as the market presumed, left rates unchanged. However, in its summary of economic projections the median Fed official now anticipates only one -25 basis point rate cut this year—down from three rate cuts from their January projection. Fed Chairman Powell emphasized that the recent inflation reading was encouraging, but that the Fed was looking for additional economic data to bolster their "confidence that inflation is moving sustainably down."[1]
- Leaders of the G7 countries, which includes the US, crafted a provisional deal that would use the interest gained from frozen Russian assets—primarily bonds, gold, and other non-Russian currencies frozen by sanctions in European and US banks—to fund about a $50 billion dollar loan to Ukraine to help shore up its finances as the Ukrainian-Russian war moves into its third summer.[2]

ONE MORE THOUGHT: *Recent votes in Mexico and India and upcoming votes in France and the UK roiling markets*[1]

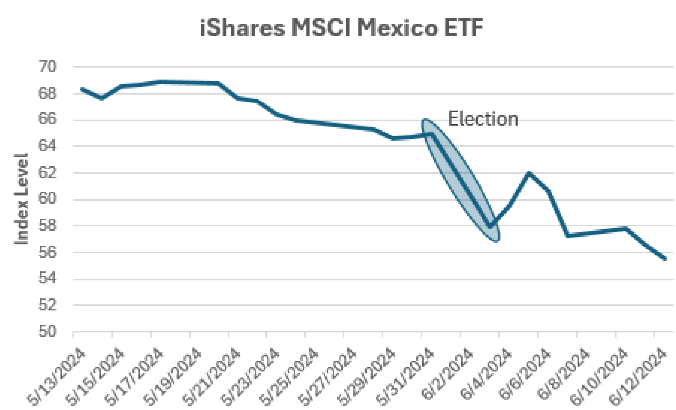
2024 was always going to be a big year for elections, but in recent weeks markets have had to deal with several new electoral surprises. India, which allows for several weeks of voting given the size of its population, saw more than 640 million votes cast. Initial results and early exit polls suggested that current Prime Minister (PM) Narendra Modi and his BJP party would be winning a landslide victory. However, when the official results were announced in early June, Modi's party had 63 fewer seats in the Indian Parliament than it had in the previous election. As a result, the Indian stock market, which had risen sharply on the notion of an empowered Modi with a strong mandate for his business-oriented, reform agenda, sold off as it realized that Modi would have to form a coalition government that

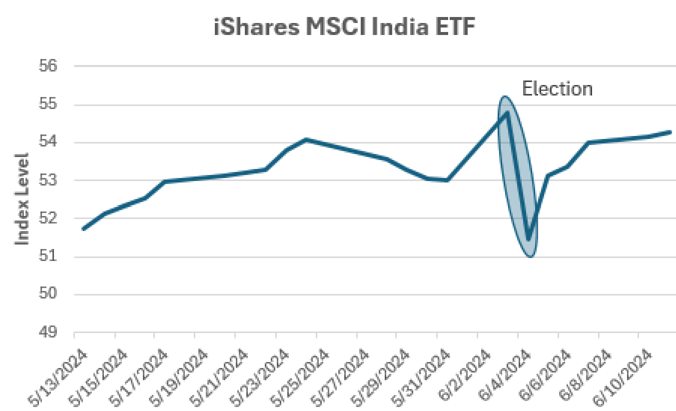
[1] *Bloomberg LP, as of 6/14/2024*

[2] *https://www.ft.com/content/cd38dbad-0441-474d-8aea-bedd77dd4095*

could slow his reform efforts. Most of these stock market losses recovered, however, as Modi was able to quickly form a coalition with some smaller parties that generally align with his vision for improving the Indian economy. Meanwhile, the opposite occurred in Mexico where the Morena party of former President Andrés Manuel López Obrador won a landslide. Not only did Loprez Obrador protégé Claudia Sheinbaum win the Presidency, but the party won a super-majority in the Mexican lower-house (akin to the US House) and fell only 2 votes short of a super-majority in the Senate. Markets had not anticipated such a landslide victory for the Morena party and both Mexican stocks and the Peso sold off on the worry that Morena could use its newfound power to change the Mexican constitution, weakening checks and balances on the President, as well as pursue select populist policies that pressure the Mexican private sector in favor of state-owned firms. Meanwhile, in the United Kingdom (UK), the current PM Rishi Sunak, surprised markets in late May by calling for a new general election in early July. The FTSE 100 Index weakened after the announcement given the current unpopularity of his Conservative Party and the strong likelihood the next PM will come from the opposition, and historically less business friendly, Labor Party. Lastly, in Paris, President Macron surprised everyone by dissolving parliament last week and set new general elections for 30-June where the Presidency and the French legislature will be determined. Macron, whose party was trounced in the recent European Union parliamentary elections felt that without a fresh mandate he risked being a lame-duck President in France. The move is risky, as more nationalistic parties across Europe (including in France) have been making gains as inflation, immigration (mostly from North Africa and the Middle East), and a difficult energy transition have eroded popular support for many mainstream parties. French bonds sold off in the wake of the election announcement as markets try to work out the likelihood that Macron can engineer his re-election or if previously untested, populist parties stand a chance of winning the French Presidency for the first time.

CHART OF THE WEEK





Source: Bloomberg LP, as of 6/13/2024

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