

Six Minute Strategy

Summer blues

August 2024

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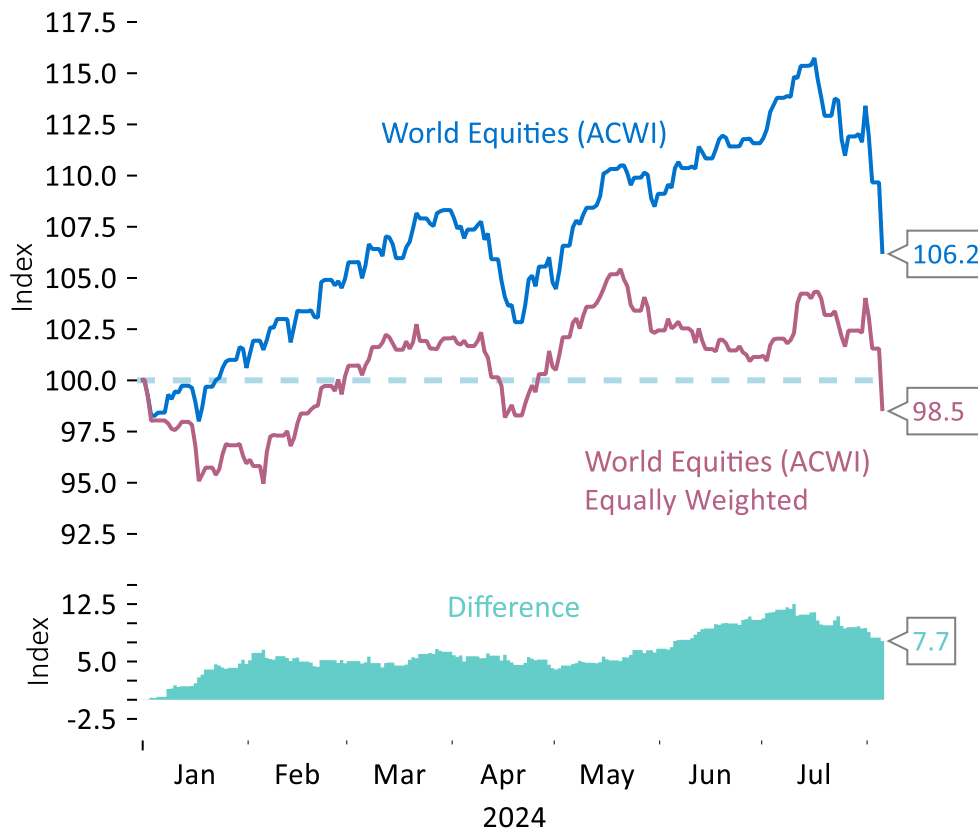


Equities correct as market leadership changes

Market leadership broadens as investors question the durability of the AI-led rally



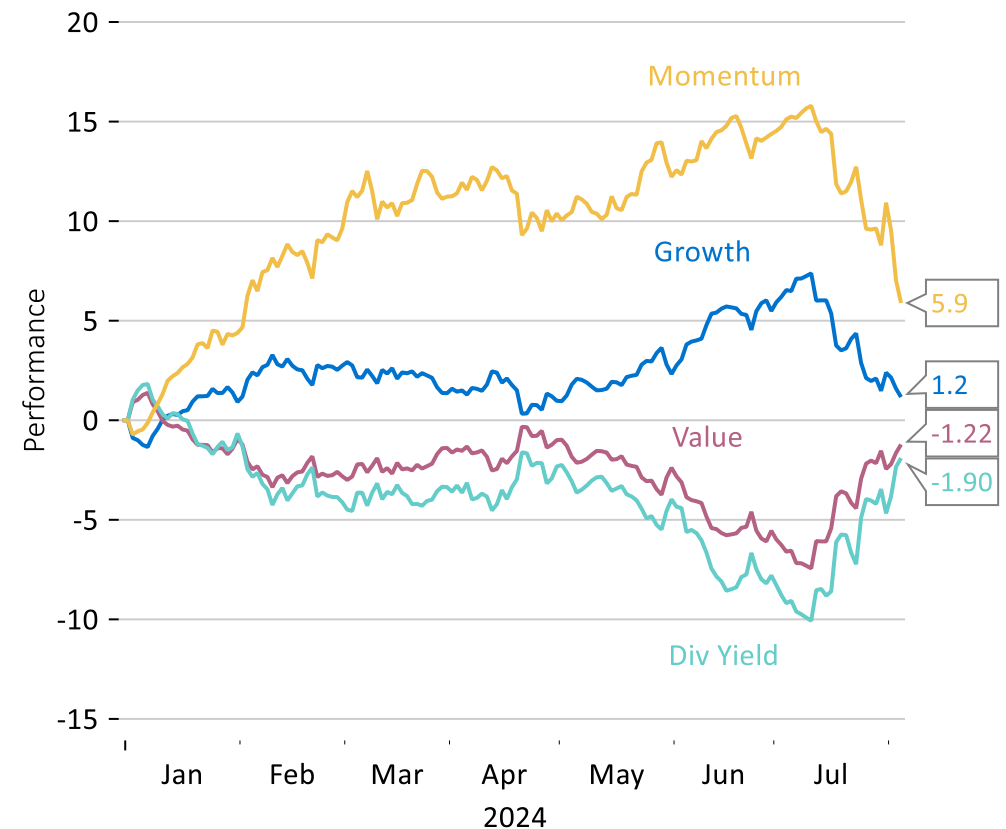
World equities equal & weighted indices



Source: Macrobond, 06.08.24



Factor and style performance MSCI World (AC)



Source: Macrobond, 06.08.24

Past performance is not a reliable indicator of future results and may not be repeated.

This time the tech-led rally has largely been supported by earnings

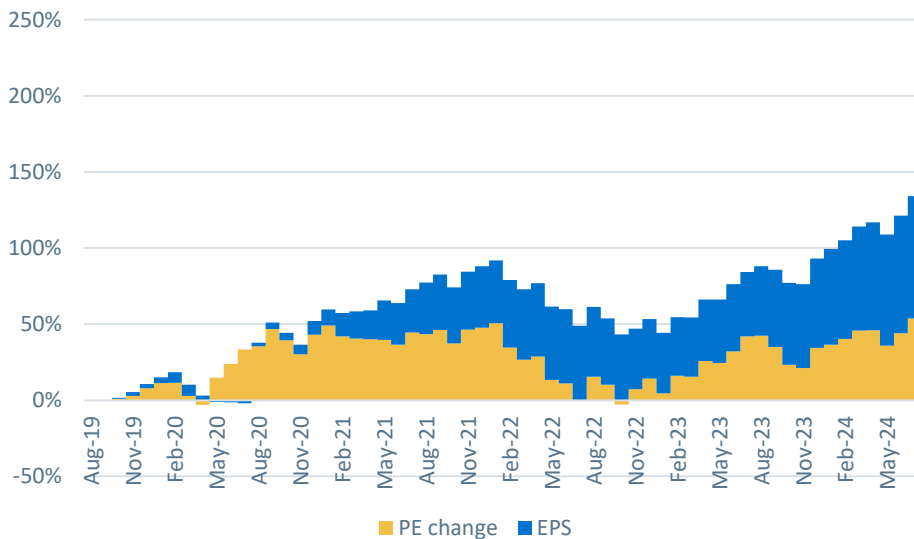
MSCI world tech sector return decomposition



2019 – 2024: Significant contribution from EPS growth

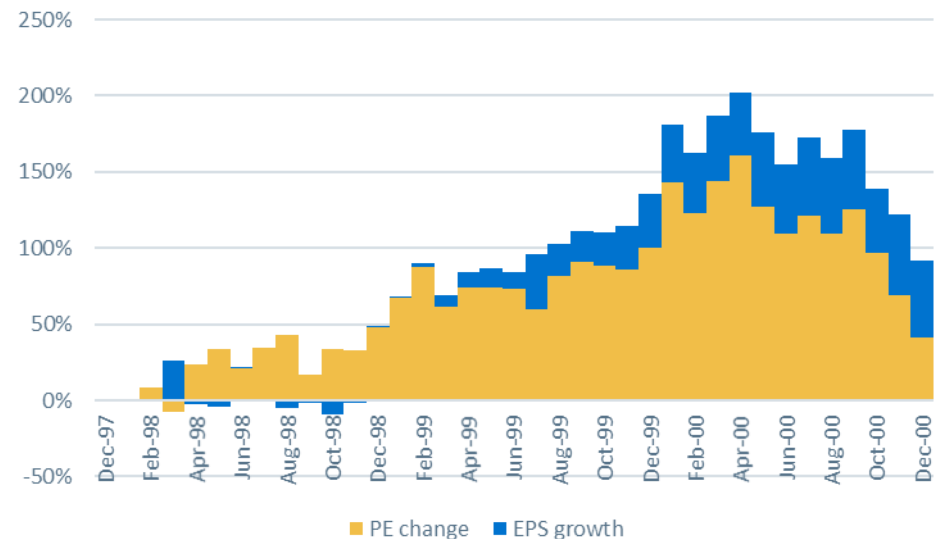


1998-2000: Return dominated by multiple expansion



The AI/Tech rally this time has been more measured, in terms of:

- Slower pace of performance
- Profits growth was a significant contributor to returns
- But massive capital investment in AI will need to show a return for AI / tech rally to continue



1998 -2000 period was a run of 'triumph of hope'

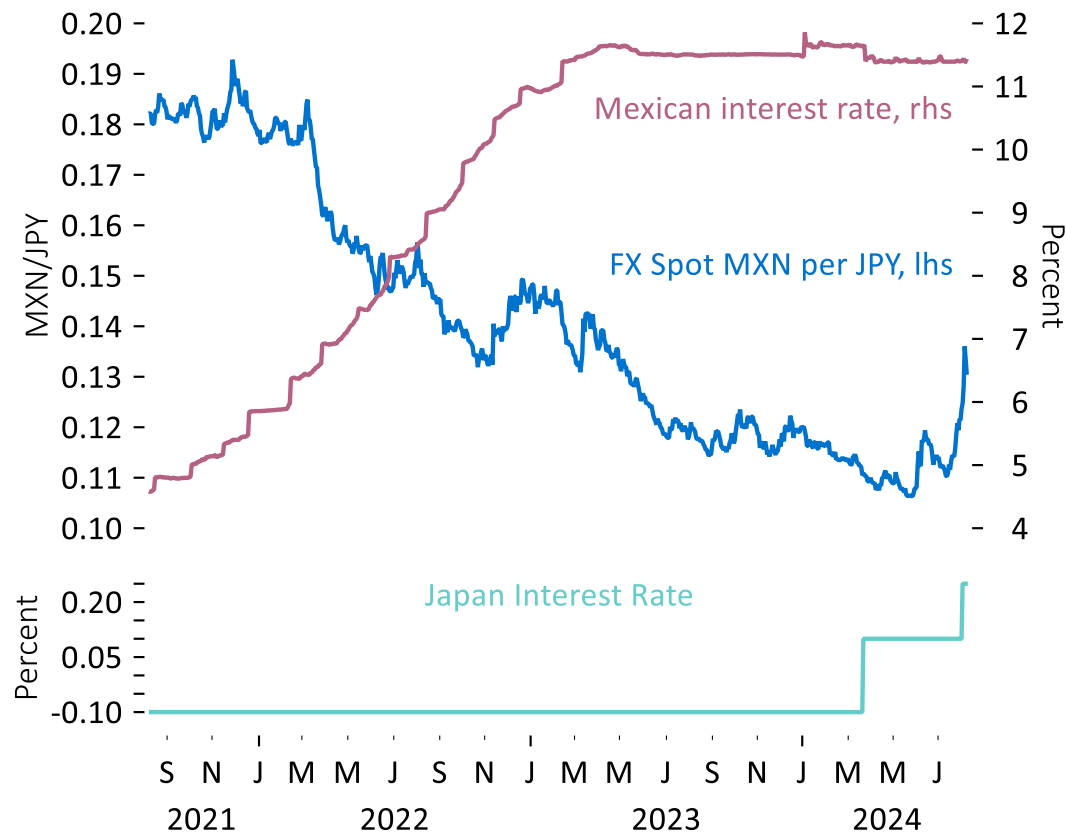
- The market rally was stronger and faster than the current rally
- And it was almost entirely driven by expansion of the price, rather than profit growth
- The hang-over for markets lasted for almost two years

The unwind of the great carry trade



Is the great carry-trade over?

Japan Mexico Carry Trade



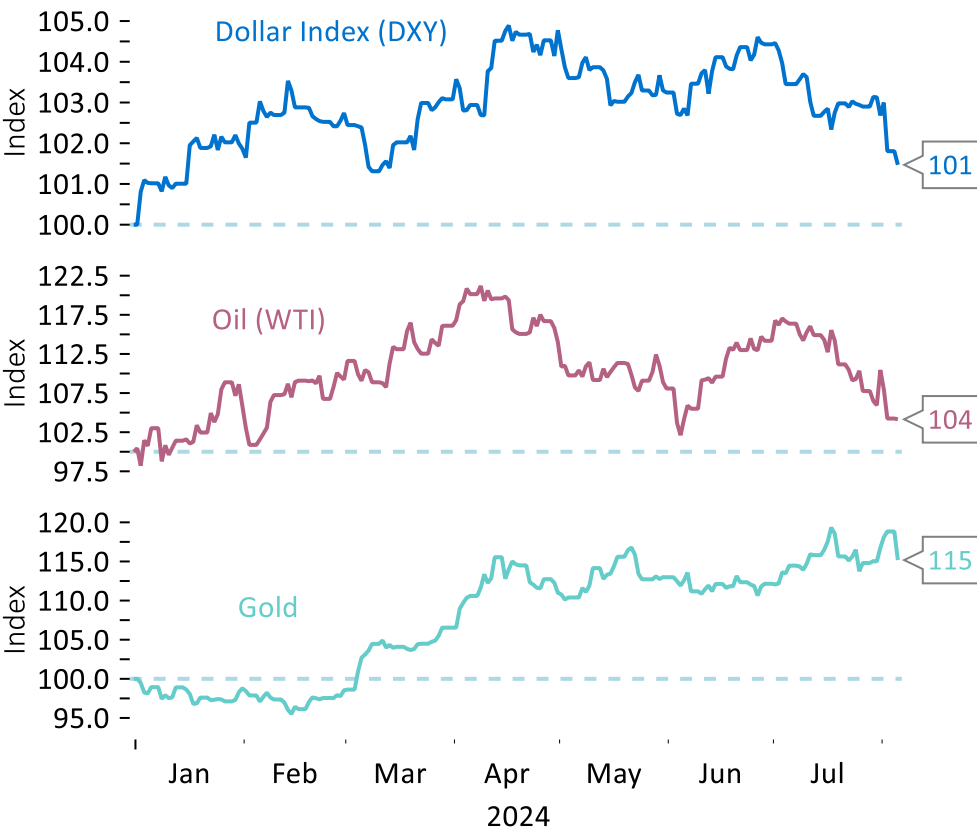
Source: Macrobond, 08.08.24

The Bank of Japan raised rates by 25bps and outlined plans to halve the rate of bond purchases

Gold leads in 2024 – oil, the dollar and bond yields flat

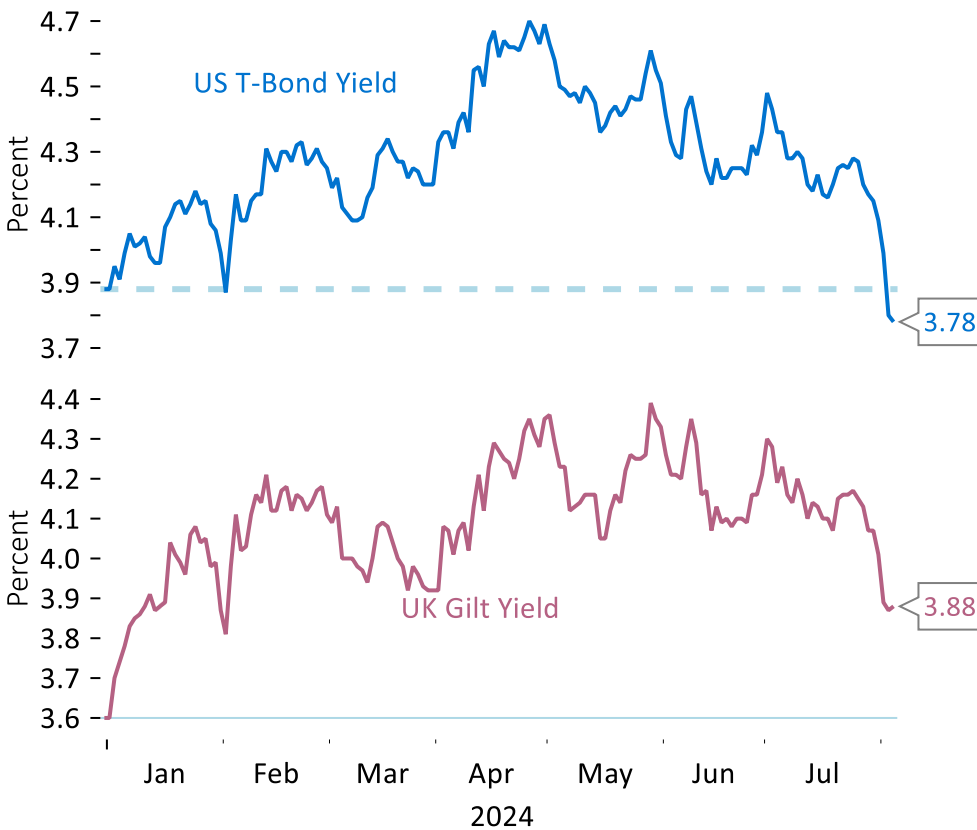
Other assets broadly stable with little contagion from equity markets

 Asset class performance 2024 to date



Source: Macrobond, 06.08.24 WTI – West Texas Intermediate

 Bonds rally back to where they started the year



Source: Macrobond, 06.08.24

Past performance is not a reliable indicator of future results and may not be repeated.

Summary

The summer blues have arrived early – but they are starting to uncover some real pockets of value

1. We will need to manage our AI / tech equities, the supertankers of the markets, with care. Note that their earnings and cashflows are very robust, but markets often overestimate a new technology in the short term, while underestimating the impact in the years to come.
2. Wider equity market leadership will give us more opportunity in value and dividend yield.
3. Other assets (dollar, bond yields, energy) look reassuringly dull, which is welcome in a time of high geopolitical risk.
4. US Vice President Harris has changed the dynamics of the presidential race – at the least it suggests a Red (Rep) or Blue (Dem) wave that will sweep both houses and the presidency is unlikely. This has typically been positive for financial markets.

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