WEEKLY BULLETIN

August 2024: Issue #2

Quote of the Week.

It's attention to detail that makes the difference between average and stunning– Francis Atterbury

Over the past week, the U.S. stock market has staged a significant recovery, with the S&P 500 rebounding by over 6.5% from the lows observed on August 5th, often referred to as the "Black Monday" sell-off, and the technology-heavy Nasdaq surging by more than 8%. This rebound has been driven by two key factors: softer-than-expected inflation data, with both CPI and PPI figures coming in below forecasts, and resilient U.S. economic data, where Retail Sales and Weekly Jobless Claims exceeded expectations. These developments have fueled hopes for a soft landing for the U.S. economy, with some market participants even speculating that the Federal Reserve may cut rates at the September FOMC meeting in response to potential softening in employment.

However, beneath the surface, there appears to be a shift in market dynamics. Notably, the intensity of buying interest seems to have waned since August 5th. While the market has found support in moderating inflation and strong economic data, the ongoing second-quarter earnings season has painted a more nuanced picture. So far, 93% of S&P 500 companies have reported their earnings, with 79% surpassing earnings per share (EPS) estimates. However, the magnitude of these earnings surprises is notably below historical norms. Companies are reporting earnings that are just 3.5% above estimates, significantly lower than the 5-year average of 8.6% and the 10-year average of 6.8%.

This trend of smaller earnings surprises suggests that while companies are generally performing well, the pace of earnings growth may be slowing. The blended earnings growth rate for Q2 2024 currently stands at 10.9%, marking the highest year-over-year growth since Q4 2021. However, the diminishing magnitude of surprises could signal that the market's upside potential is becoming more constrained. To push the stock market to new record highs, a standout earnings report will be required. At this moment, I believe only mega-cap tech companies possess the ability to deliver the high margins and strong demand necessary to drive such a move. All eyes will be on Nvidia's earnings report on August 28th, as it could be a key catalyst for the market.

Last Week 's Notable Events.

US Economy/Politics

- US CPI y/y 2.9% vs exp 3.0%, last 3.0% - 14th Aug
- US economy: not too hot, nor too cold – 15th Aug
- US Retail Sales m/m 1.0% vs exp 0.4%, last -0.2% - 15th Aug
- US Initial Jobless Claims 227k vs exp 235k, last 234k – 15th Aug
- US Uni.of Michigan Consumer Sentiment 67.8 vs exp 66.9, last 66.4 – 16th Aug

Europe Economy/Politics

- Universities fearful as UK riots spark overseas student 'anxiety' – 15th Aug
- FCB warns 'flawed models' on property loans threaten banks – 17th Aug

Asia Pacific Economy/Equity

- Singapore narrows 2024 growth forecast to 2-3%; economy expands 2.9% in Q2 – 14th Aug
- China July Retail Sales y/y 2.7% vs exp 2.6%, last 2.0% - 15th Aug
- China July Residential Property Sales -25.9% vs last -26.9% - 15th Aug
- Japan economy rebounds strongly on consumption boost, backs case for more rate hikes – 15th Aug
- Malaysia GDP growth accelerates to 5.9% in Q2 – 16th Aug
- China FDI y/y -29.6% vs last -29.1% - 16th Aug

Weekly Data Monitor.

Performance

- US markets rallied on rate cut bet.
- MSCI Asia Pacific tracking US recovery.

Weekly chart:

- Oil lower on slower growth risk.
- Gold trading higher on Fed cut risk.

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	3.75	1.75	15.07	25.63	20.47	76.73
S&P500	3.78	1.78	17.84	28.11	26.55	92.30
MSCI Asia Pacific	4.08	0.50	8.94	16.72	-3.37	21.55
Global Real Estate	0.36	2.88	6.10	19.69	-5.40	13.12
US Real Estate	0.17	2.55	7.07	20.82	-1.09	21.76
APAC Real Estate	2.37	1.32	0.38	7.77	-19.46	-20.88
Investment Grade	0.76	1.15	5.78	13.52	8.31	24.27
High Yield Bonds	0.40	2.70	2.20	8.56	-11.54	-5.96
Global HY ETF	3.49	-0.84	7.63	15.51	17.55	28.64
ASIA Real Estate ETF	1.52	3.34	-7.05	-2.43	-17.60	-26.57
USD Index	-0.66	-2.76	-0.07	-2.26	8.26	3.11
Gold	3.06	2.53	21.50	32.26	40.90	67.52
WTI Oil	-0.25	-7.92	0.06	-10.72	15.12	29.61

Chart of the Week.

Recent trends in the China CSI300 index and Foreign Direct Investment (FDI) inflows into China are raising cautionary flags for investors considering Chinese stocks. Since May 2024, the CSI300 has been in a clear downtrend, coinciding with a prolonged decline in FDI that began in 2023. This parallel movement suggests deeper, politically driven undercurrents rather than mere market fluctuations. The significant downtrend in FDI likely ties back to the ongoing US-China trade war, as more U.S. firms progressively unwind investments in Chinese companies—a move likely driven by intensified actions from U.S. lawmakers targeting China. This scenario indicates that the retreat of foreign capital may not be solely due to market conditions or valuations, but rather a response to escalating geopolitical tensions.

Given these suspected risks, it is essential for investors to approach Chinese equities with caution. While current depressed valuations might initially seem attractive, the broader context requires a more nuanced analysis. Before considering substantial exposure to Chinese stocks, it would be prudent to wait for signs of stabilization in foreign capital flows. The return of foreign investment could signal a reduction in geopolitical risks, offering a more supportive environment for taking on additional risks in the Chinese market.