

Chief Investment Office

# Weekly Market Commentary

For professional advisers only



## In Summary

- Better inflation data buoys hopes that the US economy might be able to pull-off a soft landing
- Bank of Japan intervenes to dampen government bond yield moves
- Company Q2 earnings reports reach the half-way point, so far so good
- Another interest rate hike expected from the Bank of England later this week

### Better inflation data buoys hopes that the US economy might be able to pull-off a soft landing

Markets finished last week in positive mood, as softer US inflation data increasingly suggested the economy might be able to pull-off a so-called 'soft' landing (where economic growth slows but avoids recession). Buoying sentiment, both US personal consumption prices and employment costs saw annual gains come in a shade weaker than expected. Looking forward, this week is a relatively busy one for data. It starts with Eurozone consumer inflation later this morning, followed by the US Federal Reserve's (Fed) latest Senior Loan Officer Opinion Survey on bank lending out later today. Central bank decisions are due from the Reserve Bank of Australia on Tuesday and the Bank of England (BoE) on Thursday. Elsewhere, after last week's better US Gross Domestic Product (GDP) Q2 print, this week we get some US purchasing manager survey data on manufacturing and services on Tuesday and Thursday respectively. Wrapping up the week, the US monthly non-farm jobs report is out on Friday, where the consensus is looking for 200,000 jobs added in July.

### Bank of Japan intervenes to dampen government bond yield moves

After the Bank of Japan (BoJ) surprised markets last Friday by effectively loosening its grip on its yield-curve-control monetary policy, this morning we have been reminded that there still limits to how far the BoJ wants to travel for now. Earlier today the BoJ announced an unscheduled Japanese Government Bond (JGB) purchase operation, spending 300bn yen (around \$2.1bn) to buy 5-to-10-year bonds at market yields. This looks consistent with BoJ Governor Kazuo Ueda's comments last week that the BoJ was 'not ready' to allow yields to move freely. It is also interesting that in last week's latest BoJ forecasts, while it raised its median estimate for fiscal 2023 core consumer inflation

(Consumer Price Index (CPI) all items less fresh food and energy) to 3.2% from 2.5% previously, there was no change to fiscal 2024 at 1.7% or fiscal 2025 at 1.8%, which both sit below the BoJ's 2% inflation target.

### Company Q2 earnings reports reach the half-way point, so far so good

We are now half-way through the US company results season, with 51% of US large-market-capitalised companies having reported Q2 results. According to the latest Factset 'earnings insight' report, 80% have reported Earnings Per Share (EPS) above consensus, which is above the 10-year average of 73%. Revenues are also so far proving resilient, with 64% of companies reporting revenues above consensus, just about better than the 10-year average of 63%. Meanwhile the longer-term earnings outlook appears to continue to push-back against wider recession fears, with calendar year-on-year earnings growth expected to rise from a flat +0.4% this year, to +12.6% in 2024. Markets are discounting machines, calibrating expected future outcomes into asset prices today. With a strong year-on-year pickup in earnings growth expected next year, that is helping to give oxygen to markets currently.

### Another interest rate hike expected from the Bank of England later this week

After hikes from both the Fed and the European Central Bank last week, the BoE is expected to follow suit on Thursday. It is still a bit of a close call however between a 25 basis points (bp) or 50bp hike. The BoE will be weighing up strong wage data on the one hand, but against this, there was the better-than-expected consumer inflation data. On balance, markets expect the BoE to hike by 25bps (which would take interest rates up from 5.00% currently, to 5.25%, which would be the BoE's 14th consecutive hike in this cycle) but reiterate data-dependency for its forward guidance.

## Economic indicators (week beginning 24 July)

Day	Data Release	Consensus	Prior	Actual
Monday	France HCOB France Manufacturing PMI Jul P	46	46	44.5
	France HCOB France Services PMI Jul P	48.5	48	47.4
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Jul P	46	46.5	45
	United States S&P Global US Manufacturing PMI Jul P	46.2	46.3	49
	France HCOB France Composite PMI Jul P	47.7	47.2	46.6
Tuesday	Germany IFO Business Climate Jul	88	88.5	87.3
	United States Conf. Board Consumer Confidence Jul	112	109.7	117
	Germany IFO Expectations Jul	83.5	83.6	83.5
Wednesday	United States FOMC Rate Decision (Upper Bound) 46204	5.50%	5.25%	5.50%
	Australia CPI QoQ 2Q	1.00%	1.40%	0.80%
	United States MBA Mortgage Applications 44378	--	1.10%	-1.80%
	United States New Home Sales Jun	725k	763k	697k
	Australia CPI YoY 2Q	6.20%	7.00%	6.00%
Thursday	United States Initial Jobless Claims 44743	235k	228k	221k
	Italy Manufacturing Confidence Jul	99.8	100.3	99.3
	United States GDP Annualized QoQ 2Q A	1.80%	2.00%	2.40%
	United States Durable Goods Orders Jun P	1.00%	1.80%	4.70%
Friday	United States U. of Mich. Sentiment Jul F	72.6	72.6	71.6
	France CPI YoY Jul P	4.30%	4.50%	4.30%
	Germany CPI YoY Jul P	6.20%	6.40%	6.20%
	Japan Tokyo CPI Ex-Fresh Food YoY Jul	2.90%	3.20%	3.00%
	Germany CPI MoM Jul P	0.30%	0.30%	0.30%
	Japan Jibun Bank Japan PMI Mfg Jul P	--	49.8	49.4
	Germany HCOB Germany Manufacturing PMI Jul P	41	40.6	38.8
	United Kingdom Nationwide House PX MoM Jul	-0.30%	0.10%	0.10%
	Australia Retail Sales MoM Jun	0.00%	0.70%	-0.80%
	United Kingdom Nationwide House Px NSA YoY Jul	-4.00%	-3.50%	-3.50%
	Italy Consumer Confidence Index Jul	107.3	108.6	106.7
	United States Personal Income Jun	0.50%	0.40%	0.30%
	United States Personal Spending Jun	0.40%	0.10%	0.50%
	France GDP QoQ 2Q P	0.10%	0.20%	0.50%
	Canada GDP MoM May	0.30%	0.00%	0.30%
	Japan BOJ Policy Balance Rate 46935	-0.10%	-0.10%	-0.10%

Source: Bloomberg, data accessed 31.07.23



## Economic indicators (week beginning 31 July)

Day	Data Release	Consensus	Prior
Monday	Japan Industrial Production MoM Jun P	2.40%	-2.20%
	Italy CPI EU Harmonized YoY Jul P	6.50%	6.70%
	China Manufacturing PMI Jul	48.9	49
	Italy CPI EU Harmonized MoM Jul P	-1.40%	0.10%
	United Kingdom Mortgage Approvals Jun	49.0k	50.5k
	Italy GDP WDA QoQ 2Q P	0.00%	0.60%
	Australia Melbourne Institute Inflation MoM Jul	--	0.10%
	United States MNI Chicago PMI Jul	43.4	41.5
	Italy GDP WDA YoY 2Q P	0.90%	1.90%
Tuesday	Australia RBA Cash Rate Target 37104	4.35%	4.10%
	Japan Jobless Rate Jun	2.60%	2.60%
	France HCOB France Manufacturing PMI Jul F	44.5	44.5
	United States ISM Manufacturing Jul	46.9	46
	China Caixin China PMI Mfg Jul	50.1	50.5
	Germany HCOB Germany Manufacturing PMI Jul F	38.8	38.8
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Jul F	45	45
	Canada S&P Global Canada Manufacturing PMI Jul	--	48.8
	United States S&P Global US Manufacturing PMI Jul F	49	49
	Australia Building Approvals MoM Jun	-8.00%	20.60%
	Japan Job-To-Applclicant Ratio Jun	1.32	1.31
	United Kingdom Nationwide House Px NSA YoY Jul	-4.00%	-3.50%
	Germany Unemployment Change (000's) Jul	200k	28.0k
Wednesday	United States MBA Mortgage Applications 46935	--	-1.80%
	United States ADP Employment Change Jul	183k	497k
Thursday	United Kingdom Bank of England Bank Rate 37834	5.25%	5.00%
	United States Initial Jobless Claims 47300	227k	221k
	United States Durable Goods Orders Jun F	4.70%	4.70%
	France HCOB France Services PMI Jul F	47.4	47.4
	France HCOB France Composite PMI Jul F	46.6	46.6
	United States Factory Orders Jun	2.10%	0.30%
	Australia Trade Balance Jun	\$10750m	\$11791m
Friday	United States Change in Nonfarm Payrolls Jul	200k	209k
	Canada Unemployment Rate Jul	5.50%	5.40%
	Italy Industrial Production MoM Jun	-0.40%	1.60%
	Japan Jibun Bank Japan PMI Mfg Jul F	--	49.4
	Italy HCOB Italy Manufacturing PMI Jul	44.3	43.8
	United States Unemployment Rate Jul	3.60%	3.60%
	United Kingdom Nationwide House PX MoM Jul	-0.50%	0.10%
	France Industrial Production MoM Jun	-0.30%	1.20%
	Germany Factory Orders MoM Jun	-2.00%	6.40%
	Canada Net Change in Employment Jul	25.0k	59.9k

Source: Bloomberg, data accessed 31.07.23

## Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2197	0.36%	0.40%	2.46%	4.84%
MSCI USA USD	4361	1.04%	1.05%	19.81%	20.59%
MSCI Europe ex UK EUR	188	1.09%	1.12%	12.40%	14.66%
MSCI AC Asia Pacific ex JPN USD	539	2.53%	2.56%	6.51%	8.33%
MSCI Japan JPY	1406	1.23%	1.23%	22.19%	23.63%
MSCI Emerging Markets USD	1043	2.82%	2.85%	9.08%	11.02%
Barclays Sterling Gilts GBP	218		-0.48%		-3.38%
GOLD USD	1959	-0.12%		7.43%	
WTI Oil USD	81	4.55%		0.40%	
MSCI PIMFA Income		0.26%	0.29%	2.50%	3.90%
MSCI PIMFA Balanced		0.36%	0.39%	3.67%	5.07%
MSCI PIMFA Growth		0.57%	0.60%	5.37%	6.76%

Source: Bloomberg, MSCI; please see important information, data accessed 31.07.23

**YTD denotes year to date, TR denotes total return and CR denotes capital return.**



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