



Weekly Market Report For : 1 – 5 July 2024

Overview

- U.S. labor market showed sign of slowing, boosting expectations for interest rate cuts in September.
- S&P 500 and NASDAQ hit another record highs amid rising expectations for monetary policy easing.
- Euro zone inflation eased in June. Market expected two more rates cuts this year from the ECB
- The British pound held firm after the Labour Party has won a landslide victory in the UK general election.
- Goldman Sachs lifted UK GDP growth forecasts it saw the general election results supported political stability.
- A left-wing alliance has won the most seats in France's snap election, ahead of Macron's centrist alliance, and far-right and its allies were restricted to third place.

Market Brief

- U.S. economic data and employment report signaled that the economy is cooling, bolstering expectations that the Federal Reserve may begin to ease policy rates in September. S&P 500 +1.95% and NASDAQ +3.5% to reach new all-time highs.
- U.S. economic showed signs of cooling.
 - Service ISM plunged to a 4-year low of 48.8, below 50 level and lower than market estimates
 - ADP Employment Change was weaker than expected.
 - Initial jobless claims rose more than expected.
- Nonfarm Payroll increased by 206,000, exceeding market estimates of 190,000 – 200,000. On the other hand, unemployment rate inched up to 4.1%, the highest level since October 2021 and higher than market forecasts of 4.0%.
- Market views that overall U.S. job market is on a downward trend as payrolls in the previous two months were revised down by 111,000. Investors are betting that there is a 70% chance of a rate cut by September, up from 58%, and expects the Federal Reserve will cut its key interest rate twice this year – in September and December. As a result, U.S. Treasury yield dropped by 10 bps to 4.3%, U.S. shares gained, dollar weakened, and gold price climbed.
- Both Jerome Powell's speech at the ECB Forum in Portugal and the latest FOMC minutes carry the same message, i.e., labor market is cooling, economic activity is slowing, and inflation tend to move toward the central bank's target. However, the Federal Reserve officials want to be more confident that inflation is moving sustainably toward the 2% target before the central bank start loosening policy.
- Euro zone inflation printed at 2.5% in June as expected, easing from 2.6% in the prior month. Market expected two more rate cuts from the ECB before the end of this year.
- Labour is back in power in the UK after 14 years. Keir Starmer led his Labour Party to a landslide victory in the UK general election, won 411 seats from a total of 650 seats. For the Conservatives – the party of Rishi Sunak – got 121 seats. British pound gained against the dollar and the euro.
- Goldman Sachs viewed that a huge Labour election win should promote political stability in the UK and could spur economic growth. The investment bank upgraded its GDP forecasts for the UK for 2024 and 2025.
- Market expected Keir Starmer to deliver economic growth and stability along with appropriate fiscal policy. The party also seek to work more closely with the EU on issues such as trade and security cooperation which could mitigate some of the costs of Brexit and help supporting the UK economy.
- The left-wing New Popular Front coalition was the winner of second round snap election in France with President Macron's centrist coalition coming in second and beating Marine Le Pen's far-right National Rally into third place.
- Since no party or coalition secured the 289 seats needed for an absolute majority in the France's snap elections, they could seek to build a coalition. There is no clear direction for now.

Investment Outlook


- Market is expected to be led by U.S. inflation figures, which is scheduled to be released during this week. If inflation is lower than expected, investors should raise their bet on September rate cuts and bolster demand for risky assets.
- The most important event of the week is the U.S.'s June inflation report, which is expected to register a year-over-year gain of 3.1%, slowing down from 3.3% in a month earlier. Citigroup Inc., Wells Fargo & Co., and JPMorgan Chase & Co. will report their second quarter earnings on Friday.

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