iFlow WEEK AHEAD

July 21, 2024

Changing Horses

“If you are fearful, a horse will back off. If you are calm and confident, it will come forward. For those who are often flattered or feared, the horse can be a welcome mirror of the best in human nature.” – Clare Balding

“Never change horses in midstream.” – Abraham Lincoln

Summary:

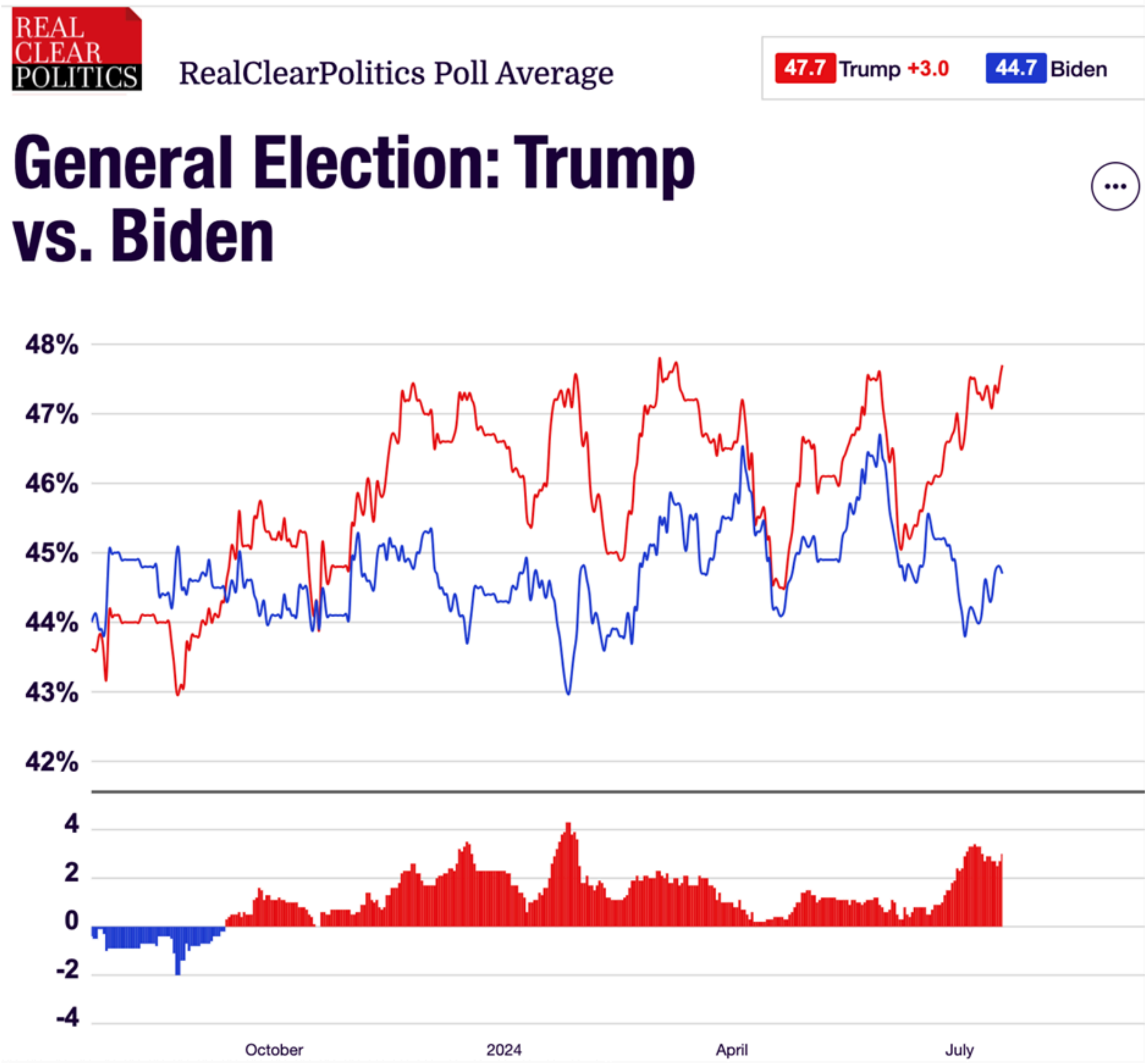
The focus in the week ahead will stick to political risks across markets. The shift from a focus on the US FOMC decisions to the US November 5 election was abrupt and caught markets by surprise in the last week. The rotation trades in equities were a mixture of both changing odds of a Trump Presidency and of a September Fed cut. The US GDP and core PCE price index will matter but so too will the 2Q earnings onslaught as 27% of the index reports. The polls and the focus on Biden's replacement to the democratic ticket add volatility. Much of the drivers that mattered most to markets in the first half of 2024 seem to be changing. The shift from inflation fears to growth ones, from commodity super cycles to doubts about global demand, from AI hype and globalization to economic nationalism and deficits. The decision by the Bank of Canada this week will be watched closely as most expect another easing and the divergence from the Fed will test the US dollar and carry trade drivers in FX along with the relationship of bond curves to easing plans. The changing of mood in the last week brought a significant down shift in equities, the worst week since April, while the USD actually rallied modestly up 0.5% and with bond yields ending the week higher after more realized volatility. Expect more of the same as investors try to cross the river of doubts, even as politics and rate policy

shifts wash away more than a decade of seasonal bias to just be long risk and go to the beach. This is the summer to consider other horses other than momentum and carry to traverse markets in the pursuit of gains.

Themes for the week ahead:

- **Cyberattacks and disruption risks.** The globalization risk from software came to front of the worry list as the CrowdStrike IT botched upgrade shut down thousands of flights, hit businesses aground the world, and could take weeks to remedy as an estimated 8.5mn or 1% of personal computers may need manual fixes. While the pain of the software glitch was self-inflicted its origin came from hacking with the May Microsoft troubles driving some of the push for alternative protections globally. What seems clear from the events of Friday is that national protections against cyber-attacks will be a new focus and expense. The state sponsors of such acts will lead to more scrutiny of who provides them connectivity and the ramps for such acts. Further regionalization of the global economy follows making the world less efficient and adding to inflation concerns.
- **China New Stimulus and Confidence** - China released a 60-point document on Sunday on policy goals, ranging from developing advanced industries to improving the business environment, adopted at the end of a Communist Party Central Committee meeting, but with few implementation details. Promises that the markets will play a decisive role in resource allocation, that the government will work on legislation to improve conditions for the private sector, and will introduce fiscal, land and financial reforms were similar to the same 2012 document. Other policy targets included boosting affordable housing, improving job opportunities for young people and the standard of living for the elderly. Like most documents of this kind, it did not say how Chinese leaders intended to reach those goals, many of which would require policies that are contradictory in nature, as Party officials acknowledged on Friday. The contradiction of China growth vs. stability are hanging over APAC markets and flows still leaving CNH and commodities a key focus.
- **US Politics and the Polls driving markets**. The last week brought a "Trump trade" back in focus. The odds of the former President being elected went up during the RNC but moderated on further talk of current President Biden being replaced in the race to November. Markets appear to be tracking the polls as a guide to bonds and the USD - adding to overall volatility surrounding economic and earnings releases. The key focus for the week ahead pivots on Biden's

replacement in the election. Democrats continue to wrestle over who to run. More than 35 congressional Democrats called for Biden to step aside and now the work to figure out who starts. There are two paths for replacing him at the top of the Democratic ticket. One is a virtual vote that would lock in a new nominee in early August, and the other is an “open” convention, a scenario the party hasn’t experienced since 1968.



What are we watching:

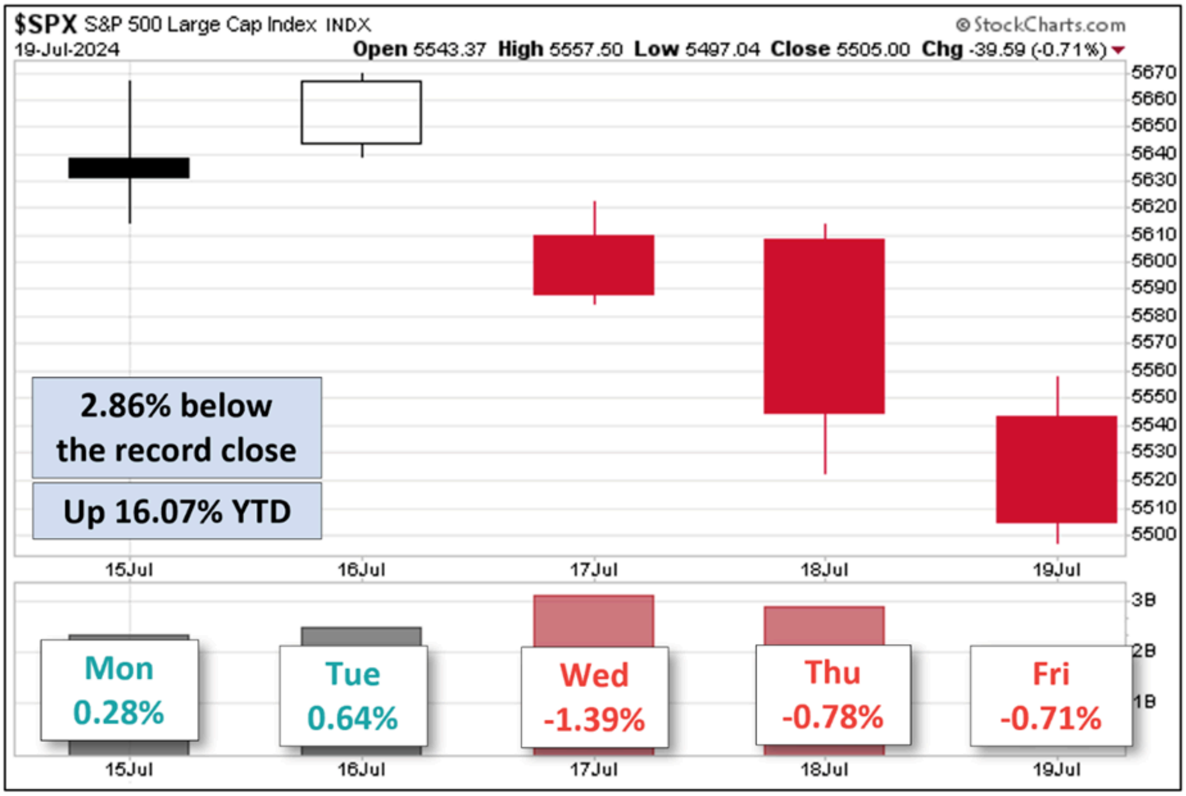
- **Economic Releases: Monday** - NZ Trade, Mexico retail sales; **Tuesday** - Singapore CPI, US existing home sales; **Wednesday** - flash global PMIs, German GfK consumer confidence, South Africa CPI, Mexico CPI, US new home sales; **Thursday** - Korea GDP, EU M3, German Ifo, US durable goods, 2Q flash GDP; **Friday** - Japan Tokyo CPI, Sweden jobs, US core PCE and personal income/spending, final Univ. Michigan consumer sentiment.

- **Central Banks: Monday** - China PBOC LPR rate decisions, ECB monetary survey; **Tuesday** - India budget, ECB Lane, Hungary BNM rate decision, Turkey TCMB rate decisions; **Wednesday** - ECB Guindos, Canada BOC rate decision; **Thursday** - G20 Fin Min and Central Bankers meeting, ECB Lagarde; **Friday** – Singapore MAS policy decision, Russia CBR decision.
- **Issuance:**
    - **US rate markets see $183bn in Treasury notes** and $30bn in FRN next week - **Monday, July 22**: Treasury to auction $76 billion 3-month bills, $70 billion 6-month bills; **Tuesday, July 23**: Treasury to auction $70 billion 42-day bills, $69 billion 2-year notes; **Wednesday, July 24**: Treasury to auction $30 billion 2-year FRN, $70 billion 5-year notes, TBA 17-week bills; **Thursday, July 25**: Treasury to auction $44 billion 7-year notes, TBA 4-week bills, TBA 8-week bills; issue weekly offering announcements;
    - **EU rate markets see E17bn in issues** from Belgium, German and Italy **– Monday** Belgium sells E2.5bn in 10Y and 30Y OLO; **Tuesday** Germany sells E5bn in 2Y Schatz; **Wednesday** German sells E5bn in 10Y Bunds and **Thursday** Italy sells E 7bn with 2-5Y BTP and BTPei.
    - **UK sells GBP2.25bn of conventional bonds** and GBP1bn in linkers. Tuesday 15Y Gilt Linker for 1bn GBP and Wednesday 30Y Gilt for GBP2.25bn.

What changed this week:

- **US S&P500 fell 1.97% on the week** - the largest fall since April. The index is currently up 16.07% year to date and has recorded a new all-time high 38 times this year. The DJIA rose 0.72% as blue chips rose along with the Russell 2000 up 1.72% in contrast to the NASDAQ off 3.65%. In other markets the EuroStoxx 50 fell 4.28%, German DAX fell 3.07% while China CSI 300 rose 1.92% and the Australian ASX rose 0.15. The worst performer was Hong Kong Hang Seng off 4.79%.

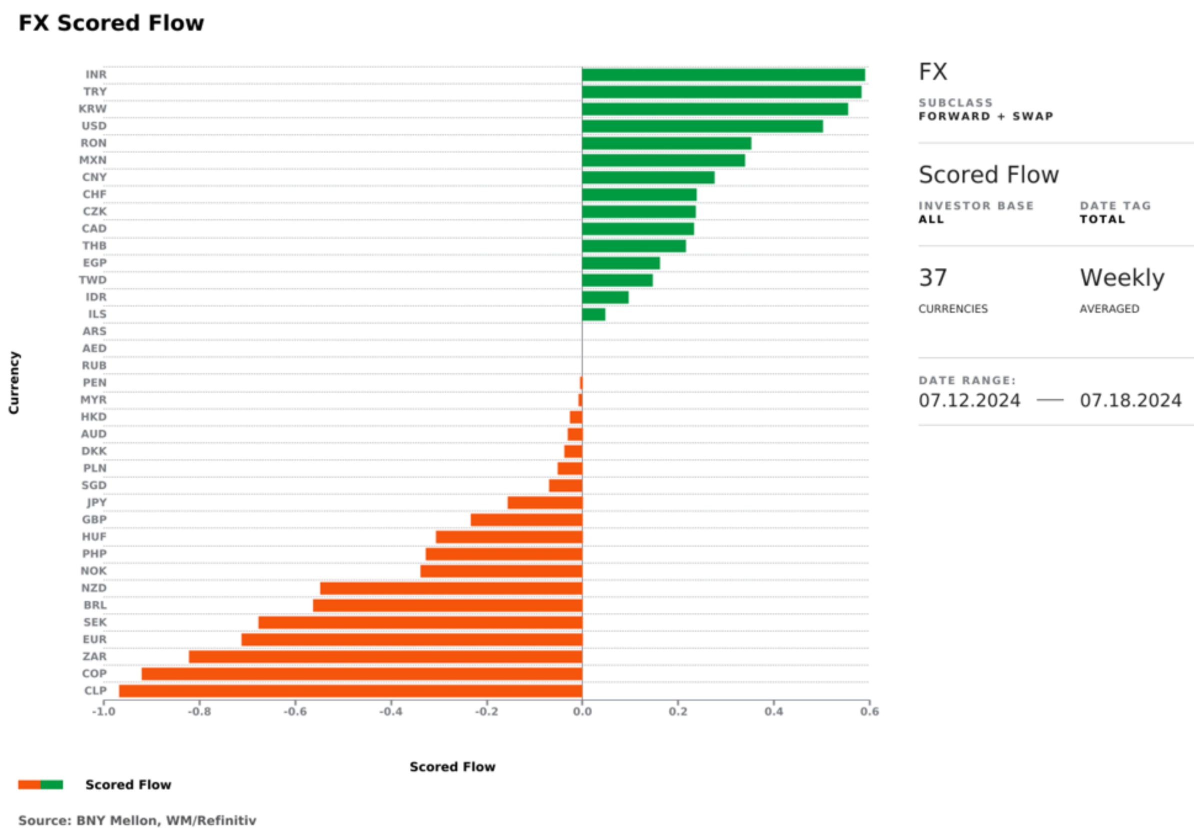
Exhibit #1: US S&P500 worst week since April



Source: Bloomberg, BNY

- **In FX markets, the US dollar rallied 0.5% on the broad index** with only CHF and JPY gains – while emerging markets fell notably – particularly CLP off 4.2%, BRL off 3%, MXN off 2.4% and ZAR off 1.7%. The focus on TRY being flat and seeing further inflows was at odds with the flight of tech flows in TWD and KRW. The iFlow carry factor returned to flat after weeks of being negative, while momentum continued albeit at a less torrid correlation. The role of the Trump trade and carry factors clash in markets and likely will continue to do so this week ahead.
- **In Fixed Income**, the US bonds flipped back to a curve flattening with 2Y 4.51%, 5Y 4.166% and 10Y at 4.24% while 30Y fell back to 4.45% - the odds of September easing moderated a bit on higher PPI and better GDPnow from retail sales and inventories. The global bond markets were mixed as the ECB hold disappointed and so French OATS rose 2bps, BTPs same with the biggest movers were New Zealand on lower CPI with 10Y yields off 7.5bps to 4.355% while UK Gilts rose 2bps on the new Labour plans at 4.12% despite weaker data and mixed CPI.

Exhibit #2: India and Turkey lead while LatAm lags in flows



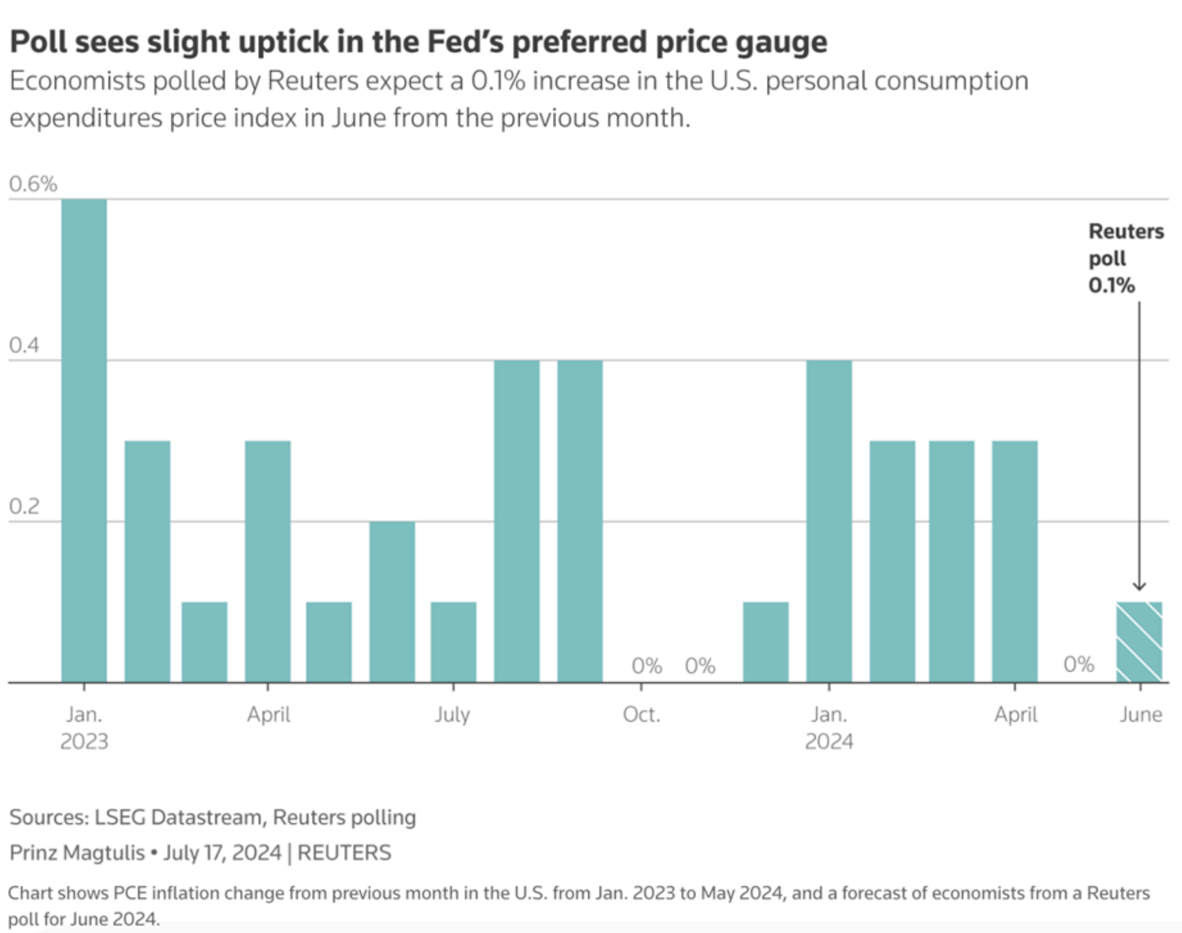
Source: iFlow, BNY

News Agenda and Weekly Themes – US GDP and Core PCE prices, 2Q Earnings, Tokyo CPI, flash PMIs

In the United States, key highlights will include the advance Q2 GDP growth rate, PCE inflation, and personal spending and income. Additionally, other notable releases will feature the S&P Global Manufacturing and Services PMI, durable goods orders, and existing home sales. Earnings season will hit a crescendo with over thirty companies boasting market caps exceeding $100 billion set to unveil their financial reports. Globally, Flash Manufacturing and Services PMI data will be published for Australia, Japan, India, France, Germany, the Euro Area, and the United Kingdom. Germany will also see the release of its Ifo business climate and GfK consumer confidence indices. The Bank Negara Malaysia, Bank of Canada, Central Bank of Turkey, and People's Bank of China are set to announce its interest rate decision, while South Africa will report its inflation rate. South Korea's GDP growth rate will also be closely monitored.

1. US Core PCE price index and the FOMC September cut - the July 31 Fed meeting is widely expected to lead to some indication of a September easing and much of that will pivot on the Friday release of June’s personal consumption expenditures core price index. The reaction of the Fed to the data will have to wait given the black out period but any surprise could lead to leaks to the press. The PCE is expected to have risen just 0.1% m/m, which would put the 3M core PCE average below 3%, adding to the CPI report suggesting disinflation over the last 3 months has returned after the 1Q stall. The other focus is on Financial Conditions - FCI - and how stock market volatility could add to worries that the US high for longer is hurting the broader economy. Several days after CPI, Fed Chair Jerome Powell said second-quarter inflation readings "add somewhat to confidence" that the pace of price increases is returning to the Fed's target in a sustainable fashion. Investors will be watching corporate results, as Tesla and Alphabet feature in a busy week for earnings with 138 of the S&P500 reporting.

Exhibit #3: US core PCE prices 3M average below 2%?



Source: Reuters, BNY

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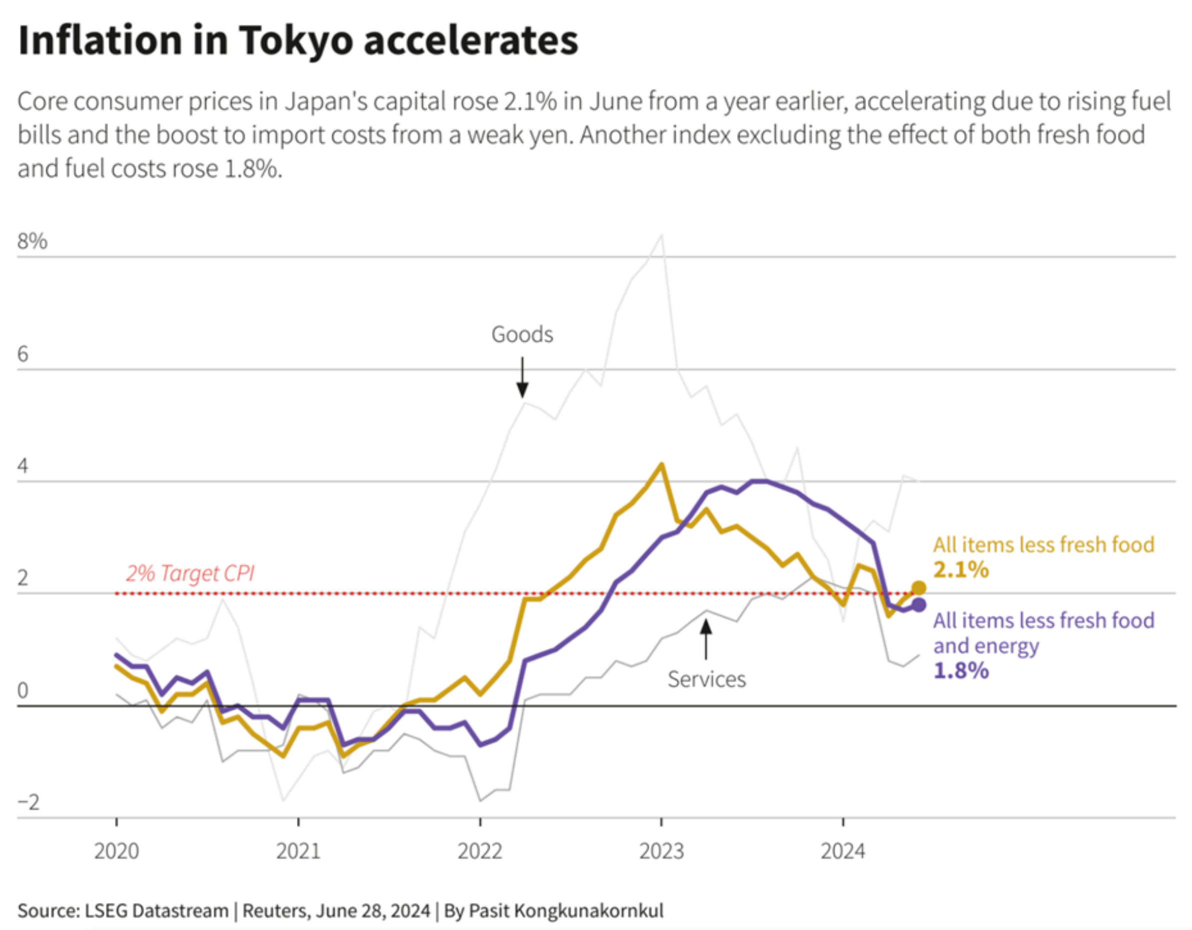
2. Japan Tokyo CPI and the BOJ hike - The ongoing JPY weakness has been a key focus for markets with the MOF intervention on US CPI notable and sufficient to cap the currency at 160 still, but the key test for the week will be the Friday Tokyo CPI release as any slowdown in inflation could cast doubt on the speed of BOJ policy adjustments. The focus of the market is on the even odds of a 15bps hike July 31 and some cutting back of bond buying - flipping from a policy that adds to the balance sheet to shrinking it - QE to QT. The size of the bond buying from Y6trn to something below Y4.5trn matters significantly to global fixed income markets. The role of the weaker JPY on CPI is going to be in play all week. cost pressures from a weak yen, which has fallen some 10% against the dollar this year, could heighten the chance of inflation staying well above the BOJ's 2% target, though that has also inadvertently hurt households.

Exhibit #4: Tokyo CPI to add to BOJ hike pressures



Source: Reuters, BNY

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3. Recovery and Politics with global PMI flash July reports - The Wednesday release of global flash July PMI reports could cast a shadow over the ECB decisions last week to hold rates. Investors will also be watching the US and UK data for further signs of easing ahead. In general, the laggard of France stands out and connects to the current concern about politics everywhere. In some ways the French PMI will be compared to the US one. Flash purchasing managers' indices out on July 24 will show if the ECB's challenge is getting any easier. The euro zone PMIs, based on business managers' observations of price and demand trends, could be especially influential after the ECB held interest rates at 3.75% and resisted offering future guidance, saying it was "data dependent." The central bank, which lowered borrowing costs for the first time in five years in June, does see inflation moderating. Money markets are firmly pricing a September rate cut, supporting euro zone stocks, government bonds and the euro for now, but also raising the threat level of any PMI result that could shift the ECB's view.

Exhibit #5 PMIs matter to politics and policy

Recovery in French business activity has lagged its peers

Composite Flash Purchasing Managers' Index (PMI) across major economies. Expansion > 50 > Contraction

Last 12 months	July 2023	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. 2024	Feb.	Mar.	Apr.	May	June
Australia	48	47	50	47	46	47	48	52	52	54	53	51
Euro zone	49	47	47	47	47	47	48	49	50	51	52	51
France	47	47	44	45	45	44	44	48	48	50	49	48
Germany	48	45	46	46	47	47	47	46	47	51	52	51
UK	51	48	47	49	50	52	53	53	53	54	53	52
U.S.	52	50	50	51	51	51	52	51	52	51	54	55
Japan	52	53	52	50	50	50	51	50	52	53	52	50

Source: LSEG Datastream | Reuters, July.18, 2024 | By Vineet Sachdev

Reuters Graphics Reuters Graphics

Source: Reuters, BNY

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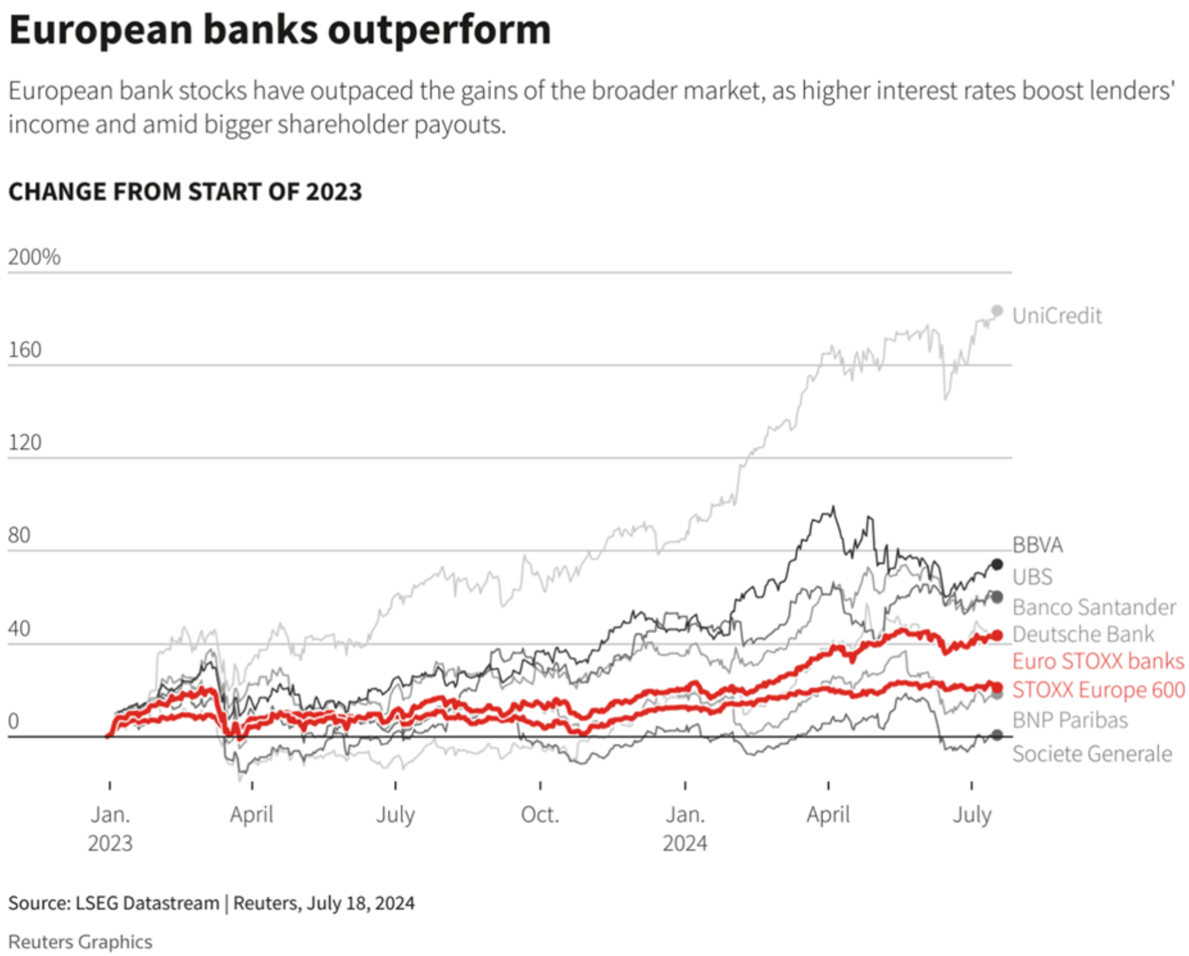
4. European 2Q Earnings and Banks - European bank earnings reports will matter across markets in the week ahead. A busy Wednesday sees Germany's Deutsche Bank, Britain's Lloyds, BNP Paribas in France, Spain's Santander and Italy's UniCredit all update investors, with more banks reporting the following week. Analysts say the read-across from U.S. firms that have already reported is that stronger investment banking revenues should boost lenders with large investment bank arms such as Deutsche and Switzerland's UBS (UBSG.S), opens new tab, but markets have little tolerance for interest income numbers that disappoint. The surge to higher rates helped in the last 2 years and that reversal will be watched along with political risks as shown by the French election fall out. The FT highlighted the risk of fallout from earnings misses last week - with the ASML move an example. Volatility in EU shares could be a problem for EUR and EU rates throughout the week.

Exhibit #6: Bank earnings matter to EUR



Source: Reuters, BNY

Weekly Calendar – July 22-27

Central Bank Decisions

- **Turkey CBRT (Tuesday, July 23) –** No change is expected by the CBRT and recent commentary suggests that inflation pressures will require headline rates to remain unchanged. There has been a minor tweak, however, as the rate on FX-protected deposits has been lowered to 35%. Domestic considerations aside, the recent turn in the Fed's outlook may have contributed to the decline and is a signal that policy space may open up for TCMB and other central banks as dollar pressures ease. On the other hand, the real rate outlook in the US is also volatile so early easing may could also prove premature.

- **Hungary MNB (Tuesday, July 23) –** The MNB is expected to reduce rates but an additional 25bp to 6.75%, though there will be risks of an unchanged decision as well given the state of domestic demand and wages, which continues to show double-digit growth on an annualised basis. However, there are other signs of softness in the economy, as manufacturing PMI is back in contraction and retail sales growth has also slowed. Crucially, inflation has not been positive for May and June, which has brought headline inflation firmly down to the 3%-handle and offering a comfortable real rate buffer, which needs to be maintained in the current environment where both the ECB and Fed are facing fiscal risks to the upside.
- **Canada BoC (Wednesday, July 24) –** We expect the Bank of Canada to lower rates again this week, in line with market expectations. The Governing Council meeting will coincide with the release of the quarterly Monetary Policy Report, which we expect to be dovish reading. Market-implied probabilities still have room to price in additional cuts this year, and we expect them to rise as the Canadian economy shows sustained signs of weakening.

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior
07/21/24	23:45	18:45	NZ	Trade Balance NZD	Jun	--	204m
07/23/24	***12:00***	***07:00***	***TU***	***One-Week Repo Rate***	***Jul-23***	***50.00%***	***50.00%***
07/23/24	***13:00***	***08:00***	***HU***	***Central Bank Rate Decision***	***Jul-23***	***6.75%***	***7.00%***
07/23/24	15:00	10:00	US	Existing Home Sales	Jun	4.00m	4.11m
07/24/24	01:30	20:30*	JN	Jibun Bank Japan PMI Mfg	Jul P	--	50
07/24/24	08:30	03:30	GE	HCOB Germany Manufacturing PMI	Jul P	44.2	43.5
07/24/24	09:00	04:00	SA	CPI YoY	Jun	5.10%	5.20%
07/24/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Jul P	46	45.8
07/24/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Jul P	51.2	50.9
07/24/24	12:00	07:00	US	MBA Mortgage Applications	Jul-19	--	3.90%
07/24/24	***14:45***	***09:45***	***CA***	***Bank of Canada Rate Decision***	***Jul-24***	***4.75%***	***4.75%***
07/24/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Jul P	--	51.6
07/24/24	15:00	10:00	US	New Home Sales	Jun	640k	619k
07/25/24	09:00	04:00	GE	IFO Business Climate	Jul	89	88.6
07/25/24	13:00	08:00	BZ	IBGE Inflation IPCA-15 MoM	Jul	--	0.39%
07/25/24	13:30	08:30	US	GDP Annualized QoQ	2Q A	1.80%	1.40%
07/25/24	13:30	08:30	US	Initial Jobless Claims	Jul-20	--	243k
07/25/24	13:30	08:30	US	Durable Goods Orders	Jun P	0.50%	0.10%
07/26/24	00:30	19:30*	JN	Tokyo CPI Ex-Fresh Food YoY	Jul	2.20%	2.10%
07/26/24	11:30	06:30	RU	Key Rate	Jul-26	18.00%	16.00%
07/26/24	13:30	08:30	US	Personal Income	Jun	0.40%	0.50%
07/26/24	13:30	08:30	US	Personal Spending	Jun	0.20%	0.20%
07/26/24	15:00	10:00	US	U. of Mich. Sentiment	Jul F	--	66

Key Speeches/Events

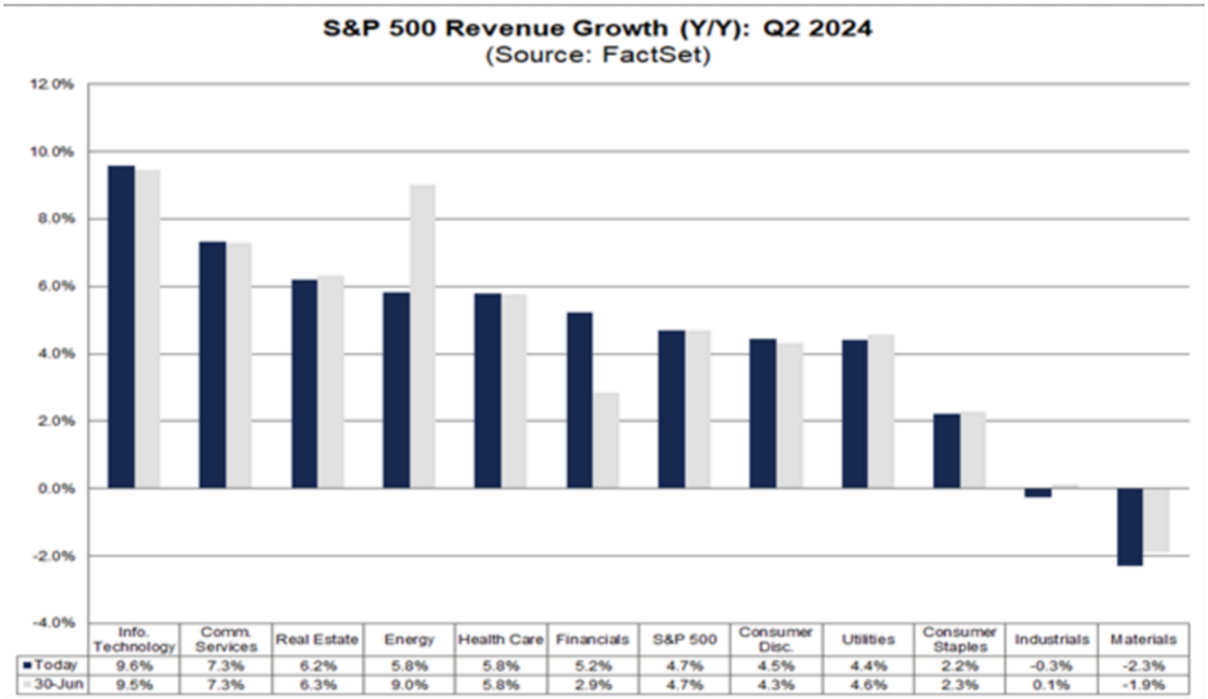
Date	BST	EDT	Country	Event
07/23/24	08:00	03:00	EC	ECB's Lane Speaks
07/24/24	07:45	02:45	EC	ECB's Guindos Chairs Session
07/24/24	13:00	08:00	EC	ECB's Lane Speaks
07/24/24	21:05	16:05	US	Fed's Bowman, Logan Give Opening Remarks
07/25/24	12:00	07:00	EC	ECB's Nagel Speaks
07/25/24	16:00	11:00	EC	ECB's Lagarde Speaks

Conclusions: Mixed Earnings and Politics will drive higher volatility.

Between the drama of who will lead the Democrats in the November election and the host of economic data from GDP and PMIs, the 2Q earnings will also add to the volatility ahead. The next week will be peak earnings with 138 S&P500 companies reporting, including some of the Magnificent 7. The role of just a handful of stocks driving the overall performance isn't new but it does add to fear. The concentration risks of the market continue after the first big week of earnings and one that delivered a significant sector rotation trade, even as the 2Q outlook for S&P500 earnings rose to 9.7% from 8.9% at the end of June. While earnings beat led by energy sector outperformance, this was a concentrated story. Overall, 14% of the companies in the S&P 500 have reported actual results for Q2 2024 to date. Of these companies, according to FactSet, 80% have reported actual EPS above estimates, which is above the 5-year average of 77% and above the 10-year average of 74%. In aggregate, companies are reporting earnings that are 5.5% above estimates, which is below the 5-year average of 8.6% and below the 10-year average of 6.8%. The blended revenue growth rate for the second quarter is 4.7% today, compared to a revenue growth rate of 4.8% last week and a revenue growth rate of 4.7% at the end of the second quarter (June 30). Looking ahead, analysts expect (year-over-year) earnings growth rates of 7.4% and 17.0% for Q3 2024, and Q4 2024, respectively. And for CY 2024, analysts are calling for (year-over-year) earnings growth of 11.0%. The forward 12-month P/E ratio is 21.2, which is above the 5-year average (19.3) and above the 10-year average (17.9). This P/E ratio is also above the forward P/E ratio of 21.0 recorded at the end of the second quarter (June 30).

Bottom Line: The Biden drop out trade is next, and most expect it to unwind some of the Trump trade across global markets. The risk on signal isn't likely until there is full clarity on who the democrats pick to lead the ticket and until the polls settle as to whether it matters to the odds of November 5th. The market may be quick to reprice the coattail effect of Trump now and with that some likely further pressure on deficits as stalemates in the House and Senate mean less progress on dealing with debt, albeit also less regulation and less power against the courts or the President. The risk of economics returning to matter to markets shouldn't be ignored either as the unknown of politics may mean further out volatility into August while the democrats playout their leadership struggle. The 2Q earnings seem the most obvious and perhaps least feared risk in the week ahead as the relationship of USD to equities and bonds has broken and the bottom's up risk of missing expectations on big company earnings seems high. This is not a time to override a tired horse. Markets will require nimble trading in the week ahead much as they did last week.

Exhibit #7: With high expectations, IT and Communication Services have most risk



	Info. Technology	Comm. Services	Real Estate	Energy	Health Care	Financials	S&P 500	Consumer Disc.	Utilities	Consumer Staples	Industrials	Materials
Today	9.6%	7.3%	6.2%	5.8%	5.8%	5.2%	4.7%	4.5%	4.4%	2.2%	-0.3%	-2.3%
30-Jun	9.5%	7.3%	6.3%	9.0%	5.8%	2.9%	4.7%	4.3%	4.6%	2.3%	0.1%	-1.9%

Source: FactSet, BNY

Please direct questions or comments to: iFlow@BNY.com

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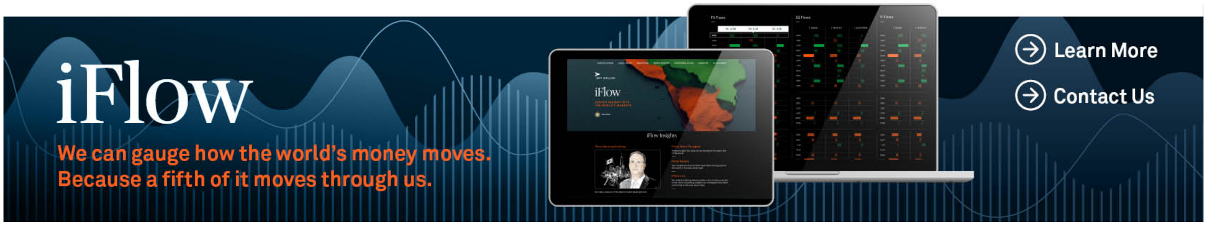

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